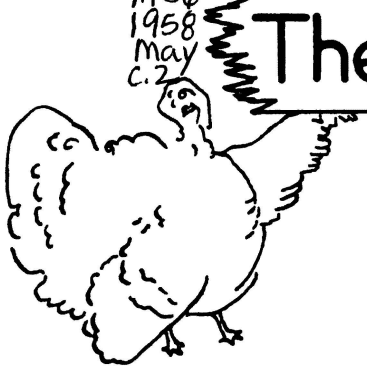
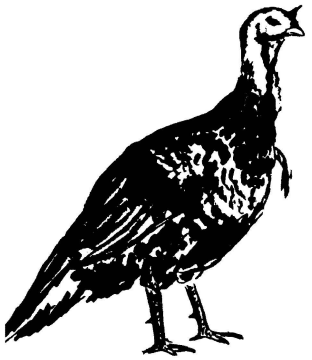


The Market Review of PEEP AND MOO

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

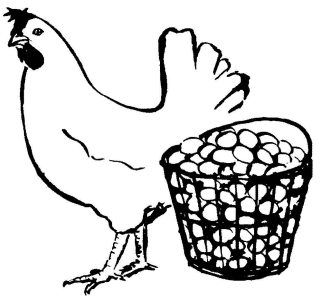
Issued and Distributed in Furtherance of the Acts of Congress of May 8 and June 30, 1914



MARKETING

turkeys

eggs



broilers

May 10, 1958

CONTRACTING COMMERCIAL EGG PRODUCTION

The production of table eggs is receiving increasing interest in the State of Virginia. During the last decade table egg production declined considerably. Hen numbers declined from an average of 7.3 million in 1947 to 4.6 million in 1957. However, rate of lay increased from 159 eggs to 184 eggs per layer during the same period so production dropped less than proportionately, from 1.2 billion to 845 million eggs.

Population has continued to increase requiring more eggs each year even though per capita egg consumption has declined. Virginia has had to rely on out-of-state sources to make up an increasing deficit.

Table egg production on a commercial scale is very different from the usual small flock production so prevalent in the state. Terms such as "quality control," "flash candling," "stimulighting," and "controlled environment" are new to the industry and symbolic of the changes that have occurred; they probably are only an indication of changes to come. Capital requirements for an efficient unit are high and credit needed for production purposes is difficult for many to obtain. This is why so much interest has been created in the possibilities of "contract" production.

Contracts being offered in the state finance only a part of the costs of producing table eggs. To my knowledge, there are no contracts that will finance the entire operation including the necessary buildings and equipment. The amount of financing depends on the contracting agent and the amount of risks he is willing to assume. This may vary from supplying feed on open account until egg receipts can repay the bill (but assuming no risks of possible losses) to retaining ownership of the flocks, paying all cash costs involved, and paying the producer for his labor and the use of his facilities. The company thus assumes all risks of monetary losses with the producer assuming only the risks of loss of his contribution.

Producers who need no production financing may desire only marketing agreements relating to assembly, packaging, and wholesaling of their eggs. Such agreements, oral or written, assure the producer a stable market, with or without bonus payments, based on quantity and quality of eggs delivered. The marketing

agency provides no financial aid and assumes no risks of monetary production losses.

The individual producer must decide how much financing he needs and select the best arrangement offered that meets his needs. Direct comparisons cannot be made between different types of arrangements. They are not designed to accomplish the same purposes and, therefore, returns to the producer will vary. One should bear in mind that the more financing a contractor provides and the more risks he assumes, the higher must be the returns to that firm.

Although agreements vary among firms, any agreement should state the contributions each part is expected to make. Oral agreements are legally enforceable but often lead to confusion and misunderstanding. It is best to include all provisions in the formal written contract so as to reduce the chance of error and disagreement.

I think the following items should be included in any formal contract for table egg production. The list may not be complete and is not intended to condemn or support any contract in use today. It is merely my opinion of what a good contract should include.

