

# **POULTRY OUTLOOK: PROFITABILITY AND ECONOMICS, 2012-13**

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H.L. Goodwin, Jr.  
University of Arkansas  
Southern Outlook Conference  
September 24, 2012



# What Situation Do We Face?

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- ❑ It's the economy, Stupid. *James Carville*
- ❑ There is no education in the second kick of a mule. *George Will*
- ❑ A penny saved is a penny earned. *Poor Richard*
- ❑ So many people miss the opportunity for success because it is disguised as hard work. *Abraham Lincoln*
- ❑ The best way to herd cats is to move the food. *Anonymous*

# It's the economy, Stupid

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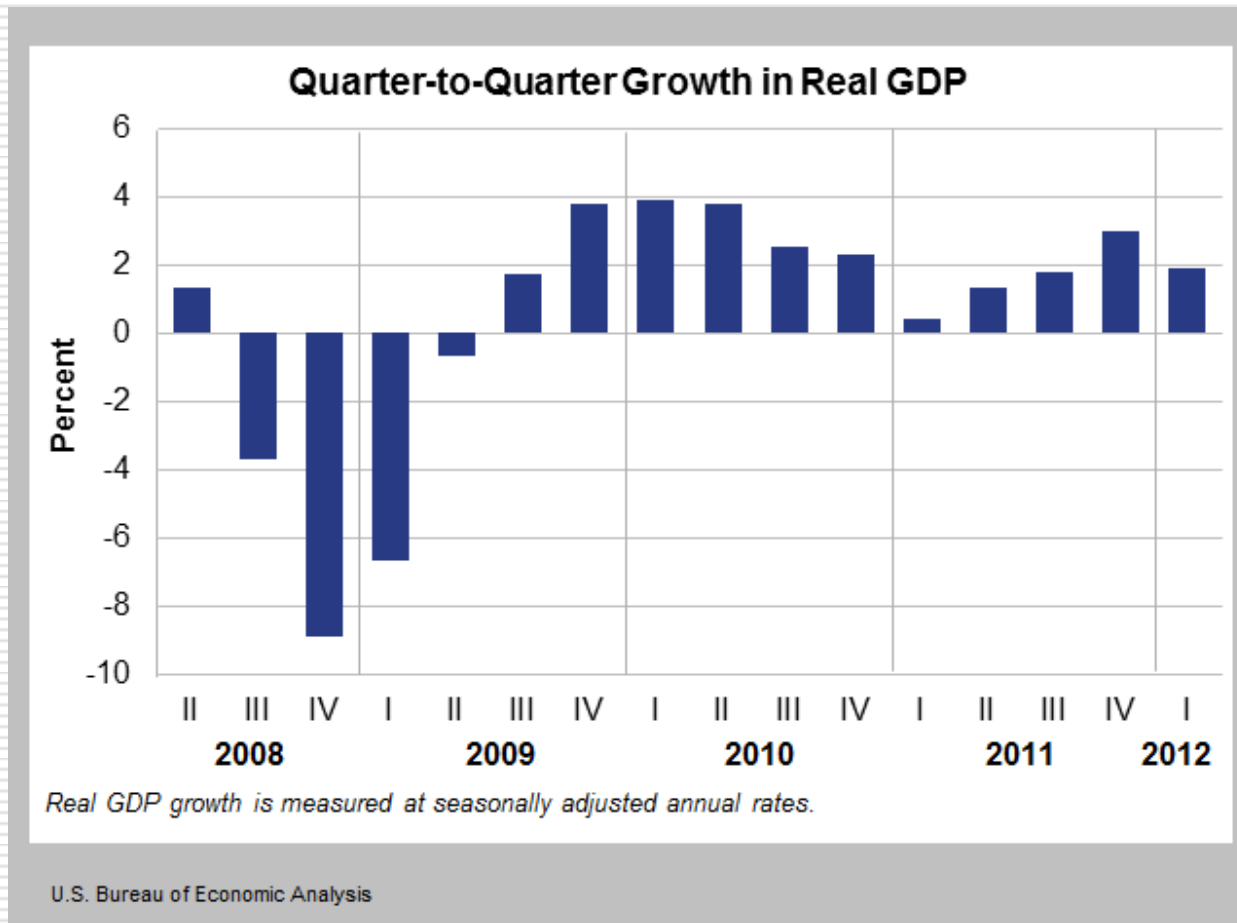
- Gross Domestic Product
- Unemployment
- Consumer Price Index
- Crude Oil Prices
- Consumer Confidence index
- Savings Rate
- Housing Equity and Household Wealth



