

Global demand for proteins remains favorable ...

## Disease, strong dollar and congested ports dominate protein headlines



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Last year, the then titled *Outlook Edition* of *Urner Barry's Reporter* was dominated by reports of nearly every protein category moving higher, some travelling along a slow and steady acclivity, while others were on a near vertical trajectory. Strong exports along with support from competing proteins and supply issues from viruses or droughts all contributed to a protein market which appeared almost universally bullish between 2013 and 2014. This year, however, things are a bit different.

A common theme that will undoubtedly run throughout many of the 2015 protein pieces within these pages is the current export scenario and the many headwinds that have and may continue to cause complications to their respective markets. The practically uninterrupted ascent of the U.S. dollar, a severe slow down in West Coast port activity and in some protein categories, deadly livestock viruses have all had an effect on exports—

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### PLAN, COMPETE, SUCCEED ...

## Urner Barry's Executive Conference: *bringing inspired people together*

Urner Barry held its 39th annual Executive Conference and Marketing Seminar at Caesars Palace in Las Vegas this past April.

Over 400 participants from the egg, poultry and red meat industries were in attendance for the 2015 conference with

the theme *Plan, Compete, Succeed*; holistically, it was one event made up of three interrelated activities. Urner Barry's event objective this year was to provide attendees with the knowledge to plan correctly, unlock resources to compete in the egg, poultry and red meat industries, and set goals to

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*The Cook Political Report's David Wasserman addresses a packed house at this year's conference.*



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**Urner Barry's Executive Conference: bringing inspired people together**



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# Turkey-growing is more than an industry, it is neighbors

Contributed by the  
National Turkey Federation

Within this *Uner Barry Market Analysis* edition, pages, charts, tables, analysis and projections capture what will include the outlook for turkey after Highly Pathogenic Avian Influenza (HPAI). What these pages will reflect—but can only seek to quantify through numbers—is an industry of individuals working boldly and successfully together. While the number of turkeys lost out of 240 million nationwide is a low percentage, it is of high significance to each individual farmer and the companies they grow for each day.

High significance is also found in the response from many turkey companies freely offering carbon materials for



At critical points over 75 years, National Turkey Federation members have faced serious challenges—the first one in 1940.

composting, rural neighbors with an understanding for personal hardships, laborers and national guardsmen, veterinarians and researchers, all rising to the occasion to stamp out infection from Avian Influenza and get a new crop of fresh, healthy poult into production.

Months needed to bring an infected farm back into production and the usual 16 to 18 week period needed to rear a turkey to full growth is a challenge similarly met many times before in the turkey business.

The 1940 Armistice Day storm killed nearly two million turkeys in the Midwest ice and snow. At the time, growers faced the first of many serious challenges of the newly founded National Turkey Federation (which would go on to observe its 75th Anniversary this year). In those times before adequate cold storage supplies, the year's record crop of 33 million turkeys was grown for the Thanksgiving holiday occurring within weeks.

While the storm killed one-fourth of Nebraska's turkey flocks, nearly five

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**"WHILE THE NUMBER OF TURKEYS LOST OUT OF 240 MILLION NATIONWIDE IS A LOW PERCENTAGE, IT IS OF HIGH SIGNIFICANCE TO EACH INDIVIDUAL FARMER AND THE COMPANIES THEY GROW FOR EACH DAY."**

percent of the national supply of fresh whole turkey was lost. The *Chicago Tribune* headlined, "Turkey Prices Jump as Birds Die in Storms" after a penny increase in turkeys, which, in that pre-war year, were selling for nearly twenty-five cents a pound. Yet from rural areas, turkeys delayed on railcars from deep snows would arrive in plentiful supply. Thanksgiving turkey was still served in 1940.

This season's reduction in the national supply is partly offset by domestic use of intended exports, but also by our geographic diversity. When the last, then-largest Avian Influenza outbreak hit the

poultry industry at large in 1983-84, the infection was again regionally limited, but that time, to the Northeast. This year, turkey hens—the consumer choice for Thanksgiving—are largely unaffected. Thanksgiving turkeys will again be the center of the holiday table; most are already produced, flash-frozen and now in cold storage. Poult for fresh Thanksgiving turkeys won't go into barns until July.

NTF is working with the U.S. Poultry and Egg Association, USAPEEC, National Chicken Council and United Egg Producers on an HPAI preparedness conference tentatively scheduled for the latter part of July in the Midwest. The conference discusses strategy insights gleaned from previous cases to outline preparations to guard against a fall/winter avian flu season. We meet to take on the challenges.

The turkey industry survives. That's never been in doubt. What's been proven time and again is that turkey-growing is more than an industry, it is neighbors. **UB**



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# 2015 Jan-Apr hog slaughter up nearly 7% vs 2014, biggest since 2008

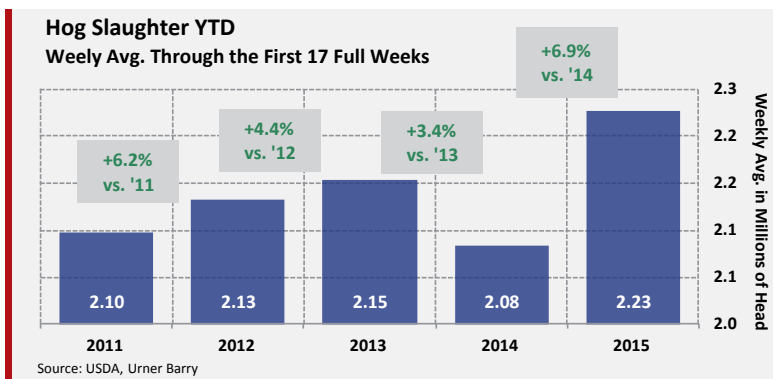
It is no surprise really that the U.S. hog slaughter is up significantly from a year ago, when supplies had been greatly affected by the porcine epidemic diarrhea virus (PEDv) beginning in the spring of 2013.

Industry analysts and economists had estimated around seven to eight million piglets were killed by the disease from May 2013 through the end of 2014.

Older pigs and sows can also be affected, but typically recover. Since the virus affects many very young pigs, the impact of the disease on slaughter-ready supplies is expected to be reflected about six months

later. PEDv is not a food safety issue and does not affect humans.

Efforts to control the viral disease include, among others, increased biosecurity measures taken at the farms and when transporting the animals to processors



or returning to the barns for more, and the use of vaccines to improve herd immunity. The animals also build up some natural immunity as the sows recover from the disease and pass along immunity to their young through their colostrum milk.

After struggling to gain a foothold in the fight against PEDv during the fall of 2013 and throughout the following winter and early spring, producers also bred more sows and gilts in an effort to produce enough healthy pigs to fill their nurseries and finishing barns. As other efforts to contract the disease also began to have success, a bubble in supplies developed, resulting in a rapid rebound in hog numbers developed by March of this year, pushing weekly slaughters up to 7% to nearly 12% at times over a year ago.

The year-to-date weekly average hog slaughter for January through end-April is up nearly 7 percent from a year ago and about 5 percent above the latest five-year average. One has to go back to 2008 to find a larger slaughter than so far in 2015, and slaughters are averaging about 2.2 percent less so far this year compared with 2008.

Slaughter rates this summer may again exceed year-ago levels at times by 8 percent to 10 percent or more since supplies of animals at desired processing weights last year were at times the smallest since June of 2006.

In its latest monthly World Agricultural Supply and Demand Estimates report, released May 12, USDA projected 2015 pork output at 24.4 billion pounds, up 6.8% from 2014. It is also 4.4% above the 2008 figure, driven by heavier carcass weights. **UB**

Article contributed by Curt Thacker  
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# Urner Barry breaks ground for new home

On May 8, 2015 Urner Barry broke ground on the site for its new corporate offices. The existing headquarters, which was constructed in 1976, has been outgrown with the expansion of the company's printing facilities and growth in commodity reporting. It's expected that the ushering in of the New Year, 2016, will also bring a new home for Urner Barry.



Ground Breaking Ceremony May 8, 2015. Pictured left to right: Russell Whitman, Victor Iorio, Rick Brown, Paul Brown, Mike O'Shaughnessy, Toms River Councilman Jeffrey Carr, Father John Ruffo and Toms River Mayor Kelahar.



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Urner Barry Senior Vice President Mike O'Shaughnessy calling attention to certain aspects of the new property site to guests.



Rick Brown, Executive VP and Treasurer of Urner Barry, reviewing the plans for the new building.



*This sausage maker is sending their competitors "packing" ...*

# Kiobassa: A sausage success story

The explosive growth of Kiobassa Provisions is really shaping up to look like the next great American success story. Though the flourishing sales and the go-getter, start-up culture may imply that they are a newcomer to the industry, Kiobassa actually traces its roots back to 1949, when Rufus and Juanita Kiobassa founded a family-owned sausage company in the heart of San Antonio's Westside barrio. Still in their heritage home on South Brazos Street, their recently-renovated facility runs six days a week, 18 hours a day to manufacture and send old-fashioned sausages to 47 states, as well as Puerto Rico and Mexico.

Kiobassa makes its sausage with fresh spices, quality ingredients, no MSG, no fillers and in small batches to retain the hand-crafted taste in every bite. The company uses real wood chips in its old-world smokers to infuse products with

its legendary taste. When customers tour the plant, they are often struck by the fact that there are more people than machines crafting the sausage. Though Kiobassa has enjoyed relatively steady growth, the recent explosion has been attributed to some major distribution deals that helped increase its presence in a variety of markets.

Though pork is a major component in many of its products, Kiobassa also offers an all-beef sausage. Keeping ahead of the curve with rising beef prices and

**"KIOBASSA'S TRUE GOAL IS TO CREATE VALUE FOR CONSUMERS AND ENRICH THE LIVES OF ITS CUSTOMERS."**



a tumultuous pork market has been instrumental to the company's success. Like many small companies, changing commodity prices can be a huge headwind, but creative thinking and a focus on maintaining good relationships with suppliers helped Kiobassa keep the year on track to meet many sales and profit goals.

One of the ways this company stays on track is through efficiency mini-games. Rather than create bonuses for just the sales staff or the management, the company involves everyone in making sure product costs are kept low, production goals are met and that the sales force continues to excel. Because everyone is motivated and kept on the track to success, the company is optimistic about sales growth this and next year.

Though sausage is at the heart of what it does (Kiobassa's slogan is "Our name means sausage," which is actually true, because it comes from the Polish word kielbasa, meaning sausage), Kiobassa's true goal is to create value for consumers and enrich the lives of its customers. The whole of the company uses its team-building and customer-focused philosophies and methods to remain at the forefront of their industry. One thing is for sure, consumers certainly enjoy the sausage. **UB**

Special thanks to Arthur Cavazos, Anthony Zamora and the Kiobassa team. Article contributed by Adam Sharkey  
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# Texas cattle numbers declining for more reasons than one

For centuries, cattle ranching has thrived in the great state of Texas, giving rise to iconic symbols such as the cowboy and legendary cattle drives throughout American history. Even today, the Lone Star State boasts the highest inventory of cattle in the U.S. with 12.4% of the nation's total herd (in comparison, the second largest state by cattle inventory is Nebraska with 7%), according to USDA data.

Drought conditions in Texas have affected cattle numbers time and time again, causing increases and decreases over the years. The current drought situation, however, is credited with bringing the national cattle herd to its lowest in over 60 years. With less available forage and years of higher feed costs (up until last year anyway when we saw corn fall to its lowest level in five years), Texas ranchers had little choice but to liquidate a large portion of their cattle. Since around 2007, we've seen a drastic reduction in cattle numbers in the state. In addition to the drought, there is yet another, possibly lesser-known, reason that could be contributing to lower cattle numbers in Texas—land conversions from agricultural use to wildlife use.

According to data presented by Tiffany Dowell Lashmet, representing Texas A&M Agrilife Extension at the 2015 USDA Outlook Forum in Washington D.C., converting land from agricultural use property tax valuation to wildlife use valuation could be affecting cattle numbers in the state of Texas. The concern lies within the potential choice by landowners with agricultural operations to switch to wildlife management in order to ensure a lower tax rate.

Most states in the U.S. have some form of special use valuation for property taxes. To qualify for agricultural use valuation, however, can be difficult. There are numerous criteria needed to meet the strict qualification standards of a traditional agricultural use property tax valuation. The new Wildlife Management Valuation



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**"THE CONCERN LIES WITHIN THE POTENTIAL CHOICE BY LANDOWNERS WITH AGRICULTURAL OPERATIONS TO SWITCH TO WILDLIFE MANAGEMENT IN ORDER TO ENSURE A LOWER TAX RATE..."**

however, can be somewhat easier to qualify for—which is possibly persuading enough large landowners to abandon agriculture activities in favor of sustaining wildlife practices.

According to Texas A&M research, 4.09 million acres have so far been converted to wildlife management, of which 3.52 million acres, or 86%, were pastureland. Once converted, no agricultural practices are required to retain tax valuation so whether or not cattle would remain (or have remained) on any of the converted property is unknown. If, however, these changes are resulting in the halt of cattle ranching operations on the converted land, the data indicates that this has most likely contributed somewhat to the decline in Texas cattle numbers.

The drought, while seemingly improving as of late, plus land conversion opportunities could certainly spell some trouble for cattle herds making home in the Lone Star State. In addition, there is a fear going forward that our nation's farms and ranches are struggling to find young

successors to take interest in agricultural careers and lifestyles—putting a portion of small family operations in jeopardy of selling off or converting land to other uses as well. Yet, even despite these headwinds, the rich history of the state's cattle industry lends hope and confidence that this time-honored, rustic tradition will undoubtedly continue to thrive—deep in the heart of Texas. **UB**

Article contributed by **Jamie Chadwick**  
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# Spending at grocery stores and other retailers continues to climb

Last year, spending for food at grocery stores and away-from-home eating establishments totaled nearly \$1.5 trillion, 3.70 percent above the 2013 total. While this figure continues to trend higher there are some noticeably different themes that can be seen.

Food away from home spending, as a percentage of the total food expenditures, has climbed sharply from the 1960s when it made up only 26.3 percent. In 2014, nearly 48 percent of expenditures were made at restaurants, concession stands, movie theaters and other away-from-home places, and for the first three months of 2015, this type of spending has averaged over 48 percent.

A number of factors can be cited for this. First, there is an increase in married

households where both parties work. According to the Bureau of Labor Statistics, of married couples, nearly 70 percent are in dual-income households compared to not quite 50 percent in 1967. This, along with a busier lifestyle, keeps families time-constrained, which has led them to the convenience and time-saving advantage eating out provides. Then there are the behavioral patterns from generation to generation. Millennials (those between the ages of 18 and 34 in 2015) dine out more frequently than Baby Boomers (ages 51 to 69 in 2015) and Generation Xers (ages 35 to 50). Additionally, Millennials spend the most of their food expenditures on food away from home, according to the study "Demographics of Consumer Food Spending: 2012" by the Food Institute.

As foodservice establishments look to capture market share in a highly competitive industry, it would be wise to look at these analytics. According to the U.S. Census Bureau, this is the year that Millennials will surpass the "Boomers" as the largest living generation with estimates of



Stock photo © Nikkolia

74.9 million to 75.3 million. Immigration into the United States is also adding to this group faster than other groups as well. Include the fact that it seems families have more and more activities that take up time, and cooking becomes less and less, and there are greater reasons to market to this age sector.

While Millennials may lack the discretionary income of the fine-dining Boomer set, data shows they are eating out more frequently. Restaurants that want to capture a share of the Millennial dollar would be wise to look into their wants and needs within these establishments as a way to capture it. **UB**

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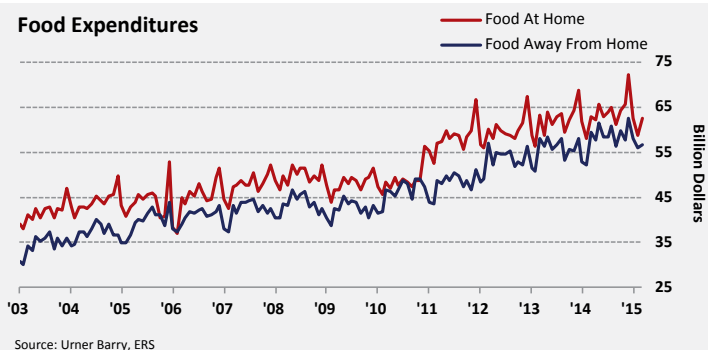
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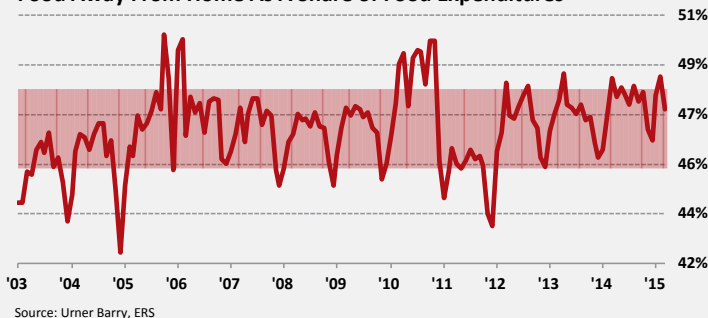
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## Food Expenditures



## Food Away From Home As A Share of Food Expenditures





# Is PEDv out of the picture concerning U.S. hog supplies?

The number of new cases of porcine epidemic diarrhea virus (PEDv) in the U.S. has declined significantly from a year ago, and year-to-date hog slaughter is well above that of 2014, which suggest that the impact that the disease had on supplies from late 2013 through most of last year has run its course.

There could still be some hot spots of infection where more severe outbreaks might occur seasonally, usually during the late fall, winter and early spring months as the virus has a longer life span during the colder periods of the year. Such outbreaks could result in some adjustments in slaughter-ready hog supplies in the months ahead since the disease primarily affects very young suckling piglets. It takes pigs about 6 ½ months from birth to reach slaughter size of around 275 to 285 pounds.

Animal disease experts and industry sources say increased bio-security measures in place at the swine farms as well as for the trucks that transport the animals to processors have been a significant deterrent to the spread of the disease.

In addition to the improved bio-security measures, there is now more immunity built up within the herd to the disease, said Harry Snelson, director of communications at the American Association of Swine Veterinarians (AASV). Snelson said the immunity has come from natural forms as well as through the use of vaccines. Milder temperatures this past winter have also helped deter the spread of the disease since the virus prefers cold, wet conditions.

Snelson estimates that around 50 percent of the U.S. sow population has been exposed to PEDv, contributing to the immunity buildup. However, as the herd turns over, meaning as more of the older sows are culled and sold off then replaced by young gilts, there could be an increase in new case counts in the coming winter, he said.

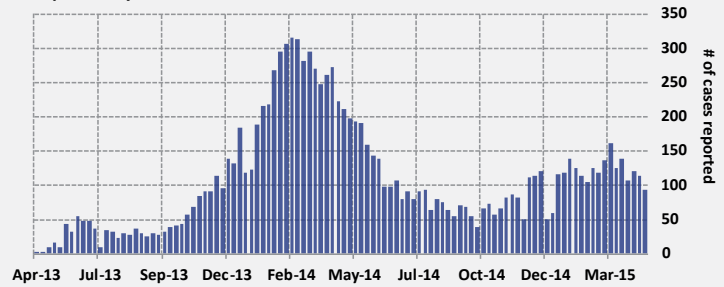
Sows previously affected by PEDv may also show some longer lasting effects by having fewer pigs or aborting some fetuses on subsequent pregnancies. Producers have

offset many of the PEDv-related issues since last fall by having bred additional sows and gilts. Weekly slaughters so far in 2015 average nearly 7percent above a year ago.

The attached chart illustrates the rapid rise in the number of new cases of PEDv

Number of PEDv Cases by Week Reported by AASV

Source: AASV



diagnosed during the late fall and winter months in 2013-2014, and the reduction in the new case counts in recent weeks and months versus previous year. **UB**

Article contributed by Curt Thacker  
cthacker@urnerbarr.com

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# DIY egg decorating took center stage on Easter

Contributed by Joanne C. Ivy, CAE  
President & CEO, American Egg Board

In the midst of a sizzling launch for Wake Up To Eggs with Bacon, the American Egg Board (AEB) also set out to continue taking back the Easter holiday by becoming THE authority on egg decorating and all things Easter. Throughout March and April, AEB executed a fully integrated digital, print and retail campaign to inspire families to pick up an extra dozen eggs for decorating during the Easter season.

Thanks to traditional media outreach, news of the holiday and egg consumption statistics appeared in USA Today as a nationally syndicated "Snapshot." NBC television affiliates also shared Easter egg consumption data across the nation and

other outlets, such as the Sacramento Bee and the Boston Globe, contributed to more than 170 media placements, generating 100 million+ media impressions.

To expand the chatter online and deliver egg decorating inspiration, AEB also partnered with popular do-it-yourself influencer Brit+Co. The social trendsetter inspired more than 12.7 million people to check out their egg decorating ideas and make delicious recipes for Easter brunch and entertaining.

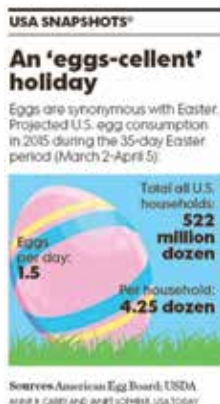
AEB brought Easter to retail by partnering with Keebler for the third year in a row. The partnership included more than three million on-pack IRCs for free eggs with the purchase of Keebler crackers and an Easter pamphlet, at the point of sale, filled with egg decorating tips and Easter brunch ideas.

Additionally, AEB worked with Hungry Jack Hash Browns to get in on Easter entertaining and in addition to 1.6 million in-store coupons for savings on eggs, developed a short-form recipe video on YouTube and contributed to a Pinterest Takeover on their page.

AEB's Easter coverage included both traditional and online placements, as well as partnerships that amplified reach.

## WAKE UP TO EGGS WITH KEVIN BACON

Since the Wake Up To Eggs with Kevin Bacon campaign launched March 12, America can't get enough of the famous pairing. In the four weeks following the campaign's introduction, Nielsen reports that egg sales in dozens were up +15 percent vs. the same period a year



ago. That translates into 29 million more dozens and \$70 million more in dollar sales than the same period a year ago.

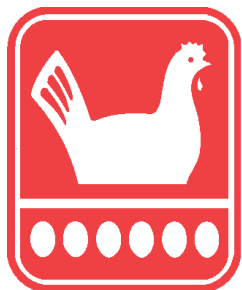
While Easter timing certainly played a role in the sales increase as well, it's clear that the new partnership with Hollywood icon Kevin Bacon has benefited the egg industry so far. The campaign will continue into 2016.

## PROMOTING EGGS ON THE WHITE HOUSE'S SOUTH LAWN



AEB continued its tradition of supporting the 137th White House Easter Egg Roll. On Easter Monday, the 38th Commemorative Egg was presented to First Lady Michelle

Obama, on behalf of America's egg farmers, by AEB Chairman Paul Sauder, R.W. Sauder Inc., Lititz, Pa., and AEB President & CEO Joanne C. Ivy. President Obama again attended the presentation.



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Artist Judith Linstruth of Garfield, Ark., designed this year's Commemorative Egg as a diorama of the day's events. The egg's three openings reveal a mural of the White House on the shell's inside and Easter Egg Roll activities from the South Lawn in the foreground.

"The opportunity to present the 38th Commemorative Egg, on behalf of America's egg farmers, is extremely gratifying to me professionally and personally," says AEB Chairman Sauder. "Our expanded exhibit area on the South Lawn put the Incredible Edible Egg in the national spotlight and created an incredible opportunity to educate both the children and adult attendees throughout the day."

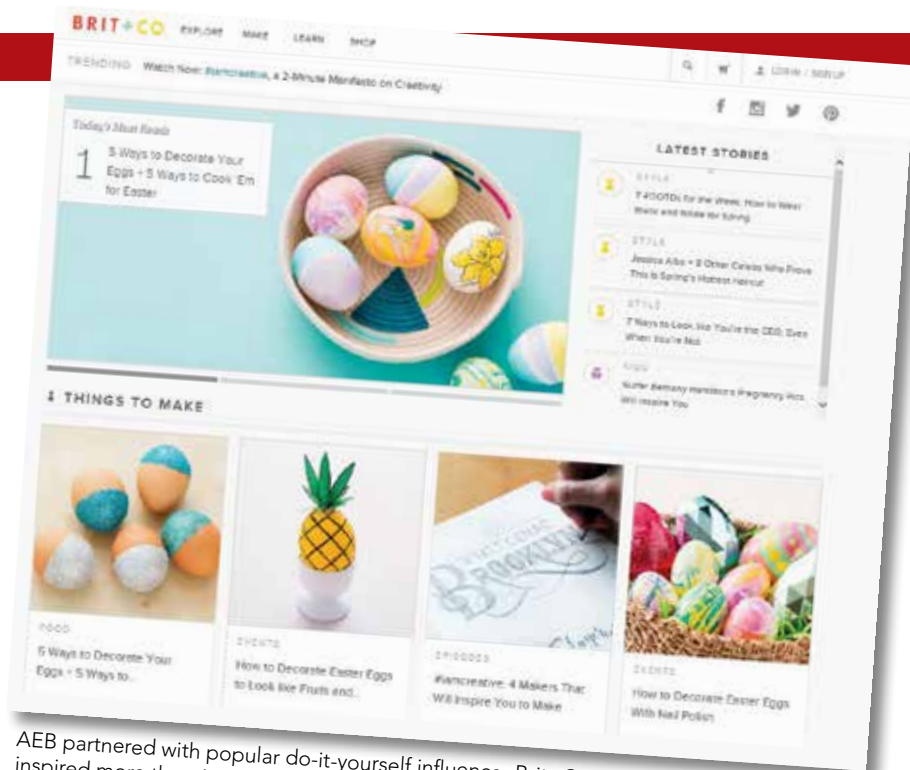
AEB donated more than 14,000 REAL hard-boiled and dyed eggs for Monday's event that drew more than 35,000 people. The volunteers also wore AEB-provided hats and aprons with the official White House Easter Egg Roll logo.

On the South Lawn, AEB's whimsical An Egg's Journey from Farm to Table exhibit engaged the day's attendees and highlighted how eggs move from egg farms to retail and kitchen tables. Attendees asked questions throughout the exhibit all day, and typical feedback included comments such as, "I didn't know that" and "Thank you for all farmers do."

Attendees took pictures with the Hollywood Hens, realistic imitation hens, and in photo cut outs that showcased: a farmer and hen in the barn; eggs being washed and a delivery truck



AEB worked with Hungry Jack Hash Browns to get in on Easter entertaining and in addition to 1.6 million in-store coupons for savings on eggs.



