

# Market Insights Covid-19 Impact on Trade:

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## Bord Bia's Understanding Covid-19

### Macro Economic Context

#### Political

##### **Vaccine nationalism**

Protective policies around how an eventual Covid-19 vaccine will be distributed have been emerging. The CEO of Sanofi, a French multinational pharmaceutical company, commented that if their vaccine in development proved effective, the US would likely get doses first since they were bankrolling the development. The French deputy finance minister Agnès Pannier-Runacher responded that that kind of distribution would be unacceptable; "for us, it would be unacceptable for there to be privileged access to this or that country for financial reasons,"

More than 100 potential vaccines are in the testing phase and an enormous effort costing tens of billions of dollars and using complex logistics will be needed to manufacture and distribute the successful drugs worldwide.

##### **Trade negotiations**

Liz Truss who is leading UK negotiations with the US on a future trade deal is developing a plan to offer wide reductions on US agricultural imports to the UK. The offer would further the negotiations to strike a US/UK trade deal, the first since the UK exited the EU. It raises significant concerns with other parts of government and Tory MPs however who have concerns about the impact on British farmers. The Department for Environment, Food and Rural Affairs are concerned that reducing tariffs could be "the thin end of the wedge", leading to further UK concessions on animal welfare standards. The UK government is working to have a deal in place before the US election in November.

#### Economic

In the UK, the furlough scheme by which 80% of employee salaries are being paid by central government has been extended for another four months to October. The chancellor in the UK has advised that he will be developing mechanisms for companies to contribute more to the payments from August.

A quarter of the workforce in the UK - 7.5m people - are being paid through the scheme at a cost of £14bn per month.

Also in the UK, a Treasury document leaked setting out stark options to cut the estimated £337bn deficit. The document proposed a "policy package" of tax rises and spending cuts which could have to be announced soon in order to "enhance credibility and boost investor confidence". In contrast, Lord O'Neill who is a former chief secretary at the treasury and a former chief economist at Goldman Sachs suggested policymakers should be focusing on making policy tools to stimulate growth in the economy. "The government should consider asking the Bank of England to pursue nominal GDP targeting rather than nominal inflation targeting, he said: "[Which] means trying to target faster, greater nominal activity in the economy, which would reduce the amount of debt." "[This means] taking the risk of having high inflation," he added.

## Societal

In New Zealand, there has been continuous progress in easing the lockdown. At its new Level 2 status, cafes, hairdressers, gyms and shopping malls have reopened and people are allowed to gather in groups of up to 10. Bars had been scheduled for reopening on May 13th, but that reopening has been delayed until at least May 21st. This was in response to a breakout of Covid-19 infections at a Seoul bar. Domestic tourism and travel is permitted and the hospitality industry is hopeful of salvaging some of its revenue with pent up demand from domestic tourists.

## Technological

A test to find out whether people have been infected with coronavirus in the past has been approved by health officials in England. Public Health England said the antibody test, developed by Swiss pharmaceutical company Roche, was a "very positive development". The blood test looks for antibodies to see if a person has already had the virus and might now have some immunity. Until now, officials have said such tests are not reliable enough. The government previously spent a reported £16m buying antibody tests which later proved to be ineffective.

## Market Insights

### Retail

Highlights this week include the continued growth of local or speciality stores in Netherlands and the US, major retailers investing in technology in Sweden, Thailand and Poland while the re-emergence of the weekly big trolley shop as a changing shopper behaviour has been reported in France and the UK. Indications of a long-term impact of reduced foodservice sector on retail are being reported in China while Saudi Arabia is dramatically trebling its VAT rate in response to the cost of meeting the Covid challenge.

A survey by Topagar with 200 **German** food retail decision-makers has found that online retail demand has increased significantly. 74% of those surveyed have expanded their e-commerce with omni-channel solutions while two thirds expect regional and healthy products to continue to increase in demand. Shopper trends are switching from frequent, small buys to large, weekly purchases.

The regionality trend is increasing in Germany with farmer markets & local farm shops experiencing sales increases of 20%- 30% according to Fleischwirtschaft

Local is also a theme in **Belgian** retail where supermarkets are adapting their promotions and range in the current crisis. Delhaize are focusing on fresh produce and baking products while Carrefour are prioritizing fresh and local produce and Aldi are focusing mainly on fresh produce.

Farmgate sales and local produce stores in the **Netherlands** are reporting increased sales of up to 80% as a direct result of the Covid-19 crisis according to Foodpro.

Moving to more technological channels, according to Distrifood.nl, [Amazon](#) has benefited from fortuitous timing in the **Netherlands**, launching amazon.nl in March. While Albert Heijn is leading the online grocery channel right now by drawing on Ahold's global experience, they cannot equal Amazon's home delivery expertise. Buying groups such as Superunie will have

to extend their remit from purchasing power to data-sharing in order to compete. Amazon's low pricing is expected to impact on Albert Heijn more than Jumbo.

Lidl **Poland** are also embracing technology. This week they announced a new service allowing customers to reserve food products through their online app.

