Will chicken be the winner in a potential economic downturn?

Our findings presented here serve as an update on a previously published whitepaper from April 10, 2023, after revising our forecasts.

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Concerns over the economic well-being of consumers remain a hotly debated topic—and rightly so. Over the last 18 months, consumers and producers have been experiencing persistent high inflation levels. The pandemic created a perplexing situation concerning consumers' protein intake. Given the combination of higher incomes, excess savings accumulated during the pandemic, and the economic shutdown—consumers could purchase high-priced proteins more frequently than they previously had. Such a statement can be supported by record-high price levels for high-end proteins amid increased availability. Some of these effects are still being felt in the market today. However, as excess savings drain, given persistent inflationary pressures, many have argued that consumers might finally be switching to lower-priced proteins. But have they?

This analysis will explore this question by analyzing the overall chicken market, considered a staple protein for households, as it compares with the beef market.

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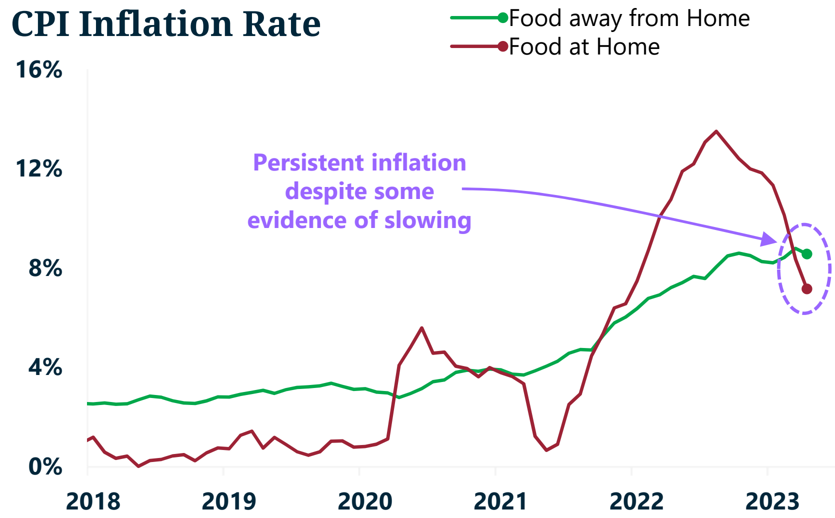
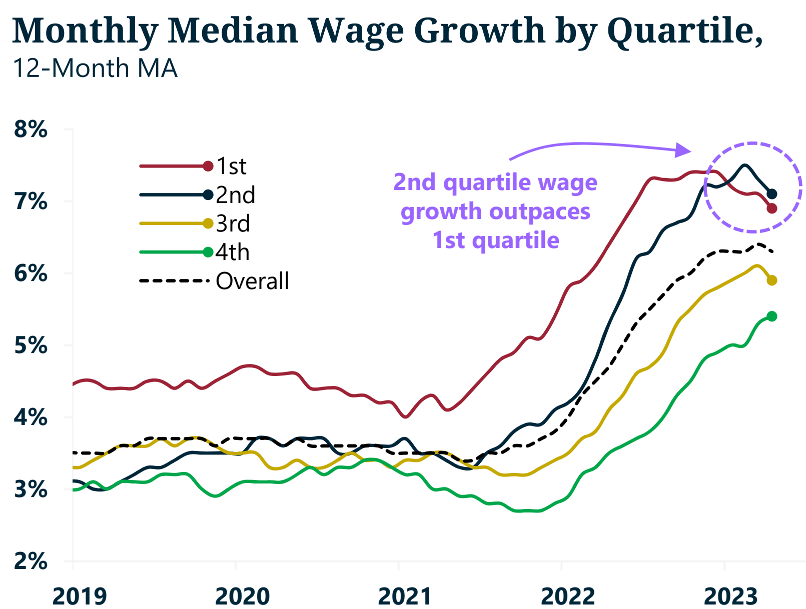
The Consumer

As mentioned, the US economy has been experiencing persistent high inflation levels. Concerning food, the consumer price index for food at home and food away from home increased by 7.1 percent and 8.6 percent year over year in April 2023. Recent reports have suggested a slowdown in overall inflation; however, levels are still well above the Federal Reserve's 2 percent inflation target.

