

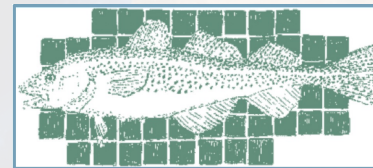
# Snow Crab Update for New Brunswick Seafood Industry 2024

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Seafood Datasearch  
Province of New Brunswick  
March 26, 2024



# 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

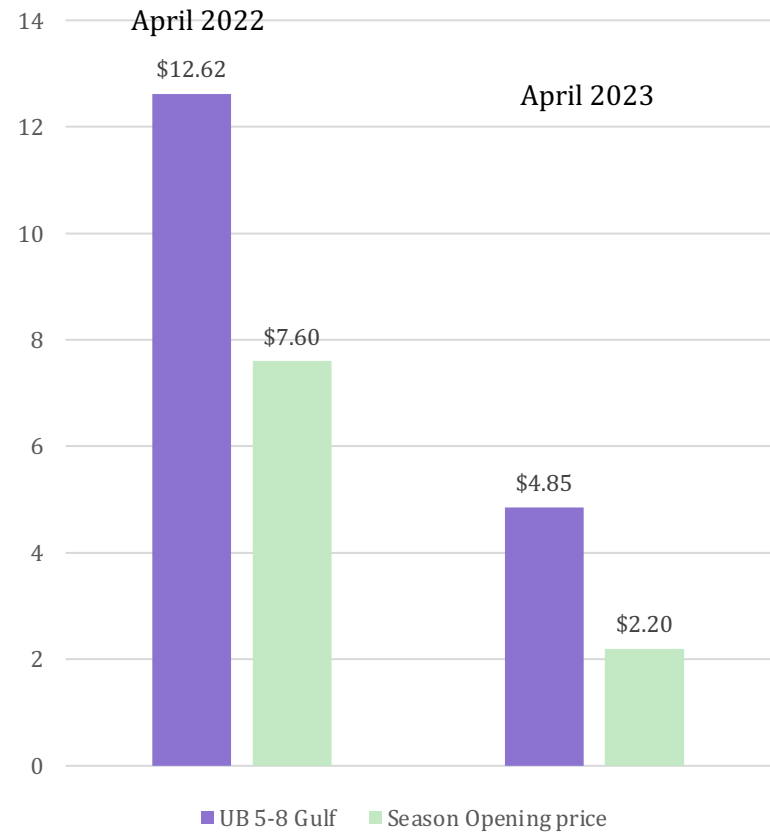


The screenshot shows the SeafoodNews.com website. The main article is titled "The Winding Glass: What does 40 years in the American Seafood Industry look like?". The author is identified as "The Winding Glass" and the article is dated "Wed, Sep 20, 2018". The article text begins with "I am stepping down as a member of SeafoodNews at the end of the month...". The sidebar on the left contains navigation links such as "Home", "About", "Contact", "Privacy Policy", and "Terms of Service". There is also a search bar and a "Subscribe" button. The bottom right of the screenshot shows a "WEEKLY RECAP" for "September 20, 2019".



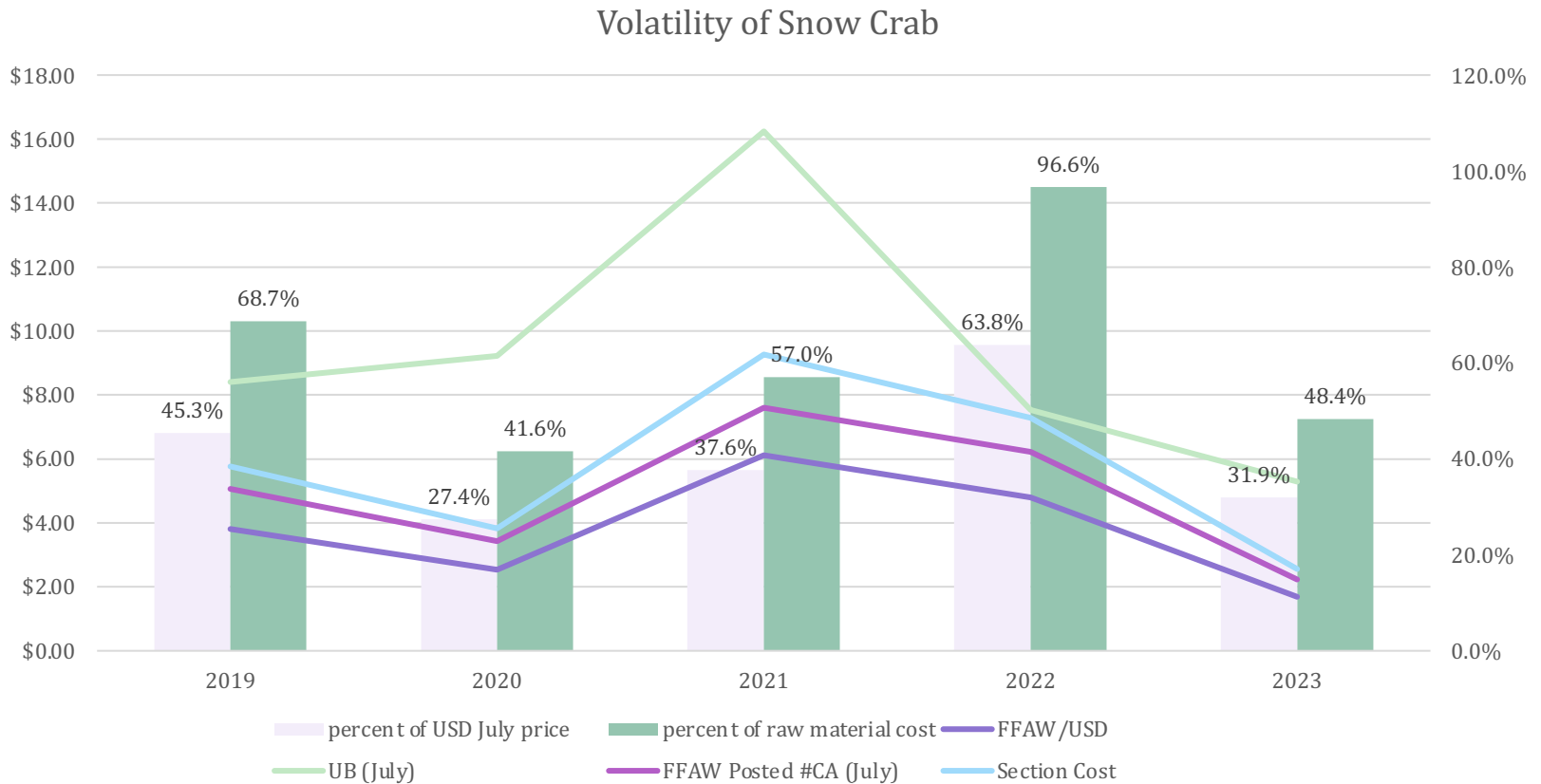
# Historical price collapse in 2023

- Canadian crab production rose 30%
- Retailers had stopped buying
- Dramatic fall in ex-vessel price



# Volatility of snow crab

## (NL posted prices and UB wholesale)



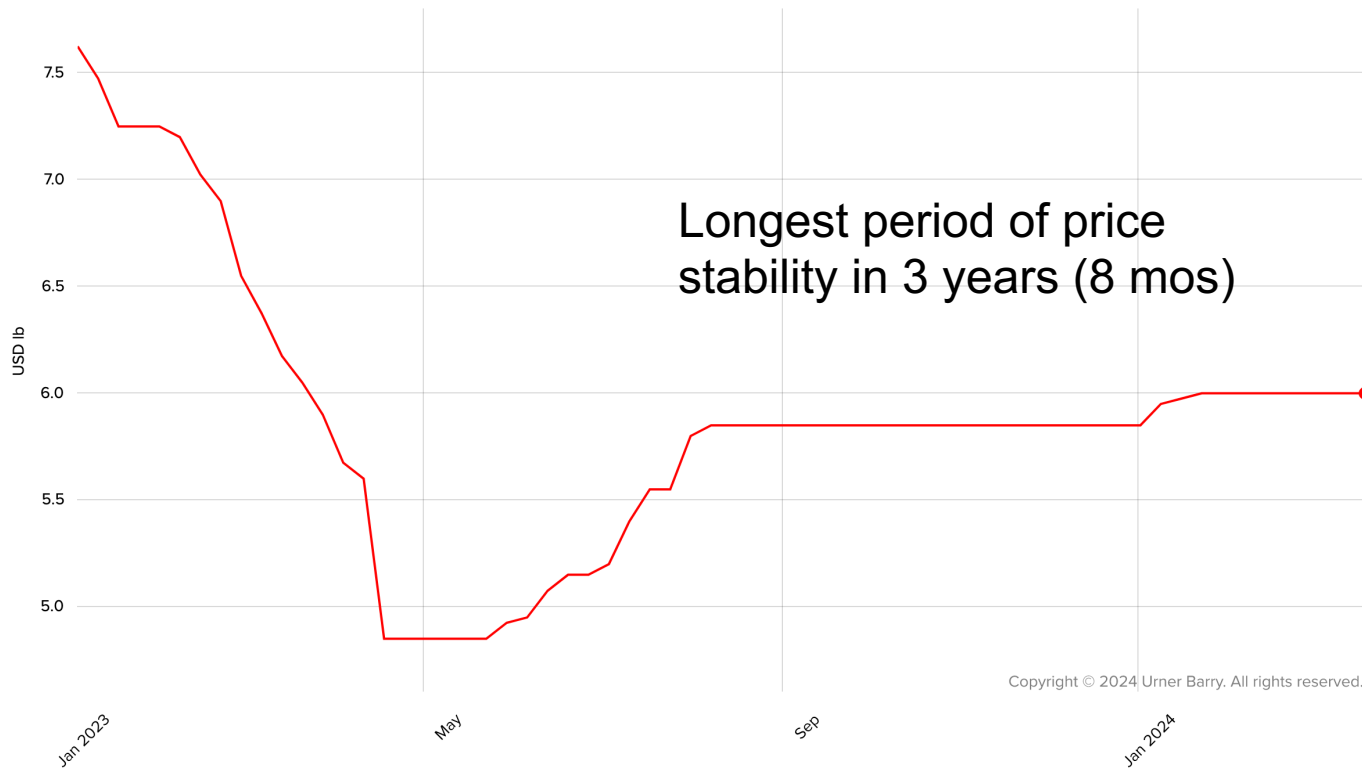
Source: Seafood Datasearch



# 2024 is a recovery from volatility

UB Crab, Snow, Cluster, Gulf Lawrence, 5-8 oz., Ex-Warehouse EC

Monday, January 2, 2023 - Monday, March 18, 2024



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# Outline for Today

- What determines seafood market strength
- Seafood sales environment for 2024
- Inventory situation for crab
- Japan situation
- Review of 2023 Season
- Retail Sales Situation
- Foodservice Situation
- Historical pricing on crab
- 2024 market outlook

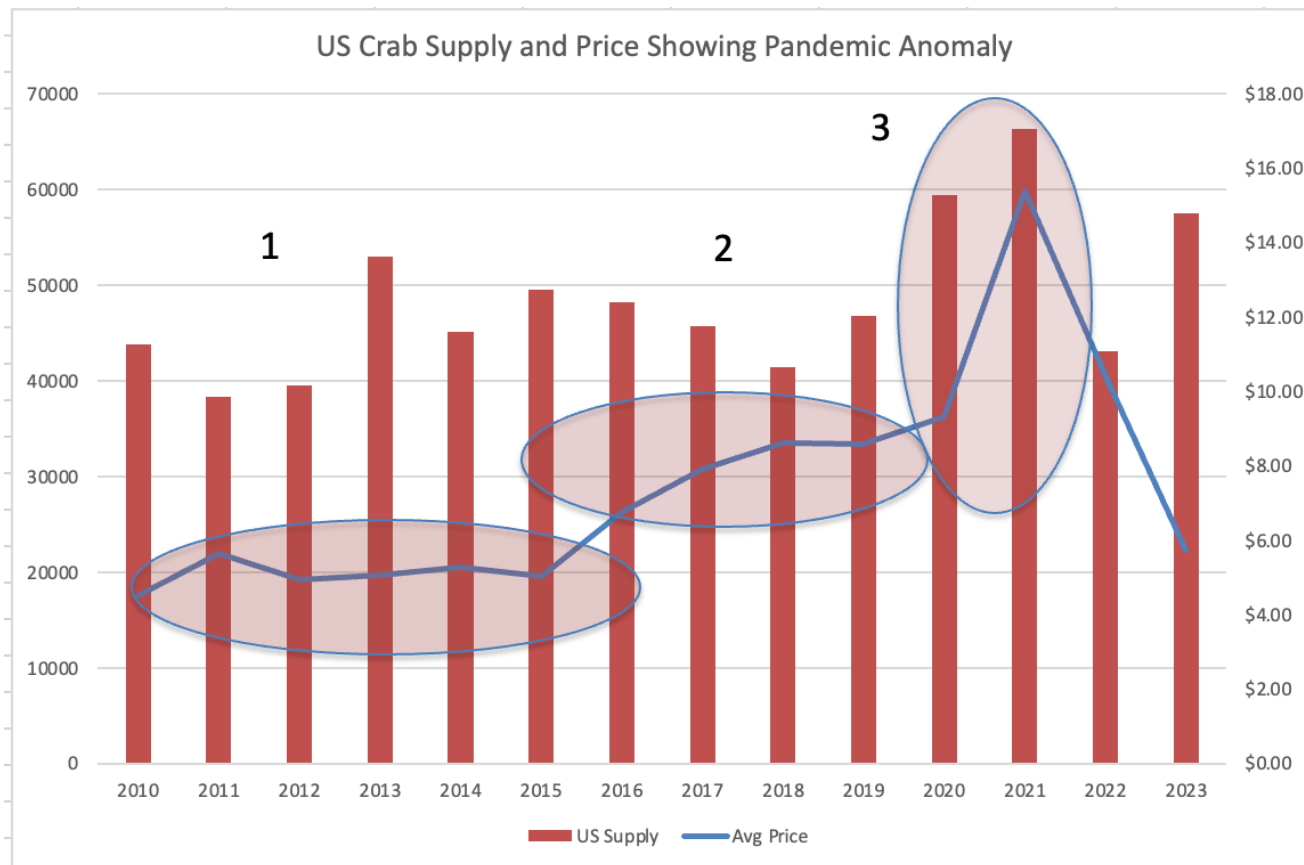


# Seafood sales environment

- US crab supply projected to decline slightly
- Retail crab sales slowing down
- US Consumer sentiment slowly improving
- Japan sentiment improving also
- Lower Income US consumers hurting
- Means weak crab sales in low income areas of US



