

2017 Annual Meat Conference
Questions and Answers – Economic Outlook
Paul Aho and Steve Meyer

Is the strengthened dollar going to hurt exports?

PA: I see don't believe the dollar will strengthen from current levels.

SM: Relative the last 2 years, no. Relative to a longer historical period, yes. We believe a stronger dollar is more likely than a weaker dollar over the next 1-3 years but we would not expect a large increase.

How many years do you think this up trend on meat industry will last?

PA: I assume the question refers to per capita consumption – the rapid increase of the last few years will start to slow down next year

SM: We think the trend will indeed slow. This year is 216 lbs. Record was in 2006 at 220. We would be surprised to surpass that level by much.

Do you see non-GMO feed becoming a factor in pork production, and if so what would be the impact?

SM: I do not. There will be a niche for it but it won't become a big part.

Wendy's just announced they are moving to smaller chickens for flavor and juiciness. Do you see this becoming a trend and how will that affect supply?

PA: Smaller chickens actually have less chicken flavor. If they are willing to pay more for smaller chickens the companies will provide the product. No effect on supply, all sizes will be available (for a price).

How big will organic become across these major proteins? Do you expect it to become a major part of sales mix in near future?

PA: I expect it to be a niche product for quite some time.

SM: It will remain a niche – and an even smaller niche for meat/poultry than for other foods. It takes a lot more space to produce a meal of organic pork or chicken than a meal of organic carrots. Simply too expensive for "normal" people.

Will US beef production ever be able to support the demands for grass fed and organic beef?

SM: Yes – at a price.

Are the per capita numbers calculated as production minus exports?

PA: Production minus exports plus imports

SM: beginning stocks + production + imports – exports – ending inventory = disappearance. We assume it is consumed by people.

How might the H7N9 outbreak in China impact global markets and perceptions in other markets as human infections increase?

PA: Influenza is primarily a winter problem. Hopefully it will now diminish and have little effect on other markets. Of more concern is the influenza in this country and how it could affect exports.

If meat consumption is tied to disposable income, how do attitudes toward meat change the curve, ie. Meatless Mondays, animal welfare concerns, and social pressure from special interest groups?

PA: Judging by the numbers, Meatless Mondays have had an effect too small to be detected. That could, of course, change in the future.

SM: Both tastes and preferences and income level determine the position of the demand curve in a Price-Quantity diagram. Generally, income changes more and more often than do tastes and preferences. Both shift demand, though, and all of the items you cite appear to not be nearly as important as consumers' wishes for flavor, convenience, etc.

What are the main insights for overseas international markets: Brazil, Mexico, Australia, Canada, and Puerto Rico?

PA: As far as chicken is concerned, we do not ship any chicken to Brazil or Australia and Puerto Rico is part of the US. Mexico is the number one destination for chicken exports and a trade war with Mexico would reduce or close that market. Canada is a white meat, high value market that is closely regulated and controlled by Canada. No change is expected in the Canadian market.

SM: Brazil is not a market for US pork but is an effective competitor, especially in price-conscious markets. Mexico our largest pork customer but the situation is in flux due to trade policy issues. Canada is #3 for US pork and a more solid partner. Australia is a growing market that has put some trade barriers up. WE think they will go away eventually. Puerto Rico is not an export market.

What caused the bacon shortage rumors in the first place?

SM: A press release from a state pork producers association.

How will the world AI situation impact chicken exports and prices?

PA: AI in the US is likely to cost us some export markets and lower the price of leg quarters.

What is the status of the Georgia Dock? Any suggestions for retailers on how to approach price?

PA: Georgia Dock is now dead and even the successor to Georgia Dock is now dead. I would suggest using Urner Barry for a reference price.

For Randy could you talk about eating at home trends versus dining out?

What proportion of final retail prices on average are related to feed costs, transportation costs, etc.? Is there a typical breakdown available?

PA: For a whole chicken, feed costs are about 25% of retail.

Any thoughts on the nominated Secretary of Agriculture from the great state of Georgia?

PA: He is well aware of the problems of the chicken industry.

Do you think the grain oilseed market will continue far along this uptrend? Right now at lower levels but is there a ceiling?

PA: Yes, there is a ceiling but that ceiling is hard to predict. High prices cure high prices and low prices cure low prices.

SM: We believe current forecasts of large year-end stocks are sufficient to prevent price increases to 2012-2013 levels even with a short 2017 crop. Two short crops close to one another (back to back, one year apart) might result in prices that high but not one.

What are your thoughts on production of Cage Free eggs? Will the market be able to support the public commitments of major restaurant chains and grocers?

PA: The transition will be difficult and the eggs will cost more but eventually the industry will provide what the market demands.

How much do oil and transportation pricing affect the pricing of meat relative to feed?

PA: Not as much as you might expect because of the large component of energy involved in the production of feed. With higher energy costs both feed and meat increases in price but there will be little change in the relative price of feed to meat.

Do you see any trends on the infectious disease categories for beef or pork outside of E coli?

SM: Not much. The pork industry has done a good job of controlling any pathogens and I don't see any reason they can't continue that. Salmonella is likely the largest concern but it has never caused too much trouble.

Aside from disease and feed pricing what other risks do you see in livestock raising?

SM: Market risk, trade issues, packing capacity.

Can you specifically address the export scenarios for each major species? VisaVis Mexico if trade relation remain stable and what it means for the US sector if relations disintegrate.

PA: Mexico is our biggest export market for chicken and the loss of that market would be temporarily devastating.

SM: Ditto for hogs/pork

Do you see movement towards genetically modified animals to help protect against disease?

SM: This is a regulatory issue. Science will continue to find ways to alleviate suffering. Some will involve technology that is untested. Long run impacts will be unknown and many will stir fears about that unknown.

Do you see any labor issues to support increased meat production with a low unemployment rate and immigrant retention concerns?

PA: Labor is likely to become more expensive.

SRM: Price solves the lack of quantity offered in a given market. Pay more and there will be more labor available. Costs will rise so the industry will have to increase price to pay for them.

What would be your recommendation to extend shelf life of retail products?

PA: Irradiation (however, it is not popular)

SM: Irradiation is proven and safe.

What are the major risks in the business of each protein type?

PA: For chicken, AI, changes in trade policy and sudden increases in feed costs.

SM: export disruption, disease, drought

How stable is revenue and profitability in each of the protein markets and what are the major threats towards stability?

PA: For chicken, moderately stable but depends on AI, trade policy and feed costs.

SM: Hog prices and profitability have never been stable and never will be short of the industry being as vertically integrated as the chicken business.

Frozen turkey cost estimates: do you see those costs maintaining or going lower into 18 due to other protein supply increases?

PA: The cost of producing turkey is likely to rise along with the increase in feed costs next year.

What steps or measures are taken during times of crises like PEDv, swine flu, Mad Cow, Bird Flu, etc.?

PA: Compensate farmers, reassure markets, reduce production

SM: There are few compensation programs for hog farmers. There would be some indemnities if producers were forced to destroy animals but there was nothing for PEDv or swine flu. The only compensation I know of is when some action is FORCED.

With belly levels down in cold storage, what is taking their place in storage? Will the capacity become available again to rebuild to prior year levels?

SM: Cold storage capacity is finite but I have no idea of where that limit is. Capacity can be used for many different products (meat, vegetables, fruit, dairy, etc.) and the capacity is not generally specific to any product. I've never heard of any problems with cold storage capacity.