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Report Highlights:

Post forecasts Brazil's chicken production in 2021 at 14.4 million metric tons, which is an increase of 4 percent, due to higher exports and greater domestic demand. The optimism behind this outlook reflects a recovery of the Brazilian economy, currently projected to grow 3.5 percent in 2021, with continued lower inflation, a stable unemployment rate, and improved consumer purchasing power. However, fluctuations in the exchange rate, fragile world economic recovery and a resurgence of coronavirus infections are uncertainties in the animal protein industry.

EXECUTIVE SUMMARY

The outlook for chicken production in 2021 calls for another record in production. The main drivers supporting the record forecast by post include steady world demand for Brazilian product and the strengthening in domestic demand due to a rebound in economic activity with GDP growth of 3.5 percent expected for next year. Several production factors fuel optimism in the animal protein industry, such as stable feed costs, although at a relatively high level, due to projected bumper soybean and corn crops. Increased carcass weights and prospects for another year of high profit margins also support the optimistic outlook. However, there are three uncertainties facing the animal protein sector in 2021 including fluctuations in the exchange rate, a fragile world economic recovery and a resurgence of Covid-19 infections.

Review of 2020: Post made some minor changes to the 2020 estimates for chicken due to improved domestic demand, reflecting a shift in consumer purchases away from beef and pork. Brazil's economic contraction in 2020 has been less deep than previously forecast, with an annual GDP decline estimated at around 5 percent, against previous estimates ranging from 6-9 percent. In addition to the reopening of the economy, the economic stimulus package containing a temporary monthly allowance to the poor and those that lost their jobs is likely to be extended until the end of the year, although at a lower level. The federal government has also announced a reorganization of its social programs, pending Congress approval, which will establish a basic income to the poor. This basic income provision is likely to impact consumer purchases of food in the coming year.

Preliminary slaughter data for the first half of 2020 indicates that chicken production was equivalent to the level of last year. Chicken slaughterhouses were susceptible to the impact of Covid-19 among their employees and there were high costs to implement health protocols. In addition, the pandemic led to a shortage of inspectors and affected the schedule of several plants for official inspectors to work overtime.

Production

Post forecasts chicken production in 2021 to increase by 4 percent and reach a record of 10.4 million metric tons. The following factors support this projected increase in chicken production:

- Increase in chicken exports, both in volume and receipts;
- Increase in domestic demand as the Brazilian economy is likely to rebound by 3.5 percent in 2021, after a downturn of around 5 percent estimated for the current year;
- Increase in carcass weights;
- Stable feed costs, although at a high level. Projected bumper soybean and corn crops for the 2020/2021 crop year are likely to provide good supplies of feed, but because of record exports of these commodities, feed costs will likely be higher in 2021 compared to 2020.
- Continued strong profit margins, mostly from higher exports, will likely offset higher production costs.

Meat, Chicken Market Year Begins Brazil	2019		2020		2021	
	Jan 2019		Jan 2020		Jan 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	0	0	0	0	0	0
Production (1000 MT)	13690	13690	13830	13877	0	14432
Total Imports (1000 MT)	5	5	2	3	0	3
Total Supply (1000 MT)	13695	13695	13832	13880	0	14435
Total Exports (1000 MT)	3830	3830	4030	3868	0	3985
Human Consumption (1000 MT)	9865	9865	9802	10012	0	10450
Other Use, Losses (1000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT)	9865	9865	9802	10012	0	10450
Total Use (1000 MT)	13695	13695	13832	13880	0	14435
Ending Stocks (1000 MT)	0	0	0	0	0	0
Total Distribution (1000 MT) (1000 MT)	13695	13695	13832	13880	0	14435

Note: Not Official USDA Data.

Brazil's chicken production is largely concentrated in the south region of Brazil (see map below) with about 64 percent of slaughter. Parana is the top chicken producing state in the region. The production system is highly integrated in the south region and the southern states have the advantage of proximity to the main southern ports in Brazil. These southern ports handle 90 percent of all chicken exports. Although the production system in the south allows a competitive edge to Brazilian product, the region normally depends on the transportation of feed from other regions of Brazil and the import of corn from Paraguay. However, there are also large production facilities in the Midwest, which were built during the past 20 years because of the high availability of soybeans and corn. In other areas of Brazil, the production systems rely more on independent producers, which are affected more by high costs of production.

