Profitability in the Canadian broilers sector is expected to be positive in 2019. More and more consumers turned to chicken in 2018, spurring a 4.2% year-over-year increase in chicken production between January and November. Those preferences will help drive production growth that will increase revenues this coming year.

Demand will still expand but will likely moderate production growth to under 3% in 2019. Current storage stocks relative to production suggest a current balance between supply and demand. Broiler production will mostly be driven by a strengthening demand as the industry has now filled the market gap following 2016’s tighter enforcement of restrictions around mislabelled spent fowl imports from the U.S.

Canadian farm prices for broilers are established by a cost of production (CoP) formula, including the price of feed. Futures markets suggest soybean prices have limited upside in 2019, with corn prices edging slightly higher. Overall CoP increases should be muted.

How will this affect your bottom line?

Climbing gross income can mask production inefficiencies. Mature and efficient broiler operations allocate no more than C$0.73 of operational costs, on average, to generate C$1 of revenues. Now’s the time to review production practices to minimize costs in achieving your production target.

Proper evaluation of financial risks will be especially important on loans due for renewal in 2019, as periods of rising interest rates may require greater shares of revenues to cover interest payments.

Trends to watch in 2019

North American protein production continues to climb

The entire North American protein complex influences the economics of Canada’s broiler sector. According to the USDA, U.S. broiler production is likely to slow from 2.4% estimated growth in 2018 to a projected 1.4% increase in 2019. However, red meat production isn’t showing any sign of slowing down.

U.S. pork production is estimated to have climbed 2.9% in 2018, and USDA projections suggest it will rise by a whopping 5.3% in 2019. Expect this number to be revised downward in early 2019. A similar trend is projected for beef production: a 2.9% increase in 2018 and a 3.4% increase in 2019. That growth will likely pressure hog prices, and cattle prices to a lesser extent, unless global demand for pork and beef expands proportionally. That’s not guaranteed while ongoing trade tensions threaten both global economic growth and demand for proteins.

Chicken remains competitive in Canadian retail markets

Demand for chicken will likely continue growing in 2019. Consumer disposable income is expected to grow this year, as a tight labour market pushes wages beyond inflation. In the last 12 months, the retail price of chicken increased at the same pace than overall food inflation at 1.8%. Beef and pork inflation were under the food inflation trend.

Growers and processors can anticipate a few headwinds in 2019, however. We expect a large supply of red meat proteins in North America this year which, if realized, will lower prices of competing meats. Demand for plant proteins is also growing quickly, and while they may not be directly substitutable for meat proteins, neither can they be easily
discounted. And finally, food retailers seeking to pass higher costs for labour and energy on to consumers this year will likely raise food inflation and slow demand growth.

**Foreign poultry products gain greater access to Canadian market**

Canadian broiler production and consumption will increase as two recent trade agreements – CPTPP and potentially Canada-U.S.-Mexico Agreement (CUSMA) – take effect.

- **2019 will be Year 2 of the CPTPP implementation.** Canada’s initial market access for chicken allocated 3,917 tariff-free metric tonnes (MT) each year for six years, plus 1% growth afterwards for 13 years. Chile, the only CPTPP member currently authorized to export chicken to Canada, had not ratified the agreement (as of December 2018), but is expected to do so before the end of 2018.

- **CUSMA is likely to be implemented in 2019.** It shouldn’t exert a significant influence this year, and the exact quantity of broiler meat imported will depend on ratification and the implementation dates. However, U.S. access to Canadian chicken markets will grow in subsequent years.

  - NAFTA’s 2018 market access for broilers amounted to 7.5% of Canada’s 2017 production. The new agreement calls for 47,000 MT of access strictly allocated to U.S. exporters, in addition to the existing 39,844 MT of access allocated through the WTO.

  - The U.S.-only access will increase to 57,000 MT by year six. After year six, volumes will increase 1% per year for the next 10 years.

**Higher borrowing costs and weaker loonie to pressure net income**

The loonie declined steadily in 2018. We forecast it to average US$0.75 for 2019. A lower Canadian dollar relative to the U.S. dollar will raise the price of feed grains, but the impact is expected to be marginal with proper adjustment in the broiler farm price. Helping to depress the Canadian dollar this year:

- Challenged 2019 oil prices, as production increases and demand slows.

- Rate increases on both sides of the border. Enjoying its second-longest economic expansion period ever, the U.S. will break the record if that growth extends into summer. Watch for the Federal Reserve to hike interest rates three times in 2019. Here at home, the Bank of Canada expects inflation to hit its 2.0% mid-point target with an economy near full-capacity. Financial markets currently expect no more than two overnight rate increases of 25 basis points this year, with a first hike coming in the second half of 2019.

**On the radar**

- Conclusions of the federal-provincial working group to support industry adjustments to CUSMA and CPTPP.

- The next chapter in U.S.-China trade tensions.

  - A permanent resolution of the conflict would mean stronger demand from China for oilseeds and pork, which would contribute to both higher feed prices and stronger demand for North American meat proteins.

  - Failure to resolve the conflict would mean a likely increase in U.S. seeded acres of feed grains. That would lower Canada’s broiler costs for feed, result in a stronger demand for Canadian pork and weaken competitive pressures for chicken in the Canadian market.

- The possibility of Thailand joining the CPTPP. In 2017, it was the world’s sixth-largest exporter of frozen poultry and the third largest to Canada. In comparison, Chile was the 13th largest global exporter.

- Expectations of a weaker global economy in 2019, driven in part by uncertainty around China’s ability to sustain its debt-fueled economic expansion without triggering inflation. Chinese debt is a growing financial risk for the health of the world economy.

*Curious about the 2019 outlooks for other Canadian sectors? Here’s what is available:*

- Agribusiness
- Dairy
- Food processing
- Grains, oilseeds and pulses
- Horticulture (new for 2019)
- Red meat

Learn more about economic events that could impact our industry and your bottom line. Our team of economists and researchers share their unique perspectives in reports, videos, blogs and articles available on our website.

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