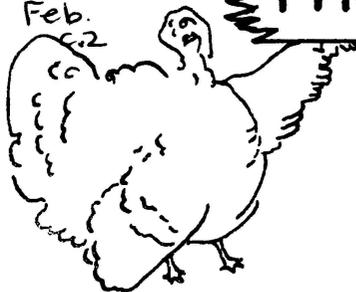


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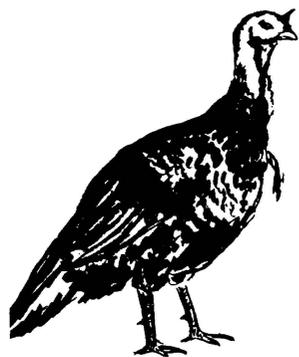


The Market Review of



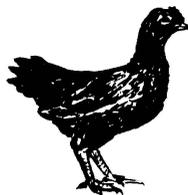
PEEP AND MOO

Virginia Polytechnic Institute and the United States Department of Agriculture Cooperating:
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MARKETING

turkeys eggs



broilers



February 1959

SHOULD I CONTINUE PRODUCING BROILERS?

The outlook for continued increases in production may result in a supply-price relationship less favorable than today's. Many growers doubt the feasibility of continuing to produce broilers yet cannot decide if stopping would be a wise decision. Some growers have discontinued producing broilers and suffered a reduction in income. Others who could possibly increase total farm income by employing their labor elsewhere have continued producing broilers.

The answer for each grower depends on his individual set of circumstances. Growers on adjoining farms may reach opposite conclusions. However, each reaches a decision on the basis of answers to three questions: (1) What returns can I expect from producing broilers?; (2) Are returns sufficient to pay for my contribution?; and (3) What are my alternative opportunities? (Other considerations may also enter.)

1. What returns can I expect from producing broilers?

Most broilers are produced under contract with a feed dealer. The contractor supplies chicks, feed, fuel, medicines, and other production items.

The outlook for continued increases in production may

Grower payments are usually based on some predetermined schedule associated with production performance and market price. If selling price is below contract cost of production, the grower still receives remuneration based on the schedule included in the contract. The grower is not guaranteed payment unless production performance exceeds specified standards. Past production performance applied to the contract schedule of payments should be an indication of potential returns.

To illustrate, past performances for the same season of the year indicate the proposed lot of broilers should convert feed at a ration of about 2.4 to 2.5 and weigh 3.18 to 3.30 pounds at 9 weeks of age. The contract offered agrees to pay 1 1/4¢ to 1 1/2¢ per pound of marketable broiler for performance of this kind. Thus, anticipated returns would range between 3.975 cents to 4.95 cents per bird. Rounding this, returns should be between 4 and 5 cents per bird, or a total of \$196 to \$245 for 5,000 birds (assuming 2% mortality). Four and one-half lots a year would yield from \$880 to \$1,100 annually.

Estimating returns this way would not be accurate, of course, but will indicate what is reasonable to expect if unforeseen circumstances do not occur.

2. Are these returns sufficient to pay for my contributions?

What are the returns for?

Since the contractor supplies chicks, fuel, feed, litter, and other items of production, returns to the grower are for the use of his building and equipment, electricity and water (if not provided for in the contract), and labor.

The grower must decide how to prorate returns among these contributions. Cost of electricity should be deducted if this is a cash production cost to the grower. The remainder should be divided between returns to investment and returns to labor depending on individual circumstances.

If the grower can use his labor profitably elsewhere, but the building has limited profitable uses, perhaps labor should receive emphasis in the division of the proceeds. This will give a high labor return per hour but a low return to use of buildings and equipment. However, if labor cannot be profitably employed elsewhere, perhaps a reasonable return to investment should be deducted from the total with the remainder considered as labor income. This will result in a satisfactory return to investment but a low labor earnings.

Yet, a division of returns may be unimportant since the capital invested in buildings and equipment is committed and cannot be used for other than its present use.

Each grower must decide if returns are satisfactory in return for what is contributed.

3. What are my alternative opportunities?

Other potential uses of labor and facilities should weigh heavily in the final decision. Can labor be used in the

production of other farm commodities or engaged in off-farm employment more profitably than in broiler production? Can the house and equipment be put to other productive uses?

Adjustment opportunities on the farm may be limited by additional capital requirements, lack of experience in producing other commodities, marketing conditions, production control programs, etc. Off-farm employment opportunities may be limited for lack of training and/or experience.

Broiler houses are limited in adaptation to other uses although little change is needed to convert to laying houses. Different equipment is required, however. Other uses may be for sheep, beef cattle (the roof is usually too low to be satisfactory), hogs, storage, etc. Profitable conversion of a broiler house to other uses will depend heavily on other enterprises on the farm.

Thus if labor and facilities have very limited or no alternative uses, returns to labor in broiler production, even though low, may be much more attractive than the alternative--lower or no labor returns for the amount of labor involved.

In the final analysis, the grower may be faced with three alternatives for the employment of his labor--(1) broiler production under contracts, (2) production of some other agricultural product and let the broiler house and equipment stand idle, or (3) off-farm employment, either part-time or full-time. The one that results in the highest annual income and/or family satisfaction should be the one selected.

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EGG PRICES - Average From January 1, 1959 to January 31, 1959 ^{1/}

Market Area	U. S. Grade A			Grade B	Grade C
	Large	Medium	Small	Large	Large
- cents per dozen -					
Harrisonburg	39.0	35.2	22.8	33.7	18.0
Richmond	39.0	34.6	24.0	36.0	25.0
Roanoke	40.3	36.0	24.1	33.9	20.0

^{1/} Unweighted average. Additional payments of 1 to 4 1/2 cents per dozen made by some buyers on special arrangements for quality and quantity.