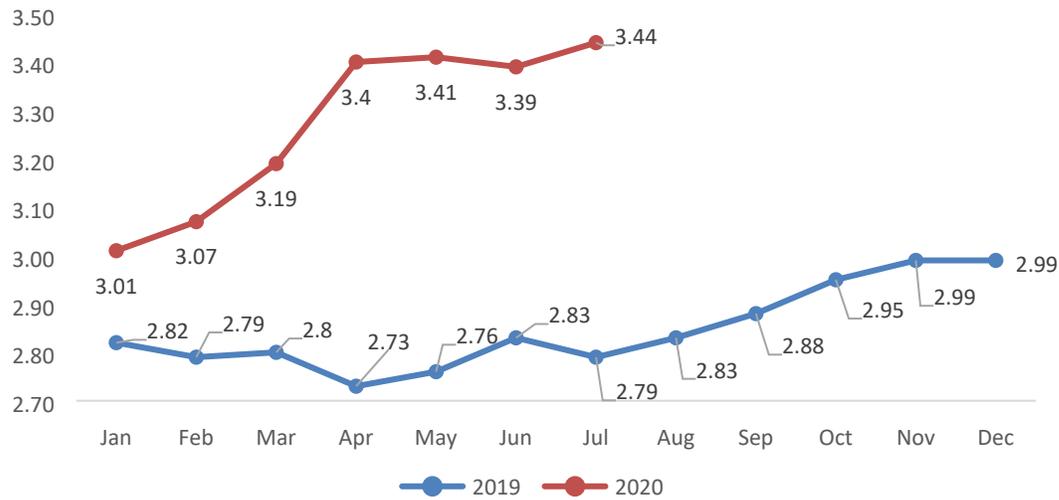


Source: FAS/Brasilia based on official slaughter data, 2019.

Cost of Production

The average cost of production for chicken meat during the first seven months of 2020 increased by 23 percent compared to the same period of 2019. This was influenced mostly by higher nutrition costs (corn and soybean meal), which accounted for 70.6 percent of the total cost of chicken production. Producers are concerned with the increasing cost of production due to records exports of both soybean and corn during 2020, which supported prices for these commodities. Strong international demand for corn and soybeans is projected spill over into next year but feed costs for the chicken industry are expected to stabilize at a high level.

Cost of Chicken Production (R\$/Kg)



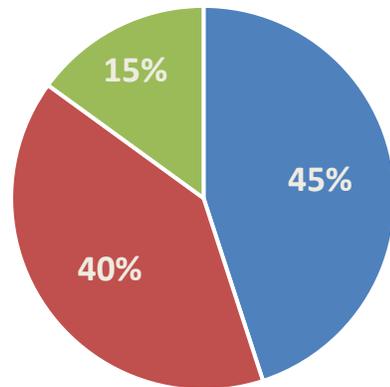
Note: Prices are for Parana state. Positive air-conditioned aviary.
 Average exchange rate Jan-Jul 2020: US\$1.00 = R\$4.98 and R\$3.84 in 2019.
 Data Source: EMBRAPA

Consumption

Domestic consumption of chicken is likely to grow further in 2021 and reach a record of nearly 10.5 million, up 4.5 percent from last year. This assumes that the Brazilian economy will rebound by 3.5 percent next year and there will be higher consumer purchasing power. In addition, chicken meat affordability over beef and pork should continue next year.