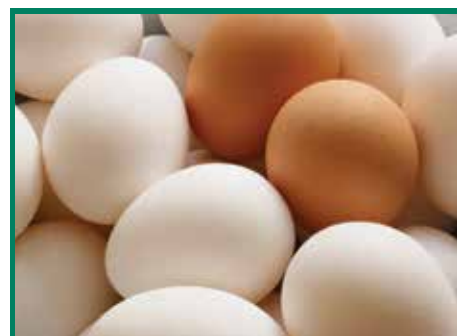
AEB partnered with popular do-it-yourself influencer Brit+Co. The social trendsetter inspired more than 12.7 million people to check out their egg decorating ideas.

with a supermarket. A new hands-on kitchen proved incredibly popular, providing children the opportunity to play pretend and move eggs from the refrigerator to the stove. Key messages were strategically placed throughout the expanded exhibit space.

AEB's flying disc giveaway tied into the day's activities—themed "#GimmeFive" to celebrate the fifth anniversary of the First Lady's Let's Move! initiative. And, of course, Easter egg rolling, dyeing, decorating and hunting were all part of the day's events.

Special thank you to Board Member Chris Pierce, his wife Pam and his daughter ElleAnna and Big Dutchman's Steve Walcott. All four worked the entire day alongside AEB staff.

If you would like more information on AEB programs or recent results, please do not hesitate to contact me by phone, 847.296.7043, or by email, [jivy@aeb.org](mailto:jivy@aeb.org). **UB**



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# Silence of the lamb? Not exactly...



By Bill Smith  
bsmith@urnerbarry.com

In general, 2014 was a strong year for boxed lamb prices—so far in 2015, however, that hasn't seemed to be the case. Boxed lamb prices continue to trend lower than 2014 despite reductions in production levels. Sheep slaughter figures are currently down about 6% compared to last year. Buying interest for the remainder of the year is expected to be steady to a little more active.

The first quarter of 2015 has seen lamb carcass prices trend lower. Using the 65/75 weight selection as a benchmark, the monthly average price has declined about 6% since the beginning of the year. January's monthly average price was \$3.49/lb. which was up about 18% compared to January last year. April's monthly average price was \$3.29/lb. which was up roughly 5% compared to the equivalent time period in 2014. Prices did vary between the different weight selections as supplies of the lighter selections were often harder to come by. As the year progresses, prices will likely level off and maybe even strengthen as demand improves and supplies remain tight.

Most of the boxed lamb cuts were a little lower in Q1 2015 despite lower kill numbers. Supplies were still generally ample for current buying interest, yet demand will likely improve as we are quickly approaching grilling season. The unfortunate truth is that many Americans consider lamb as an item reserved for dining out or for special holidays. According to the North American Meat Institute's most recent U.S. Meat and Poultry Production and Consumption report, Americans consumed 0.6 pounds per capita of lamb and mutton in 2012—in comparison, per capita beef consumption was 57.4 pounds



and chicken consumption was 81.3 pounds per person in 2012.

Racks started off 2015 with a monthly average price for January of \$8.55/lb., about 10% above January 2014 levels, before declining throughout the rest of the quarter. February's monthly average price was 1% lower than the equivalent time period for 2014. Monthly prices for the first quarter of 2015 were nearly 17% higher when compared to the five-year average. Overall prices are still fairly strong, historically speaking.

Loins have traded at a discount compared to 2014, but still at a premium when compared to the five-year average. 2014 loin prices were fairly stable throughout the year. Monthly average prices so far in 2015 have ranged from 1-3% below last year's levels, but 3-11% higher than the five-year average.

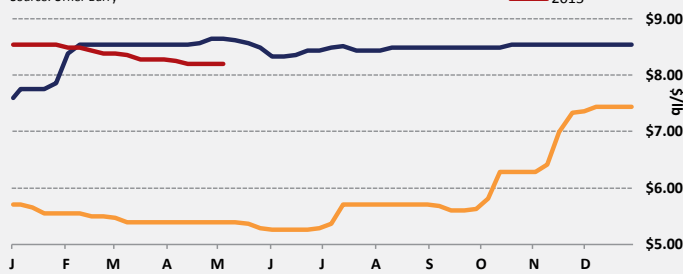
Monthly average prices trended higher from June 2014 until leveling off in November 2014 and have trended slightly lower since. Some are optimistic that prices will start to trend higher again soon as we approach grilling season.

Leg prices were generally a little weaker throughout Q1 2015. When comparing monthly price levels in 2015 to 2014, January, February and March prices were all 4-9% lower. Historically, demand for legs improves in the fourth quarter due to increased demand surrounding the Christmas holiday.

Expectations for lamb carcasses and boxed cut values are mixed for the duration of 2015. Supplies are expected to be manageable due to reductions in slaughter and buying interest is likely to be moderate at best. Availability of imported product is the subject of some speculation and uncertainty. In addition, higher prices on some other proteins could lend support to the lamb complex.

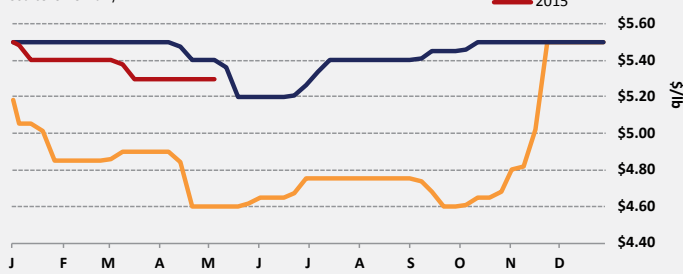
**Boxed Lamb Cuts, 204 Rack, 8Rib, 7/Up-(LTL)**

Source: Urner Barry



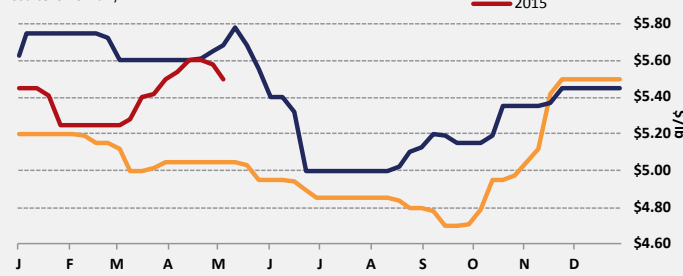
**Boxed Lamb Cuts, 232 Loin Trm'd 4x4- (LTL)**

Source: Urner Barry



**Boxed Lamb Cuts, 234 Leg, Boneless-(LTL)**

Source: Urner Barry







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# Record markets and HPAI

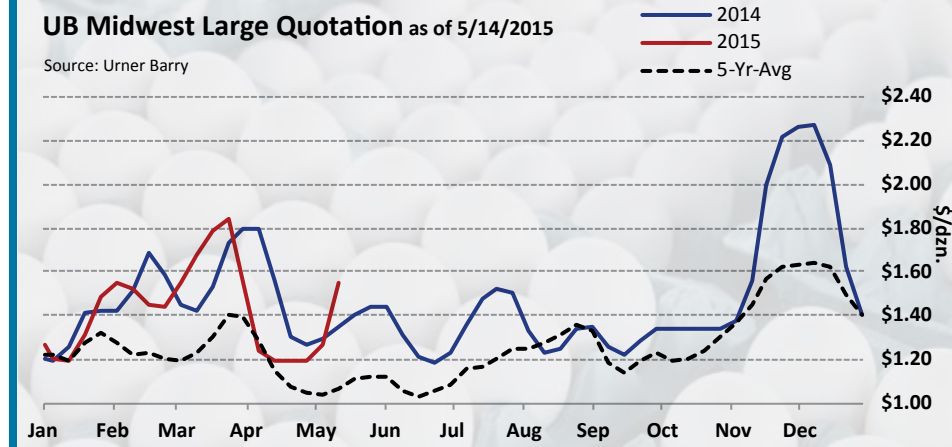
By Brian A. Moscogiuri  
brianm@urnerbarry.com



Over the last 10 years, the egg market has enjoyed positive fundamental shifts. Once the target of cholesterol concerns in the early 2000s, eggs have made an epic comeback. Now, touted as a healthy, nutritional powerhouse and an affordable protein option, prices hit unprecedented levels in 2014 and so far in 2015, but new issues are set to shakeup the marketplace.

## A BANNER YEAR

In the 150 plus years that Urner Barry has been quoting the egg market, the annual average Midwest quotation only exceeded \$1.30 per dozen once. The year was 2008; production was impacted by a salmonella outbreak in Iowa. At \$1.28 per dozen, 2013's price level was the second highest annual value seen to that point, motivated



by increasing domestic consumption patterns and record export shipments. These factors only heightened in 2014, sending prices to all-time daily highs on several occasions and supporting a record annual average quotation of \$1.47 for the year.

## RECORD HIGHS

Easter is traditionally known as the best period for the shell egg market on a year in, year out basis. Rivalled only by the winter holiday period, producers ramp up production and retailers promote shell eggs for baking and painting. Following a strong start to the year, motivated by exports and frigid temperatures throughout the country, Urner Barry's Midwest large quotation hit a record high of \$1.80 per dozen before the holiday. Breaking egg prices during the period topped out at an annual high of \$1.21, while liquid whole egg prices were quoted at a 2014 peak of \$1.02 per pound around the holiday.

Exports helped to soften downside adjustments from these peaks and motivated a few market rallies in the late spring and early summer. As the weather began to heat up, so did foodservice business. Processors really never had an opportunity to restock dried inventories and a number of national QSR chains began to run breakfast promotions. Egg whites remained the star of the show in this channel, as menu makers took advantage of the health and wellness movement that was growing in the states.

This at a time when buyers were seeing record prices blanketed across much of the red meat industry. By August, our standard liquid egg white quotation hit an all-time high of \$1.28 per pound. Market participants reported excellent movement in the foodservice and retail sectors, but were also scrambling to fill dried orders, where inventories had hit the lowest levels on record just earlier in May of 2014. Our dried egg white quotation advanced to more than \$15 a pound, forcing buyers to source alternatives wherever possible. This was difficult though, as many end users were adding egg whites to market their products as healthy and with a clean label.

As mentioned above, Easter can, at times, be rivalled by the winter holiday period and that was definitely the case in 2014. Following a flat month in October, where prices stayed steady at \$1.34 per dozen, the Midwest quote skyrocketed more than 69% to \$2.27 per dozen through the month of November.

## RECORD EXPORTS

Total shell egg and egg product exports hit all-time highs in 2013, when avian influenza prompted Mexico to pull in 28% of the 324.9 million dozen shell eggs and egg product equivalent the U.S. shipped outside its borders. In 2014, export shipments totaled 340.8 million dozen, 32% of which were shipped to Canada. Buyers north of the border cite per capita consumption increases, scattered cases of AI, and national production controls as

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Elliot P. Gibber, President



the drivers for their import call. Mexico continued to import from the states as well, bringing in 23% of the record export sum. In total, more than seven thousand loads of shell eggs and egg products went into MX and CN or 55.4% of total exports in the year. The historical export total absorbed the production of about 15 million U.S. laying hens or 5% of the total eggs produced.

## 2015

California's Proposition 2 went into effect on January 1, 2015. Initial shortages propelled market levels to more than \$3.40 per dozen for compliant production, but these prices were too much for consumers and motivated producers east of the Rockies to adjust production. Business patterns began to rebound once prices fell below the two dollar per dozen mark and supply conditions got into a fairly good balanced as new production came online in and around the state.

Exports began the year at a record pace, with Mexico and Canada buying in ahead

## "HPAI IS SET TO RESHAPE THE U.S. SHELL EGG AND EGG PRODUCTS LANDSCAPE IN THE YEAR AHEAD..."

of the Easter period. The Midwest large quotation hit another record level during the Easter run, when prices climbed nearly 30% in the month ahead of the holiday to \$1.85 per dozen, the highest Easter market in history.

### CHALLENGES DEVELOPING

Between improved health and wellness appeal, growth in the QSR sector, record export shipments, and improving domestic per capita consumption rates, the egg market appeared poised to continue recent momentum for the foreseeable future. There were some growing concerns about the strength of the dollar and the price competitiveness of other countries in the international marketplace, but a bigger issue has developed.

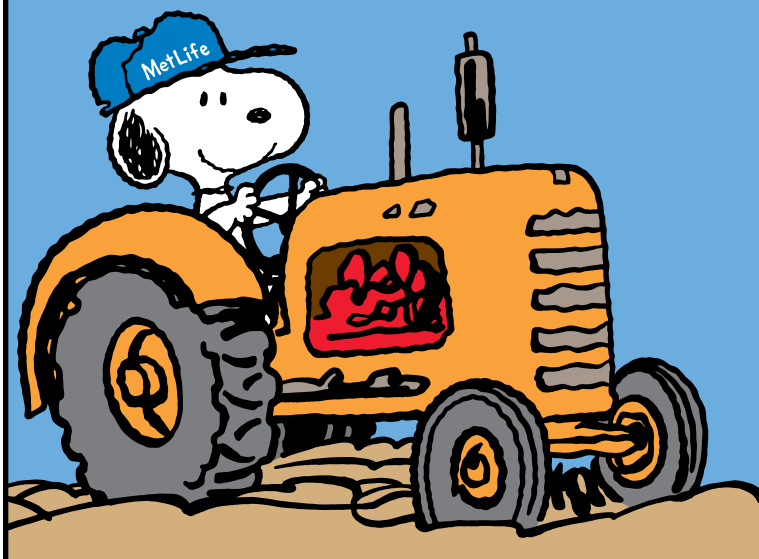
As of this writing, High Path Avian Influenza (HPAI) has affected more than 27 million of the nation's 303 million laying hens. 80% or more of which were servicing the egg products industry. Buyers who once thought their long term needs were covered by contracts have been forced back onto a competitive spot market to source liquid, dried, or frozen eggs. Prices for breaking eggs have more than doubled since HPAI was found at the first commercial shell egg laying facility at the end of April.

Processors are fielding inquiries from all over the country and are allocating any egg product available. Buyers here are competing with prices in the cartoned channel for shell eggs to break and relationships between Midwest large and breaking stock have been reduced to some of the tightest spreads seen in years.

Several of the facilities afflicted are inline breakers, meaning eggs were produced and

*Continued on page 18*

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# EGG AND EGG PRODUCT MARKET

Continued from page 17

processed on the site. Shut downs here not only impact the production of shell eggs, but the nation's capacity to break and further process egg products.

Meanwhile, breaking egg demand has also impacted the cartoned market. Retail demand patterns have been seasonal for May, one of the slowest periods of the year for egg sales and promotion. Call from the products sector has soaked up any supply availability, however, driving prices 30% higher since the 4th of May.

Participants in the cartoned market complex are placing limits on orders to their customers and restricting retail features for the immediate future. To this point, however, retail customers have been able to acquire all of their contractual needs.

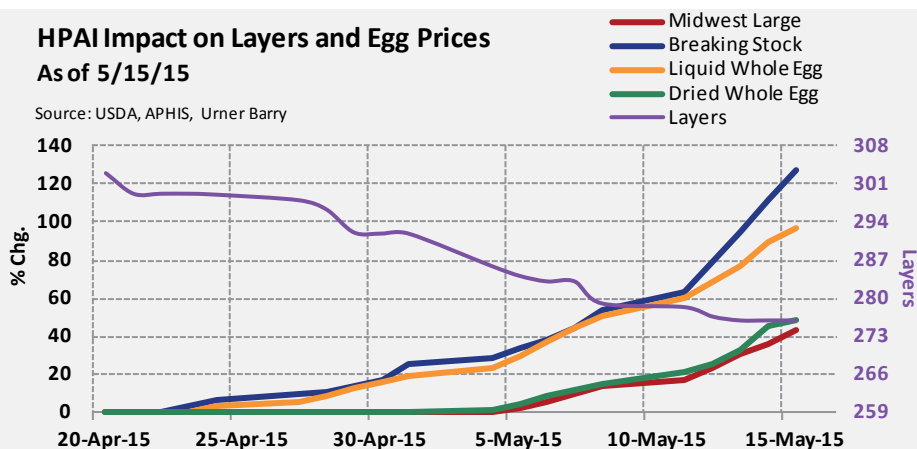
Exports out of the affected states have been shut off, but both Mexico and Canada continue to take shell eggs from the unaffected regions. Last year, the U.S. exported more than 15 million layer's

worth of production. Shipments abroad have clearly been impacted, but even if they are completely shut down, deficits would still exceed 10 million layers.

Egg industry participants and multinational companies are beginning to explore the potential of importing foreign supplies of egg products and shell eggs. To this point, no shipments are imminent, but as with the overall situation, conditions are changing rapidly day to day.

## HPAI Impact on Layers and Egg Prices As of 5/15/15

Source: USDA, APHIS, Urner Barry



## HOPING FOR THE BEST

Over the last two or three years, the egg market has really hit its stride. Domestic prices hit record levels, exports reached all-time highs, usage has been way up, and the egg was gaining a prominent role as a healthy, protein-packed ingredient.

HPAI is set to reshape the U.S. shell egg and egg products landscape in the year ahead though, even if the industry can immediately stop the spread of the virus. Export markets that have become a steady home for U.S. shell egg and egg products are now at risk. Perception of the egg as a low cost ingredient could be in jeopardy, and it could take an extended period of time for producers to rebuild flocks already lost.

The industry is working together to combat the issues at hand and is beefing up bio security, to protect future production. Producers, processors, and end users have a tough battle in front of them, and it will be interesting to see how the rest of the year unfolds. [u](#)



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# Supply vs. demand: A game worth watching

By Terence Wells | [twells@urnerbarry.com](mailto:twells@urnerbarry.com)



In the last issue of Urner Barry's *Reporter*, we highlighted just a handful of the unforeseen variables that make predicting the chicken market a challenge. They included things like weather, input costs, competing proteins, foreign market access, strength of currency, government interaction, transportation and bird health and performance. Most, if not all, of these factors have played a major role in how the market has performed in recent months—and chances are that as we move forward, they will likely continue to have at least some sort of impact on supply and demand scenarios.

The past, present and future state of the chicken market cannot be discussed thoroughly without at least briefly covering the aforementioned items. Weather—it was harsh again this year and for most of the country. Not only was consumer demand disrupted in the north and Midwest, but processors in the south faced frigid temperatures, freezing rain and even snow during the first quarter.

Competing proteins—last year, the chicken industry benefited from higher priced beef and pork. This year, the pork supply is more ample while the beef supply remains barely adequate to short and prices are still relatively high. Foreign market access—or rather, the lack thereof—since August 2014 when Russia placed its geopolitical ban on U.S. poultry, more than 40 countries (including China and Mexico) have, in some shape or form, banned or restricted U.S. poultry because of avian influenza. Strength of currency—the U.S. dollar is strong, especially when compared to the currencies of those countries that we rely so heavily on for exporting product, which is limiting their buying power. Bird health and performance—sometimes it's favorable and sometimes it isn't. As a result of the recent avian influenza outbreak, it is now without a doubt the most watched segment in the industry and will continue to be just that for months and years to come.

Regardless of all the issues processors have faced in recent months, broiler production is increasing. The number of eggs set and chicks placed, which are usually good indicators as to what lies

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ahead for future production, are both trending higher. The USDA is reporting a weekly average of 207 million eggs, which is up 2.3 percent YTD. Similarly, chick placements have reflected an even greater increase of 2.8 percent year over year. This almost perfect conversion of sets to placements was not the case in 2014 for a number of reasons. One of the biggest differences this year is that the industry has a younger and healthier breeder flock and their output reflects just that. In fact, the number of pullet chicks hatched for domestic placement in supply flocks has trumped its year ago totals 15 of the last 16 months.

YTD slaughter is averaging 155 million head per week in 2015, up 2.5 percent compared to last year. Average live weights are also trending higher by about ¼ lb. to just over 6 lbs. per bird, an increase of more than 4 percent. The latter stat may be the more significant one, given that it is largely the reason why the industry has seen a seven percent increase in ready-to-cook tonnage.

As the industry produces more, what isn't immediately consumed, finds its way into cold storage. Total holdings through April 30th are substantially higher than they were in 2014. Leg quarters are the leading category by far with 180.8 million pounds inventoried, 80 percent more than last year. Breasts and breast meat are in a close second with 150.4 million pounds in cold storage, 38 percent more than the year prior. Wings are lower at 44.8 million pounds. Total holdings are up 31 percent or 181.4 million pounds.

After reaching \$2.00/lb. for the second year in a row, boneless/skinless breast meat values fell sharply during the fourth quarter to \$1.33/lb. The market, which at times was flooded with additional product, did not balance itself out until late January of this year when buyers in need of breast meat for fast food and foodservice promotions became more active. The extra production that had weighed the market down just a few months prior was now being absorbed quickly and at stronger values. This is especially true of select or smaller sized boneless breast meat as its values also advanced significantly. At the end of May, jumbo boneless/skinless breast meat was valued at \$1.53/lb.

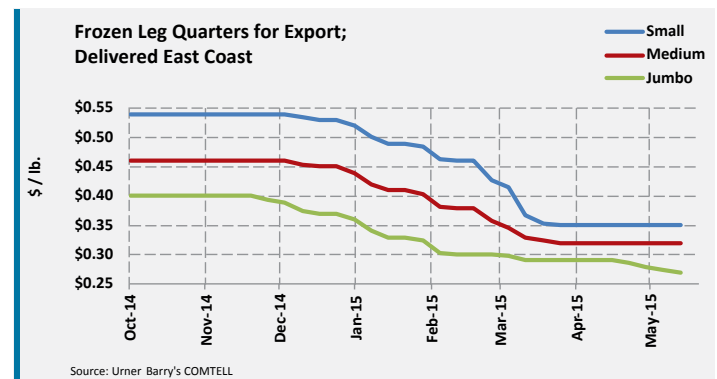
It hasn't been as "crazy" a year so far for line run breast tenders, but it's still been relatively strong. Seasonal demand for fast food and foodservice promotions has lent support to this market yet again in 2015. While tenders are nowhere near their historical high of \$2.55/lb., they have maintained values close to \$2.00/lb. At the end of May, tenders were priced at \$1.81/lb.

Urnner Barry's quotation for WOGs hit a high of \$1.17/lb. in May 2014. After some seasonal ups and downs in demand, buyers became more aggressive in early 2015 and WOG prices soared back to just over \$1.00/lb. At the end of May, WOGs were trading within a reasonable range of said value.

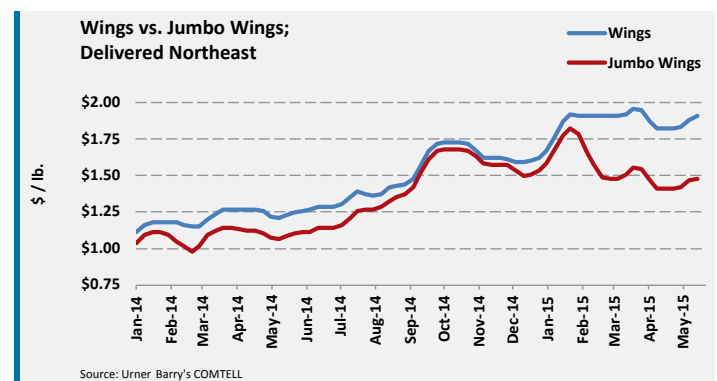
Wings performed more typically this year. Unlike in 2013-2014, QSRs and other wing-related establishments pulled regularly, if not at a greater pace in 2014-2015. At the end of May, regular sized wings were valued at \$1.92/lb., whereas jumbo wings were just under \$1.50/lb. That's a year over year increase in value of 52 percent and 33 percent, respectively.

Regarding dark meat, most lines have been under varying degrees of downward pressure since the third quarter of 2014. This is especially true for leg quarters, but also whole legs, drumsticks and leg meat as well. With the oil market being as weak as it is and the U.S. dollar still exhibiting strength, the buying power for many of U.S. poultry's top export destinations has diminished. Furthermore, the presence of avian influenza has resulted in more than 40 countries issuing bans or restrictions on U.S. poultry. This is forcing sellers to place more dark meat production onto the domestic marketplace and values have reacted accordingly. At the end of May, fresh leg quarters were priced at \$0.28/lb., which is \$0.21/lb. or 42 percent below last year. As the summer months hit, consumers will more than likely face the age-old question, "what's my best value?" and the bone-in back half of the bird appears to be just that, again.

Looking ahead, the USDA is forecasting a production increase of 4.2 percent (May) for 2015. They're also projecting a per capita consumption increase of 4.9 lbs. or 5.8 percent. So, for the balance of this year, one might draw the conclusion that breast meat, tenders and wings will continue to move at supported levels. At the same time though, if there's no relief in the export marketplace, then values for dark meat will remain under varying degrees of pressure. There's no denying that more supply is headed our way; the question is, will demand be able to keep up? [UB](#)



Leg quarter values have been under varying degrees of downward pressure since Q4 2014. A weakened oil market, strong U.S. dollar, and several bans or restrictions on U.S. poultry related to avian influenza have combined to force our listed quotations lower.



The call for wings has been seasonably better since Q3 2014. Buyers, particularly those in need of fulfilling their QSR and foodservice requirements, continue to play a major role in the strength of this market. This is especially true of the smaller or regular sized wing.

# Predicted production increases, adequate supplies thrown an AI curve ball

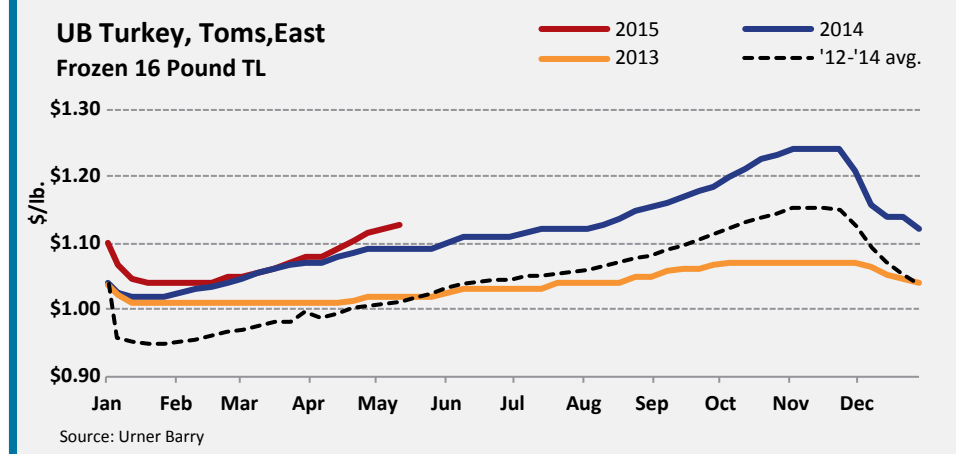
By Russell W. Whitman  
Rwhitman@urnerbarry.com



So far, 2015 has been anything but as expected for the turkey industry. What began as a fairly easily defined market year, complete with advancing production levels, higher freezer stocks, lower input costs and reduced values, is now in a more chaotic state. Incidences of high path avian influenza impacting commercial and breeder flocks have turned traditional sellers into buyers and strengthened the conviction of long established buyers to solidify commitments and hope that they are honored. All of this has been against a backdrop of influences which have resulted in stronger whole bird and meat markets than most anyone would have guessed.

A quick glance back at the close of 2014 found the third quarter on solid ground and with far more substance than even bullish prognosticators expected. This period was represented by record setting markets for many of the core turkey lines including whole birds, breast meats, thigh meats, along with drums and wings.

