

## Rabobank: Demand for seafood to grow in 2023 despite headwinds and uncertainty

By Jason Holland

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Animal-protein producers, including seafood producers, need to anticipate and adapt to sustainability challenges and disease threats to continue to be competitive in the market long-term, according to an analysis compiled by Rabobank.

The bank's report, "Global Animal Protein Outlook 2023," said that 2022 was a year of rising input prices, supply-chain disruptions, and geopolitical issues – and that 2023 will likely see more of the same. Authored by Rabobank Global Strategist for Animal Protein Justin Sherrard, the report anticipates there will be high costs along the full supply chain and swings in consumption in 2023.

Consequently, margins will be squeezed as buyers push back on higher production costs caused by high feed costs and elevated energy prices.

"It has been a year like no other for the animal protein industry," Sherrard said. "Companies have grappled with rising input prices, supply-chain disruption, and geopolitical strife, many of which are unresolved as we head into 2023. These factors have increased costs across the market, but while prices rise quickly, they tend to fall more slowly."

Rabobank expects prices to remain high in 2023, despite the animal protein market enjoying steady production growth on the back of a growing supply of aquaculture and poultry, he said.

"This masks reductions in the supply of beef due to contraction in the U.S. after years of drought and the weakening pork market in Europe," Sherrard said. "There is then the greater challenge of how animal protein companies approach the next decade of growth, not simply the next year. Structural changes in the market, such as increasing awareness of carbon footprints and a proactive approach to managing disease, offer opportunities for the most forward-thinking companies to invest and prosper. In other words, it is now decision time."

Rabobank expects animal protein producers and processors to intensify their emission-reduction commitments in 2023. This will require greater investment in areas such as smart data to make operations and supply chains more sustainable, it said.

Most successful businesses are also developing more proactive ways of managing disease risks, such as African swine fever and avian influenza. This includes sensors that can recognize unusual animal movements, and predictive technology to limit herd loss.

Companies are also responding to high costs by shrinking packet sizes and reducing ranges, Rabobank said. But companies must also factor in consumer behavior in a recessionary environment – such as the move toward convenience products, like fish fingers and hot dogs, and trading down to less-expensive products, it said.

Total animal protein production levels are expected to increase, with Rabobank's analysts forecasting year-on-year growth in major markets of 5 million metric tons (MT) – or 1 percent – to a total of 430 million MT in 2023. Thus far in 2022, the production growth rate has been 2 percent.

Rabobank also predicts that salmon is set to continue to enjoy strong demand, with weak supply growth supporting prices. Chicken, meanwhile, will benefit from its value proposition against the tough economic backdrop, with the bank forecasting global economic growth of just 2 percent in 2023. Contrastingly, consumers are likely to cut back on more expensive cuts of meats, such as fillet steaks.

According to the report, salmon's position as the top-selling seafood species at retail was strengthened in 2021 and 2022, and Rabobank believes that another switch in salmon consumption from foodservice to retail is possible in 2023.

However, weak supply growth will underpin high prices. The Norwegian government's proposed new resource tax, which would add an additional 40 percent tax on top of the existing 22 percent corporate tax paid by salmon farmers, is contributing to that gap, as it has already caused the postponement of a number of major investment plans.

While the proposal could still be altered before it is introduced by Norwegian parliament in January 2023, Rabobank said if a significant additional tax is imposed on salmon farmers, it will have a "long-term negative effect on growth and innovation in the industry."

Rabobank also predicted global shrimp supply in 2023 is likely to stay strong, despite lower prices and higher costs. This is partly attributed to the predicted continuation of supply growth from Ecuador and Latin America, as well as the expected recovery of China as both a producer and consumer of the product.

*Photo courtesy of Rabobank*



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