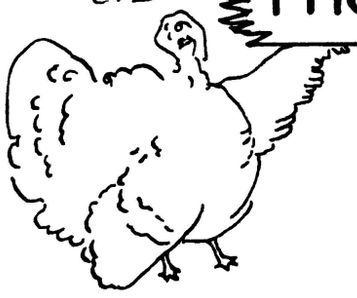

The Market Review of

PEEP AND MOO

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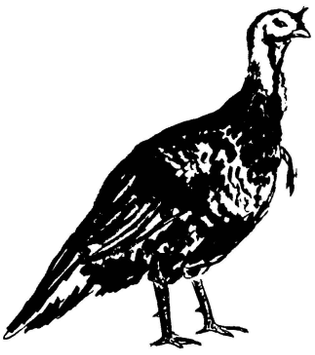
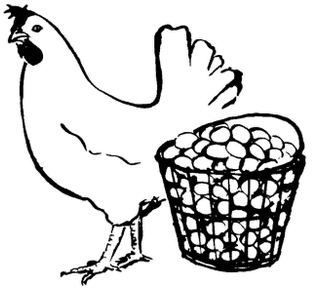


MARKETING

turkeys eggs broilers



March, 1961

LET'S TAKE ANOTHER LOOK AT BASE PRICE AVERAGING

Base price averaging is receiving considerable attention both here and in Canada as a means of insulating the egg producer from the vagaries of the market place. The mechanics of determining the base price average for the five previous days' quotations for a particular classification of eggs are as follows: As each new day's market quotation is determined, it is added to the total and the oldest quotation is subtracted; the remainder is then divided by five to arrive at that day's average price. Thus, the average moves day by day and always contains the summation of the five most recent daily quotations.

The base price average can be determined for any quotation or part of a quotation. Thus, it can reflect base prices for any grade of eggs as well as for the high, low, or mostly portion of any quotation. It is important that the same quotation be used continuously, however, in order that the resulting base price average be meaningful.

The purpose behind this mathematical maneuvering is simply to even out or soften the daily market price fluctuations so that a producer does not run the risk of selling his eggs on the basis of the daily quotation that may have dropped or jumped on that particular day. Since the base average changes daily, there will still be price changes--but not as severe as those that can and do occur on a terminal market.

To this point we have accomplished no improvement except for cushioning the price changes. We have increased the book work since we now have to compute a new average each day. For an individual firm this may not mean any change in book work since an average is being reported by the Urner Barry Company. The egg processing firm is still plagued with daily price changes. It would now buy on an average price and sell at the prevailing market price. While prices are rising, the firm is buying on a low market (producer gets less) and selling on a higher market. Conversely, on a falling market the firm buys on a high market (producer gets more) and sells on a low market. Thus, the firm may operate irregularly in the red or black and has no control over the situation. It is conceivable that a firm could incur windfall losses due to a falling market and later on incur windfall profits on a rising market. This raises a question of whether or not most egg processing firms could stand any prolonged decline in egg prices. (Whether this decline comes before or after a rising price period makes little difference.) Therefore, why not sell on the same market that you buy on? Then any chances of windfall profits or losses will be removed and the firm goes on as before, except that it, too, is protected from sudden irregular shifts

in terminal market egg price quotations.

Now both the producer and the egg processing firm are protected against sudden market fluctuations. The buyers for the retail and other outlets are also protected from these fluctuations since they are buying at the base average price plus a constant differential to cover handling costs. Since buyers do not like to deal with more than one base price for a commodity, all sellers will be encouraged to sell at the average base price. Competition will force other buyers and sellers to operate in a similar manner in order to assure continuity of supply during periods of low market but high base prices (relatively).

Now the producer, the egg processing firm and the retail buyers are all buying and selling on the same basis. No one incurs the added risk of sudden market fluctuations. Now he can concentrate on performing his function as efficiently as possible. Risk has been reduced. Perhaps costs can be reduced also since less of a buffer or cushion against risk need be included. We may now have helped to make the marketing system more efficient. But what may all of this do to our market information and to our price-making forces?

The egg producers are selling at prices based on the average base price.

The egg processing firms are buying at prices based on the base price and selling at the base price plus a handling and processing differential.

The retail and other buyers are buying at the base price plus a differential.

Who does the market reporter contact to determine egg movement and price information? He cannot contact producers, egg processing plants or large retail buyers since they are all basing their operations on the quoted or computed average base price. To quote their buying or selling prices would be to quote an average which would then become an average of an average. Once you have done this, you have lost contact with your pricing mechanism.

Can the market reporter base his price quotations on the actions of the traders on the Mercantile Exchange and upon those of the street traders? Will they not also be influenced by the buying practices of their customers? When base prices are low relative to current market prices (rising market), their customers will buy readily at the base price--if the eggs are available. But who will sell voluntarily at the base price quotation when the current market price is higher? Conversely, when the base price average is high relative to current market quotations (declining market) who will want to either buy on the base price or sell on the current market quotations?

This, of course, assumes that the policy of base price averaging is widely accepted and used by the egg industry.

