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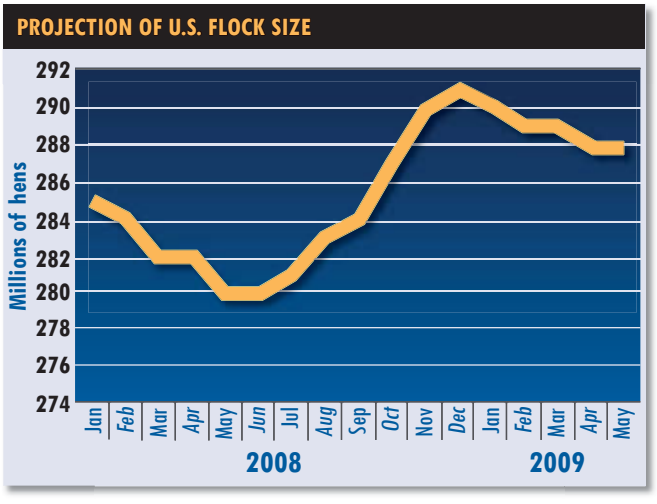
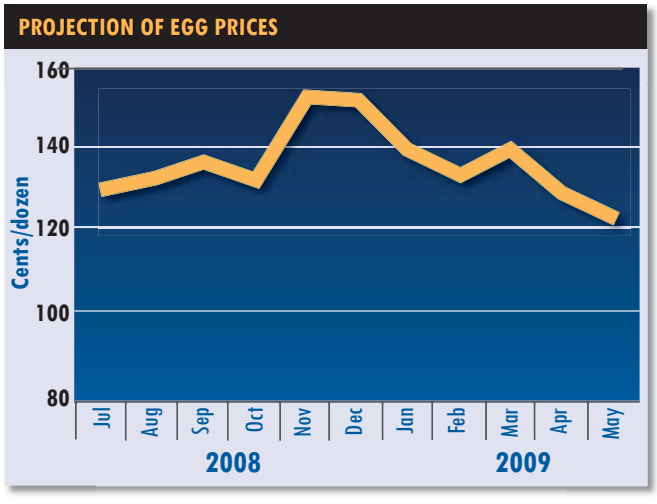
WATT Egg Industry
News for the Egg Industry Worldwide

Major increase in hen numbers anticipated by December



Italic months-rounded.
Source: Don Bell, University of California, Riverside

Number of hens is expected to reach 291.1 million by December.



Source: Don Bell, University of California, Riverside

Moderate rise in egg prices anticipated for November and December followed by a rapid decline.

By Dr. Simon M. Shane, Editor

U.S. egg production costs increased 15 percent--from 63.9 cents per dozen in January 2008 to 73.22 cents per dozen in June--mainly due to escalation in feed cost. Those costs are part of the latest cost summary, flock size, and egg price estimates issued by University of California-Riverside Poultry Professor Emeritus Don Bell.

At the end of June, corn was quoted at $7/bushel compared to $3.50/bushel in January. Corresponding values for 48 percent soybean meal were $438/ton and $265/ton. It is estimated that for every $1/bushel increase in corn, feed cost increases by 6 cents per dozen due to the concurrent escalation in other ingredients and the impact of pullet depreciation. The full impact of the increases in corn and soybean meal were not reflected in first quarter due to the moderating effect of carry-over stock from 2007 and possible hedging by larger producers.

In reviewing the contribution margin, U.S. producers generated 58 cents per dozen for the first quarter of 2008 but this declined sharply to 14 cents per dozen in the past quarter. The 33 percent decline from $1.24 per dozen for the first quarter to 88.6 cents per dozen in the second quarter combined with the increases in feed cost reduced profitability.

Disturbing prediction

The most disturbing prediction in the July 11 report is the anticipated increase in the number of hens from

