

# Potential Impacts of Swine Flu on Agri-Food Industry

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## Issue

The 'swine flu' outbreak in Mexico is spreading beyond the country's borders and intensifying, with cases reported in the United States, Canada and Europe. As the likelihood of pandemic has risen, the World Health Organization has raised its alert to Phase 5, a level warranted when there is person-to-person spreading of the virus in at least two countries in one region.

The incidence of the disease has prompted some countries, e.g., China, Russia, the Philippines, to ban the importation of pork products from Mexico and some parts of the United States. This response may well become more widespread and pronounced as more and more cases of the disease are found. So far, trade restrictions are limited to hogs and pork but it is not a stretch to see other livestock products affected.

## Implications

Although health officials—international and national—have stressed that swine flu cannot be contracted by eating pork, in light of the association of the disease with hogs, if only in name, there is a high likelihood that pork demand will be adversely affected by the outbreak. Moreover, typical substitute relationships—which would lead to increased consumption of other meat products—may not hold as consumer perception that other livestock products (e.g., beef, poultry) may be affected cannot be ruled out.

While it is too early to gauge to what extent meat consumption could fall, markets for livestock products initially reacted negatively, especially in the case of hogs, which remain under downward pressure. This initial drop in prices could be amplified if an escalation in trade restrictions causes substantial excess supplies to develop in domestic markets and if farmers respond by culling their herds to a significant degree.

The prospects of a reduction in the consumption of pork and possibly other meats, with obvious implications for livestock production, mean reduced livestock feeding. Thus, it is not surprising that grain and oilseed prices also initially weakened on reports of the disease outbreak.

The swine flu outbreak could therefore be negative for meat processing, grain and oilseed milling, and animal feed companies as a result of a potential drop-off in demand. This would exacerbate problems faced by Canadian meat producers from new U.S. country-of-origin labelling requirements, which has reduced demand for Canadian meat products. Reflecting expectations of lower sales, the share prices of some major companies operating in the meat products space have come under pressure over the past several days.

However, not all agri-food companies would have cause for concern. Food processing companies that use grain and oilseed inputs—with the exception of animal food which is heavily dependent on the livestock industry—could benefit from lower prices. For instance, companies in the bakeries & tortilla and grain & oilseed milling segments of the food manufacturing industry are likely to see lower input costs and improved margins.

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