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Japan

Poultry and Products Annual

2016 Market Situation Summary and 2017 Outlook

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Report Highlights:
Japan’s 2016 broiler meat production, consumption and importation are on pace to break record highs established in 2015. Increased domestic production and imports of raw broiler meat in the first half have outpaced modest consumption growth, driving significant accumulation of broiler meat stocks. With ample broiler meat supply available and stiff competition from equally ample pork supplies, Post projects Japan’s broiler imports to taper in the second half of 2016. Domestic producers have shown no indications of moderating current high levels of production, as lower feed costs are keeping domestic producers’ profit margins positive in 2016, despite mounting downward pressure on prices. Post expects Japanese consumption and production to remain high in 2017; import levels should moderate as industry unwinds sizeable year-beginning broiler meat stocks.
Keywords: Japan, Poultry, Broiler

Executive Summary:

2016 Production, Imports, Consumption Break Previous Year's Record Highs

Japan's broiler market is on pace to set new record highs for domestic broiler meat production (projected up two percent to 1.44 million MT), total consumption (up two percent to 2.635 million MT), and imports (up one percent to 945,000 MT) in 2016, breaking record high levels set in 2015. Japan's broiler meat supply and consumption have grown briskly through the first half of 2016. However, Post anticipates that high 2016 year-ending stock levels (projected up 15 percent to 157,000 MT) and ample supplies of competing proteins in the market could weigh down 2017 production, import, and consumption numbers as the market begins to unwind stocks and as broiler meat competes fiercely for consumer protein spending.

Commodities:

Poultry, Meat, Broiler

Broiler PS&D Table

Poultry, Meat, Broiler	2015		2016		2017	
Market Begin Year	Jan 2015		Jan 2016		Jan 2017	
Japan	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Inventory (Reference)	137	137	137	134	0	133
Slaughter (Reference)	665	667	665	680	0	675
Beginning Stocks	118	118	137	137	0	157
Production	1390	1413	1395	1440	0	1430
Total Imports	936	935	910	945	0	905
Total Supply	2444	2466	2442	2522	0	2492
Total Exports	9	12	9	12	0	12
Human Consumption	2298	2317	2298	2353	0	2343
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	2298	2317	2298	2353	0	2343
Total Use	2307	2329	2307	2365	0	2355
Ending Stocks	137	137	135	157	0	137
Total Distribution	2444	2466	2442	2522	0	2492
(MIL HEAD) ,(1000 MT)						

Preface:

This report is an update to JA5030 Japan Poultry and Products Annual, dated September 1, 2015. Data have been adjusted to reflect recently published actual numbers including full calendar year 2015 and the first half of calendar year 2016 (January – June); all references to years in this report will be calendar year unless otherwise noted.

Broilers comprise over 90 percent of Japan's domestic poultry meat production, with spent layer hens comprising most of the remainder. Very few other poultry species are produced commercially. 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 boneless cuts), and imported prepared and processed broiler meat products (cooked boneless meat). Stocks data includes domestic broiler 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.

A Note on General Consumption Patterns in Japan: The Ministry of Agriculture, Forestry, and Fisheries (MAFF) estimates that households (as measured by retail consumption data) consume approximately
40 percent of total broiler meat in Japan. Food service, ready-to-eat food businesses, and other institutional end-users (including catering, central kitchens, etc.) consume over 50 percent, with the remaining volumes utilized for processed products. While Japanese domestic chilled raw broiler meat dominates the retail market, imported raw broiler meat and cooked prepared products are extensively used in food service, ready-to-eat food businesses, and other institutional users.

The quantities discussed in this text are on a product weight basis. Conversion rates are not used for import numbers, which are reported as customs cleared weight.

Broiler:

2016 Market Situation Summary and Update

High Demand, Lower Feed Costs Push Domestic Production to New Record High

Japan's Agriculture & Livestock Industry Corporation (ALIC) estimates that domestic poultry production over the first half of 2016 expanded an additional three percent over the same period in 2015 to 796,001 MT (inclusive of a small volume of spent layer hen meat, but over 90 percent of the volume reported is broiler meat). Higher domestic production levels and higher import volumes suppressed market prices for domestic broiler meat, driving the farm gate price of live broilers modestly lower over the first half of 2016 to 2,233 Yen/10 kg (down two percent from 2015). However, domestic producers have shown no signs of reducing production as lower feed costs over the same period have sustained producer profit margins. According to MAFF data, the average price of formula mixed feed for broilers over the first half of 2016 fell eight percent to 70,773 Yen/MT, on ample global grain supplies (especially U.S. corn) and the Yen's relatively stronger valuation against the Dollar.

