

BROILER ECONOMICS

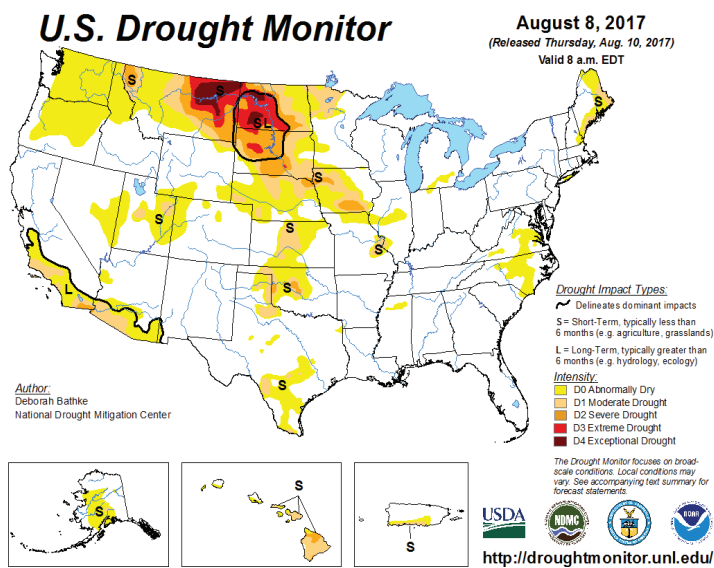
By Dr. Paul Aho

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GOOD NEWS FOR GRAIN USERS

Earlier this year it appeared that widespread drought in the US might severely affect yields. As a result, grain prices rose substantially due to those fears. It now appears that although drought has affected the crop in some areas, there will be enough corn and soybeans for a fairly good harvest.

As can be seen on the latest drought monitor, there is an ugly drought in North and South Dakota but the center of the Corn Belt is relatively free of drought.



Corn

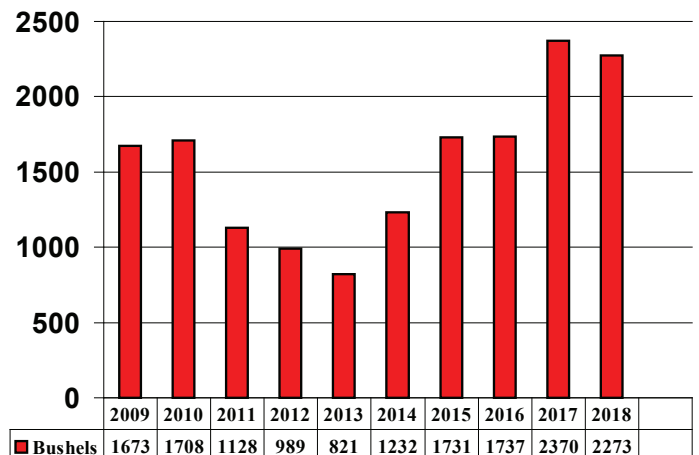
The August USDA World Agricultural Supply and Demand Estimates (WASDE report) projects slightly lower corn yields and acres this year. The ending supply of US corn this crop year will fall a bit compared to last year. When looking at world ending stock, diminished production in South America combined with a somewhat lower US crop reduce levels to a substantial 200 million metric tons. It is, of course, important to take note of the change in trend from increasing world stocks to falling world stocks. Corn prices are at their low point for this cycle.

Although it is still too early, by a couple of weeks, to say for sure that the corn crop is "made", it is nevertheless becoming increasingly likely. Should there be a fairly good crop, as is now expected, the ending stock in 2018 will be just slightly lower than 2017 and the price next crop year will be similar to the price of the crop year now ending (August 31). One reason the US ending inventory will only be slightly lower next crop year is that exports from South America, and in particular, Brazil are now much higher than last year.

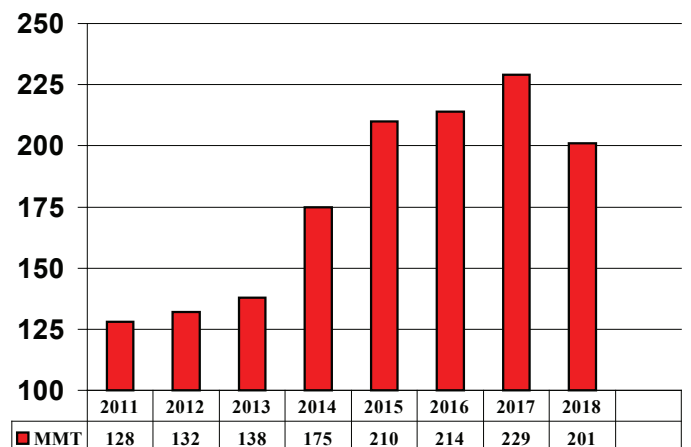
US Corn Supply and Demand - August USDA Billions of Bushels

