

*Decision Innovation Solutions, LLC*

# The Monthly Layer

## Crops Progress, For Some...

### Special points of interest:

- Rain, Flooding Jeopardize Corn Planting Progress
- Cost of Production Increases Due To Elevated Feed Costs
- Large Egg Prices Increase over March Levels
- Elevated Fuel Prices Continue to Contribute to Inflation

What a difference a few weeks of warm weather makes for Iowa's dirt farmers! The week ending May 8 was an especially good week for field work. During this week an estimated 61% of Iowa's corn crop was planted, which was the largest percentage one-week increase since 1992; quite remarkable, to say the least.


Other Midwestern states such as Illinois, Nebraska, and Minnesota are having similar planting progress and are nearing completion of their core crops. In most cases, planting progress for IA, IL, NE, and MN is within the normal historical range.

However, a few states on the eastern side of the Mississippi River are not having near the cooperation from Mother Nature as those states to the west. Several storms with significant rainfall have saturated the soils in states such as Indiana and Ohio, making planting progress move at an extremely slow pace.

The window for planting corn in Indiana and Ohio is quickly closing. At some point in the near future farmers will need to abandon their original intentions and move to planting their alternative choice. The alternative choice for Indiana and Ohio will most likely be soybeans. We have seen the beginnings of the commodity markets accounting for this, as evidenced by the nearby contract spread between the prices of the two commodity crops narrowing in recent weeks.

Further compounding the planting challenges faces by upper Midwestern states is that of flooding in states on both sides of the Mississippi River. In some cases, the U.S. Army Corps of Engineers has intentionally created holes in levees and river banks along the river to preserve population intensive areas. Those bearing the brunt of this decision are farmers who had already begun raising crops in the affected areas. Estimates of the amount of farm land impacted by flooding exceed three million acres.

One last significant impact of the flooding along the Mississippi River is the inability to barge commodities down the the river to the Gulf of Mexico for export. We saw the same thing happen in 2008, when Iowa and surrounding upper Midwestern states experienced heavy flooding. Eventually things worked out in 2008 to where river transportation activity resumed to normal, but the process in getting there was painful for some. Assuming wet weather patterns subside, the short-term commodity price increases attributed to transportation issues will likely wane.

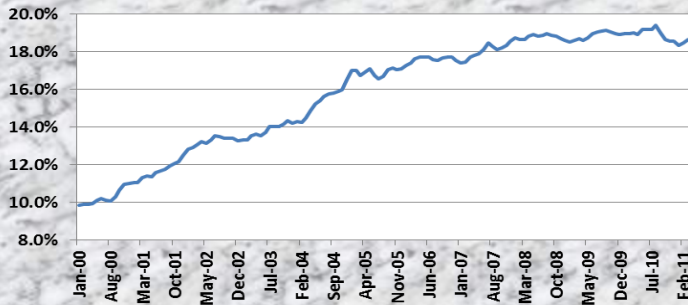
With all the impacts from weather, transportation, and short commodity stocks, the 2011 growing season has already shown extreme volatility. We fully expect this volatility to continue, especially over the next month as the "dust settles" on the planting portion of the crop year. 

### Inside this issue:

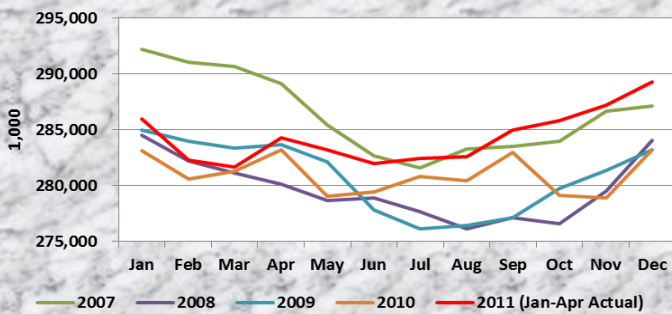
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## US and Iowa Layer Numbers

Iowa Percent of US Total Layers



US Table Layers



Actual April 2011 national table layer numbers have increased 1.1 million and 2.6 million from year-ago and prior-month levels respectively. Of all the years shown in the nearby graph, all years except 2010 continued to experience a drop in layer numbers from March to April. Aside from the trajectory of Don Bell's (emeritus, University of California) flock projection for the balance of 2011, the pattern of the first four months of 2011 seems to resemble that of 2010.

to have started a month sooner than normal. We posed the question last month about whether the typical reduction in layer numbers had simply moved up the calendar or if it was the beginning of a more sustained trend for the year. With April data now available, it appears that at least temporarily (if only for one month), we have deviated from normal seasonality. Just like in 2010 when there was a similar increase at this time, further reductions may be on the horizon for the summer months.

