

Plentiful protein production persists ...

Many markets, one narrative: supply

The title of this article may sound familiar in theme. Last year, the cover story of the Market Analysis edition of *Urner Barry's Reporter* was entitled "One common thread: supply," in which we wrote about how record production in a number of markets during 2015 coincided with an elevated dollar and several other factors, creating a supply glut within the U.S. and widespread price discounting as a result. Fast forward to this year's Market Analysis issue and still there is no



subject more central to many of the markets that Urner Barry covers than supply, or rather the robust and in some cases record-breaking levels of it.

For better or worse, 2016 grabbed the baton from 2015 and did not look back. Chicken and pork, both having set record highs in production in 2015, established new records in 2016. Chicken RTC poundage beat out 2015's

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New Beginnings...Managing Future Expectations

Urner Barry's 41st Annual Executive Conference and Marketing Seminar at Caesars Palace Las Vegas

This past May, Urner Barry hosted its 41st Executive Conference and Marketing Seminar where over 400 of the top executives from the poultry and egg industries came together to celebrate another great venue. This year's conference theme was *New Beginnings...Managing Future Expectations*, and that premise

resounded through the industry and business experts that presented at the event. In reflecting on this, it was evident that Conference attendees also brought with them the key attributes to form great *New Beginnings*—communication,

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Many markets, one narrative: supply

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Urner Barry hosts
41st Executive
Conference



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Population and middle class expansion drive innovation and investment

The world's population has swelled to over 7.5 billion people and is projected to grow to 9.5 billion by 2050. Not only are there more mouths to feed, but the middle class is expanding. Brookings reports that by around 2020, the middle class will become the majority of the global population for the first time ever. Furthermore, we are on pace to add a billion people to the category by 2022 and another billion by 2028.

Overall population growth, especially in the middle class means the world will be consuming more protein.

This demand will be met not only by the traditional center-of-the-plate offerings, but also by established and developing alternative protein sources. According



into plant-based food startup Beyond Meat as a way to expand their protein portfolio. Tom Hayes, CEO of Tyson Foods recently told Fortune Magazine that, "The reason Beyond Meat made sense to us is because we are focused not only on animal protein, but protein overall. We want to make sure we are driving protein growth, and it doesn't matter to us where it comes from."

to Lux Research Inc., "the market for alternative proteins beyond fish and meat will grow by 14% annually by 2024."

Europe is currently the largest buyer of meat substitutes, generating 39% of global market revenue in 2014 according to Global Meat News. Growth potential in the category is likely greatest in Asia, however, due to economic and population growth. Middle class expansion and dietary preferences, especially in areas where religious beliefs prohibit meat consumption, are also key drivers. American consumers are experimenting with more alternative protein sources as well. In fact, Mintel reports that nearly 30% of Americans say they are eating more non-animal protein.

The most commonly used alternatives in the marketplace are soy, pea, rice, whey, and canola. These are commonly known in the industry as second generation sources. Third generation proteins are also poised to take a foothold in the alternative protein market. These include insects, algae, and others created through bioengineering. Insect powder is already showing up in a variety of traditional offerings, ranging from potato chips and pastas to protein bars.

Alternative proteins aren't only getting the attention of Wall Street venture capital firms and tech investors like Bill Gates, but are also receiving financial backing from traditional food companies like Tyson and General Mills. Both made investment

Protein alternatives that try to mimic or replace meat have struggled. Mintel reports that only about 1 in 3 current meat alternative consumers believe the products are healthier than meat from animals. Analysts at the firm feel alternative proteins need to focus on their role as a true alternative rather than mimicking or attempting to replace traditional meat sources.

In a 2015 Civil Eats article, Ethan Brown, CEO and founder of Beyond Meat suggested that, "when we look at 2050, it's really more about consumers being able to shop around for protein. Whether that comes from pea protein, lupine, or yeast, or comes from an animal. Those should be offered at the supermarket side-by-side for consumers to pick from." It is an interesting perspective because it isn't about eliminating animal protein, but about giving consumers additional ways to add protein to their diets.

Overall population growth and middle class expansion will lead to more demand for protein. New players are entering the alternative protein space and seasoned veterans are hedging their positions with exposure to some of these startups. Ultimately, their success will depend on their appeal to the consumer, which is more than ever focused on transparency, sustainability, health and wellness, and of course, their palate. **LB**

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850,000 beef carcass records tell the story: Marbling still matters

Contributed by By Miranda Reiman
Certified Angus Beef

Just missed it. Just missed a flight, a deadline for a major rebate, or your child's winning shot at a ball game. The feeling is much the same. Many cattle "just miss it" in regard to qualifying for the *Certified Angus Beef*® (CAB) brand.

For many it's the difference in a marbling score of 492 versus 500. Those commodity Choice carcasses are just a few fat flecks away from upper two-thirds Choice and their share of the \$50 million that packers pay each year for cattle earning that high-quality designation.



"I don't think many producers know just how close they are to being 'in the money' so to speak," says Justin Sexten, CAB director of supply development. "So many cattle sit right on that line and shifting that line ever so slightly is a big deal. For cattlemen, that means thousands more cattle that could earn the average \$40/head bonus."

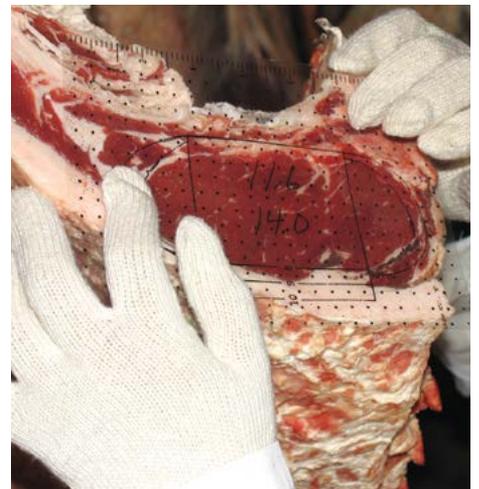
That's just one take-away from the brand's 2016 study that looked at data on nearly 40% of the Angus-influenced, or "A-stamped," carcasses in three, two-week periods.

"It allows us to measure and monitor average characteristics on CAB-certified carcasses over time," says Clint Walenciak, CAB packing director. The analysis contains 850,000 records that include four of the brand's 10 carcass measurements: ribeye area, hot carcass weight, fat thickness and marbling. The team also uses that data to look at what keeps cattle from making CAB.

In each of five studies from 2008 to 2016, marbling easily rises to the top as the No. 1 reason cattle fail to qualify. In 2016, 92.6% of the A-stamped cattle that were kicked out had insufficient marbling. That's compared to a high of 95% in 2012.

"It's improving," Sexten says. That 492 average marbling score, or low Choice, was 472 nearly a decade ago on the 1,000-point scale. "But that's the barrier to entry here."

Other reasons carcasses don't qualify for the brand include too heavy carcasses



(9.1%) and falling outside the accepted ribeye range.

"As cattle have gotten bigger, so have ribeyes," he notes. CAB requires a 10- to 16-square-inch ribeye, and very few (.4%) fall short of the threshold, but more than a tenth (11.2%) of those cattle have ribeyes greater than the 16-inch cap.

"That's really a concern for our foodservice partners, when it comes to portion control and plating, so we try to address variability with that specification," Sexten says.

Only 3.5% of the records were above the 1-inch back fat limit.

"Even during these times of record high grading, the fact is, lack of marbling is still by far the leading obstacle that keeps cattle from our brand," Walenciak says. "That's been true historically and it is today." **UB**

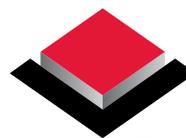


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Urner Barry's National Chicken Composite

Urner Barry enjoys a proud heritage in the food industry. The company's roots date back to 1858 when Benjamin Urner laid the foundation for what would become the most trusted name in commodity price reporting. Every reporter is dedicated to fulfilling Urner Barry's mission of providing timely, accurate and unbiased market information. A goal that doesn't just stop at the surface, but drills down to investigate and fully understand the inner workings of each transaction, the industry participants themselves and their most intimate business details.

Urner Barry stays connected with the market through any number of means including e-mails, fax, instant messaging, phone conversations and face to face meetings. And yes, invoices are utilized as well. However, an invoice is only the beginning of the story, not the end of the tale. It's necessary to know whether the final sale is the result of a formula or a market based arrangement. When the transaction was negotiated and any special circumstances surrounding it are crucial to the price discovery process. The condition of the product, credit considerations, contractual relationships, plant or logistical situations which might cause the product to be placed under duress all can be cause for significant variances in value.

At the same time that Urner Barry sticks to a time-tested reporting philosophy and business model, the company is constantly looking to improve communications, maintain transparency and provide the most meaningful market information possible. One of the key characteristics which has defined Urner Barry during the past 160 years is the constant drive to change with the needs of the food industry. All of the center-of-the-plate quotations are constantly reviewed and updated, changed or eliminated, to adapt to the needs of an industry in motion. Some lose their significance over the years while other new, innovative quotations and tables are developed.

A great example of that process is Urner Barry's National Chicken Composite. We first began exploring the possibility of developing

Urner Barry National Chicken Composite Beta	
Tuesday, June 6, 2017	
Urner Barry Chicken Composite Whole Bird	1.066
Composite Parts Values \$/lb	
Bone-In Breasts	1.348
Boneless Breast Tender Out	2.003
Breast Tenders	2.316
Whole Wings	1.995
Leg Quarters	0.663
Bone-In Thigh	0.713
Boneless Thigh Meat	1.566
Drumsticks	0.679

- Calculated from contract, negotiated, and bulk transactions
- Represents value of product delivered during week of publication

52 Week: High Low Recorded: High Low

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Urner Barry worked hand-in-hand with wholesale sellers and buyers of tray pack chicken in developing the National Chicken Composite, now in a Beta version.

the composite at the request of processors and retailers who previously had been utilizing another pricing benchmark for retail sized chickens and parts, which is no longer in existence. In keeping with the first rule of Urner Barry practice, we started working hand-in-hand with sellers AND buyers in its development. The end product, Urner Barry's National Chicken Composite, is computed utilizing spot, negotiated and contractual transactions, and by design reflects the current trade mix on any given day or week. Like with all Urner Barry inputs, the data collected is kept confidential except during the confirmation process when only the involved parties are brought into the price discovery process. In the end, the inherent system of checks and balances built into Urner Barry's reporting guidelines yields a quotation, or in this case a Composite that is timely, transparent, unbiased and accurate.

Urner Barry prides itself on customer service and in being proactive in providing the quotations, services and products required by the always changing world of commodity markets. We want and encourage our valued subscribers to participate wherever possible. All of our market reporters are a phone call, an email or a click away. Better yet, plan a visit and come see our new headquarters. Efficient and innovative, it will enable Urner Barry to continually adapt its services and products to meet the needs of an ever-expanding and highly complex global food industry.

With a strong history and promising future Urner Barry looks forward to another 160 years of investigating and reporting the protein markets.

For further information or discussion regarding Urner Barry's National Chicken Composite please contact Russell W. Whitman rwhitman@urnerbarry.com. **UB**

"... the inherent system of checks and balances built into Urner Barry's reporting guidelines yields ... a Composite that is timely, transparent, unbiased and accurate."

2017 wildfires cause massive damage for some farmers/ranchers; little impact on markets

Wildfires that occurred in early March 2017 swept across parts of Texas, Oklahoma and Kansas caused massive damages for many farmers and ranchers in the region, and tragically resulted in some human deaths as well.

Some called it the “perfect storm,” a combination of dry grass and brush on the ground, very low humidity, warmer temperatures this winter and high winds that quickly fanned the flames once the fires erupted. Others referred to it as a “wall of flame and smoke.” For all involved directly or indirectly as part of teams assisting those affected, the damage caused by the wildfires will never be forgotten and the impact will be long lasting both financially and psychologically for those affected.

Yet, like many local or regional weather events, the impact on the larger markets overall was minimal, and prices that consumers pay are not expected to be affected at all. The three states respectively rank first, second and fifth largest in the number of beef cattle and as of Jan. 1 on a combined basis had over 8 million head of beef cows, or 26% of the nation’s total, according to USDA data.



“In the three states combined, 9,000 to 11,000 cattle were killed or were injured so badly that they later had to be euthanized...”

SUMMARY OF LOSSES FOR FARMS AND RANCHES

In Texas, Oklahoma and Kansas, over 1.5 million acres were burned along with reserve stocks of hay, numerous farm buildings and a few homes.

In the three states combined, 9,000 to 11,000 cattle were killed or were injured so badly that they later had to be euthanized, along with nearly 8,000 sows (adult female hogs) plus an unknown number of weaning pigs. The impact of these losses

will be longer felt since most of these animals killed were breeding females and it will take time to replace them, plus there will be a loss of production in the meantime. In addition, the swine housing was destroyed, so that will have to be rebuilt.

Around 3,000 or more miles of fencing were damaged or destroyed. The cost of replacing the fencing with all new materials was estimated at about \$10,000 per mile while repairing existing fencing, if applicable, would be considerably less yet could still be from \$2,500 to \$5,000 per mile, depending on the condition of the wire, existing posts, and other factors.

For some of the farms and ranches, repairing or replacing fencing could be the largest cost related to the wildfires. One large ranch in Kansas containing 12,000 acres had 300 miles of fencing damaged or destroyed. To replace it all with new fencing would cost approximately \$3 million.

Overall cost estimates from the wildfires were put at \$25.1 million in Texas and over \$16 million in Oklahoma. No figure was available yet for Kansas, but based on



the acreage burned and livestock lost, one might assume the losses were somewhere between those of Texas and Oklahoma, which could put the three-state total around \$60 million.

Steve Amasson, Agricultural Economist with the Texas A&M AgriLife Research and Extension Center in Amarillo, Texas, said the losses in Texas could increase further. Longer-term effects of the fire, heat and smoke inhalation could impair overall performance in the animals that were exposed to those conditions.

In addition, recovery of the pasture lands could take anywhere from one to as many as five years, depending on the amount and regularity of rainfall and other factors, Amasson said. That means cattle may have to be moved to other areas to allow the scorched regions to recover and it could mean they will need supplemental feed and possibly new sources of fresh water.



Cattle graze with a background of smoke from wildfires near Hutchinson, Kansas. AP / Orlin Wagner.

lost or compromised through the death losses, especially for those that lost a majority of their breeding herd.

There has also been a tremendous outpouring of support in the form of hay being donated and brought in from other states, fencing materials, animal health as well as financial aid through donations and fundraisers for those affected by the wildfires, said sources across the region.

GOVERNMENT COMPENSATION PROGRAMS, ASSISTANCE POURS IN FROM OTHERS

Ranchers and other livestock producers have an opportunity to recover a portion of their losses from the USDA's emergency programs. The USDA Farm Service Agency's Livestock Incentives Program covers about 75% of the national average price of the livestock by type and age. For some ranchers, though, the quality benefits from years of selective breeding to upgrade their herds have also been

By working together and with the help of others, the survivors of the wildfires will rebuild and the farms and ranches will again be productive, as they have for many generations. Sadly missed are those that were killed, some of whom were trying to direct their cattle away from the fires but were themselves trapped by the smoke and heat. **UB**

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U.S. egg industry struggles with post-HPAI market climate

By Brian A. Moscogiuri
brianm@urnerbarry.com



In our last market analysis, we discussed some of the challenges that were developing in the egg industry as we moved beyond the 2015 outbreak of Highly Pathogenic Avian Influenza (HPAI) that crippled production and sent prices soaring to all-time highs. Export disruptions, egg product demand destruction, and flock recovery were all beginning to challenge the landscape of the industry that was enjoyed for much of the prior decade. Those factors turned the record markets of 2016 into some of the lowest levels ever seen by the industry in just over a year's time (Chart 1).

PRODUCTION RECOVERY

The U.S. lost 34 million layers to avian

flu in the spring of 2015. Experts around the globe predicted it could take up to two years for the flock to fully recover. They seemed to underestimate financial motivations and innovative abilities of producers and growers to adjust schedules and increase efficiencies. In just 11 months, the U.S. flock was back at over 307 million layers, the same level reported by the USDA just prior to the outbreak. Flock expansions didn't stop there though, as some facilities directly impacted by HPAI were still repopulating and had laid plans to grow production through the end of the year, expecting strong markets and continued shortfalls. Cage-free initiatives were also a factor. After a slight downturn during the summer months, layer numbers raced to all-time highs heading into the winter holiday season. The USDA reported

the 319 million layers for December 1st, surpassing the previous all-time mark set on January 1st of 2015 by almost 8 million layers (Chart 2).

IMPORT/EXPORT

One of the key cogs in the marketplace prior to avian influenza was export business. International shipments peaked in 2014 when the U.S. sent more than 15 million birds worth of production across our borders in the form of shell eggs and egg products. The first quarter of 2015 was off to another record-setting start before the outbreak. Total exports in 2015 ended up down 31% from 2014's highs. International demand destruction continued into 2016, when the industry sent only 7.6 million birds worth of production out of the country. That



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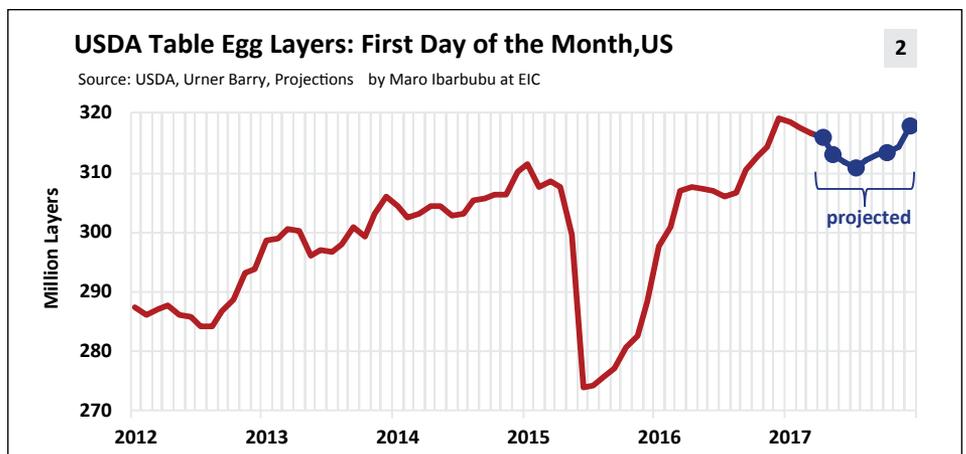
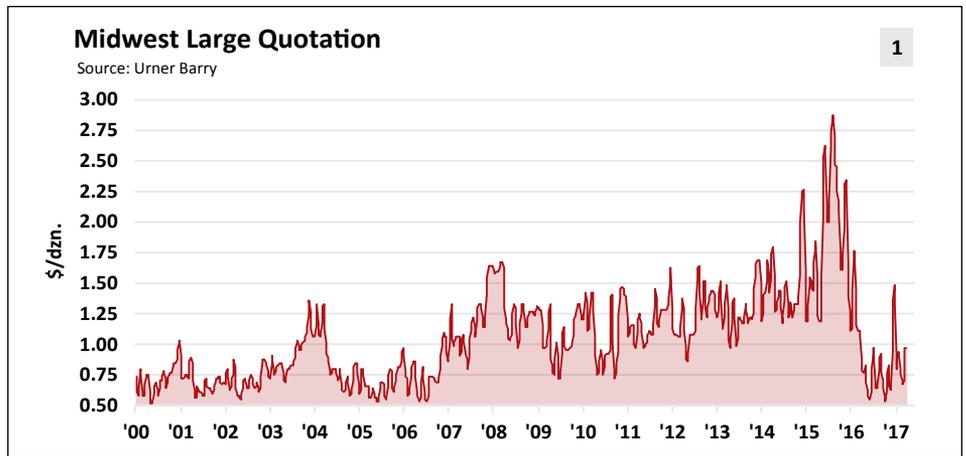
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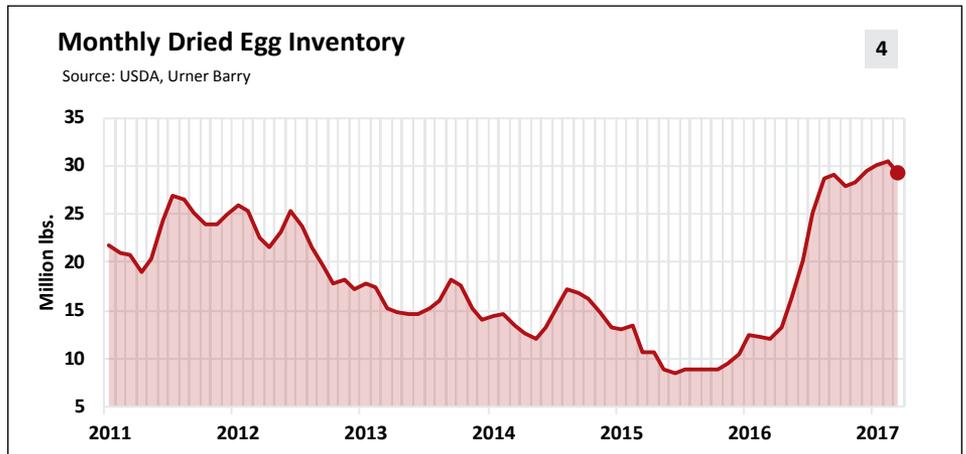
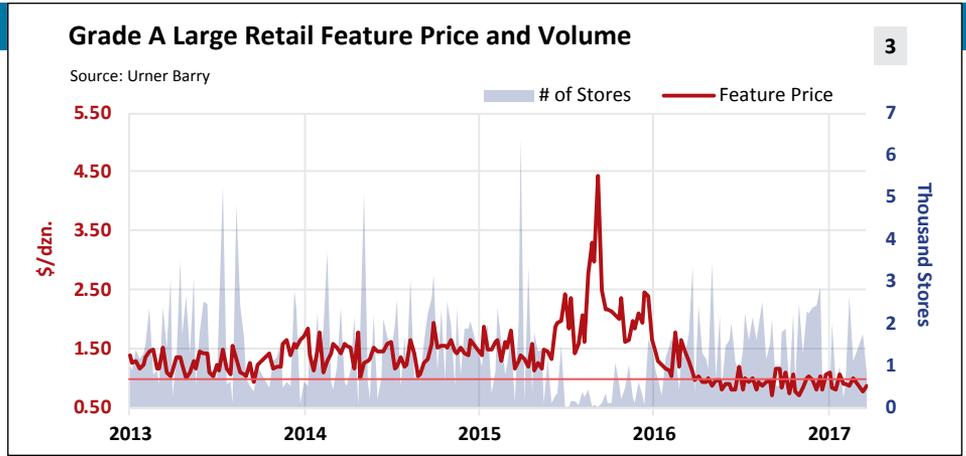


left more than 8 million birds worth of production for the domestic marketplace to absorb when compared to 2014. To make matters worse, US buyers imported roughly 1.5 billion eggs and egg product equivalent, or the production of more than 5 million layers. The industry therefore saw a net export of only about 2-3 million layers, meaning 13 million additional layers were producing for the domestic market in 2016 when compared to 2014.

MARKET IMPACT

Following one last AI-related rally in January of 2016, when Urner Barry's wholesale prices reached \$1.80 for large dozens in the Midwest, the shell egg and products markets struggled to reach even long-term average levels. Easter was flat at \$1.11 for Midwest large dozens last year, compared to a five year average of more than \$1.50 for a holiday peak. From there, the market hit decade lows of \$0.55 in early June. Secondary channels were uninterested in alleviating supplies. Exports were obviously disappointing and further processors had already restocked their finished inventories. These lows motivated flock adjustments during the summer months, leading to a few feature related rallies. The dollar mark became a point of resistance in the marketplace, and we saw prices heavily dependent on retail promotions and rotation schedules. Just prior to the winter holiday season, they hit all-time lows as the flock surged to record highs. Midwest large prices of \$0.54 triggered early November ads, but left the week of the holiday absent of generic eggs promotions. Midwest large prices peaked at \$0.83 during the first week of November but tumbled to \$0.63 by Thanksgiving. These lows again trigger rotations and promotions for December and helped the market rebound to the second highest levels of the year in December, nearing \$1.50 by Christmas.

Early in 2017 we've seen similar conditions, with the exception of market sentiment around South Korean exports and Easter. The U.S. sent 50-60 loads of shell eggs, many via air-shipment, ahead of their Lunar New Year holiday. South Korea lost 30% of their table egg flock to avian influenza and many had pegged their need as a potential market savior. Expectations turned out to far exceed actual volumes



though and scattered AI issues here in the U.S. quickly shuttered shell egg exports in February. Egg products continue to ship on a fairly regular basis as of this writing. The Easter market was somewhat of a bright spot as well. Prices rallied 45% during the 6 weeks leading up to the holiday, but topped at \$0.97. Though values left something to be desired, many producers said it was one of the best Easter periods in terms of volume sold because of promotional activity. Ads for large dozens were seen well below the dollar mark through the second half of 2016 and so far in 2017. Ninety-nine cents has traditionally been a major threshold for promotional effectiveness and these levels have been a mainstay at shelves across the country over the last ten months, boosting per capita consumption (Chart 3).

EGG PRODUCTS

Egg processors were directly impacted by AI-related bird losses. Production has now fully recovered and off-line eggs were readily available for the breaker this year given cartoned market conditions. Egg product usage has yet to fully rebound in the ingredient sector though, as some users

Continued on page 12



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Continued from page 11

reduced, replaced, or eliminated eggs all together. The industry thought these users would return with availability and low prices, but instead, processors have had to pad finished stocks. Dried egg inventories hit record lows during 2015, but are now at ten year highs, fluttering around 30 million pounds. Whole egg and white prices are at or near ten year lows, and the market is extremely competitive. Yolk has benefitted from egg white conditions, as processors limit separation, reluctant to add additional albumen stocks. Usage at foodservice, on-the-go, and retail seems to be increased, but that hasn't made up for increased outputs, domestic demand destruction, and reduced international call (Chart 4).

CAGE-FREE

From April of 2014 to March of 2017, the number of cage-free layers in the U.S. jumped more than 140% according to USDA statistics. Production has outpaced demand in the category so far, particularly given the prices of generic eggs. Though



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retail, institutional, manufacturing, and foodservice companies made commitments for 2025, most don't plan to use additional cage-free eggs until their set deadlines. This leaves producers in a state of flux and cage-free eggs moving into traditional channels. Most test the California market first, but have resorted to generic shell egg outlets and even the breaker with cage-free longs. Retailers that have tested 100% cage-free initiatives at their shelves have seen sales decline between 30-50% in volume, but often report similar sales in terms of dollars. The last year has yielded

more questions than answers regarding the cage-free future, and the generic market has made things only more difficult.

RECORD HIGHS TO RECORD LOWS

In the last fourteen months, the U.S. egg industry has seen record highs and lows. After battling back from HPAI in 2015, producers are attempting to balance overproduction and recoup lost demand both domestically and abroad. Market levels have created some of the most aggressive promotional schedules seen in years and have swelled finished stocks. Buyers are enjoying a competitive marketplace for both shell eggs and egg products, and even cage-free production. The warmer months of the third quarter can typically be a difficult period for the shell egg market and producers are responding with aggressive rotation schedules since Easter. The market is seeking a renewed balance for the second half of the year and the industry is hoping to just get back to some sense of normalcy after almost two years of disruption. **UB**

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Uncertain future developing after lackadaisical start to the market year

By Russell W. Whitman | Rwhitman@urnerbarry.com



For better or for worse, 2017 is shaping up pretty much as anticipated. And if it hasn't met the full expectations of analysts, it's likely because inventories and adequate supplies allow for an unhurried buyer approach. That has limited the upward momentum of key lines including whole birds and breast meat. For the most part available eggs and viable poults have been coming to slaughter without any significant or unexpected influences. Processors continue to be gender selective and that's producing heavier average weights along with increasing head count. However, poults are not being placed at the same levels eggs are being set and that's reducing the head count totals. Presently highly pathogenic avian influenza (HPAI) in the United States has not had a significant negative impact in the year's marketing efforts and at times has been attributed to improved export demand due to outbreaks in Europe, South America and Asia.

A LOOK BACK

The path to the present day markets probably began in earnest during Q3 2016. This period was characterized by lethargic

demand, adequate supplies and uneventful business patterns. The ongoing exception being whole body turkeys which had been well established and reflected a fairly expected trend since the year's outset. The white meat market showed no gumption and stayed flat throughout the time frame. Parts, while performing seasonally on the domestic front, failed to benefit significantly from export movement. Without consistent participation from export partners such as China, and also as a result of a highly competitive protein environment, values never achieved the heights they've proven to be capable of. Lastly, predictable third quarter supply conditions were rooted in the absence of disease and a demographically young breeding flock.

