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Japan

Poultry and Products Annual

2014 Market Situation Summary and 2015 Outlook

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Report Highlights:

Japanese production and consumption remain high as imports of raw product from Thailand resume, a major food safety incident in China curbs imports of prepared products from China, and Russia's import bans cast uncertainty on future price offers.

Executive Summary:

Post expects high market prices for beef and pork could persist in 2014, providing a competitive edge to relatively low-priced broiler meat in Japan's increasingly flexible animal protein market. Post projects Japan's 2014 total annual poultry consumption to remain near the 2013 record high level of 2.21 million metric tons (MT). In response to a major food safety incident, a modest number of Japan's traditional poultry end users are cutting back on imports from China. As raw products from Thailand began to arrive in February 2014, a partial shift within Thailand's export lineup away from prepared products towards highly portion-controlled raw broiler meat cuts has begun to emerge. Thailand and Brazil appear likely to compete for Japanese raw broiler meat market share in the years ahead, while Russia's increasing reliance on Brazilian and possibly Thai suppliers could have significant impacts on raw broiler meat price offers in Japan in 2014 and 2015.

Commodities:

Poultry, Meat, Broiler

Production, Supply and Demand Data Statistics:

Broiler PS&D Table

Poultry, Meat, Broiler Japan	2013		2014		2015	
	Market Year Begin: Jan 2013		Market Year Begin: Jan 2014		Market Year Begin: Jan 2015	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Inventory (Reference)	106	132	106	135		135
Slaughter (Reference)	650	654	655	665		665
Beginning Stocks	129	129	102	102		121
Production	1,329	1,337	1,335	1,360		1,360
Total Imports	854	854	865	880		870
Total Supply	2,312	2,320	2,302	2,342		2,351
Total Exports	9	9	10	11		12
Human Consumption	2,201	2,209	2,185	2,210		2,215
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	2,201	2,209	2,185	2,210		2,215
Total Use	2,210	2,218	2,195	2,221		2,227
Ending Stocks	102	102	107	121		124
Total Distribution	2,312	2,320	2,302	2,342		2,351
MIL HEAD, 1000 MT, PERCENT, PEOPLE, KG						

Author Defined:

Preface:

This report is an update to JA 3037 Japan Poultry and Products Annual, dated September 1, 2013 and Post's mid- term revision to the Production, Supply and Distribution (PS&D) numbers submitted in March 2014 to reflect CY 2013 preliminary domestic production, stocks, and imports (reflected in USDA official PS&D numbers below). Forecasted numbers for CY 2014 have been adjusted to reflect actual numbers based on recently published data (Jan. – Jun., 2014). Forecast numbers for CY 2015 are preliminary.

Broilers comprise over 90 percent of Japan's domestic poultry production, with spent hens comprising most of the remainder. Very few other poultry species are produced commercially, with the exception of a limited production of quail for eggs. Total consumption in the PS&D table accounts for domestic broiler meat output (dressed whole bird, bone-in), imported broiler meat (raw meat of bone-in as well as boneless cuts mixed with a high percentage of bone-less cuts), and imported prepared and processed broiler meat products (cooked boneless meat). Stocks data includes domestic poultry meat as well as imported broiler meat (accounting for roughly 70 – 75 percent of total stocks), but does not include imported prepared and processed products.

The quantities discussed in this text use a product weight basis. Conversion rates are not used for domestic broiler or for import (customs cleared weight) numbers in the text, unless otherwise specified.
All supplemental tables in the report are provided for the reader's own analysis.

Broiler:

2014 Market Situation Summary and 2014 Outlook

Japan's April 1, 2014 consumption tax hike (from five percent to eight percent) appears to have stifled household consumption growth for relatively high-priced beef and pork and, to a lesser extent, for relatively low-priced chicken meat (broiler) for the first three months of Japan Fiscal Year (JFY) 2014 (see Table 1). Although the overall impact of the consumption tax hike on meat and meat product consumption cannot yet be ascertained, Post expects high market prices for beef and pork may persist this year, providing a competitive edge to relatively low-priced broiler meat in Japan's increasingly flexible animal protein market. Accordingly, Post expects food service/processing demand to remain solid in 2014.