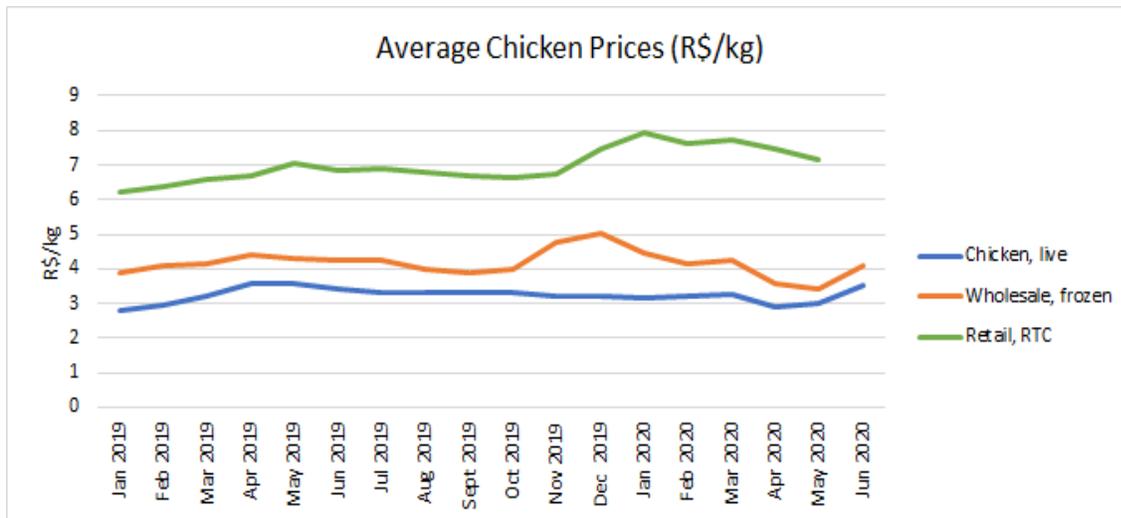
Chicken consumption in Brazil tops that of other meats and accounts for around 45 percent of total animal protein consumption in Brazil. By the end of 2020, final consumption figures should show domestic demand for beef declining because of the dramatic impact of Covid-19 with widespread closures of restaurants and food service outlets, schools, and a reduction of tourism and travel. The emergency aid provided by the federal government stimulated consumption of basic foods, but higher retail prices for beef forced consumers to shift to chicken and to a lesser extent pork and eggs.

Brazil: Consumer Meat Consumption 2020 (forecast)



■ Chicken ■ Beef ■ Pork

The table below shows average monthly wholesale prices for frozen chicken for the past 12 months, compared with the retail price of live chicken. After a peak in domestic wholesale prices in late November and December of last year, prices declined in the domestic market during the first several months of 2020. The fall in prices made chicken more competitive than beef and pork. However, chicken prices increased the past few months due to higher production costs. According to trade sources, domestic consumption as a share of total production in 2020 is likely to increase from 68 to 72 percent while exports as a percent of total chicken production will decline from 32 to 28 percent.



Source: Consumer Price Index, São Paulo.

According to the Brazilian Food Processors' Association (ABIA), Brazil's food and beverage sector reported an increase of 0.8 percent in revenues in the first semester of 2020 compared to the same period in 2019. An increase in exports and the retail sector's strong performance are among the factors that contributed to the industry's growth. Household consumption of groceries increased because of more time spent indoors due to quarantine measures. Simultaneously, the foodservice sector registered a decline of 29.5 percent in sales in the same period. The COVID pandemic brought several challenges to the food and beverage industry in Brazil. The average production cost has increased by 4.8 percent. Despite the obstacles, the food and beverage industries have generated jobs and have been ramping up capacity to meet the demand brought on by the COVID-19 effects.

