

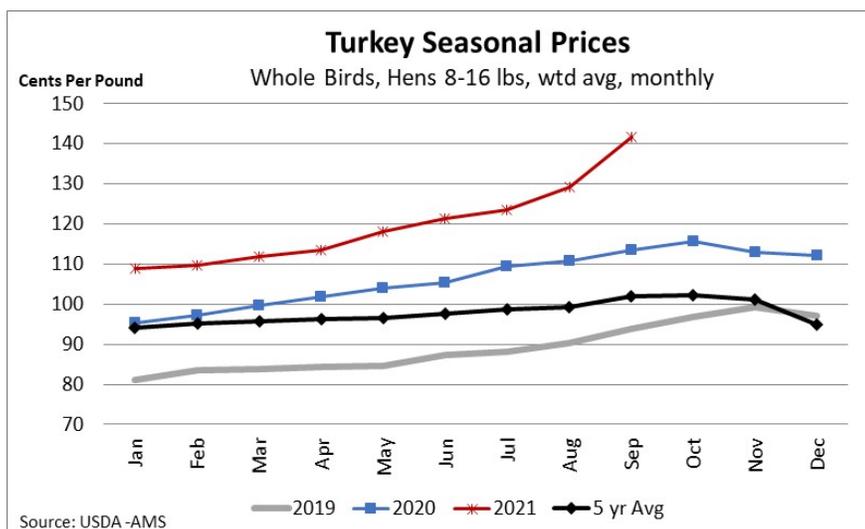
Free Turkeys: A Thing of Thanksgiving Past?

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As the 2021 winter holidays approach in the U.S., we are reminded of gatherings around the dining room table.

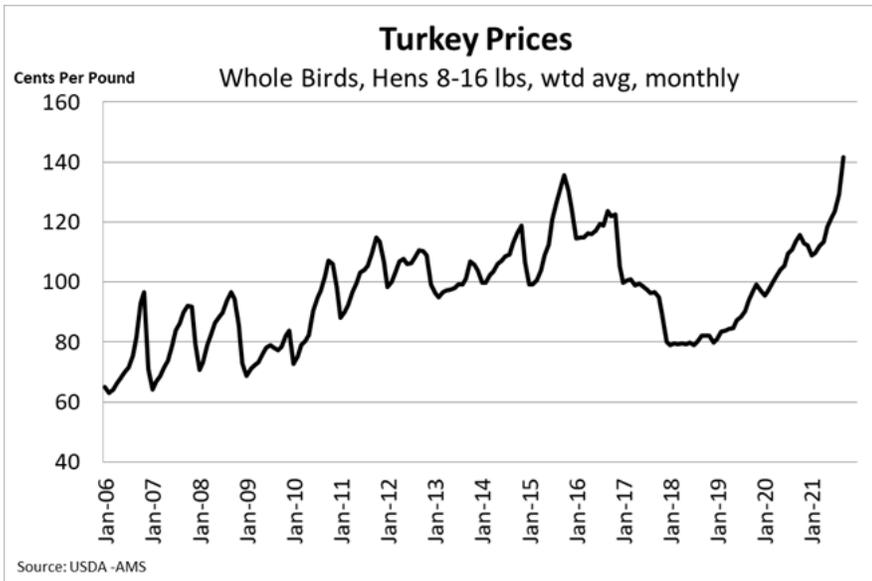
Menu plans often turn to a big roast turkey with all the trimmings, savory side dishes, and home-baked pie. Yum! And in the last couple of years, we all may have been especially thankful for a very affordable turkey – maybe even *free*.

Well, those days are definitely behind us. The cost of a whole bird turkey in 2021 is going to be higher than in prior years. Much higher.



