

OVERVIEW OF THE SOUTH AFRICAN EGG INDUSTRY: 2002 TO 2012

The annual number of day old pullets hatched, the number of 18 week old point of lay pullets transferred to the laying flock, as well as the average number of hens in the laying flock are displayed in **Graph 1**. As indicated in the graph, the egg industry remains to be volatile but maintains steady growth over the longer term.

Down-swing in production, as seen from 2002 to 2004 and again from 2008 to 2010, is usually preceded by periods of low profit margins. The profitability in the industry is closely linked to economic cycles and the impact thereof on consumer spending, and the balance between supply and demand for eggs. These cycles are invariably not synchronized and result in periods of excessive up or down-swing in profitability.

The fact that it takes almost 18 months to effectively implement a decision made by egg producers to increase or decrease their flock also impacts on the profitability of the industry. Other factors such as unforeseen increases in the costs of raw materials used in poultry feed, increases in electricity cost, fuel price increases, etc. also have a detrimental effect on profit margins in the industry.

In an effort to curb the effect of increasing costs and depressed demand for eggs, the industry increased the production cycle of laying hens by approximately three weeks. This change in the laying cycle was introduced in calculations projecting the laying flock and egg production during 2009, and explains the deviation in the trend, noticeable in **Graph 1**, where the laying flock did not decrease in sync with the decrease in day old pullet placements and point of lay pullet production. The laying cycle from 18 weeks of age to depopulation, was increased by three weeks to a total of 55 weeks. As a result the number of hens in the laying increased while less day old pullets were placed during a 52 week calendar year to maintain the laying flock.

Viewing **Graph 2** and **Graph 3** in conjunction with **Graph 1** may assist in a better understanding of factors influencing the growth trends in the egg industry. The monthly percentage year on year change in the supply of eggs and the producer price of eggs are presented in **Graph 3**. It is obvious that high year on year increases in producer prices are associated with decreasing supply of eggs or negative growth in egg production.

During 2005 and 2006 egg prices however increased while the supply of eggs also increased. This almost abnormal occurrence can be ascribed to the high level of disposable income of consumers at the time. The global economic downswing of 2007 put an end to the high demand for eggs and although the annual change in egg prices started to decline during the second half of 2006, the egg industry was only able to decrease the supply of eggs more than a year later.

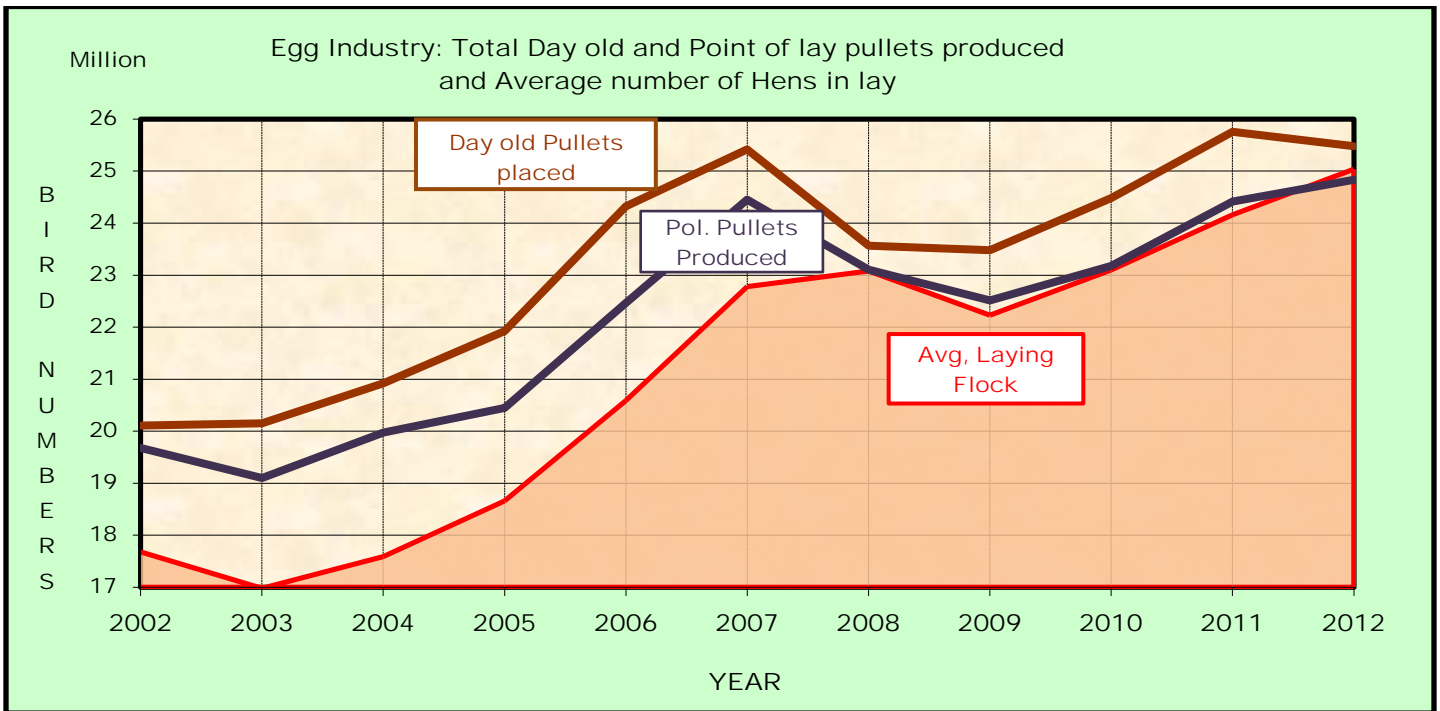
Contrary to market and economic signals, egg production increased during 2010 and 2011. The increase in production coincided with rising costs of raw material used in poultry feed and other input costs which in combination with the depressed demand for eggs, put profit margins in the egg industry under severe pressure. It is evident in **Graph 3** that efforts by the industry to increase egg prices during the past three years in order to recover the additional production costs were not successful.