The early part of the fourth quarter found limited whole bird supplies giving buyers few options from which to choose. Consistent business patterns resulted in Urner Barry's quotations hitting record heights by the end of October where they remained until seasonable pressures started playing their roles. From the all-time high of \$1.24/lb., whole bird quotations declined 13 cents to \$1.11/lb. by year's end; the highest closing value ever. Breast meat prices lost \$.30/lb. during the course of the three months as advancing slaughter combined with traditional lackluster fourth quarter demand patterns. Thigh meat started the quarter surprisingly well supported and residing at its highest recorded level ever, \$1.76/lb. Despite excellent demand, solid market conditions yielded to a variety of market influencers. In the end though, other proteins proved more attractive—cheap and plentiful hams pressured thigh meat values to retreat



\$1.14/lb. in the final months of 2014 and this poor early year posture continued to produce weak 2015 performance right out of the gates.

Parts excelled throughout most of the quarter. However, the Russian ban on U.S. poultry, along with the negative impact on buying power generated by the strong U.S. dollar and reduced cash flow in several international markets, continued to strangle this complex. In early 2015 a Chinese ban further complicated matters. However, prior to the negative performance in 2014's final weeks, domestic and international requirements for parts catapulted them to all-time quarterly highs.

The quarter's changing complexion was largely a result of the transition towards reduced storage holdings and slaughter levels. September 30 YTD head slaughter was down just over three percent from 2014, but heavier turkeys were still influencing live weights.

Advancing slaughter figures started to show up consistently during quarter four, however they were not sufficient to offset the first three quarters' decline and closed the year down one percent. Hatchery figures continued trending upward. 2014 eggs set closed the year shy of five percent above 2013 while poult placements were a little above four percent. December 31

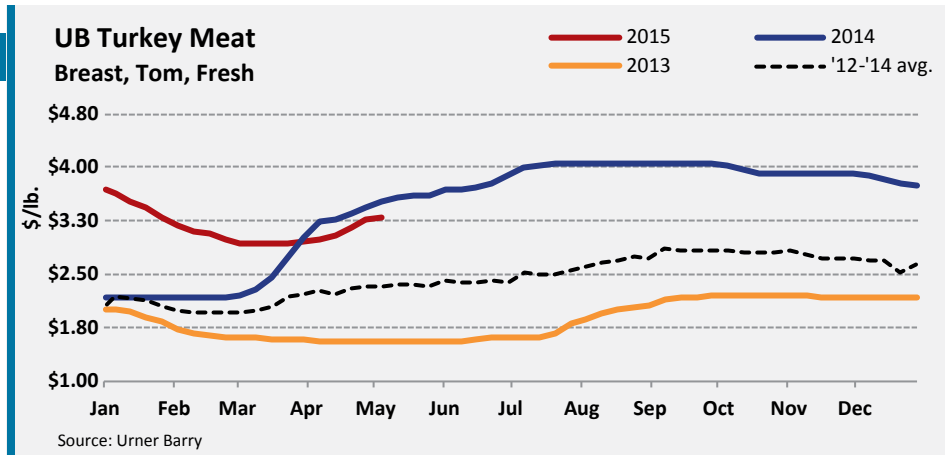
whole bird holdings closed at 59.6 million pounds; 12% below the same time a year earlier. Total turkey stocks were 193 million pounds.

At the start of the New Year, production increases, a troublesome export market and, in a positive role, lower input costs were the market influencers being watched. Unlike present indicators, demand for breast meat was slow to advance at the year's outset. Forecasts of increased heavy tom production which would lead to building inventories and lower prices were well entrenched in industry dialogue. First quarter 2015 behaved pretty much as expected with retreating market quotations representing negotiated sales through the end of March. Whole birds reflected somewhat stronger than expected conditions with the early year market low established by the third week in January at \$1.04/lb., a \$.02/lb. increase over 2014. During this time offerings of whole birds were discernibly being held with increasing confidence. Some of this was rooted in hatch report figures showing a clear distinction in demand for tom poult over hens. Loosely translated, this showed a clear industry intention to increase meat production and keep a tight rein on retail packaged whole birds. This led some buyers to conclude that the time was ripe to begin whole bird negotiations for Easter and, more importantly, Thanksgiving requirements. By the end of quarter one,



tom and hen values had turned the corner and instead of lower year on year prices, market values were running a penny above the same period in 2014. Inquiry for parts remained good overall but were negatively impacted by China's ban on U.S. poultry along with various other bans or monetary considerations which reduced the buying power of U.S. export partners. Thigh meat movement was surprisingly good during the early Lenten season but demand was muted, especially in Mexico, by extremely low ham prices and the relatively weak peso valuation. By April, and with HPAI incidences being reported almost daily, the hatch report figures showed egg sets running higher by six percent. Placements were running only about a percent and a half above last year due largely to the large numbers of poults, especially hen poults, being destroyed each week. By now the forecasts of production increases for 2015, which the USDA had pegged at about 5.5 percent, were routinely being scrutinized.

So as stated at the outset, first quarter 2015 market performance has been stronger than anyone would have guessed. Year end freezer stocks well below 2013 levels were expected to grow as production advanced and exports were stifled. The export component certainly helped put pressure on wings, drums and thigh meat given the Russia, and in January, China bans that went into place. Export partners like Mexico and nations in the EU suffered from currency devaluation or, in the case of some African nations, suffered cash flow issues. None of this was having significant impact on whole birds. On January 15, the Urner Barry tom and hen quotations hit \$1.04/lb. where they held steady. This level was two cents above 2014. A little more than a month later, the year's first whole bird market advance took place. Although enough confidence was exhibited by sellers to maintain a steady market undertone, it paled to the level observed a couple of months later in the midst of flock losses incurred due to HPAI confirmations. Breast meat started the year in good shape but somewhat subdued given industry expectations that further erosion in market values would occur as slaughter levels moved higher. The influence that HPAI would ultimately have on this segment had yet to throw a curve ball to the best laid industry plans.



By February, higher slaughter levels in conjunction with lower production costs were resulting in reduced market values which, at the time, were not doing much to stimulate demand. That would all change by March as the first significant outbreaks of HPAI were confirmed in commercial turkey flocks and all of sudden the plot started to thicken. Over the next month the gaps in production, both immediate and future, brought on by burgeoning HPAI cases ushered buyers into the marketplace. Breast meat started to move slowly higher and then, the pace quickened. Processors who were counting

on adequate supplies, good demand and "fair" market values started to experience their own internal shortages and an inability to take advantage of rapidly strengthening conditions. For further processors needing meat, the scenario was disconcerting, especially after 2014's record values.

By May even though Urner Barry quotations still resided below last year, the dialogue was already turning to the thoughts of another \$4.00 or better breast

*Continued on page 24*

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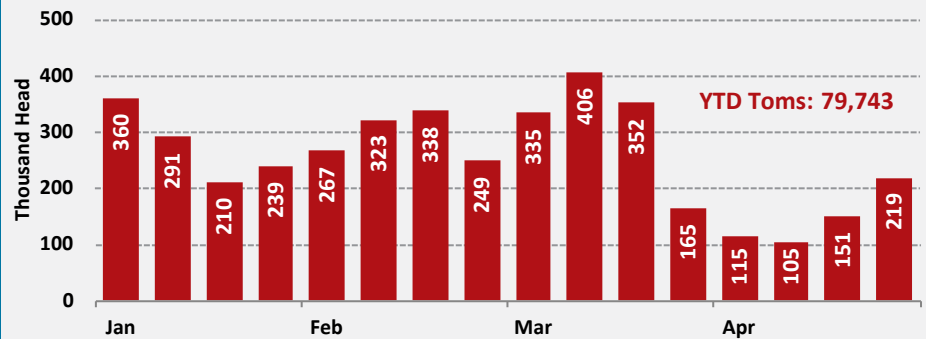
meat market. For whole bird buyers the urgency to secure holiday needs took on renewed importance, and like with breast meat, market values started to respond. By the time of this writing, the potential for the 2015 whole bird market to exceed last year's record heights has become a very real possibility as the loss of commercial turkey flocks to High Path AI begins to take its toll. Dark meat has been mixed during the year. Competitive pressures from cheap hams along with the export bans which are in place have diminished demand and support levels. Drums have been driven to five year lows while thigh meat values are as depressed as they've been since early 2013.

Looking into the balance of 2015 HPAI has dramatically altered the market's expectations, trade sentiment and landscape. *Urner Barry Hatch Report* figures suggest that slaughter increases will continue through the end of summer. However, with HPAI impacting the flocks, placements are becoming less predictable and more inconsistent. The most recent USDA figures are forecasting RTC production to increase 3.9 percent, down from previous forecasts and perhaps the subject of additional reductions going forward. Meanwhile YTD head slaughter is higher by under four percent while total live weight is up 4.26 percent. With flock losses still climbing it seems likely these figures will diminish with time. Somewhat surprising given the tremendous amount of HPAI instigated breast meat and whole bird demand was the April 30 USDA Cold Storage report. Tallied figures were 5% above last year with whole birds up year on year 12% while breasts and breast meat, surprisingly enough were up 2%. It is fair to expect that excellent May movement of these lines will reduce the holdings in public warehouses.

For the foreseeable future, whole birds and breast meat will likely remain on a trajectory which could approach or exceed that which helped set market highs during 2014. The questions that arise when assessing the balance of the year focus almost entirely on what HPAI means to immediate and future production. The supply curve has already shifted to the left. Demand has grown exponentially in the wake of changing production expectations

## Poults Destroyed: Gender Breakdown YTD

Updated: 04/29/2015



Source: Urner Barry

**"PROCESSORS WHO WERE COUNTING ON ADEQUATE SUPPLIES...STARTED TO EXPERIENCE THEIR OWN INTERNAL SHORTAGES..."**

and the tolerance for paying premiums in what was supposed to be a lower priced atmosphere is being tested. It seems possible that whole birds will break another barrier by exceeding the record levels obtained last year; breast meat already has. When considering that flock loss will reduce the already well absorbed volume of turkeys being produced by the industry, and observing the current course, there's not much holding back market values. For breast meat the urgency of "deli" season has propelled Urner Barry quotations upward as buyers' needs far outpace available supply. For the near term, higher values seem imminent. What troubles some observers is the loss of business, in both export and domestic markets, related to HPAI. Disappearance figures are being lowered in the face of reduced production forecasts and opportunities for them to regain a solid foothold are increasingly unlikely. When looking at the future of dark meat lines, specifically, thigh meat and drums, a close eye on developments in the pork ham market will be necessary. Support to ham prices which began in early May has helped improve turkey demand in Mexico while a more stable peso is also helping to promote confidence. It's been demonstrated that thigh meat prices seem to be able to distance themselves from ham and drum values but not necessarily from the influence of cheap prices or other market tempering factors. At the same time, supply restrictions associated with import bans has also reduced the amount

of product available for export. For parts, here too, the way the market is going to play out seems directly correlated with existing export bans. Without China, the likelihood is low that drum or wing values will regain the status experienced last fall despite domestic demand patterns which are as good as ever. Traditional demand, from distributors or smokehouses for instance, has not diminished with time but seems to have grown, while ground turkey requirements continue to play their visible role. In the background of the left shifting supply curve courtesy of HPAI are "low" feed costs, low to moderate inventory levels and growing international demand for turkey white meat.

A final consideration in analyzing the current and near future state of industry affairs is the breeder flocks. Not only have some been lost to HPAI and cannot be replaced for upwards of a year and a half, but available breeding stock is barely sufficient to provide enough commercial poults for existing global demand much less to replace those lost to disease. While still running above YTD 2014 totals, the number of poults being destroyed is declining. Processors are becoming less selective in their previously displayed preference for tom poults giving way to the need to get their "hands on" any turkey they can successfully rear whether tom or hen.

Looking ahead, the current blend of good demand, low inventories, flock disease, reduced production forecasts and breeding stock limitations will virtually guarantee strong turkey market values and closely balanced supplies for the remainder of 2015. **UB**





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## Plenty of cod and pollock, less haddock expected for 2015 U.S. whitefish complex

by Paul Brown  
pbrownjr@urnerbarry.com



### COD

In the first quarter of 2015 total U.S. fresh and frozen cod fillet imports were up over 32 percent to 10.2 million pounds. This is the highest volume of cod imported to the U.S. in the first quarter since 2011.

China continued as the top U.S. cod supplier, accounting for over a third of all cod imported to the market. Iceland was second followed by Norway. China accounts for roughly 50 percent of the world's processed H&G cod but does not participate as a cod fishing nation. China acts strictly as a processor that re-exports twice frozen cod products to major markets.



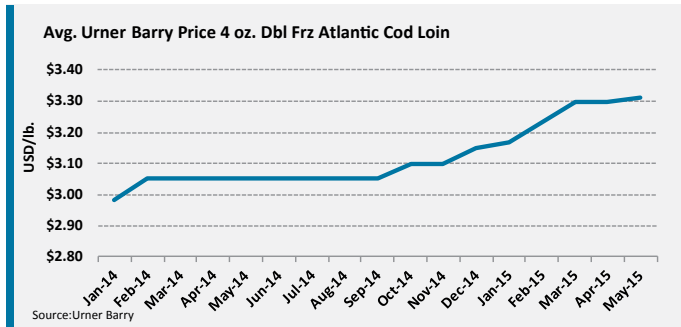
The bulk of commercially traded cod comes from just a couple sources. Atlantic

cod is caught primarily in the Barents Sea by Norway and Russia; Iceland rounds out a majority of the Atlantic supply. Pacific cod, meanwhile, is fished by the U.S. and Russia. The U.S. Commerce Department does not differentiate between species in its import data.

U.S. imports trended higher despite a 100,000 ton cut to the major Barents Sea fishery quota and a poor start to the fishing season in Norway.

Cod demand has trended higher in recent years. According to U.S. consumption data from the National Fisheries Institute, per capita cod consumption was up 16 percent in 2013. In fact, cod recorded the largest jump in per capita consumption among all whitefish options.

More cod demand in the U.S. is also evident as higher imports were met with an increase in wholesale prices. Urner Barry quotations for 4 oz. double frozen Atlantic loins climbed to three-year-high levels in the first quarter



and have held steady ever since. By May, minimum cod prices in Norway also reached record levels.

Meanwhile, European sales for frozen cod—particularly in the UK—fell in the first quarter while fresh cod sales boomed. In March, Norway's Seafood Export Council reported a 14 percent increase in first quarter fresh cod export values versus a 30 percent decline frozen export values.

Worth noting is how the stronger U.S. Dollar continues to make the U.S. an attractive market to sell to. This has been the case for shrimp and other seafood items since the end of 2014 and holds true for the cod sales to the U.S.

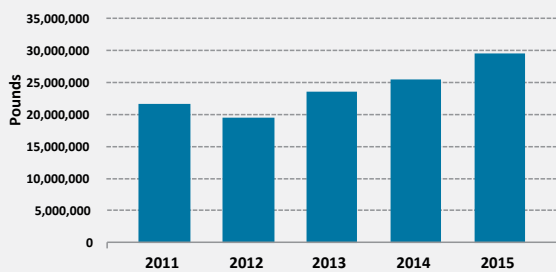
There appears to be more cod demand in the U.S. this year with imports trending notably higher in 2015 as prices hold steady at a three-year high heading into the summer months.

### HADDOCK

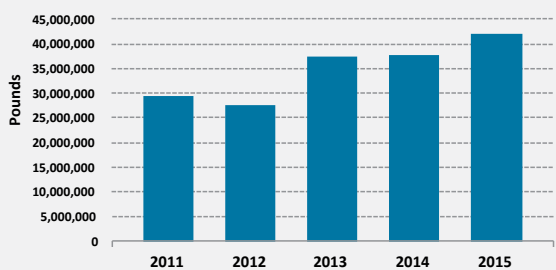
Traders might be moving away from haddock this year after the market reached

record prices in 2014. Prices have been in gradual decline since the start of 2015; average Urner Barry quotations in May for twice frozen 8/10 oz product are down about 8 percent compared to

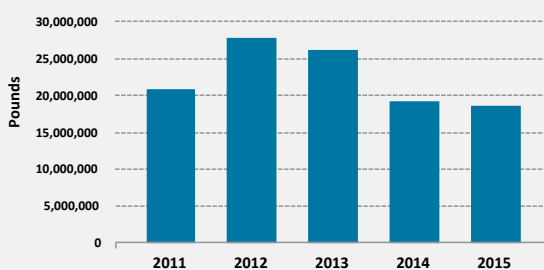
Total US Fresh & Frozen Cod Imports From China Q1



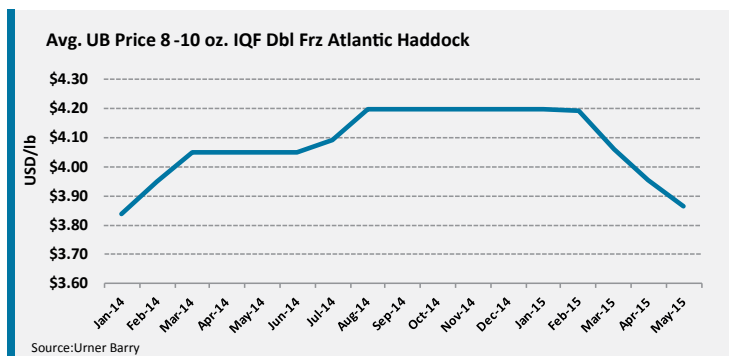
Total US Fresh & Frozen Cod Imports Q1



Total US Fresh & Frozen Cod Imports Q1







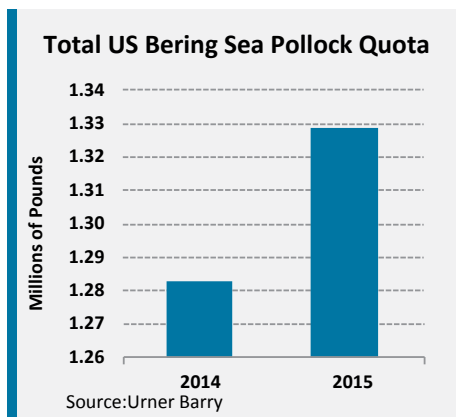
January. This is counter to 2014 when lack of Icelandic and Norwegian product resulted in more limited supplies and record high prices. Haddock imports are once again more limited in 2015, but prices are coming down from record highs in a sign traders are not willing to buy at such levels.

## POLLOCK

Pollock is the bedrock of the global whitefish industry, representing 40 percent of the world's total whitefish production. Historically, the Bering Sea fishery yields an annual catch of 1.2 million metric tons a year. In 2015 the North Pacific Fishery Management Council approved a 3.4 percent increase to the Bering Sea and Aleutian Islands pollock quota to 1.329 million tons. Meanwhile, the Russian quota was also adjusted significantly higher for the 2015 season to 1.72 million tons.

In other words there is a lot of pollock around in 2015.

Pollock is mostly traded in blocks and used in fish sandwiches at fast food establishments and in similar applications across the foodservice sector. There is little market volatility here on a year-to-year basis and 2015 is no different.



However, pollock is also the main ingredient used to make surimi. Here Alaska pollock can influence surimi production and price, especially in Japan. This

year's increase in the U.S. pollock quota was met with increased Japanese demand for surimi. In March, prices for standard A grade surimi hit a two year high on higher Japanese demand. **UB**

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# Gradual market correction

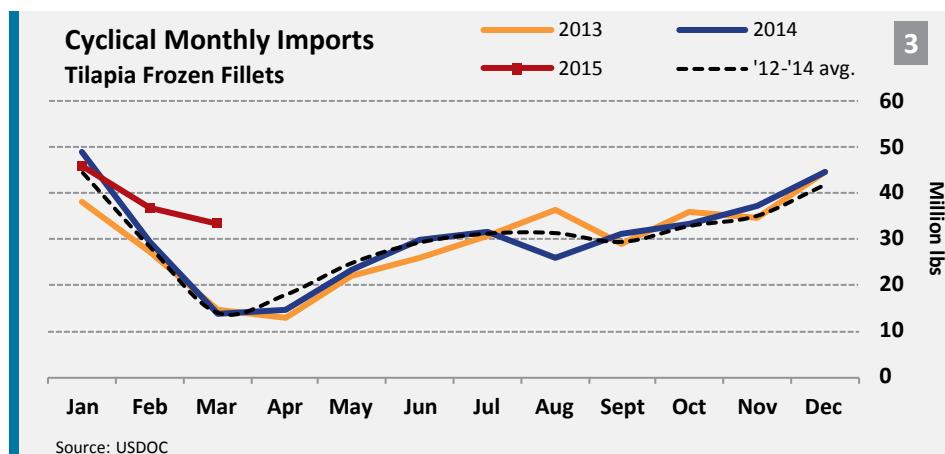
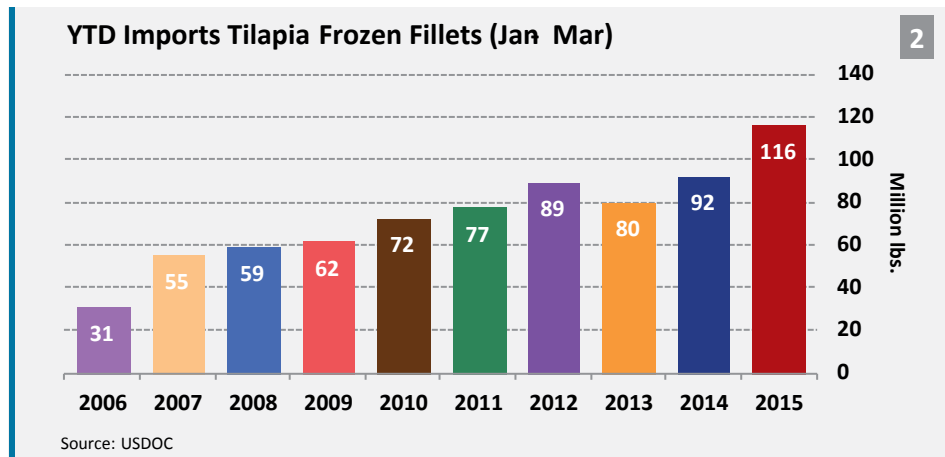
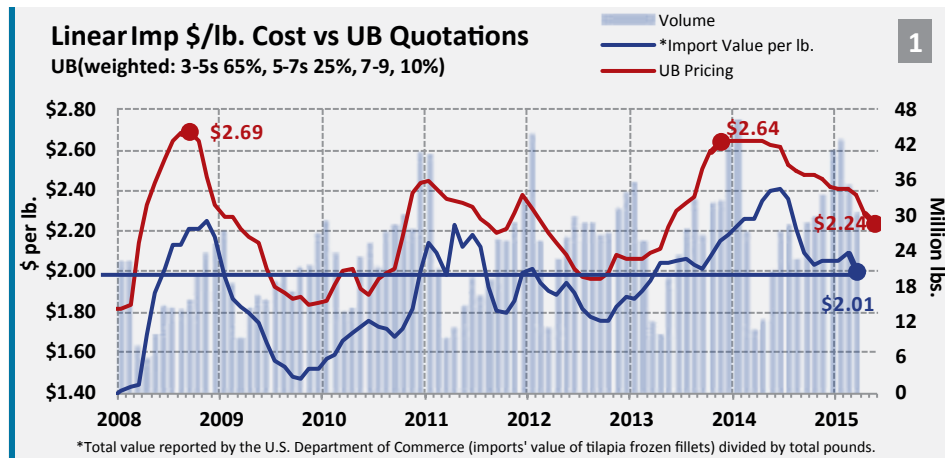
By Angel Rubio  
arubio@urnerbarry.com



By the time this issue of the Reporter goes to print, it is very likely that the tilapia market will reach a milestone with data from the past few years. Last

year, for example, import price per pound—sometimes referred as replacement cost—reached an all-time high in June for frozen tilapia fillets; the largest commodity category for Tilapia. Although Urner Barry's quotations did not reach a record high, they were very close to hitting

levels that were seen back in 2008 and remained high for a sustained period of time (chart 1). After this, prices have been gradually adjusting lower while imports have continued to surge. Similarly, the fresh fillet market has been under some downward pressure.



First off, let's begin with the fundamentals and a brief recap. The frozen tilapia fillet market entered 2014—last year—holding a strong undertone as imports in 2013 receded five percent from the previous year. Also, a strong demand from importers, an alleged shortage of raw materials in China, in addition to an early Chinese New Year in 2014, forced replacement offerings to rise from the fourth quarter of 2013 well into the first six months of 2014. As replacement costs rise, importers try to pass this cost along the supply chain, everything else equal. However, we know that “everything else” is seldom equal, and as such, high sustained prices in the wholesale market began to encounter some resistance, especially for a value item like tilapia. Additionally, during the summer harvest in China, strong positioning from U.S. importers for smaller fillets destined to the retail sector, caused supplies to be readily available. Lastly, a high-price fatigue from many importers was also reported and a market correction was bound to happen at some point.

That has been the situation since. There was resistance from many sellers in the U.S. to lower prices given high holding costs, but new and steadily lower replacement costs aided new buying positions to gradually adjust prices in the U.S. wholesale market. Moreover, in March 2015, replacement costs hit a two-year low. (This is for product that arrived in March, but was likely negotiated in December and January, prior to Chinese New Year.) As these replacement costs reached two-year lows, volume surged to a record high. Through the first three months of 2015, U.S. tilapia imports are up 26 percent to 116 million pounds (chart 2), far higher than the three-year-average. March drove this increase with imports unseasonably higher and over twice the record level at 30



## “...STRONG POSITIONING FROM U.S. IMPORTERS FOR SMALLER FILLETS DESTINED TO THE RETAIL SECTOR, CAUSED SUPPLIES TO BE READILY AVAILABLE...”

million pounds for the month (chart 3). Meanwhile, Urner Barry's wholesale prices for frozen tilapia in the U.S. continue to show a weak market. Average prices in April 2015 for 3-5 ounce standard skin moisture and moisture added fillets were down over 14 percent compared to last April. Average market prices are down 6.5 percent since the start of this year. During the first week of May, Chinese producers reported more instances of falling tilapia prices for product pegged for export. Farmers said an overall decline in overseas buying interest has forced processors to slash prices to clear already plentiful inventories. There is some pushback from industry participants to prevent further declines in prices; however, current supply conditions among Chinese producers appear to support a move for more price cuts.

The fresh fillet market has not been uneventful, though contrary to what one might think about fresh markets, it has not been as volatile as the frozen fillet market. We must remember that as a result of a global shrimp shortage back in 2012-2013; Ecuadorian tilapia producers turned their focus to shrimp production. Therefore, the second largest—and once the largest—supplier of fresh tilapia fillets to the U.S. started to see its shipments decline gradually, yet steeply (chart 4). Logically, there was an incentive for other suppliers like Costa Rica, Honduras, and other countries to expand production. However, as distribution channels adjusted (or rather U.S. buyers tried to source product from other suppliers), prices surged, both for replacement and at the wholesale level in the U.S. During 2013, imports of fresh tilapia fillets reached an all-time record high despite seeing shipments from Ecuador drop significantly.

