

# Lobster Update for Industry Looking to 2023

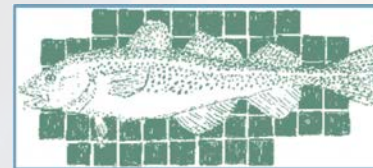
John Sackton  
Seafood Datasearch

March 2023  
Province of New Brunswick



# Background

- 40+ 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



# Issues for today

- Overview of Lobster industry
- Production in 2022
- Pricing
- Exports
- Market Dynamics
- The US Economy
- How Lobster is Different than Snow Crab
- Questions for Upcoming Season



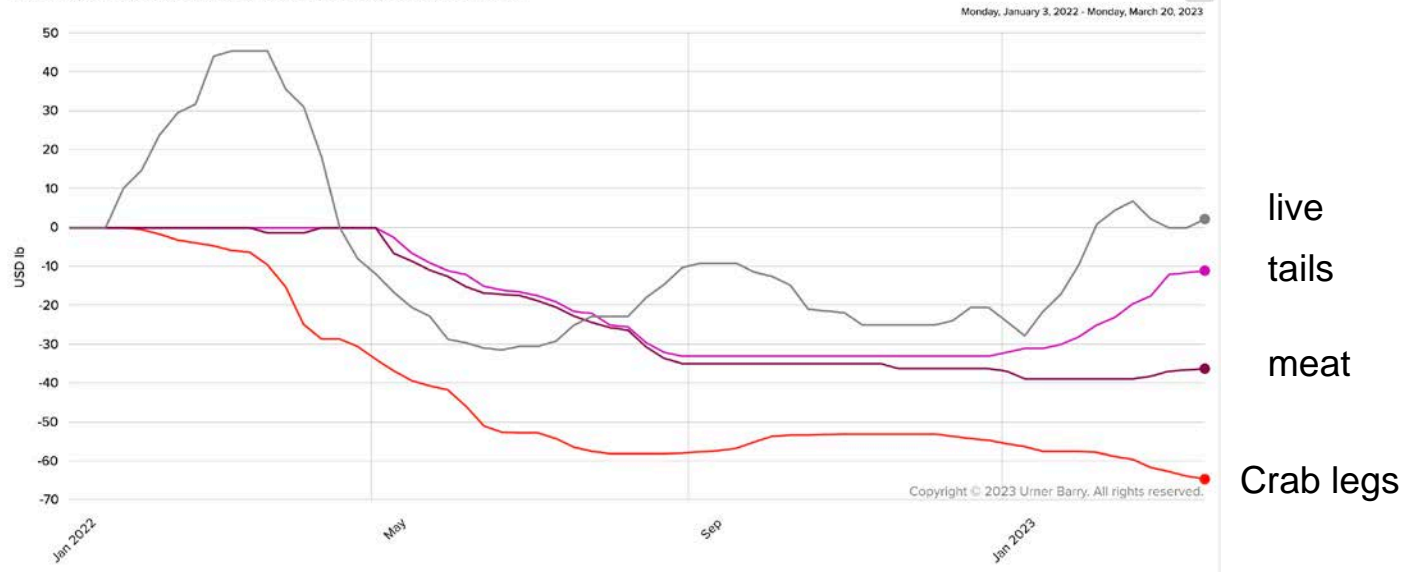
## Lobster has avoided problems we see in snow crab

- Mix of Foodservice and Retail Sales
- Product Mix
- Diversified Export Markets
- Spread out Seasons

## Percent change from Jan 2022

- Snow crab -62%
- Lobster meat -36%
- Lobster tail (4-5) -11%
- Live + 2%

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

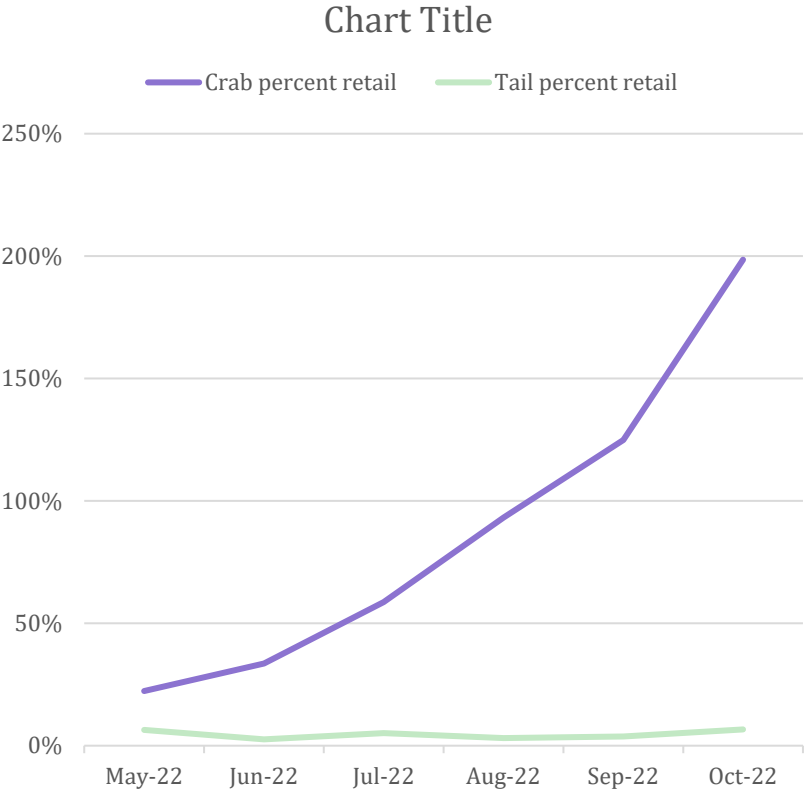


Source: Urner Barry Comtell



# Mix of Foodservice and Retail

## Snow crab is retail item



Source: Seafood Datasearch, IRI

## Lobster Tail is Foodservice

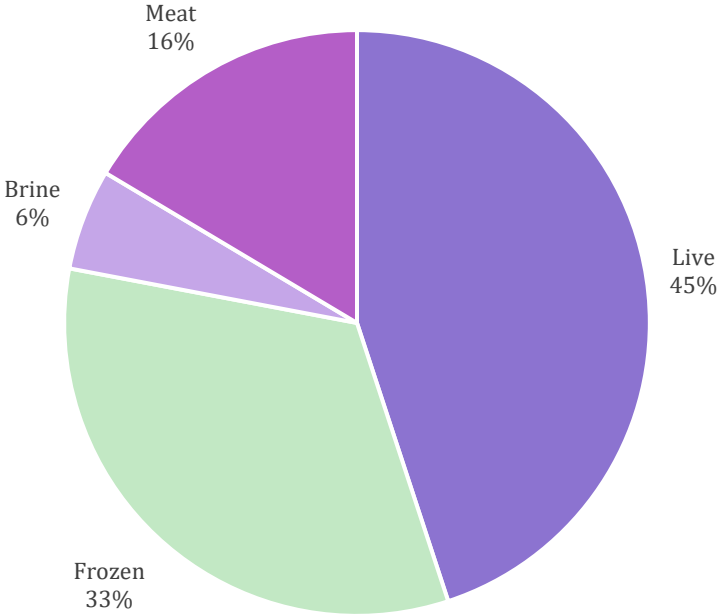
April-October period:

- Snow crab retail averaged 89% of import volume
- Lobster tail retail averaged 5% of import volume