The fourth quarter picked up where the third quarter ended and the year closed under awkward and mixed sentiment. Seasonal patterns were pronounced and that meant an overall weakening in market health by mid-November. Uncomfortable sentiment was apparent and usually focused on upcoming production forecasts along with existing high inventories. That emotion impacted whole body turkeys by helping to develop a steady retreat in market values beginning the week of Thanksgiving. Breast meat also

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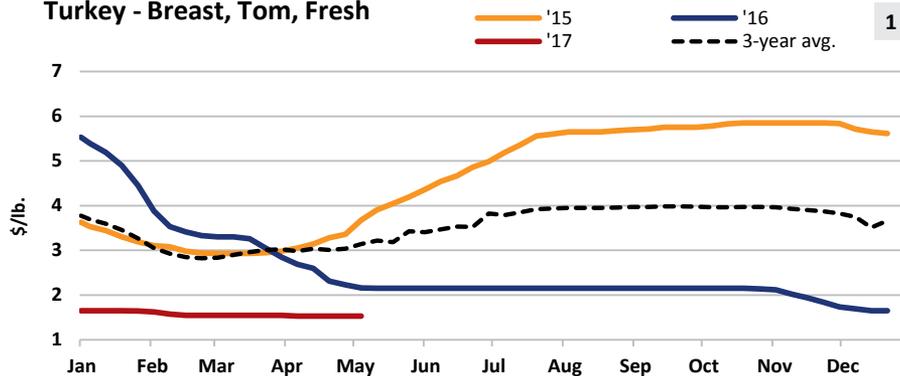
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Turkey - Breast, Tom, Fresh



Source: Urner Barry

followed a seasonal path, but lost value at a more rapid pace than either of the last two years. The export markets improved a little and that along with domestic seasonality helped parts maintain a consistent presence. As for the market performance of whole birds and white meats, the quarter started at values resembling expectations but lost more steam during the final 90 days of the year than either '14 or '15. Business was conducted in mixed volumes and in a hand-to-mouth fashion. Whole turkeys closed the year at \$1.08/lb, \$1.12 lower than 2015. Breast meat struggled to keep its composure, but eventually yielded to seasonal pressures and advancing production. Movement of parts into export channels benefitted from quarterly prices that were among the lowest of the decade.

By the close of 2016 hatch figures were slowly creeping higher with poult placements cumulatively advancing about 1.5%. RTC production advanced by 6.3% while head count was up 4.7% for the year. Egg sets closed December just under 7% above 2016 while poult placements were higher YoY by about 3.5%. The December 31 whole bird holdings were 74.9 million pounds; 40% above last year. Total turkey stocks ended the year at 279 million pounds, 39% above last year, the third highest on record.

NEW YEAR, NEW CHALLENGES

By the time 2017 got underway, participants were looking at a turkey market the likes of which they hadn't seen in a few years. Production had returned robustly and the market values of key lines lagged well below those of the prior two years. Parts and thigh meat remain at relatively depressed levels. As the quarter wore on, buyers were withdrawn and made purchases in a hand-to-mouth manner.

Breast meat inventories didn't encourage early year buying and values continued soft and unsettled through the first quarter. Forecasts for YoY increases in production were much more reserved as compared to those for 2016. This was greeted favorably particularly given the quarter's significant storage holdings. However any increase in production would bring the industry closer to 2008's record year. Overall, first quarter 2017 behaved pretty much as expected with most market quotations representing price driven demand and therefore keeping market values flat. According to USDA

figures, tom and hen inventories started 2017 40% above the year prior sending an immediate and favorable signal to potential suitors. As indications continued to emerge hinting at significantly increased total whole bird supplies, market values struggled to find support but actually ended up finding it fairly early in the year on January 4. On that date, the whole bird market settled at \$1.06/lb, where it stayed until gaining some ground in late February. With storage figures at significant levels and market values relatively depressed, poult destruction started 2017 with aggression. Similarly to last year, hen poults quickly fell out of favor. So much so that by the end of Q1 total poultry destruction was up by 155% with hens representing 4.4 million of the 4.48 million poults destroyed through the close of March. By the end of quarter one, tom and hen values were \$.15/lb behind 2016 but seemingly at a very buyer-friendly level. Competitive ham prices, among other influences, kept thigh meat sellers on

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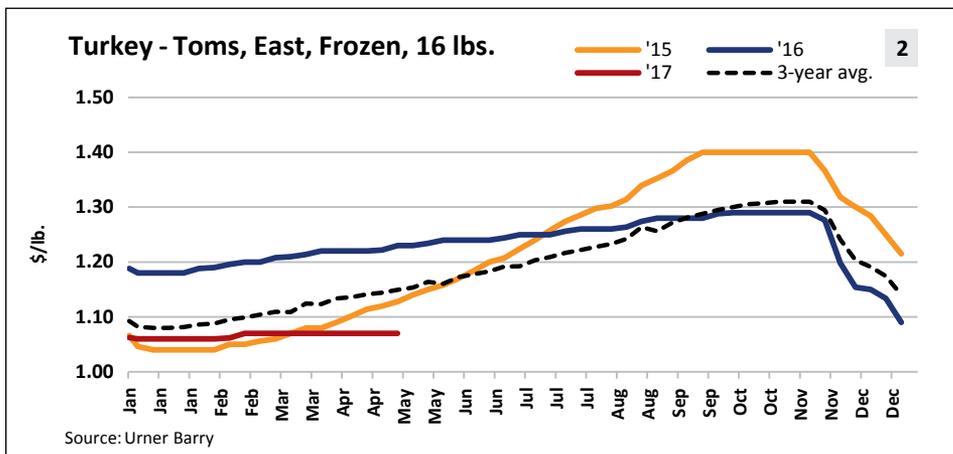
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their toes throughout the quarter. Market prices were subject to pressure almost since the year's outset and were enhanced by numerous cancellations of bone-in thighs under contract to Mexican processors; which further penalized market values. By Easter, the breast meat market was flat and typified by adequate supplies held by sellers willing to entertain discount if the opportunity presented itself.

In the end, Q1 2017 was uninspiring if not disappointing to processors who had been counting on attractive price points to stimulate interest even if needs weren't crucial. However, with advancing production and little demand, breast meat stocks were growing in tonnage even though the year on year differential was on the decline.

Buyers who were counting on steady production increases and no AI to bring breast meat prices (Chart 1) back into more "traditional" territory saw that come to fruition. In fact, market values had



not dipped to the levels exhibited this year since 2009. After the initial flurry of purchases ran their course, opportunities at even further discounts surfaced only to fall on less than needy ears.

By May the industry's most upbeat supporters began to talk with less enthusiasm. All the figures—cold storage, hatch and slaughter—told similar stories. If there was doubt, Urner Barry quotations told the tale. Participants on the buy side of the equation found little motive to ramp up purchases; seasonal or otherwise. Only a few lines were performing well and much of that was price-driven. Mechanically separated turkey, drums and scapula highlighted early second quarter performance. Whole birds, breast meat, institutional packaged breasts and thigh meat were plagued by limited buyer participation. Parts were mixed and historically under-valued during the period; at times benefitting from domestic seasonality at other times finding strength through renewed export participation. The waning zeal referenced earlier was depicted by "depressed" market values. Unlike during quarters one and two last year, whole birds are not being aided by early year bullishness. As of this writing, whole body turkeys are being negotiated for near future bookings \$.15-\$.20 behind last year's levels. Breast meat is \$.80 below last year and almost \$2.00 under two years ago and yet highly attractive meat prices are not stimulating demand as one might expect. So the market has stepped back, now what sellers are hoping is that buyers step up.

Looking into the balance of the year, the potential for the 2017 whole bird market

(Chart 2) to meet or even approach last year's record heights seems very low. Demand is muffled and buyers confident that when the need arises, supply will be there to fill it. As for dark meat, the market has been mixed so far this year as competitive pressures from cheap hams and ongoing currency challenges, has diminished both demand and support levels. That said domestic participation has helped offset some of that negativity. Breast meat is a study in frustration, but conventional wisdom has it that low prices will stimulate demand; it's just a matter of when. Parts movement seems likely to continue at a good pace assuming no significant trade bans surface before year's end and that China will continue to sit on the sidelines.

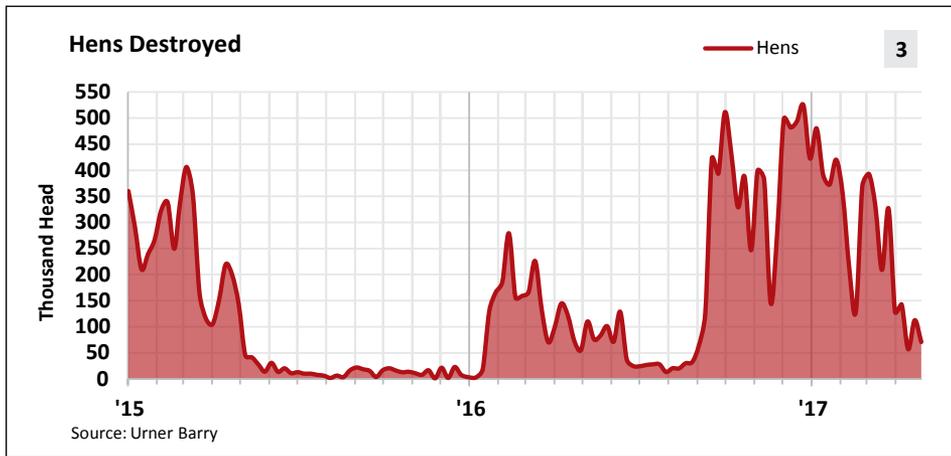
On the production front, the *Urner Barry Hatch Report* figures suggest that slaughter increases will slow their advance sometime late in the third quarter. The most recent USDA figures are forecasting RTC production to increase 2.2%. Meanwhile YTD head slaughter is higher by less than one percent, while total live weight is up by 2.6%. Sets and placements are moving along a fairly predictable course but one that is not exhibiting the advances noted early in the year. The tallied storage figures through Q1 were 16% above last year with whole birds up 13% year on year; breasts and breast meat, not surprisingly, were up 52%. MST performance is reflected in the freezer inventories which are well below 2016. The leg category showed that inventories were higher by 10% which isn't too surprising given significantly stifled contractual movement associated with the quarter.

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For the foreseeable future, whole birds and breast meat seem likely to remain on unsettled ground. Both lines have not benefitted all that noticeably from some of the lowest commodity prices in recent history. Of the two, further processors are hopeful that breast meat demand will rise to the occasion in the wake of improved seasonal deli-oriented movement. In the meantime, demand for white meat has not followed a seasonal path despite market values being at levels not experienced since 2009. Whole body turkey buyers are not quick to express interest given the backdrop of low prices and high inventories. For the near term, lower values with little immediate rebound seem imminent.

Much like we experienced in 2016, when considering the future of thigh meat and to a lesser degree drums, a close eye on hams in the pork market continues to be necessary. Presently there is only modest support to ham prices, and turkey demand in Mexico has suffered. Bone-in thighs are likely a large component of existing freezer stocks. For parts, a trading range between about \$.20 and \$.50 has been established over the past 18 months in the absence of China's participation. Unless there is a change in trade dialogue with China and increased demand in Mexico develops, the likelihood seems pretty high that the major parts lines will continue to be placed in this established range and that domestic demand will be the market driver.

WHAT LIES AHEAD

A final consideration which has become a normal course of dialogue is the hen poult destruction (Chart 3) which took

place aggressively during the first quarter and continues today. The head count tally is well above last year—130% as of this writing, for a total of 2.7 million more poult than 2016. That is a lot of unwanted hens that never make it to slaughter and help explain the slaughter differential currently in place between toms and hens. At the same time tom poult destruction is also advancing which might be in response to the ample breast meat supplies on

“By the time 2017 got underway, participants were looking at a turkey market the likes of which they hadn’t seen in a few years.”

hand and coming at the industry during the next several months. YTD tom poult destruction is up 162% or by a little more than 100,000 poults. Both of these indicators are suggestions of increasing production constraint.

Looking ahead the current blend of poor to fair at best meat and whole bird demand, along with higher inventories against an advancing production forecast, will ensure that seller challenges in attracting buyer interest will remain in the near-term. A return to more normal export relations is encouraging and expected to continue, especially with a slightly more upbeat trade outlook. Otherwise a constant vigil on hatch data, inventories and production figures will be the key to deciphering the balance of the 2017 market year. **LB**

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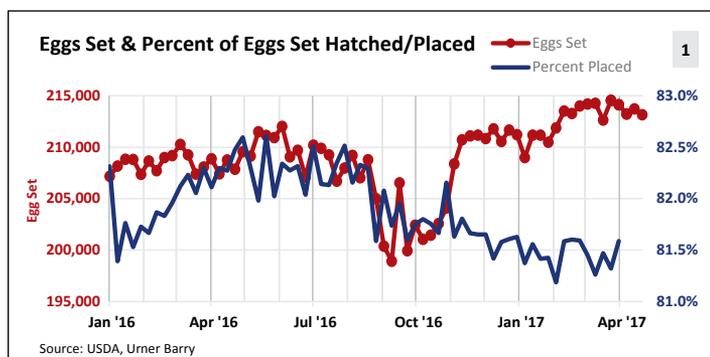
By Terence Wells | twells@urnerbarry.com



Last year’s chicken market analysis was titled “Supply: about the only thing that’s guaranteed anymore,” and rightfully so. In 2016, everything to do with production advanced—pullets hatched, eggs set, chick placements, head count and average live weights all trended higher. This year however, supply may be about the only thing that isn’t guaranteed anymore and it all begins with the hatch.

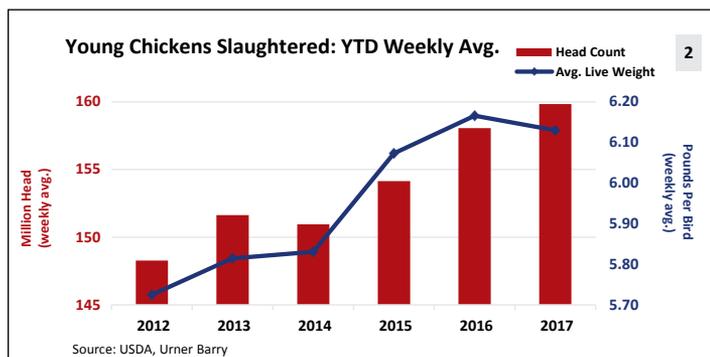
BROILER HATCHERY

For months, we’ve been hearing reports that suggest the hatch is “off” and sure enough, it is. Since last August, the number of pullet chicks hatched for placement in the domestic supply flock has trended lower (-0.06%) after recording six consecutive months of year-over-year increases. While the weekly number of eggs set and chicks placed has continued to advance, the percent of those eggs hatching into chicks has reduced some (Chart 1).



SLAUGHTER

Given the current situation in the hatch, one might assume head count to be off as well. Actually, it is trending higher, but not by as much as the number of eggs being set would have suggested in years past. Weekly slaughter data has confirmed that head count is up a little less than 1% through April. Contrary to recent years, average live weights have trended lower (Chart 2). Some companies are taking their weights down intentionally; others’ birds are just underperforming. No matter the reason why, the fact remains that total ready-to-cook pounds is not advancing at the same rate we’ve become accustomed to seeing in recent years.



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EXPORTS

U.S. chicken exports have rebounded impressively since 2015. Most trade bans related to that year’s bird flu outbreak have since been lifted (except for China). Earlier this year, there were a few detections of some form of avian influenza (most of which was low path, not high path), but our export partners were more methodical in implementing restrictions this time around as most of them limited their bans to the county or state where the disease was found and not the entire U.S. YTD export figures through February were up in volume (7%) and value (6%). Mexico is still the U.S. chicken industry’s biggest market; however, notable increases were seen in other markets such as Cuba, South Africa, Kazakhstan, U.A.E., Chile, and the Congo. Barring any future bird flu findings, U.S. chicken exports look like they’re poised for another great year.

There are a few other potential obstacles worth considering; none of which were a real threat at the time of this writing, but they could become so in future months and years. With a new U.S. President in office, trade policy is obviously a highly-sensitive subject. Should President Trump back out of, or enter into, any trade policy agreements that are unfavorable to U.S. exporters, the progress made in recent years could be easily reversed. Also, some focus should be placed on crude oil prices since a lot of our export partners rely on oil as a means for their economy. Oil prices advanced during the second half of 2016, but have been declining steadily so far this year.

COLD STORAGE

Total chicken (765M lbs) in cold storage through March 2017 was down 3.5% from the year prior. Obviously, what isn’t consumed immediately finds its way into cold storage. Over the last couple of months though, with supplies as tight as they were and demand being seasonably strong, sellers weren’t forced to put much of anything into cold storage outside of their regular commitments. Breasts and breast meat are still the leading category by far at just under 180M lbs, but that number may be a bit misleading since it includes a wide variety of white meat items. Whole leg and leg quarter inventories moved slightly higher in March which is likely a direct result of South Korea and Taiwan’s ban on U.S. chicken

following Q1's bird flu scare. Wing, bone-in thigh and boneless thigh meat holdings all declined in March.

BREAST MEAT

After reaching \$1.63/lb in 2016, jumbo boneless/skinless breast meat values fell sharply during the winter months to \$1.06/lb, its lowest level since 2006. Market values were grounded for more than 3-months (through January) but eventually took off in February and have yet to look back. Supplies remain especially tight as bird weights have moderated rather than advanced. Market values were trending higher during the time of this writing and sellers are hopeful that that strength continues into the summer months.

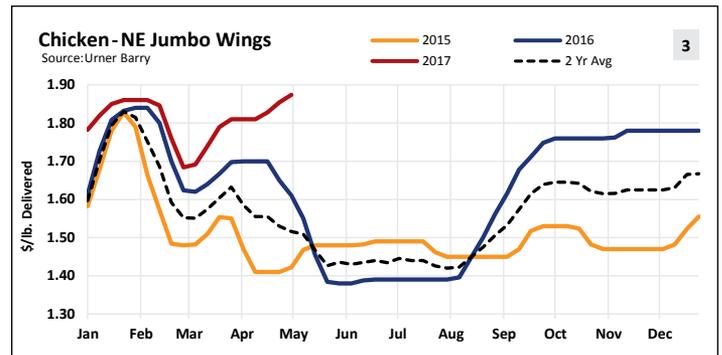
TENDERS

Despite how costly they've become in recent years, tenders are still featured on many QSR and fast food menus. Not only are they one of the smallest parts of the bird, but they're also one of the most popular (the other being wings). In 2016, tenders reached as high as \$2.18/lb. During the fall and winter months, market values retreated to as low as \$1.29/lb. So far this year, tenders have exhibited a much more gradual climb. At the time of this writing, market values were well supported, but poised to move higher as seasonal influences were beginning to take shape. If bird weights continue to trend lower and demand is anywhere near as active as it has been in recent years, market values could test the all-time high of \$2.55/lb.

"U.S. chicken exports have rebounded impressively since 2015."

WINGS

Wings are becoming more of a challenge to analyze every year, because every year they seem to act a little differently; 2016-2017 is no exception. Demand is still at its best during the fall and winter when football and basketball are in play, but if this year's market has shown us anything, it's that wings have the potential to perform all year round. At \$1.87/lb, not only were jumbo whole wings listed at their highest level ever in April, but their values were advancing which is something we've never seen happen at this time of year (Chart 3).



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Everyone understands that there are more wing-focused restaurant units being added to the mix, so needs are naturally going to increase. On top of that though, there are more non-wing-focused restaurant chains also featuring wings on their menus. If demand continues to advance at the pace it has and supplies are tightened even further by declining bird weights, then there's no telling how high this market might go. There's an old saying that goes something like "the best cure for high prices is high prices;" and that very well may be the case, however, at the time of this writing it certainly doesn't seem so.

LEG QUARTERS

Fresh and frozen leg quarters have had a very seasonal year so far in 2017. Without there being any real damning bird flu findings, exports have rebounded and market values are reacting accordingly. Fresh and frozen leg quarters advanced more than 30% during the first four months of 2017; both were trading near \$0.40/lb in early May, the highest they've been since the avian influenza outbreak of 2015. Barring any future bird flu detections, the outlook for leg quarters remains quite favorable.

THIGH MEAT AND LEG MEAT

Boneless dark meat is no longer an afterthought, if it ever was. Both items have advanced considerably in the last few months

to their highest levels in more than 2.5 years. In early February, thigh meat was listed at \$0.85/lb and, at the time of this writing, values had improved by more than \$0.45/lb or 54%. Similarly, leg meat values advanced more than \$0.25/lb or nearly 30% during that same time.

Demand has certainly been active in recent months, but supply or the lack thereof may be more of the storyline here. Over the last couple of years, due to a lack of quality labor, several chicken processing plants have been forced to limit the amount of boneless dark meat they produce. Furthermore, with exports being as strong as they've been, bone-in product is not as readily available anymore. The results are quite evident; thigh meat and leg meat continue to receive active support and as of early May, market values were advancing steadily.

COMPETING MEATS

While this year's increase in chicken production doesn't seem like it'll be as high as originally thought, it should still be an increase nonetheless. With that said; both pork and beef production are expected to advance quite considerably in 2017 which means it should be another year of healthy competition between red meat and poultry. In recent years, retail features have favored pork and beef because of their lofty increases in supply. If chicken values continue to climb due to a tightened supply scenario, there's a possibility retailers take a similar approach again this year. **UB**

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2017 opened strong for the by-product complex. Will the strength continue?

By Bill Smith | bsmith@urnerbarr.com



Expectations for the by-product market for 2017 are mixed. Year-to-date beef production is up 4.7%, whereas pork production is up only 1.7%.

Production numbers are easily quantified, demand continues to be tougher to figure out. Oleo chemical, biodiesel, feed, pet food, and baking are the largest demand sectors that play key roles in the tallow and grease markets. With so many distinct buying areas the potential for outside influences like weather patterns and government policies makes it difficult to measure precisely when different buyers will impact the market.

Loose lard and edible tallow are the only two items that show up on the by-product report that are edible for human consumption. Both have seen prices for the first quarter of 2017 trade at a premium compared to the equivalent time frame for last year. 2017 opened with edible tallow prices 41.5% higher than the same time period for 2016.

Q1 2017 monthly average prices for renderer and packer tallow were at a premium each month relative to the comparable month for 2016. In both cases January was the strongest month when comparing monthly changes to last year; renderer tallow was up 36.8% while packer tallow was up 34.9%. Inedible tallow markets are expected to be about steady with last year despite expectations of slightly higher beef production this year.

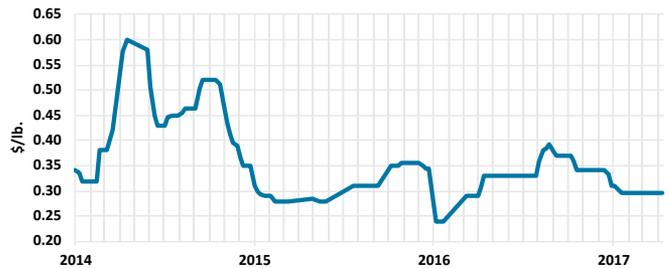
Choice white and yellow grease were generally stronger throughout the first quarter of 2017. A small discount was noted for the choice white grease for March this year. January 2017 monthly prices for both items were roughly 28% higher compared to the same month in 2016.

The by-product market will likely continue to face a lot of the same key issues as we have seen in the past. Issues like availability of product, changes in demand from all the different buying sectors and possible changes in government regulations all play roles, however, it is still unclear how these and other issues will impact the by-product market moving forward. **UB**

“Production numbers are easily quantified, demand continues to be tougher to figure out.”

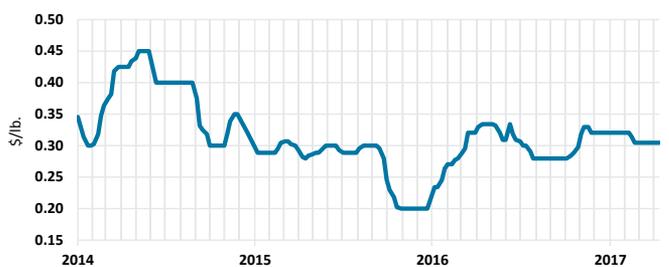
Loose Lard, Chicago Basis

Source: Urner Barry



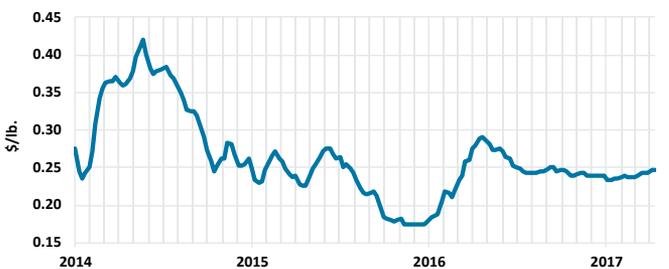
Fancy Bleachable Tallow, Renderer, Chicago Basis

Source: Urner Barry



Grease, Choice White, MW River

Source: Urner Barry



Grease, Yellow, MW River

Source: Urner Barry



Edible Tallow, Chicago Basis

Source: Urner Barry



The 2017 grain overview

By Jamie Chadwick | jchadwick@urnerbarry.com



The 2017 growing season is just underway. Farmers across the country are busy with fieldwork activities as they plant and tend to vast acres of crops.

What we know early in the season is that the grain outlook as it affects livestock producers and, ultimately, the meat and poultry markets, looks to be a favorable one. Feed supplies are of little concern at the moment, and forage and rangeland conditions have improved from past years' drought conditions.

Omaha U.S. No. 2 Yellow corn is currently hovering around \$3.40 cents per bushel, which is a multi-year low. Continuous front-month corn futures have trended in generally steady fashion on weekly charts in 2017. With feed costs lower, feedlot operators have seen improved margins as of late in the cattle complex.

There are a few changes in the crop outlook for 2017; however, as planting intentions shifted corn acreage lower and soybean planted area higher.

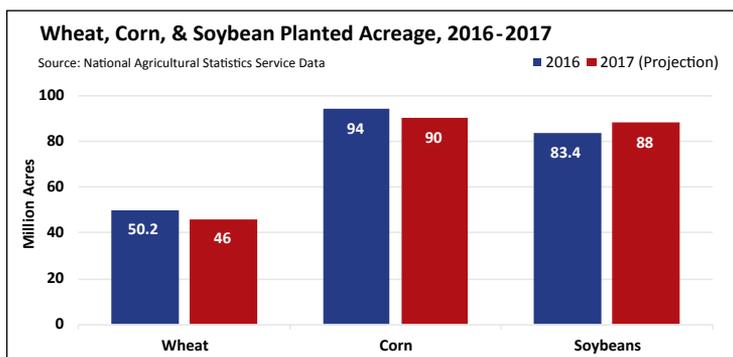
The USDA National Agricultural Statistics Service released its Prospective Plantings data at the end of March. Corn planted area was estimated at 90 million acres, down 4 million acres from a year ago, which was on par with estimates from the USDA Outlook Forum in late February. Soybean planted area for 2017 was estimated at 89.5 million acres, which would be up 7 percent from 2016 and a record high.

Combined corn and soybean area are up 2.1 million acres, compared to last year's 177.4 million.

In addition, wheat plantings were estimated at 46.1 million acres, down 8% from a year ago and nearly even with pre-report estimates. Wheat production was generally expected to decrease for the upcoming marketing year, with domestic use as well as exports projected lower.

NASS will release the official acreage report on June 30th, along with their quarterly Grain Stocks. With expectations for acreage put in place, the number one factor to watch now is weather.

Corn plantings got off to a somewhat slower start this year as compared to 2016. As of publication, plantings were over a third of the way complete, though trailing year ago progress. Regardless, plantings have generally been in line with the 5-year average rate.



By early May, flooding and weather concerns in the Corn Belt looked to hinder planting activities, which caused a bump in corn futures at the time. Delays in plantings are generally thought to affect crop yields, so any adverse weather that affects getting corn in the ground can be cause for concern. In truth, weather plays a role throughout the entire growing season. Summers that see too much rain—or not enough—or are too hot or too cool can cause stress on the crop during key growth stages and impact yields in major production regions.

It's because of this that weather is one of the biggest areas of focus in crop outlooks. Despite technological advancements in modern agriculture, there is no cure-all for adverse weather—magical, technical, or otherwise. Weather is

always an unknown, uncontrollable variable. For those looking to stay on top of the 2017 growing season each week, Urner Barry Newswires' recaps key information from the USDA's weekly Crop Progress report and publishes updates to COMTELL in order to keep readers abreast of the latest U.S. crop conditions.

