

BROILER ECONOMICS

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LOWER GRAIN PRICES LIKELY

Corn prices are likely to remain weak in the next few months after the recent bumper crop in the US. Cash-short farmers are likely to market more grain than usual at the beginning of next year. As a result, corn can be expected to remain weak for months as the old crop is cleared out of the bins. Thanks to robust exports, soybean prices are less likely to fall in the next few months.

Next year, when farmers look at the relative prices of corn and soybeans, 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 while corn prices may recover if a shorter supply is expected.

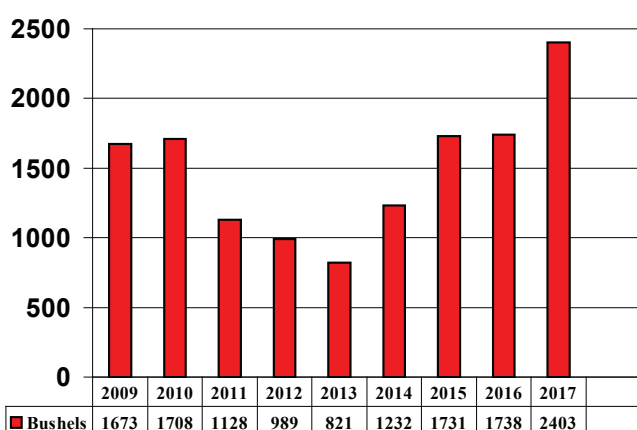
Meanwhile, conditions appear favorable in South America. If an abundant harvest of corn and soybeans from South America hits the world market early next year, poultry producers should enjoy relatively low prices. It is, however, important to remember that grain prices are close to (if not at) a long term bottom and the next long term trend will be up.

The December USDA World Agricultural Supply and Demand Estimates (WASDE report) reported no change in ending US stock numbers for corn production but a sharp increase in expected world corn production and ending stock. The world supply of corn as measured by ending inventory is abundant and significantly higher than last year.

US Corn Supply and Demand – December USDA Billions of Bushels

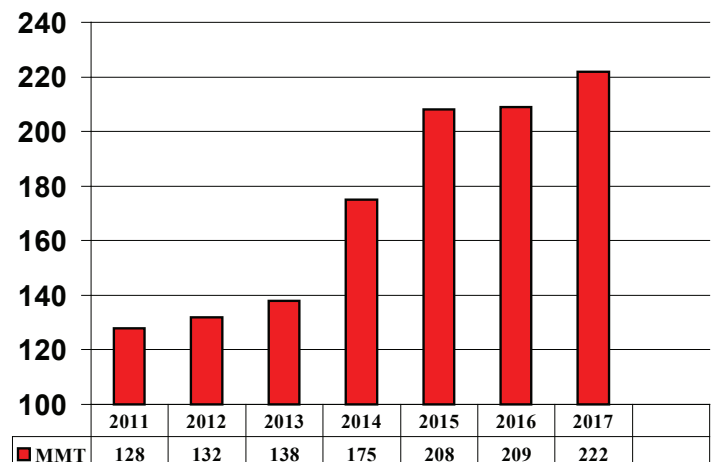
	2014-15	2015-16	2016-17
Harvest	14.216	13.601	15.226
Supply Total	15.479	15.400	17.013
Ethanol	5.209	5.206	5.300
Exports	1.864	1.898	2.225
Feed	5.314	5.192	5.650
Total Use	13.748	13.662	14.610
Ending Inventory	1.731	1.738	2.403
Farm Price	\$3.70	\$3.61	\$3.35

US Ending Stock of Corn - Millions of Bushels



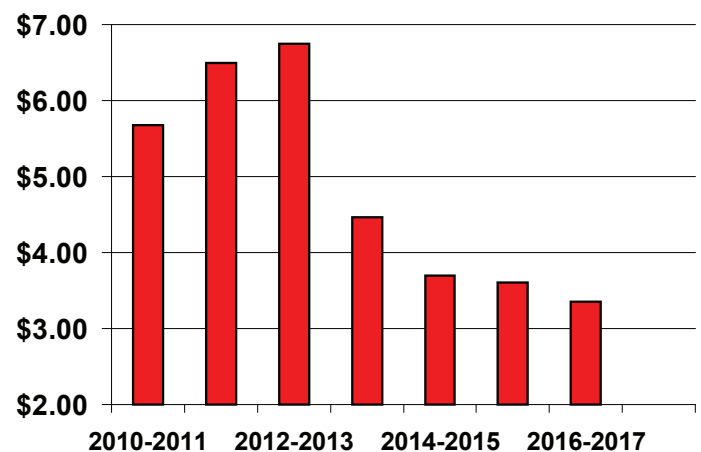
The December WASDE report estimates world ending stock in 2017 to be 222 million tons, up 13 million tons from 2016. This sharp increase is, of course, beneficial to the users of grain.

