January 2017 – Livestock Market Update

Public Policy Department

Budget & Economic Analysis Team

Eggs Poised for Export

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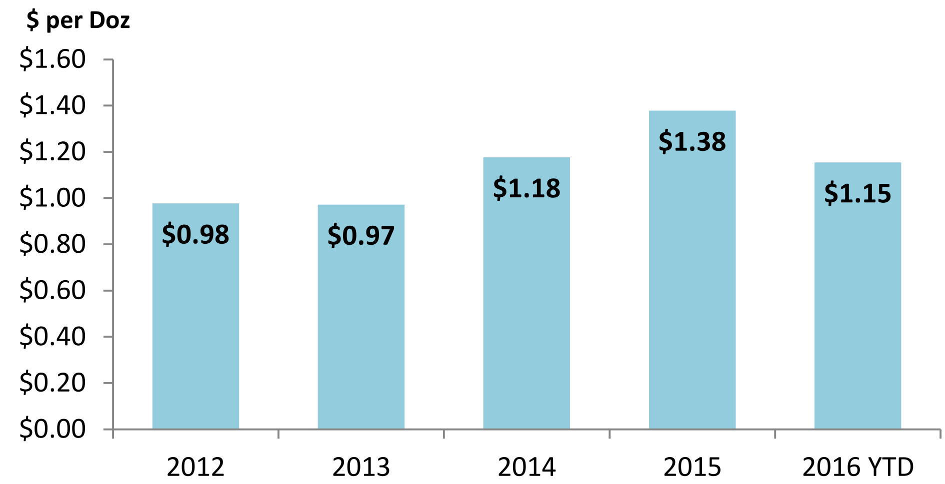
The U.S. shipped its first shell eggs to South Korea on January 12, 2017, almost two months to the day from when High Pathogenic Avian Influenza (HPAI) was first detected in South Korea. Efforts to stop this disease have resulted in the destruction of 30 million birds to date, creating an immediate need for South Korea to import eggs. Egg prices there have risen more than 50% in a month, as a result of over 30% of the layers and over 50% of layer breeding stock being culled according to USDA FAS GAIN's report dated January 13, 2017.

This is the first time the S. Korean shell egg market has been open to the U.S., albeit under temporary but favorable measures. Shell egg imports have a zero tariff rate quota under 35,000 metric tons, effective until the end of June 2017 and air freight for shells eggs will be partially subsidized by the S. Korean government at least in the short term. The GAIN's report went on to mention that the 50% subsidy on air freight will make imported U.S. shell eggs more competitive in the short run, but in the future eggs would likely need to be shipped via ocean to remain price competitive.

U.S. shell egg exports took a significant hit in 2016. Volume and value dropped to about half of that shipped in 2015. Export volumes had been slowing over the last few years as value per dozen crept higher and higher (See Figure 1), peaking in 2015 because of a U.S. outbreak of HPAI. Canada, Mexico and Hong Kong have remained the top shell egg export destination, purchasing over 120 million dozen eggs combined in 2013-2016. In 2016 volumes of eggs, exports were down 45%, because of large reductions in volume to Canada and Mexico.

Figure 1: Value of U.S. Shell Egg Exports in Dollars per Dozen
Source: USDA FAS, Analyzed by AFBF



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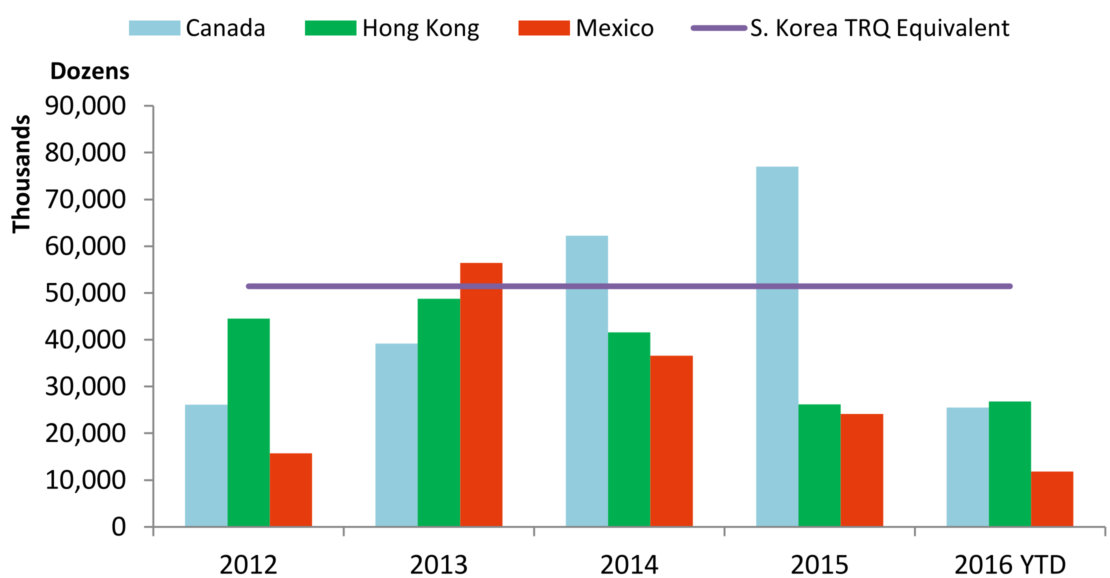
This South Korean opportunity could mean a big shift for shell egg exports in 2017. Back of the envelope conversion of metric tons to dozens of eggs means the U.S. could ship just over 51 million dozens duty free, more than any of the three top destinations in 2016. Over the last five years those three countries (Canada, Mexico and Hong Kong) have accounted for 80-95% of shell egg exports. Figure 2 shows the U.S. shell egg exports to the top three destinations from 2012-2016 year to date.

