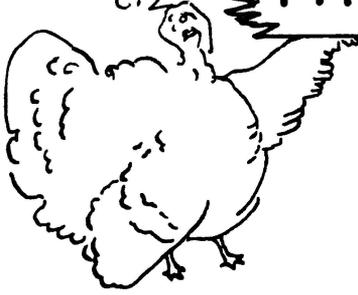


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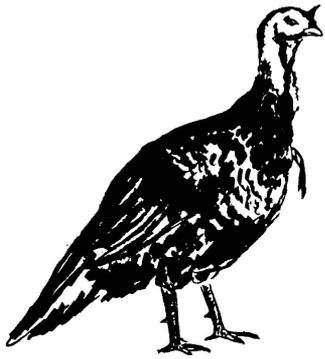


The Market Review of

PEEP AND MOO

Virginia Polytechnic Institute and the United States Department of Agriculture Cooperating:
Extension Service, L. B. Dietrick, Director, Blacksburg, Virginia

Issued and Distributed in Furtherance of the Acts of Congress of May 8 and June 30, 1914



MARKETING

turkeys broilers

eggs



August - September 1960

The following article on egg pricing (by Dr. Jasper) presents a new approach to egg price reporting. While the plan is designed to reduce daily price fluctuations, it might possibly increase the size of these fluctuations by trying to keep the price in line with the available supply of, and the effective demand for, eggs. I believe that the plan warrants your consideration, not only of the immediate effects, but also of the long-run effects. I would be interested in your comments.

W. R. Luckham

W. R. Luckham
Poultry Marketing Specialist
Agricultural Extension Service

AFBF'S JASPER URGES TRIAL
FOR "BASE PRICE AVERAGING"

Dr. A. William Jasper
American Farm Bureau Federation

"Egg prices are set by just one man!" "Egg prices are based on only a few cases of low quality eggs!" "A small surplus of eggs in New York City depresses egg prices everywhere, even if there is a shortage out in the country!"

Ever hear these unfounded exclamations? Sure you have. It's popular sport in these days of low egg prices to damn egg prices, the egg price-making mechanism, egg price reporting, and anyone who has anything to do with egg prices and pricing.

Those who have spent time studying egg prices and the egg price-making mechanism in this country are first to agree that improvement is in order. Thus far, however, no critic of current practices has offered a workable, substitute alternative. Perhaps one explanation is that we are looking for the ultimate instead of considering a stepping-stone approach to better egg price formulation.

What would be the ultimate in egg pricing? It might be a system where retail distributors would contract a year in advance to purchase given quantities of eggs at pre-established prices. This might be Utopia for practically everyone producing, handling, and distributing eggs. Think of the simplification...the simplified bookkeeping alone would be a blessing. But at this stage of the game annual egg price contracting at a specified price isn't practical. There are too many variables to be considered.

What about quarterly prices? Still, right now, too many variables. Monthly egg prices? Now we're getting a bit more realistic. It might be highly desirable to establish monthly egg prices. But it will be some time before we can reach even that goal...especially if we are thinking of egg prices contracted for in advance. So what will we do meanwhile to edge in the right direction?

It seems to this writer that we will

have "base pricing" in the egg industry for a long time to come. This is where the price paid to an egg producer is related to an established base, usually a terminal market quotation.

Presently, most egg producers are paid according to the closing quotation for a given size and grade of eggs -- the base price -- on a pre-determined day of each week. This might be referred to as "one-day-a-week" egg pricing. While this system has served the egg industry successfully for many years, it could bear a reevaluation.

Suppose an egg producer is paid for his eggs according to the quotations reported each Tuesday. On a given Tuesday, the price for large, white, nearbys, for example, might drop five cents or more per dozen. This could add up to an apparently substantial "loss" for a producer who owns several thousand layers.

An explanation of the law of supply and demand wouldn't be very helpful to a producer at a time like that! And, after all, can you blame him for asking why the market should drop a nickle or more on any particular day? Couldn't the adjustment be a bit less abrupt?

The real "wrong" in this hypothetical, but realistic, situation is that the producer is represented in the market place only one day each week, although he is producing eggs every day of the week. Regardless of how his prices average over the year, they are subject to wide, often unnecessary, fluctuations from week to week. This is the crux of the matter. How can the situation be remedied?