World Ending Stock of Corn - MMT



With increased supply worldwide, prices are likely to have little ability to rise over the next several months barring a weather problem in South America.

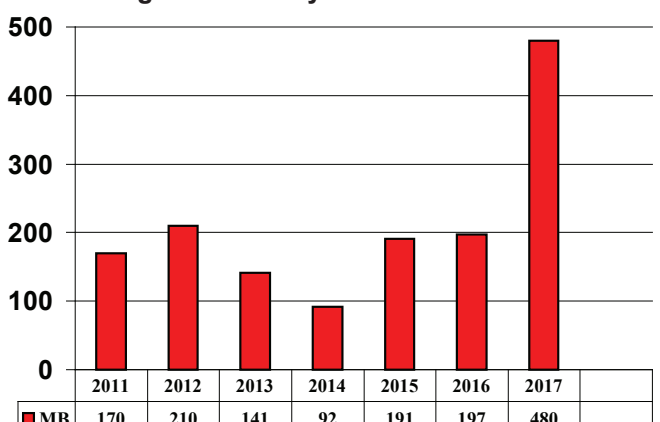
Average Farm Price of Corn \$/Bushel to 2016-17 projected



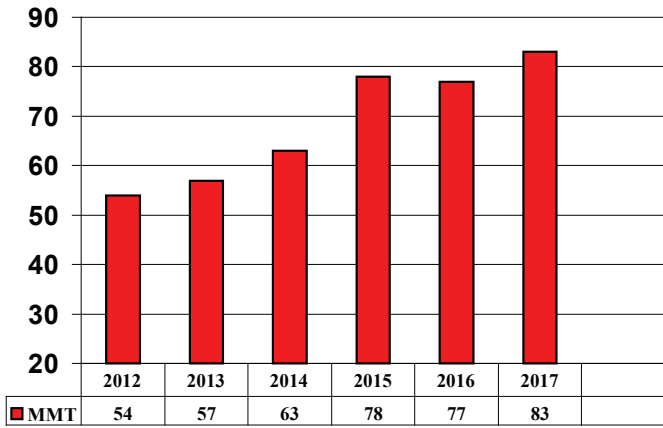
Soybeans

Exports of soybeans have been robust in the last few months but there appears to be little likelihood of a significant increase in price over the next several months. The supply of soybeans is abundant with much more on the way early next year from both North and South America. World ending supply is high. The US ending stock is expected to rise substantially this crop year and next. Any near term strength in soybean prices is likely to be short lived.

US Ending Stock of Soybeans in Millions of Bushels



World Ending Stock of Soybeans in MMT

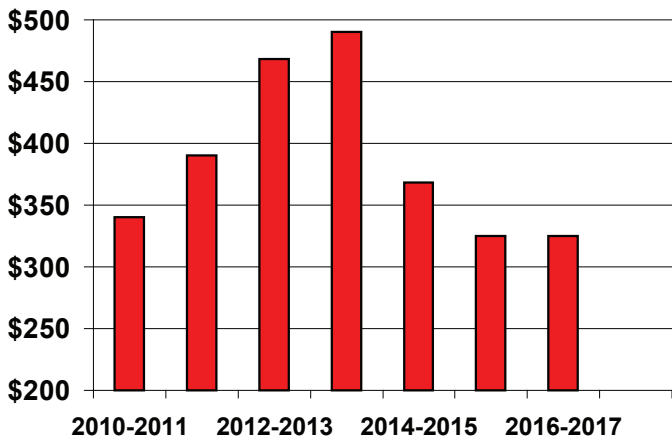


US Soybeans – USDA December– Billions of Bushels

	2014-15	2015-16	2016-17
Harvest	3.927	3.926	4.361
Export	1.843	1.886	2.050
Total Use	3.861	3.943	4.108
Ending Inventory	191	197	480
Meal Price short ton	\$368	\$325	\$325

The USDA prediction of an average price of \$325 per short ton (\$358 per metric ton) for next crop year appears to be too high. Soybean prices may be lower on average for this crop year, perhaps as low as \$300.