At the same time, wages have also increased. The most significant increases have been found in the bottom quartiles. Naturally, the percentage of disposable income on food expenditures will change depending on one's income; the less one has, the more that share of disposable income is spent on necessities like rent and food. Recently, the 2nd quartile outpaced that of the 1st quartile for the fourth straight month, implying increased wages for the middle class. Despite the overall increase, growth has seemed to reach an inflection point and has decelerated within the last couple of months for these income quartiles. On a speculative level, given the increased cost of living, we can assume that excess savings among those in the 1st quartile have dried up as consumers were less willing to switch to more normal consumption habits.





Furthermore, for the first time since November 2021, real disposable income per capita reached positive year-over-year growth throughout Q1 2023. Such an increase suggests increased consumer buying power compared to previous months.

With increased wages and positive real disposable incomes, are consumers more willing to spend to keep consumption habits from changing, particularly for proteins?

Figure 1. The consumer price index for all urban consumers: food away from home vs food at home, year-over-year percentage change, seasonally adjusted. Source: BLS, UB Consulting.

Figure 2. The 12-month moving average of monthly median wage growth. Source: BLS, Federal Reserve Bank of Atlanta, UB Consulting.

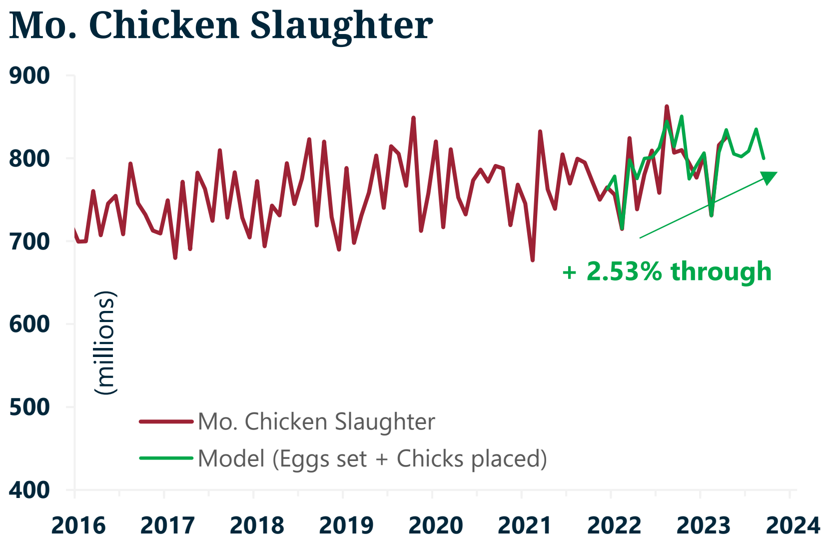
The Chicken Market Outlook

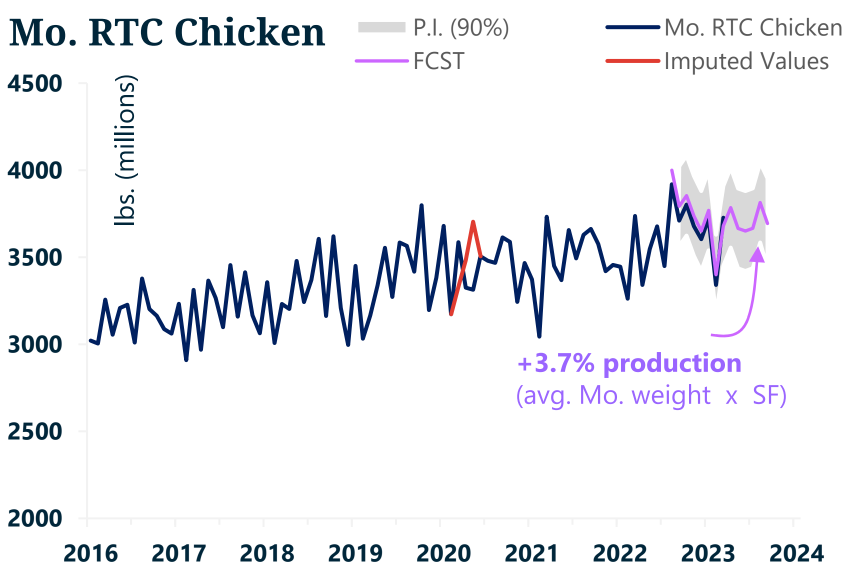
Before answering this question, let us present our outlook on the chicken market. Our previous forecasts for the chicken complex presented during the Global Protein Summit in Chicago in October 2022 have aligned with the actual figures.

