

Inflation in Animal Products

GTSF Investments Committee | November 8, 2022

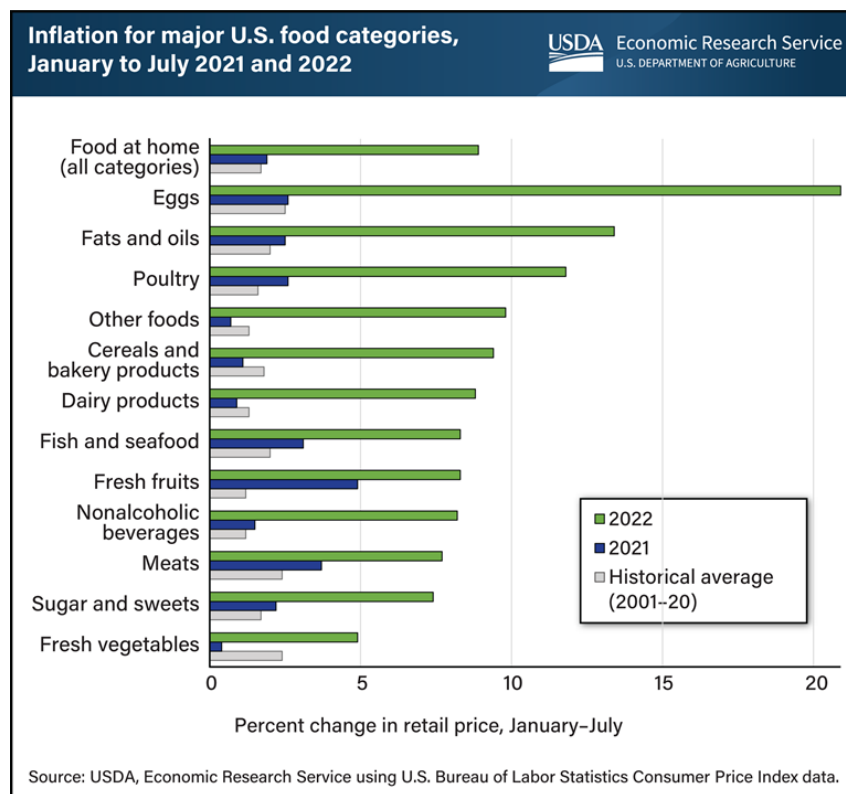


Ana Schretter, Macro Analyst

Jared Abrahamian, Macro Analyst

Inflation in Animal Products

In 2021, there was an average of a 7% increase in poultry, eggs, and beef. This has been felt strongly by consumers due to the gap between wholesale to retail expanding. This gap is due to the increased costs of labor, trucking, logistics, and fuel cost. More recently, in 2022 egg and poultry prices increased significantly more than any other food category. This is a result of the recent outbreak of avian flu. Retail egg prices decreased 3.5 percent in September 2022 but were 30.5 percent higher than September 2021. The ongoing outbreak of highly pathogenic avian influenza (HPAI) reduced the U.S. egg-layer flock by almost 5 million birds in September. This decrease in the poultry flock and spike in HPAI prevalence are expected to increase wholesale and retail egg prices for the coming months.



Changing Consumer Habits

Consumers are shifting away from eating meat and towards plant based alternatives. They are reacting to inflation by substituting meat for cheaper options which are typically plant based. Additionally, younger consumers are purposely reducing animal product consumption for health and environmental reasons. About 10 percent of Americans over the age of 18 consider themselves vegan or vegetarian as of January 2022. Fortune Business Insights estimates that the meat substitute market revenue will double to \$12.3 billion by 2029. Meat alternatives often require less space, water, time and materials to make, according to researchers, making them more resilient to the supply chain shocks that have recently plagued the animal meat industry. This makes them more appealing to the environmentally and fiscally conscious consumer.

