

Alaska Seafood COVID-19 Briefing Paper

October 2020 Edition



Prepared on behalf of the Alaska Seafood Marketing Institute by McKinley Research Group (formerly McDowell Group), this series of briefing papers is intended to provide information on the depth and breadth of the pandemic's effects on Alaska's seafood industry.

Highlights

- Compared to prepandemic levels, U.S. grocery store spending in August 2020 is up 9%, while spending at foodservice and drinking places is down 17%, according to data from U.S. Bureau of Economic Analysis (BEA). Scanner data from IRI has seafood enjoying the largest bump in sales among all grocery categories, up 32% in early September compared to the same month in 2019. All types of seafood are driving this increase, especially frozen seafood.
- The pandemic has hit full service restaurants the hardest, and sped up the adoption of quick service, take out, and delivery options, among other changes. BEA data indicates that spending at U.S. full service restaurants was down 25% in August 2020 compared to the same month in 2019, while spending at "limited service eating places" was only down 1%.
- Prices for farmed salmon fell to a six-year low this spring as the pandemic shut down restaurants and foodservice outlets – traditionally the dominant channel for the product. Farmed salmon was shifted into retail outlets, pushing prices low as supply exceeded demand. While prices have normalized in subsequent months, they remain low and exposed to renewed foodservice shutdowns as COVID cases rise in many parts of the U.S. and Europe this fall and winter. Low farmed salmon prices put downward pressure on other seafood, especially sockeye salmon.
- Although Alaska Department of Fish & Game (ADF&G) and International Pacific Halibut Commission surveys were conducted successfully this summer, federal fisheries surveys were canceled due to the pandemic (except for a saildrone pollock survey). In general, logic suggests missed surveys will lead to more conservative TACs in 2021 than otherwise. A [NOAA analysis](#) identifies Pacific Ocean perch, Atka mackerel, snow crab, and Pacific cod as the species likely to be most impacted.
- ADF&G released a draft spending plan for \$50 million in CARES Act aid to the Alaska seafood industry. Federal eligibility requirements, however, require a 35% loss in revenue – not a great match with those businesses that incurred significant expenses to keep operating, and generating revenues, in 2020.
- The 2020/2021 snow crab TAC has been set at 45 million pounds, up 32% from the previous year's harvest. Snow crab markets are currently very strong, despite the traditional reliance on foodservice, a

These briefings are informed by ongoing interviews with stakeholders and quantitative data when possible. The impacts of the pandemic are still unfolding and little direct data is currently available to provide measures of those impacts. In some instances, the best available information may be anecdotal and subject to change. In addition, isolating pandemic-induced effects from other resource and market forces is not always possible. The authors welcome feedback at seafood@mckinleyresearch.com

sector that has weakened considerably during the pandemic. Some market observers attribute the strong crab markets to relative ease of switching crab clusters (the primary snow crab product) from foodservice to retail and firm market position due to strong marketing.

- Most salmon permits have declined substantially in value in 2020. Britsol Bay drift; Southeast drift and seine; and Prince William Sound drift and seine permit values all declined by more than \$15-20,000. Kodiak and Area M permit values, on the other hand, have been relatively stable.
- IFQ values for both halibut and sablefish have trended lower for several years with pandemic-induced disruptions continuing the trend. For example, Area 2C halibut IFQ prices exceeded \$70 per pound in 2017; this month, shares are trading in the \$40-\$50 range.
- August Alaska seafood export volume was down 38% compared to the same month in 2019 – primarily driven by exceptionally low salmon harvests and slower fishing/lower yields in the pollock B season. Supply constraints are supporting firm to strong prices for these species this fall and into 2021.

