

ESG Now Podcast

“It’s the Egg-conomy, Stupid”

Transcript, 21 March, 2025

Bentley Kaplan

Hello and welcome to the weekly edition of ESG Now, the show that explores how the environment, our society and corporate governance effect and are affected by our economy. I'm Bentley Kaplan, your host for this episode.

On today's show, we are going to get into eggs, more specifically the soaring price of eggs in the US. We'll be looking at the factors that have driven these prices so high. Now, while avian flu has been regularly fingered, as the main culprit is a case to be made that the effects of the virus on American chicken flocks has been supercharged by unique structural aspects of the US egg market. And for companies and investors, this may well be less of an anomaly and more of the new normal. So thanks for sticking around. Let's do this.

You can't make an omelet without breaking a few eggs, but doing that has become a lot more costly, especially if you're making those omelets in the US. As American shoppers can tell you, the price of eggs has skyrocketed. Between February 2024 and February of this year, the price of a dozen grade A large eggs has grown by an average of nearly 60% as shown by data from the US Bureau of Labor Statistics. The absolute price increase in February 2025 was the largest monthly change since 1980. Criticism of egg producers has been gaining momentum and drawing the attention of non-profits and politicians.

And things may not be getting easier any time soon. Easter's around the corner, if you can believe it, and it's a holiday that's usually accompanied by a spike in demand for eggs, critical components to egg hunts, decorations, Easter-related household baking, restaurants and commercial bakeries. And fun twist, the onset of spring also tends to reduce the egg laying productivity of hens, and that combination has historically meant higher egg prices at Easter. So upward price pressure on eggs may well be a stubborn factor over the next couple of months. That might leave consumers trepidatious and seeing if ChatGPT can whip up some egg-free baking recipes.

But what about investors? Higher egg prices have meant higher margins and more profitable companies. But as Cole Martin out of MSCI's London office told me, high food prices may have some short-term upside, but it's not without risk in the longer term.

Cole Martin

When you get a supply shock in a developed country like we're seeing now in the US egg market, usually it doesn't mean that all of a sudden eggs will have disappeared completely. For most of

these types of commodities a country will have they can draw from. So depending on how long the supply shock goes on for, what will happen initially is that benchmark food prices will start rising and sometimes rapidly, but there will still be some degree of availability of that product. It matters where you sit within the supply chain. But what often happens in the food industry, whether it's the CPGs or the retailers or even restaurants, is that companies will have bespoke contracts with suppliers where they agree to buy a certain amount of product at a set price. So even in the event of a shortage, which is what we're seeing now, you don't necessarily have a massive supply disruption for those individual downstream companies.

But here's the thing, executives at those companies will obviously notice that their input costs are going up, and so they'll have to decide whether to absorb those costs or pass them on to the consumer. And in the case of food companies, what they generally do is pass those costs onto consumers. Now, there's a couple of issues with that. First of all, if you pass on those costs to consumers too much or too often people will start looking for substitutes and you the company may lose market share or suffer from reduced volume growth. And that volume growth is something that investors of food companies really key on.

The other problem is that if consumer demand is particularly inelastic, which is actually the case for eggs, a significant price increase can end up becoming a political issue. So just as an example to illustrate all of this, the largest listed egg producer in the US is a company called Cal-Maine Foods. And despite having their own bird flu outbreaks, this company's most recent annual profits basically quadrupled this year. And their share price has significantly outperformed the NASDAQ, where they're listed, over the past year. However, politicians essentially started accusing them of price gouging and now they're under investigation by the US Justice Department for potentially deliberately restricting supply in order to raise prices and profits further. So it can be a double-edged sword for companies when commodity prices move like this.