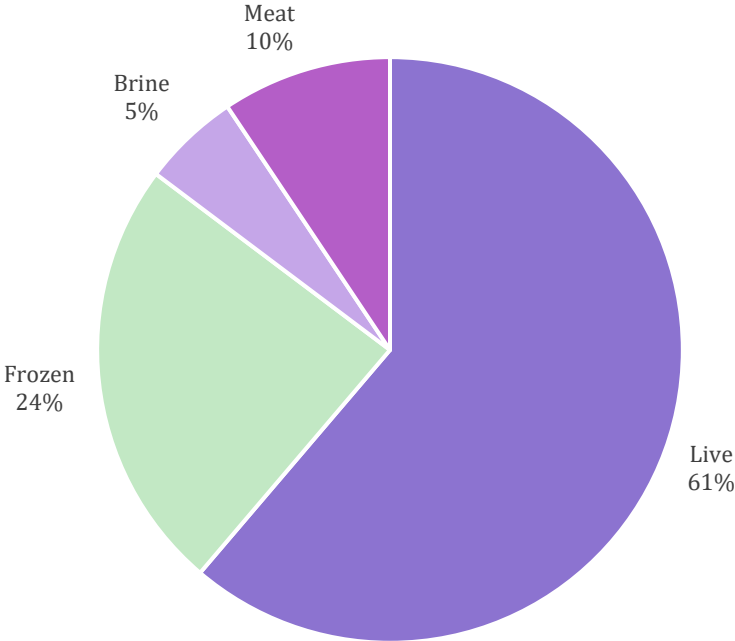
# Lobster has a diverse product mix

2022 Value



■ Live ■ Frozen ■ Brine ■ Meat

2022 volume

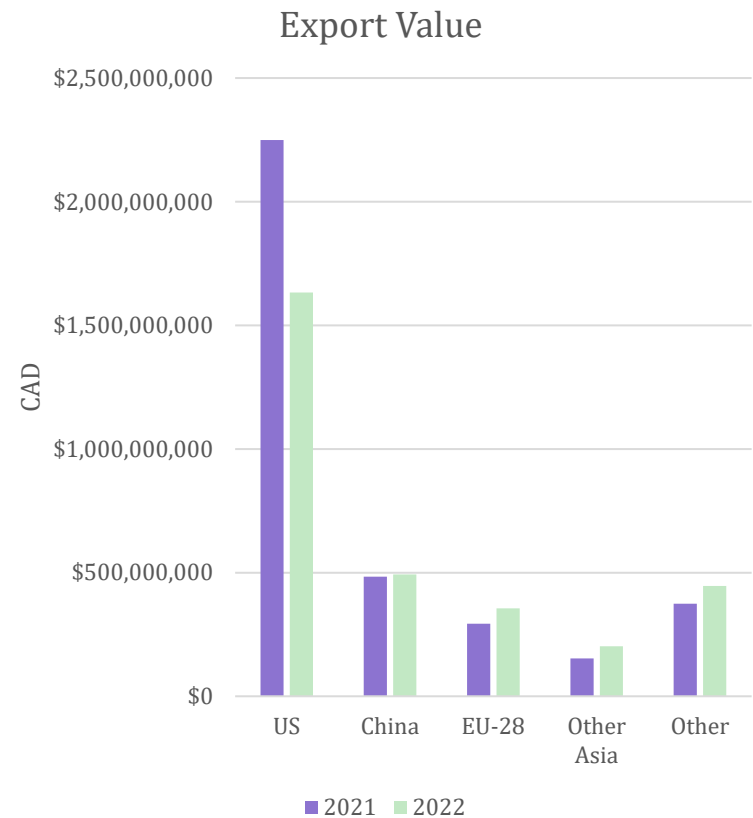
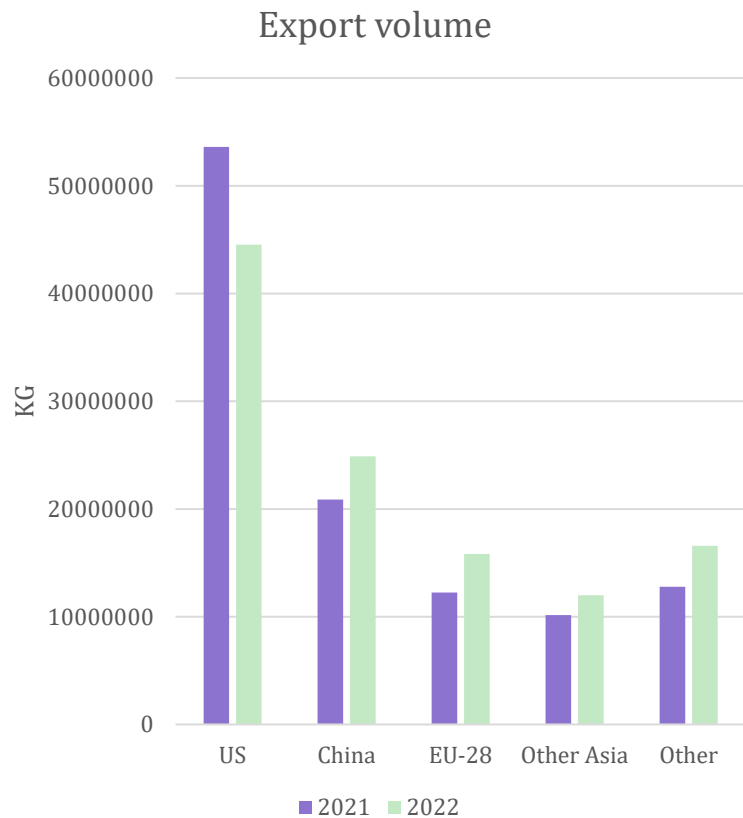


■ Live ■ Frozen ■ Brine ■ Meat

Source: Global Trade Tracker



# Lobster has a diverse export market



Source: Global Trade Tracker



# Successful Year in 2022

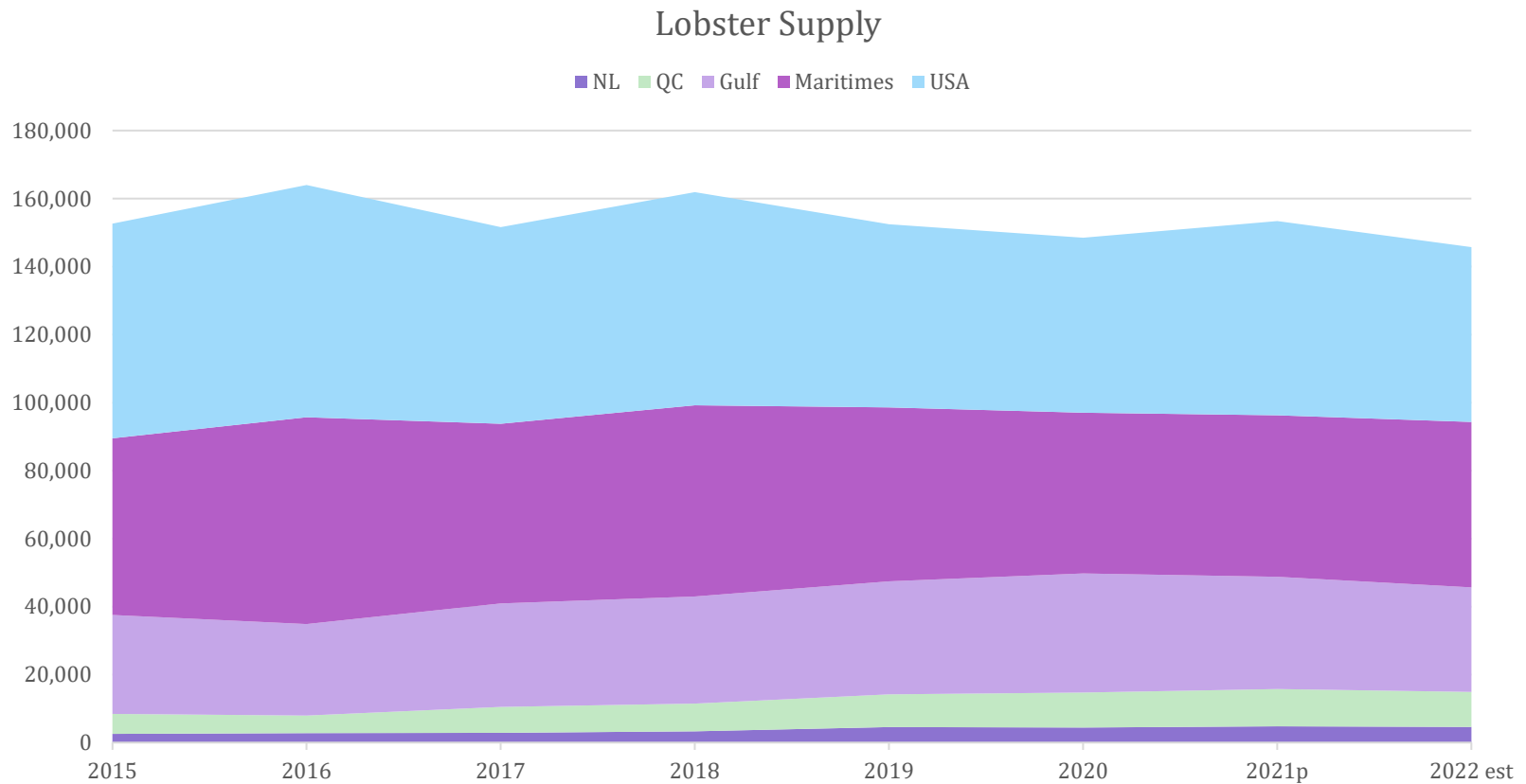
- Expansion of Export Markets outside the US
- No overproduction, response to price signals with slowdown in fall Gulf season
- Fiona Impact also limited production
- Overall landings appeared stable





# Lobster landings may have declined about 5% in 2022

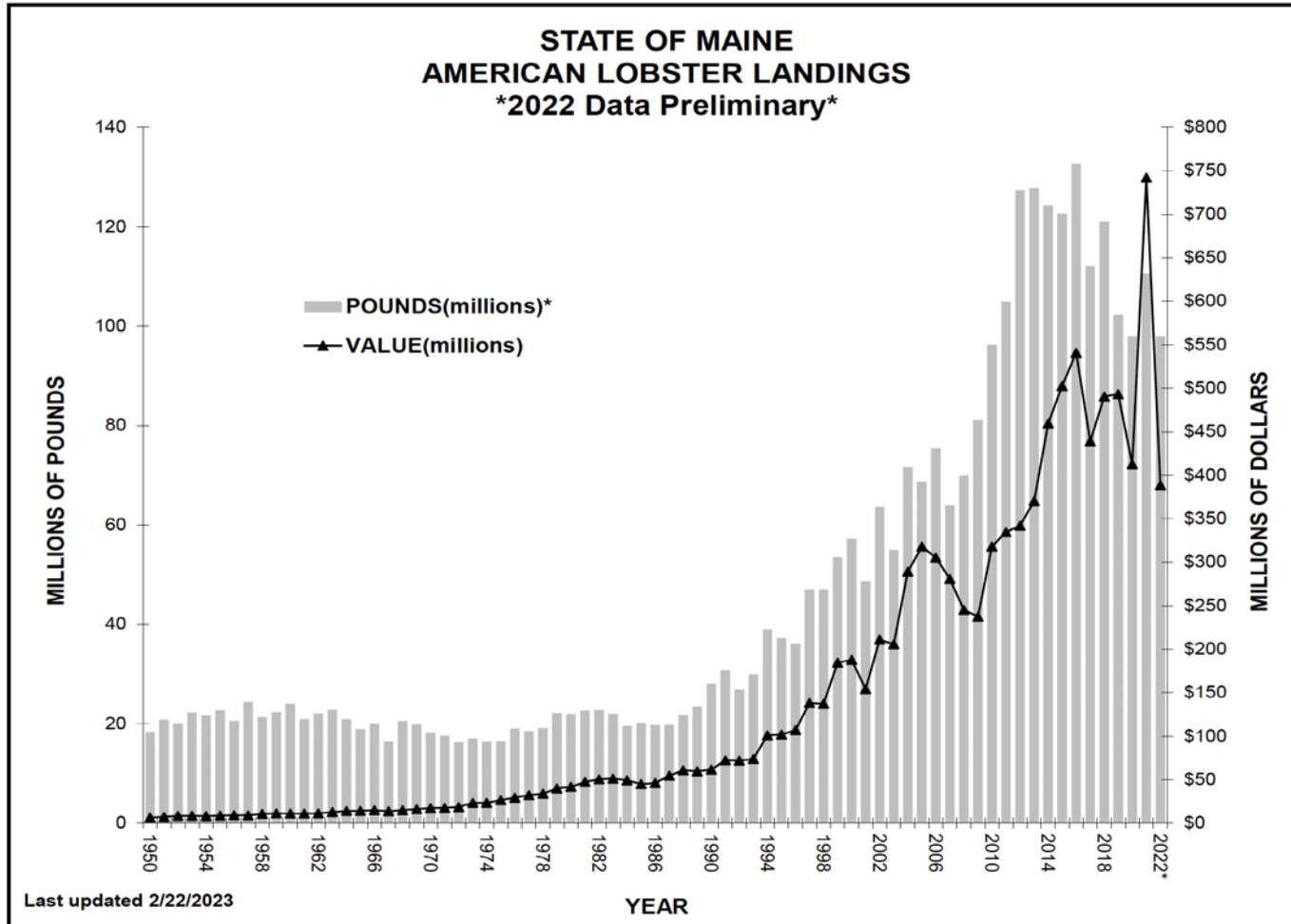
Maine was down about 5,000 tons, and LFA 25 was down 1500 tons



