

Market Update

Major Global Factors Influencing the Seafood Industry

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The global economy is a key factor influencing seafood industry dynamics. Raw material shortages, growing demand in China and a sluggish economic recovery are contributing to a transformation of how seafood businesses operate.

RAW MATERIAL SHORTAGES

- Increased global demand has created a shortage of raw materials - especially for wild species. Furthermore, labour shortages in China have significantly reduced plant capacities – forcing companies to place orders many weeks in advance.

CHINA DEMAND

- China's middle-class population is increasing - creating increased demand for seafood (Figure 1). Furthermore, the Chinese Yuan is no longer pegged against the USD – meaning that with a declining USD, domestic sales are becoming more appealing to Chinese processors. This year China is already expected to switch from a net seafood exporter to a net importer.

A SHIFT IN BUYING POWER

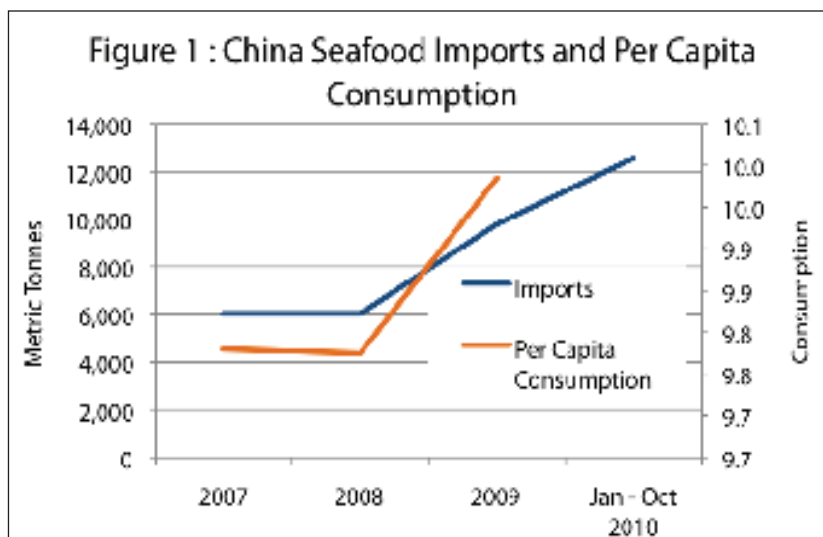
- A weakening USD is diminishing purchasing power for US buyers in relation to global players. As such, US buyers are being forced to turn down high priced product, which is then being sold into European and South American – particularly Brazil – markets.

CASH FLOWS

- Importers and distributors are changing their purchasing habits to minimize risk and maximize cash flow.
- In Europe, importers are shying away from large purchases - 30, 60 and 90 day credit terms are becoming more common and processors are being forced to carry inventory-holding costs.
- In North America, consumer discretionary spending remains low and is impacting restaurant and food-service business. Consequently, the structure of traditional buying programs has changed – distributors are ordering smaller quantities at higher frequencies.

OUTLOOK

- Global fish production is set to reach a new record in 2011 - 149 million metric tonnes - mostly due to growth in aquaculture. However, increasing costs - feed, labour and energy - and growing global demand will keep prices high.
- China's domestic market will absorb a higher proportion of global seafood supplies.
- Distributors will continue consolidating in an effort to obtain economies of scale.
- Successful seafood suppliers will be those that can differentiate and add value to their products.



Source: Gain Report, USDA 2010