The projected number of 30 dozen cases of eggs and the tons of eggs produced per annum is presented in **Graph 4**. During the past three years the percentage of brown feathered birds in the laying flock increased from approximately 20 percent to the current level of 28 percent. This resulted in the increase in egg weight, relative to egg numbers, noticeable in the graph.

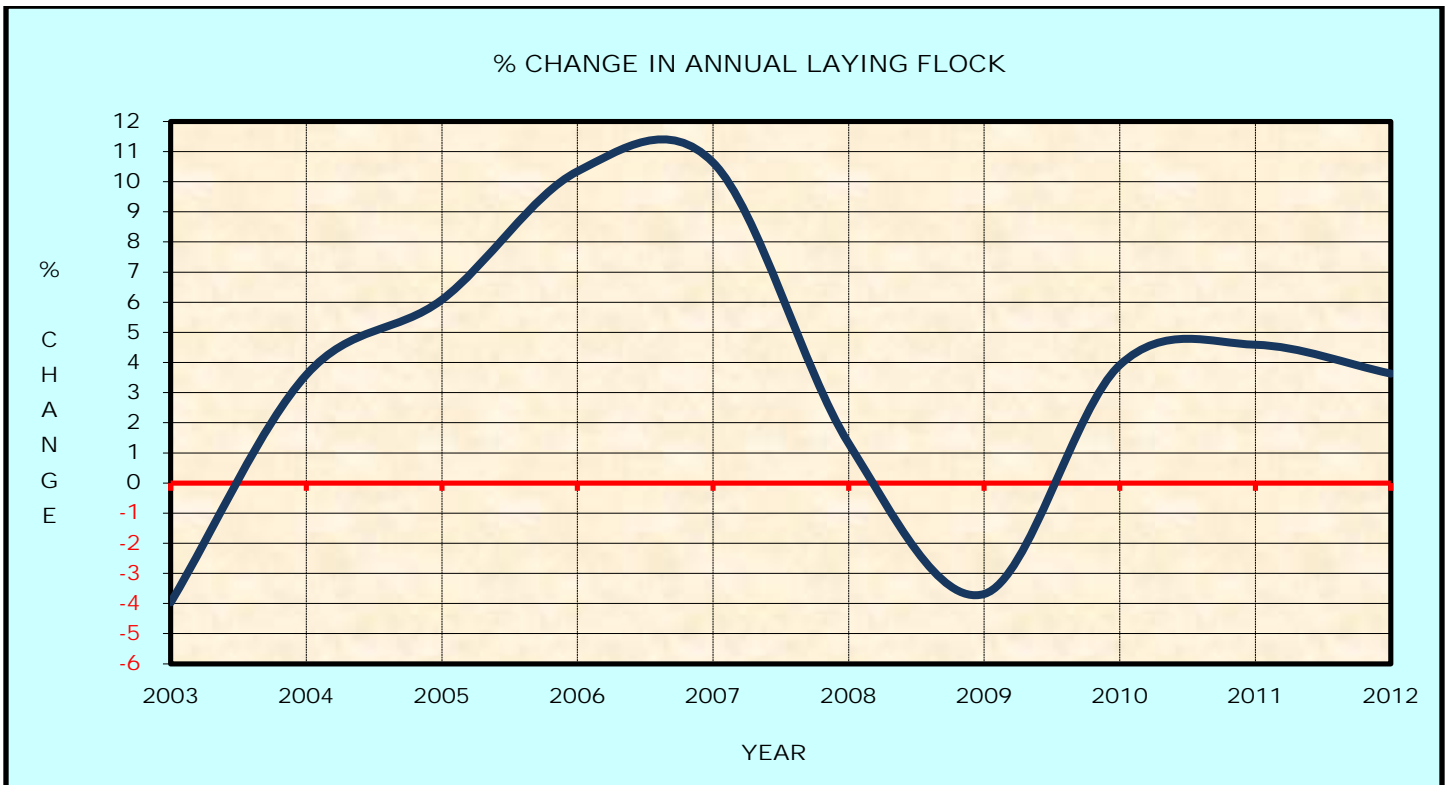
The average number of birds in the pullet rearing and laying flocks is presented in **Graph 5**. The flock increased between 2002 and 2012 by 9.06 million birds (+37.7%) to a total of 33.1 million birds.

