

Lobster Update for Industry

March 2024

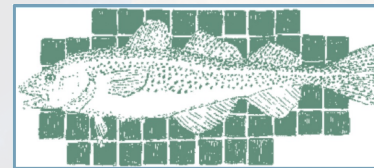
John Sackton
Seafood Datasearch

March 2023
Province of New Brunswick



Background

- 45+ Years in Seafood Industry
- Crab, shrimp, lobster and cod market analyst since 1997
- Price and market outlooks for Atlantic Canada, Alaska, and US West Coast
- 2005-2018 Price arbitrator for Alaska crab
- Expert on Mussel and Oyster Markets
- Co-Founder of NFI's Global Seafood Market Conference
- Annual Market Review for Fisheries Council of Canada
- Founder of SeafoodNews and Seafood Datasearch




Outline for Today

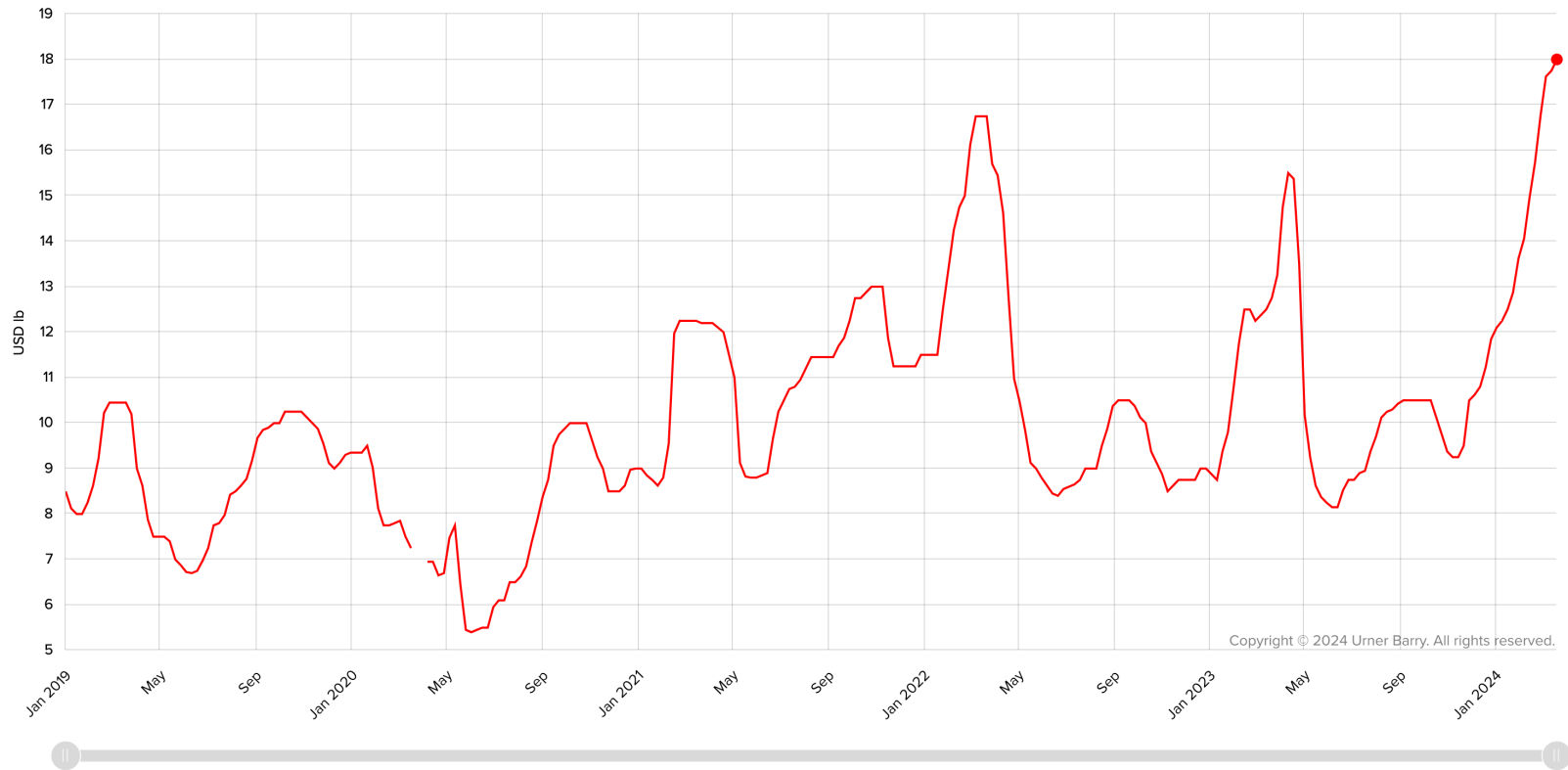
- Recent history of live lobster pricing
- Shortage of tails and meat
- Exports: China driving demand
- Lobster Volume and Production areas changing to more live
- Challenges for 2024 spring fishery
- US Sales Climate
 - Overall economy
 - Foodservice
 - Retail
- Chinese sales outlook
- European lobster outlook
- Growth in Warm Water lobster in US
- US carapace size changes
- Lobster losing diversity: trends in live, meat, tail pricing
- Outlook for 2024



Live market price is high

UB Lobster, American Hard, 1 1/2 lbs. Halves, FOB New England

Monday, December 31, 2018 - Monday, March 18, 2024



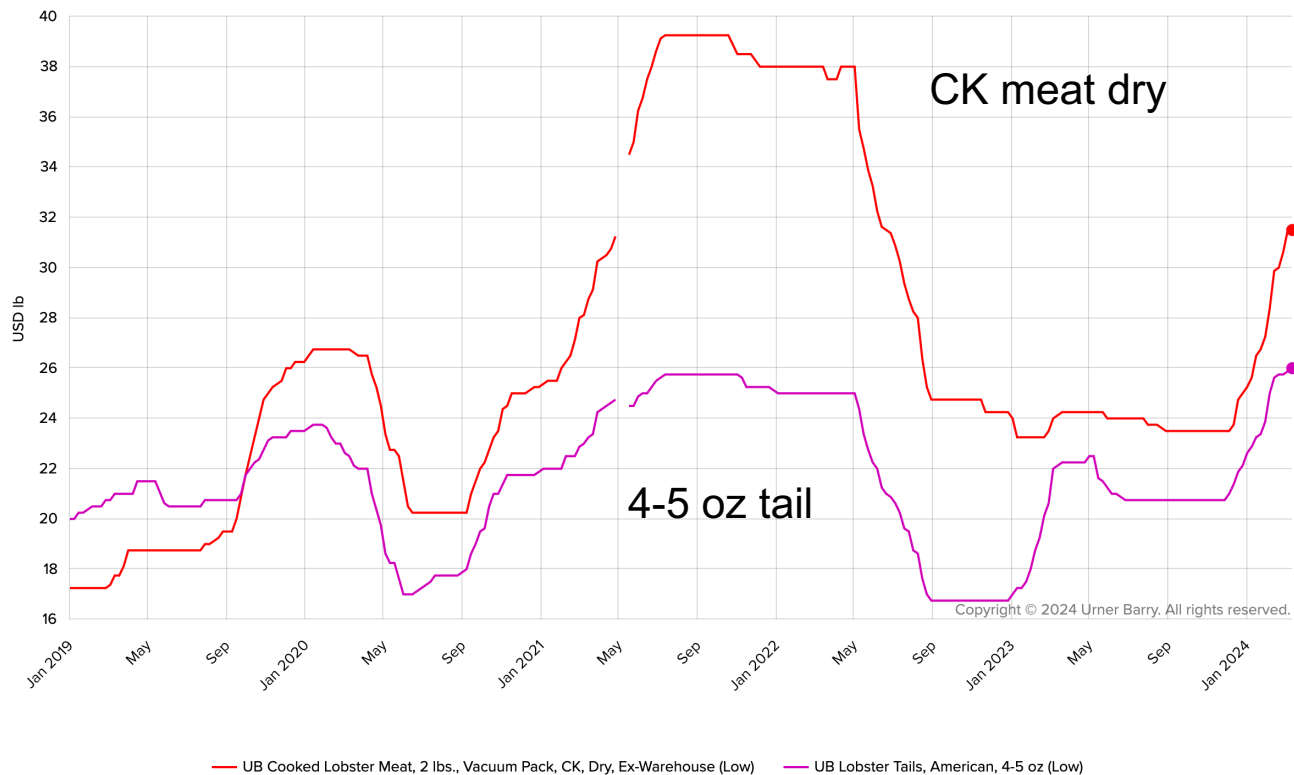
Copyright © 2024 Urner Barry. All rights reserved.



Processors underestimated demand for meat and tails

UB Cooked Lobster Meat, 2 lbs., Vacuum Pack, CK, Dry, Ex-Warehouse

Monday, December 31, 2018 - Monday, March 11, 2024

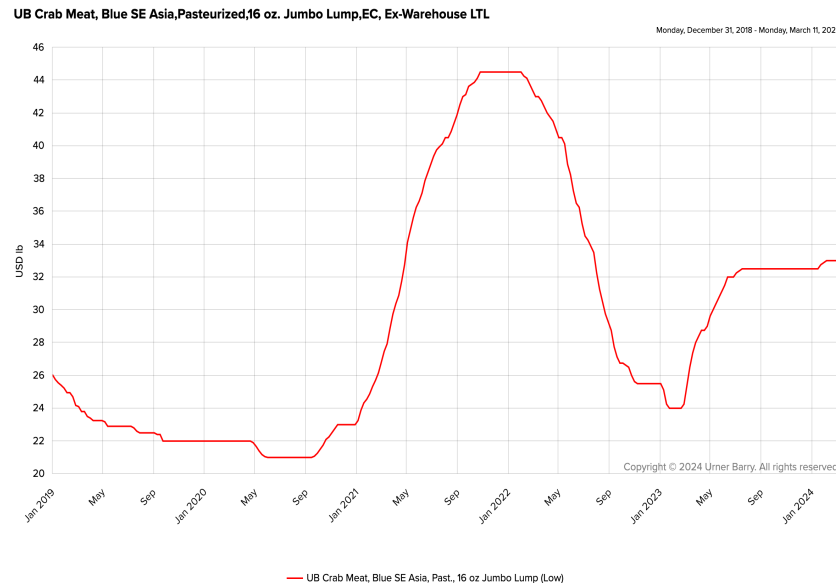


Some companies see long term meat prices over \$30.00

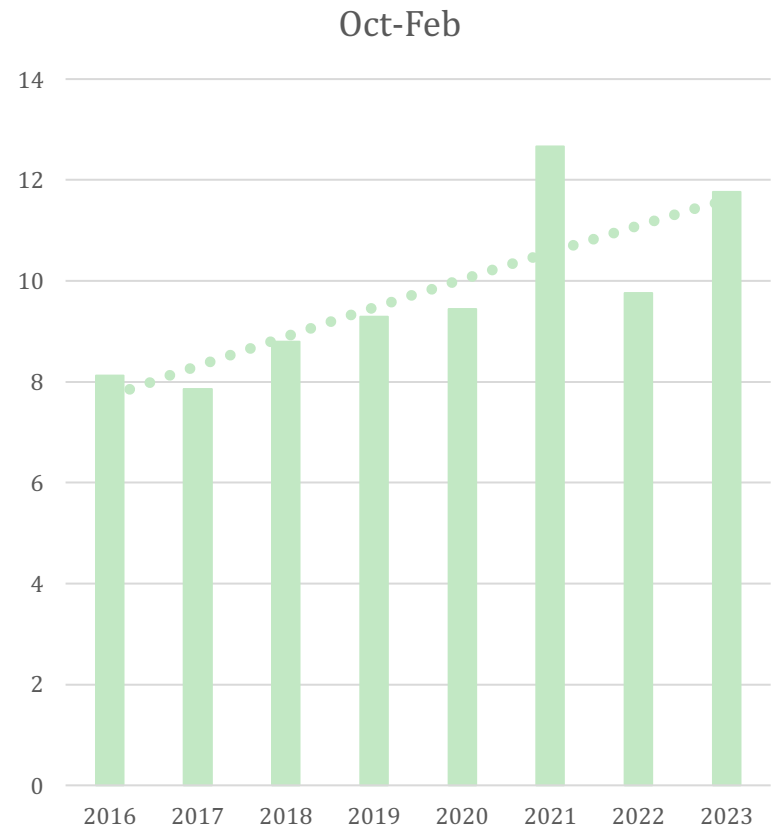
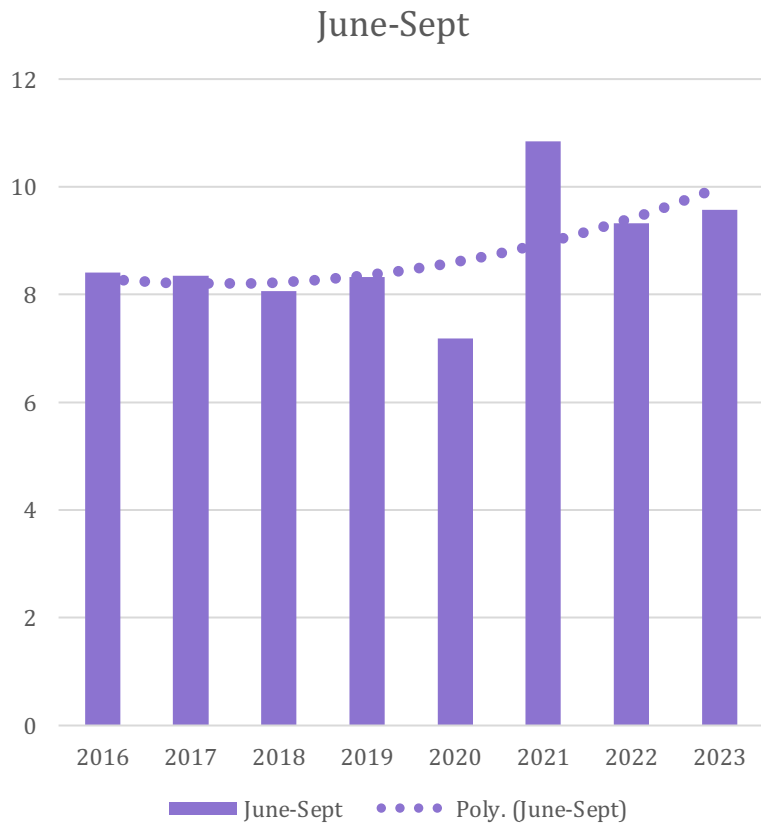
Phillips Seafoods bought Canadian lobster and crab plants

- “Market is out there for \$30 [per pound] proteins”
"We've been selling jumbo lump at over \$30/lb for a long time. “
- These companies expect meat prices to adjust to higher live prices