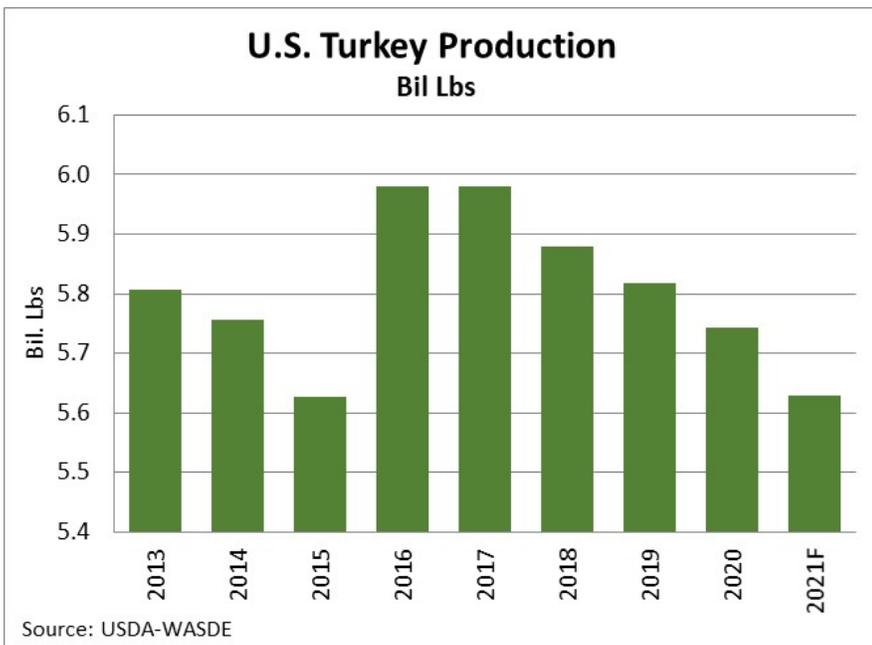
The graph above illustrates the relative price of whole bird turkeys over the past few years – the price at the producer level, not the consumer. The turkey price in 2021 is starkly higher compared to prior years. Late-September turkey prices this year are running nearly 25% more than the prior year, and nearly 50% higher than a prior five-year average¹. In other words, a whole turkey for this holiday season is going to cost you *nearly double* what it did just a couple of years ago.

Yet it hasn't always been like this. As the graph below shows, turkey prices were pretty high in 2015 and decent for turkey producers in 2014, but the rapid price rise in 2021 from the lows of 2019 is remarkable.



Turkey production tanks

Why is that, you may ask? Basic economic tenets provide a good explanation: Reduced production creates scarcity, and if demand is stable, prices will generally rise. Also, if demand *increases* when product is scarce, *much* higher prices are almost a given. So, are turkeys more scarce in 2021, and if so, why?



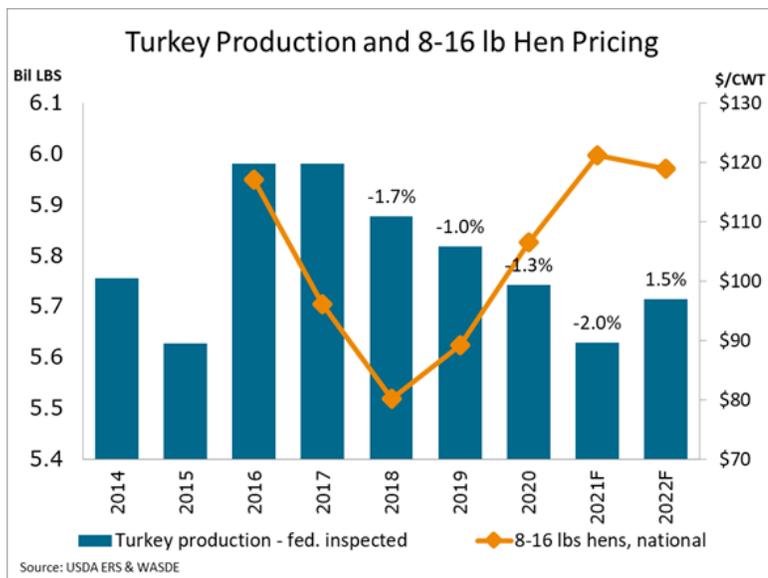
As shown in the U.S. Department of Agriculture (USDA) graph above, U.S. production has been steadily declining over the last several years. Expected 2021 production volume will be the lowest since 2015, a time when a Midwest bird flu epidemic wiped out a lot of the turkey market for several producers. Remember those high turkey prices in 2015? That was because of that year's bird flu.

The steady decline in production in the last five years resulted from several years of challenging economic conditions. Some U.S. whole-bird turkey production shut down in 2019 and 2020.² It was a business economic necessity. All of those low-price turkeys or free turkeys in prior years that we took for granted didn't make much money for the turkey companies, so eventually some turkey processing plants closed. The impact of those closures simply means that fewer turkeys have been produced for the 2021 market.