Given the above, Post projects Japan's 2014 total annual poultry consumption to remain near the 2013 record high level 2.21 million metric tons (MT). This is particularly noteworthy in a year when a major food safety incident in China (which regularly provides 50 percent or more of Japan's prepared poultry products) affected two major Japanese poultry consumers and remained in Japanese headlines for weeks. In response to that incident, a modest number of Japan's traditional poultry end users are rebalancing their poultry imports away from China. However, Post sources indicate that there is limited additional production capacity in Thailand (Japan's other major supplier of imported prepared poultry products), which may create export opportunities for non-traditional poultry exporting countries. Other Japanese poultry end users have begun, albeit on a opt for domestically produced prepared poultry products, using some semi-processed imported raw broiler cuts from Thailand (Note 1 and 2).

> Note 1: In late July 2014, there was a major food safety incident in China, involving alleged misconduct at a Shanghai poultry processing facility owned by a major U.S. corporation. The plant in question allegedly used raw broiler meat and beef, which had exceeded the products' use-by date, in the production of chicken nuggets, hamburger patties, and other products that were widely distributed to major fast food chains restaurants across China and, to a limited extent, in Japan. While several Japanese companies, including major fast retail, convenience, and fast food restaurant chains, had reportedly been sourcing limited volumes of cooked chicken products from the Chinese manufacturer (up to 6,000 MT from July 2013 – July 2014), all have dropped the company as a supplier.
>
> Note 2: Japan lifted its Highly Pathogenic Avian Influenza (HPAI) related import ban on raw poultry meat from Thailand in December 2013. Thailand resumed commercial shipments to Japan for the first time in the past ten years in February 2014.

On the supply side, Japan's 2014 total domestic broiler output is projected to increase slightly to 1.36 million MT (or total culling of 654 million broilers), which would exceed the record high established just the year before. In response to persistent solid market demand, relatively high market prices for domestic broiler meat may continue through 2014 (see Table 2).

The national broiler output for the first half of 2014 reported was modestly higher than the same period of 2013. According to industry sources, large scale domestic integrators (157 of 2,242 total facilities in Japan accounted for 97 percent of total poultry culled in 2013) have been operating at or near maximum capacity this year.

Several market developments may affect Japan's broiler trade outlook in 2014 and 2015. Japan's imports of raw broiler meat cuts rose five percent to 217,680 MT in the first half of 2014 (see Table 4). As imports from Brazil remained flat (192,173 MT), the increase was mainly attributed to Japan's resumed imports of raw broiler cuts from Thailand (9,967 MT) as well as an increase from the United States (13,002 MT, up 27 percent) (see Note 2). Meanwhile, prepared product imports fell modestly first half of 2014 to 199,918 MT, with a 10 percent decline from Thailand (91,221 MT) more than offsetting a six percent increase from China (107,235 MT) (see Table 4-B).

The above results seem to indicate that resumption of Thai raw broiler meat imports has triggered a partial shift within Thailand's export lineup away from prepared products towards highly portion-controlled raw broiler meat cuts. Included among those raw products are cuts marinated with sauces and flavored with seasonings for easy preparation by food service clients and ready-to-eat food businesses. Some Japanese end users prefer to use semi-processed raw broiler cuts to appeal to consumers' preference for freshness. Also, as Thailand resumes raw broiler meat exports to Japan, future competition with Brazil seems imminent and could intensify in 2014; a trade source notes that Brazil remains price competitive. According to trade sources, average monthly entries of Thai raw poultry meat cuts (including semi-processed raw meat) for the rest of 2014 are expected to range between 3,500 – 4,500 MT a month, which will boost Japan's 2014 annual imports from Thailand to around 35,000 MT from nil in the previous year. On the other hand, Brazil's lower export offer prices from the second half of 2013 through 2014 is expected to sustain Japan's 2014 imports from Brazil at nearly same level as the previous year. For prepared products, the same sources are predicting a substantial decline in imports from China associated with the food safety incident discussed earlier (see Note 1).