Slaughter forecasts, a function of eggs set, pullets hatched estimates, and placements, suggest an increase in the upcoming months. We project that slaughter through September will increase by about 2.5 percent compared to year-ago levels.

From a ready-to-cook chicken (RTC) perspective, a slightly upward move in average weight has curbed up overall pounds produced. However, it is crucial to note that before week 13, there were several instances in which average broiler weights fell below year-ago levels, leading us to assume that overall weights had the potential to remain similar or slightly lower compared to last year for the upcoming weeks. Therefore, we revised projections using a rolling average from January 2022 multiplied by a seasonal factor, suggesting RTC production may increase as much as 3.7 percent through September year-over-year. This variable can play a crucial role in adjusting total RTC volumes amid increased slaughter figures.

When looking at prices based on the forecasts illustrated above, chicken prices could remain between 8 and 16 percent lower through October compared to last year, just in time to do this all over again for the Global Protein Summit in Chicago. We must consider that prices reached a record high last year during the year's first nine months. Therefore, the adjustment up or down could be faster than forecasted.





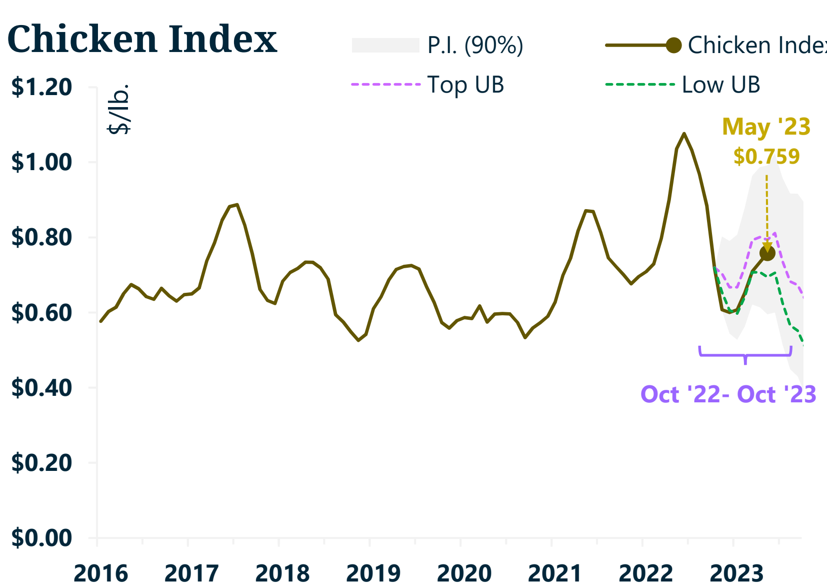


Figure 3-5. Chicken slaughter, RTC, and price forecasts.
Source: USDA, Urner Barry, UB Consulting

On a more granular level, how will the chicken wing market adjust? A continuation of a paper published in February 2021 focused our efforts on the relationship between the foodservice industry and chicken wings. As many already know, wings play an essential role in the chicken market complex concerning their performance in the foodservice industry.

To recap, foodservice sales still need to meet their expected pre-pandemic growth. From 2021 to 2022, the market witnessed pent-up demand, resulting in increased prices for chicken wings (and most proteins) that would later be featured on restaurant menus. However, if we exclude the pandemic, based on our calculations, the strength of the foodservice sector has had minimal effect on chicken wing prices relative to slaughter. In other words, slaughter volumes are a much more powerful variable in explaining price movements.