Source Geoff Irvine, LCC and Seafood Datasearch



# Maine lobster landings may have peaked

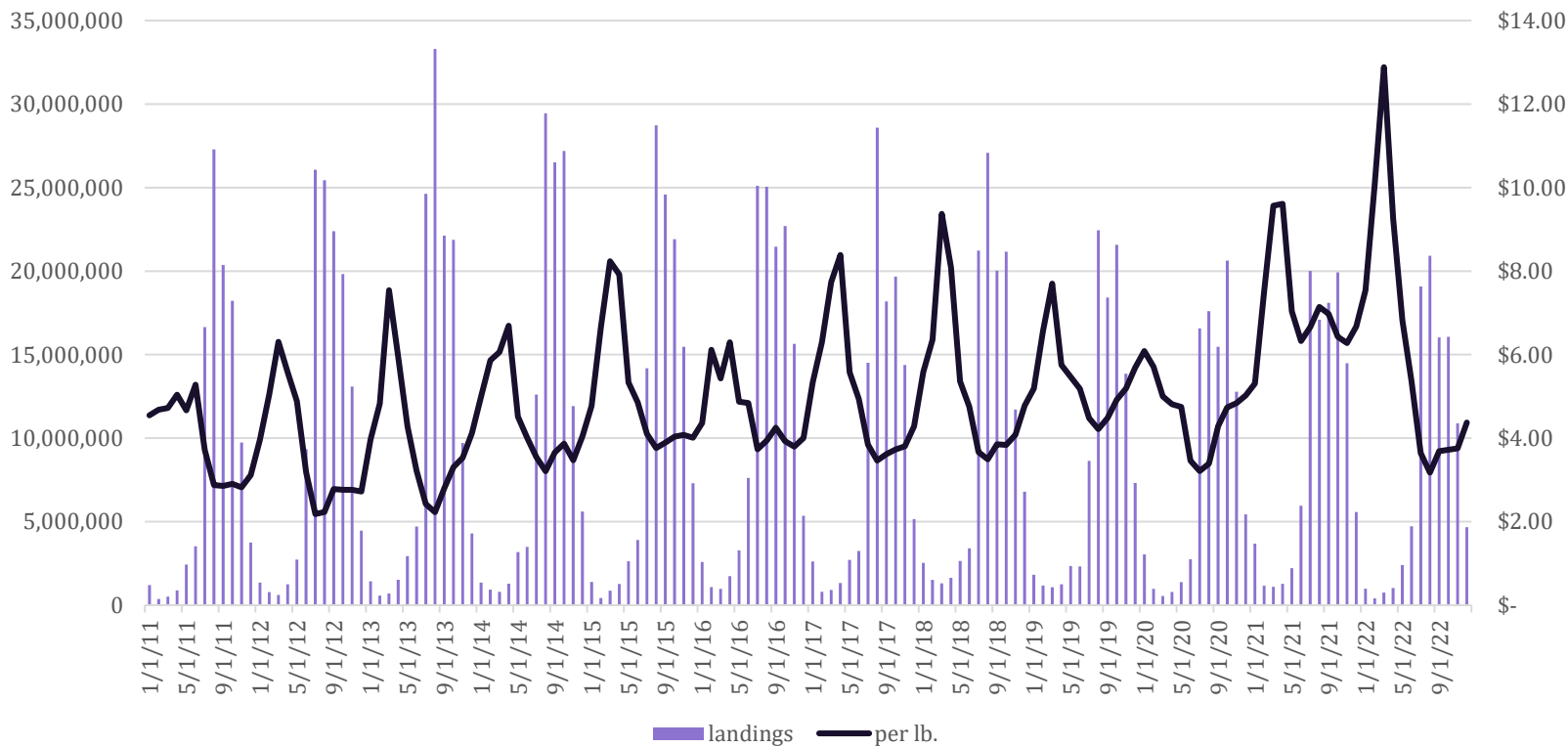


Source: Maine DMR



# Price and Volume for Maine

Monthly price and volume live lobster Maine



Source: Seafood Datasearch, Urner Barry



# Maine prices in August and Canadian Imports for Jul-Sept



Source: Seafood Datasearch



# Production of Meat and Tails Declined in 2<sup>nd</sup> half of 2022

- LFA 25 down about 20%
- Maine Exports to Canada down 30%
- Mostly this was due to low prices, plus some pulled gear early due to Fiona
- Net result was around 7700 fewer tons
- Converted would be 1533 tons tails; and 690 tons CKL meat.
- This reduction represents 6% of tails exported in 2021, and 4.4% of meat



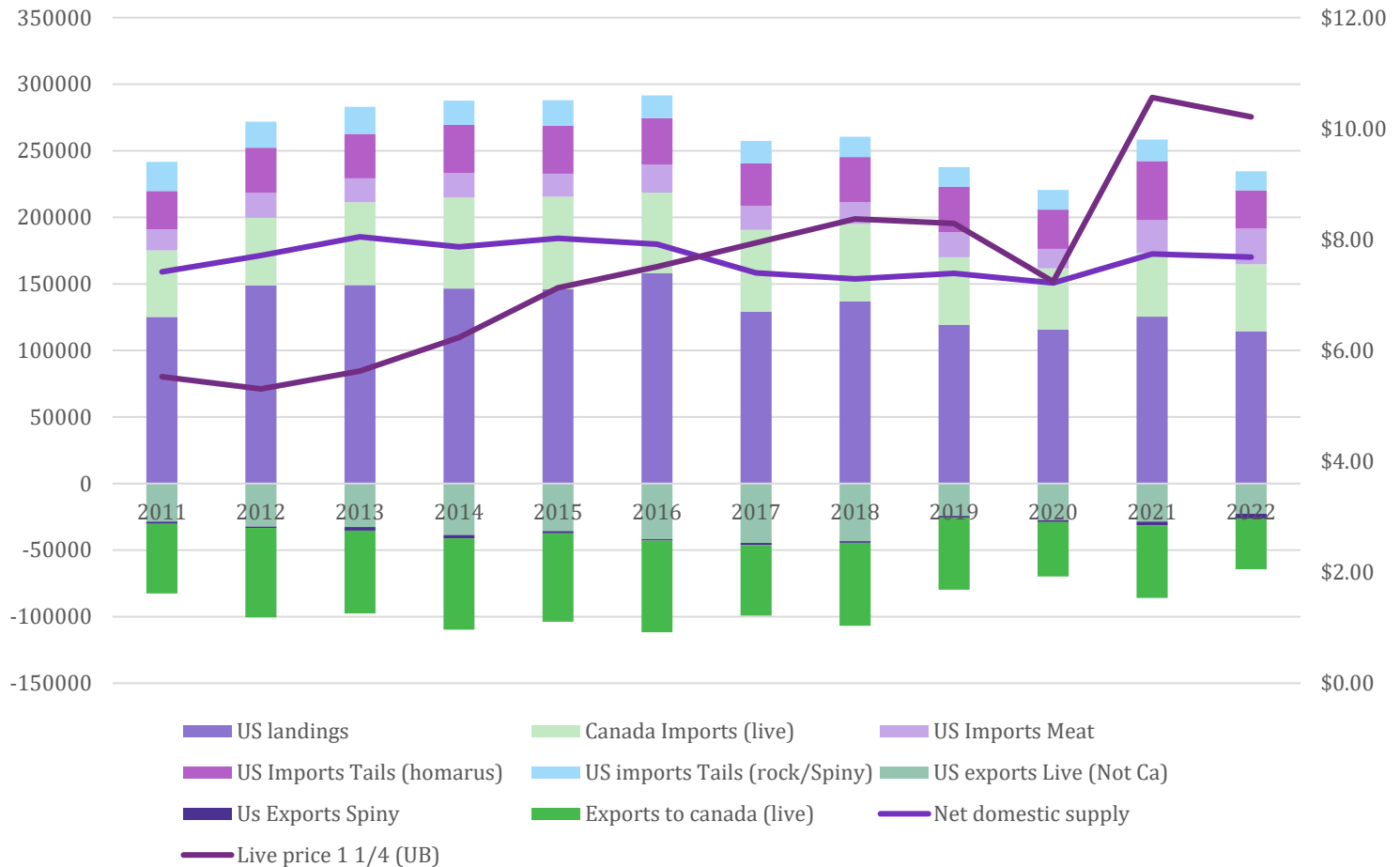
# Harvesters reacted to lower prices in fall 2022 with less effort

- Lower prices resulted from lack of demand by processors
- This is an example of an effective market signal that has left the industry in a better sales position going into the 2023 season.



# US Domestic Lobster supply was basically unchanged (-1.4%)

US Domestic Lobster Supply



Source: Seafood Datasearch



# Pricing

- Declines on all products (with recovery in tails)
- Volatility in meat market is normal
- Lobster does not have an inventory problem like crab
- Frozen lobster is vulnerable to economic weakness in US
- Live lobster is sustained by diverse markets