The grain market is a global one. In addition to U.S. growing conditions, global supply and demand have a large impact on market movement. The latest World Agricultural Supply and Demand Estimates report showed expectations for ample supplies and increased global competition in the export arena for corn, particularly from Brazil and Argentina. This can contribute pressure on U.S. crop outlooks. Ethanol usage along with global demand and export opportunity will be a factor to watch for the 2017 crop year. **U**

A look at livestock in 2017

By Jamie Chadwick | jchadwick@urnerbarr.com



When we look at the livestock markets, we assess numerous factors including weather, profitability, supply, meat demand, grain and forage.

Cattle prices so far in 2017 have stabilized and even appreciated following the 6-year lows hit in the last quarter of 2016. This somewhat surpassed industry expectations, but strong demand for beef and profitability in the packing sector helped to prop up the cattle market. Current cash cattle trading levels have even surpassed the 5-year average price. With cattle moving through the production channels, feedlot operators also saw better margins which helped them become more current in their inventories. This, in turn, resulted in lower carcass weights and improving yield grades. Dressed weights are currently down roughly 4% from the beginning of the year, which is also a 3-year low.



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Moving forward, expectations are for a strong summer of beef demand as retail prices have come down and are becoming more and more competitive at the meat case. Grilling holidays like Memorial Day, Father's Day, and the Fourth of July will be huge opportunities to promote beef consumption, but what will be key is increasing non-holiday consumption. Now that beef prices at retail and foodservice have come down from record high levels, the goal is to get consumers to be more regular purchasers of beef. The effect of the recent uptick in beef prices, however, has yet to trickle down to retail. This could result in squeezed margins for retailers for a time, and eventually affect prices and/or feature volume.

The cattle herd is still in expansion mode, but the rate of expansion has slowed significantly. According to the latest Obsono forecasting data, cow-calf profitability and weather continue to be the two largest factors driving cowherd expansion. Herd growth in 2018 and 2019 will continue to see smaller and smaller increases.

As for feed costs, forage looks good heading into the summer and grain supplies remain ample as well. The latest World Agricultural Supply and Demand Estimates (WASDE) report showed lower corn production expected, but also lower domestic use and a decline in exports. Corn used for ethanol was estimated higher, while feed and residual use declined as smaller crop and increased

use of ethanol by-products more than offset the growth in grain consuming animal units. The outlook for soybeans showed higher supplies, crush, exports, and ending stocks.

In the hog complex, the market was soft during the first quarter, dropping about 25% in value from the high hit in mid-February to late April. Then, seasonal pork demand along with a tightening of hog supplies managed to support the market in early May, clawing back 22% in less than three weeks. However, despite the market appreciating in late spring, current cash levels are still well below the 5-year average hog price, about \$20 per cwt lower.

The dynamic in 2017 so far has been a hog market that's been largely under pressure due to ample supplies, while the pork sector has performed exceptionally well, due in part to positive export demand. In this scenario, pork packer margins were exceptionally positive. Hog

prices during that time bore the brunt of discounts, however as export interest picked up, the market found some relief.

In fact, the U.S. Meat Export Federation (USMEF) reported a record volume for pork exports

in March. Pork exports reached 227,955 metric tons, up 16% year over year and topped the previous monthly high set last November. March exports accounted for 28% of total pork production—a key figure as pork production entering 2017 was record large.

In March, the USDA's quarterly Hogs and Pigs report showed inventory at a record high for the date, at 70.976 million head. This was up 4.2% from the year prior. This is a bearish factor in and of itself, suggesting pressure on the cash hog market could last through the summer and even into the fall. However, recent demand patterns that have lifted both the pork and the hog markets could suggest a more stable market situation. In addition, expanded production capacity with new pork processing plants coming online in the coming months will help to alleviate excess hog supplies and increase competition for animals.

The May WASDE report raised cattle and hog price forecasts for 2017 based on recent price strength and expectations that demand will remain relatively firm throughout the year. The forecast for prices in 2018 are expected to decline compared to 2017 as both cattle and hog supplies are expected to increase. **LB**



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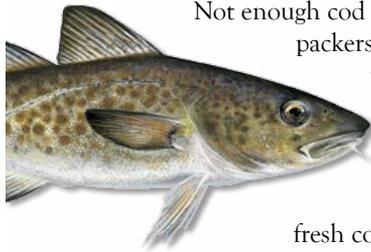
Icelandic strike and fresh cod production; haddock imports up; pollock market weakens

By Nicole West | nwest@urnerbarry.com



COD

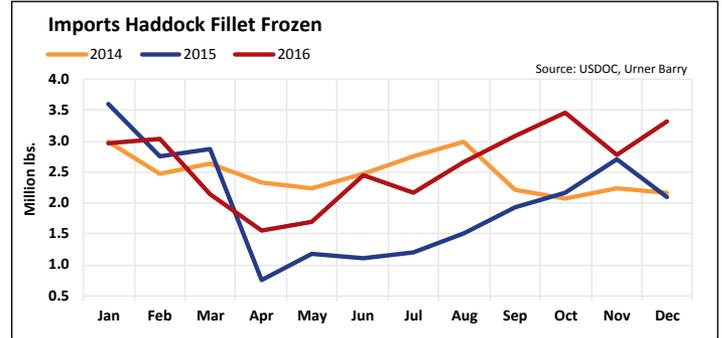
Atlantic and Pacific Cod fillet prices were steady to full steady in 2016 as demand in both the United States and European sector remained active. Single and double frozen cod fillets continue to be a key foodservice item in the U.S. Chinese imports of twice frozen cod continued to dominate the U.S. market for cod fillets with imports totaling 93,113,853 pounds.



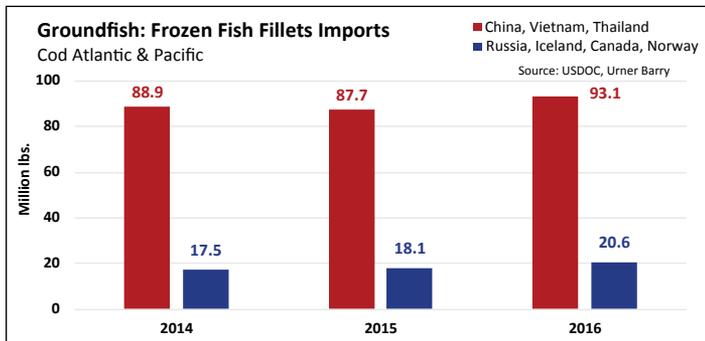
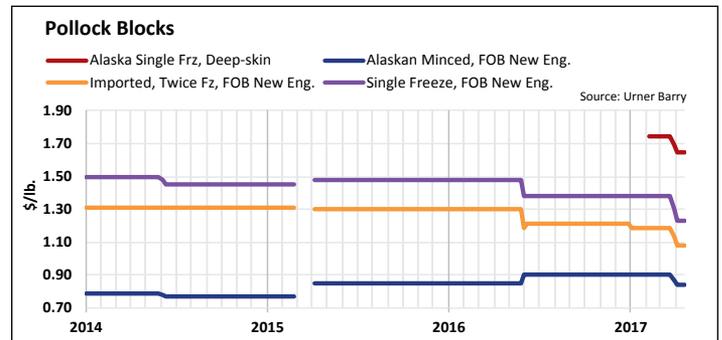
Not enough cod was landed to support Chinese packers towards the later end of 2016 which pushed up replacement costs; prices in the U.S. have since then firmed.

In the beginning of 2017 fresh cod fillet imports were down 17.1% in January and 22.4% in February compared to previous years. One can assume the Iceland's fishermen strike was the main factor behind this. Iceland traditionally is the largest exporter of fresh Atlantic Cod fillets to the U.S. The strike lasted from November 10th, 2016 to February 20th, 2017 and the effects on the fresh markets were immediate. Single frozen inventories were large enough to carry through the break in production, however, the aftermath is yet to be seen. Traders are reporting the market is full steady as those adequate inventories have since then dwindled.

production is yet to be seen. Inventories depleted during the three month strike that occurred November 2016 through February 2017 and traders have reported that low haddock prices may be a thing of the past.

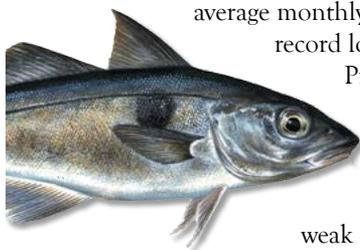


POLLOCK



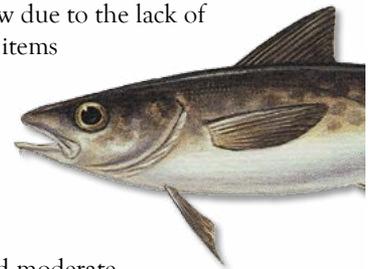
HADDOCK

Imports of haddock hit three-year records high in 2016 at 31,305,627 pounds, up 23.73% from 2015. Double frozen fillets were barely steady and towards the end of 2016 average monthly prices were only pennies above record low prices at \$2.78 per pound.



Prices remain at near record lows since the market correction in 2015 after prices nearly doubled. On the single frozen side, prices were also weak throughout 2016; however, the effect of the Icelandic strike that disrupted

Pollock, a traditionally inviolate species, took a correction this year due to ample production. While demand has not fallen off, its growth remains slow due to the lack of desire for breaded and prepared items in the U.S. Many believe that pollock is an underutilized value in the category. Ample overseas production put a glut of product into the marketplace at the end of 2015. From there, continued steady production and moderate demand throughout 2016 led to an amply supplied market. This put downward pressure on the pollock block market and prices adjusted accordingly in Q1 of 2017. **UB**



“Pollock, a traditionally inviolate species, took a correction this year due to ample production.”



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Tilapia: declining prices and imports, *Pangasius*: inspections ahead

By Angel Rubio
arubio@urnerbarry.com



The tilapia market in the U.S. is not much different from last year; imports continued to decline for both fresh and frozen fillets and prices are trending lower. Imports of *pangasius*, however, reached record highs in 2016 and surpassed total imports of tilapia frozen fillets for the very first time. Meanwhile, imports of channel catfish remain flat with prices trending slightly lower. From the data that we have been collecting, in addition to looking closely, we believe demand for tilapia has contracted since 2014; as falling prices along with diminishing supplies could not otherwise suggest either a flat or expanding market. Such an assumption appears to be holding true through and up to press time. Imports of frozen fillets continue

to decline amid flat prices, while at the same time imports of *pangasius* frozen fillets increased; *pangasius* and channel catfish are on the verge of hitting a major roadblock as the USDA will start to inspect a significantly greater amount of imports come September 2017.

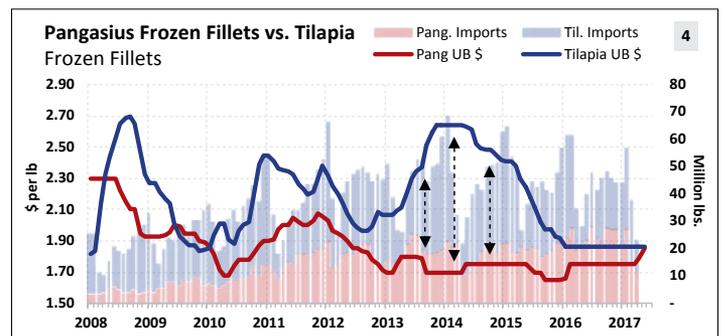
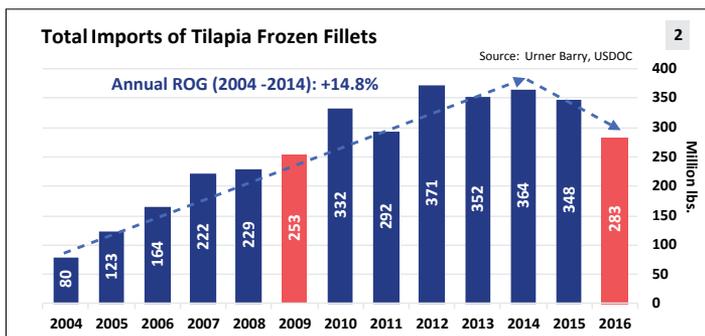
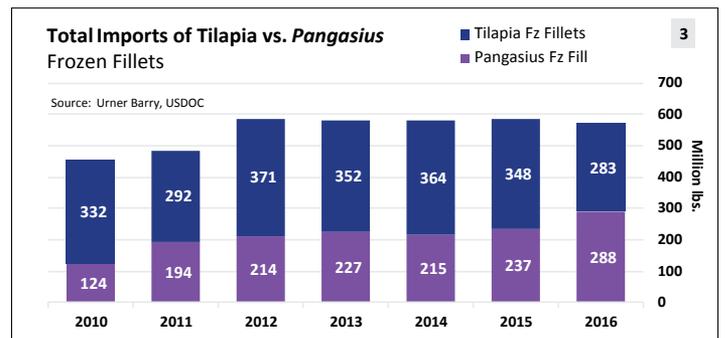
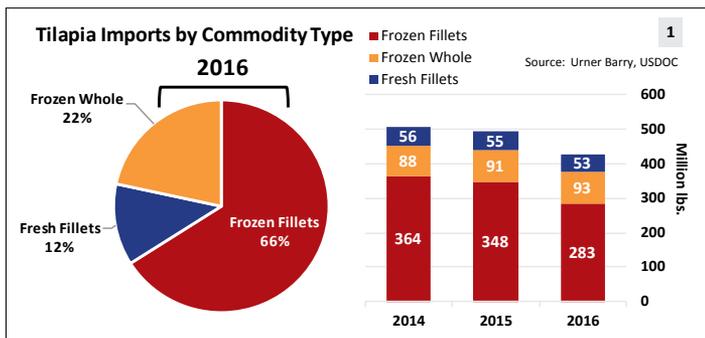
FROZEN TILAPIA FILLETS, PANGASIVUS AND CHANNEL CATFISH

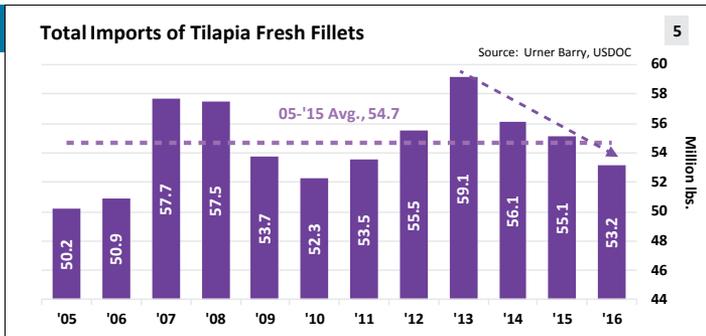
Last year, imports of tilapia frozen fillets, which comprised two thirds of all tilapia imports into the U.S. (Chart 1), declined 18 percent compared to 2015, registering the largest percentage drop on record. In addition, total annual imports of frozen fillets fell to their lowest level since 2009. The reason why demand for tilapia waned so much in the last two years is still up for debate. Some believe demand gradually shrank because of bad publicity; others believe it was comparatively low prices for *pangasius*—when tilapia prices reached record highs in 2014—and salmon; still others believe the market simply got saturated after growing at an annual average rate of nearly 15 percent from 2004 and 2014 (Chart 2). Since the end

of 2014, imports of frozen tilapia fillets decreased at a monthly rate of 1.1 percent, which translated into total imports in 2016 registering the lowest volume since 2010. Similarly, both replacement costs and prices in the U.S. adjusted lower to levels not seen since 2010.

After a slight decline in imports in 2014 from the previous year, *pangasius* imports grew 10 percent in 2015 and 21 percent in 2016. In 2016, imports of *pangasius* frozen fillets surpassed those for tilapia frozen fillets by nearly 6 million pounds (Chart 3). Though the theories mentioned earlier could explain the reason behind such growth for *pangasius* frozen fillets and the decline for those of tilapia, the fact of the matter is that price could really explain everything. When replacement costs rose in 2013-2014, and thus prices in the U.S. reached a record high for tilapia frozen fillets, prices for *pangasius* frozen fillets remained steady and at a much lower level. Therefore, we believe it is safe to assume that demand for tilapia frozen fillets suffered due to the price difference between two items that can be considered substitutes (Chart 4).

“This year will undoubtedly be pivotal for all these commodities.”





By September 2017, USDA inspections for catfish and *pangasius* are set to increase significantly. According to many suppliers, this has raised costs overseas as packing plants in Vietnam and China invest to comply with stricter regulations. Consequently, replacement costs for U.S. importers have also moved up considerably since September 2016, registering an average monthly rate of increase of 3.6 percent until March 2017; this also translates into a 25 percent increase comparing March 2017 to September 2016. Many traders are fully aware of what could happen in the future, not only related to the issue regarding inspections, but also to recent reports that China could become a main destination for this item. And this makes sense as Vietnamese packers look for alternative markets as regulations and other obstacles continue to increase in the U.S. and Europe.

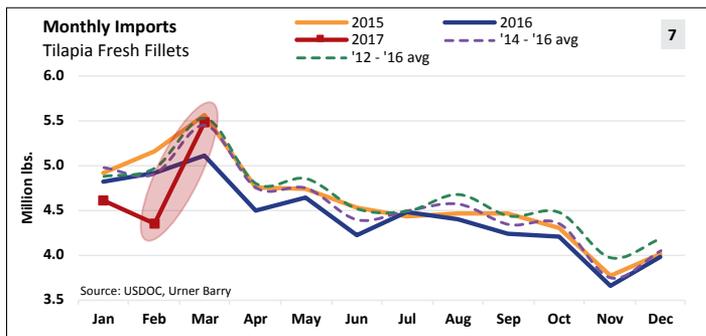
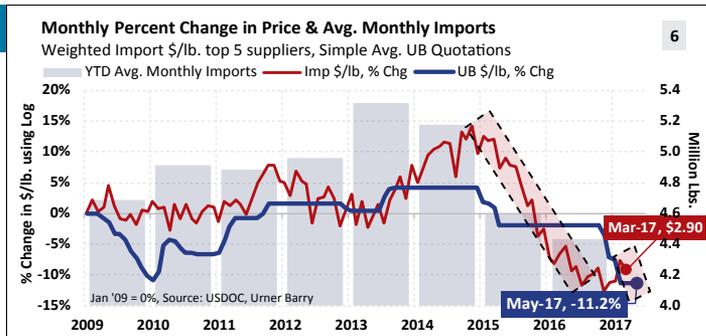
Channel catfish, on the other hand, has become an item not largely traded in the U.S. market. Total imports in 2016 reached 10.5 million pounds, almost flat compared to the year prior. What we have learned from many traders is that this product trades very thinly on the spot market.

TILAPIA FRESH FILLETS

Similar to the frozen fillet market, imports of tilapia fresh fillets have adjusted downward since reaching a record high in 2013 (Chart 5). Prices adjusted slightly lower in 2015, but it wasn't until Q4 of 2016 and Q1 2017 when prices further tanked in the U.S. market. Replacement costs, on the other hand, continuously fell from 2015 to Q4 2016 (Chart 6). And part of that was due to a sudden increase in imports during March 2017, particularly from Costa Rica which broke the downward trend in imports in that month (Chart 7). However, expectations going forward is for supply to remain comparatively low to previous years amid lower production levels out of Ecuador. This could provide some pricing support going forward.

CONCLUSION

This year will undoubtedly be pivotal for all these commodities. From USDA inspections, to a potential revival in demand amid record prices for many other seafood items, tilapia, *pangasius*, and catfish



will probably see the beginning of their long-term fate this year. Will imports of *pangasius* continue to increase amid higher costs and inspections? Will tilapia frozen fillets be what they used to be back in 2012? Will tilapia fresh fillets result in a viable alternative at the retail case amid high prices for salmon? Many traders are asking these questions because of the very clear uncertainty that presently clouds this market. **UB**

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Production declines send mahi prices to record territory

By Michael Ramsingh | mramsingh@urnerbarry.com



Mahi-mahi started to come off restaurant menus in 2017 for several reasons. The 2016/17 fishing season in Central and South America was a bust and inventories in the U.S. market became limited; this, in turn, pushed fresh and frozen wholesale markets to record levels.

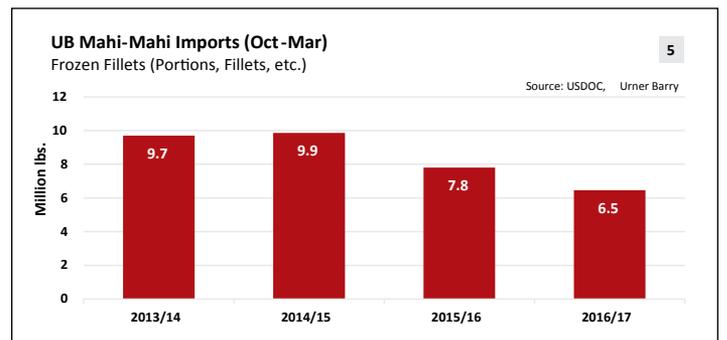
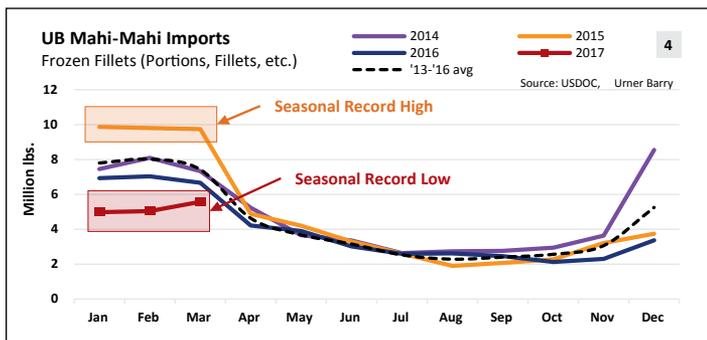
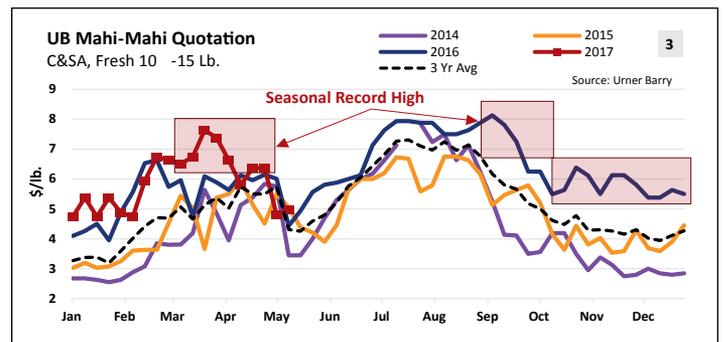
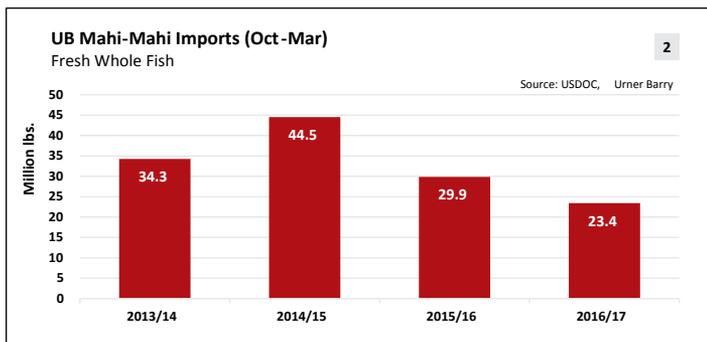
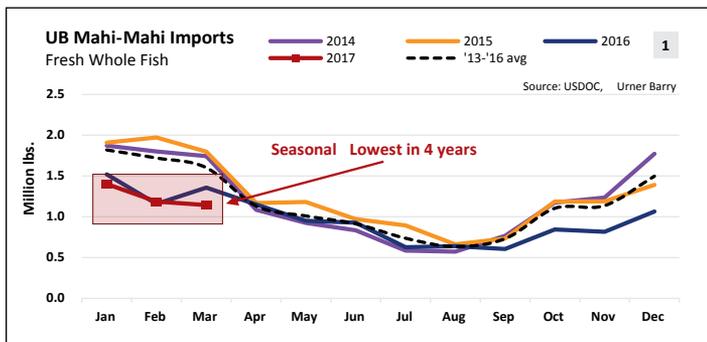
Weather, coupled with climate conditions, pushed Mahi further offshore from Ecuador causing stress on the boats to bring in good fish. Because of all the decomp refusals by the FDA, Ecuadorian boats were reluctant to spend the time and money necessary to fish farther offshore as they doubted they would be able to maintain viable product. Mahi imports finished 2016 ten million pounds lower than the year prior. However, the Central and South American fishing season generally runs from October to around

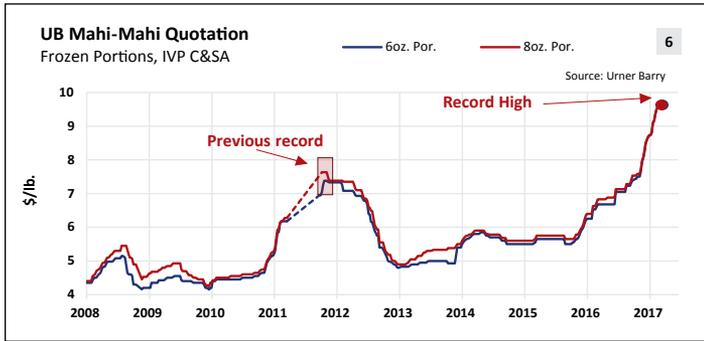


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March, depending on lunar cycles (Charts 1 and 4), and a look at imports between these months shows mahi shipments actually down 22 percent for 2016/17 compared to the 2015/16 fishing season (Charts 2 and 5).

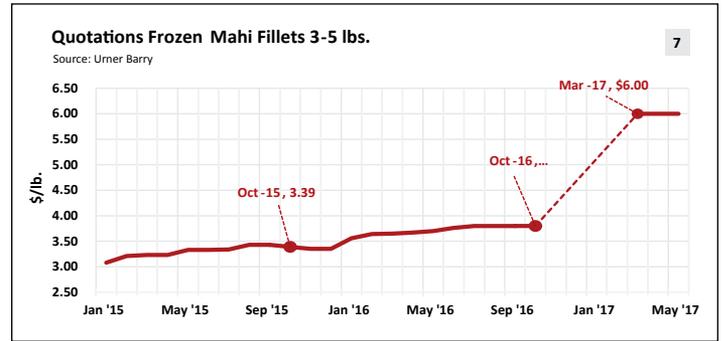
The import numbers from this time confirm reports from traders that said Mahi were not showing up last fall and winter. Shifting water temperatures from El Nino and La Nina were mostly blamed for the absent fish and lack of production. A hike in FDA Mahi inspections for histamine in 2016 also compounded the risk for U.S. importers to source fish that were caught farther offshore. The FDA rejected more Mahi than any other single seafood item in 2016 because of filth. These issues played a role in limiting Mahi availability in the U.S. market and prices for both fresh and frozen product set all-time records by March.





Prices for 6 and 8 ounce frozen Mahi portions averaged \$9.58 per pound in April according to Urner Barry, which was easily an all-time record price point for frozen Mahi portions (Chart 6).

Frozen Mahi fillet prices were delisted at \$3.80 per pound last October. That price was \$0.50 per pound higher than the year prior. Urner Barry relisted frozen Mahi prices this past March at \$6.00 per pound, well above the historical average for the item (Chart 7). These record level prices for portions and fillets reflected the higher prices processors paid for raw materials at the beach. However, even at these levels, the market for whole fresh Mahi remained attractive; prices climbed past the \$7.00 per pound mark in March (Chart 3). This is a level normally reserved for the summer months when Mahi availability reaches a seasonal low. The fresh Mahi market did come down in April, as buyers quickly



backed away from the item at such lofty prices. A brief spurt of fresh production late in the first quarter also helped bring the market back down to more historical averages. Overall, traders continue to report thin availability for fresh Mahi heading into the summer.

The industry will have to wait until October before meaningful amounts of production can be expected to hit the market again in 2017.

So with fresh and frozen Mahi prices at record or near record levels, U.S. restaurants took the high priced fish off their menus to start the year. Since meaningful Mahi production won't start up again until the fall, it's likely the fish won't be featured on many menus at all for the summer either. **UB**

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U.S. fishery steadily improving

By Jim Kenny | jkenny@urnerbarry.com

ATLANTIC SEA SCALLOP (DOMESTIC CATCH)



The U.S. sea scallop fishery is steadily improving after a series of management measures resulted in fishing year (FY) 2014 landings falling to a 15-year low. FY 2016 landings totaled 38.10 million pounds, up 4 million pounds or close to 12 percent; the second-straight year of such gains.

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.

According to the NEFMC Council Report, FY 2017 provisions allow fishermen to receive allocations that are projected to result in landings of about 47.5 million pounds of scallops. This is a 13 month projection as the 2017 scallop fishing year will begin on March 1 but the 2018 fishing year will begin April 1.