5 yr SE Asia lump blue crab meat



Live market price is on long-term upward trend

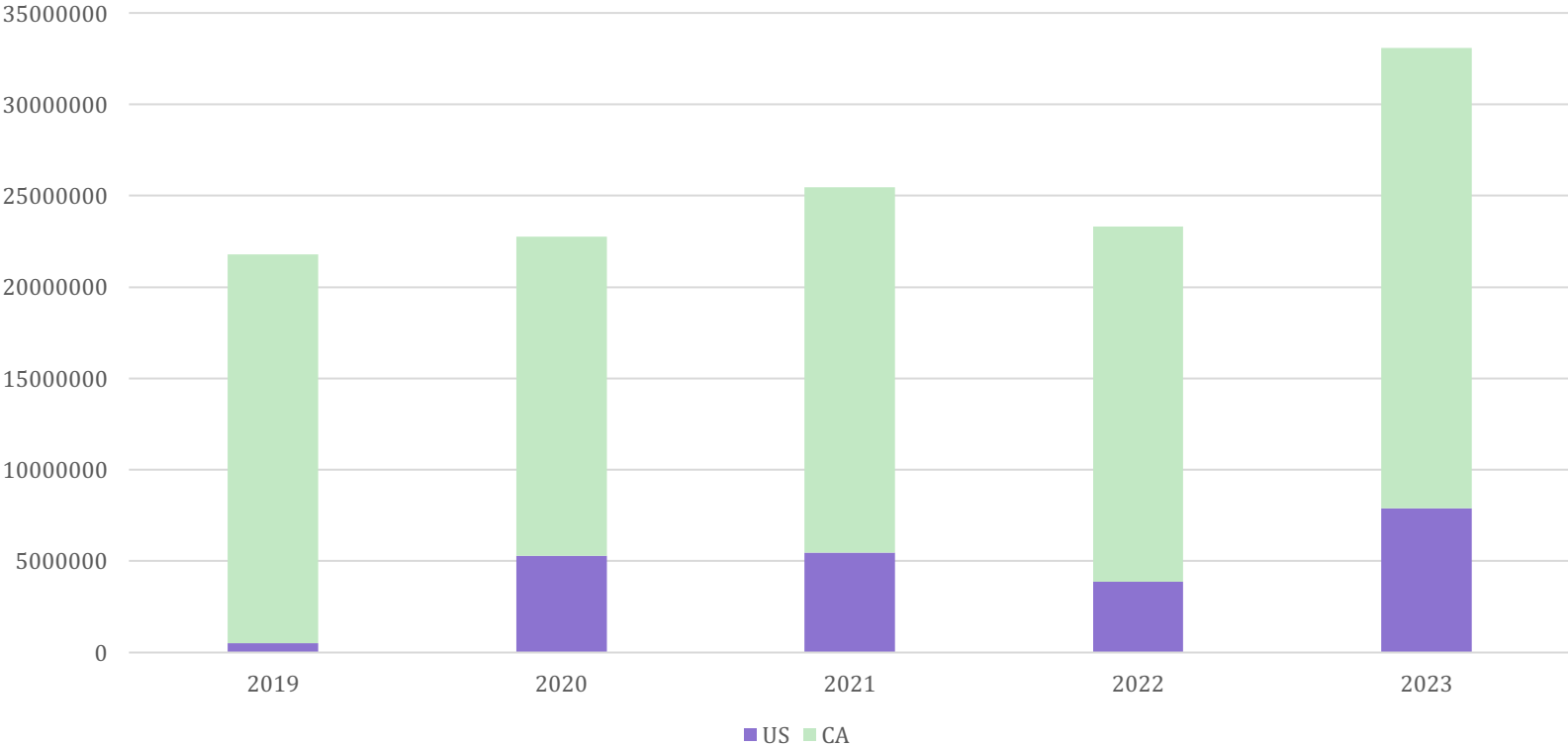


Seafood Datasearch and Uner Barry data



Total China imports Homarus live

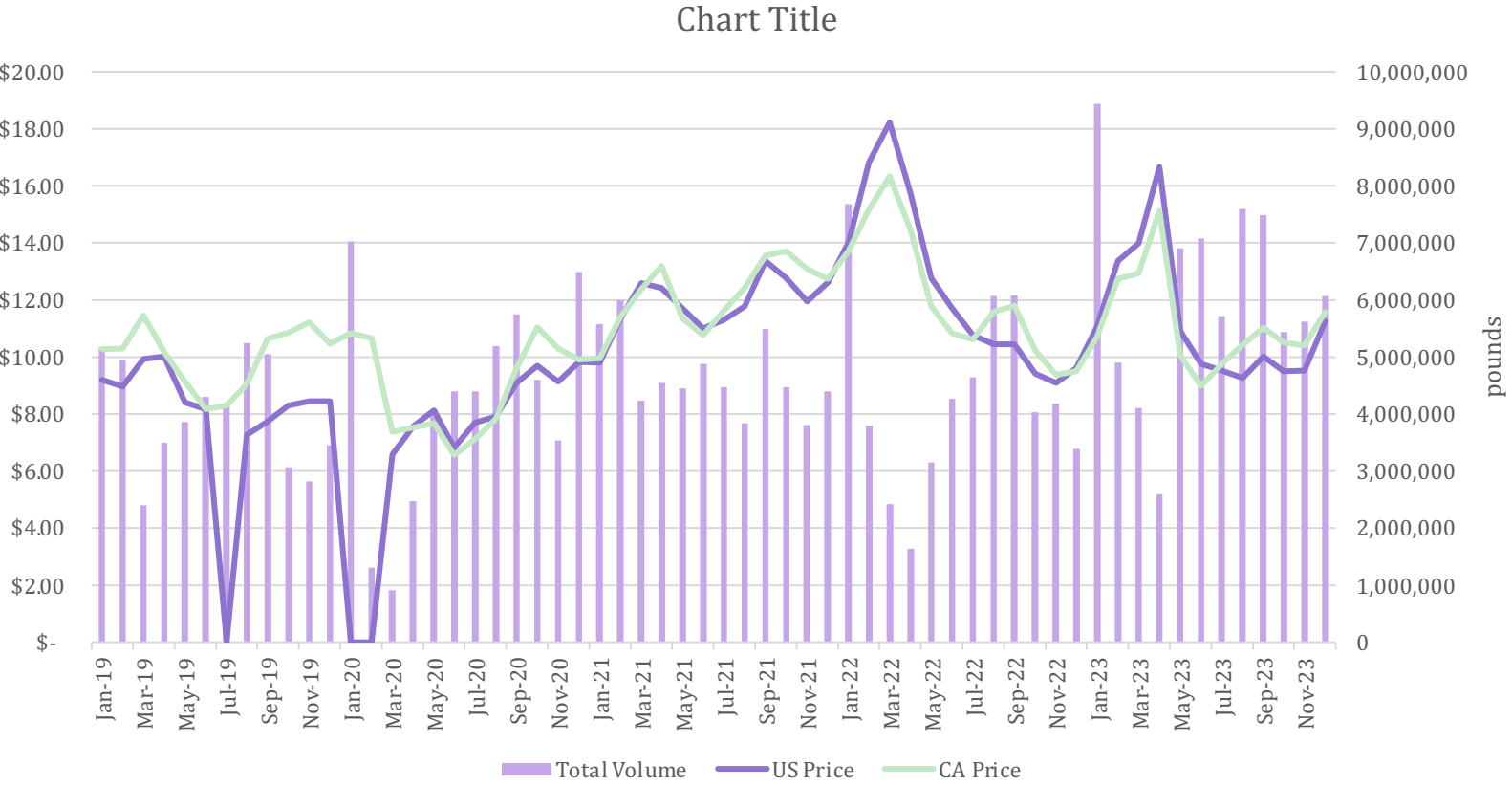
Total Live Homarus Exports to China by US and CA



Source: Global Trade Tracker



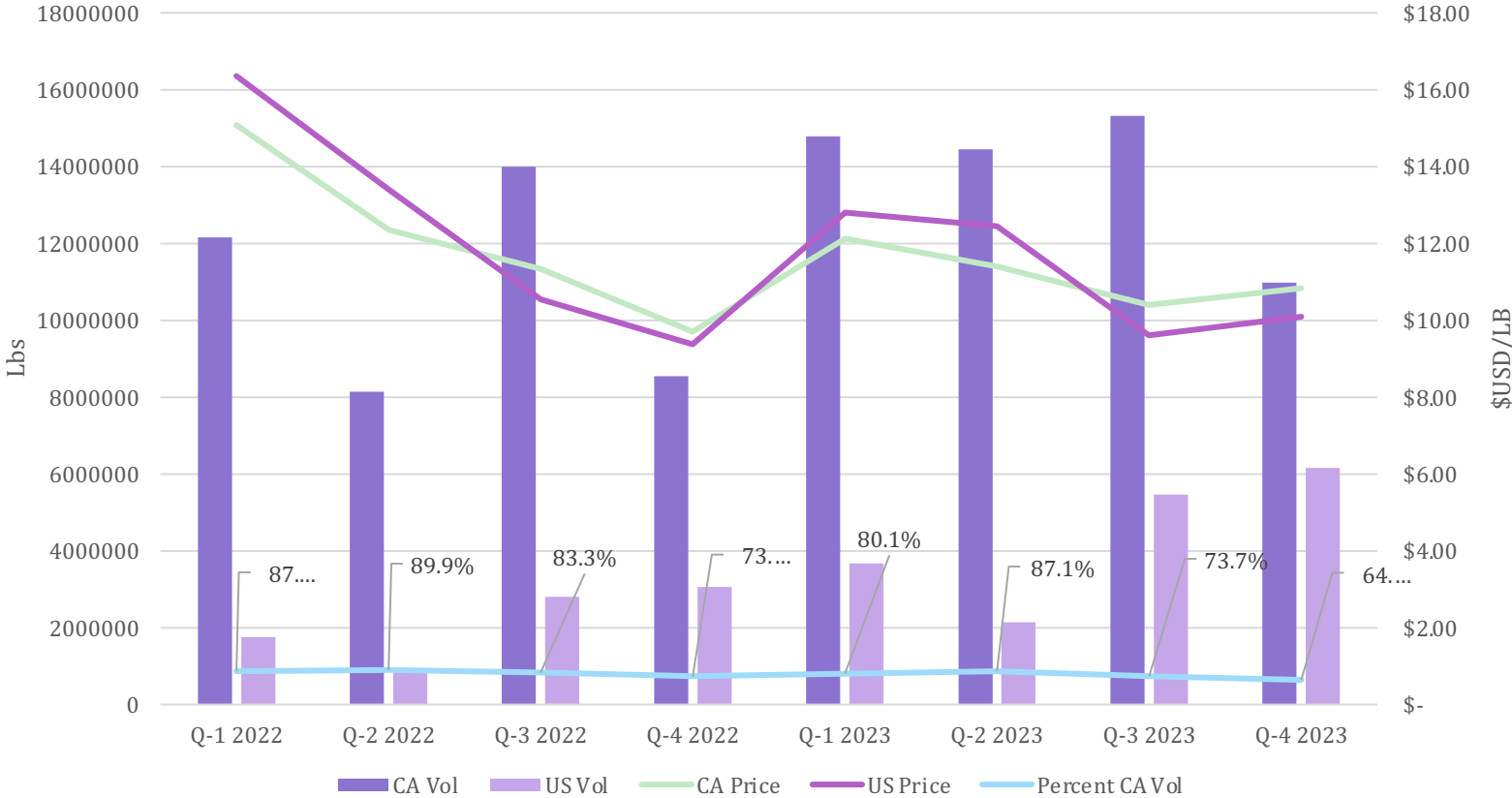
China monthly price and volume



Source: Global Trade Tracker



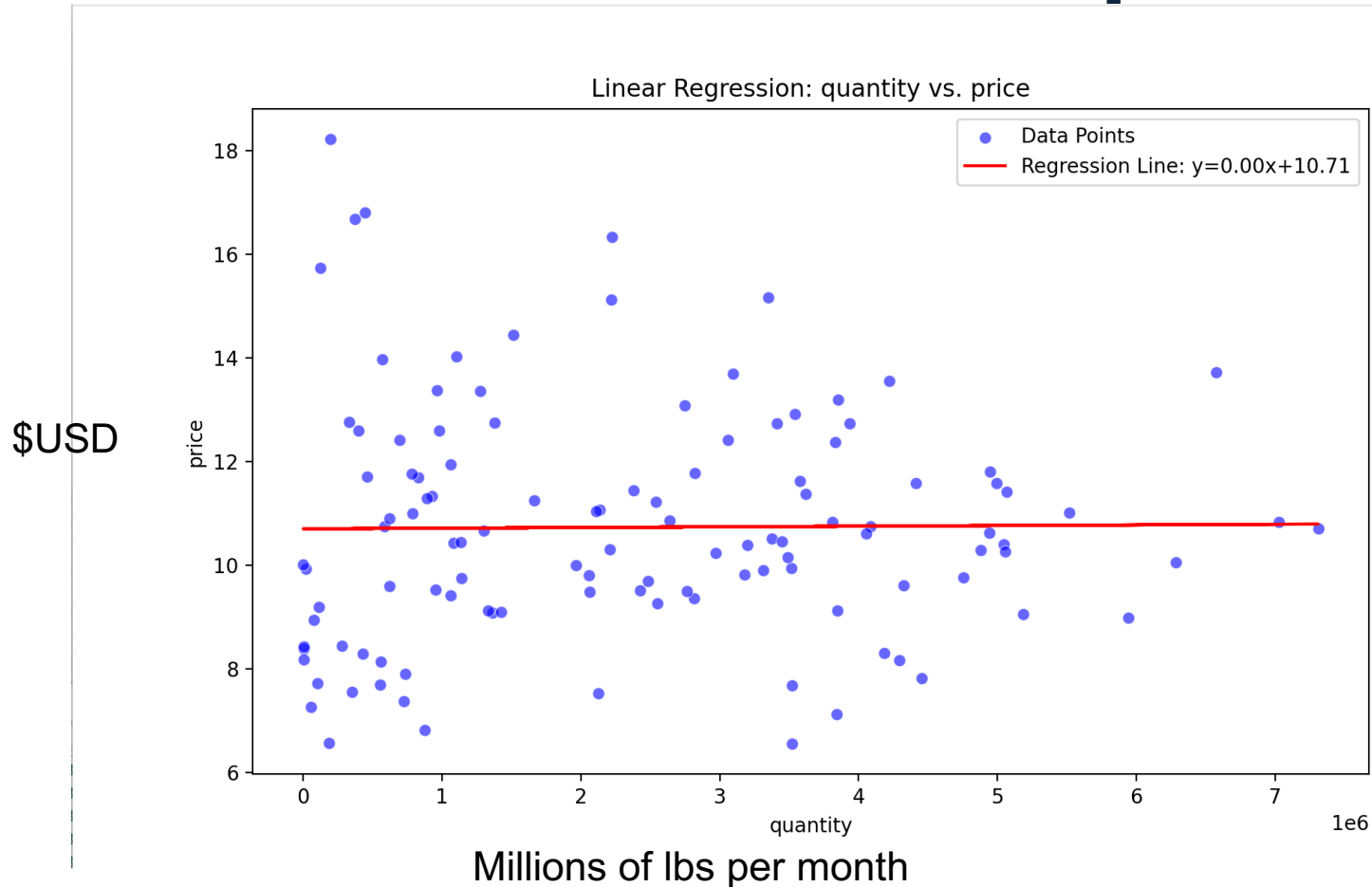
CA and US volume and Price to China



US prices lower during period of higher volume



Relationship of Chinese monthly lobster volume and price



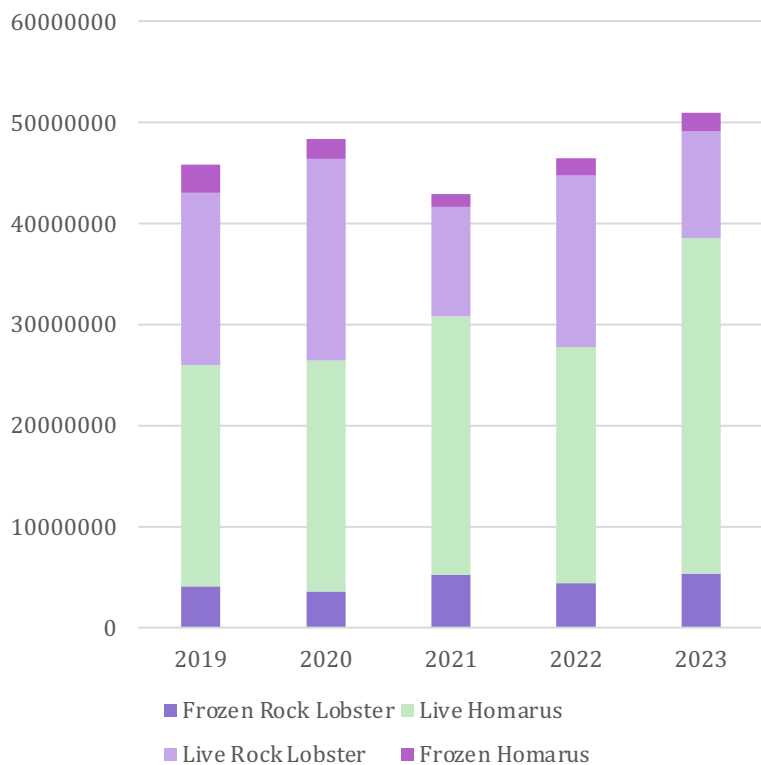
China volume is not correlated with price

- Regression analysis of the price and volume of lobster exported to China does not show a clear relationship.
- Chinese seem to be price takers, meaning that the quantity they purchase is largely independent of the price.
- This suggests that the market price for live lobster is set by overall market supply, not by changes in Chinese demand.
- This implies that China wants a certain percentage of lobsters available, and that they will pay to get them at the going market rate.
- The actual volumes they want are increasing, so they are taking a larger share of overall supply, but it is total supply, not Chinese demand, that sets the price.