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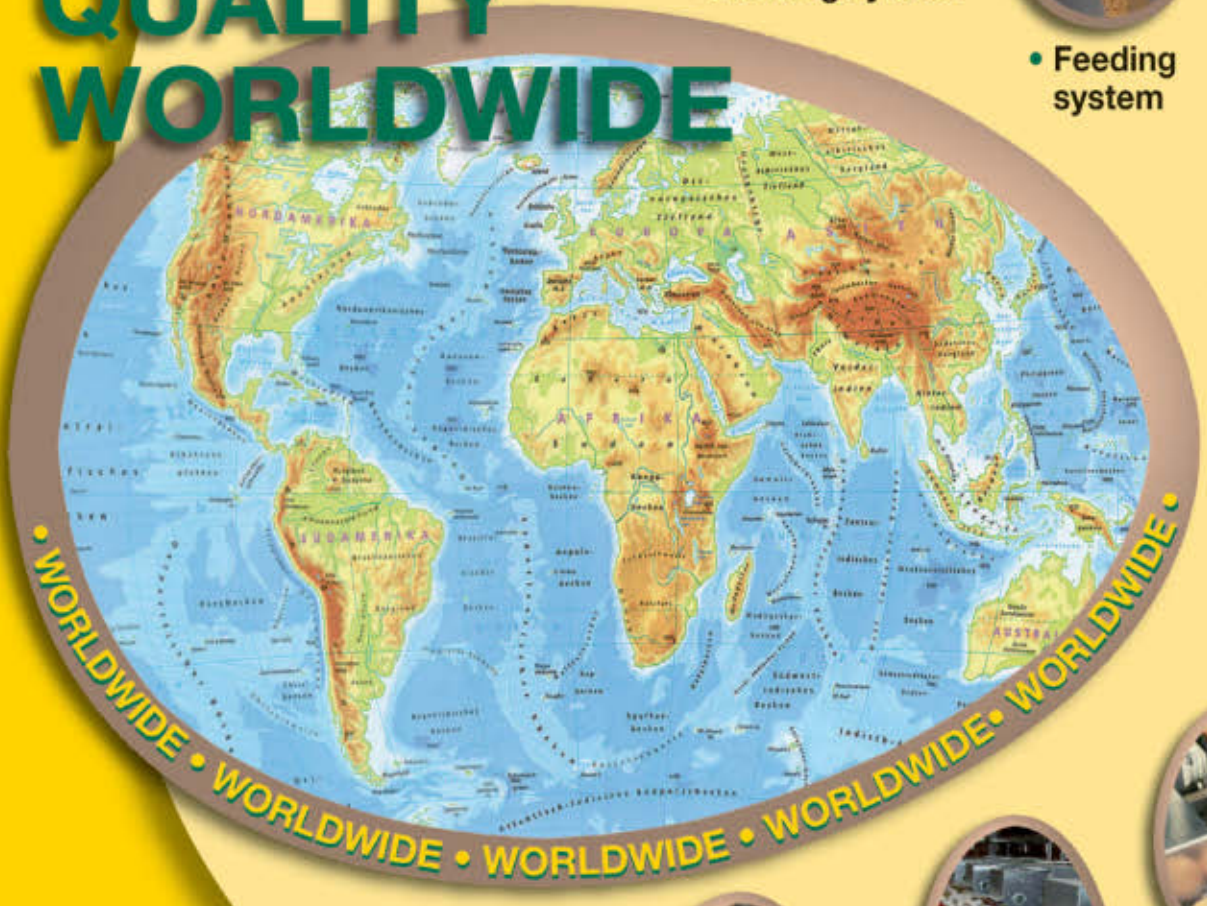

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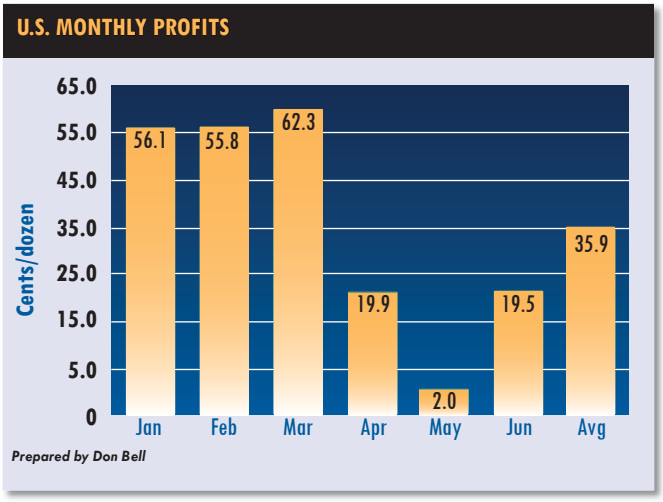
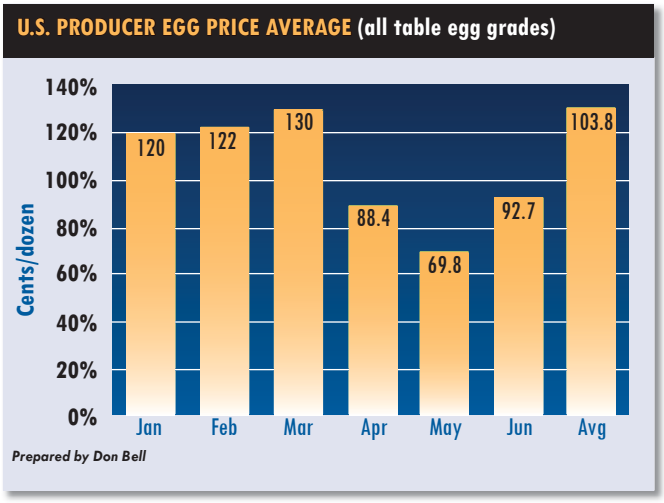
280.1 million at the beginning of June to 291.1 million by December. The projection is based on hatch data, mortality pattern, USDA slaughter data and estimates based on 5-year trends.