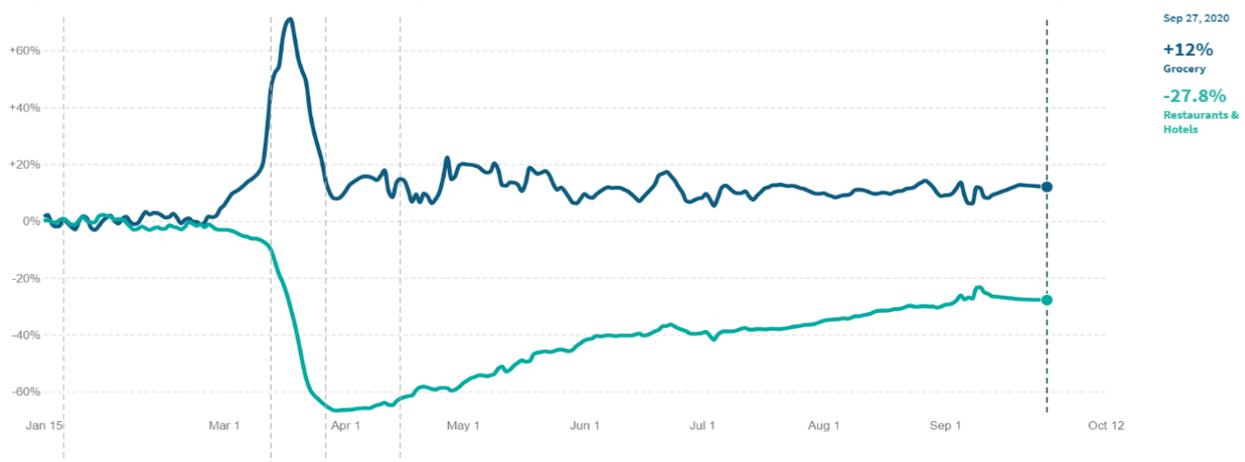
Special Topics

Retail Sales Trends

The seafood industry is currently adapting to some of the most dramatic demand shifts seen in generations. Prior to the pandemic, more than half of food dollars in the United States were spent on food consumed outside the home. As the pandemic spread, most restaurants and foodservice establishments closed, and consumers raced to grocery stores to stock up on food and other staples.

According to data from Opportunity Insights (Figure 1), spending spiked 60-70% at grocery stores during the stock up period. These spending levels dropped quickly but still have not returned to pre-pandemic levels, instead stabilizing at around 12% above the previous year. Restaurant/hotel spending dropped by more than 60% as the pandemic hit and remains at roughly 28% below 2019 as of late September. These data are similar to recently released data from the U.S. Bureau of Economic Analysis which has August 2020 sales up 9% at grocery stores compared to February, while spending at foodservice and drinking places is down 17% over the same time period.

Figure 1. U.S. Consumer Spending on Grocery and Restaurants/Hotels, Percent Change since January

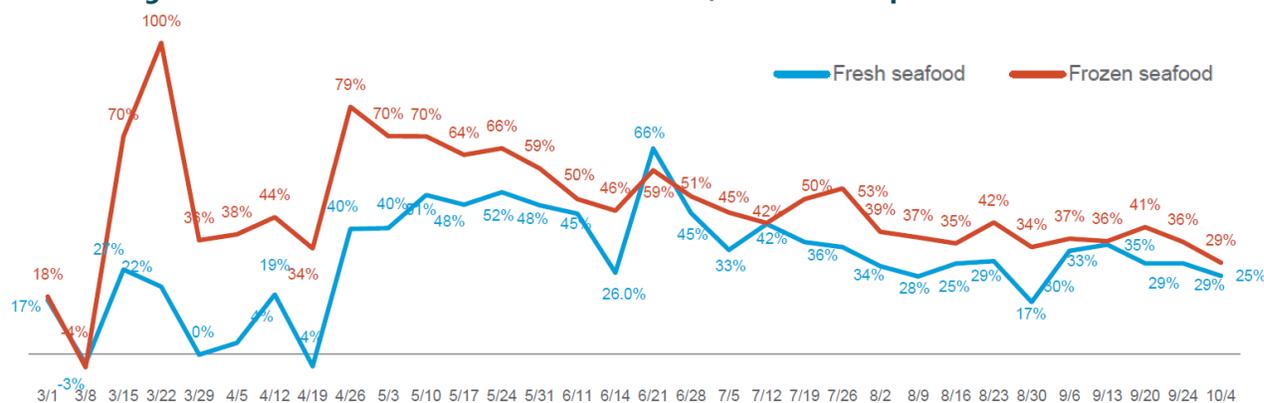


Source: Opportunity Insights, tracktherecovery.org.

Within groceries and other similar outlets, seafood is the fastest growing category this summer, according to multiple data sources and interviews with market participants.

- As of early September, retail scanner data from IRI has seafood sales up 32% compared to the same week in 2019. Similar data from Nielsen has seafood sales up 28% YTD through August. Both data sources have seafood at the top of all grocery categories, followed by meat. These trends match those described by grocery store managers interviewed.
- All types of seafood are driving the increase, especially frozen seafood, according to retail data from IRI. While frozen seafood peaked dramatically during the stock up period early in the pandemic, fresh sales have also grown and both are up 25-29% as of early October.

Figure 2. Fresh and Frozen Seafood Retail Sales, 2020 vs. Comparable Week in 2019



Source: IRI. Note: Total US, multi outlet.