In the last year, we've noted a clear difference in the market for dry and processed U.S. origin sea scallops. At-or-near record high prices, a preference for dry scallops has developed and the market action is reflective. Processed products have been trending lower, while dry products have ranged steady to higher. More recently, the entire market for U.S.

origin sea scallops has ranged barely steady to weak. Demand has become somewhat lackluster, prompting sellers to offer scallop products at a discount.

U.S. TRADE (IMPORTS/EXPORTS)

Scallop imports into the United States rose 3.5 percent in 2016. China continues to be the single largest scallop supplier to the United States; increasing shipments by 21 percent and accounting for roughly 47 percent of the 51 million pounds of scallops imported into the U.S. Also shipping more scallops to the U.S. is Argentina, who increased shipments 4 percent. Sending fewer scallops to the U.S. are Japan (-25%), Canada (-8%), and Peru (-67%). The net effect is an increase of 1.7 million pounds year-over-year.

The presence of new season production has done little to change the status of the China origin scallop market. The market

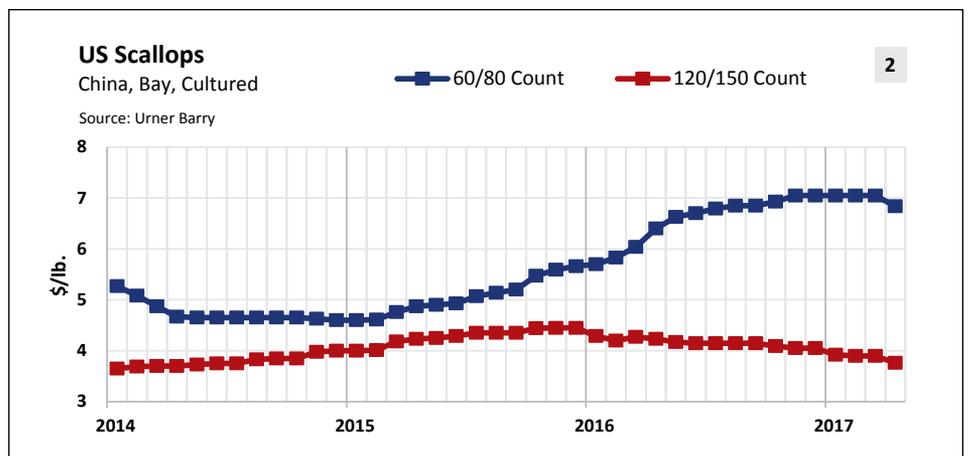
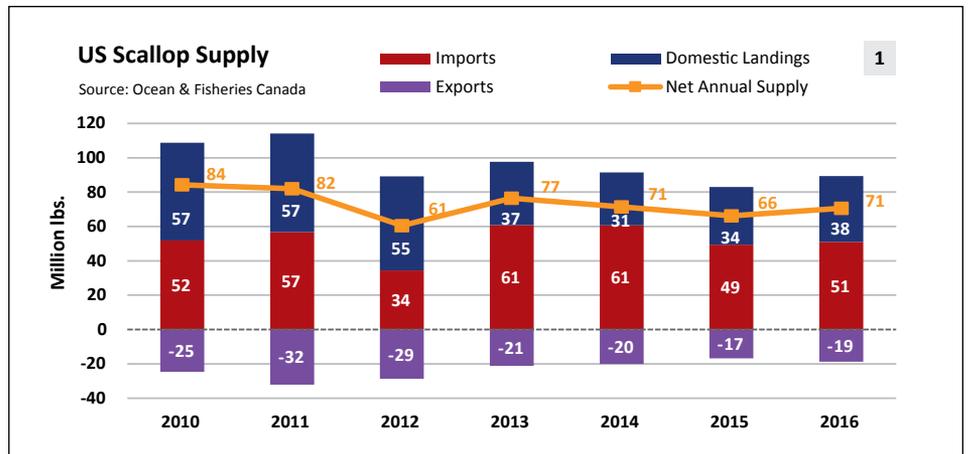


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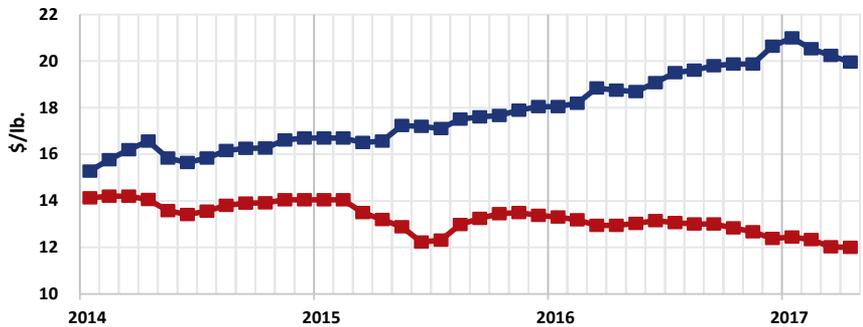
for 80/100 and larger count China origin scallops remain placed at record-high levels, while 120/150 and smaller scallops remain at 52-week lows. The import flow has been strong, but have reportedly been concentrated in the smallest count sizes. The quotation for 40/60 count has been temporarily removed for lack of volume.

Canadian landings data lags; the most recent data is for 2015 and shows a sharp, 12.5 percent decline in scallops landed. Anecdotally, sources have indicated that the 2016 season was largely in-line with 2015. Canada origin sea scallops spent the bulk of the year trading at-or-near record levels before a steep drop in Q4.

Export activity increased in 2016, totaling 18.7 million pounds. This represents an 11.4 percent increase over the 16.8 million pounds shipped last year, but still remains 21.3 percent below the prior 5-year average. Canada is still our largest export destination, accounting for roughly 27 percent of all our exports; the Netherlands is the next closest at 21 percent of the total.

Sea Scallops - Domestic - All Natural

Source: Urner Barry



“Canada is still our largest export destination, accounting for roughly 27 percent of all our exports ...”

Scallop net supply, what’s available for consumption in the U.S. market by simply calculating (Landings + Imports – Exports), increased 7 percent or 4.5 million pounds, to 70.66 million pounds. This was achieved through a combination of more domestic

production and an increase in import volume. Still, the net supply figure remains well below historical averages. Between 2005 and 2011, the net supply averaged 87 million pounds; and since 2012, between 60.5 and 76.5 million pounds. **UB**



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A situation that can be considered critical

By Angel Rubio
arubio@urnerbarry.com



The blue swimming crab meat market is currently registering near-record high prices across the board amid tight supplies both abroad and domestically. Although premiums may seem obvious when supplies are tight, this time the market is experiencing a different situation compared to previous years in which prices spiked rapidly; like in 2014 and 2011. First, in Q4 of 2016 the market was just at the tail-end of its correction period from the price bubble of 2014; therefore, another price bubble in a matter of just two years seemed unlikely. Second, imports of red swimming crab meat out of China have steadily declined since Q4 of 2014. Lastly,

many importers state that inventories going into the summer, which is the strongest consumption period of the year, have been reportedly thin.

In early June 2017, prices for blue swimming crab sit near record highs in addition to registering a rather fast monthly rate of increase over the course of all the price bubbles we have been through since 2004. For example, we considered the months from valley to peak of the bubbles of 2008 and 2014, and the previous 10 months from May 2017. This year, we found out that the monthly rate of price increase was 4.36 percent. This means that prices in the U.S. rose at a monthly rate of 4.36 percent from August 2016 through May 2017. This year we don't

know if we have reached a peak but thus far it seems prices could continue rising. We also found out that the monthly rate of price increase in 2014 was 3.55 percent for 14 months and 4.02 percent in 2008 for 11 months (Chart 1).

To put this into perspective, we must take replacement costs into consideration since prices in the U.S. tend to reflect the cost of sourcing product overseas. In other words, the U.S. wholesale market tends to react ahead of a shipment entering the U.S.; when importers place a purchase order overseas, they tend to test the domestic market by raising or lowering prices—in this case raising—to reflect their costs. Given the lag time of at least 6 weeks for a shipment to enter the U.S., from purchase

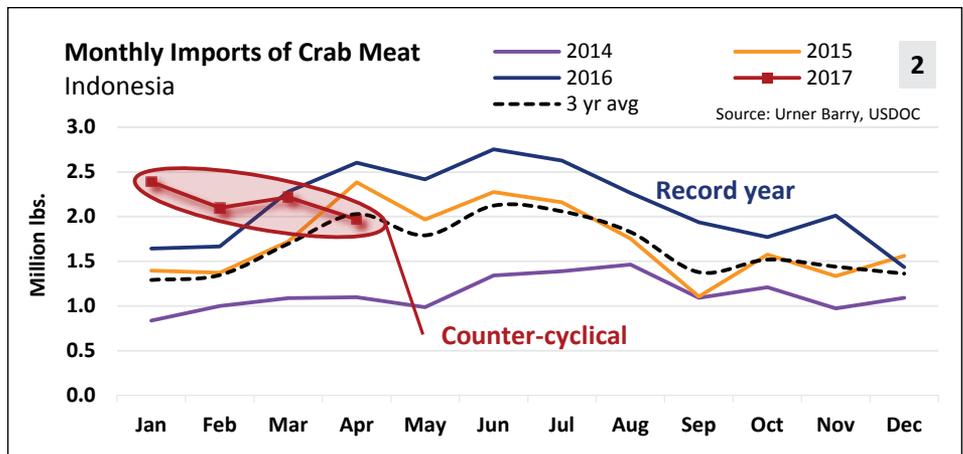
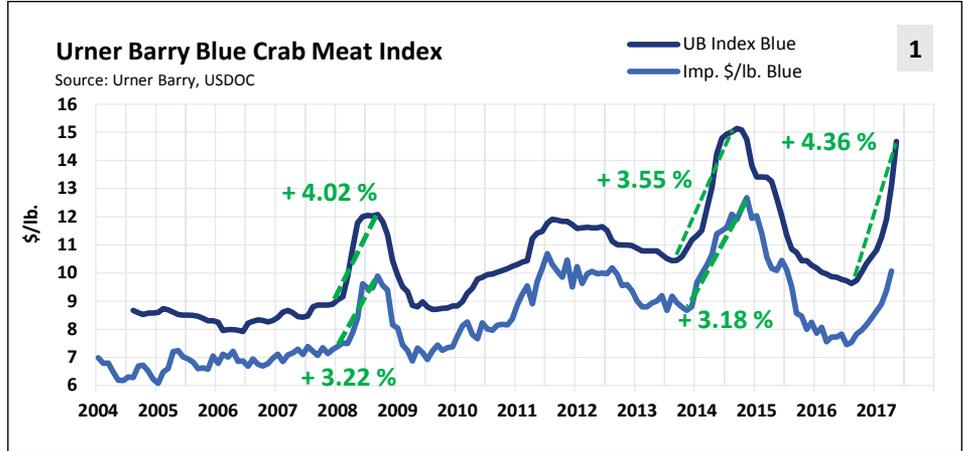
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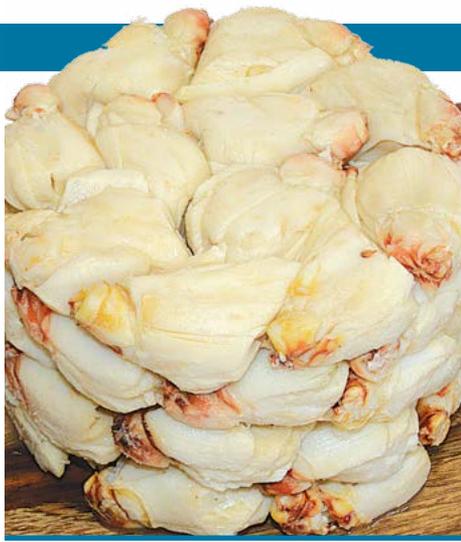
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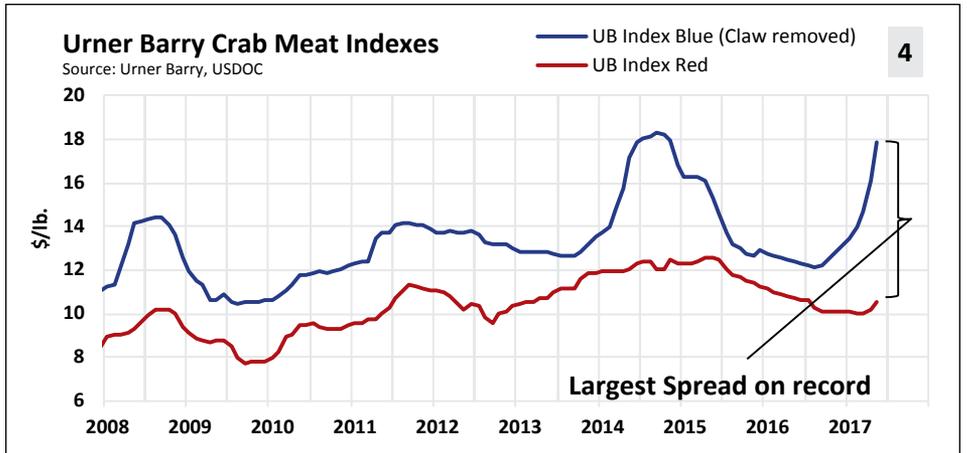
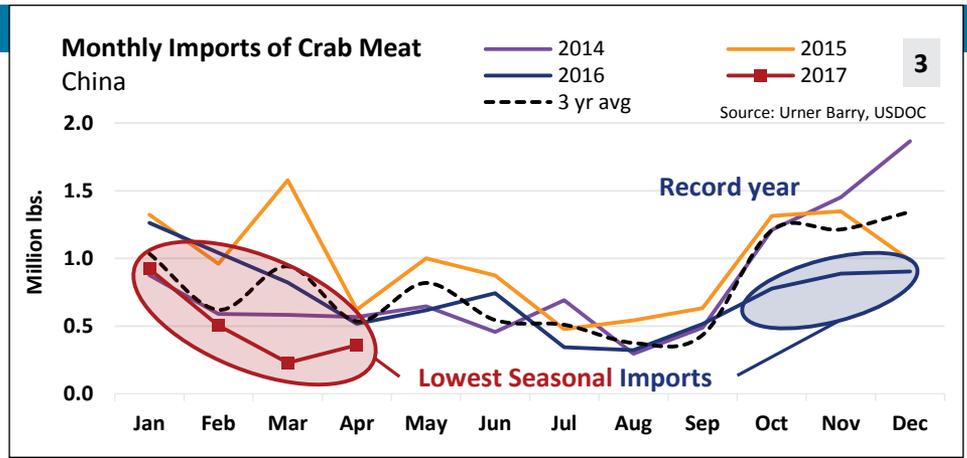


“...prices for blue swimming crab sit near record highs...”

order to a shipment entering the U.S., from an importer’s perspective, we lagged the data by 2 months and took the same amount of observations. What we found in the bubbles of 2008 and 2014 is that replacement costs rose at a monthly rate of increase of 3.22 in 2008 and 3.13 in 2014 (Chart 1). What this means is that replacement rose at a similar monthly rate than wholesale prices. Unfortunately, for 2017 we still don’t have data available, in addition to not knowing if the market will continue rising through June. However, as of early June, the market holds a strong undertone.

All this can be explained rather superficially with some of the available import data. Imports from Indonesia, which is the largest supplier of blue swimming crab meat, rose significantly in 2016, but monthly imports from January to April 2017 have followed a counter-cyclical behavior (Chart 2). In addition, anecdotal reports suggest volumes could be dropping going into the summer; seasonally, imports from Indonesia tend to peak from April into July. To exacerbate this situation, production in this country will slow down considerably in June due to Ramadan.

Furthermore, seasonal imports of red swimming crab meat from China which peak in Q4 into Q1 of the following year were at the lowest level on record from



2016 to 2017 (Chart 3). The quick and safe assumption is that at least some percentage of red swimming crab users switched to blue. This means that demand for blue strengthened and caused prices to rise, everything else equal. Thus, the price difference between blue and red swimming crab sits at record highs (Chart 4).

All in all, the situation as we enter the summer of 2017 could be categorized as critical. Importers have been reporting tight inventories as they approach the strongest seasonal demand in the U.S. Production in Indonesia has been reportedly tight and could slow down even further in June. Fishing in China starts in August; this means that any large volumes available from that country will not enter the U.S. until at least October 2017. We are already at record high prices for blue swimming crab meat. The natural assumption would be for demand in the U.S. to switch to red swimming crab meat at least in the short term as buyers find resistance levels at record prices. Going forward your guess is as good as ours but do not expect crab meat to be a bargain this summer, so save up some money if you really crave that crab cake. **UB**

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Snow crab in flux while king crab is flat

By Janice Schreiber & Michael Ramsingh
 Janice@urnerbarry.com & mramsingh@urnerbarry.com



SNOW CRAB

Uncertainty and buyer caution highlight the current frozen snow crab market.

But to understand the current snow crab situation we have to look back to 2016 when prices for frozen snow crab reached unprecedented levels, close to \$8.00 per pound for all sizes and specs.

The market started its advance during the summer of 2016 as Canadian production sank to 20-year lows. A fire at a major snow crab production plant in Newfoundland at the start of the spring season contributed to poor output and an unsettled market situation.

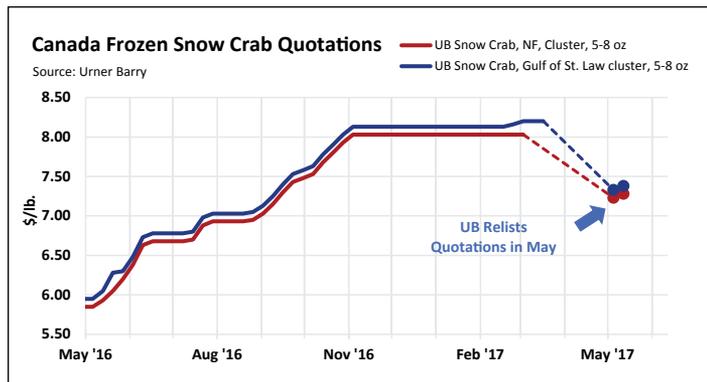
Then in the fall, Alaska announced a 50 percent cut to the Bering Sea snow quota to the lowest level for the fishery in 45 years.

By November, Japanese snow crab buyers in need of product entered record high bids for any available supplies.

In January, Urner Barry prices for Canadian and Alaskan snow crab reached record levels, just shy of \$8.00 per pound.

A month later, federal reports confirmed Canada's snow crab biomass in Newfoundland was down 40 percent between 2015 and 2016. Around this time, Urner Barry delisted snow crab quotations with the fishing seasons and production closed in Alaska and Canada.

In late March, some Japanese buyers negotiated the first snow crab contract of the season at \$6.95 with a major packer in Newfoundland. Then in early April, the province's snow crab



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quota was set at around 35,000 metric tons down 22 percent from the previous season. The regions' Standing Fish Price Setting Panel set boat prices for snow crab at \$4.39 per pound—a 46 percent increase from the \$3.00 per pound raw material price in 2016.



©bhoofack

the boats fishing both king and opilio crab are doing live crab rather than processing for the U.S. or other markets.

In Alaska, the opilio season's quota was very small, it is reported that most if not all has moved through the system; the quota was cut from the

However, in December 2016, preliminary survey data by the DFO indicated a significantly higher than expected biomass in the Gulf of St. Lawrence. And in mid-April the market outlook became unsettled when Canada doubled the Gulf of St. Lawrence snow crab quota for the 2017 season. This increase in the harvest could put 27 percent more snow crab on the market this year.

The Gulf of St. Lawrence quota announcement was followed up with a report in Japan that the \$6.95 contract negotiated with Newfoundland packers was contingent on only a portion of what the buyer purchases in the first week.

Snow crab production in Newfoundland was delayed in April because of ice in the waters.

Meanwhile, Gulf production did commence the last week of April with crabs expected to reach the market by early May. Limited early production reaching the market was offered in the mid to high \$7.00 range but most caution that this was not necessarily a market indicator due to an empty pipeline that is expected to be improved shortly. Still, Urner Barry's snow crab quotations were relisted as of the second week of May. With weather and ice situations continuing in Newfoundland and to a smaller extent in the Gulf, product has still not flowed freely into the U.S. market. The ice situation has helped to stabilize the market, however, it has also caused confusion and reinforced some buyers to remain cautious and continue to buy hand to mouth.

The situation both domestically and in Japan will clarify once meaningful production from Canada reaches the market.

KING CRAB

A flat king crab market is seen in both the Russian and Alaskan markets currently.

Russia, except for gold king crab, has higher quotas for both red and blue king crab; and bairdi and opilio crab in the Far East. The Barents Sea quota for opilio has not been set as of this writing. The anticipation is that the golden crab being fished right now will pack out into smaller 20-24 and 20-up sizes.

The U.S. market is still competing for product with Asia's live market. Many of

previous season to almost half; only 21 million pounds. The Bairdi season in Alaska was canceled due to low biomass and now the fisherman have to wait 2 years before it can be fished again. This came as a huge disappointment; this fishery had made significant inroads in the foodservice and retail industries.

Prices in the Alaskan king crab market have remained strong and still receive high premiums above the Russian king crab market. Overall demand for Alaskan king remains strong but the market, like the Russian king crab market, has been flat. **UB**

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Record 2016 shrimp imports set the stage for 2017

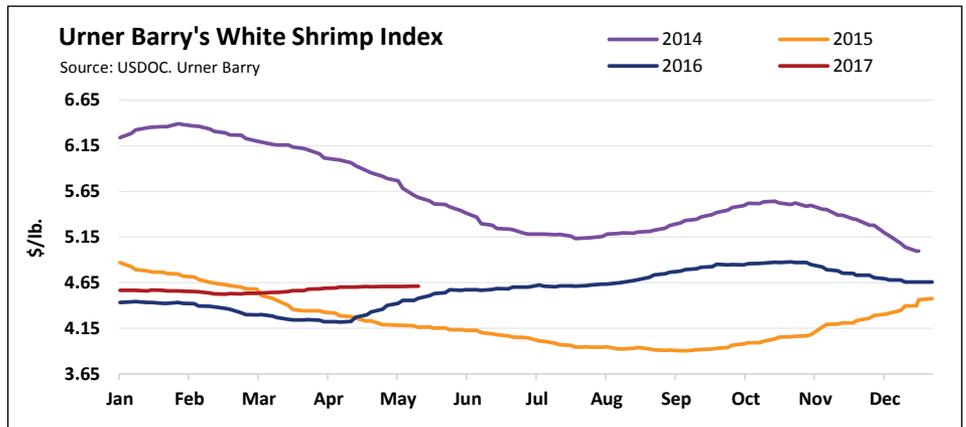
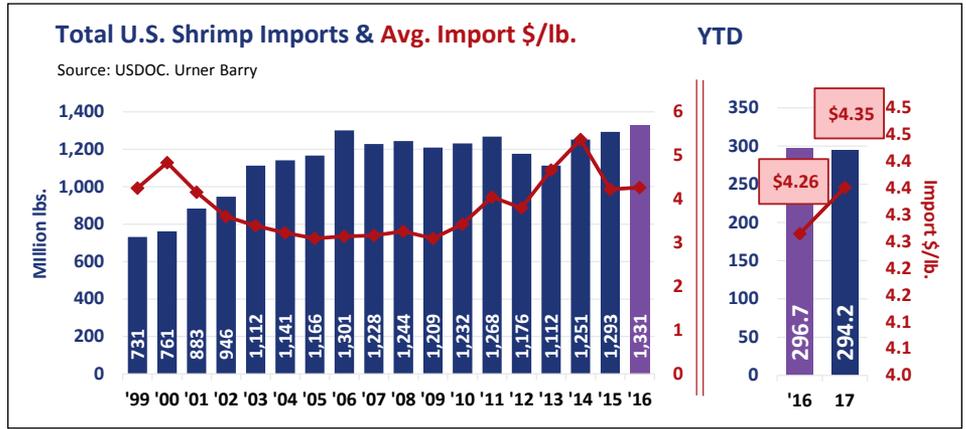
Paul Brown, Jr.
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2016 saw record imports of shrimp into the U.S., and for the first quarter of 2017 imports appear on pace to at least repeat last year's level. Many traders see shrimp as the best value in the shellfish category. Last year, according to Urner Barry's White Shrimp Index, the market traded within a very narrow range; many market participants see that scenario being repeated in 2017 barring any supply or demand shocks.

The big story in 2016 and thus far in Q1 of 2017 is the dominance of Indian shrimp imports. Indian imports are driving total shrimp imports into the United States. Shrimp from India comprised 25% of total imports in 2016; thus far in 2017 they are 27%. Indian imports are 32.7% higher through Q1 while most other top supplying countries are lower or up modestly. All categories of imports—headless shell-on, peeled and cooked—are all higher from India.

Seasonally improved production is underway in India with U.S. imports peaking in August/September. Import pricing has generally been firm as overseas packers reportedly have plenty of orders for early seasonal production. In addition, the Indian rupee has seen strength against the U.S. dollar since the beginning of the year; putting further upward pressure on import pricing. Any anticipated lower offerings



have at least been delayed, leaving future offerings unsettled.

The second largest supplier of shrimp to the U.S. market is Indonesia. Their imports were up slightly in 2016 and are 5.9% higher through Q1 of 2017. Indonesia is a large supplier of easy peel

shrimp for the retail market, as well and peeled shrimp and cooked shrimp. Indonesian imports peak in July; last year that increase was sharp at 41% above the year prior. Heavy production ahead of Ramadan (Ramadan started May 26th) is likely the source of active buying in May and the corresponding increase in imports in July. Market conditions in Indonesia have generally mirrored those in India.

Thailand imports finished 2016 up 10.3%, but are down 12% for Q1 of 2017. Since the outbreak of EMS, Thailand has improved their production methods. Thailand is the leader in cooked shrimp with a strong retail program presence. Offerings of Thai shrimp had been very firm but have recently moderated somewhat.

BREAKING NEWS

**Just before press time
April shrimp imports were released**

**India up 80.7% for the month
pushing YTD imports up 43.3%**

**Total shrimp imports are up
16.2% in April and 3% YTD.**

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Continued on page 38



Committed
to category
leadership.



Continued from page 36

Vietnamese imports were up slightly in 2016; thus far in 2017 they are down sharply. Production issues, lack of investment, and high U.S. tariffs among some companies all affect U.S. imports. Along with Bangladesh and Indonesia, Vietnam remains one of the primary sources of black tiger shrimp although white shrimp production is now dominant.

The third largest supplier of shrimp to the U.S. market is Ecuador. Their imports were down 14.6% in 2016 and are 8.4% lower for Q1 2017. Ecuador continues to supply the Asian and European export market ahead of the U.S. In fact, through the first quarter of 2017 Ecuador has shipped 55% of their production to Asian markets.

Most other Latin American shrimp imports have also been lower in 2017 with the exception of Honduras. Market prices for headless shell-on Latin American farmed white shrimp moved lower in the last

quarter of 2016; then smaller count shrimp firmed slightly while large counts weakened a bit, but recently prices have generally maintained a somewhat steady position.

What moves the market in 2017? Most production areas report very little disease issues so far this year. Chinese demand, probably the biggest unknown in the current market, will be partially dependent on the success of their own shrimp farming. China continues to be active buyers in Ecuador and Asia; able to move markets. But shrimp is a good value in the shellfish market now and many feel in 2017 it will continue to trade in a narrow range and remain a value.

Argentine wild caught red shrimp saw an increase in U.S. imports in 2016 and the trend continues in 2017 with imports up 95.1% through March. The resource in Argentina appears healthy and well managed and has been well received in the U.S. market even making its way onto the Red Lobster menu. It is a large shrimp with a softer bite and some say a taste akin to

lobster. Although a product of Argentine waters, some of the product is processed in several other countries.

