ESG Now Podcast

"It's the Egg-conomy, Stupid"

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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.

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