# 2023 supply increased by most in 13 years



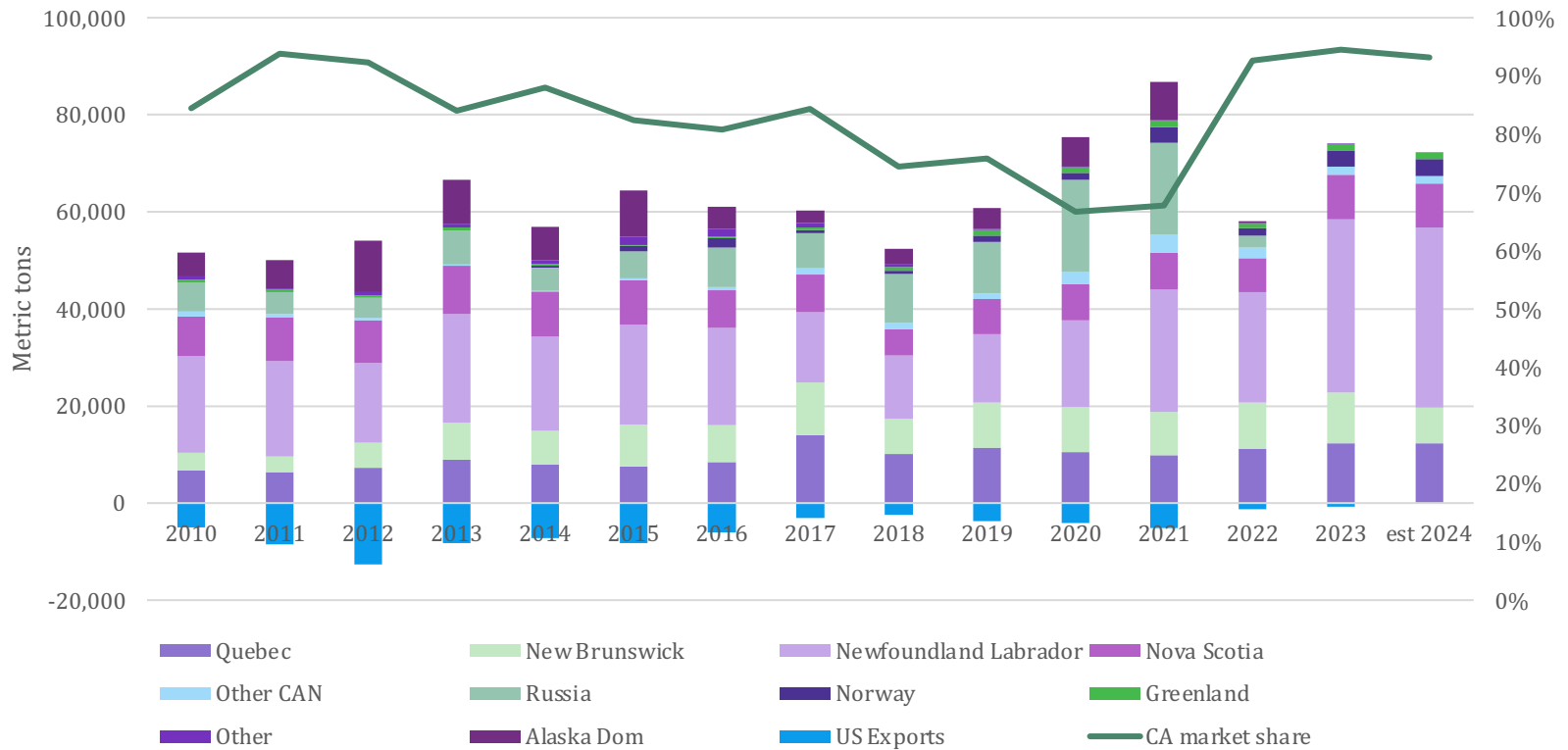
Source: Seafood Datasearch





# 2024 supply likely to decline slightly

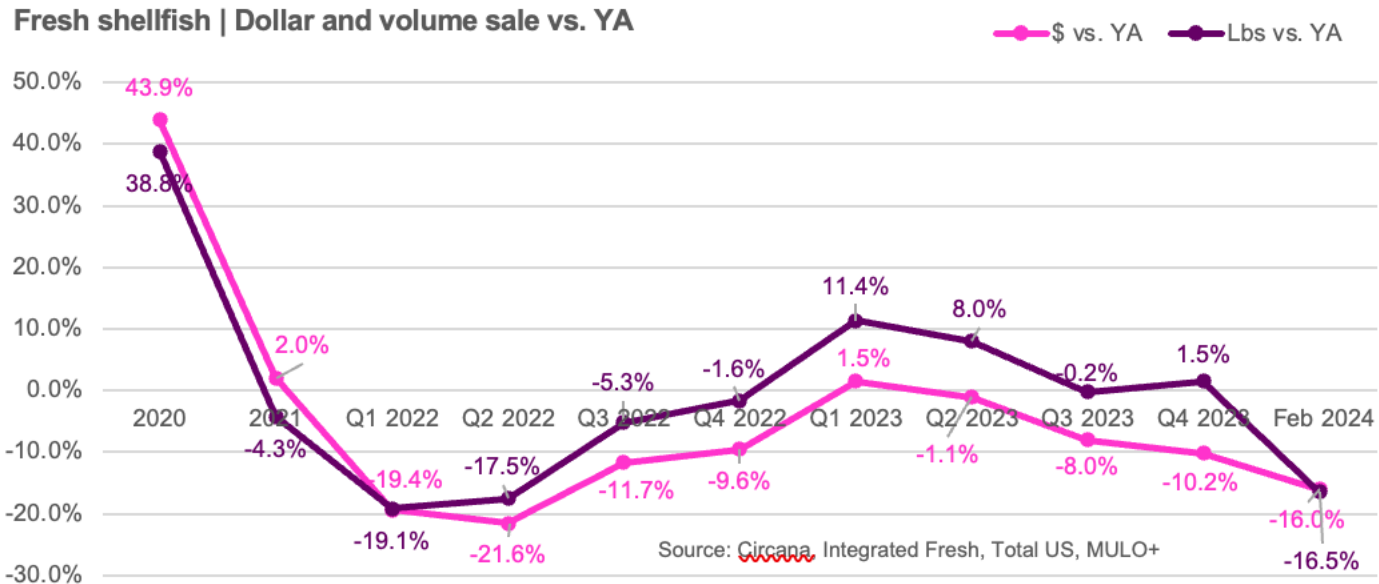
US Snow Crab Supply



Source: Seafood Datasearch



# Retail seafood sales have continued to decrease despite price decline

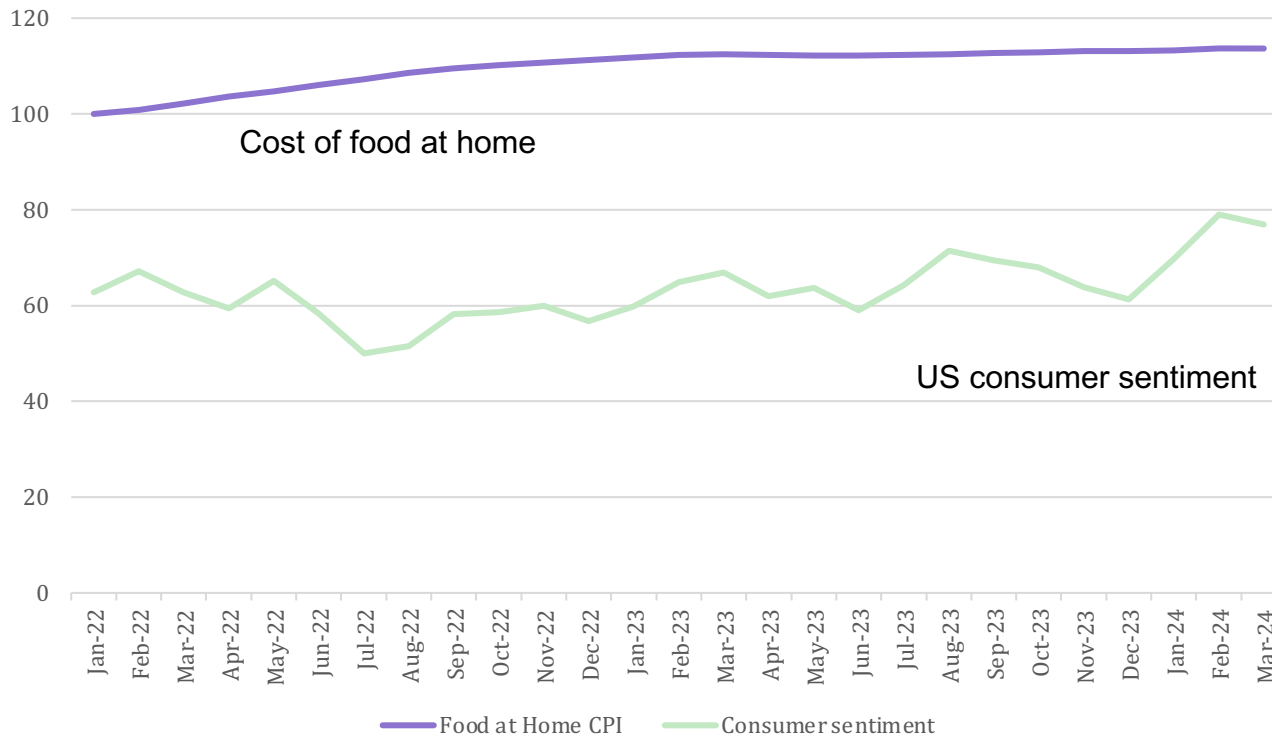


- After improving in the first half of 2023, lbs sold have been declining compared to prior period.
- Overall fresh shellfish (includes crab and lobster) has seen declining prices since March 2023.

Source: 360 Strategies; Circana



# US Consumer confidence and inflation

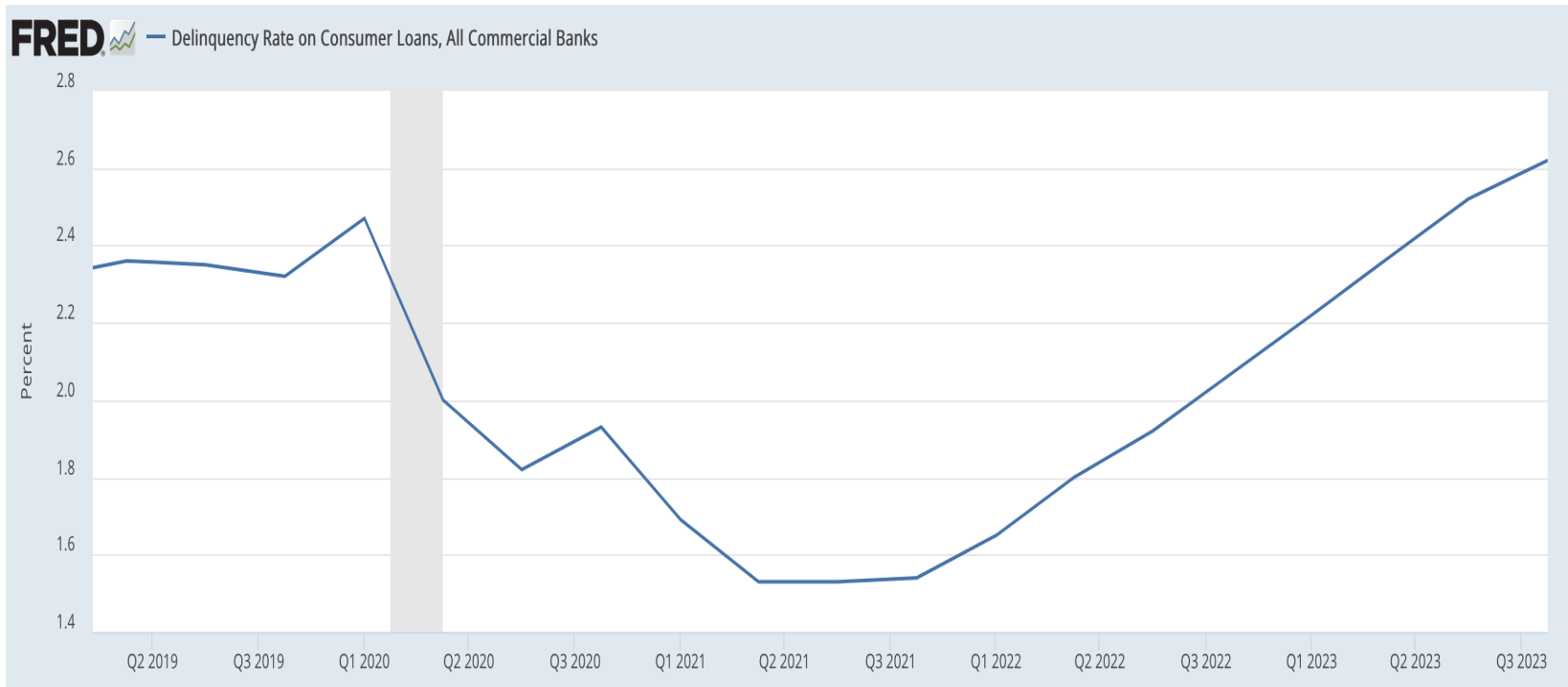


- Consumer sentiment has begun to improve as food inflation stabilizes
- Consumers are in a holding pattern, not sure whether things will improve or go backwards in next six months