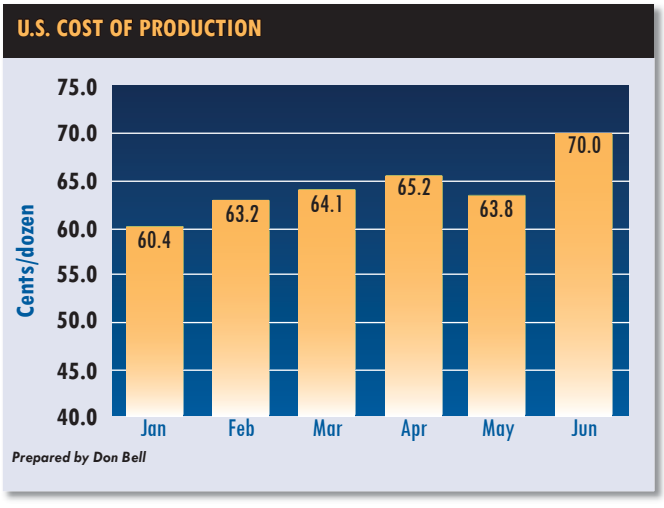
Bell projects a moderate rise in Urner Barry Midwest Large prices from $1.27 per dozen in June to $1.52 for November and December, followed by a rapid decline from $1.08 in January 2009 to $1.01 in April and a drop to 93 cents by May. Production cost could exceed 75 cents per dozen by January 2009. Some relief may occur in the unlikely event of a reduction in the rate of diversion of corn to ethanol and providing the recent floods do not reduce USDA predictions of yield and total harvest.



Maintaining a profitable national hen flock is currently the greatest challenge to the egg industry.



Egg prices declined 33 percent from $1.24 per dozen for the first quarter to 88.6 cents per dozen in the second quarter.



Production cost could exceed 75 cents per dozen by January.

Contrast with broiler industry

The broiler industry should maintain prices due to a rational program of reducing output. Two large integrators announced that they have deferred construction of new complexes or other expansion and virtually all companies have announced reductions in output with concurrent shifting of their product mix to heavier birds. Restraint in expansion is possible with an oligopolistic industry segment such as broilers in which the top five producers represent 60 percent of production.

Greatest challenge for egg industry

Maintaining a profitable national hen flock is currently the greatest challenge to the egg industry. Fluctuation in profitability due to cycles of over-supply will inhibit long-term investment. Consolidation and acquisition is inevitable if the industry does not react to the prospect of over-supplying a market dominated by price sensitive consumers. **EI**

Egg Industry

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Bell reflects on future trends, high feed prices, animal welfare

Egg Industry: *What are the current challenges facing the U.S. Egg Industry?*

Don Bell: Maintaining profitability is perhaps the biggest challenge, especially in the face of unprecedented increases in feed cost. This is mainly due to diversion of corn to ethanol. Welfare is also a consideration as evidenced by impending ballot initiatives in California, my home state. Environmental regulations are unwieldy, frequently vague and require significant capital and operating expenditure.

EI: *You have performed a valuable service over the years in providing regular statistical and economic reports. Will this work continue after your retirement?*

DB: An Economic Research Center has been established at Iowa State University. An initial grant of $2 million from the Iowa Egg Council has been made and it is anticipated that additional funds will be available. I serve on the steering committee and we will shortly meet to recruit and select the first director who will be an agricultural economist with an interest in egg production.

Editor's Note: Don Bell, Poultry Specialist Emeritus of the University of California-Riverside, marks his 51st year as an extension advisor, instructor, and applied research scientist and friend to the U.S. poultry industry. During his long tenure he has won numerous awards from universities, Pacific Poultry and Egg Association, the Poultry Science Association and the United Egg Producers. He has contributed to current knowledge on rearing replacement pullets, molting and optimal cage density. For many years, he has prepared economic studies and forecasts which have guided decision makers in the industry. Most recently Don provided Egg Industry *with a perspective on current realities and the future prospects for egg production.*

EI: *How do you view the development of the industry over the next decade?*

DB: There will have to be more consolidation. There are just too many companies in competition. Differences in profitability among companies due to structure, size and location creates competitive advantages, which may be destructive over the short or intermediate term due to injudicious expansion. It is inevitable that too many hens will impact revenue. Profitability must ultimately determine the size of the industry.

The full impact of increases in feed cost was not recorded in the first quarter since there was considerable carry-over stock and some producers had hedged their purchases.

EI: *What are your views on future trends in marketing?*

DB: There will be a limit to expansion in specialty eggs. The differential in cost between generics and eggs with special attributes will restrain consumption. I do not believe that exports of shell eggs will be a significant factor, possibly accounting for only 2 percent of sales at most. Consolidation will allow the larger companies to negotiate more forcefully with the large supermarkets. Currently, two chains represent 33 percent of all food purchased in the United States. We are seeing innovative packing of eggs to cater for larger units of purchase.

EI: *Your monthly reports have shown an increase in production cost from 62 to 70 cents per dozen this year. Please comment on the causes and future trends.*

DB: The major reason for the increase has been the escalation in grain prices due mainly to diversion of corn to ethanol. This has narrowed margins. The full impact of increases in feed cost was not recorded in the first quarter since there was considerable carry-over stock and some producers had hedged their purchases. The inflationary effect was clear in the second quarter and will increasingly erode profit for the rest of 2008. Some benefit has been obtained from using feed additive enzymes, which improve nutrient quality and can lower feed and hens egg costs.