The domestic shrimp market was relatively stable for the first seven or eight months of 2016 until the realization began to set-in the market could be short supplied. Market values then proceeded to climb steadily through the remainder of the year and through Q1 2017. According to the National Marine Fisheries Service, landings of all species declined 12.15% in 2016; going from 106.87 million lbs. in 2015 to 93.88 million lbs. in 2016. This is a 13 million pound shortfall, which proved to be quite price supportive, especially for 21-25 and smaller count headless shell-on shrimp and all sizes of peeled shrimp. More recently (Q2 2017), there's been some discounting of large HLSO and peeled shrimp in advance of new season production. Traditionally, the heaviest production occurs between the months of May and November, and market values typically correct in anticipation of this production. **UB**

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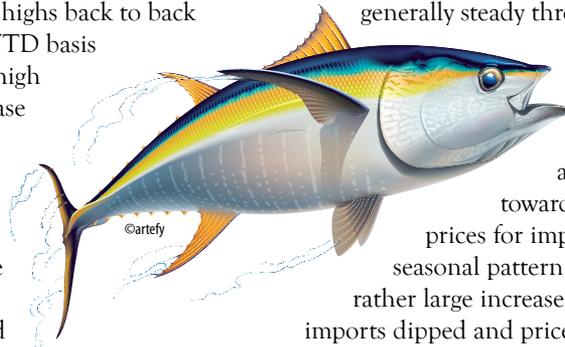


Steady as you go

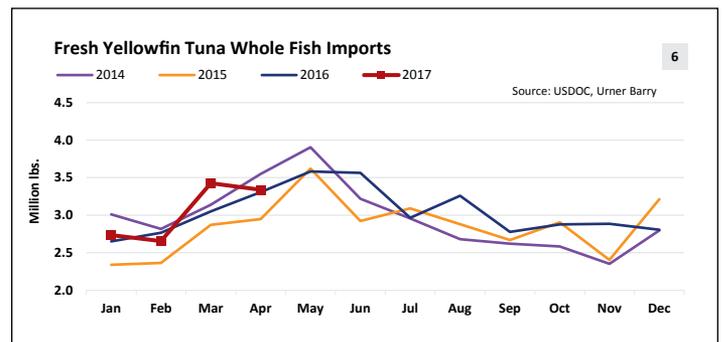
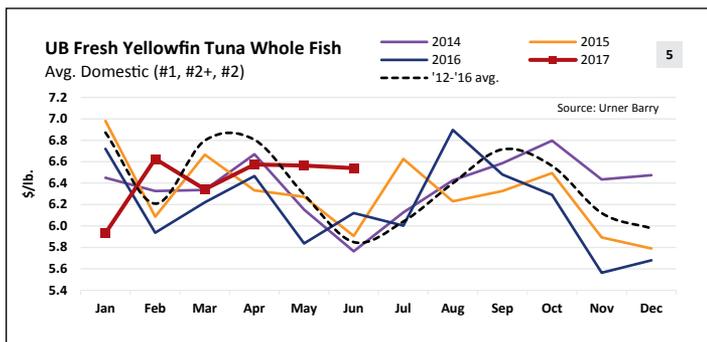
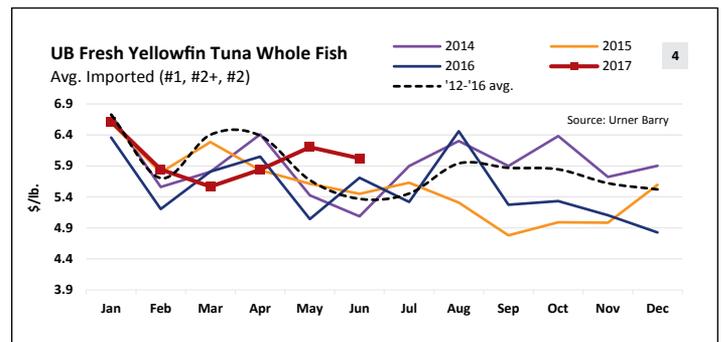
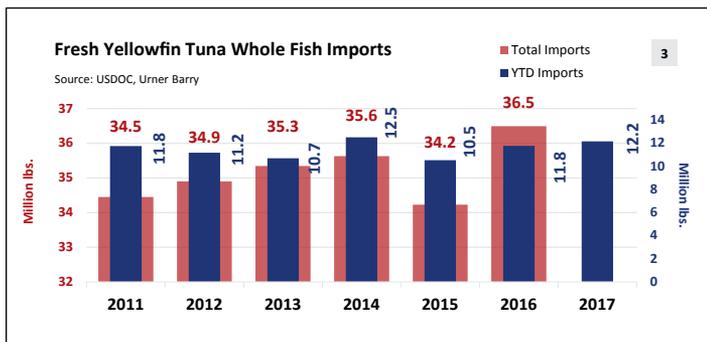
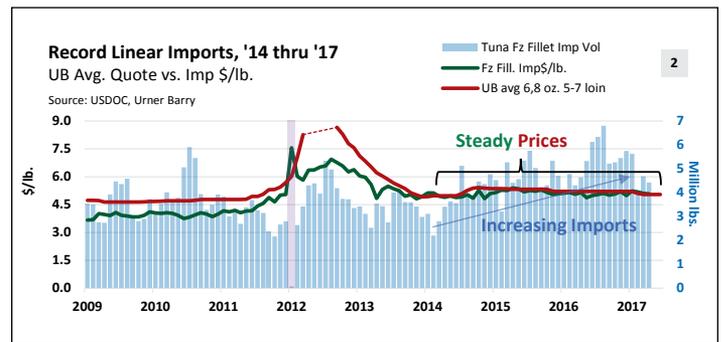
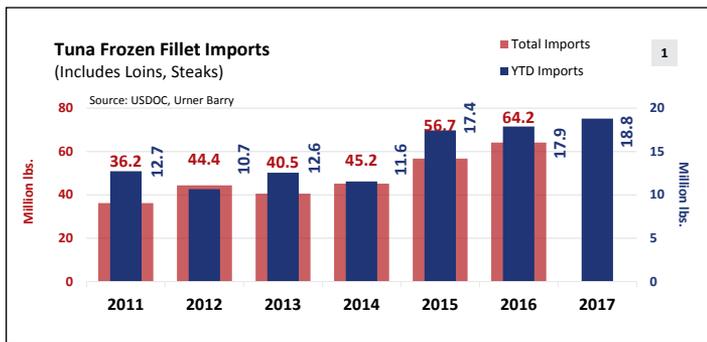
By Angel Rubio & Nicole West
arubio@urnerbarr.com & nwest@urnerbarr.com



The frozen yellowfin tuna market, which includes frozen loins and steaks, has held quite steady over the past few years despite imports reaching record highs back to back from 2015 to 2016 (Chart 1). Even on a YTD basis (Jan-Apr), imports in 2017 sit at a record high of 18.9 million pounds, a 5 percent increase from the same time a year ago (Chart 1). Many traders in the U.S. have reported steady to growing sales over the last few years, largely helped by steady prices. As we can notice, prices for this item have remained very steady ever since the 2012 bubble burst; prices stabilized in 2014 and have since shown little change. If anything, prices moved slightly lower but we must consider that supply has increased significantly over the course of the last 4 years.



Similarly, the fresh wholefish market saw imports grow 7 percent from 34.2 million pounds in 2015 to 36.5 million pounds in 2016, slightly above the 35.3 million pound 5-year average; through April 2017 imports increased 3.2 percent from 11.8 million pounds in 2016, to 12.2 million in 2017 (Chart 3). Prices remained generally steady throughout 2016 and followed seasonal patterns. However, although seasonally normal, prices during Q4 dropped to multi-year lows due to a combination of seasonally higher imports and an overall weak demand for fresh tuna towards year end (Charts 4 and 5). As of 2017, prices for imported tuna started to follow a counter-seasonal pattern starting in March, largely fueled by a rather large increase in imports for that month; subsequently, imports dipped and prices recovered through May (Charts 4 and 6). One thing to notice is that for total imports in 2016 and through 2017, Sri-Lanka has displaced Trinidad and Tobago as the main supplier of tuna to the U.S. **UB**



Always popular, U.S. demand continues to flourish

By Jim Kenny & Nicole West
 jkenny@urnerbarry.com & nwest@urnerbarry.com



NORTH AMERICAN LOBSTER

The North American Lobster (*Homarus americanus*), and its derivative products, account for the vast majority of lobster trade in the United States. Always a popular item in the domestic market, demand has flourished in recent years as applications expanded. Additionally, the call from China has grown considerably and altered the landscape.

Imports of North American lobster products from Canada fell six percent for all of 2016; from 125 to 117 million pounds in the year, led by a 12.6 percent drop in shipments of live. Imports of in-shell products, which include tails and whole cooked, were down 2.4 percent, while meat increased 17.4 percent. The importation of meat set a record, totaling 21 million pounds in the year.

The restricted import flow of live lobster from Canada was largely made-up by a robust Maine season. Maine production increased 6.9 percent; from 122 million pounds in 2015 to 131 million pounds in 2016.

Exports of live *Homarus* from the United States to Canada are 3.8 percent higher on the year.

Lobster tail market values declined steadily through the first five months of 2016, but largely gained through the second half of the year and into 2017. Production concerns and sales of whole raw and whole cooked to Asian buyers was price supportive.

Meanwhile, meat values have fallen from their record-high. Usage has slowed, and record shipments means the U.S. market is fairly well supplied.

Overall, 2016 imports of live lobster from Canada were almost 61 million pounds, down 12.6 percent from

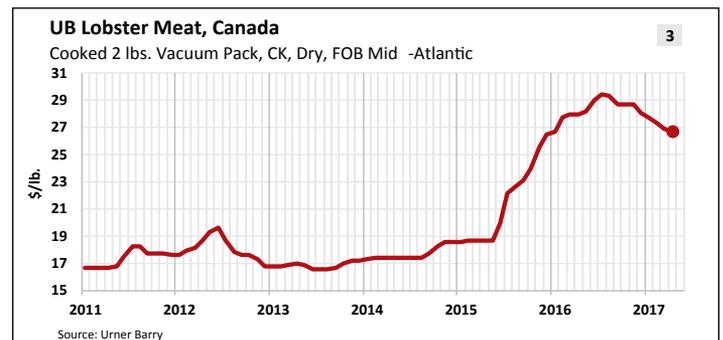
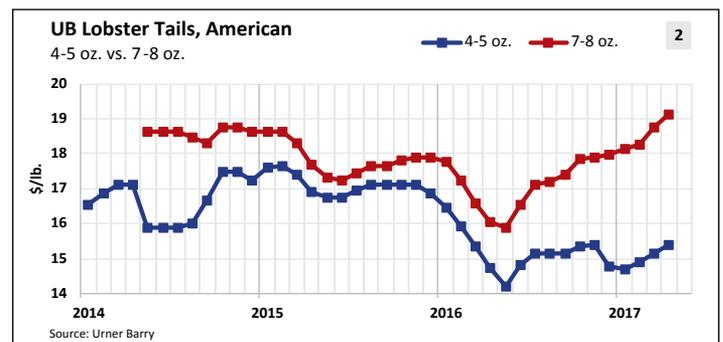
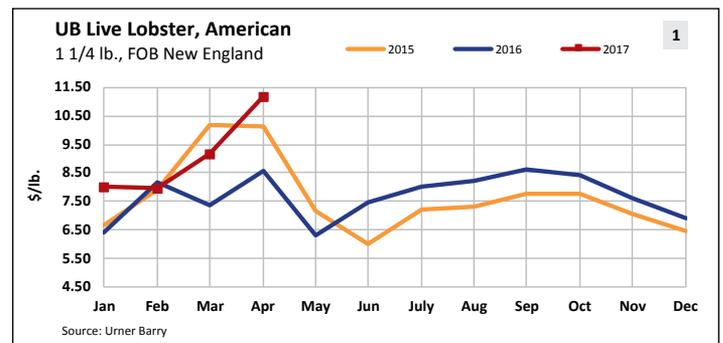


“Always a popular item in the domestic market, demand has flourished in recent years as applications expanded.”

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the year prior. Exports on the other hand finished the year at a little over 110 million pounds, up 8.4 percent. The majority of the live exports go to Canada for processing into tails, meat and other processed products. Exports to China hit all-time record highs in 2016 totaling almost 11 million pounds, a 100.4 percent increase from 2015 and 2014 which were previous record-setting years.

Lobster has found itself popping up on menus in new and innovative ways over the last few years leading to an influx in demand for processed products. The increase in demand, both domestically and abroad, led live prices into record and near record highs throughout the last year. As processors bid for product that normally stays in the live sector supplies tightened during times of peak demand. In August, the competition between the processing and live sectors to secure raw materials led new shell live lobster prices to 11 year highs.



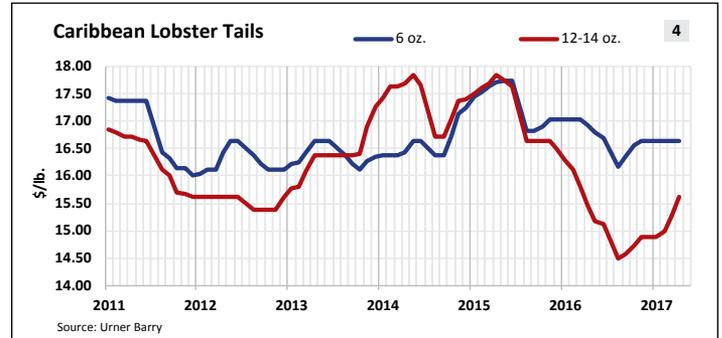
WARM WATER LOBSTER

The second-largest category of lobster in the U.S. market, accounting for roughly eight percent of all lobster products imported in 2016, is the spiny warm water lobster. Supplies have been steadily declining over time, and in 2016 imports of warm water lobster tails fell 32.8 percent, with decreases noted from every noteworthy supplying country. We saw fewer shipments from the Bahamas (-15.7%), Brazil (-55.7%), Honduras (-16.3%) and Nicaragua (-58.7%) in 2016, resulting in the lowest annual total in decades.

The market for Brazil and Caribbean origin lobster tails strengthened after the new season opening, especially the market



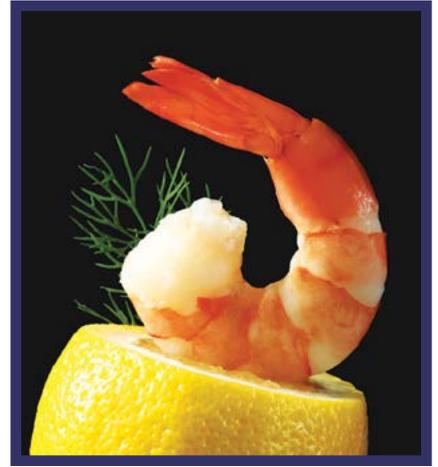
for larger tails. The restricted import flow has limited U.S. supply, and shifts among exporting countries sparked ongoing supply concerns. In all, there was a 5.13 million pound shortfall in 2016 imports from warm water producing countries as they opt to ship whole cooked and whole raw products to other destinations.



COLD WATER LOBSTER

This is a relatively small segment of the market, accounting for less than one percent of all lobster products imported into the U.S. Still, it's a premium product in a premium space. Imports of cold water lobster tails, primarily from Australia, New Zealand and South Africa, grew 6.7 percent in 2016. Individually, shipments increased 136 percent from Australia, 43.4 percent from New Zealand and 35.6 percent from South Africa. Supplies are still constrained and the market supported. **U**

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Second half of the year could look a lot different in the salmon market

By Janice Schreiber | janice@urnerbarry.com



FRESH WHOLEFISH

The first quarter of 2017 has experienced a somewhat historic shift in fresh wholefish imports into the U.S. market. Canada, historically the dominant player in the fresh wholefish market, saw their market share dissipate from 70 percent in 2016 to 55 percent in 2017 (Chart 1). This situation is not anticipated to continue throughout the year, however, it has had an impact on the markets so far in 2017.

The situation is due to both an increase in imports from Europe; Norway, Scotland, and the Faroe islands plus an overall decrease in imports from Canada. It is anticipated that the U.S. market will see this continued lag in imports from Canada until the second half of the year when production is expected to increase; and as such, imports are supposed to pick back up; a theme for both Canada and Chile in 2017.

Shipments of fresh whole fish from Canada to the U.S. ended 2016 at an all-time high registering 171 million pounds, up 3.9 percent YTD compared to 2015. The beginning of 2017 did take an interesting turn, through March of 2017, 33.1 million pounds of fresh wholefish have been imported from Canada and 24.6 million pounds of fresh wholefish from Europe.

Moving forward into 2017, Norway may continue to shift in yet another direction, back into China. With the ban on imports from Norway lifted, the Norwegian salmon council has stated that it

“It is anticipated that the U.S. market will see this continued lag in imports from Canada until the second half of the year...”

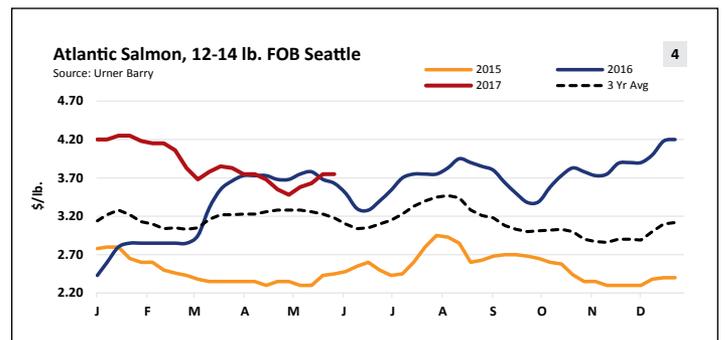
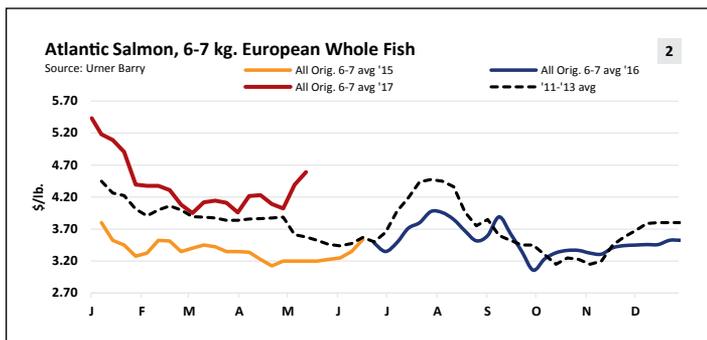
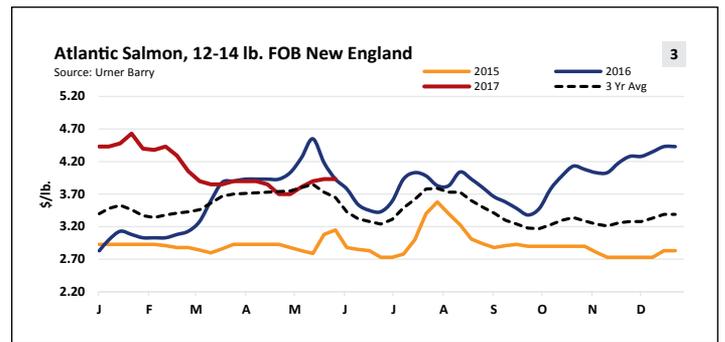
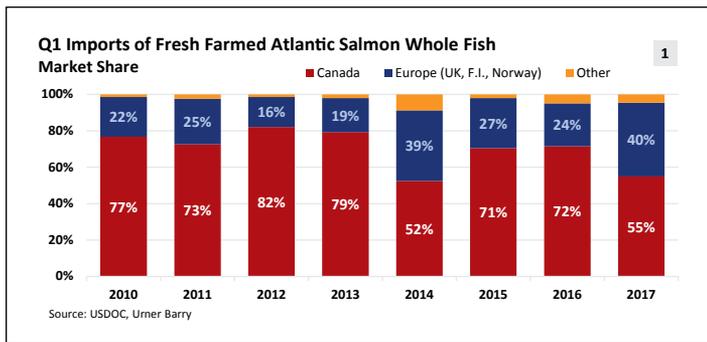
expects shipments of Norwegian salmon to China to increase from 5 percent to 65 percent over this year. This could displace others who have shifted their shipments to China while the ban on Norwegian product took place. For Canadian wholefish, pricing on the West Coast is around and just under levels experienced in 2016 and 2014. In the Northeast, pricing is under levels for both 2016 and 2014. But all pricing is well above levels we saw in 2015.

European pricing is following a similar trajectory to that of 2016, prices eased after the holidays and were relatively stable through Lent and as of the middle of May, are starting to surge (Charts 2, 3 and 4).

FRESH FILLETS

2015 saw a record year of imports and pricing fell to lows last seen in 2012. 2016 started out with strong levels of imports, but news of the toxic algae bloom in Chile that would affect shipments of fresh fillets and total output for the year would take a hit. Fresh fillets from Chile ended the year down 2.2 percent; total fresh

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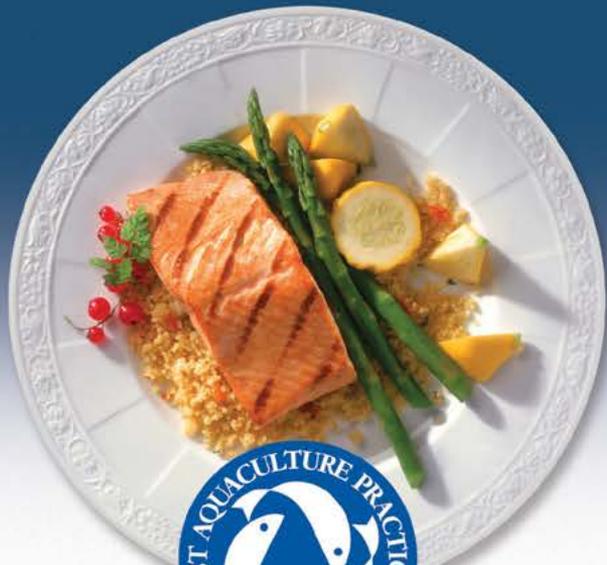




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Continued from page 42

fillet volume out of all countries, however, was up 3.5 percent for the year. Increased imports from other producing countries were seen. 2017, however, is still seeing some effects from the algae bloom; imports out of Chile are down 14.2 percent and total fresh fillet volumes are down 8.2 percent. News out of Chile suggests that volume ready for export will increase in August. Like Canada, the second half of the year out of Chile is anticipated to see more fish reach the U.S. market than the first half. Chart 5 shows a timeline of these major events that have affected the Chilean fresh fillet market.

Pricing on Chilean fresh fillets is at the highest levels the market has ever seen. As of the middle of May, pricing for 2-3 pound fillets was at \$5.68. We are, however, heading into what is historically the summer doldrums. With fresh at an all-time high, incentive to freeze product has been at an all-time low along with inventories of frozen fillets.

FROZEN AND WILD SALMON

Not only is the Chilean fresh market experiencing historically high price levels, but so are the frozen fillet and portion markets. With the Alaska pink salmon harvest historically poor last year, overall frozen inventories of wild and farmed salmon are low.

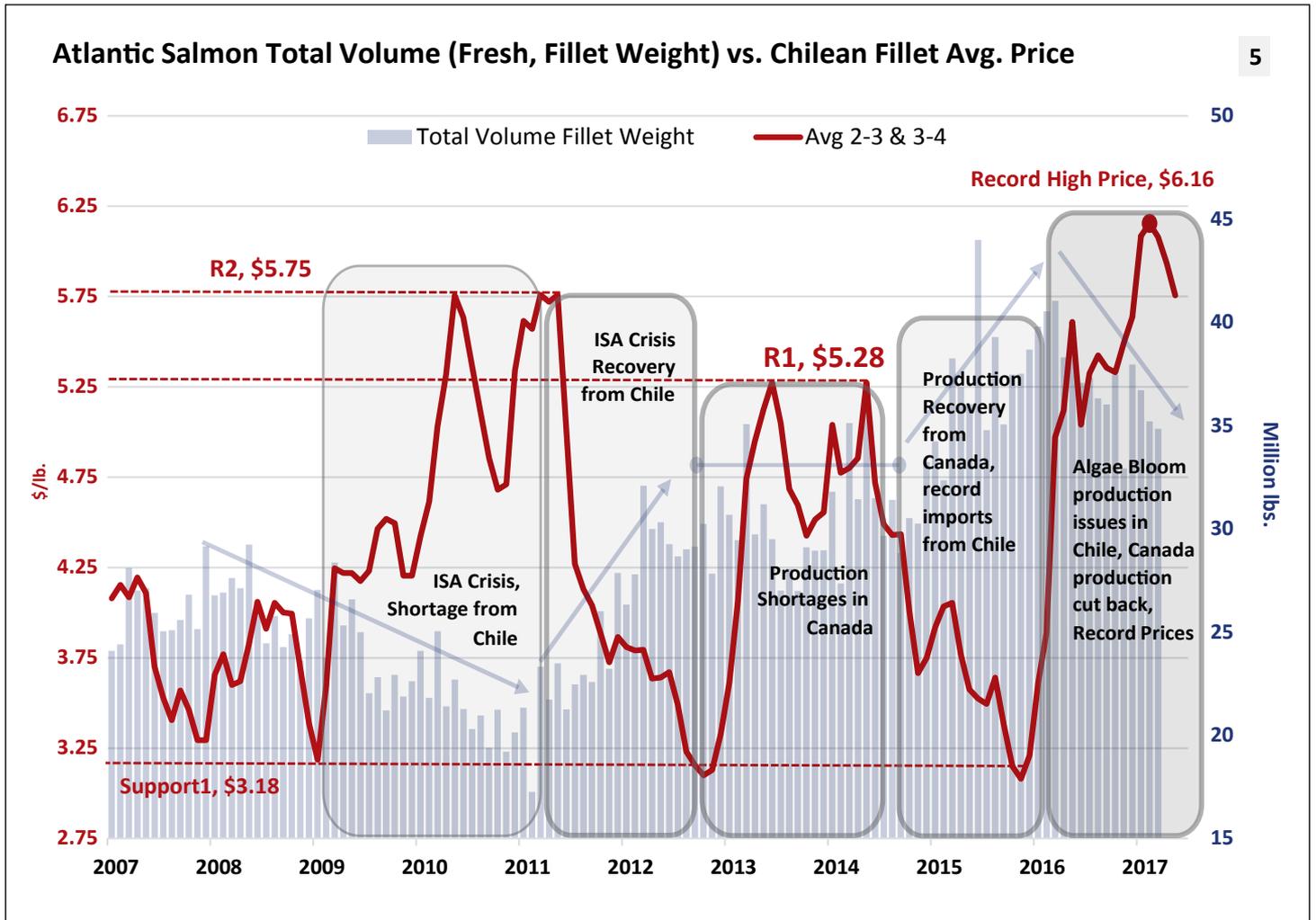
As summer is right around the corner, and historically slower demand season for farmed salmon anticipated, will Chilean producers have incentive to freeze? At historic high price levels on fresh, it would be hard to freeze and recover close to the cost of the fresh market at the time. It may not be until the end of the summer that the market may start to see inventories build.

The wild salmon catch out of Alaska is projected to be around 204 million fish; this is a million more than last year.

Alaska will see an up year for pink salmon's two year life cycle. Alaska Department of Fish and Game forecast a pink salmon run in Prince William Sound to be 58.92 million which would be the second largest run in history if fulfilled.

The sockeye forecast for Bristol Bay is predicted to be a strong one, 27 percent more than the recent average. Cook Inlet, however, is predicted to be weaker.

The U.S. has become a premier home for sockeyes too. Japan, a historically strong buyer of Alaskan sockeyes, is getting pushed out by the strong demand for the sockeyes to stay domestically. The U.S. demand for fresh fillets has helped to drive demand for sockeyes to be destined for the fresh market rather than the frozen; thus adding to the lack of available frozen volume. **UB**



Fresh 90s follow last year's trend while fresh 50s move higher

By Bill Smith
bsmith@urnerbarr.com



2017 opened with domestic fresh 90s prices at about steady price levels when compared to the prior year. Fresh 50s were a little weaker in January but then prices improved dramatically the rest of the first quarter. At the end of the quarter the cattle slaughter was up 6% relative to the same time frame for 2016, cattle live weights were down about 11 pounds, beef production was up 4.9%.

Fresh 90% lean boneless beef prices for the first quarter of 2017 followed 2016 price trends relatively close. Monthly average prices for the first quarter were all within 2% of the same month's price for last year. Federally inspected cow numbers continue

“At the end of the first quarter the cattle slaughter was up 6% relative to the same time frame for 2016, cattle live weights were down about 11 pounds, beef production was up 4.9%.”

to outpace the equivalent months for 2016. Demand has been active and competing imported beef product has been tighter. Import arrivals so far this year from major suppliers of grinding meat are down significantly, Australia is down about 29% and New Zealand is about 7.5% lower than the equivalent time period for 2016.