Sources: Federal reserve and Univ. of Michigan consumer index



# Delinquency rates on consumer loans highest since 2019



# Japan consumer sentiment also improving



Source: Japanese Cabinet Office

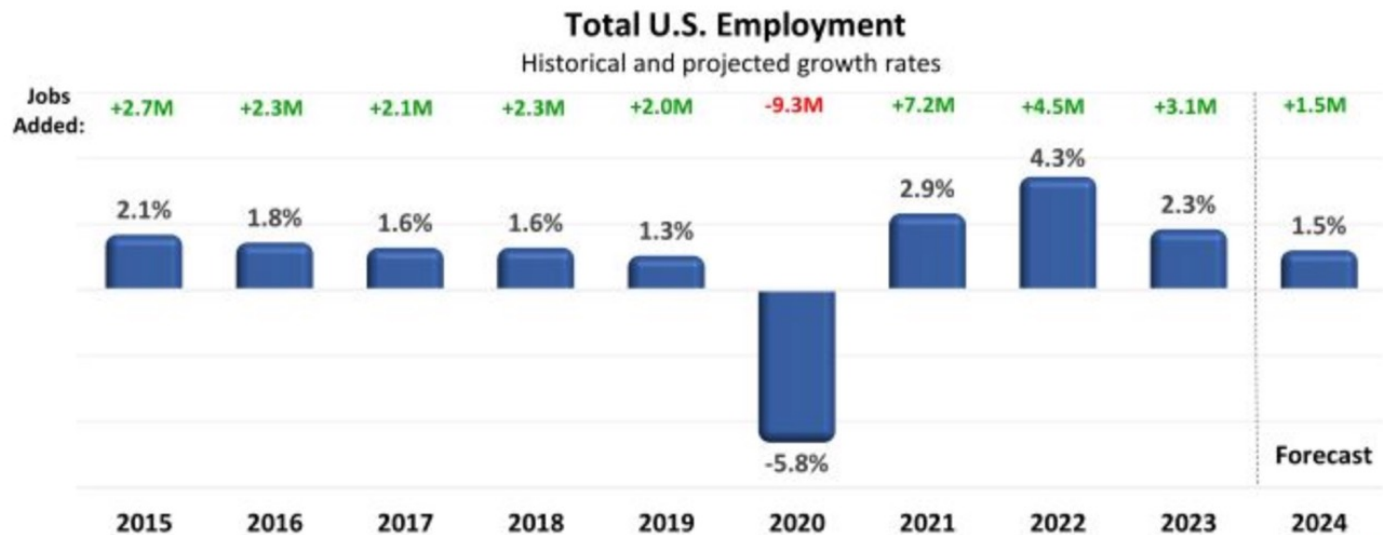


# Economic factors positive for 2024 but all weaker than 2023

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



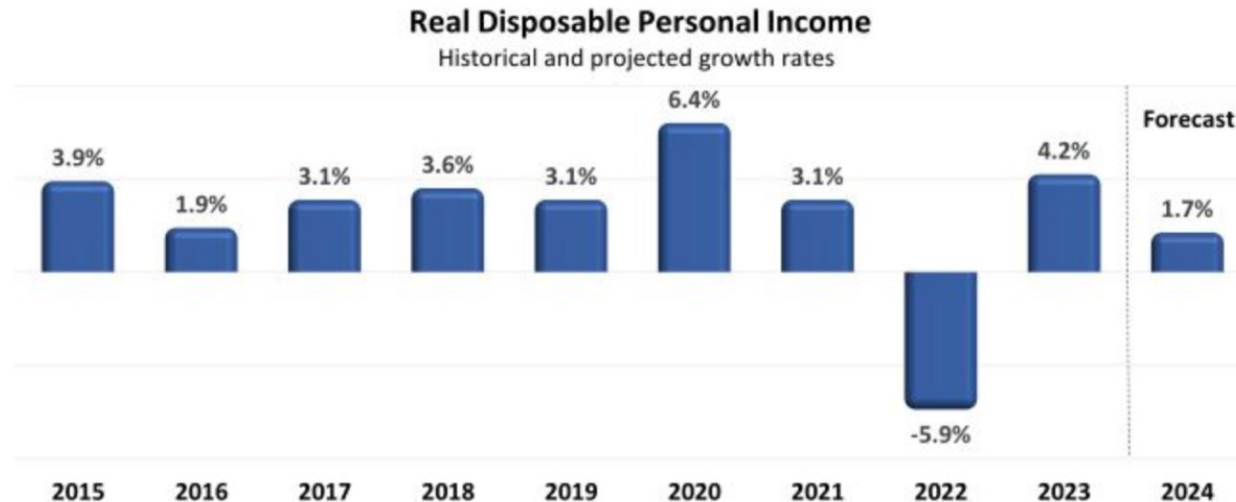
# US will add fewer jobs



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

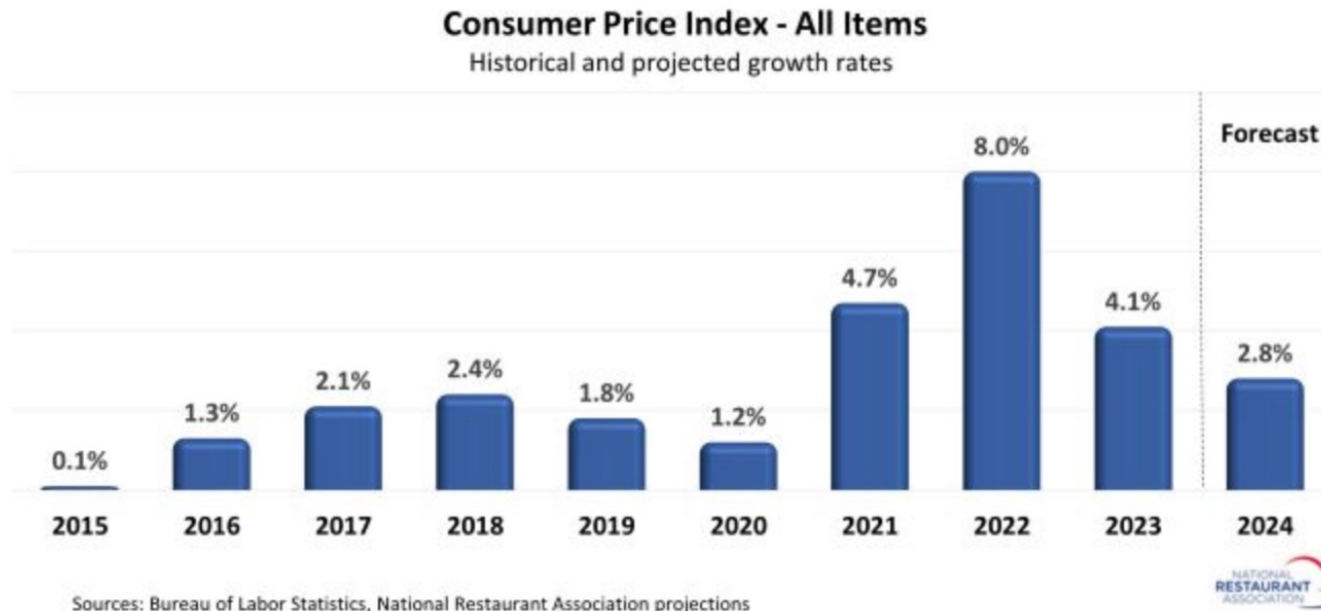


Sources: Bureau of Economic Analysis, National Restaurant Association projections





# Consumer price inflation will decline

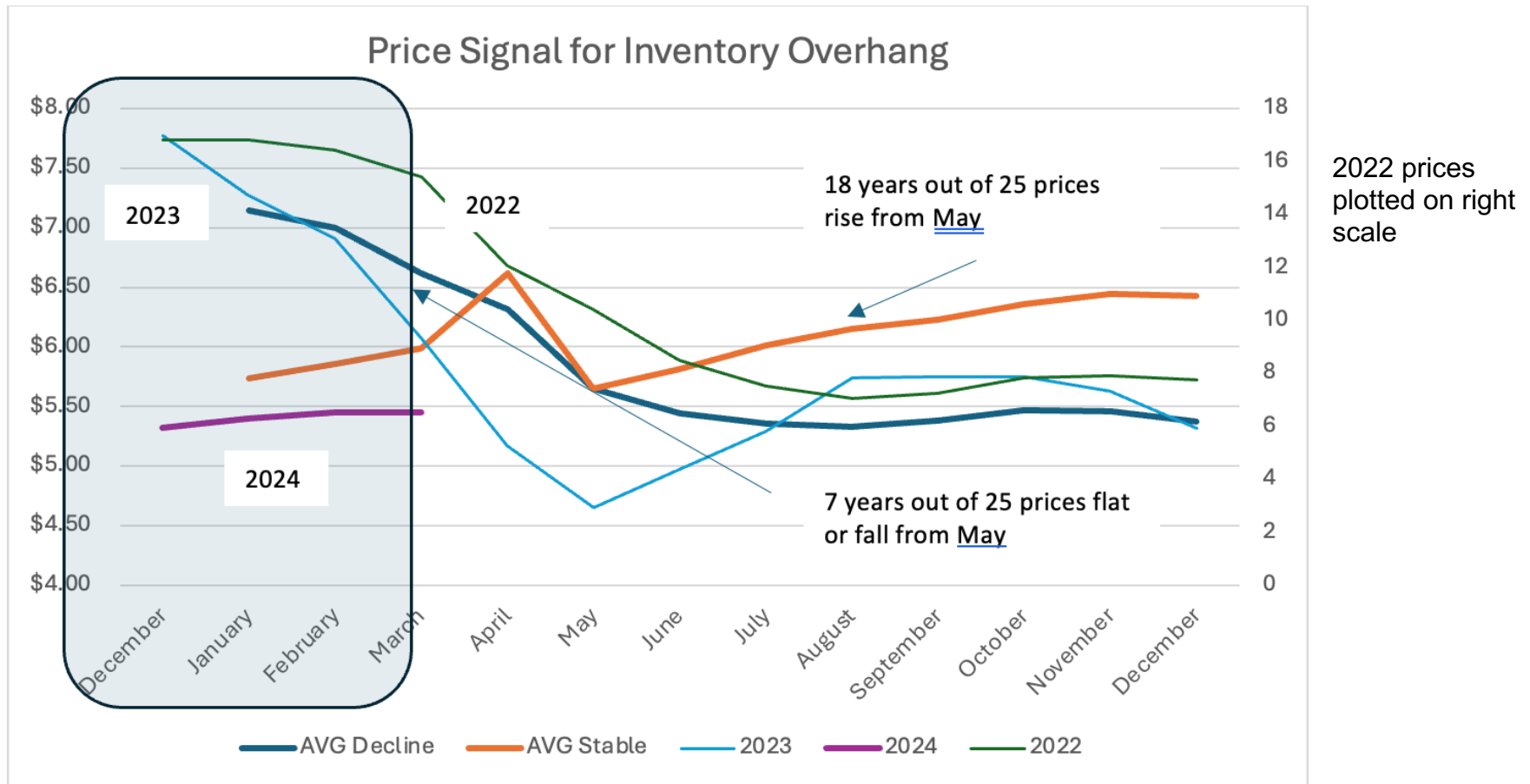


# Inventories

- Excessive inventories from lack of sales killed the crab market in 2022-2023
- Inventories can be measured three ways
  - Price signals as new season approaches
  - Disappearance model of production and exports
  - Anecdotal evidence of level of buyer interest for new season crab
- For 2024 Inventory signs are positive



