

February 12, 2021

Chicken Wing Prices Reach Record Highs UB Consulting Takes a Fundamental Look at What's Behind the Surge

Chicken wing prices have been at the forefront of the conversation for several weeks now. Why? Because wholesale spot market prices have reached record highs and are behaving in a non-seasonal manner. Historical price seasonality suggests strong buying commitments are made around the end of Q3 into the beginning of Q4 when prices reach their seasonal peak. These purchases are made in the middle of football season and get another seasonal bump into January prior to the Superbowl and March Madness. Yet, as we all know, 2020 has been a year in which historical behavior has been notably in disarray—and 2021 has begun in a similar manner with prices well over their seasonal averages.

While many in the industry are still debating what is causing such behavior, particularly when foodservice wing joints continue to operate at limited capacities in many parts of the country, we briefly evaluated several indicators in an attempt to understand and explain what is happening.

We began with the most fundamental indicator: slaughter. Consider the availability of wings in terms of pieces rather than pounds. At the beginning of the pandemic, slaughter contracted significantly for obvious reasons, causing the pipeline of young chickens ready for slaughter to back up. Further, slaughter is highly seasonal, and can be relatively easy to forecast, all else equal. We also evaluated other indicators like eggs set and chick placements, and both performed very similarly, providing a decent look at what could be slaughtered in the future. Yet, slaughter figures have been well below what eggs set, chick placements, and seasonal behavior would suggest since April 2020. Fundamentally, this would naturally suggest that prices could trend higher, as fewer birds translate into fewer wings (pieces) available.

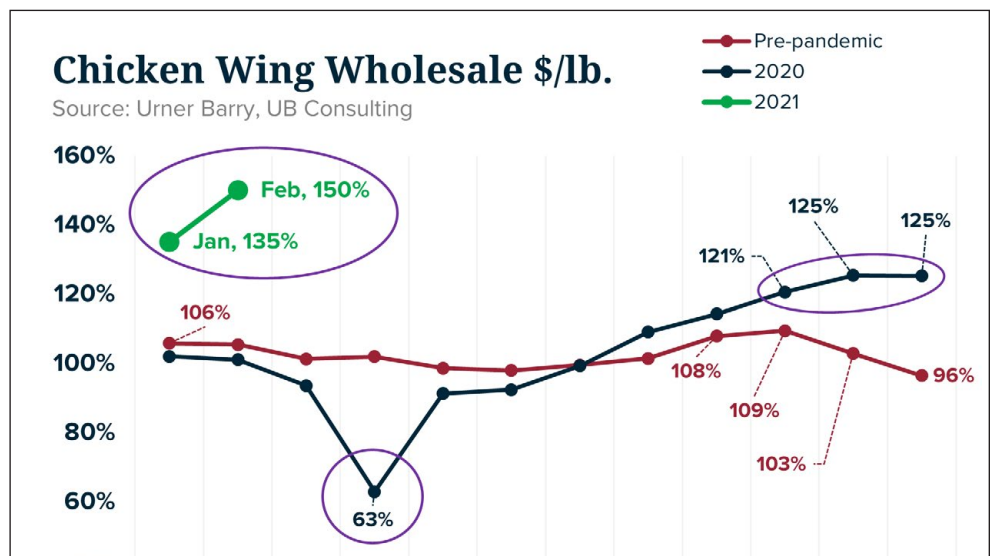


Figure 1. Seasonal factor estimate for jumbo chicken wings spot market prices. Source: Urner Barry, UB Consulting.

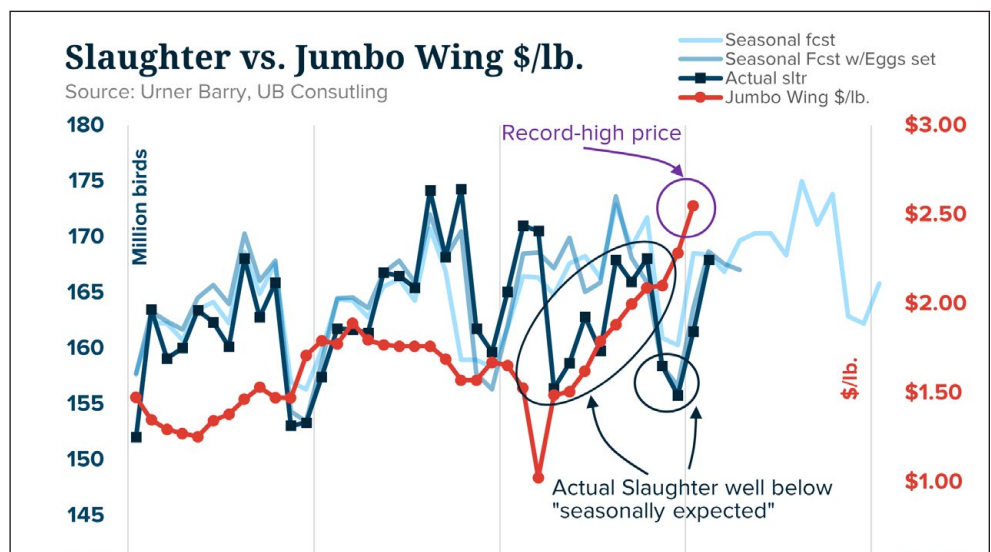


Figure 2. Actual chicken slaughter and wholesale jumbo wing spot market prices. Estimates for slaughter use seasonal factors and eggs set. Source: USDA, Urner Barry, UB Consulting.

