

FarmEcon LLC

A source of information on global farming
and food systems

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Do We have a Demand Problem?



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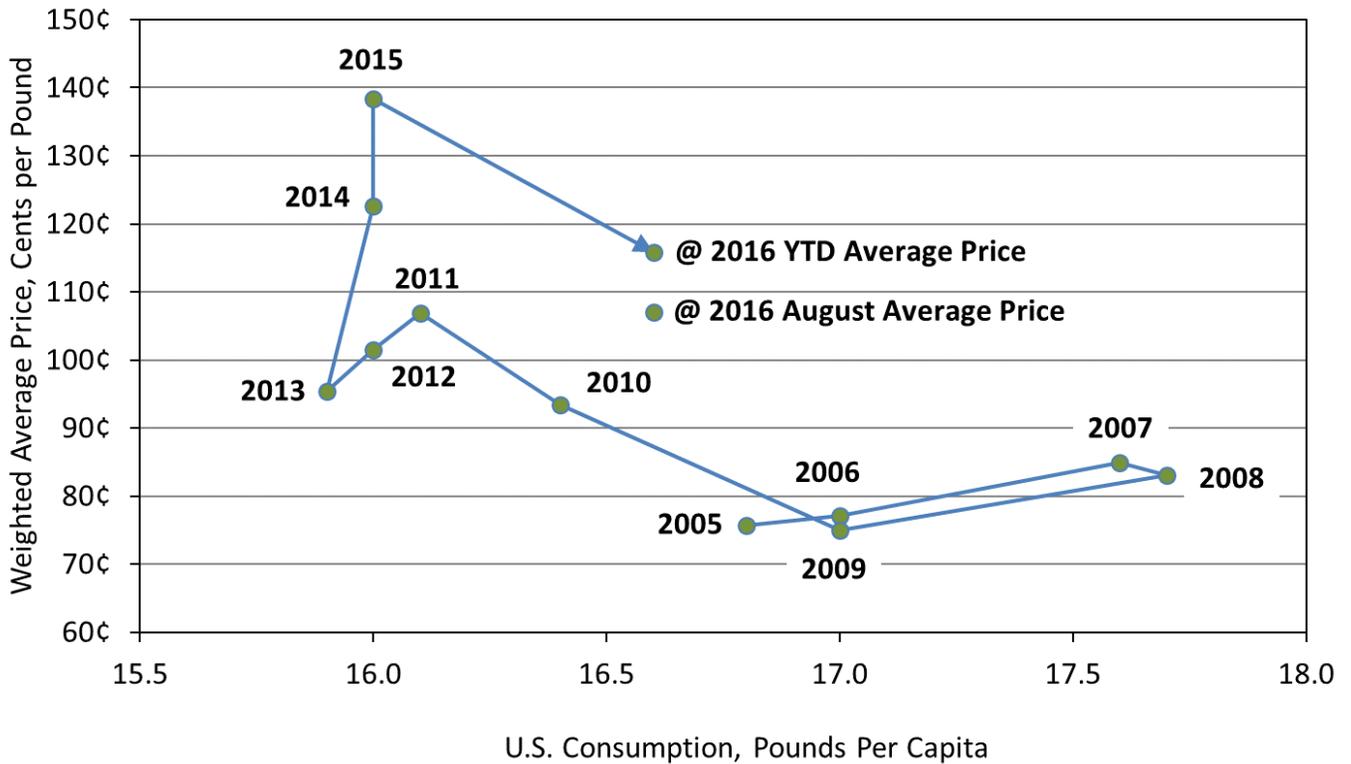
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As everybody in the turkey business knows, tom breast meat and parts spot prices have dropped significantly since hitting record highs last year. Whole birds are also weakening from record high levels, but the decline has not been as dramatic. Is this a sign of demand issues, or something else?

Using USDA wholesale spot market prices, we can plot a weighted average of parts and whole bird prices to get a composite wholesale value per pound for all turkey production. Plotting that price against per capita consumption tells us if price changes are related to change in the amount of turkey available on the domestic market. The chart below shows that relationship from 2005 to 2016.

The 2016 intersection of annual average price and per capita consumption is based on the current USDA consumption estimate and year-to-date prices. The point under 2016 YTD shows the August weighted average USDA spot price.

Weighted Average USDA Spot Price/Consumption Scatter



This year we have seen average prices decline along with the increase from 16 to 16.6 pounds per capita consumption. Both the year-to-date and August spot market declines have not been out of line with prior year moves. What is notable is that spot prices remain higher than the 2005-2009 period. In that sense, demand has strengthened. Of course, feed costs have increased since 2005-2006, offsetting improved demand. The 2005-2006 average liveweight feed cost (FarmEcon formula) was 16.4 cents per pound. So far in 2016 that average is 25.5 cents per pound. Energy and other costs have also increased.

Had demand not grown, we would be consuming significantly less turkey to get the prices needed to higher cover costs.

So in one sense, despite a drop from record spot prices, demand is not the issue. However, if the goal is to get to 20 pounds per capita, we are far short of the demand level needed to get there. Supply capacity is also not in place.

USDA estimates 2016 RTC production almost 6 billion pounds, and per capita consumption at 16.6 pounds. Twenty pounds is a 20% increase in per capita consumption. But, population is growing .7% per year too, a 2.8% increase over the next 4 years. So, we need about a 23% demand increase, accompanied by an additional 1.4 billion pounds of RTC production and processing capacity. This is more turkey pounds than the top U.S. company produced last year (Source: Watt Poultry USA, March, 2016).

It's an ambitious goal the industry has set, we knew that from the beginning. TDET investment, demand promotion efforts by individual producers, and supply investments are all needed to get anywhere close to the 20 by 20 goal.