Taking into account ALIC's third quarter forecast of domestic production (up three percent) and assuming a sustained moderate increase in production over the fourth quarter, Post projects Japan's total domestic broiler production to reach another record high in 2016, growing
two percent to **1.44 million MT**.

Solid Consumer Demand Drives Total Consumption to New Record High

After setting a new record high for broiler meat consumption in 2015, Japanese consumption expanded even further over the first the first half of 2016. As increased supplies placed downward pressure on prices for domestic chilled broiler cuts across the board, household consumption over the first six months of 2016 grew by four percent, while household expenditures grew by only one percent (see Table 1). Precipitous declines in wholesale prices for domestic chilled breast meat (down 21 percent to 266 Yen/Kg), compared to negligible declines for domestic chilled boneless leg meat (down 1 percent to

664 Yen/Kg) over the same period, point towards Japanese consumers continued strong preference for leg meat cuts (see Table 2).

However, relatively abundant supplies of pork (both domestic and imported) at lower prices (again, both domestic and imported) should continue to fuel intense protein sales competition throughout 2016. Competition notwithstanding, Post projects Japanese total 2016 broiler meat consumption to rise two percent to **2.353 million MT**, on ample supplies and lower price offers.

Growing Stocks to Curb Raw Broiler Meat Imports in Fourth Quarter

Through the first six months of 2016, Japan's raw broiler meat imports rose 12 percent over 2015 levels to 279,071 MT, with Brazil claiming 80 percent of the market (up 14 percent to 222,095 MT) followed by Thailand at 9 percent (up 9 percent to 44,785 MT). The relative strength of the Yen against the Brazilian Real helped maintain downward pressure on Brazil's price offerings, driving Japanese importers to continue to import despite a growing surplus. The average price of imported Brazilian cuts (mostly frozen boneless leg) fell 25 percent to $2,583 dollars/MT for the first half of 2016 (see Table 4-A). Over the same period, Japan's imports of cooked prepared broiler meat were up five percent to 194,188 MT (see Table 4-B). According to trade sources, Japanese demand for raw broiler meat is relatively decoupled from demand for cooked prepared broiler products, which face stronger competition from ready-to-eat pork dishes sold at retail and convenience stores.

Anticipating that continued imports would result in the accumulation of even more sizeable stocks, importers reportedly began curbing orders from Brazil as early as June (orders from Brazil generally arrive in Japan two months later). The latest ALIC forecast for raw broiler meat imports in the third quarter (July – September) of 2016 envisions a substantial drop, down eight percent, driven by substantially lower volumes from Brazil in September (down nearly 30 percent). Raw broiler imports from Brazil are projected to remain lower in the fourth quarter on rising Brazilian price offers. Trade sources indicate that imports of raw broiler meat from Thailand in the second half of 2016 are expected to be moderately higher than first half import levels, despite relatively high price offers. The anticipated increase in imports from Thailand is not expected to offset overall declines anticipated over the second half of 2016.

Post projects Japanese 2016 total broiler imports to reach another record high at **945,000 MT**, slightly higher than the 2015 record. Raw broiler meat imports are projected up two percent to **540,000 MT**, with Brazil-origin product up three percent to 420,000 MT (78 percent import market share) and Thailand-origin product also up three percent to 95,000 MT (18 percent share). Imports of cooked prepared broiler products are projected to remain nearly unchanged from 2015 at **450,000 MT**, with Thailand-origin products up slightly to 235,000 MT (58 percent import market share) and China-origin products modestly lower at 165,000 MT (41 percent share).

Stocks Continue to Climb in Spite of Abundant Supply

Despite unprecedented consumption levels, broiler meat stock levels have continued to rise as domestic broiler production expanded and raw broiler meat imports, especially from Brazil, grew substantially over the same period. Climbing above already high year-beginning stock levels of 137,396 MT, monthly ending stocks increased to 167,880 MT in June (up 36 percent over June 2015 monthly ending stock levels), with imported stocks at 141,448 MT (84 percent of total) and the remainder in domestic stocks at 26,432 MT (see Table 3). The considerable accumulation of stocks over the last twelve months is largely attributed to the pitched import volumes of Brazil-origin raw broiler meat through the first six months of 2016. Post projects substantially higher 2016 year-ending stocks at **157,000 MT**, up 15 percent from the year beginning (see Note 1).

