Canadian Chicken Market Review

GEORGE MORRIS CENTRE

Market Analysis for the Chicken Industry

December 2009

Special YTD 2009 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 2009

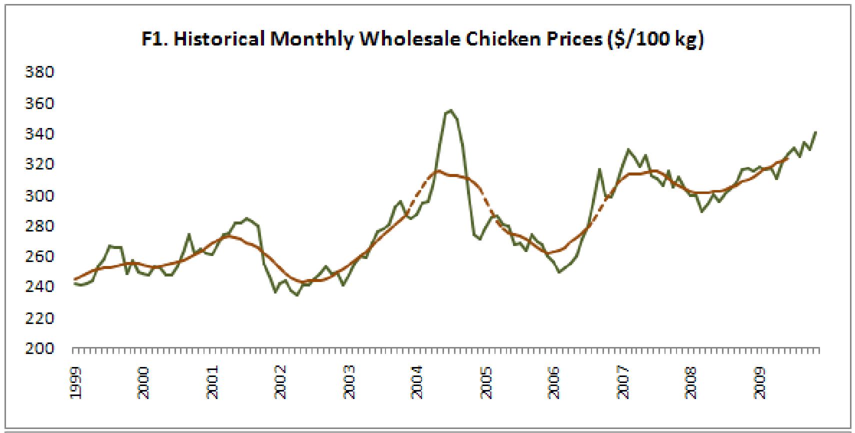
January-November wholesale prices continued the increasing trend

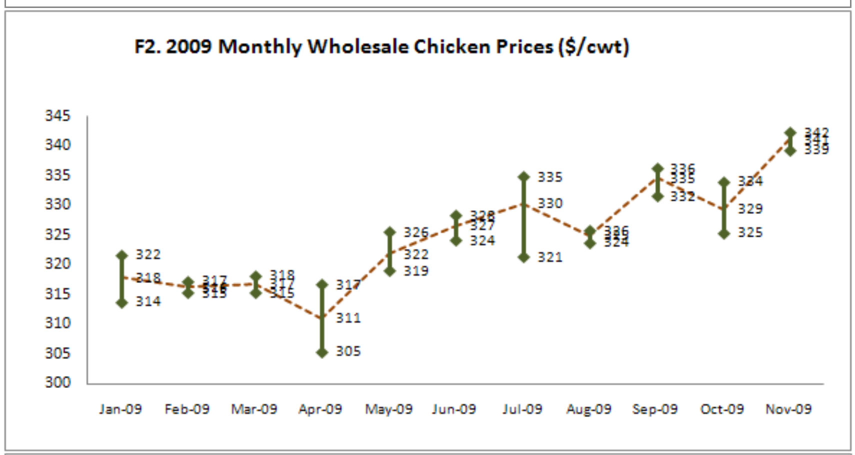
■ January-November 2009 wholesale prices[1] continued the increasing trend starting in May (F1-F3). The highest price was observed in November ($3.41 /kg). The lowest price, $3.11kg was observed in April. The composite price YTD average in 2009 was higher than YTD in 2003-2007 by 11.5%, and higher than YTD in 2008 by 7.5% (Table 1).

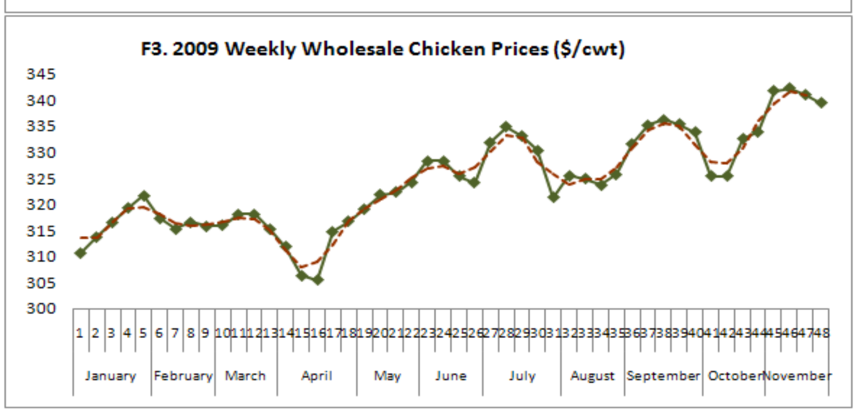
■ Price variability in the reported period somewhat decreased compared with the 2008 level (F2.). The average spread between monthly high and monthly low prices in 2009 ($6.0 /100 kg) was lower compared with spread in 2008 ($6.2 /100 kg) by 3.1%. The highest spreads between monthly high and monthly low prices was observed in July - about $ 13.5 /100 kg. The lowest price spread was observed in February - $2.0/100 kg.

