



Avian Influenza: Its Effect on Producers & the Market - Past, Present, Future

Overview

Since mid-December, 2014, the industry has undergone what the U.S. Department of Agriculture (USDA) called the worst outbreak of Avian Influenza (AI) in U.S. history. We've kept you informed of breaking news at every turn. In this brief, however, we will provide a retrospective of the outbreak from its beginning to today. We'll also explore its effect on the market and what we might expect in the future.

AI is an infectious viral disease that can spread from wild water fowl to domestic poultry, killing some species within 48 hours, according to the World Health Organization. The outbreak was detected in the U.S. in December 2014. From that point to mid-June 2015, the USDA recorded 223 confirmed cases. When one case in a flock is confirmed, producers must depopulate the entire flock. As of this writing, that has included the euthanasia of approximately 48 million birds.

Some fast facts about the havoc AI has wreaked, according to PRNewswire:

- As many as 233,000 poultry farms were affected across the U.S.
- Since the outbreak, the wholesale prices for table eggs jumped 84 percent
- 75 countries have either a full or partial ban on U.S. poultry exports
- The lost revenue in U.S. poultry exports reached nearly \$390 million in the first quarter

The decline in exports is one of the largest ever seen, says the news wire. Many poultry importers banned U.S. poultry products because of the outbreak.

New Cases Dwindle but no Certainty That We Are in the Clear

In late June, with the summer heat, the number of new cases began to dwindle. Now, some of the export bans and restrictions are loosening. According to Urner Barry, however, few producers have begun the process of repopulation. They are either waiting for the USDA to give them the green light or they are struggling to find poults, or young chickens.

Moreover, it would be a mistake to declare AI over with any degree of certainty. Since Mexico has experienced this outbreak for three subsequent years, speculators say that it may hit the U.S. next year as well. The USDA announced a plan to stockpile a vaccine should the virus return. Meanwhile, the USDA's Animal and Plant Health Inspection Service (APHIS) is preparing for additional outbreaks that could occur this fall or later. Until the birds flock south, the potential for the influenza's return this year remains.

The APHIS's plan for preventing and responding to future AI cases includes promoting improved on-farm biosecurity practices. To assist producers in effective biosecurity, APHIS worked with experts to develop a biosecurity checklist. To access the checklist, which is a self-guided assessment, visit: http://www.uspoultry.org/animal_husbandry/assessment.cfm

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The APHIS is focused on improving its capability to rapidly detect AI in domestic poultry and to depopulate affected flocks within 24 hours. Once a producer makes a report of the virus, federal and state authorities will quickly institute precautions, from quarantines to depopulation.

Prices Decline but Market not yet Back to Normal

The market is on the decline for these reasons:

- Imports brought down domestic demand
- Reduced exports increased domestic supply
- Partial and complete egg replacers took up some of the market share
- Some manufacturers with egg-dependent products temporarily exited the market
- Buyers stockpiled product at the front of the outbreak, which:
 - allowed buyers the ability to “wait and see” if the market price would further decline
 - gave suppliers time to build up inventories

Because of declining prices, some say the market is “back to normal.” It isn’t. Consider the situation years prior. In and around 2011, for instance, the typical wholesale price of full TLs of powdered egg whites hovered between \$4 to \$5/lb FOB manufacturing sites. That was until the March 2013 introduction of McDonald’s All Egg White McMuffin. Since then, the market has fluctuated dramatically.

As other food retailers began offering egg-white products, demand for whites skyrocketed. Wholesale full TLs of powdered egg whites began selling for around \$15/lb FOB manufacturing sites. As producers’ inventories caught up, prices decreased—but not for long: The current AI outbreak led once again to price increases across the board, including a record all-time high of more than \$18.50/lb FOB manufacturing sites for wholesale powdered egg whites.

Prices have now fallen from that all-time high, but by no means has the market returned to business as usual. Wholesale full TLs of powdered egg whites are selling at around double the “normal” \$4 to \$5/lb FOB manufacturing sites and that with tremendous volatility.

High Costs on Grocery Shelves

These high costs will continue to show on grocery store shelves. That is especially true with products in which eggs represent a high percentage of the ingredient deck, like salad dressings and mayonnaise. Manufacturers of products that use small amounts of egg, with a largely unaffected margin, will hold onto prices to “ride out the storm.” But for slim-margin products, prices will remain high to offset the cost of eggs until the market stabilizes.

Given that AI can’t be confirmed as over, stability is far from guaranteed. Meanwhile, as we come up on the baking season, eggs will be a staple in many households, thereby increasing demand.

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