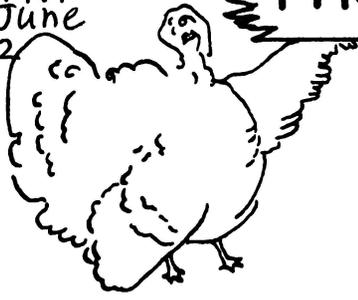


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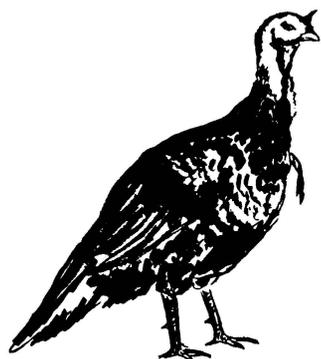
The Market Review of



PEEP AND MOO

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

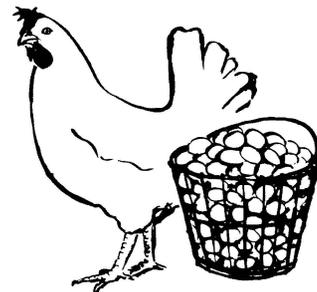
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MARKETING

turkeys broilers

eggs



June, 1961

WHAT ABOUT POULTRY AND EGG SUPPLY CON- TROL?

Is the management of supply the proper medicine for the poultry industry? Or is it like some of the modern wonder drugs which, while curing the ailment, often have such dangerous side effects that the patient is left with a greater problem than before? Will the medicine of supply control merely treat the symptoms, or will it get at the basic disorder?

The poultry industry is considered to operate in a relatively free and competitive situation. As a result of making its own decisions it has, from time to time, created temporary surpluses of production. These excesses were, and are being, sold to the consuming public at very low prices in order to clear the market of these burdensome supplies.

As in any market economy under similar circumstances, those least able to withstand the competitive pressures have been forced to look elsewhere for opportunities to employ their resources. As a result only the strongest, most efficient competitors remain in the race. Thus, a strong, efficient, competitive industry has emerged that is of material benefit to society as a whole.

A prime example of the growth and efficiency possible in a market economy under our present form of industry organization is the modern broiler enterprise. The American broiler industry produced 143 million broilers in 1940. It more than doubled its size by 1945 when it produced 366 million broilers. By 1950 production again doubled to 632 million. The rapid expansion continued so that by 1955 production was again doubled to 1,092 million broilers, and by 1960 an estimated 2,000 million broilers were produced.

Surely such phenomenal growth was not the product of a poor return to labor, to management, or to capital.

Before I attempt to discuss these and other questions, let us turn to a detailed look at our present situation. In light of seasonal consumer demand, the broiler industry "jumped the gun" this year in broiler production as well as producing what could be termed a financially embarrassing excess. It would appear that this excess will continue to be a depressing factor on the broiler market until August, and may well continue until the typically depressed fourth quarter marketing period. Thus, the outlook for broilers indicates that the periods of readjustment may continue until the end of 1961 or even until the second quarter of 1962.

The situation for turkeys is somewhat comparable--though perhaps more severe. Turkey growers, reacting to favorable prices last year, have probably exceeded the total quantity of turkeys that the consumer may want this year (at a profitable price). The current production is in response to a very favorable price-cost relationship in 1960 that was partially caused by a shortage of turkey poults in the spring of that year. Thus, producers could not grow as many as they might otherwise have done. In addition, 1959 was not a year to encourage immediate future expansion. However, as a result of the existing conditions in 1960, many individuals decided to expand their operations, or to enter the business. Perhaps this is because they were operating under the erroneous assumption that if they made money with 5,000 turkeys in 1960, they could make much more money with 7,500-10,000 in 1961! This assumption might be realistic if they were operating with the same relative prices in 1961 as in 1960. But they are not! The cost-of-production picture for 1961 is likely to be noticeably different from that of 1960. Primarily as a result of the efforts to reduce the carryover supplies of feed grains (which amount to about one-half of our normal yearly needs) during the coming period, feed costs in the next few months may be somewhat lower. These lowered feed costs may help to alleviate the pressures of the cost-price squeeze that has been tightening on producers in every phase of the livestock and poultry enterprises. These lowered costs may lead to a new wave of expansion in the poultry industries. Or at least the necessary adjustments that are currently required to bring supply more in line with demand may not be made to the extent necessary so that a continuing depressed situation may develop. In the longer run feed costs must inevitably be increased above current levels for Virginia poultrymen. These