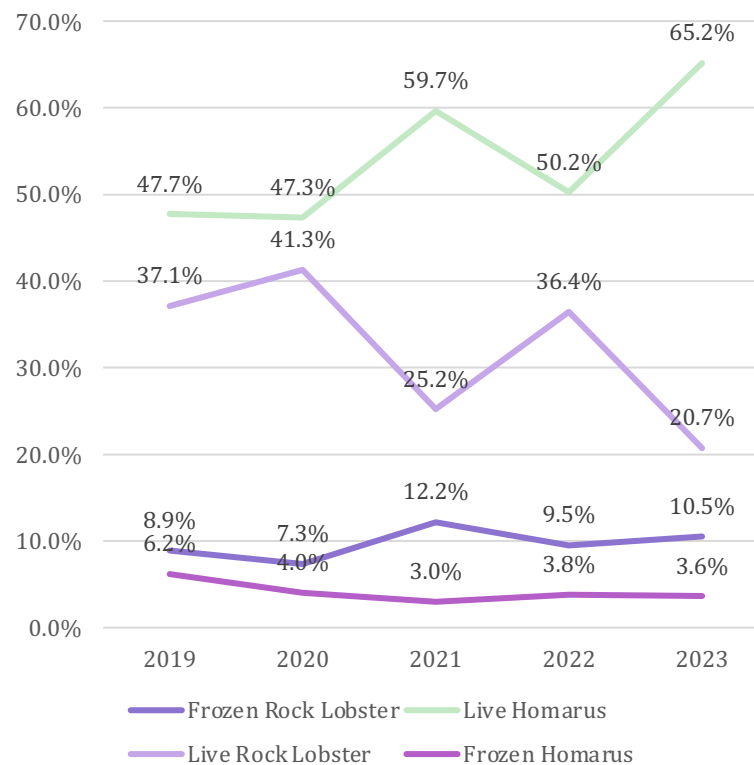


Homarus is increasing share of Chinese imports

Chinese total imports rising



China Lobster Imports by Type



Source: Global Trade Tracker



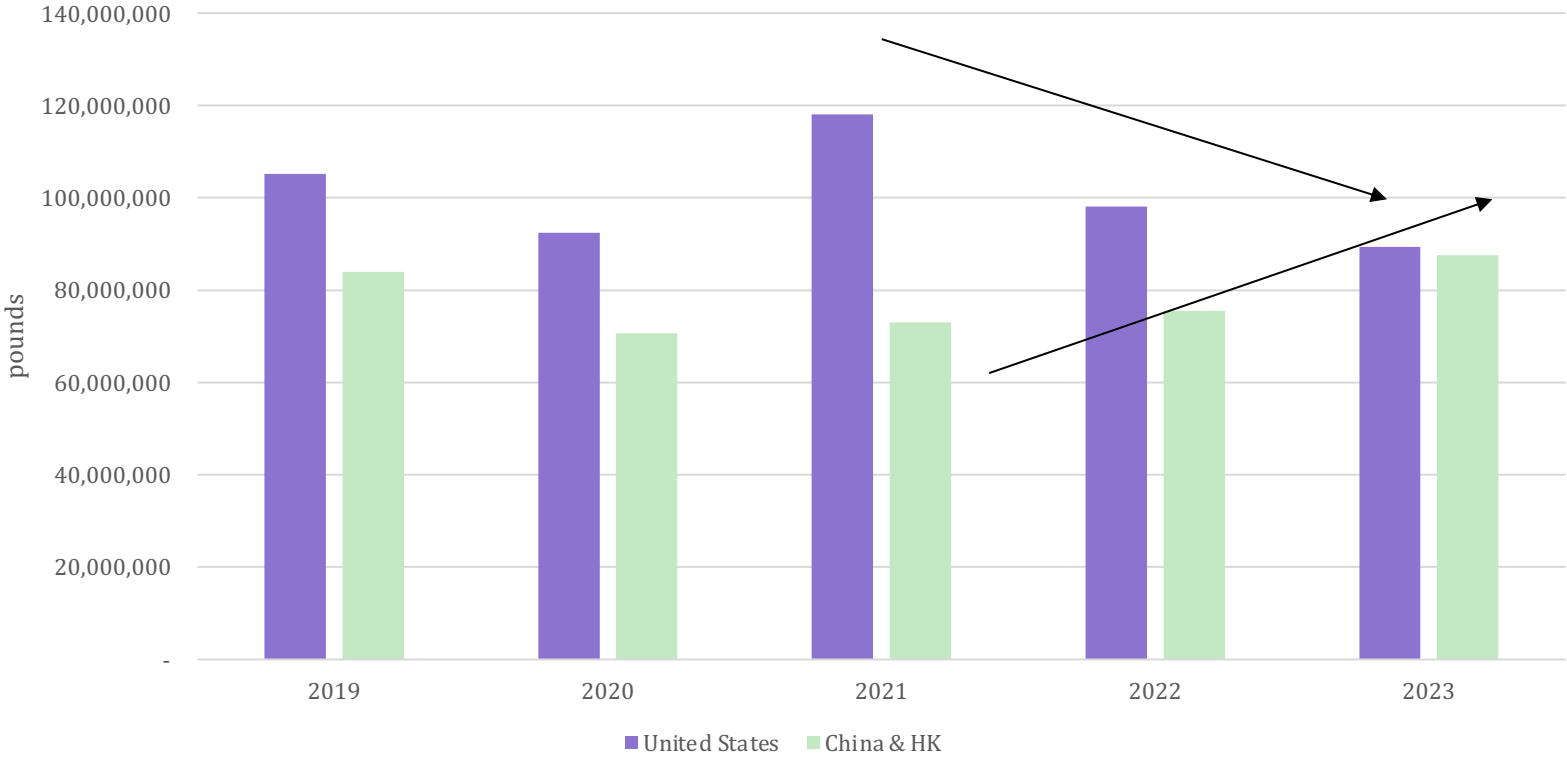
Homarus Lobster is gaining market share in China

- Not only are lobster volumes increasing in china, but the percentage of the total lobster market that is Homarus live has expanded dramatically since 2019.
- This has coincided with the drop in rock lobster, especially from Australia.

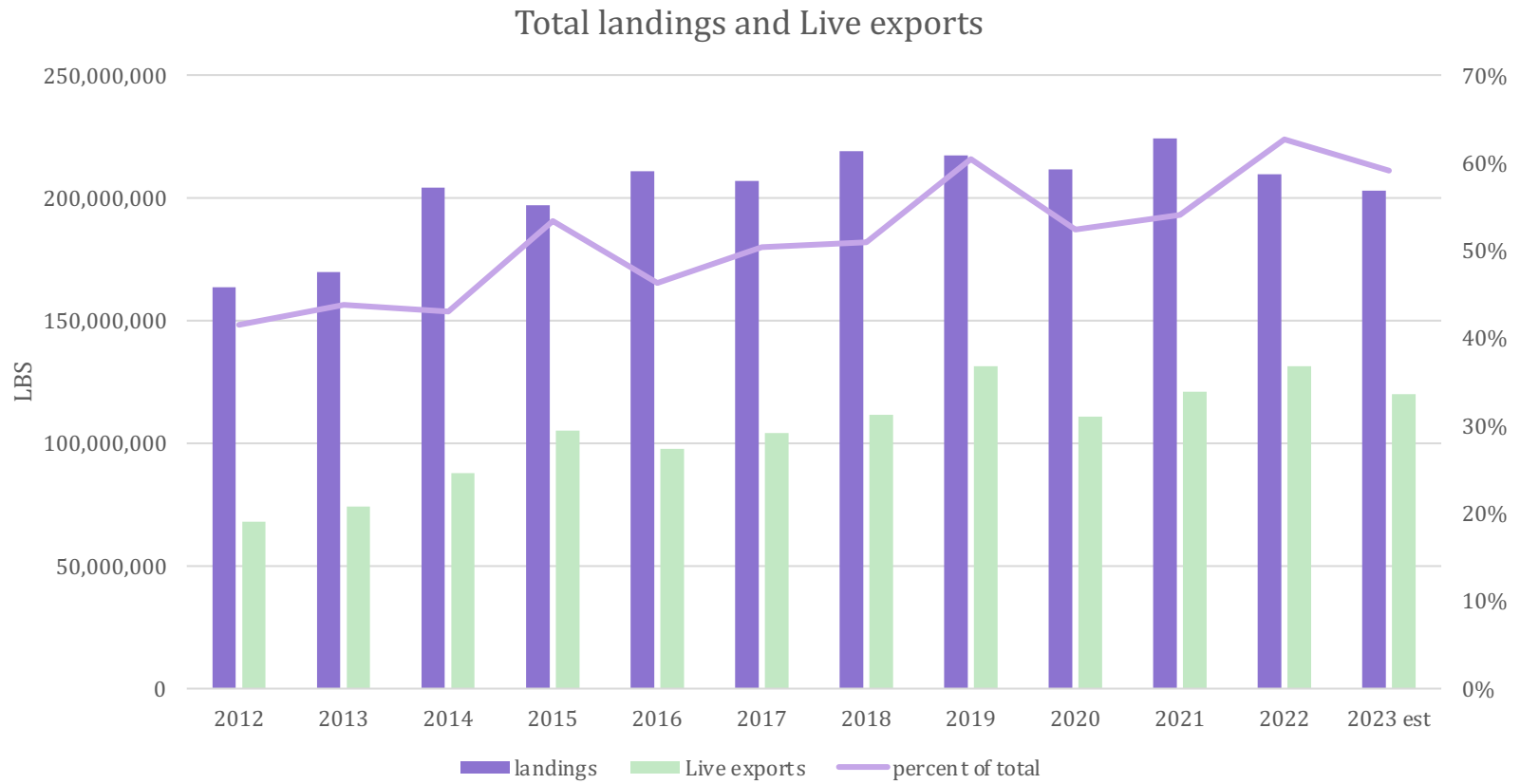


China's demand is supporting market price

Total Live Lobster Volume China & US



Higher percentage CA lobster going to live

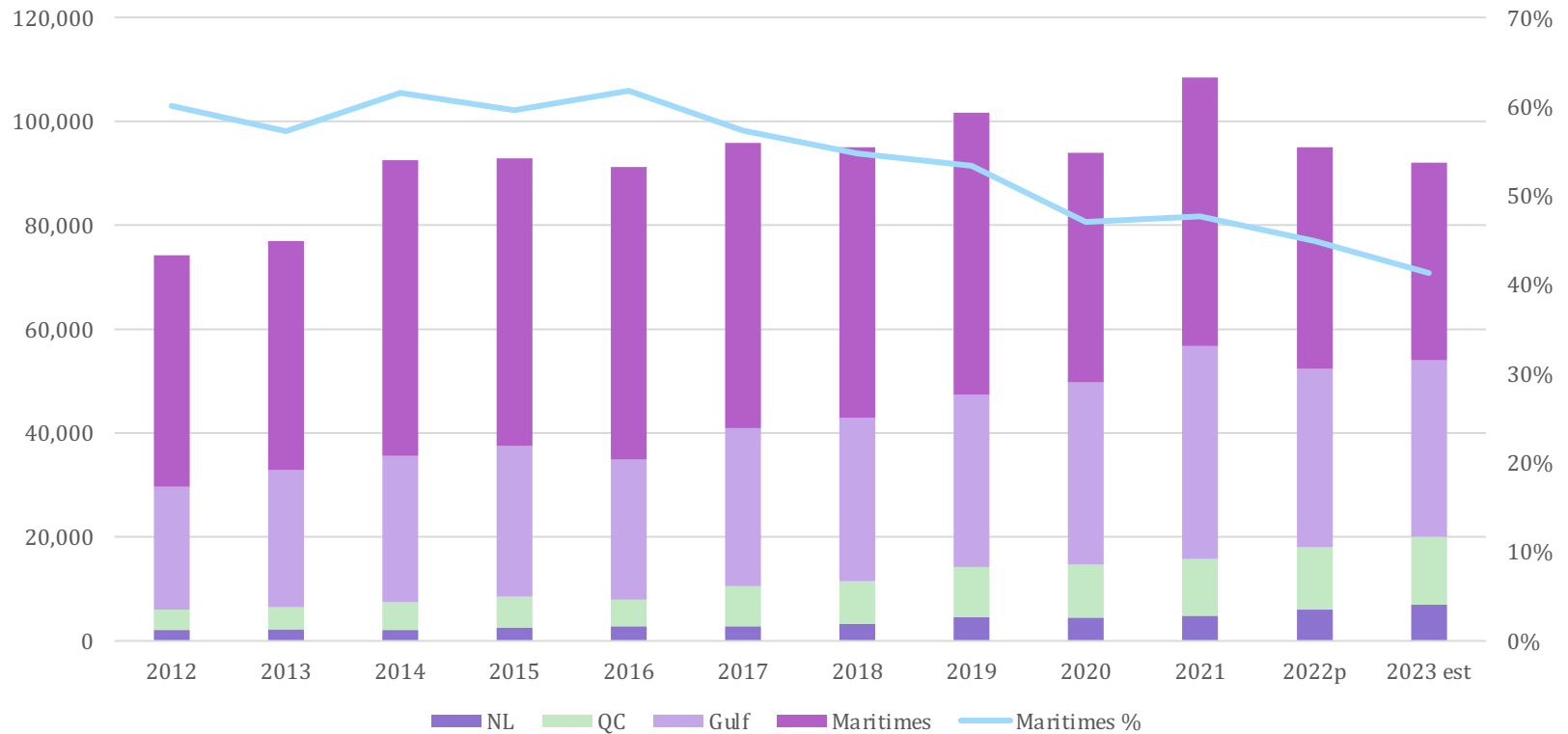


Source: Global Trade Tracker



Maritimes landings declining as percent of total

Maritimes Landings Declining as Percentage of Total



Source: Seafood Datasearch and Global Trade Tracker



Puts more pressure on May-June fishery to supply live

- Proportion of lobster caught in spring in going up.
- With more live demand, there is greater demand for live in May-June than in past.
- This pushes up costs for processors.



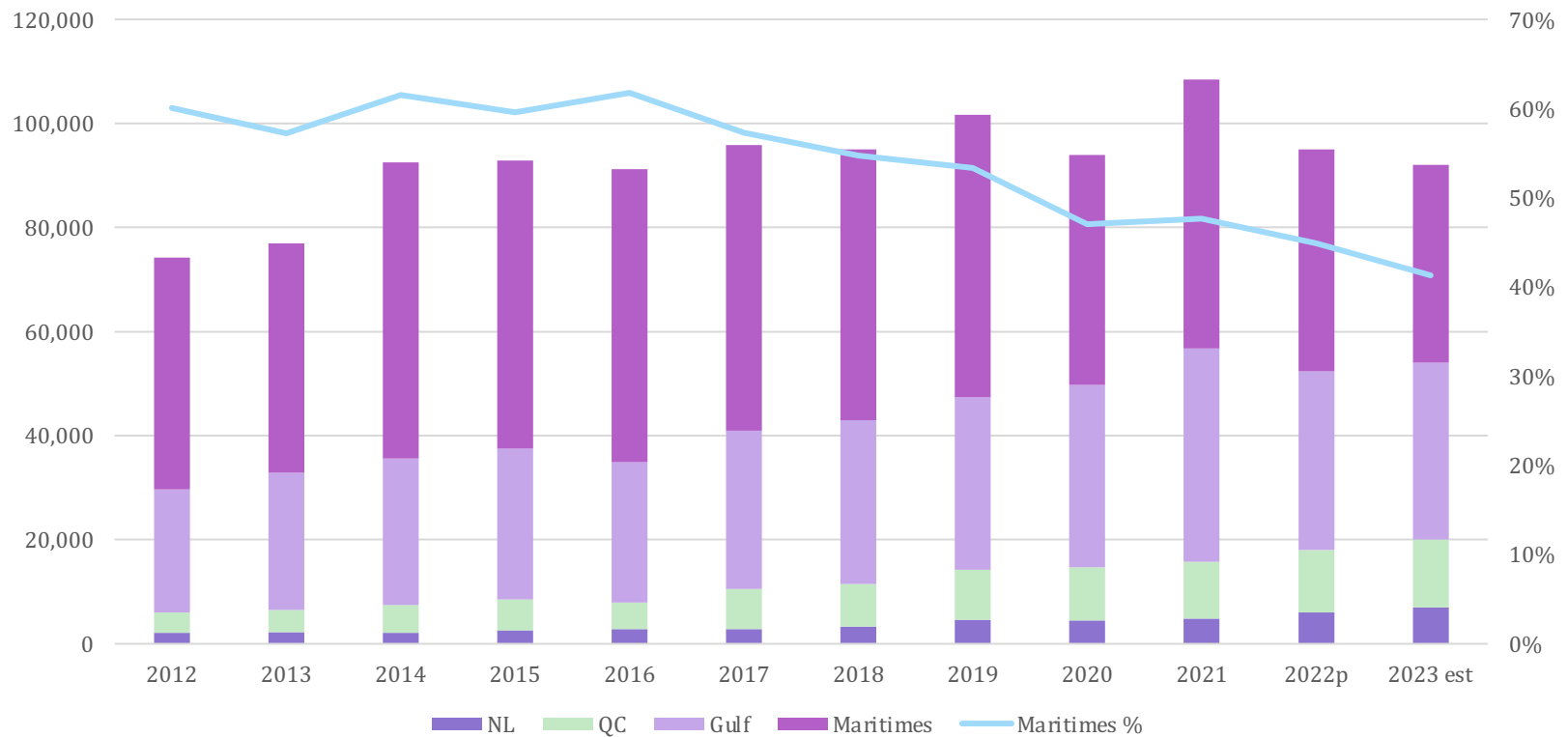
US is adopting conservation measures in face of lower landings

- Maine landings are declining
- NOAA implementing increased carapace size to 84 mm in 2025
- 86 mm in 2027
- Because of 'equivalency' policy, this will apply to all Canadian imports of live as well.



