



NEWS RELEASE

Cage-Free Egg Pledges Yielding to Market Reality

Output expected to mirror demand as producers cautiously invest in cage-free egg production

DENVER (December 15, 2017) — Food company commitments recently pushed cage-free egg production to new heights, but U.S. egg markets are returning to more normal production growth, producer profitability and specialty egg premiums, according to a new report from CoBank's Knowledge Exchange Division.

“The avian flu outbreak in 2015 caused egg prices to climb and incentivized egg producers to boost output. Coincidentally, 229 major food companies pledged to use cage-free eggs by 2025 just as egg prices went into freefall,” said Trevor Amen, CoBank animal protein economist. “Since then, cage-free production has surged amidst a surplus of inexpensive, conventionally produced eggs.”

This oversupply has depressed demand for higher priced cage-free eggs, a condition that's expected to last for the next several months as the conventional supply draws down.

Meanwhile, total table egg production is expected to return to historical growth patterns as low egg prices encourage producers to pare back production and profitability returns to normal levels.

“This will allow the price premium for cage-free eggs to recover to historical averages and help facilitate the transition in the coming years as a reduction in cage-free egg production brings supply into alignment with true demand,” said Amen.

Cautious Conversion

To fully meet food company pledges to market all or a significant portion of their eggs as cage-free, about 223 million layers, or nearly three quarters of the entire layer flock, would need to meet the criteria.

It will cost the industry about \$10 billion to fully make the transition to meet the cage-free pledges, with most of that expense coming in the form of remodeling existing layer houses or the construction of new facilities. The current overabundance of conventional eggs makes this investment difficult in the near-term, the report points out.

However, the egg market is expected to strengthen, providing an economic incentive to respond to market forces. Robust egg exports are helping to reduce domestic egg supplies and are anticipated to support wholesale values in 2018.

The rebalancing of the market will allow the cage-free transition to be driven by fundamental consumer demand rather than pledges made by retailers and food manufacturers, Amen said.

“As a result, large egg producers are taking a more cautious approach to cage-free expansion by focusing on long-term growth potential and market premium expectations,” Amen said.

The report, "Can the Cage-Free Commitments be Met?" is available to media on request. Trevor Amen is available for interviews on request.

About CoBank

CoBank is a \$124 billion cooperative bank serving vital industries across rural America. The bank provides loans, leases, export financing and other financial services to agribusinesses and rural power, water and communications providers in all 50 states. The bank also provides wholesale loans and other financial services to affiliated Farm Credit associations serving more than 70,000 farmers, ranchers and other rural borrowers in 23 states around the country.

CoBank is a member of the Farm Credit System, a nationwide network of banks and retail lending associations chartered to support the borrowing needs of U.S. agriculture, rural infrastructure and rural communities. Headquartered outside Denver, Colorado, CoBank serves customers from regional banking centers across the U.S. and also maintains an international representative office in Singapore.

For more information about CoBank, visit the bank's web site at www.cobank.com.

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