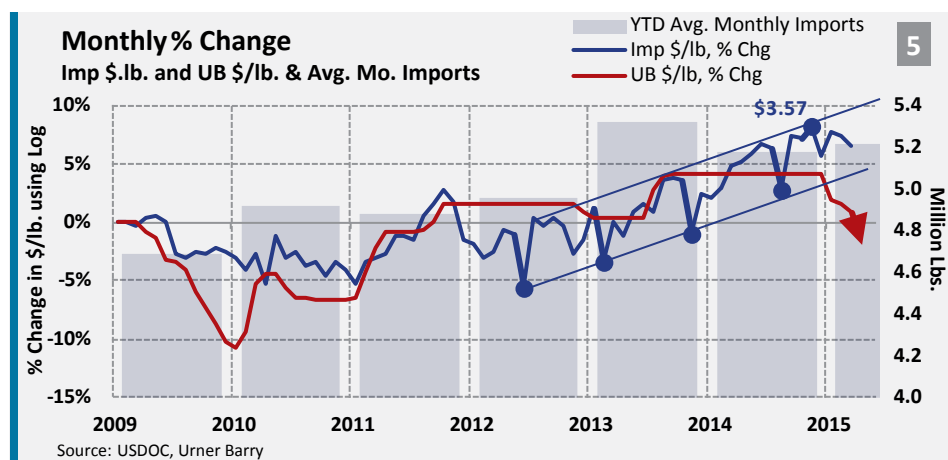
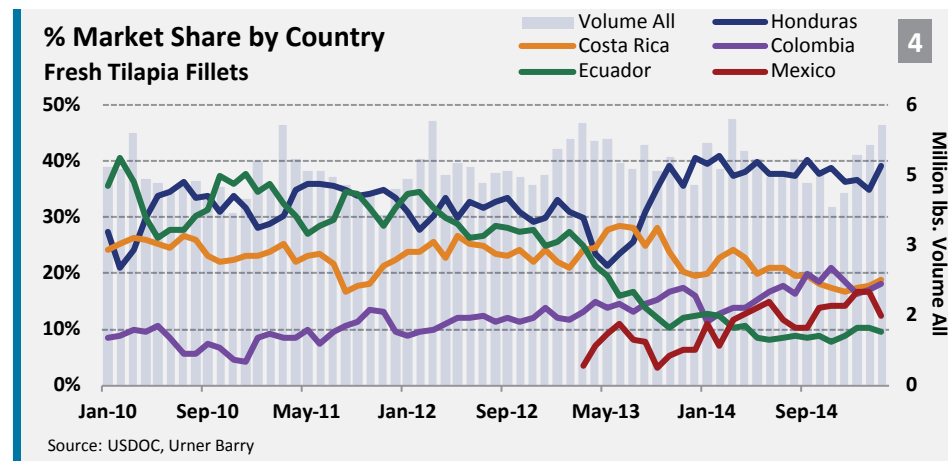
2014 was basically a steady year. It was a year in which wholesale prices enjoyed great stability even when shipments from Ecuador and Costa Rica dropped. Nevertheless, shipments from Colombia, Honduras, and the newcomer Mexico, were readily available to cover the gap.

So, as the market and supply adjusted to new sources, stabilization occurred. Then by the end of 2014, prices in the U.S. began dropping despite replacement costs reaching a record high in November (chart 5). Imports during the first quarter of 2015 reached their second highest levels in the last five years; combined with a slow demand (particularly in the northeast due to bad weather), the market was fair at best.

But there are other aspects that have not been mentioned. The U.S. dollar gained significant strength since September 2014. This is beneficial for those countries whose currency is free floating, like Mexico or Colombia, while other countries like China don't see the full benefits; Ecuador, which uses the U.S. dollar, has been

negatively affected by lower prices. Another factor is the price of soybean meal, the largest component of tilapia feed, which experienced multi-year lows. So, on the one side, producers have seen feed costs come down, and if the currency of their country is free floating and not dollarized, then a drop in price might not have the negative impact as if it wasn't. In other words, these external factors, aside from the direct fundamentals of supply and demand, can have a major role when the market is in correction mode.

For U.S. buyers further reductions to frozen Chinese tilapia prices could spur shipments higher into the second and third quarters. This is early evidence that the U.S.'s frozen tilapia inventory could be on a track to be plugged with an abundance of lower-priced tilapia in an already weak wholesale market. The fresh fillet market continues to see downward pressure in the after-Lent slow demand season. All in all, expectations for 2015, at the moment this article was written, are not for a firm market. **UB**



# Supplies of salmon are on the rise



By Janice Schreiber  
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Since the end of 2014 the farmed salmon market has closely followed seasonal trends. The market saw increases through December 2014 and January of 2015. The first half of the Lenten season was strong, however, about mid-March the market started to trend lower. With the exception of slight increases leading into the Christian Holy Week, the farmed salmon index slid about eight percent since the end of March. Two to three pound Chilean fillets have trended 11 percent lower and 10-12 pound West Coast wholefish adjusted down about five percent since the end of March.

Why the price decreases? Supplies of salmon are higher and imports through March of 2015 show overall increases of 11.2

percent. More specifically, Canadian wholefish imports are up 87.2 percent, Norwegian wholefish imports are 159.3 percent higher, and Chilean fillets are 2.7 percent higher.

The increases out of Canada seem astronomical, but they need to be placed in perspective. With the most recent data through March of 2015, 38 million pounds of wholefish has been imported compared to 20.4 million the same time last year. Compare this to 42.7 million

Consumers may have plenty to choose from this summer when it comes to salmon.

in 2013, and 47.4 million in 2012, again comparing similar time periods. Overall, imports of wholefish are 38.2 percent higher than the same time period last year.

Import volume increases are not just the theme with the wholefish market. Volumes are also higher for farmed fillets; though the increases are much slimmer. The Chilean fillet market is 2.7 percent higher through March of 2015. Imports out of Chile stand at 54.1 million pounds. Overall farmed fillets are 0.7 percent higher year-to-date. 2014 was a record setting year for volume out of Chile, thus far, 2015 is slightly ahead of 2014, we'll see if this is the continued theme for the remainder of the year.

The increases do not appear to stop with farmed salmon. According to the Alaskan Seafood Marketing Institute, the

**"...THE ALASKAN WILD SALMON SEASON IS ALSO PREDICTED TO BE THE SECOND LARGEST ON RECORD."**

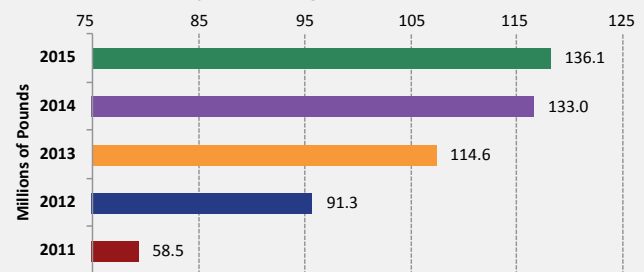
Alaskan wild salmon season is predicted to be the second largest on record; 40 percent higher than 2014. In addition, the projection for pink salmon is the largest on record. The projection of sockeye salmon has been one of the most discussed topics among market participants. Sockeyes do historically tend to compete directly with Atlantic farmed salmon at the retail level. The projection for sockeyes is 33 percent higher than the actual harvest for 2014. Additionally, inventories of frozen wild salmon supplies are fully adequate and demand remains fair to quiet for frozen wild salmon. This situation could encourage more sellers to move new production through fresh channels rather than send product to the freezer; thus placing more fresh salmon in the market. **UB**

**Alaska Wild Salmon Harvest Projections and Actual Harvests\***

	2013 projections	2013 actual	2014 projections	2014 actual	2015 projections
<b>King</b>	110	323	79	487	54
<b>Sockeye</b>	34,260	29,523	33,620	44,058	58,773
<b>Coho</b>	3,904	5,773	4,361	6,272	4,580
<b>Pink</b>	117,822	226,274	74,725	95,795	140,268
<b>Chum</b>	22,748	21,024	19,863	11,332	17,216
<b>TOTAL</b>	<b>178,844</b>	<b>282,917</b>	<b>132,648</b>	<b>157,945</b>	<b>220,891</b>

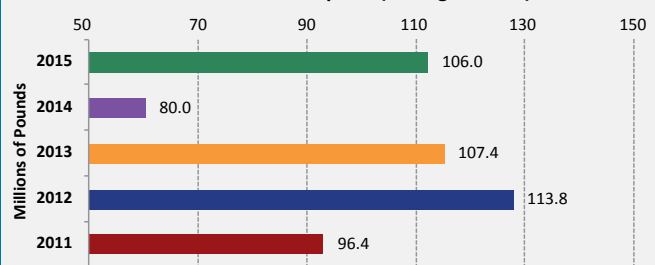
\*in thousands of fish. Source: Alaska Department of Fish and Game

**Salmon Fillet YTD Imports (through March)**



Source: Urner Barry

**Farmed Salmon Wholefish YTD Imports (through March)**



Source: Urner Barry



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# Mahi stable...for now; Predictions gone awry

By Angel Rubio | arubio@urnerbarry.com



assessment based on the “beach price” or “dock price”—the price they paid

for raw materials at the beach or dock—plus their costs to process fish into fillets, portions, etc. in order to make offerings to U.S. importers; obviously, with the intention of making a profit. Then, U.S. importers will assess their import costs, holding costs, contractual agreements, potential spot market trades, formula sales, and other types of trading in order to take a buying position. U.S. importers then sell to distributors, traders, brokers, retailers, restaurant chains and others in the U.S. market. Again, the purpose is for U.S. importers to also make a profit. So, by this point, which is the U.S. wholesale market, there has been quite a bit of risk, speculation, and buying positions taken among the distribution chain before this “finished product” trades in the U.S. Let’s look at an example:

1. Hundreds of boats return from the first trip back to the dock.

a. A series of processing plants are waiting at the dock ready to bid for the raw material.

b. Based on the dock price, plants will either buy a lot or not, based on the most fundamental laws of supply and demand.

c. The processing plant pays the fishermen and takes the raw material that is of export quality to its facility.

d. The processing plant has workers working the lines to produce certain number of containers destined to the U.S. market.

e. Sometimes the processing plant could start operations based on previous commitments established with a U.S. importer—meaning that there are guaranteed buyers; sometimes there aren’t.

f. Based on the assessment of existing inventories in the U.S. importers could start closing early commitments with some plants even for future delivery.

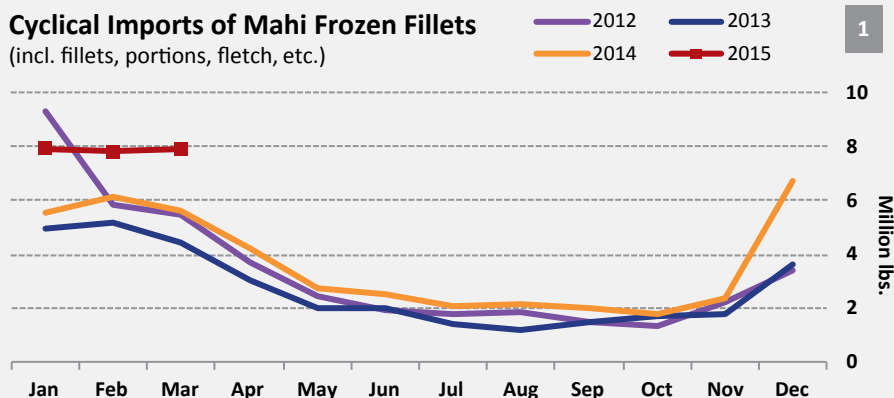
g. Then product starts arriving to the U.S. with the expectations that it can be sold for a profit; for this matter U.S. importers assess supply and demand patterns, market prices in the U.S. and negotiations with their clients.

h. Product gets traded in the U.S. in all sorts of types; contracts at fixed prices, formula trades, program business with retailers, and obviously, the spot market, which is reported by Urner Barry.

Speculation has become all too common in today’s mahi market as predictions from different parts of the industry, from U.S. importers to foreign processors, run wild even before fishing boats go out. This is inherently more common for wild fisheries than in aquaculture since guesses can be based on water temperature, industry experience and weather phenomena like an El Nino or La Nina. In the past, predictions have been extreme; there have been years that traders expected good catches as well as occasions where participants forecasted mahi volumes to fall short.

Before we get into the nuances of the data and its interpretation, it is important for everyone reading this to understand why there is such a great incentive for speculation in this market. First, let’s review the distribution chain. At one extreme (on the producer side) we have fishing boats mainly in Ecuador and Peru—the two largest suppliers of frozen mahi to the U.S.; fishing usually starts around the first week of October of every year. When these fishermen return from their fishing trips, offer their fish or raw material to processing plants, brokers or fresh fish traders—if the price is right. Quite a bit of bidding and trading for the product that was just landed can be expected. These processing plants, brokers and others will make an

**Cyclical Imports of Mahi Frozen Fillets**  
(incl. fillets, portions, fletch, etc.)



Source: USDOC

Now let’s get into the data. Imports of frozen fillets of mahi from November to March were used as this is the most recent data available. Also note that (assuming the first shipments of the season take approximately a month to arrive in the U.S. market) imports from November were used. After this, imports then rise in December and peak in January (chart 1). This year, there was a great deal of speculation that the season was short in supply and that prices would eventually shoot up. But if the mahi



market has learned anything over the past few years it is that wild market run-offs end up destroying the market as was the case in the '11-'12 season, when prices got so high that mahi priced itself out of the market. Though some traders made some quick money, a majority lost more than a shirt the following year (chart 2). So, according to official data, the current season is at record highs by more than two million pounds from the second highest year. Though this does not necessarily contradict a potential for supply shortage, as there are still seven more months of imports ahead of us, current data shows that imports as of the first five months of the season account for 86% of TOTAL average imports per season since 2008 (chart 3). In other words, the U.S. has imported more than  $\frac{3}{4}$  of total average imports (from November to October) in the past six years.

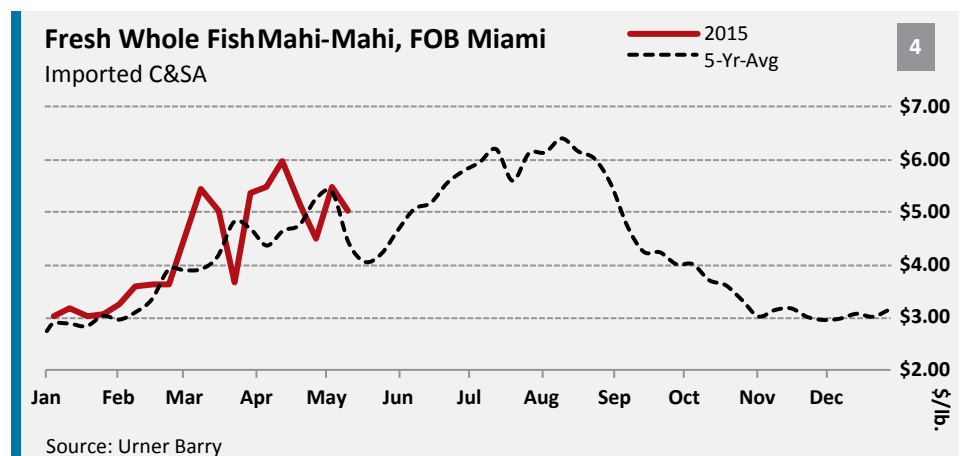
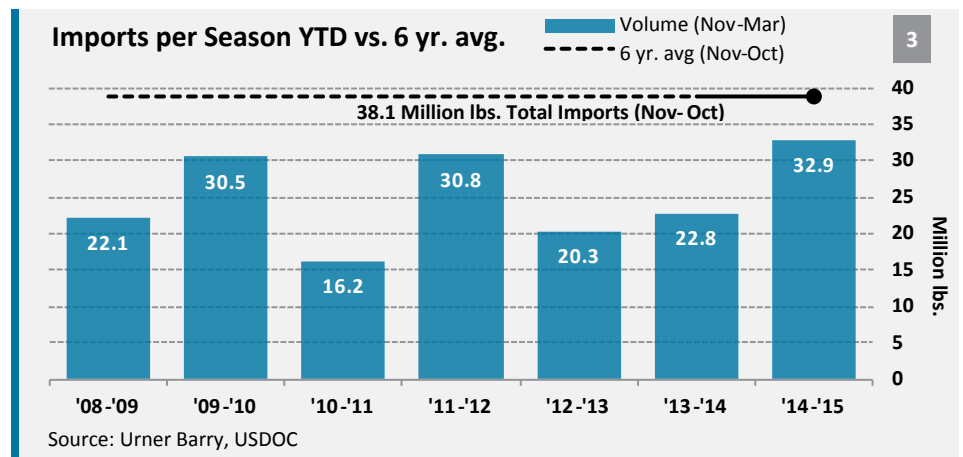
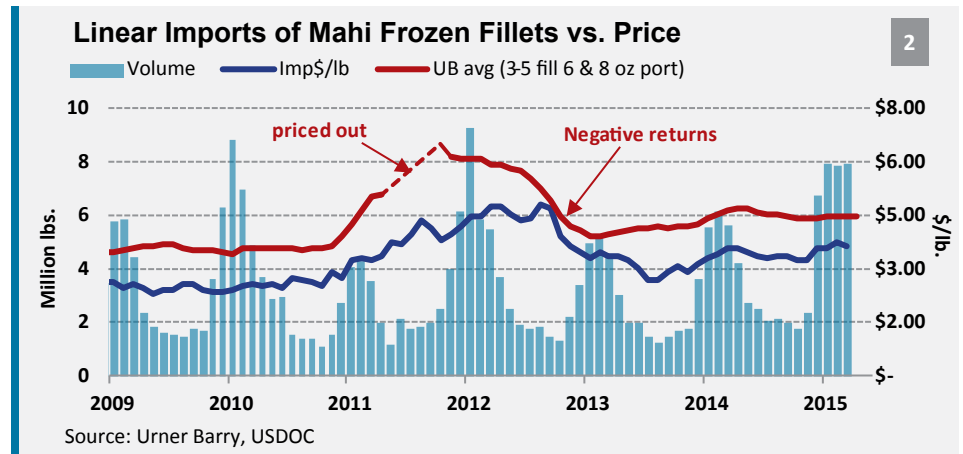
So, as we have seen, imports behave in a very predictable manner given the fishing season. This year, however, imports during February and March remained at comparable levels to those in December and January, when imports seasonally peak (chart 1). Anecdotal evidence collected suggests that these counter-seasonal imports occurred as processing plants received good bidding from new buyers in the U.S. market who were willing to pay more for immediate shipping; other sources indicated that processing plants did not want to commit at a fixed price and hold product down in Ecuador and Peru for an extended period of time, meaning that much of the product that would otherwise be shipped throughout the year made it to the U.S. earlier than anticipated.

Regardless of what the situation is, we can assess the market through the pricing mechanism. At the moment, many product holders in the U.S. have raised prices not only because they paid higher prices when compared to the previous season, but also because there is uncertainty of what the actual supply situation is; in addition, there is also uncertainty about what demand will be during the summer and into the fall, which is usually when demand strengthens. Also, during the summer, fresh mahi becomes scarce and demands premiums; as a result that is when demand for frozen

improves at comparably lower price points than fresh product. In fact, seasonal fishing efforts for both domestic and imported mahi-mahi correlate to the peaks and valleys seen in historical prices (chart 4).

So, for now, the market is quiet with product holders maintaining offering levels relatively high. So, at current prices, all else equal, economic fundamentals suggest the mahi market could remain steady to

potentially lower. However, things are never equal, and if demand actually grows; or if the predictions regarding a "short" supplied season with say, little to zero imports from April to October, happen to be true, then we can expect a steady to firm market this year. In any case, if someone knew what the future would hold in this, or any market, it is doubtful that such information would be disclosed for the benefit of everyone. **UB**



# King is climbing and snow crab begins...

By Janice Schreiber  
janice@urnerbarry.com



## KING CRAB

Imports beginning 2015 are significantly lower compared to the same time in 2014. Through March 2015, total year-to-date (YTD) imports are down 52.6 percent. Russia, the U.S.'s largest king crab importer, is seeing YTD numbers down 68.4 percent. This is coming off of a year where the market enjoyed a 14.7 percent increase to end 2014 with 27.1 million pounds of crab imported. The first quarter of 2015 is currently experiencing the lowest import figures ever. Looking as far back as 2009, the second lowest YTD imports experienced through March was in 2011 where 5.5 million pounds were imported, which is still over 1 million pounds greater than what we are seeing in 2015.

Conversely, the highest imported volume seen since 2009 was experienced in 2014, where 34.8 million pounds were imported.

With the import analysis in mind, we now look to prices; using 16-20 count red prices as an example. Throughout 2014 prices declined as imported volume rose. The trend continued and 2015 began the year with the second lowest prices in the past 5 years; comparable to 2010 prices for the same time period.

During 2014, market participants reported that demand for king crab was building. It was evident that after the market saw pricing the past three years so high, the customer base for king crab began to expand as prices trended down. However, with the current lack of imported product and replacement product prices reported



King crab prices are on the rise.

to be on the rise, it is anticipated the newly established customer base will start to shrink if import volumes stay low and prices begin to ascend.

Alaska's Bristol Bay red king crab quota increased for 2014 to 8.9 million pounds. 100 percent of the quota was caught. Market participants report most of this product is moving through the system with not much appearing to be on the open market.

Bristol Bay Red King Crab Quota (million lbs.)				
2010	2011	2012	2013	2014
14.8	7.8	7.8	7.74	8.9

Overall undertones in both the red and golden king crab markets are full steady to firm. Demand is moderate, but as talked about throughout, volumes of imported product are significantly lower and quotations have been adjusting higher.

## SNOW CRAB

As of this writing, new season Newfoundland and Gulf snow crab quotations are listed. Supplies are adequate to barely adequate. Currently sales are reported to be hand-to-mouth; the season is just beginning and larger volumes of crab are starting to flow down into the

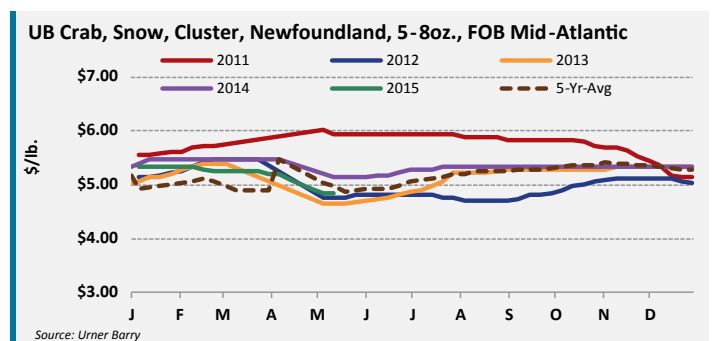
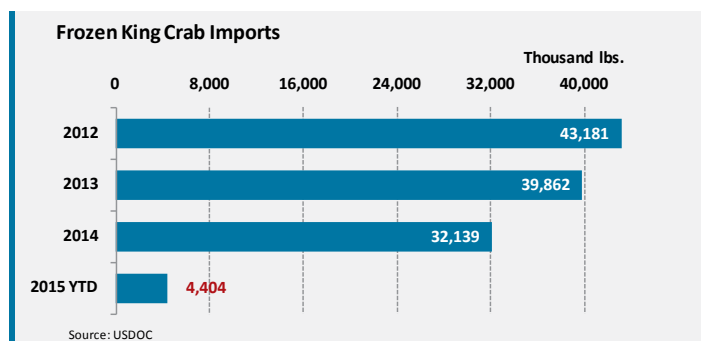
U.S. market. Supplies of the prior season crab are nil. The overall market undertone going forward is unsettled as volumes begin to build.

The opening quotation for 2015 was a \$4.85 average for 5-8 ounce Newfoundland clusters; which is about \$0.20 higher than in 2013 and \$0.30 lower than the opening in 2014. Again, at the time of this writing, buyers seem to be cautious and are only buying for immediate needs.

The quota for Newfoundland is virtually the same, and the quota for the Gulf of St. Lawrence increased slightly.

The market situation, however, is still fluid. There are many factors that affect the snow crab market; how much will the Japanese buy, what role will the strength of the U.S. dollar play versus the Canadian dollar. All factors as the season begins, and only in time will we know the outcome.

The Alaskan Opilio market saw about a 13 percent quota increase this year to 61 million pounds. Currently the quota is 97 percent caught. Pricing is much lower than it has been since 2010. Currently the average is \$4.85, whereas the same time last year, the market average for 5-8s clusters was \$5.83. The increase in quota and the strength of the U.S. dollar could be factors in the decline in pricing this year. Export volumes of snow crab through the first quarter of the year are the lowest seen in the past three years. Through March 2015, exports total 9.1 million pounds; in comparison, the YTD exports for 2014 were 10.1 million, in 2013 exports were 11.8 million, and in 2012 exports were 13.3 million. [UB](#)







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# Shrimp market correction

By Paul Brown Jr. | pbrownjr@urnerbarry.com



## THE STAGE IS SET

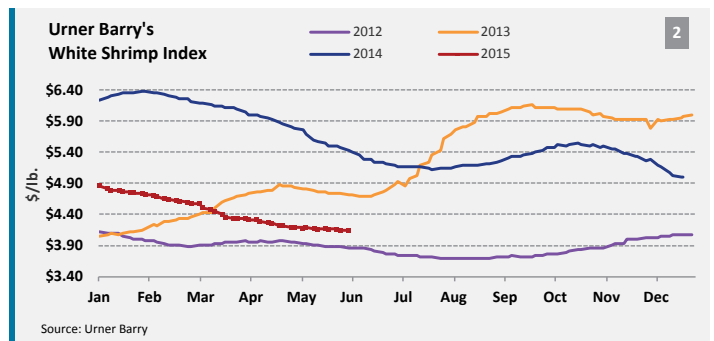
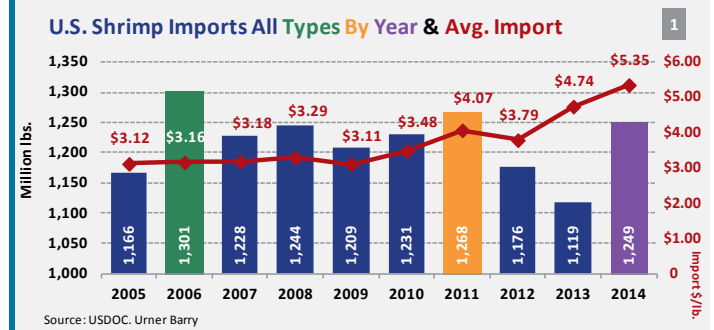
EMS, a shrimp disease, began to affect shrimp production in 2009 and 2010. Imports from Vietnam were severely affected in 2012, but not until Thailand production was decimated in 2013 did the market react. Thailand had been supplying up to 1/3 of the U.S. imported shrimp supply up until 2013.