	2015-16	2016-17	2017-18
Harvest	13.602	15.148	14.153
Supply Total	15.401	16.940	16.573
Ethanol	5.206	5.450	5.500
Exports	1.898	2.225	1.850
Feed	5.131	5.425	5.450
Total Use	13.662	14.570	14.300
Ending Inventory	1.737	2.370	2.273
Farm Price	\$3.61	\$3.35	3.30

US Ending Stock of Corn - Millions of Bushels

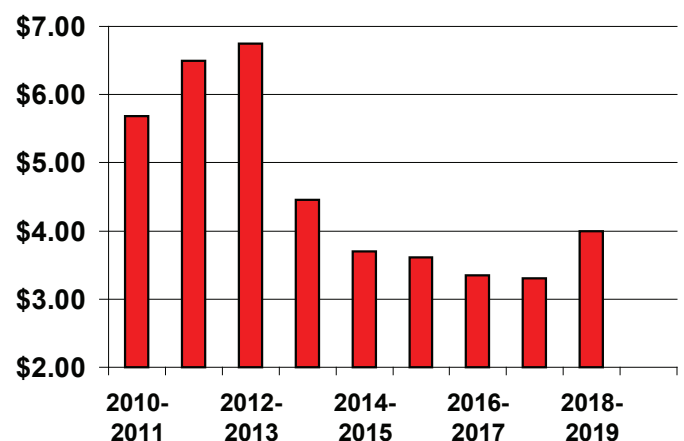


World Ending Stock of Corn - MMT



For the short term, corn prices are likely to fall because of the relatively high inventory of corn from this now ending crop year that must be sold, combined with falling exports. However, in crop year 2018-19 prices are likely to rise in part due to the continued shift of acres from corn to soybeans in the US. In 2018-19, the average price could be \$4.00 per bushel (\$160 per metric ton).

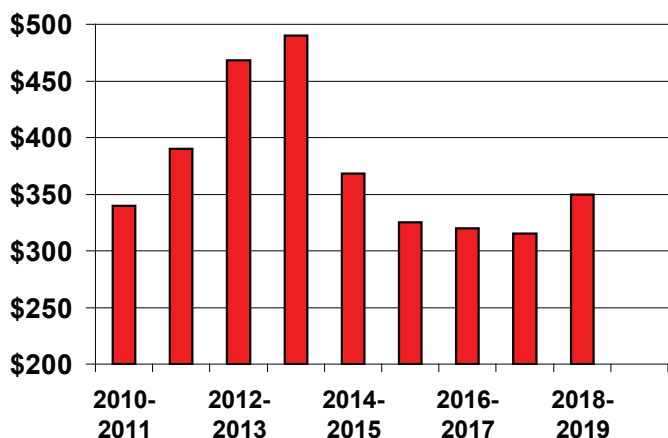
Average Farm Price of Corn \$/Bushel to 2018-19 Projected



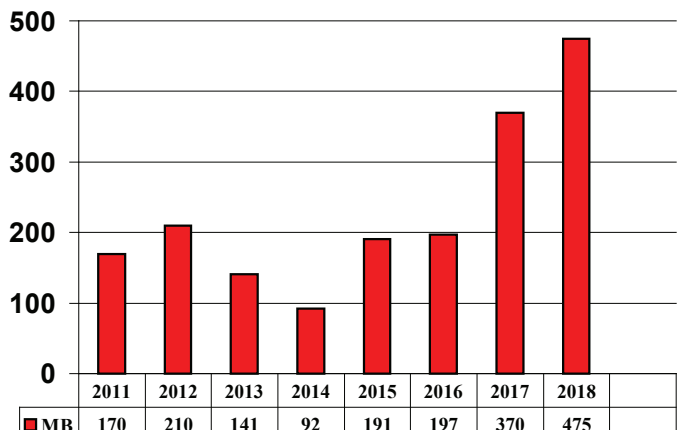
Soybeans

Unlike corn, US and world ending stocks of soybeans rose in this current crop year now ending and are projected to rise next year as well. However, the world ending stock could start to fall in crop year 2018-19. As a result, like the corn market, soybean prices could be rising by 2018-19.

