

BROILER ECONOMICS

By Dr. Paul Aho

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THE 2015 USA HARVEST IS MADE

The world poultry industry should be encouraged by the fact that the US harvest of grain is “made”. That means there is little more that Mother Nature can do this year that would ruin the crop. The corn and soybean crops are both good and the price of both corn and soybean meal should remain relatively low.

According to the latest USDA World Agricultural Supply and Demand Estimates, WASDE report, the supply of US corn this crop year will be a good one. Ample supplies in the rest of the world suggest that corn prices will be relatively low and stable for the next several months, if not years.

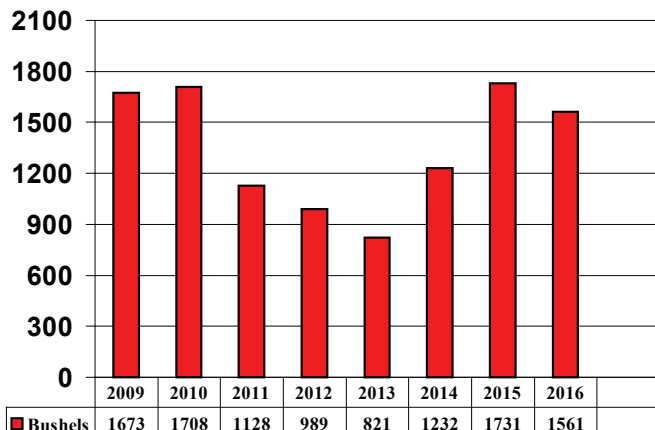
Despite this good news of low prices, the direction arrow for corn prices now has, unfortunately, shifted from downward to upward. Corn production in the US will drop slightly this crop year due to lower acreage and yield and ending stock will be lower. Prices will be slightly higher. Further gains in price can be expected in future crop years.

The most important reason for the shift in the medium term trend from downward to upward is cost compared to price. The price of corn is now below the cost of production in the US and in many other parts of the world. One, or both, of two things will happen in the next few years. Either the price of crop land will fall significantly, or production will fall enough to motivate farmers to plant corn. Probably some of each will occur. Land prices will ease and production will fall enough to increase the price of corn.

Corn – USDA October- Billions of Bushels

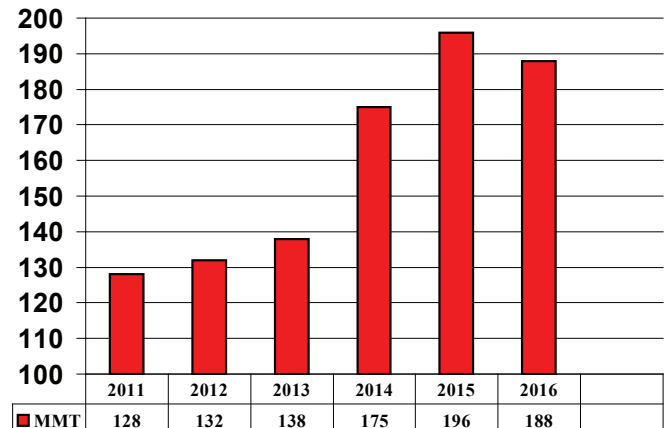
	2013-14	2014-15	2015-16
Beginning Inventory	0.821	1.232	1.748
Harvest	13.829	14.216	13.555
Imports	0.036	0.032	0.030
Supply Total	14.686	15.479	15.316
Ethanol	5.134	5.207	5.250
Exports	1.917	1.864	1.850
Feed	5.036	5.317	5.275
Total Use	13.454	13.748	13.755
End Inventory	1.232	1.748	1.561
Farm Price	\$4.46	\$3.70	\$3.80

US Ending Stock of Corn Millions of Bushels USDA



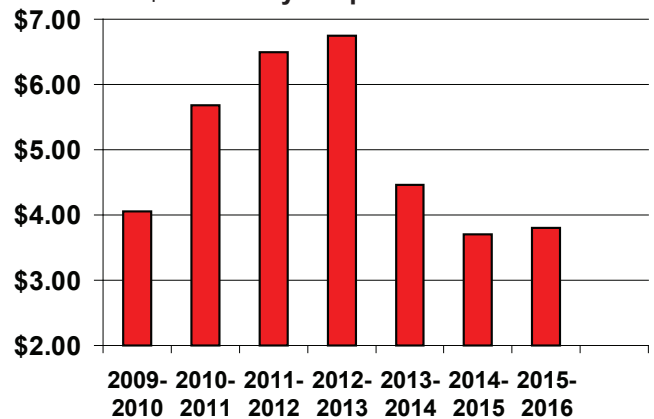
The October WASDE report estimates world ending stock to be 188 million tons in 2016, down 8 million tons from 2015. World production estimates were reduced for the Ukraine, Argentina, India, and the Philippines.

