

## Special YTD 2008 Review Edition

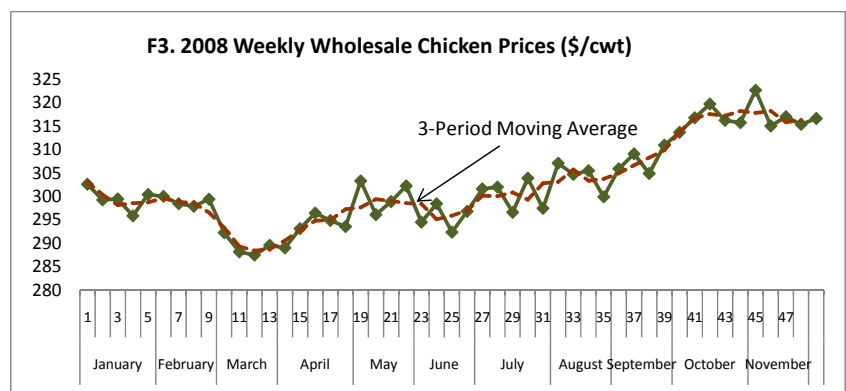
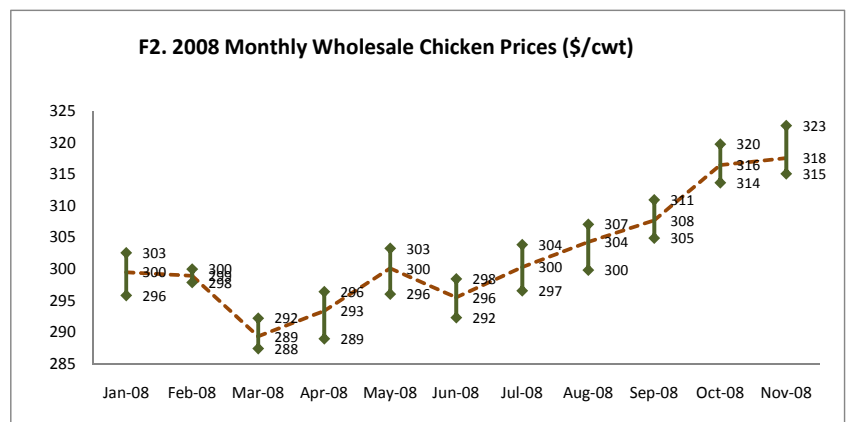
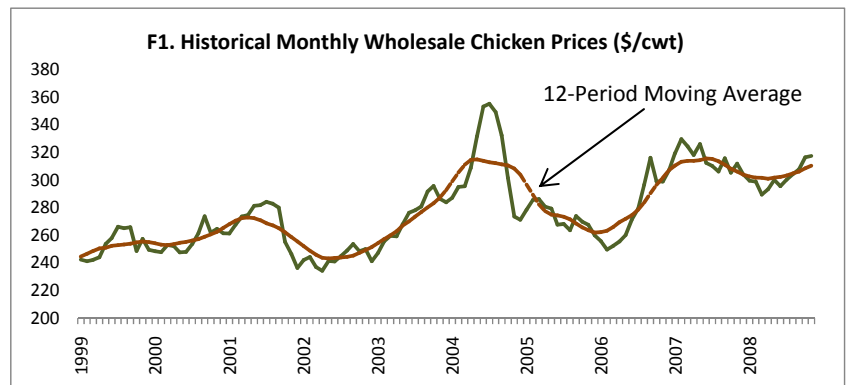
*Readers please note that this edition of the Canadian Chicken Market Review will depart from the usual situation and outlook format. This edition will review the market information to date for 2008.*

### 2008 wholesale prices exhibited positive trend although expected to be lower compare with 2007

■ January-November wholesale prices<sup>1</sup> continued the increasing trend starting in March (F1-F3). The highest price was observed in November (\$3.18/kg). The lowest price, \$2.89/kg was observed in March. The composite price YTD average in 2008 was higher than YTD in 2003-2006 by 6.0% and lower than YTD in 2007 by 4.5% (Table 1).

■ Price variability in the reported period decreased compared with 2007 level. The average spread between monthly high and monthly low prices in 2008 (\$6/cwt) was lower compared with spread in 2007 (\$10/cwt) by 40%. The highest spreads between monthly high and monthly low prices were observed in November - about \$8 per cwt. The lowest price spread was observed in February - \$2 per cwt.

■ During the summer the weekly prices exhibited more randomness and less predictability. May-August weekly price percentage change was about 1.8% on absolute value basis. Weekly price percentage change in May was about 1.9%. The average weekly price change YTD in 2008 was 1.3%.



