

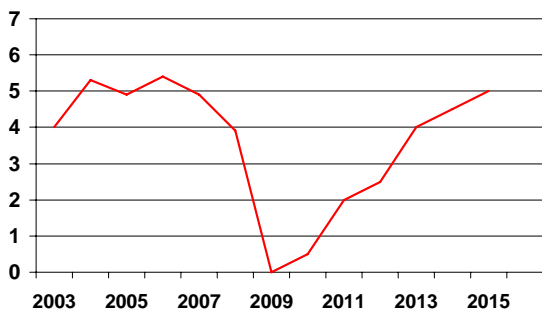


When Will the Downturn End?

The reaction to economic recessions starts with denial and then moves to anger until reaching acceptance. Finally, when all hope is seemingly lost, the economy starts moving forward again. The world is long past denial and moving through anger at the forces that caused this downturn. It is now at that most worrisome of times when economies are in free fall and the bottom is not yet in sight. Hope for a localized recession is replaced the certainty of a worldwide recession. When will it end? At this point nobody really knows. It could be over this year or linger for two years or more. It would be prudent to be prepared for the possibility that the recession will not end this year. The most likely take-off point for the world economy appears to be either 2010 or 2011.

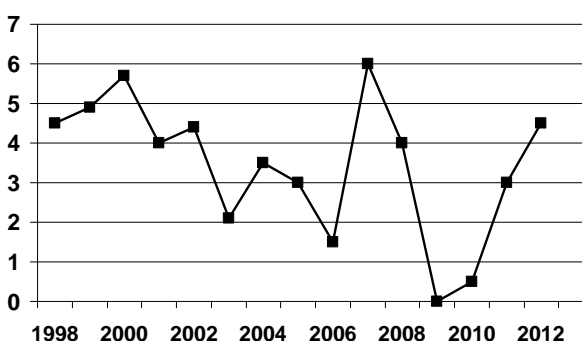
The US economy will decline by at least 3% this year and perhaps as much as 5%. The world economy will have trouble remaining above zero. The US government deficit will reach at least 10% of GDP which will bring problems of inflation, higher interest rates and a lower value of the dollar in years to come. However, that is in the future. For now, the task at hand for the new administration is to try to prevent the worst from happening. In the scenario shown nearby, the world economy fell off a cliff between 2007 and 2009 and remains weak in both 2009 and 2010 before accelerating in 2011.

World Economic Growth Scenario in %



As a result of the weak world economy, world chicken growth may also drop to zero this year from an extremely robust 6% in 2007 (rebounding from bird flu) and a still relatively strong 4% last year. If the world economy rebounds slowly as suggested in the World Economic Growth Scenario graph, chicken growth will also rebound slowly showing robust growth in the years after 2010.

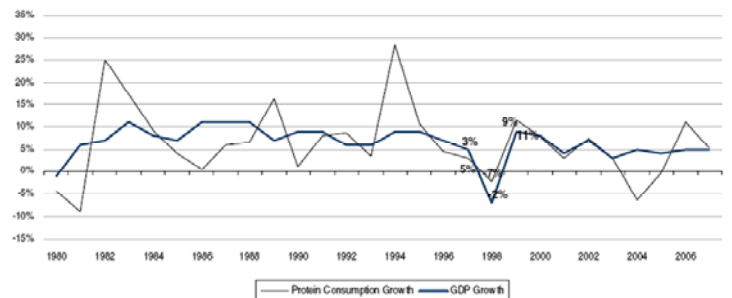
World Chicken Growth Scenario in %



Why should chicken production be affected by the downturn in world economic growth? The simple answer is that meat is a luxury food for billions of people. After decades of almost uninterrupted growth in world chicken production it is easy to forget that meat is a luxury. Consumers spend more on meat when their income is rising and spend less when their income is falling. A situation of no economic growth worldwide will certainly be one of falling protein per capita consumption.

South Korea provides an example of what can happen in a falling economy. The following graph of GDP growth and protein consumption in South Korea shows the consequences of the economic turmoil of 1998. In that year GDP fell by 7% and protein consumption fell by 2%. This year the GDP of South Korea is projected to fall by 4%. If the past is any guide, protein consumption will temporarily fall in South Korea and many other countries from recent levels.

Exhibit 5: South Korea (1997-1999 labeled)



Source: USDA, World Bank

When the entire world experiences an economic downturn, protein consumption for the world as a whole is reduced. The following table shows what is likely to happen to chicken consumption between the peak and the trough of the current world recession. The graph is divided up in 5 quintiles by income. Each quintile has 20% of the world's population or 1.35 billion people. The first quintile is the world's richest 1.35 billion people; the second quintile is the second richest 1.35 billion people and so on.

Notice that during this recession I would expect the per capita consumption of chicken of the richest quintile to actually increase. In this quintile there will be a substitution of chicken for beef and pork. In the second quintile there will also be substitution but that quintile will struggle to maintain their consumption of chicken. In the third and fourth quintiles the fall in income will result in less consumption of chicken meat. The last quintile consumes little meat of any kind.

From peak to trough the world is likely to see the first reduction in the per capita consumption of chicken in recent history. When the world economy rebounds, consumption will also, of course, rebound as well with middle quintile consumers showing the fastest increase.