The shrimp market began to increase in 2013 as a reaction to the limited global supply due to EMS. In July the market began to spike higher and did not level off until October. An article in the *Wall Street Journal* detailing the Asian production problems due to EMS may have alerted food executives to the limited supply. There was a sudden rush to secure product for holiday demands in a very competitive market. That rush to buy product was global, and although 2013 U.S. imports were only down 5 percent, prices rose about 45 percent.

## 2014

High prices in 2013 spurred production from all quarters. U.S. shrimp imports were up almost 12 percent in 2014 and were the third highest level ever recorded. (chart 1)

All the top importing countries—India, Indonesia, Ecuador, and Vietnam—recorded



sharply higher imports. At the same time, demand destruction due to the high prices was occurring throughout the market but most especially at retail. Inventories began to accumulate.

The market remained at the historically strong levels through most of February 2014, but then began to unravel. (chart 2)

Demand at the higher price levels fell off, imports remained heavy, inventories grew and prices declined. There was a bump higher in the market in the summer of 2014; this false bottom spurred many to buy into the market and further contributed to the ample inventories that dogged the following long market decline.

October 2014 through March 2015 the market corrected lower; balancing ample inventories with a sluggish demand and constantly falling overseas replacement offerings.

## 2015

So what does 2015 look like? A harsh winter throughout much of the country in 2014-15 negatively impacted foodservice demand to go along with sluggish retail takeaway.

Shrimp imports through March 2015 continue higher; another 6.3 percent increase over a year ago. The current market (early-June) appears unsettled and many report an uptick in demand and look forward to an improved summer season. Lower prices on shrimp may spur increased demand. Expensive inventories are coming into better balance and a few holes in inventories are reported.

2012-13	✓ EMS driven global shortage.	
2013-14	✓ Forces high prices.	
2014	✓ Leads to increased worldwide production.	
2014-15	✓ High prices limit demand.	
Present	✓ Inventories accumulate. ✓ U.S. dollar strengthens. ✓ The market corrects to balance these factors.	

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Continued from page 36

The market tone is somewhat steady ahead of increased seasonal production, but buyers at all levels remain cautious.

Heavy seasonal production will begin to be offered to the U.S. market around June and imports will likely begin to increase sharply in June/July. The U.S. will be an attractive market due to the strength of the U.S. dollar vs. generally weak worldwide currencies, especially the Euro.

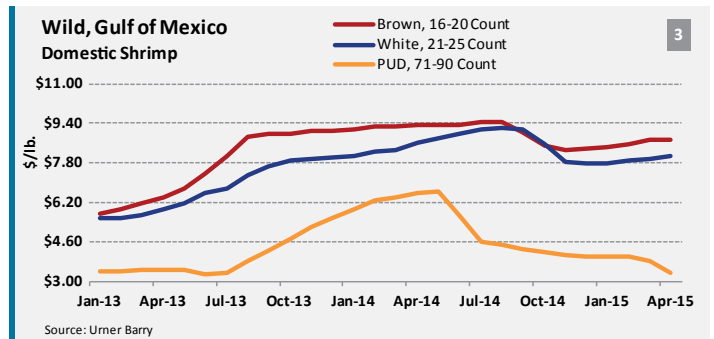
Looking ahead, the market remains unsettled but is seeking a better balance in the remainder of 2015.

## GULF SHRIMP OUTLOOK

By Jim Kenny | [jkenny@urnerbarry.com](mailto:jkenny@urnerbarry.com)

Domestically, landings were largely in-line with the five-year average; cumulatively 114.5 million lbs. However, where and when those shrimp were landed had an impact. As reported by NMFS, more shrimp were landed in Florida, Alabama and Louisiana; and less shrimp in Mississippi and Texas. In terms of pounds, landings were lagging 10 percent at the conclusion of Q3; and enough shrimp were caught in the last quarter to match 2013, much of which went into peeled production.

Taking a look at a few bellwether items, 16/20 headless, shell-on brown shrimp and 21/25 HLSO white shrimp continued to tread



## EXPENSIVE INVENTORIES ARE COMING INTO BETTER BALANCE AND A FEW HOLES IN INVENTORIES ARE REPORTED.

further into record territory for much of 2014. There was some relief between late August and early November, but the market quickly firmed with the realization there would be shortages of HLSO shrimp. The firm trend has continued into the first five months of 2015. Meanwhile, 71-90 count PUDs fell sharply mid-summer, continuing lower well into 2015. The shift in landings both in terms of where and when resulted in a limited supply of HLSO and ample supplies of PUD. (chart 3)**LB**



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# Mixed production impacts by-product market

By Bill Smith | bsmith@urnerbarry.com



Expectations for the by-product market for 2015 are mixed. Year-to-date beef production is down roughly 5%, whereas pork production is up almost 6%.

While production levels are easily quantified, demand continues to be a little tougher to figure out. Oleo chemical, biodiesel, feed, pet food and baking are the largest demand areas that play key roles in the tallow and grease markets. The wide variety of buying interest leaves open the potential for those markets to be impacted by so many different things like weather patterns and government policies which makes it difficult to measure exactly when the different buyers will enter and leave the market.

Loose lard and edible tallow are the two items that show up on the by-product report that are edible for human consumption. Both have seen prices trade at a discount compared to the equivalent time period last year. The second quarter of 2015 opened with edible tallow price roughly 31% lower than the same time period for 2014.

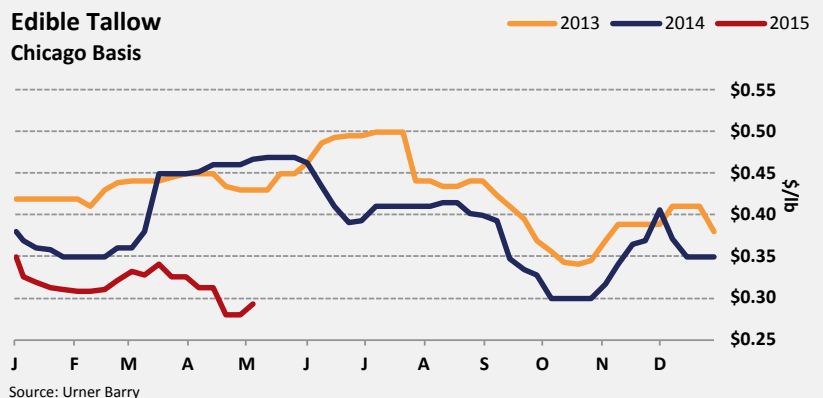
Q1 2015 monthly average prices for renderer and packer tallow were discounted each month relative to the equivalent month for 2014. Some players in the inedible tallow market expect that sector to improve as supplies tighten due to the lighter beef production levels.

Additionally, choice white and yellow grease remain at a discount to last year's price levels. Price discounts were minimal at the beginning of 2015 and have widened as the year progressed. In fact, April 2015's monthly average price was down about 40% compared to April 2014.

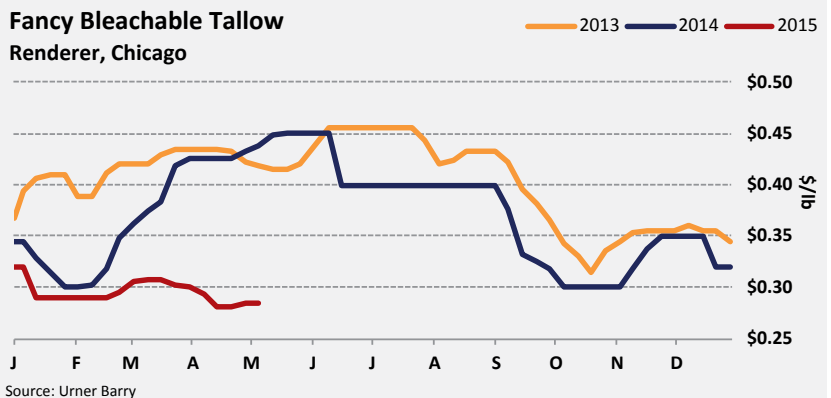
A lot of the key issues the by-product market will likely face moving forward are generally consistent with past years. Items like availability of product, changes in demand from all the different sectors and possible changes in government regulations all play roles, however, it is still unclear how and if these issues will impact the by-product market going forward. [UB](#)

**"WHILE PRODUCTION LEVELS ARE EASILY QUANTIFIED, DEMAND CONTINUES TO BE A LITTLE TOUGHER TO FIGURE OUT."**

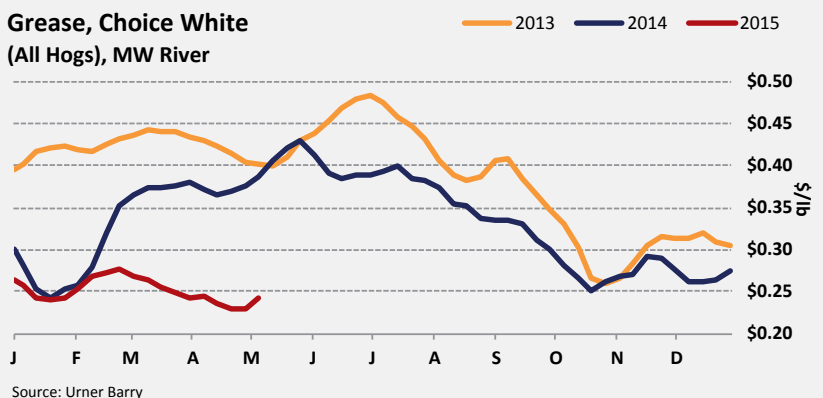
**Edible Tallow  
Chicago Basis**



**Fancy Bleachable Tallow  
Renderer, Chicago**



**Grease, Choice White  
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# Seasonal price trends, weather, demand considerations all part of a year

By Paul Brown Jr. | pbrownjr@urnerbarry.com



## NORTH AMERICAN LOBSTER (*Homarus americanus*)

North American live lobster production is seasonal. The Canadian fishery opens in May and ends in June, then is quickly followed by the bulk of the Maine season that lasts throughout the summer. The Canadian fishery then resumes in October, when The Bay of Fundy season opens, followed by Southwest Nova Scotia in November. There are numerous smaller openings and closings throughout the year both in the U.S. and Canada. As Maine production comes online the market takes on a generally unsettled and weaker tone with the addition of new shell lobsters which are not able to be exported and generally stay in Northeast markets.

The seasonal nature of the fishery leads to rather seasonal price trends. Net supplies are at their lowest in the first part of the year, which tends to support higher markets. Supplies are limited during this period, not only because of lack of effort, but because of shipments to Asia—an increasingly important market for North American Lobster. There are also demand considerations in the first part of the year which are price supportive; the U.S. New Year and Valentine's Day, and New Year in China and Mother's Day all fall into that time period.

The average price paid for a 1¼ pound live lobster in 2014, FOB New England, was \$6.23/lb; 11 percent higher than a year ago and 8 percent above the 5-year average. The spring, 2014 effort in Canada was delayed, and fall fishing was hampered in both Maine and Canada due to weather-related issues. These issues and increased whole cooked production supported market values. Whole cooked production, destined for China, has developed into a significant market in recent years. Currently, May 2015, the market is unsettled with ample production of quality lobsters reported in Canada.

After several years of volatility the lobster tail market in 2014 followed a very seasonal pattern. Quotations began the year at strong levels followed by a decline in May at the season opening and throughout the summer. As seasonal production slowed and holiday demand picked up, the market moved generally higher in the 4th quarter of the year. After a steady start, the first quarter of 2015 saw prices decline as inventories were cleared ahead of new season production. May 2015 landings in Canada are robust. However, due to a labor shortage, processors are opting to divert a larger percentage into whole cooked rather than the more labor intensive tail production.



Stock photo © EricHolsinger

Lobster meat has recently been a very steady item, albeit at relatively high levels. Usage has apparently increased with availability. 2014 saw the market increase as supplies dwindled and maintained those levels into the first quarter of 2015. Seasonal production should provide some relief in availability.

## WARM WATER LOBSTER (*Panulirus argus*)

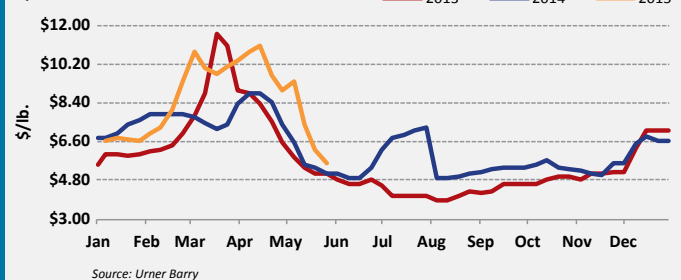
Four countries, Brazil, Nicaragua, Honduras and Bahamas account for roughly 90 percent of warm water lobster tails imported into the U.S. The Brazil lobster season begins on June 1, followed by Honduras and Nicaragua on July 1 and the Bahamas on August 1. Several other countries produce lobster tails on a seasonal basis in the Caribbean.



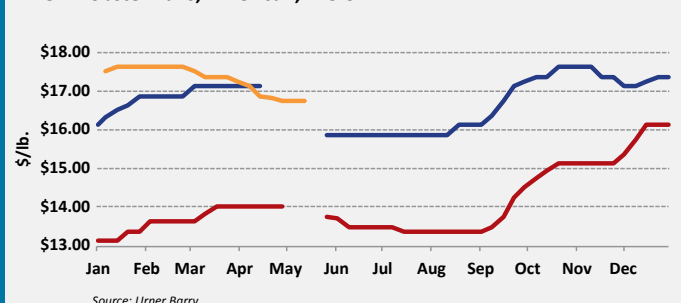
Stock photo © Howard Chew

The market for both tails of Brazil and Caribbean origin moved in seasonal form for much of 2014. However, there was some stronger than normal price appreciation late-year on Caribbean tails due to a decline in Q4 shipments to the U.S. All major suppliers shipped fewer tails to the U.S. in Q4 2014 than in the same quarter 2013. So far in 2015, a somewhat weak bias has developed in advance of new season production. **UB**

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# High prices remain for one of the most valuable fisheries

By Jim Kenny  
jkenny@urnerbarry.com



Throughout most of 2014, the market for both U.S. and Canada origin sea scallops traded in record-high ranges; the result of strict quota cuts in the U.S. for fishing years (FY) 2013 and 2014. Averaging 55.6 million pounds in the prior five years, the total haul in FY2013 was 36.36 million pounds. In FY2014 that figure fell to 29.95 million pounds.

The Atlantic sea scallop (*Placopecten magellanicus*) is one of the most valuable fisheries in the United States and is the most valuable wild scallop fishery in the world. It's managed by the New England Fishery Management Council in

cooperation with the Mid-Atlantic Fishery Management Council under the Atlantic Sea Scallop Fisheries Management Plan. They use a combined approach of effort limitation and rotating harvest areas, which maximizes scallop yields while protecting beds of young scallops.

The average price paid for a Dry U10 in 2014 was \$16.10/lb., up 18 percent from the prior year average of \$13.70/lb. Similarly, Dry 10/20 count scallops increased 12 percent, averaging \$13.90/lb. compared to \$12.45/lb. in 2013.

The plan in-place for FY2015 allows for an increase in scallop landings; estimates suggest a net increase of 23 percent. However through the first quarter, we've experienced little if any price correction. In fact, the market for Dry U10 sea scallops has strengthened given the expectation that the harvest will be concentrated in the smaller count sizes.

## CANADA

Similarly, Canada origin sea scallops continued to push further into record-high territory. The average price paid for a 10/20 count Canada origin sea scallop in 2014 was \$13.40/lb., up seven percent from the prior year average of \$12.50/lb. 40/50 count scallops were up 12 percent, averaging \$10.90/lb. compared to \$9.75/lb. in 2013.

Production in Canada is expected to remain relatively steady. Anecdotal reports from Canadian producers suggest a slow start given cold water temperatures, but the size distribution appears to be on target. The bulk of the catch is expected to fall in the 20/30 to 30/40 count range, and fewer 10/20 and 40/50 counts.

First quarter 2015 trade continued further into record territory.

## CHINA

China origin sea scallops have been a mixed bag. Anecdotal evidence suggested the 2014 import volume from China was heaviest in 80/120 and larger count sizes. This caused the market 40/60 and 60/80 count scallops to fall sharply; and 60/80, 80/100 and 80/120 to moderate. Meanwhile, 120/150 and 150/200 count scallops were in short supply and traded at record highs (chart 1). The market for all count sizes during the first quarter of 2015 has shown strength as the three month import flow lags. January through March 2015 imports have fallen 40 percent from 10 to 6 million pounds.

## NET SUPPLY AND FOREIGN TRADE

Low domestic supplies, and prices at or near all-time highs, continued to drive interest in imported scallops (chart 2). The volume of scallops shipped to the U.S. in 2014 is nearly identical to the 2013

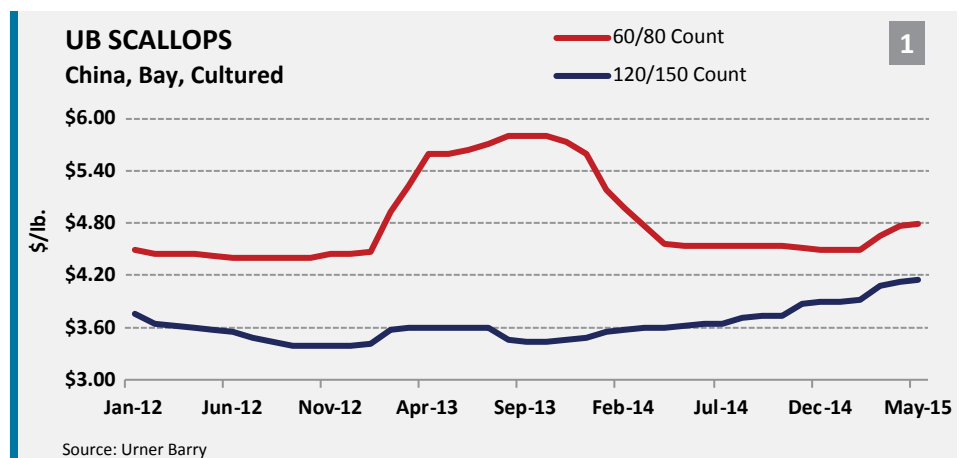


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## "LOW DOMESTIC SUPPLIES, AND PRICES AT OR NEAR ALL-TIME HIGHS, CONTINUED TO DRIVE INTEREST IN IMPORTED SCALLOPS."

volume; however there's been a shift in the countries supplying scallops to the U.S.

Cumulative imports totaled 60.67 million lbs., compared to 60.82 million lbs. in 2013. However, when compared to the five-year average, the figure is up 25 percent.

China—the single largest scallop supplier to the U.S., at 38 percent of the 2014 supply—is in the driver's seat; imports in 2014 were up 44 percent from a year ago and 16 percent versus the five-year average.

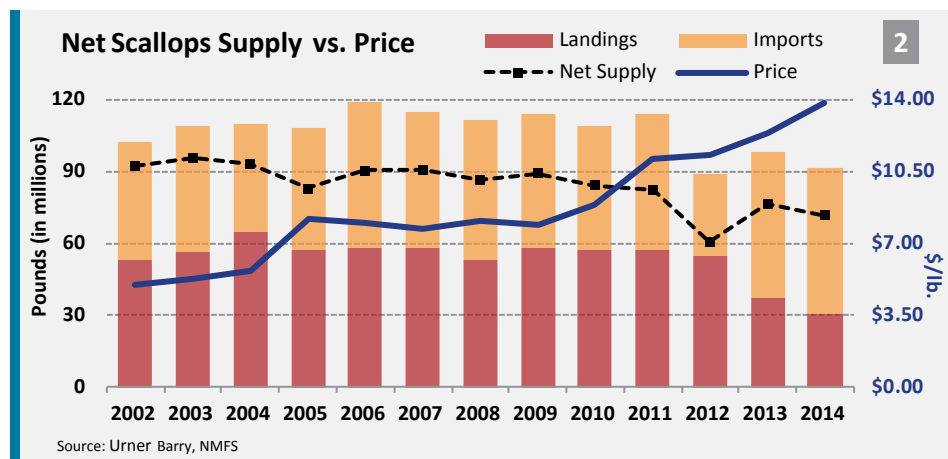
The increased availability from China eased supply concerns, and allowed buyers

to focus on importing from only a handful of nations. Other than China, notable suppliers shipping more scallops to the U.S. include Japan (+8%) and Canada (+8%). Meanwhile, Peru (-47%) and Argentina (-37%) shipped far less product into the U.S. in 2014.

2014 net supply fell 6.5 percent or five million pounds; from 76.5 million pounds in 2013 to 71.5 million pounds in 2014.

This remains an improvement from a low of 60.1 million pounds in 2012, but is still well short of needs and the 85 million pound average between 2008 and 2011.

Looking forward, the industry is hopeful an increase in domestic landings improves the overall supply situation. However, there's concern regarding the availability of scallops from outside of North America as imports Jan-Mar are already off 33 percent. **UB**



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# Plenty of tuna...for how long?

By Angel Rubio  
arubio@urnerbarry.com



After digging through the available data—which by seafood industry standards is plenty—the tuna market appears to be in some sort of conundrum going into the summer of 2015. Besides strong demand that usually occurs in the summer, one of the factors that could change the market is more of a political nuance. Strict enforcement of fishing regulations, in addition to combating illegal poaching from other countries and other illegal activities in Indonesian waters, could cause a temporary supply shock to the U.S. tuna market. Indonesia currently supplies about 45% of the U.S. frozen tuna supply. This is not the first time the market has suffered from a supply shock; in fact, the one experienced in 2012 is still quite fresh in many U.S. traders' memories.

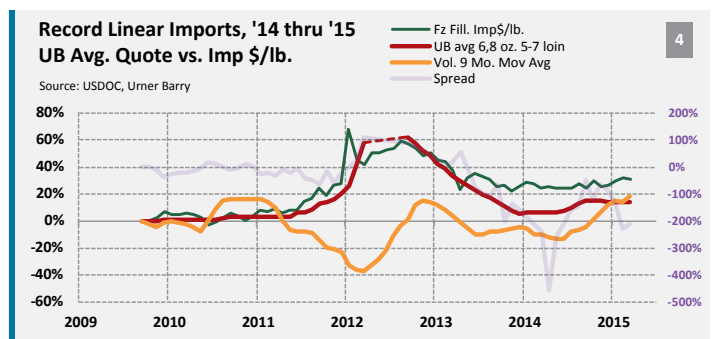
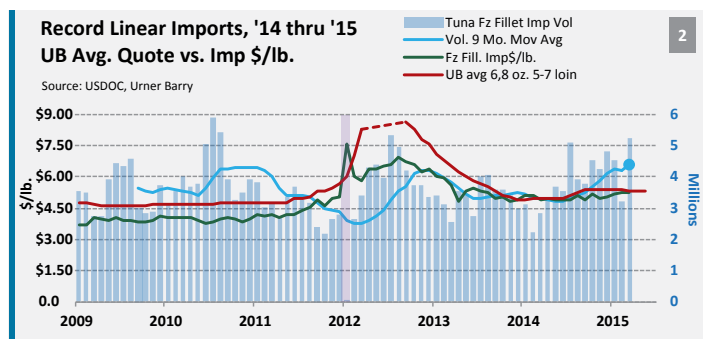
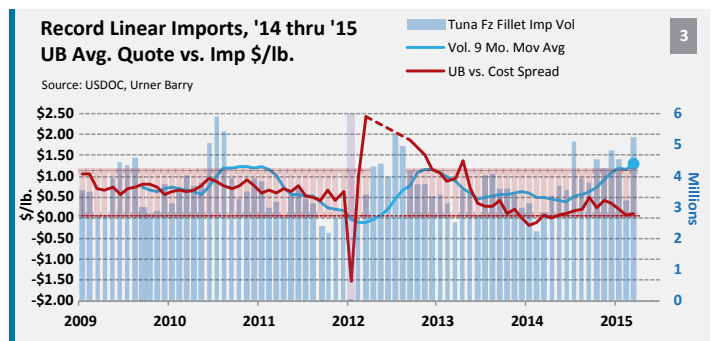
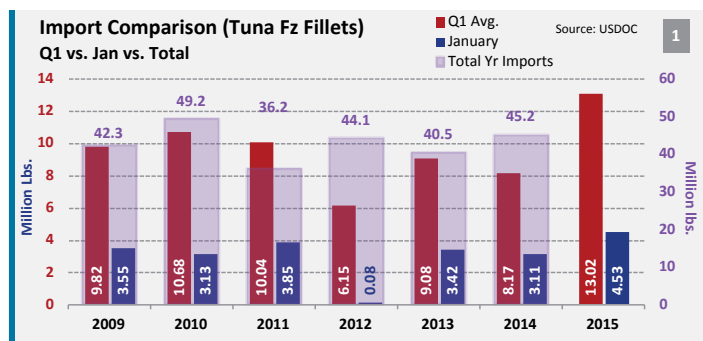
So, in order to understand the current situation, as well as its potential future, let's go back a few years and dig into data. First of all, let's begin with frozen yellowfin tuna. During the second half of 2011, shipments of frozen fillets—according to the HS code, which comprises tuna steaks, loins, saku blocks, etc.—began declining.

Some of the reasons include an increase in FDA rejections; which in turn increased the risk of an exporter to be red listed, as well as insurance premiums to increase. Another reason included tighter supplies due to poor catches. Whatever the reason, the fact is that lower imports during the second half of 2011—which caused total imports in 2011 to decrease significantly from the previous year—in addition to poor imports in January 2012, caused a shock in the market (chart 1).

The result of this lone month when imports were basically negligible—only 75 thousand pounds—caused prices all over the board to shoot up; from the spot market in the U.S. shown by Urner Barry quotations, to the import price per pound or replacement costs. For this purpose we averaged Urner Barry's quotations of 6 and 8 ounce steaks and 5-7 pound loins, and compared it to the average price per pound by taking the value reported by the U.S. Department of Commerce (USDOC) and divided it by the volume (chart 2). Though this is not a measure of profitability by any means—since it does not take into account marketing costs, forward purchases/sales, or hedged positions on raw materials, etc—when using this line as a simple “spread”

by subtracting Urner Barry's benchmark minus the import price pound, the trend is quite apparent (chart 3). By looking at this line we can clearly notice that when prices in the U.S. rose due to the lack of supply, import price per pound also shot up. This situation created heavy incentives for importers in the U.S. to acquire product overseas, even at a higher price, as long as they could sell for a profit. And it happened for quite some time until the market became oversupplied and thus entered into correction mode.