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OZARKIAN  
DAREDEVILRY**

# Real Gross Domestic Product Growth

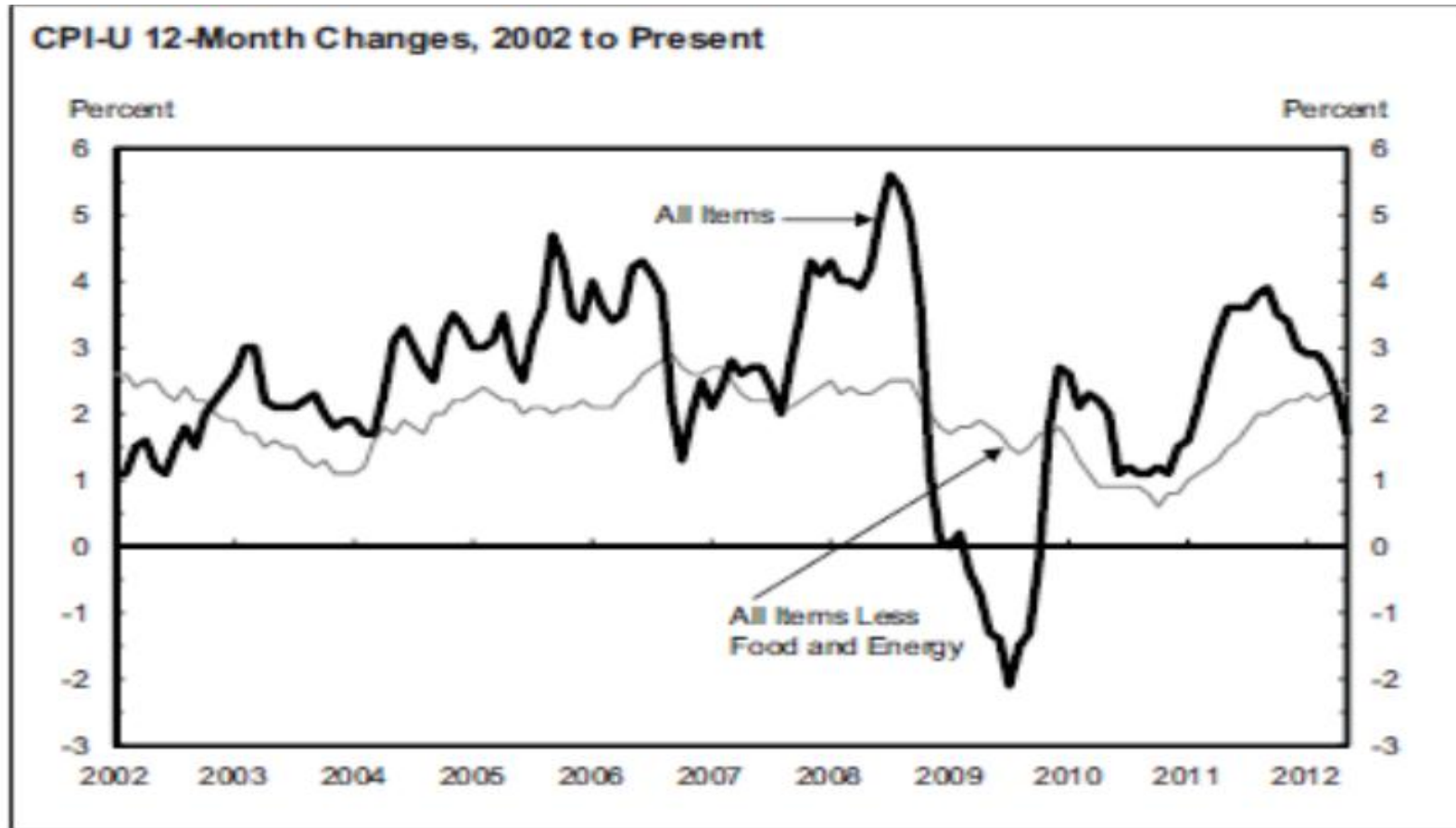


# Unemployment Rate – July 2012



SOURCE: WWW.TRADINGECONOMICS.COM | BUREAU OF LABOR STATISTICS

# Consumer Price Index – United States Department of Labor, Bureau of Labor Statistics, July 2012





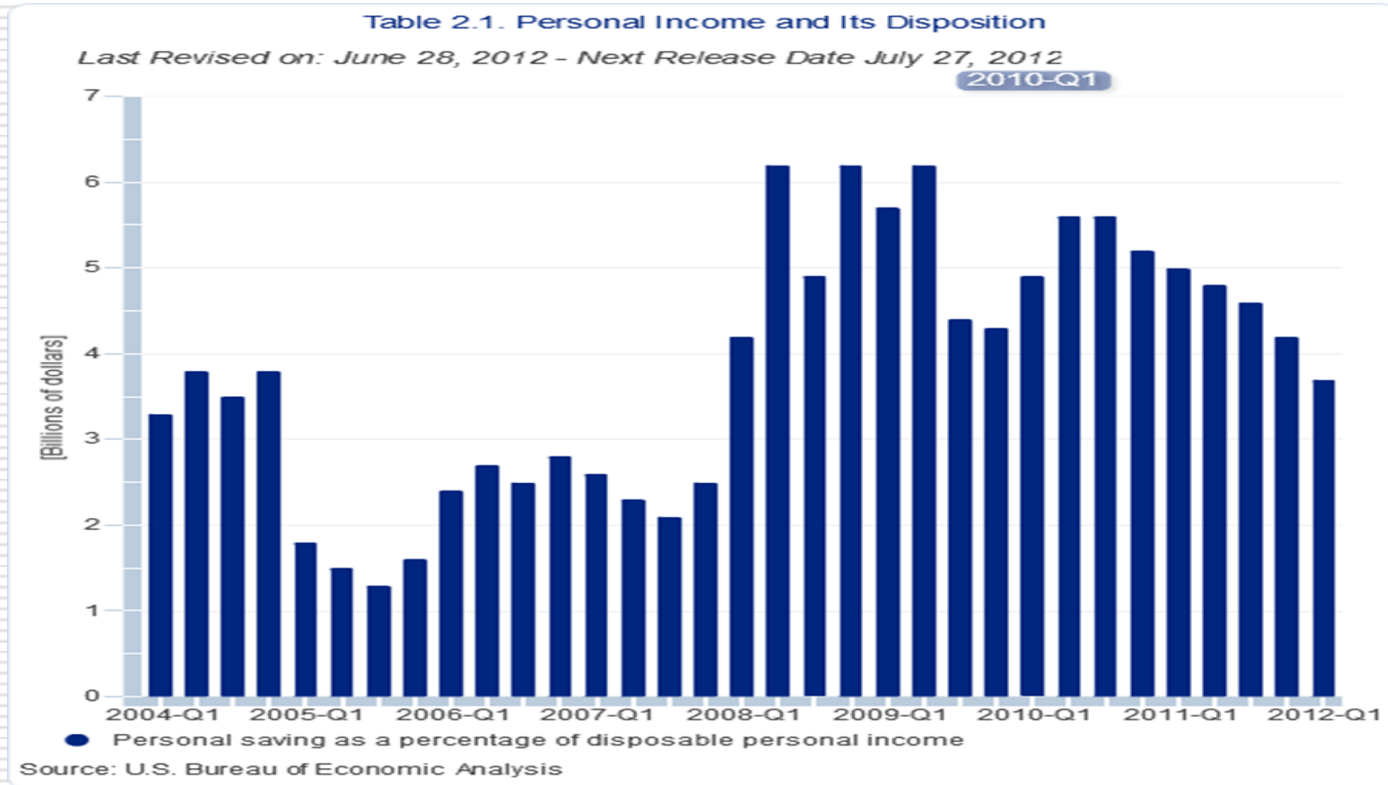
# U.S. Consumer Confidence

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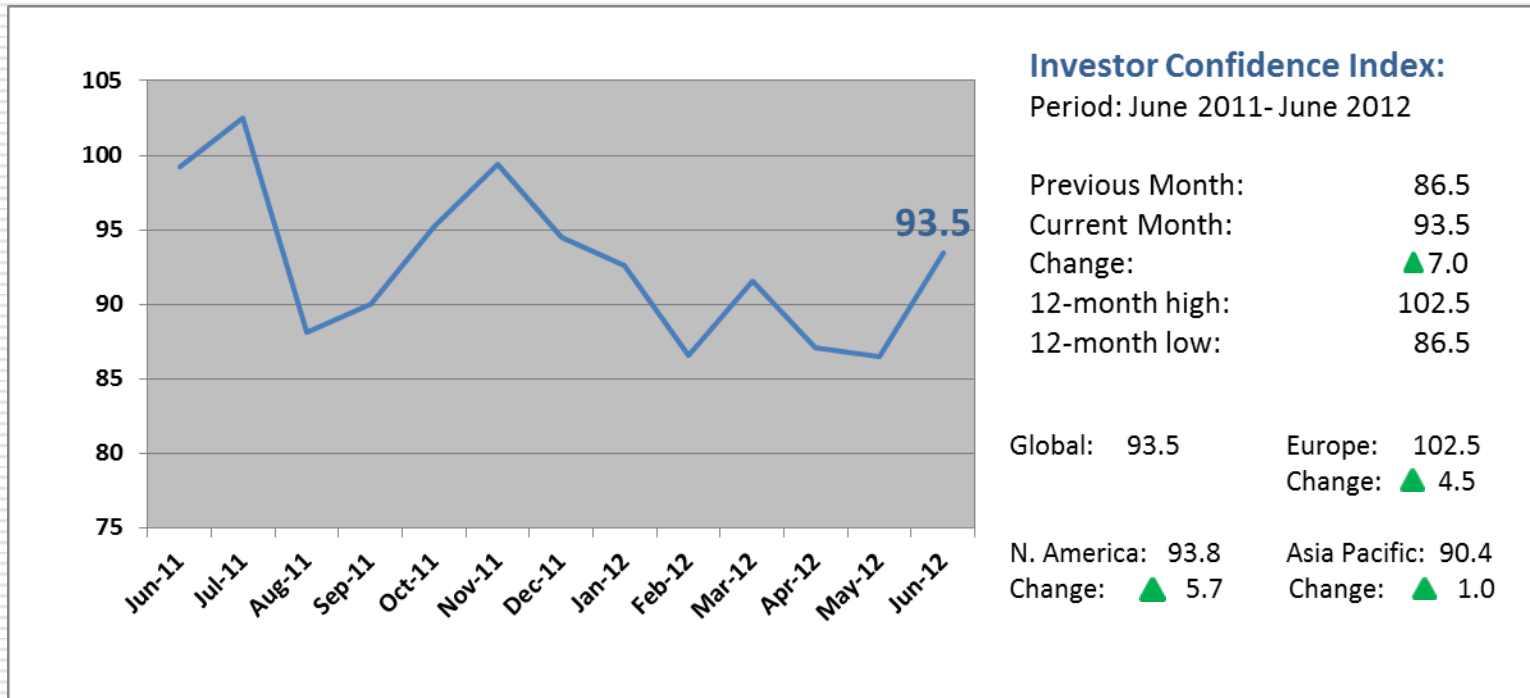
- ❑ August 2011 Consumer Confidence Index 44.50
- ❑ September 2011 Consumer Confidence Index 39.4
- ❑ June 2012 Consumer Confidence Index 62.7
- ❑ July 2012 Consumer Confidence Index

