

Market Insights Covid-19 Impact on Trade:

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Bord Bia's Understanding Covid-19

Macro Economic Context

Political

Germany's supreme court has challenged the legitimacy of the European Central Bank's (ECB) bond purchase programme - one of the major tools being used by European institutions to try and minimise the economic fallout of the Covid-19 pandemic on the continent. The German supreme court ruling contradicts a 2018 ruling by the European Court of Justice (ECJ) that ECB bond buying was legal. Several senior European political leaders have spoken out in defence of the ECB's independence and said it was only answerable to the ECJ, not to national judges.

Spain's parliament has granted a government request to prolong the extraordinary legal order that underpins the country's lockdown for another two weeks. The government, which does not have a majority in parliament, had been threatened with losing the vote after the main opposition party said it could not support the extension. It abstained from the vote in parliament. A number of politicians have said that they will not support further extension and some elements of the opposition are planning to lead demonstrations against it.

Economic

The scale of economic contraction and challenge facing Europe's major economies has been illustrated with new figures from France. In the first quarter of 2020, there was a net loss of over 450,000 jobs in the country. This is despite the French state subsidising companies to pay the salaries of employees unable to work. More than 12 million out of France's 20 million private sector workforce are benefiting from the scheme.

In the UK, more than 6 million employees are benefiting from a similar furlough scheme. The direct cost to the state is around £8 billion per month. The treasury in the UK has indicated that the cost of the scheme is 'unsustainable' and it is looking for options to begin decrease the level of support.

Despite the scheme, the Bank of England said the UK's unemployment rate was likely to rise to 9 per cent, higher than after the 2008/9 financial crisis.

Corporate results for Q1 have continued to illustrate the depth and severity of the economic effect of the crisis. The world's largest brewer Anheuser-Busch InBev sold almost a third less beer in April than a year earlier as the pandemic closed bars and restaurants across large parts of the world.

Societal

South Korea has renewed fears of community spread of Covid-19 after lifting restrictions on entertainment venues. A 29-year-old with no record of international travel tested positive after having been in a series of bars and nightclubs in Seoul. The authorities in South Korea are contacting anyone who may have been in contact with the individual. The fact that the 29-year-old has not been abroad raises the possibility of ongoing community spread in the country.

Market Insights

Retail

A number of new reports published this week are analysing the long term impact of Covid-19 on consumer behaviour. In the **Netherlands** a survey by Ipsos and de Volkskrant newspaper has revealed that, while most people claim not to have changed their eating habits, 18% of respondents are eating more healthily since the outbreak of Covid-19. The increased stress experienced by 35% is however leading to increased drinking (by 10%) and smoking (by 5%). 38% are exercising less with a small 18% exercising more than before. The leading Dutch retailer Albert Heijn launched the first edition its new free Health magazine, available in-store and delivered door to door to consumers this week. According to Albert Heijn's CEO, it had been planned for some time, but its timing is particularly apt.

According to an Ifop study in **France**, 57% of French consumers claim to have put on an average of 2.5 kilos during lockdown, with 13% estimating that they have put on more than 5kg. The results indicate that 42% having "aperitifs" or pre-dinner drinks more often, with 20% claiming to eat more chocolate. 56% of respondents plan to eat more healthily post lockdown, however only 18% plan to go on a strict diet.

In **Sweden**, where no official lockdown was enforced, sales in the Swedish grocery retail channel increased by 12.8% in March 2020 compared to the same month in 2019, adjusted to 14.2% when calendar effects are taken into account, this is considerably higher than average Swedish retail monthly growth rates of 3%. Sales in physical store sales growth was 11.7 percent, while e-commerce increased 49.7 percent, compared with the monthly average for the period 2017-2019, which was around 25 percent. Home delivery increased by 34.1 percent and store pickup by 82.2 percent.

Covid-19 is changing **German** consumer habits regarding increased awareness around product availability and increased interest in home-cooking (away from "on-the-go"). Retailers are adapting with increased recipe hubs/inspirations. This presents an opportunity for retailers and food producers to tap into changing habits and increase home-cooking. According to Nielsen Research, consumer habits are changing in 6 phases throughout and post COVID-19.

According to Nielsen consumer sentiment across **Southeast Asia** is relatively upbeat, reporting that Singaporean, Malaysian, Indonesian and Thai consumers have an optimistic outlook for the remainder of the year, with e-commerce retailers forecast to benefit proportionately more from this. While in **China**, Mintel is reporting, similar to in Europe, that nationalism has increased, with 40% of those surveyed agreeing and 32% strongly agreeing with supporting local brands to show support to local producers post Covid-19.

Foodservice

Following tentative indications last week, confirmed dates for the progressive reopening of the foodservice channel have been confirmed across a number of markets this week. In **Germany** there is a phased plan to reopen the hospitality sector on a federal state by state basis between May 9th-22nd, with regions like Bavaria following similar plans to Spain, initially opening outdoor areas, including beer gardens, before increasing capacity in a number of weeks. The German

government also announced that they will lower the VAT rate on food in the foodservice channel from 17% to 9% for one year to support the recovery of the foodservice channel.

