



Issue Brief

The Animal Protein Markets in 2016: Bolstered by Resilient Domestic Demand

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Introduction

As domestic meat suppliers in the U.S. close their books for 2015, they're looking forward to a better year with fewer hardships in 2016. The coming months will involve a transition away from last year's supply-dominated marketplace to one that is much more demand-driven. Going forward, the supply sides of the U.S. meat markets, particularly those for pork and chicken, will be adjusting in response to last year's oversupplies – and these corrections are “baked” into the outlooks for these markets. As a result of these corrections, wholesale meat prices are projected to increase in the next 12 to 18 months, compared to 2015 fourth quarter lows, along with suppliers' margins. Just how far and how fast U.S. meat prices rise in coming months will depend critically on the resilience of protein demand.

Last year, domestic meat suppliers had to contend with ill winds from two directions. First, total red meat and poultry production surged, posting the biggest domestic supply “shock” in 40 years. Second, the U.S. net trade balance for animal protein took a sharp turn for the worse, which meant that domestic consumers had to absorb an even greater share of the supply shock than otherwise. In this setting, meat prices took a dive, and so did suppliers' margins. None of this outcome was a surprise to suppliers.

But what did surprise suppliers was that domestic protein market conditions didn't turn out to be much worse than they did, with even bigger price declines. Based on past experience involving oversupplies or gluts, suppliers had

anticipated even sharper declines in meat prices than what occurred. As suppliers look ahead to the next 12 to 18 months, they're hopeful that the resilience of protein demand displayed last year will persist and help drive meat prices to higher levels than otherwise. Moreover, the outlook for positive producer margins (i.e., for cow/calf operators, pork producers and poultry integrators), driven by favorable costs of production, are supportive of continued growth in the output of animal protein in 2016. For suppliers, the challenge lies in keeping disciplined supply growth rates in step with anticipated future demand growth.

U.S. Supply Outlook for 2016

- 2016 will be a year of transition for the animal protein markets with total per capita supplies projected to remain nearly flat this year and next. Moderating pork and poultry supply growth, along with a shift to an improving net trade balance with more exports and fewer imports, will contribute to this expected leveling off in the growth of supplies.
- Looking back, total red meat and poultry production set an all-time high in 2015. Combined with a shift in the net trade balance, total domestic meat supplies surged by 4.4 percent. (*See Exhibit 1.*) This represents the largest year-over-year (YoY) increase in 40 years and translates into a 9 pound increase per person in the U.S., compared to the long term (1960 to 2015) average of 0.8 pound annual increase in supplies.