But “all” is seldom equal, or for this matter, similar. 2020 and early 2021 has proven to be quite different, and to illustrate this more clearly, we took another approach. We created a simple index that lags and smooths year-over-year changes in slaughter figures, to explain variations in price. This index suggests that anything below 100 is a contraction in slaughter relative to the previous six months. As we can notice, this index has remained well below 100 since June, but moved drastically lower from August 2020 to January 2021.

We were able to model price behavior and despite arriving at relatively decent conclusions, we are still scratching our heads on whether these levels are sustainable in February going into March Madness demand. As of the end of the second week of February, average prices remain high even though we expected these levels to adjust slightly lower relative to January. While a downward price correction is highly likely, we expect floor price levels going into March to remain historically high assuming a moderate recovery in the foodservice sector.

We must also consider that labor shortages were already causing some sporadic disruptions to the supply chain before the pandemic started; naturally, this became a major issue once the pandemic began. Similarly, and not necessarily mutually exclusive, heavier bird weights were also a pre-pandemic issue that got exacerbated once COVID cases started rising at many processing facilities. We assumed that, to a certain degree, slaughter data and prices would have reflected some of these constraints.

It is not unreasonable to think that prices could spike again in a shock-like manner as foodservice recovers and as warmer weather returns into the spring. We suspect the chicken industry is pushing for a steadier supply flow when this demand makes its way back. In the meantime, college basketball fans might have to sacrifice a beer or two to complement pricier chicken wings, as it is likely these record-high prices will be passed on to the consumer.

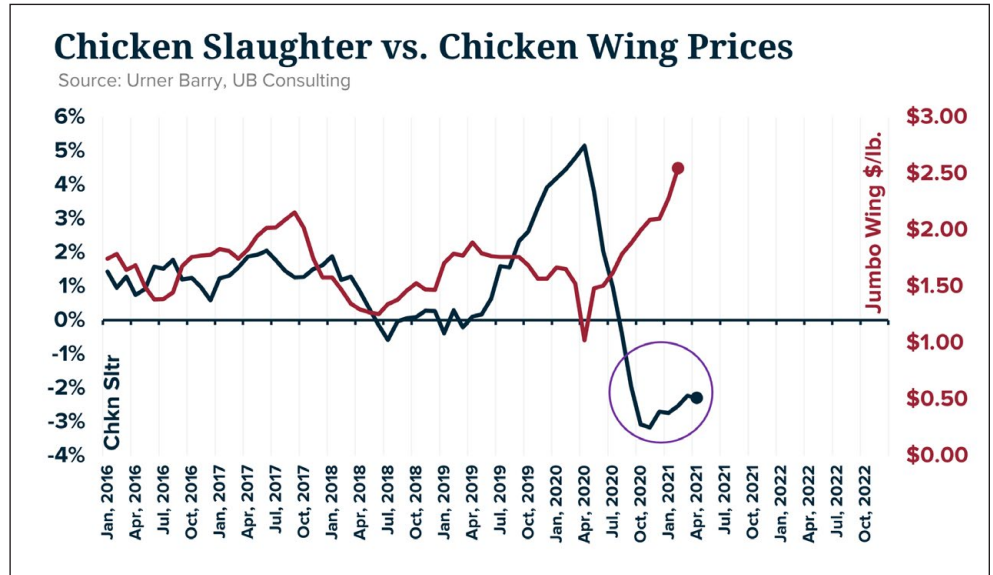


Figure 3. Chicken slaughter smoothed index (y-o-y %chg) vs. chicken prices. Source USDA, Urner Barry, UB Consulting.

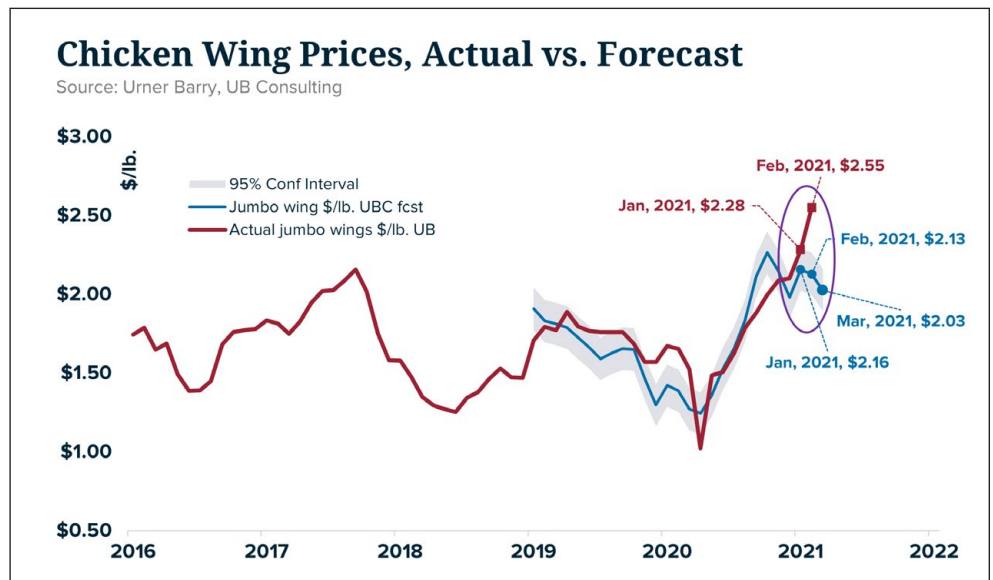


Figure 4. Jumbo chicken wing price quotation and model that explains recent price changes. Source, Urner Barry, UB Consulting.