Fresh 50s opened 2017 with the monthly average price for January being down about

12% compared to January 2016. February was significantly stronger than expected with the monthly average price reaching 78.38/cwt; 50% higher than last year. March prices were up another 9% relative to the same month in 2016. May trading levels topped out at \$207, which was much higher than expected. Production schedules heading into the summer and fall months could have a larger impact on pricing. **UB**

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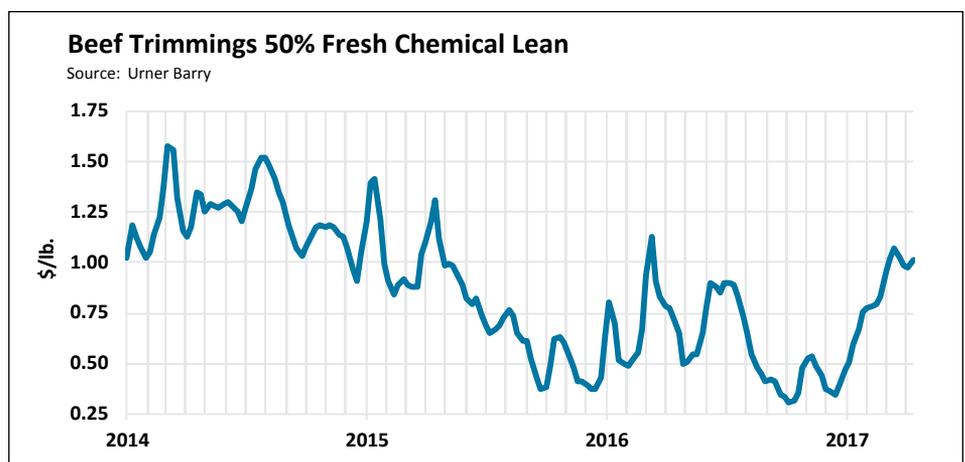
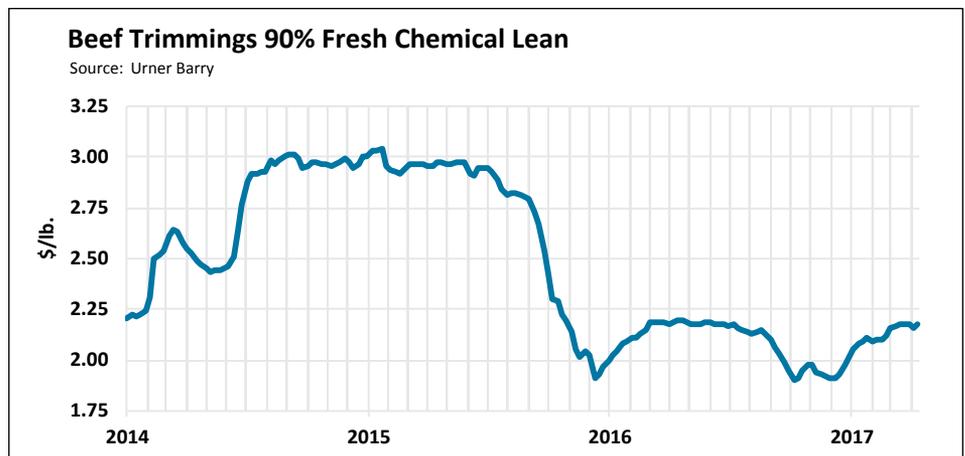
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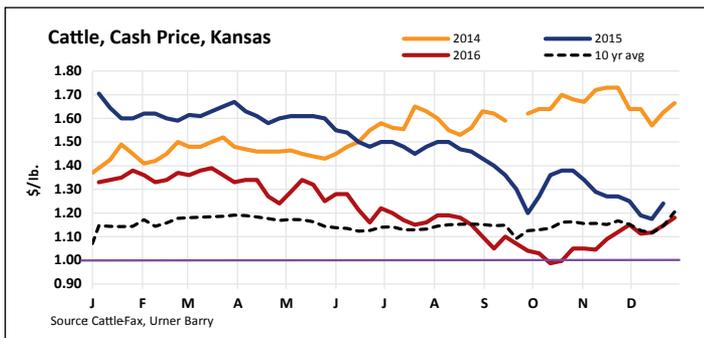


Despite the trend of growing supplies continuing, there are opportunities in the beef market

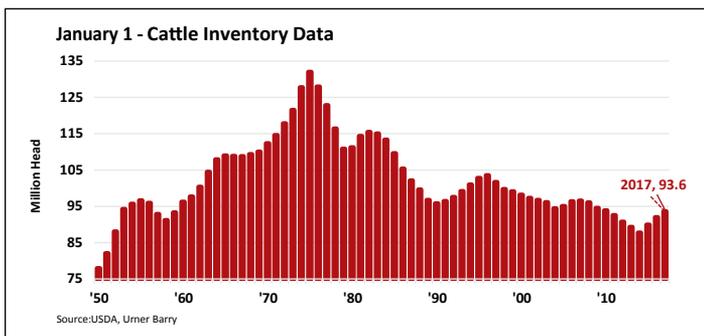
By Gary Morrison & Bruce Longo
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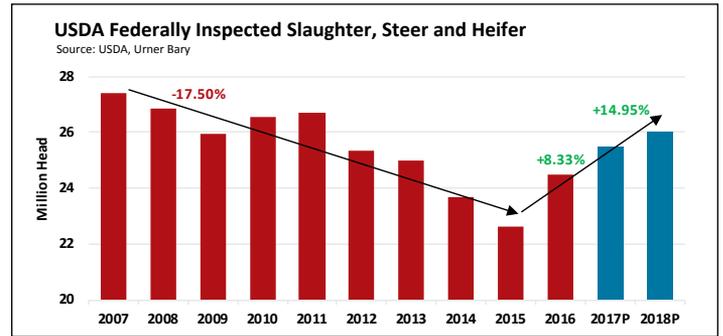
What a difference just a couple of years can make. It was only recently that we saw cattle prices hit record highs following the herd liquidation caused by years of major drought in the U.S. Since then, however, conditions have vastly improved in cattle producing regions, and herd expansion has influenced a price reversal to multi-year lows. Cash cattle prices in Kansas “broke the buck” in 2016 for the first time since 2010. Despite the lower cash prices, the futures market priced in strong declines, expecting continued growth in supplies and factoring in more negative demand. This set up a historically strong live cattle basis for the year where cash prices were at a big premium to live cattle futures. The basis for the first half of the year averaged +8.7 percent, just shy of the record high +8.9 percent in 1987. This was incentive for cattle owners to move animals as soon as they were ready in order to get the most they could.



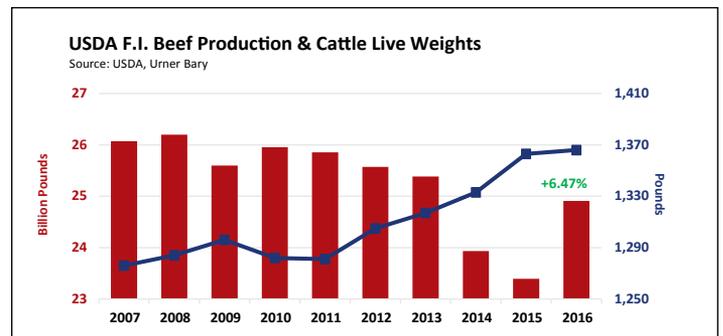
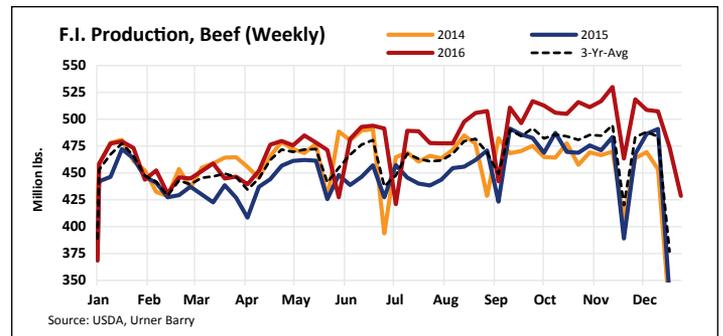
What does that mean moving forward? The expansion that we have seen the last two years doesn't look like it is over quite yet. Looking back to the cattle inventory report, after a 3 percent increase in 2016, the January 1, 2017 data showed 93.6 million head on U.S. farms, almost another 2 percent increase year-over-year.



The U.S. Federally Inspected Slaughter grew over 8 percent compared to 2015 last year. It is forecast to grow even more, nearly another 15 percent this year and next combined.

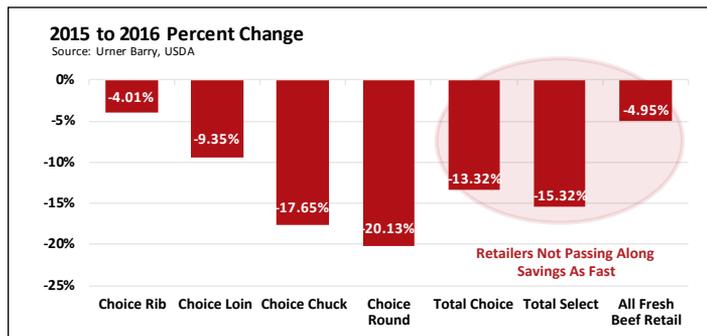
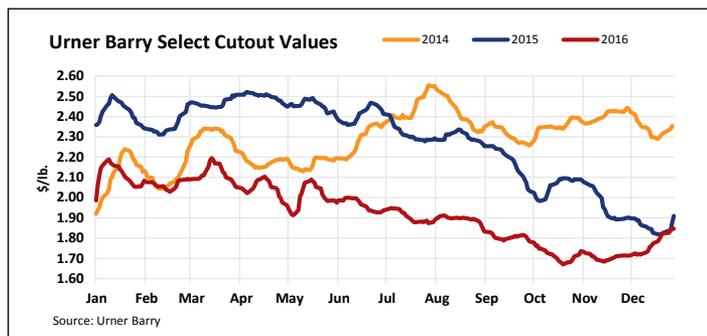
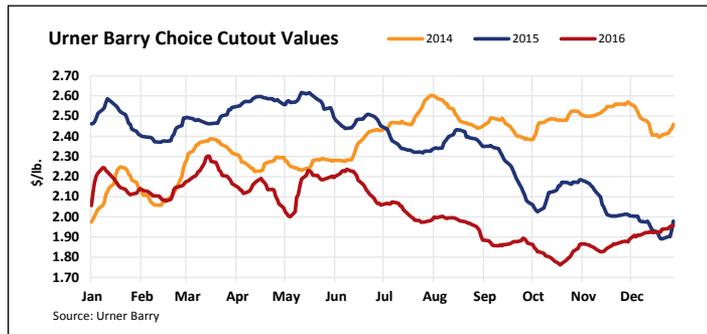


Combine the growing cattle supplies and upward trending cattle weights, and it is no wonder that beef production moved higher in 2016. Live cattle weights averaged two pounds higher at 1366 pounds. Pasture conditions have been favorable and feed costs remain low. With the packer profits being positive, the Federally Inspected production grew over 6 percent to 25 billion pounds.



And it's not only the beef market having to contend with this. Pork and chicken supplies have been growing as well. The latter is bringing on more plants in the next couple of years and companies

will need to justify the expenditures. Abundant supplies of all proteins will bring about competition. This has already been obvious in year-to-year price changes in the beef industry. Both the Urner Barry Choice and Select Cutout stayed well below 2015 levels. The final average for both were in the mid-double digit declines. Things may have been worse if not for a stronger-than-expected fourth quarter by middle meats.

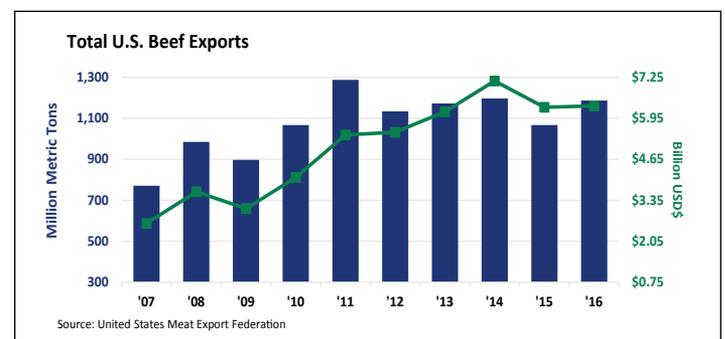


It has been the aforementioned ribs and loins that have helped. A milder-than-expected winter led prices of middle meats in a contra-seasonal trend. In addition, as prices have trended lower, it has given consumers the opportunity to satisfy their appetite for beef. When prices were at record highs a few years back, we saw customers trading from beef to other proteins at a more rapid pace than the decades long per capita beef consumption decline. In the early part of price moderation, consumers started getting back to eating beef but it seemed to be the more value items. As price pressures continued it's been the more expensive cuts that have flourished. Luckily for the beef industry the latest consumption estimates indicate a positive trend. This should provide a good opportunity for the industry.

A large opportunity that lies ahead is getting back to the pace of exports and even increasing them. China's appetite for beef is only

“China’s appetite for beef is only growing and the country has since removed the ban on U.S. beef..”

growing and the country has since removed the ban on U.S. beef. And despite the pulling out of the Trans-Pacific Partnership (TPP) it is no wonder American beef producers are looking for access, however it may come, to China. The industry even saw Brazilian beef suspended shortly from most of its major trade partners from a two year investigation. In the end, the pace of exports in the second half of 2016 really took off and the start of 2017 remained hot. January export volumes were the best for the month of January since 2001 and February followed up with the best since 2000. Through February, volume is up nearly 13 percent and the value is up 17 percent. The latter is a good sign as lower prices prompted trade in 2016, but it appeared the trend stabilized and may have even reversed.



This is not to say that there aren't some threats to be aware of. Burgeoning supplies of red meat and poultry remains the central issue. And while per capita consumption of beef is expected to increase, does one or two years make a trend? Then there is also the unknown political climate that we are in. Chart 8 shows that retailers continued to hold back the pace of savings to consumers.

The United States beef industry looks to ride the reversal of many of the bearish factors of the past few years. While supplies across proteins continue to grow, it's something that everyone has been well aware of, or at least should have been. But better demand domestically and increased access to some other markets should help with the excess supply. **UB**

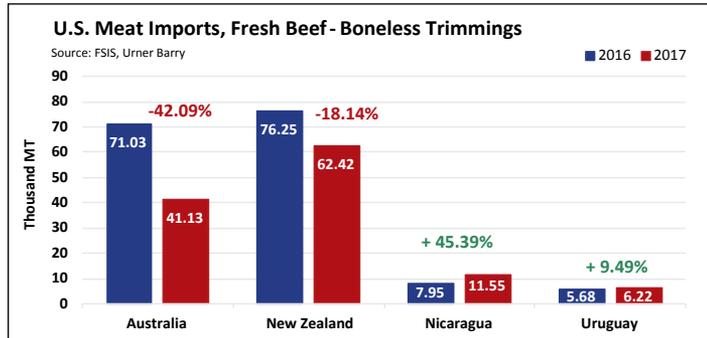
Increased demand on limited offerings

By Joe Muldowney | joemo@urnerbarry.com



Year-to-date values of lean imported grinding material have rebounded compared to last year.

As of mid-May, exports of manufacturing beef are 20% below the same time last year and 35% below YTD 2015 levels.



This is perhaps the most significant factor in higher imported beef values. The moderation in domestic lean beef values and more abundant supply of domestic cows have possibly hampered further imported beef price gains. One could argue that the lack of imported beef has helped to lift values for domestic grinding material, which is a 180-degree shift from the situation in 2015 when record high values for domestic grinding material provided the same cover for imported product.

RAIN AND GOOD PASTURE CONDITIONS CONTRIBUTE TO STRENGTH

With better pasture conditions, Australia continues to undergo herd rebuilding. Packers have been competing with re-stockers for available cattle and this has supported high livestock values. In

New Zealand, pasture conditions have been extremely good and farmers' ability to sustain animals on grass has enabled them to spread out marketings over a wider period. The steady stream has served to support values better than when large number of animals are marketed in a short period.



Cattle and Sheep grazing in lush New Zealand pasture. (photo taken November 2016)

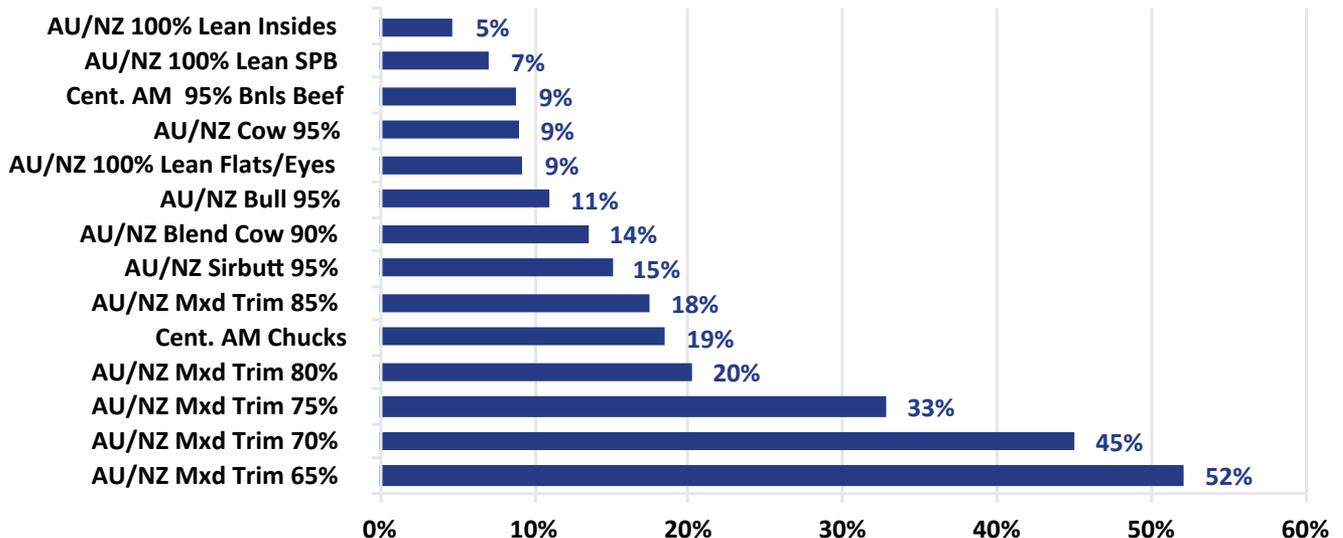
Mid-May year-to-date arrivals of boneless manufacturing beef from Nicaragua are 45% above 2016 levels but production and offerings have been somewhat sporadic given a somewhat choppy stream of livestock offerings in the region.

Brazilian grinding material is gradually working its way into U.S. processing facilities and while year-to-date levels are less than 1/3

June 2016 versus 2017 Percent Change in Value

UB East Coast Spot Market

Source: Urner Barry



of what Nicaragua sends, volumes have been steadily increasing and, given the large scale of the Brazilian beef industry, the situation warrants monitoring. In March, intensified USDA FSIS inspections on all entries were triggered by an inspection scandal in Brazil. The most significant impact that this has had on the market has been on the timeliness of delivery as 100% inspection pushes back expected delivery dates. For this reason, users have shown a preference to bid on product that has already cleared inspection given the certainty of a specific delivery date. Brazilian lean manufacturing beef is one of the lowest cost grinding materials trading several dollars back of meat from other origins.

BRISK FAST FOOD DEMAND HELPS MOVE RAW MATERIALS THROUGH THE PIPELINE

As opposed to previous years when high beef costs had restaurants showcasing beverages and other items to draw traffic, this year has seen a return to the features that help sell hamburgers and

“Buyers have anticipated a glut of offerings that many times failed to meet expectations.”



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this bolstered raw material usage during traditionally light demand periods that the market experiences in the first quarter of the calendar year.

THE WALL OF BEEF OFFERINGS THAT NEVER DEVELOPED

With some exceptions, including Australia, buyers have anticipated a “glut of offerings” that have many times failed

to meet expectations. This was the case with New Zealand bull and cow meat and with springtime supplies of domestic fat trim. The combination of buyers working from limited inventory and the failure of supplies to develop as expected, eroded buyers’ negotiating position and this was supportive to the spot market. Imported lean beef values exceeded many expectations for Q1 and Q2 to date. **LB**

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Growing exports, strong prices, expanding production

By Angel Rubio | arubio@urnerbarry.com



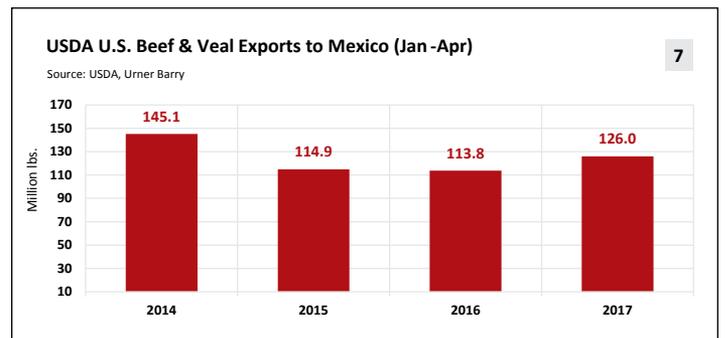
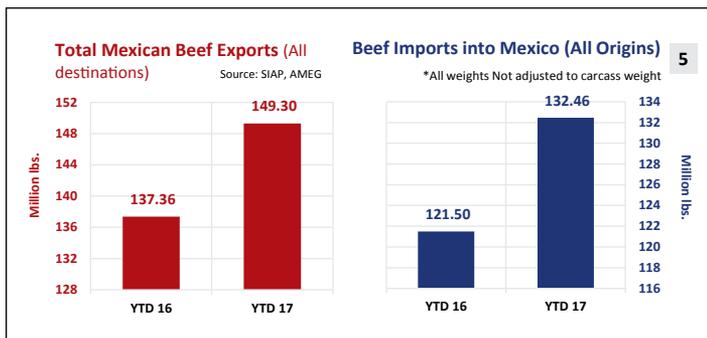
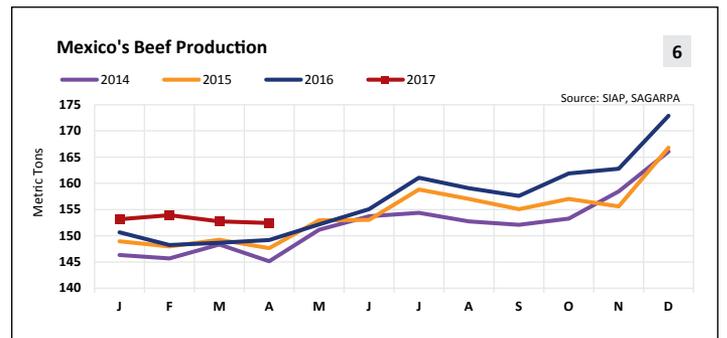
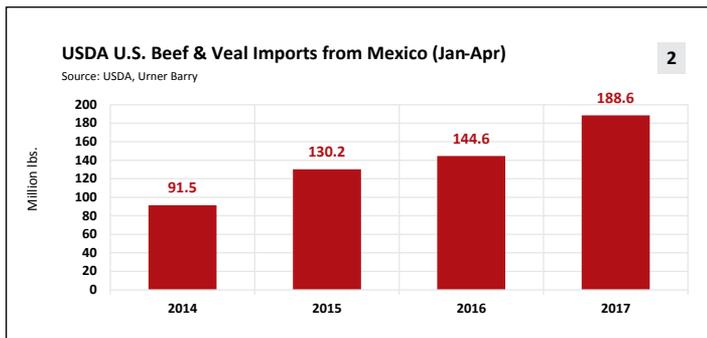
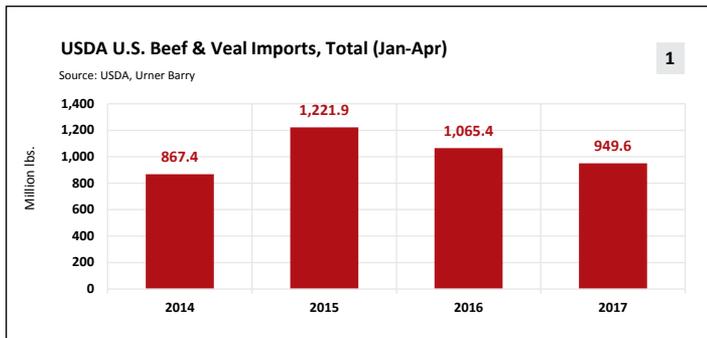
After what many in the industry categorized as “one of the most difficult periods in the industry” during the first half of 2016, the Mexican beef market has since recovered and shown signs of resilience going into the summer months of 2017. Exports remain strong and prices in both the Mexican domestic and export markets sustain near-record levels. Also, a relatively strong U.S. dollar and a resilient U.S. beef market throughout the first half of 2017 continues to make the U.S. an attractive destination for Mexican beef.

Although overall beef imports into the U.S. have declined (Chart 1), shipments from Mexico continue to grow and have set record highs on a year-to-date basis (Chart 2). On a carcass weight basis, imports from Mexico through April added nearly 190 million



pounds, up 30 percent from last year during the same period. This is significant because total beef and veal imports from all origins are down 11 percent through April. This can be largely explained by a favorable exchange rate; Mexican beef exporters can continue sending more beef to the U.S. at lower prices expressed in U.S. dollars because these can be offset by a strong U.S. dollar (Charts 3, 4). Now, according to official data from Mexico, net exports of Mexican beef—not adjusted to carcass weight—show an increase of 8.7 percent year-over-year, from 137 million pounds in 2016 to 149 million pounds in 2017 (Chart 5). All of this is happening when production in Mexico, at least until April 2017, continues to grow reaching seasonal record highs (Chart 6).

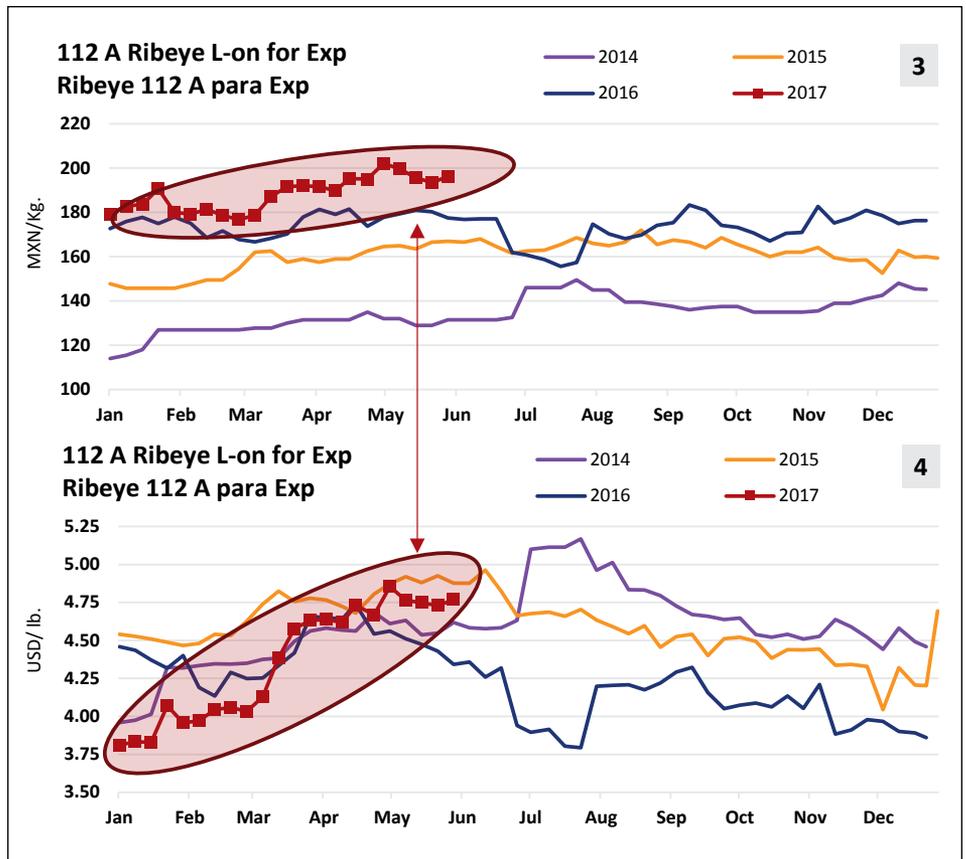
On a carcass weight basis, U.S. beef exports to Mexico have also increased compared to a year ago, growing from 113.8 million pounds through April 2016 to 126 million pounds during the same period in 2017 (Chart 7). This represents an increase of 22 percent compared to the same period in 2016. In terms of volume,



Mexico's beef trade balance with the U.S. is now a positive 62.6 million pounds through April 2017. According to official Mexican data, which is again not adjusted for carcass weight, beef imports into Mexico grew 9 percent through the first four months of 2017 compared to the same period last year from 121.5 million pounds to 132.5 million pounds (Chart 5).

Overall, the Mexican beef market appears to be having a decent year; exports and production continue to grow while prices remain near historic highs. By the time this article goes to press, there is little indication that this market could turn sour, but we never know, shocks can occur at any time and the industry must be prepared. **UB**

“...the Mexican beef market has since recovered and shown signs of resilience going into the summer months of 2017.”



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Expanded production; the new reality in pork

By Russell Barton & Jim Kenny
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2015 set the first yearly pork production record since 2008. 2016 gladly took the baton and ran, adding nearly 2 percent to the previous year's total. Normally, two years setting pork production records back to back would be bearish for pork values, however bolstered exports managed to offset the gain in pork production and provide support for wholesale values. Total pork exports in 2016 were up 5.8 percent compared to 2015. This made exports 21 percent of total production for the year, versus 20.2 percent in 2015.

