

Another tough year as the chicken industry battles elevated production costs

 By [Paul Makube](#)

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The poultry industry entered 2023 on a sombre note as it carried through tight margins due to elevated production costs which were exacerbated by the persistent load shedding.



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Although South Africa is well supplied with chicken, load shedding had already disrupted operations in December 2022 which saw intermittent availability of certain product lines for some fast-food outlets.

The situation worsened early in 2023 which affected the whole chicken value chain and the broader agriculture sector, especially the electricity-intensive production systems such as poultry, pork, dairy, and irrigated crops, while up the value chain, it impacted negatively on abattoirs, feed milling, and other produce processing operations.

Product costs have been quite elevated in the past twelve months with the price of maize, a major raw input which accounts for over 70% of feed topping R5470/t and R5259/t for white maize and yellow maize respectively during November 2022. Additional costs of operating generators for extended periods together with the associated maintenance further eroded margins thus threatening industry growth. On top of it, the general network infrastructure, and municipal services critical for agriculture operations have been denuded over time and in some instances nonexistent in several small rural towns.

For cost recovery and improvement in margins enough to stimulate further expansion and investment, chicken prices might have to increase thus making the biggest and historically cheapest source of animal protein unaffordable for the millions of poor people. This will prove to be an uphill battle for producers given the tough economic environment and job losses with the consumer's financial welfare already under strain.



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Nonetheless, the positive news on the consumer side is that overall inflation has shown signs of slowing with the December 2022 CPI easing to 7.2% year-on-year with the food CPI off the 2022 peak at 12.7% year-on-year. We saw a similar trend in global food prices with the Food and Agriculture Organization's monthly food price index in January 2023 declining for the tenth consecutive month by 0.8% m/m and 3.3% year-on-year and off the past eleven high by almost 18%.

On the production side, maize futures showed some moderation with white maize for May-23 and Jul-23 delivery already down by 10% and 11% relative to the 2022 highs during November at R4348/t and R4311/t respectively in this week's opening trade. Though still at a premium over its counterpart, yellow maize showed a similar trend and declined by just over 7% during the same period at R4447/t and R4443/t for the May 2023 and Jul 2023 contracts respectively. This bodes well for a potential reduction in feed costs and expanding positive feeding margins as the year progresses.

Nonetheless, we expect some reprieve for consumers early in the New Year with the lower seasonal demand post the December holidays, in a tight economic environment with costs of electricity and transport still elevated, likely to place downward pressure on meat prices.

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