Maritimes went from 60% to 40% of live exports

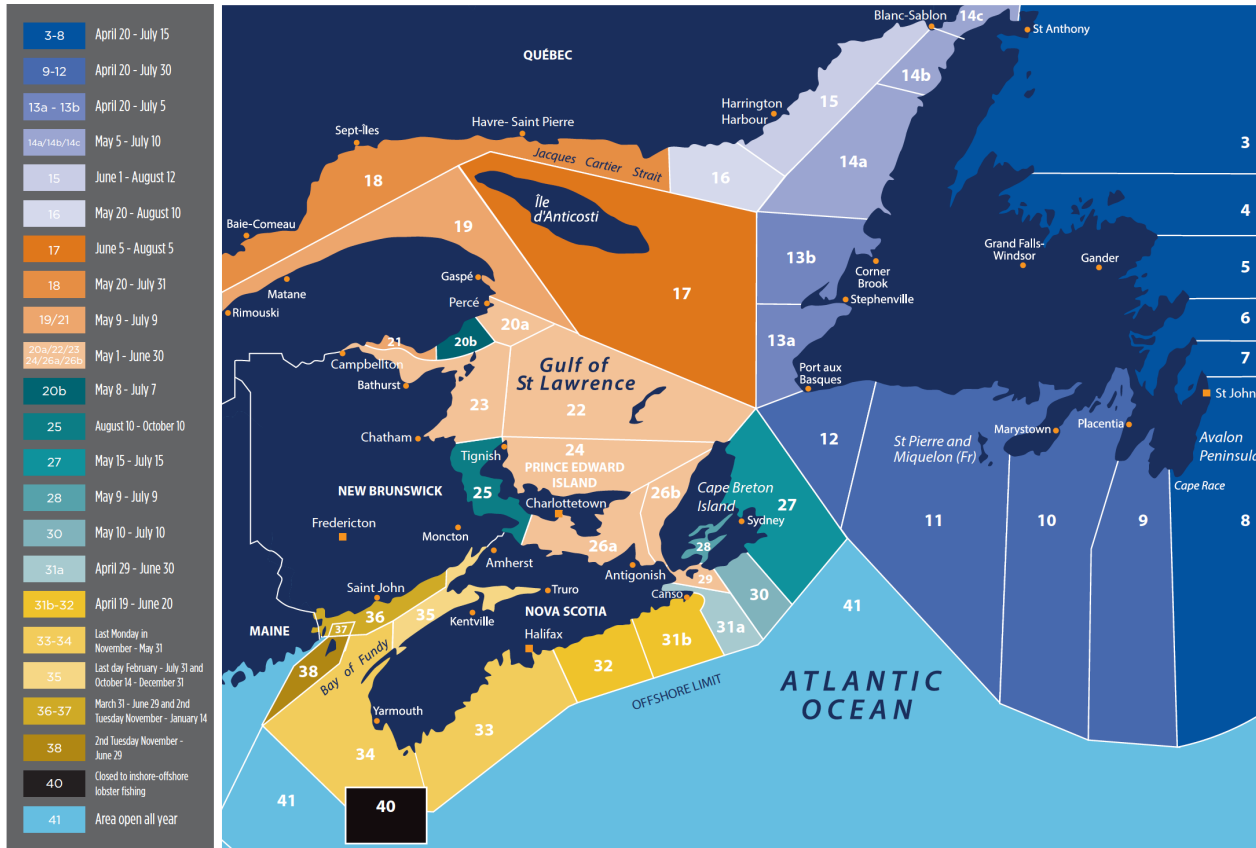
Maritimes Landings Declining as Percentage of Total live Exports



Source: Seafood Datasearch and Global Trade Tracker



This changes timing for live fishery

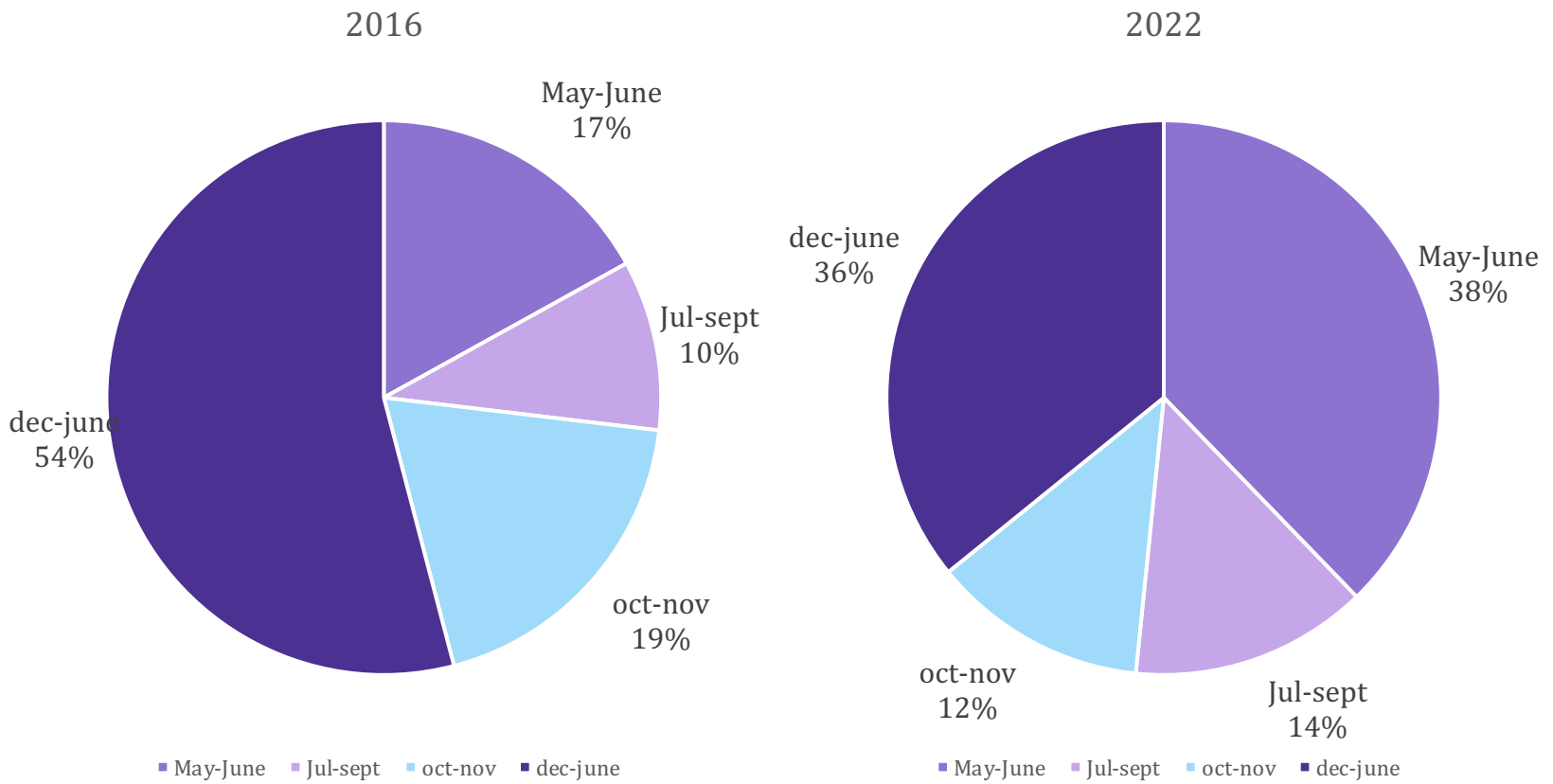


sales@fisherkingseafoods.com | 1-888-452-FISH (3474)
fisherkingseafoods.com

LOBSTER FISHING ZONES



Between 2016 and 2022 major changes in seasonality



Source: Seafood Datasearch

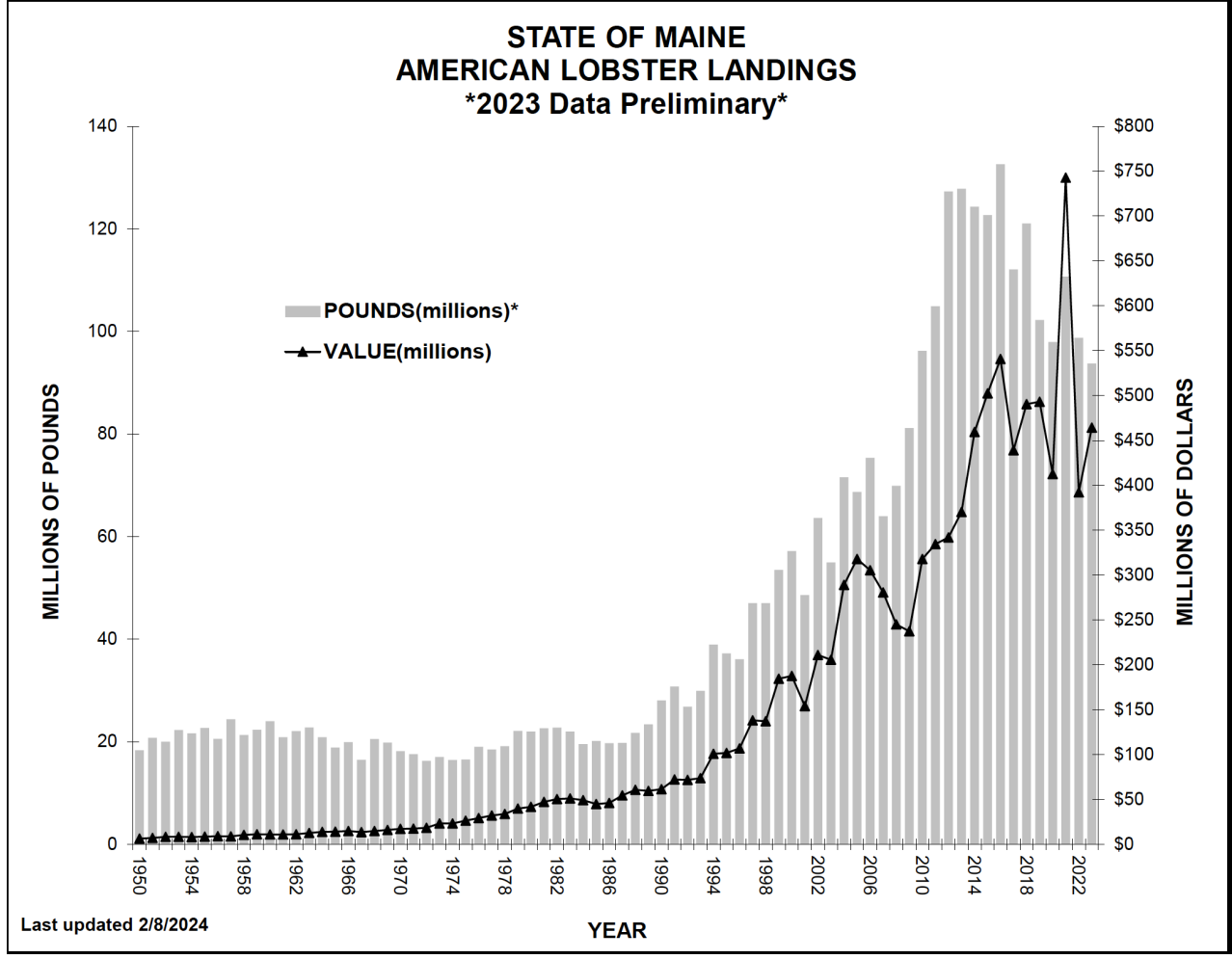


Trend towards increased landings outside of LFA 33 34 will continue

- Major lobster stock declines seen in Bay of Fundy based on catch data
- Increases occurring in Quebec, the Gulf, and NL.
- Percentage of total landings in May-June has doubled
- At the same time live percentage of landings has increased 50%.
- This makes May-June a much more important time for the Live fishery



Maine lobster landings continue to decline



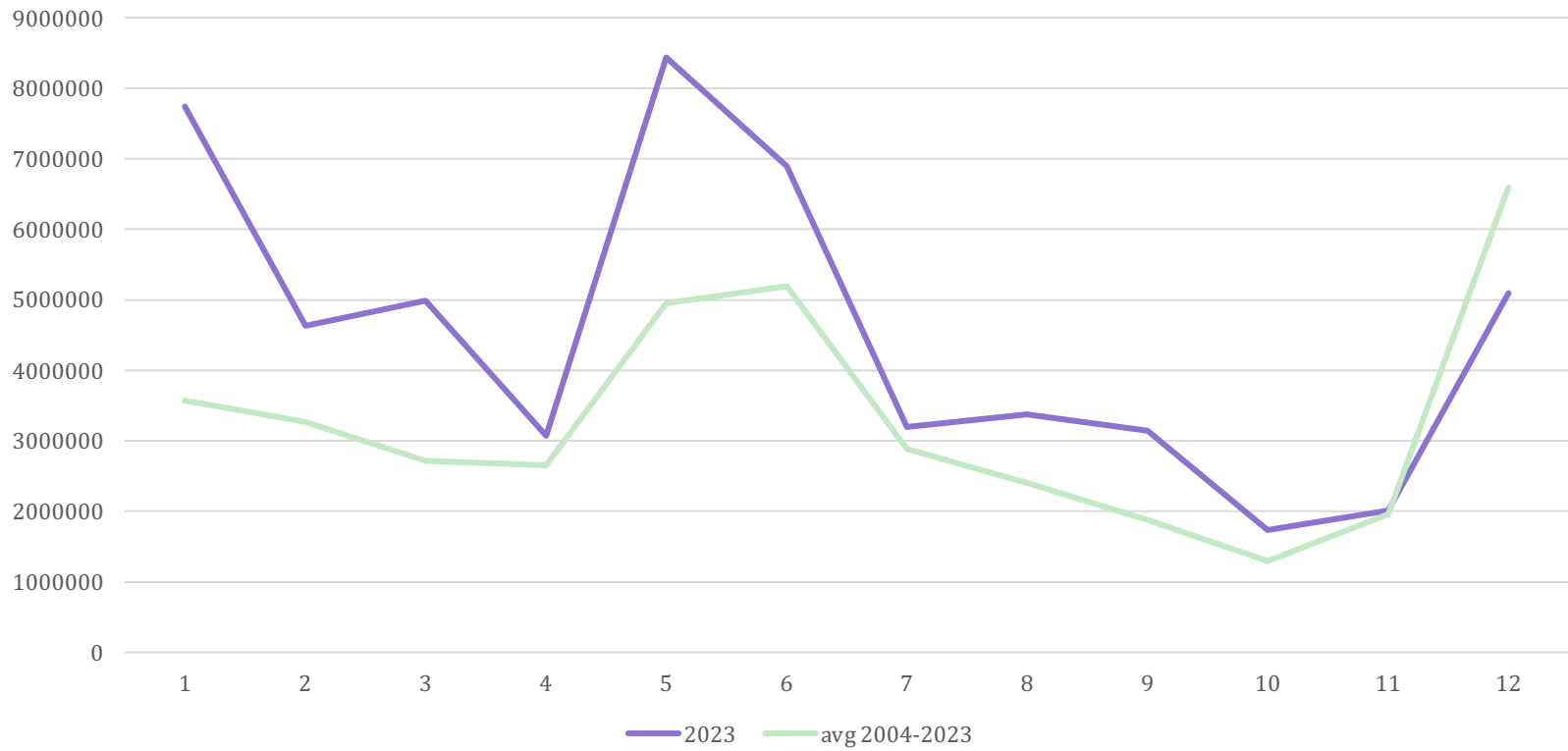
2023 landings fell 5.1% to 93.7 million lbs