■ Weekly prices exhibited the increasing volatility (percentage change to previous week). Average weekly price percentage changes were about 0.7%, 0.9%, 1.0%, and 1.1% in quarters 1, 2, 3, and 4, respectively. The average weekly price change YTD in 2009 was 0.9%.

■ US wholebird price YTD in 2009 increased by 9.1% compared with the related period of 2003-2007, and by 11.8% compared with YTD in 2008 (Table







[1] CFC composite cutout value

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1). The YTD 2009 US breast composite prices increased compared with YTD in 2008 by 4.0%, and decreased compared with YTD in 2003-2007 by 9.2%.

■ Costs of the major feed ingredients somewhat decreased in the reported period. Feed cost YTD in 2009 decreased by 2.3%[2] compared with feed cost YTD in 2008, but increased by 38.7% compared with 2003-2007 average period.

Table 1.

YTD (January-November)	2003-2007	2008	2009	% Change (2009/2008)
Market composite (Can), cents/kg	291	302	325	7.5%
Market composite (US), US cents/lb	91	89	100	11.8%
Feed cost (Jan-Oct), $/tonne	254	361	352	-2.3%

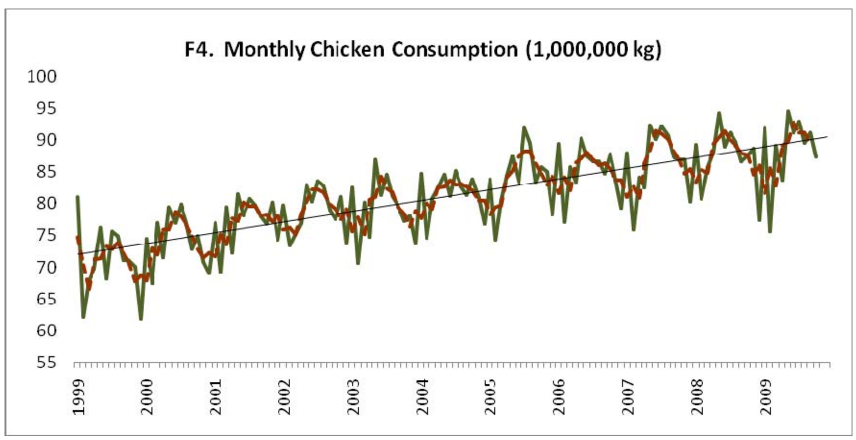
Increased retail prices were accompanied by decreased chicken consumption

■ Like the wholesale prices, the retail prices increased in the reported period. Thus, Chicken CPI YTD increased compared with YTD in 2008 by 5.2%, or approximately 0.5% per month (table 2). The Meat CPI YTD in 2009 increased compared with 2008 by 6.3%, and Food CPI YTD increased approximately by 5.6%.

Table 2.