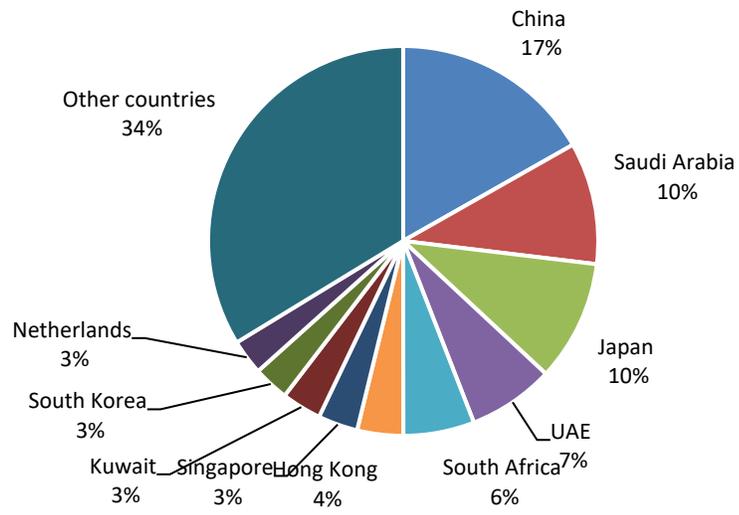
Trade

Post forecasts chicken exports to rebound by over 3 percent in 2021 and reach nearly 4 million metric tons, driven mostly by continued steady world demand, which is in part a result of a combination of African Swine Fever (ASF) and Avian Influenza. Although China and Hong Kong account for an average of 20 percent of Brazilian chicken exports (see map), Brazil has a well-diversified chicken export market and is less dependent on China than are other exported meats, such as pork. The Middle East and Africa, for instance, account for nearly half of Brazilian chicken exports.

According to trade analysts, the reopening of many economies and a general improved economic and trade outlook for 2021 will bring back important markets, such as Saudi Arabia, Japan, UEA and South Africa. These markets reduced their imports from Brazil in 2020 due to the impact of the coronavirus. However, chicken is the most fragile among proteins at this time in Brazil and soft demand may spill over into next year. The high price of grains (soybeans and corn), partly because of Chinese demand, is a challenge for the preservation of margins and worries chicken packers. In addition, according to Brazilian analysts, the price of chicken meat in the Chinese market has been decreasing, pressured by record poultry production in that country. Despite these constraints, Brazilian product remains very competitive in the world market due to the depreciation of the Brazilian currency of more than 30 percent in 2020.

Currently, Post does not foresee any major health or sanitary issues that could prevent an increase in chicken exports next year. However, recently a surface sample of chicken wings tested positive for Coronavirus by the local government in Shenzhen while the Hong Kong government suspended the import license from one plant in Brazil. An additional 40 tests carried out on samples of frozen chicken wings by the government of Hong Kong tested negative for coronavirus. Although this incident raised concern among the Brazilian industry, trade with China remains unchanged and officials of both countries are negotiating a new protocol to prevent issues in future chicken shipments. However, this incident triggered the Philippines to suspend imports of chicken meat from Brazil. Brazilian exports to the Philippines had performed well before this incident as during January through July 2020 the Philippines increased imports of chicken meat from Brazil by over 60 percent.

Top 10 Importers of Brazilian Chicken, Jan - Jul 2020



Export Trade
Matrix

Country	Brazil	
Commodity	Poultry, Meat, Chicken	
Time Period	Jan-Jul	Metric Tons
Export for	2019	2020
U.S.	0	0
Others		
Afghanistan	11,534	5,814
Angola	26,964	32,873
Bahrain	16,318	24,449
Canada	8,843	4,886
Chile	26,391	22,912
China	317,192	406,644
Cuba	18,053	25,276
Egypt	37,648	47,455
European Union	80,724	67,251
Hon Kong	114,552	92,344
Ghana	7,410	8,071
Malaysia	6,869	4,940
Iraq	61,350	43,330
Japan	249,858	243,018
Jordan	28,354	37,375
Libya	19,942	39,289
Kuwait	68,280	72,992
Mexico	44,369	7,949
Oman	52,737	42,928
Peru	13,063	14,627
Phillippines	30,736	50,311
Qatar	44,369	51,244
Russia	35,336	46,029
Saudi Arabia	284,239	244,994
Singapore	55,514	79,860
South Africa	169,011	142,736
South Korea	69,841	71,552
UAE	220,365	173,062
Yemen	65,171	59,236
Vietnam	13,570	25,574
Total for Others	2,198,603	2,189,021
Others Not Listed	146,574	149,974
Grand Total	2,345,177	2,338,995

Notes:

Source: Secex

Includes HTS codes: 0207.11; 0207.12; 0207.13; 0207.14 and 1602.32

Quantity: Product Weight Equivalent (PWE).

Updated: August 17, 2020

Attachments:

No Attachments

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