# Prices not showing inventory issue

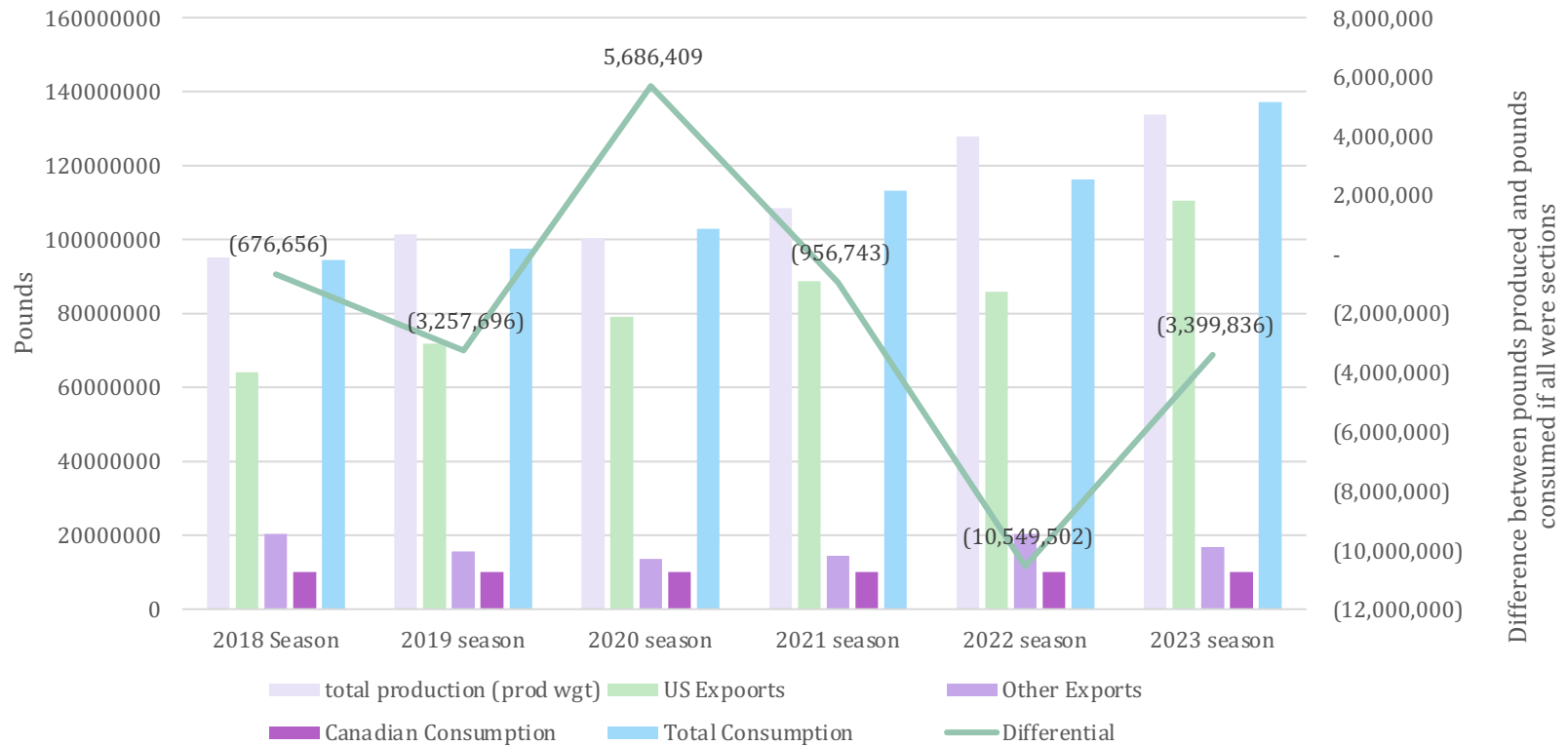


Source: Seafood Datasearch



# Carryover from 2023 is in normal range compared to 2022

Disappearance model for Canadian Snow Crab



Source: Seafood Datasearch



# Anecdotal information from seafood show

- Buyer picked up load at \$5.25 (NL crab)
- Seller reported 17 load sale of Norwegian to a retailer.
- Well established shortages on 8 ups.
- Some distributors saying their snow crab stocks are low or non-existent



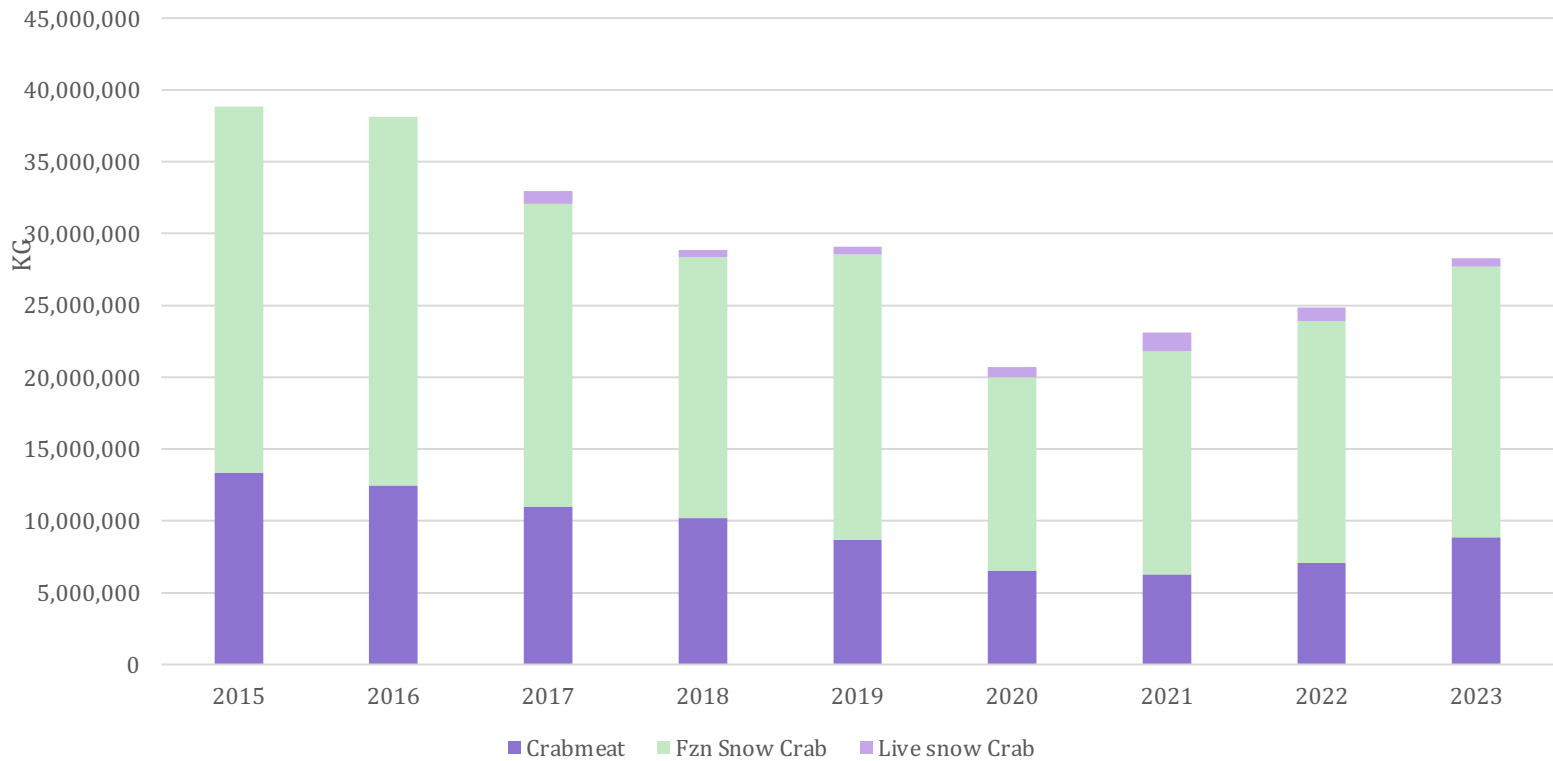
# Buyers will be looking for crab at start of season

- Some buyers will be looking for crab at the start of the season, especially 8 ups.
- Once production is fully underway buyers will turn more cautious because overall sales environment is questionable.



# Japanese usage of snow crab has been increasing

Japan Usage of Snow Crab has been steadily Growing

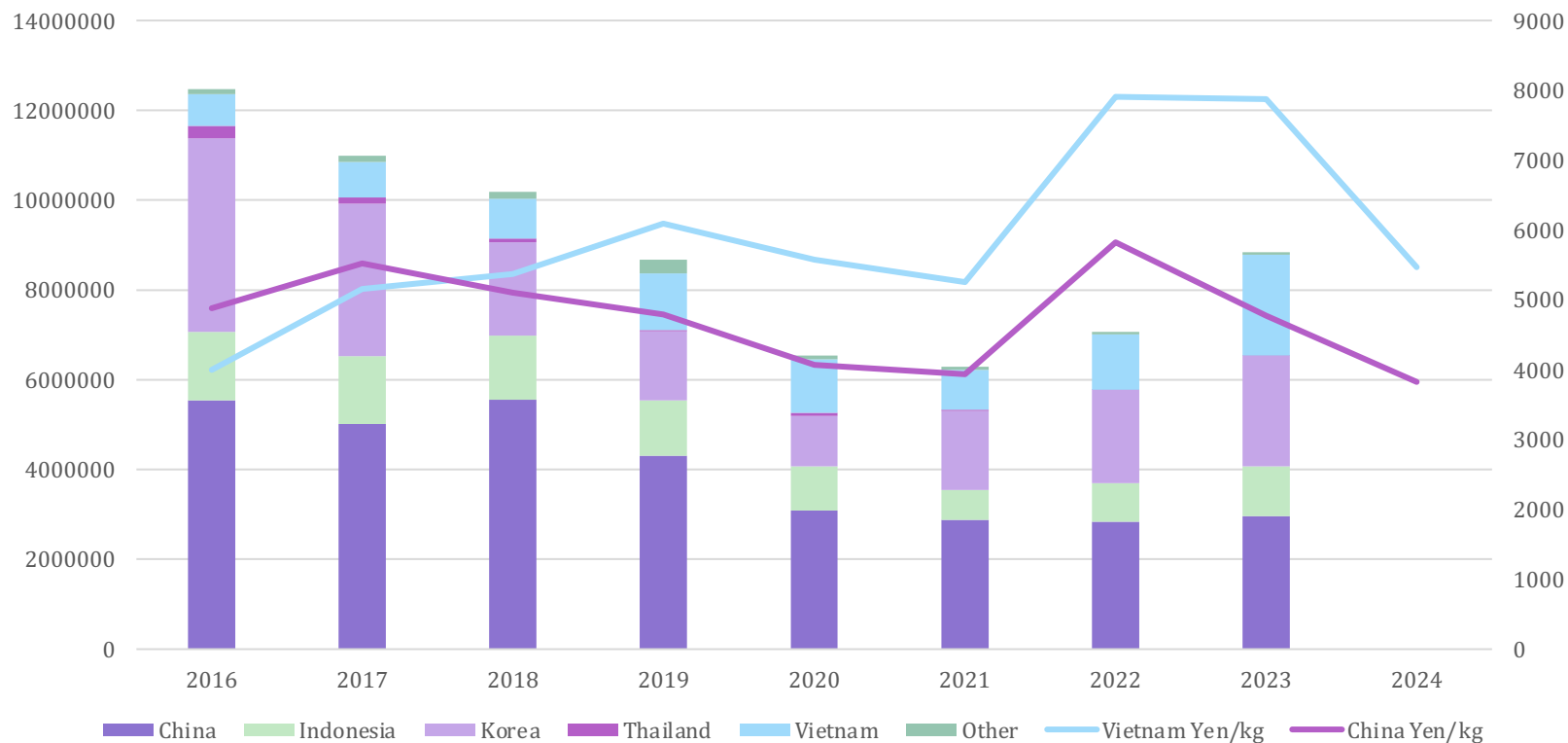


Source: Global Trade Tracker



# Crabmeat cost in Japan has fallen below 2017-18 levels

Chart Title



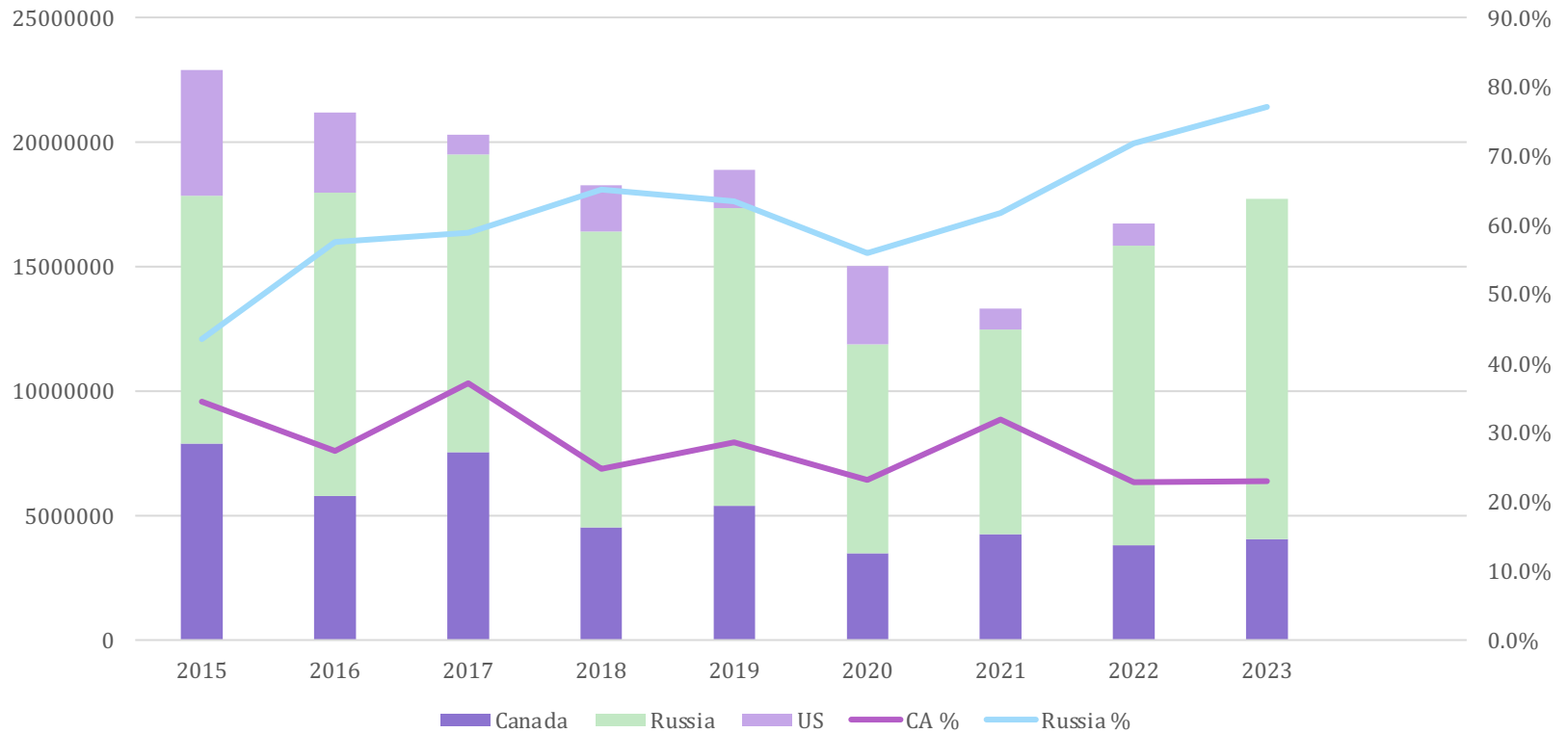
Source: Seafood Datasearch; Global Trade Tracker