# Tail pricing: what is behind the price rise?

Price and volume fzn lobster



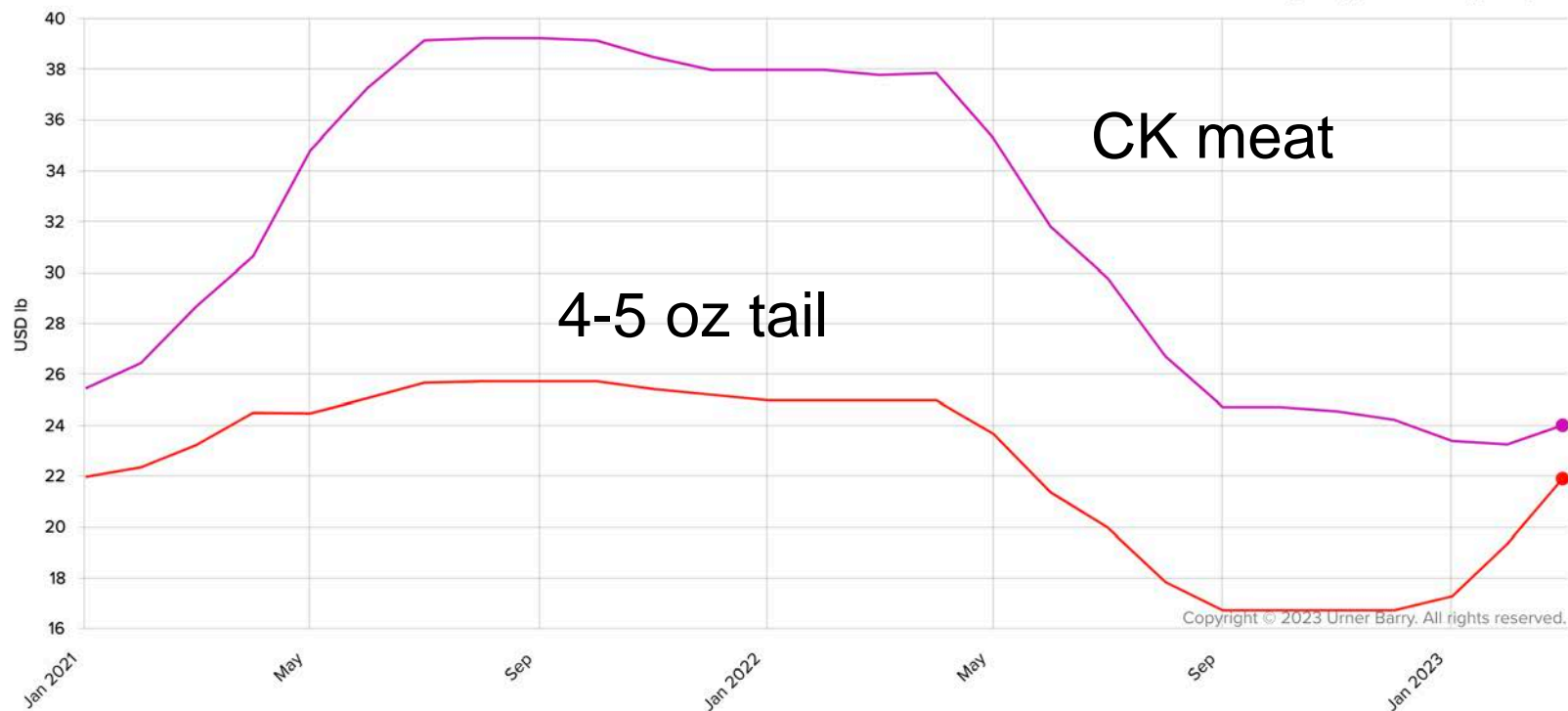
Source: Seafood Datasearch, Urner Barry



# Tail increase based on lower volume production; meat prices not increasing as much

UB Lobster Tails, American, 4-5 oz.

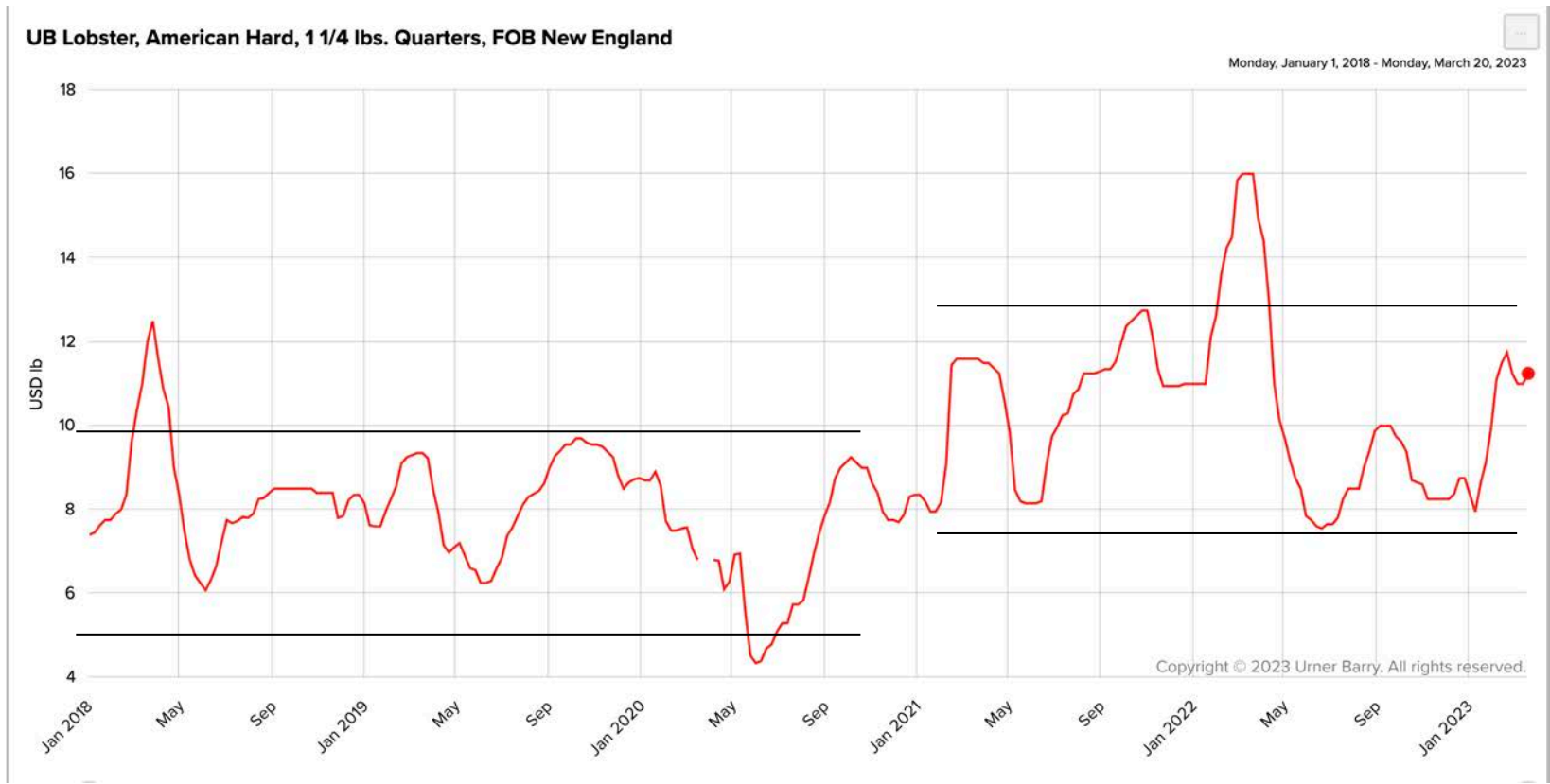
Friday, January 1, 2021 - Wednesday, March 1, 2023



Source: Urner Barry



# Live pricing : trading at a higher price level since 2021



Source: Seafood Datasearch, Urner Barry



# Live US domestic price vs CA export price (USD)

CA export price in USD vs 1 1/14 lb UB domestic price



Source: Seafood Datasearch, Global Trade Tracker



# Reasons for stronger US live lobster market

- Lobster consumers represent a different demographic than crab consumers
  - Less affected by withdrawal of stimulus
  - Less impacted by inflation, lower credit
  - Eager to return to travel and restaurants
- Live market is still vulnerable to a weakening economy, but these consumers will be among the last to cut back



# Can we determine lobster inventory levels

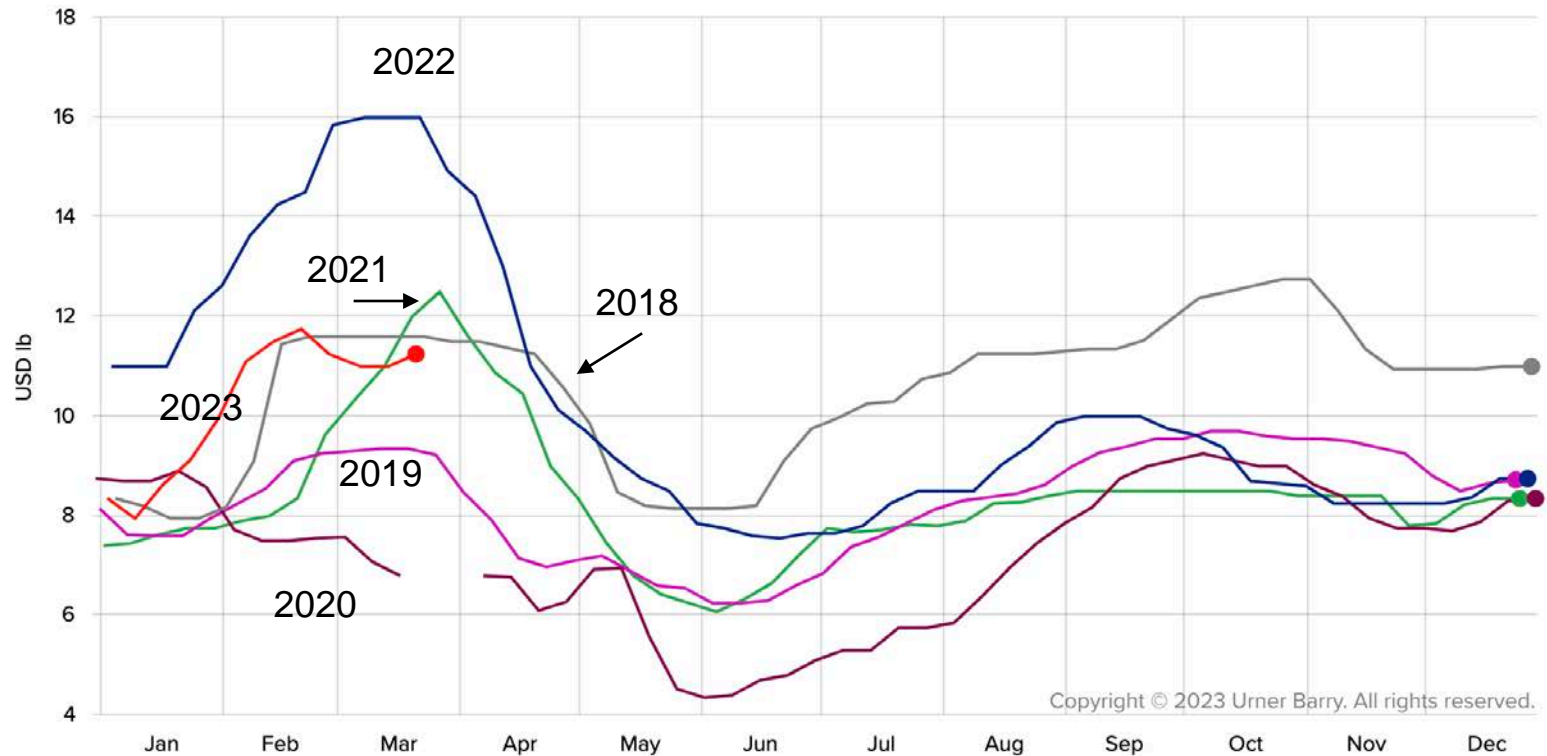
- Primary signal is price signal.
  - Live: normal inventory levels
  - Meat: slightly elevated inventory
  - Tails: low inventory on some sizes
    - Club store volume data shows uptick in sales in the fall