From a fundamental standpoint, the chicken market has been experiencing increased supply due to increased slaughter figures. Holding all else equal, we found that, on average, for every 1 percent increase or decrease in chicken slaughter, we could expect wing prices to swing between 21 and 27 percent in the opposite direction. Naturally, there will be larger swings when times are unprecedented, just like we saw during the shocks caused by the pandemic. Our preliminary forecasts, holding demand constant, indicate chicken wing prices may continue to adjust lower but potentially find a bottom soon.

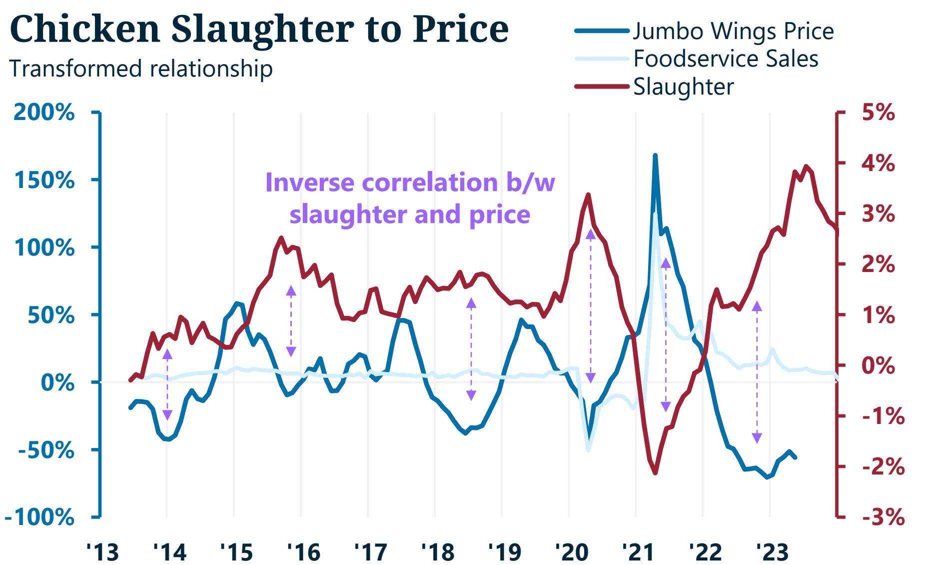
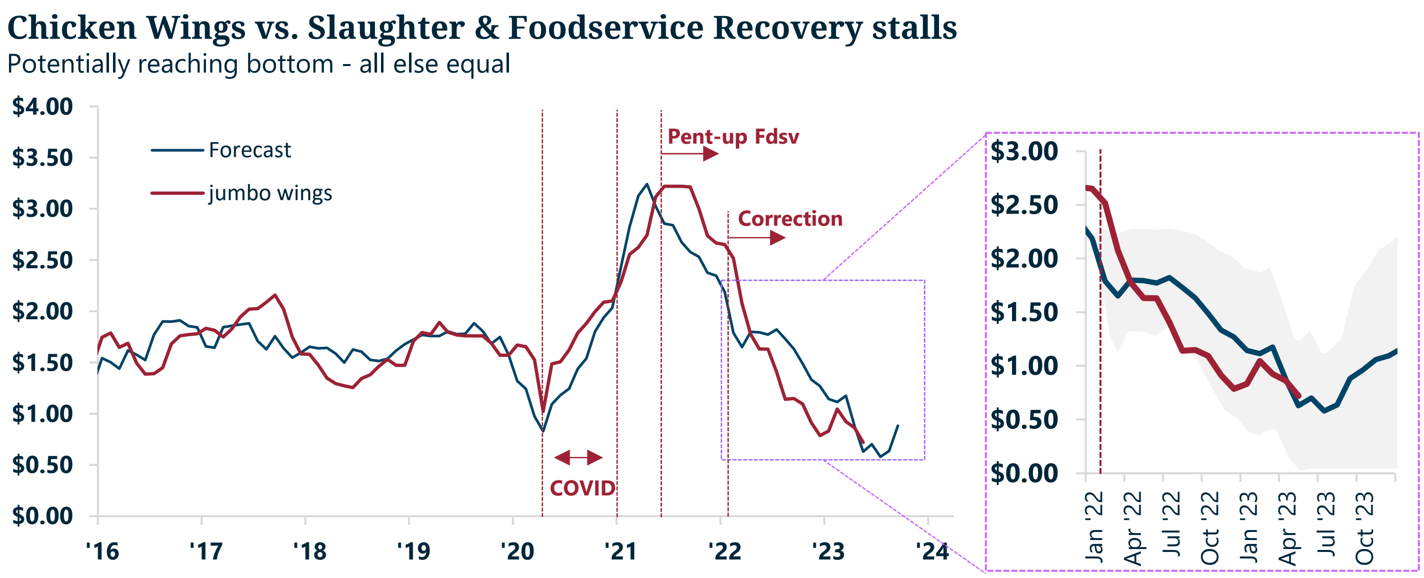