In light of the above, Japan's 2014 total broiler imports are projected to increase modestly to 880,000 MT. Raw broiler cut imports are projected up by 11 percent from the previous year to 460,000 MT, supported by solid demand from food service and ready-to-eat foods, partially replenishing stocks. Projected imports from Brazil are unchanged at 390,000 MT (85 percent share of the total raw broiler cuts market), imports from Thailand reaching 35,000 MT from nil (eight percent market share), and imports from the United States up by 10 percent to 25,000 MT (five percent market share). Prepared product imports are projected down by five percent to 420,000 MT, with imports from China, down by 10 percent to 200,000 MT (48 percent share of the total prepared products market) and imports from Thailand unchanged from the previous year at 215,000 MT (51 percent market share), partially supported by rebalancing of demand away from Chinese products.

2015 Outlook

Given the limited 2015 market growth outlook projected for beef and pork, Post projects Japan's 2015 demand and supply situation to be similar to that of 2014. A relatively high level of consumption, roughly unchanged from 2014 at 2.21 – 2.22 million MT, could be balanced by an even higher supply of domestic production (projected unchanged from 2014 at 1.36 million MT) and a relatively high level of total broiler imports (projected at 870,000 MT: raw broiler meat marginally lower at 455,000 MT; prepared products also marginally lower at 415,000 MT). Post anticipates raw broiler meat imports making up a larger share of total poultry imports as Japan's food service and ready-to-eat businesses expand use of semi-processed raw broiler meat from Thailand (see 2014 Market Situation and Outlook Section).

It is difficult for Post to anticipate how the one-year import bans on U.S., EU, and Oceania food products announced by Russia in August 2014 will impact trade flows in Japan. Russian increased dependence on alternate suppliers (including Brazil and Thailand) could place significant upward pressure on Brazil and Thai export contract offers for Japan in the remaining months of 2014 and into 2015. And as U.S. suppliers seek alternate buyers, especially for leg quarters (Russia's top poultry import from the United States), it is unclear to what extent Japan may be able to expand imports from the United States, given the U.S. industry's limited ability to supply highly portion-controlled deboned cuts (see Note 3).

> Note 3: In August 2014, Japan announced a revision of its animal health protocol requirements related to Low Pathogenic Avian Influenza (LPAI) for poultry meat, eggs and their products imported from the United States. Though announced on August 22, final details related to the implementation remain unresolved as of the writing of this report. The revision will narrow Japan's current state-based restrictions to a 10 kilometer radius around the location of the LPAI detection. Implementation of the revision is expected to greatly reduce trade disruptions caused by state-wide import bans.

2013 Demand and Supply Situation Summary

Japan's 2013 total domestic broiler consumption was 2.209 million MT, roughly equal to the record level reached in 2012. Consumption was supported by relatively strong retail (see Table 1) and food service demand for relatively low-priced broiler meat. Japan's 2013 total domestic broiler output eclipsed the 2012 record high, climbing up slightly to a new record level of 1.337 million MT (or total culling of 654 million broilers) in response to higher market prices (see Note 4 and Table 2).

With modestly reduced imports from 2012 (raw broiler meat was down three percent at 414,000 MT and prepared products was down two percent at 440,000 MT), and a draw-down of carryover stocks (see Table 3 and 4), the total demand and supply came roughly into balance compared to the 2012 situation (see Note 5). The stocks carried over into 2014 were smaller than the previous year, down 21 percent to 102,000 MT.

Brazil accounted for 93 percent of Japan's 2013 total broiler meat imports and remained the single largest supplier of raw broiler meat (portion-controlled boneless cuts, mainly legs), while China and Thailand held 50 percent and 49 percent share respectively in the supply of prepared products (highly portion-controlled cuts that are cooked). U.S. share in total raw broiler meat imports remained relatively low at six percent (or at 23,000 MT) constrained by its ability to supply portion-controlled deboned cuts for this market.

> Note 4: According to the Ministry of Agriculture, Forestry and Fisheries (MAFF), 2012 market share estimates for poultry consumption are: households at 39 percent (with a large portion of supplies being domestic raw broiler meat cuts, mainly legs , wings and some breast meat); processing at six percent (domestic breast meat/imported raw broiler cuts) and 57 percent for others (mostly for food service and ready-to-eat foods with the majority of

supplies being imported raw broiler cuts/imported prepared products). Reflecting general consumer preference, the market price for domestic boneless leg meat is valued roughly two and half times higher than breast meat. By marketing its low price and health attributes (low fat protein source) retail sales of breast meat have reportedly been rising, creating buying competition between traditional food service and processing users. For example, the 2013 average wholesale price for domestic boneless legs was only four percent higher than the previous year at JP 596 yen/kg, while the price for breast meat was up 32 percent at JP 252 yen/kg (see Table 2).