Pullet Rearing Phase

1. Brooding facilities required should be stated as to:
   a. Type of building acceptable or not acceptable.
   b. Floor space per bird.
   c. Number and kind of brooders.
   d. Number and size (or kind) of feeders and waterers.
   e. Type of litter acceptable.
2. Breeds or strains of birds acceptable.
3. Who purchases baby chicks?
4. Vaccination and medication program.
5. Brands of feed required.
6. Management factors should be stated as to:
   a. Supervision.
   b. Feeding program, including use of home-grown grains.
   c. Culling procedure.
   d. Range or confinement rearing.
7. Length of growing period should be specified if birds are to be removed from the farm on which they are raised.
8. Compensation to be paid for raising pullets for a contractor.
9. Who assumes risks of losses due to disease, accidents, etc.?

Egg Production Phase

1. Breeds or strains acceptable, number of birds under contract, and who pays for and owns the birds.
2. Period of agreement.
3. Brands of feed acceptable.
4. Physical facilities required should be stated as to:
   a. Type and condition of building.
   b. Floor space per bird.
   c. Litter acceptable.
   d. Number and kinds of feeders, waterers, nests, grit and oystershell container, etc.
   e. Form of feed delivery (bulk or bags) and facilities applicable.
   f. Egg handling and storage
      (1) Size of egg room.
      (2) Cooling unit and humidifier.
      (3) Egg baskets
      (4) Sizing machine, if required.
      (5) Egg cleaning.
5. Management practices should be outlined in written form, probably as a general hand-out, but referred to in the contract. Factors that should be covered are:

a. Supervision by contractor.
b. Feeding program.
c. Culling program and disposition of culled, but marketable, birds.
d. Egg handling practices related to gathering, cleaning, sizing, cooling, and packaging.

6. Delivery by producer should be stated as to:
   a. Delivery point or farm pick-up.
   b. Frequency of delivery or pick-up.
   c. Source of egg cases.

7. Services to be performed by contractor should be stated as to:
   a. Method of collection or point of delivery.
   b. Portion of eggs included in the marketing agreement (1/2 - 3/4 - all, etc.)
      (1) Disposition of eggs not meeting specified standards.
   c. Packaging.
   d. Storage facilities for maintaining quality.
   e. Supervision of laying flocks.

8. Financing - the contract should <u>clearly</u> state who finances each segment of the operation.

9. Risks - the contract should clearly specify risks assumed by each party as to disease, low quality, mortality, loss of market, etc.

10. Payment schedule - the method of determining payment for eggs produced and the time of such payment should be outlined as to:
    a. Base price determination.
    b. Bonuses or incentive payment determination.
    c. Disposition of profit or loss at the end of the contract period.

Many of the items considered may be covered by verbal agreement between the contractor and producer. However, misunderstandings may be avoided if most of the considerations are in writing whether they form an integral part of the formal contract or not.

Harold W. Walker

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ESTIMATE OF VIRGINIA'S SURPLUS POSITION IN BROILER MEAT PRODUCTION

Commercial Broilers produced, live weight, 1957		191,103,000 lbs.
Broiler meat produced, ready-to-cook basis, (70% of live weight)		133,772,000 lbs.
Broiler meat consumed in Virginia (U. S. average)		67,821,000 lbs.
1957 Population Estimate	3,666,000	
Estimated per capita consumption, ready-to-cook basis	18.5 lbs.	
Proportion that estimated broiler meat production is of estimated consumption		197.2%
Production less consumption, ready-to-cook basis		65,951,000 lbs.
Additional persons outside of state broiler meat produced would supply		3,565,000

EGG PRICES - Average from March 15 to April 15, 1958[1/]

Market Area	U. S. Grade A Large	U. S. Grade A Medium	U. S. Grade A Small	Grade B Large	Grade C Large
	- cents per dozen -				
Harrisonburg	41.1	38.0	26.5	33.0	16.0
Richmond	42.5	40.5	28.4	39.2	31.1
Roanoke	44.1	40.2	28.3	36.7	18.2