# Spring live prices show normal trend

UB Lobster, American Hard, 1 1/4 lbs. Quarters, FOB New England

Monday, January 1, 2018 - Monday, March 20, 2023



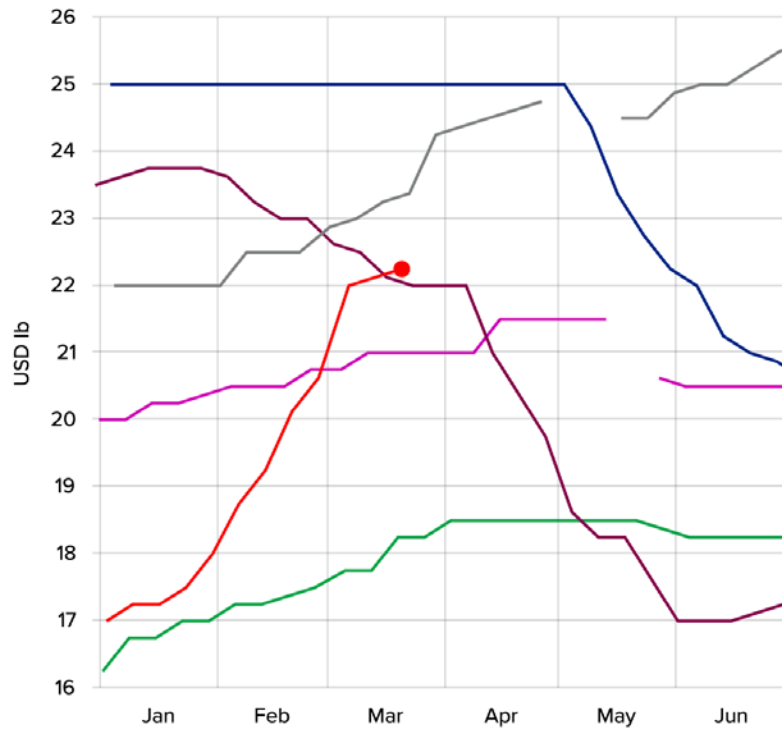
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Source: Urner Barry

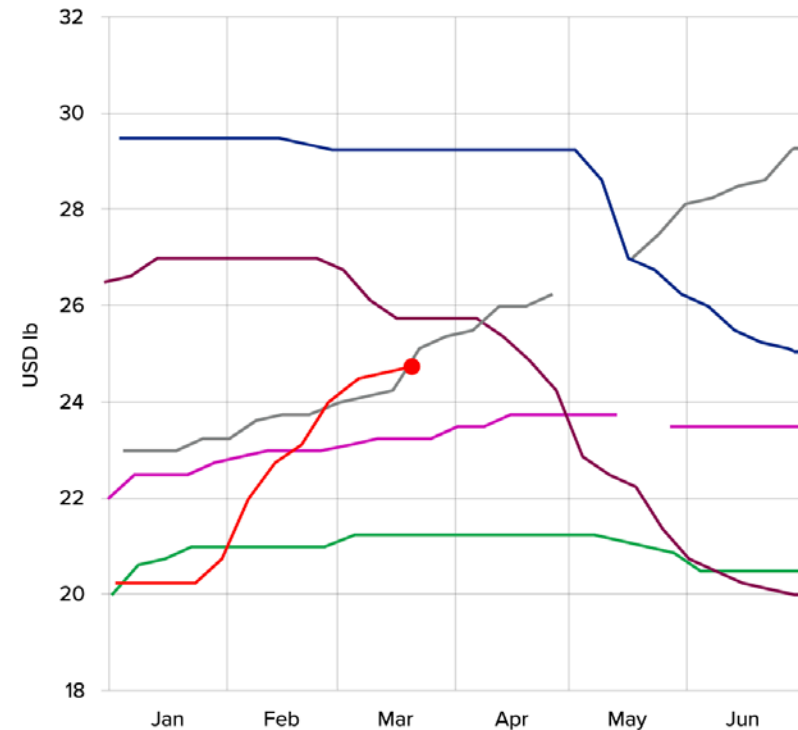


# Frozen lobster tail pricing shows some upward price pressure

UB Lobster Tails, American, 4-5 oz.



UB Lobster Tails, American, 6-7 oz.



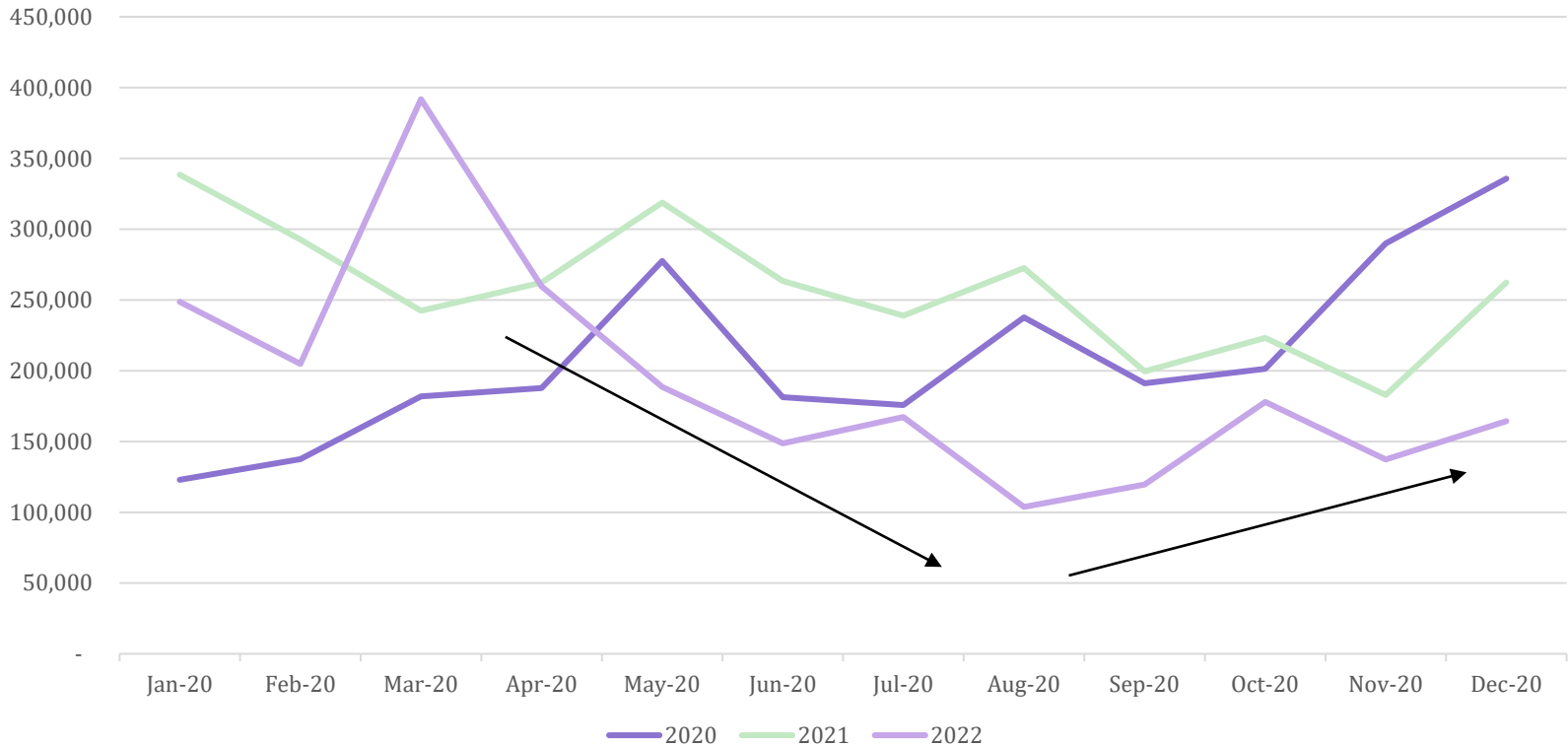
Source: Urner Barry





# Monthly volume trends show uptick in fall

Monthly volume Retail Frozen Lobster (mostly club stores)

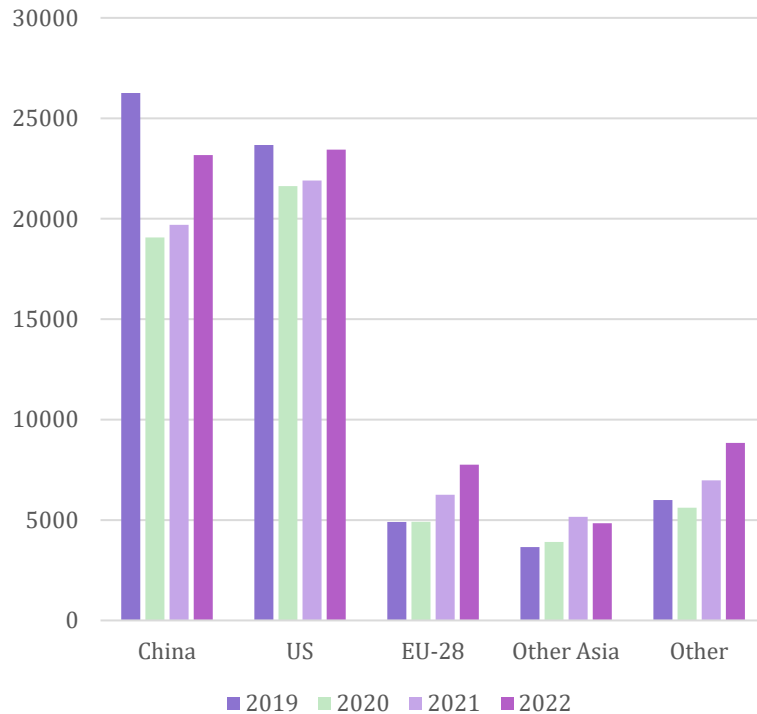


Source: Seafood Datasearch, Urner Barry IRI data



# Live export volume improved in 2022

Live export Volume Improved in almost all Markets in 2022



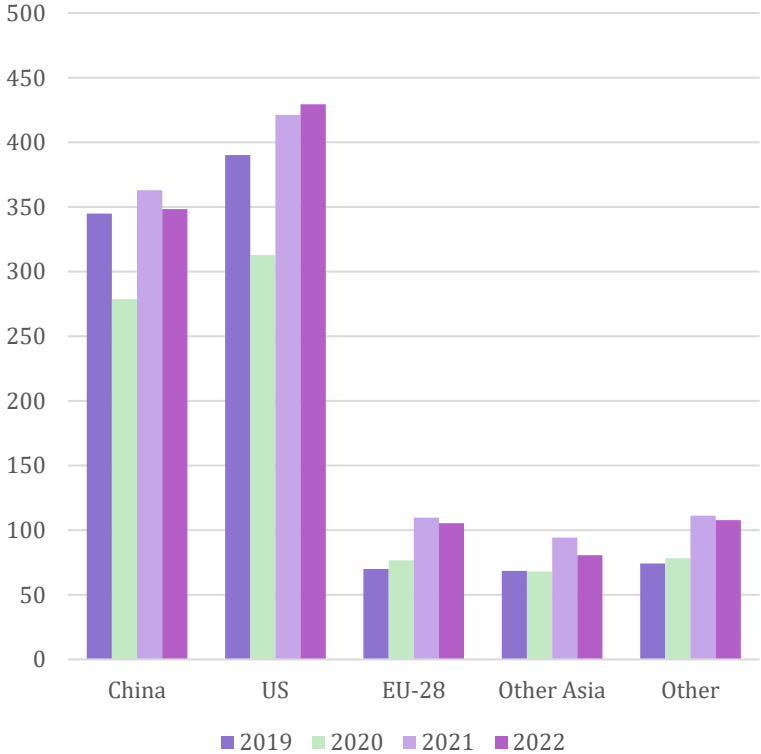
|            | Change in 2022 |
|------------|----------------|
| China      | 18%            |
| US         | 7%             |
| EU-28      | 24%            |
| Other Asia | -6%            |
| Other      | 27%            |