Last month we discussed that the typical reduction in national layer numbers seemed

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## Midwest Large Egg Prices

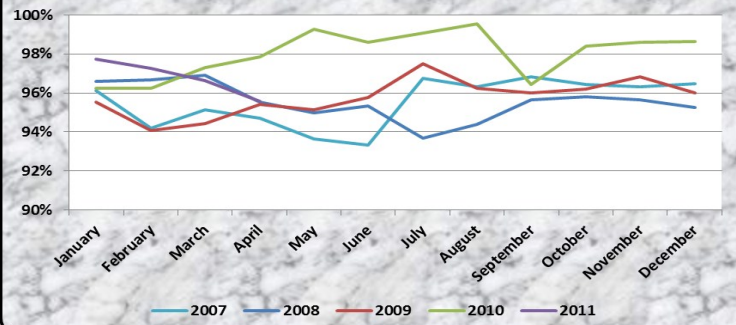
According to the Uerner-Barry data displayed on the nearby graph, egg prices have reversed their generally decreasing trend and increased rather substantially from 104.4 cents/dz to 122.4 cents/dz, or about 17%. By virtue of Don Bell's methodology for projecting egg prices (see conversation regarding this issue in the April 2011 issue of *The Monthly Layer*), there are implications for a revised estimation of future monthly egg prices.

accompanying this column, Midwest large egg prices are projected to generally follow historical seasonal patterns during the balance of 2011 and into early 2012, albeit at a higher level than in recent history. Midwest egg prices as a percentage of the rest of the country continue to hover at about 96%.

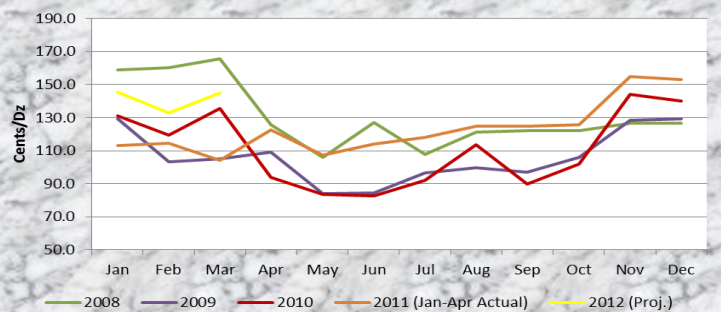
The revised price projection below is significantly higher than what was reported last month. The Midwest large egg price projection this

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Midwest Egg Prices (% of Rest of Country)



Historical Midwest Large Egg Prices



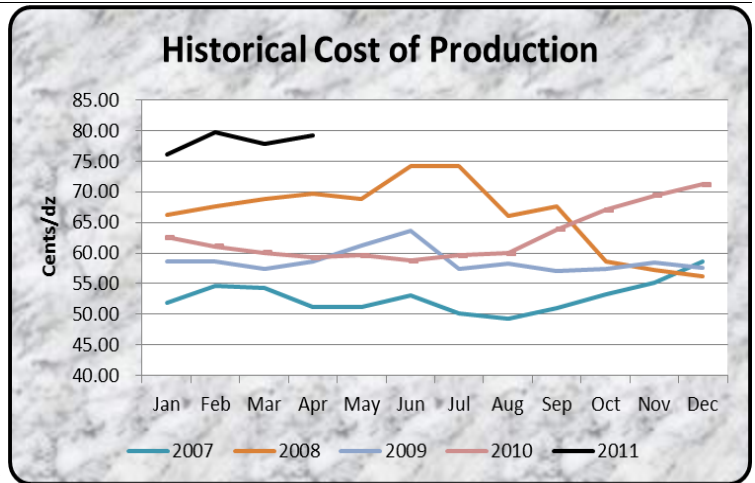
As shown in the graphs

# Cost of Production

Since we last spoke of feed ingredient prices last month, prices subsided somewhat. However, as we spoke in the opening column of this edition, there are real concerns that weather may prevent the acreage estimates in the Prospective Plantings report from being realized. This has caused the nearby corn contract to trade in the \$7.25-\$7.50/bu range. These elevated price levels, combined with high volatili-

