

# BROILER ECONOMICS

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## NEARING A LOW POINT IN THE GRAIN CYCLE?

For the moment, the poultry industry is in a sweet spot with regards to grain prices. Corn prices are stable and soybean meal prices are expected to drop. This is as good as it gets. Calendar year 2017 could well mark the bottom of the grain cycle with higher prices on the horizon.

Corn prices are likely to remain relatively low in the next few months after the bumper crop of 2016 in the US. It is difficult for corn prices to rise with a lot of old crop still in the bins. It is also difficult for soybean prices to rise with exports now shifting seasonally from North America to South America.

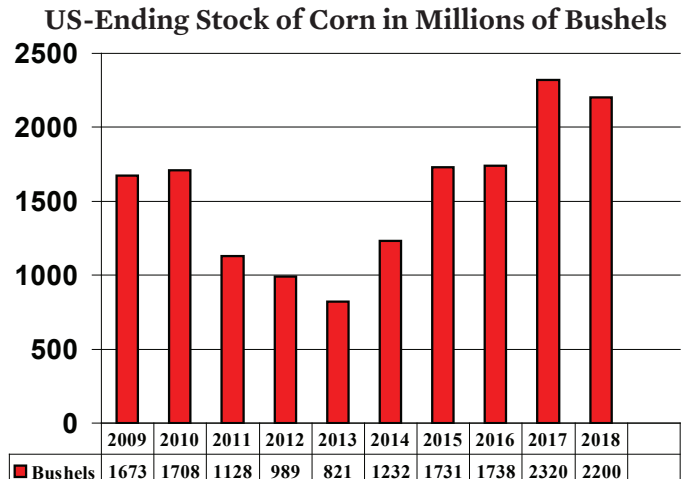
This year, when farmers look at the relative prices of corn and soybeans, it is expected that many will conclude that they are better off planting more soybeans and less corn. If this happens, soybean prices can be expected to drop later in 2017 in anticipation of a larger crop.

Meanwhile, conditions appear generally favorable in South America. As an abundant harvest of corn and soybeans from South America hits the world market in the next few months, poultry producers should continue to enjoy relatively low prices. It is, nevertheless, important to remember that grain prices are close to a long-term bottom and the next long-term trend will be up.

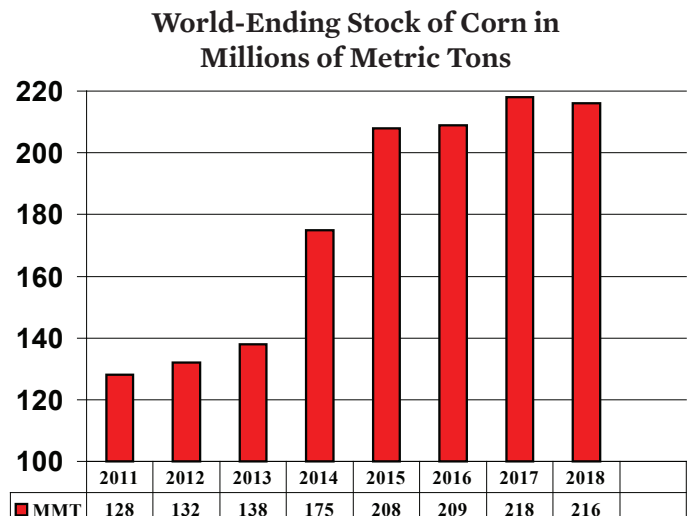
The February USDA World Agricultural Supply and Demand Estimates (WASDE report) projects that ending US corn stock will rise once again in 2017. However, 2018 could see the beginning of a decline in ending inventory both in the US and for the world as a whole.