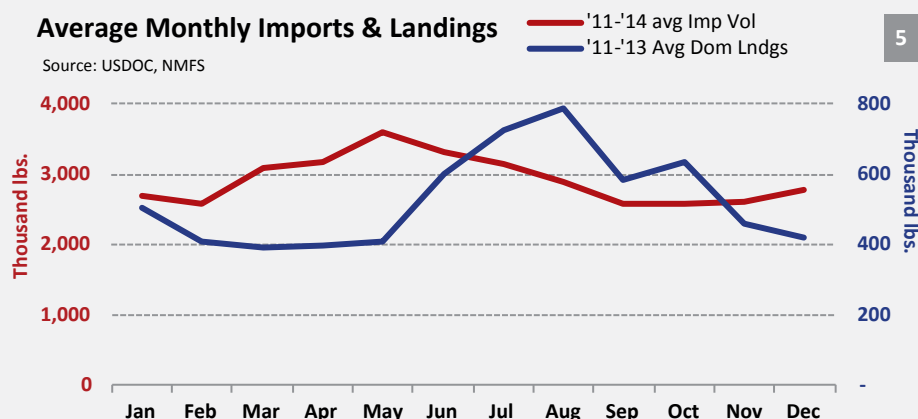
So, for the past two years, the market has enjoyed a relatively low period of volatility both in terms of costs and prices in the U.S. However, import volumes of frozen fillets have gone up substantially during the second half of 2014 into the first quarter of 2015. And while import costs have surged slightly, prices in the U.S. have not gone up at the same pace. This means that the “spread” has gone down and remained low as well. Therefore, the situation for frozen looks rather clear cut: imports are basically at the highest point over the course of the last six years, while prices in the U.S. have fallen more than the import price per pound thus reducing the so called spread (chart 4).



**"SO, FOR THE PAST TWO YEARS, THE MARKET HAS ENJOYED A RELATIVELY LOW PERIOD OF VOLATILITY BOTH IN TERMS OF COSTS AND PRICES IN THE U.S."**

## Average Monthly Imports & Landings

Source: USDOC, NMFS

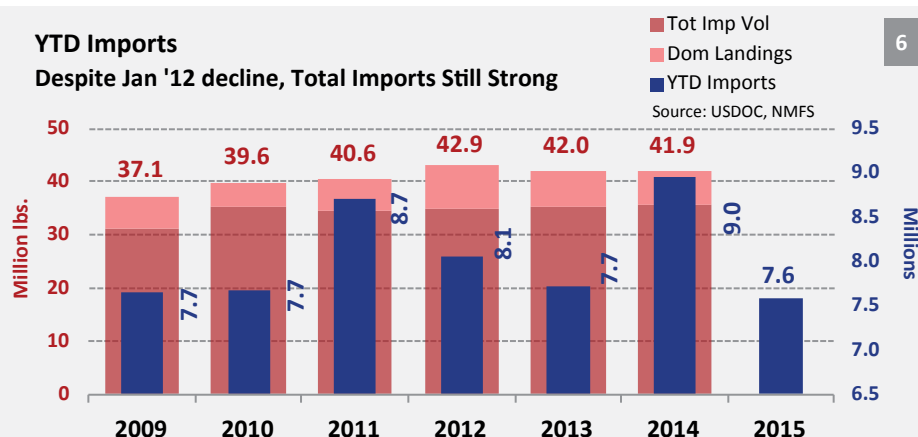


On the fresh side, imports have behaved relatively steady with no major swings in terms of supply. Imports comprise the large majority of supply. The seasonal trends when comparing domestic landings are rather clear: domestic landings increase as seasonal imports decline (charts 5 and 6). When looking at the fresh market against the frozen market, we can see some spillover effects, especially during the supply shock of 2012 (chart 7). For instance, when taking the same measure

*Continued on page 46*

## YTD Imports

Despite Jan '12 decline, Total Imports Still Strong



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Continued from page 45

as in frozen, which entails taking Urner Barry's average quotations for imported and domestic tuna, and the value reported by the USDOC and dividing it by the volume, we obtain such "spread" (charts 8 and 9). This "spread" for fresh whole fish<sup>1</sup> remained consistently above one standard deviation exactly during the period when frozen prices shot up dramatically when looking at data from 2009 until March 2015. Furthermore, these also adjusted lower immediately after the clutter of frozen product began oversupplying the market and also remaining consistently low and a few times below that one standard deviation. At the moment, and since the frozen market has remained relatively steady, the fresh market has seen this "spread" bounce within one standard deviation during the same period for six years; in other words, the fresh market has enjoyed relative steadiness over the second half of 2014 into the first quarter of 2015.

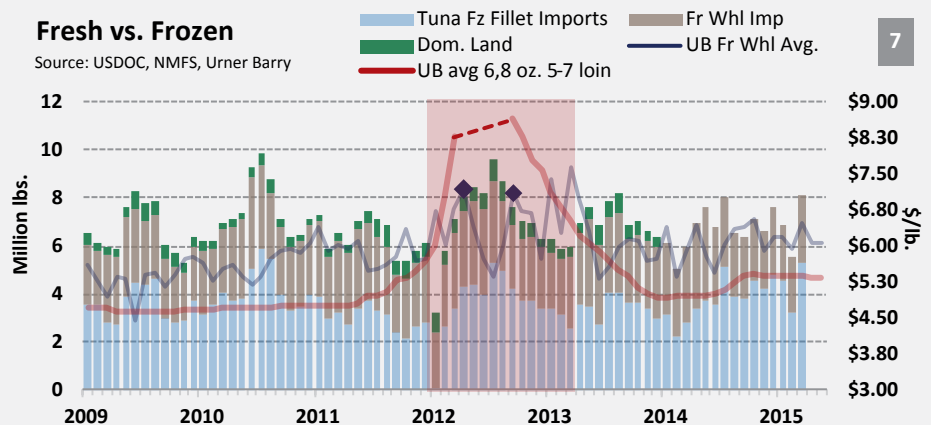
<sup>1</sup> In order to compare volumes of fresh whole fish to imports of frozen fillets, one must adjust proper yields to wholefish volumes. Since these charts simply illustrate trends, a yield was not applied.

Moreover, the fresh market correlates more strongly with the frozen market only when supply shocks occur, as opposed to having a direct constant correlation; which also exists but it is comparably lower. In fact, fresh whole prices in the U.S. correlate strongly based on replacement costs, but this correlation diminished during the supply shock and remained relatively strong when compared to frozen U.S. wholesale prices.

At the moment high import volumes for frozen, and prices in the U.S. are barely keeping up with replacement costs, the frozen market is under some downward pressure in the U.S., however, demand in the summer is expected to pick up. So, it will be interesting to see if new fishing regulations in Indonesia impact supply—and as such market prices—as importers may prepare to replace product during the summer. **UB**

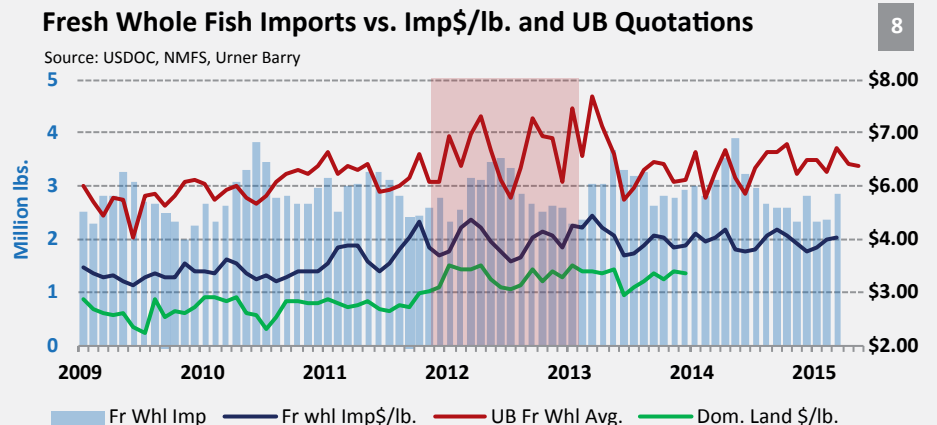
## Fresh vs. Frozen

Source: USDOC, NMFS, Urner Barry



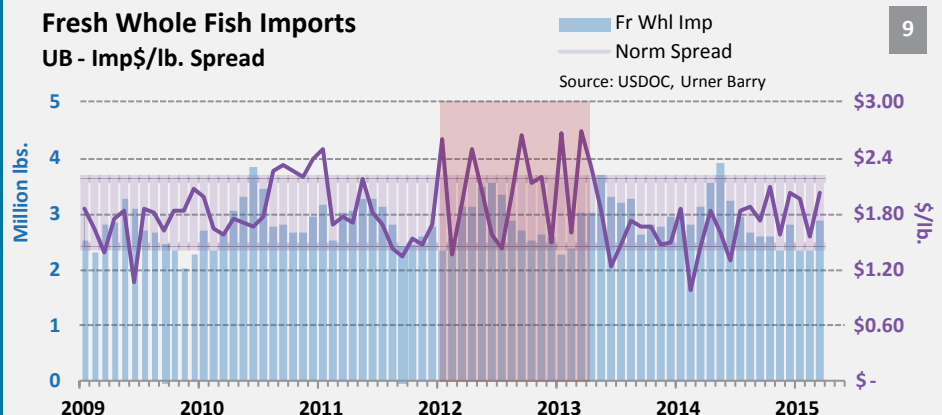
## Fresh Whole Fish Imports vs. Imp\$/lb. and UB Quotations

Source: USDOC, NMFS, Urner Barry



## Fresh Whole Fish Imports UB - Imp\$/lb. Spread

Source: USDOC, Urner Barry



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# From highs to lows...

## what a difference a year can make

By Jim Kenny and Russell Barton

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Last year was composed of record highs and record volatility due to Porcine Epidemic Diarrhea virus (PEDv), a lethal disease that spread across the country and resulted in the deaths of 8 to potentially 10 million piglets between 2013 and 2014, according to some estimates. Put in context, that top end figure would constitute roughly 15 percent of the total U.S. hogs and pigs inventory as of March 2015. The first three quarters were composed of unrivaled product and hog price instability. In multiple instances throughout 2014, a volatile mix of real

supply constraints and overreactions based on perceived supply constraints sent the pork and hog markets ripping higher, only to peak and fall just as fast.

We entered 2014 with the knowledge that due to PEDv, hogs were going to be less available; yet to what degree and during what time period was largely speculative. While hog supplies were certainly constrained, the highly aggressive price movements of pork and hogs that occurred multiple times reflected a much more exaggerated situation than what was actually present. Perhaps participants were more sensitive to news of supply constraints than previous years due to the uncertainty of PEDv, but we saw on three different occasions that the entire industry can jump into a frenzy of purchasing pork, resulting in unprecedented gains deep into record territory, only to get to a top and realize that the situation was not as dire as originally thought.

By the fourth quarter however, the panic subsided and the herd began to recover. With the scarcity, real and perceived, of hogs largely behind us, the fourth quarter began to see growing weekly slaughters of hogs weighing in at record levels, which resulted in a considerable amount of pork poundage being pushed through the market. With participants on both sides of the trade having grown quite cautious following the year's extreme price swings, the glut of pork that was hitting the industry sent all but a few pork items lower by a greater degree than previous years to round out 2014.

With PEDv less of a factor so far in 2015, the herd has had an opportunity to rebound. In fact, some producers added hogs beyond typical levels in the event that PEDv led to comparable deaths early in 2015. Meanwhile, the dollar appreciated notably starting in mid-2014, leaving U.S. pork (and many other items) an expensive option for our international trade partners.

Throw in a major slowdown in west coast ports and retail features which often reflected the highs of 2014 more so than the lows of 2015 and the United States had a supply issue completely opposite to that of 2014—excess hogs and excess pork.

The U.S. inventory of all hogs and pigs on March 1, 2015 was 65.9 million head. This was up 7 percent from March 1, 2014 and down slightly from December 1, 2014. Breeding inventory, at 5.98 million head, was up 2 percent from last year and up 1 percent from the previous quarter. Market hog inventory, at 60.0 million head, was up 8 percent from last year and down slightly from last quarter. The average pigs saved per litter was a record high 10.17 for the December-February period, compared to 9.53 last year.

Taking a look at the weighted average of the bellwether Iowa-Southern Minnesota hog market during the first quarter of 2015, livestock there traded between \$56.51 and \$75.77/cwt. and averaged \$64.44/cwt. on a carcass basis. This compares to a range of \$78.00 to \$128.06/cwt. and an average of \$96.17/cwt. a year ago.

The first quarter of 2015 saw a federally inspected hog slaughter at approximately 28,533,700 head, which represents an increase of 5.9 percent from year ago levels. Sows comprised 2.47 percent of the slaughter, compared with 2.55 percent in 2014. Commercial pork production in Q1 2015 was up 6.7 percent from last year totals.

With the U.S. dollar index gaining nearly 20 percent since July 2014, it quickly became quite a costly proposition for other nations to purchase U.S. pork. As a result of this and the slowdown at the west coast ports due to labor disputes, the volume of pork exported declined notably. For the first two months of 2015, the portion of U.S. pork production which was sent overseas averaged 18 percent. This

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compares to over 22 percent during the same time last year. In other words, while there was a year over year increase in pork production of 121 million pounds for the Jan-Feb period, pork exports declined by over 136 million pounds.

With the swath of pork available in the U.S. and sluggish export sales reported throughout the period, wholesale values slid during Q1 2015 to levels not seen since 2009. Cutout values ranged between \$65.85 and \$81.95/cwt. in Q1, compared to \$81.39 and \$127.05/cwt. in Q1 2014 on a weekly basis.

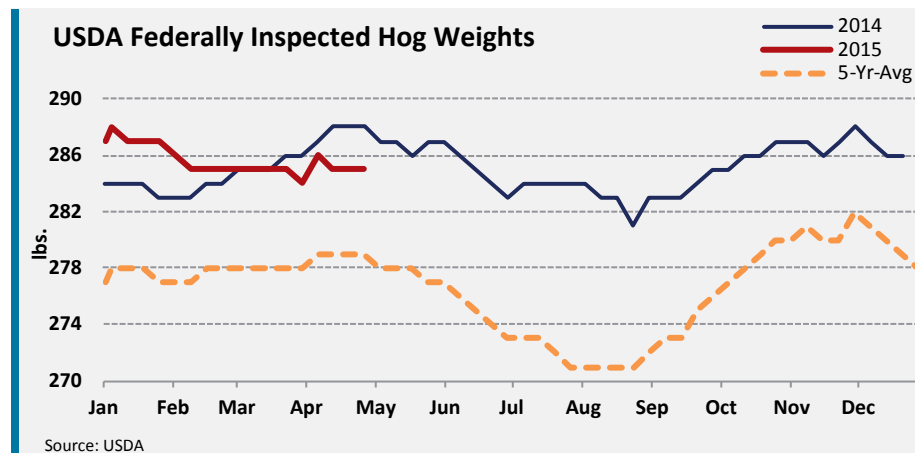
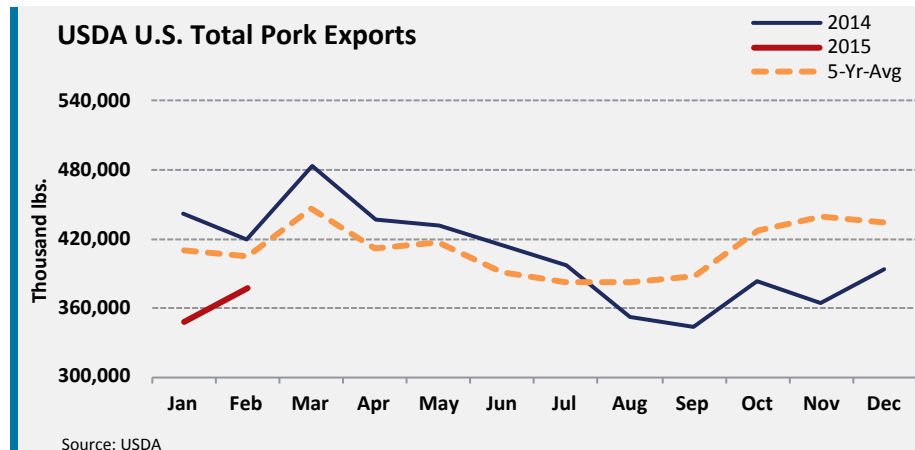
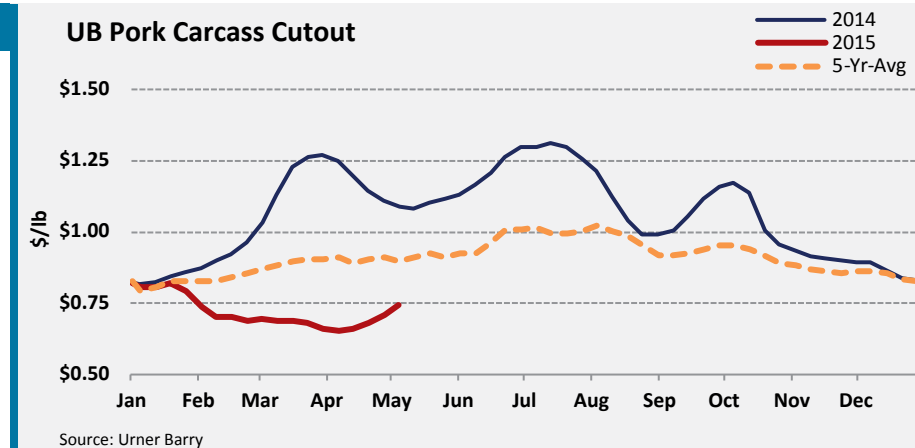
Nearly every item in the green meat complex traded substantially lower in the first quarter of 2015 versus the same period in 2014 due mostly to sluggish exports and excess supply. 23-27lb bone-in hams on average were down 33 percent from a year ago, with values ranging between \$40.25/cwt. and \$75.60/cwt. This compares to the 2014 Q1 range of \$70.80/cwt. to \$114.40/cwt.

Bellies were down even more significantly. 14-16 square cut pork bellies ranged between \$69.80 and \$107.60/cwt., averaging \$88.98/cwt. for Q1 2015. This was a 37 percent decline from a year ago; a quarter in which bellies traded between \$106.00 and \$196.60/cwt.

As if the 37 percent year over year decline that bellies saw wasn't substantial enough, fresh 42 and 72 percent trimmings had a first quarter in which they both averaged 48 percent below a year ago! Fresh 42 percent trimmings ranged between \$20.00 and \$37.20/cwt., compared to \$31.20 and \$82.40/cwt. last year. Fresh 72s ranged between \$35.50 and \$68.20/cwt., compared to \$65.40 and \$142.80 in Q1 2014.

With the high U.S. dollar, increased production and the fact that a large portion of product shipped to our Asian trade partners leaves through the west coast ports, fresh pork items which rely on exports to Japan and South Korea, among other nations, saw large year over year declines in Q1.

¼" bone-in loins averaged \$102.20/cwt. during the first quarter of 2015. This figure



is 25 percent below the same period in 2014 and nearly 15 percent below the five year average. Similarly, boneless strap-on loins, which averaged \$142.97/cwt. during Q1 were 22 percent below last year and 11 percent under the five-year average. Commodity butts averaged \$99.90/cwt. during the period, which is 24 percent below last year and 6 percent under the five-year average. All pork products considered, spareribs were among a very small group that were resilient throughout the quarter and saw little in the way of discounting. Consistent manufacturing

interest and movement into freezers after cold storage stocks hit multi-year lows at the end of 2014 resulted in medium spareribs averaging \$156.14/cwt. in Q1, only 2.6 percent below last year and nearly 9 percent over the five year average.

Moving forward, expanded herd numbers lead to expectations for weekly slaughters which continue to surpass that of last year. With the severity of PEDv much reduced, this increased production will likely continue to make the wholesale pork market appear much tamer than in 2014. **UB**





# Exports continue to grow

By Angel Rubio  
arubio@urnerbarry.com

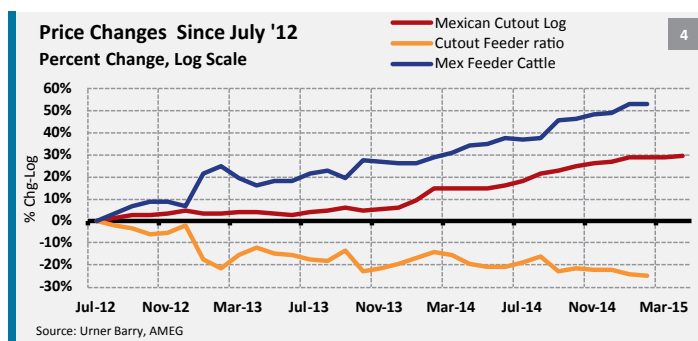
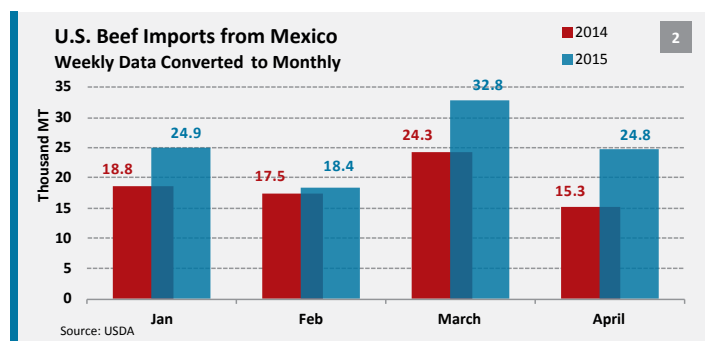


In the past year the U.S. beef market caused changes in the Mexican beef market. At the same time—just when margins seem to be shrinking due to high feeder cattle prices—it also provided Mexican producers an attractive alternative. Unlike the U.S. market, which has seen prices for live and feeder cattle ease slightly in 2015, the Mexican market has only seen feeder cattle prices increase steadily. With a significantly reduced kill in the U.S., which in turn caused overall beef prices to remain relatively high, Mexican exports to the U.S. are bound to continue growing.

Exports of Mexican beef grew significantly in 2014; led by a 22 percent increase in exports to the U.S.—from 97.8 thousand metric tons in 2013 to 119.4 thousand metric tons in 2014 (chart 1). This means the share of shipments to the U.S. grew from 79% in 2013 to 83% in 2014. According to official data from Mexican authorities, beef exports to the U.S. during the first two months of 2015 grew by 40% when compared to the same period last year. Taking USDA data, as of the last week of April 2015, imports of Mexican beef were 41% above the same period a year ago (chart 2). This is quite significant as production levels in Mexico have only managed to grow by 1.68% during the first two months of the year. Exports to Japan

also managed to increase; from 875 metric tons in 2014, to 2.7 thousand metric tons in 2015.

Conversely, from January to March 2015 USDA data shows that U.S. beef exports to Mexico declined nearly 19%—from 109 million pounds in 2014 to 88 million pounds in 2015—which is largely due to a strong U.S. dollar. The dollar strength has also helped prices in Mexico remain, for the most part, above 2014 levels (chart 3). For instance, Urner Barry's Mexican beef cutout is at an all-time high with the loin and round complexes leading the charts, and also experiencing all-time highs expressed in Mexican pesos per kilogram.





What this means is that Mexican beef is priced at an all-time high. However, beef prices are not keeping pace with the rise in feeder cattle prices. So, using a simple ratio of cutout versus feeder cattle, the price of beef relative to the price of feeder cattle (chart 4) is actually at its lowest point since Urner Barry began reporting the Mexican beef market in 2012. Despite getting record levels for traditional export items such as the rib-eye and the short loin, margins continue to get squeezed for Mexican beef producers as values in export markets easily surpass the price in the domestic Mexican market. Finally, traditionally consumed items in the Mexican domestic markets such as rounds, chucks and clods, have been supported by a strong domestic market and a strong U.S. dollar that makes imports less attractive.

In conclusion, Mexican beef exports continue to grow as export markets remain more attractive than the domestic Mexican market, especially for loins and rib-eyes. It is also important to keep in mind that prices of feeder cattle in Mexico have only trended lower a handful of times month-over-month since May 2012. For example, the price of beef, expressed by the Mexican Beef cutout has firmed 30 percent from July 2012 to February 2015, while the price of feeder cattle has advanced 53.5 percent during the same period. This places significant stress in the overall margins. So as long as cattle prices remain high—or continue to rise—packers may have no option but to keep beef prices as high as the market can bear. **LB**

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## **"MEXICAN BEEF EXPORTS CONTINUE TO GROW AS EXPORT MARKETS REMAIN MORE ATTRACTIVE THAN THE DOMESTIC MEXICAN MARKET..."**

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# 2014 tight supplies remained, but the tide may be shifting

By Gary Morrison | gmorrison@urnerbarry.com



The perfect storm that started before 2014 for the cattle and beef industries helped most sectors throughout the year and into 2015. The drivers of tight cattle and beef along with strong demand shaped record prices and profits across all cattle categories. It was again a great year in the beef cattle business.

The *Cattle Fax 6-State Fed Steer Price* clearly outpaced previous years. Prices averaged \$154.13/cwt., an increase of over 22 percent. New highs were hit throughout the year (chart 1). The futures market took notice as both live cattle and feeder cattle also set records. In fact, feeder cattle pierced the \$200.00 level on all contracts for the first time in history during the second quarter 2014.

Many beef cuts also traded above year prior to hit record levels throughout this time. Briskets were the clear winner. Their well-publicized, growing popularity led to a 60 percent increase in prices from the beginning of 2014 to the end of the year. However, some of the other alternate steak cuts—like the teres major, flat iron and flank steak—also did well, mirroring the complex as a whole. It was another year where cutout values hit record levels. The choice cutout ranged between \$196.60/cwt. and a record \$260.30/cwt., averaging \$236.39/cwt. This was nearly 22 percent higher than the average in 2013. The select cutout averaged \$228.47/cwt., trading between \$192.00/cwt. and \$255.50/cwt.

Select gains slightly outpaced Choice as buyers looked to find value in beef cuts at a time when Select product became tight. (chart 2)

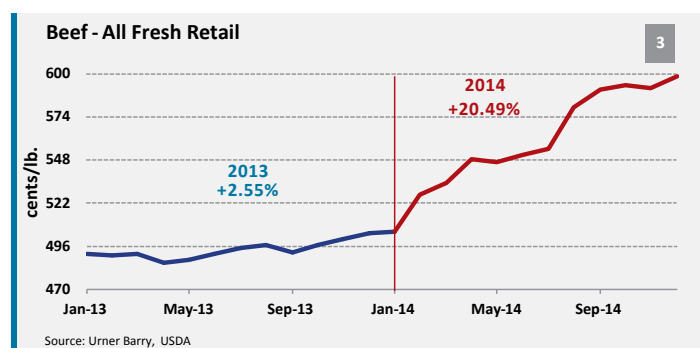
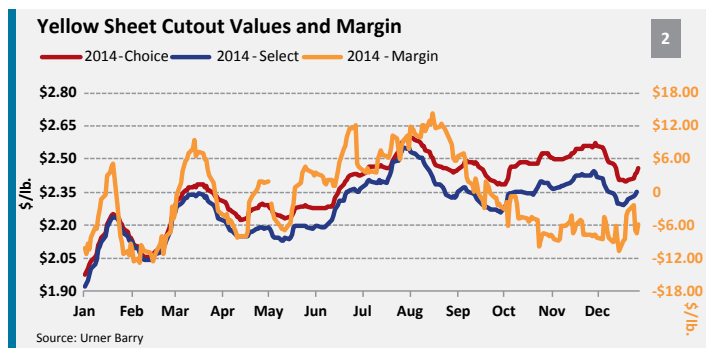
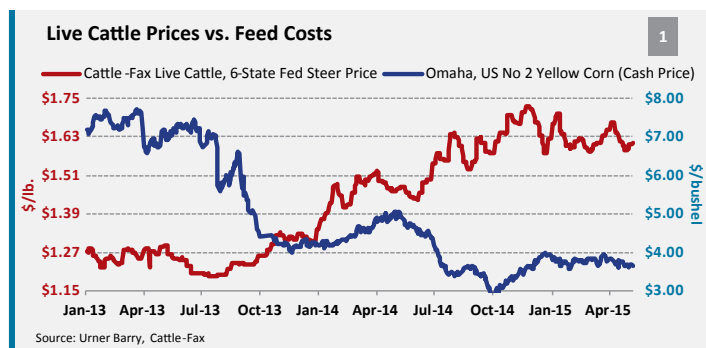
This did not go unnoticed throughout the chain as record wholesale prices were passed on to consumers and beef retail prices again saw unprecedented steepness in the trend line to end the year at the highest prices on record, \$6.08/lb.—another sector of the industry gaining over 20 percent. This was in stark contrast to the more subdued 2.55 percent gain in 2013, which was more in-line with current inflation measures less food and energy. (chart 3)

Stuck in the middle were packers, who had to pay for the input costs, but also had to sell beef on the other end. Despite positive demand for beef, the relative cost to other proteins remained a limiting factor in passing along the full cost of rising cattle prices. As such, much of the profitability was with cattle owners. Packer margins were mired in negative territory much of the year and averaged a negative \$0.82. In fact, the last quarter of 2014 was the worst on record which led into another disastrous one in early 2015.