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

BROILER PRICES - Average from March 15 to April 15, 1958

Market Area	Ave.[1/] Price	Weekly Summary of Purchases in Shen-Valley Area		
		Week Ending	No. Birds Purchased	Weighted Ave. Price (cents)
Shenandoah Valley	20.4	3/21	598,920	21.42
Del-Mar-Va	20.9	3/28	831,500	21.12
West Virginia	21.0	4/4	737,500	20.59
North Carolina	19.4	4/11	831,550	19.06
North Georgia	19.4	Total	2,999,470	20.47

1/ Unweighted average

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 -					
April 15, 1957	4.65	4.95	5.00	9.0	3.8	6.8
March 15, 1958	4.65	5.10	5.10	12.1	4.2	7.5
April 15, 1958	4.75	5.20	5.20	11.0	3.7	7.1

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

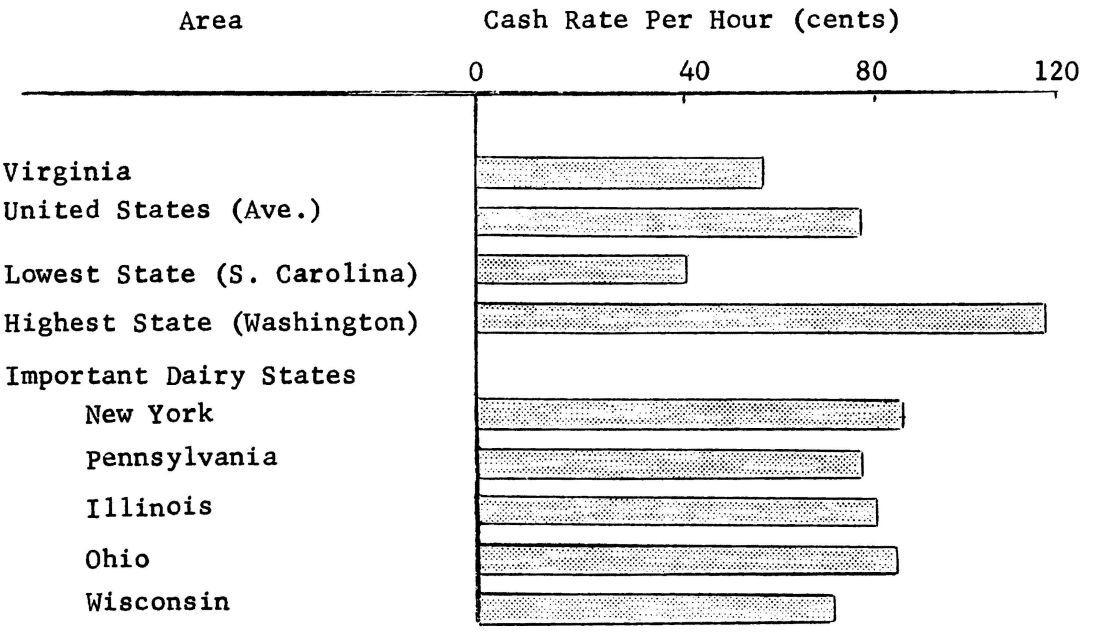
Dairy Section

May 10, 1958

VIRGINIA CASH WAGE RATE FOR HIRED FARM WORKERS BELOW NATIONAL AVERAGE

From figures recently released by the U.S. Department of Agriculture we get some comparison of the cash wage rate for hired farm workers in Virginia and other areas (Chart 1). The cash wage rate of 59 cents per hour in Virginia in 1954 was 20 cents below the national average for

Chart 1. Cash Farm Wage Rate per Hour for Hired Farm Workers in Virginia and Selected States, 1954[1/]



Source: Wages of Agricultural Labor in the U.S. USDA Tech. Bulletin 1177

1/ Cash rates do not include the value of any perquisites furnished.

hired farm workers. The Virginia rate was only half that of the state having the highest rate - Washington at $1.17 per hour, but was 15 cents above that of the lowest state - South Carolina. The hourly wage rate in several important dairy states ranged between 15 and 30 cents above that of Virginia.

The wage rates paid hired farm workers in Virginia varied considerably within the State. The lowest average rates, 45 to 50 cents per hour, were paid in the southwestern counties; the highest between 60 and 70 cents, in the area north of a line through Roanoke, Lynchburg, Richmond and Newport News. The rates for Southside and Southeastern Virginia were 50 to 60 cents.

