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Further poultry cutbacks needed as foodservice demand falters: analyst

By Janie Gabbett on 1/21/2009

As foodservice sales continue to slide, further chicken production cuts are needed for prices to reach break-even levels for processors, according to BB&T Capital Markets.

In a note to investors, analyst Heather Jones pointed to last week's December retail sales data on real (deflated) food purchases away from home showing a 6.7 percent year-on-year decline.

"We had previously believed that 7 percent to 8 percent cuts in [chicken] production were likely enough to at least return pricing to break-even levels," wrote Jones. "However, if December's sales data is truly representative of current consumer demand, and our conversations with industry sources would support that assertion, then further cuts will be required."

Jones said foodservice comprises an estimated 40 percent to 45 percent of total chicken sales, making the 6.7 percent foodservice demand decline translate into a 3 percent drop in total demand. She also noted decreased chicken export demand.

"As much of the industry is struggling, we don't think it will be too long before it responds to the new demand dynamics," she added.

Analysts have been speculating for a couple of months that Tyson Foods is cutting back production. Jones predicted Tyson may have to write down its poultry inventory during its fiscal first quarter.

Sanderson Farms, however, was recently quoted by *Bloomberg* as saying it will not make any further production cuts.