> Note 1: The 2016 supply-demand imbalance resembles market conditions in 2008- 2009. In 2008, Japanese importers accumulated significant surplus stocks of imported raw broiler meat from Brazil. Imports from Brazil then fell markedly in 2009, dragging down total import levels, as the Japanese industry unwound accumulated stocks. It wasn't until 2010 that import levels bounced back, to equilibrate the supply-demand balance.

2017 Outlook

Japanese Consumption, Production Remain Strong; High Stocks Dampen Import Demand

Post projects that 2017 total broiler meat consumption will remain high, but marginally lower than 2016 at **2.343 million MT**. Consumption is expected to be supported by solid sustained consumer demand and continued competition for consumer spending on proteins. As the market continues to draw down considerable year-beginning stocks (mostly from Brazil) through the first half of 2017, and possibly longer, Post projects total 2017 broiler meat imports to decline from the 2016 record highs, falling four percent to approximately **905,000 MT**.

Post projects that imports of raw broiler meat will lead the downward trend, contracting seven percent to 500,000 MT in response to relatively flat demand from the food service sector. However Post anticipates imports of cooked prepared broiler meat products to remain unchanged in 2017 at 405,000 MT, based on continued solid demand from ready-to-eat and institutional end-users. Within the cooked prepared product segment, trade sources anticipate that China-origin products will begin to regain market share in 2017 as Japanese end-users put to rest food safety concerns associated with a 2014 scandal involving cooked prepared broiler products imported from China.

Japanese domestic broiler production is projected marginally lower at around **1.43 million MT** as domestic producers respond to more than ample supplies of broiler meat. These supplies, coupled with chilled pork (for retail consumption) will lead to continued competition in the protein segment, placing further downward pressure on prices. As a result of import moderation and continued high levels of consumption, Post projects 2017 year-ending stocks to shrink by 13 percent to **137,000 MT**.

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 (JP Yen)	Quantity (Grams)	Expenditure (JP Yen)	Quantity (Grams)	Expenditure (JP Yen)	Quantity (Grams)
2011	18,597	6,782	24,740	18,989	12,802	13,705
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%
2014	21,120	6,584	27,622	19,288	14,527	15,491
% Chg.	8%	-4%	11%	-1%	10%	2%
2015	21,125	6,208	29,713	19,869	15,307	15,691
% Chg.	0%	-6%	8%	3%	5%	1%

	Beef				Pork				Chicken			
	Expenditure (JP Yen)		Quantity (Grams)		Expenditure (JP Yen)		Quantity (Grams)		Expenditure (JP Yen)		Quantity (Grams)	
Jan.	1,843	4%	515	-4%	2,575	6%	1,739	8%	1,336	8%	1,335	6%
Feb.	1,650	11%	503	6%	2,492	5%	1,684	7%	1,292	5%	1,310	2%
Mar.	1,737	8%	523	8%	2,474	-1%	1,779	7%	1,302	1%	1,433	7%
Apr.	1,733	6%	527	9%	2,404	-2%	1,689	2%	1,226	-5%	1,303	-1%
May	1,839	3%	517	-9%	2,425	-1%	1,651	1%	1,253	1%	1,331	5%
Jun.	1,648	7%	503	3%	2,317	-6%	1,657	0%	1,154	-5%	1,326	3%
2016 YTD	10,450		3,088		14,687		10,199		7,563		8,038	
% Chg. (1st Half 2016/2015)	6%		2%		0%		4%		1%		4%	

Source: Ministry of Internal Affairs and Communication Bureau

	Ground Meat				Ham				Sausage			
	Expenditure (JP Yen)		Quantity (Grams)		Expenditure (JP Yen)		Quantity (Grams)		Expenditure (JP Yen)		Quantity (Grams)	
2011	1,982		1,892		5,634		3,025		7,099		5,400	
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%	
2014	2,256		1,912		5,833		2,891		7,467		5,371	
% Chg.	16%		3%		4%		-4%		4%		-3%	
2015	2,430		1,871		5,807		2,863		7,189		5,132	
% Chg.	8%		-2%		0%		-1%		-4%		-4%	
	Ground Meat				Ham				Sausage			
	Expenditure (JP Yen)		Quantity (Grams)		Expenditure (JP Yen)		Quantity (Grams)		Expenditure (JP Yen)		Quantity (Grams)	
Jan.	199	8%	157	3%	356	8%	177	0%	559	-2%	395	1%
Feb.	205	6%	159	7%	315	-2%	156	-4%	583	0%	414	5%
Mar.	218	11%	167	14%	346	-4%	185	4%	616	-3%	428	-3%
Apr.	216	4%	162	-1%	361	-7%	173	-13%	620	-5%	441	-1%
May	220	6%	176	11%	415	-6%	208	-5%	662	2%	464	5%
Jun.	212	-1%	157	-4%	484	-1%	256	6%	595	-4%	430	-2%
2016 YTD	1,270		978		2,277		1,155		3,635		2,572	
% Chg. (1st Half 2016/2015)	6%		5%		-2%		-2%		-2%		1%	

