More organic poultry meat and eggs in the US

A rapidly expanding market for organic poultry and egg products in the US can be seen. In particular, the number of organic broilers signals an expanding domestic supply. Both organic broilers and organic eggs receive a significant premium over conventional products.

By Wiebe van der Sluis

Organic eggs gain market share despite their higher price.

Eggs and poultry are now among the fastest growing products in the US organic food sector. Organic eggs are widely available in both conventional and natural food supermarkets and organic chicken is also gaining popularity in grocery stores.

An outlook report, recently published by the USDA's Economic Research Service (ERS), shows that since the USDA has allowed the use of an 'organic' label for meat and poultry in 1999, these products began to catch up with the rest of the sector with annual growth rates of about 20%. In 2005, the total US sales of organic foods were estimated at almost US$14 billion (about 2.5% of total US retail food sales) and are forecast to rise to US$24.4 billion by 2010.

Along with growing sales, organic products have shifted away from being a lifestyle choice for a small share of consumers to being occasionally consumed by two-thirds of Americans, says the ERS report.

However, high costs and shortages of organic feed grains, along with a lack of processing capacity, are factors that are limiting the short-term expansion of the organic poultry and egg sector.

Organic meat on the increase

The organic meat sector is currently one of the fastest growing segments of the US organic food industry, with poultry accounting for nearly two-thirds of this sector. Retail sales of organic poultry have almost quadrupled since 2003, and in 2005 equalled $161 million - well under 1% of conventional poultry sales. Estimates of annual growth rates range from 23 – 38% through to the end of the decade, with annual sales expected to reach almost $600 million by 2010.

Concerns about the use of antibiotics and growth hormones in animal livestock, animal welfare and health and environmental issues all contribute to the growth in consumer demand for organic meat.

Insufficient supply, however, has been a limiting factor for some supermarkets interested in carrying organic meat. In addition, the presence of competing labels, such as "natural" have historically impacted organic meat sales. Organic meat still faces intense competition from meats labelled "natural", which developed a market before meat was allowed to carry any label of "organic" and are not required to meet the stringent production standards that the USDA set for organic products. However, implementation of the national organic standards in 2002 has heightened interest in organic products, including meat, and is changing the dynamics between organic and natural meat products.

Organic egg market

When compared with organic poultry, organic eggs have shown a slower growth rate over recent years, although with a larger sales base. Organic egg sales amounted to $161 million in 2005, up from $140 million in 2004, with an average annual growth rate of 19% between 2000 and 2005. Estimated annual growth rates through to the end of the decade range from 8 – 13%, with annual sales reaching $263 million.

Organic eggs accounted for nearly 1% of the fresh egg market in 2004. In 2003, consumers purchased 51% of organic eggs in mass market channels, 45% in natural food stores and almost 3% direct from the producer or through other channels.

Growth in the specialty egg market is rapid and organic eggs are the fastest growing within this sector.

Important factors that have boosted the demand for organic eggs include increasing consumer concerns for health and animal welfare. The demand for organic eggs is also high among consumers who regularly purchase organic items.

Although conventional eggs are the second largest private label or house brand item in the supermarket, organic eggs have historically been sold as branded items; however, private labelling of organic eggs seems to be growing. The egg sector also seems to be increasing its use of "natural" labels, which typically refers to eggs from hens that are fed a vegetarian diet.

By looking at data from 2003, it can be seen that the organic egg sector is fairly concentrated, with the top five companies holding approximately 55% of the market share and the top two companies controlling approximately 33% of the market (*Figure 1*). The two largest companies are established organic dairy and egg companies with national distribution capabilities. In addition, the list of the top ten egg companies selling organic eggs is mostly comprised of organic and specialty egg companies, which suggests that conventional egg companies have not yet significantly expanded into the organic egg sector.

Production concentration

The USDA first reported organic poultry numbers in 1992, with total organic poultry livestock totalling 61,000. Since then, US organic poultry production has increased rapidly from nearly 800,000 animals in 1997 to over 13 million in 2005 (*Figure 2*). Much of this growth has come from the broiler sector. In 2005, organic broilers accounted for more than five times the number of organic laying hens in the US and over three-quarters of all poultry.