BROILER PRICES - Average from January 1, 1959 to January 31, 1959

Market Area	Ave. ^{1/} Price	Weekly Summary of Purchases in Shen-Valley Area		
		Week Ending	No. Birds Purchased	Weighted Ave. Price (cents)
Shenandoah Valley	17.1	1/ 2	825,200	15.14
Del-Mar-Va	18.5	1/ 9	1,152,491	15.19
West Virginia	18.4	1/16	1,070,050	17.46
North Carolina	16.4	1/23	1,067,200	19.07
North Georgia	17.1	1/31	<u>1,017,425</u>	17.75
		Total	<u>5,132,366</u>	16.97

^{1/} Unweighted Average.

Average Virginia Poultry Feed Prices and Feed-Price Ratio

Date	Price Per 100 Pounds			Feed-Price Ratios ^{1/}		
	Laying Mash	Broiler Growing Mash	Turkey Growing Mash	Egg	Broiler	Turkey
- dollars -						
Jan. 15, 1958	4.55	4.95	4.95	13.0	4.1	6.3
Dec. 15, 1958	4.70	5.00	5.00	11.9	2.9	6.3
Jan. 15, 1959	4.75	5.10	5.00	12.4	3.3	6.0

^{1/} Number of pounds of feed equal in value to one dozen eggs, one pound of broiler live weight, or one pound of turkey live weight.

Dairy



Section

February 1959

OUR CHANGING MILK MARKETS

Technological improvements, such as bulk tanks, new methods of milk transportation, coupled with an improved, expanding system of highways and more rigid sanitary requirements, are making it more feasible for milk to be moved longer distances and still maintain quality. These changes in milk marketing are encouraging competition from areas further removed from the point of sale. In other words, these changes are causing a market to include a larger area from that considered a market only a few years ago.

Various economic theories of marketing areas have been published through the years. Most of them have been general and not applicable to a particular commodity. Many, however, can be directly or indirectly useful in considering milk marketing areas.

Alfred Marshall stated: "When demand and supply are spoken of in relation to one another, it is of course, necessary that the market to which they

refer should be the same."^{1/} Cournot says: "Economists understand by the term market not any particular market place in which things are bought and sold, but the whole of any region in which buyers and sellers are in such free intercourse with one another that the prices of the same goods tend to equality easily and quickly."^{2/} The German Economist, Von Thünen, in 1875 stated that products having a low specific value and a high degree of perishability tend to be produced closer to the consuming center than those having a high specific value and a low degree of perishability."^{3/}

Drawing from these theories Bartlett defined a milk market in 1931 as follows: "A milk market is an area supplied by a group of distributors who are competing for the sale of bottled or bulk milk in all or a part of this area. Thus, in a general way, the limits of the market are confined to the area supplied by its principal distributors."^{4/}

By using Bartlett's definition of a milk market to establish an economic marketing

^{1/} Alfred Marshall, Principles of Economics, New York, 1936, Rev. Ed., P. 215-216.

^{2/} Cournot, Recherches sur les Principes Mathematiques de la Theorie des Richesses, Ch IV.

^{3/} Johann H. Von Thünen, Der Isolate Staate in Begichung auf Land Wirt Schaff and National Okonomic, 1875.

^{4/} R. W. Bartlett, Cooperation in Marketing Dairy Products, Springfield, 1931, Page 163.

area for regulatory purposes, the area which would be included in a market today would be considerably different from the area included in a market in 1931. The economic definition of a market is still the same, but progress and technological improvements have made it possible for a group of milk distributors to compete for milk sales over wider areas. By the definition of a market, it is inferred that competition is price competition. However, competition other than price plays an important part in sales of milk in Virginia. Distributors, whose prices are set by the State Milk Commission, are still in competition for milk sales even though the prices may be the same.

Technological improvements in transporting milk (both from the farm and to the consumer), the paper carton, and increased sales through grocery stores along with improvement in processing milk have allowed processors to operate fewer plants geared to bottle large volumes of milk in a highly efficient manner. These changes are greatly expanding the area in which a processor can compete effectively in the sale of milk. The advantages of a local milk processor in his local area are becoming fewer as competition from those outside his market continue to increase.

Rather than being concerned with intermarket sales of milk it might be wise to step back and determine whether these sales are intermarket sales or whether our rapidly changing economy has combined two or more markets into a single market. Based on the economic definition of a milk market, many of the markets as defined in regulations today would not conform to this definition.

Product Changes

Milk markets in Virginia are faced with a new type of competition. The competition does not come from milk distributors. This competition comes from the shelves of the grocery stores and the products originate from surplus milk of fluid milk markets or from the dairy sections of the United States. This competition is that of dried milk (both dried whole milk and skim milk) and condensed milk.

Research directed toward processing these products more efficiently and making them more acceptable to the consumer is going on continually. Recently scientists at the U.S.D.A. Agricultural Research Service Utilization laboratories in Philadelphia have developed a dried whole milk that reconstitutes instantly into a high quality product, even in ice water. So far, however, the product is bulky, its shelf life falls short of the need, and the process is still to be adapted to low-cost industry needs. Research is now attempting to overcome these problems.

As more and more of these milk products are developed, fluid milk sales will be meeting stiffer competition. In view of this competition, fluid milk production, processing and distribution shall have to become increasingly more efficient or lose sales to these new products.

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