You can't flip a switch to produce more birds

The other interesting thing in this graph is the rapid increase in turkey production in 2016, *after* turkey production was clobbered by the decimating 2015 bird flu epidemic. Unlike other four-legged livestock, the growth period for poultry is generally much shorter. Turkeys can reach a target size and weight for smaller birds in as little as *four-to-five months*; whereas, a larger target size bird may take as much as nine months to reach maturity. What this means to the turkey industry is that production schedules can be much more responsive to market changes from year-to-year. Yet it also means that fresh turkeys for 2021 are already growing at the farm. You can't simply flip a switch to produce more birds.

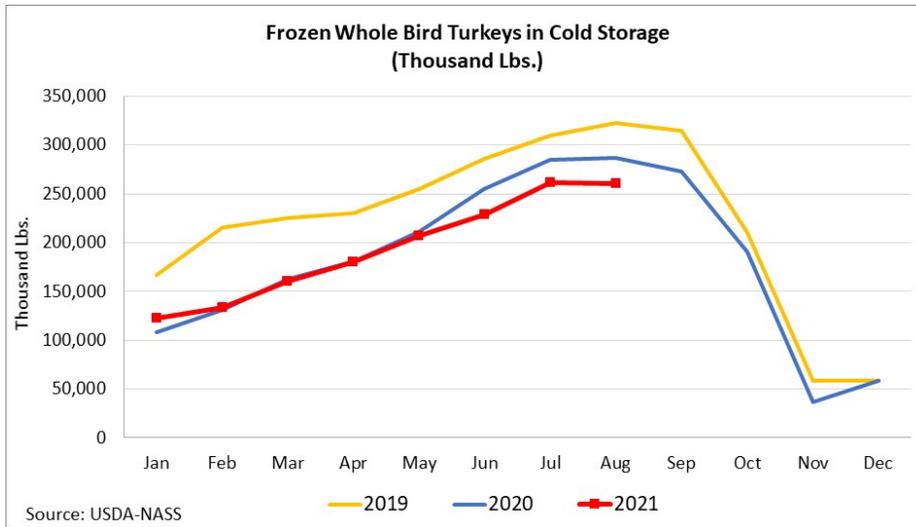
Another illustrative USDA graph of whole bird turkey production and prices is shown below. Average turkey prices declined as a result of the higher volume of production, and when production was curtailed, prices rising. This is bit overly simplistic, but the underlying economic fundamentals of this key relationship are true.



Turkey and chill

Okay: So there are fewer turkeys available in 2021. Why has demand increased compared to prior years? Well, many families in 2020, trying to cope with COVID19 restrictions on restaurant dining, turned to more home-cooked meals and baking. A popular phrasing at the time was, "It's Thanksgiving every week!" Shoppers were consuming turkey more frequently, and not just seasonally, which increased the demand for turkey at a time when production was being curtailed.

Turkeys are primarily produced year-round. But the processed birds that are not brought to the market fresh are put into cold storage. Over the year, total cold storage volume builds every month, until it is drawn down in the holiday season. This is shown in the graph below, but remember, since the consumer was buying more turkeys in 2020 and 2021, and as production was reduced, the volume of turkeys in cold storage was much lower than in 2019.