<sup>1</sup> CFC composite cutout value

■ US whole bird price YTD in 2008 increased by 16.9% compared with the related period of 2003-2006 and by 3.3% compared with 2007 average (Table 1). The prices decreased during August-October, however, mostly due to decrease of the breasts prices. August breasts-legs price spread decreased to \$US41.26/cwt or by 23.3% on MTM basis.

■ Costs of the major feed ingredients increased significantly in the reported period. Feed cost YTD in 2008 increased by 28.3%<sup>2</sup> compare with feed cost YTD in 2007 and by 45.8 compare with 2003-2006 average period.

**Table 1.**

YTD (January- November)	2003-2006	2007	2008	% Change (2008/2007)
Market composite (Canada), cents/kg	285	316	302	-4.5%
Market composite (US), US cents/lb	68	77	79	3.3%
Feed cost (Jan-Oct), \$/ton	247	281	361	28.3%

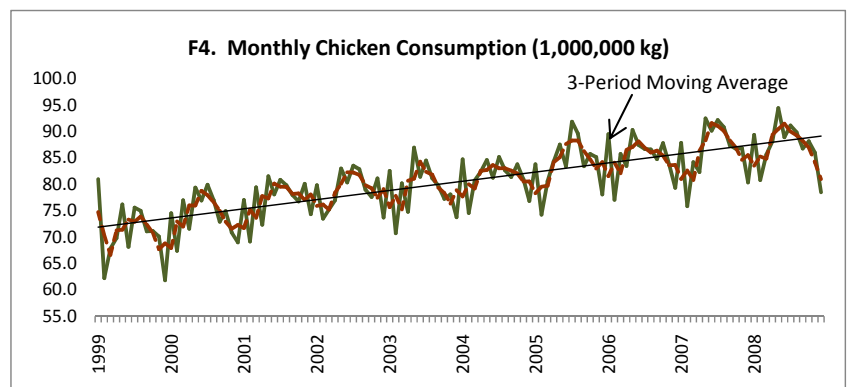
## Increased retail prices decreased chicken consumption in the second half 2008

■ Like the wholesale prices, the retail prices increased in the reported period. Thus, Chicken CPI YTD (January-October) increased compared with YTD in 2007 by 3.6%, or approximately 0.4% per month (Table 2). The Meat CPI YTD in 2008 increased compared with 2007 by 0.8%, and Food CPI YTD increased approximately by 2.5%.

■ Despite the increased retail prices, aggregate chicken consumption in 2008 increased compare with 2007 by 1.0%. Population, however, is expected to increase by 1.1%. As a result, per capita consumption YTD in 2008 may be somewhat lower of that in 2007. Total chicken consumption decreased in the second half 2008 – 0.8% on YTY basis. This fact indicates that the increased retail prices served as a limiting factor for chicken consumption in the second half 2008.

**Table 2.**

YTD (January- December)	2003-2006	2007	2008	% Change (2008/2007)
Consumption, 1000 tons	989.8	1,036.9	1,047.3	1.0%
Population, 1000	32,059	32,882	33,257	1.1%
Chicken CPI (Jan-Oct)	112	123	127	3.6%
Meat CPI (Jan-Oct)	105	108	109	0.8%
Food CPI (Jan-Oct)	105	112	115	2.5%
Per capita disappearance, kg	30.9	31.7	31.5	-0.5%



■ The USDA expects some decrease in chicken consumption. Thus, according to USDA's World Ag Supply and Demand Estimates (465-32), the 2008 chicken per capita consumption (December estimate) is expected to decrease by about 0.8% compared with 2007. At the same time per capita pork consumption is expected to decrease by 1.2%. Aggregate per capita red meat consumption is expected to decrease approximately by 3.3%.

<sup>2</sup> Wallenstein's estimate

## Canadian Supply hit its highest historical level

■ The total supply YTD in 2008 hit the highest historical level (Table 3). The increase was mostly the result of an increase in both domestic production and stocks. Thus, chicken production YTD in 2008 increased by 1.4% over YTD in 2007, and stocks YTD increased by 18.6%.