# U.S. Savings Rates

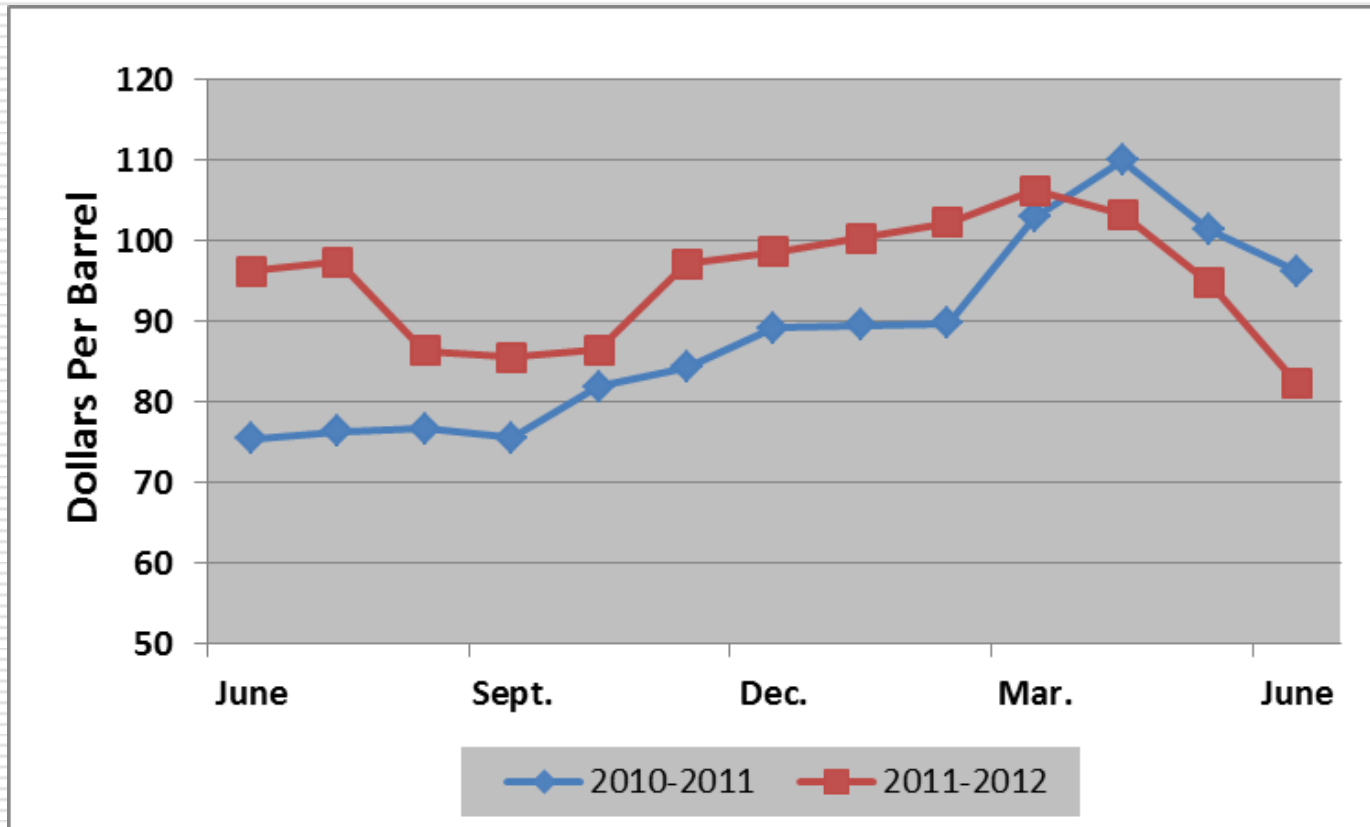


U.S. Bureau of Economic Analysis Aug. 2011

# U.S. Investor Confidence

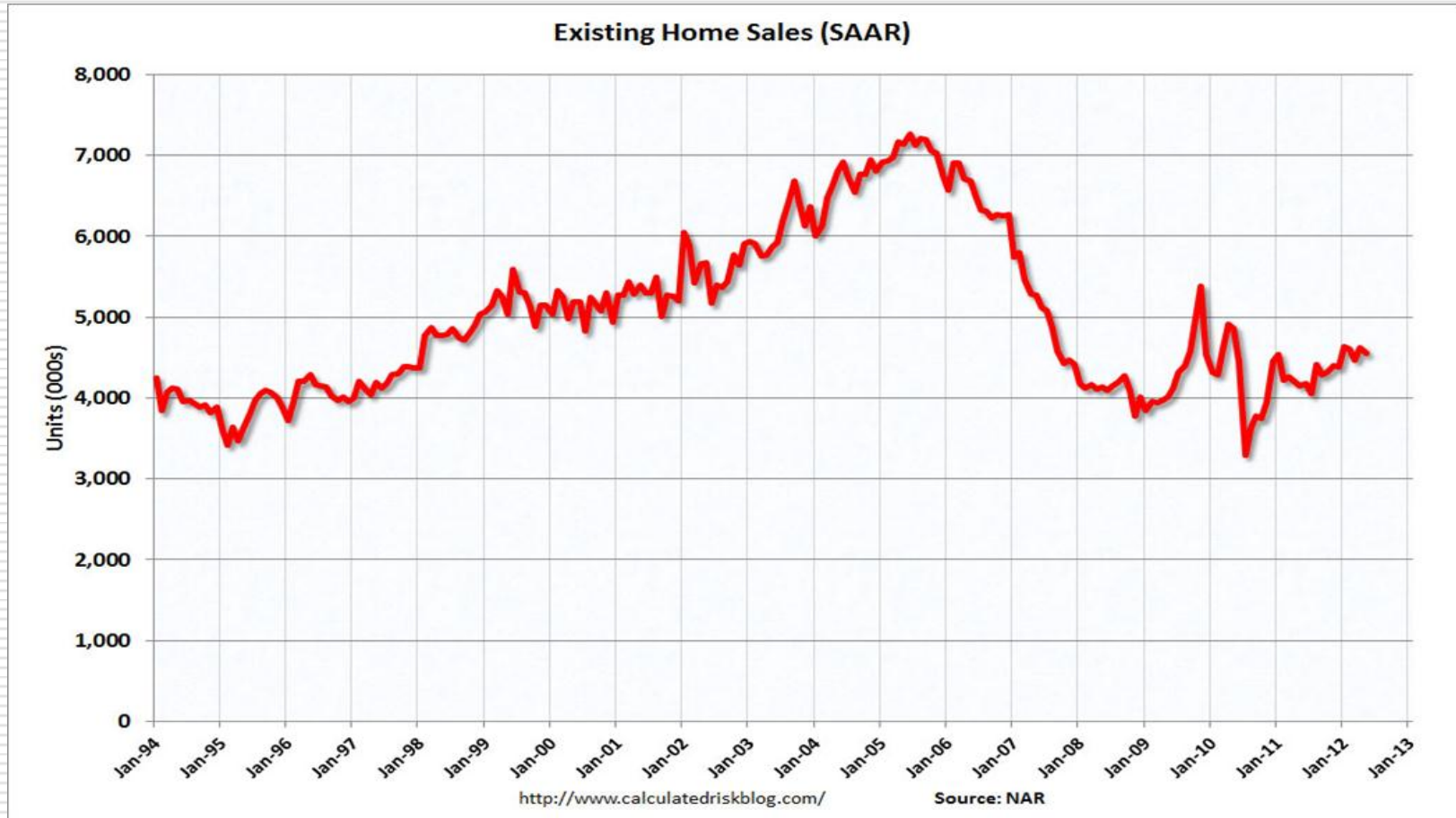


# Crude Oil Prices – July, 2012





# Existing Home Sales

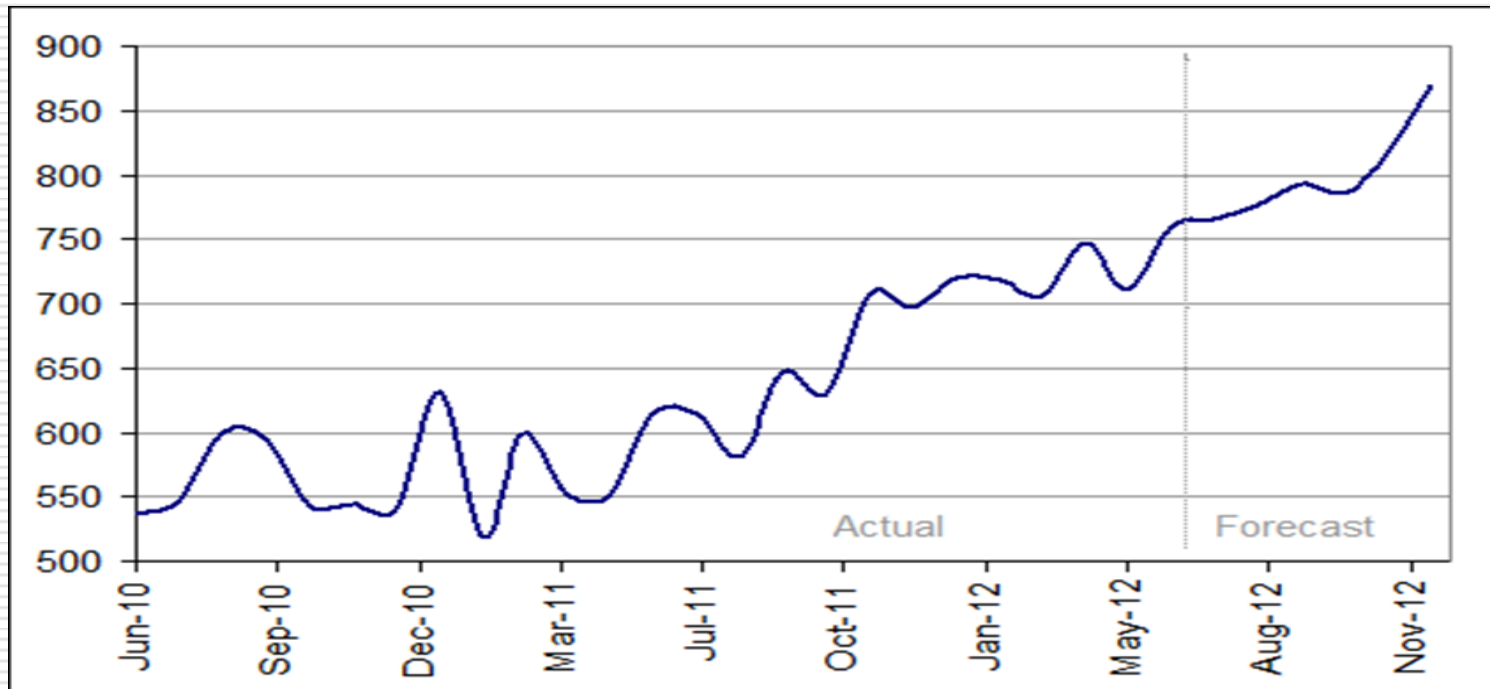


# Housing Starts (000' s)

## U.S. New Housing Starts

Past Trend, Present value, and Future Projection

Thousand Home. Annual Rate Seasonally Adjusted.



## **ATTENTION!!**

Some children and adults  
have experienced **severe**  
allergic reactions to  
deer saliva.

**For this reason, DO NOT  
pet the deer.**

Please be respectful and  
stay outside the  
wood round rail fence.

### *Donors to the* **DEER YARD HABITAT**

- \* *Maine Chapter of  
Safari Club*
- \* *Conifer Industries*
  - \* *State Wildlife  
Grant Program*
  - \* *Friends of  
Maine Wildlife Park*

*Thank you all for your support*

There is **No** education in the 2<sup>nd</sup> kick of a mule (or the 3<sup>rd</sup>, or 4<sup>th</sup>)

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- Supply of proteins
- Supply of past chicken
- Supply present chicken
- Supply of future chicken
- World incomes
- Competitors supply