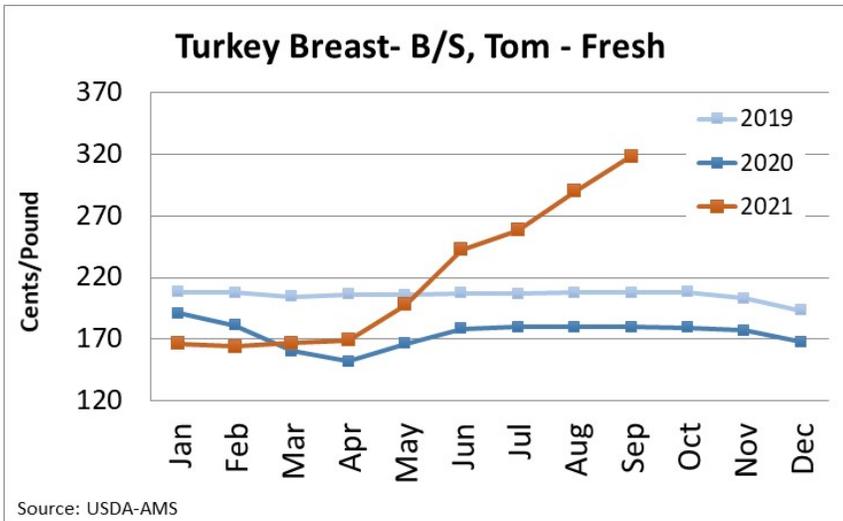


There was a time as recently as a couple of years ago when there was an ample number of turkeys in cold storage – more than enough to meet the consumers’ needs for holiday birds. But as that cold storage volume has declined, grocery buyers of frozen turkey have been met with a shortage of available birds, which again, leads to higher prices.

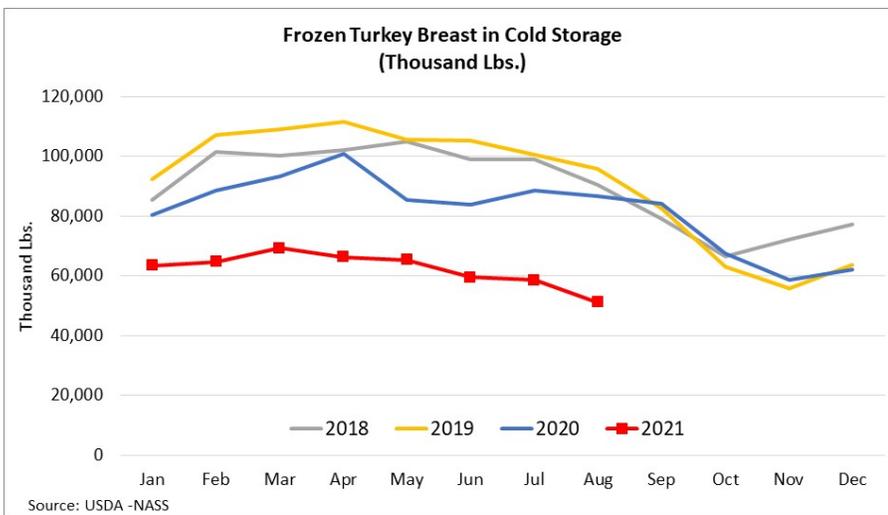
At my house, we’ve trended away from cooking whole bird turkeys for the holidays, opting instead for a turkey breast. No more deep-fat fryers tipping over and setting the deck on fire. But my son isn’t all that happy about the change, because he’s a big drumstick fan – like King Henry VIII. Nonetheless, my spouse, the true monarch in our household, finds the turkey breast to be much more convenient and food-efficient.

The question is, although a turkey breast price is always more per pound than a whole bird price, are breast prices also soaring like whole bird prices? According to the USDA, the answer is yes.

The graph below illustrates the USDA-reported trends in recent turkey breast prices, and we’re seeing a similar rise in turkey breast prices in 2021. However, you may notice that at 2021’s start, turkey breast prices were much lower compared with 2019 and early 2020. What happened? COVID-19 happened. The foodservice sales channel – think restaurants and deli sandwich shops – was essentially closed for much of 2020 after March. This meant that the “normal” demand for sliced turkey and turkey breast was displaced resulting in an oversupply of turkey breast, and voilà, low prices. With the development of an effective COVID-19 vaccine, more and more food service operations reopened, restoring the demand for turkey breast. But remember, overall turkey production is now lower, right at the time of restored demand. Lower supply plus higher demand equals higher prices.



And similar to the whole bird turkey supply constraint, the frozen turkey breast in cold storage, as shown in the graph below is significantly lower than in prior years. This means that despite the lower turkey breast prices in early 2021, the rising breast prices won't be squashed with a release of product out of cold storage.



In summary, there's just no way around it, turkey prices are going to be much higher in 2021 than in recent years. But don't give up hope for 2022. The high prices will undoubtedly act as a catalyst for turkey growers to once again increase production. As the old adage goes in agriculture, "Nothing cures high prices like high prices."

¹ USDA-AMS

² "Cargill to end fresh, frozen whole turkey production in Texas", Meatingplace.com, dated 9/16/2019

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