

Egg Industry

News for the Egg Industry Worldwide

WATT

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Second half of 2008 still looks profitable

But questions loom for 2009.

By Edward Clark, Editor

Virtually everyone in the egg business looked for 2008 to be a good one, and it still will end up being so, although adding up the year, profits won't be quite as rosy as they looked just months ago. The reason why: sky-high feed costs. Even so, egg production will end up being profitable in every month the second half of the year, or nearly so.

The Urner Barry Midwest price quote for May looked likely to average \$1.10, near break even, "and prices will likely move up 10 cents to 20 cents from there to November-December," says Bob Pike, vice president and general manager for Braswell Foods, Nashville, N.C.

But Pike is concerned about 2009, as "a 100,000 birds here, a refurbishing there" could add up to an unprofitable industry by the third quarter of next year, possibly earlier. He adds that even the switch to more specialty egg and cage-free egg production will add to total egg production.

Consumption Holding

One surprise in 2008, Pike says, is that specialty egg consumption is so high in light of the weak economy. "Eggs are still a very affordable protein source compared to chicken, pork, or beef," he says, "and eggs are a comfort food." As for his company, "we're flat" in terms of increasing production, Pike says. "We're settling out."

UB MW LARGE MARKET QUOTE EGG PRICE PROJECTIONS (12 months)



Prices near 2007 Levels

Prices for the second half of 2008 will be close to last year's, in the view of Dolph Baker, resident of Cal-Maine Foods, Jackson, Miss. "We'll have

good profits, but not the record profits like last year," he says, due to skyrocketing grain costs. Baker notes that not much expansion is underway, thus the flock size "is not getting out of control." He adds that even May was profitable,



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Second half of 2008 still looks profitable

the least profitable month on average. Baker looks for each month in the second half of the year to be profitable.

Expansion at Bay

Two factors are combining to keep expansion at bay, he says: high grain costs and the uncertainty over California's ballot initiative this November on whether caged egg production will be banned. In addition, Baker notes that construction costs for new facilities "have really increased." Agreeing with Pike, he notes that egg demand "has been holding up very well."

Among Baker's largest concerns is the impact animal welfare issues will have on the industry. "They (animal rights groups) have a huge budget and we're an easy target," he says. "If we don't fight it, we'll lose" an important battle, he says. The good news is that the attack against the industry is occurring when egg prices are high, thus it's easier for egg producers to contribute to an effort to counter the activists, he says.

Exports

One factor aiding egg prices is a 100 carton export deal to the Far East put together by United States Egg Marketers (USEM) in early May, says Gene Gregory, president and CEO of United Egg Producers (UEP), Atlanta. "This will cut the supply and improve the market," he adds.

Overall, however, Gregory looks for exports in 2008 "to be considerably lower than 2007. There are three key reasons why. One is that as of July 1, eggs shipped into Europe have to be stamped with the company code and how they were produced (from caged

or cage-free systems); even if they're used in companies that only use them for breaking. The second is that the weak U.S. dollar has made eggs more expensive to countries with stronger currencies. Lastly, Gregory says, U.S.

ers who are remodeling with existing buildings rather than putting up new complexes. "We're doing a better job managing supply," he adds.

Like others interviewed for this article, Gregory does not look for major

U.S. EGG PRODUCTION INCOME, COSTS AND PROFITABILITY

	USDA All Egg Prices *			USDA	UB MW	Costs		Av. MW		U.S.	Profit/ doz (cts)		Profits/ hen
Month	Iowa	Minn.	Av.	U.S.	(Lg)	ENC	WNC	COP **	COP	MW	U.S.	MW	U.S.
Jan	117.0	127.0	122.0	120.0	159.9	61.5	60.4	61.0	63.9	61.1	56.1	114.2	104.9
Feb	118.0	127.0	122.5	122.0	160.3	64.3	63.2	63.8	66.2	58.8	55.8	99.3	94.3
Mar	125.0	133.0	129.0	130.0	165.6	65.9	64.1	65.0	67.7	64.0	62.3	119.7	116.5
Apr	82.0	94.0	88.0	88.4	125.7	67.0	65.2	66.1	68.5	21.9	19.9	39.6	36.0
Av.	110.5	120.3	115.4	115.1	152.9	64.7	63.2	64.0	66.6	51.4	48.5	372.8	351.7