Source: Ministry of Internal Affairs and Communication Bureau

	Bacon				Yakitori				Cutlet			
	Expenditure (JP Yen)		Quantity (Grams)		Expenditure (JP Yen)		Quantity (Grams)		Expenditure (JP Yen)		Quantity (Grams)	
2011	2,429		1,489		1,896				1,548			
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%			
2014	2,601		1,479		2,012				1,746			
% Chg.	8%		0%		5%				9%			
2015	2,655		1,481		2,157				1,870			
% Chg.	6%		5%		-2%				-2%			
	Bacon				Yakitori				Cutlet			
	Expenditure (JP Yen)		Quantity (Grams)		Expenditure (JP Yen)		Quantity (Grams)		Expenditure (JP Yen)		Quantity (Grams)	
Jan.	184	-6%	104	-10%	146	-1%			171	23%		
Feb.	210	0%	113	-4%	156	8%			156	7%		
Mar.	223	-7%	129	-1%	168	-8%			179	10%		
Apr.	218	-6%	126	0%	162	-7%			177	9%		
May	228	-5%	128	-1%	170	-10%			204	26%		
Jun.	224	-5%	128	-5%	175	8%			154	1%		
2016 YTD	1,287		728		977				1,041			
% Chg. (1st Half 2016/2015)	-5%		-3%		-2%				13%			

Source: Ministry of Internal Affairs and Communication Bureau

Table 2: Monthly Average Wholesale Price of Domestic Broiler Meat YTD (Fresh/Chilled)

Unit: JP Yen per Kg.

Bone-less Leg									
	2012	**2013**	**% chg.**	**2014**	**% chg.**	**2015**	**% chg.**	**2016**	**% chg.**
Jan.	627	642	2%	710	11%	681	-4%	690	1%
Feb.	609	622	2%	682	10%	661	-3%	652	-1%
Mar.	594	596	0%	662	11%	653	-1%	637	-2%
Apr.	578	574	-1%	637	11%	650	2%	633	-3%
May	572	567	-1%	620	9%	633	2%	632	0%
Jun.	564	544	-4%	600	10%	620	3%	620	0%
Jul.	555	534	-4%	581	9%	628	8%		
Aug.	533	540	1%	569	5%	625	10%		
Sep.	518	577	11%	590	2%	633	7%		
Oct.	537	615	15%	617	0%	660	7%		
Nov.	573	646	13%	634	-2%	672	6%		
Dec.	611	690	13%	671	-3%	689	3%		
1st Qtr. Ave.	610	620	2%	685	10%	665	-3%	660	-1%
2nd Qtr. Ave.	571	562	-2%	619	10%	634	2%	629	-1%
3rd Qtr. Ave.	535	550	3%	580	5%	629	8%		
4th Qtr. Ave.	574	650	13%	641	-1%	674	5%		
Year Ave.	**572**	**596**	**4%**	**631**	**6%**	**650**	**3%**		

Breast									
	2012	**2013**	**% chg.**	**2014**	**% chg.**	**2015**	**% chg.**	**2016**	**% chg.**
Jan.	208	222	7%	265	19%	330	25%	298	-10%
Feb.	190	210	11%	268	28%	331	24%	272	-18%
Mar.	179	215	20%	271	26%	338	25%	263	-22%
Apr.	172	222	29%	272	23%	336	24%	257	-24%
May	171	231	35%	278	20%	337	21%	255	-24%
Jun.	175	264	51%	291	10%	342	18%	248	-27%
Jul.	177	276	56%	291	5%	350	20%		
Aug.	176	284	62%	299	5%	353	18%		
Sep.	182	282	55%	315	12%	351	11%		
Oct.	202	277	37%	330	19%	349	6%		
Nov.	227	270	19%	332	23%	344	4%		
Dec.	235	268	14%	327	22%	327	0%		
1st Qtr. Ave.	192	216	12%	268	24%	333	24%		
2nd Qtr. Ave.	173	239	38%	280	17%	338	21%		
3rd Qtr. Ave.	178	281	57%	302	7%	351	16%		
4th Qtr. Ave.	221	272	23%	330	21%	340	3%		
Year Ave.	**191**	**252**	**32%**	**295**	**17%**	**341**	**16%**		