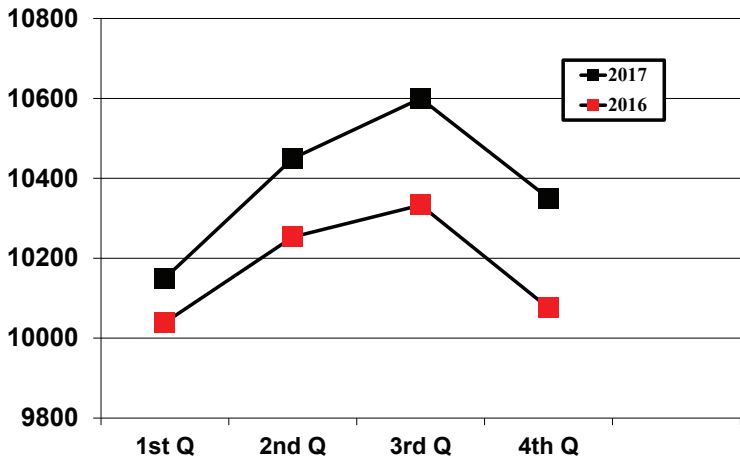
Average Crop Year Price of Soybean Meal to 2016-17 projected



US Chicken Industry Production

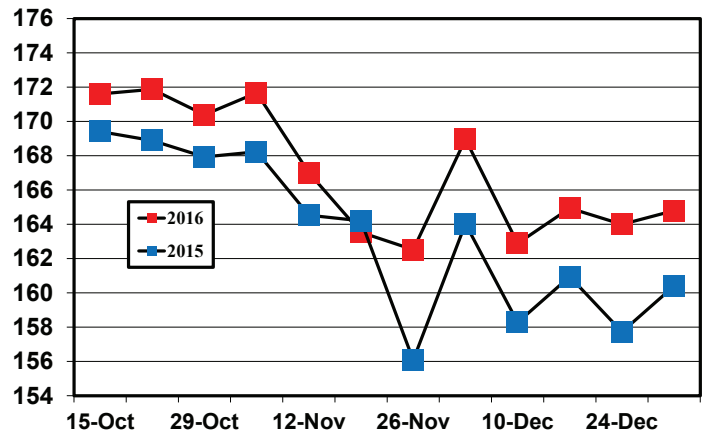
The USDA expects US production of chicken meat to increase 2.1% next year, slightly higher than the 1.6% of 2016. Production increases are expected to be highest in the third quarter which could lead to price weakness in the middle of the year.

US Quarterly Broiler Production Million Pounds - USDA



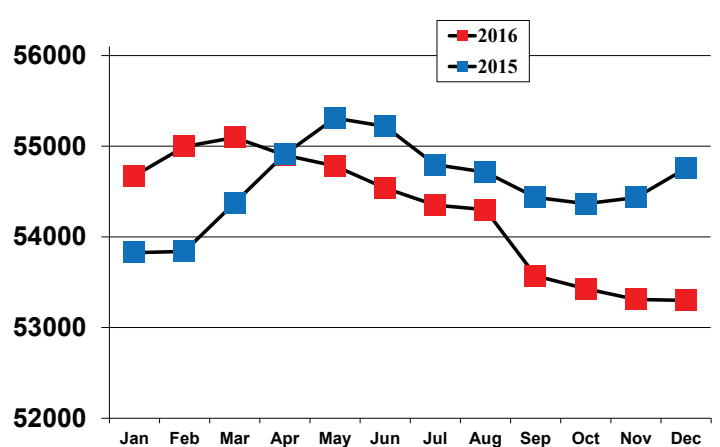
The graph below shows weekly chick placement in millions moved forward 7 weeks to estimate chickens processed. Using this method of estimation, process numbers are running about 2% over last year. This increase in process numbers is in alignment with the predictions of increased production of 2%. It 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 - 2016 versus 2015



As can be seen on graph below, there are currently fewer breeders in the supply flocks than last year. From the smaller flock there are more chicks. This is due to the lower average age of breeders. Younger breeders are more productive. In addition, there are fewer hatching eggs being sent to Mexico this year.