Bentley Kaplan

Right. So a couple of things to clarify. When Cole says CPGs, he means consumer packaged goods companies. These are companies like Nestle, Kellogg's, Kraft Heinz, Unilever, et cetera, companies that don't produce their own eggs but have to weigh up of how much of the egg price increase they need to or can pass on to consumers. Cole also mentioned that Cal-Maine Foods, the largest producer of fresh-shell eggs in the US, is in the early stages of an investigation by the Department of Justice over alleged price fixing of eggs. Now, that's something that's been reported by several major news agencies at the time of recording, but not by the Department itself. Other companies were reportedly also under investigation, including Rose Acre Farms, the second-largest egg producer in the US behind Cal-Maine. And that is one thing that can happen at the extreme end of rising prices. Food can come under criticism, scrutiny, or investigation.

And Cole mentioned that investors in food companies are not only looking at price or margins, but volume as well, growing volume, the share of a market's metaphorical plate, is something that is balanced alongside price. And if the price of eggs goes too high for too long there's a risk that volume will suffer. Practically speaking, consumers will stop eating as many eggs as they used to. The thing is, even if high prices are ultimately detrimental, companies may find it

difficult to ramp up egg production quickly in the hope that higher supply will ease price pressures. And that's because of two factors that are working in combination.

The first we've touched on already, and that's avian influenza, the main strain being H5N1 and more recently detected H7N9, and we'll come back to Avian flu a little bit later. Now, the second factor that's making supply hard to turn quickly is the highly concentrated and very specialized value chain that ultimately delivers eggs to American consumers at a staggering scale. Now, bear with me, I promise this is useful information.

So this very specialized egg industry has got three or four parts. First, there is the so-called parent stock or grandparent stock, depending on how you view the generational status of the eggs in your fridge. These parents or grandparent stock are the chickens that breed to produce eggs that will hatch into chicks that ultimately become the heroines of our story, egg-laying hens. So the eggs laid by this parent stock go into chick production and rearing. Fluffy day-old chicks that are destined to become egg-laying hens first become something called layer-pullets. The raising of these layer-pullets is the next component until they reach egg-producing age, which then leads into egg production where eggs are laid, collected, sorted, and ultimately sold. And these activities, this value chain has become quite concentrated, particularly in the US.

As Cole will go on to tell me the differences in how eggs are produced in different markets may be shedding light on why egg prices have shot up so dramatically in the US, but not necessarily by as much in other developed markets.

Cole Martin

One of the interesting things that's happened during the egg price spike is that even though in general the food system in North America is quite interconnected, egg prices in Canada have been relatively stable in recent months compared to the US. Now, some of the difference in prices could be down to the pricing allegations I mentioned earlier, and there's been a lot of commentary about that. But I've heard some relatively convincing arguments that the size of US egg farms compared to Canadian egg farms is a key contributor to the discrepancy in prices.

In other words, US egg farms are enormous compared to Canadian equivalents. There's something like 100 producers in the US that produce 80% of all the eggs in the country, and the average egg farm in the US has something like 1.5 million egg laying hens. In Canada, the average egg farm has 23,000, so compare that to one and a half million. And in Canada, egg farms are quite spread out in various provinces.

So this type of industry concentration and industry consolidation is actually relatively common across the US food industry and in theory it has its benefits. So you're talking about things like better economies of scale, higher productivity, and ultimately lower prices for consumers. And in fact, generally speaking, egg prices in the US are lower than they are in Canada, all things considered. But that concentration can turn into a major problem when a disease like a highly contagious flu breaks out now because now producers have to cull way more birds at once and close down an entire facility to disinfect it in order to stop the spread of that disease.

So even though Canada has faced its own outbreak of avian flu, the general fragmentation of the industry means that we aren't seeing nearly the kind of price volatility in Canada as we are in

the US. But look, even within Canada, we are still seeing provinces where egg farms are physically closer together. And in those provinces we're seeing more disruption and more significant price increases than in provinces where egg farms are just physically more spread out, which illustrates how important concentration is when something like this happens.

