

[TURKEY MARKET ADVISORY COMMITTEE (TMAC)]

Quota System: Market, Supply, Policy

TMAC met by video conference on May 30th to review the final supply and disappearance data for the 2021/2022 Control Period based on May 1st inventories and to review the whole bird (WB) and breast meat (FP) market requirements for the 2022/2023 Control Period. Set out below is an overview of the Committee's discussions and forecasts for 2022/2023.

General Market Environment

1. The unemployment rate is forecast to be stable at 5.2% (i.e., the economy is at full employment) for the 2022/2023 Control Period.
2. Inflation (all items) is expected to gradually decline to 3.5% by the first quarter of 2023. However, household incomes are not expected to keep pace with current inflation, which will have an impact on total consumer demand and is expected to result in a shift in consumer spending behaviour.
3. 2022/2023 U.S. corn production is projected to decline by 4.3 percent from the 2021/2022 estimate. Lower production projections are expected to result in tighter supplies and reduced use (minus 3% in the U.S.) for the year. Ending stocks are forecast at 9.3% stock-to-use ratio (1,360 million bushels), down from 9.6%. The season-average farm price for corn in 2022/2023 is projected at \$6.75 per bushel, compared with the current 2021/2022 estimate of \$5.90.
4. World wheat production for 2022/2023 is forecast at 775.0 million metric tonnes, roughly the same as 2020/2021 and down from 779.0 mmt in 2021/2022. Total supply is expected at 1,055.0 mmt down from 1,071.0 mmt last year and 1,074.0 mmt in 2020/2021.
5. Prior to 2021, beef had significant or even dominant share of feature space in supermarket flyers for festive holidays. This added space often took share away from turkey. These beef ads began to notably decline during 2021 due to high beef costs. Furthermore, the competition from beef for retail featuring for the rest of 2022 is expected to continue to be significantly less at festive times, relative to the last few years. Again, this is due to higher beef prices. This should provide opportunity for featuring of lesser cost meat proteins. It should also provide increased opportunities for turkey to regain flyer share.

6. Falling COVID-19 caseloads and easing/removal of public health restrictions should assist the recovery of the foodservice sector. Statistics Canada data for March 2021 (latest) shows total sales were 5% more than March 2019. Data from OpenTable.com, shows that customer traffic levels through the end of May are now significantly exceeding 2019 levels, which is a base year for comparison. Anecdotal information from foodservice distributors indicates that traffic levels have recovered to normal levels.

Turkey-Specific Matters

7. Live turkey prices as of the week of May 23rd were 22.0 cents per kg higher on toms versus the same time last year (2021), and approximately 50.0 cents per kg higher than in 2020. These price increases have a flow through impact on the break-even cost for boneless skinless breast and thigh meat (i.e., every 1 cent increase in the live price results in additional breast meat cost of approximately 5.0 cents per kg, keeping all other factors constant).
8. Compared to the last TMAC meeting in March, it appears that production for the domestic market was 4.1 mkg lower (- 2.7%) than expected, due to avian influenza and quota utilization. As all the data for the 2021/2022 Control Period has not yet been submitted by all Provincial Boards, this figure may change slightly.

Whole Bird (WB) Market

2021/2022 Control Period

In March, TMAC was forecasting WB domestic disappearance for 2021/2022 at 53.5 mkg. Actual disappearance came in at 52.9 mkg (lower by 0.6 mkg or 1.1%). The lower disappearance is likely attributable to lower-than-expected production. Production was forecast at 59.4 mkg and came in at 57.5 mkg (lower by 1.9 mkg or 3.2%). Closing stocks at 9.9 mkg is lower than expected in March (11.4 mkg) by 1.5 mkg or 13.2%.

TMAC is of the view that WB domestic disappearance in 2021/2022 was likely curtailed due to the timing of production (i.e., the late quota adjustment in July of 2021), the Omicron variant at Christmas and other supply related issues (e.g., B.C. flooding and avian influenza). This, therefore, needs to be factored in when forecasting the 2022/2023 Control Period.

The key summary point is that the lower domestic disappearance was not due to decreased demand; instead, the problem was reduced product availability for the market.

2022/2023 Control Period Forecast

TMAC has opted to keep the WB domestic disappearance forecast for 2022/2023 at 54.0 mkg or 1.39 kg per capita.