Figure 6. Transformed and lagged chicken wing prices vs. slaughter vs. foodservice sales. Source: BLS, USDA, Urner Barry, UB Consulting

Figure 7. Jumbo chicken wing price projection. Source: Urner Barry, UB Consulting.



The Switch to Lower-Priced Proteins?

For several months now, high-priced beef items have registered record all-time seasonal highs, suggesting robust and persistent demand. The chicken breast market has endured large price swings within the poultry complex, ranging from all-time lows to all-time highs. To quantify changes in supply and demand, we created ratios based on seasonally and inflation-adjusted prices of several beef items (high-priced and low-priced) and chicken breasts to explain consumption habits.

Given the historically high prices in the chicken breast market in 2021 and 2022, the ratio contracted despite relatively high beef prices. Since then, these ratios have adjusted considerably higher, particularly for high-priced beef items like PSMOs (tenderloin) and ribeyes. The contrary was true for ground beef, where the ratio, despite a rebound, remained oscillating around 2019-2020 levels.

Interestingly, NY strips—possibly considered somewhere in between but still higher-"ish"-priced—oscillated below pre-pandemic times. Therefore, from a purely empirical perspective, trading down between beef and chicken remains inconclusive, which leads us to believe that many consumers have not traded down yet, but could possibly be trading down between cuts.

High-Priced Beef to Chicken Breast Ratios

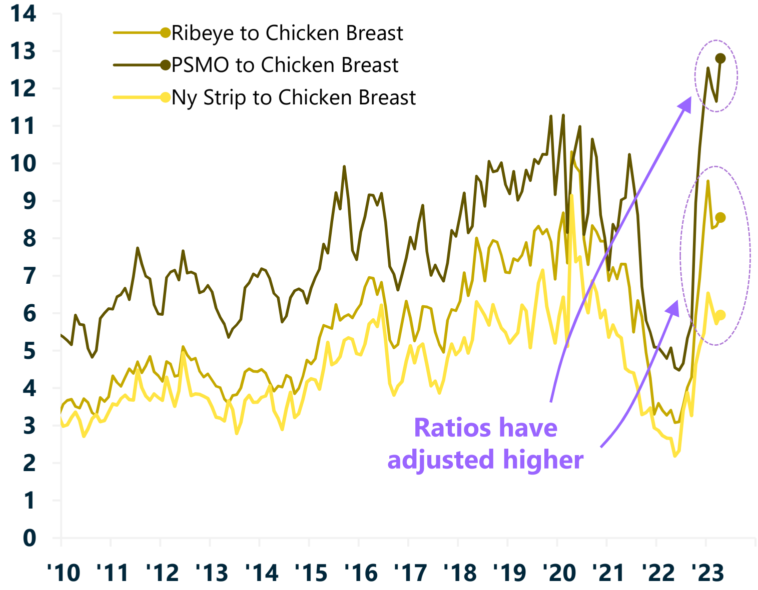


Figure 8. High-priced beef-to-chicken ratios, seasonally and inflation-adjusted prices. Source: Urner Barry, UB Consulting

Ground Beef to Chicken Breast Ratio

Figure 9. Ground beef-to-chicken ratio, seasonally and inflation-adjusted prices. Source: Urner Barry, UB Consulting

Ratio to Chicken Breast	Avg '16 '18	Avg '18 '20	Avg '20 '22	Apr '23
Ribeye	6.39	7.82	6.31	8.56
PSMO	8.36	9.57	7.89	12.81
Ny Strip	5.09	6.04	4.80	5.95
Ground Beef	1.51	1.89	1.55	2.09

Table 1. Beef-to-chicken ratios: 2016 - Apr 2023, seasonally and inflation-adjusted prices. Source: Urner Barry, UB Consulting

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But are consumers trading down between cuts—based on price?