The value of any perquisite furnished workers is not included in these figures. If the value of these items differ between areas, including them would change the relationships shown here.

MILK-TO-FEED PRICE RATIO CONTINUES FAVORABLE FOR DAIRYMEN

Milk prices relative to feed prices were more favorable in 1957. At the prices received for milk in Virginia, one hundred pounds of milk would buy about 4% more feed in 1957 than during the 1951-1955 period. In the first quarter of 1958, a hundred pounds of milk would buy 8% more feed than in the average first quarter for 1951-1955. (Chart 2).

This increasingly favorable milk-feed price ratio is a factor that has encouraged heavier feeding of concentrates. Throughout 1957, the pounds of grain fed daily per cow were considerably greater than the average fed in the period 1947-1956. (Chart 3) The increase varied from 20% in the early part of the year to 50% in the summer and fall months. The rate of feeding increased still more in the first quarter of 1958. Another factor in the increased rate of concentrate feeding is the effort to increase production per cow. Part of the rising production per cow has come from heavier feeding of grains. Current estimates indicate that greater production per cow likely can be obtained more economically by providing greater quantities of high quality roughages and less grain.

Chart 2. Pounds of Feed to Equal in Value 100 Pounds of Milk in Virginia

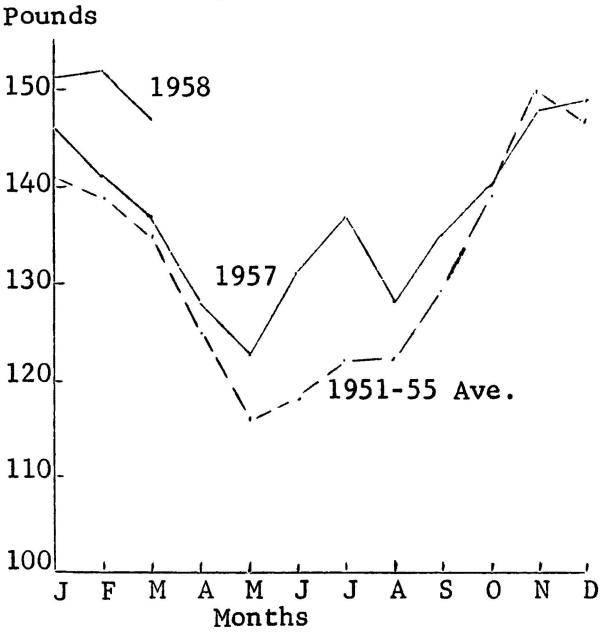
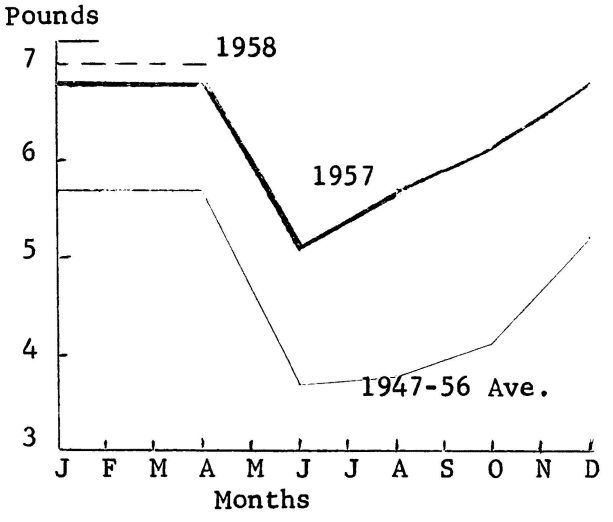