At present, it would seem that the best way to alleviate this situation would be to have producers represented in the market place every trading day of the year. How? Simply by paying producers prices based on five-day moving average quotations -- "base price averaging."

This concept is not new to some in the egg industry. But it is new to most

of us. Few handlers, even those who are in a position to take the initiative, have adopted the principle of "base price averaging" in paying producers for eggs. WHY?

Almost two years ago, the writer successfully encouraged the Urner-Barry Company to incorporate base price averages into the firm's egg price reports. On May 19, 1958, the company for the first time issued "a new table giving the average of Urner-Barry quotations on certain grades of shell eggs for the five-business-day period prior to and including day of current establishment." The first quotations were limited to "averages of top quotations only on fancy Nearby whites and browns, Large, Mediums and Pullets." Since that time, quotations have been added to include averages of top quotations for Other Eggs to include mixed, whites, and browns, for Large and Mediums.

Officials of the U. S. Department of Agriculture also discussed the establishment of similar quotations. USDA has not chosen to implement this type of reporting, however, largely because of their prior interest in developing volume price reports.

But any handler who chooses to, could do his own five-day averaging of USDA or other private quotations, using either inside or outside quotations or a moving average of the daily range. This would provide base averages to which discounts and premiums could be applied, as required by competitive elements.

What are the advantages of using five-day moving average egg price quotations as a basis for paying egg producers? At the outset, let's establish the fact that producers are not likely to get more dollars for their total egg supply over the year under this system of egg pricing than they would under the "one-day-a-week" system. But there will be vastly less variation in their income checks from week to week. This has both physical and psychological advantages for producers.

There are advantages for egg buyers

and handlers, too. Their producers should be easier to deal with...no small item! More importantly, however, it would be possible for many handlers to substantially reduce price variations in invoicing customers.

Ultimately, the adoption of "base price averaging" on an industry-wide basis would lend much stability to the egg market. It would eliminate to a large degree the chronic plaint: "Why do egg prices fluctuate so much!" And it would be a step in the direction of monthly egg prices.

A quick check reveals that "base price averaging" is being used by some egg handlers and retail distributors in various parts of the country, mostly the Northeast. One large Southern cooperative uses this system.

Others indicate a desire to implement this system but seem to fear buyer competition, while "selling" the idea to their producers. But a change of this nature requires courage and steadfastness of position. Producers initially will require an explanation of the new system.

Some would-be users of "base price averaging" wonder if large retail buyers would refuse to cooperate with them in making any change in the present method of determining invoice prices for eggs. But any fear of this nature fails on two scores:

(1) It fails to recognize the time-honored idea that progress comes with change and

(2) The chain store and supermarket executives who have been queried on this subject indicate that it is "just what we have been looking for."

Let's make the first step in improving our egg pricing system for the betterment of the nation's egg producers-- in fact, all of us in the egg industry-- by changing from the use of "one-day-a-week" egg pricing to "base price averaging." You, Mr. Handler, can be a pace-setter

by making the change, Now!

(This article was copied from POULTRY & EGGS WEEKLY, Vol. 40, No. 8, pp. 1 and 25, February 6, 1960).

AVERAGE EGG PRICES 1/

Virginia Market Area	U. S. Grade A			Grade B
	Large	Medium	Small	Large
	- cents per dozen -			
June 1960	32.75	28.85	19.00	26.40
July 1960	37.20	32.10	22.10	28.95
August 1960	44.75	36.10	25.15	32.90
August 1959*	35.50	22.20	13.25	20.85

1/ Values being used in adjusting to a common denominator are: (1) Delivered to plant--0 to 1¢ (2) Cases exchanged--1¢ (3) Farm refrigeration--0 to 3 1/2¢ (4) Minimum 5 case lots--0 to 2¢.

BROILER PRICES

Market Area	Average Price <u>1/</u>			
	June 1960	July 1960	Aug. 1960	Aug. 1959
Virginia	17.00	17.15	16.00	15.50
Del-Mar-Va	18.25	18.95	17.45	16.45
West Virginia	17.60	17.55	16.75	16.10
North Carolina	16.55	17.00	15.95	14.85
North Georgia	16.75	17.00	15.25	14.60

WEEKLY SUMMARY OF PURCHASES
IN VIRGINIA

Week Ending	No. Birds Purchased	Weighted Ave. Price (cents)
8/5	1,155,900	17.05
8/12	1,117,800	16.24
8/19	1,172,350	15.84
8/26	936,600	15.87
Aug. Tot.	4,382,650	16.27
July Tot.	5,169,590	17.34
June Tot.	3,935,400	17.18

