



Issue Brief

More Feed, Fewer Mills: Upgrades Accelerate Consolidation

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Introduction

Inexpensive feed and rising global and domestic demand for animal protein have created a surge of optimism for those in the feed business. Feed mills have enjoyed substantial increases in profitability in recent years as grain prices have fallen, making the cost of their main input more affordable. Driven by the expansions in animal slaughter capacity at the local level, feed mills are bracing for a surge in demand in the years ahead. That growing demand for feed, however, will be shouldered by fewer and bigger mills that have achieved greater technological efficiency and capacity. The number of feed mills in the U.S. fell 11 percent in the last two years while feed demand grew 2.5 percent in the same period.

Feed mills continue to evolve to fit the changing customer base. Livestock and poultry operations have expanded, thereby putting pressure on smaller feed mills that are restricted by capacity or are unable to meet tailored nutritional needs. New government regulations also play a central role in updating or replacing older mills that will be out of compliance for new regulations under the Food Safety and Modernization Act, or FSMA. The new regulatory environment is expected to hasten the consolidation of the feed mill industry as bigger mills with state-of-the-art technology gain in market share.

Uncertainties abound for feed mills which are at the nexus of the grain and animal protein sectors. Trade policy uncertainty under the Trump Administration could create additional volatility in grain, oilseed and animal protein markets at a time when export growth is critical to balancing larger supplies. Feed mills with high operating costs could be at greater financial risk should market volatility increase in either the feed or animal protein sectors. Nevertheless, animal processors and livestock and poultry producers will continue to expand to meet the ever-growing global demand for animal protein. And with grain and oilseed prices remaining under the pressure of rising global production, the near-term outlook remains positive for feed mills.

Era of Cheap Feed

End users have been blessed in recent years with abundant and affordable grain and oilseed supplies throughout the U.S. and world. With feed prices at multi-year lows, feed demand in the U.S. has marched steadily higher along with livestock and poultry sector cyclical profit margins. At the grower level, family row-crop farms have viewed