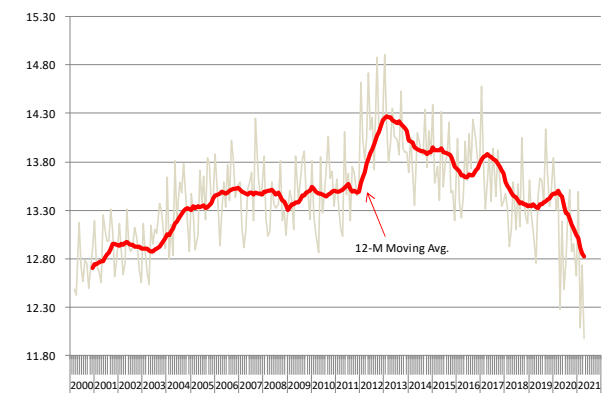


In the last thirty years the chicken industry has asserted itself as the top protein in consumer diets, not just in the US but globally. Hence **shifts in chicken supply have a direct impact on other proteins as well**. As we have noted in previous issues of this report, the chicken industry has had a tough time the last 18 months to maintain production levels, let alone expand. **Labor challenges and problems with genetic lines have reportedly impacted productivity, and thus the supply of chicken available in the marketplace**. Broiler slaughter in Q2 was estimated at 2.303 billion head, 2% higher than the COVID impacted slaughter a year ago but only 0.1% higher than Q2 of 2019. How is it that broiler slaughter in Q2 was about the same as in 2019 even as the size of the broiler hatchery flock was about 7% higher than the same period in 2019? The top chart to the right seeks to illustrate that point by running a ratio of normalized monthly slaughter (i.e. adjusting for the difference in slaughter days) vs. the hatchery flock two months prior. The ratio has been trending lower in the past decade but it seemed to collapse last year and the decline has only accelerated in 2021. The second chart runs another ratio in order to dial in to the reasons why we are seeing fewer birds come to slaughter from the current size of the hatchery flock. The chart shows the ratio of broiler type chicks hatched vs. broiler type egg output. That ratio between 2016 and 2019 was running at around 0.76 but it dropped under 0.7 briefly last year and it was under 0.7 the last four months. To spell it out more clearly, **the reason why we are getting fewer chickens from the current hatchery flock is that fewer birds are being hatched from the eggs produced**.

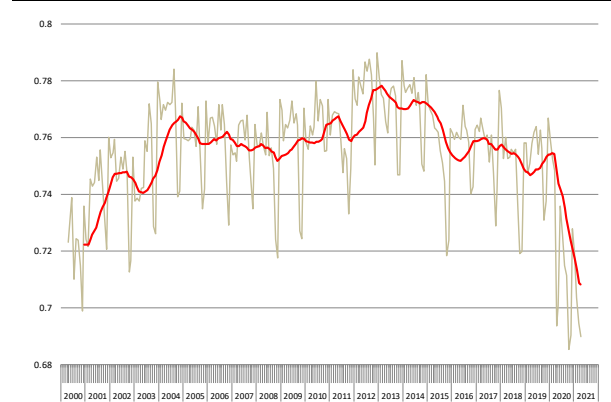
The inability to increase the number of birds coming to market has **forced producers to generate more pounds by feeding them to heavier weights**. As a result, ready to cook broiler meat production in Q2 was 2.5% higher than in Q2 of 2019. But while the increase in total pounds produced may help bolster supply for certain products (more breast meat for instance), labor supply is a major bottleneck. Technology has helped in processing of certain cuts but there are many other items where it is necessary to run lines staffed by humans in order to get product that meets customer specs. Recently we saw a report saying that the school lunch program is finding it difficult to source all the products that normally into school lunch menus. One of the more ubiquitous items in those menus are chicken tenders and the market for that item continues to be very difficult because processors have only so much labor to process breasts and pull the tenders. Chicken tenderloins usually run at a 1.5 price multiple to line run breasts. Last night USDA quoted the multiple at over 3. One can run similar ratios of the price of boneless/skinless thigh meat vs. bone-in thighs or even mechanically separated chicken, an item that routinely used to trade around 23-25 cents but it is now trading near three times that.

A recent article in the Wall Street Journal sought to distinguish between **good inflation and bad inflation**. The [article](#) goes on to explain that: "One results from demand growing faster than the economy's productive capacity, causing the economy to overheat. Call that good inflation, because it is usually linked to a stronger economy. By contrast, bad inflation results from constricted supply which curtails output, driving up prices and eroding incomes, leading to a weaker economy." Unfortunately, as far as chicken and meat industry is concerned, we may be seeing more of the second.

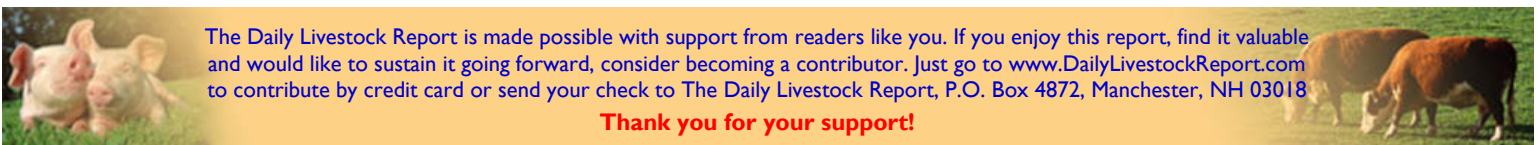
Ratio of Normalized Monthly Slaughter vs. 1st of Month Hatchery Flock Two Months Prior
Source: USDA Monthly Hatchery & Slaughter Data



RATIO OF 30-DAY BROILER TYPE CHICKS HATCHED VS. 30-DAY BROILER TYPE EGG OUTPUT
Data Source: USDA-NASS, Analysis by Steiner Consulting



Price Ratio of Chicken Tenders vs. Line Run Breasts
Data source: USDA-AMS, Analysis by Steiner Consulting



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