Bentley Kaplan

Okay, so in the US we have concentration, not just in terms of a small number of very big companies that are managing egg-laying hens, but in the actual flocks that these egg-laying hens are living in, they are very, very big. And it may well be because of this concentration that the effects of avian flu have remained so stubborn. You see the highest risk scenarios for avian flu to spread and persist are where there is consistent and widespread bird-to-bird contact. Modern egg value chains, particularly those with high densities of parent stock, chick rearing and egg-laying hens are particularly susceptible.

A kicker is that avian flu isn't just a domestic virus. Wild birds can and do bring the virus into and out of captive chicken stocks and through migratory birds, avian flu can really stretch its legs. That's not a new problem though. What is new is that the migratory patterns of these wild birds are changing in response to climate change. And because of that, the predictability of this component of risk is getting more slippery.

So egg prices are high now, sure, but stepping back and looking at the bigger picture, we could well be moving into a new reality where avian flu becomes a regular occurrence. And if it does well, it may push egg producers and those in the wider value chain to rise to the occasion. Today, the outbreak of avian flu in a flock often leads to culling, especially where treatment at scale can be difficult in an industry where margins are traditionally quite low. And these culls are extensive. In the US, which typically maintains a collective flock of about 300 million egg-laying hens, 115 million have been culled since 2022 according to the US Department of Agriculture.

Sustainably managing these massive flocks will likely require a combination of approaches to boost early detection, improve immunity and limit infections, and investors may come to expect better reporting from companies on their flock densities, management approaches, and more regular reporting of outbreaks and progress.

And if a change in climate does alter the dynamics of how avian flu is spreading, then both companies and investors may need to consider incorporating more advanced risk models, at least if they want to have more influence on egg prices.

Cole Martin

I think it's worth remembering that the current outbreak that we're seeing that's affecting egg prices has actually been going on now for about three years. There was an initial outbreak in 2022, there was then a significant spike in egg prices in 2023, prices came back down and now they're rising again. But it's essentially the same outbreak that we've been talking about now has been going on for almost three years. So the question is, is there a vaccine for this? And how can US farms prevent this kind of thing from spreading and affecting the industry in the future?

I think it's worth pointing out that bird flu vaccines do exist, some countries use them. But the US has always tried to cull their flocks to prevent the spread as opposed to vaccinations instead. Now, there's a lot of reasons for this, one of which has to do with surveillance and also logistics and trade agreements that the US is involved in. So the US has always been kind of hesitant to use vaccination as a sort of prevention tool. Now, I should point out that the USDA, the Department of Agriculture in the US, did conditionally approve a vaccine as of February, but it may not necessarily be rolled out that quickly.

More importantly, and more broadly, as I said, this has been going on now for three years, and there are scientists now that think this is basically going to be, as in bird flu, an endemic problem in the US industry in particular. At some point, these outbreaks tend to come and go, the current outbreak is going to die down eventually because enough of the flock is culled, and egg prices may well return to where they were a year ago. But if we think about this kind of from a longer-term perspective, there's a chance that climate change could make these kind of things much worse. One of the things that the UN Climate Change reports have mentioned is that as the world gets warmer, migratory patterns for wildlife and wild birds could change. And as those patterns change, this could ultimately influence disease transmission because avian flu, one of the vectors, is the patterns, the migratory patterns of wild birds.

And I'll also point out that the flu we're talking about is ultimately a virus, viruses mutate. So even if there is a vaccine it may not be perfect. And on top of that, there are literally billions of birds in the US that are used for egg laying purposes. So vaccination for an entire flock could end up being very expensive. In the event of, without a sort of a mass vaccination program and the possible increased impacts of climate change, even a mild outbreak could end up slowing down egg production pretty dramatically. So from a company perspective, even though companies could benefit in the short term from the rising prices to increase revenues and ultimately profits, I think what investors are really looking for with these food companies from a long-term basis from an investment perspective is steady earnings growth, especially steady volume growth. And this kind of long-term volatility in revenues and profits and cash flow could ultimately dissuade investors, even if the underlying fundamentals of the industry are otherwise quite compelling.