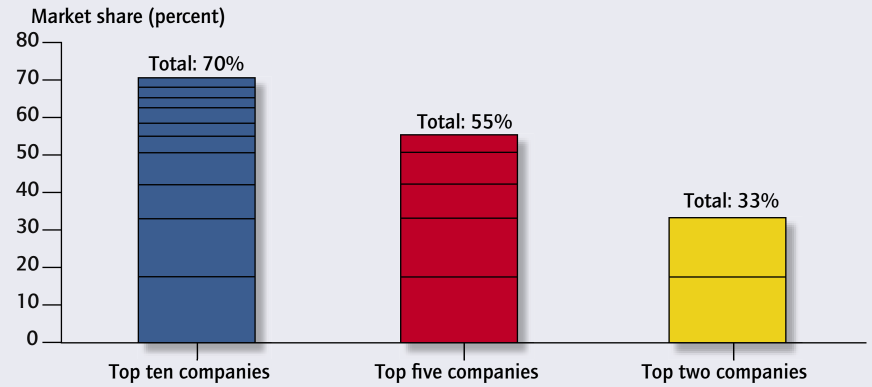
The change in the geographic location of poultry production from 2000 to 2005 demonstrates the rapid transformations underway in this sector (*Table 1*).

Although most segments of the organic poultry sector are highly concentrated geographically, they have become less so over the past 5 years. The top four broiler-producing states accounted for 94% of US production in both 2000 and 2005. California, however, has become less dominant, decreasing from 62% of total organic broiler production in 2000 to 34% in 2005. Pennsylvania and Nebraska increased organic broiler production substantially since 2000, accounting for 29% and 23% of total production, respectively, in 2005. North Carolina and Oklahoma, both top ranking states for organic broiler production in 2000, saw decreases in animal numbers by 2005, with North Carolina ranking 5th in production (with almost 300,000 animals) and Oklahoma ranking 19th out of 29 organic broiler-producing States (with 1,100 animals).

Production of organic layer hens is less geographically concentrated than production of both broilers and turkeys, with the top four states accounting for 54% of US production in 2005 (down from 73% in 2000). The total share of production by state also became less geographically concentrated over the period, with North Carolina (the top State in both 2000 and 2005) decreasing its overall share from 42% to 15%. Iowa significantly increased its organic layer hen numbers from 2000 to 2005, while Virginia, a top State in 2000, ranked 6th in 2005 with 119,175 organic layer hens.

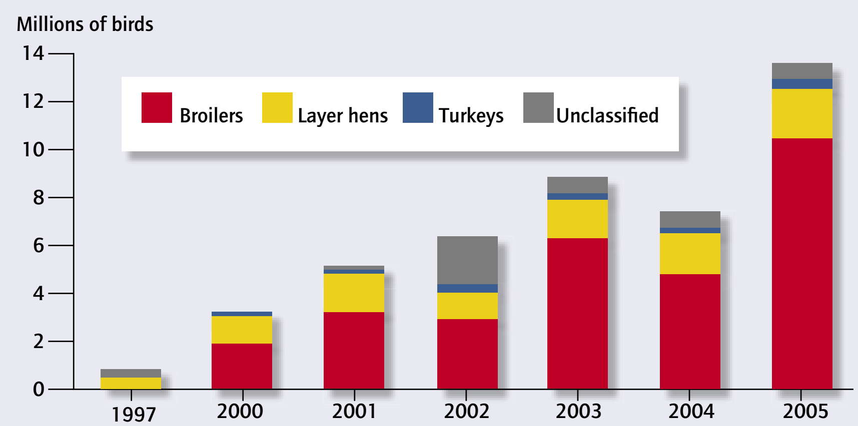
Although organic turkey production is heavily concentrated, with 97% of production attributed to the top four states (up from 93% in 2000), concentration among the states has decreased. In 2000,

Figure 1 - US market share for organic eggs, 2003



Source: USDA, Economic Research Service using data from NBJ, 2004.