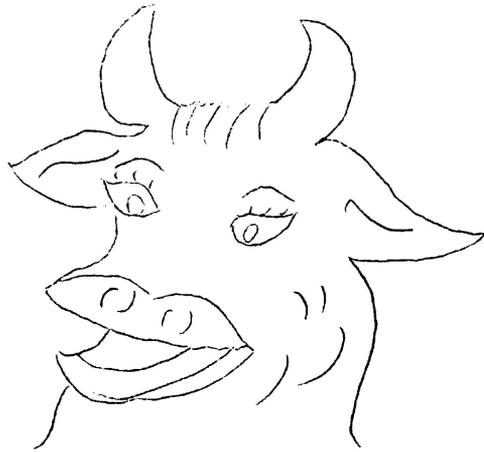
1/ Unweighted average.

Average Virginia Poultry Feed Prices and Feed-Price Ratio

Date	Price Per 100 Pounds			Feed-Price Ratios <u>1/</u>		
	Laying Mash	Broiler Growing Mash	Turkey Growing Mash	Egg	Broiler	Turkey
	- dollars -					
Aug. 15, '59	4.65	4.95	5.00	10.2	3.2	5.3
July 15, '60	4.50	4.70	4.85	11.2	3.7	6.0
Aug. 15, '60	4.50	4.75	4.85	12.1	3.4	6.6

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

August - September 1960

VIRGINIA'S BASE
PLAN

A public hearing was held by the State Milk Commission in Richmond on July 21, 1960, to consider changing the method of transferring base between producers. Present regulations require that the herd and the base of the producer be sold at the same time. Under this provision, a baseholder may sell his base in several parts, but he cannot sell one part and retain the remainder. The primary purpose of this provision is to prevent "trafficking" in bases. "Trafficking" is the practice of buying and selling a base or a part of a base for profit. Persons engaged in trafficking are not always interested in milk production or in the milk market.

However, it might be wise at this time to take a broader look at the "base" plan and its purposes and objectives. With the purposes of the base plan in mind, the transfer provisions can be evaluated more objectively.

The characteristics of milk are such that it cannot be stored or held off the market for any length of time with the expectation of receiving a higher price. The method of paying for milk must be determined before the milk is delivered to market. In Virginia, most milk is purchased on the basis of a combination of "use-classification" and "base-excess" plans. Both state and federal regulations use a form of these plans to distribute

returns from the sale of milk.

The "use-classification" plan groups all milk used in products having similar economic value into the same use class. The price is determined in accordance with the value of the products in each class. Payment is made on the basis of the volume of milk utilized in each class.

The "base-excess" plan sets forth the method of allocating the class sales to individual producers. The "base-excess" plan of payment for milk regulated by the Virginia State Milk Commission was designed primarily for four purposes:

1. To return high average prices to those producers (baseholders) who have historically assumed the responsibility for regularly supplying Virginia markets with Grade A milk.
2. To align the supply of Grade A milk to fluid milk sales.
3. To assure distributors of adequate supplies of milk by assigning a definite production potential to each.
4. To adjust for seasonal variations in milk deliveries by setting the base-forming period during the season of low

production.

The underlying principle of a base or quota plan is that each producer should bear the full consequences of his own surplus production. He should have to accept surplus prices for all the milk he produces over his "recognized share" of the fluid milk sales in the market. He does not have to bear the burden of someone else's surplus production.

Under a straight blend price system of payment, the price received by an individual producer is determined by the total surplus--either the total in the market under a market-wide pool, or the total of the distributor under an individual distributor pool. The base-excess plan provides an incentive for a producer to limit his surplus when the price of an additional unit of surplus milk is less than his cost of producing that additional unit.

Under a semi-closed base plan, as used by the State Milk Commission, maintaining total bases relatively close to fluid milk sales is necessary for accomplishing the first two objectives listed above. The transfer of bases, whether in part or in full, does not affect the alignment of Grade A milk supply to fluid milk sales in a market. So long as the ratio of fluid sales to total bases remains the same, a transfer of base does not alter individual producers' relative position, unless he is involved in such a transfer. Bases are assigned to a market and are not transferable between markets.