EI: *How are we going to train the next generation of poultry managers, health professionals and plant operators?*

DB: We will have to draw on our universities and community colleges. Providing we can offer stable and remunerative career opportunities, we will attract graduates from programs in agriculture, agribusiness, nutrition, food science, veterinary medicine and marketing. The challenge will be to integrate their talents and experience as we see the departure of the "generalists" who established and grew with our industry. **EI**

Don Bell can be contacted at Don.Bell@ucr.edu, His website is www.animalscience.ucdavis.edu/extension/avian.

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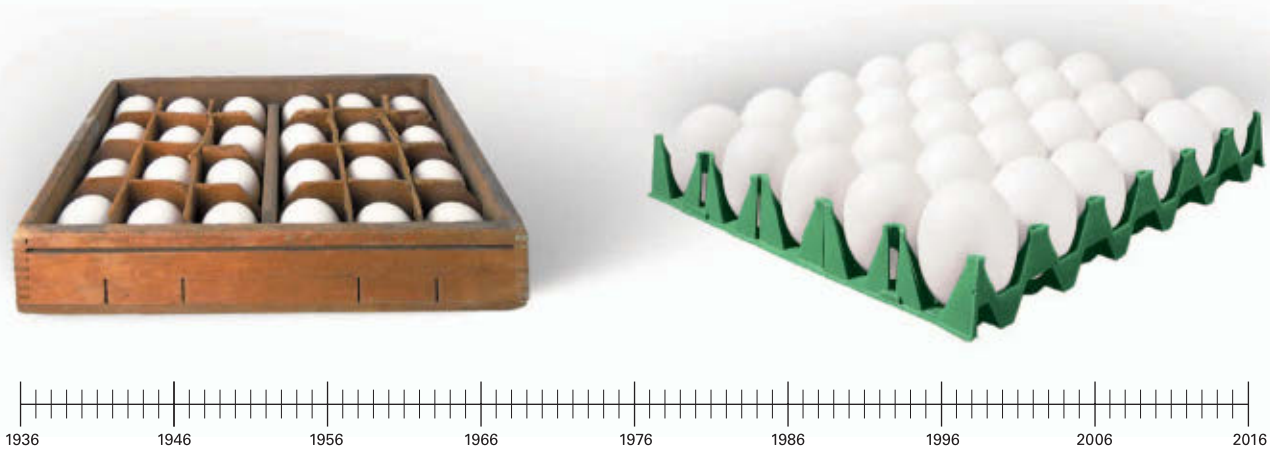

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Golden Oval shows profit for quarter

Golden Oval Eggs, LLC, showed net income of $2.8 million in the company's third fiscal quarter ended May 31 compared to a loss of $1 million the previous year. This year's income was on net sales of $56.6 million, an increase of $3.6 million or 6.8 percent over the third quarter the prior fiscal year. Pounds sold were 66.5 million, a 41.4 percent decrease from a year earlier.

The decrease is due to a significant reduction of the Millersburg, Ohio, facility egg supply (15.9 million pounds), which resulted in an impairment charge in the fiscal year ended Aug. 31, 2007. Additional causes of the decline include a decrease in pounds available to sell from production and the Renville, Minn., and Thompson, Iowa, facilities as a result of reductions in flock sizes associated with an increase in the amount of space allotted to each bird in compliance with animal care guidelines promugated by industry groups (2 million pounds), and a decrease in pounds available to sell as a result of the company exiting certain low margin businesses (9.6 million pounds).

The average selling price per pound sold increased from 54.1 cents to 77.9 cents, a 44 percent increase, as a result of higher selling prices executed in an environment of sharply increased liquid egg markets.

Net income for the nine months ended May 31 was a profit of $9.3 million compared to a net loss of $9.4 million the same period a year earlier. Net sales for the nine months were $165.2 million, an increase of $18.1 million, or 12.3 percent over the first nine months of the prior year. The average selling price per pound increased from 47.8 cents to 72.9 cents, or 52.5 percent.

No change in layer numbers

Table egg type layer numbers showed no change on June 1 compared to a year ago, according to USDA's Chicken and Eggs report. This compares to a 1 percent year-over-year decline the previous month. Eggs per 100 table egg type layers on June 1, however, were down 1 percent from previous-year levels.

Egg-type chicks hatched during May 2008 totaled 42.7 million, up 12 percent from May 2007.