The above table shows that costs rose, egg prices crashed, and profits fell from January 2008 to April. Source: Dr. Don Bell, University of California-Riverside.

egg prices are at historically high levels right now.

That said, Gregory notes that egg prices dropped 63 cents since Easter to \$1.04 per dozen by May. He thinks the second half of 2008 will be profitable overall with strong egg prices, but due largely to the explosion in grain prices, the possibility exists "of an unprofitable month or two even though I hope that's not the case. As we get into the fall, we anticipate that prices will improve." Skyrocketing grain costs have increased cost of production by 30 cents per dozen, Gregory states.

Managing Supply

Producers should be profitable the last quarter of the year if not before, Gregory says. He looks for the flock size in 2008 to average 1 million to 2 million birds more than 2007. Much of what Gregory is seeing is produc-

expansion the second half of 2008 because of high grain prices and concern over the possibility of changes in animal welfare rules, even though he believes the industry will win the battle in California. Despite which way the vote goes in California, he says the industry will face more battles over its right to continue with conventional production even though it has succeeded thus far in all state efforts.

Nearly \$1.50 by December

In his May price projections, Dr. Don Bell, University of California-Riverside poultry scientist, estimates prices to gradually increase from 119.5 cents per dozen in May (Urner Barry large market quote) to 132.7 cents in September, and dip to 129.6 cents in October. From there, Bell projects, prices will rise to average 149.7 cents per dozen in both November and December. Looking

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at early 2009, Bell looks for prices to be 137.3 cents per dozen in January, decline to 130.3 cents in February, but increase to 137.3 cents in March of next year.

Bell's data shows that U.S. profits dipped from 62.3 cents per dozen in March to 19.9 cents in April, as both costs rose and egg prices declined. Profits per hen declined from 116.5 cents in March to 36 cents in April.

Wholesale Prices up 51 Percent

USDA-ERS notes in its April Livestock, Dairy, and Poultry Outlook that the wholesale egg price in the New York region averaged \$1.59 in first quarter 2008, up 51 percent from first-quarter 2007. The department expected a decline in prices to \$1.27 to \$1.33 in the second quarter, and "while quite a decline from the first quarter, it is still 41 percent higher than in the same period in 2007."

Over the first two months of 2008, table egg production was 1.05 billion dozen, up 0.5 percent from the previous year. The high prices for eggs over the last two quarters is expected to gradually result in higher table egg production. USDA's forecast for 2008 table egg production was increased by 20 million dozen. The total for 2008 is now 6.49-billion dozen, a 1-percent increase from the previous year.

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No Rebound Yet in Layer Numbers

Layer numbers continue to lag behind previous-year levels, USDA's May Chicken and Eggs report shows. Table egg type layer numbers were 1 percent below year-earlier levels on May 1, but eggs per 100 table egg type layers were up 2 percent, the report says.

Egg type chicks hatched during April, meanwhile, were up 5 percent from April 2007. Eggs in incubators totaled 39.6 million on May 1, up 10 percent from a year ago.

California Measure Could Double Cost

Contrary to some claims that cage-free production costs little more than conventional production, if the November measure to ban caged egg production passes in California, costs could double, Arni Riebli, the managing owner of Sunrise

Farms, says in the *San Francisco Bay Guardian*. If the referendum passes, the Marin County, Calif., producer says that California will lose its comparative advantage to other states, and he will be forced out of business.