- A prominent frozen seafood product manufacturer estimates that 2.5 million more households have purchased their products this summer.
- Production data from Alaska’s pollock sector indicates very strong demand for minced fish. Even with lower harvest volumes, YTD pollock mince production through September is up 28% over the same period in 2019. Minced fish is used in fish fingers/sticks and other similar frozen seafood products.
- Stories continue to surface about direct to consumer successes fueled by pandemic dynamics. U.S. e-commerce spending has increased 21% from February to August 2020, according to BEA. IRI scanner data has ecommerce sales of both frozen and shelf stable seafood doubling in 2020.

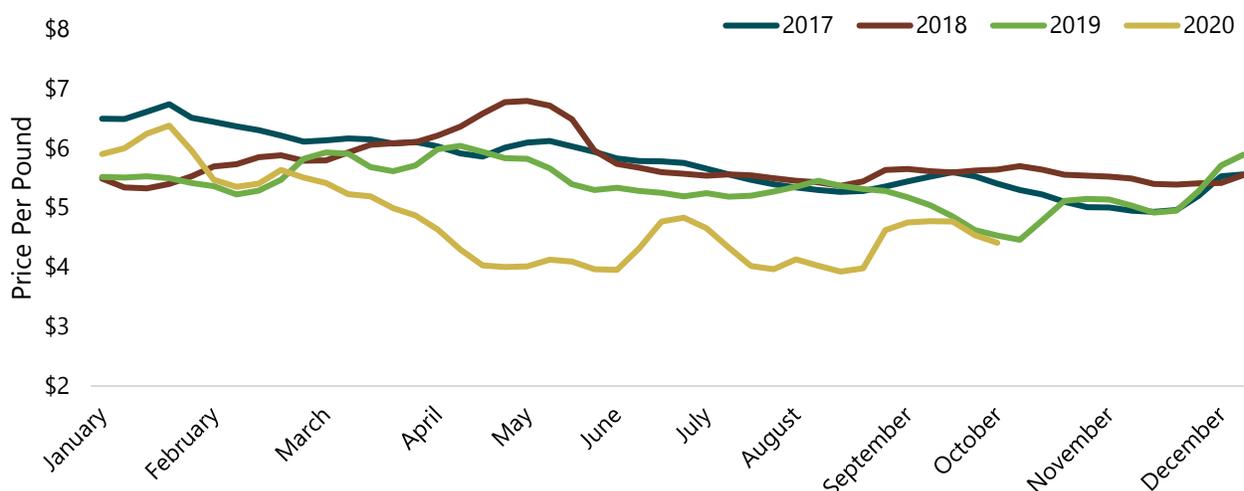
Retail seafood spending is thought to be increasing as a result of consumers prioritizing healthy foods, seeking to replicate restaurant meals at home, and spending money saved from reduced travel and other discretionary activities. The seafood industry is working to ensure this new interest and experience in seafood translates into a long-term increase in seafood consumption.

Salmon Market Factors

Prices seen for Alaska salmon are heavily influenced by dynamics in competitor countries and regions, as our state contributes less than 10% of the global wild and farmed salmon production volume in a typical year.

Prices for farmed salmon fell to a six-year low this spring as the pandemic shut down restaurants and foodservice outlets – traditionally the dominant channel for farmed salmon sales. Farmed salmon was shifted into retail outlets, pushing prices low as supply exceeded demand. While prices have normalized in subsequent months, they remain low and exposed to renewed foodservice shutdowns as COVID cases rise in many parts of the U.S. and Europe this fall and winter. Low farmed salmon prices put downward pressure on other seafood, especially sockeye salmon.

Figure 3. Urner Barry Fresh Farmed Salmon Index, 2017-October 2020



Source: Urner Barry.