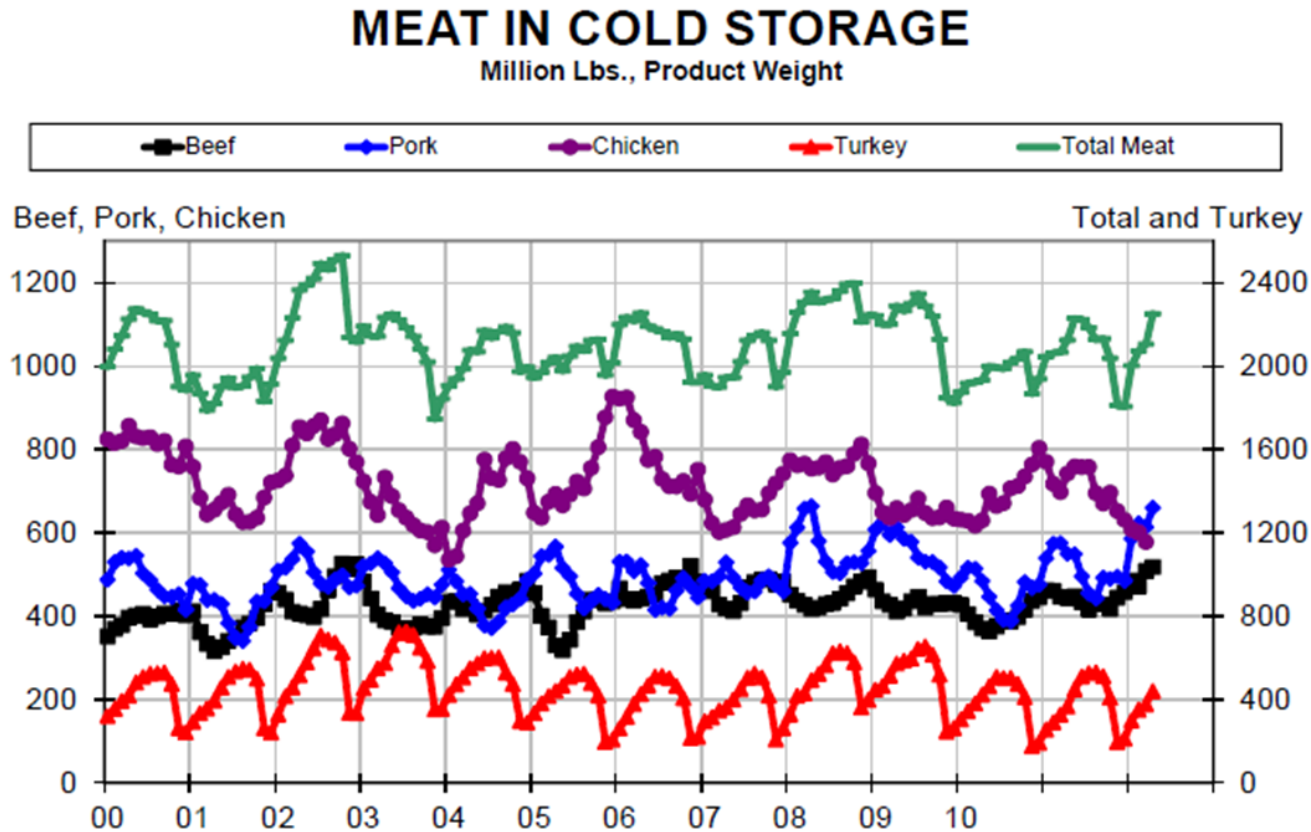
# Red Meat and Poultry Production

USDA/ERS, (*million pounds*)

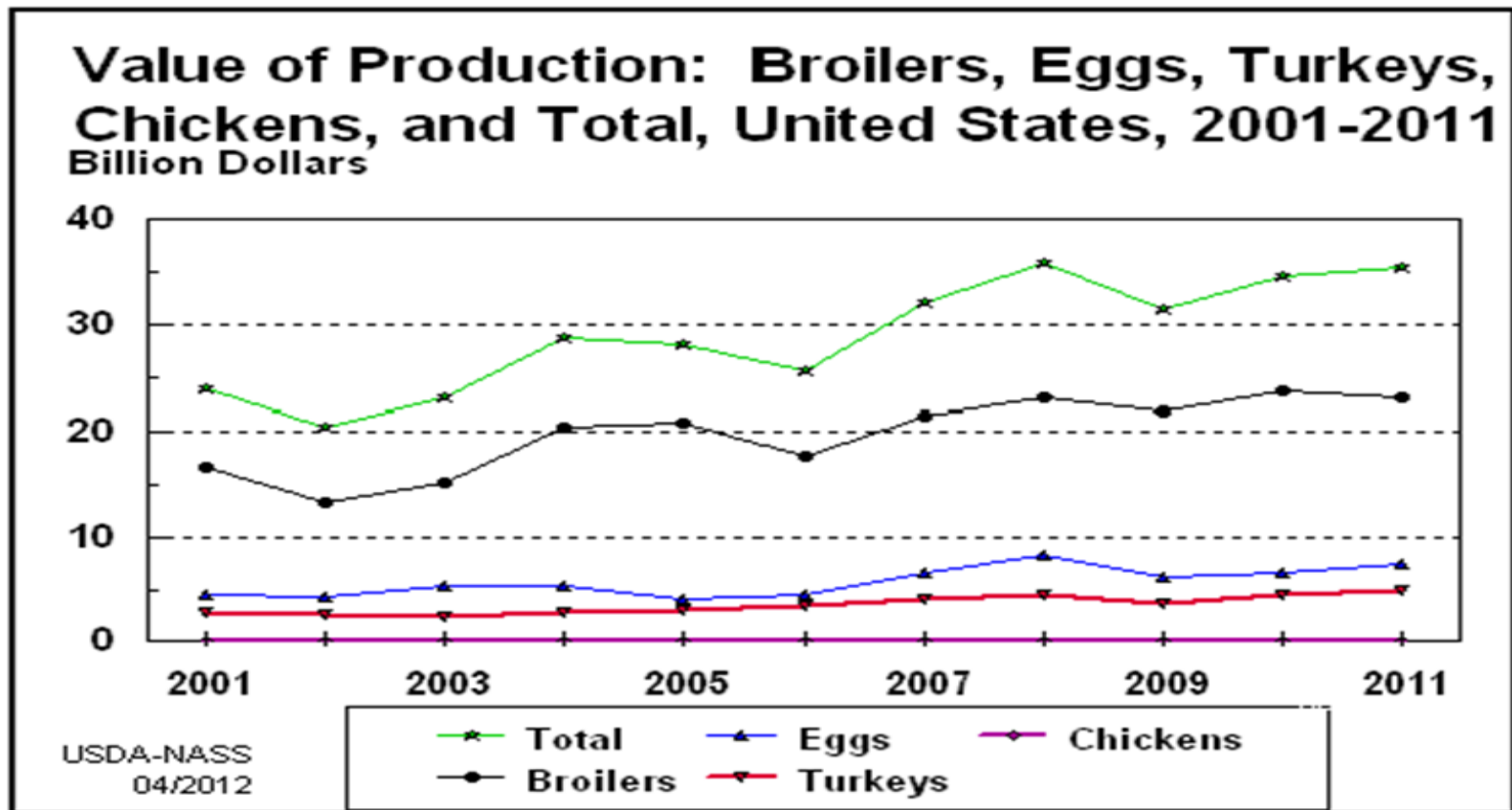
	2010, Qtr 1	2011, Qtr 1	2012, Qtr 1	2013, Qtr 1
Beef	6,248	6,411	6,283	6,010
Broilers	8,732	9,290	9,090	9,200
Pork	5,067	5,720	5,858	5,925
Trukey	1,339	1,402	1,446	1,475
Lamb and Mutton	43	36	40	39
<b>Total</b>	<b>22,057</b>	<b>23,013</b>	<b>22,868</b>	<b>22,798</b>