increased costs will sharply tighten the cost-price vise and aggravate an already distressing situation. These changing cost situations will provide an added burden to those producers already struggling to remain active and competitive in the poultry industry.

To further aggravate the problem, the poultry industry is already committed to raise a record crop of turkeys and broilers. Also there will be increased competition for the consumer's meat dollar from the red meat industry, particularly pork. In addition to rising costs, then, the poultry industry will be faced with the fact that the prices for all poultry products will inevitably be markedly lower this year than in 1960.

The outlook for eggs is no brighter. By superimposing a large, normal-season hatch on a large, late-season hatch of replacement-type chicks, instead of dovetailing the two, poultry producers have committed themselves to a depressed egg market condition that will last until well into 1962. The reasons for this development are the same as for broilers and turkeys--the summation of individual decisions in response to a favorable cost-price situation.

However, by temporary overproduction, they have created a climate in which those who have not the strength or desire to weather the storm may seek to find methods which will shield them from the consequences (and rewards) which result from our freedom to make our own decisions.

Our current (as of May 6) production situation is as follows:

Broilers--U. S. (22 important broiler producing states) 16.6% above Jan.-May 6 period last year.

Va. up 5.2% above Jan.-May 6 period last year.

Turkeys--All (10 important states)
up 2.19% above last year.

Va. up 20.2% above last year.

Turkeys Heavy White--U. S. up
44.5% over Jan.-May 6, 1960.

Va. up 97.9% over Jan.-May 6,
1960.

Other Heavy--U. S. up 15.6% over
Jan.-May 6, 1960.

Va. down 59.7% below Jan.-May 6,
1960.

Light Weight (Beltsville type)--
U.S. up 20.6% above Jan.-May 6, 1960.

Va. up 14.4% above Jan.-May 6,
1960.

Egg-type chick hatches--May of
previous year through March of current
year.

U. S. 1961 up 27.5% above 1960;
down 10.0% below 1959.

(1960 was down 29.4% below 1959).

Va. 1961 up 33.0% above 1960;
down 12.3% below 1959.

(1960 was down 34.1% below 1959).

The above changes in the produc-
tion picture suggest the following
current farm-level, outlook-price
estimates. These price estimates
reflect available farm level demand
elasticities as follows: broilers--
.737; turkeys--.924; eggs--.331.

The farm price of broilers in the
nation will edge toward 13-13 1/2¢
per pound during the immediate market-
ing period while Virginia prices are
likely to be up to 1/2¢ higher, or
about 13 1/2-14¢.

Turkey prices are likely to drop
about 6¢ from last year to the 19¢

level in order to move the 20% greater
crop to market.

Egg producers will again be in
trouble as the increased laying flock
begins production in earnest after June.
This production will probably be suffi-
cient to nullify the typical rising
price pattern for the fall period. My
guess is that egg prices (all table eggs)
will be around the 25¢ level (30-31¢
for large) with an average price of
perhaps 32¢ this year. Unlike broilers
or turkeys, our laying flocks will
continue to be a depressing factor
unless a lot of layers are sold pre-
maturely (before a year's production
has been obtained). Therefore, look
for a depressed market until the fall
of 1962. You can readily see that the
poultry industry has and is creating a
climate that is favorable for the con-
sideration of some type of control program.