Effect of World Recession on the Consumption of Chicken Per Capita – Kg

Quintile	Peak	Trough
1	25	26
2	16	16
3	9	7
4	4	3
5	<1	<1
Average	11.0	10.6

How is the World Chicken Industry Responding?

The world chicken industry is now fully aware of the seriousness of the economic downturn and production is slowing in most areas. For example, in the first month of 2009 there were 4.3% fewer chickens slaughtered in the US than the year before and, most importantly, their weight was the same as last year instead of the typical increase in weight. Production is also falling or increasing at a much lower rate in Latin America, Europe, Africa and Asia. In Brazil for example, production in December was 2% less than November in the first sign of production cuts in that country.

In most countries only a small drop in chicken production is needed to bring supply in line with demand because, unlike automobiles where sales can drop 33% in a year, the consumption of chicken will generally not drop more than single digits even in a severe recession. Consumers will have less money to spend on meat but beef and pork take the brunt of the decline while chicken remains relatively stable.

Despite the good position of chicken meat compared to other meats, it is important to remember that meat of all kinds is a luxury product which is purchased with less enthusiasm and consumed more completely during an economic recession than during good times. When the recession is worldwide there is a worldwide slowdown in chicken consumption and production.

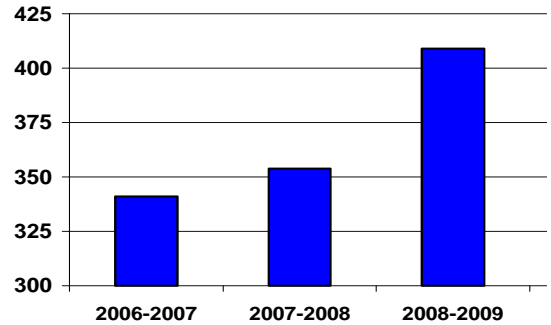
Feed

The same forces that reduce demand for oil, other commodities and most consumer goods including chicken are reducing demand for grain as well. Grain prices can therefore be expected to be lower in crop year 2008-2009 than they were in crop year 2007-2008. Although the US and Argentine corn harvests are lower this crop year, the total world grain crop is larger and the ending inventory of total world grain is comfortably higher thanks to the slowing use of grain for feed and ethanol. Higher ending inventory is, of course, the best indication of lower prices.

The most recent USDA farm level price forecast of between \$3.90 appears to be high. Corn prices are likely to average only \$3.50 this year on the farm and \$4.00 in Chicago (\$160 metric ton). Unlike last year, there is little risk of a spike in prices to much higher levels. Soybean meal prices will also be lower and more stable in this crop year with soybean meal averaging \$325 per metric ton this year versus \$375 last year.

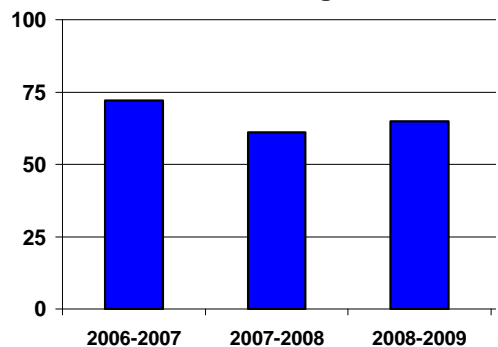
The latest USDA report was good news for the chicken industry. It showed an ample world supply of wheat and corn in the face of declining demand. The total world ending inventory for grains was pegged at 409 million tons in this crop year compared to 354 MMT in the last crop year. Despite drought problems in Argentina and Brazil, the lack of demand for grain is likely to keep corn and feed wheat prices under control for the rest of this crop year.

Total World Grain Ending Stock in MMT



The world ending stock of oilseeds (primarily soybeans) is also expected to rise this crop year keeping soybean meal prices in check. However, the rise in inventory is small and could be eliminated by a harvest disaster in Argentina.

Total World Oilseed Ending Stock in MMT



Chicken Prices

In a the roller-coaster world of 2008, world chicken demand started out strong and the US dollar started out weak, making US leg quarters a bargain and Brazilian whole chickens relatively more expensive. As a result, US leg quarters traded at an all-time high price of 55 cents. Then the trends reversed. The dollar became stronger and the demand for meat weakened worldwide. Leg quarters dropped to just \$ 0.20. This year, exports are likely to continue to be relatively weak compared to the best times in 2008. The most important US customer, Russia, lowered the US quota by 200,000 tons. Leg quarter prices will struggle to reach \$ 0.40 cents under the current free-falling world economy despite significant cuts in US supply. Brazilian whole chickens will also be significantly less valuable this year compared to last year but more competitive in dollar price compared to US leg quarters.

USDA Southern States Leg Quarter (bulk) Price

High/Low price in 2008	\$ 0.55 / \$0.20
Now	\$ 0.35
High in 2009	\$ 0.40

Conclusion

After a tumultuous 2008 the chicken industry should find a calmer world business climate this year. Feed grain prices should be relatively low and stable this year in marked contrast to last year's wild swing from high to low. World chicken production growth is slowing to a standstill to cope with the economic recession. With lower production growth, some small measure of profitability should return to those areas that were losing money last year.

Predictions about future world economic growth are even more impossible to make than normal. However, it appears that the recovery from this downturn will happen in either 2010 or 2011. Robust growth in the world economy and the world chicken industry is likely to be either one or two years away.