Central Retail Group, **Thailand's** 4<sup>th</sup>-largest retailer, has launched movable convenience stores in repurposed shipping containers under its Family Mart brand. Meanwhile, its upmarket Food Hall concept is using robots armed with UV-C lights to disinfect stores.

Data from Spins, the leading provider of data and insights for the natural, organic and specialty products industry in the **US** show year on year unit sales in the e-commerce channel growing 5 times faster than that of brick & mortar stores in the latest 4 weeks ending 4/19/20. Figures suggest consumers are experiencing perceived and real pricing pressures in today's environment. This is coming in the form of bigger baskets per trip, tighter wallets, fewer promotions, and higher ARPs (advertised reference prices)

**Swedish** retailer ICA is using technology to monitor store congestion. More than ever before during the ongoing corona epidemic, it is important to keep track of how many people are in the store at the same time. It is now possible to calculate the number of customers in real time with the help of 3D cameras and first out with the solution is Ica Maxi. Data from these cameras then calculates in real time how many people are in the store at the same time. If it becomes full in the store, a notice is sent from the system via mail or mobile phone well in advance before it becomes full to be able to take action. They communicate with the customer through the screen at the entrance.

**UK** shoppers have returned to bigger trolley shops, moved to online shopping, cooked more unusual meals, snacked more, drank more and wasted less while the UK has been in lockdown, according to a new report by Waitrose and John Lewis. The findings are based on new OnePoll research of 2,000 adults in the UK, combined with sales data and online searches from the two retailers and insight from staff. The lockdown has led to 45% of consumers eating differently, with half working harder to use store cupboard ingredients and not waste food, 38% snacking more, 19% sitting at the table together for more meals and 31% being more organised by making lists and meal planning.

74% of **French** consumers think that prices have risen in retail according to a recent survey. However, panellists show that inflation is zero, but the basket size has nonetheless increased, for many reasons: less promotion (for 70% of the essential categories), prioritisation of French origin products (for 85% of the French) that are more expensive than imported products, or the increased use of convenience stores at higher prices.

A new **China** report from Rabobank estimates that every 10% decline in the foodservice channel in the future will bring an additional 2.7% of sales to the food retail channel. In Q1 2020, food retail sales grew by 12.6% YOY and online sales of food items increased 32.7%, according to the National Bureau of Statistics of China.

**Saudi Arabia** has tripled the VAT rate from 5% to 15% in austerity push to counter oil slump and coronavirus impact on economy, the tax was only introduced in 2018. As part of the savings plan also scrapped is the 1,000-riyal (€267) monthly cost-of-living allowance for government employees from June. The triple-blow of declining oil prices, a stagnating domestic economy, and increased coronavirus healthcare expense are prompting the state to cut its budget.

In **Canada**, The Liquor Control Board of Ontario, the largest single customer account for Irish alcohol, will gradually expand its hours of operations, recently reduced in response to the pandemic. Starting May 14, 360 stores will be extending their hours of operations from 10 a.m. to 9 p.m., Tuesday to Saturday and 11 a.m. to 6 p.m. on Sundays.

According to Sberbank.ru total spending of **Russian** consumers is up for the week of May 4<sup>th</sup> on alcohol by 19.7% and food retail by 11.5% compared to the same weeks last year. The figures show that those outlets which were physically unable to sell earlier during the isolation period are now finding ways to their clients.

## Foodservice

Recent KPMG UAE market updates report on the severity of the impact on food and beverage. Gulfnews reports that operators expected food delivery to compensate to some extent. However, people cooking at home and concerns around hygiene appear to have dampened its promise. Paying rents and the level of these rents are the main issues UAE F&B businesses are confronted with, many are reporting landlords only want to discuss rent deferrals, which clearly is not going to help the sector recover when things approach something closer to normality. Even the most optimistic among them are reporting that they will find it difficult to return to pre-COVID-19 volumes at any time this year.

Bord Bia industry sources in Dubai report that of the 11,000 F&B outlets it's anticipated that anywhere between 40-50% are unlikely to remain in business over the next few months. Some have already shut down their operations, stating they will not be able to generate even the bare minimum cash flow to keep the outlets going. At the moment, less than 30% of UAE's F&B outlets have re-opened, the majority of them being in shopping centres and these openings have come with strict limits on the number of customers they can serve – 30% of seating capacity – at any time.

McDonalds **Singapore's** takeout and delivery operations will resume on May 11th after a 3-week closure. Other nonessential foodservice businesses including bakeries and cafes will reopen on May 12th. In **Ireland**, McDonald's is to begin a phased reopening of restaurants from May 20th, starting with a drive-through only service at six outlets in the Dublin area. They then plan to reopen all drive-throughs by early June across **Ireland** and the **UK**.

In **Japan** the government is moving towards lifting the State of Emergency. According to Bord Bia's Tokyo office, restaurants and retail shops are beginning to re-open in the city. This includes a key customer for Ireland beef tongue, the restaurant chain, Negishi, that resumed trading with reduced hours, from May 7<sup>th</sup>.