It seems to me that these forces could effectively stifle any original price-making activity. If this should occur, what price could a market reporter quote in making up a price quotation--and what would it mean? How would we continue a base price average without compounding an average of an average?

I have no quarrel with paying producers on the basis of a base price average just as long as it is not used beyond the producer level. Is this fair to the rest of the egg industry? What will happen if its use does spread as I have theorized above? Is the cure worse than the disease?

What, then, can we do to help provide (1) better market quotations, (2) reduce producer egg check variation caused by irregular egg market fluctuations, and (3) ease the bookkeeping burden of keeping track of daily price changes?

1. We can improve our present market information and daily price quotations by broadening the base from which price information is obtained, so that a larger volume of the eggs moving regularly through retail channels can be represented by the quotation. This calls for securing price information from the major volume egg buyers and suppliers in addition to that from the Mercantile Exchange and from street trading. Research has shown that the egg price market quotations are heavily influenced by Mercantile trading--or lack of it--and are representative only of those eggs moving through the terminal markets. They are not representative nor indicative of conditions existing in other parts of the country. Yet, the major retail buyers have insisted on one base price to reckon with in making egg supply contracts. If this feeling prevails, then it becomes necessary to improve our price-making representation in the terminal market.

2. Producer egg check variation could be reduced by:

(1) Payment based on a specified day's quotation. Here again we run into the chance of a random fluctuation.

(2) Payment based on an average of the preceding week's quotation. This price would then prevail for the entire next week and not change from day to day. Under this system the producer would know on Friday, say, what his eggs would bring the following week.

(3) A variation of (2). Use a bi-weekly average price based on the preceding two or three days' quotation. Thus, you would have one quotation for the first half of the week and another for the last half. This would operate similarly to that discussed in (2).

3. The system described above would ease the firm's bookkeeping problem since they would have one or at most two price changes to make each week. The firm would then buy at the pre-determined price (thus knowing what its egg costs were) and sell at the most advantageous price possible to realize.

This method has some of the weaknesses of using the base price average, but does not offer as great a potential for immobilizing the active price-making forces as does base price averaging.

The problem of date of arrival of eggs at the buyer's plant has been mentioned in several articles as a weakness of our current buying methods. They suggest that base price averaging (as discussed above) would help this area of concern and mistrust. It would not! The only difference would be that the price adjustment between one day and another would be smaller--but it would be there. This problem can be avoided by using the average price quotations for a specific size and grade of eggs for the previous two - three days or the previous week as the base price for the following two - three days or for the following week. Thus, we might have some degree of bi-weekly or weekly egg price stability.

W. R. Luckham
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AVERAGE EGG PRICES[1/]

Virginia Market Area	U. S. Grade A Large	Medium	Small	Grade B Large
	- cents per dozen -			
November 1960	55.80	45.85	34.55	45.10
December 1960	51.65	40.90	34.40	41.35
January 1961	41.75	36.45	30.50	34.75
January 1960	29.40	26.10	21.95	24.40

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 1/ Nov. 1960	Dec. 1960	Jan. 1961	Jan. 1960
Virginia	15.30	15.65	17.15	17.25
Del-Mar-Va	16.40	15.90	17.70	18.45
West Virginia	15.95	15.80	17.30	18.20
North Carolina	14.70	14.55	15.60	16.80
North Georgia	14.85	14.75	15.70	16.40

1/ Unweighted average.

WEEKLY SUMMARY OF PURCHASES IN VIRGINIA

Week Ending	No. Birds Purchased	Weighted Ave. Price (cents)
1/6	632,350	16.62
1/13	800,900	17.52
1/20	694,200	17.72
1/27	830,400	18.56
Jan. Total	2,957,850	17.67
Dec. Total	3,273,110	15.66
Nov. Total	2,497,975	15.47

Average Virginia Poultry Feed Prices and Feed-Price Ratio

Date	Price Per 100 Pounds Laying Mash	Broiler Growing Mash	Turkey Growing Mash	Feed-Price Ratios[1/] Egg	Broiler	Turkey
		- dollars -				
Jan. 15, '60	4.55	4.85	4.90	9.8	3.5	7.1
Dec. 15, '60	4.30	4.65	4.65	14.3	3.4	8.3
Jan. 15, '61	4.45	4.70	4.80	12.3	3.7	6.7

1/ Number of pounds of feed equal in value to one dozen eggs, one pound of broiler liveweight, or one pound of turkey liveweight.

DAIRY SECTION

March, 1961

MARKETING QUOTAS FOR MILK

Milk supplies in the United States are more than adequate to satisfy demand at current prices. This is evident in that the Government has had to purchase considerable volume of dairy products to maintain the price support level in recent years. Yet the dairy farmers throughout the country feel that the price level is too low to yield satisfactory incomes.

How to create a situation in which dairy farmers will receive incomes more nearly comparable with those of other groups, and one in which they will be protected from periods of unreasonably low prices for milk is the question at issue.1/

The net returns of dairy farmers depend on more than just the level and stability of milk prices. Low prices, of course, make it more difficult for dairymen to increase their net incomes. However, at any level of realistic milk prices, some dairymen will be losing money or be making little for their time, effort, and investment. This condition cannot be overlooked. It would be unwise to raise the level of milk prices by artificial means to a point where everyone producing milk (even at the present time) would be assured a profit. If this were done, in a short time the cost structure (average costs) of milk production would rise and such profits would diminish.