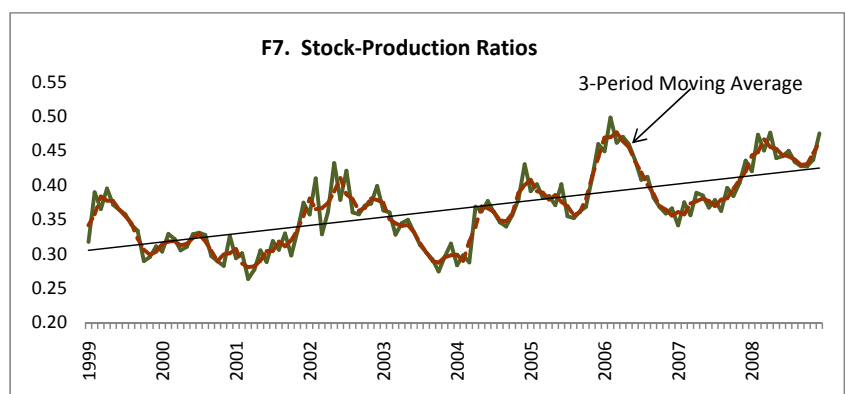
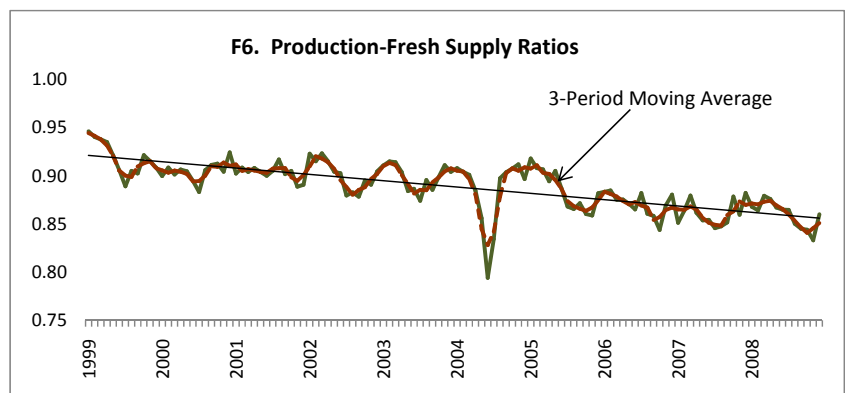
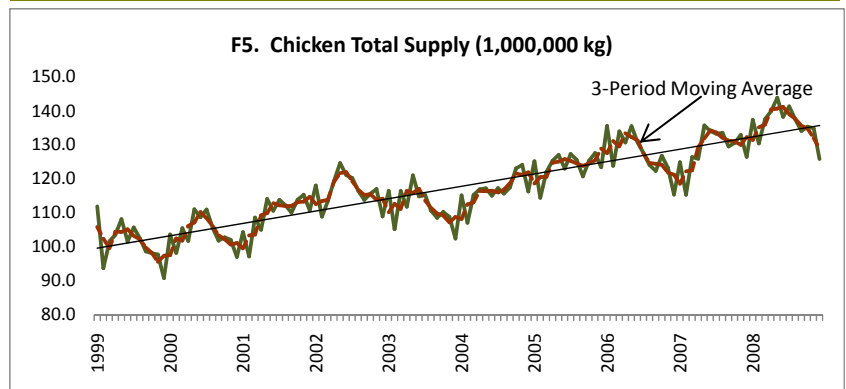
■ The imports increased from 162.7 thousand tones in 2007 to 165.9 in 2008 or about 2.0%. The exports increased from 120.9 thousand tons in 2007 to 135.6 in 2008 (12.2%). Import-Export Ratio<sup>3</sup> YTD in 2008 decreased over 2007 by 9.1%. It is observed that the Import-Export Ratios started to decline beginning from 2005. The fact indicates that exports have tendency to exceed the Canadian imports.

■ The share of domestic production in fresh supply has been fluctuating around a decreasing trend (F6), indicating that the domestic production has a tendency to occupy a smaller share of Canadian chicken market. Production-Fresh Supply Ratio<sup>4</sup> YTD in 2008 was about 0.1% lower over 2007 and about 2.7% lower over YTD in 2003-2006.

■ It was indicated that the stocks increased significantly in 2008 compared with 2007 values. The increase was even higher compare with 2003-2006 – 27.6%. Despite the radical changes, such a process is consistent with the long-run periodicity (F7.).

**Table 3.**

YTD (January- December)	2003-2006	2007	2008	% Change (2008/2007)
Total Supply, 1000 tons	1,439.6	1,548.6	1,636.4	5.7%
Stocks, 1000 tons	29.6	31.9	37.8	18.6%
Production, 1000 tons	958.9	1,003.6	1,017.3	1.4%
Import, 1000 tons	125.6	162.7	165.9	2.0%
Export, 1000 tons	95.0	120.9	135.6	12.2%
Import-Export Ratio	1.32	1.35	1.22	-9.1%
Production-Fresh Supply Ratio	0.88	0.86	0.86	-0.1%
Stock-Production Ratio	0.03	0.03	0.04	17.0%



<sup>3</sup> Calculated as a ratio of monthly import to monthly export.

