AN EGG ECONOMICS UPDATE

Regional Egg Price Differences and Their Effect on Egg Movement

For the last six months, two trends have become evident - a noticeable decrease in egg imports into California (Figure 1) and the narrowing price spread between Midwest eggs and Southern California eggs (Figure 2). Most of the reduction in shell egg imports has been from the states of Indiana and Iowa with substantial reductions also from Nebraska.

There are many factors which affect the direction of egg movement around the country, but undoubtedly one of the most important is the relative prices between the shipping and receiving areas. It stands to reason, that eggs will tend to move from low price regions to higher price regions. Obviously, there are numerous other reasons for eggs to move into certain markets besides price differentials - long term contracts, temporary shortages by individual dealers for certain types of eggs, relative cost to service, and others.

In early 1993, California egg imports approached or exceeded 200,000 cases per month. This represented 14% of the state’s total production. In recent months, though, this percentage has decreased to less than 8%. At the same time, the price spread between the Midwest and California has dropped from 5 to 10 cents per dozen to practically zero. California is apparently no longer an attractive place to market surplus eggs from other regions because we don’t hold our prices up relative to our deficit production status and the transportation costs to reach here.

Today, California has only 85% of the chickens required to maintain the national average layers per person ratio (.92 layers per person - California is only .78). Either Californians are eating eggs considerably below the national average or the counts are off. With such a low production level relative to assumed demand, California’s egg prices should be substantially above the prices reported in the Midwest.

An analysis of the relationship of egg price spread to the number of eggs imported into the state for 1992 and 1993 showed that with each additional one cent spread in egg prices between the two regions, we observed an increase in imports of only 10,477 cases per month. Considering that we produce 1.5 million cases per month, the effect of an extra 10,000 cases would be minuscule and past data indicates that the price differentials existed even in the face of larger imports (which resulted from the large spreads in the first place) (Figure 3).
Figure 1

Egg Imports Into California
1992 & 1993

Thousands of cases

![Bar chart showing egg imports into California for 1992 and 1993, with data for each month.

Source: Ca. Dept of Food and Agriculture]

Figure 2

S.California Farm Blend Egg Prices vs Midwest Farm Blend Egg Prices *
1992 & 1993

Cents per dozen

![Line graph showing the comparison of S.California and Midwest farm blend egg prices for 1992 and 1993.

- Calif.
- - - Midwest

• S.Ca prices - (Univ. of Calif)
Midwest prices - (USDA Ag Prices)']
This analysis of monthly egg price spreads associated with egg import numbers for 1992-93 showed the following effects: (see also Figure 3)

<table>
<thead>
<tr>
<th>Amount of Spread (#/doz.)</th>
<th>Cases Imported (thousands)</th>
<th>Amount of Spread (#/doz.)</th>
<th>Cases Imported (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>106.5</td>
<td>6</td>
<td>158.8</td>
</tr>
<tr>
<td>2</td>
<td>116.9</td>
<td>7</td>
<td>169.3</td>
</tr>
<tr>
<td>3</td>
<td>127.4</td>
<td>8</td>
<td>179.8</td>
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<tr>
<td>4</td>
<td>137.9</td>
<td>9</td>
<td>190.3</td>
</tr>
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<td>5</td>
<td>148.4</td>
<td>10</td>
<td>200.8</td>
</tr>
</tbody>
</table>

California sits 1000+ miles from any major surplus egg producing center - a $1500 to $2000 truck ride away and with what appears to be a significant deficit situation. Prices should be able to be sustained at least at previous levels (5-10 cents above other markets).

Higher costs in California, our small flock size (25 million layers) relative to our human population and the considerable distance between here and surplus producing areas not only justify higher egg prices but demand it if we are to be able to sustain a modern thriving industry.

The re-establishment of realistic price differentials must be the goal of California's price discovery system. There is no justification to the concept that California's prices should be at Midwest levels. A suitable spread should be established and maintained - then we can follow the remainder of the country with similar price changes to maintain a suitable spread. The California industry has gone through enough change and contraction without gaining the expected benefits of higher prices.
Correction: Three very obsecant readers caught a "bad" mistake in the last issue of Egg Economics Update (Number 147). On page 4 in the middle of the paragraph the sentence should read: "With a two million (.85%) decrease in the nation's flock size for 1994, egg prices would be expected to increase by 3.8% (.85 x 4.5)."

This error did not affect any of the data in the table or other conclusions! Sorry about that!!

Please hold Wednesday, December 15, for our annual "Outlook Meeting"