World Ending Stock of Corn MMT



The USDA estimates the average price of corn next crop year to be slightly higher than this year. The bear market in corn may now be completed for this cycle.

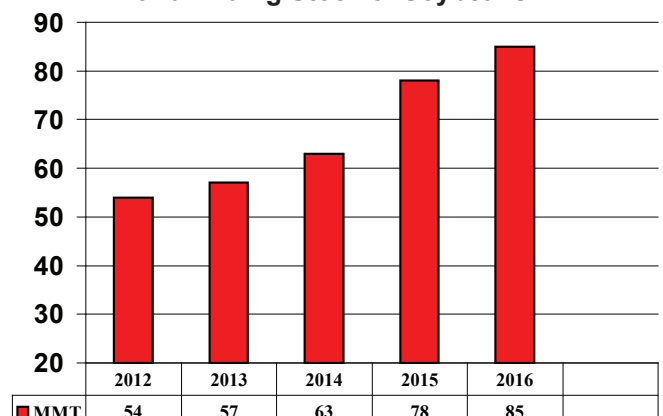
Average Farm Price of Corn \$/Bushel by Crop Year - USDA



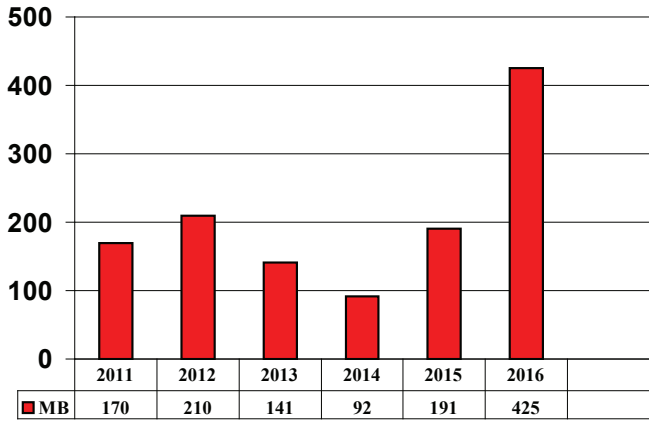
Soybeans

Unlike corn, soybeans have not yet ended their bear market. Soybean prices continue to decline and the ending stock of soybeans both in the US and worldwide continues to rise. By 2016, world ending stocks are expected to rise to 85 million metric tons, up from just 57 MT in 2013. US ending stocks are also projected to be significantly higher each year from 2014 to 2016. Higher ending stocks should ensure that soybean prices will continue to fall.

World Ending Stock of Soybeans MMT



US Ending Stock of Soybeans in Millions of Bushels

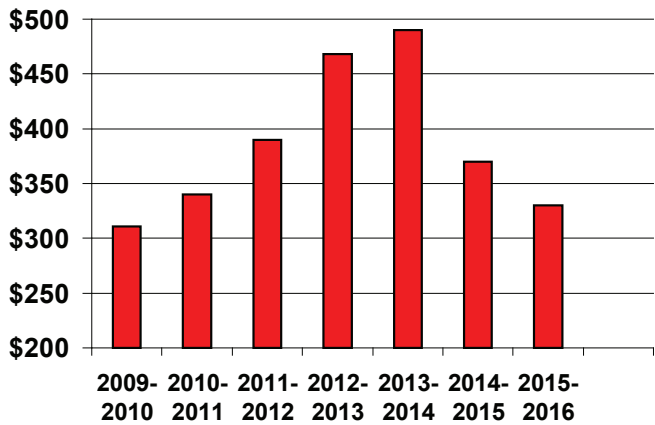


US Soybeans – USDA October – Billions of Bushels

	2013-14	2014-15	2015-16
Harvest	3,358	3,927	3,888
Export	1,647	1,843	1,675
Total Use	3,478	3,861	3,685
Ending Inventory	92	191	425
Meal Price short ton	\$490	\$368	\$330