Figure 2: Top Three Shell Egg Destinations for U.S. Exports
Source: USDA FAS



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To put this in perspective, the U.S. produces about 7 billion dozen eggs or about 80-90 billion eggs annually of table type eggs. These are the eggs used for consumption but can end up as liquid eggs, shell eggs or some other egg product. The total volume of U.S. shell exports represents 1.5-2% of production in a typical year, but in 2016 this figure was down nearer to 1%. Using the volume calculated if the U.S. filled the TRQ line of 51 million dozens, this would take nearly an additional 1% of table egg production to meet that demand.

Although this is might seem like a short term shift in the demand curve from S. Korea, recovery of the S. Korean breeding flock will take some time to rebuild. S. Korean egg imports from the U.S. could be on the books much longer than June as the temporary suspension of tariffs suggest. S. Korea is working with other trade partners as well but the U.S. impact will focus on whether or not S. Korea imports eggs at the TRQ level or above and if other types of eggs are accepted such as liquid eggs. The latest WASDE increased U.S. domestic egg prices in response to increased exports, and are projecting annual egg prices to be 8.5 cents higher, or 9.6% over 2016 prices.

Inflation Trying To Make A Comeback, But Don't Blame Food Prices…

The Bureau of Labor Statistics (BLS) released the final Consumer Price Index (CPI) of 2016 on January 18th. The Consumer Price Index tracks baskets of consumer goods over time using a base year. This price series measures everything from Recreation to Food on a monthly basis. The core CPI, which is the All Items index without food and energy, can be also used as a measure of inflation.

The December Food and Beverage index remained relatively unchanged, coming in level with the prior month and declining 0.1% from last year. Livestock product indices (meats, poultry, and dairy) showed a much more dramatic shift. The meat index is down 4.2% from last year and down almost 1% from November prices. This is not necessarily surprising given meat prices have been fading on the retail side for the last few months. BLS Retail Meat Price Study data indicates retail beef and pork prices were down 7% in December compared to last year. The poultry CPI Index is also below a year ago, down 1.7% in December, while dairy and related products index is down 1.3%. Averages over all of 2016 are a bit lower on the food side: Meats averaged 4.4% lower, followed by poultry down 2.7%, and Dairy products down 2.3%.

Although consumers are spending less on livestock related food products, almost all the other broad categories have risen. Housing, Transportation, Medical Care, Recreation, and Energy increased from last year. Education and Communication, and Apparel indexes registered below a year ago. The largest increases were in Energy (5.4%) and Medical Care (4.1%). The All Items index was up 2.1%. Core CPI (inflation) was 2% above a year ago.

In 2016, this newsletter discussed high meat stocks, increased production facing the U.S. meat, poultry, and dairy sector; and the lag that exists between the retail case and wholesale prices. Consumer meat prices adjusted more in the latter part of the year, see Figure 3. The outlook for beef, pork, poultry and dairy production is expected to increase according the January USDA WASDE report. Forecasts at the wholesale level are expected to be lower with the exception of dairy, loosely translating into lower consumer prices as well.

However, consumers are still expected to face rising prices elsewhere in the household. Given the target for GDP growth and the stimulus based projects (think infrastructure) being discussed in the new administration, consumers are likely to pay more out of pocket for items outside food and energy in 2017, i.e. they could face inflation at 2% or higher. Inflation will be one to watch and can ripple through the farm economy. Consumer goods are not the only items that would face price creep, farm inputs and interest rates through monetary policy adjustments could also increase.

Figure 3: Consumer Price Indices: All Items, Meat, Poultry, Dairy and Related Products
Source: BLS, LMIC.