Bentley Kaplan

And that is it for the week. A massive thanks to Cole for his take on the news with a sustainability twist. And I also do want to say thank you very much for tuning in. If you like what we're doing then let us know, drop us a review, rate the show on your platform of choice and tell a friend or colleague about this episode, especially if they are into eggs. Thanks again, and until next time, take care of yourself and those around you.

The MSCI ESG Research podcast is provided by MSCI ESG Research LLC, a registered investment advisor under the Investment Advisors Act of 1940, and a subsidiary of MSCI Inc. Except with respect to any applicable products or services from MSCI ESG Research, neither MSCI nor any of its products or services recommends, endorses, approves or otherwise expresses any opinion regarding any issuer, securities, financial products, or instruments or trading strategies. And MSCI's products or services are not intended to constitute investment advice or recommendation to make or refrain from making any kind of investment decision and may not be relied on as such. The analysis discussed should not be taken as an indication or

guarantee of any future performance, analysis, forecast or prediction. The information contained in this recording is not for reproduction in whole or in part without prior written permission from MSCI ESG Research. Issues mentioned or included in any MSCI ESG Research materials may include MSCI Inc., clients of MSCI or suppliers to MSCI, and may also purchase research or other products or services from MSCI ESG Research. MSCI ESG Research materials, including materials utilized in any MSCI ESG indexes or other products have not been submitted to nor received approval from the United States Securities and Exchange Commission or any other regulatory body. The information provided here is as is, and the user of the information assumes the entire risk of any use it may make or permit to be made of the information. Thank you.

About MSCI

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 50 years of expertise in research, data and technology, we power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. We create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process. To learn more, please visit www.msci.com.

This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the "Information") is the property of MSCI Inc. or its subsidiaries (collectively, "MSCI"), or MSCI's licensors, direct or indirect suppliers or any third party involved in making or compiling any Information (collectively, with MSCI, the "Information Providers") and is provided for informational purposes only. The Information may not be modified, reverse-engineered, reproduced or disseminated in whole or in part without prior written permission from MSCI. All rights in the Information are reserved by MSCI and/or its Information Providers.

The Information may not be used to create derivative works or to verify or correct other data or information. For example (but without limitation), the Information may not be used to create indexes, databases, risk models, analytics, software, or in connection with the issuing, offering, sponsoring, managing or marketing of any securities, portfolios, financial products or other investment vehicles utilizing or based on, linked to, tracking or otherwise derived from the Information or any other MSCI data, information, products or services.

The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information. NONE OF THE INFORMATION PROVIDERS MAKES ANY EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION (OR THE RESULTS TO BE OBTAINED BY THE USE THEREOF), AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH INFORMATION PROVIDER EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.

Without limiting any of the foregoing and to the maximum extent permitted by applicable law, in no event shall any Information Provider have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits) or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not be excluded or limited, including without limitation (as applicable), any liability for death or personal injury to the extent that such injury results from the negligence or willful default of itself, its servants, agents or sub-contractors.

Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results.

The Information should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. All Information is impersonal and not tailored to the needs of any person, entity or group of persons.

None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), any security, financial product or other investment vehicle or any trading strategy.

It is not possible to invest directly in an index. Exposure to an asset class or trading strategy or other category represented by an index is only available through third party investable instruments (if any) based on that index. MSCI does not issue, sponsor, endorse, market, offer, review or otherwise express any opinion regarding any fund, ETF, derivative or other security, investment, financial product or trading strategy that is based on, linked to or seeks to provide an investment return related to the performance of any MSCI index (collectively, "Index Linked Investments"). MSCI makes no assurance that any Index Linked Investments will accurately track index performance or provide positive investment returns. MSCI Inc. is not an investment adviser or fiduciary and MSCI makes no representation regarding the advisability of investing in any Index Linked Investments.