# Meat in Cold Storage

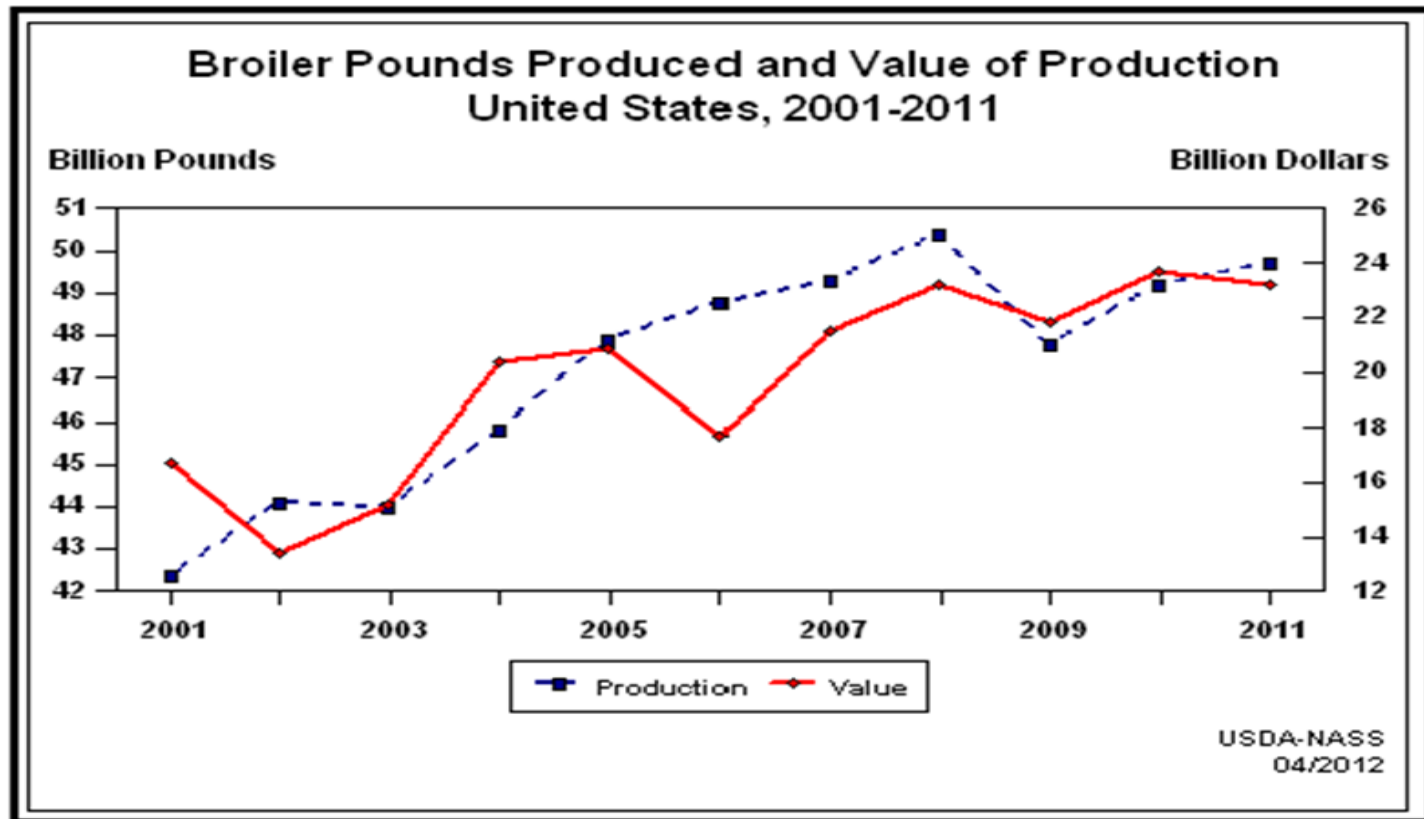
CME Group, Daily Livestock Report, 2012



# All Poultry by Year, U.S.



# Broilers: Production and Value of Production by Year, U.S.

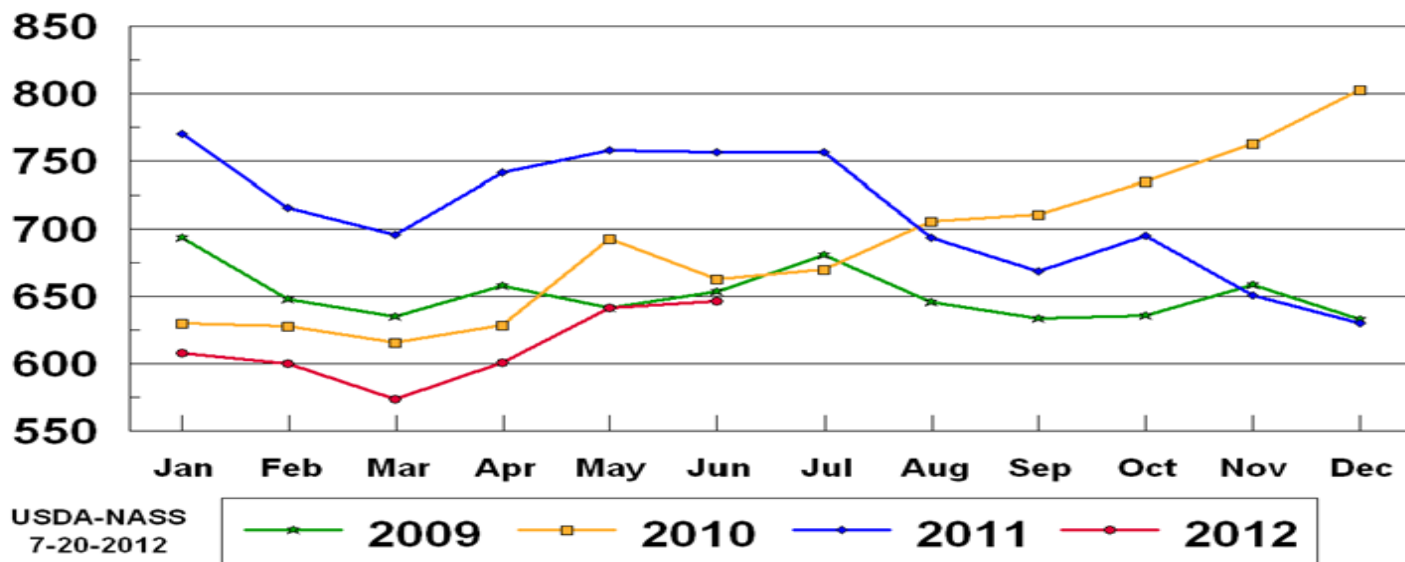




# Chicken: Cold Storage Stocks by Month and Year, U.S.

**Total Frozen Chicken - United States  
Cold Storage Stocks, 2009-2012**

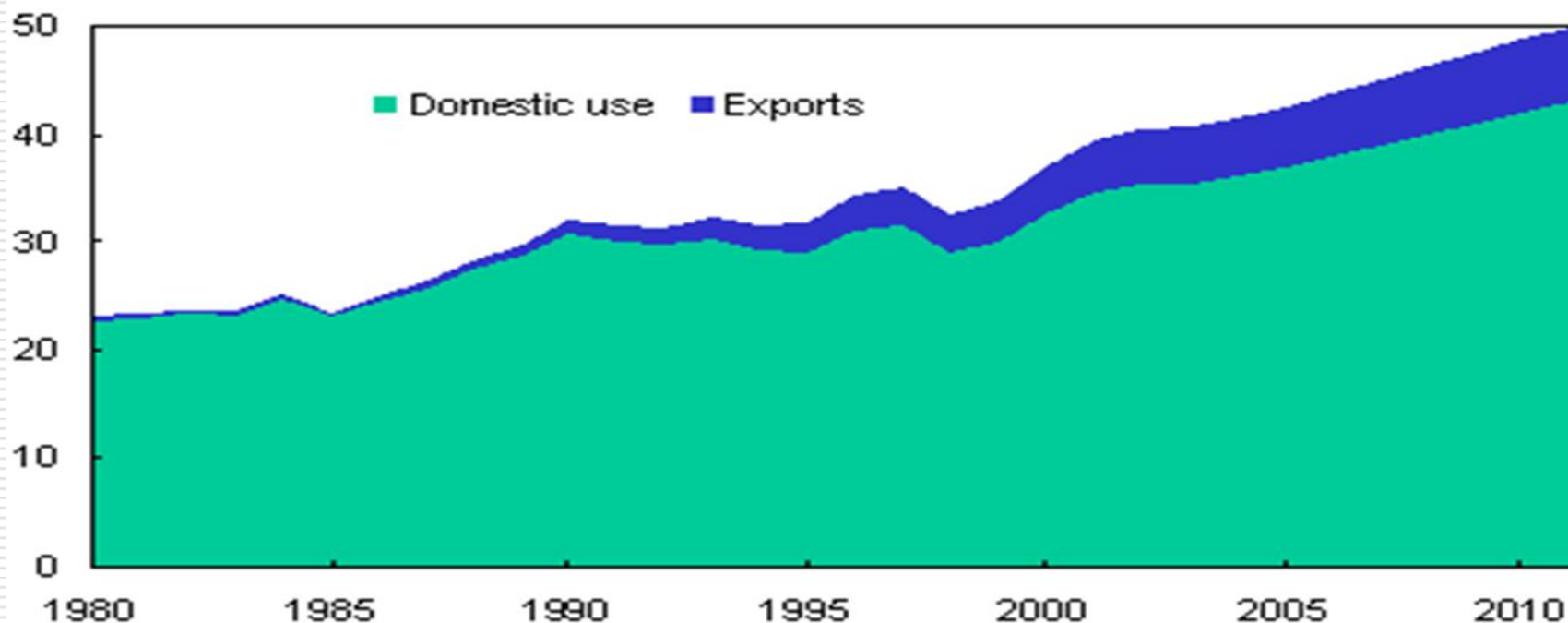
Million Pounds



# Domestic use vs. Exports 1980-2010

Farm value of domestically produced meat

\$ billion



Source: *USDA Agricultural Baseline Projections to 2011*, February 2002.  
Economic Research Service, USDA

# U.S. Broiler Exports, 2000-12

Year	Broiler Exports	Share of Broiler Production That is Exported
2000	4,918,000	16.3
2001	5,555,000	18
2002	4,807,000	15.1
2003	4,920,000	15.2
2004	4,784,000	14.2
2005	5,203,000	14.9
2006	5,205,000	14.8
2007	5,904,000	16.5
2008	6,961,000	19.1
2009	6,818,000	19.4
2010	6,765,000	18.5
2011	6,991,000	18.9
2012	7,137,000	19.4

# A penny saved is a penny earned

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- It is still about costs
  - Labor
  - Inputs
  - Yield
  - Feed
  - Energy
- You can only do so much about price
- Get out of the box







# Cost Variables - Labor

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- Labor costs and throughput
- Labor costs and the unknown
  - Immigration policy?
  - Unfunded mandates?
  - Effects of health care costs on suppliers?
  - Bank regulation legislation and the supply and resultant cost of money?