Figure 2 - Number of US certified organic poultry animals, 1997-2005



Source: USDA, ERS, 2006b: Organic Agricultural Production in 2005

Table 1 - Top four states for organic poultry production, 2000 and 2005

State	Animals produced in 2005	Share of US organic production	State	Animals produced in 2005	Share of US organic production
	Number	*Percent*		*Number*	*Percent*
Broilers			***Broilers***		
California	1,200,000	62	California	3,567,425	34
North Carolina	410,242	21	Pennsylvania	2,880,800	28
Oklahoma	140,000	7	Nebraska	2,435,546	23
Iowa	69,170	4	Iowa	886,280	9
Total	1,819,412	94	Total	9,770,051	94
Layer hens			***Layer hens***		
North Carolina	462,576	42	North Carolina	301,500	15
Pennsylvania	148,079	13	California	281,070	14
California	116,608	10	Pennsylvania	273,986	13
Virginia	93,680	8	Iowa	242,526	12
Total	820,943	73	Total	1,099,082	54
Turkeys			***Turkeys***		
California	7,664	84	Michigan	56,729	39
New Mexico	500	5	Pennsylvania	48,815	34
Ohio	210	2	California	18,025	13
Iowa/Pennsylvania (T)	200	2	Iowa	15,260	11
Total	8,574	93	Total	138,829	97

Note: The number of organic eggs produced in the US is currently not tracked; however, the number of organic layer hens provides an indication of the level of production.

Source: USDA, ERS, 2006b: Organic Agricultural Production in 2005

Organic egg producers often make use of brown egg layers.

California accounted for 84% of total organic turkey production, falling to 13% by 2005. Michigan, Pennsylvania and Iowa all increased their organic turkey numbers substantially from 2000 to 2005, accounting for 39%, 34% and 11% of all organic turkey production, respectively.

Price premiums

Over the recent decade, price premiums for organic products (or the price difference between organic and comparable conventional products) have contributed to growth in certified organic farmland. Most organic products, according to the ERS report, sell for a premium over comparable conventional products, partly due to higher production, processing, procurement and distribution costs relative to those of conventional products. In addition, organically produced foods have extra costs associated with product certification and segregation that carry throughout the food chain.

Another contributing factor to price premiums are the relative levels of supply and demand for organic products that contribute to higher profits for organic farmers.

Consumers also perceive organic food to be healthy and environmentally-friendly, thus willing to pay a higher price.

The average quarterly price premiums for organic broilers ranged from 169% in the second quarter of 2004, to 262% in the second quarter of 2006. The overall average price premium for the period January 2004 to June 2006 was 200%. Prices for organic broilers held steady at an average of $2.17 per pound ($4.80 per kg) from July 2004 to early 2006. Average prices for conventional broilers, on the other hand, ranged from $0.59 - 0.82 per pound ($1.30 - 1.80 per kg) during the same period.

Price differences for conventional and organic eggs tend to be higher and more variable than those for conventional and organic poultry. This is due to more variability on the part of conventional shell egg prices. From 2004 to mid-2006, price premiums for organic shell eggs ranged from 113% in the first quarter of 2004 to a high of 414% in the second quarter of 2005. The average price premium over the entire period was 278%. Like prices for organic broilers, prices for organic eggs held steady at an average of $2.34 per dozen from July 2004 through till June 2006, with a constant range of $2.17 - 2.50. Average prices for conventional eggs, on the other hand, ranged from $0.43 per dozen to an historical high of $1.14 per dozen during the same period.

A maturing industry

Despite steady prices for organic poultry and eggs over recent years, other evidence suggests that the organic poultry and egg sectors are in a state of flux created by rapid growth and will likely remain so until the industry and the market matures. While the organic poultry market is less developed than the organic egg market, it is on the frontline of growth in the sector. Industry analysts expect annual retail sales of organic poultry to double those of organic eggs by the end of the decade. Organic broiler production has already undergone significant changes over the past 5 years. Continued sharp growth in consumer demand will likely influence the production, processing and marketing of organic poultry considerably. The continued expansion of organic poultry and egg products into mass market grocery stores, as well as the introduction of organic brands by conventional firms, also has strong potential to impact both the supply and prices for organic poultry and eggs. In the near future, however, price premiums will likely remain high as production struggles to catch up with fast growing consumer demand. ■