This raises some very pertinent
questions for the individual members of
the poultry industry to ponder. If you
wish to be free from the effects of the
upswings and downswings that are a normal
part of a market economy, what are you
willing to give in return for this pro-
tection? Remember that this is a two
edged knife that will cut for you and
will cut against you. Security always
has a price. Perhaps this is what the
King of Siam in the play "The King and I"
was pondering when he said that such
protection might "protect me out of all
I own." Is the poultry industry able to
exercise internal control to achieve
their goals--or must this control come
from without? In what manner and at
what level should control be established?
What will be the cost of this stability
in terms of net income? labor return?
return on investment? opportunity to
expand or otherwise change your operations?
There are many questions that arise when
you contemplate the costs and returns of
any program designed to create a rela-
tively static condition in any industry.

The present situation is a temporary
one, however. This type of situation

develops from time to time in a market economy. In a sense it is a physical or financial fitness test. It is just this sort of occurrence that has enabled the poultry industry to grow as brilliantly as it has over the years. This squeezing process effectively allocates production to those areas and individuals who are most ably equipped to produce quality products at a competitive price.

In most cases poultry production costs are primarily variable costs, as in the broiler industry, while the fixed costs for building and equipment, per pound of poultry or per dozen eggs produced, are very small. Consequently, it is relatively easy to make production adjustments, compared to many crop and livestock enterprises where fixed costs are high. This is particularly true for downward adjustments in supply, but also true for upward adjustments. Entry to, and exit from, the business is more readily accomplished in the poultry business than, for example, in the dairy business.

In many respects the poultry industry is a marginal industry. Such industries tend to gravitate to those areas with few other alternative enterprises. Thus, they fill the need for income opportunities in the South and Southwest areas where the potential for expanding their relatively more profitable cash crop enterprises is limited.

Thus, I see a growing future in the broiler industry in areas like Arkansas. Could any administered control program incorporate enough flexibility to provide for the redistribution of production areas in accordance with need and the ability to produce at a very competitive level? Could any ambitious broiler grower in Virginia expand his production under any other system of industry organization, or would the capitalized value of the production allotment or marketing quota be sufficient to effectively prohibit such expansion?

Whenever we have any period of re-adjustment, it is expected that some people will get hurt. These are the people who are unable to weather the storm of competition effectively.

Will these people receive a direct communication from the market place that they need to be more competitive or else look for alternative sources to employ their labor and other resources? Or will these signals be rerouted and probably much slower getting to the people directly concerned? Who will make the decisions as to whether or not production should be adjusted and which producers need to adjust? Will all producers, irrespective of their capabilities, be adjusted to meet the ever changing situation? Is there any better system than that which has been operating to receive the multitudinous signals that are flowing from producer to consumer and back again and to adjust production in the hundreds of various commodities? Under any other system will all producers and consumers receive equitable treatment, without creating imbalances of total supply and total demand? Can the supply and demand of each of the products and their substitutes be so adjusted that the consuming public will have the balance of commodities, the qualities, the seasonal distribution, the form and the price that they have come to expect from the market through the years? Generally, whenever a marginal industry moves out of an area it is replaced by better opportunities. These marginal industries then move to another area and help build it up in the same way it has built up the area it left (to the point that the alternative enterprises were such as to discourage production in the marginal industry). For example, the production of broilers in northern Indiana has continued to decline in recent years in spite of such advantages as closeness to feed supply and to the large Chicago market. This decline in the relative importance of broilers to the area has simply been a case where the economic

opportunities in alternative enterprises were greater than those in raising broilers. These producers through individual action voluntarily shifted to a higher economic opportunity enterprise and thus benefited themselves as well as supplying society with more of the products it desired. Consumers' desire is indicated by bidding up the prices of those scarce commodities so that the economic opportunities are sufficient to encourage shifts in production to meet this demand.

By shifting out of broiler production the northern Indiana farmers in effect created a void and sent out a mandate to all broiler producers in the country. Producers in the South and Southwestern areas are reacting to these impersonal mandates by increasing broiler production in their area. Thus, they are shifting to a higher economic opportunity which is of mutual benefit to them and to society. These adjustments are continuously taking place in all areas of the economy. Would any supply control program be able to assist in this growth process, or would it retard it?