YTD (January-October)	2003-2007	2008	2009	% Change (2009/2008)
Consumption, 1000 tonnes	83.9	88.2	88.7	0.5%
Population, 1000	32,166	33,202	33,615	1.2%
Chicken CPI	114	127	134	5.2%
Meat CPI	105	109	116	6.3%
Food CPI	106	115	121	5.6%
Per capita disappearance, kg	26.1	26.6	26.4	-0.7%

■ Aggregate chicken consumption YTD in 2009 increased compared with 2008 by 0.5%. Population, however, increased by 1.2%. As a result, per capita consumption YTD in 2009 was lower than in 2008 by 0.7%. In general, chicken consumption followed the historical seasonality pattern with lowest level occurring during early spring and peak occurring during summer time (F4).



■ The USDA expects some decrease in chicken consumption. Thus, according to USDA's World Ag Supply and Demand Estimates, the 2009 chicken per capita consumption (November estimate) is expected to decrease by about 3.7% compared with 2008. At the same time per capita pork consumption is expected to increase by 0.8%. Aggregate per capita red meat consumption is expected to decrease approximately by 0.9%.

[2] Wallenstein Feed estimate

Canadian aggregate supply was lower on YTD basis

■ The total supply YTD in 2009 was lower compared with YTD in 2008 by 1.5% (Table 3). The decrease was mostly due to a decrease in both domestic production and stocks. Chicken production YTD in 2009 decreased by 1.1% versus YTD in 2008, and stocks YTD decreased by 4.1%.

■ Imports increased from 137.0 thousand tonnes in 2008 to 141.2 in 2009, or about 3.1%. Exports decreased from 113.5 thousand tonnes in 2008 to 102.9 in 2009 (9.3%). US broiler exports decreased on YTD basis – about 1.5% compared with YTD in 2008. At that, the exports increased to Mexico, China, Iraq, Angola – by 29.2%, 8.8%, 97.9%, and 8.4%, respectively. US decreased broiler exports to Canada by 29.2%.

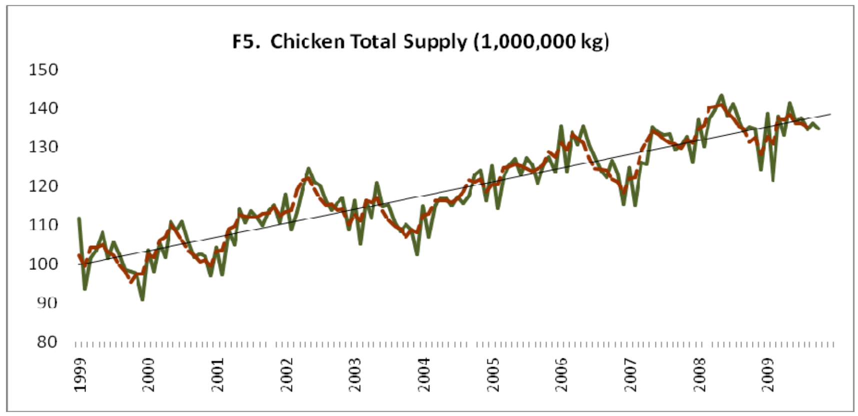
■ Although the total imports increased on YTD basis, imports of bone in wings, and boneless parts decreased by 0.8% and 31.2%, respectively. At that, the imports of bone in breasts, bone in legs, bone in parts, and boneless breasts increased compared with YTD in 2008 by 11.8%, 1.9%, 1.9%, and 13.5%, respectively.

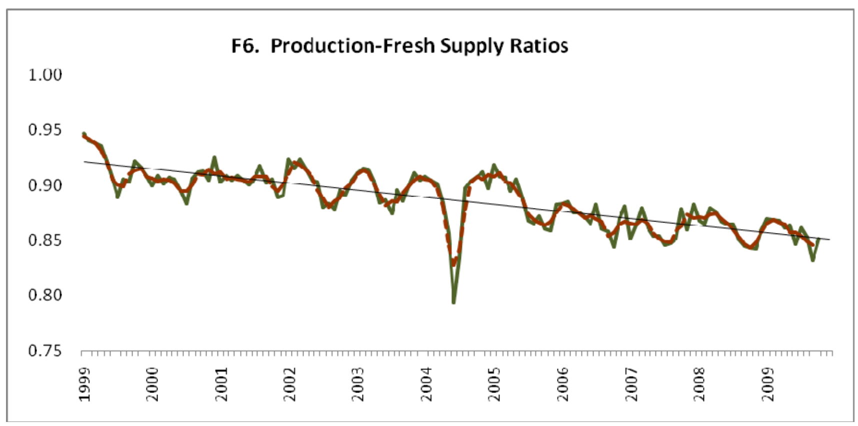
■ The share of domestic production in fresh supply has been fluctuating around a decreasing trend (F6), indicating that the domestic production has a tendency to occupy a smaller share of Canadian chicken market. Production-Fresh Supply Ratio[3] YTD in 2009 was about 0.6% lower over 2008, and about 2.4% lower over YTD in 2003-2007.