Following on from Prime Minister Rutte's announcement that restaurants can re-open under strict conditions on June 1<sup>st</sup>, Bord Bia **Netherlands** sources in wholesale describe the mood among their clientele as 'euphoric'. Reservations are flowing in, indicating that pent-up demand appears to be strong enough to outweigh learned caution.

Guidelines on the re-openings of restaurants and cafés on 1 June were sent out on May 11th by the Dutch Industry Association KHN. Reservations will be necessary, even for a beer or snack. A conversation will take place with staff upon entry and hands must be washed. A maximum of four guests can sit at one table and at the bar, unless it is a household.

Foodservice operators across **Germany** are allowed to reopen from May 11th. Bars remain closed, unless food is served. According to Falstaff, widespread concern among foodservice operators on ROI exists due to restricted capacity and strict hygiene measures. Hotels are to

reopen on May 31st depending on infection-rate trends. With the reopening of foodservice across Germany, an “emergency brake” policy has been introduced. If more than 50 people in 100,000 become infected in a county within seven days, the restrictions will tighten again.

Rabobank estimates that the ‘ease-out’ period for foodservice in **China** will be another 2-3 months. Limited-service restaurants and QSRs, will see faster/earlier recovery than bars and pubs.

This concurs with insights shared by distributors with Bord Bia Shanghai that people are returning to cafes quicker than bars. One spirits distributor in South China plans to go ahead with a cocktail festival in mid-December.

The ‘Eater,’ restaurant industry guide continues its reporting on the gradual reopening of the **US** foodservice industry across certain states. In all, 29 states have allowed restaurants to reopen for dine-in service of some kind or intend to do so soon. In each state, varying degrees of social distancing measures remain in place for businesses that elect to reopen. A breakdown of status by state is available and continuously updated on [Eater](#).

Cocktails to go see rising consumer interest. Shaken News Daily\_ reports that as restaurants begin tentatively reopening, a growing number of consumers say they’re ordering alcohol with takeout and delivery. About 14% of U.S. consumers did so in the week ended April 25th, according to Nielsen’s survey, up from 9% in the previous two weeks. Among consumers who’ve ordered alcohol with takeout or delivery or would consider doing so, about half would order a cocktail kit or premade cocktail.

**Swedish** restaurant wholesaler Axfood [Snabbgross](#) recently opened its store at Gärdet in Stockholm for consumers. Following a positive response from the residents of the surrounding area, Axfood Snabbgross is temporarily opening 24 more stores in the country for consumer retail.

The **British Beer & Pub Association** estimates that 35 million extra pints of beer would have been sold in April than under normal circumstances due to the unseasonal sunny weather – a total of 745 million pints sold across the month overall. With pubs missing out on the ‘best April trade for a decade’. The BBPA is calling on the government to “fill the significant gaps in financial support” that pubs and brewers need to help see them through the crisis.

## Local Manufacture & Logistics

Rabobank expect **Chinese** hog prices to return to an upward track in the coming weeks. Poultry prices have been volatile, but imports have increased significantly in Q1. Estimated 1H 2020 dairy demand to contract by 7% YOY and 2020 import requirement by 19% YOY. April average milk price CNY 3.62/kg (USD 0.51/kg), down 4% MOM and down 6% since January 2020.

Reuters report China has suspended beef imports from four of Australia’s largest meat processors over souring relations over Covid-related dispute.

In **Italy**, the president of Coldiretti (National Federation of Italian Farmers), has asked PM Giuseppe Conte to guarantee price stability throughout the food supply chain. According to the request, producers are seeing unsustainable price cuts, while retail prices are rising (e.g. April: butter +2.5%, cheese +2.4%, milk +4.1%, cold cuts +3.4%, meat +2%). Coldiretti have asked that the foodservice industry be reopened as soon as possible, and have estimated 5 billion euros worth of food purchases will be lost if the restaurants stay closed until June 1st.

Assalzo, the **Italian** National Association of Livestock Food Producers, has called on retailers to launch initiatives to promote and support the purchase of 100% Italian meat and dairy products.

**Japan** - Meat trade journal [Chikusan Nippo](#) reports that a decrease in demand for imported meat during March has resulted in high stocks at month end. Stock levels are reported as 109.6% YOY for beef, 126.3% YOY for pork, and 110% YOY for chicken. In contrast, imports of frozen beef from Ireland totalled 757MTs from January to March 2020, up from 27MTs for the same period in 2019.

The main Customs Building in Cape Town, **South Africa** has been shut down following confirmed Covid-19 cases. All operations from the service centre have been suspended and officials placed under self-isolation and testing. Officials are working remotely but they are not able to carry out services that require physical, microbiological or any other inspection. There are officially appointed assignees who are dealing with urgent inspections.

**German** meat production is under close observation, after Western Meat Packing Manufacture "Westfleisch" closes all 35 plants due to COVID19 outbreak of 200 positive staff. The meat industry has therefore come into negative light across media outlets.

Citing their diversified supply chain, the Philippine Association of Meat Processors Inc, (PAMPI), has assured consumers of immediate-term supply continuity even as US meat plants close. The United States is the Philippines' 4th largest pork and beef supplier at 34,000 and 18,000 metric tonnes respectively in 2019.