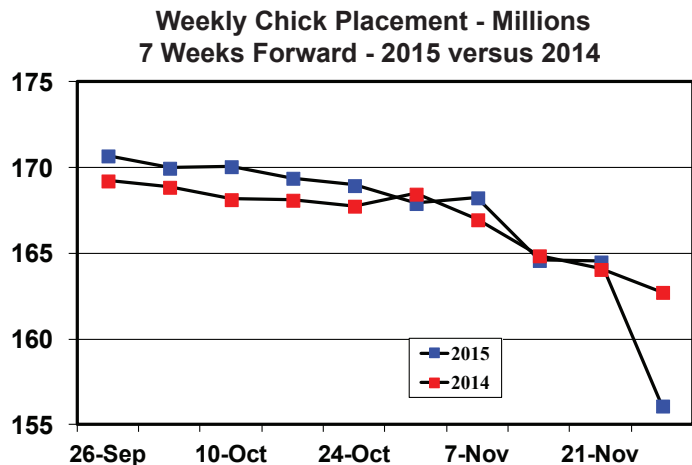
The direction arrow for soybean meal prices is still down. The average price of soybean meal last crop year was \$80 lower than the record \$490 average of 2013-2014, and the average price this crop year is predicted to be \$38 lower than last year. The USDA records \$368 per short ton for last crop year (\$405 per metric ton) and predicts \$330 per short ton (\$370 per metric ton) for this crop year (crop years run from September 1 to August 31).

Average Crop Year Price of Soybean Meal - Short Ton



US Chicken Industry Production

The pace of the increase in total chicken meat production is slowing. The following graph shows the weekly chick placement in millions moved forward 7 weeks to estimate chickens processed. Using this method of estimation, processing is currently running about the same as last year with a significant drop, perhaps temporary, for one week in November.

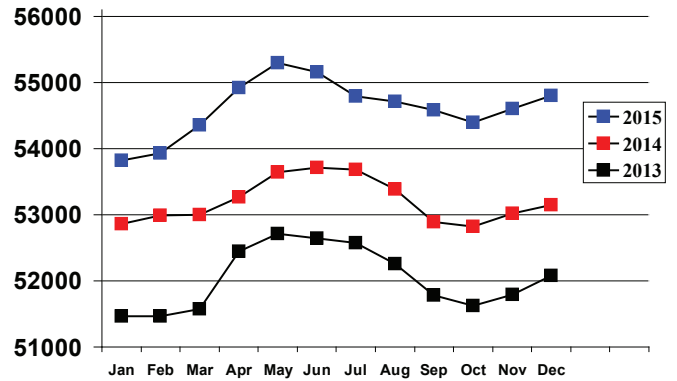


Weights are higher this year. The shift in production to heavier birds for deboning increased the average weight of all chickens. Chickens were 2% higher in total weight in the first half of the year. In the summer heat of July and August, the total weight increase was temporarily reduced to zero. However, weight increases compared with year earlier numbers resumed in September.

Taking into consideration numbers and weight, total chicken production percentage increase will fall to only 2% in October and appears to be lower yet for November. For the period January through June, production was higher by 4%. The production increase for the entire year will be less than 4%.

As can be seen on graph below, the supply of broiler breeders grew significantly from 2013 to 2015. While there were insufficient breeders last year to support the growth industry wanted, there are now more than enough breeders to support all the domestic growth the market can handle including demand from Mexico for hatching eggs. The latest numbers available, those of September, show a continued increase in the flock. Breeders are now about 2% greater in numbers than at the same time last year.

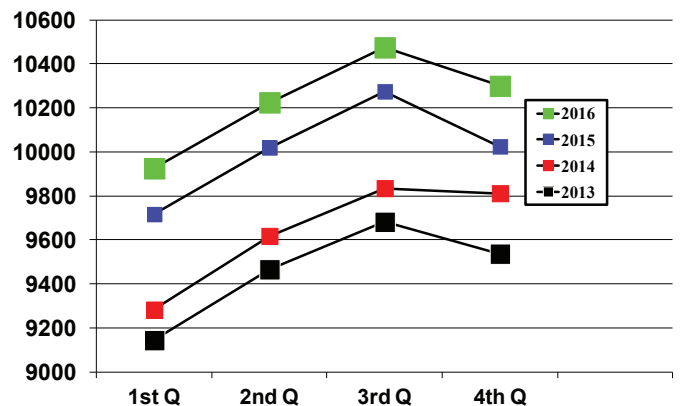
Layers on Hand - Broiler Breeding Flock 2013-14



The October WASDE report predicts an increase of 3.9% in chicken production this year compared to 2% last year. More importantly, given falling exports the amount available within the US is pegged by the USDA to be 6.8% higher this year. The current quarter, July to September, shows the greatest increase from year earlier numbers. Production drops off sharply in the final quarter.