What are our goals in the poultry industry--growth? progress? efficiency? low-cost operations? stable prices? stable incomes? status quo which may lead to stagnation? Will any type of control program help us in realizing our goal, or can we best reach our goals through individual and free action? Could the broiler business have trebled or quadrupled its size every decade (from 143 million in 1940 to about 2 billion in 1960) if it had been operating under any other type of market organization? What causes an industry to grow in this fashion? Has there been a lack of opportunity, lack of profit (for all concerned), lack of capital for fixed and variable expenses, lack of consumer acceptance? All of these things and more have been present and active in the rapid development of the broiler and turkey

businesses. The incentive for growth such as has been witnessed in the poultry industry must be powerful. Surely you do not get such rapid industry expansion with zero profits.

One of the important factors in this growth has been the recurring periods of readjustment during which all but the efficient were discouraged from continuing production. Thus, there is considerable pressure to find a better way to do things, to improve your efficiency and your over-all operations in order that you may compete in the broiler arena. What motivates you to do these things? Do you do these things because you like broilers or are the incentives the opportunity for growth, profit, and income?

It is just this type of thing that makes our economy strong and flexible. If a product is no longer needed, the producer is quickly and forcibly informed by the impersonal market mechanism, probably much more quickly than a program administrator could likely realize a misallocation of resources and take all necessary action.

It is doubtful if anyone, or any committee would have willingly forced the broiler growers through the wringer process so that there could be such growth as we have and are witnessing. Could such growth and its attendant benefits to society have been possible under most alternative methods of market organization?

All planned programs are based on historical facts since it is impossible to look into the future. Will you be content to remain in your present relative position? or where you were 3-5 or even 10 years ago?

Is price stability (hence, some degree of income stability) your goal? If so, then how does one obtain any degree of price stability? There are two main methods of accomplishing this goal. The first is through close and effective industry coordination. If our

industry leaders could consult and plan with each other to the end that production would be controlled and geared to estimated consumer demand, would they be deemed guilty of collusion or price fixing? If they are so vulnerable, I see little possibility of obtaining short-run price or income stability through such collective action. There is a real question of whether any industry as geographically diversified as the poultry industry can effectively be controlled. In most instances, the short-run actions of an individual are likely to be diametrically opposed to the actions of a group. In other words, while a group or an industry may restrict production to enhance price, the action of an individual would be to increase production to attempt to benefit from the group action. Of course, if many react in individual interest rather than in group interest, they will cause the very thing that the group was trying to avoid. Hence, all will bear the consequences. In many instances, however, industry has been successful in encouraging cut-backs in placements to more closely approximate consumer demand. Thus, they have maintained prices at a somewhat higher level than they otherwise might have been.

The other alternative--if price or income stability is our goal--is to be controlled by something other than industry or the market. Poultry can and is being grown in every state of the union. While some areas are more advantageous than others under the present system, I would suggest that under certain conditions poultry can be grown in any area.

Currently there is enabling legislation being considered that will provide the machinery and tools that will permit the establishing of control for any agricultural commodity. In view of this, it would seem advisable that each producer carefully consider the choices available and

their resulting consequence, so that they may choose the course of action that best suits their individual situations now and in the future.

While controls may give some measure of income--or price stability for the present--what of the future? It has been said that you cannot have growth and stability at the same time. Can you have stability and progress at the same time? Some measure of stability of a kind may be obtained if the poultry industry ever reaches that point where every businessman concerned accurately estimates the market potential, and the action of each of his competitors. Until that time, you can expect price fluctuation, as some overestimate the market at times and underestimate it at other times. This is natural and bound to occur in a market economy. Careful and comprehensive planning does not eliminate the over and underestimation of supply and demand, either. The competitive market keeps us efficient and keeps us looking for a better way to do the job. It discourages the high-cost producers, or areas, and encourages those who can see opportunities to forge ahead. This method allows those capable of growing to grow, forces people into business in order to remain competitive, encourages those who are unable to meet the competition to look elsewhere for opportunities for which they may be better suited. It is up to you--the members of the poultry industry to answer the question of "What about poultry and egg supply control?" This question with its myriad associated and interlocking questions is worthy of your most careful analysis. For as you decide, remember that you may be deciding the course that poultry is to follow. It is up to you to decide these questions that remain unanswered.