Index returns do not represent the results of actual trading of investible assets/securities. MSCI maintains and calculates indexes, but does not manage actual assets. The calculation of indexes and index returns may deviate from the stated methodology. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the index or Index Linked Investments. The imposition of these fees and charges would cause the performance of an Index Linked Investment to be different than the MSCI index performance.

The Information may contain back tested data. Back-tested performance is not actual performance, but is hypothetical. There are frequently material differences between back tested performance results and actual results subsequently achieved by any investment strategy.

Constituents of MSCI equity indexes are listed companies, which are included in or excluded from the indexes according to the application of the relevant index methodologies. Accordingly, constituents in MSCI equity indexes may include MSCI Inc., clients of MSCI or suppliers to MSCI. Inclusion of a security within an MSCI index is not a recommendation by MSCI to buy, sell, or hold such security, nor is it considered to be investment advice.

Data and information produced by various affiliates of MSCI Inc., including MSCI ESG Research LLC and Barra LLC, may be used in calculating certain MSCI indexes. More information can be found in the relevant index methodologies on www.msci.com.

MSCI receives compensation in connection with licensing its indexes to third parties. MSCI Inc.'s revenue includes fees based on assets in Index Linked Investments. Information can be found in MSCI Inc.'s company filings on the Investor Relations section of msci.com.

MSCI ESG Research LLC is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc. Neither MSCI nor any of its products or services recommends, endorses, approves or otherwise expresses any opinion regarding any issuer, securities, financial products or instruments or trading strategies and MSCI's products or services are not a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such, provided that applicable products or services from MSCI ESG Research may constitute investment advice. MSCI ESG Research materials, including materials utilized in any MSCI ESG Indexes or other products, have not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body. MSCI ESG and climate ratings, research and data are produced by MSCI ESG Research LLC, a subsidiary of MSCI Inc. MSCI ESG Indexes, Analytics and Real Estate are products of MSCI Inc. that utilize information from MSCI ESG Research LLC. MSCI Indexes are administered by MSCI Limited (UK).

Please note that the issuers mentioned in MSCI ESG Research materials sometimes have commercial relationships with MSCI ESG Research and/or MSCI Inc. (collectively, "MSCI") and that these relationships create potential conflicts of interest. In some cases, the issuers or their affiliates purchase research or other products or services from one or more MSCI affiliates. In other cases, MSCI ESG Research rates financial products such as mutual funds or ETFs that are managed by MSCI's clients or their affiliates, or are based on MSCI Inc. Indexes. In addition, constituents in MSCI Inc. equity indexes include companies that subscribe to MSCI products or services. In some cases, MSCI clients pay fees based in whole or part on the assets they manage. MSCI ESG Research has taken a number of steps to mitigate potential conflicts of interest and safeguard the integrity and independence of its research and ratings. More information about these conflict mitigation measures is available in our Form ADV, available at <https://adviserinfo.sec.gov/firm/summary/169222>.

Any use of or access to products, services or information of MSCI requires a license from MSCI. MSCI, Barra, RiskMetrics, IPD and other MSCI brands and product names are the trademarks, service marks, or registered trademarks of MSCI or its subsidiaries in the United States and other jurisdictions. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and S&P Global Market Intelligence. "Global Industry Classification Standard (GICS)" is a service mark of MSCI and S&P Global Market Intelligence.

MIFID2/MIFIR notice: MSCI ESG Research LLC does not distribute or act as an intermediary for financial instruments or structured deposits, nor does it deal on its own account, provide execution services for others or manage client accounts. No MSCI ESG Research product or service supports, promotes or is intended to support or promote any such activity. MSCI ESG Research is an independent provider of ESG data.

Privacy notice: For information about how MSCI collects and uses personal data, please refer to our Privacy Notice at <https://www.msci.com/privacy-pledge>.