Contact Information

Benjamin Harrison, Director of Macro
benharrison@gatech.edu

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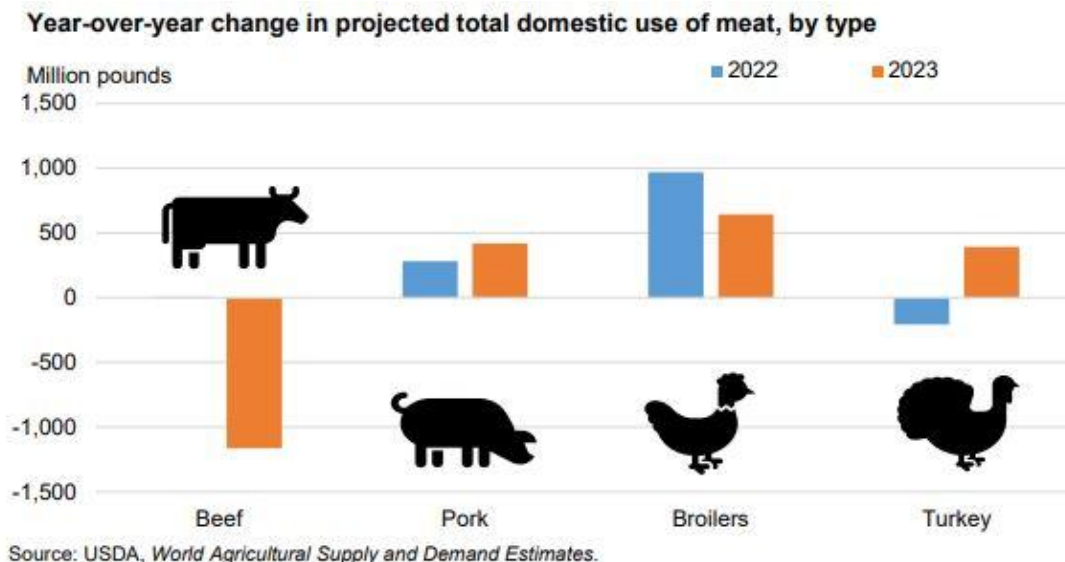


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Livestock and Dairy Outlook: October 2022

The Livestock, Dairy, & Poultry Outlook for October 2022 analyzes economic impacts of month-to-month changes in USDA's World Agricultural Supply and Use Estimates Report on domestic and international markets for beef, pork, lamb, poultry, eggs, and dairy products. Domestic use of broilers (chickens that are bred and raised specifically for meat production) and pork are forecasted to increase. Domestic use of beef is forecast to increase slightly in 2022, but fall sharply in 2023 due to the U.S. cattle herd shrinking as a result of drought and high feed costs. Drought conditions impact the movement and timing of cattle placement in feedlots, as well as the number of beef cows culled. Feed and energy prices are surging, putting upward pressure on animal protein production costs. The war in Ukraine pushed soybean, corn, and fertilizer prices higher, which compounded with inflation's impact on meat prices. We will likely be seeing a steep increase in beef prices in coming years. The all-milk price forecasts for 2022 & 2023 have been raised due to recent changes in dairy product prices and higher expected dairy exports. Exports of beef to China have increased 30% over the last year which raises China's share of U.S. exports to 18%. Export milk forecasts have also been raised due to anticipated strong dependence for international markets. Lamb prices are declining and the 2022 third quarter price was 34.1% lower than the second-quarter price. Turkey meat is on the decline in 2022 due to the HPAI outbreak having an outside impact on the industry, however forecasts suggest a rebound in 2023.



Poultry Expected to Continue Leading Global Meat Imports as Demand Rises

Over the past two decades, poultry has become the most consumed livestock commodity in the world, especially in developing and emerging markets where production prospects have been relatively limited. This is because chickens mature and reach market weight faster than other livestock and convert feed to meat the most efficiently. Chicken's can be raised in smaller spaces so that producers can raise more chickens per land relative to other animals. Poultry is expected to remain the world's largest imported livestock commodity by volume over the next 10 years. Brazil leads poultry production and is projected to continue while the U.S. is expected to lose market share while still increasing exports. The U.S. has seen a significant decline in poultry exports to China due to pandemic trade disputes.

Contact Information

Benjamin Harrison, Director of Macro
benharrison@gatech.edu