For calendar 2016, production increases are likely to be reduced because of the combination of the processing wall, the weight wall, and lower profitability. The processing wall is the capacity limitation of current US processing facilities. The weight wall is the limit of what weight the processing equipment can withstand and what the market desires. Lower profitability will also limit the willingness of the industry to expand. The combination of these factors could limit production increases in 2016 to approximately half that of 2015. The USDA estimates 2.2% growth.

US Quarterly Broiler Production Million Pounds USDA



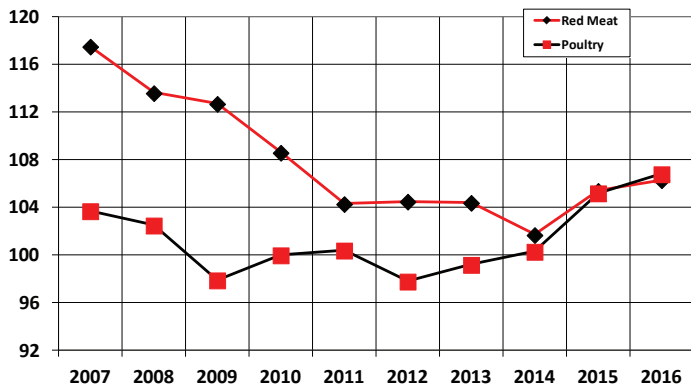
A large increase in chicken production next year is also unlikely considering the significant recent increase in red meat availability, in particular, pork. There are 1.5 billion additional pounds of pork available for domestic use this year. Total red meat consumption per capita is now expected to rise 4 pounds this year after a fall of 2 pounds last year. Next year, total use of red meat is expected to increase another pound with a significant increase in beef. The per capita consumption of poultry is expected to rise 5 pounds this year and just 1 pound next year.

After a huge jump from 2014 to 2015 of 8 pounds per capita of total meat consumption, there is expected to be only a 2 pound increase in 2016. It is interesting to note that total meat consumption in 2016 is still not back to the level of 2006. Total poultry consumption will exceed total red meat consumption in 2016 for the first time.

Per Capita Consumption Per Capita in Pounds - US

	Pork	Beef	Chicken	Turkey	TOTAL
2006	49	66	87	18	220
2007	51	65	85	18	219
2008	49	63	83	18	213
2009	50	61	80	17	208
2010	48	60	82	16	206
2011	46	57	83	16	205
2012	46	57	80	16	202
2013	47	56	82	16	201
2014	46	54	83	16	202
2015	50	54	88	16	211
2016	50	55	89	16	213

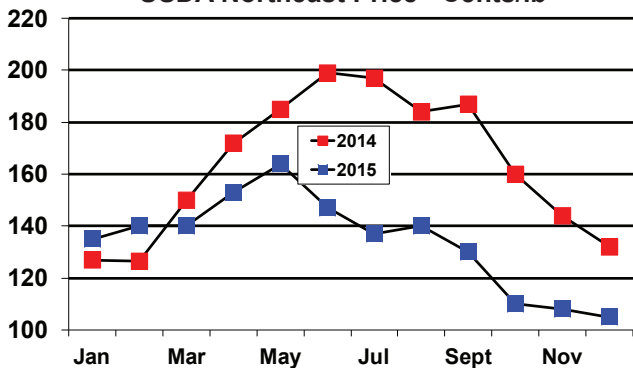
US Per Capita Consumption of Red Meat and Poultry Pounds



Deboned Breast

As the weather cools, prices are dropping seasonally. The high price for the year, \$1.64, occurred in May. The price of deboned breast could sink to \$1.00 by the end of the year.

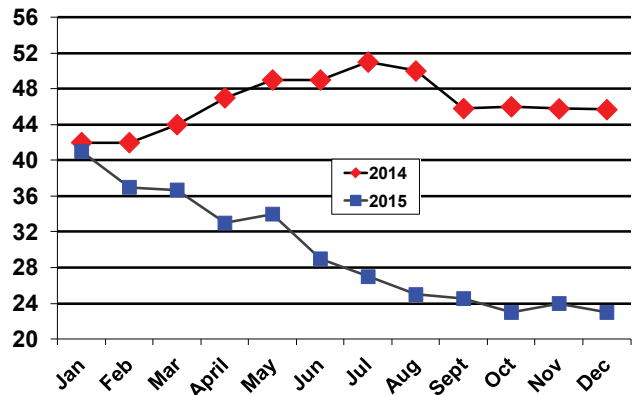
**Deboned Breast - 2014-2015
USDA Northeast Price - Cents/lb**



Leg Quarters

Leg quarters are still feeling the effects of increased production, trade restrictions due to bird flu, and the strong dollar. Given current conditions, leg quarter prices could stay below 25 cents per pound (Northeast price) for the rest of the year. There is, of course, a wide range in price for leg quarters right now with many leg quarters being sold for a price lower than the published Northeast price.