Riebli says that one-third of California's eggs already come in from out of state, and flow from the Midwest could be easily increased. "Every other state is going to sit out there and ship more eggs in here," Riebli says. Opponents to conventional production "are not stopping it," he says. "They're just moving it somewhere else."

Lead Concern Pulls Eggs from U.K. Market

Fears that organic eggs from one supplier have been contaminated with lead caused a United Kingdom supermarket

chain to recall organic eggs last month. "We can confirm that some chickens from a flock on one farm supplying Waitrose with Blacktail Columbian organic eggs have been found to have consumed lead shot," a spokeswoman said.

"This is thought to have been caused by shot from a nearby clay pigeon shoot getting into the free range enclosure. Waitrose took action as soon as we knew about this situation. All our eggs are fully traceable back to their farm source, which is stamped as a code on each egg."

The spokeswoman says in *The Press Citizen* article that as a precaution, the company was recalling extra large, large, and medium organic Blacktail Columbian organic eggs with the code of OUK20137 stamped on each egg. The recall applies to all date codes up to and including May 21.

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Put the Consumer First

By Terry Evans

Egg producers have three customers—the retailer, the shopper and the consumer. “The most successful businesses are those that put the consumer at the center of their thinking every day,” Jonathan Banks of A.C. Nielsen, said.

Egg sellers should continue to be en-



Jonathan Banks

thused about the value for money and versatility of the product, emphasizing taste and convenience. But they also should remain nervous about animal welfare, salmonella and temperature control, avian influenza and other concerns such as saturated fats and cholesterol in yolks, and the possibility of pesticide residues, he said.

Banks highlighted the fact that consumers are getting older, richer and fatter, while at the retail end of the marketing chain, the growth is in hy-

permarkets, discounters, and in private label products.

One of the biggest impacts on the ways future business will be conducted will result from the increasing interest by both manufacturers and consumers in climate change. Retailers are beginning to face up to this issue and will put consumers under more pressure to address it as well.

Less Carbon, More Profits

Banks suggests that if companies conduct a carbon audit, they will find ways of reducing their carbon emissions. “If you reduce your carbon emissions you will reduce your energy costs and increase your profits,” he added.

A key consumer trend is the increasing age of the population.

Since 1990, what he described as the global Middle Class has almost doubled to 1.4 billion. The growth in modern retail developments goes hand in hand with the economic development in a country. Thus, those countries with the highest GDP per capita have the highest percentage of modern format retailing

More Spent in Supermarkets subhed

“As we get richer we spend more of our shopping in super- and hypermarkets,” he said. However, when it comes to the percentage of household income spent on food, in those countries with a high GDP/person, such as the United States, the United Kingdom and Norway, the percentage of household income spent on food is much smaller than in countries such as India, Romania, or Russia.

Recent years have seen the development of four mega trends in all developed economies: health/well-being, ethics, indulgence, plus pleasure and

convenience/practicality. Health was the most important.

It is important to realize that perceptions, rather than truth, influence people, Banks said. Another major development among consumers is the increasing incidence of obesity.

Retail Concentration Pressures Prices

In many developed countries, just a handful of grocery retail groups account for the bulk of the businesses and their shares of the market are, in most instances, increasing. “We are seeing growth in the power of the bigger multiples,” he added.

As a result, more pressure is being put on prices in stores because discount retailers have increased their overall market share. However, the success of discount retailing varies between countries. But, even so, the focus is on both quality and price.

Banks said that while consumers say that low prices are important, when purchases are examined, good value for money spent, high quality fresh food and having a good range of fresh products are perceived as being more important.

Over time, private label is increasing its market share where: brands have lost their edge in creating value (real or perceived), price has become the only differentiator, innovation was scarce, or there was production capacity with high overheads.

“Private labels grow in those categories where brand builders fail. Private label does not cause brands to be weak, it is the consequence,” he added.