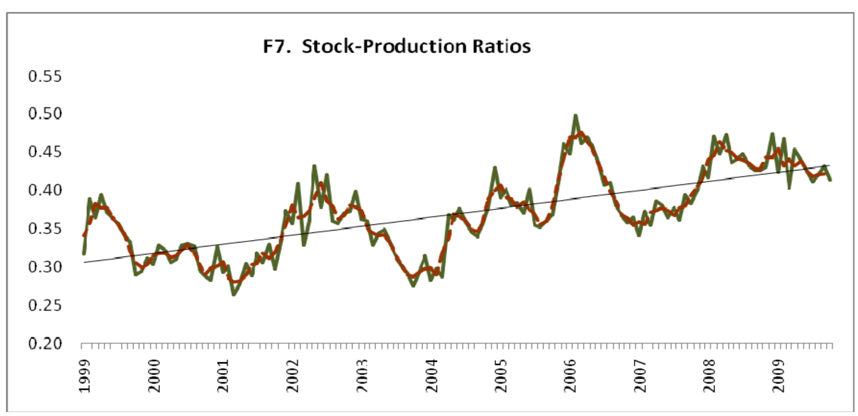
■ Stock-Production Ratio[4] YTD in 2009 was about 2.9% lower YTD in 2008, and 16.2% higher compared with YTD in 2003-2007. In total, the index was consistent with increasing trend observed historically (F7.)

Table 3.

YTD (January-October)	2003-2007	2008	2009	% Change (2009/2008)
Total Supply, 1000 tonnes	1,221	1,374	1,353	-1.5%
Stocks, 1000 tonnes	29.9	37.9	36.3	-4.1%
Production, 1000 tonnes	809.4	858.0	848.5	-1.1%
Import, 1000 tonnes	112.5	137.0	141.2	3.1%
Export, 1000 tonnes	83.4	113.5	102.9	-9.3%
Import-Export Ratio	1.40	1.21	1.39	14.3%
Production-Fresh Supply Ratio	0.88	0.86	0.86	-0.6%
Stock-Production Ratio	0.37	0.44	0.43	-2.9%







[3] Calculated as a ratio of monthly production to monthly fresh supply
[4] Calculated as a ratio of monthly stocks to monthly production

Retailer margins decreased on YTD basis

■ The market participants were affected differently in the reported period. The processor sales and the margin increased, exceeding the YTD of the previous year by 14.1%, and 15.2%, respectively; producer margins increased by 11.0% (Table 4). On the other hand, the retailer margin indexes[5] YTD in 2009 decreased by 4.7% compared with YTD in 2009. Despite the significant decrease, the retailer margin index is still outperforming of those of producers and processors.