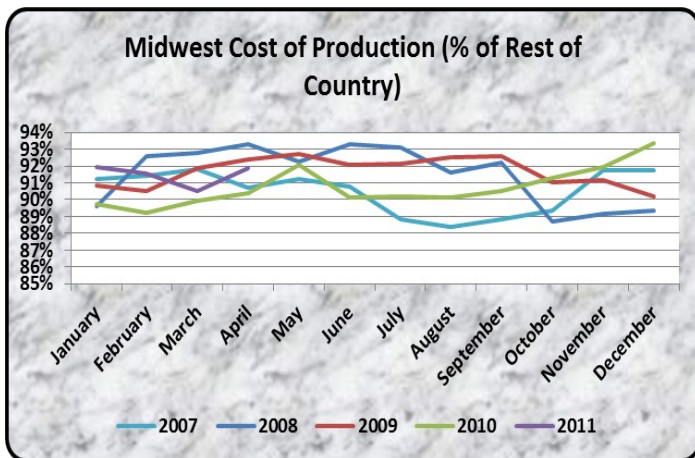
ty, continues to cause great heartburn among egg producers.

National average cost of production (on a cash basis) in April 2011 increased by nearly 2% compared to March 2011 (77.9 versus 79.2 cents/dz). It appears that estimated egg cost of production has reversed its brief reprieve from February to March. As we anticipated last month, the expected



cost of production increase has begun to manifest itself through April and into the month of May. For at least those operating in the cash market, estimated profitability actually improved during the month of April. This was primarily due to an elevated egg price – see Historical Midwest Egg Prices graph in the Midwest Large Egg Price column.

relationship to cost of production, we see in the nearby graph that the cost of production within the Midwestern region has risen at a faster pace than the average of all other reported regions (Northeast, South Atlantic, South Central, Northwest, and California). This increase, however, still represents a lower percentage during the elevated cost of production environment of 2008.



Regarding the Midwest's

(Numbers: continued from page 2)

Since last month, Don Bell has increased his flock projection by an average of 1.2 million layers per month. He further continues to project a recovery of inventory level throughout the balance of this year, exceeding recent year-end inventory levels.

Turning attention to Iowa layers, state levels of layers did not follow the same decreasing pattern as the nation as a whole. Iowa layers actually increased

400,000 (0.8%) over February levels. As shown in the nearby graph, Iowa continues to stay within range of its recent share of national layers. About 19% of all national layers continue to reside in Iowa.

(Prices: continued from page 2)

month is, on average, 29 cents/dz higher than last month. This large variation is again due the projection methodology's sensitivity to current month egg prices. The fact that we are in such a

highly volatile environment makes it very difficult to pinpoint where prices may be at a future date, regardless of what methodology is used.

We continue to develop our own egg price projection and anticipate reporting our results soon. When we do report our price projections, we will include confidence intervals surrounding the projections we create.



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## The Scrambled Egg

Since the April edition of *The Monthly Layer*, we have seen a slight increase in all costs associated with producing eggs. The majority of the increase has come from the elevated prices of feed ingredients. This increase in the estimated cost of production follows a slight reduction experienced during the month of March. Barring any major events, such as a quick conclusion

of planting/replanting of major crops or a significant reduction of demand of some kind, we have little reason to expect feed costs to soften in the near term.

On a cash basis, we have seen a negative estimated profit for three of the first four months of 2011. Assuming the projection for egg prices reported by Don Bell come to fruition, negative margins will likely give way to improved profits some-

time later this year. However, without a better understanding of what feed ingredient prices may do, a significant cloud of uncertainty surrounds the ability of egg producers to achieve and maintain profitability throughout the balance of 2011. From our perspective, the profitability picture really boils down to weather and farmers ability to calm commodity markets.

Finding ourselves in a continued high-priced feed environment, egg producers will continue to have incentive to explore alternative energy substitutes for their layer rations. If a sound understanding of the relationships among substitute energy supplements is not currently possessed, egg producers and nutritionists will likely find benefit in exerting a significant effort to do so. Given today's highly volatile commodity markets, an understanding of the points at which substitute feed ingredients fall in and out of favor in rations will help egg producers mitigate the effects of a negative economic outlook. 

In addition to the commodity markets factoring a significant weather risk, fuel prices continue to remain at an extremely elevated level. The price of energy has many implications for supply chains, consumer purchasing decisions and other commodity prices. It appears that energy prices will continue to support other commodity prices as well.

**Historical Estimated Profit**

