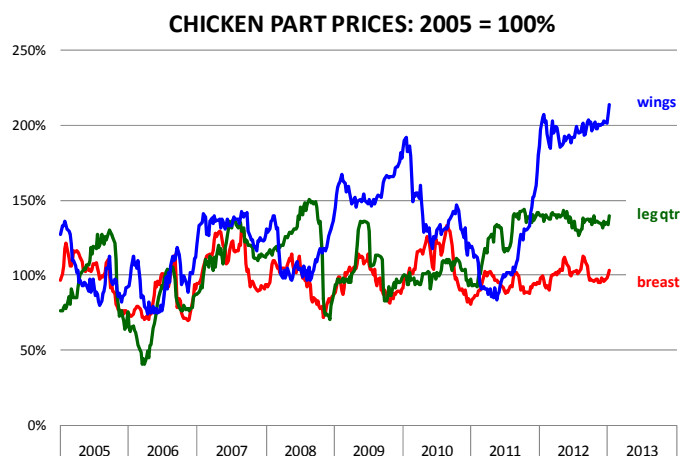
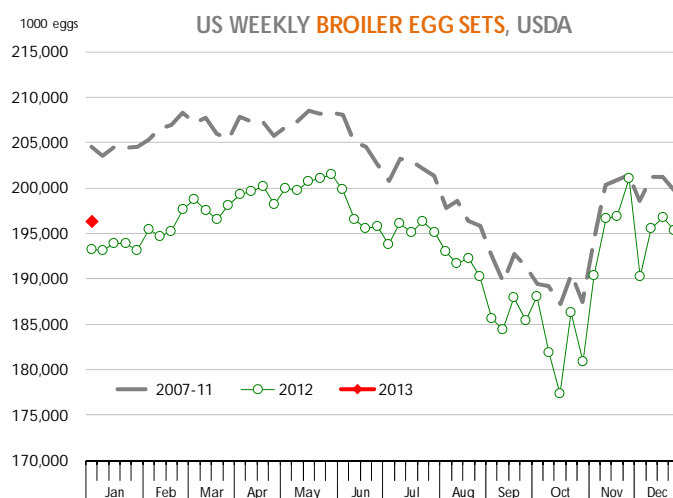


Broiler producers appear undaunted, despite a double digit increase in feed cost inflation. Coming into 2013, the expectation was for a modest decline in broiler supplies, largely based on the assumption that producers would continue to reduce supplies in the first half of 2013 due to escalating feed costs. The WASDE report published in December pegged broiler production for 2013 at 36.055 billion pounds, almost half a billion pounds or 1.3% less than in 2012. Broiler production in Q1 of 2013 was projected to be down 1% while Q2 supplies were forecast to decline 3.6% from 2012 levels. The latest data, is telling a different story. The weekly broiler hatchery survey, which accounts for egg sets and placements in 19 states (about 97% of total supply) showed producers set 196.326 million eggs in incubators, 1.6% more than the same week a year ago. Since December 1, egg sets have averaged about 1% above year ago levels. Chick placements track egg sets with four week lag and they also are above year ago levels at this point. For the latest reported week, producers placed 163.776 million chicks, 1.2% more than the same period a year ago. Since December 1, weekly chick placements have averaged 0.4% above year ago levels.


Broiler producers have in part benefited from a decline in feed costs, at least compared to what they were back in August and September. They have also enjoyed a notable improvement in product prices, particularly for some items. The price of whole birds currently stands at all time record levels. The Georgia dock price on Wednesday was quoted at 99 cents per pound, compared to about 90 cents a year ago and 85 cents in 2011. The 12-city average is currently hovering above 102 cents per pound, a 26% increase compared to year ago levels. There is some debate as to what has fueled the rapid increase in whole bird values. We think in part this is due to the decision by producers to shift towards bringing more boning birds to market, which has limited the overall availability of smaller retail whole birds. With egg sets and chick placements flat to 1% higher than a year ago, producers have opted to increase pounds by bringing to market bigger birds. Broiler live weights in Q4 of 2012 averaged 5.85 pounds, up about 2% from Q4 of 2011. Broiler weights have been steadily increasing in recent years and we suspect the trend will continue in 2013 as producers seek to maximize production efficiencies. The marginal cost of the extra pound of broiler meat continues to be below the marginal revenue from bringing that additional supply to market. Indeed, with egg sets and chick placements above year ago levels and with weights trending higher, it is hard to see how we can have 1% less broiler meat in Q1 and 3.6% less broiler meat in Q2.

Broiler part prices also have shown notable improvement. Chicken wings continue to trend higher as consumer preferences shift towards more flavor. Also, higher prices for competing items at foodservice, particularly burgers and steaks, have supported prices for chicken




wings. Normally wing prices peak in early February with the Super Bowl weekend. Currently, prices for wings are about double what they were in early 2011, which means extra dollars going into producer margins. Keep in mind that wings are still a relatively small portion of the broiler carcass (about 12%). Still the gains have helped offset the anemic performance of chicken breasts (see chart).

Bottom line: More chicken will help moderate broiler prices but the impact on the demand for other meats should be relatively modest as chicken is a weak substitute. According to ERS/USDA elasticities, a 1% decrease in chicken price reduces the quantity of beef demanded by 0.018% and the pork quantity demanded by 0.013%.



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