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NEW CONSTRUCTION FUELS BROILER INDUSTRY GROWTH

By Mark Jordan

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The phrase "what a difference a year makes" resonates with—and has likely been uttered by more than a few—people involved in any of the numerous channels of agricultural production given the speed in which commodity markets tend to react and move. The broiler industry is hardly immune to rapid change either. Last year, 2017, was one of the most profitable years on record for the US broiler industry, with estimated average annual net returns besting every year since the turn of the century except 2004.

With 2018 drawing to a close, the narrative has been completely upended. Now there's an intensifying supply glut while chicken demand has faltered at the expense of other protein sources, namely beef. This double-whammy has translated into steep discounts for key broiler products in the wholesale market, taking profit margins deep in the red for most chicken companies. The coming year figures to be a very interesting, and especially challenging, one for the broiler industry as there's yet to be a clear path of recovery emerge for producers, and financial conditions are quite likely to deteriorate even further in the near-term behind a seemingly inexorable supply increase.

Following decades of mostly unfettered growth, the broiler industry was forced to navigate two major feed cost shocks and a devastating recession all between 2007 and 2012. This proved to be a tumultuous period for the industry, marked by multiple plant closures and bankruptcies. Production of ready-to-cook broiler meat increased by an average of only 0.5% per year during this stretch, which failed to keep up with US population growth and export gains. Consequently, domestic per capita consumption of chicken fell to roughly 57 pounds (boneless weight) in 2012 from a record 62 pounds in 2006.

A leaner supply base coupled with improving economic conditions helped ease the malaise that had gripped the broiler industry, but getting burned so often in such a short time span left many chicken companies wary of what might happen if there was a quick return to pre-2007 growth levels. This restraint definitely helped the industry flourish for several years, culminating in the aforementioned banner year of 2017; however, it's also safe to say that there was a bit of "pent-up expansion" brewing deep within the industry that has finally come to the fore. Between now and early 2020, a total of seven new broiler slaughter and processing plants are slated to open across the country. It comes right on the heels of three new plant openings during the 2015-16 time period, representing an unprecedented pace of new construction in modern times. Production is now far outpacing population growth and trade gains, and for a little perspective on this current growth spurt, domestic per capita consumption of chicken is poised to surpass 67 pounds in 2019, an increase of more than 10 pounds from 2012.

This region is playing a key role the current expansion effort. Pocahontas, Arkansas, (Peco Foods) is home to one of the three recently opened plants while Benton County, Arkansas, (Simmons Foods) and Humboldt, Tennessee, (Tyson) represent the locations of two of the seven that are pending. The Mid-South, and Arkansas in particular, is already a key production zone for the US broiler industry as a whole. Total liveweight broiler production in Arkansas registered at nearly 7 billion pounds in 2017, second behind only Georgia with just over 8 billion pounds while accounting for nearly 13% of the more than 55 billion pounds produced in total across the US that same year. Altogether, Mississippi, Missouri and Tennessee accounted for another 7 billion pounds of liveweight broiler production last year.

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NEW CONSTRUCTION FUELS BROILER INDUSTRY GROWTH (CONTINUED)

The farm landscape figures to be shaken up a little as the broiler industry expands in the region. Scores of farmers will be recruited to raise birds on contract for the integrators operating these new plants, and this also means thousands of acres of land will be converted and/or developed to accommodate the construction of hundreds of new chicken houses, each one typically exceeding 25,000 square feet and costing more than $250,000 to build. There will likely be at least a few tweaks, or improvements, to the infrastructure in these growth areas to accommodate the movement of chicks, feed, slaughter-ready birds and possibly litter as well. This should have a fairly noticeable impact on the local economies where these plants are being built. Look for the new construction and heightened activity to also impact—in many cases positive, but potentially negative, in some instances—land and real estate values in these areas.

That said, it's easy to focus on all the likely positives from these specific expansion efforts and lose sight of the fact that the broiler industry may be slipping back into another disruptive stretch in aggregate as domestic supplies rise to never-before-seen, and potentially unsustainable, levels and financial conditions deteriorate. So while new construction bolsters opportunities in some areas, other areas face heightened risks of either plant closures or, at the very least, a more restrictive environment for production that acts as a depressing mechanism.

DRAINING THE MISSOURI BOOTHEEL

By Landon Stricklin, GFM Intern

Caruthersville, a small town in the Bootheel of Missouri, is where I call home. Although this area of the state is known by many to be the home of the most impoverished counties in the state, there are two things in the bootheel to be proud of—the agriculture production and the Little River Drainage District. The Little River Drainage District is the backbone that supports approximately one-third of Missouri's agricultural income, as it plays a vital role in controlling the flooding of the some of the most productive agricultural land in the state.

Construction of the Little River Drainage Project began in 1914, but there were several key components that fell into place some 60 years earlier that made the project possible. The project's lengthy timeline began with the Swamp Act of 1850, a government mandate forcing the states to make all swampland productive in exchange for ownership of the land. Soon after the Swamp Act was passed, the state of Missouri was granted ownership of the land; the state went on to sell the land to its respective counties, and the counties then sold the land to private landowners. At this time, many large-scale lumber and railroad companies began to move into the area and clear out the flooded bottomland timber that covered the entire bootheel. This process continued for about 50 years until there wasn't any timber left standing and the land was no longer productive.