Source: Global Trade Tracker



# Export Value fell except in US where prices were higher

live value (million \$USD)



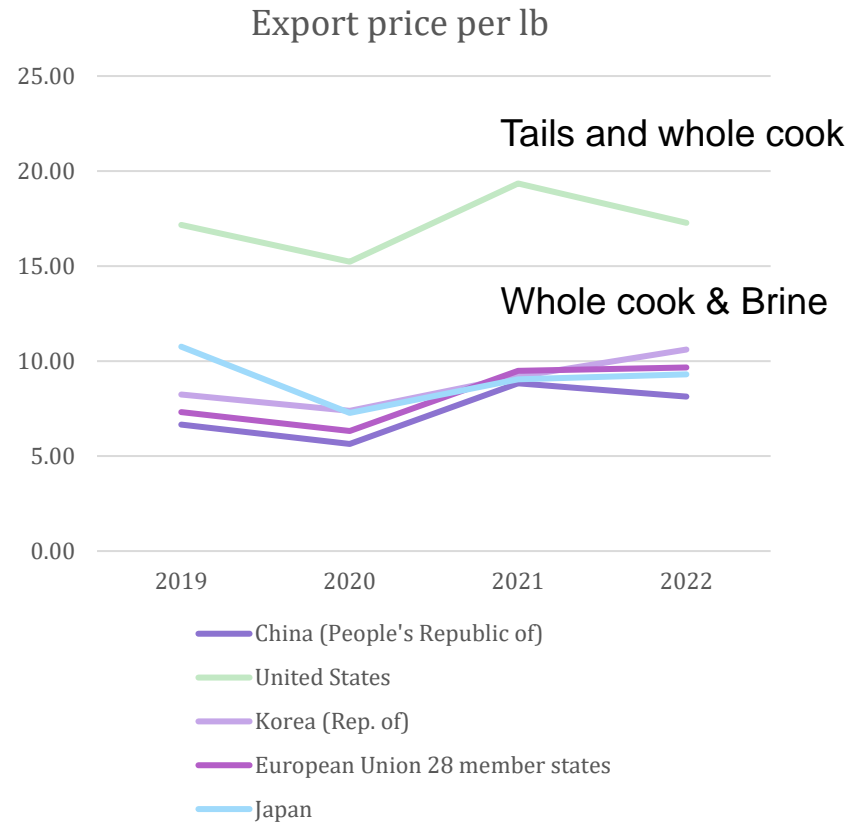
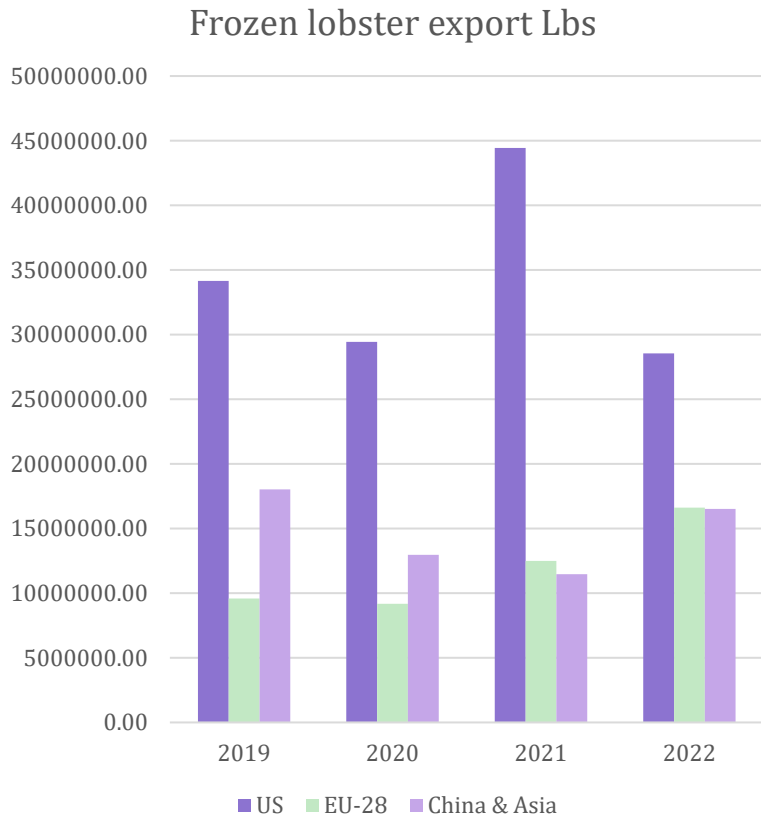
Export price per lb



Source: Global Trade Tracker



# Frozen exports declined to US, but grew in other markets



Source: Global Trade Tracker



# Market Dynamics

- Tails: foodservice outlook (more sold at club stores)
- Meat: will depend on health of foodservice demand
- Live: US market will be healthy if economy remains okay
- Chinese demand should be higher than last year



# Foodservice sales of seafood were flat in 2022

- Seafood up 0.25%
- All other items (meat, poultry, dairy) were up 3% to 6%

## Sales increased for lodging, casino and non-commercial venues

Growth is coming from  
Lodging/Casino and Bar and Grill

▼ DOWN -3.6%  
**Street Customers**  
(1-19 units)

▲ UP 24.7%  
**Lodging and Casino**

▼ DOWN -4.5%  
**Regional Customers**  
(20-250 units)

▲ UP 8.6%  
**Non-Commercial**

▲ UP .41%  
**National Customers**  
(250 units +)



Photo by Sarah Chappell (Snapchat)



Photo by Sarah Chappell (Snapchat)

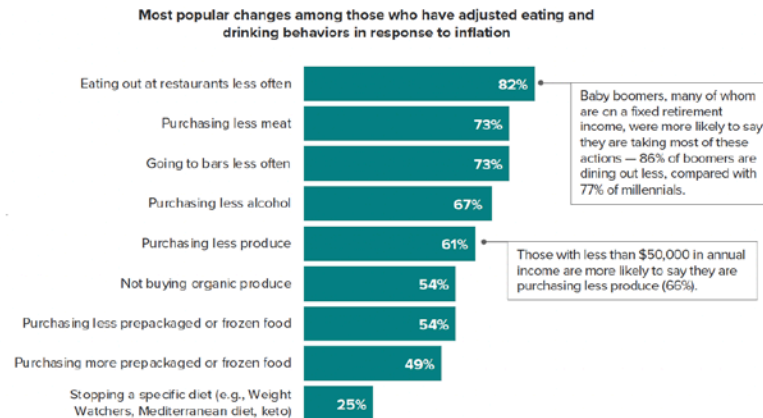


# Inflation hit restaurant sales; decline in inflation is positive

## Inflation changing restaurant behavior

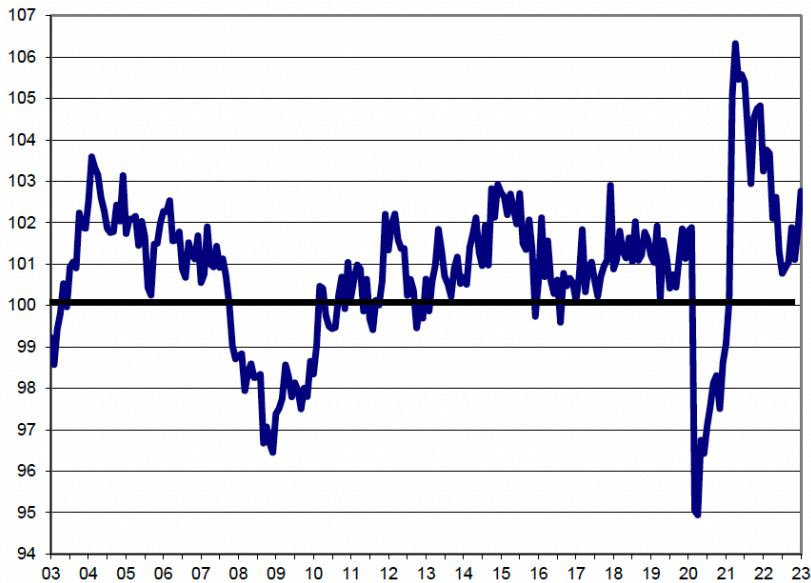
Majority of U.S. adults have adjusted eating and drinking behaviors as a result of inflation

- 82% eating out less often
- 86% Baby boomers eat out less often
- 73% buying less meat



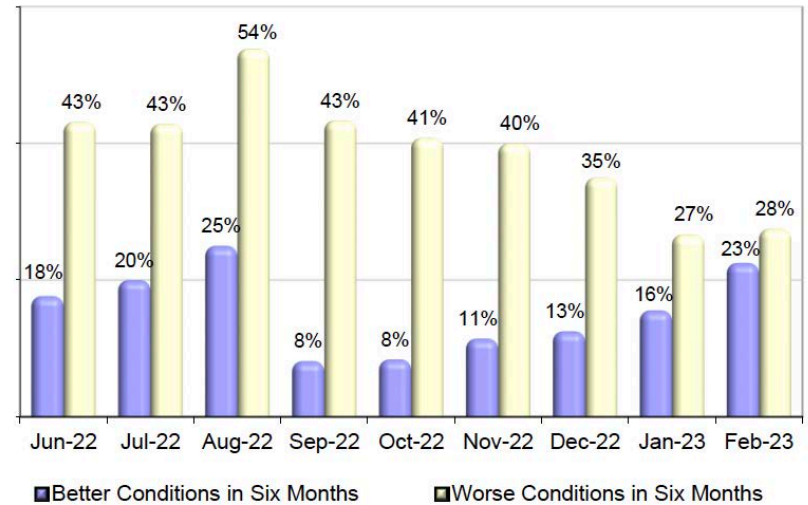
# Restaurant operator outlook is improving

**Restaurant Performance Index**



Source: NRA; Values Greater than 100 = Expansion; Values Less than 100 = Contraction

