AN EGG ECONOMICS UPDATE

FEAST OR FAMINE - CYCLES IN THE EGG BUSINESS

A cycle in the egg business refers to the length of time from high egg prices to low egg prices and back again to high egg prices. The egg business has basically two cycles - the first is the seasonal cycle with high egg prices in the winter and low prices in the summer - and the second is a multi-year cycle which reflects good and bad years. The seasonal cycle is probably the more dependable one, but it’s not a perfectly repeatable one from year to year. In recent years, the multi-year cycle has varied from as little as 5 years to as much as 8 years in length.

When these two cycles act in tandem, winter months in “up” cycles or summer months in “down” cycles, we see dramatically wide ranges in egg prices. For example, in January of 1990, we saw farm prices for large eggs at 82.5 cents per dozen and in May of 1988, we saw large eggs at 34.5 cents per dozen.

When one studies the annual picture of good and bad years (figure 1), it can be seen that during the last 19 years, in most cases we’ve had 2 to 4 consecutive good or bad years at a time. Figure 2 illustrates the total earnings in each of the 6 periods of alternating plus and minus income between 1976 and 1994 (bars) and the accumulated income for the entire 19 year period (line). Each block shows the accumulated income or loss over successive years - 2 to 4 years. It’s interesting to note that the entire net income over this period was accumulated in the 1989 to 1991 period. The remainder of the years had a net loss of income.

The sad part of this picture is that few egg producers can sit around for 16 years waiting for another strong “up” period to occur. In addition to this fact, most producers forced to quit the business because of dwindling resources, oftentimes have to leave at the end of a down cycle thereby foregoing the benefits of the next “up” period. This, of course, indirectly helps the survivors as egg prices improve as a result of the smaller national flock.
During the 19 year period, Southern California records show 11 profitable years and 8 loss years. Total income for this period averaged $5.32 per hen which is equivalent to about $.28 per hen per year or 1.33 cents of profit per dozen eggs produced.
The current “down” cycle has passed the 1987-88 two year accumulated loss of $2.26 per hen. If we assume the current cycle started in January of 1992, we calculate a net loss of $2.34 per hen through April of 1994. The small profits experienced in 1993 can not be considered any more than a short break in the overall pattern of negative profits. The profit in 1993 failed to bring the accumulated profit for the period back to a positive total income. Of the 40 months during this period, we’ve experienced 26 negative income months (figures 3 and 4).
Unfortunately, it would appear that the industry has to accumulate a lot of losses ($2.00+) per hen before adjustments are made to correct the factors which contribute to them. (The inefficient segment of the industry would probably reach a level of -$5.00 per hen in this scenario). There just doesn’t seem to be any other way of cutting back on the size of the national flock other than through skipping normal replacements or through the attrition of the number of companies in the industry. Permanent industry-wide commitment to a smaller average flock (235 million) has to be achieved if industry stability is to ever occur.

The USDA projects a 5 egg increase in per capita egg consumption (from 234 to 239 eggs per person) for 1995. This is commonly interpreted as a sign that things are improving, but this improvement in consumption is merely a result of higher egg production in 1995 which will undoubtedly result in lower industry returns. When we are able to have higher per capita consumption at the same or higher prices, we will have really accomplished something!

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