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COMMERCIAL EGG TIP . . .

ETHANOL PRODUCTION AND FEED INGREDIENT PRICES UPDATE

Beginning in 2002 the United States government encouraged the production of ethanol and other bio-fuels through a combination of tax benefits and direct subsidies. The Renewable Fuels legislation of 2005 required that gasoline in the U.S. contain increasing volumes of ethanol beginning in 2006. These volumes were required to increase from 4 billion gallons in 2006 to 7.5 billion in 2012. As a result of these programs, ethanol production in the last 6 years has soared from 3.9 billion gallons in 2005 to 13.2 billion gallons in 2010. It is possible that we will be producing 15.0 billion gallons by 2012. Table 1 shows the historic production of U.S. ethanol over the past 10 years.

Table 1. U.S. Ethanol Production, 2001-2010 (Billion Gallons)

2001	1.77	2006	4.85
2002	2.13	2007	6.50
2003	2.80	2008	9.00
2004	3.40	2009	10.6
2005	3.90	2010	13.2

Since most of the ethanol produced in the United States comes from corn, these programs have increased the demands for corn supplies. In 2002, 11% of the available U.S. corn supply was used for ethanol production. For 2011 it is expected that about 4.8 billion bushels of corn, the equivalent of approximately 35% of the corn crop, will be used for ethanol production. The increased demand for corn supplies as a result of the diversion of significant amounts of corn for ethanol combined with increased world demand and crop failures in key parts of the world resulted in unprecedented feed ingredient prices in the summer of 2008. In the summer of 2008 corn prices exceeded \$7.00 per bushel and soybeans were over \$500 per ton. During 2009 and

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the first half of 2010 feed ingredient prices moderated to more traditional levels as a result of increased acreage and yields for corn and soybeans. However, beginning in the fall of 2010 prices for feed ingredients have been increasing rapidly as a result of ever increasing world wide demands and weather related issues. Recently (March, 2011) corn prices were again above the \$7.00 level with soybeans also exceeding the \$500 per ton mark.

The outlook for 2011 is that the price and demand for feed grains will continue to be strong. With competition among the various crops for acreage it is not clear how this will play out for corn. It is clear, however, that corn acreage in the U.S. will have to increase in 2011 to meet the expected 13.4 billion bushels that will be needed for consumption and export. To meet the 13.4 billion bushel crop, acreage will have to increase by several million as well as providing some increase in yield per acre. If the planting and weather this spring go well, it should help moderate prices, but the demand for, and current shortages of, feed grains likely will keep corn and soybean prices on the higher end of the scale.

The increased costs of feed ingredients in 2008 had a significant impact on egg producer costs. Feed costs went from approximately 25 cents per dozen in 2007 to more than 40 cents per dozen in 2008. Breakeven costs per dozen increased from approximately 65 cents per dozen to more than 80 cents during that same time period. By July of 2008, the monthly impact of the higher feed prices surpassed the \$100 million level. The cumulative impact for the industry was more than \$1.2 billion from October 2006 through July Of 2008.

The continued increase in demand for corn for ethanol combined with world wide shortages of feed grains has resulted in elevated grain prices comparable to those of 2008. How high the prices for corn and soybean go in the future is uncertain, but it is certain that poultry feed costs for much of 2011 will be a challenge for producers to negotiate. These factors will continue to pressure poultry producer's costs and profitability numbers making feed efficiencies increasingly important.



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