**Restaurant Operators' Outlook for General Economic Conditions in Six Months**



Source: National Restaurant Association, Restaurant Industry Tracking Survey



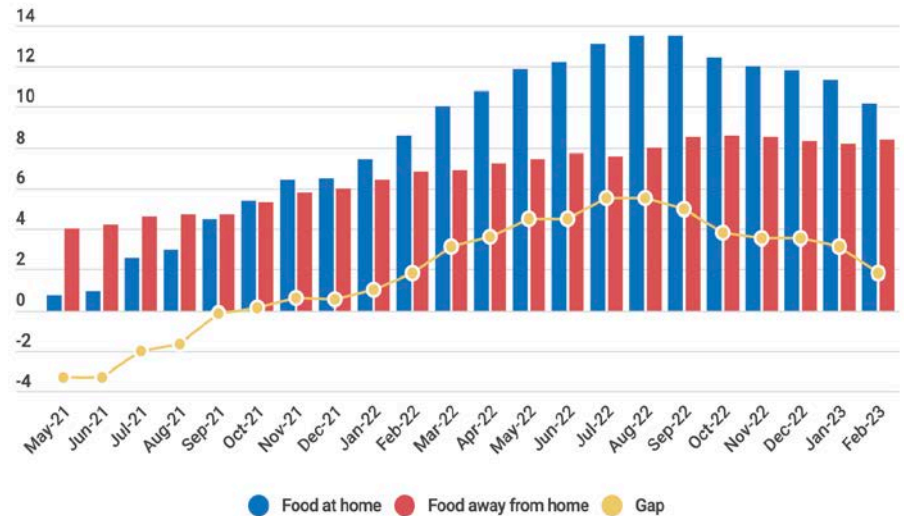


# Tail demand is vulnerable to restaurant pullback

- Primarily sold at foodservice
- Restaurants are actively raising prices
- Some are cutting most expensive items
- Current rise in prices on low volume could scare volume users.
- Highly dependent on strong economic activity

## Restaurant versus grocery prices

The pricing gap between restaurants and grocers narrowed further in February. Restaurants continued to raise prices at a rate higher than that of grocery stores.

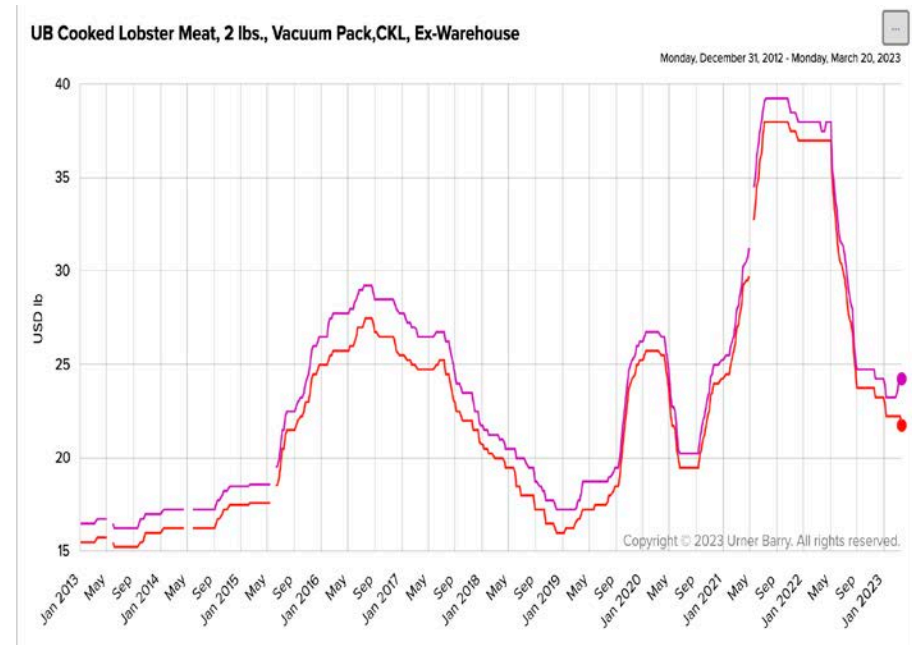


Source: U.S. Bureau of Labor Statistics



# Lobster Meat

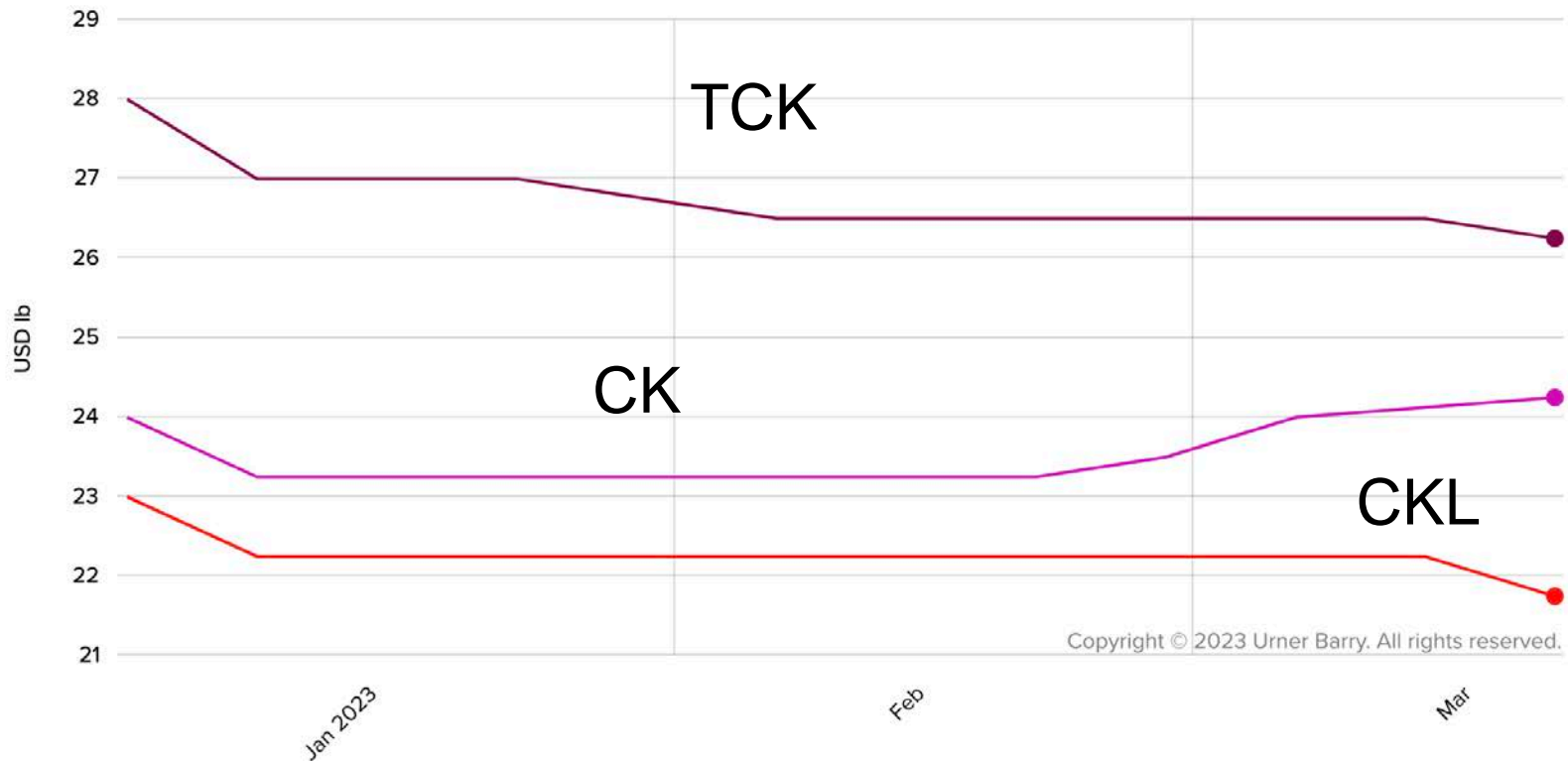
- Strong foodservice base with good menu placement
- Market more conditioned to volatility
- Stable pricing will help sales



# Lowest meat grade showing price weakness

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

Monday, January 2, 2023 - Monday, March 20, 2023



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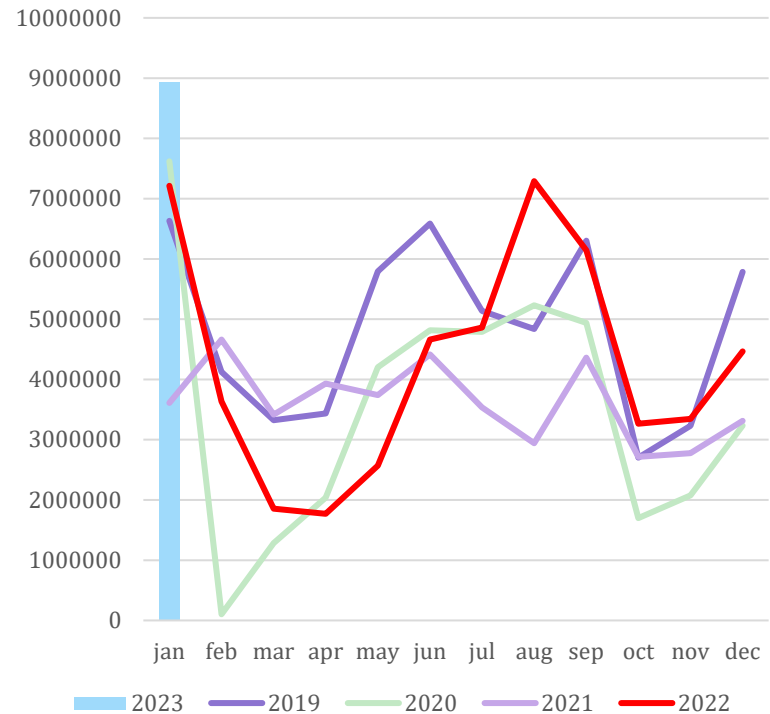
Source: Urner Barry Comtell



# Live

- US market continues to be strong
- Maine landings are down
- Chinese summer buying likely up over last year due to Covid.
- Prices highly sensitive to volume

China Spring and Summer Imports will be higher than last year



# US economic forecasts show no consensus: but timing of recession is receding

“Estimates of inflation-adjusted gross domestic product or real GDP, inflation, labor market indicators, and interest rates are all widely diffused, likely reflecting a variety of opinions on the fate of the economy—ranging from recession to soft landing to robust growth.”