Layers on Hand - Broiler Breeding Flock 2015-2016

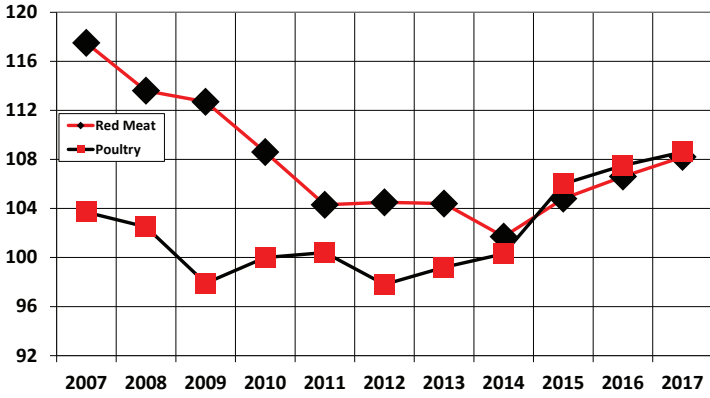


Chicken availability per capita within the US increased less than one pound this year due to increased exports and a relatively slow increase in production. Profitability was relatively strong. Next year, low grain prices will help profitability but a faster increase in production combined with trade uncertainty could result in falling chicken prices. Mexico is the number one destination for US chicken exports. Any disruption in trade with Mexico would have severe consequences for the US chicken industry.

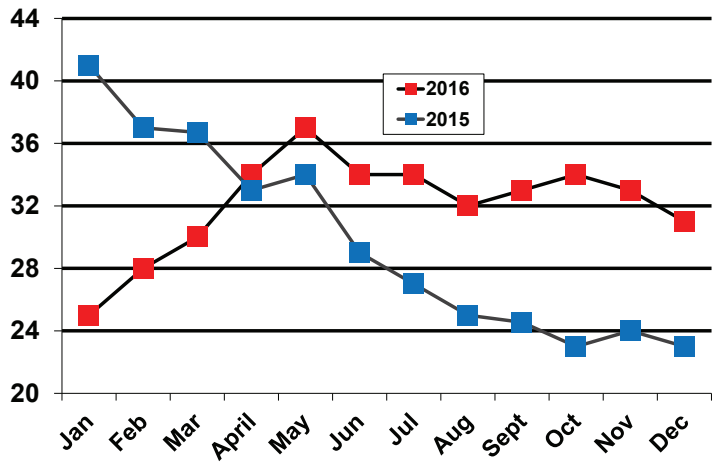
Chicken prices will also be under pressure from increased production of red meats. In both 2016 and 2017 there will be an additional billion pounds of red meat available for domestic use. In all, total red meat consumption per capita will rise 7 pounds from 2014 to 2017. The per capita consumption of poultry jumped 6 pounds in 2015 but is expected to rise just one pound this year and next.

It is interesting to note that total meat consumption in 2017 is still not back to the level of 2006. Total meat consumption is closely correlated to median income. Median income in the US is also still not back to the level of 2006.

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



**Leg Quarter Price - 2015-16
USDA - Northeast Price - Cents/lb**



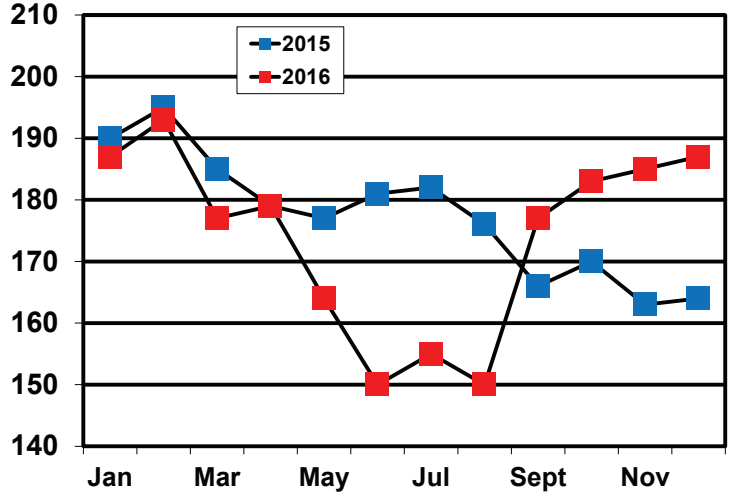
Per Capita Consumption Per Capita in Pounds - US

