

Turkey Industry Outlook: 4/26/05

2005 Prospects and Perspectives

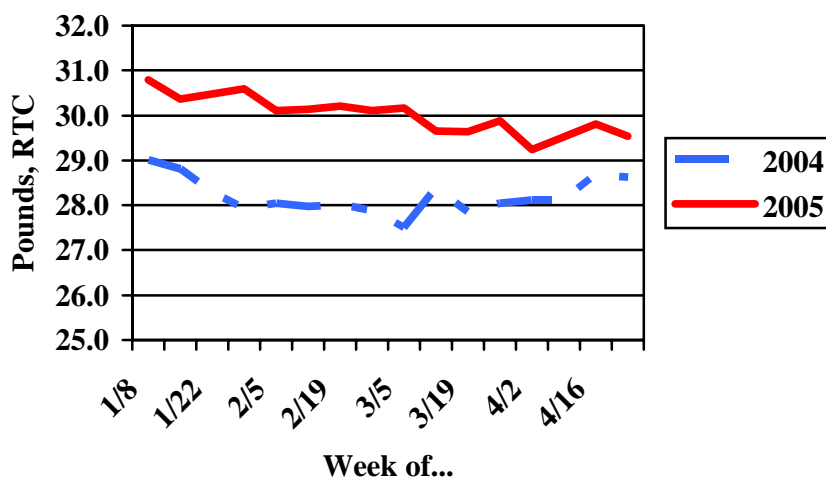
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2005 Production and Price Trends: As usual, the year started out with seasonally declining prices across the entire turkey complex. What is somewhat unusual is that weekly production has been held back by lower bird numbers coming to market, but that was more than offset by a very large jump in average weights. The average bird weights of 2005 have been a combination of increased weights for both toms and hens plus a shift to slightly more heavy toms in the mix.

The good news is that weekly poult placements are, as of late April, running mostly 2-4% below 2004, and as shown in Figure 1 average weights are declining to last year's level. For the last several months, and even in the face of 2004's excellent last half, total turkey slaughter has been running under 2004 levels. Further, the two primary indicators of future turkey supply, weekly eggs set and poults hatched, are still running 3-5% under 2004 and about 10% under 2003. The eggs being placed in hatcheries now (last half of April) will be ready for market in September and early October. The scene is set for the all-important fall/winter supply to be even a bit smaller than last year.

Figure 1: Average Turkey Weights, January 2005 vs. 2004
(RTC Basis, Urner Barry)



The tight supply of poults shows up in another place – reduced poult destruction. Though there were large numbers of poults that failed to make it to grow-out barns in late 2004, we are currently seeing only a few thousand a week reported as destroyed in the Urner Barry weekly Hatch Report.

Given the lack of industry enthusiasm for increasing eggs set, and thus turkey output later this year, the production forecast for 2005 comes in at 1% under 2004, and 4.5% less than 2003. That reduction, coupled with recovering exports, causes U.S. consumption to drop 2%, and ending stocks should drop almost 20%. It is becoming obvious to industry observers that the tight supply situation of late 2004 will be repeated in 2005.

Just how tight the situation has become can be seen in the per capita consumption numbers in Table 1. This year we may only have 16.7 pounds of turkey available per person, down a full pound from only 3 years ago. Also, at 233 million pounds, the ending stocks will finally get back to something approaching a normal level, and will help get 2006 off to a positive start.

It is not beyond the realm of possibility that the 2005 price forecasts shown in Table 1 could be a bit conservative. It is apparent that we have already seen the price lows for 2005, and given the prospects for a very tight supply situation in the back half of the year we could see some rapid increases as buyers begin to realize that there simply will not be as much to go around as there was last year. We also think that demand has been improving, and that would also argue for higher prices in the face of tighter supplies.

If the scenario in Table 1 plays out, we avoid another export disruption, and summer weather is favorable for feed crops, the industry will be in for the second successive good year. In the depths of 2002-2003 who would have dreamed that such a thing was possible?

Table 1: 2005 Outlook Details

	2001	2002	2003	2004	2005fcst	% Change
Beginning Stocks	240	240	333	354	288	-19%
Production	5,489	5,637	5,575	5,383	5,325	-1%
Total Supply	5,730	5,877	5,908	5,737	5,613	-2%
Total Exports	487	439	483	443	480	8%
U.S. Consumption	5,002	5,106	5,072	5,006	4,900	-2%
Per Capita Cons.	17.5	17.7	17.1	17.0	16.7	-2%
Total Use	5,489	5,545	5,554	5,449	5,380	-1%
Ending Stocks	240	333	354	288	233	-19%
UB Hen Price, \$/lb.	\$0.662	\$0.650	\$0.621	\$0.685	\$0.700	2%
UB Tom Price, \$/lb.	\$0.623	\$0.585	\$0.600	\$0.676	\$0.660	-2%
UB Breast Meat, \$/lb	\$1.673	\$1.522	\$1.336	\$1.900	\$1.850	-3%
UB Thigh Meat, \$/lb	\$0.675	\$0.574	\$0.669	\$0.850	\$0.800	-6%