2014 started the year with the lowest cattle inventory since 1951 which continued to affect the cattle slaughter. The drought which has shaped the industry for a few years now continued to make its mark as one beef plant in California (which is still dealing with 100% extreme or exceptional drought) shuttered its doors.

2014's federally inspected slaughter was down almost 7 percent from 2013 at nearly 30 million head. This continued the trend seen over the last few years. Cattle weights continued to climb behind economic incentive to hold animals on feed longer by the one-two punch of higher live prices and cheap corn. The average live weight was 1,333 lb., up 16 lb. from a year ago. This helped offset some of the production declines. At nearly 24 billion pounds, F.I. beef production was down 6 percent from

*Continued on page 54*







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# BOXED BEEF MARKET

Continued from page 52

year prior. The first half of this year did nothing to change the trend. Packers pulled back to record low slaughter levels. (charts 4 and 5)

Keeping cattle on feed longer seemed to have another positive effect, not only on the animals themselves but a positive one for the industry as well. Cattle grading Choice or better shifted higher. This helped cement the United States as the leader in quality beef. Because of this, the strong domestic demand was piggybacked by continued success in export markets. The strong sales, with export volumes increasing in the face of record high prices showed that buyers were willing to pay up for quality product and support beef values. Volume increased slightly over 2 percent to 1.196 million metric tons, but beef export values gained an exceptional 15.88 percent to a record \$7.135 billion. Strong demand from Mexico, Japan and Hong Kong/China was the largest contributing factor for that strength. (chart 6)

## "IT SEEMS THE ANIMAL PROTEIN SECTOR HAS STARTED TO SHIFT SLIGHTLY AS A WHOLE AND BEEF IS PART OF THAT..."

Despite all the positives, the industry did face some challenges as well. Exports slowed the latter part of the year as there was an ongoing dispute between labor and management at the West Coast ports which was not resolved until February 2015. The dispute slowed movement of product significantly. In addition, the accelerated pace of strength in the U.S. dollar against currencies of major trade partners made U.S. product even more expensive to outside buyers. Then there were the continued restrictions from certain countries against U.S. beef. Finally, the relative cost of beef versus other proteins will always be a challenge to the industry.

It seems the animal protein sector has started to shift slightly as a whole with beef being a part of that. Clearly we can see an

indication of expansion starting to take shape. Cattle inventory on January 1, 2015 totaled 89.9 million head, a slight 2.47 percent increase from the low seen in 2014. Although not astronomical, it is a step in the right direction. (chart 7)

Pork production remains well above last year and estimates on growth continue to increase. So far the industry seems to have put PEDv behind it, so larger slaughter figures and record heavy hogs have increased production. A healthier, younger poultry flock along with all-time high bird weights has put that industry in an expansionary phase as well. So the two most direct competitors to beef are expanding production quickly at a time when beef is moving slowly. This has widened the gap between beef prices and the others to record levels. This will put a ceiling on any price increases with some industry analysts calling an annual and cyclical top in many of the markets. There are many factors that will need to be watched by the industry and only time will tell. **U**

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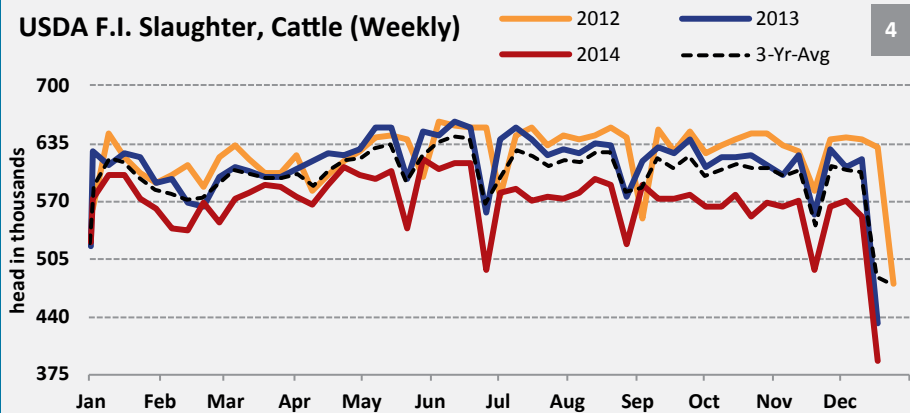
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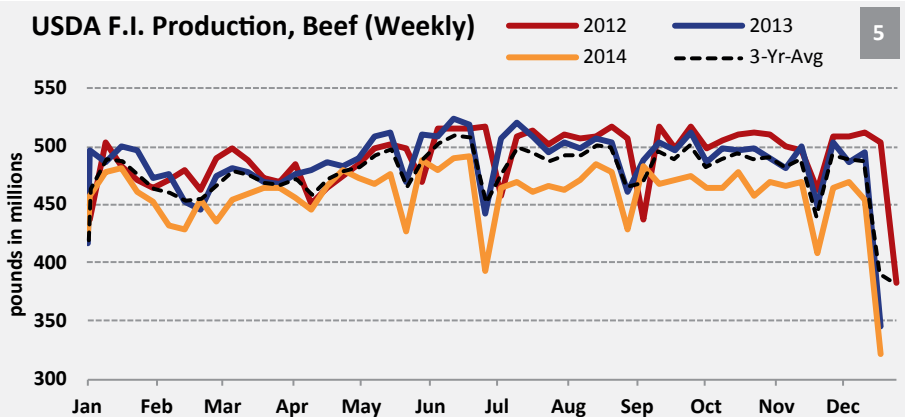
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USDA F.I. Slaughter, Cattle (Weekly)



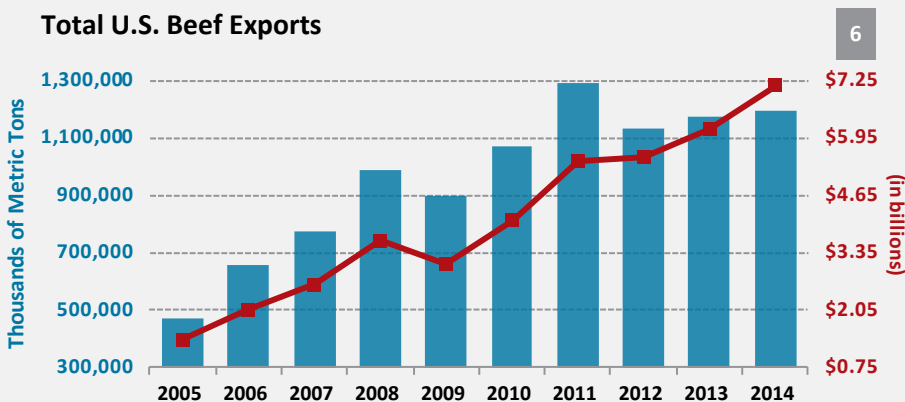
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USDA F.I. Production, Beef (Weekly)



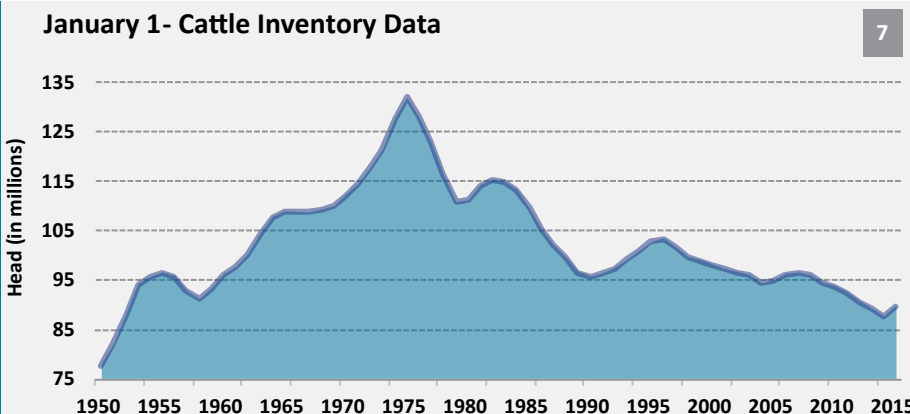
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Total U.S. Beef Exports



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January 1- Cattle Inventory Data



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# It's been another wild ride for

By Joe Muldowney | joemo@urnerbarry.com



The U.S. livestock industry is in the process of recovering from drought. Cows are now being retained as the industry works to rebuild the herd.

The result of herd expansion is less cows being harvested. YTD domestic beef cow slaughter is down 10 percent from last year and 13 percent from the five-year average. Dairy cow slaughter has offset some of that shortage as YTD numbers are 3 percent over last year. (charts 1, 2 and 3)

In the spring of 2014, the reduction in livestock availability started to advance domestic boneless beef prices. The higher price ceiling

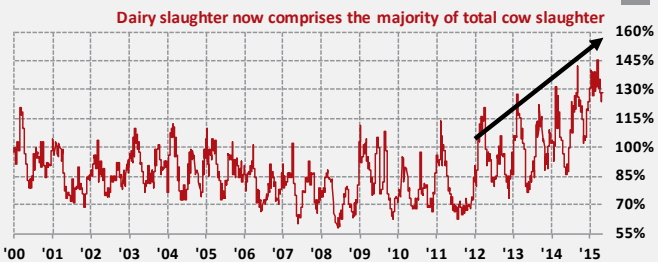
created opportunities for imported grinding and manufacturing beef and started to draw material away from competing markets. In February of 2014, the U.S. once again established itself as the primary market for Australian beef exports. In September of 2014, the U.S. hit a high of almost 40 percent of all Aussie beef and veal exports. So far in 2015, the U.S. continues to be about 35 percent of all Aussie Beef and Veal Exports. (charts 4 and 5)

## DOMESTIC LEAN BEEF MORE RESILIENT THAN IMPORTS

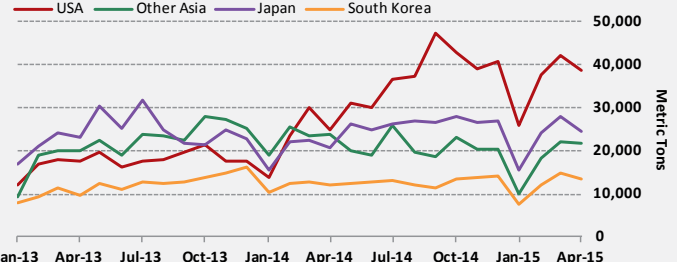
In the fall of 2014, an extremely strong U.S. dollar, the resumption of the New Zealand beef production season and high Australian slaughter rates began to weigh on the market and prices began to falter. All the while, U.S. fresh domestic product held amazingly steady. Consequently, the market began to see unprecedented price spreads. One of the highest spreads was seen in early March of 2015, when, on a delivered basis, processors using imported blend cow 90%, a common ingredient in the making of hamburger patties, had a \$78/cwt advantage compared to those using domestic product. Imported beef held a price advantage of

## "IMPORTED BEEF HELD A PRICE ADVANTAGE OF OVER \$30,000 PER CONTAINER..."

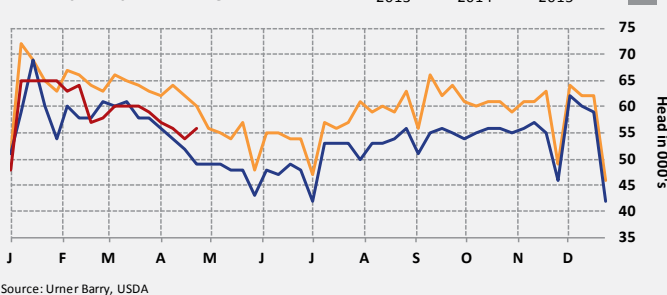
Dairy Cow Slaughter as a % of Beef Cow Slaughter



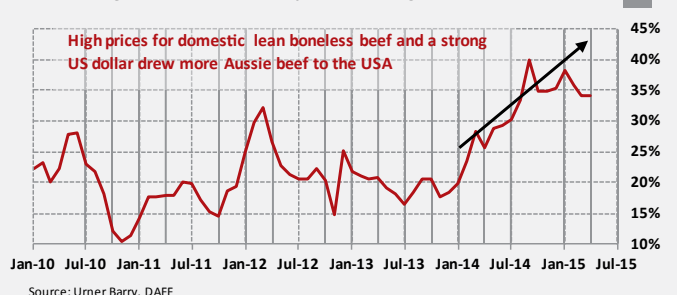
Australian Beef & Veal Exports, Selected Destinations



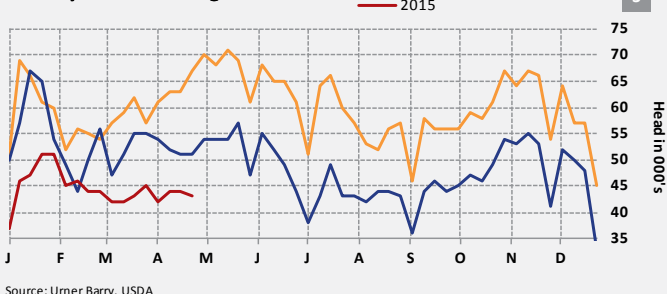
Weekly Dairy Cow Slaughter



Percentage of Aussie Beef Exports Coming to USA



Weekly Beef Cow Slaughter



Premium of Fresh 90% Boneless Beef to Au/NZ Imported BC 90%



# imported beef

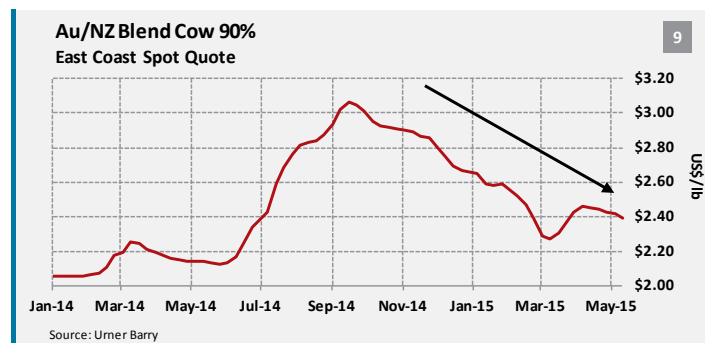
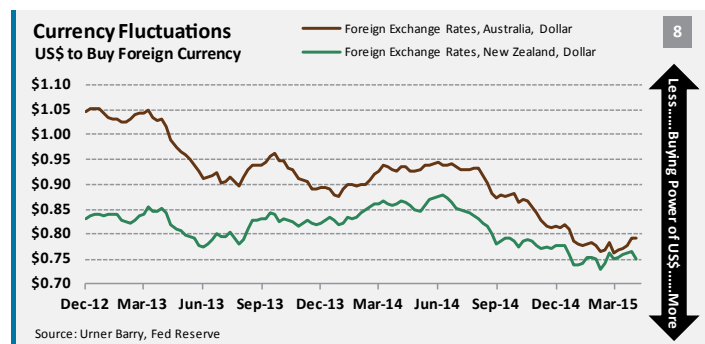
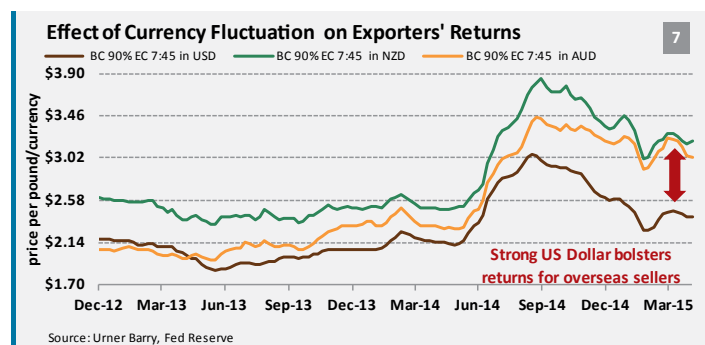
over \$30,000 per container. Early March also marked a bottom in the imported beef markets. (chart 6)

The stronger buying power of the U.S. dollar helped offset some of the market losses for traders overseas and product kept flowing to the U.S., but the lower prices were not helping everyone. Declines in the market meant that importers owned meat with much higher costs compared to going market prices. At times, there was a reluctance to trade product on the hope that market values would recover some of their losses. This finally occurred in early March; prices advanced significantly in that month. (charts 7, 8 and 9)

## BIG SHIPMENTS TO THE EAST COAST STRESS THE SYSTEM

A large amount of imported beef was coming to the U.S., and a greater percentage of this product was being shipped to East Coast ports. This stressed the industry's ability to accept and clear product into the country. East Coast freezers were running at

*Continued on page 58*



Stock photo © Angel Di Bilio

## WEST COAST PORT CONGESTION

The months of November 2014 through March 2015 witnessed major disruptions at U.S. West Coast ports. A dispute between the longshoremen's union and the Pacific Maritime Association who represents shippers, freezers and other companies who move product through the port was at the heart of the disruption. A lack of available equipment and capacity challenges were also cited as reasons for the slowdown.

At times, movement of product through West Coast ports was at a standstill. This delayed delivery of imported beef. When imported raw materials could not be delivered in time for processing, companies made alternative arrangements to get needed raw materials. This included the booking of domestic product, and sourcing imported material from other parts of the country.

The interruption in supply made for West Coast markets that were extremely erratic. There were weeks where items were simultaneously trading at big premiums and significant discounts. Those in possession of spot product were reluctant to show it to the marketplace as they were unsure how soon their next delivery might occur. Importers whose material was not delivered on a timely basis were bidding higher to draw out interested sellers. But it also created some significant discounting. There were instances where late shipments would finally find their way to the marketplace only to find that processors had already filled needs with other materials.

As all of this was occurring, some traders were shipping uncommitted product to the East Coast to avoid West Coast hassles. Additionally, processors who normally draw material from the West Coast were sending it to other ports and paying a premium to have it shipped just to insure reliable delivery. The unusually wide spreads to domestic made this possible.



Continued from page 57

capacity. At times, inspection services could not keep up with the pace of incoming shipments.

## THE INDUSTRY IS PRESSED TO FINANCE AND HOLD PRODUCT

An unusually harsh winter in areas of the U.S. adversely affected consumer movement of beef items. Many fast food concepts were reporting business to be under expectations. This had the result of extending raw material inventories for longer than was anticipated and contributed to soft raw material demand in the spot market. Processors were still working from larger than expected freezer inventories in early May. The large amount of product in freezers combined with historically high market value affected the industry's ability to hold inventory and contributed to softer trading values in late April and May.

## CHOPPY TRADE FOR CENTRAL AND SOUTH AMERICAN GRINDING MATERIALS

Trading for Central and South America product was sporadic. It was common for those markets to go quiet for days at a time. Compared to Australia and New Zealand, these regions saw relatively tighter livestock supplies. Alternative markets in places like Venezuela, and the ability to pre-sell upcoming production also made for more limited offerings in the U.S. open market.

## FACTORS TO CONSIDER GOING FORWARD

If the past is any indication of things to come, there are many factors traders should be aware of that could impact the boneless beef market going forward—effects from competing proteins, labor disputes, weather and currency fluctuations are all at the top of this list. Having up-to-date information, and with a little luck, traders can give themselves every chance for a successful year. **UB**

*Cheers to protein ...*

# Celebrating culinary cocktail pairings

Ever wonder why that glass of red wine tastes so good with a thick, juicy steak or why an ice cold beer tastes so good with that salty pretzel at the baseball game? While most pairings of food and alcohol are subjective, there are some scientific beliefs dating back centuries as to why certain flavors go together.

When looking at different food and alcohol pairings, it is important to note that some can be complimentary in taste and aroma while others contrast. Our cultural background can also influence our culinary combinations. For example, Western cuisines tend to use food and drink pairings that have complimentary notes while East Asian cuisines tend to pair contrasting flavors. In today's culinary mix up where we have Korean barbecue tacos, Mexican dumplings and burgers topped with everything from quail eggs to avocado—it's no wonder why the sky's the limit when it comes to food pairings.

Bacon, one of America's most beloved foods, is loaded with fat, salt and smoky flavors; one of the main reasons it is so palatable to humans dates back to our basic need for the salt mineral. Salt actually reduces bitterness which is why the saltiness of the bacon pairs well with a hoppy beer.

**Pairing Suggestion:** A bacon blue cheese burger with a Pale Ale (Try a sip before and after the burger to see if you can taste the reduction in bitterness.)

Astringency is a dry, puckering feeling of the mouth caused by tannins found in many fruits. Tannins can be found in some young red wines such as Cabernet Sauvignon or Merlot. Because of the dry sensation in the mouth, astringents are best paired with

well marbled cuts, such as a ribeye. A leaner cut of beef should be paired with a lighter red wine such as Pinot Noir. When it comes to dessert, sweet is usually paired with sweet—a port wine tends to taste less sweet when accompanied by a large piece of chocolate cake.

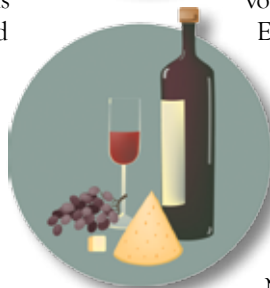
**Pairing Suggestions:** Ribeye steak topped with cremini mushrooms with a Cabernet Franc (Double pairing! Cabernet Franc is an earthy relative to Cabernet Sauvignon, thus it pairs well with the steak and the earthy undertones of the mushrooms as well.)

When it comes to the delicate taste of seafood, some alcohol pairings are based solely on the species while others depend on the preparation style of the dish. Seafood that is prepared with lemon and lime accents should be paired with an un-oaked white wine such as Pinot Grigio. With a wide variety of oysters that have their own distinctive tastes, the debate between champagne, beer and hard alcohol arise. Some believe briny goes with briny, so a dirty vodka martini served straight up alongside the saltiness of Eastern oysters is ideal, while the aromatic floral tastes in gin tends to highlight the flavors in creamy oysters found off the West Coast.

**Pairing Suggestion:** Gin and Kumamoto Oysters (The subtle taste of cucumber in the gin highlights the oyster deliciously).

No matter which pairing you prefer, one thing is for sure—trying out the endless combinations of protein and boozy beverages is a treat in and of itself! **UB**

Article contributed by **Nicole Bessemer** | nbessemer@urnerbarry.com





## Trimming the fat

By Bill Smith | bsmith@urnerbarry.com

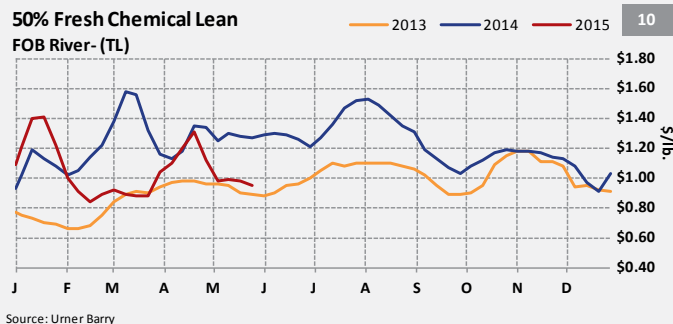


Domestic fresh 90s opened the first quarter of 2015 at a premium compared to previous years. Strength in that market could be attributed to tighter supplies of cows. The average price for the month of January 2015 was \$302.86/cwt; about \$80cwt higher than January 2014. Cow and bull slaughter levels have been lower throughout the first quarter of 2015 when compared to the equivalent time frame last year.

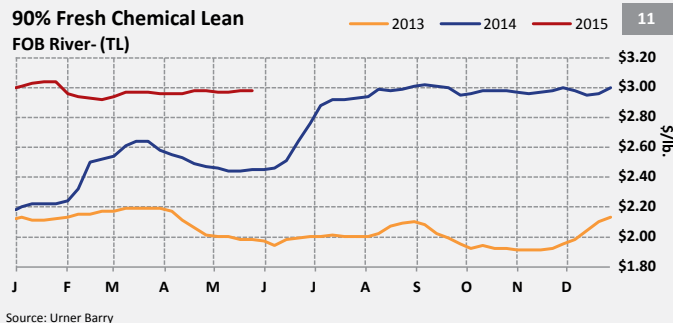
Fresh 90% lean boneless beef traded at a record high price of \$307/cwt in January. Average prices in the first quarter were significantly higher than the five-year-average, with prices 55% higher in January, roughly 44% higher in February and 41% higher in March. Prices have been fairly flat going back to July 2014. Processors continue to maximize the usage of imported boneless beef product as it trades at significant discounts to domestic lean beef.

Fresh 50s started Q1 2015 with prices above last year but trending lower. January's monthly average price of \$130.12 was up over \$21/cwt (about 20%) compared to January 2014, and 49%, higher than the five-year-average. February price levels declined with the monthly average price of \$91.71/cwt which was below

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the equivalent period for 2014 but still at a slight premium to the five-year-average. March 2015 price levels were 38% below the same time period a year ago, and 11% under the five-year-average. **LB**



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# We still want beef

Contributed by By Miranda Reiman,  
Certified Angus Beef

People love beef.

When the price skyrockets and incomes are tight ... people still love beef. That's according to a new Oklahoma State University research report, "Retail and

Foodservice  
Marketing Trends  
for Beef."

Co-authors Bailey Harsh and Deb VanOverbeke combined data from major consumer databases to find, "even as late as 2013, among consumers who changed their meat purchases 91% were spending less."

Most indications show that's returning to pre-recession levels.

"The majority of consumers today say beef isn't too expensive. But most importantly, 72% of consumers listed beef as their first or top choice of proteins in 2013," it states.