Commodity markets could be turned round. It is most important when you launch a brand that you support it for at least three years. “You must keep developing your distribution and penetration beyond year two,” he added. **EI**

Editor's note: the following articles are from the recent International Egg Commission conference in London.

Find Out What the Customer Wants

By Terry Evans

Consumers are willing to pay more for those eggs that contain tangible product quality characteristics as defined by them. And, fortunately, sensory research results demonstrate that those meaningful product quality characteristics are not too difficult to obtain, and can be controlled, monitored and delivered on a consistent basis, James Kellaway, Australian Egg Corporation Ltd. (AECL) said. “So, get out there and market your eggs. Be demand driven, not production focused, be proud of the product you are producing, as long as it is meeting consumer requirements, and never compromise on price.”

Price, especially among those who purchase produced cage eggs, is the single largest product characteristic that determines what brand of eggs consumers buy, Kellaway said. This is because consumers do not see a tangible or meaningful difference in eggs that were more expensive. As a result, consumers are only shopping on price and brand loyalty is extremely small. In Australia, a meager 4 percent of the market recognizes and remains loyal to any one proprietary/producer brand, he said. This indicates that most consumers don’t think there is any difference. “Or if they do, they are willing to trade off your difference for cheaper eggs,” he added.

Given this market situation, owners of private-label/generic branded eggs have realized a market opportunity. They have worked out that most consumers think that an egg is an egg and would switch if there was a cheaper brand within the category. Kellaway continued, “Private-label branded eggs have increased their market share and now represent 62 percent of all retail eggs sales when back in 2000 their market share was just 19 percent.”

The price of private-label eggs had increased from \$2.58 per dozen in 2000 to \$2.90 per dozen in 2007, representing a gain of 12 percent. However,

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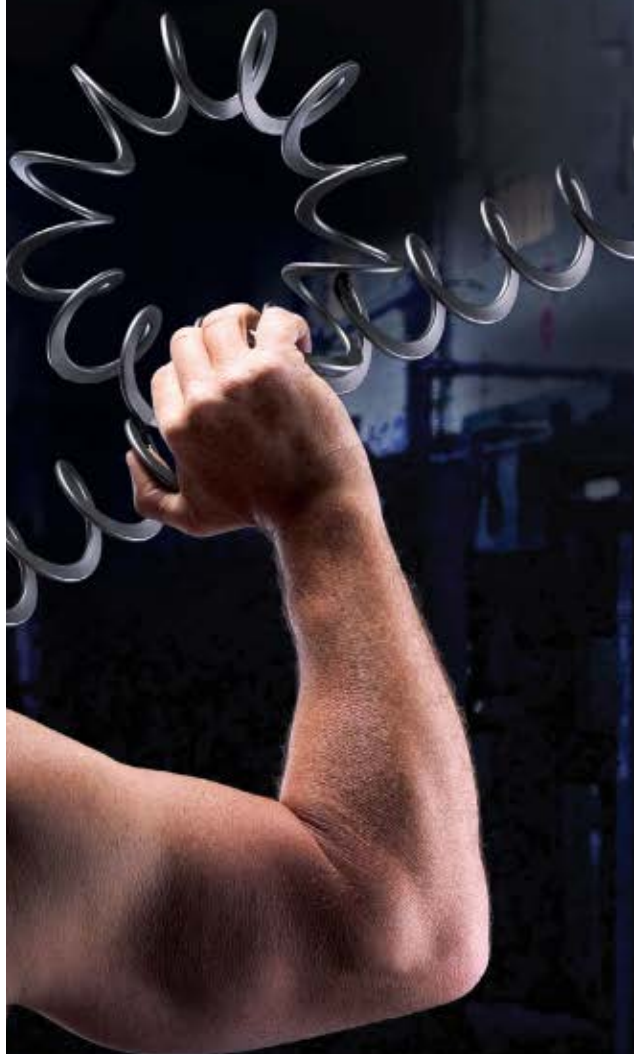


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this is not impressive when according to the inflation price index; they should have averaged \$3.31 per dozen in 2007. In contrast, producer-branded eggs increased in price from \$2.75 per dozen in 2000 to \$4.16 per dozen in 2007, an increase of 51 percent.