# Russia has gained market share from Canada on Fzn crab

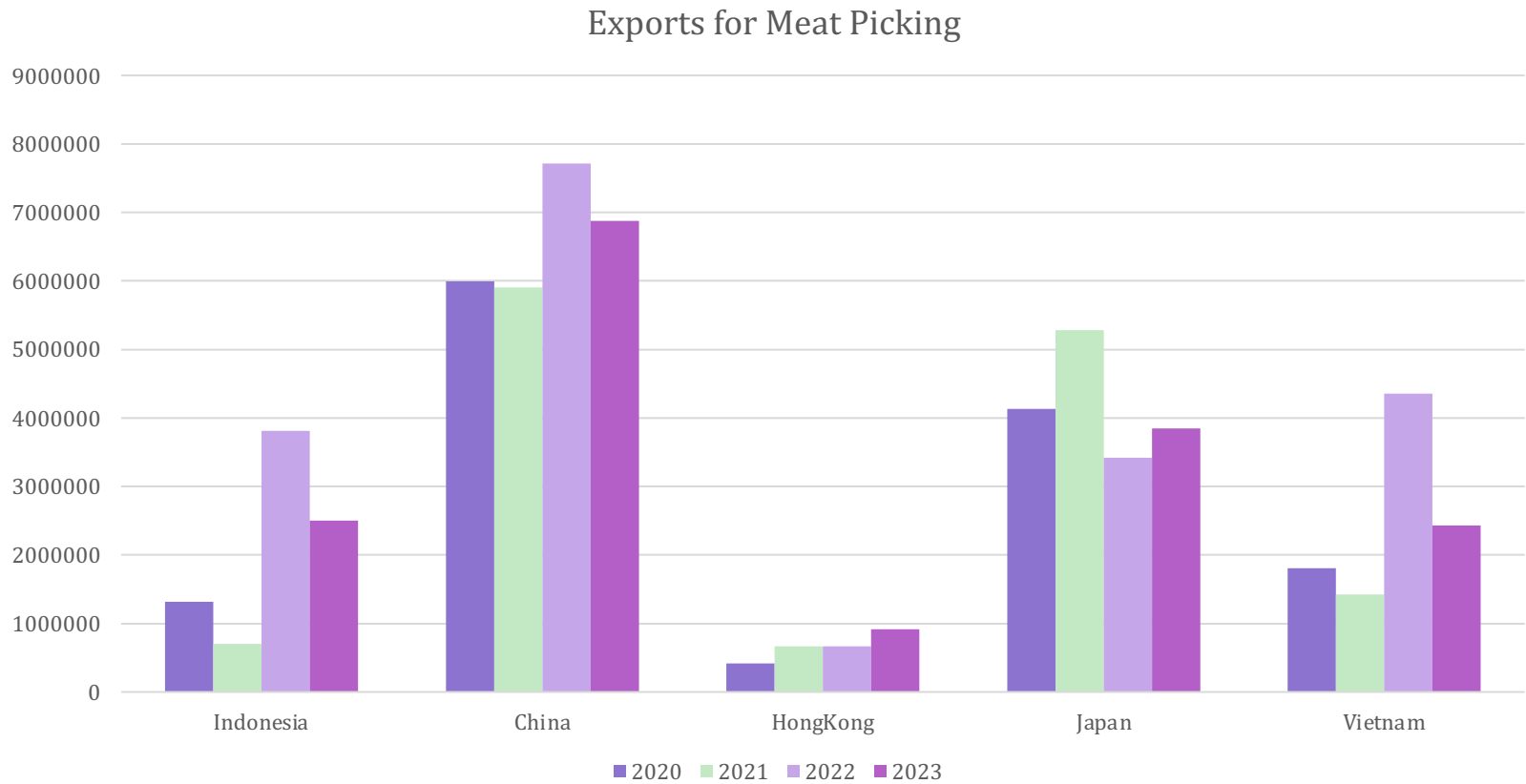
Russian vs Canadian share of Japan Fzn Snow Crab Import



Source: Seafood Datasearch; Global Trade Tracker



# Canadian exports for meat picking decline while Japanese usage increases



Source: Seafood Datasearch; Global Trade Tracker



# Japanese demand for snow crab should be healthy this year

- Largest wage increase in history for Japanese 'spring offensive' by Unions.
- Bank of Japan abandons negative interest rates.
- Russia is competing with Canada to supply both frozen crab and crab for meat picking to Japan and Japanese plants in China and SE Asia.



# 6 week delay in NL Snow Crab Season helped stabilize market last year

- When Newfoundland failed to open it allowed Gulf product to go to market at low prices but without further collapse.
- The delay gave packers time to sell off 2022 inventory.
- Low prices convinced buyers to come back into the market. The dynamic shifted.
- When NL did open, prices began to rise on stronger demand for new season crab.
- Effect of shift to later season and extension was win/win for both Union and processors



# Issues for market timing this year

- No Ice – Gulf may open next week.
- With quota reduction and initial market demand landings may happen very quickly.
- Newfoundland still hampered by lack of price agreement mechanism
- Gulf season could be largely done by May 1<sup>st</sup>.



# Pace of landings will influence prices

- Processors facing
  - High finance costs
  - Weaker balance sheets
  - More restrictive credit lines
- If landings are heavy they will be under pressure to quickly sell crab. They will not let inventories build.



# Major users very risk averse

- Major users of crab at retail are still risk averse
  - Declining sales
  - Less emphasis on seafood
  - Fear of price increases
- They are likely to wait until a market bottom to commit to large contracts



# Foodservice may be better positioned

- Foodservice buyers will be facing more of a shortage of large crab (8 ups).
- There may be more competition among buyers for available supply.
- This could lead to early foodservice contracts by major buyers
- Foodservice 'street business' continues to be very weak.





# Timing from Newfoundland could impact market pricing

- If there is another delay in Newfoundland's crab season it could push more buyers to the Gulf for less crab.
- A relatively quick start for Newfoundland will help overall supply problems and moderate any temporary price spikes.