**US Corn Supply and Demand – February  
USDA Billions of Bushels**

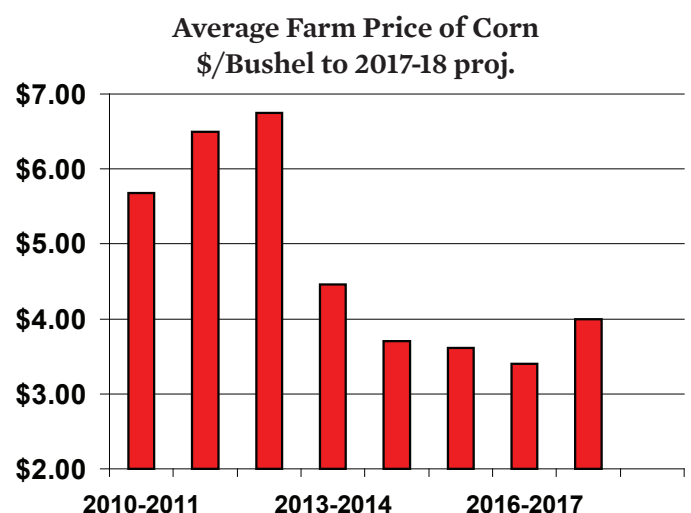
	2014-15	2015-16	2016-17
<b>Harvest</b>	14.216	13.602	15.148
<b>Supply Total</b>	15.479	15.401	16.940
<b>Ethanol</b>	5.209	5.206	5.350
<b>Exports</b>	1.864	1.898	2.225
<b>Feed</b>	5.314	5.131	5.600
<b>Total Use</b>	13.748	13.662	14.610
<b>Ending Inventory</b>	1.731	1.737	2.320
<b>Farm Price</b>	\$3.70	\$3.61	\$3.40



The February WASDE report estimates world-ending stock in 2017 to be 218 million tons, up 9 million tons from 2016. This sharp increase is, of course, beneficial to the users of grain. That increase may be the last increase for a while if the cycle is turning.



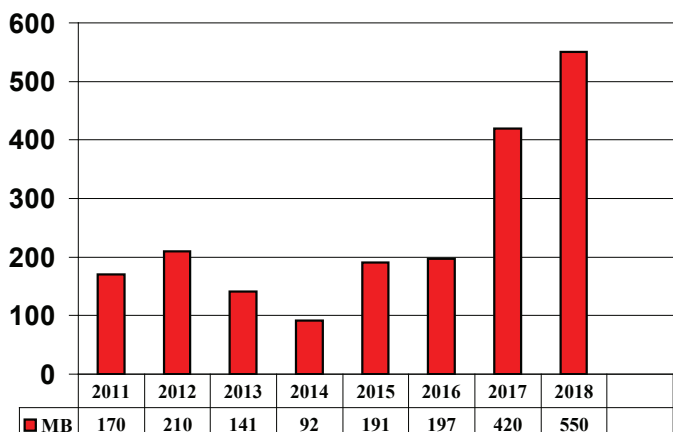
For the short-term, prices are likely to have little ability to rise barring a weather problem. However, in crop year 2017-2018, prices could be rising again in part due to the potential shift of millions of acres this year from corn to soybeans in the US.



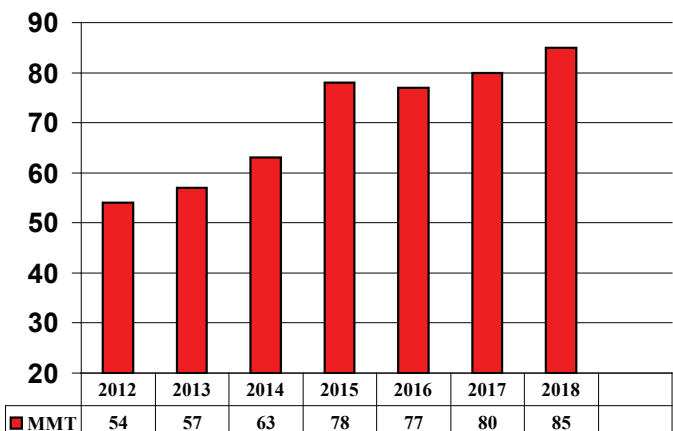
## Soybeans

Exports of US soybeans have been robust in the last few months but that will come to a halt in a few weeks as South America fills their export pipeline. World-ending supply is high. The US and world-ending stock is expected to rise substantially this crop year and next. The bottom of the soybean market may be a year later than the bottom of the corn market.