	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	55	90	17	214
2017	51	56	91	17	217

Wings

Wings were a bright spot for the US chicken industry most of the year except a few months in the summer. Demand for wings is phenomenal but highly inelastic. A significant increase in supply would send prices sharply lower.

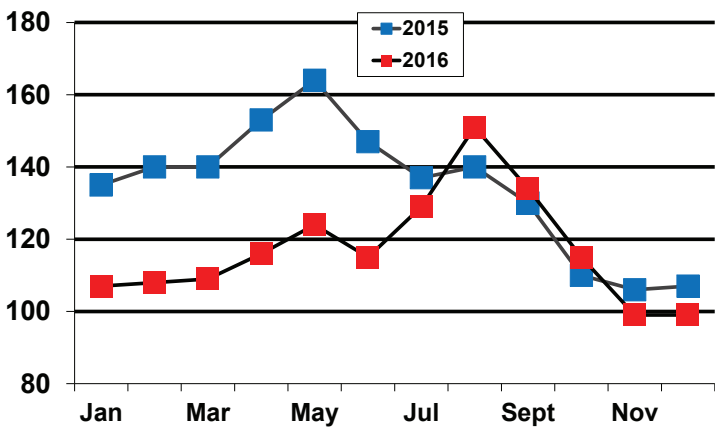
**Whole Wing Prices - 2015-16
USDA - Northeast Price - Cents/lb**



Deboned Breast

The highest prices for breast meat this year were lower than the highest prices in 2015. However, falling grain prices and higher leg quarter prices ensured profitability, even at lower levels for this key price.

**Deboned Breast - 2015-16
USDA - Northeast Price - Cents/lb**



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

December 2016

Leg Quarters	\$ 0.31 per pound
Deboned Breast	\$ 0.99 per pound
Wings	\$ 1.87
Chicago Corn	\$ 3.50 per bushel
Soybean Meal	\$ 315/Ton
Total Cost of Eviscerated Chicken	\$ 0.70
Revenue	\$ 0.74
Gain (Loss) per pound	\$ 0.04

Leg Quarters

Leg quarter prices moved up this 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.

April 2017

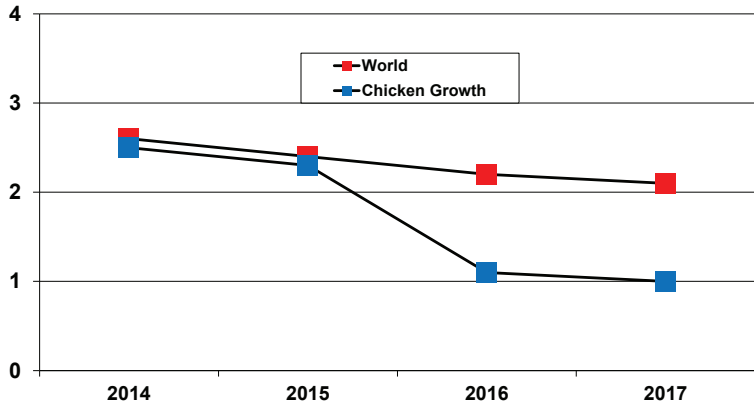
Leg Quarters	\$ 0.31 per pound
Deboned Breast	\$1.10 per pound
Wings	\$ 1.60
Chicago Corn	\$ 3.25 per bushel
Soybean Meal	\$ 295/Ton
Total Cost of Eviscerated Chicken	\$ 0.68
Revenue	\$ 0.74
Gain (Loss) per pound	\$ 0.06

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 Mexico, 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% this year. There is no sign that the rate of increase of chicken production will expand next year. An increase in the production of competing meats worldwide will make any greater chicken expansion difficult.

World Chicken Growth Rate and World Bank Real World GDP



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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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