This shift in branded sales has resulted in the egg category becoming a commodity business with little meaningful brand presence and product differentiation. Private-label brands have cannibalized proprietary egg sales, resulting in overall category sales turnover or revenue being reduced.



James Kellaway

Egg producers do not own or control private-label brands. As a result, the product quality, distribution, price points and sales promotion are not being determined by egg producers. Australia's producers are becoming packers for these brands with a greater number of business decisions being out of their control.

Kellaway added, "We have become servants to supply chain partners, not our consumers."

So, how could egg producers build value back into their product and gain increased sales turnover, grow brand loyalty and boost market share of their brands? The answer is, "Listen to the consumer as opposed to listening to the customer. We now need to become market or demand driven by listening to the consumer," he said.

New Consumer Study

The AECL has recently completed the industry's second national Usage & Attitudinal Study and also a full sensory market research project among consumers. As a result, the Australian egg industry now has a very clear understanding of the consumer regarding their attitudes, behavior, usage and consumption patterns of eggs. "We know what consumers want and how much more they are willing to pay," he added. More importantly from a product quality perspective, the sensory research had objectively defined the 'perfect egg' in the eyes of the consumer. "By achieving this, the egg industry could start communicating to consumers that there is a real difference between the eggs offered for sale and that our proprietary brands do contain eggs that meet their preferences."

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Nine Green Technologies for Animal Agriculture

Technology exists to keep animal agriculture productive and make it more sustainable, says Alltech's director of worldwide research.



Dr. Karl Dawson

While demand for animal proteins is growing – by 2050 demand is expected to double – this growth in production volume presents ecological and environmental challenges for the animal production industry.

This leaves many wondering whether animal agriculture will be part of the

greenest generation or the grimmest generation?

That was the challenge posed to over 1,700 animal agriculture professionals who attended Alltech's International Animal Health and Nutrition Symposium, where the company's director of worldwide research, Dr. Karl Dawson, said technology exists to keep animal agriculture productive and make it more sustainable.

"The livestock industry's role in solving these problems is as important as anything we will do in agriculture," he said.

Dr. Dawson outlined nine technologies that can help keep animal agriculture productive and sustainable.

No. 1: Nutrient management strategies

Sustainable nutrient management strategies go beyond balancing nutrition to get the most efficient production from the system.

Not merely changing nutrient levels, sustainable systems synchronize nutri-

ents and use appropriate forms of nutrients and minerals – something that can decrease waste, while increasing productivity. This technology is real and available now, Dawson said, and involves optimizing feeding systems and precision feeding.

"It is a proven concept showing that you can decrease waste and increase productivity by synchronizing or changing the form of the nutrients going into that system so that it is fully synchronized," he said.

"A simple change in the form of a mineral, for example, can dramatically change required inputs," he said. "And by using the appropriate form of a mineral, excretion can be reduced by 75 percent.

"It's a proven concept that needs to be applied, and quite frankly it's not one that we can afford to ignore..

"We cannot continue to provide excess minerals to animals and expect not to have a major impact on the environment.

"This is something that we are going to have to accept as a practice."

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No. 2: Supplementation strategies

Supplementation strategies typically are driven by economics but can be used to decrease environmental impact. These include the use of functional carbohydrates, the use of microbial supplementation, strategic use of minerals and strategic use of antimicrobials.

No. 3: Sequestering waste

Technologies that capture waste and convert it to energy represent new sources of income, not only in the form of the energy harvested but also carbon credits.

No. 4: Novel waste management

Advanced technologies for manure handling, which include aerobic, composting and biofilm reaction systems, can in some cases result in a 99 percent reduction in greenhouse gasses. Their use can yield carbon credits.