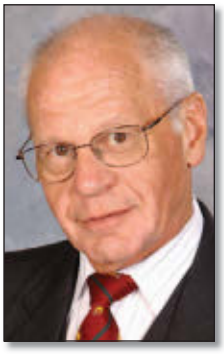
May egg exports decline from 2007

Data appearing in the July 19th *Monday Line* published by the USA Poultry and Egg Export Council (USAPEEC) documents a 60 percent decline in shell egg exports in May 2008 compared to the corresponding month in 2007. According to Dr. Renan Zhuang, the USAPEEC economist citing USDA figures, exports of 4.24 million dozen for the month generated $3.56 million, corresponding to 83 cents per dozen. The volume exported represented 0.8 percent of total May production of 543 million dozen and is equivalent to the output of 2.2 million hens over a given month. The decline was due to reduced shipments to Hong Kong (-57 percent), Mexico (-86 percent) and China (-79 percent) which comprise the largest importing nations.

In contrast the USAPEEC reported a 7 percent increase in export volume for products in May 2008 compared to 2007, with a value of $7.3 million. EI

Information, news and dialogue

August marks the first issue of Egg Industry which I will have the privilege to edit. The WATT team intends to provide egg producers and our allied industries with current information on considerations which impact operation and profitability in addition to promoting new technology to enhance efficiency.



Simon Shane

Articles, interviews, statistics and news items will be selected on their topicality and will relate to the major challenges facing the industry including escalation in feed and energy costs, environmental regulations, food safety, welfare considerations and marketing.

We encourage responses from our readers of both print and Web editions of *Egg Industry* since communication and dialogue can contribute to understanding of common issues and their resolution. **EI**

Morning Fresh Farms: a study in excellence

By Dr. Simon M. Shane, Editor

Morning Fresh Farms is fully integrated with on-site pullet rearing, feed mixing, egg production and processing and a unique added-value manure operation. Joe Raith is the CEO and Derek Yancey is president of the Colorado company established during the early 1970s.

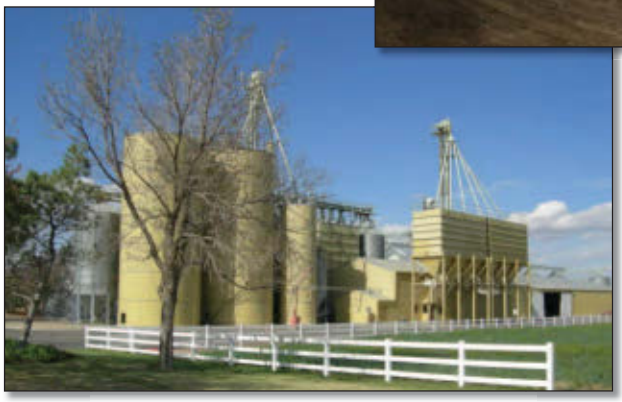
The facility is located on 1,200 acres in Weld County and is guided by 12 principles emphasizing the production of safe products of consistent quality: Employees are expected to demonstrate a strong work ethic that is rewarded by fair remuneration in a safe and progressive workplace. The company also has a strong commitment to the community and operates according to the highest standards of environmental stewardship.

Current capacity includes slightly over one million hens in cages and a separate self-contained cage-free operation holding 150,000 hens. A dedicated feed mill produces up to 1,000 tons per week. Corn is purchased from Colorado farms and is mixed with soybean meal, distillers dried grains and animal by-products that are available in Colorado and adjoining states.

Morning Fresh has been a member of the Rocky Mountain Eggs Cooperative since 2005, participating with other producers in Western states in packing and distributing eggs in the region to balance supply with local demand. Caged and cage-free eggs are packed under the Eggland's Best Brand in addition to private label and Morning Fresh premium packs distributed over a seven-state area.

Recognizing the demand for cage-free eggs in the late 1990s, company president Derek Yancey undertook a review of available housing systems which would conform to the most rigorous standards of welfare. The company has erected a series of in-line houses fitted with the German Salmet aviary system which allow hens to feed, perch and lay in installations located on an upper level. Hens have access to the ground level with a layer of sand. Eggs are conveyed mechanically from the rollaway nests to rod conveyors for transport to a dedicated in-line processing plant.

Scarab Composter aerating mixture of manure and sawdust.



Dedicated feed mill for Morning Fresh complex with adequate ingredient storage and computerized control system.

The cage houses operated by Morning Fresh range in age from 30 years to recently-constructed units. From the outset of the operation, a commitment to on-belt manure drying systems was made. Manure is removed from houses two to three times per week from each house and is transported by trucks to an on-site processing facility. Most manure is dehydrated in a rotary kiln fueled by an on-site gas well. Product is packed in containers ranging from 1 lb. bags to 1 ton totes. Remaining manure is composted by mixing it with ground waste wood. The warm and dry climate facilitates processing of manure using Scarab agitators which transit longitudinal rows located over a 10-acre area on a compacted clay base.

> ***Company culture places a high value on sanitation, bio-security, vaccination and monitoring for possible disease.***

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Eggs from the cage houses are conveyed to a dedicated plant equipped with a new Diamond 8400 grader fitted with crack, dirt and blood spot detection. The separate cage-free plant processes brown eggs delivered in-line from the aviary units.

All pullets are reared on-site for both caged and non-confined units. Controlling both cage and floor housing allows for adequate control of weight and vaccination during rearing using trained and dedicated crews which are also responsible for handling and movement of flocks.