### US Ending Stock of Soybeans in Millions of Bushels



### World Ending Stock of Soybeans in MMT

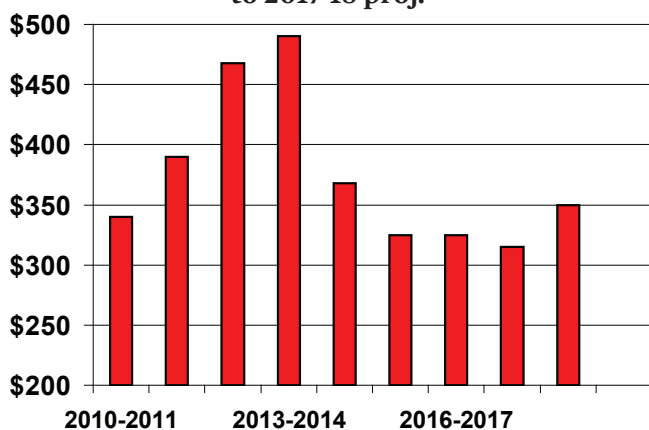


### US Soybeans - USDA February Billions of Bushels

	2014-15	2015-16	2016-17
Harvest	3,927	3,926	4,307
Export	1,843	1,886	1,930
Total Use	3,862	3,944	4,108
Ending Inventory	191	197	420
Meal Price short ton	\$368	\$325	\$325

After this crop year, soybean prices may have one more year of lower prices in 2017-2018 before beginning to rise in 2018-2019. The low point for soybean prices appears to be one year behind the low point for corn prices.

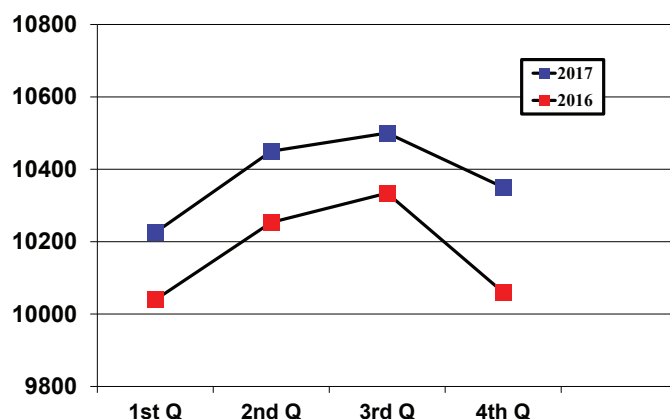
### Average Crop Year Price of Soybean Meal to 2017-18 proj.



## US Chicken Industry Production

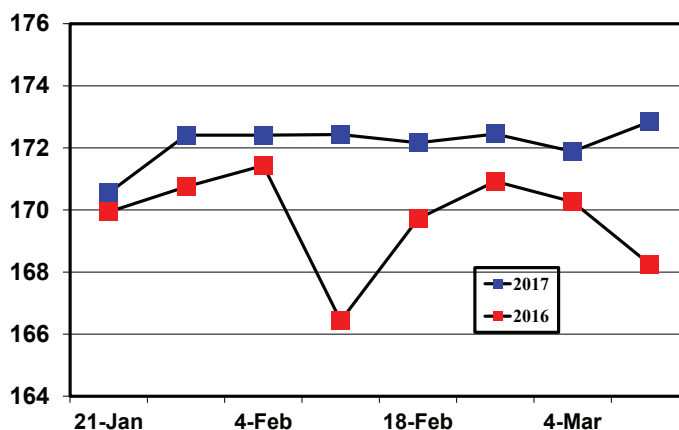
The USDA expects US production of chicken meat to increase 2.1% next year, slightly higher than the 1.6% of 2016. Such a modest increase in production should ensure continued profitability.

### US Quarterly Broiler Production Million Pounds - USDA



The graph below shows weekly chick placement in millions moved forward 7 weeks to estimate chickens processed. Using this method of estimation, processing numbers are running about 2% over last year. This increase is in alignment with the predictions of increased production of 2%. It appears that the increase in production is taking place mostly with bird numbers with a less than normal increase in bird weight.