No. 5: Developing green feed processing systems

These include enzyme treatments and microbial fermentation systems. Some produce novel high-value ingredients like carbon dioxide, algae and carbohydrates. Microbial proteins from yeast could replace fishmeal as a feed ingredient. This would help reduce overfishing in the world's oceans.

No. 6: The biorefinery

The integration of different components in a biorefinery would produce less waste and can potentially produce designer feeds using natural chemistry. One potential application that would complete the carbon cycle is the production of algae as feed. This application, which sequesters CO₂, would be fast and efficient, producing a crop every five days.

No. 7: Enzyme and Microbial Biotechnology

Enzyme and microbial biotechnologies can use orphan crop byproducts (corn cobs, wood products, dried distillers grain solubles) as substrates to produce energy.

No. 8: Microbial systems for detoxification

These technologies could make previously toxic feedstuffs available for

animal production. Deteriorated or contaminated feed could be rendered wholesome, resulting in an increase in available feeds. Known toxins could be sequestered in feeds.

No. 9: Advanced monitoring

New analytical tools (such as NIR biosensors) used to monitor the health and

nutrition of animals can improve efficiency and nutrient utilization.

Live animal production is influential to the quality of the atmosphere, land and soil, water and the planet's biodiversity. While challenges exist, live production can also be an important source of solutions. These solutions could be addressed at reasonable costs. **EI**

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Uproar over Ethanol

Only months ago an energy independence darling, ethanol is now being blamed for global food riots, food inflation, and in-the-red balance sheets for livestock producers. For example, in explaining his company's second quarter loss of \$111.4 million, Pilgrim's Pride Corp. President and CEO Clint Rivers left little doubt what he thinks is responsible: "The federal government's deeply flawed ethanol policy," which has created a crisis for his company and the entire poultry industry.

"The federal government has helped spark a growing worldwide food crisis by mandating corn-based ethanol production at the expense of affordable food. American consumers are only just beginning to feel the impact of sharply higher food prices. There will be much more to come as food producers fully pass along these higher input costs."

The impact of the largely ethanol-driven hike in grain prices on companies like Pilgrim's Pride is staggering: for the first quarter 2008, its corn and soybean meal costs rose \$200 million compared to the same quarter a year ago, as the average price for corn rose 29 percent, and the price of soybean meal jumped more than 63 percent. Based on the actual costs in-

curred in the first half of the fiscal year and current commodity futures markets for the remainder, the company's total feed-ingredient costs for fiscal 2008 would be up more than \$800 million from last fiscal year. Roughly one quarter of corn grown in the United States is used to make ethanol and for the first time in history, more corn will be used for ethanol in 2008 than the amount exported.

Not Only Livestock Producers

It's not only livestock producers calling for policy change. A chorus of state and federal lawmakers is now having second thoughts about policies they once supported. In an interview on NBC's Meet the Press, Democratic presidential candidate Barack Obama said "there's no doubt that biofuels may be contributing to falling food supplies and rising prices."

John McCain, certain to be the Republican presidential nominee, joined 23 other Republican Senators in asking the Environmental Protection Agency (EPA) to consider a waiver on ethanol mandates. "American families are feeling the strain of these food-to-fuel mandates and are growing concerned about the emerging environmental concerns of growing corn-based ethanol," the letter to EPA stated.

The United States is the world's second largest ethanol producer, behind Brazil, but opposition to ethanol is growing in Europe as well. The European Environment Agency (EEA) is recommending that the European Union (EU) abandon its target to produce 10 percent of its fuel from biofuel by 2010. Last year, ethanol production in the EU declined significantly, due to high feed prices that forced buyers to look outside of Europe for their supplies. As a result, production increased only 11 percent in 2007, compared to growth of more than 70 percent in 2005 and 2006. The EAA said it is concerned that the 10 percent target exceeds land further available without damage to the environment.