NOT FOR FURTHER DISTRIBUTION OR USE
WITHOUT PRIOR PERMISSION]

- As noted in February, based on the long run decline in WB domestic disappearance of approximately 2.5 mkg per year, and using 2019/2020 as a reference point prior to COVID (62.1 mkg), TMAC would expect disappearance in the 54.0 to 55.0 mkg range for 2022/2023.
- The WB supply situation in 2021 may have dampened disappearance last year.
- Due to price, the featuring of beef is expected to be less frequent this fall.
- As a percentage of total WB external sales, commodity WB sales now represent 36% of sales down from 60% in 2015/2016.
 - The sale of value-added turkeys (basted, stuffed, fresh, etc.) has increased by 31.6% (+7.0 mkg or 29.0 mkg) since 2015/2016 (22.0 mkg). As the price point for these turkeys are higher than commodity birds, demand may not be as sensitive to price increases.
 - Based on the wholesale price and movement data provided by CPEPC, wholesale prices for commodity WB's increased by 28% between 2020/2021 and 2021/2022; while sales fell by 38%. However, over the same period value-added sales increased in volume by 14%.

The table below illustrates TMAC's WB forecasting for 2022/2023, relative to the March forecast and final 2021/2022 Control Period data.

Based on a total production figure of 54.9 mkg and less exports and basting and stuffing for value-added birds, the **commercial allocation required for domestic WB production is forecast at 48.9 mkg.**

Regarding Easter 2022, TMAC had previously forecasted March/April domestic disappearance at 8.1 mkg and 9.4 mkg for January to April. Actual March/April disappearance came in at 7.5 mkg and 8.9 mkg for January to April.

NOT FOR FURTHER DISTRIBUTION OR USE
WITHOUT PRIOR PERMISSION]

Table 1

	19/20	20/21	March 21/22*	21/22 final	22/23*
	Total	Total	Total	Total	Total
Opening Stocks	18.2	17.3	7.5	7.5	9.9
Production	61.6	51.5	59.4	57.5	54.9
Imports	0.0	0.0	0.0	0.0	0.0
Total Supply	79.8	68.8	66.9	65.0	64.7
Total Disappearance	62.5	61.3	55.5	55.1	56.0
Exports	0.4	1.1	2.0	2.2	2.0
Domestic Disappearance	62.1	60.2	53.5	52.9	54.0
Closing Stocks	17.3	7.5	11.4	9.9	8.8
PCC	1.64	1.58	1.39	1.37	1.39
Stocks to Use %	27.7%	12.2%	20.3%	17.9%	15.6%

*Forecasts. Note: for 2022/2023, a total production figure of 54.9 mkg, less 2.0 mkg for exports and less 7.5% (4.0 mkg) for basting and stuffing equals a domestic commercial allocation requirement of 48.9 mkg.

Further Processed (Breast Meat) Market

2021/2022 Control Period

In March, TMAC was forecasting breast meat domestic disappearance for 2021/2022 at 28.2 mkg. Actual disappearance came in at 27.7 mkg (lower by 0.5 mkg or 1.8%). The lower disappearance is likely attributable to lower-than-expected live production (i.e., under production). Breast meat production was forecast at 26.2 mkg and came in at 25.6 mkg (lower by 0.6 mkg or 2.3%). Closing stocks at 1.2 mkg is slightly lower than expected in March (1.3 mkg).

TMAC is of the view that breast meat domestic disappearance in 2021/2022 was likely curtailed due to lower-than-expected live production. Total eviscerated production that was expected in March to be used for FP in 2021/2022 was 99.8 mkg. Actual production was 97.6 mkg, a difference of 2.2 mkg (2.2%), equivalent to 0.6 mkg of breast meat.

2022/2023 Control Period Forecast

TMAC has opted not to modify the 2022/2023 domestic disappearance forecast of breast meat of 29.5 mkg, from either its February or March reports.

- As noted above, disappearance was likely curtailed in 2021/2022 due to under production.

NOT FOR FURTHER DISTRIBUTION OR USE
WITHOUT PRIOR PERMISSION]

- There appears to be increased demand for breast meat. Domestic disappearance for the control period, despite lower supply, held steady at considerably higher wholesale prices, +\$2.27 per kg or +30%.
 - Frozen breast meat in 2021/2022 traded at higher wholesale prices (+\$2.40 per kg or +35%) on slightly higher volumes (+3%).
- Foodservice sales (volumes, seating) are all well above 2019 benchmarks, which should provide opportunity to move more turkey.
- Higher priced beef should also provide opportunity for turkey.
- Concern expressed that if turkey is not readily available, it will not be featured or placed on menus.

