

Corn Cuts Into Pilgrim's Pride by Ruthie Ackerman, 03.12.08

If chickens could talk they'd be thanking the U.S. government right now.

On Wednesday **Pilgrim's Pride**, the largest chicken company in the U.S., announced it will close a chicken processing plant and lay off 1,100 workers as federal subsidies to ethanol producers push corn prices higher and make the cost of doing business prohibitive.

The Pittsburg, TX-based company's Chief Executive J. Clinton Rivers said the industry can't shoulder the costs any longer and that the repercussions for the consumer and the U.S. economy look bleak: "We believe that the recent impact of food-based inflation, coupled with the need for food producers to continue to increase prices for their products, will further stimulate inflation, weaken consumer confidence, and negatively affect demand for products in certain market channels," requiring that the industry decrease production output levels in line with reduced demand.

Conversely, the company said that the current oversupply of chicken makes it difficult to pass costs on to the consumer.

The company is also reviewing other facilities for potential product shifts, closures or consolidation. Facilities affected are a processing plant in Siler City, N.C., with 830 employees, and distribution centers in Oskaloosa, IA, Plant City and Pompano Beach, Fla., Jackson, Miss., Nashville, Tenn. and Cincinnati.

On Monday the company announced it is also exiting the turkey business and will sell its production facility and distribution center in Pennsylvania because of slim profits. The sale will allow the company to focus on its core chicken business, said CEO Rivers.

Pilgrim's Pride expects charges of \$35 million, or 33 cents per share, from the facility closures announced Wednesday. Net of taxes charges total \$21.7 million.

"Our company and industry are struggling to cope with unprecedented increases in feed-ingredient costs this year due largely to the U.S. government's ill-advised policy of providing generous federal subsidies to corn-based ethanol blenders," said Rivers.

Based on current commodity futures prices the company's total costs for corn and soybean meal in fiscal 2008 would be more than \$1.3 billion higher than two years ago.

"We simply must find ways to pass along these higher costs," Rivers added.

The announcement sent chicken companies shares higher as investors looked at the longer term benefits of less production on industry prices. Pilgrim's Pride shares shot up 2.7%, or 62 cents, to \$23.45 in afternoon trading, while shares of No. 2 chicken producer Tyson Foods gained 2.8%, or 45 cents, to \$16.51. Sanderson Farms jumped 9.6%, or \$3.34, to \$38.24.

The Associated Press contributed to this article.