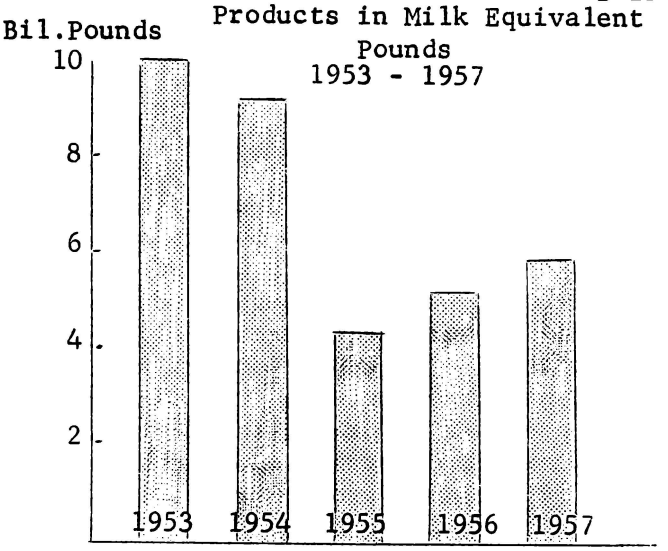
Chart 3. Pounds of Grain Fed Daily Per Cow in Virginia



GOVERNMENT PURCHASES OF DAIRY PRODUCTS IN LAST 3 YEARS BELOW RECORD PURCHASES OF 1953 AND 1954

Federal purchases of dairy products in 1957 amounted to nearly 6 billion pounds of whole milk equivalent (Chart 4). This was above the purchases in 1956 and 1955 but much below the record purchases of 10 billion and 9 billion pounds in 1953 and 1954. Practically no purchases were made in 1951 and 1952 on the heels of the Korean War.

Chart 4. Government Purchases of Dairy Products in Milk Equivalent



GOVERNMENT INVENTORY OF DAIRY PRODUCTS CHANGED LITTLE DURING 1957

Although greater quantities of dairy products were purchased by the government in 1957 than in 1956 the quantities in government inventory at the end of 1957 were about the same as at the beginning of the year. (Table 1) In the case of butter, 31 million pounds accumulated during the year. In spite of larger purchases, the inventories were kept from increasing materially by an active disposal program. A major portion of the disposa was accomplished by donations both domestic and foreign. Large quantities of cheese and nonfat dry milk were donated to foreign outlets. Of the domestic donations, schools received about 2/3 of the butter and 1/3 of the cheese and non fat dry milk.

Table 1. Summary of Purchase and Disposal of Dairy Products Under Federal Support Program, Calendar Year 1957

Type of Transaction	Butter (Mil. lbs.)	Cheese (Mil. lbs.)	Nonfat Dry Milk (Mil. lbs.)
Government Stocks January 1, 1957	0	146.1	31.6
Purchased during year	173.5	241.4	764.6
Total	173.5	387.5	796.2
Disposal:			
Donation			
Domestic	99.7	82.5	45.0
Foreign	-----	141.6	521.0
Export Sales	8.6	8.2	63.9
Other Sales	1.0	.9	91.6
Other (including transfers to military)	33.1	11.7	47.9
Government Stocks December 31, 1957	31.1	142.6	26.7

THE DAIRY INDUSTRY RESERVOIR MUCH SMALLER THAN 20 YEARS AGO

Butter long has served as a reservoir for the dairy industry. Milk in excess of fluid needs could be processed readily into butter and marketed. It has been ideally suited for such a purpose because it possessed the following characteristics: (1) concentration of product permitting long distance transportation at relatively low cost, (2) storable for long periods, (3) capable of small volume processing, and (4) a large and comprehensive market. Under these conditions, surplus supplies of milk could be converted to butter at many widely scattered locations and moved to ready market outlets.

In recent years the market for butter has contracted in the face of competition from substitute products. In 1957 1.4 billion pounds of butter was made compared to 1.8 billion in 1940. On the other hand, cheese production has been increasing. Cheese production has increased from .8 billion pounds in 1940 to 1.4 billion in 1957. Thus, the quantity of cheese produced has changed from less than 1/2 that of butter in 1940 to an amount roughly equal to butter in 1957. Cheese is not as suited for surplus disposal since it requires more specialized facilities. With the butter market smaller, cheese and dry milk outlets serve an increasing role in the balancing operation even though this likely means longer transport of surplus supplies. Milk tank trucks greatly facilitate this adjustment.