Source: Maine DNR



Canada monthly live exports

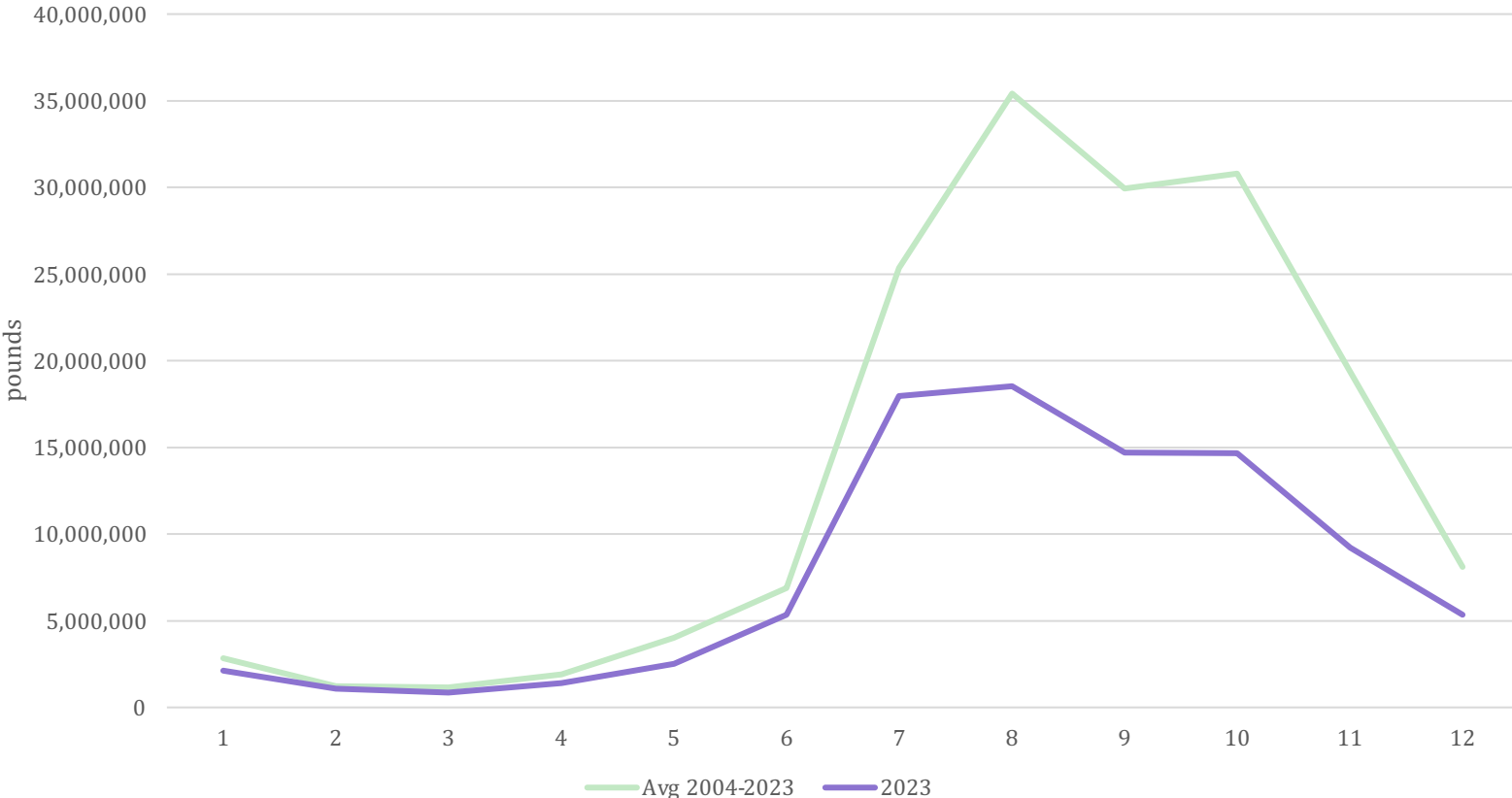
2023 vs Average 2004-2023



Source: Uner Barry Foreign Trade Data



Maine lobster landings by month



Source: Maine DNR



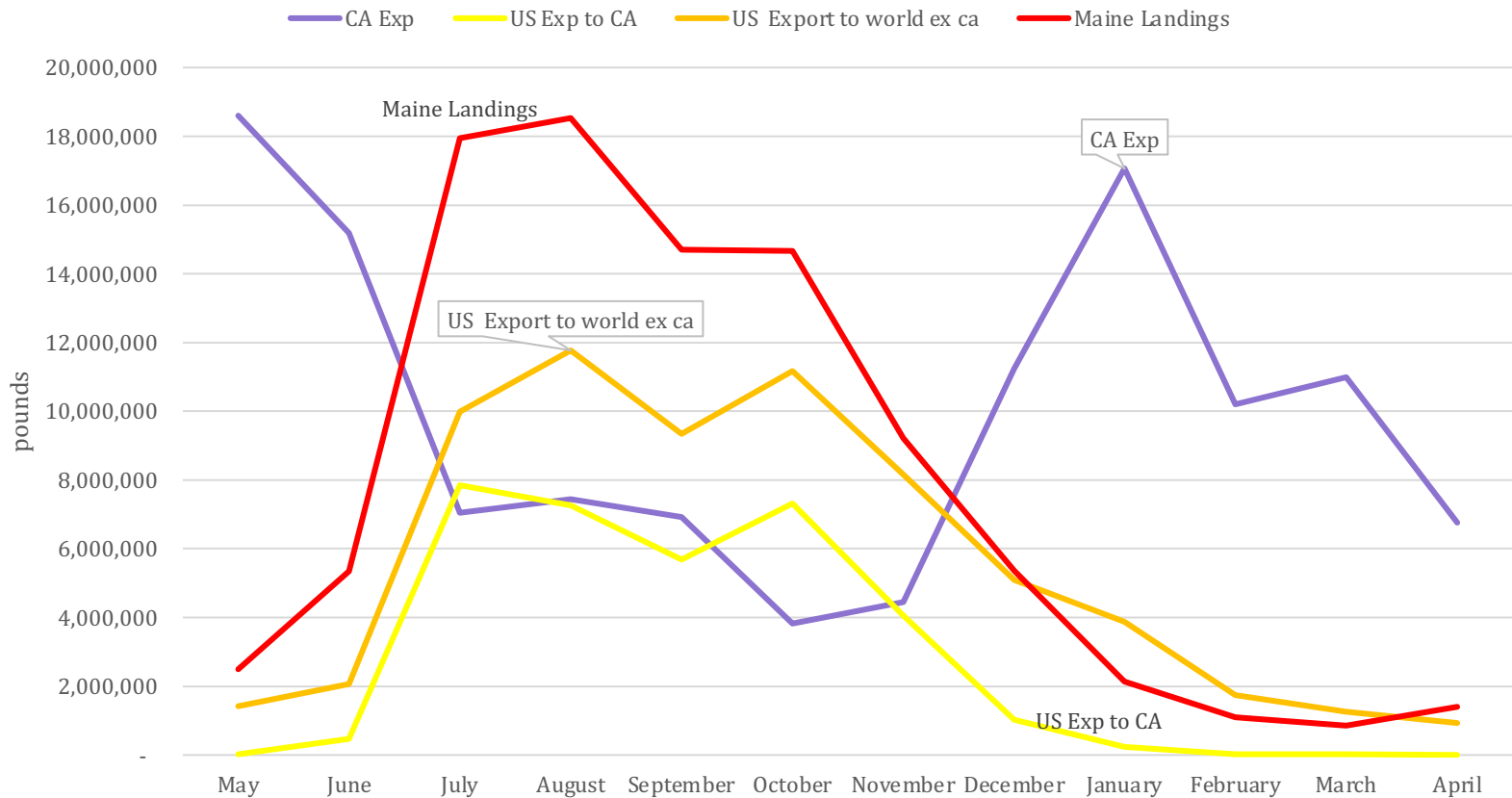
US live exports by Month



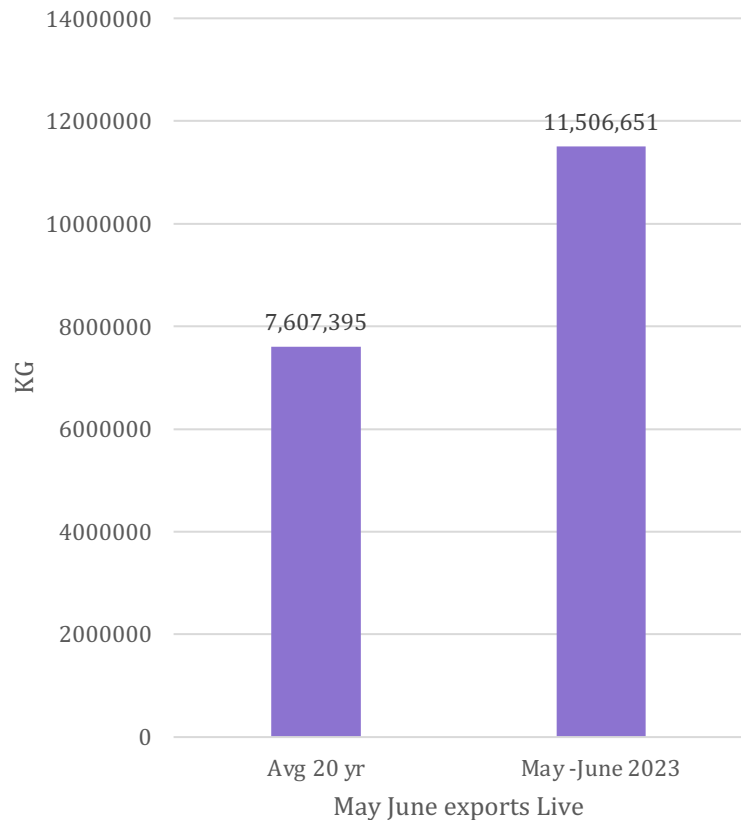
Source: Uner Barry Foreign Trade Data



Comparison of US and CA seasonal exports



Live exports from CA have increased 51%



- However landings in the open LFA's have increased 51% as well.
- It appears that the live market is absorbing the increase in Landings.

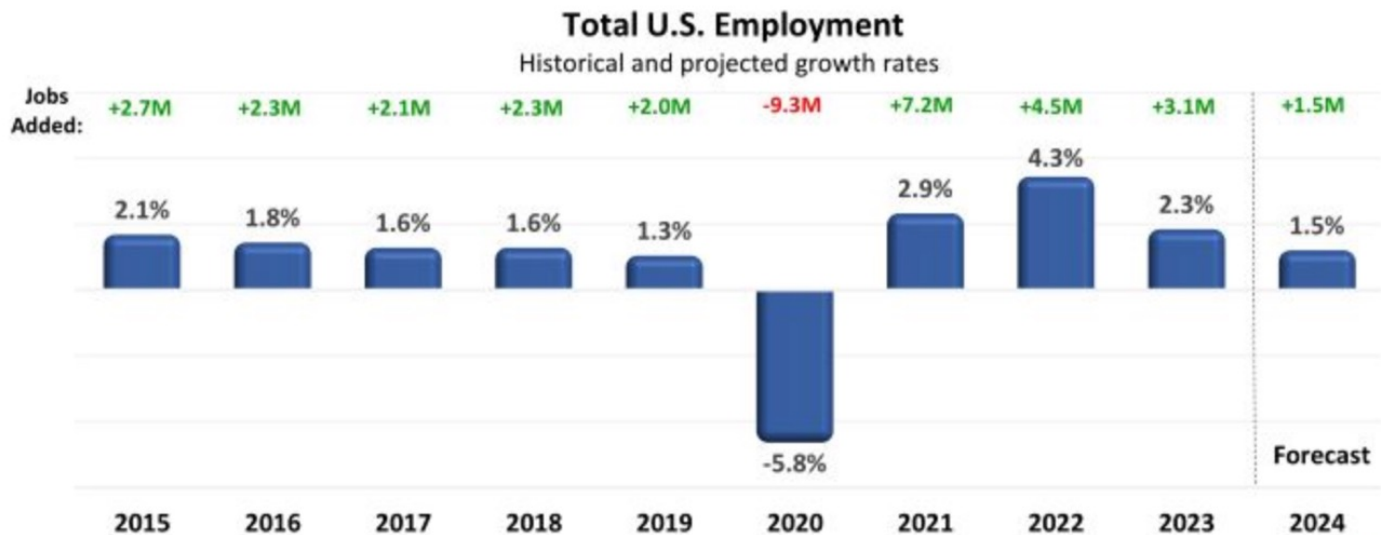


Economic factors positive for 2024 but all weaker than 2023

- The National restaurant association links economic performance to restaurant sales.
- They forecast weaker performance in 2024.