With the Swamp Act still in effect, the landowners were responsible for making the land productive. It was at that time the lumber and railroad companies collectively decided to form the Little River Drainage District. The ultimate goal of the new organization was to somehow drain all of the swampland in the area and turn the acres into agricultural land for production. After seven years of engineering and planning, the massive project was underway. When the drainage facility was completed in 1928, it consisted of 304 miles of levees and 957 miles of ditches and has since been known as the project that moved more dirt than the building of the Panama Canal.

As of today, the district consists of roughly 3,000 landowners, who are responsible for the 1.5 million-dollar annual cost of maintaining the district. According to the Corps of Engineers, approximately 31.5 million gallons of water move through the drainage system every year, and if the system were to suddenly stop working, a large portion of the Missouri Bootheel would once again be under water.

The photo is an earth-moving machinery (Monighan 100' boom) working at Station 50 after snow on 1/8/1916. Picture is courtesy of the Missouri State Archives

HIGNIGHT AND MATTHEWS ADDRESS ASU STUDENTS

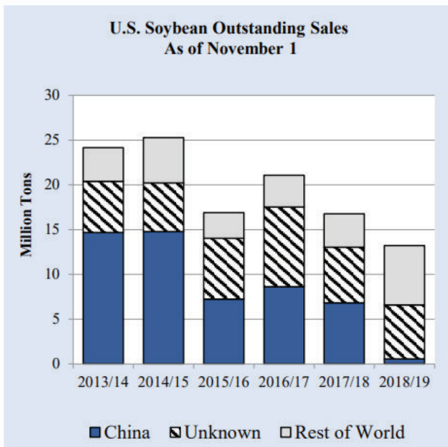
GFM's Jeffrey Hignight and Houston Matthews recently spoke to students in the Land Economics/Rural Appraisal class at Arkansas State University in Jonesboro. Jeffrey began the presentation with the ways in which professional farm managers, consultants and land brokers use appraisal data, which led to discussions about cap rates, improving land, dividing land between multiple owners and selling price expectations under a real estate listing or auction.

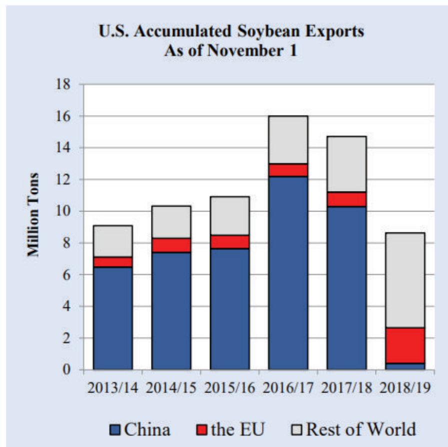
Houston explained the criteria of becoming an appraiser, the levels of appraisal certification and appraisal accreditations, such as the Accredited Rural Appraiser available through ASFMRA. He also provided a brief history of the Savings and Loan Crisis in the 1980s that led to the current valuation licensing, standards and procedures.

To prepare students for their required mock appraisal, Houston provided insight into the process of collecting the necessary data. This includes verifying comparable sales were an arm's length transaction, buyer motivation, size and location relative to the subject property, improvements, land condition, soil quality, water quality and availability, flyways, overflow potential, production information and USDA data. He ended by discussing the three approaches to value (cost, income and sales approach), how to use the approaches in valuation and how to reconcile a final value for real property.

The students had excellent questions and showed great interest in our profession. We are grateful to Mark Jordan for inviting us to speak to his class and wish the students well in their educational and professional pursuits.

IMPORTANCE OF U.S. SOYBEAN EXPORTS





Source: USDA-Foreign Agricultural Service

Recent U.S. tariffs and retaliatory actions by China have significantly impacted U.S. soybean farm prices and exports. Historically, the U.S. exported almost one out of every three field rows to China. However, that market has nearly disappeared amidst the trade tensions of 2018.

The U.S. exports approximately 60% of our soybean production, but exports dropped 41% in 2018. Exports to other countries have increased 71%, though not enough to offset the losses of the Chinese market. Interestingly, Argentina, who is a large soybean producer, has doubled its imports of U.S. soybeans, and the EU has tripled its imports.

After the G20 Summit in Argentina on Dec. 1, the U.S. and China agreed not to place any more tariffs on one another and work towards a trade deal over the following 90 days. China also agreed to resume purchase of U.S. agricultural products, including soybeans. On Dec. 12, news reports indicated that Chinese state-owned companies had purchased soybeans, but the quantity disappointed markets.

Being optimists, we think the U.S. and China will reach a trade agreement and improve economic ties—although there are major issues regarding intellectual property rights, non-tariff barriers and cyber-crime that must be resolved. However, there is growing concern that even with a comprehensive agreement, the U.S. may not reclaim its previous large share of Chinese soybean exports. The Chinese may decide to keep a more diversified soybean import market. Additionally, the Chinese have recently released new animal feed standards lowering the protein level in feed by 1.5%. Unfortunately, this move will likely reduce demand for U.S. soybeans.

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AVAILABLE PROPERTIES

For sale: 178.35 +/- located on Crowley's Ridge in Cross County, AR near Bay Village. This property is mostly hardwood and offers recreation, hunting and potential income from timber and gravel.

Auction on Jan. 22, 2019: 153.34 +/- acres located partially in the city limits of Osceola in Mississippi County, AR. This cropland has quality soils, is well drained and can grow most Delta agricultural crops by adding irrigation. The property has highway road frontage which could be developed and also has county road access along its eastern border.

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