The record production levels were made possible due to operating margins which were robust for the entirety of the year, setting new year-over-year records nearly on a weekly basis for most of 2016. With at least 5 plants slated to come online between 2016 and 2018, we have seen an increase in hog availability as the industry prepares for the expanded production capacity in the coming years. However, without most of those plants operational yet, that surplus of hogs created a bear market for hog prices, which was not shared by wholesale pork prices, supported by consistent domestic and growing export interest. With hog prices declining and wholesale pork prices holding generally steady, packer margins exploded. In 2015, packer margins for outside purchasers of hogs averaged \$19.13/head, a record at the time. In 2016 however, these margins averaged \$31.46/

head and paved the way for week after week of record slaughter schedules (Chart 1).

The trend of consistently setting new year-over-year pork production and hog slaughter figures beginning in the second half of 2016 easily continued into 2017. Ample hog availability drove down livestock

outside purchasers of hogs dropped below \$20/head.

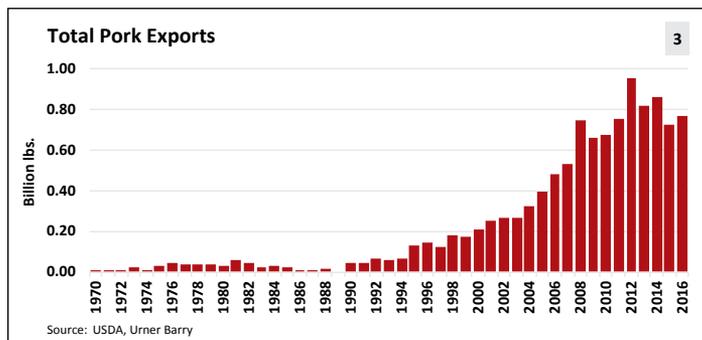
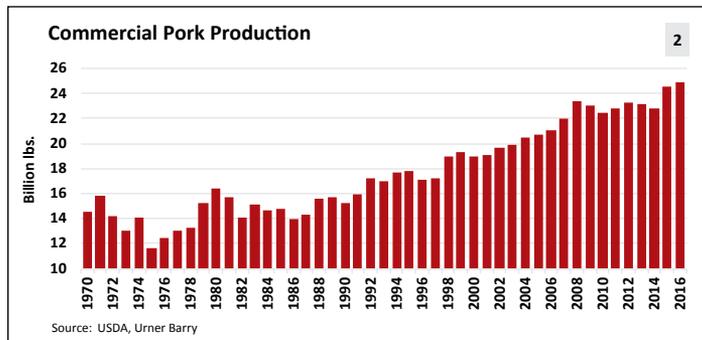
The U.S. inventory of all hogs and pigs on March 1, 2017 was 71 million head, a record for the first quarter. This was up 4 percent from March 1, 2016 but down 1 percent from December 1, 2016. Breeding inventory, at 6.07 million head, was up 1 percent from last year and down slightly from the previous quarter. Market hog inventory, at 64.9 million head, was up 4 percent from last year but down 1 percent from last quarter.

Taking a look at the weighted average of the bellwether Iowa-Southern Minnesota hog market during the quarter, livestock there traded between \$55.03 and \$73.87/cwt and averaged \$66.09/cwt on a carcass basis. This compares to a range of \$50.89 to \$64.02/cwt and an average of \$60.44/cwt a year ago.

The average pigs saved per litter was a record high 10.43 for the December-February period, compared to 10.30 last year.

The first quarter of 2017 saw a federally inspected hog slaughter at approximately 29,980,000 head, which represents an increase of 3.2 percent from year ago levels. Sows comprised 2.5 percent of the slaughter, compared with 2.5 percent in 2016.

Commercial pork production (Chart 2) set a new Q1 record at 6.409 billion pounds, which was up 2.9 percent from last year totals. Federally Inspected pork production was also a new record high for the first quarter, totaling 2.9 percent greater than a year ago.



costs while sufficient domestic demand and improved international sales propped up wholesale pork values, allowing for an extension of highly robust operating margins. There were only two weeks in Q1 2017 where packer operating margins for

Depressed pork prices made U.S. pork an attractive prospect to our export partners, even as the U.S. dollar remained at record levels through the entirety of the quarter. March export data had not yet been released at the time of publication of this report. For the first two months of the year, total exports were up 18 percent from a year ago (Chart 3). Exports to South Korea, Mexico, Japan and China were up 31, 30, 10 and 1.4 percent respectively. Exports to Canada declined by 4 percent compared to last year.

Despite record slaughter and production figures, wholesale pork values did fare better this year than last, at least partially due to the improved export volume described above. Cutout values ranged between \$76.93 and \$84.49/cwt in Q1, compared to \$69.70 and \$76.72/cwt in Q1 2015 on a weekly basis.

The 30 percent increase in exports to Mexico had a direct impact on bone-in hams during the first quarter of 2017. 23-27lb bone-in hams on average were up 3.7 percent from a year ago, with values ranging between \$49.60/cwt and \$62.80/cwt. This compares to the 2016 Q1 range of \$51.10/cwt to \$59.90/cwt.

Bellies had a strong first quarter, with consistent demand for fresh product noted for much of the period. This counter-seasonal demand for fresh bellies during the winter exacerbated the deficiency in cold storage stocks which began to be observed in 2016. 14-16 square cut pork bellies ranged between \$114.60 and \$181.50/cwt, averaging \$145.32/cwt. This was an 18 percent increase from a year ago; a quarter in which bellies traded between \$104.90 and \$133.00/cwt.

Fresh 42 percent trimmings began the year at multi-year lows, ranging between \$24.30 and \$37.40/cwt, compared to \$16.60 and \$26.00/cwt last year. Fresh 72s ranged between \$65.80 and \$79.20/cwt, compared to \$45.00 and \$66.00/cwt in Q1 2016.

Record production particularly weighed on loin and rib values in the first quarter of 2017. Exports to Japan were up from the previous year, but still only hovered around the 5-year average. An increased focus on pork butts domestically and abroad also

“Normally, two years setting pork production records back to back would be bearish for pork values ...”

weighed on loins and ribs. ¼” bone-in loins averaged 1 percent lower versus the same time last year, ranging between \$86.00 and \$104.30/cwt, compared to \$84.30 and \$108.00/cwt in 2016. Boneless loins averaged 2.5% lower versus a year ago.

Exports to South Korea grew by the largest percentage change among our major trade partners during the first two months of the year, and large portion of these sales can be assumed to be in the form of pork butts, traditionally their most sought-after item. This, combined with an increased domestic focus on pork butts due to their wide range of uses and more year-round featuring resulted in a ¼” butt which averaged 9 percent higher than Q1 of 2016. Prices ranged between \$84.30 and \$109.20/cwt, compared to \$84.90 and \$93.90/cwt last year.

Spareribs fell to multi-year lows in late 2016 and have stayed there since; trading at their lowest levels since 2010 for the entirety of the first quarter. With record pork production pushing values down, sales to the freezer soared. Cold storage stocks of ribs hit an all-time high for any month in March, just surpassing the high set last year, also in March. Medium sparerib values ranged between \$122.50 and \$133.70/cwt in Q1 2017, compared to \$136.70 and \$160.30/cwt last year.

With preparations for increased processing capacity likely to continue in the form of large hog herds for the foreseeable future, it is difficult to imagine a scenario where pork production will not be towards the forefront of industry conversations for the months and years to come. With very real competition from poultry and beef, both of which have also seen an uptick in production, we will be looking to international trade for continued expansion. Domestic features at price levels that rival those of the alternative proteins will also help to keep pork supplies in balance and price levels from falling. **UB**

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Are lamb and veal for holidays and dining out only?

By Bill Smith | bsmith@urnerbarry.com



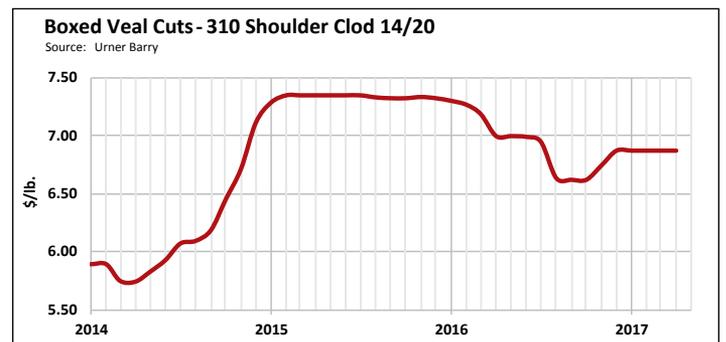
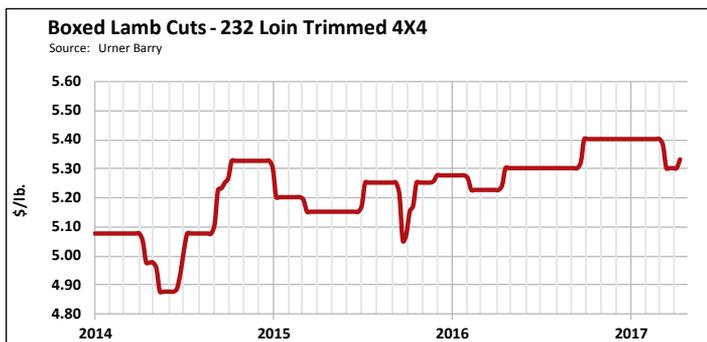
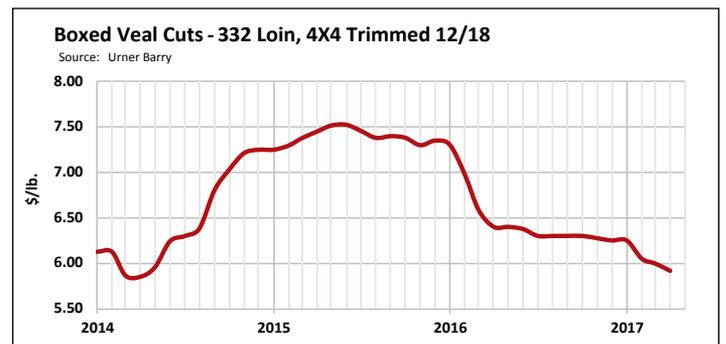
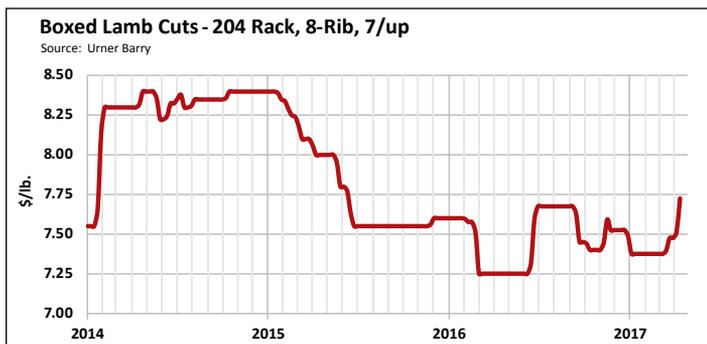
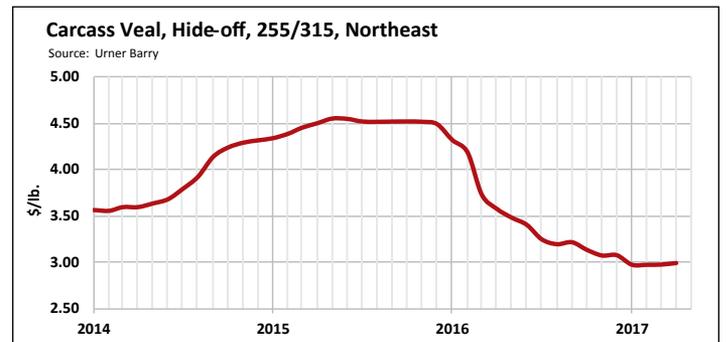
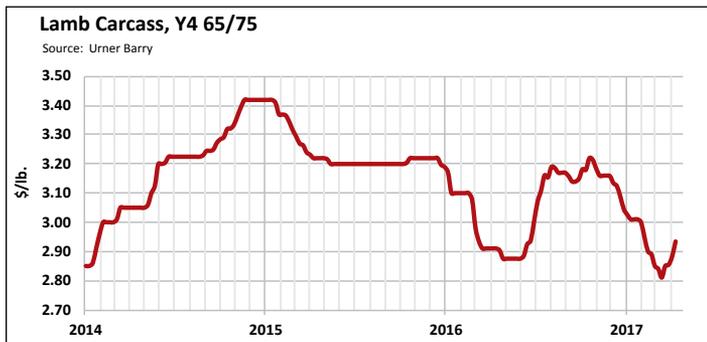
LAMB MARKET

In general, the start of 2017 has monthly lamb price levels a little lower than the relative monthly price level for 2016. Early in 2017 most boxed lamb cuts were trading at discount when compared to the same time period in 2016. Boxed lamb prices have trended lower than 2016 despite reduced production numbers. Year-to-date sheep slaughter figures are currently at 603,000; down almost 2% compared to the same time frame for last year. Buying interest for the rest of 2017 is expected to be about steady with last year.

The first quarter of 2017 saw lamb carcass prices decline in January and February, but bounced back a little in March. Using the 65/75 weight selection as a benchmark, the monthly average price

has declined about 6% since the start of the year. The monthly average price has been lower each month so far in 2017 compared to the equivalent month in 2016; down 3.8%, 4.7% and 4% in each of the first three months of the year, respectively. Prices did vary noticeably between the different weight selections as the lighter sizes were often harder to secure. Prices will likely level off as the year develops as demand is expected to be mostly steady and supplies will likely continue to tighten.

Most of the boxed lamb cuts were a little lower in the first quarter of 2017 despite lower production levels. January and February experienced average demand at best. Buying interest improved in March as we approached the Easter holiday. The reality is that most Americans consider lamb to be an item reserved for holiday or dining out. According to the North American Meat Institute's most recent U.S. Meat and Poultry Production and



Consumption report, Americans consumed 0.7 pounds per capita of lamb and mutton in 2014. In comparison, per capita consumption of beef for that same time period was 54.2 pounds.

Expectations for lamb carcasses and boxed cut values are mixed for the duration of 2017. Supplies will likely be tight due to tighter supplies of imports. A large lamb producer in Australia recently announced closures at two of its lamb processing plants. Availability of imported lamb as we progress through 2017 is unclear at this point.

VEAL MARKET

Boxed veal prices were generally lower in the first quarter of 2017 when compared to same time period for 2016. Year-to-date veal production is down 5.6% compared to the equivalent period for last year. Nevertheless, most items continue to trade at significant discounts relative to 2016. Slaughter numbers are up about 15% over last year, while live weights are down about 40 pounds according to the most recent USDA estimated weekly meat production report. Demand is expected to be about steady at best for the remainder of 2017.

Veal carcass prices in the first quarter of 2017 were significantly lower. Using the Northeast selections as the benchmark, the monthly average prices ranged from 19 to 31% lower than the same month in 2016. January experienced the largest decline.



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February and March improved a little. The small increase was attributed to an advance in demand for holidays like Valentine's Day. Expectations for the remainder of 2017 are steady to a little firmer.

Veal consumption in the U.S. remains limited. The North American Meat Institute's most recent U.S. Meat and Poultry Production and Consumption report indicates: Americans consumed 0.2 pounds per capita of veal in 2014. Almost all of the boxed veal cuts have traded at a discount in the first quarter of 2017 when compared to last year. Supplies were still generally ample for current buying interest. Demand is expected to be steady to maybe a little better than last year as we progress through the rest of 2017.

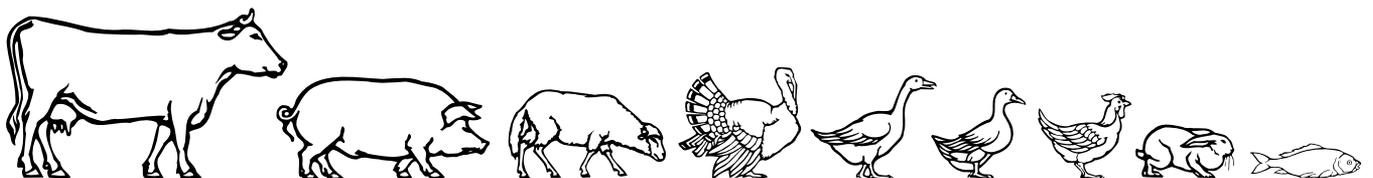
Veal carcasses and boxed cuts are expected to be steady to slightly better the rest of 2017. Supplies will likely be steady to a little lower than last year. **UB**



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Millennials are on a health kick

Many millennials actively pursue a healthy lifestyle, and seem to be more committed to eating healthy and more ethically than generations before. Studies conducted by Goldman Sachs have shown that millennials are “exercising more, eating smarter and smoking less than previous generations. They’re using apps to track training data, and online information to find the healthiest foods.” Many of the apps Millennials are choosing to use help track calories and diet where as other apps are used to track their physical aspects such as heart rate and steps. In accordance with the healthy lifestyle of exercise, Millennials are changing the way they eat.

Millennials are also choosing to dine out more often, but it is the type of cuisine they are choosing that should be a focus. Previous generations considered “healthy” food to be food that was low in fat and calories. Many millennials consider “healthy” food to be farm fresh, organic

“Millennials are also choosing to dine out more often...”

food with less processed and/or artificial ingredients. While Millennials are still counting calories and searching for low fat foods, those aspects are lower on their priority list. While Millennials are still visiting fast food chains, not all Millennials find it socially acceptable to be chowing down on fast food. Analysts at Morgan Stanley state that McDonald’s is the most frequented restaurant by this demographic. Although Millennials are still frequenting

fast food chains, not all of them would like you to know it.

Food that was produced with ethics in mind is also a great plus to Millennials. They are looking for ethically raised food, but they are also looking for food that is convenient for them. Many are preferring to frequent quick service restaurants. Moreover, they prefer to frequent quick service restaurants that have committed to using food raised with no antibiotics, and ones that use responsibly raised items such as free-range chicken. In addition to favoring ethically raised food, Millennials adopted the concept of vegan, gluten-free, and vegetarian meals. It is the millennial interest in nutrition, the environment, and their hesitance in trusting large institutions that drives them to choose natural and sometimes locally sourced food options. **UB**

Article contributed by Nicole Christie
nchristie@urnerbarry.com

June is Turkey Lovers' Month[®]

Article contributed by the
National Turkey Federation

The first slice into the “World’s Largest” 42 inch-long turkey hoagie sandwich by the Chairman of the House Agriculture Committee in 1990 inaugurated “June is Turkey Lovers’ Month[®],” now a 27-year celebration marking consumers’ year-round love for turkey’s tasty lean protein. Turkey was having its breakout event in June of 1990 at a Washington, D.C., reception underscoring that the Thanksgiving favorite was not just for holiday dinner anymore.

With a theme of meals made fast and fit, the ongoing affection for turkey has been a long-running affair for consumers. Most recently, research data by *Technomic* spotlighted consumer desire to order turkey outside of the holiday season more now than just two years ago. Additionally, diners want restaurants to offer turkey as a protein choice for a wider variety of entrées with turkey meat in salads, soups, stir-fry and more. Turkey’s lean protein remains a leading health benefit driver for those enjoying turkey.

Health is most often cited by consumers purchasing turkey, and restaurants are acknowledging turkey as a tasty alternative. Skinless turkey is popular, as well as the leaner, lower calorie white meat that Americans traditionally prefer in deli meat and turkey breast.

Beyond the low calorie count, today’s healthy eaters also want positive nutritional value. Turkey’s high protein value of vitamins and minerals of essential nutrients promote healthy metabolism by helping our bodies convert food into energy. B vitamins (B3, B6, and B12) also support adrenal function and help calm and maintain a healthy nervous system.

Turkey, having spread its wingspan over the holiday dinner table, now includes options at breakfast with turkey bacon and sausage, dinner with marinated turkey tenderloin, and at the outside grill with turkey burgers and smoked meaty turkey drumsticks. Although turkey strives for the type of big

volume production and market share of other poultry or red meats, since 2013 however, turkey consumption has outpaced the percentage increase of broilers and beef, but not pork.

Consumers are demanding a greater variety of turkey offerings from restaurants—suggesting honey, smoked and spiced BBQ and Cajun flavors. They are also quick to point out that they are expecting restaurants to surprise and to ‘wow’ them with new flavors. Among casual restaurants with BBQ, 79% are featuring BBQ turkey. Turkey lovers also love their turkey burgers, topped with avocado, chipotle mayo, apples and bleu cheese.

While consumers drawn to turkey’s lean protein and tasty flavor have their month every June, turkey also has its day: *National Turkey Lovers’ Day* on the third Sunday in June. Grilling season begins with Father’s



Day, as well as the celebration of the beginning of summer. Turkey tenderloins and cutlets, bone-in breasts, turkey drumsticks, thighs and ground turkey are candidates for perfect grilling.

For the love of turkey, June’s mid-year reminder of turkey’s year-round varieties for flavor and nutrition is just the beginning of the thrill of the grill. **u**

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Technology is opening doors for the food industry

There is no doubt that technology is constantly advancing. It is also evident that with each new technological development restaurants are taking advantage. Many of these new advancements were developed to help make the lives of consumers a bit easier. Whether it be a more convenient way for them to order from their favorite restaurant, or to scope out a new place to dine out, these new developments prove to be useful for both the consumer and businesses alike.

Today, social media has become one of the most utilized information platforms. Restaurants of all types, fast food chains as well as upscale and quick service, are utilizing their own social media pages. This has proven to be an ideal way for these companies to connect with their

customers. They can let them know about new promotions, offerings and events. In turn, this allows consumers to engage with the companies which help form a better relationship with restaurant goers. Many consumers also can voice their opinion and let others know how their experience at that restaurant was.

There are many benefits derived from utilizing social media platforms and apps such as allowing consumers to order food, view deals and menus, reviews and more. By using these platforms and applications, consumers can make more informed decisions quickly and easily. On the other hand, restaurants and food chains who utilize these platforms benefit too. They have more visibility, which in turn gets them more customers and leads to increased profitability. It also allows restaurants to see the feedback associated with their brand and allows them to implement changes as they see fit, and therefore achieving better customer retention. A study by ConsumerPulse showed that 51% of Facebook users and 67% of Twitter users showed they were more likely to buy from a brand if they followed the brand's social media page.

Social media channels are generally a low-cost way for companies to advertise to their target market. There are millions of users on different social media platforms, such as, Twitter, Facebook, Instagram and Pinterest. They are a way for companies to engage and interact with their consumers. Many food chains including Taco Bell, McDonald's, KFC and more have taken to their own social media accounts to connect with consumers. They use tactics that require responses and reactions whether

it be a poll, video, or an image of a new menu item to generate interest.

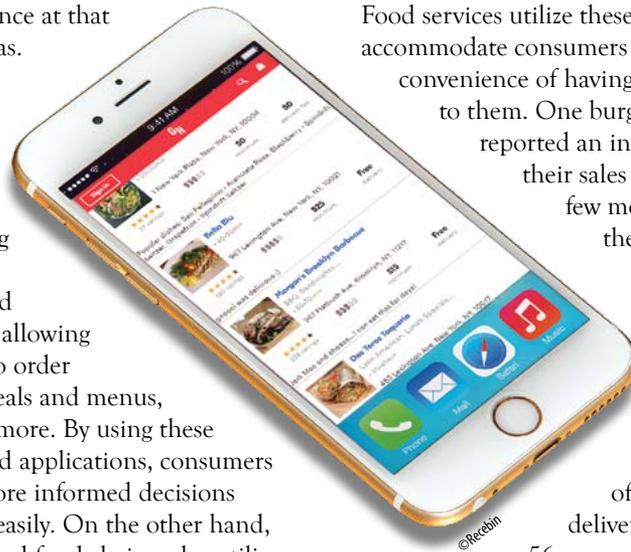
Many delivery apps such as, Grubhub, ChowNow and DoorDash have been developed to allow consumers to have their favorite dishes delivered to their door. Food services utilize these apps to help accommodate consumers who prefer the convenience of having food delivered to them.

One burger chain even reported an increase of 8-9% in their sales within the first few months of using these delivery apps.

A study by the NPD Group showed that "Young adults are the heaviest users of foodservice delivery, representing 56 percent of delivery orders. As a comparison to other generations, 29 percent of millennials ordered restaurant foods/beverages via delivery in the last week while nearly 50 percent of Boomers and older use delivery less than once a month." The demographic that is most utilizing these new developments are the ones who value technology and convenience. Though diners generally have to pay an extra fee to have their food delivered, many say the convenience is worth it.

All in all, applications such as social media sites and apps for ordering and delivering food have benefited both the consumer and company. These platforms allow for better communication between consumers and businesses. In turn, relationships are broadened, sales tend to increase, and consumers are more excited to visit their favorite restaurants or chains whether it is in person or online. **UB**

Article contributed by Nicole Christie
nchristie@urnerbarry.com



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Expansion in U.S. hog processing could have impact on markets by autumn

The addition to U.S. hog processing capacity this spring and summer could begin to have some regional impact on the cash market and boost competition among packers for the animals by autumn.

SPRING

The first and smallest of three new U.S. pork plants to come on board this year is Prime Pork, located in Windom, MN. The original planned opening date was in December. However, the owners found additional upgrades that were needed to the plant which were made during the winter and early spring, and the plant opened in late April. The Prime Pork facility plans to process about 6,000 head a day by July. Glen Taylor, owner of the Minnesota Timberwolves, partnered with Minnesota hog producer Greg Strobel, to form Prime Pork

SUMMER

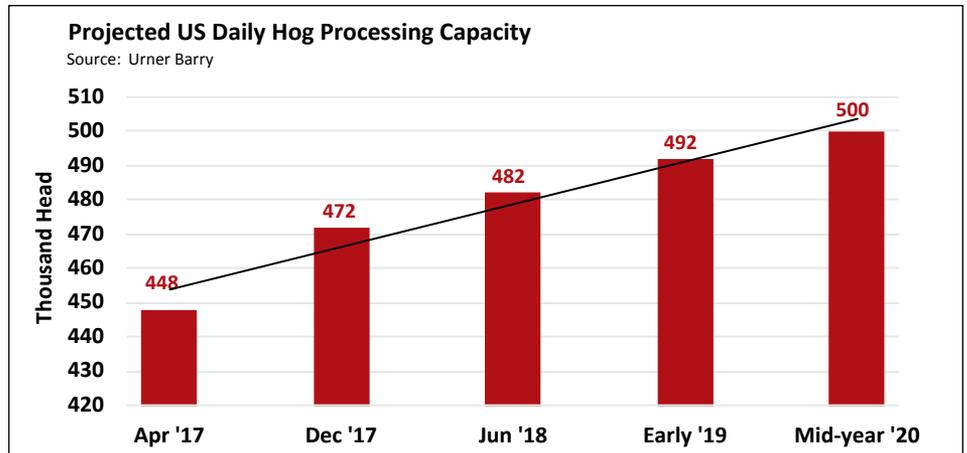
The Seaboard-Triumph Foods plant located in Sioux City, Iowa, is scheduled to open in July and will be able to process 10,000 to 12,000 hogs a day. The plant will operate on one shift for nearly a year then plans to add a second shift by May of 2018 which boost daily production to around 20,000 head.

AUTUMN

In September, the new Clemens Food Group plant in Coldwater, Michigan will begin operating. When up to speed, the facility will be able to process about 10,000 head per day.

TIMING AND IMPACT OF ADDED CAPACITY

Training workers and attaining full speed on all operations in a new plant can take several weeks to a few months to accomplish. If these three new plants all meet their schedules for opening, the industry's daily processing capacity should rise from around 450,000 head as of May 1 to about 476,000 head sometime during the fourth quarter. If all goes well, about 75% or more of the additional 26,000 head capacity may be realized by



“The increase in processing ability means packers will likely compete more aggressively for the hogs, ...”

late September to early October and the balance could come on stream by early November.

The timing of the added processing capacity is good for hog producers because slaughter-ready supplies are typically the largest in the late fall and early winter.

The increase in processing ability means packers will likely compete more aggressively for the hogs, that is unless production expands at an equal rate as the increase in slaughter capacity. Producers did boost output in anticipation of the additional plants coming on stream, and that resulted in an excess of hogs this spring that drove down prices by more than 25% from mid February through late April. Producer returns dropped by more than \$43 per head during that period.

Based on the March 1 quarterly hogs and pigs report, supplies are projected to be larger this fall but not quite as much as processing capacity is expected to increase, so that could result in more stable hog prices during the second half of the year.

While pork output is expected to be at record levels throughout the year and hold down wholesale prices overall, the

additional plants could result in reduced operating margins for processors and improved returns for producers compared with what they would have been otherwise.