Who will exercise control? Who will design the controlling implements or regulations? At what market level will supply control be established? Can supply control be made effective in an industry such as poultry? What will be the long-run

effects of production controls or marketing orders on your business, or on the entire poultry industry? What options will you have over your future opportunities?

A handwritten signature in cursive script that reads "W. R. Luckham".

**W. R. Luckham
Poultry Marketing Specialist
Agricultural Extension Service**



DAIRY

SECTION

June, 1961

LET'S NOT FORGET, "JUNE IS DAIRY MONTH."

WHY QUALITY MILK?

Milk is a highly perishable product capable of carrying disease-causing bacteria. For these reasons, milk has long been subject to sanitary regulations to protect the health of the consumer. The interest of governmental agencies for the protection of public health has kept milk regulations prominently in the news.

Sanitary standards for the production of Grade A milk today are considerably higher than they were years ago. These standards have not been raised to make the production of Grade A milk more difficult. Neither have these standards been raised because consumers were not adequately protected in the past. In the past fluid milk moved from the farm to the consumer in a very short period of time. Much milk was sold directly to the consumer by the producing dairyman.

Methods of marketing Grade A milk, however, have changed considerably over

the past few years. It is because of these changes that sanitary requirements have been made more exacting. Our present marketing system requires higher quality milk. Why?

Let us look at some of the changes in marketing milk and its relation to milk quality.

Today, most Grade A milk is cooled and stored on the farm in bulk tank. This milk is picked up every other day. If this milk goes directly to the bottling plant, some of it is two days old when it is bottled. Often, however, this milk goes from the farm to storage tanks of producer marketing associations, where it is held for another day before it goes to the bottling plant. From the marketing associations and proprietary storage plants, milk moves to distant markets--often it is in transit for another day.

After milk is bottled, it moves either directly to the home or to retail

grocery stores. Milk may be in the store for a day before it is picked up by the consumer. Many housewives keep this milk in the home refrigerator several days.

Therefore, milk is from four to seven days old when it reaches the consumer today. Whereas, only a few years ago, it was at most two days old.

If we are to have high quality milk at the retail level, it is necessary that milk be of exceptional quality when it leaves the farm. Because many milk marketing associations market milk over wide areas of our country, they insist that sanitary requirements be high and strictly enforced. They realize that if they are to do a good job of selling milk, and to keep the consumer satisfied, they must have high quality milk to start with. It is changes in our marketing system which have created the need for higher quality milk at the farm. However, it is necessary that quality be maintained throughout the marketing system. Quality milk concerns the entire dairy industry. It cannot be overlooked at any point as milk goes from the producer to the consumer. The dairy industry cannot afford to offer consumers an inferior product.

USDA REVISES MILK
PRODUCTION ESTIMATES
FOR 1955-1960

revision of estimated milk production on farms in the years 1955 through 1960.

The revision in the estimates resulted from information gathered by the Bureau of the Census in the 1959 Census of Agriculture. "Current estimates," the bulletin points out, "are based upon information supplied by a sample of dairy farmers located throughout the United States. Every 5 years these estimates are adjusted, if necessary,

The USDA has made considerable re-

toward the more complete information obtained by the Census from all farms.

"Sharp changes have occurred in the recent years in milk cow numbers, farm uses of milk, and the number of farms. This has made the problems of estimating milk production more difficult."