Deb VanOverbeke

"Even during a recession, folks still want to have beautiful moments in their lives," says John Lundeen, senior executive director for the National Cattlemen's Beef Association (NCBA), a contractor to the Beef Checkoff.



John Lundeen

Still, as drought and other herd-shrinking circumstances helped elevate prices and add to the cash register crunch, many predicted a decline in demand.

"If you look at the trends, beef consumption didn't really fall during that time," says VanOverbeke.

"They maybe changed how they used it, like making more casserole-type dishes using beef, rather than having steak—but people didn't change beef consumption as a whole."

Trading middle meats for grinds gave home cooks a chance to stretch food dollars, Lundeen says, noting it's also easy to prepare—a trait most beef eaters are looking for today.

"Millennials are a major target for beef marketing because they consume the most beef both at home and in restaurants of any generation and, given their age, will continue to be a major driver of beef demand," the research says of those born from 1980 to 2000.

A decline in high-school cooking education coupled with more after-school activities takes families out of the kitchen, Lundeen says. "But that does not mean there's no desire to cook."

"We can't assume that folks know how to buy the cut, how to season it, how to prep it and how to know when it's done or what temperature to cook it at," he says, "but the desire for knowledge is there and people





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want great food. That's what beef has to deliver on."

The higher quality the beef, the more likely it will live up to expectations, says Phil Bass, Certified Angus Beef® (CAB®) brand meat scientist.

"High quality meat results in the high-quality end product," he says. "Marbling is less dense than protein, so if you have the marbling in that piece of meat it's going to be easier to bite through." Research also shows the more intramuscular fat, the more intense the "beautiful, buttery-flavor" and the juicer the meat is.

Higher quality beef is also more forgiving. Beef Checkoff studies show nearly 50% of people like their steaks cooked "medium well" to "well done."

"As a result, if you don't have that marbling in there then it's going to turn out to be a very dry steak," Bass says. "The marbling doesn't evaporate, but the water does cook off."

Branding at the meat case helps assure purchasers they're getting what they want.

"In all categories, consumers have preferred brands. When you talk about ketchup, most people are brand loyal," VanOverbeke



Branding at the meat case helps assure purchasers they're getting what they want.



Certified Angus Beef says that high quality meat results in high quality end product.

shares as an example. "We're seeing beef move toward that brand recognition."

She says the main research message is that beef came through the recession in good shape and poised for growth.

"Consumers ultimately believe the price reflects beef's value and continue to vote with their dollars for beef's flavor, juiciness, tenderness and versatility," the authors say.

People love beef. **UB**

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# High path avian influenza

The closing weeks of 2015's first quarter brought unexpected concerns which, at the time, were understated compared to the position in which turkey and egg producers found themselves in May. Although several High Pathogenic Avian Influenza (HPAI) cases were confirmed in the Pacific Flyway in late December and January, it wasn't until March 4, 2015, that the virus was confirmed by USDA's National Veterinary Services Laboratories in a Minnesota commercial turkey flock. Avian influenza began to seriously raise industry eyebrows. Recent HPAI cases have occurred in individual turkey and layer flocks in states located within the Mississippi Flyway traveled by migratory wild birds that carry AI. At the time of this writing, more than 44 million birds and 200 confirmed cases, primarily in Minnesota, have been confirmed. Dozens of commercial turkey flocks involving several million birds in Missouri, Arkansas, North Dakota and South Dakota, Wisconsin and Iowa are being joined by tens of millions of chickens from the egg layer flocks in Iowa, Minnesota and Wisconsin to produce the worst ever HPAI outbreak in U.S. history. As of late May, more than 35 million table egg layers

had been infected—representing just over 11 percent of the U.S. layer flock. Three states, Wisconsin, Minnesota and Iowa, have declared states of emergency. Even though of little comfort, HPAI is a global situation and of course is not isolated to the U.S. Outbreaks have been recorded in every inhabited continent, although interestingly enough, not South America.

## EXPORT BANS

Exports, which totaled more than \$6 billion last year, have been hit hard as buyers, including China and Mexico, slap bans on U.S. supplies. According to USAPEEC President Jim Sumner, trade restrictions by 40 countries on U.S. poultry have already cost the industry an estimated \$600 million in the first three months of this year. To date, roughly 41 nations have taken actions against U.S. poultry and poultry product exports. Some nations have banned broiler/turkey meat; some have added eggs and chicks as well.

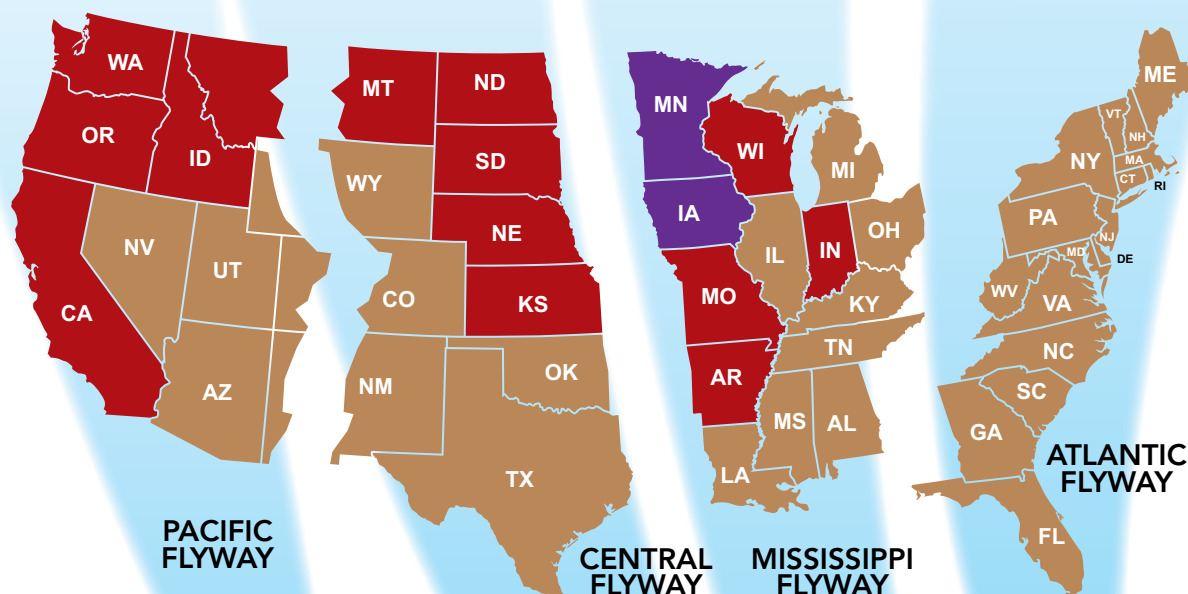
According to Global AgriTrends, providers of market intelligence and trade data in the global agri-food sector, 11 countries have banned the entire United States. The

significant ones include China (6% of U.S. exports last year) and S. Korea (2% of U.S. chicken exports last year). Other nations have banned individual U.S. states, counties or regions due to HPAI outbreaks. Of most importance is Mexico (buying 23% of U.S. chicken exports and 63% of turkey exports in 2014). Initially, Mexico began banning states as HPAI discoveries were made, but has since allowed poultry from those states so long as it is processed (cooked) in Mexico.

As those impacted by HPAI have already found out, there is nothing cut and dry about it. We do know that the virus dies faster as temperatures rise and outbreaks should decline over summer. But what happens in the fall when migratory birds fly south? It's fair to say there are genuine concerns about the outbreak expanding and dipping into the heavy turkey and broiler populations of the Southeastern United States. Industry participants are hopeful that this does not occur. **UB**

By Russ Whitman and Terence Wells  
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twells@urnerbarry.com

## STATES WITH CONFIRMED CASES OF AVIAN INFLUENZA IN POULTRY\*



LEGEND ■ CONFIRMED CASES ■ NO CONFIRMED CASES ■ MOST CONFIRMED CASES  
■ U.S. MIGRATORY BIRD FLYWAYS

Of the fifteen states affected, Minnesota and Iowa have been impacted the most.

Combined, they account for more than 75% of the total HPAI detections reported and over 80% of the total birds affected.

The majority of these cases are suspected to have been contracted from migratory birds travelling along the Mississippi (87%), Pacific (5%) and Central (8%) Flyways.

\*Does not include Captive Wild Bird findings

## High Path Avian Influenza Fact Check

- ✓ Protective actions against Avian Influenza in poultry safeguard the food supply and are in place to prevent exposure to other poultry flocks. **The U.S. turkey and egg industries have strict biosecurity practices in place** to help contain Avian Influenza. As part of this containment and eradication process, the industry works collaboratively with federal, state and local authorities when an outbreak occurs.
- ✓ According to the United States Department of Agriculture (USDA), the strain of Avian Influenza found in these cases **does not pose immediate health risks** to the public or to poultry plant workers.
- ✓ Upon detection of Avian Influenza, USDA and state officials **immediately quarantine a farm** to protect other flocks.
- ✓ Poultry products purchased in the U.S. are **safe for consumption**.
- ✓ The virus is affecting all egg production types alike.
- ✓ **Cooked poultry and egg products remain safe, wholesome and nutritious.** Eggs and birds on affected farms are no longer viable for sale and are prohibited from entering the marketplace.
- ✓ **Standard egg washing kills the virus** on the shell and pasteurization or cooking kills the virus as well.
- ✓ In HPAI cases, it is necessary to euthanize poultry with humane methods recommended by the federal government and approved by industry groups like the American Veterinary Medical Association. The birds are disposed of in a manner to ensure safety and to eliminate the potential spread of AI.
- ✓ There is no **risk of contracting the avian flu virus** from properly handled and cooked poultry and eggs.
- ✓ This is part of an ongoing pattern within the North American flyways where migratory wild birds carry Avian Influenza.

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# Egg study finds little difference

What do Wendy's, Barilla, Starbucks, Dunkin' Donuts, Red Robin, and Hyatt Hotels have in common? All these companies and many more are making a push to increase their usage or shift completely toward eggs produced in cage free facilities in the near future.

The debate between conventional cages, cage free and other nontraditional production practices has really heated up over the last few years. This is happening on the corporate level, but also on a state by state and national scale, most evident in the January 1st, 2015 implementation of Proposition 2 in California.

Contradictory or lacking research about these production types led a group of leading animal welfare scientists, academic institutions, non-government organizations, egg suppliers, and restaurant/foodservice and food retail

companies called The Coalition for Sustainable Egg Supply (CSES) to evaluate hen housing systems by considering the impact of multiple variables on a sustainable system over a three year period. According to the Coalition's web site, [www2.sustainableeggcoalition.org](http://www2.sustainableeggcoalition.org), the group aimed to evaluate conventional cage, enriched colony and cage-free aviary laying hen housing systems and potential impacts on food safety, the environment, hen health and well-being, worker health and safety and food affordability and it provides food system stakeholders with science-based information on sustainability



The coalition's study compared a cage-free barn, traditional cages and "colony" cages, which include perches and nesting boxes.

Photos provided by The Center for Food Integrity

factors to guide informed production and purchasing decisions.

Facilitated by the Center for Food Integrity, the CSES found that there were both positives and negatives with each of

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# between production methods



The study found little difference in egg quality among the three systems, and no indication that hens in any of them experienced acute or chronic stress.

the systems. Some of the key points in their findings include:

- ✓ Hen mortality was much higher in the aviary system due to a variety of conditions. There was less mortality in the enriched colony due to behavioral issues, and the least in the conventional system. It was also harder to detect dead birds in the aviary and enriched colonies than in conventional cages.
- ✓ Recourses in both the enriched colony and the aviary systems were well used, with approximately 97% of eggs being laid in the provided nesting areas.
- ✓ Housing system did not influence the rate of egg quality decline through 12 weeks of extended storage, and thus current U.S. egg quality standards and grades are adequate for all three of the housing systems.
- ✓ Hens in all housing systems shed *Salmonella* spp. at a similar rate; the prevalence of *Salmonella* spp. associated with egg shells was very low and did not differ between systems.
- ✓ Regarding indoor air quality, ammonia and particulate matter (PM) concentrations were

significantly higher in the aviary house than either the conventional or enriched house.

- ✓ Energy use and cost was similar across all three housing types.
- ✓ Feed comprised the largest share of operating costs for each of the housing systems. While feed consumption

per hen was similar across the systems, it increased over the life of the flock and was more costly per dozen eggs produced in the aviary system because production per living hen in that system declined more over the life of the flock than in other systems.

- ✓ Labor costs were highest in the aviary system.
- ✓ At 10% interest and depreciation, the aviary system had total capital costs per dozen eggs that were 179% higher than the conventional cage system, while the enriched colony system had total capital costs per dozen eggs that were 106% higher than conventional cage.

Tradeoffs between the systems are evident, but it is important to note that hen resistance to disease and egg safety was similarly good in all three cases. Eggs produced in the aviary system were most costly, however it appears that some foodservice companies, QSR's and others are prepared to take on those inputs, and in some cases, pass them along to their consumers.

Industry experts believe the recent spread of high path avian influenza would have affected all three of these systems at similar rates, especially because hens remain indoors in all three instances.

---

**"...BUT IN THE END, THE CUSTOMER ALWAYS GETS WHAT THEY WANT AND ARE WILLING TO PAY FOR."**

---

End users are beginning to market the use of cage free egg production and producers are preparing for more of the same going forward. We have already seen major egg producers shift focus toward cage free in their plans to add new production, giving them the ability to comply with California specifications and the ability to leverage demand shifts mentioned above. Science backed research will be important in making decisions about what production model the industry will gear toward in the future, but in the end, the customer always gets what they want and are willing to pay for. **UB**

Article contributed by **Brian A. Moscogiuri**  
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# Executive Conference

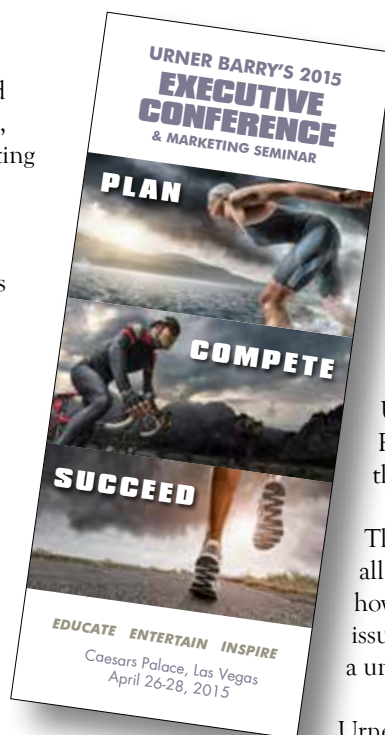
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succeed in the future. The three day event offered guests a spectacular line-up of intriguing speakers, informative joint sessions, lavish meals, a golf outing and much more!

Industry executives from around the country had the opportunity to meet and greet with colleagues in preparation for economic and market-related discussions. Attendees have noted Urner Barry's show is an unique experience as it offers market news and information that is generally not observed at other major industry shows.

This year keynote presentations from David Wasserman, House Editor of *The Cook Political Report* and former NBA player Walter Bond highlighted events. Guests were able to attend the annual golf outing at Dragon Ridge Country Club.

Always a much anticipated event, the Person of the Year Awards Ceremony was held. The 2015 Egg and Poultry persons of the year were named. Dating back to 1986, this award honors individuals who have made outstanding life-long contributions to the poultry, egg or red meat industries.



The final day of the conference lineup consisted of guest speakers addressing a variety of topics. Thomas McLoughlin, UBS Services, Randy Blach from Cattlefax and a Special American Egg Board Panel were just a few of the day's highlights. Hybrid's Helen Wojcinski captivated the audience with her timely, highly informative and extremely well-received High Path Avian Influenza Update. There was also a Spouses' Lunch held at Jimmy Buffett's Margaritaville Restaurant.

Urner Barry's own Poultry and Egg Market Reporters ended the day with breakout sessions on the Poultry and Shell Egg and Egg Products markets.

The conference concluded with a cocktail party for all attendees where we heard many comments such as how the conference had the ability to look at bigger issues affecting the industry and how Urner Barry has a unique outlook in this business.

Urner Barry would like to extend its gratitude to all of its guests, sponsors, and friends for making the 39th Executive Conference and Marketing Seminar a success, and we look forward to seeing everyone at Caesars Palace in Las Vegas May 1-3, for the 2016 Executive Conference. **UB**



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They say a picture is worth a thousand words. Two would do for this one-GOOD TIMES! (L to R) Matt and Michelle Boarman, Pilgrim's; Hector Perez and Alan Singer, L & S Food Sales; Chris and Dedra Chavis, Pilgrim's.



Pam Park and Cheryl Bauman of Papa John's were among the many new faces enjoying Sunday's Welcoming Reception.

*More photos on next page...*

## Urner Barry's 'Person of the Year' awards

### **JOE F. SANDERSON JR.** **CEO OF SANDERSON FARMS**

Urner Barry Executive Vice President Michael O'Shaughnessy announced Joe F. Sanderson Jr., CEO of Sanderson Farms, as this year's Poultry Person of the Year. O' Shaughnessy said Sanderson was an easy choice as this year's award recipient for his many contributions to the poultry industry as one of its premiere executives. Mr. Sanderson has been the Chairman of the Board of Sanderson Farms Inc. since January 8, 1998 and as its Chief Executive Officer since November 1, 1989. Mr. Sanderson served as the President of Sanderson Farms Inc. from November 1, 1989 to October 21, 2004. Mr. Sanderson has been a Director of Sanderson Farms Inc. since 1984.



Urner Barry's 2015 Poultry Person of the Year Award recipient, Joe Sanderson, Jr., is flanked by Sanderson Farms team members (L to R) Phil Buehler, Scott Flynt, Stefanie Moore, Chuck Hancock, Katherine Powell and Kint Burdine.

### **JOANNE C. IVY** **AMERICAN EGG BOARD'S PRESIDENT & CEO**

This year's Egg Person of the Year Award was presented to American Egg Board's President & CEO Joanne C. Ivy. Urner Barry's Executive Vice President Rick Brown introduced Joanne and said she was the emotional arm the egg industry so badly needed and how her efforts have been pinnacle to the success of the industry in recent years. During almost three decades of service to America's egg farmers, Ivy created the Egg Product Marketing, Retail Merchandising, and State Support Program. During her tenure as President & CEO, the egg farmers' image campaign, known as the Good Egg Project, was launched; the Foodservice and Egg Product Marketing programs were enhanced; and AEB's highly successful marketing campaigns, including its most recent Wake Up to Eggs with (Kevin) Bacon campaign, were executed. She also strengthened the prominence and integrity of the Egg Nutrition Center and its multi-million dollar nutrition research program that culminated in this year's historic Dietary Guidelines recommendations.



American Egg Board CEO Joanne Ivy was honored as Urner Barry's 2015 Egg Person of the Year. Joanne's many years of dedicated service to the industry was recognized with the help of fellow AEB Board Members (L to R) Kevin Burkum, AEB; Blair Van Zetten, Oskaloosa Food Products; Paul Sauder, R.W. Sauder, Inc.; Mitch Kanter, Egg Nutrition Center and John Howeth, AEB.



# Executive Conference

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It doesn't get any better than this! (L to R) Jim McGahee, Fieldale Farms; Henry Buzgon and Thad Eshelman, Eastern Poultry; Dan Cook, Cook International; NPFDA's Kristin McWhorter; and Eastern Poultry's Ted Rueger.



Against the palatial backdrop of Caesars are (L to R) Michigan Turkey's Brian Boerigter, Chris Geiger of Agro America LLC; Blake Corbell of Boar's Head; and Michigan Turkey's Diane Ketchum.



A fine flock of feathered friends! (L to R) Kent Puffenbarger, Prestage Farms; Eastern Poultry's Jon Poole, Cliff Rhodes, Boar's Head; Land O'Frost's Carl Abbott; and Dan Lightle of Cooper Farms.



The 2015 Executive Conference attracted near record numbers and the most in nearly 20 years! First timers Denise Wilson of Wingstop, along with Ahold USA's Sean Chadwick and Keith Fisher, helped make it what many called the "best conference ever!"



David Crockett of NuCal Foods and Cal Maine's Alan Andrews enjoying some camaraderie and a beautiful Las Vegas evening!



Seen among the EGG-cellent crowd enjoying the festivities were (L to R) Terry Profitt and Aaron Hennen, Cargill Kitchen Solutions; and Bill Rehm of Daybreak Foods.



This good looking cast of characters was the one to beat during the 2015 Annual Urner Barry Golf Outing! (L to R) Jon Donofrio and Thomas Isaf, Interra International; Ryan Downes, Farbest Foods; and Tyson's Jeff Farver.

# PLAN... COMPETE... SUCCEED.

## 2015 EXECUTIVE CONFERENCE & MARKETING SEMINAR SPONSORS

Urner Barry would like to sincerely thank our generous sponsors for their continued support. Their involvement has enabled our event for the past 39 years. We recognize their contributions are imperative in providing the industry with this high-quality event that not only offers one of the best networking opportunities to the industry, it also presents exceptional educational and motivational content. Our deepest gratitude and we look forward to 2016!

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# Stock prices – burgers, wings and more

Shake Shack's debut as a public company on Friday, January 30 proved successful early. Shares surged nearly 150% from the initial public offering price of \$21 per share on the first day; putting a valuation on the company of over \$1 billion. Share prices eased slightly from those highs, but at the time of this writing still remain over 125% above the IPO.

As a new public company, Shake Shack appears to be mirroring the strength seen in the gourmet burger sector over the last five years; making this a perfect time to bring the company to market. From January 2010 to the end of March 2015, publicly traded regional and emerging burger concepts surged nearly 212%. This clearly outpaces, more than doubling the burger giants which gained nearly 100% during this time. The S&P 500 has almost been a mirror image of the burger giants during this time as well.

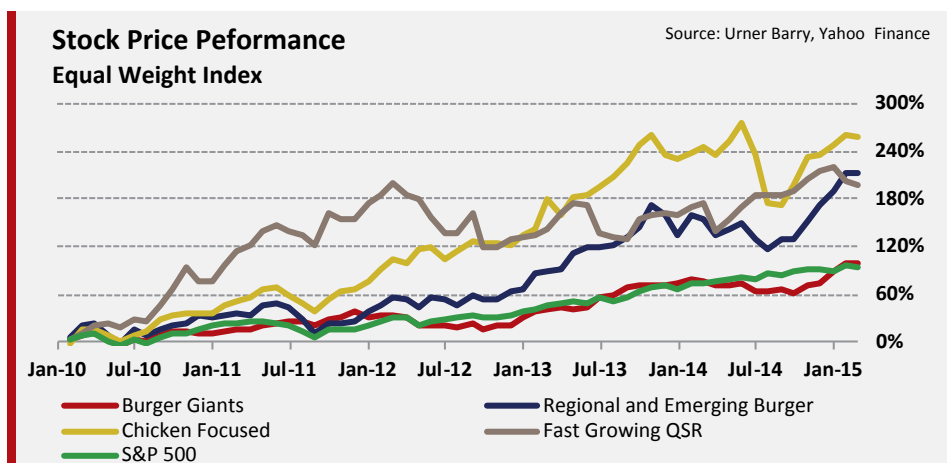
Looking at the chart, there are some restaurant sectors where the stock prices are performing just as well as or even better than these regional and emerging burger places. Fast growing QSR concepts were the clear winners early in the decade, and that has led to a nearly 200% gain in the last five years. Chicken-focused concepts have done the best with over a 250% advance.

What will the future hold for these companies? There is a lot that goes into stock price performance, but the ultimate success (as Danny Meyer, the founder of Shake Shack recently said) seems to be in putting a great product together with amazing people. Which one of these sectors are going to ride this trend?

Article contributed by Gary Morrison  
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Stock photo © Jackstudio



The indices created are made up of the following publicly traded companies:

**BURGER GIANTS:** McDonald's and Wendy's

**REGIONAL AND EMERGING BURGER:** Jack in the Box, Biglari Holdings (Steak n Shake), Luby's (Fuddruckers and Cheeseburger), Red Robin Gourmet Burgers and Sonic

**CHICKEN FOCUSED:** Popeye's, El Pollo Loco, YUM Brands and Buffalo Wild Wings

**FAST GROWING QSR:** Chipotle, Noodles & Company, BJ's Restaurants and Panera Bread Company

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# Protein markets

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whether it was from the inability to actually get product out of the country, struggles in maintaining volume due to the higher value of the dollar, trade bans due to viruses or feed additives, or a combination of all of the above.

A high domestic currency may be a negative for exporters, but for importers it can be a boon. The U.S. seafood industry for example, which in 2013 imported 1.6x more edible seafood than it exported at a value deficit of over \$12 billion, saw benefits from a dollar index which appreciated by 22 percent between July 2014 and March 2015.

Whether your industry was affected more by a slowdown in exports or an expansion of imports, in all cases there was still an impact on domestic markets. This forced participants to stay nimble, and (in some categories) face conditions quite contradictory to that of 2014.

The transition from mid-2014 through the first quarter of 2015 saw the pork industry largely recover from a virus that killed millions of hogs, only to then metaphorically pass the torch over to eggs and poultry, which at the time of this writing, is only beginning to understand and attempt to control a separate virus killing tens of millions of birds. Meanwhile, the beef trade continues to feel the impact of past and ongoing droughts, remaining

incredibly expensive both historically and compared to other competing proteins.

Despite these market influences, global demand for proteins remains favorable even in the face of some record high prices. This is undeniably important as the USDA has repeatedly raised the estimated amount of red meat and poultry available to the U.S. consumer in their WASDE reports. Just between the April and May reports, the USDA upwardly revised total red meat and poultry supplies by an additional 150 million pounds. Compared to 2014, this would represent an increase of 8.8 pounds of meat per capita per year, or a rise from 202.3 pounds of red meat and poultry per capita for 2014 to 211.4 pounds in 2015. With this in mind, the goal moving forward then focuses on how the various protein industries navigate the retail and foodservice sectors in order to ensure that the American public consumes an additional 8.8 pounds of meat (not including eggs or seafood) per person.

This edition of *Urnner Barry's Reporter* aims to provide the reader with extensive protein market summaries of the past year and offer a glimpse into what may be coming in the future. The balance of the issue is composed of analysis and news developments that affect a broad range of industry participants from packers and processors, retailers, foodservice operators and ultimately, the consumer. **UB**

Article contributed by **Russell Barton** | [rbarton@urnerbarry.com](mailto:rbarton@urnerbarry.com)



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The advertisement features a central logo for "prairie natural RABBIT MEAT" set against a background of green hills and a sunburst. To the right is a circular seal that reads "Premium MEAT". Below the logo is a photograph of a prepared rabbit dish, including a rack and chops, garnished with herbs. To the left is a product box for "prairie natural RABBIT MEAT" which also features the logo and a "20 lbs net weight" label. At the bottom left, a green box contains the text "Largest Rabbit Meat Importers" and "Whole - Trimmings - Legs - Loins". At the bottom right is the logo for "SAB SOUTH AMERICAN BEEF INC." featuring a cow's head, with the tagline "Your Import Specialists" below it. A list of product lines and origins is provided at the bottom, followed by contact information and a bilingual note.

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