National Assoc. of Business Economists Monthly Survey

## 1c. What is the probability of a recession occurring over the next 12 months?

| Response              | Percent of Responses (43) |
|-----------------------|---------------------------|
| 0-10%                 | 7%                        |
| 11-25%                | 5                         |
| 26-50%                | 30                        |
| 51-75%                | 49                        |
| 76-100%               | 9                         |
| Don't know / not sure | 0                         |

## 1d. If so, when will the recession start?

| Response              | Percent of Responses (43) |
|-----------------------|---------------------------|
| Q1 2023               | 28%                       |
| Q2 2023               | 33                        |
| Q3 2023               | 21                        |
| Q4 2023               | 9                         |
| After Q4 2023         | 9                         |
| Don't know / not sure | 0                         |



# Key US Uncertainties

- Will bank crisis intensify
- Will tighter credit cause a deeper recession
- Will interest rates rise or fall more than expected

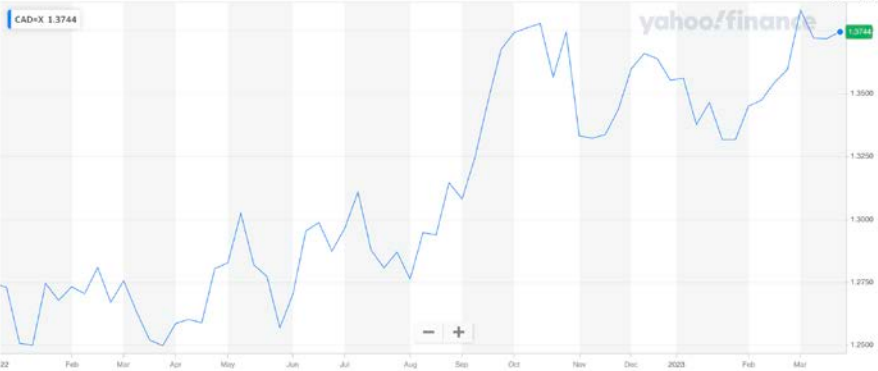
In this environment, impossible to see what risks lie ahead for producers.



# Currency is expected to be stable:

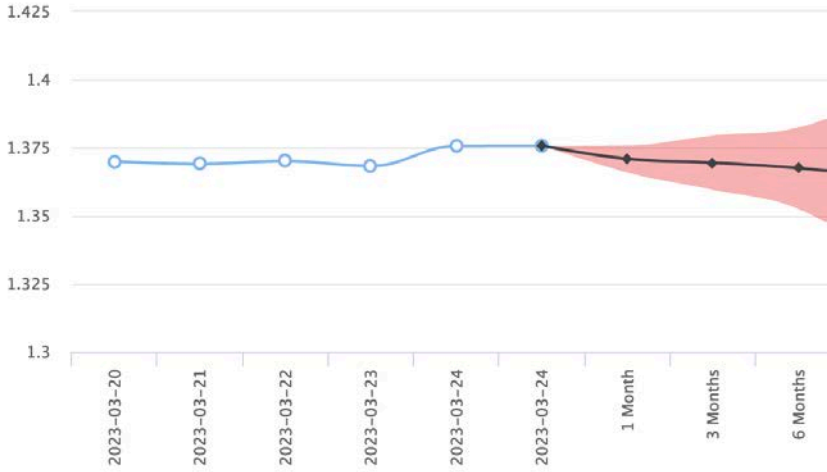
\$CA has weakened 8% since last spring

## Currency history



## Currency forecast

Market Implied Expectations:

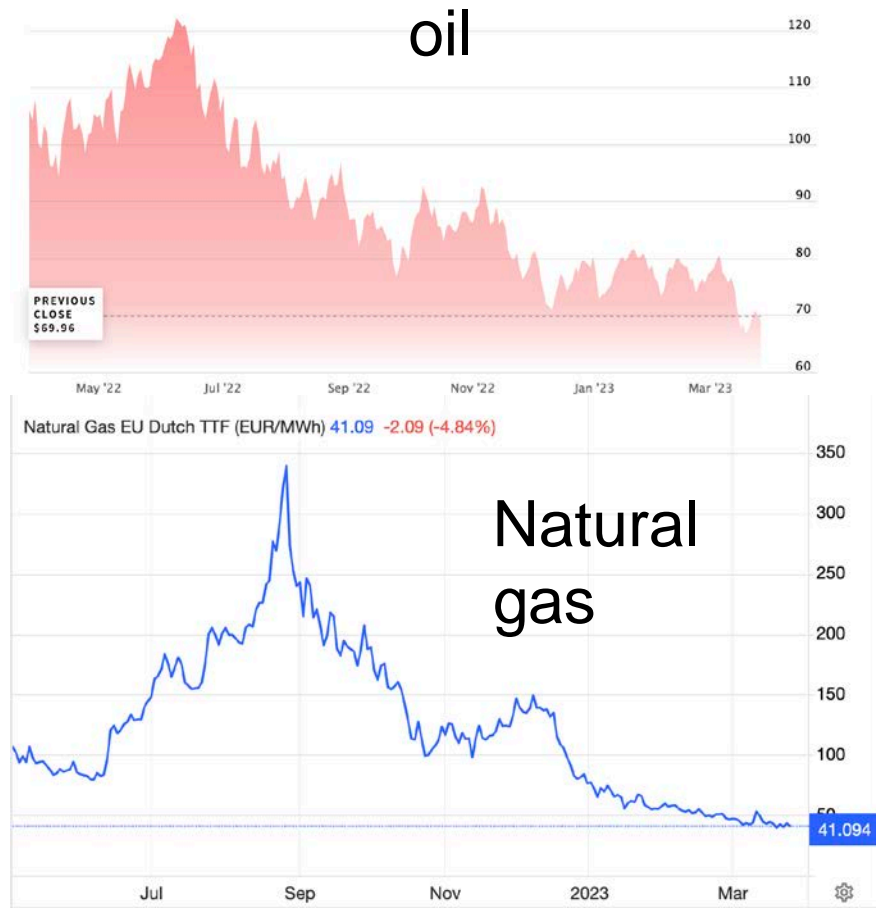
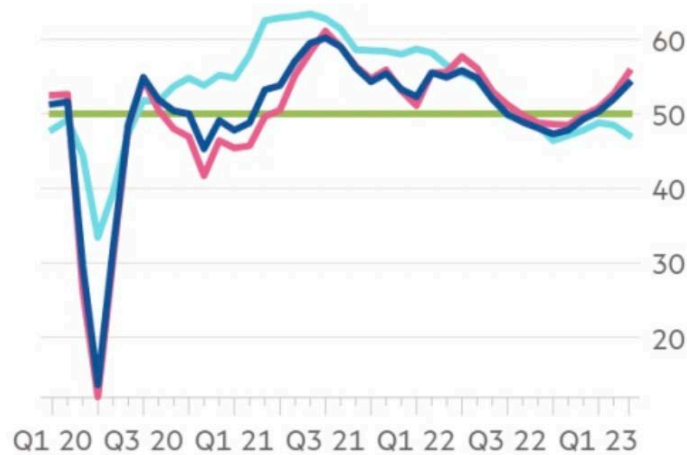


# Europe is seeing a better than expected winter: oil and natural gas prices have fallen to lowest levels in a year

Business activity rebounds in eurozone

Purchasing managers' index

- Composite
- Services
- Manufacturing
- The 50 mark separates growth from contraction



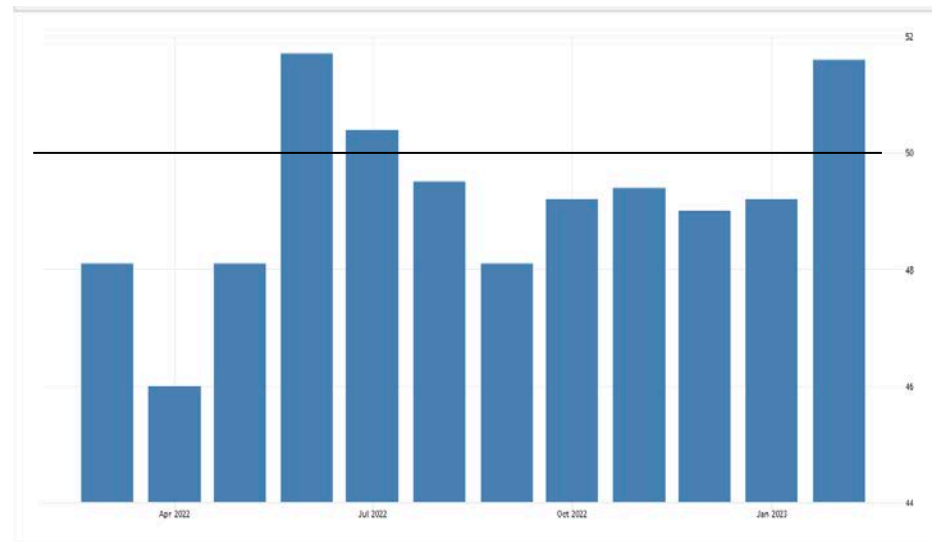


# Chinese demand could support lobster pricing

## February Data very strong

- Supplier delivery times improved at quickest rate for 8 years
- Output, new orders, and employment gains exceeded expectations
- *“Optimism continued to improve among manufacturers in February. The reading for their expectations for future output reached a high not seen since March 2021. They expressed strong confidence in a post-Covid economic recovery.”*

## Manufacturing Index above 50 is positive



## Others are more cautious:

Maersk: Chinese consumer is a bit more stunned by what's happened and is not in a splurging mood right now.



# Right Whale Update

- Maine lobster industry succeeded in freezing US regulations for 5 years
- No major changes expected in Canadian regulations.
- The political success of Maine lobstermen reduces pressure to apply equivalency provisions in MMA.
- Buyers continue to encourage experiments with gear



# MSC status not likely to be a market issue

Prince Edward Island lobster trap - *Combined with another assessment*

Gulf of Maine lobster fishery - *Withdrawn*

Bay of Fundy, Scotian Shelf and Southern Gulf of St. Lawrence lobster Trap - *Combined with another assessment*

Maine lobster trap - *Withdrawn*

Gaspésie lobster trap spring fishery - *Certified*

Maritime Canada inshore lobster trap fishery - *Certified*

Eastern Canada offshore lobster - *Withdrawn*

Iles-de-la-Madeleine lobster - *Certified*

Lack of consistency and supply volatility makes it difficult for retail users to support msc certification; those concerned more likely to drop live lobster distribution



# Questions for 2023

- Will live prices support producing meat and tails at a market acceptable price?
- Will Maine landings be stable?
- Can Canada increase exports to China and Europe again this year?
- Will adverse economic changes affect lobster demand



# Positive and Negative factors for this coming season

- Live demand appears to be normal
- Export market economies better than forecast
- Foodservice sector sees improving conditions
- No excessive inventory from 2022
- Economic uncertainty is higher than usual
- Casino/Cruise lines may favor crab promotion over lobster due to price differential
- Potential for stalling market for tails due to price increases



# Time for Questions

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