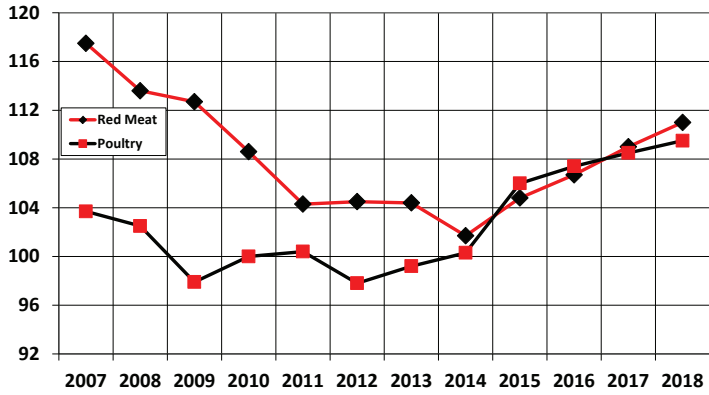
### Weekly Chick Placement - Millions 7 Weeks Forward - 2017 versus 2016



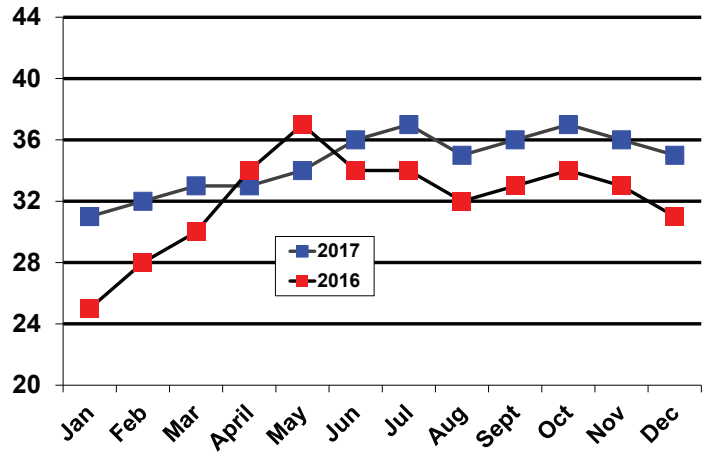
Chicken availability per capita within the US will increase less than one pound this year partly due to increased exports and a relatively slow increase in production. Low grain prices will help sustain profitability but a black swan event such as bird flu or a trade dispute with Mexico is always possible. Mexico is the number one destination for US chicken exports, buying more than one billion pounds of leg quarters per year. Any disruption in trade with Mexico would have severe consequences for the US chicken industry.

Chicken prices will be under pressure from increased production of red meats. In 2017 there will be an additional billion pounds of red meat available for domestic use. Red meat production is (temporarily) rising faster than poultry. This is due to unusually low grain prices combined with rising median income. When grain prices start rising again and/or the growth in median income once again slows down or drops, poultry will once again surpass red meat consumption.

### US Per Capita Consumption of Red Meat and Poultry (lbs)



### Leg Quarter Prices - 2016-17 USDA - Northeast Price - Cents/lb



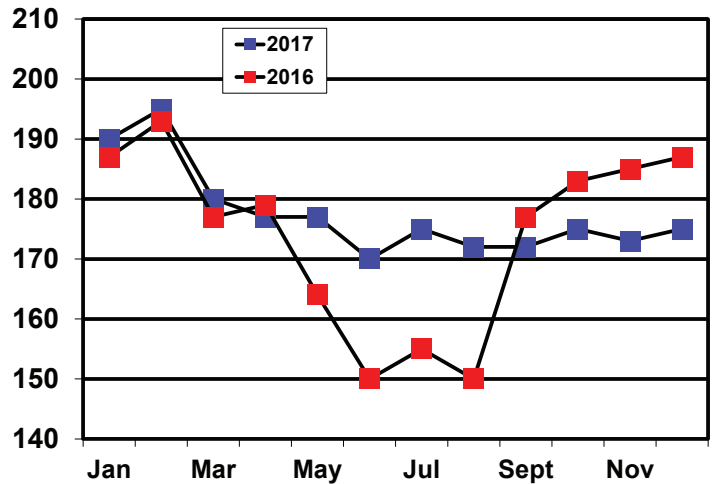
### Per Capita Consumption Per Capita in Pounds - US

	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	17	214
2017	52	56	90	17	218

### Wings

Wings are a bright spot for the US chicken industry most of the time. Demand for wings is phenomenal and highly inelastic. Only a significant increase in supply would send prices lower; an increase that does not appear likely.