Company culture places a high value on sanitation, bio-security, vaccination and monitoring for possible disease. Investment in structural bio-security includes fencing, black-top roads and concrete aprons in front of houses, drains, security lighting and water retention ponds. Operational bio-security requires visitors to shower on arrival and at departure. All houses are secured against rodent and bird intrusion and the water supply is chlorinated. The company provides coveralls and uniforms to all employees who are screened for compliance with immigration rules and demands a policy of "no outside bird contact". The programs operated by Morning Fresh show the practicality of procedures that will be required by the U.S poultry and egg industries in the future in the event of the emergence and persistence of catastrophic diseases including avian influenza or vvND. A high standard of structural and operational bio-security is required in all aspects of operation in order to maintain the health of flocks located at a single location. EI

Orderly arrangement of houses for caged hens.

View of gas-fueled manure processing plant with rotary kiln.

Newly erected aviary houses equipped with Salmet installations.

Morning Fresh Farms

- Land size: 1,200 acres
- Capacity, caged hens: 1 million+
- Capacity, cage-free hens: 150,000
- Feed mill production: 1,000 tons per week
- Distribution: Throughout a seven state region in the Western United States under three different labels

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Study shows fungus achieves biological control of flies

By Dr. Simon M. Shane, Editor

A natural pathogenic fungus--*Beauveria bassiana*—affecting only houseflies is the basis of a new method to control fly populations in high-rise houses developed by Dr. Jim Arends, previously a faculty member and now an Adjunct Professor at North Carolina State University.

Spray application of balEnce to manure deflector curtains with the anticipation that droplets containing suspended spores will drift down to the manure cones in order to infect emerging flies.

The product comprises a commercial suspension of *Beauveria* conidia, available as balEnce. The product is applied over manure cones and excreta adherent to cross beams using a commercial sprayer delivering a droplet size of 40 to 70 microns at a dose rate of 1 ounce of balEnce per 3,000 ft^2 of floor area.

Quantifying fly population using an adhesive fly ribbon showing flies captured during one circuit of the house.

Generally, initial application on multi-age in-line units with fly problems should be carried out at least three times each week for four weeks followed by applications at 2-week intervals through fall and winter months. Intensity is increased to weekly application or more frequently in spring, with weekly application during summer months. A significant reduction in fly population most often occurs three weeks after initiating the program.

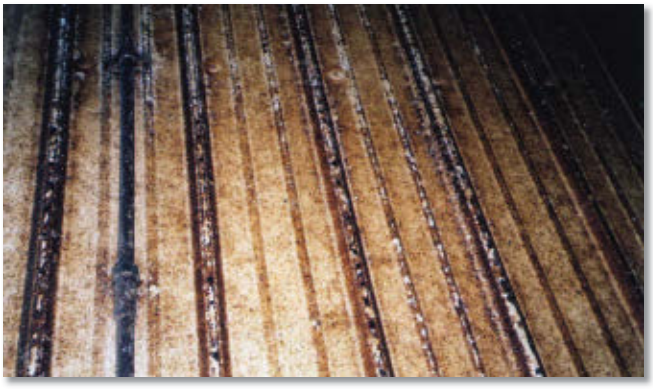
Manure "coned" beneath cage rows show active breeding of flies 18 inches below peak at a depth of 4 inches.

Contact with spores

Adult flies that emerge from their pupal cases come into contact which the spores (infectious stage of the life cycle) of *Beauveria*. Spores released from the conidia develop hyphae which penetrate into the body cavity of the flies resulting in death within days. Application of *Beauveria* is regarded as a component of an integrated control system which incorporates the contribution of beneficial insects and requires dry manure through appropriate ventilation and management of drinking systems. It is axiomatic that the use of synthetic pyrethrins temporarily suppresses fly populations but also destroys beneficial insects. *Beauveria* fungus has no detrimental effect on beneficial insects including Carcinops, beetles or Muscidifurax wasps which parasitize fly larva.

North Carolina study

A study was conducted on an in-line complex in North Carolina, based on favorable results as documented in a peer reviewed article (Kaufman et al. 2005, Evaluation of *Beauveria bassiana* Application Against the Adult House Fly, Musca domestica in Commercial Caged-Layer Poultry Facilities in New York State. Biological Control. 33: 360-367). The pit in the test house was treated with 2 x 10^8 *Bassiana* conida/10 ft^2 in each of 14 applications



Extent of fly specking on ceiling in high rise house after one cycle.