Prepared by:
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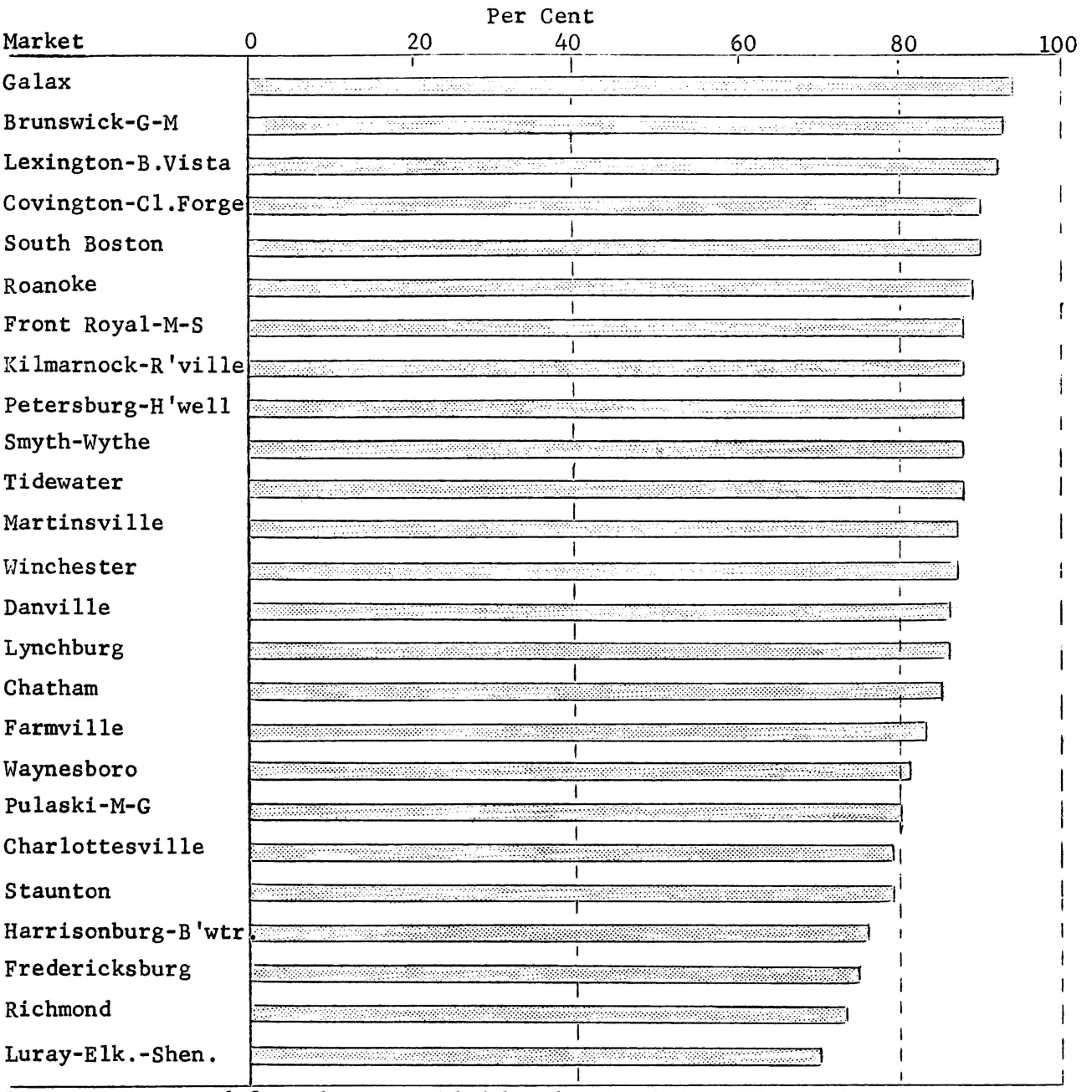
Dairy Marketing Research
Department of Agricultural Economics

Chart 5. Per Cent of Milk Deliveries Utilized for Fluid Sales in Virginia Regulated Markets, 1957[1/]



Source: Prepared from data provided by the Virginia Milk Commission.

1/ Market fluid sales does not include milk used in supplying government contracts.