



Should you worry about avian influenza?

During several meetings that I have presented at this year, cattle producers have asked if avian influenza, commonly referred to as bird flu, would have any effect on them. One cattle producer commented that he thought avian influenza could be good, since destroying chickens would mean less competition for the beef industry. However, cattle producers should be very concerned, because the disease has already negatively affected prices of beef and other meats.

Flu types

According to the U.S. Department of Agriculture (USDA, see www.usda.gov/avianinfluenza), avian influenza is a disease caused by a virus that infects both domestic poultry and wild birds. Each year, there is an avian influenza season, just as there is a flu season for humans. Some forms of the disease are worse than others.

Low-pathogenic (low-path) avian influenza (LPAI) has existed in the U.S. for some time and does occur periodically. It causes birds to become ill, but it poses no serious threat to human health. Outbreaks in the past have caused temporary restrictions on U.S. exports of chicken from states where it occurred.

High-pathogenic (high-path) avian influenza (HPAI) is often fatal in birds and is more easily transmitted. The H5N1 strain of HPAI is the one that is currently spreading in Asia, Africa and Europe. This strain has been transmitted to humans in Southeast Asia who have had extensive direct contact with the infected birds. Consumers in some of those countries have sharply reduced

consumption of poultry products, both domestic and imported.

Falling chicken prices

The broiler industry is quite important in world trade. The United States is the world's largest producer of broilers and produces one and a half times more broiler meat than second-place China. The U.S. is the second-largest exporter of broiler meat. It was in first place until Brazil overtook the U.S. as the lead broiler-meat exporter in 2004.

After starting 2005 strong, U.S. broiler exports declined sharply by the year's end. Fourth-quarter reductions were likely due to declining consumer demand in countries and neighboring regions where avian influenza was identified. Reduced exports led to increasing stocks and much lower chicken prices in the U.S.

By the end of January 2006, U.S. cold storage stocks of chicken were at record levels, about 46% higher than 2005 levels. Dark meat sales are especially dependent on the export market. The lack of export sales was evident in chicken leg stocks being about

two and a half times higher than in 2005.

From mid-September 2005 to mid-February 2006, wholesale broiler prices declined 16%, wholesale chicken breast prices declined 30%, and wholesale chicken leg prices declined a whopping 45% (see Fig. 1).

Effect on beef

Major declines in wholesale chicken prices result in chicken that is priced very attractively to retail supermarkets and the foodservice industry, including fast-food outlets. Some retailers, in turn, have shifted features and other promotions to chicken and away from beef and other meats.

Theoretically, lower chicken prices reduce the demand for competing meats such as beef. But, it is difficult to quantify the exact effect that declining chicken exports and prices have on beef and specific beef cuts due to the many factors that affect demand. Consumer incomes, tastes and preferences — both domestic and abroad — and changes in prices of all competing meats are important determinants of demand.

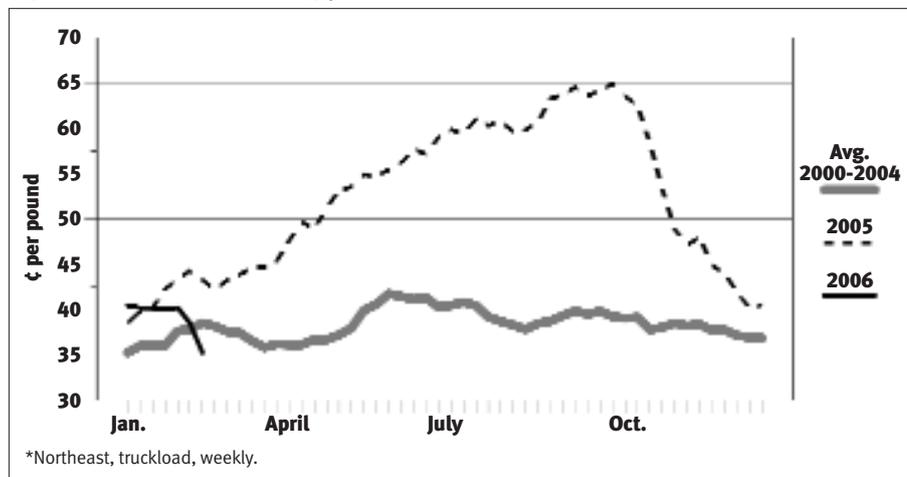
However, a look at U.S. beef cow harvest and prices during the last half of 2005 can serve as an example. Beef cow harvest was down 5% from a year earlier due to improved grazing conditions in many western cattle-producing states and interest in herd rebuilding. Total beef cow harvest was down 4%.

This decline in harvest should have been supportive to prices, but both the wholesale cow beef cutout value and cull cow prices averaged about 5% lower than in the last half of 2004. Likely, much of the decline in prices was due to aggressive featuring of abundant, low-priced chicken at the expense of hamburger products.

An outbreak of H5N1 in the U.S. would likely close most export markets for poultry, similar to the bovine spongiform encephalopathy (BSE) situation that is so familiar to the beef industry.

Eradicating avian influenza overseas, preventing it from happening in the U.S. and returning to a robust export market for chicken is important for the poultry industry, but it is also important for beef and other meat sectors.

Fig. 1: Wholesale chicken leg prices*



Source: Livestock Marketing Information Center.

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