# Retail sales volume recovered to 2021 levels, but with a 37% drop in price

Retail Voume Fresh and Fz Crab

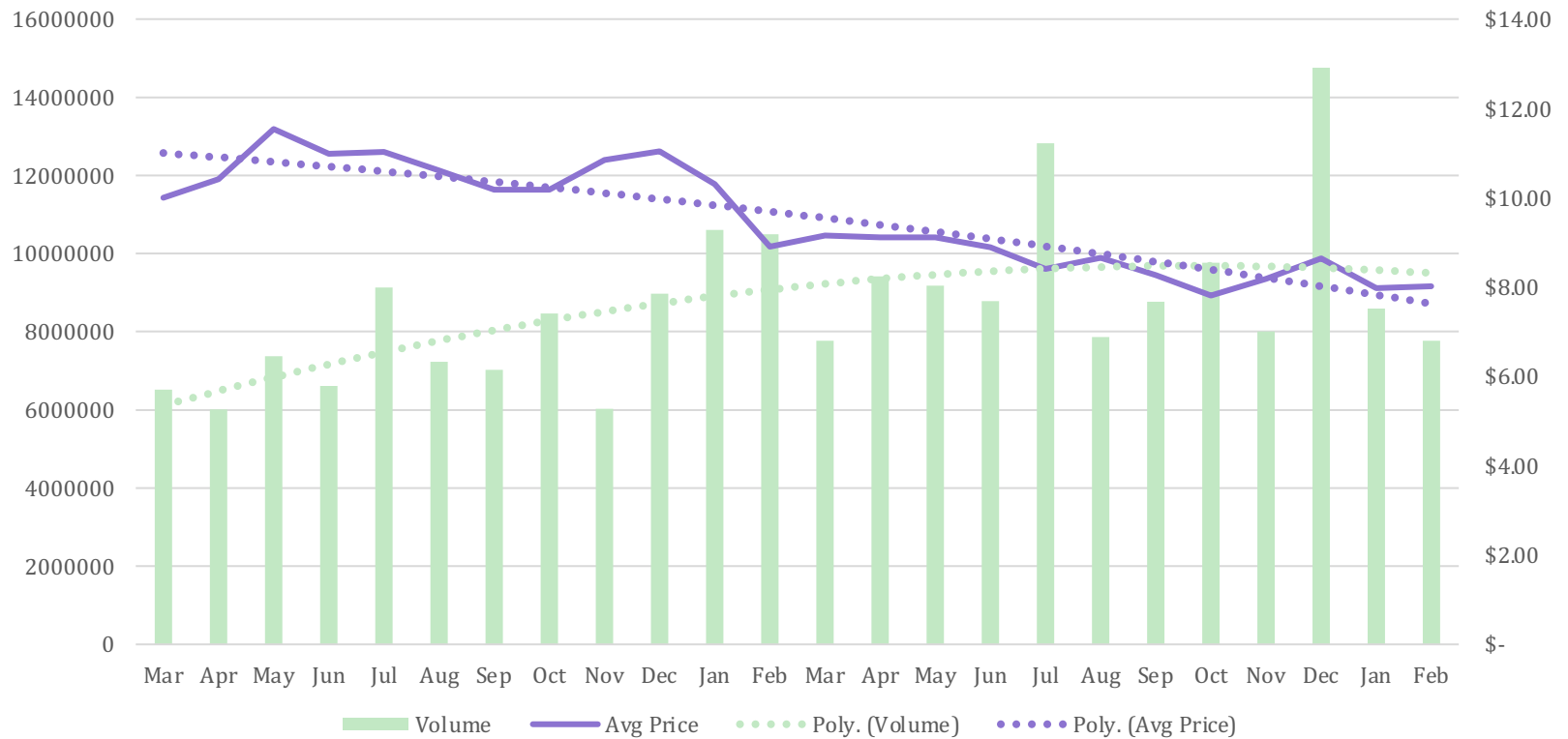


Source: Seafood Datasearch; Circana



# Largest volume gains happened at beginning of season; later low prices lost their impact

Price decreases having less impact

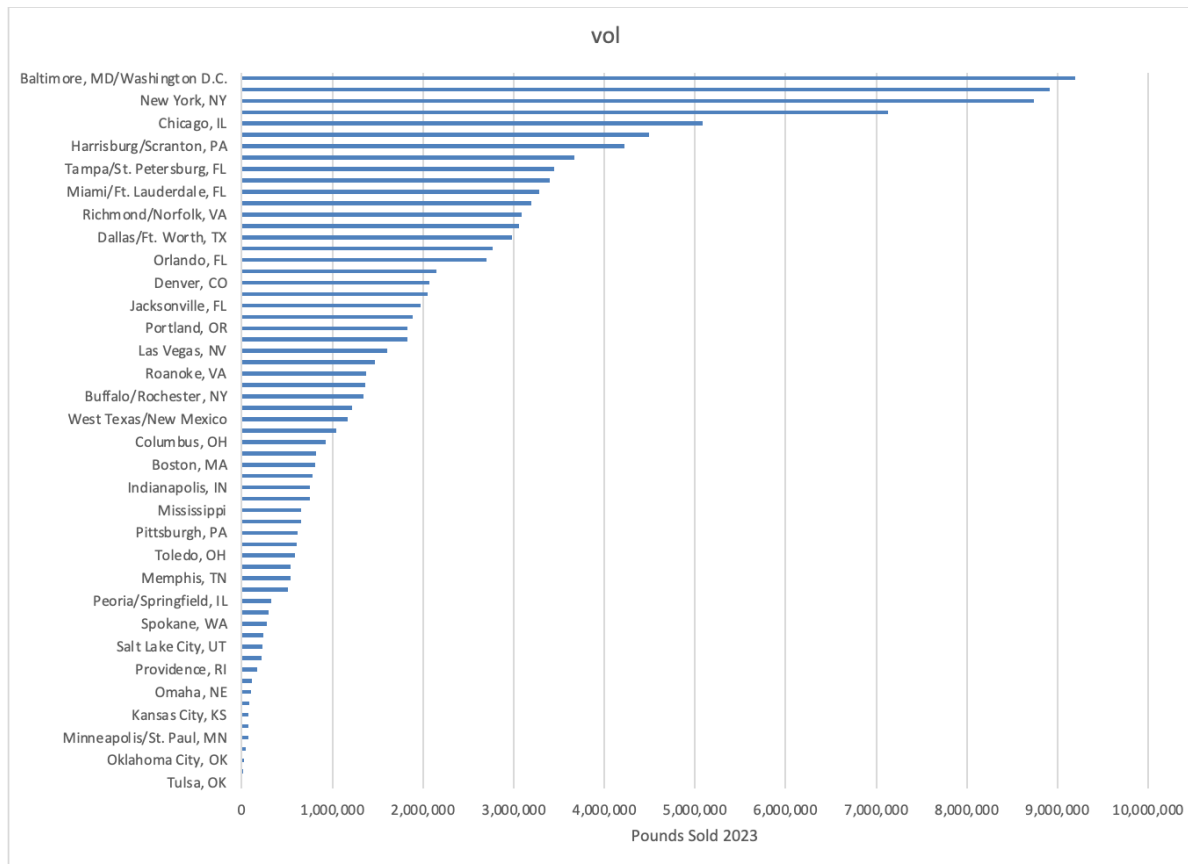


consumer interest in lower priced crab is diminishing

Source: Seafood Datasearch; Circana



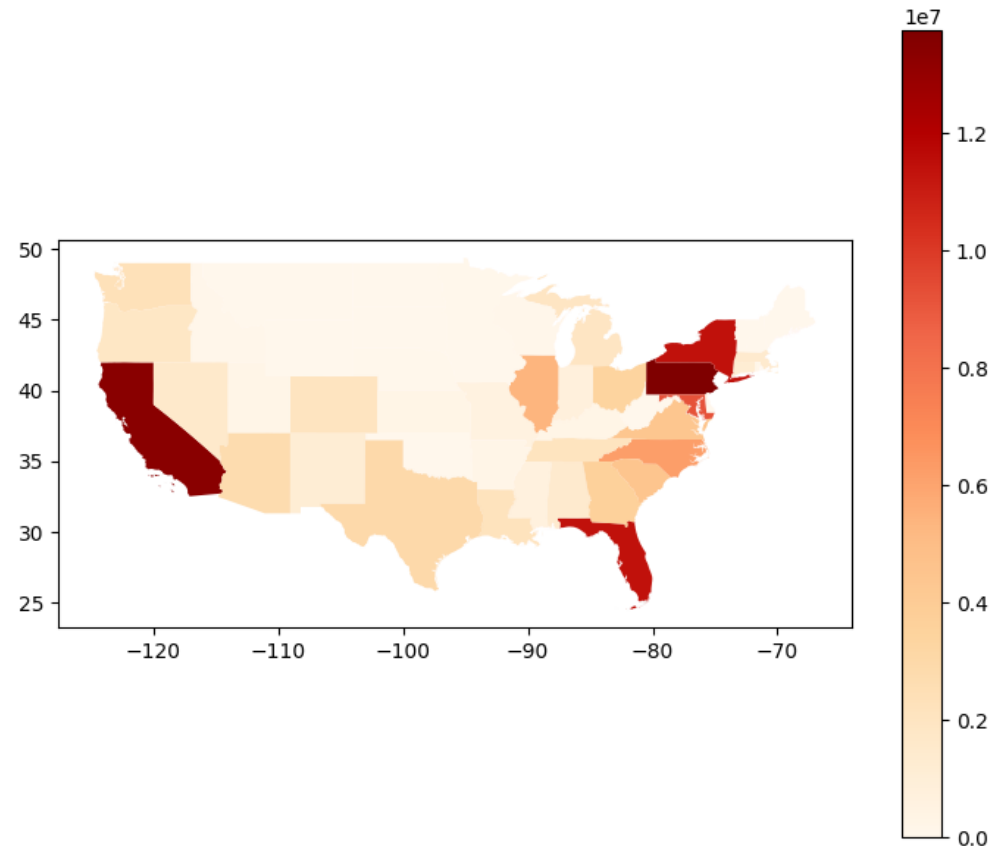
# There is regional variation in crab sales



Source: Seafood Datasearch; Circana



# Areas with highest crab consumption in dark red

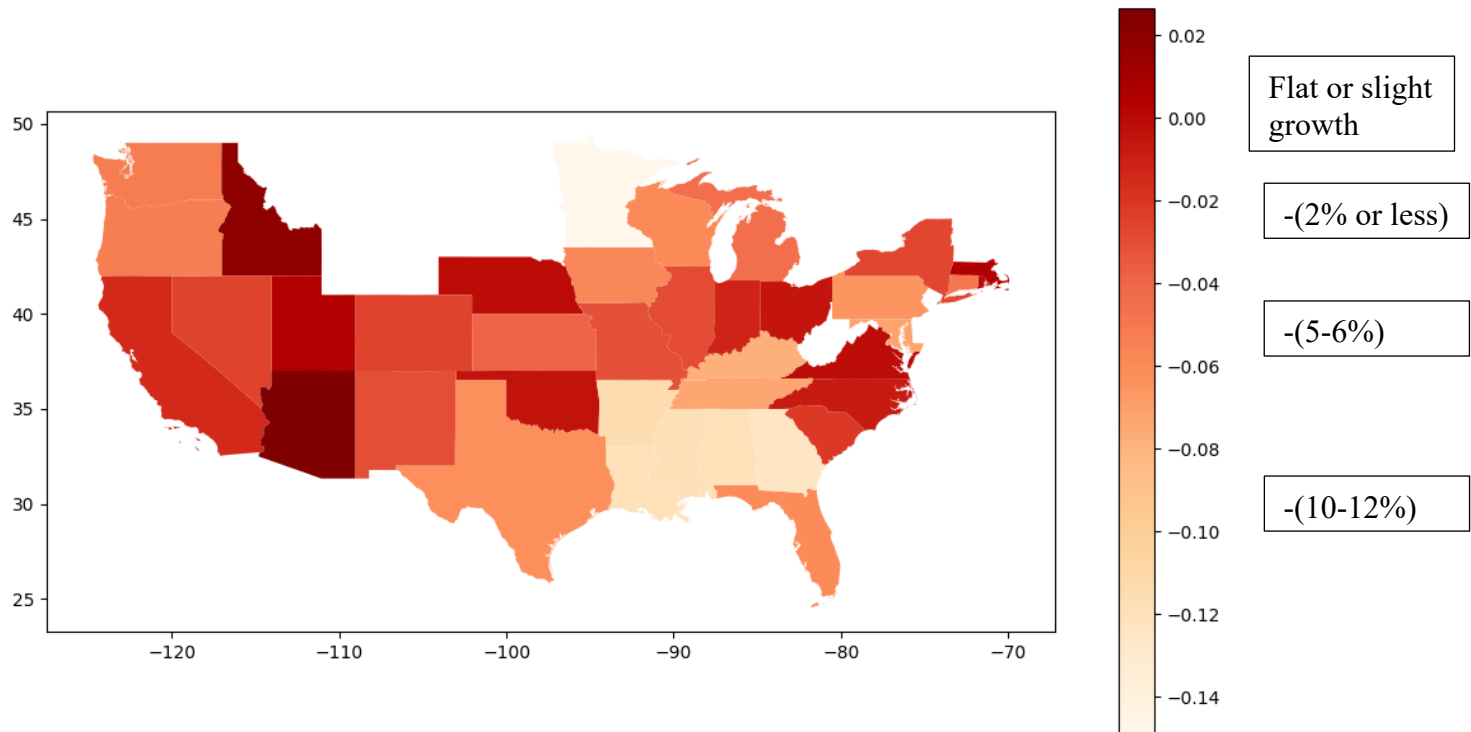


Source: Seafood Datasearch; Circana



# Plotting change in crab consumption by state shows where sales are weakest

Change in sales of crab between 2020 and 2023

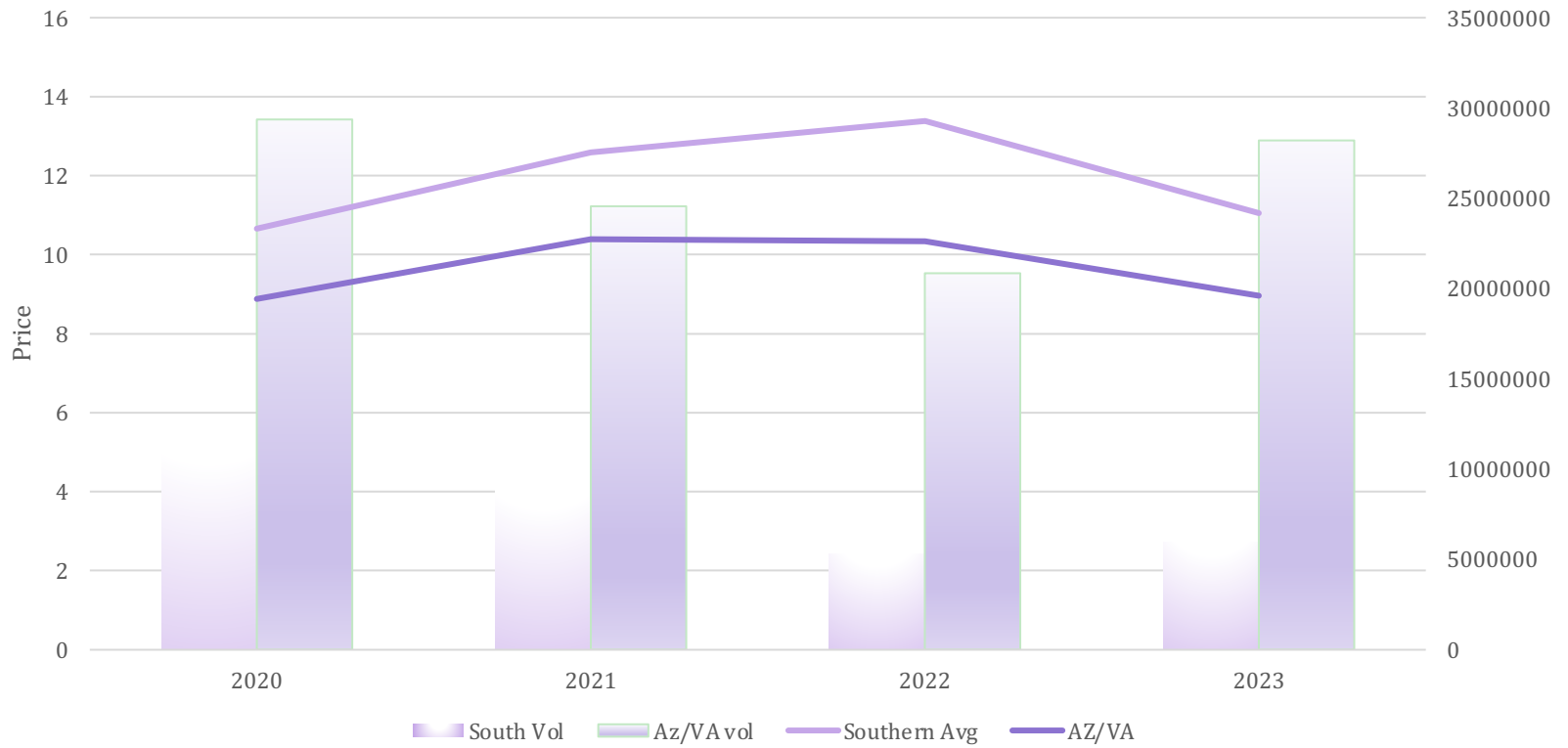


Source: Seafood Datasearch; Circana



# Comparison of southern states with AZ/VA crab volume

Difference in South Vs Other States



Source: Seafood Datasearch; Circana



# Weakness from Florida to Texas has sales implications for foodservice as well

- Florida through Texas shows significant decline in crab consumption compared to 2020
- Both retailers and foodservice in the weaker areas will see higher risks buying crab.
- The mid-Atlantic states from South Carolina to Virginia show much stronger sales.
- This is also true for Western states like California and Az





# 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%



# Seafood faces problems due to higher food costs

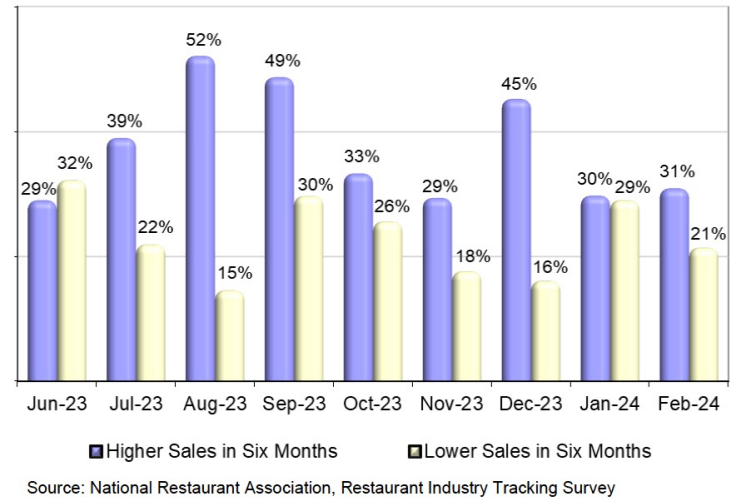
<b>Entrée</b>	<b>Menu Price</b>	<b>PCYA</b>
Beef	\$13.79	+15%
Chicken	\$12.49	+14%
Pork	\$12.00	+10%
Seafood	\$15.00	+7%