Higher milk prices, designed to raise dairy farm incomes, will in the long run encourage more production. Technological developments in dairying with the difficulty of moving resources nut of dairying are incentives to increase production without price increases. With supplies exceeding demand at current price levels, any program to raise the level of prices will necessarily require some method of controlling production.

It follows then, that dairymen must decide whether or not they are willing to face competition at price levels under present programs or attempt to increase milk prices through more restrictive national programs. These restrictive programs, although designed to raise prices and incomes, have other implications which cannot be overlooked. It is over the severity of these implications that many in the dairy industry are in

1/ French, C. E., et. al. "Dairy Supply and Price Policies," Report of Committee of Economists to the National Milk Producers Federation; Washington, D. C., February, 1960; page 9. (This article is basically concerned with the plan suggested in this publication.)

disagreement.

Marketing quotas on a national basis have been discussed in various sections of the country recently. Much of this discussion has centered around a program suggested by a committee of economists to the National Milk Producers Federation (see Footnote 1). This supply control plan would include the following features:

1. Each milk producer would be assigned a milk quota determined on the basis of his deliveries during a prior period, such as the preceding 1, 2, or 3 years. Quotas would not be reduced to equate supply with present demand. Rather these would restrain any increases in total production until demand was equal to supplies.

2. Quotas would become property rights of individual producers and thereby a necessary factor of milk production. Quotas would then be just as necessary as cows, land, buildings, and so forth. Quotas would be transferable and negotiable to allow for adjustments in herd size and changes in farm operations.

The transferability of quotas would also allow economic adjustment between regions of the country. This is important for the expansion or contraction of dairying in regions of the U. S.

3. The Government could purchase quotas as a means of reducing milk production or to assist in transferring bases between areas. This should reduce the amount of dairy products purchased by the Government.

4. Dairymen would continue to market their milk just as at present. However, deliveries above the quota would be subject to a penalty fee which would be deducted from the market price. This money would be turned over to the Government to partially offset the cost of the program. Many argue that the net cost of this program to the Government will be less than present programs. Also, this would make the dairy industry less dependent upon the price support program.

5. Present programs, such as Special Milk Program, School Lunch, and Foreign Aid, would be continued. It would be necessary with this program also to continue with tariff and quotas to restrict imports.

Such a program probably would not immediately raise prices. Its long-run effect would be of major value. Even though much can be said in favor of this type of control program, there are reasons why it should be considered with caution. The use of quotas to increase milk prices would likely lower per capita consumption of milk and dairy products. Whether or not the decrease in consumption would be proportionate to the increase in prices would depend on the response of consumers.[2/] Would consumers substitute more margarine, mellorine, and low-price meats for butter, ice cream, and cheese, respectively? For both economic and nutritional reasons, a decline in per capita consumption of dairy products would in the long run do more harm than good. Per capita consumption of dairy products will have to be closely watched under such a program.

Another factor which is important in considering quotas is the capitalization of the value of quotas in the cost of producing milk. If the value of quotas is bid upward as milk prices increase, then the net returns to the dairyman may not improve. This would also be an added

2/ Demand for fluid milk has been considered highly inelastic for many years. (That is, a change in price inversely affects consumption in a smaller proportion than the price change.) However, some recent studies indicate that the demand for milk is not as inelastic as once believed. However, studies show that the demand for milk is still inelastic. Only the degree of inelasticity has been questioned.

cost to young people (any person, for that matter) starting in the dairy business. Unless exceptions are made, this will discourage prospective new entrants. However, making exceptions at any place weakens such regulations.

Only a very small part of the total U. S. milk production is commercially exported. Even so, a program to increase prices would tend to make these products less competitive in foreign markets. If it is the goal of the dairy industry to compete in foreign markets, then this would be an area for serious scrutiny.

There is considerable concern about the details of such a program and whether or not it is administratively feasible. No law or program is better than its enforcement and administration. Also, the more valuable a quota or the program, the more will be the incentive to get by without complying. Furthermore, it will be politically difficult to reconcile conflicting interests among groups within the dairy industry and with outside groups.

There is some concern about the assignment of quotas on the basis of historical deliveries. It is evident that quotas will have to be assigned on a quantitative basis and these can be obtained only from past performances. However, the period of time used for assigning quotas is of utmost importance. A recent period would give a more nearly correct picture than one over several years; yet, it, too, has limitations. Each year there have been many dairymen going out of the dairy business. However, if two or three-year periods are used, these would be eligible for quotas. Now the use of the recent period would be hard on producers who were having abnormally low production.

Another decision necessary is whether or not the quotas would be assigned on the basis of pounds of milk or milk fat.

In any event, such national programs will affect dairymen throughout the country. Dairymen should try to keep up with these proposed programs. They should be fully aware of the benefits and consequences of such programs and then take a stand either for or against the program. This is a decision which dairymen should make for themselves because they will be affected more directly than any other group.

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