TMAC spent some time discussing the import situation. Given the impact of Avian Influenza (AI) in the U.S. and the very low utilization of Tariff Rate Quota (TRQ) to date (27.2%) relative to last year at this time (54%), the breast meat import forecast is now 0.7 mkg, down from the March forecast of 1.2 mkg. Based on the above factors, the table below illustrates TMAC's breast meat forecasting for 2022/2023, relative to the March forecast and final 2021/2022 Control Period data.

Table 2

	19/20	20/21	March 21/22*	2021/22 Final	2022/23*
	Total	Total	Total	Total	TMAC Forecast
Opening Stocks	2.5	3.5	2.1	2.1	1.2
Production	28.0	25.1	26.2	25.6	28.6
Imports	1.3	1.4	1.2	1.1	0.7
Total Supply	31.9	30.0	29.5	28.8	30.5
Total Disappearance	28.3	27.9	28.2	27.7	29.5
Exports	0.0	0.1	0.0	0.0	0.0
Domestic Disappearance	28.3	27.8	28.2	27.7	29.5
Closing Stocks	3.5	2.1	1.3	1.2	1.0
PCC	0.75	0.73	0.73	0.72	0.76
FP Production	106.8	95.6	99.8	97.6	108.8
¹ Stocks to Use %	12.5%	7.7%	4.6%	4.2%	3.3%

*Forecasts.

Production Forecast: The above production forecast of 108.8 mkg of eviscerated production consists of:

¹ A stocks-to-use ratio measures a commodity's inventory volume at a point in time (e.g., ending stocks for a given Marketing Year (MY)), expressed as a share of the volume of that commodity's total use in that same year.

NOT FOR FURTHER DISTRIBUTION OR USE
WITHOUT PRIOR PERMISSION]

- 16.0 mkg of conditional production under the Multiplier (1.8 mkg), Primary (1.0 mkg) and Export (13.2 mkg) policies; and **94.1 mkg of commercial allocation** being used in 2022/2023 for breast meat production.

Closing Stocks: The above forecast of domestic disappearance (29.5 mkg), production (28.6 mkg of breast from 108.8 mkg of eviscerated production) and imports (0.7 mkg), results in a forecast closing breast meat stock figure of 1.0 mkg.

On the surface, this ending stock level appears low relative to 2021/2022 ending stocks and the discussion by TFC Directors in July 2021 around a 5% or 1.3 mkg stock-to-use ratio. TMAC would like to note the following:

- 1) The potential for higher imports in the last 4-months of the control period (i.e., new TRQ year starting January 1st, 2023).
- 2) Potential for the U.S. to recover more quickly from AI in 2022 (i.e., again for imports to be higher than forecast).
- 3) Depending on the direction of feed costs for the remainder of the year, this may increase breast meat cost and wholesale prices and, by extension, dampen demand.

Therefore, based on the above, TMAC believes there should be wiggle room in this forecast, *if breast meat demand is not as robust as 29.5 mkg*, for the industry to maintain stability with respect to inventory levels and pricing.

Whole Bird and Further Processed Commercial Allocation Requirement

With a forecast WB commercial allocation requirement of **48.9 mkg** and a FP commercial allocation requirement of **94.1 mkg**, TMAC is forecasting a total commercial allocation requirement of **143.0 mkg**. This figure of 143.0 Mkg is the same as the current commercial allocation established by the TFC Directors at the Agency's 268th Meeting of November 24-25, 2021.

Additional Insights

1. TMAC discussed the current availability of fresh breast meat. Breast meat is currently trading over \$12.00 per kilogram and is difficult to source for some further processors. While there was discussion about the possible need to increase the 2022/2023 allocation at this time to address this, it was agreed that as discussed elsewhere in this report, underproduction in 2021/2022, domestic losses from AI and lack of imports from the U.S., are likely the main contributing factors to this situation.
2. Time was spent by the Committee discussing key "risks" to the cost of producing turkey meat (e.g., higher feed costs due to world events, drought, late plantings) and to demand (e.g., warm weather at Thanksgiving, inflation, fuel costs) over the next 12-months.

NOT FOR FURTHER DISTRIBUTION OR USE
WITHOUT PRIOR PERMISSION]

3. Due to AI domestically, approximately 1.9 mkg of eviscerated production has been impacted in the current 2022/2023 Control Period (i.e., through May, June and July).
4. As noted above at numerous points in this report, the reduced disappearance has been attributed to reduced availability, as opposed to weaker consumer demand. There has been concern expressed that reduced availability could in turn result in a decrease in consumer demand. That is, reduced availability leads to reduced featuring, reduced shelf space and menu offerings.

NOT FOR FURTHER DISTRIBUTION OR USE
WITHOUT PRIOR PERMISSION]