# Restaurant employment has recovered but outlook uncertain

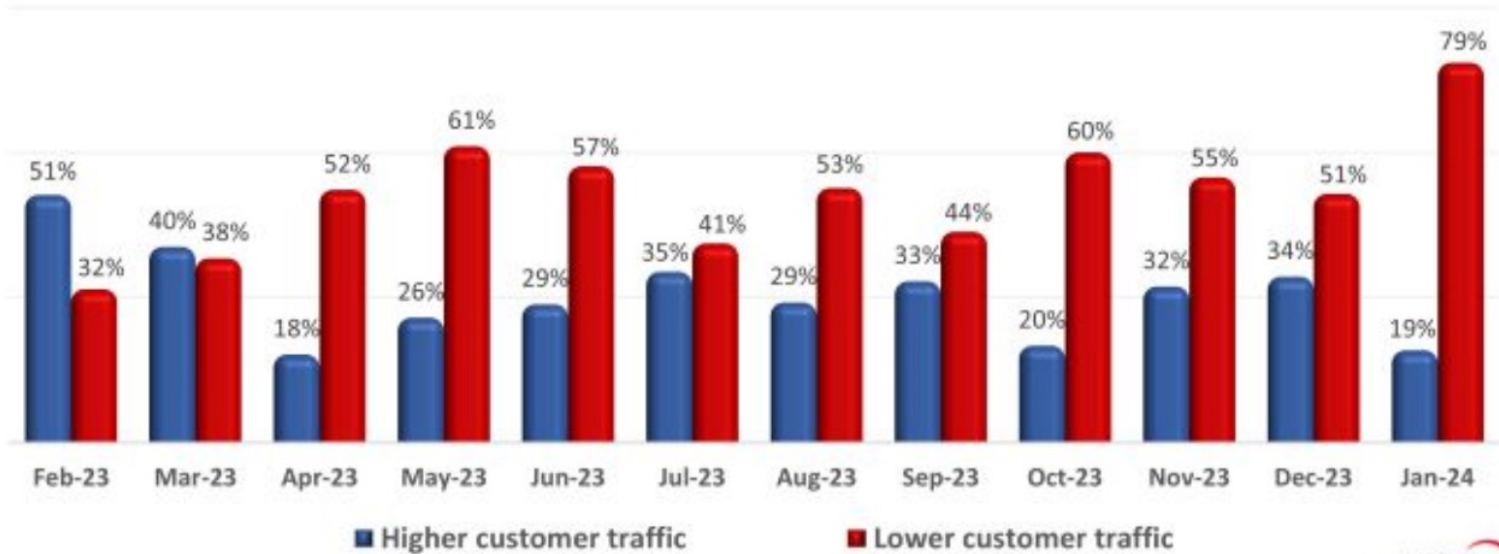


**Restaurant Operators' Outlook for Sales Volume in Six Months versus Same Period in Previous Year**



# Restaurant traffic is declining

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



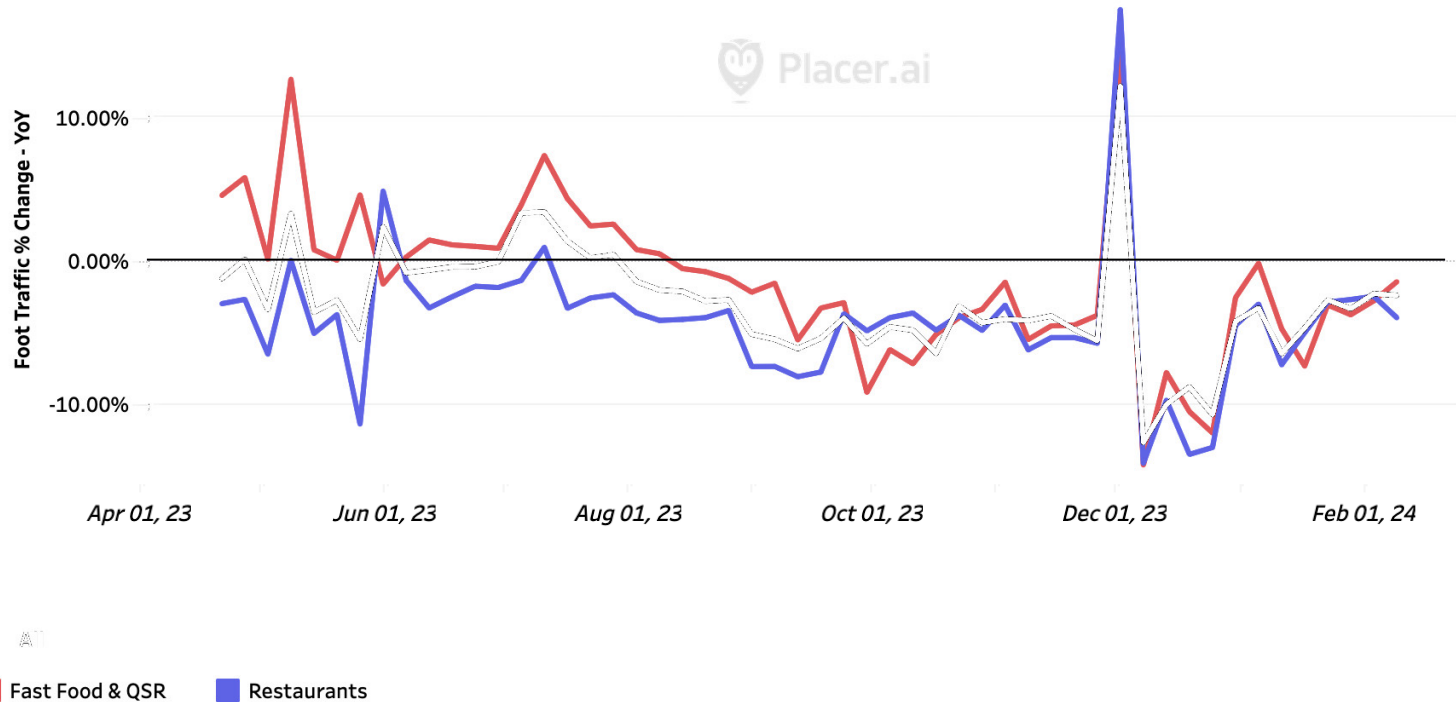
Source: National Restaurant Association, Restaurant Industry Tracking Survey



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

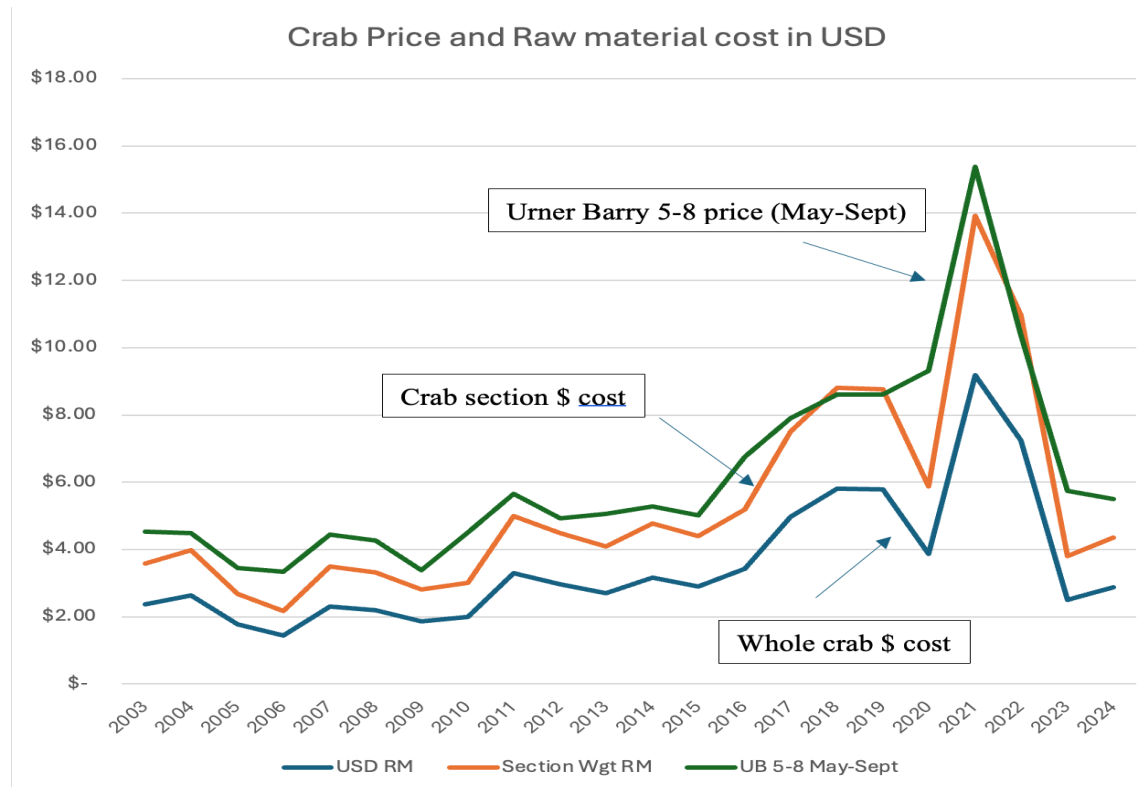


# **In this environment it will be very difficult to raise prices**

- When users are faced with a difficult pricing environment, they are more likely to cut orders significantly or cut out a product altogether if prices go up due to supply shortages.
- This means the market will quickly give feedback if prices are too high in the form of cancelled or not placed orders.



# In 2022 processor margins turned negative



Source: Seafood Datasearch



# July section prices as a percent of sales price using NL prices

July prices	2019	2020	2021	2022	2023
FFAW Posted #CA (July)	5.07	3.43	7.6	6.22	2.23
exch rate	1.331	1.356	1.243	1.295	1.321
FFAW/USD	\$ 3.81	\$ 2.53	\$ 6.11	\$ 4.80	\$ 1.69
Section Cost (66%)	\$ 5.77	\$ 3.83	\$ 9.26	\$ 7.28	\$ 2.56
UB Price (July)	\$8.40	9.22	16.24	7.53	5.29
percent of USD July price	45.3%	27.4%	37.6%	63.8%	31.9%
percent of raw material cost	68.7%	41.6%	57.0%	96.6%	48.4%

Margins recovered in 2023 to a more normal range

In Alaska, for Opilio FOB plant prices between \$4.00 and \$6.00  
Harvesters get 44% to 48% of FOB price

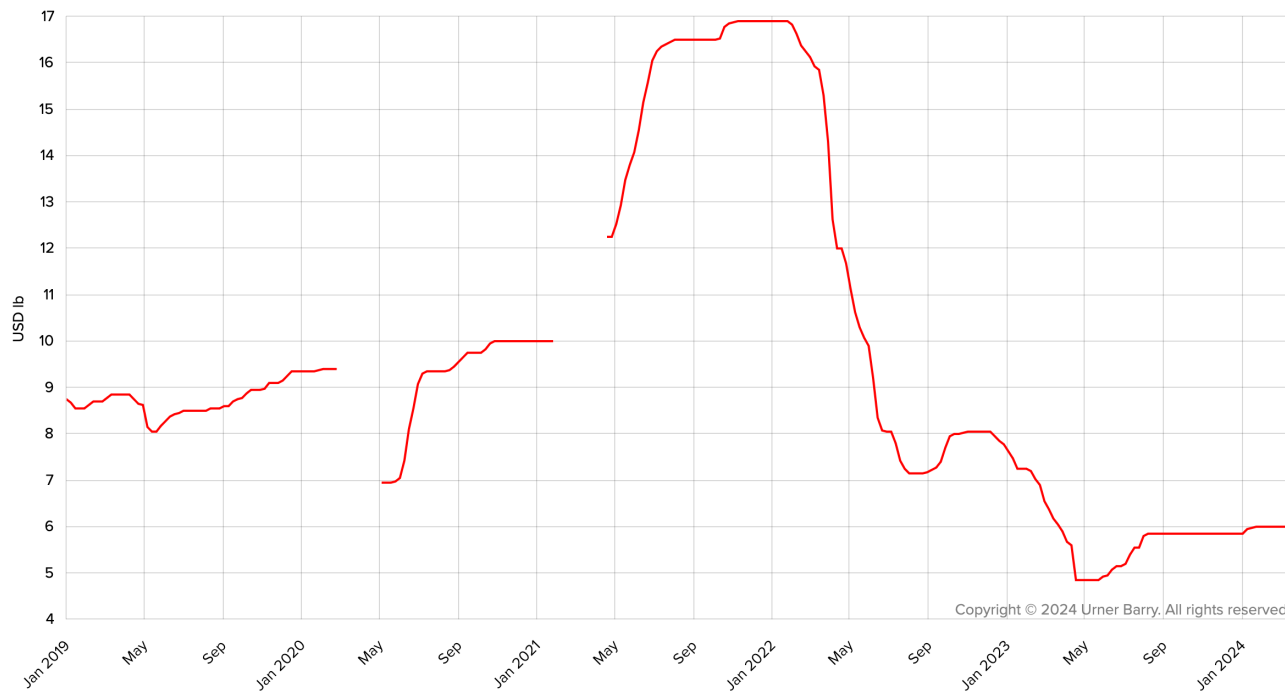




# Gulf snow crab prices have stabilized

UB Crab, Snow, Cluster, Gulf Lawrence, 5-8 oz., Ex-Warehouse EC

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



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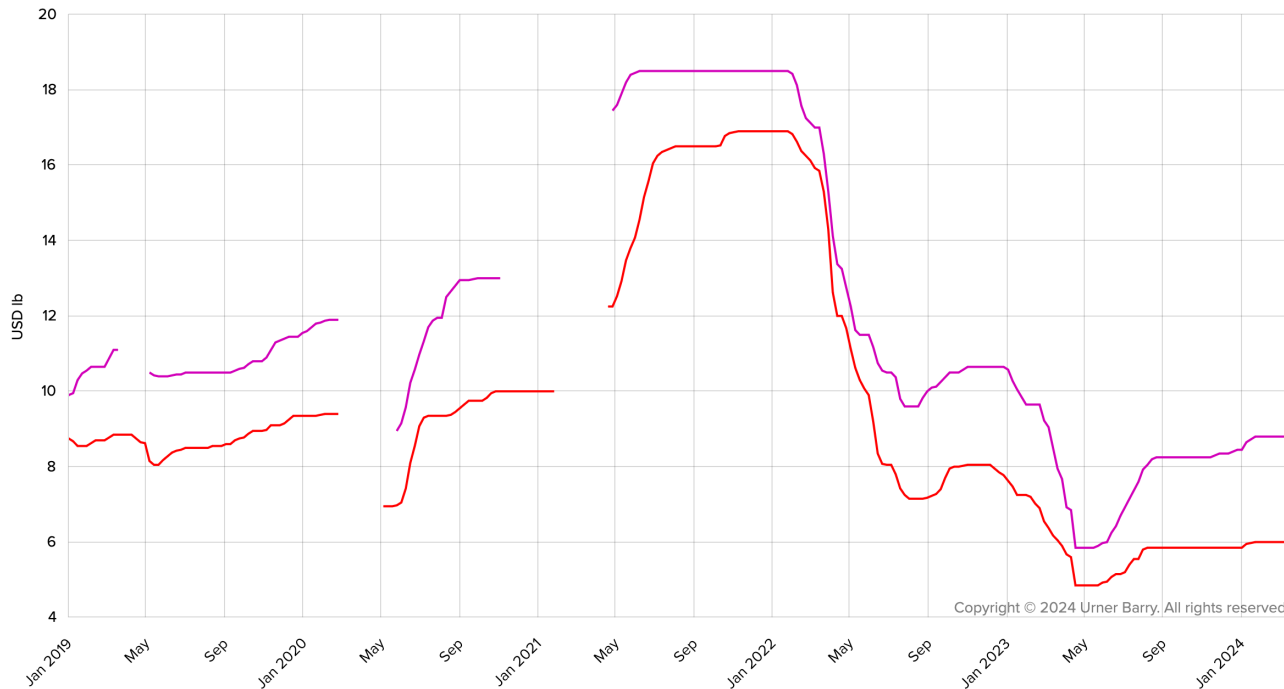
— UB Crab, Snow, Gulf Lawrence Cluster, 5-8 oz (Low)