The estimated tons of feed required by the egg industry per annum are indicated in **Graph 6**. Approximately 1.2 million tons of feed were used by the egg industry in 2012. Calculations are based on average feed intakes of 113.1 gram and 57 gram per hen-day during the laying and rearing cycles, respectively.

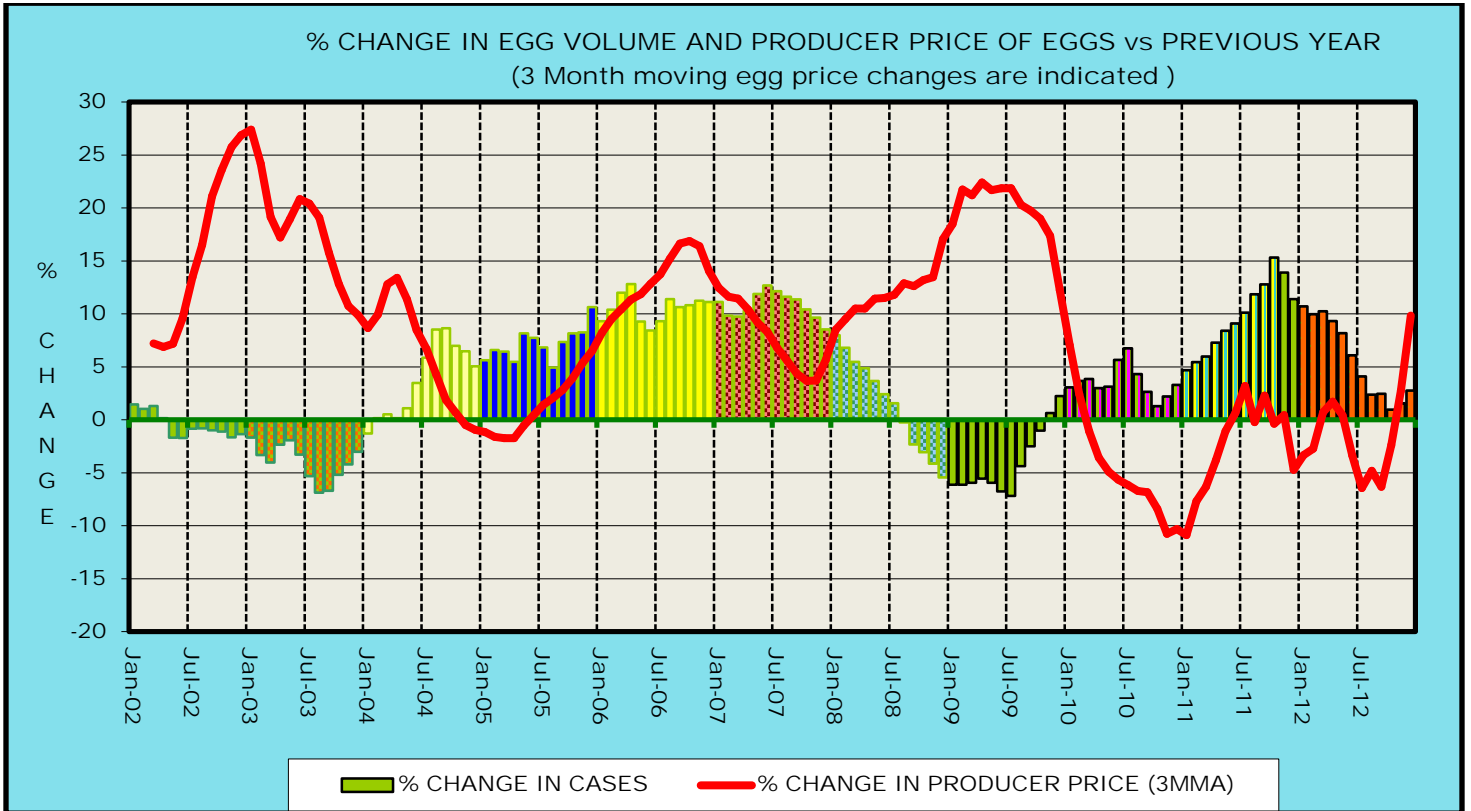