We performed the same exercise above but using ground beef as our baseline. Again, from a purely empirical yet statistical perspective, seasonally and inflation-adjusted ratios of higher-priced beef items relative to ground beef suggest that consumption, if anything, is normalizing, with only PSMOs, remaining high. The latter suggests that there is still an element of support for higher-end cuts. This could be true depending on where consumers stand on income levels.

With respect to market fundamentals, if demand is assumed constant, the recent increases in production for chicken and decreases for beef could explain the current movements in the ratios for high-priced cuts. However, this cannot be said for ground beef. The shifts in the ground beef ratios have not mirrored that of the high-priced beef cuts. This discrepancy suggests that other factors are at play. One could imply that consumers may still be willing and able to spend on higher-priced items and have yet to switch to lower ones.

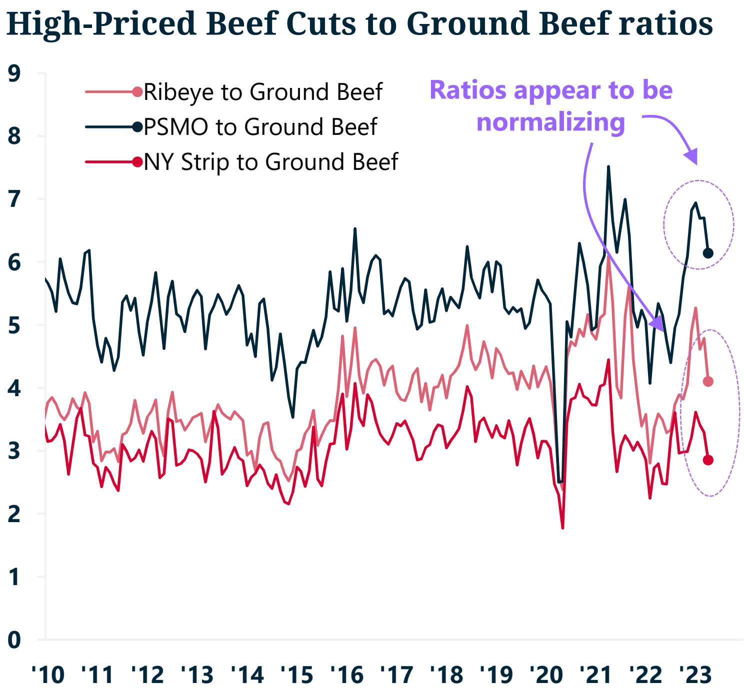

Figure 10. High-priced beef cuts-to-ground beef ratios, seasonally and inflation-adjusted prices. Source: Urner Barry, UB Consulting

Ratio to Ground Beef	Avg '16 '18	Avg '18 '20	Avg '20 '22	Apr '23
Ribeye	**4.22**	**4.29**	**4.20**	**4.10**
PSMO	**5.53**	**5.28**	**5.37**	**6.14**
Ny Strip	**3.36**	**3.31**	**3.19**	**2.85**
Ground Beef	***1.00***	***1.00***	***1.00***	***1.00***

Table 2. Ground beef-to-chicken ratios: 2016 - Apr 2023, seasonally and inflation-adjusted prices. Source: Urner Barry, UB Consulting

We will continue to monitor these behaviors and try to prove this hypothesis through empirical yet statistical inferences from the data.

Overall, there is no strong indication that consumers have been trading down their protein intake. If anything, our conclusion suggests that we are simply returning to more “normal” consumption patterns from the pandemic-induced habits. However, there is the big caveat that if the economy heads toward recession, it is more likely than not that consumers could accelerate this process and thus provide support for lower-priced proteins. Like in previous difficult economic times, the big winner will likely be chicken.