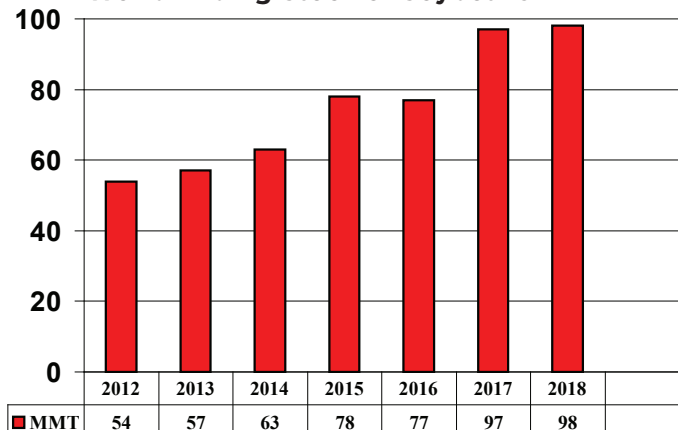
Average Crop Year Price of Soybean Meal 2018-19 Projected



US Ending Stock of Soybeans - Millions of Bushels



World Ending Stock of Soybeans - MMT



US Soybeans - August USDA - Billions of Bushels

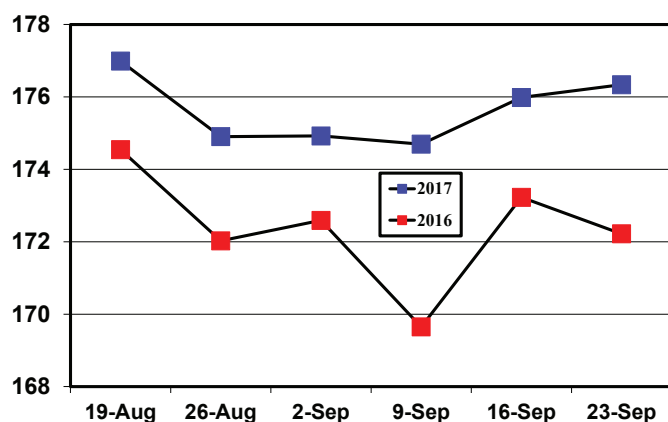
	2015-16	2016-17	2017-18
Harvest	3.926	4.307	4.381
Export	1.886	2.150	2.225
Total Use	3.944	4.158	4.301
Ending Inventory	197	370	475
Meal Price short ton	\$325	\$320	\$315

Chicken Industry Production

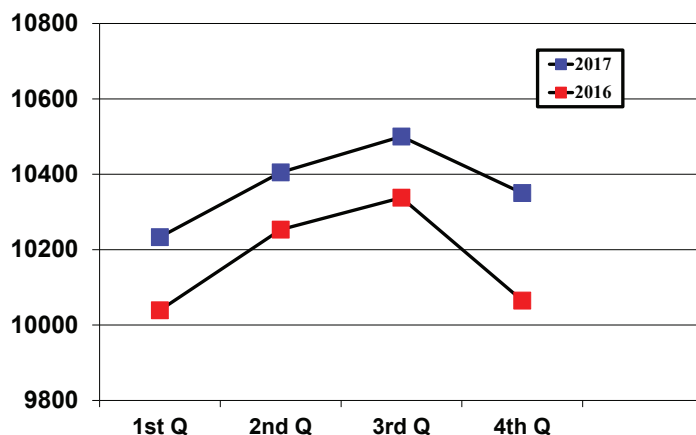
The USDA now expects US production of chicken meat to increase just 1.9% this year. The increase is low due in part to the fact that the average weight of live chickens has not increased at all this year due to woody breast issues.

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 close to 2% over last year. With no increase in average weight, total production will also show a 2% increase this year. Although 2% seems low by historical standards, it is likely that 2% will be about average going forward.