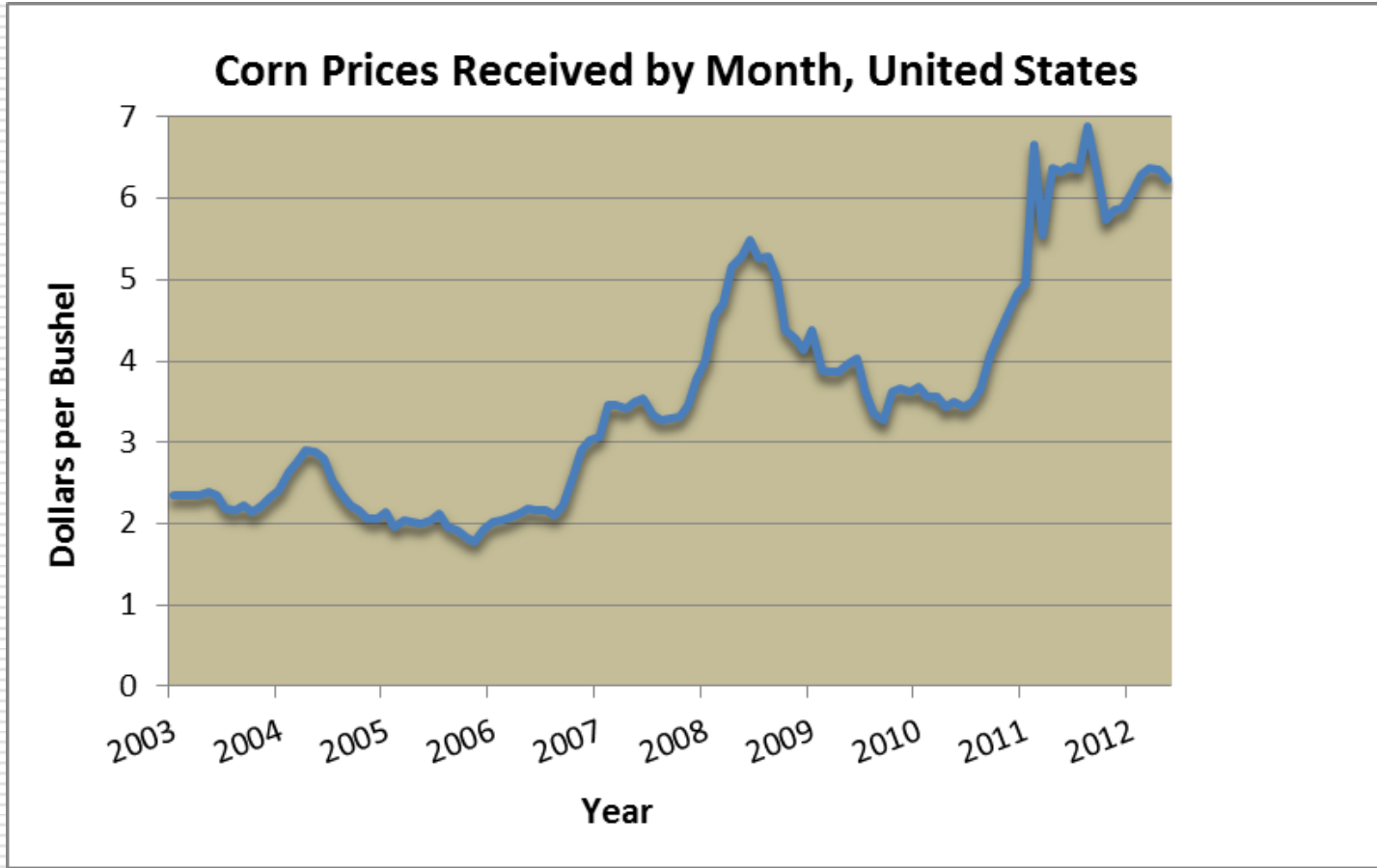


# Inputs

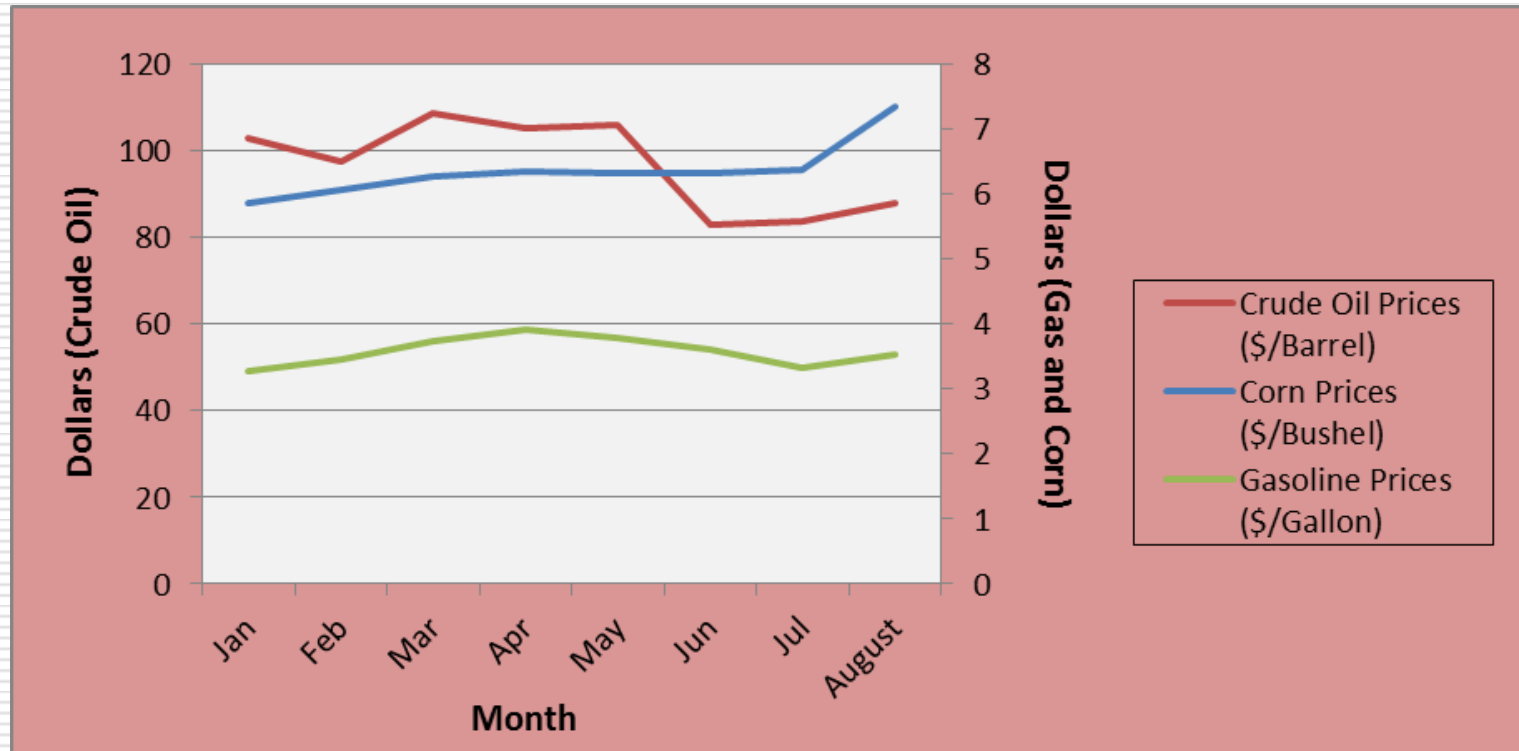
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- ❑ Impact of feed costs on profitability
- ❑ Time to work through the system
- ❑ Energy costs on plants and producers
- ❑ Energy savings at the milling point
- ❑ Transportation

# Prices Received for Corn by Month – United States (USDA/NASS July 2012)



# Corn, Crude Oil, and Gasoline Prices (January 2012 – August 2012)



# Georgia f.o.b. Dock Confirmed Final Weighted Average Price on Ice-packed Parts

Item	WTD. AVG. (Cents per Lb.)		
	9/16/2011	3/12/2012	8/8/2012
Line Run Tenders	187.00	196.50	201.50
Breasts- B/S	152.00	155.00	160.50
Breasts- Whole	85.00	100.00	103.00
Thigh Meat- B/S	127.50	129.00	129.00
Thighs	71.50	74.00	73.50
Drumsticks	70.00	73.00	69.00
Leg Quarters	53.00	50.50	51.00
Wings	96.00	187.50	189.00
WOGs	86.25	93.25	94.75

# Cost and Price Observations

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	<b>Feed Index</b>	<b>Price Index</b>
<b>Broiler</b>		
Aug-10	143	137
Aug-11	215	128
<b>Turkey</b>		
Aug-10	153	152
Aug-11	236	158
<b>Egg</b>		
Aug-10	145	250
Aug-11	120	159

Source: USDA/ERS Livestock, Dairy, Poultry Outlook 9/2011

# Eggs Set and Chicks Placed 19 State Total – 2009-2012

USDA

	<b>Egg Sets (Thousands)</b>	<b>Chicks Placed (Thousands)</b>
	<b>7-Jul</b>	<b>7-Jul</b>
<b>2012</b>	194,110	163,175
<b>2011</b>	194,961	165,957
<b>2010</b>	206,750	175,005
<b>2009</b>	201,322	170,752



# ATTENTION

Both Wood and Deer Ticks  
are present at this site.



- ◆ Wear light-colored clothing
- ◆ Scan clothes and exposed skin frequently for ticks
- ◆ Use insect repellent containing DEET
- ◆ Keep long hair tied back
- ◆ Do a final, full body tick check at the end of the day

*For more information about ticks,  
check the Bureau of Health web site at:  
[www.state.me.us/dhs/index.htm](http://www.state.me.us/dhs/index.htm)*

[www.mefishwildlife.com](http://www.mefishwildlife.com)

# Yields and Size Cut Both Ways

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- We all realize the importance of increasing yields in processing
- These increases also affect supply
- Size of birds key to the equation
  - Est. Slaughter – Aug. 7 week, 162 M 2008 vs 166 M 2010
  - Increase from 5.5 to 5.6 lbs average weight increases total supply at current slaughter by 2.9 %.