Note 5: 2012 surplus poultry stocks were balanced by reduced imports of raw broiler meat, given the unexpectedly high imports of prepared products.

Supplemental Tables:

Table 1: Average Monthly Expenditures and Quantities of Selected Commodities Purchased per Household (two or more person household) Year to Date

	Beef				Pork				Chicken			
	Expenditure		Quantity		Expenditure		Quantity		Expenditure		Quantity	
	JP Yen		Gram		JP Yen		Gram		JP Yen		Gram	
2011	18,597		6,782		24,740		18,989		12,802		13,705	
% Chg.	-2%		-2%		3%		3%		3%		0%	
2012	18,173		6,765		23,771		18,770		12,769		14,614	
% Chg.	-2%		0%		-4%		-1%		0%		7%	
2013	19,559		6,894		24,989		19,460		13,260		15,133	
% Chg.	8%		2%		5%		4%		4%		4%	
2013												
Jan.	1,581		600		2,015		1,600		1,077		1,230	
Feb.	1,378		527		1,959		1,551		1,028		1,215	
Mar.	1,616		554		2,113		1,691		1,082		1,262	
Apr.	1,563		563		2,084		1,653		1,077		1,244	
May	1,604		617		2,020		1,597		1,074		1,236	
Jun.	1,581		598		2,022		1,616		1,055		1,318	
2014		% Chg.		% Chg.		% Chg.		% Chg.		% Chg.		% Chg.
Jan.	1,649	4%	549	-9%	2,208	10%	1,673	5%	1,184	10%	1,289	5%
Feb.	1,391	1%	515	-2%	2,200	12%	1,650	6%	1,138	11%	1,231	1%
Mar.	1,602	-1%	534	-4%	2,268	7%	1,723	2%	1,213	12%	1,347	7%
Apr.	1,545	-1%	509	-10%	2,189	5%	1,629	-1%	1,130	5%	1,220	-2%
May	1,813	13%	567	-8%	2,230	10%	1,500	-6%	1,162	8%	1,259	2%
Jun.	1,668	6%	555	-7%	2,246	11%	1,514	-6%	1,139	8%	1,227	-7%
2014 (Jan. - Jun.)	9,668		3,229		13,341		9,689		6,966		7,573	
% Chg.	4%		-7%		9%		0%		9%		1%	
Source: Ministry of Internal Affairs and Communication Bureau												

	Ground Meat				Ham				Sausage			
	Expenditure		Quantity		Expenditure		Quantity		Expenditure		Quantity	
	JP Yen		Gram		JP Yen		Gram		JP Yen		Gram	
2011	1,982		1,892		5,634		3,025		7,099		5,400	
% Chg.	3%		2%		0%		1%		0%		-1%	
2012	1,920		1,860		5,626		3,059		7,076		5,466	
% Chg.	-3%		-2%		0%		1%		0%		1%	
2013	1,952		1,848		5,630		3,007		7,211		5,524	
% Chg.	-3%		-2%		0%		1%		0%		1%	
2013												
Jan.	153		152		326		182		539		414	
Feb.	147		151		303		172		542		428	
Mar.	165		160		352		197		579		460	
Apr.	168		158		368		207		608		469	
May	168		152		404		225		636		505	
Jun.	185		175		514		284		605		480	
2014		% Chg.		% Chg.		% Chg.		% Chg.		% Chg.		% Chg.
Jan.	164	7%	160	5%	342	5%	174	-4%	538	0%	405	-2%
Feb.	168	14%	156	3%	315	4%	165	-4%	548	1%	403	-6%
Mar.	182	10%	164	2%	373	6%	197	0%	622	7%	470	2%
Apr.	187	11%	167	6%	395	7%	210	1%	605	0%	435	-7%
May	186	11%	154	1%	439	9%	241	7%	656	3%	477	-6%
Jun.	195	5%	160	-9%	539	5%	262	-8%	607	0%	452	-6%
2014 (Jan. - Jun.)	1,082		961		2,403		1,249		3,576		2,642	
% Chg.	10%		1%		6%		-1%		2%		-4%	