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



US Quarterly Broiler Production Million Pounds - USDA

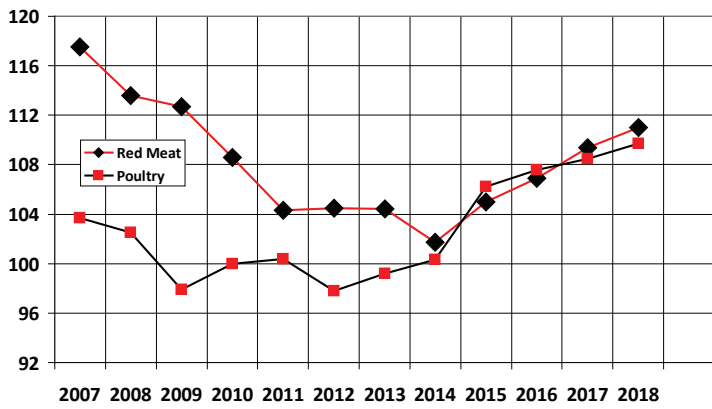


The combination of low grain prices and restricted supply ensures high profitability this year barring an event such as bird flu or a trade dispute with Mexico. Mexico is the number one destination for US chicken exports, buying more than one billion pounds of leg quarters per year. Any disruption in trade with Mexico would have severe consequences for the US chicken industry. In the last few months, the possibility of a trade war with Mexico appears to have diminished.

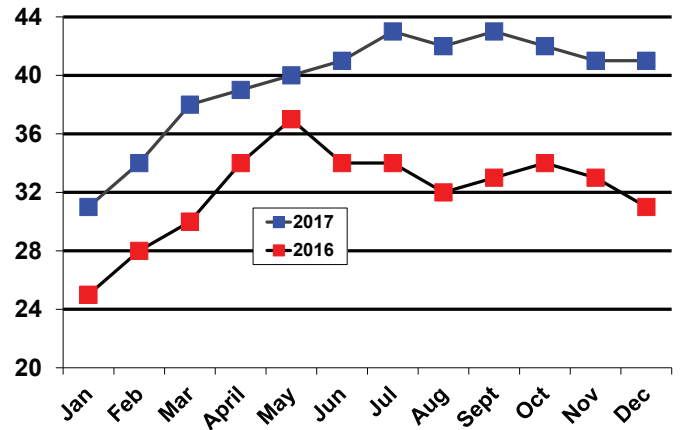
Chicken prices are under some pressure from the increased production of red meats. There will be an additional 1.4 billion pounds of red meat available for domestic use this year and another billion pounds next year. So far demand appears to be keeping up with the supply of both poultry and red meat. This is due in part to rising median income. When grain prices start rising again and/or the growth in median income slows down or drops, only then will supply be more likely to outpace demand.

It is interesting to note that total per capita meat consumption in 2018 will finally return to the levels of 2006. It took 12 years to return to the meat consumption levels prior to the recession.

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



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



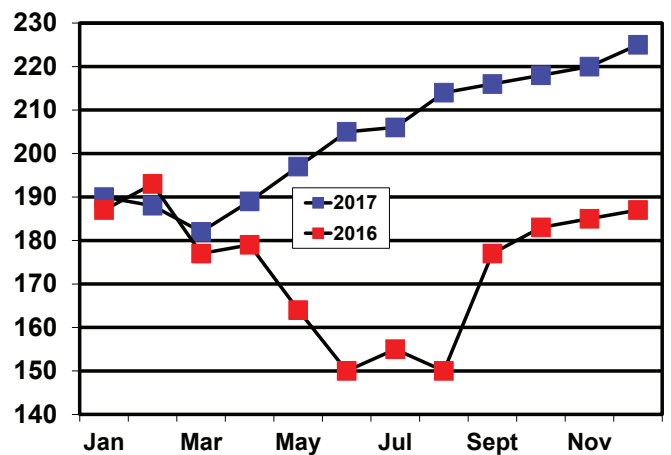
Per Capita Consumption Per Capita in Pounds - US

	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	89	16	211
2016	50	56	90	17	215
2017	50	56	90	17	216
2018	51	58	91	17	220

Wings

Wings are an amazing bright spot for the US chicken industry. Demand for wings is growing rapidly while supply is relatively constrained. The price of wings is now rising in the summer when they should not be rising. When autumn comes and demand increases seasonally, wings could soar even higher.

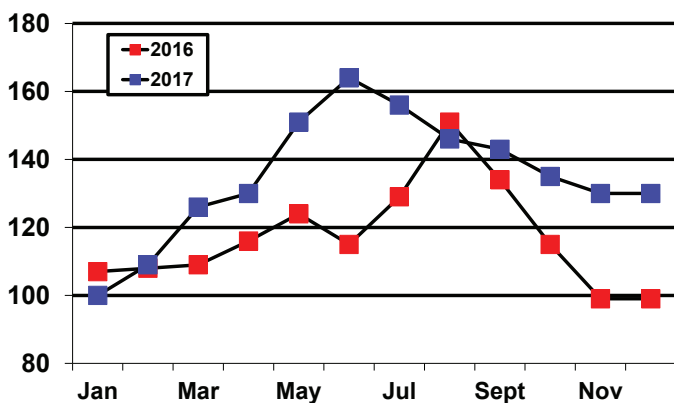
Whole Wing Prices - 2016-17 USDA - Northeast Price - Cents/lb