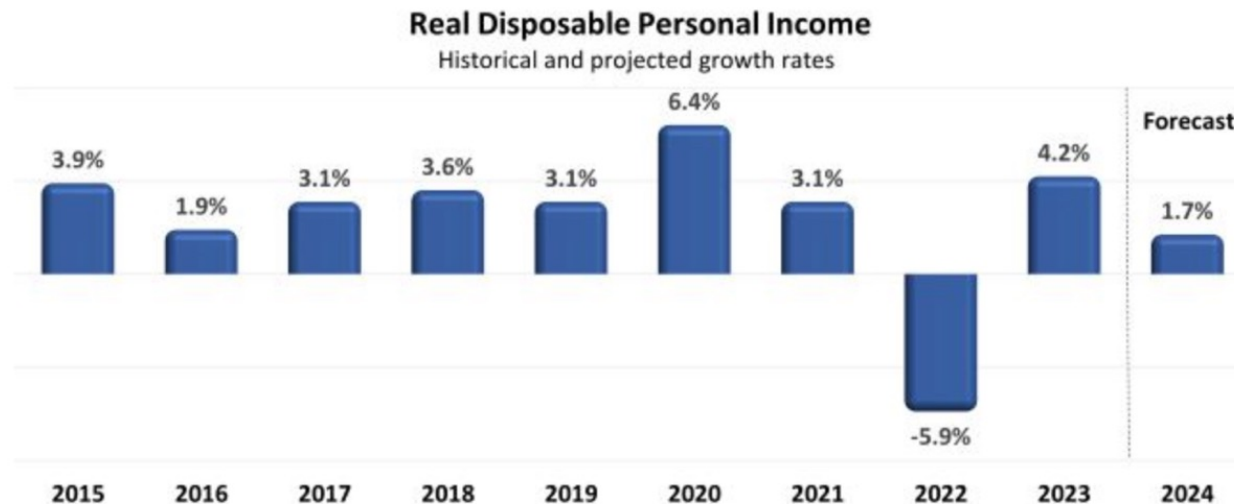
US will add fewer jobs



Sources: Bureau of Labor Statistics, National Restaurant Association projections
Note: Jobs added represents change in employment during the 12 months of the calendar year



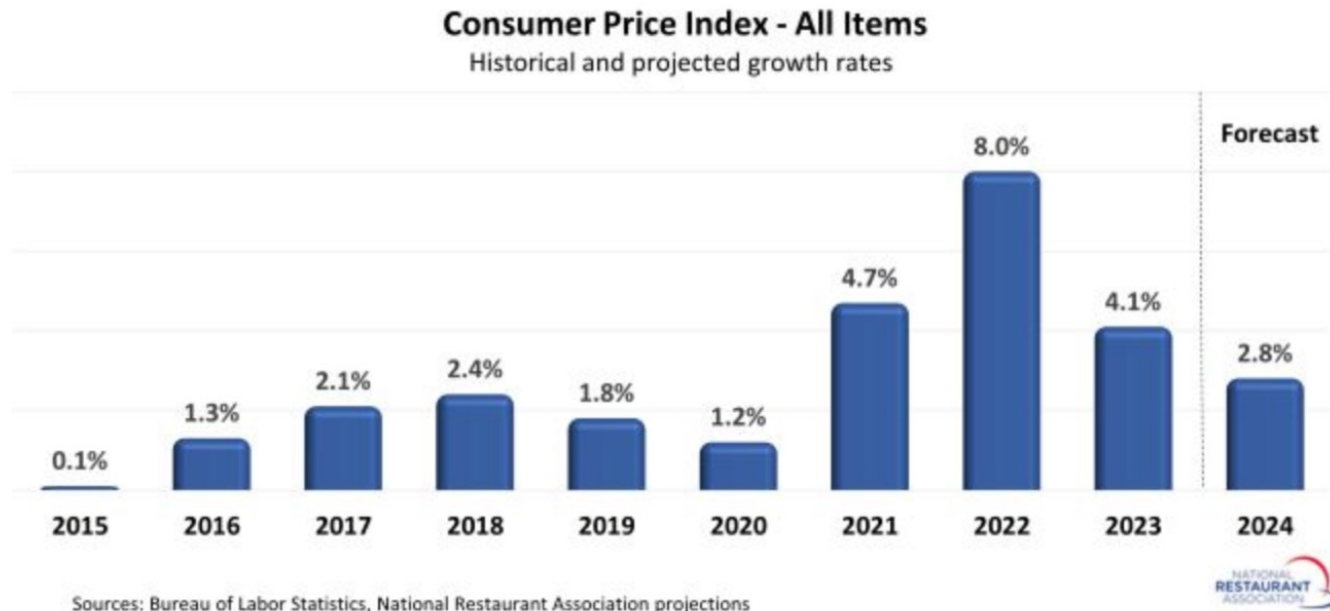
Real personal income growth rate will slow



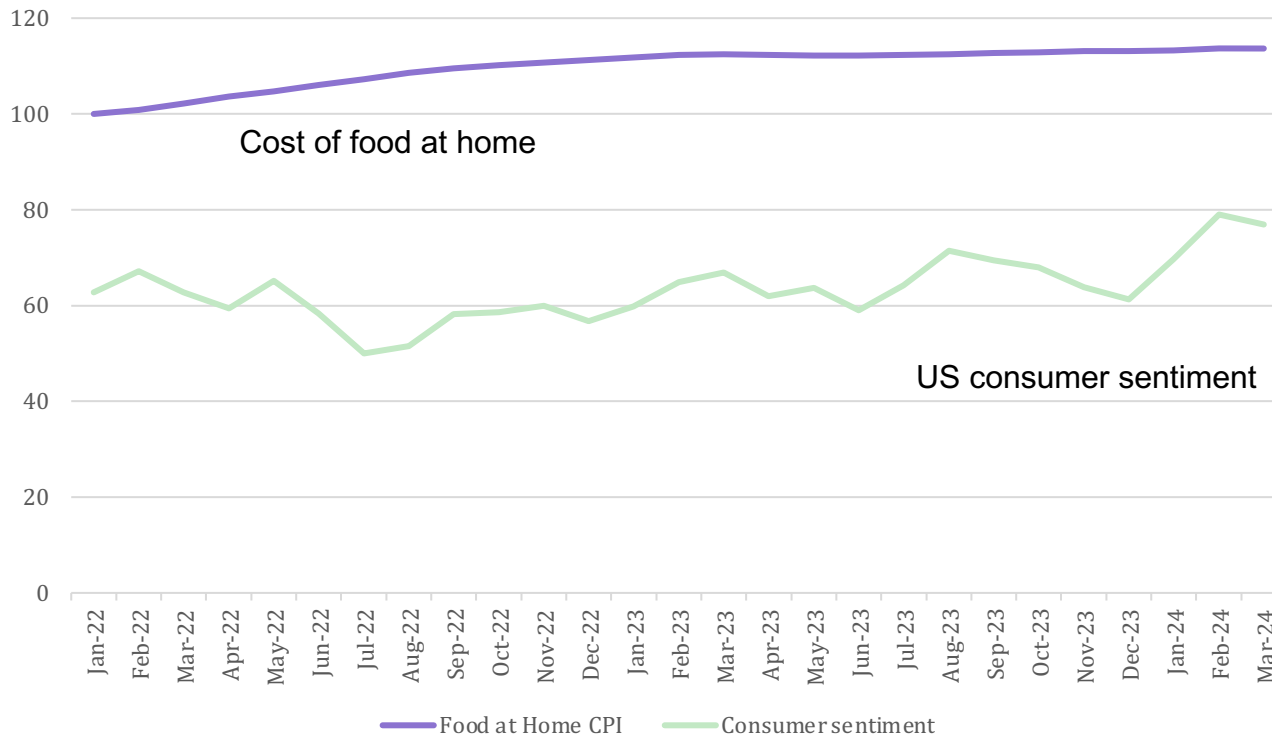
Sources: Bureau of Economic Analysis, National Restaurant Association projections



Consumer price inflation will decline



US Consumer confidence and inflation

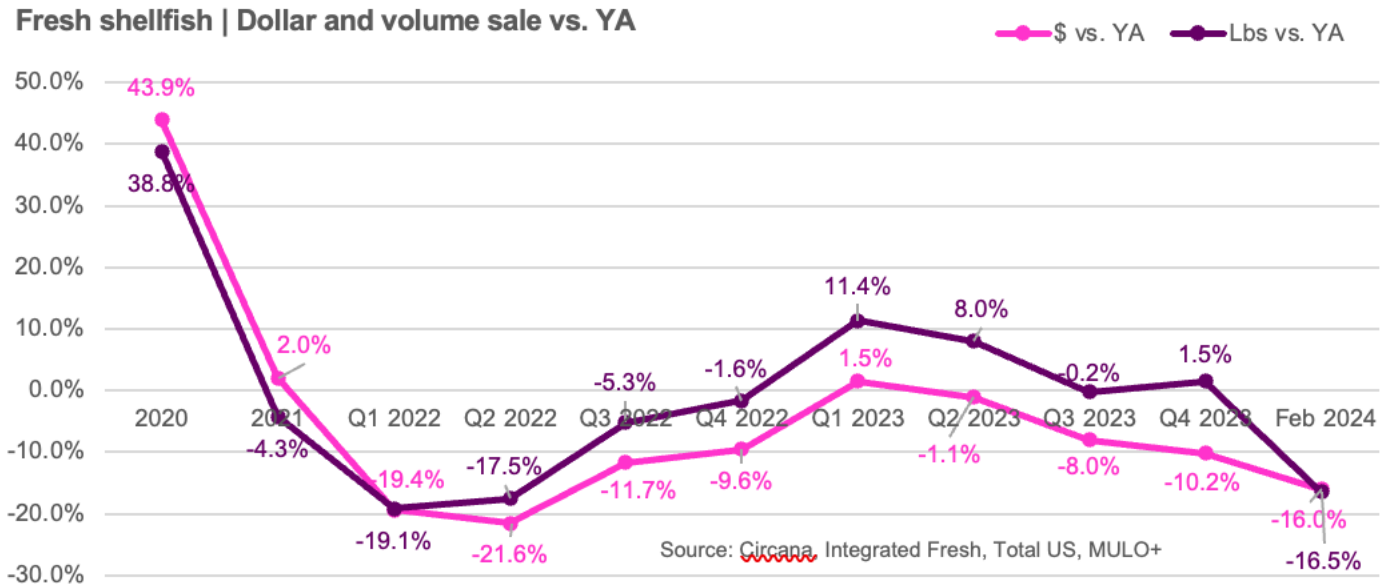


- Consumer sentiment has begun to improve as food inflation stabilizes
- Consumers are in a holding pattern, not sure whether things will improve or go backwards in next six months

Sources: Federal reserve and Univ. of Michigan consumer index



Retail seafood sales have continued to decrease despite price decline



- After improving in the first half of 2023, lbs sold have been declining compared to prior period.
- Overall fresh shellfish (includes crab and lobster) has seen declining prices since March 2023.



We are still in a negative dynamic for retail seafood



**Sustained impact inflation
Prices +30-35% versus pre-pandemic**



**Record high consumer credit card
debt levels, exceeding \$1 trillion**



**Depleted savings after building up a
reserve early on in the pandemic**



**Reduced spending power
(EBT and student debt repayments)**



Foodservice is improving but seafood faces pressure

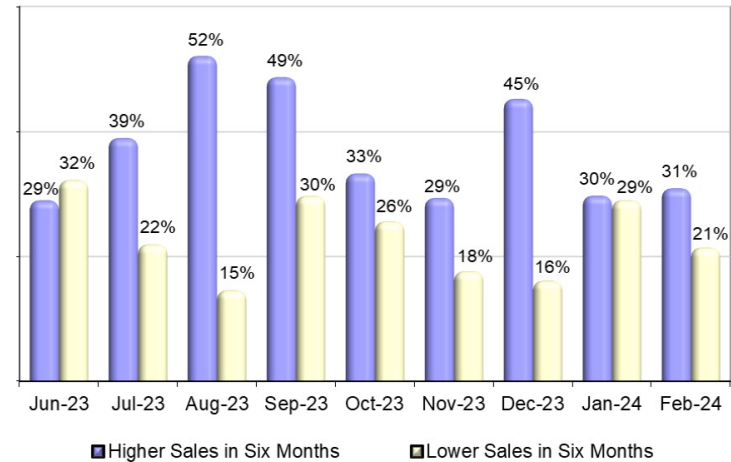
Entrée	Menu Price	PCYA
Beef	\$13.79	+15%
Chicken	\$12.49	+14%
Pork	\$12.00	+10%
Seafood	\$15.00	+7%



Restaurant employment has recovered but outlook uncertain



Restaurant Operators' Outlook for Sales Volume in Six Months versus Same Period in Previous Year



Source: National Restaurant Association, Restaurant Industry Tracking Survey



Food costs are biggest concern of restaurant operators

OPERATOR'S MOST PRESSING CHALLENGES

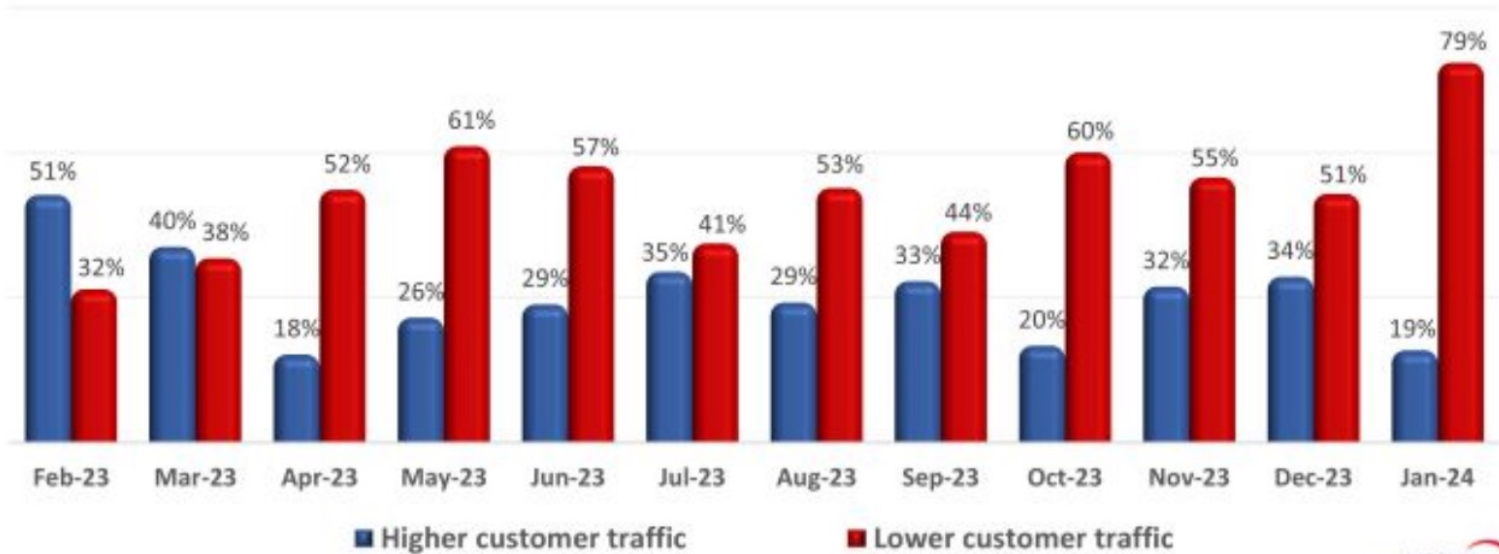
DEC '23

Food Costs	72%
Labor Costs	56%
Labor Recruitment / Hiring	34%
Retaining Current Staff	31%
Customers Reducing How Often They Visits	22%
Customers Reducing How Much They Spend	22%



Restaurant traffic is declining

Restaurant operators' reporting of customer traffic versus same month in previous year



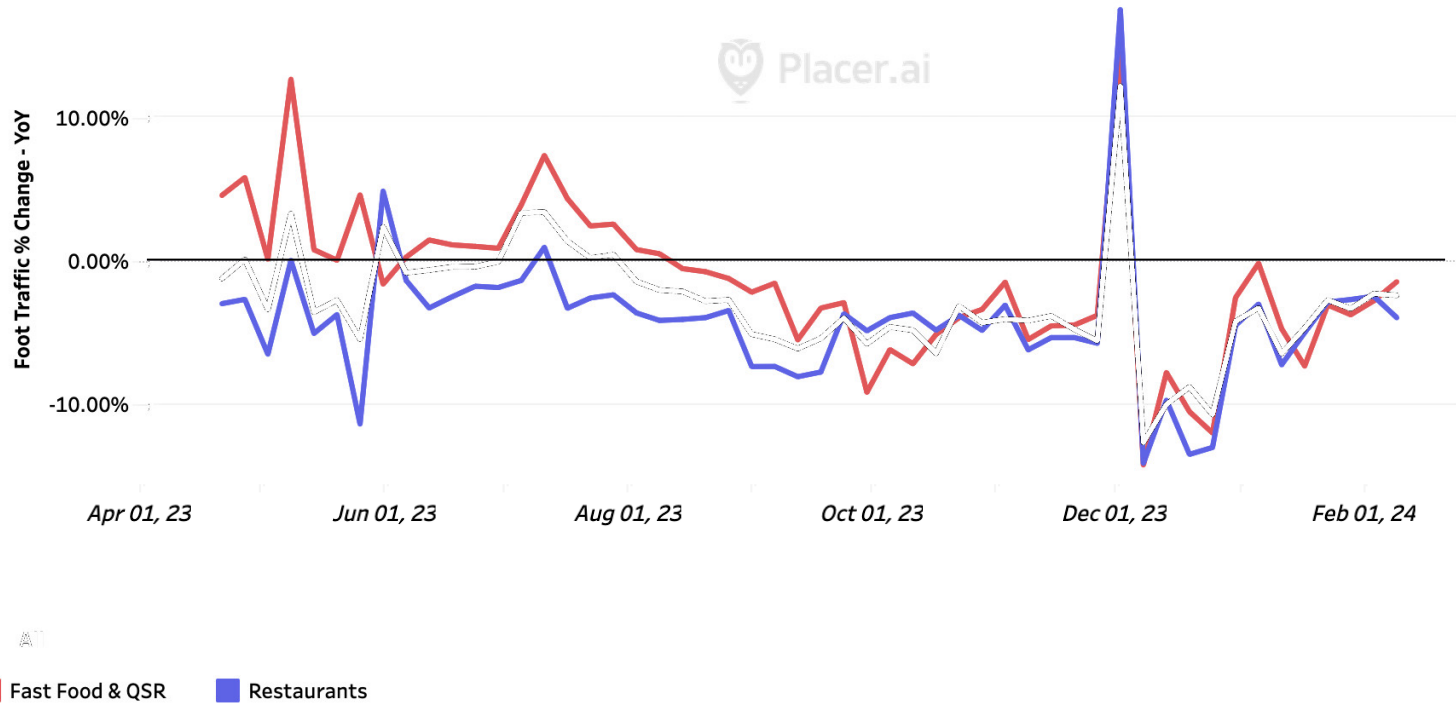
Source: National Restaurant Association, Restaurant Industry Tracking Survey