# Consider-----

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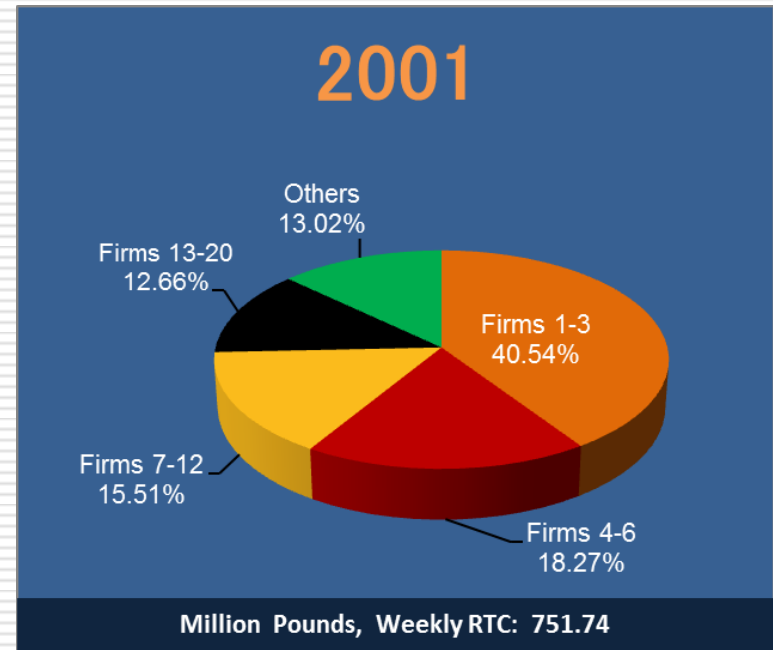
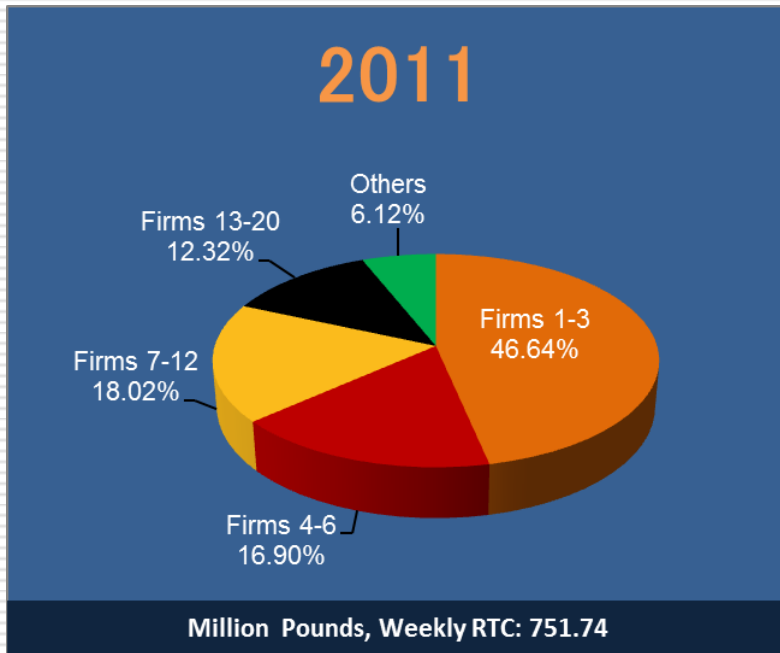
- If for the increase in bird weight all birds were de-boned into BSB:
  - $166 \text{ M} \times .1 \text{ lbs} = 16.6 \text{ M lbs per week}$
  - $16.6 \text{ M lbs} \times .19 \text{ BSB yield} = 3.154 \text{ M lbs}$
  - $3.154 \text{ M lbs. @ } 35,000 \text{ lbs per load} =$

**90 TRUCKLOADS PER WEEK INCREASE**

# Broiler Production Analysis, Plants Number and R-T-C lbs. (M)

Year	Total # of Plants	R-T-C Total	<i>4 Largest Firms</i>			<i>8 Largest Firms</i>		
			# Plants	R-T-C	%	# Plants	R-T-C	%
1982	148	233.9	28	65.3	27.9	57	103.1	44.1
1987	155	346.9	48	123.4	35.6	85	187.6	54.1
1992	173	475.8	57	192.7	40.5	83	262.3	55.1
1997	171	581.7	70	254.1	43.7	97	357.8	61.5
2002	171	663.1	78	319.4	48.2	107	441.6	66.6
2007	168	734.56	95	424.86	57.8	113	527.19	71.8
2012	156	753.7	78	404.17	53.6	100	534.68	70.9

# Broiler Industry Consolidation









# Cost and Price Observations

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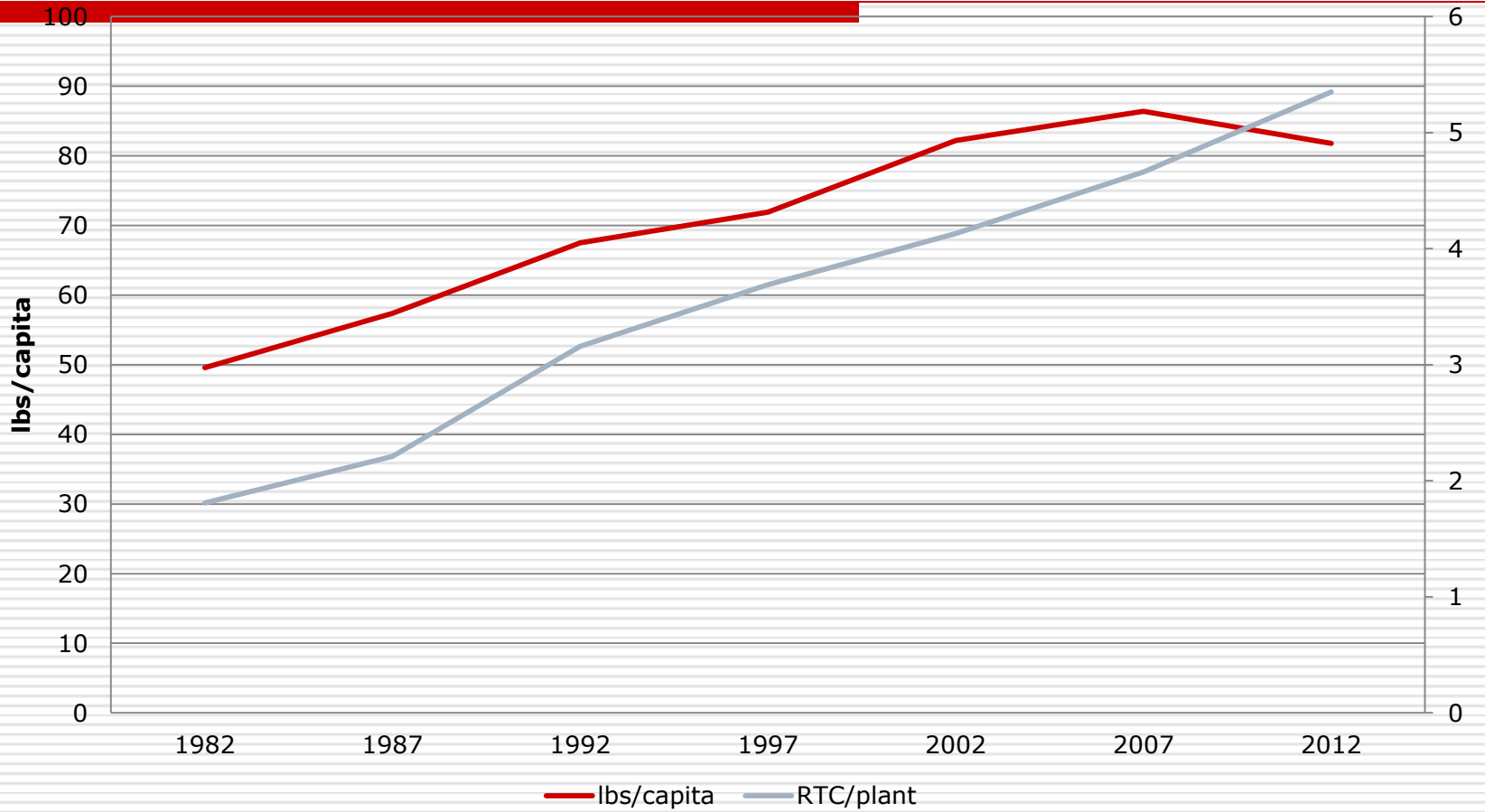
Source: USDA/ERS Livestock, Dairy, Poultry Outlook 9/2011