In 2018, the addition of a second shift to the Seaboard-Triumph plant scheduled for May will boost U.S. daily hog processing capacity by about 10,000 more head. The startup of the Prestage Farms' facility being built in Wright County, Iowa, planned for late 2018 or early 2019, will add another 10,000 or more, which would raise the daily total to nearly 500,000 head. **UB**

Article contributed by Curt Thacker
cthacker@urnerbarr.com

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The American Egg Board's incredible 2017 Easter outreach

Contributed by Anne L. Alonzo,
President and CEO American Egg Board

Americans are increasingly associating Easter with eggs and egg products. Over the years, the American Egg Board (AEB) has worked diligently to, do its part, to bring home this reality and put in place several effective campaigns.

For 2016, the AEB was proud to see a greater demand for results transpire with 25 million more dozen eggs sold at Easter as contrasted with eggs sold during the rest of the year.¹

In 2017, I challenged my team to help deliver even more on behalf of America's egg farmers. We delivered! Here's an overview of AEB's three major Easter initiatives — as results continue to whisk in.

#EGGART CONTEST WITH TV PERSONALITY ALI FEDOTOWSKY

To celebrate a beloved Easter pastime, the AEB hosted an EggArt Sweepstakes in partnership with TV personality, and fashion and lifestyle blogger Ali Fedotowsky. Ali helped inspire gorgeous egg decorating to one of the AEB's key targets: Millennial parents.

The Millennials' demographic influences the behaviors of everyone outside the age bracket of 18-34. Overall, this generation represents \$2.5 trillion in purchasing power and accounts for one fourth of the total U.S. population.² To grow demand for eggs and egg products, AEB understands the imperative that we position egg messages in a way that resonates with this audience and drives engagement.

AEB's partnership with Ali achieved this objective perfectly, and positioned our key messages to Millennials. As a new mom establishing her own special family traditions, Ali shared her dazzling decorated eggs leading up to Easter. Users, across the AEB's best-in-class social media platforms, were encouraged to use both

the #EggArt and #Sweepstakes hashtags during the Easter season for a chance to win one of three prize packs that included KitchenAid mixer and other exciting prizes! Fans were very inspired by the content and entered 170+ entries to the contest.

The AEB and Ali met with NYC editors prior to Easter and due to high demand, even added extra days of media phone interviews. AEB's content appeared on sites like PopSugar, Bustle, Celebuzz, CafeMom, Mom Central, Wetpaint and more. Coverage highlighted Ali's easy and unique decorating tips and, at this writing, has resulted in more than 79 million impressions. These outlets and others also promoted the content through their social media platforms further extending AEB's coverage. We're already using this year's insights and outreach to guide next year's planning.

Throughout this effort, the AEB emphasized eggs as a nutrient powerhouse

and highlighted a variety of ways to prepare and cook them. From hard-boiled, to perfectly poached, and every sunny side up in between, we reminded everyone that you can feel great "putting an egg on it" and knowing you'll get 6 grams of high-quality protein³, all for 70 calories per large egg.⁴

WHITE HOUSE EASTER EGG ROLL

AEB's highest profile and most visible event — our participation at the Annual White House Easter Egg Roll — did not disappoint reaching even greater heights this year.

A record number of board members, producers, state directors, egg industry friends and volunteers made the day an incredible eggsperience for attendees. Our EggPops (hard-boiled eggs on a stick), served for the first time on the South Lawn, proved hugely popular.

A highlight of the day was the presentation of the 40th Commemorative Egg to First Lady Melania Trump by AEB's Chairman



America's Egg Farmers provided the eggs for the 2017 White House Easter Egg Roll.



A record number of volunteers made the day an incredible eggsperience.



The AEB presented the 40th Commemorative Egg.

Jeff Hardin and myself. While sharing highlights of its design, including the nearly 500 red, white, blue and gold Swarovski crystal incorporated, we were just so proud to be part of this annual tradition dating back to the creation of the AEB itself. Linda Gaus Asbell, this year's talented artist, hails from Denton, Texas — our Chairman's home state!

In addition to the Commemorative Egg, the American Egg Board donated more than 30,000 REAL hard-boiled eggs for egg rolling, the egg hunt, egg decorating and egg snacking. The AEB also brought the egg production process to life to the parents and children attending through AEB's whimsical "An Egg's Journey from Farm to Table Eggsperience."

The "Eggsperience" featured interactions with the Hollywood Hens, realistic imitation hens; photo cut outs that showcased the hen house, processing and delivery; and a play kitchen where children got hands-on experience moving eggs from the fridge, to the stove, to their breakfast, lunch and dinner plates. A new "Step & Repeat" created additional photo opportunities on the South Lawn. Eggy, the popular Incredible Egg Character, also took pictures with kids and adults.

Key information about eggs appeared throughout the expanded exhibit space and throughout the South Lawn. Attendees had the opportunity to ask their questions to egg experts, including a large number of egg farmers in attendance. All White House Lawn volunteers wore the hats and aprons — featuring both the official White House Easter Egg Roll logo and Incredible

logo — donated by America's egg farmers annually.

The Incredible Edible Egg on Facebook provided a sneak peek of the 40th Commemorative Egg and look back at previous Commemorative Eggs. A Snapchat filter also engaged attendees on the South Lawn.

This year's media coverage of the event included more coverage than previous years, as AEB included materials related to the event to both trade and consumer media. Interviews, like those on FoxNews.com and Yahoo Finance, expanded our coverage. Onsite interviews took place with producers on the White House's South Lawn, including radio interviews.

Plans are underway to capitalize on our high profile and successful day. A special thanks and recognition to AEB's producer volunteers and agencies for their support, as well

as to the volunteers from the Congressional Hispanic Leadership Institute (CHLI)!

TRADITIONAL MEDIA OUTREACH

To help television morning shows get into the holiday spirit, the AEB delivered EggPop Baskets to New York morning shows. The baskets were complete with EggPops topped with bleu cheese and bacon, smoked salmon and cream cheese and deviled eggs. The staff and anchors loved the grab and go snacks.

AEB's EggPops aired on prime TV with a segment on NBC's Weekend Today Show, reaching 2.2 million viewers! In the "What's Trending" segment, our EggPops were placed on display with the hosts tasting them and a reminder to look to IncredibleEgg.org.



EggPops proved to be a big hit at this year's event.

In total, traditional media pitched secured 40 million impressions of earned media throughout the Easter season. A few key highlights include:

- **Popsugar** (2.1 million impressions) featured the sheet pan egg hack on its website and included some fantastic photos!
- **Cooking Light** (1.8 million impressions) titled its article "Choose Your Own EGG-venture," and featured multiple cooking techniques in this special "Breakfast Issue." This 12-page spread was also highlighted in its Instagram page.
- **Bon Appetit** (1.2 million impressions) dedicated its feature to multiple ways to incorporate eggs into everyday meals, how to make stress-free poached eggs, 19 ways to add a fried egg to enhance your meals, and more.

LOOKING BEYOND EASTER

As results from THE egg holiday continue to come in and are reported out, I'm invigorated by what we've planned

for the rest of AEB's 2017 marketing and promotional efforts! Focused on consumers, we're gearing up for many other high-profile events like National Egg Month, Back to School, Hispanic Heritage Celebrations, World Egg Day, the Thanksgiving and Christmas Holidays, as well as other opportune moments. This is in addition, of course, to our core programming focused on Quick-Service Restaurants, Egg Product

Marketing and the AEB's Egg Nutrition Center research and promotions.

I hope we connect soon at an industry meeting and thank you for your interest and support of the American Egg Board! **UB**



Eggy was on hand to take pictures with kids and adults.

1. According to data from the Nielson Co.
2. www.aeb.org/StrategicPlan
3. Campbell B et al. International society of sports nutrition position stand: protein and exercise. J Int Soc Sport Nutr. 2007;4:8
4. US Department of Agriculture, Agriculture Research Service, Nutrient Data Laboratory. USDA National Nutrient Database for Standard Reference, Release 28. Basic Report: 01123

Executive Conference

Continued from page 1

confidence and contingency (just several that come to mind)—especially when looking to manage our expectations of the future—were all in play during the three-day affair.

The Conference offered guests a spectacular line-up of intriguing speakers, informative joint sessions, lavish meals, a golf outing and much more!

Monday morning Urner Barry awarded the Poultry and Egg People of the Year during the opening ceremony. Congratulations to the 2017 Egg Person of the Year, Dennis Casey of Hy-Line, and Poultry Person of the Year, Ed Garrett of West Liberty Foods!

This year's speakers included Johan Norberg, Senior Fellow at the European Centre for International Political Economy; Dan Ikenson the Cato Institute and Michael Swanson an

agricultural economist and consultant for Wells Fargo. Ag business commentator Damian Mason was also on hand and Michael Reginelli of Advance Trading as well as Chris DuBois of IRI. Also returning to UB's gathering were Randy Blach CEO of CattleFax,

Brett Stuart co-founder of Global AgriTrends and Jim Sumner President of the USA Poultry & Egg Export Council (USAPEEC).

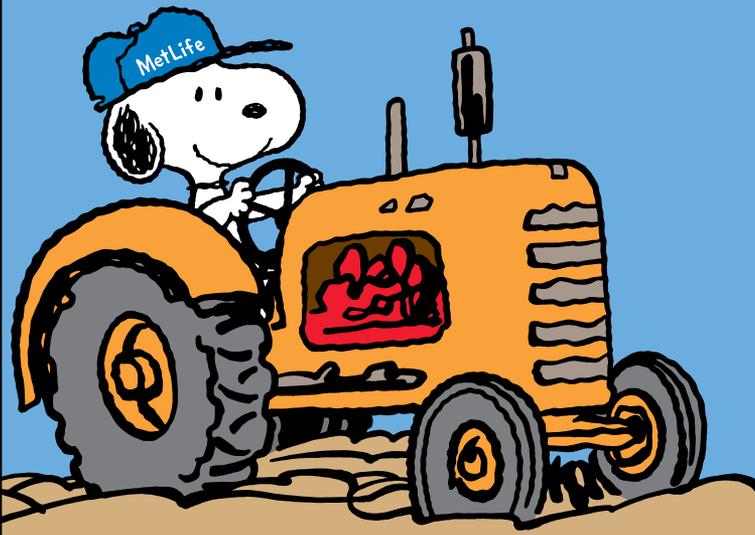
Urner Barry's attendees also had some time to gather for a round of golf at the pristine Bali Hai Golf Course.

The goal of this year's event, to enable attendees to forge new beginnings and manage future expectations, was

met with resounding success. Next year's Executive Conference is being held at ARIA Resort & Casino April 29-May 1, and will build upon this year's educational foundation by further exploring opportunities and novel approaches to success in today's food industry. **UB**



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West Liberty Foods' CEO, Ed Garrett (C) was honored by Urner Barry as the 2017 Poultry Person of the Year. Mr. Garrett holds over 35 years of guidance, vision, knowledge, and expertise in the poultry industry and was recognized for his decade's long efforts and outstanding contributions.



Dr. Dennis Casey, (C) former president of Hy-Line International, was the 31st recipient of Urner Barry's Egg Person of the Year award. During the presentation, Urner Barry's Executive Vice President, Rick Brown, characterized Dennis as "...truly a great person...(who) has been presented with every award in the industry..."



Sunday evening's opening reception was held in near-perfect Las Vegas weather. Enjoying the conference and the climate are (L to R) Rick Wisner, BrucePac; Garry Neal, A & F Exports Inc/Twin Rivers Foods, Inc.; Phil Wilkie, Wayne Farms LLC; and Duane Tipton, BrucePac.



Egg industry professionals are unflappable even when let out of their cages! Perched poolside are (L to R) Paul Garrett, Iowa Cage-Free; Jeff Henning, Henning Holdings, LLC; Del Farrer, Henning Companies; and Steve Walcott, Big Dutchman, Inc.



An outstanding venue coupled with good food and great friends made for a fabulous Monday evening reception. Here undeniably enjoying the festivities are (L to R) Barbara, Gary and Mike West, J.S. West & Company; along with Pete and Belinda Block, Hy-Line North America, LLC.



This foursome knows how to have fun. Enjoying a moment on the green are Ted Seger, Farbest Foods (Bottom), Thierry Murad, AJC International (Left Center), Damian Wells, National Turkey Federation (Right Center) and Phil Seger, Farbest Foods (Standing).



Three wise men, or is it wise guys?! Fancy Foods' Steve Brody (L) and Joe Canossa (C) with Jon Poole of Eastern Quality Foods.



Plenty of turkey talk at this table! Pictured (L to R) LeAnn Stauffenecker, Ron Vilas, Vilas & Company; Jeff Stauffenecker, Protein Alliance; Mike Briggs, Vilas & Company; and April Nicholson, Cargill Protein, Inc.

More photos on next page...

Executive Conference

...continued from page 63



Chicken men were roaming freely among the flock. (L to R) Chris Brakebush, Brakebush Brothers, Inc.; Matt McNulty, Brakebush Irving, Inc.; John Cottrill, Holmes Foods Inc.; Arick Ellis, Vista Food Exchange Inc.; Kip Simpson, Peco Foods; and Cole Everett, Ozark Mountain Poultry, Inc.



We'll just call this one the classic rose... Pictured during Tuesday's closing reception are (L to R) Eduardo Gonzales, Mirasco, Inc. with Wanda and Joel Coleman of Butterball, LLC.



Having an egg-cellent time during Monday evening's egg-ceptional cocktail reception are (L to R) Mike Curtis, Sanovo Technology; Ralph Rindler, Prairie Star Farms; Elliot Gibber, Deb-El Food Products, Inc.; and Janet Rindler.



These guys have the meats! (L to R) Roger Buddig, Carl Buddig & Co., Inc.; Jessica Mendlik, Tyson Foods, Inc.; and Ron Ramstad, Emil's Gourmet.

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What pigs eat matters to millennials

Adapted from a story that originally appeared on Foodmarket.com on January 24, 2017



Cargill Feed4Thought survey finds 43 percent of American millennials and 65 percent of Spanish millennials say pig diets influence pork purchasing decisions

As consumer demand for pork remains high, millennial consumers say that what pigs eat has a strong influence on their pork-buying habits, according to a Cargill Feed4Thought consumer survey.

The survey, which polled more than 2,000 people in the U.S. and Spain, found that 43 percent of American millennials say that a pig's diet influences their purchasing decisions. In Spain, the second-largest pork-producing country in Europe, the number was about 65 percent of millennials.

"Many consumers, millennials in particular, are speaking loudly about the importance of knowing what is on the dinner table and where it came from," said Patrick Duerksen, Cargill global marketing director, pork. "It is important for Cargill and others in the agricultural supply chain to help consumers understand that the pork they eat was produced in a healthy and responsible manner."

The survey found that, overall, one-third of all U.S. consumers (32 percent) say a pig's diet influences their purchasing decisions, as opposed to 60 percent of Spanish consumers. American Baby Boomers and Gen Xers place less importance on the diets of the pigs they consume (32 percent and 26 percent say a pig's diet influences their purchasing decisions, respectively).

In both countries, millennials place the highest importance on pigs' diets, but also have the lowest trust that the pigs they eat

are raised on what they consider a healthy diet. Forty-two percent of American millennials don't trust that their pork is raised on a healthy diet, significantly more than Baby Boomers (32 percent). In Spain, the number jumps to 67 percent of millennials who don't trust diets fed to pigs are healthy.

"The U.S. pork industry works hard to conduct research and improve the nutritional balance of swine diets," said Dr. Chris Hostetler, director of animal science at the National Pork Board. "It is incumbent upon us to raise pigs in a healthy, safe and responsible manner. And that begins with diet and nutrition."

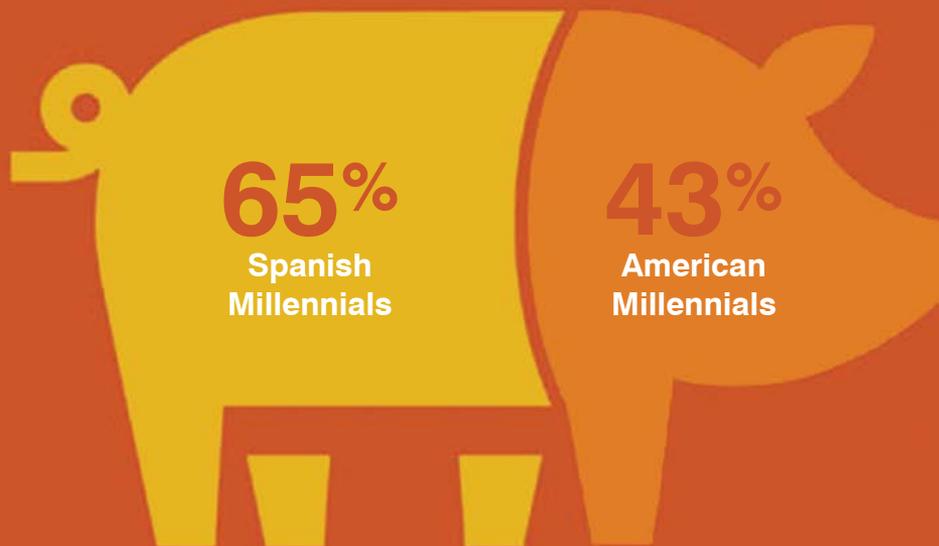
Pig diets largely consist of corn, soybean meal, vitamins and minerals. Beyond those base ingredients, Cargill has developed precise feed formulations with probiotics, antioxidants, and essential oils to promote better gut health, digestion

Feed **4**
Thought

Pork Opinion
Survey

cargill.com/feed

A Pig's Diet Influences Pork Purchases



Millenials say that a pig's diet influences their pork purchasing decisions more than other generations.

Sources: CARAVAN® ORC International Survey and ONLINE CARAVAN INTERNATIONAL® Survey





©lineawolf/home

and metabolism. Just like in humans, gut health in pigs is an important factor in proper nutrition.

“Worldwide, swine nutrition continues to advance, and Cargill’s research on optimal nutrients is at the forefront of feed improvement,” said Brooke Humphrey, global swine technology director for Cargill. “Cargill Animal Nutrition has worked closely with its customers to develop a range of nutrients and feed options, all geared to delivering proper nutrition to help farmers raise healthy pigs.”

As part of its research, Cargill researchers, scientists and nutrition experts conduct hundreds of feed trials each year at its innovation and technical application centers around the world. The trials examine ingredients and feed formulations to determine the best nutritional solutions for pig diets. Through a worldwide database, Cargill is able to leverage research and information across the globe, and formulate diets best suited for raising pigs based on their geography, economics, and nutritional needs.

“Our precision nutrition approach ultimately is more sustainable and lowers the amount of feed and resources needed to raise pigs,” Duerksen said. “Our researchers, scientists and animal nutrition experts continue to dedicate their careers

to providing optimal nutrition options. This is important work that we know can have an impact on meeting consumer demand, but also help us feed a growing global population.”

Additional results of the survey include:

- Ninety-four percent of American consumers eat pork, and 52 percent of them say bacon is their favorite pork product.
- Ninety-eight percent of Spanish consumers eat pork, and 74 percent of them say ham is their favorite pork product.
- Only 10 percent of both U.S. and Spanish consumers have an accurate idea of how much feed it takes to raise a pig to market weight.
- Thirty-seven percent of U.S. millennials think it takes more land and water to raise pigs today than it did 50 years ago. (In fact, a 2012 study by the National Pork Board found that farmers actually use 78 percent less land and 41 percent less water to raise pigs).
- Thirty-nine percent of Spanish millennials think it takes more land and water to raise pigs than it did 50 years ago. **LB**

“Just like in humans, gut health in pigs is an important factor in proper nutrition.”

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Spending some time with...

Carl Wittenburg



Having been raised on the family farm in Wyndmere, North Dakota, and enjoying an early involvement in agriculture through 4-H and Future Farmers of America (FFA), no doubt heavily influenced the rest of Carl Wittenburg's life. From those formative childhood days on the farm to testifying on Capitol Hill, the recently elected 2017 National Turkey Federation Chairman has been busy-very busy. *Urner Barry's Reporter* had the opportunity to catch up with Carl to chat about family, his vision as NTF Chairman and, of course, the business of turkey.

UB REPORTER: Congratulations on being appointed as the National Turkey Federation Chairman at the annual convention this past February. As part of

your "acceptance" speech, the industry heard your motto "Turkey is Family." Can you describe what "Turkey is Family" means to you?

CARL WITTENBURG: Thank you and yes, turkey is family that is for sure. My 3 siblings and I literally grew up in the turkey barns of SE North Dakota in the 1960s and 70s. My father and mother, Wally and Nancy Wittenburg, became active turkey, cattle, and grain farmers in that region with turkey breeder hen production as the core focus. Simple values were instilled upon me at an early age such as embracing a work hard work ethic; being a good listener; always telling the truth; forgiving others; having faith, trusting in the Lord and he will provide.

I started my own turkey farm in 1985 based in Rugby, ND and returned to college in the early 90s to complete my college degree. I met my wife Sharlene in 1991 while she was managing a turkey farm for her father in Northern Minnesota. We married in the fall of 1992 and I found myself surrounded by family members who were fully vested in the turkey industry 24/7, 365 days a year.

Having both my father, Wally, and father-in-law, Glen, as mentors allowed me to learn and understand the turkey industry at an early age. Additionally, I was hired by Hybrid Turkeys in 1992 as their USA Sales Representative, traveling

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the turkey industry not only domestically but also internationally. During my 7 year employment with Hybrid Turkeys I learned every aspect of the U.S. turkey industry, and it drove home the idea that the root to every turkey company is FAMILY!

UBR: Jeff Stauffenecker and you are business partners and started Protein Alliance, Inc. in 1999, can you tell us how Protein Alliance got started?

CW: Jeff and I both have family blood ties to a farmer-owned turkey cooperative processor called Northern Pride, Inc. (NPI) based in NW Minnesota. We were both active in our corporate careers late in the '90s when NPI approached us to come home and sell their turkeys. Initially, we both said "no way." Then after some discussion and strategizing, Jeff and I asked NPI if we could form our own business and be entrepreneurs instead of being employees of NPI. Short version, NPI said yes. Well in May of 1999 we started Protein Alliance with no customers and no guarantee of business. In fact, because of

our quick initial refusal to NPI, they moved forward and formed a partnership with another turkey company, leaving less than 20% of available production for Protein Alliance.

Bottom line, it was the perseverance and vision of the turkey family entrepreneurs that kept us motivated. Leaving very comfortable corporate positions to create a startup company was risky. But the difference in my opinion is how the turkey industry is truly a family and continues to watch out for one another in good times and in bad.

UBR: As current Chairman of NTF, what vision do you have for NTF and the turkey industry moving forward?

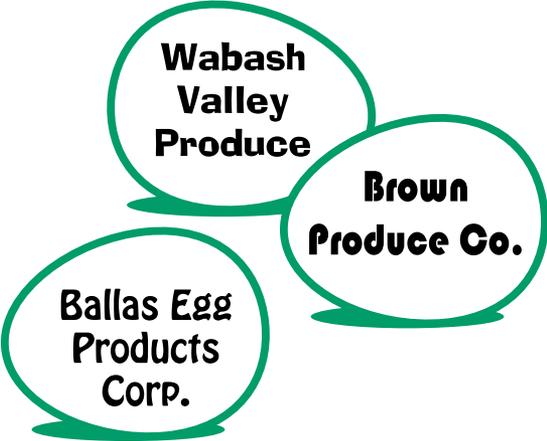
CW: I believe demand for turkey in the diet will grow. Turkey is high in protein and a low fat option for today's consumers. Domestically, we have a greater challenge in putting even more protein in our daily diets, but I believe turkey is becoming better positioned as an everyday, healthy

protein option in the American consumer's eating habits.

The real opportunity is globally. We must remember that less than 5% of the world's population lives in the USA. Disposable incomes are growing in developing countries and the nearly 7 billion people who live outside the United States will continue to consume more and more protein in their diet. The American turkey industry is the leader in production globally and stands to benefit as turkey increasingly becomes part of the worldwide protein movement.

Lastly but by no means least, animal care and food safety are top of mind for all U.S. farm animal producers and affiliated companies. But it's become a political football. If we can remove "politics" from global trade issues and concentrate on the task of feeding people wholesome, nutritious food, provided by healthy, humanely treated animals, agriculture

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Supply

Continued from page 1

total by 1.6 percent while pork production exceeded the 2015 record by 1.8 percent. Not to be left out, total shrimp imports set a new all-time high in 2016 after the year prior came within a half percent of setting the record itself.

For some categories, 2016 saw a marked improvement in production after a turbulent 2015. Table grade egg production, coming off of a supply shock due to the HPAI outbreak, had increased by 8.1 percent between 2015 and 2016 to set a new all-time record high. Beef production in 2015 was the lowest it had been since 1993, and managed to gain 6.4 percent or 1.5 billion pounds in 2016. Young turkey RTC production in 2015 was the lowest it had been since

2005. However, the 2016 total improved by 6.2 percent, making 2016 the second highest yearly total on record (2008 holds the record).

There are certainly many reasons why production of these various proteins increased in 2016. However, one factor shared among all domestic protein markets is that no matter what meat you are concerned with, those animals must eat. Compared to 2015, corn prices in 2016 averaged roughly 7.5 percent lower. Wheat prices were 22 percent lower. Soybeans traded 2.6 percent higher in 2016; however that value was still 24 percent under the 5 year average.

The ongoing response among the various proteins to the rise in production during 2016 and into 2017 is unique in each

situation and will likely be delved into in greater detail within this publication of the Reporter. In 2015, the USDA estimated per capita consumption of red meat and poultry to be 210.8 pounds. That figure increased to 214.6 pounds in 2016 and yet again in 2017 to 217.8 pounds and does not factor in eggs or seafood. That's an increase of red meat and poultry per capita of 3.3 percent over 3 years, again without considering seafood or eggs. Meanwhile, over that same span the U.S. population is only estimated to have expanded by 1.46 percent. This means that each protein market is going to continue to have its work cut out for it in the ongoing competition for the consumer's almighty buck. **UB**

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Wittenburg

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will continue to provide economic growth in America.

UBR: Do you believe the turkey industry has recovered and moved on from the Highly Pathogenic Avian Influenza (HPAI) crisis of 2015?

CW: In simple terms, yes. In a broader and futuristic point of view, no. While much was learned from the 2015 outbreak within

the turkey and egg layer industries, we continue to see HPAI expand and mutate throughout the world in all avian specie groups. I believe we have global issues occurring. Leadership from the expertise of the U.S. poultry industry and from around the world will play a vital role in animal agriculture finding a cure or a prevention plan for HPAI.

Supply interruptions aren't good for any product lines. The turkey and egg industries continue to have what I call "hangover"

effects of the sharp increase in commodity prices resulting from short supplies during 2015, and now are paying the price as supply pipelines continue to rebuild and replenish. Again, I'm optimistic about overall global demand for meat proteins and I believe over the next year or two discipline will be needed in making sure simple economics apply to the global supply and demand balance sheets. **UB**

Article contributed by **Russell W. Whitman**
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Animal welfare standards entrenched a century ago

In today's poultry and egg industries, enriched colonies, free-range and cage-free production may seem like relatively recent developments, but animal welfare standards were well-established a century ago.

In the April 2, 1917 issue of the *Producer's Price-Current*, standards for shipping live poultry were clearly defined. From the methods used to construct the coops and precautionary measures taken to ease transport, to suggestions on minimizing losses and proper feeding techniques, subscriber's to the *Producer's Price-Current* were kept informed of evolving industry animal welfare standards as can be seen in the following notice:

APRIL 2, 1917

SHIPPING LIVE POULTRY

Coops should be high enough to permit the poultry to stand easily upright without bending their legs and with space enough between the slats to pass their heads through. The coops should be strong, but light; heavy wood can be dispensed with if long nails are used. They should not be so large as to be awkward and cumbersome to handle. When large coops are used they should have partitions, so that when the coop is accidentally tilted the whole weight of the poultry will not be thrown upon those at the side and end. The poultry should have plenty of room. Crowding too many into a coop causes loss by suffocation. Only one kind should be sent in a coop when the size of the lot permits dividing the kinds.

FEEDING LIVE POULTRY

All poultry reaching here the following day after shipment should be fed lightly before being placed in the coop, so as to avoid any infringement of the law regarding food in the crops of poultry. Western and southern poultry shipped here is generally sent in car loads, accompanied by a man to feed and water them. The first day or two after the car starts the poultry should be fed lightly; after they have become accustomed to their new quarters the quantity of food may be increased with good results. Over feeding on the start makes the poultry dumpish and sick, from which they do not recover on the journey. **UB**



In the early years, live poultry was often shipped from western points via rail and loaded onto modified wagons like the one shown above.

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