Deboned Breast

Prices for breast meat were much higher than last year in June but are now starting to fall seasonally. Due to an earlier reduction in the size of the largest chickens grown for deboning, there was a decreased supply of deboned breast being provided to the market. As a result, prices have soared from \$1.00 to \$1.60 per pound. Prices will fall as the earlier size reduction moderates and competition from competing meats increases.

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



Leg Quarters

The highest price for leg quarters last year was reached in May at 37 cents Northeast Price (There is a range in prices for leg quarters with many leg quarters sold at a price lower than the published Northeast price).

Going forward, 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 (close to 40 cents). Trade tensions with Mexico have eased in the last few months and the Mexican Peso has recovered indicating that the markets expect little or no change in trade policy.

The US chicken industry is highly profitable for the moment and is likely to remain unusually profitable due to low grain prices and rising chicken prices.

August 2017

Leg Quarters	\$ 0.43 per pound
Deboned Breast	\$ 1.46 per pound
Wings	\$ 2.14
Chicago Corn	\$ 3.60 per bushel
Soybean Meal	\$ 300/Ton
Total Cost of Eviscerated Chicken	\$ 0.66
Revenue	\$ 0.86
Gain (Loss) per pound	\$ 0.20

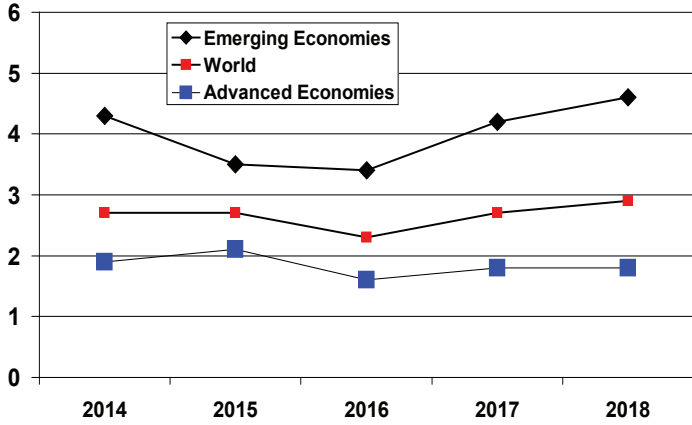
December 2017

Leg Quarters	\$ 0.41 per pound
Deboned Breast	\$ 1.30 per pound
Wings	\$ 2.25
Chicago Corn	\$ 3.60 per bushel
Soybean Meal	\$ 300/Ton
Total Cost of Eviscerated Chicken	\$ 0.66
Revenue	\$ 0.83
Gain (Loss) per pound	\$ 0.17

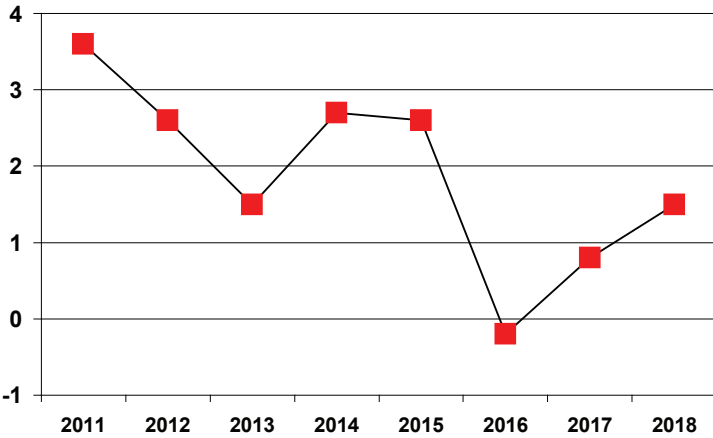
World Chicken Growth Rate

The consequences of slower world economic growth in the last few years, combined with a rapid drop in production in China, dropped the world chicken production growth rate to a highly unusual negative 0.2% last year. Production in China dropped 8% in 2016 and will drop 11% in 2017 due to their struggles with avian influenza and lack of breeders. World chicken production is likely to turn around this year and begin to grow faster than 1% per year starting in 2018.

Economic Growth Rate



World Chicken Production 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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