# Changes in Poultry Live Weights and R-T-C 1983-2012

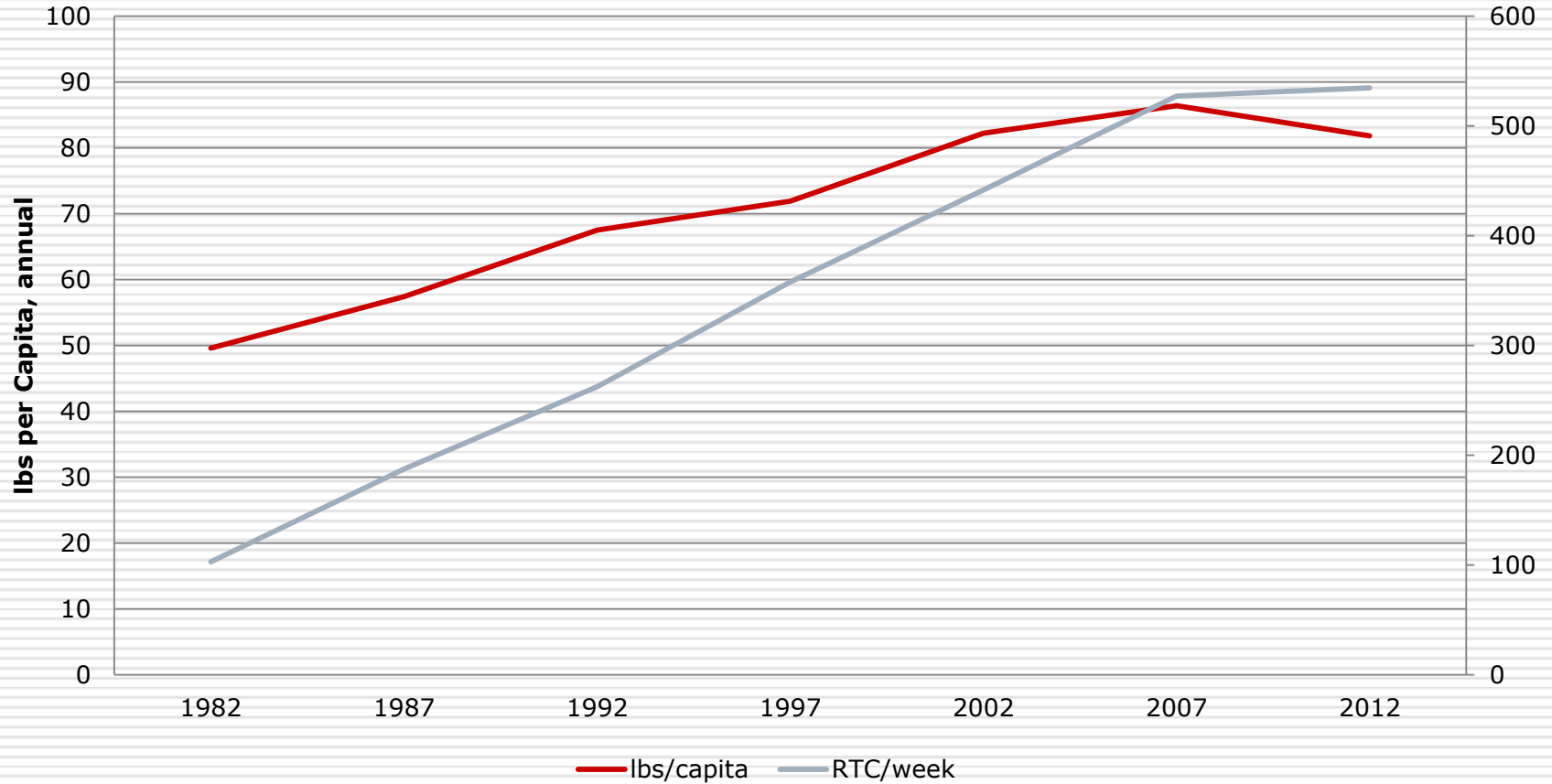
Years	% Increase in Average Live Weight	% Increase in R-T-C ( M Lbs.)	Pounds Produced (1,000)	Value of Production (\$1,000)
1983-1987	5.7	48.3	58,215,599	24,158,004
1988-1992	7.7	37.2	128,105,989	42,136,101
1993-1997	4.8	22.3	171,387,950	61,613,312
1998-2002	6.8	14	207,523,600	74,397,927
2003-2007	8.9	13.3	235,770,650	95,791,719
2008-2012	2.2	2.2	196,663,800	91,792,394

Source: Watt Poultry USA and USDA Poultry Production Table

## RTC Pounds per Plant vs. Annual Consumption



## RTC Pounds per Week (M) vs. Annual Consumption



# Feed Costs per Bird:

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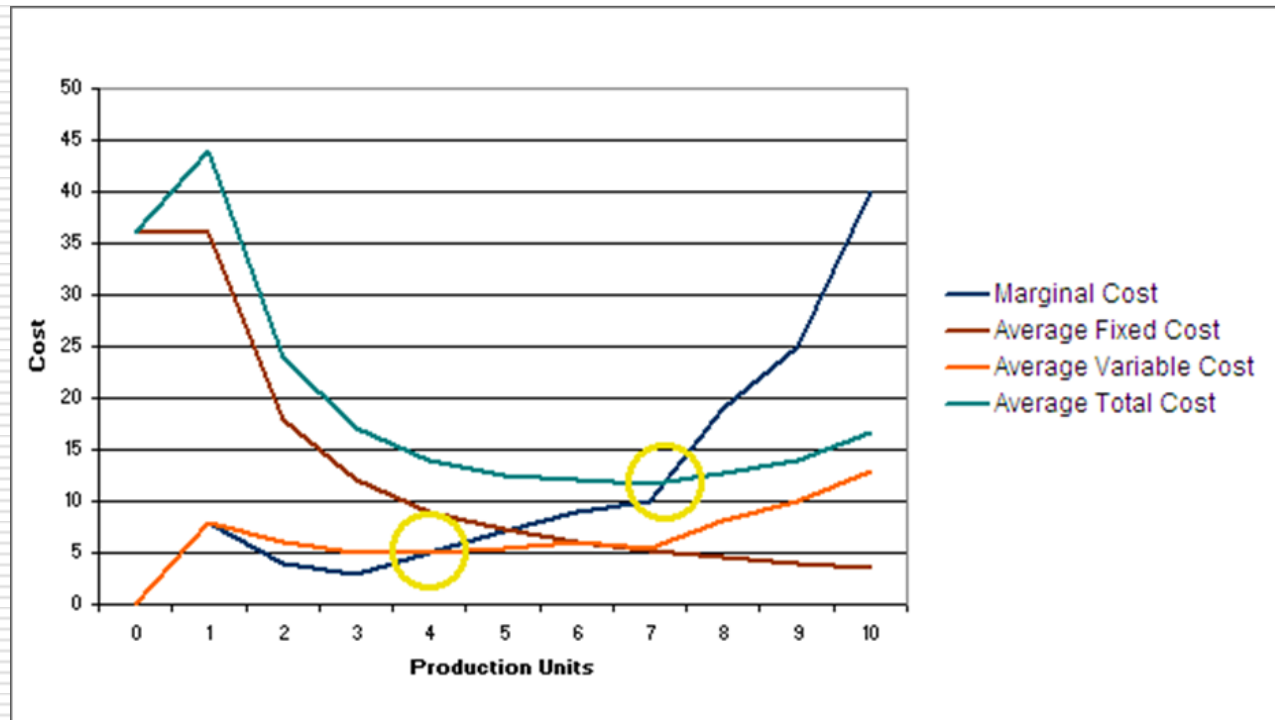
		2011		2012		
Corn	7.7	.1195	.92	7.7	.148	1.13
SBM	Other 2.2	.225	.49	2.2	.275	.60
	1.1	.22	.25	1.1	.24	.27
			<b>1.66</b>			<b>2.0</b>

Feed Cost = 75% live costs  
 Dressing % = 72%  
 5.65# live weight = 4# WOG  
 Processing/lb. = \$.28

**B.E. 6/12 = \$1.0475/lb.**  
**B.E. 9/12 = \$1.206/lb.**

**Feed/flock/wk = \$2.65 M vs. \$3.20 M**

# Microeconomics- Shutdown Curve







# Observations

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- ❑ Chicken demand in the U.S. is nearing a plateau in increases
- ❑ There will be a continued surplus of dark meat in the U.S. market
- ❑ This translates into the need to recover costs through white meat products
- ❑ Ability to do this will be limited after a point due to overpricing

# Potential Integrators Response

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- Increased reliance on foreign markets
- Competitiveness of U.S. challenged
  - Brazil and Argentina
  - China and Thailand
- Pressure for new product development
- Relocation possible as facilities become obsolete or mislocated

# What Might This Mean?

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- There will likely be a leveling in total U.S. production in years to come
- Expansion to meet growing foreign demand will be met by non-U.S. production
- Domestic demand will be met by U.S. production, but will likely shrink
  - Preserved by FSIS and Homeland Security
  - Less profitable complexes will close unless decreased placements and grower attrition are large enough to offset surplus production





# Outlook for the Future

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- ❑ Any immediate impact will be localized
- ❑ Regulation will encourage consolidation in growers similar to that seen in integrators
- ❑ Pressures for marginal producers to exit industry will increase
- ❑ Trend toward increased competitiveness outside the U.S. will continue
- ❑ Replacement of U.S. production in domestic market not likely
- ❑ Growth in U.S. industry will depend upon processed products and “fast food” export

# What to Expect:

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- ❑ Disruptions of trade with major trading partner (Russia) due to alleged sanitary-phytosanitary violations and (China) as a retaliatory action in other trade issues (100%+) tariff.
- ❑ Volatility of corn and soy as primary feed inputs



# What to Expect:

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- Poor economic conditions affecting:
  - Food-away-from-home sectors - demand for cheaper finished goods
  - Reduced frequency of FAFH experiences
  - Increased demand for less-processed products due to lower price
  - High unemployment and low consumer confidence

# What to Expect:

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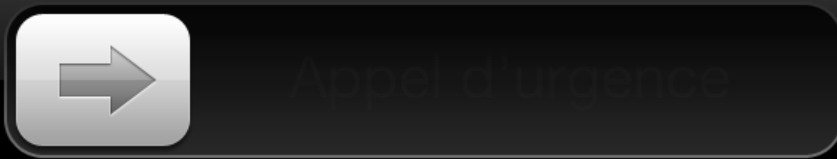
- Consumers are looking for something new, with more convenience and at a lower price, but be careful to mistake excitement for 'new' products as a trend that will carry into the future.



# Temperature



iPhone needs to cool down  
before you can use it.



# Observations

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- ❑ Household incomes have declined from \$52301 in 2000 to \$49434 in 2012
- ❑ Wealth of US households has decreased by about 28% since 2005
- ❑ Four-person hhld, income \$45800, \$220 per week food budget, gasoline goes from \$3 to \$4 and 10% increase in food costs results in 5.1% decrease in income
- ❑ 10% decrease in meat & poultry in 5 yrs.

# Line Speed, Efficiency and Establishments HIMP and non-HIMP

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**Summary of Line Speeds for HIMP and Non-HIMP Establishments**

	Number of Establishments	CY2010 Production Volumes	CY2010 Number of Lines	CY2010 Line Speeds
HIMP	20	38.8 to 115.7 M Birds	1 to 5	88 to 180 bpm
Non-HIMP	64	41.2 to 108.4 M Birds	2 to 6	81 to 140 bpm

# Possible Real Outcomes

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- Decrease number of bird placements.
  - Assuming a 3% decrease with no loss of growers and continued 100+% capacity in houses, growers will get 6.79 flocks/yr instead of 7 flocks/yr. This may result in a 9.5% loss in grower net revenues.
- As plants move to HIMP (line speeds increase by 28%) it is likely that firms will choose to close plants to increase efficiency of capital.