Source: Ministry of Internal Affairs and Communication Bureau

	Bacon				Yakitori				Cutlet			
	Expenditure		Quantity		Expenditure		Quantity		Expenditure		Quantity	
	JP Yen		Gram		JP Yen		Gram		JP Yen		Gram	
2011	2,429		1,489		1,896				1,548			
% Chg.	7%		8%		8%				8%			
2012	2,398		1,470		1,952				1,587			
% Chg.	-1%		-1%		3%				2%			
2013	2,417		1,476		1,911				1,603			
% Chg.	-1%		-1%		3%				2%			
2013												
Jan.	173		106		140				126			
Feb.	191		120		120				118			
Mar.	221		142		160				134			
Apr.	219		133		159				122			
May	216		137		165				143			
Jun.	212		133		171				146			
2014		% Chg.		% Chg.		% Chg.		% Chg.		% Chg.		% Chg.
Jan.	183	6%	113	7%	129	-8%			140	11%		
Feb.	203	6%	119	-1%	128	7%			123	4%		
Mar.	221	0%	140	-1%	158	-1%			151	13%		
Apr.	223	2%	125	-6%	160	1%			153	25%		
May	227	5%	131	-4%	174	5%			161	13%		
Jun.	212	0%	122	-8%	179	5%			150	3%		
2014 (Jan. - Jun.)	1,269		750		928				878			
% Chg.	3%		-3%		1%				11%			

Source: Ministry of Internal Affairs and Communication Bureau

Table 2: Monthly Average Wholesale Price of Domestic Broiler YTD, Boneless Leg and Breast Meat (Fresh/Chilled)

Unit: JP Yen per Kg.							
Boneless Leg Meat							
	2011	**2012**	**% chg.**	**2013**	**% chg.**	**2014**	**% chg.**
Jan.	707	627	-11%	642	2%	710	11%
Feb.	705	609	-14%	622	2%	682	10%
Mar.	698	594	-15%	596	0%	662	11%
Apr.	700	578	-17%	574	-1%	637	11%
May	696	572	-18%	567	-1%	620	9%
Jun.	659	564	-14%	544	-4%	600	10%
Jul.	625	555	-11%	534	-4%		-100%
Aug.	595	533	-10%	540	1%		-100%
Sep.	599	518	-13%	577	11%		-100%
Oct.	614	537	-13%	615	15%		-100%
Nov.	607	573	-6%	646	13%		-100%
Dec.	602	611	2%	690	13%		-100%
1st Qtr. Ave.	703	610	-13%	620	2%	685	10%
2nd Qtr. Ave.	685	571	-17%	562	-2%	619	10%
3rd Qtr. Ave.	606	535	-12%	550	3%		
4th Qtr. Ave.	608	574	-6%	650	13%		
Year Ave.	**651**	**572**	**-12%**	**596**	**4%**		
Breast Meat							
	2011	**2012**	**% chg.**	**2013**	**% chg.**	**2014**	**% chg.**
Jan.	279	208	-25%	222	7%	265	19%
Feb.	276	190	-31%	210	11%	268	28%
Mar.	273	179	-34%	215	20%	271	26%
Apr.	277	172	-38%	222	29%	272	23%
May	279	171	-39%	231	35%	278	20%
Jun.	266	175	-34%	264	51%	291	10%
Jul.	272	177	-35%	276	56%		-100%
Aug.	273	176	-36%	284	62%		-100%
Sep.	270	182	-33%	282	55%		-100%
Oct.	261	202	-23%	277	37%		-100%
Nov.	249	227	-9%	270	19%		-100%
Dec.	232	235	1%	268	14%		-100%
1st Qtr. Ave.	276	192	-30%	216	12%	268	24%
2nd Qtr. Ave.	274	173	-37%	239	38%	280	17%
3rd Qtr. Ave.	272	178	-34%	281	57%		
4th Qtr. Ave.	247	221	-10%	272	23%		
Year Ave.	**267**	**191**	**-28%**	**252**	**32%**		