<sup>4</sup> Calculated as a ratio of monthly production to monthly fresh supply

## Spread between processor and retailer margins increased

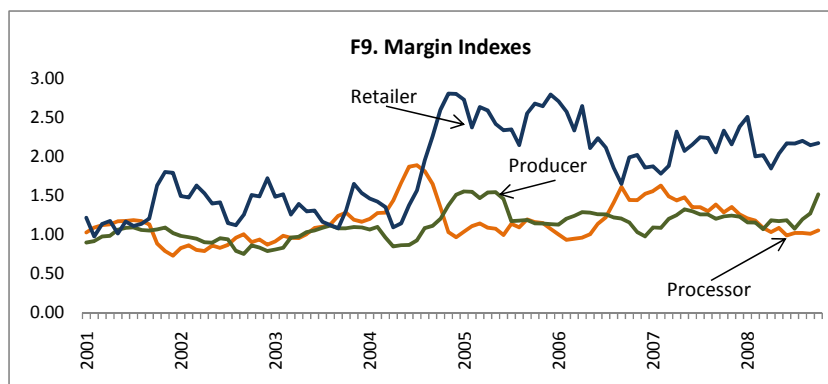
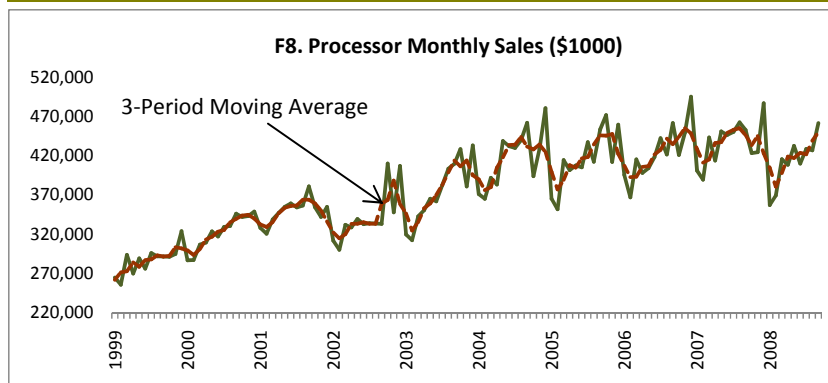
■ The market participants were affected differently in the reported period. The processor margin indexes YTD in 2008 decreased compare with YTD in 2007 by 25.0%; producer margin indexes decreased by 1.9% (Table 4). The retailer margin indexes<sup>5</sup> YTD in 2008 increased by 1.5%. As a result, the retailer margin index is significantly outperforming of those of producers and processors. The spread between the processor and the retailer margin indexes increased. On YTD basis, spread between the retailer and the processor margin indexes increased from 0.67 in 2007 to 1.06 in 2008.

■ The processor sales decreased significantly in 2008. Compare to YTD in 2007 the decrease is about 5.1%. Partly such decrease may be attributed to lower 2008 wholesale price level.

■ Although the processor sales decreased in the reported period, it is still consistent with long-term seasonal pattern with higher sales in summer months and lower sales during spring and fall (F8).

**Table 4.**

YTD	2003-2006	2007	2008	% Change (2008/2007)
Processor Sales (Jan-Sep), \$1,000,000	3,583.6	3,910.4	3,710.5	-5.1%
Producer Margin Index (Jan-Oct)	1.15	1.22	1.20	-1.9%
Processor Margin Index (Jan-Oct)	1.22	1.43	1.07	-25.0%
Retailer Margin Index (Jan-Oct)	1.99	2.09	2.13	1.5%



## 2008 wholesale market was mostly driven by increased domestic supply and US chicken price trend

In 2008 the wholesale chicken market was driven mostly by changes in domestic supply and US chicken price trend. As a result of significant increases in domestic supply, the 2008 wholesale price was shifted down by 4.5% compared to 2007. At that, starting from March the price exhibited positive trend that was the reflection of overall tendencies on US market. Decreasing the chicken consumption in the second half 2008 indicates that increased retail prices affected the overall chicken consumption. The conclusion about the impacts of increased retail prices on per capita chicken consumption can be made, however, only after receiving the final 2008 data. The spread among the retailer and the processor margins increased. Whether the prices continue to increase further or stay at the current plateau depends on many factors – especially on the domestic supply decisions and stability of North American grain and feed markets. The later showed the significant increase in major chicken feed components and is expected to affect the current supply-demand-price situation.

<sup>5</sup> Calculated as a ratio of corresponding monthly gross margin to 2000 (base) annual average level.