An EGG ECONOMICS UPDATE

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Economic Cycles in the Egg Business

Everyone associated with the table egg business is well acquainted with the annual cycle of egg prices and how it affects monthly cash flow. The monthly pattern of prices is extremely predictable with high winter prices, low summer prices and intermediate prices in between. Monthly prices fluctuate from 13-14% over the annual average price in November and December to 15% below in May. Interestingly, these changes in price are usually associated with less than a 3% change in costs within a given year. This is one of the reasons there is so much current interest in the concept of cost plus pricing - costs are easier to predict than prices, especially when tied to corn/soy prices, and predictability of costs to the egg buyer is of major importance.

![Figure 1. Southern California Seasonal Costs and Income from Eggs - 1979 to 2000](image)

Profitability cycles also exist, but are much less predictable. In earlier times, most of us would say that a typical cycle would be about 3-4 years in length. This assumes you start each cycle with a new high. In recent years, though, cycles have apparently lengthened to 6-7 years. Multiple consecutive years of losses are common and over the past 23 years, we’ve experienced at least 12 loss years.
What causes such cycles? Cycles within a year are mostly a matter of changing consumer demand. Even though production is higher in the winter, demand is even greater and prices are high. Cycles over a several year period are the result of contraction and expansion of the nation’s flock relative to current demand. In general, high prices result in higher than normal replacements which in turn lead to higher production. This leads to lower prices and then to lower replacements and production. When this happens, prices improve and a new cycle begins.

**Figure 2. Egg Industry Price Cycles**

During the 1979 to 2001 period, we estimate that the industry has had 4 profit cycles of 5+, 5, 7, and 6+ years respectively. The 5+ year cycle actually appears to be 8 years in length when the records are taken back to 1976 and the 6+ years for 1996-2001 may or may not be complete.

Overall, we would suggest that the average cycle (in recent years) has averaged 6 years and this has consisted of:
- 1 to 2 good years
- 1 to 2 fair years
- 3 poor years (negative profits)

The four cycles during this time period are listed in the following table:

<table>
<thead>
<tr>
<th>Cycle 1</th>
<th>$/hen</th>
<th>Cycle 2</th>
<th>$/hen</th>
<th>Cycle 3</th>
<th>$/hen</th>
<th>Cycle 4</th>
<th>$/hen</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>-.52</td>
<td>1985</td>
<td>.46</td>
<td>1990</td>
<td>2.45</td>
<td>1997</td>
<td>.84</td>
</tr>
<tr>
<td>1982</td>
<td>-.84</td>
<td>1987</td>
<td>-.94</td>
<td>1992</td>
<td>-.81</td>
<td>1999</td>
<td>-.65</td>
</tr>
<tr>
<td>1983</td>
<td>-.24</td>
<td>1988</td>
<td>-1.34</td>
<td>1993</td>
<td>.30</td>
<td>2000</td>
<td>-.69</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1994</td>
<td>-1.07</td>
<td>2001</td>
<td>-.65*est</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1995</td>
<td>-.06</td>
<td></td>
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</tr>
</tbody>
</table>

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In our Southern California analysis of this question, farm income for unprocessed eggs has averaged 50.2¢ per dozen for all eggs produced. Costs have averaged 49.2¢ per dozen. This has resulted in a 1¢ per dozen profit over the 23 year history of the study.

Why then are producers still in business and in many cases expanding? As Dick Chilson says, the profits are in the marketing area. Selling prices differ markedly between companies and this apparently separates the successful companies from those that are going broke. In addition, flock performance and production management differs immensely between companies and this also adds considerably to the economic successes of individual companies. Managers are able to squeeze an extra 1-2 dozen eggs per hen out of their flocks compared to their neighbors. Other managers are able to convert feed to eggs at much superior rates. Others are able to produce eggs at lower total costs.

As always, these differences justify individual companies to expand and other companies to drop by the wayside. A 1¢ per dozen profit certainly doesn’t justify expansion, but those that have production or marketing advantages of 5¢ or more per dozen can easily justify growth - and that’s exactly why we see some producers leave the industry while others are growing.

Please note: The University of California web site address is now:

animalscience.ucdavis.edu/avian/