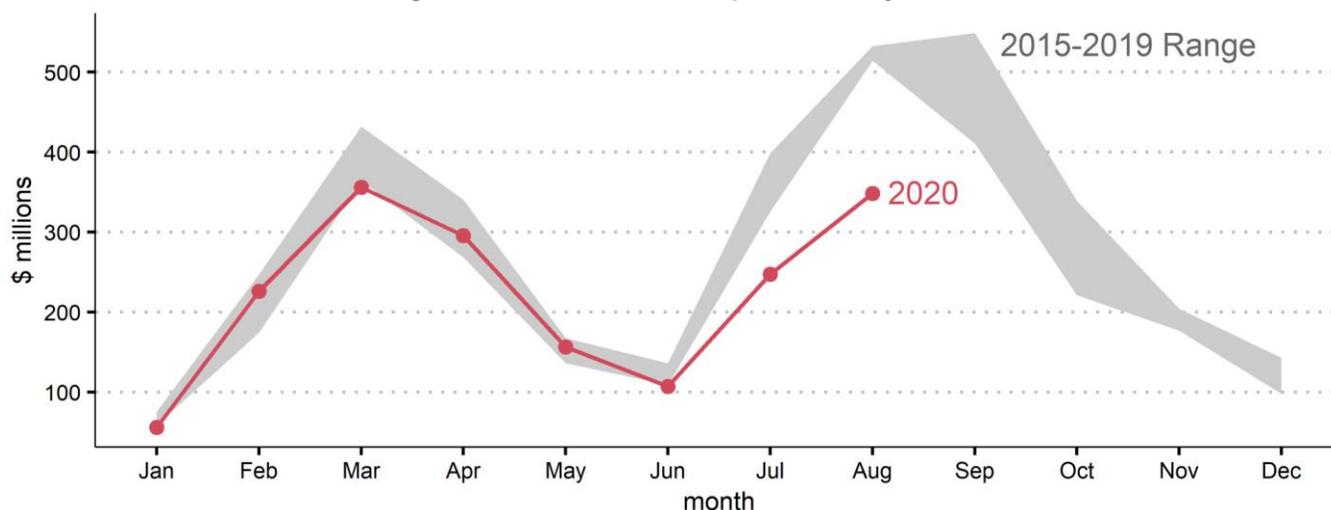
After weak harvests in Alaska and Russia this summer, wild salmon supplies are tight, especially for pink salmon. In the first months of the pandemic, export prices for frozen H&G pink salmon were near multi-year lows, but as weak runs materialized prices climbed more than 66% for both Alaska and Russian pink salmon by August. A similar, but more muted, scenario has played out for sockeye, with Alaska’s frozen H&G export prices up 12% since May. As previously mentioned, sockeye salmon compete more directly with farmed salmon than other salmon species.

Alaska Seafood Export Value Down Significantly in August

In August, the export value of Alaska seafood was down roughly a third from August 2019, and well below the range seen in recent years for what is typically a peak month. The data indicate that decreased export volumes (down 38%) are the primary driver of the August drop in export value, as average value/metric ton was up 9% over August 2019.

Within seafood species, the most significant volume drops were seen in salmon and Alaska pollock. Salmon export volumes are down due to harvest volumes in summer 2020 that were among the lowest in decades. Alaska pollock export volumes are down due to slower fishing and lower yields in the pollock B season.

Figure 4: Alaska Seafood Export Value by Month



Source: US Census Bureau, compiled by McDowell Group.

China Import Delays

While maritime shipping has generally proven reliable throughout the pandemic, moving seafood product into China has grown increasingly difficult and uncertain. Not limited to seafood from Alaska, these challenges have impacted China seafood imports from Norway, Russia, Peru, and many other countries. The Chinese market is particularly relevant to the Alaska seafood industry as it is the state's largest trading partner with exports valued at \$700 million in 2019.

Allegations of COVID-19 contamination on seafood and seafood packaging have caused Chinese authorities to increase inspections and suspend imports in some cases. While the evidence supporting the contamination claims is lacking, increased inspections have resulted in delays of up to 25-30 days for the seafood industry and significant demurrage fees. The impact of these delays on the Alaska seafood industry will become clearer with time, but any increased costs and logistical challenges are coming on top of an already difficult year for processors and distributors.

Industry Insights

The following are paraphrased comments representative of interviews conducted with a broad range of stakeholders including harvesters, processors, shippers, community leaders, and major seafood buyers.

Shopping frequency is down but we're seeing bigger baskets. Seafood sales are up 20% over last year – the strongest I've ever seen. We see this as a new normal, with more people cooking seafood at home. We always sell a lot of salmon but this year we're selling more halibut, king crab, and other species too.

-Retail Contact

Maintaining the morale of our workers has been one of the most prominent difficulties experienced during the pandemic. Instead of flying home every few months, our folks have limited travel to reduce the possibility of disease transmission. We do what we can to keep everyone encouraged, but it is a tough situation.

-Unalaska Seafood Logistics/Transporter

Our supply chains are very uncertain right now because of the difficulty associated with getting product into China. We try to plan ahead but the situation changes daily.

-Amendment 80 Catcher-Processor

Pollock markets haven't been as affected by COVID as other groundfish like cod and flatfish. The main issue right now is tight supplies due to slower fishing and smaller fish this summer – markets are grappling with this and trying to figure out supply and demand. Long term contracts for pollock fillet blocks insulates us somewhat. Surimi is sold more season to season, and negotiations took longer this season.

-Alaska Pollock Catcher-Processor