Source: ALIC Monthly Statistics

Table 3: Monthly Ending Stock of Poultry Meat YTD

Unit: Metric Ton

	2012	2013	% chg.	2014	% chg.	2015	% chg.	2016	% chg.
Jan.	153,923	137,059	-11%	109,646	-20%	124,518	14%	147,314	18%
Feb.	152,515	138,905	-9%	109,702	-21%	124,017	13%	156,979	27%
Mar.	147,844	137,903	-7%	100,045	-27%	117,368	17%	156,444	33%
Apr.	147,708	132,563	-10%	102,887	-22%	115,204	12%	156,298	36%
May	155,341	138,047	-11%	109,614	-21%	116,936	7%	162,872	39%
Jun.	152,780	138,202	-10%	113,126	-18%	123,687	9%	167,880	36%
Jul.	160,545	133,665	-17%	117,782	-12%	123,955			
Aug.	160,705	131,266	-18%	117,631	-10%	129,096			
Sep.	153,832	124,553	-19%	123,076	-1%	131,548			
Oct.	149,564	120,096	-20%	122,686	2%	141,128			
Nov.	145,932	108,073	-26%	124,452	15%	141,413			
Dec.	129,057	101,532	-21%	118,017	16%	137,396			

Source: ALIC Monthly Statistics

Note: Figures represent poultry meat estimates. Imported poultry cuts account for roughly 75 – 80 percent of ending stocks on average, with broiler meat constituting the lion's share of that volume.

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

Unit: Metric Ton (Customs Clearance Basis)

Partner Country	Calendar Year							Year To Date		
	2013	Share	2014	Share	2015	Share	% Change (2015/2014)	06/2015	06/2016	% Change
World	414,243	100%	475,225	100%	529,458	100%	11%	249,120	279,081	12%
Brazil	387,202	93%	399,294	84%	408,923	77%	2%	194,854	222,095	14%
Thailand	0	0%	44,617	9%	92,347	17%	107%	41,211	44,785	9%
United States	22,460	5%	25,874	5%	22,702	4%	-12%	10,542	9,401	-11%
Philippines	3,618	1%	4,599	1%	2,353	0%	-49%	1,143	596	-48%
Others	963	0%	841	0%	3,133	1%	273%	1,370	2,204	61%

Source: Global Trade Atlas (Japan Ministry of Finance)

Unit: U.S. Dollar per Metric Ton

Partner Country	Calendar Year				Year To Date		
	2013	2014	2015	% Change (2015/2014)	06/2015	06/2016	% Change
World	2,712	2,800	2,473	-12%	2,564	1,986	-23%
Philippines	4,556	3,791	3,760	-1%	3,907	3,752	-4%
Thailand	0	3,289	2,878	-12%	2,935	2,585	-12%
Brazil	2,722	2,769	2,403	-13%	2,508	1,871	-25%
United States	2,207	2,243	1,950	-13%	2,008	1,680	-16%

Source: Global Trade Atlas (Japan Ministry of Finance)

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

Unit: Metric Ton (Customs Clearance Basis)

Partner Country	Calendar Year							Year To Date		
	2013	Share	2014	Share	2015	Share	% Change (2015/2014)	06/2015	06/2016	% Change
World	439,965	100%	412,451	100%	406,127	100%	-2%	185,760	194,188	5%
Thailand	214,158	49%	197,425	48%	232,998	57%	18%	106,986	118,680	11%
China	220,923	50%	212,417	52%	170,917	42%	-20%	77,805	74,519	-4%
Others	4,884	1%	2,609	1%	2,212	1%	-15%	969	989	2%

Source: Global Trade Atlas (Japan Ministry of Finance)

Unit: U.S. Dollar per Metric Ton

Partner Country	Calendar Year				Year To Date		
	2013	2014	2015	% Change (2015/2014)	06/2015	06/2016	% Change
World	4,834	4,702	4,641	-1%	4,677	4,628	-1%
Thailand	5,095	4,911	4,822	-2%	4,827	4,809	0%
China	4,611	4,517	4,403	-3%	4,478	4,347	-3%

Source: Global Trade Atlas (Japan Ministry of Finance)