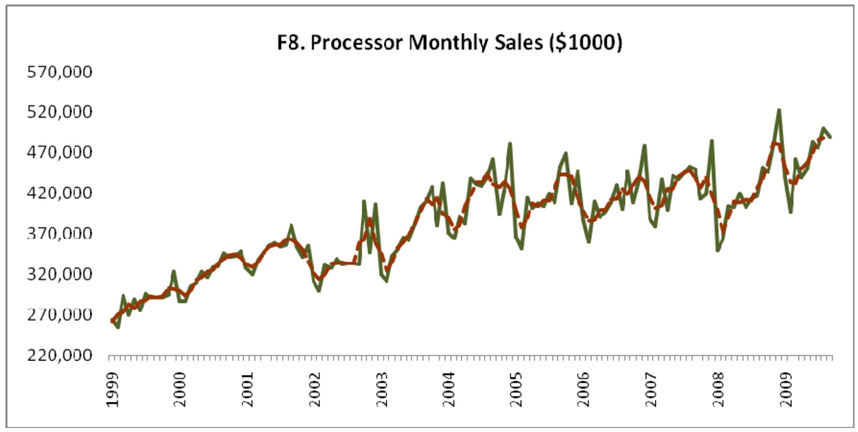
■ Although the processor sales significantly increased in the reported period, it is still consistent with long-term seasonal pattern with higher sales in summer months and lower sales during spring and fall (F8).

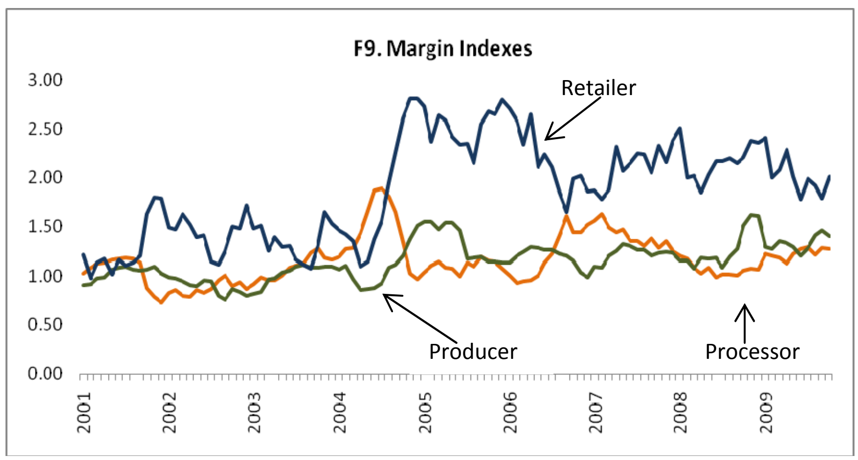
■ The spread between the retailer and the processor margin indexes YTD in 2009 substantially decreased compared by YTD 2008 – 25% and accounts approximately 0.80. However, the spread was still significantly higher compared with YTD in 2003-2007 (0.68) – about 17%, indicating that the difference between retailer and processor margin index growth rates has increased compared with average 2003-2007.

■ US chick placement YTD in 2009 was 4.1% lower compared with YTD in 2008. November 2009 US chick placement was lower on MOM basis by 0.6%. US broiler processor margins were positive in Q1-Q3 2009 and negative in Q4 2009. Margins were negative for nearly all of 2008.

Table 4.

YTD (January-October)	2003-2007	2008	2009	% Change (2009/2008)
Processor Sales (Jan-Sep), $1,000,000	401	403	460	14.1%
Producer Margin Index	1.17	1.20	1.33	11.0%
Processor Margin Index	1.26	1.07	1.23	15.2%
Retailer Margin Index	1.94	2.13	2.03	-4.7%





Wholesale market responded to decreased total supply

In January-November 2009 the wholesale chicken market was driven mostly by decreases in domestic supplies: the January-November 2009 domestic wholesale composite price was shifted up by about 7.5% compared to the 2008 price level. It was observed also that increased wholesale and, as a consequence, retail prices negatively affected the chicken consumption on per capita basis. Increased wholesale prices affected also retailer sector through decreasing the related margin index – about 25%. Whether the prices continue to increase, stay at the current plateau, or change depends on many factors – especially on the domestic consumer behaviour and stability of North American grain and feed markets. The later showed the decrease in costs of the major chicken feed components starting from July 2009.

[5] Calculated as a ratio of corresponding monthly gross margin to 2000 (base) annual average level.