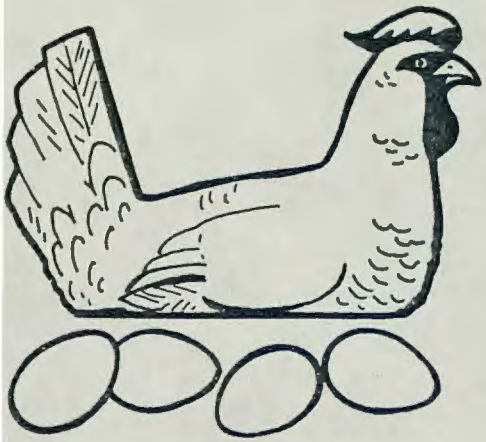

Poultry Patter

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HOW ARE MINNESOTA EGGS PRICED?

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Supply-Demand Situation

Egg producers are becoming increasingly concerned about how egg prices are determined and the forces that affect price. The farm price level for eggs has declined almost steadily since the late 1940's and early 1950's. The decline is not entirely a result of increased output resulting from increased efficiency and lower costs; a contraction in demand is also a major factor on price. Consumers have been substituting other foods for eggs in their diets.

In the last decade, U.S. egg output increased 7 percent--from 58.9 to 63.0 billion eggs annually--while population increased 16 percent. As a result, per capita egg consump has fallen from 376 to 321. Present demand projections indicate that this decline has leveled off at about 320 eggs, and per capita egg consumption will likely remain stable at about this level.

The egg market is nationwide; eggs produced in one area are no different from eggs produced in other areas. Therefore, eggs move readily between areas. The direction of the movement from surplus-producing areas such as Minnesota is dependent on existing price relationships in the various markets. Marketing firms move eggs into those markets that provide the highest return over transportation costs.

Buyers and sellers of eggs in a particular market cannot determine egg prices independently of prices established in other markets. If such a situation existed, the result would be complete chaos. Instead, dealers throughout the country rely on prices established in one major market as a guide or base for determining local prices. The major market prices quoted for New York are used.

The average monthly price quotations in the table illustrate the wide range in seasonal egg prices for 1963. The lowest price for large eggs occurred in May, the month when U.S. egg output was at a peak. The highest price occurred in September, the month when output was lowest. However, output during the year only ranged between 13.6 and 15.9 million cases a month. Such wide fluctuations in price accompanying such small changes in supply indicate the extreme price sensitivity of the market.

This situation is a result of the consumers' almost constant demand for eggs regardless of price over a short time period. Because of a lack of substitutes, consumers use only a slightly smaller quantity of eggs at a high price than at a low price. This, in economic terms, is known as an inelastic demand. One study indicates that a 10-percent change in the farm price of eggs would be associated with only a 2.3-percent change in per capita consumption. In order to get a 1-percent increase in per capita consumption, egg producers would have to take approximately a 4-percent decrease in price. This clearly illustrates the necessity for keeping the volume of eggs moving into the markets in proper balance with demand to avoid serious declines in egg prices which accompany increases in market volume. Witness the serious drop in U.S. egg prices from a 1950-54 average of 42 cents to a low of 31.1 cents in 1959. This drop of 26 percent in price accompanied an increase of only 7 percent in total volume of eggs marketed. In 1960, egg output contracted by 1.6 percent with a subsequent increase in producer egg prices of 3.3 cents per dozen.

Factors Influencing Supply

Farm egg production is explained almost entirely by: (1) The number of hens and pullets on farms January 1, (2) average rate of lay, and (3) adjustments to the egg-feed price ratio of the previous year.

Short-run supply within a given sized egg enterprise can be altered in response to temporary fluctuations in the egg-feed ratio by changing the number of hens removed from the

laying flock. Adjustments in supply to price conditions lag appreciably when producers adjust production by starting more or less chicks for laying flock replacements. Also the time lag for flock withdrawals is greater than for expansion through new flocks.

One of the peculiar but very noticeable features of the egg industry is that the short-run supply is irreversible. That is, if demand for eggs increases, there is a large expansion in production with little improvement in egg prices; however, if demand decreases there is minor contraction in production, resulting in a great decline in egg prices. In other words, supply is elastic on the expansion cycle but highly inelastic on the contraction cycle. Thus slight improvement in the egg-feed price ratio induces expansion in output; contraction in demand or unfavorable price conditions do not bring about the same contractionary responses.

The egg pricing process will be continued in the January issue.

Minnesota Poultry and Hatchery Association, Minnesota Poultry Butter and Egg Association, Wisconsin Hatchery Association. Annual Convention January 15-16, 1965, Pick-Nicollet Hotel, Minneapolis.

Comparison of New York Urner-Barry Quotations with Minnesota Reported Country Paying Prices, 1963

	Grade A Large		
	N.Y. Quotation (Urner-Berry)	Minnesota Paying Country Prices	Differentials
	---cents per dozen---		
January	37.77	29.33	8.44
February	38.69	30.25	8.44
March	37.05	29.05	8.00
April	31.26	23.66	7.60
May	29.59	31.83	7.76
June	31.20	22.81	8.39
July	33.95	27.44	6.51
August	36.23	27.66	8.57
September	41.50	33.00	8.50
October	38.20	31.72	6.48
November	39.10	31.05	8.05
December	38.67	30.67	8.00
Unweighted Annual Average	36.10	28.21	7.89
Quality Program Prices	--	32.07	4.03

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ROLAND ABRAHAM, acting director
Cooperative agricultural extension work, acts of May 8 and June 30, 1914.

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