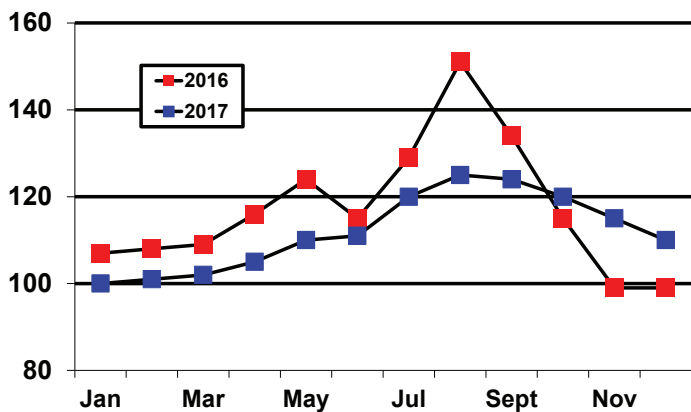
### Whole Wing Prices - 2016-17 USDA - Northeast Price - Cents/lb



### Deboned Breast

The highest prices for breast meat this year will be lower than the highest prices in 2016. However, low grain prices will keep the industry profitable barring any export problems with leg quarters.

### Deboned Breast - 2016-17 USDA - Northeast Price - Cents/lb



The US Chicken industry is profitable and is likely to remain profitable due to low grain prices. This summer the industry should be even more profitable barring a trade war with Mexico.

### February 2017

Leg Quarters	\$0.37 per pound
Deboned Breast	\$1.02 per pound
Wings	\$1.89
Chicago Corn	\$3.68 per bushel
Soybean Meal	\$338/Ton
Total Cost of Eviscerated Chicken	\$0.68
Revenue	\$0.75
Gain (Loss) per pound	\$0.07

### Leg Quarters

Leg quarter prices moved up last year as bird flu export restrictions were lifted and the export market stabilized. The highest price was reached in May at 37 cents (Northeast Price). It is important to note that there is a wide range in prices for leg quarters with many leg quarters sold at a price lower than the published Northeast price.

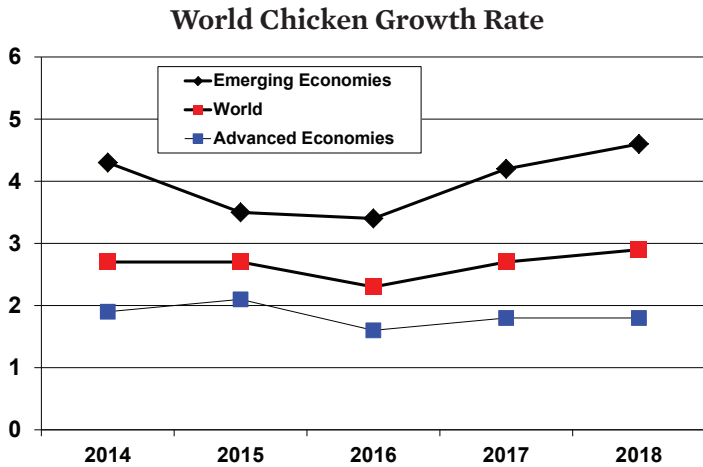
### August 2017

Leg Quarters	\$0.35 per pound
Deboned Breast	\$1.20 per pound
Wings	\$1.70
Chicago Corn	\$3.50 per bushel
Soybean Meal	\$300/Ton
Total Cost of Eviscerated Chicken	\$0.66
Revenue	\$0.76
Gain (Loss) per pound	\$0.10

For 2017, trade policy with Mexico will be a key factor. If a trade war with Mexico can be avoided, leg quarter prices should remain at around current levels. However, if the most important US chicken export market is lost, the consequences for the US chicken industry will be severe.

## World Chicken Growth Rate

The growth rate of the world economy continues to be sluggish. The consequences of slower world economic growth dropped the world chicken growth rate to only 1%. A big part of the decline in chicken growth was China. Next year, world chicken production should begin to expand at a more rapid rate in all areas including China.



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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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