National Restaurant Association data

Cellphone measure of restaurant traffic also shows consistent decline

Industry Comparison of Foot Traffic % Change in Nationwide - Previous Year

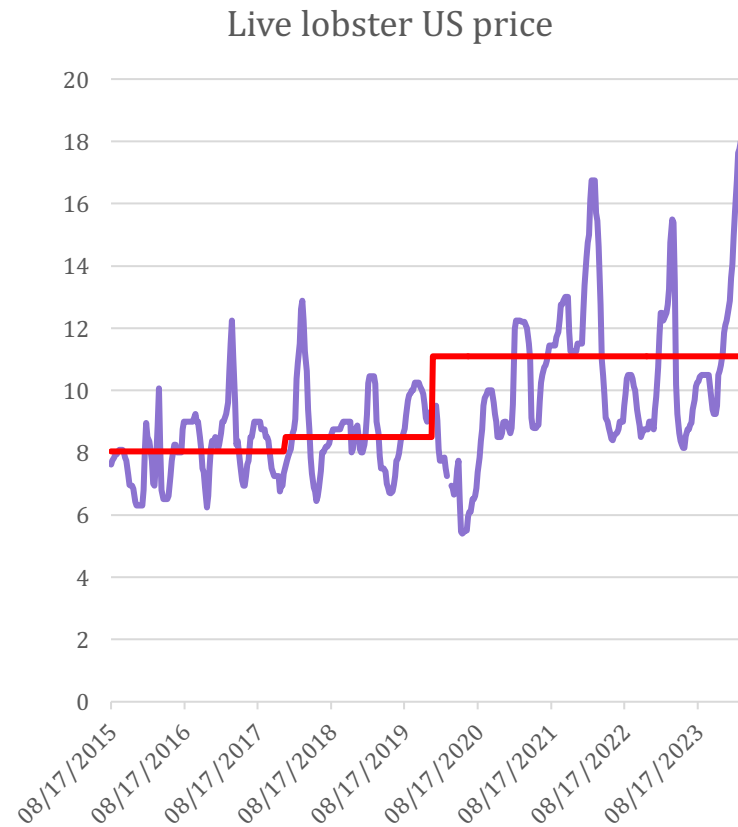


Source: Pacer.ai cellphone location data by industry



In this environment it will be difficult for buyers to adjust to higher prices

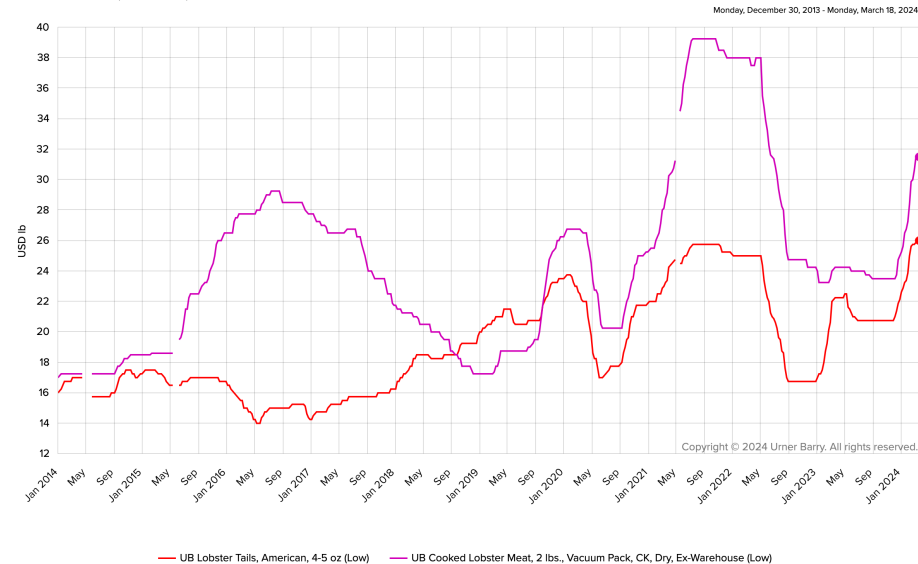
- Live lobster pricing set by landings volume and US and China demand for live lobster.
- Value of live lobsters is rising based on this demand



Meat and Tails Facing 4th price spike

- Higher live costs increase risks for processors
- Customers reduce their purchase volume
- Inventory costs more to pack and hold
- Risk of missing market clearing volume is much higher
- Leads to price volatility and weakening of sector

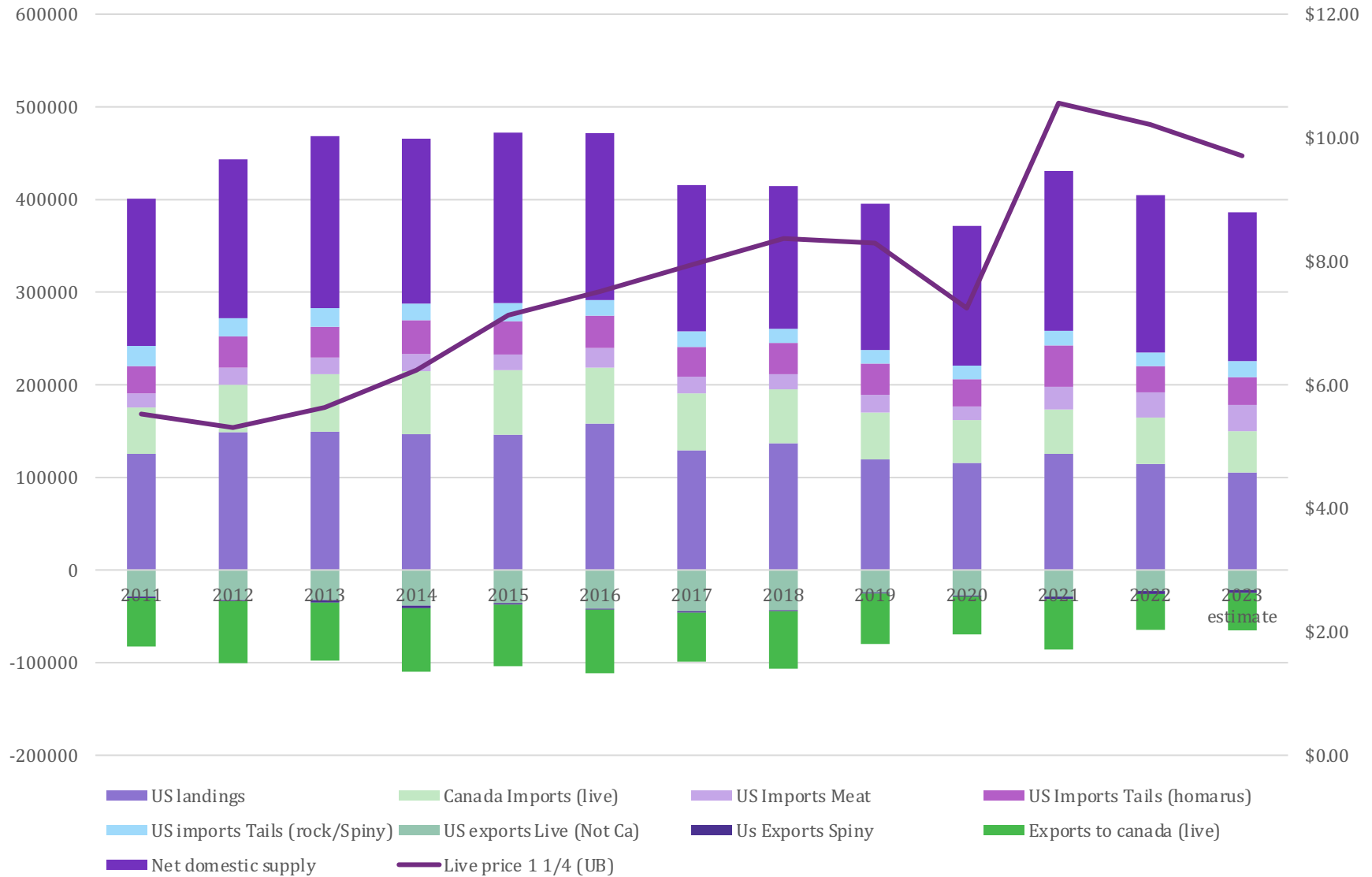
UB Lobster Tails, American, 4-5 oz.



Over production = discounts and losses
Under production = Price Spike and customer retrenchment



US Domestic Lobster Supply



Source: Seafood Datasearch

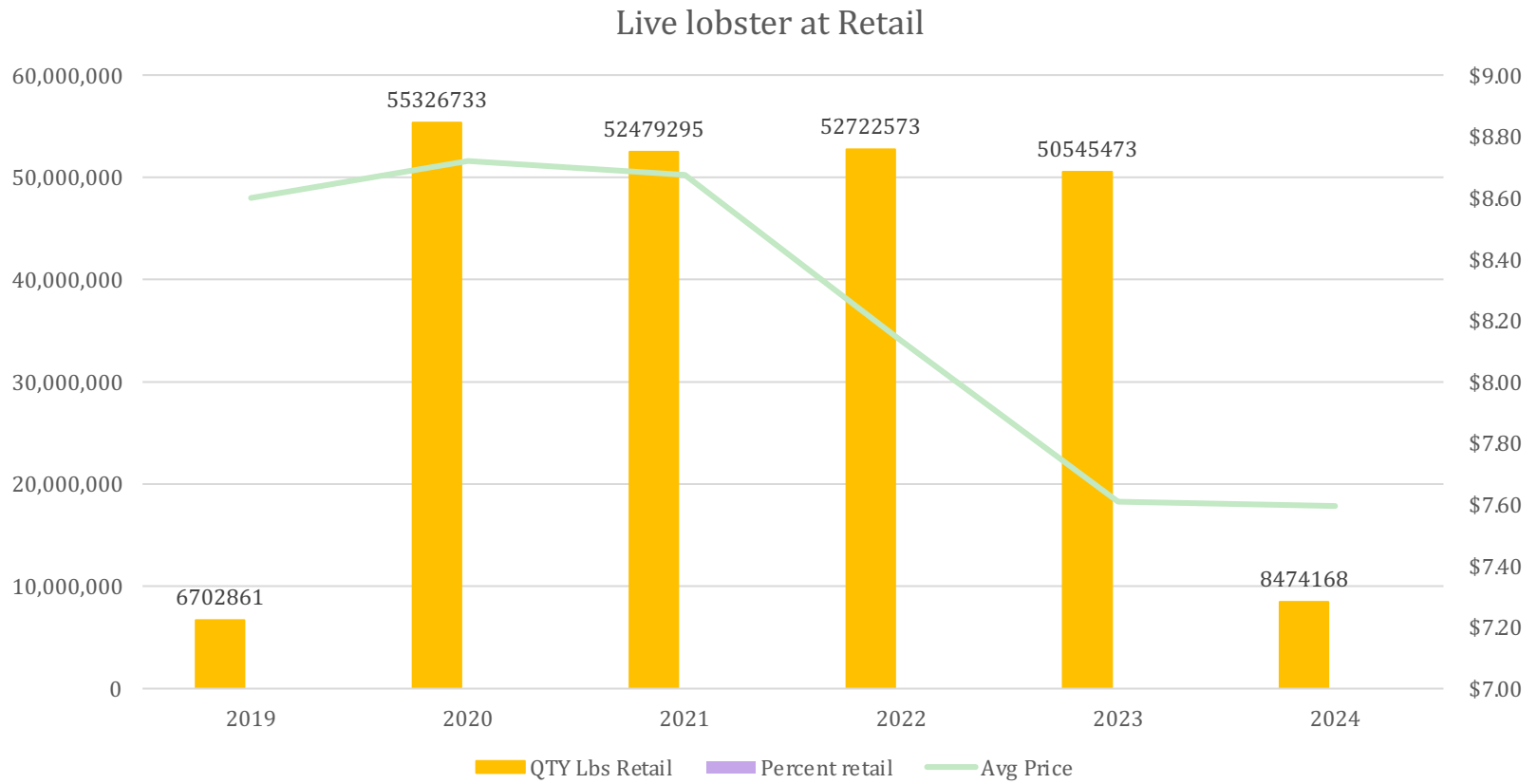


Lobster supply likely to further contract in 2024

- Higher prices for live will cut into US demand.
- Despite current shortage, customers likely to cut volume of meat and tails due to price increase.
- Maine landings on extended downturn
- Restaurant/Tourism sales may fare better than retail sales.



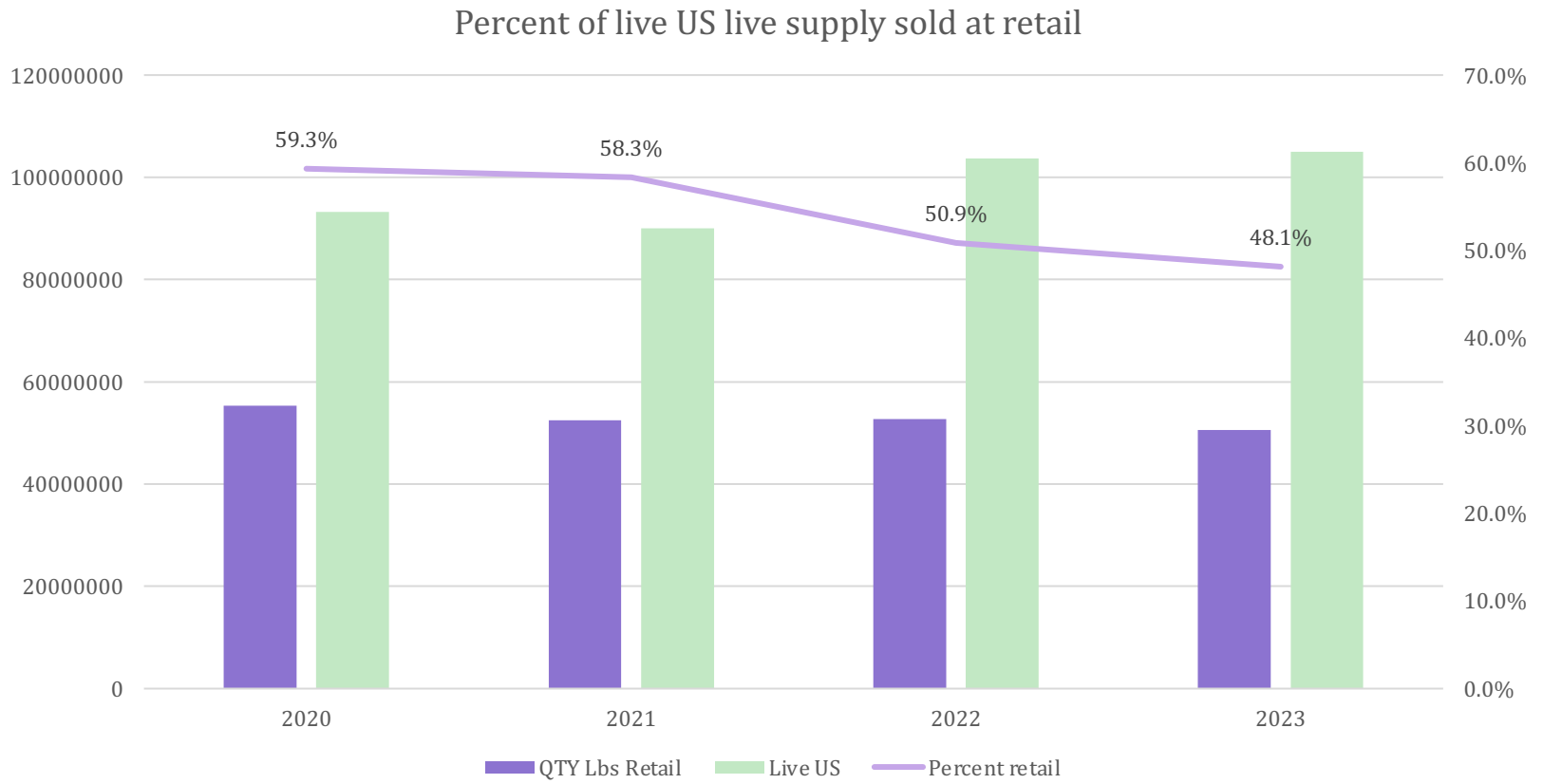
US lobster Retail Sales (live)