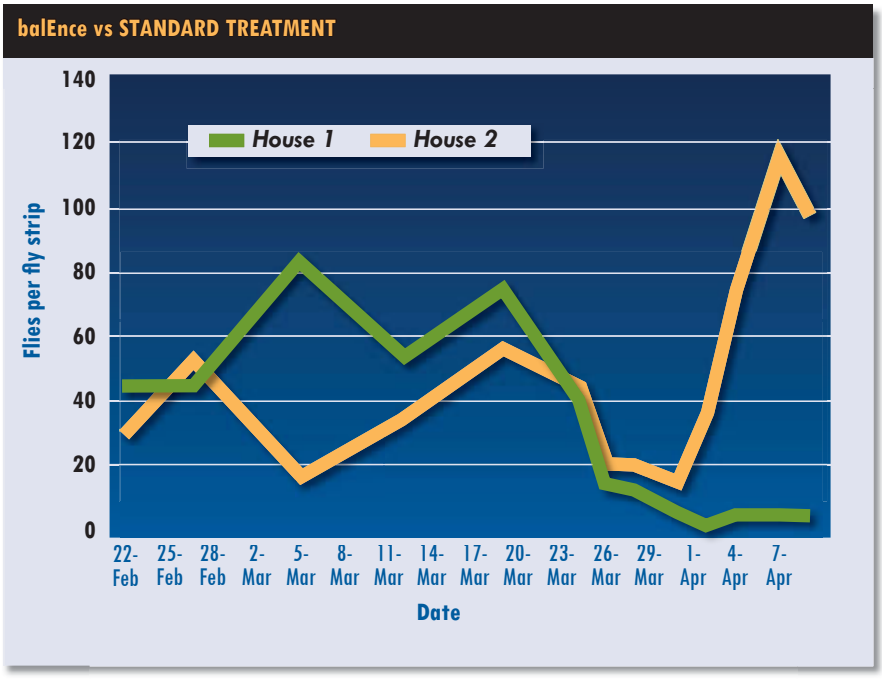
Cleaned ceiling with light fly specking in high rise house after one cycle.

over the experimental period, which extended from February 22 to April 7, 2008. The trial was terminated at this time due to the scheduled removal of all manure from the six houses on the site. The flock in the adjacent control house received a larvicide in feed to suppress fly breeding in manure but pyrethroid sprays and baits were not used.

Efficacy

The efficacy of the respective fly control procedures was evaluated using "sticky ribbons" which were unrolled and walked around the interior perimeter of the house prior to the initiation of the trial and on 11 sampling days extending from February 22 through April 7. Fly counts for the two houses are shown in the attached diagram.

It is projected that the cost of a comprehensive balEnce program would amount to $10,000 to $12,000 annually in comparison to $50,000 for a 10-house complex using conventional insecticides. EI



The pit in the test house (House 1) was treated with 2 x 10^8 Bassiana conida/10 ft^2 in each of 14 applications over the experimental period, which extended from February 22 to April 7, 2008. The trial was terminated at this time due to the scheduled removal of all manure from the six houses on the site. The flock in the adjacent control house (House 2) received a larvicide in feed to suppress fly breeding in manure but pyrethroid sprays and baits were not used.

What's behind the feed cost escalation?

By Dr. Simon M. Shane, Editor

The two major components of feed, corn and soybean meal, have demonstrated unprecedented escalation in cost since introduction of the Renewable Fuel Standard (RFS) in 2006. In August two years ago, corn traded at $2.25 per bushel, rising to $3.40 by April 2007. The Energy Independence and Security Act of 2007, which doubled the ethanol mandate, caused further escalation in price with last month's Chicago Board of Trade quotation hovering at $7/bushel.

During mid-June, USDA's Economic Research Service estimated a price range of $5.30 to $6.30 per bushel for corn harvested during 2008-09. This estimate was based on planting 86 million acres and harvesting 92 percent of this area with an average yield of 149 bushels per acre.

USDA further estimated that total supply would amount to 13.18 billion bushels, including carry-over stocks of 1.4 billion bushels. Of the total supply, 41 percent was projected for animal feed, seed and industrial uses with 30 percent diverted to ethanol and the remaining quantity for export and an extremely low carry-over of 673 million bushels.

The USDA projection contained in the World Agriculture Supply and Demand (WASDE) commodity report for June does not take into account the effect of severe flooding in the nation's heartland that will markedly depress acreage and yields of both corn and soybeans. Reality is represented by the futures market which is pricing corn and soybeans far above the USDA projections.

Industry organizations including the National Chicken Council and more than 20 industry consumer groups have formed a coalition to oppose federal mandates that they maintain contribute to record food price inflation both in the United States and the international markets. The website of the coalition (www.foodbeforefuel.org) presents economic studies opposing the RFS.

An opposing view is presented by the administration in a written response by Sam Bodman, Secretary of Energy, and Ed Schafer, Secretary of Agriculture in response to a series of questions by Sen. Jeff Bingaman, (D-N.M.), Chairman of the Committee on Energy and Natural Resources. A formal response includes the support of the two Secretaries of the policy of the current Administration (www.usda.gov). They state clearly that "biofuels are already moderating gasoline prices" and that "biofuels-related feed stock demand plays only a small role in the global food supply and pricing".

The impact of an increase in corn from $3 to $7 per dozen is over 20 cents per dozen, without completely taking into account the parallel increase in the cost of other grains, DDGS and soybean meal, which are both directly and indirectly influenced by diversion.