Restaurants in **Switzerland** will reopen next Monday 11th May with initial guidelines allowing tables of maximum four guests with two-meter spaces between tables. According to local trade sources further restrictions in the Swiss foodservice channel will be lifted on May 27th if the initial phase is successful.

In **Italy** restaurants, including QSR, are now allowed to open for take-away service; they were previously limited to delivery only options. Bars and restaurants are provisionally expected to open for table-service on June 1st.

The **Netherlands** announced on the 6th May that cafes and restaurants with outdoor seating may reopen from the June 1st so long as social distancing measures are put in place. Campsites and holiday parks are expected to reopen on July 1st assuming the virus is kept under control in the preceding phases of de-confinement. According to research by Horwath HTL, Hoteliers in the Netherlands and **Belgium** expect a reasonably quick recovery in local trade, but much slower pickup in foreign custom.

In **France**, the de-confinement plan was announced on the evening of the 7th May with a gradual reopening of the country to start on May 11th but restaurants and cafes will remain closed. There was an indication that cafes and restaurants may open from early June if the infection rate remains low. Gira is predicting that if the closure of the foodservice channel lasts until mid-June, 20-25% of French restaurants will go out of business. Other sources are more optimistic suggesting bankruptcy levels of approximately 10% of establishments.

In the **UK**, KFC had reopened 100 of its outlets for delivery only as of May 4th and plan to open a further 20 by June. Similarly Burger King UK plan to reopen 350 of their 550 restaurants by end June. Honest Burgers, Pret A Manger and Gourmet Burger Kitchen are also progressively reopening sites for delivery and/or takeaway.

In **Thailand**, restaurants have also started to reopen since April 20th, although the state of emergency remains in place until the end of May.

However the good news of the reopening of the foodservice channel in a number of markets is contrasted with news of a number of bankruptcy announcements in the channel, the latest being the **Dutch** arm of the German pasta and pizza restaurant chain Vapiano. The **UK** hospitality sector is reporting a sales decline of 21.3% in the first quarter of 2020 according to the new UK Hospitality Quarterly Tracker.

In the Heilongjiang province in North East **China**, restaurants remain closed after the region returned into lockdown two weeks ago due to the emergence of new clusters near the Russian border. Elsewhere Yum (KFC, Pizza Hut) reported that despite a 24% decline in their Q1 revenue in China, they made an operating profit of US\$97 million.

In **Singapore**, overall foodservice revenues are reported to have declined by 23.7% year-on-year in March to SGD 678 million (€442 million) across all price segments. The mass-market foodservice segment declined by 50%, restaurants declined by 30%, and fast food declined by 2%.

The delivered foodservice channel is performing well in some markets in the current context, the battle for market share amongst the pure players in this channel has intensified. Uber Eats announced on Monday 4th May that they are withdrawing from seven of their markets as of June, having already divested their business in India in January. They are winding down their

operations in the Egypt, Saudi Arabia, Czech Republic, Romania, Ukraine, Honduras and Uruguay, which collectively represent 1% of their business but account for 4% of their losses.

In **Italy** Deliveroo is reporting a change in their customer base and order habits since the beginning of the lockdown with more families using the platform resulting in 20% of orders being for 3 or more people and 40% of orders now made at the weekend. The most popular dishes have been pizza, hamburgers, sushi and poke.

In **Germany**, Hellofresh, the meal box provider, announced forecasted sales growth of 40%-55% in 2020, double their initial estimates, having clearly benefited from contact and lockdown restrictions, with home-cooking increasing and supermarket shopping experiences changing. Similarly in the Netherlands they have reported significant growth in their customer base, a whopping 68% increase year on year, resulting in a 66% increase in turnover compared with Q1 of 2019.

Manufacturing

Singapore has announced that in the next de-confinement phase starting on May 12th certain food manufacturing operations, deemed non-essential (e.g. desserts, packaged snacks) by the Singapore government when they tightened the lockdown two weeks ago will be allowed to reopen.

In **France**, the President of the National Bovine Federation (FNB) confirmed that the market has returned to a level of pre-containment slaughtering, at 60,000 animals per week. Multiple retailers are sourcing 95% French meat, with sales of Red Label quality meat reported to have increased by 13% in artisanal butchers, unlike the GMS where they fall by 38%, according to Limousin Promotion.

The French brewers federation that represents 98% of French beer production has said this week that the industry is likely to have to dump up to 10million litres of beer due to the closure of bars, stadiums and the cancellation of festivals. 70% of their members have lost 50% of their turnover since the 15th March. Craft brewers are particularly affected due to the shorter shelf life.

In the **UK** industry research by Dairy UK and AHDB has found that more than a million litres of milk went to waste during April as a result of the Covid-19 crisis. Following the collapse in demand from the foodservice sector, three-quarters of British dairy farmers felt some form of impact, with 12% reporting a high impact and a further 14% experiencing a medium impact.