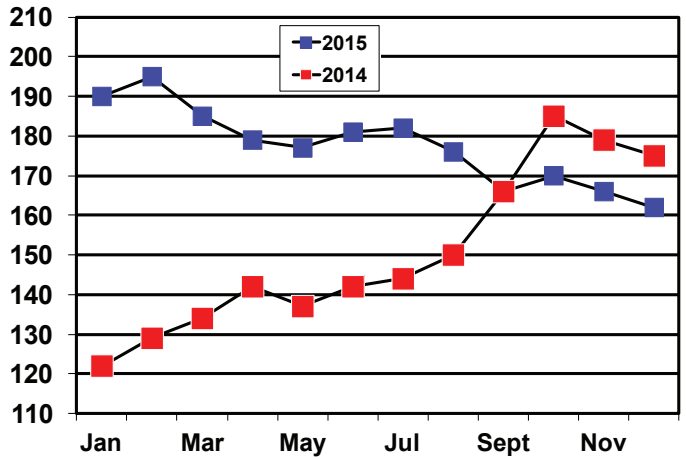
**Leg Quarter Price - 2014-2015
Cents/lb - USDA Northeast Price**



Wings

Wings were a bright spot for the chicken industry with prices far above deboned breast. However, prices are now moderating despite phenomenal demand. Wings can be expected to end the year at approximately \$1.60.

**Whole Wing Prices - 2014-2015
USDA - Northeast Price - Cents/lb**



The US industry is currently below break-even using spot prices and may remain in losses for the rest of the year.

October 2015

Leg Quarters	\$0.23/pound
Deboned Breast	\$1.10/pound
Wings	\$ 1.70
Chicago Corn	\$3.73/bushel
Soybean Meal	\$312/Ton
Total Cost of Eviscerated Chicken	\$0.71
Revenue	\$0.69
Gain (Loss) per pound	\$(0.02)

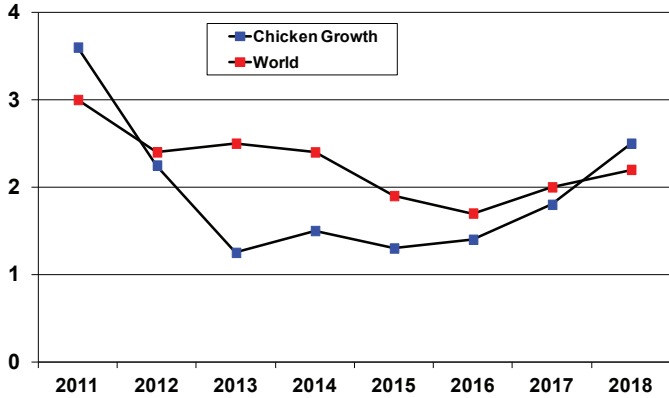
December 2015

Leg Quarters	\$0.23/pound
Deboned Breast	\$1.10/pound
Wings	\$1.60
Chicago Corn	\$3.91/bushel
Soybean Meal	\$310/Ton
Total Cost of Eviscerated Chicken	\$0.70
Revenue	\$0.68
Gain (Loss) per pound	\$(0.02)

World Chicken Growth Rate

The world economy continues to weaken. The slowing growth rate of the world economy in the last few years dropped the world chicken growth rate to less than 2%. World economic growth is likely to remain disappointingly slow in 2016 and 2017. In constant dollars, world growth is likely to remain around 2%. With the economy weak, world chicken growth is also weak. However, by 2017, production increases should accelerate.

World Chicken Growth Rate & World Economic Growth Rate



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Dr. Paul Aho is an international agribusiness economist specializing in projects related to the poultry industry and has been a prolific writer in trade journals in both the United States and in Latin America. Dr. Aho now operates his own consulting company called "Poultry Perspective". In this role he works around the world with poultry managers and government policy makers.

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