Pat Westoff, co-director of the Food and Agricultural Research Institute at the University of Missouri, says that while ethanol is "a significant factor" in rising grain prices, it is only one of many factors driving feed and food prices higher. The weak U.S. dollar, for instance, has increased exports of U.S. grain and oilseeds by making those commodities cheaper in other countries with stronger currencies. Weak crop production last year in many countries also is pressuring crop prices, he notes.

Even so, Sen. Joseph Lieberman, I-Conn., says that "it may be that the most important impact we in Congress can have is to remove these three incentives for corn-based ethanol."--Edward Clark **EI**



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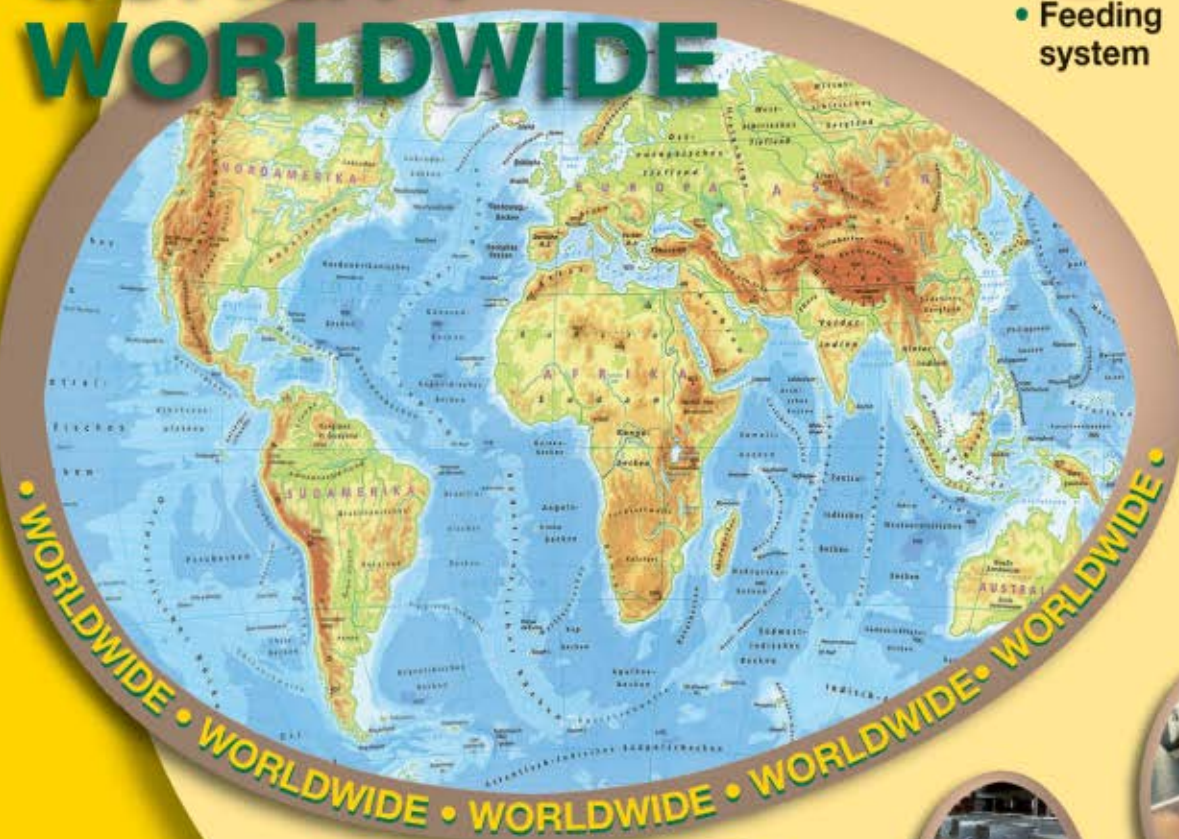
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