If bases were not allowed to be transferred in any manner, other baseholders in a market might increase their recognized share of the market when a baseholder went out of the milk business. The value attached to a base makes such a practice unacceptable to most dairymen.

The method of transfer of bases does not greatly affect objectives 3 and 4 listed above.

The main reason for a provision to

transfer only a part of a base is that it provides a means for cutting back a dairy operation without the owner going out of business or taking a loss on his investment. Some reasons for contracting the size of operations are: (1) The operator may be getting old and can no longer handle as large an operation, (2) A son who has assisted with the operation may leave home for various reasons, (3) The loss of property to highways with no land available nearby, or (4) The temporary curtailment of milk production due to illness or other such hardships. Because of such conditions, many feel that the transfer of only part of a base should be provided for.

The transfer of a base has administrative implications which cannot be overlooked. The transfer of only a portion of a base increases the amount of record keeping. This is particularly true in the practice of "trafficking" in bases. However, some people have indicated that a person so engaged in the buying and selling of parts of bases is providing a service to the dairy industry.

It would appear that the objectives of the transfer plan can be accomplished by allowing bases to be transferred either in whole or in part, if the base-making provisions are strictly enforced. Provision for transfer of part of a base would contribute to greater flexibility in farm adjustments. But it likely would increase the administrative task of record keeping and enforcement. Aside from these considerations, there is a question as to what extent the regulatory agency should be concerned with the profit aspect in base transfers, and whether provisions for hardship cases would be abused.

AMERICAN DAIRY ASSOCIATION ASKS, "PLEASE DON'T ABBREVIATE"

The American Dairy Association recently sent a very

urgent and special memo to politicians and the press. It is reproduced below for your information.

Ladies and Gentlemen:

During the next several months there will be many speeches, reports on speeches, and editorials which will concern themselves with what the Americans for Democratic Action think about political issues. Some speeches will praise this organization, while others will condemn it.

Headlines will scream that "ADA Demands Thus and Such" or that "Senator Blank Blasts ADA."

Unfortunately, or perhaps we should say, confusingly, there are quite a few organizations in this country that have the same initials as Americans for Democratic Action. In addition to American Dairy Association, there are other groups such as the American Dental Association and the American Dietetic Association, to mention only a few.

American Dairy Association is non-political. Dairy farmers invest their money in the Association to conduct a program of research, advertising, merchandising, and public relations, all of which must concentrate on selling dairy foods and avoid any political implications of any kind. No lobbying is permitted.

You can readily imagine, I'm sure, what happens around our office when a group of farmers, scanning the headlines, read that "ADA Condemns Farm Program" or that "ADA Blasts" some political individual in our government.

Gentlemen, we beg of you to save us--and our cohorts at the Dental and Dietetic associations as well from this misunderstanding.

We've thought about changing our name, but that's easier said than done, and anyway, we'd probably wind up adopting another one with initials that would be confused with something else.

You are the only people who can really help us. Please let the public know which A-D-A you mean. If you do this, we can get back to selling milk and ice cream and all those other wonderful dairy foods, rather than denying that we "blasted," "slapped," or "damned" anything of a political nature.

Thanks, and

With best wishes,

AMERICAN DAIRY ASSOCIATION

s/Frank R. Neu, Director
Public Relations

EVAPORATED AND
CONDENSED MILK
PRODUCTION

The U.S.D.A. recently published statistics on production of manufactured dairy products for 1959. Production of evaporated whole milk in 1959 was at the lowest level in two decades. Total output was 2,267,961,000 pounds, down 1% from 1958 and 10% below the 5-year average. Production of evaporated milk through June 1960 totaled 1,152 million pounds, down 5% from the same period of 1959.

After declining for two years, production of canned sweetened condensed whole milk increased 6% from the preceding year in 1959 and totaled 60,646,000 pounds. This was 32% above the 1953-57 annual average output. During the first half of 1960, production totaled 35.4 million pounds, 13% more than in the January through June period of 1959.

Meanwhile, production of sweetened condensed whole milk (bulk goods) declined 7% from the 11-year high set in 1958 and totaled 49,695,000 pounds. Production of plain condensed whole milk (bulk goods)

was the largest on record at 367,325,000 pounds. This was an increase of 7% over the preceding year.

A handwritten signature in cursive script, appearing to read "Albert Ortego, Jr.", written in dark ink.

Albert Ortego, Jr.
Dairy Marketing Specialist
Agricultural Extension Service