2005 Turkey Trade Potential: A very significant factor in turkey prices is the volume that we sell to customers outside the US. As we all know 2004 saw a disruption of that trade due to an AI outbreak that very likely originated in backyard flocks. The effects on turkey exports and prices were quite significant. We may have cleaned up the disease in the US, but in Asia HPAI seems to be impossible to fully control. While we should feel very good about our successful efforts on the AI issue, the fact is that this disease could rear its ugly head again at any time. The export forecast in Table 1 assumes that we will not have another outbreak in 2005, but it will take the continued efforts of all poultry producers to make that possible.

US Marketing and Demand Developments: A major reason that the export disruptions of 2004 did not depress prices more than they did had to do with the fact that US turkey demand was in a growth mode. Looking closely at Table 1, notice that per capita consumption declined only 0.1 pounds (0.5%) but parts prices increased 25-40%. That's what a demand increase looks like. It is difficult to know whether it was Atkins diets, the NTF Perfect Protein campaign, good economic growth or effective company marketing programs that gave the industry such robust demand. It was probably some of all these factors, plus others not named. In 2005 it looks like the high-protein diet craze may be fading, but the economy is still growing and companies, and the NTF, are still promoting turkey. It may be

time for the industry to start increasing production a bit to take better advantage of demand strength, but it might not take much production growth to push prices back down losing levels.

Another development that is starting to get industry attention is the organic/natural market. Organic poultry is very difficult and expensive to produce due to limited amounts and high costs of certified organic feedstuffs. Less than 0.1% of the US poultry supply is certified organic, all from very small flocks. However, “natural” poultry production systems, though still small, are growing, by some accounts as much as 20% annually. “Natural” production system standards are much easier to meet than organic, and there appears to be a segment of consumers who are willing to pay the difference in price. Proponents of “natural” poultry predict that this segment will account for 10-20% of US production by 2010. With the loose standards that surround the “natural” claim this may happen, but if it does the price premiums are likely to largely disappear.

2005 Feed Costs: One item in the outlook that should be closely watched is the potential for the ever-volatile feedstuffs market to cause issues on the cost side of the profitability equation. Over the past year all of US animal agriculture has enjoyed the benefits of last year’s large world and US crops. Corn and soybean meal prices have been a very reasonable levels compared to recent history, so the price risk is almost all on the upside.

Based on the USDA Prospective Plantings report we know that we may see a small shift from soybeans to corn this year, but the reduction in soybean acreage is from an all-time record high. We do not know what weather will do, and adding to the uncertainty in 2005 is the potential for damage from Asia soybean rust.

One positive as we enter the critical summer growing season is that our 2004 crops were so large that we will not use all of them before harvest. Corn stocks on September 1st are expected to more than double to over 2 billion bushels and soybean stocks will about triple, reaching about 375 million bushels. These large stocks levels will serve as somewhat of a buffer against any losses to weather or disease.

A summary of USDA’s May supply, use and price estimates for corn and soybeans is shown in Table 2.

Table 2: Corn and Soybean Supply, Use and Price¹

Corn	2002/2003	2003/2004	2004/2005	2005/2006
Beginning Stocks	1,596	1,087	958	2,214
Production	8,967	10,089	11,807	
Domestic Use	7,903	8,335	8,760	
Exports	1,588	1,897	1,800	
Ending Stocks	1,087	958	2,214	
Average Farm Price	\$2.32	\$2.42	\$2.05	
Soybeans	2002/2003	2003/2004	2004/2005	2005/2006
Beginning Stocks	208	178	112	375
Production	2,756	2,454	3,141	
Domestic Use/Residual	1,746	1,640	1,803	
Exports	1,044	885	1,080	
Ending Stocks	178	112	375	
Average Farm Price	\$5.53	\$7.34	\$5.40	
Soybean Meal Average Price	\$181.57	\$256.05	\$170.00	

¹ USDA, forecast as of May, 2005. Years are September 1-August 30.

Summary: This year is shaping up as another great one for US turkey producers. Production is not growing, demand looks good, and exports are back on track. As long as producers don't get too euphoric over current profits, and summer weather yields good crops, the way seems clear for a second successive profitable year for turkey producers. Longer term, some of the current profits need to be invested in new product development, enabling the industry to recover lost consumption without having to give up on price to do so.