Source: Circana retail data



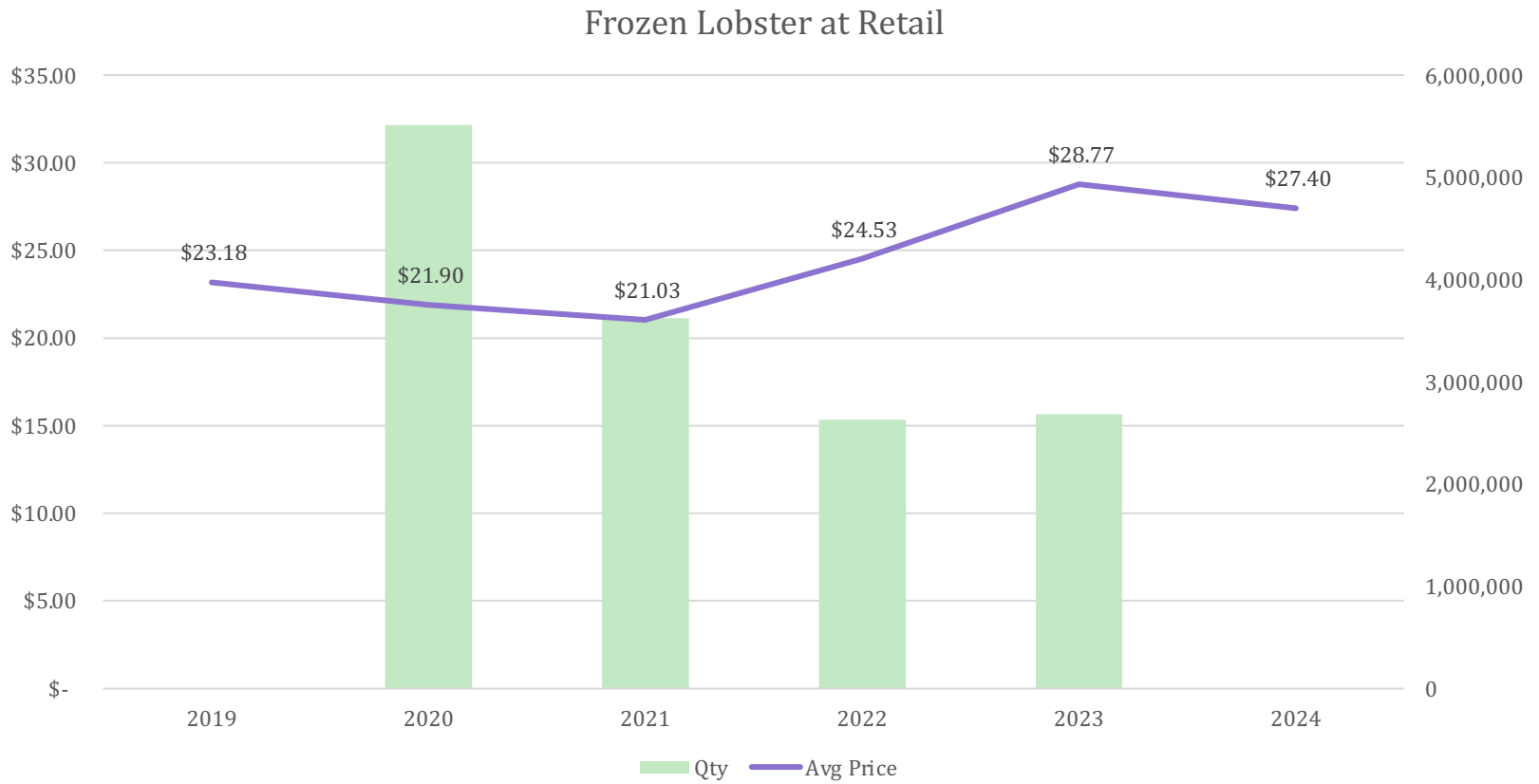
Percent of total live supply sold at retail



Source: Seafood Datasearch



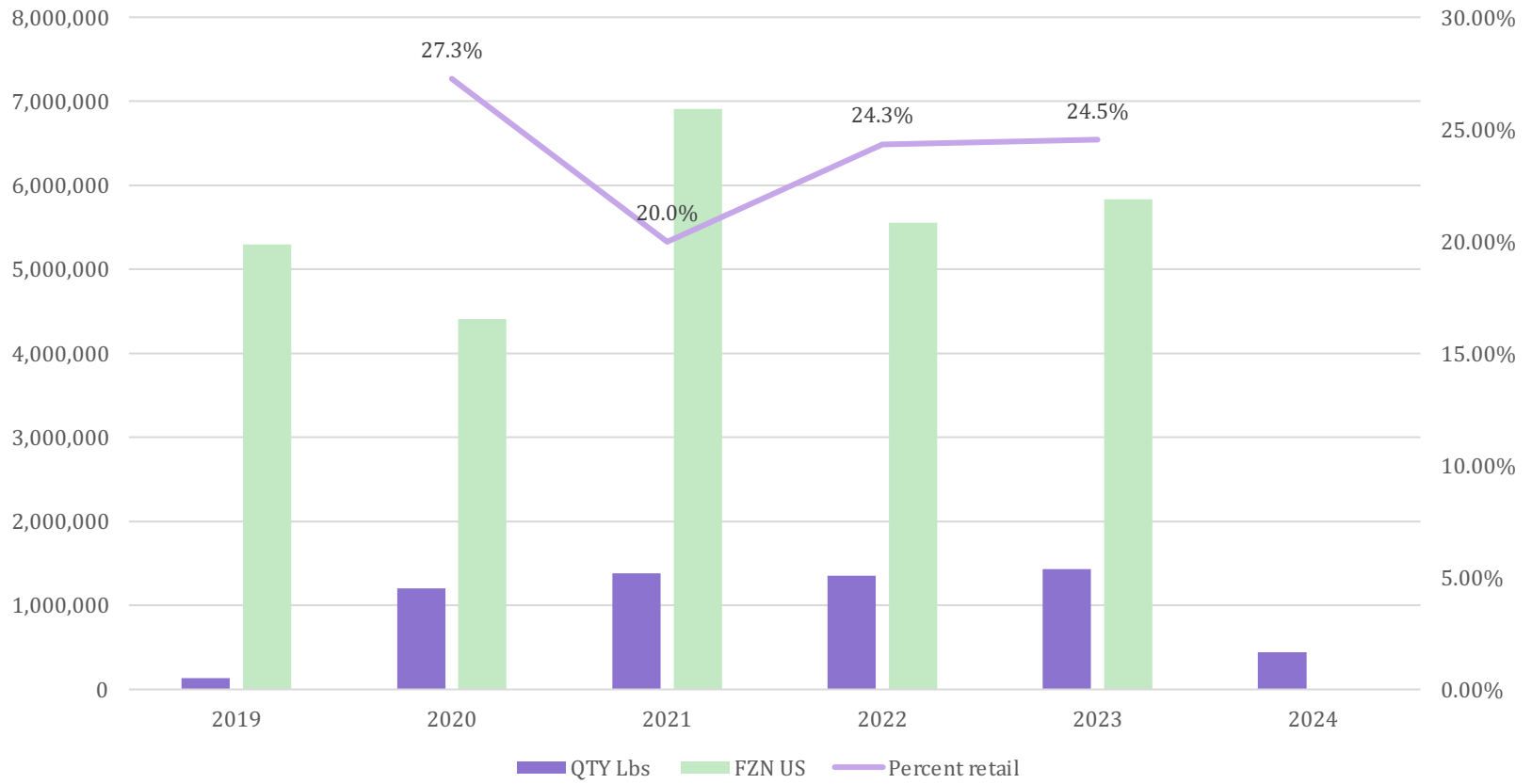
Fzn lobster at retail



Source: Seafood Datasearch; Circana



Percent of FZ CA exports thru Retail Channel



Source: Seafood Datasearch



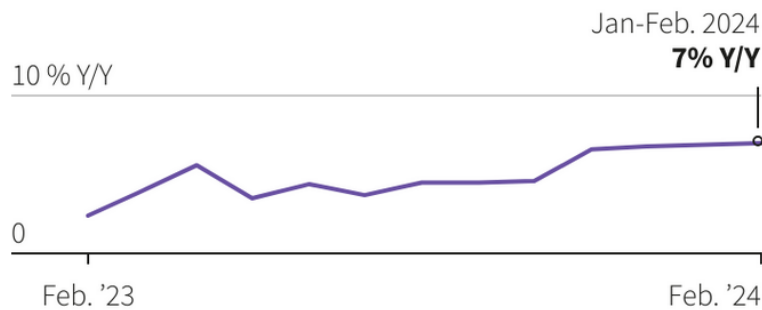
China also has a possible 'soft landing' scenario

China Jan-Feb. activity indicators better than expected

The industrial output saw **highest yearly growth in about two years** during Jan-Feb 2024 period while retail sales, that measures consumption, showed smaller growth compared to December.

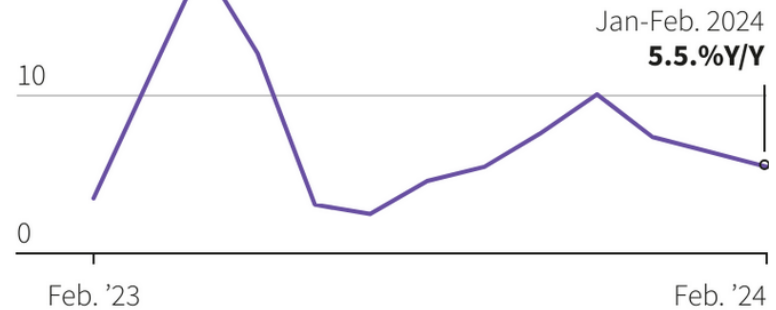
Industrial output

Feb. 2023 to Feb. 2024



Retail sales

Feb. 2023 to Feb. 2024



Note: For these indicators, China reports combined January-February data, while the others are single month data.

Source: LSEG Datastream | Reuters, Mar.18, 2024 | By Vineet Sachdev

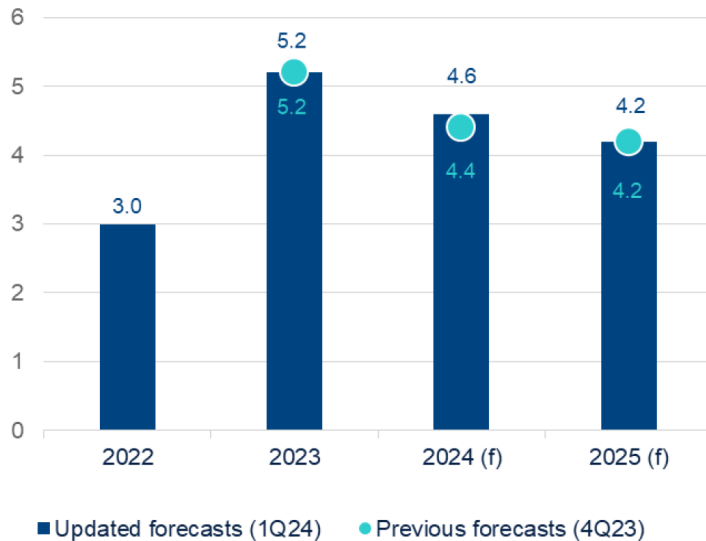
Reuters Graphics Reuters Graphics



Forecasters not seeing consumption issues

China: targeted fiscal, monetary and regulatory policies are likely to sustain growth, but will not prevent a structural slowdown of GDP growth

CHINA: GDP GROWTH (%)



(f): forecast.
Source: BBVA Research.

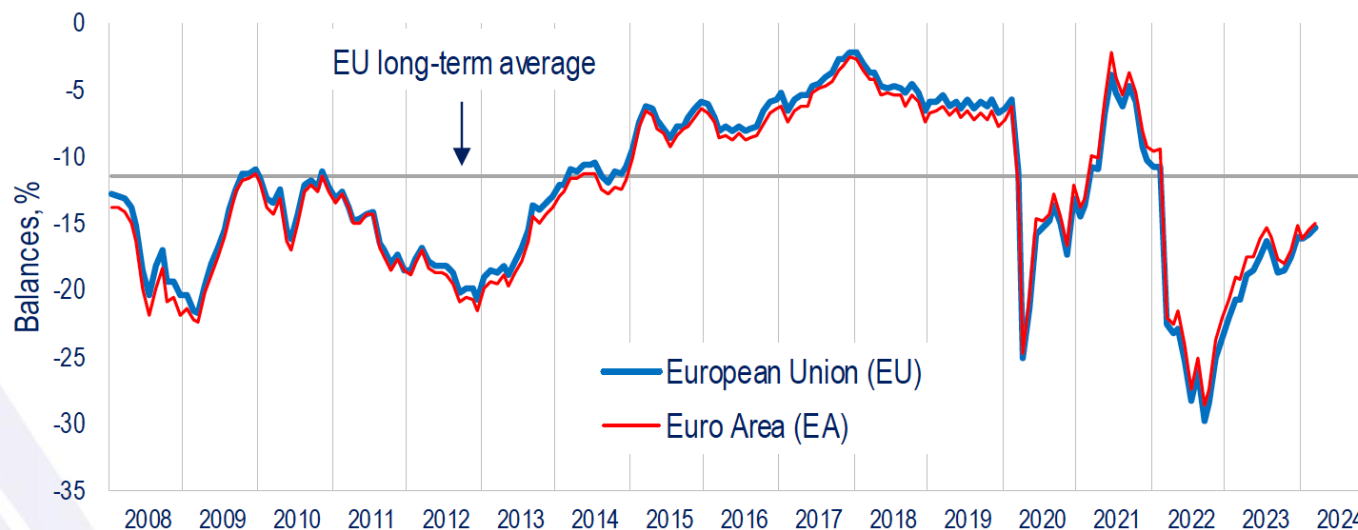
- Activity, in particular the troubling real estate sector, will be backed by monetary and fiscal measures and some regulatory easing.
- Fiscal policy is expected to remain expansionary and more cuts in reserve requirements and policy rates are likely after the Fed starts reducing rates.
- A structural growth slowdown is likely on real estate problems, local government debt, ageing, US relationship...
- Inflation remains below zero, but is forecast to converge to 2% on supportive policies, pork price normalization, confidence improvement.
- Risks: real estate tensions, deflation, balance-sheet recession, weak FDI and financial inflows, geopolitical tensions.



European consumer confidence is improving

FLASH CONSUMER CONFIDENCE INDICATOR FOR THE EU AND EURO AREA

In March 2024, DG ECFIN's flash estimate¹ of the consumer confidence indicator² increased further, by 0.6 percentage points (pps.) in both the EU and the euro area. At -15.2 (EU) and -14.9 (euro area) points, consumer confidence still scores well below long-term average.



source: European Commission services



European lobster imports fell in 2023 (US & CA)



Source: Global Trade Tracker; Seafood Datasearch



US is adopting conservation measures in face of lower landings

- Maine landings are declining
- NOAA implementing increased carapace size to 84 mm in 2025
- 86 mm in 2027
- Because of 'equivalency' policy, this will apply to all Canadian imports of live as well.



Outlook for 2024

Positive

- Demand is growing for live lobster in China
- Growth in Gulf, Quebec and Newfoundland supporting increased volumes of live lobster
- Spring prices not predictive of summer wholesale prices

Negative

- US and European markets seeing erosion of demand
- Lower overall supply impacting processing capacity as plants close.
- Price spike on tails and meat could cause market to contract



Outlook Continued

Positive

- US size restrictions may provide new processing opportunities in future years.

Negative

- Changes to plant worker visas have created uncertainty
- A smaller fall fishery with higher live prices means more processing spring and summer & greater risk forecasting market demand.



Time for Questions

- Please put questions in chat and they will be presented or answered.