FARM CHANGES AFFECT
PRODUCTION ESTIMATES

"The Censuses of Agriculture," the report goes on, "indicate a drop of 39% in the number of farms with milk cows between 1954 and 1959 and yet the number of milk cows decreased only 13%. This shows that there has been a sharp shift toward larger herds and fewer dairy farms during this 5-year period. Sample data available currently did not fully measure the extent of this shift.

(Editor's note: For the 1959 Census of Agriculture, the definition of a "farm" was changed, which accounts for some decrease in the total number of farms, and also for part of the drop in the number of farms with milk cows.)

"Consequently, total milk production estimates have been revised downward, as follows: 1.9% for 1959; 1.3% for 1958; 1.0% for 1957; 0.5% for 1956; but only 0.1% for 1955. The annual average number of milk cows estimated for 1959 was revised down 7% but a considerable part of this decrease was offset by an upward revision in the rate of milk production per cow."

Table 1 shows the estimates which had been used, compared with the revised estimates based on the 1959 Census of Agriculture.

Virginia milk production estimates were also revised as a result of census information (Table 2). Total milk

production estimates for Virginia were revised downward as follows: 3.5% for 1959; 2.7% for 1958; 1.6% for 1957; 1.3% for 1956; but no revision for 1955.

Estimates were revised downward by a larger percentage for Virginia than for the United States.

Table 1. Milk Production in the U.S., Original and Revised Estimates of the USDA, 1955-1960.

Year	Original Estimate	Revised Estimate
	--million lbs. --	
1955	123,228	122,945
1956	125,474	124,000
1957	125,939	124,620
1958	124,833	123,220
1959	124,396	121,009
1960	125,568	122,920

Table 2. Milk Production in Virginia--Original and Revised Estimates, 1955-60.

Year	Original Estimate	Revised Estimate
	-- million lbs. --	
1955	2,002	2,002
1956	2,053	2,027
1957	2,038	2,055
1958	2,040	1,934
1959	2,053	1,932
1960	--	2,040

FARM BILL CHANCES
ASKED BY FEDERATION

The National Milk Producers Federation

opposes the administration farm bill as it now stands and requests amendments in line with its policy stands. This was reaffirmed at a recent meeting of its board of directors, E. M. Norton, secretary of the organization, told the Senate Agriculture

Committee on May 11. Among the provisions asked were:

1. That Congress retain its usual prerogative not only to approve or reject farm program proposals by the Secretary of Agriculture, but to modify or amend such recommendations.

2. That in setting up a national farm advisory committee for milk and dairy products, nominees by cooperative associations should be eligible.

3. That in a referendum on a national milk marketing order containing quota provisions, farmers should be given a choice between the recommended milk marketing quota plan and the price support program as provided in the present law.

Mr. Norton also stated that because the dairy industry is characterized by many small producers, any quota plan that would exempt any producers not only would complicate its operations but would be unfair to the farmer who has tried to bring his herd to an economic level.

"The portion of the bill dealing with promulgation of milk marketing orders should be redrafted," he recommended, "leaving the present milk provisions intact. If a federal order should include marketing and development projects including advertising, such provisions should be subject to a special referenda and not made a condition to the approval or disapproval of the order."

An additional section should be added to the bill, he urged, permitting cooperatives singly or in groups to bargain with dealers singly or in groups on prices to be paid farmers for milk.

COWS SET NEW
PRODUCTION
RECORD

"Annual milk production per cow set a new record of 7,004 pounds in 1960, up 109 pounds from the previous high

in 1959. In the revised series of estimates, annual U. S. output per cow has increased 3 to 4% each year since 1954....."

"The average number of milk cows on farms during 1960 was 17,549,000, a record low in the series of estimates beginning in 1924. Milk cow numbers have decreased each year since 1953, but the decline from 1959 to 1960 was only 2%, compared with 4 to 5% in each of the three preceding years."

Annual milk production per cow in Virginia also set a new record. Milk production per cow averaged 6,000 pounds in 1960. This is 120 pounds above the 1959 average production per cow.

Albert Ortego, Jr.
Albert Ortego, Jr.
Dairy Marketing Specialist
Agricultural Extension Service