# Price premium for 8 ups is back to very high levels

UB Crab, Snow, Cluster, Gulf Lawrence, 5-8 oz., Ex-Warehouse EC

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



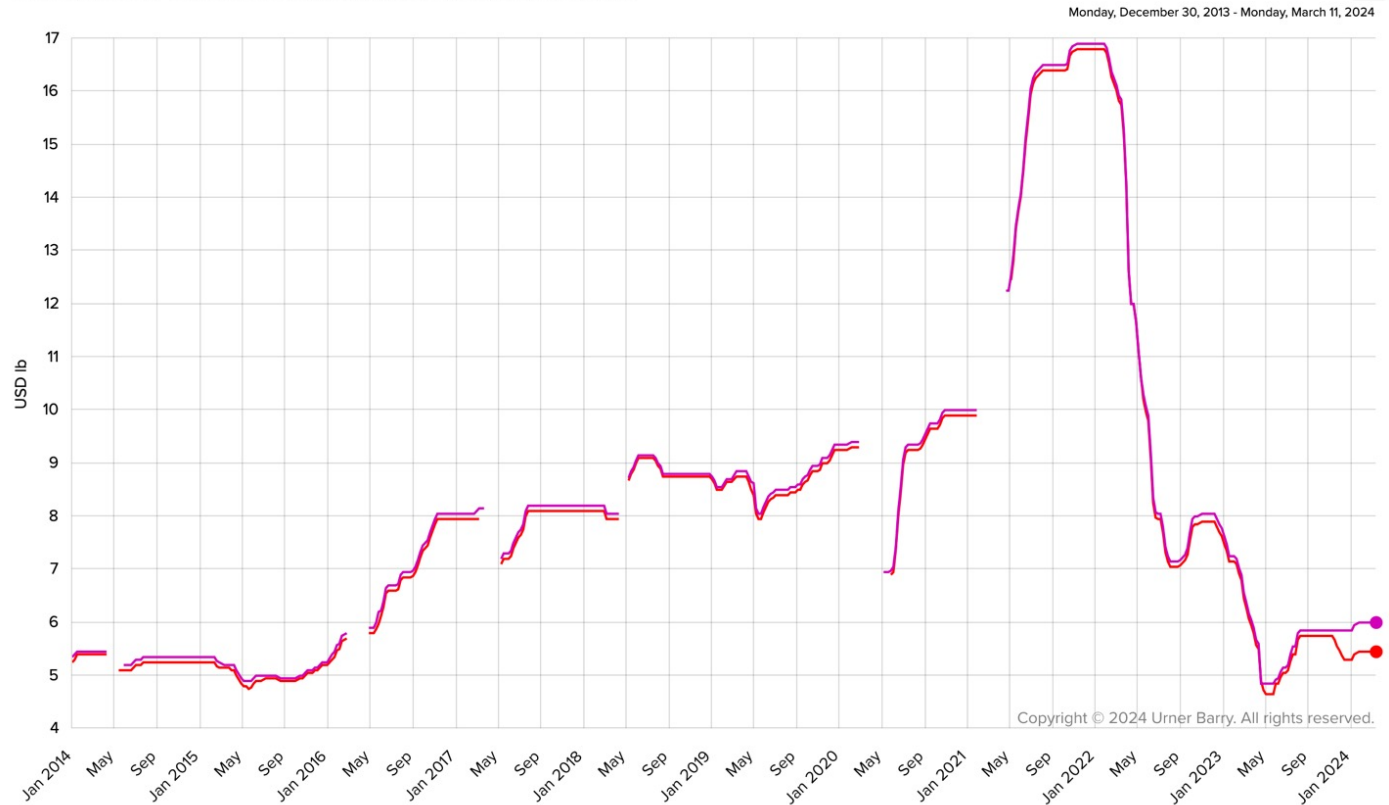
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— UB Crab, Snow, Gulf Lawrence Cluster, 5-8 oz (Low) — UB Crab, Snow, Gulf Lawrence Cluster, 8 oz & Up (Low)

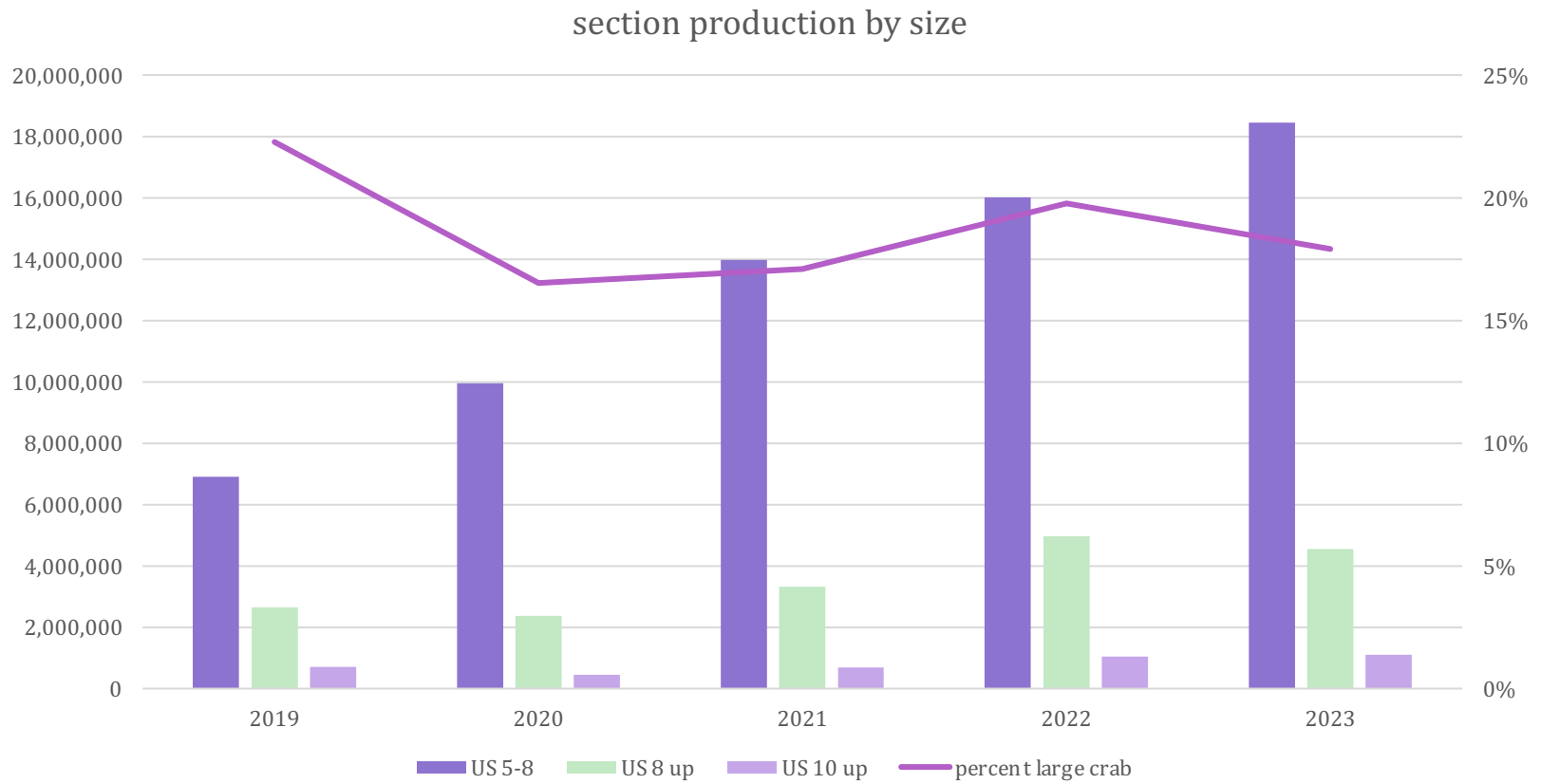


# The price differential between Gulf and Newfoundland snow crab has gotten bigger

UB Crab, Snow, Cluster, Newfoundland, 5-8 oz., Ex-Warehouse EC



# NL data suggests proportion of 8 ups and 10 ups is falling



# Production issues for 2024

## Gulf

- Reduction in Gulf crab will increase pressure on large sizes of crab
- Fast season means this crab gets sold more quickly
- In 2023 fishing for many weeks before NL opened provided a market advantage
- Now inventories of Gulf crab more depleted than NL Crab, so price differential maintained.

## Newfoundland

- A lot depends on whether a price agreement is reached that allows for a rapid start of fishing.
- If start is delayed, excess NL crab will lead to price differential continuing.
- NL is expected to have same amounts of crab as 2023, ie around



# Positive Factors for 2024 Snow Crab

- Initial pricing in Nova Scotia at \$2.50 in line with market conditions
- NL quotas likely to stay the same. Total Canadian reduction modest with Gulf being major region with cuts.
- Pre-season prices have been stable to rising, a sign inventory pressures have eased.
- Shortages on 8 ups and large crab are keeping price differential with 5-8's historically high
- Lack of sea ice means fast start to season
- Interest in crab seen from foodservice buyers at Seafood Show.
- Continued sales of Norwegian crab show retail market is active
- Japanese demand for snow crab is increasing.



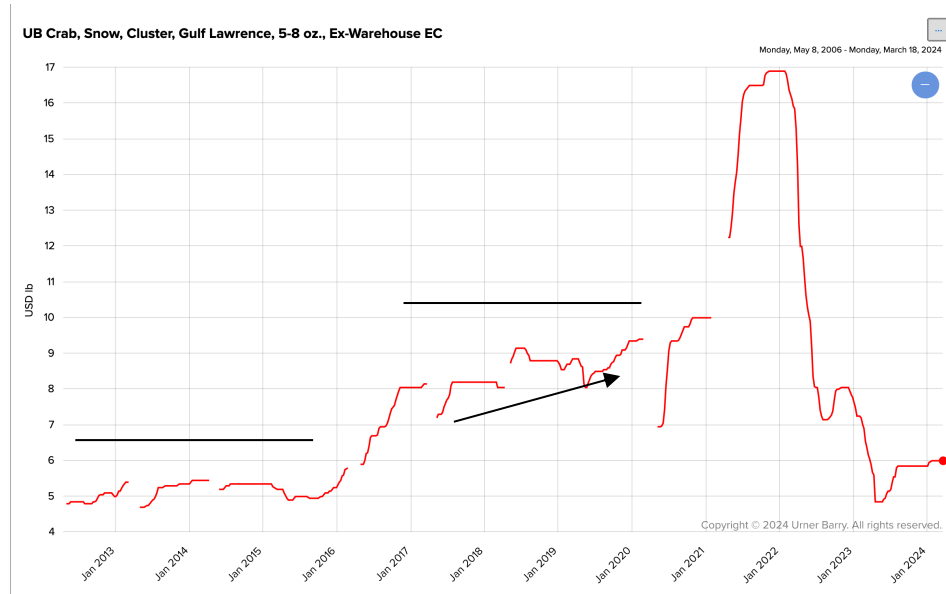
# Negative factors for 2024

- Disruption in Newfoundland could put extra pressure on Gulf crab with unsustainable upward prices.
- Overall sales environment continues to be weak.
- Retail volumes are falling.
- Some major areas of crab consumption (US south) are very weak economically.
- Shortages of 8 ups could push price too high and cause a negative market reaction.
- Any significant price volatility will scare buyers still scarred from 2022.
- Seafood departments have been weak performers at retail.
- High interest rates and restrictions on credit make it hard to hold crab, could force selling in periods of heavy volume.



# Long term outlook for crab is good

- Crab enjoyed multiple years of higher demand and rising prices from 2014-2019.
- That period started with several years of price stability at good values.
- If we can have another period of stability it will allow demand for crab to increase again, and usher in a period of rising prices.





# Thank you

## Time for discussion