Graph 1



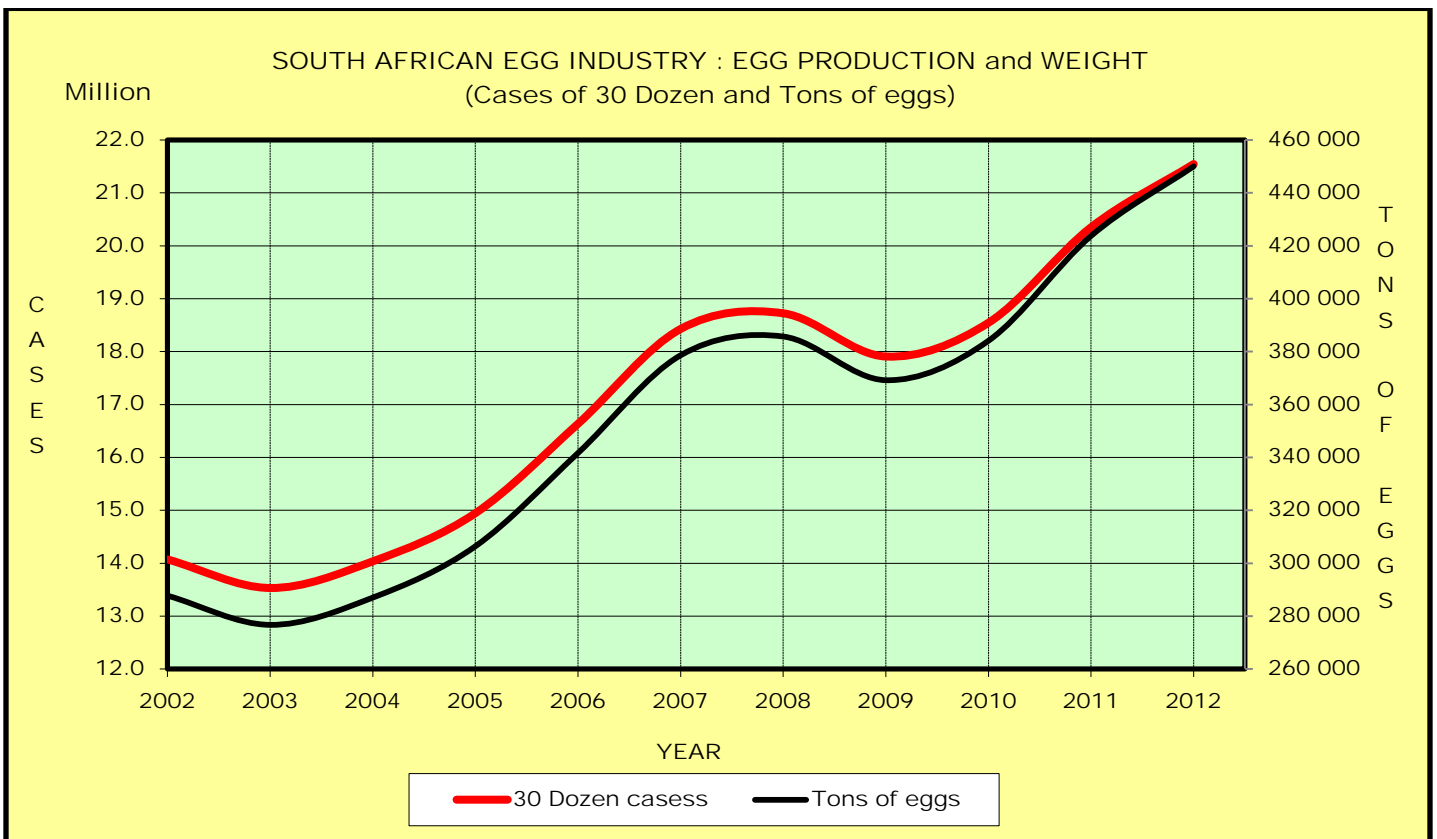
Graph 2



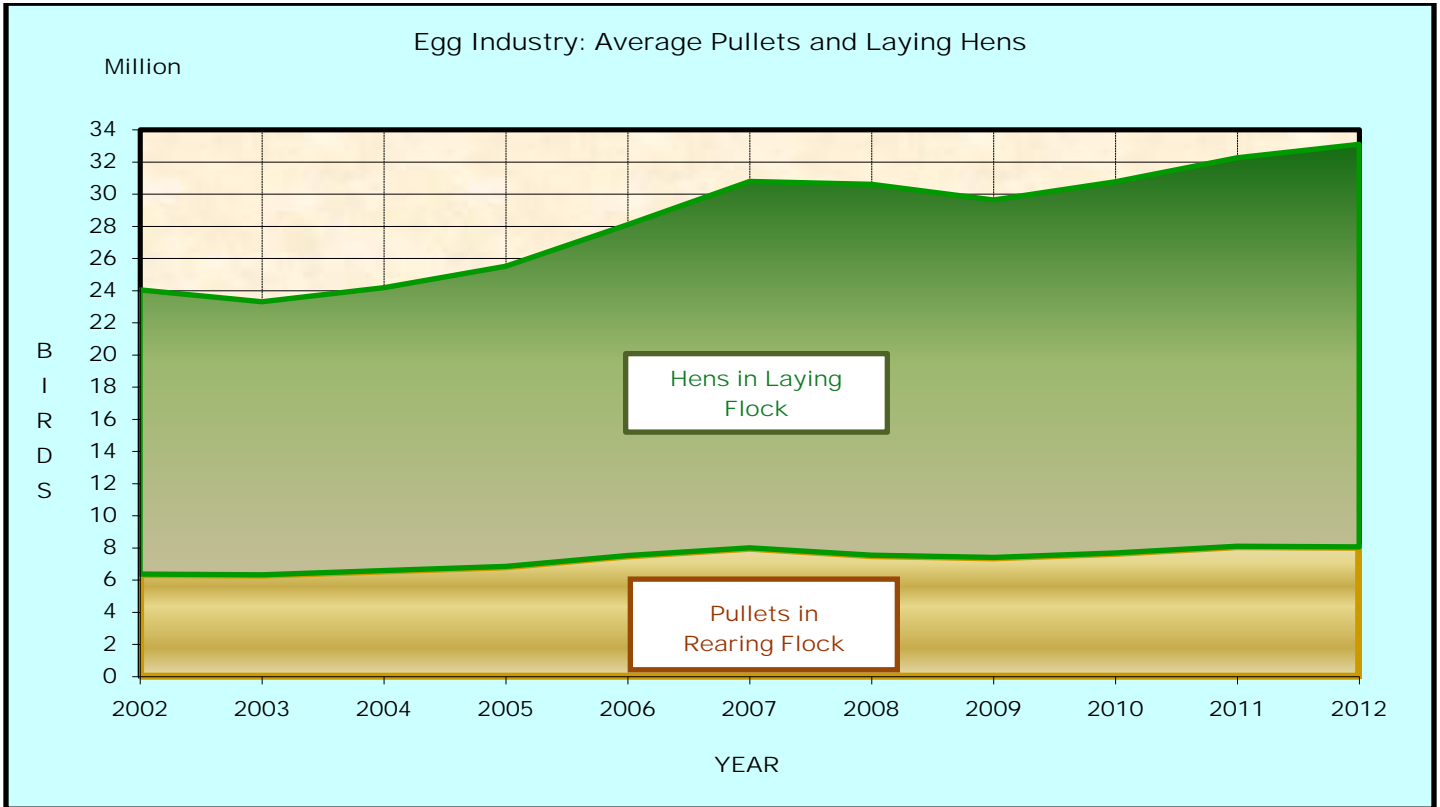
Graph 3



Graph 4



Graph 5



Graph 6

