

## Feed and Fuel Costs Put Squeeze on Poultry Producer

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Foodmarket News

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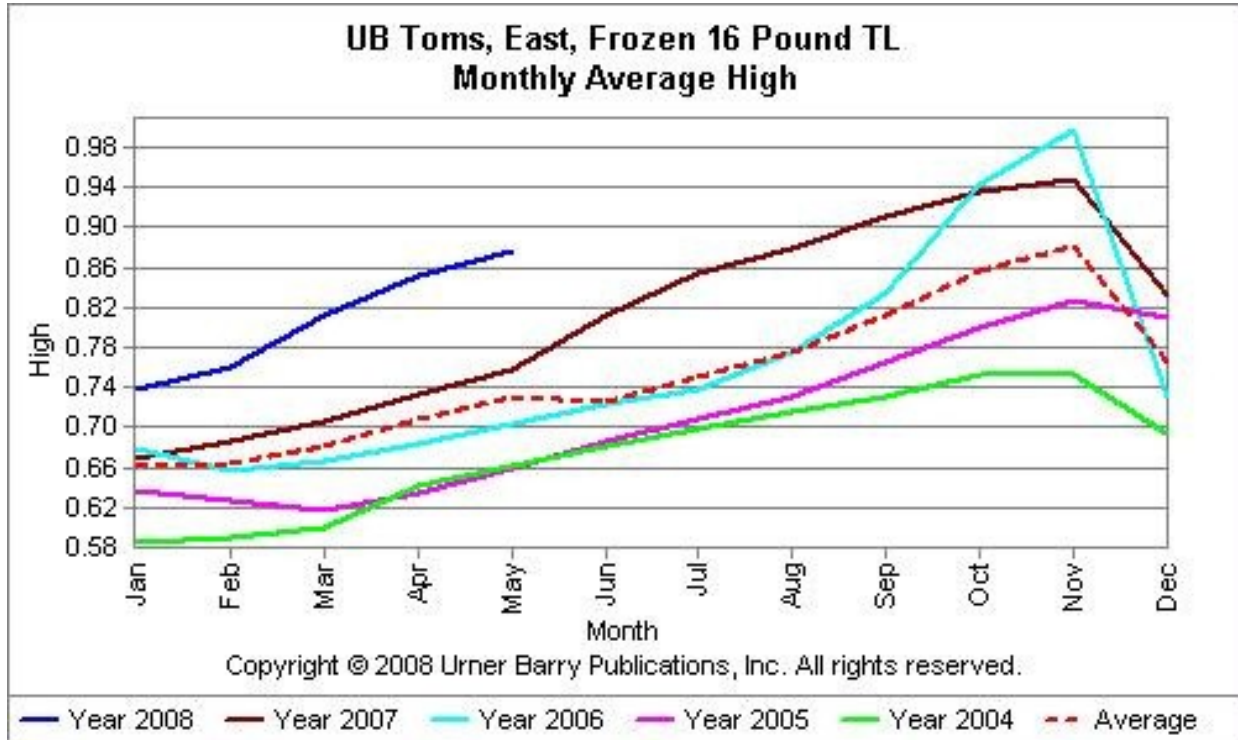
Despite high commodity prices, poultry processors are feeling the squeeze of rapidly advancing feed and fuel costs. To the casual observer, current chicken and turkey prices look to be in good shape based on historical performance. But the initial effects of high corn prices and soaring fuel prices are resulting in processors barely breaking even if not losing money altogether.

Presently, the Urner Barry Northeast 2.5-3.5 lb. whole chicken quotation is averaging \$.78/lb.—five cents above the average quotation during the past five years. But five years ago in 2004, corn prices averaged \$2.37 per bushel. So far in 2008 a bushel of corn has averaged \$5.22—a jump of 120%. During that same period, commodity chicken values have changed only little, greatly reducing the processors margin and the industry's profitability. To get a better understanding of the present situation, during this time frame, the percent of costs associated with feed when raising a live chicken to slaughter amounted to less than half what it is now. On average today it costs chicken processors \$.41/lb. live weight for each chicken raised. Of that cost 60-70% is directly associated with feed. After adding labor, packaging, and other inherent costs, and subtracting yield loss, it costs an average processor about \$.80/lb. to bring a bird to market.

Similarly, turkey processors are feeling the pinch as well. The current Urner Barry retail packaged tom whole body turkey quotation is \$.89/lb. This quotation represents a record high for the present time frame. When considering that feed costs for the processor have yet to catch up fully with the present day corn market, the fact that processors are unable to make money at record high quotations is really hitting home. Right now the cost to produce a whole body RTC turkey, depending on one's costing methodology, is running \$.86-\$90/lb.

Forecasts of corn prices averaging well over \$6/bushel have poultry, as well as other protein producers, searching for ways to return to profitability. Most notable have been announcements from several major chicken processors of cutbacks which are taking place immediately. In fact

eggs set numbers have been down for eight weeks running—a tangible sign that exaggerated production numbers will finally be leveling off and, as hoped in the industry, declining as attempts at returning to profitability are made in these historically trying times.



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