In response to specific questions, the joint USDA/DOE (Department of Energy) document claims that ethanol and biodiesel consumption accounted for approximately 3 to 4 percent of the overall rise in retail food prices during 2007 and 4 to 5 percent of the total increase in all food CPI during the first four months of 2008. It is claimed that factors unrelated to biofuel development are responsible for escalation in cost of corn including the depreciation of the dollar, increasing demand by more affluent consumers in developing countries and recent drought and inclement weather in the Southern Hemisphere.

The two departments claim that biofuel production in the United States was responsible for approximately 10 percent of the increase in the International Monetary Fund Global Foods Commodity Price Index, which is considered by many to be a highly significant rise.

Consumers in the United States are

apparently regarded as being relatively protected from increases in retail food cost since the farm price of commodities, according to USDA, accounts for only 20 percent of total purchases.

The Energy Independence and Security Act of 2007 would require greater diversion of soybean oil to biodiesel. Again USDA maintains that the increase in the CPI for all food will only be 0.2 to 0.3 percentage points and would raise the IMF Global Commodity Price Index by 1 to 2 percent.

Nine billion gallons of ethanol

In 2008, refiners will incorporate 9 billion gallons of ethanol into the nation's gasoline supply. It is calculated that this will save 7.2 billion gallons of gasoline, which would otherwise have to be refined with 60 percent of the required feedstock derived from imported oil. USDA and the Department of Agriculture estimate that without blending ethanol into gasoline, pump prices would be 20 to 35 cents per gallon higher than at present, taking into account the 51 cent per gallon tax credit for ethanol blenders. The USDA and DOE assume that by 2012, two billion gallons of advanced biofuel will be derived from cellulosic sources and not from corn.

The USDA/DOE document, which includes a detailed appendix with tables and figures supporting the Administration action, raises a number of questions. There is no mention of importation of ethanol derived from sugar cane, which is available in Brazil but is currently subject to an exclusionary tariff. The Administration is relying on the current ethanol refining capacity and the output from new plants amounting to an additional 6 billion gallons per year to supply the U.S. market. It is apparent that with current ethanol prices a plant can only recover variable cost of production and that despite subsidies some plants are closing due to losses as the price of corn as a feedstock rises.

Disconnect

Clearly, there is some disconnect between the USDA/DOE calculations and the realities faced by producers and consumers. All segments of the intense animal industry are faced with escalation in feed cost which cannot be passed on to consumers without markedly depressing demand. There is a chorus of opposition to the current U.S. biofuels policy from virtually every international agency and agro-economist not affiliated to the present Administration. The U.S. egg industry will consume 363 million bushels of corn in 2008. Each $1 per bushel increment in cost will add 5 cents/dozen eggs and impose an incremental cost of $8.6 million per week to the collective feed bill of the U.S. egg industry. The impact of an increase in corn from $3 to $7 is over 20 cents per dozen without completely taking into account the parallel increase in the cost of other grains, DDGS and soybean meal, which are both directly and indirectly influenced by diversion of corn to ethanol. EI

Electronic machine evaluates shell strength

Orka Food Technology of Israel, manufacturers of the EggAnalyzer which determines Haugh units, USDA grade and yolk color, have developed an Egg Force Reader which provides a quantitative measurement of shell strength.

The egg is placed on a spring stand and the instrument is activated by bringing down a disc which cracks the egg with gradually increasing pressure. The force required to break the shell is a function of shell density and integrity. Preliminary evaluation of the instrument indicates that eggs with obvious defects including "windows" as denoted by candling yield values of 3 kg compared to eggs with acceptable shell strength with Egg Force values

ranging from 5 to 6 kg.

A U.S. producer is currently conducting evaluation trials to determine the correlation between specific gravity, subjective score based on candling and the quantitative values generated by the instrument.

Further details can be obtained from the company website: www.eggtester.com.

INDUSTRY CALENDAR

For more poultry industry events visit: www.WATTpoultry.com/Events.aspx

2008

SEPTEMBER

10: Delmarva Poultry Conference

Sponsored by the University of Delaware and the University of Maryland. Clarion Hotel, Ocean City, Md. Details from Jennifer Timmons; Phone (410) 742-8788; Email mdchick@umd.edu.

17-18: Poultry Production and Health Seminar

Doubletree Hotel, Nashville, Tenn. Details from U.S. Poultry & Egg Association, 1530 Cooledge Road, Tucker, GA 30084-7303; Phone (770) 493-9401; Fax (770) 493-9257; Website www.poultryegg.org.

OCTOBER

19-22: University of Wisconsin-River Falls Microbiology Symposium

University of Wisconsin-River Falls, River Falls, Wis. Details from University of Wisconsin-River Falls Animal and Food Science Department; Phone (715) 425-3704; E-mail: foodmicro@uwrf.edu; Website www.wurf.edu/foodscience.

21-23: National & International Poultry Waste Management Symposium

Des Moines, Iowa. Contacts and additional information at: www.ces.ncsu.edu/depts/poulsci/poultry_waste_symposium.html

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