Source: ALIC Monthly Statistics

Table 3: Monthly Ending Stock of Poultry Meat YTD

Unit: Metric Ton

	2011	2012	% chg.	2013	% chg.	2014	% chg.
Jan.	111,439	153,923	38%	137,059	-11%	109,646	-20%
Feb.	105,321	152,515	45%	138,905	-9%	109,702	-21%
Mar.	106,385	147,844	39%	137,903	-7%	100,045	-27%
Apr.	105,289	147,708	40%	132,563	-10%	102,887	-22%
May	115,480	155,341	35%	138,047	-11%	109,614	-21%
Jun.	127,292	152,780	20%	138,202	-10%	113,126	-18%
Jul.	136,550	160,545	18%	133,665	-17%		
Aug.	144,085	160,705	12%	131,266	-18%		
Sep.	137,994	153,832	11%	124,553	-19%		
Oct.	137,925	149,564	8%	120,096	-20%		
Nov.	148,184	145,932	-2%	108,073	-26%		
Dec.	147,358	129,057	-12%	101,532	-21%		

Source: ALIC Monthly Statistics

Note: Figures represents poultry meat estimates including spent hens. Over 70 % is imported poultry cuts with the majority being broiler.

Table 4-A: Japanese Imports of Broiler Meat/CIF Price YTD

Unit: Customs Clearance Basis

Partner Country	Calendar Year (Jan. - Dec.)					Year To Date (Jan. - Jun.)		
	2011	2012	2013	% Chg. (2013/12)	2013 Share	06/2013	06/2014	% Chg.
World	471,841	425,306	414,243	-3%	100%	207,294	217,680	5%
Brazil	413,066	387,469	387,202	0%	93%	194,786	192,173	-1%
United States	46,221	29,386	22,460	-24%	5%	10,222	13,002	27%
Philippines	6,869	5,379	3,618	-33%	1%	1,686	2,210	31%
Thailand	0	0	0	n. a.	0%	0	9,967	n.a.
Others	5,685	3,072	963	-69%	0%	600	328	-45%

Source: Global Trade Atlas (Japan Ministry of Finance)

Unit: U.S. Dollars per Metric Ton

Partner Country	Calendar Year (Jan. - Dec.)				Year To Date (Jan. - Jun.)		
	2011	2012	2013	% Chg. (2013/12)	06/2013	06/2014	% Chg.
World	3,476	2,801	2,712	-3%	2,852	2,740	-4%
Philippines	3,915	4,332	4,556	5%	4,708	3,949	-16%
Brazil	3,572	2,816	2,722	-3%	2,869	2,728	-5%
United States	2,592	2,299	2,207	-4%	2,199	2,190	0%
Thailand	0	0	0	n.a.	0	3,405	n.a.

Source: Global Trade Atlas (Japan Ministry of Finance)

Table 4-B: Japanese Imports of Prepared and Processed (Cooked) Broiler Products/CIF Price YTD

Unit: Metric Ton (Customs Clearance Basis)								
Partner Country	**Calendar Year (Jan. - Dec.)**					**Year To Date (Jan. - Jun.)**		
	2011	**2012**	**2013**	**% Chg. (2013/12)**	**2013 Share**	**06/2013**	**06/2014**	**% Chg.**
World	422,724	451,385	439,965	-3%	100%	205,186	199,918	-3%
China	214,998	224,562	220,923	-2%	50%	101,626	107,235	6%
Thailand	203,193	222,019	214,158	-4%	49%	101,509	91,221	-10%
Others	4,533	4,804	4,884	2%	1%	2,051	1,462	-29%

Source: Global Trade Atlas (Japan Ministry of Finance)

Unit: U.S. Dollar per Metric Ton							
Partner Country	**Calendar Year (Jan. - Dec.)**				**Year To Date (Jan. - Jun.)**		
	2011	**2012**	**2013**	**% Chg. (2013/12)**	**06/2013**	**06/2014**	**% Chg.**
World	4,841	4,953	4,834	-2%	4,876	4,716	-3%
Thailand	5,153	5,109	5,095	0%	5,123	4,964	-3%
China	4,553	4,812	4,611	-4%	4,654	4,519	-3%

Source: Global Trade Atlas (Japan Ministry of Finance)