

Covid-19: Impact on Trade Report

July 3rd, 2020



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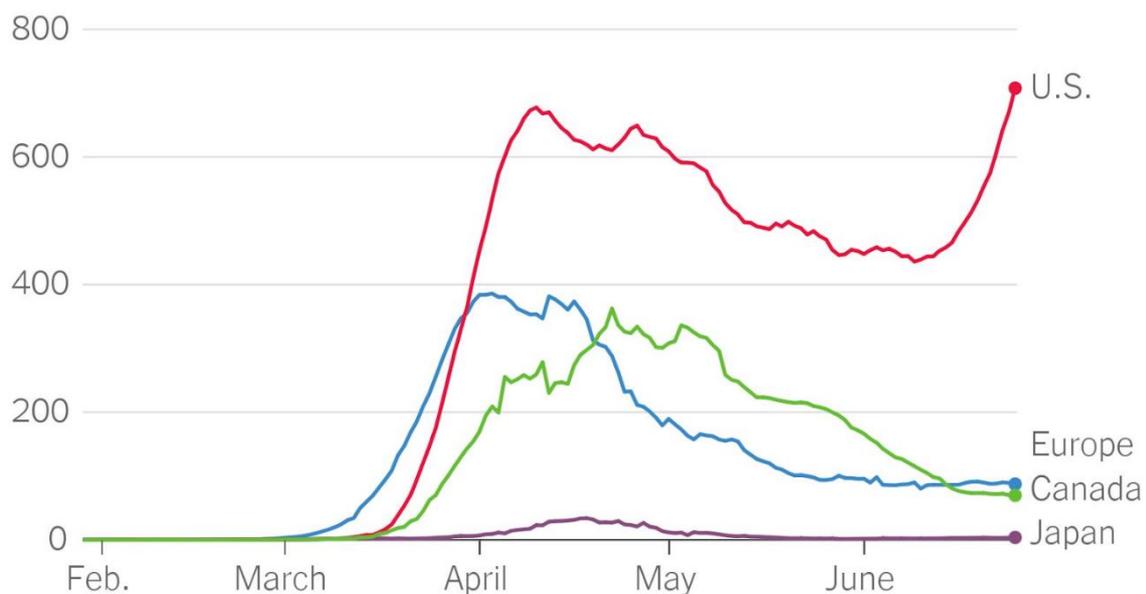
Macro Economic Context

Political

Regional outbreaks of Covid-19 have challenged the expectations of broader re-openings in that country. With new case records returning back to their highest levels since March, there is significant concern that stringent lockdowns will have to be reintroduced. The spike in cases has been focused in states where lockdowns have been eased quickest and mask wearing has not been mandated. In Texas, public testing facilities are past capacity and some are restricting access to testing. City and council leaders have asked the state Governor Greg Abbott for authority to impose localised stay-at-home orders. That permission has yet to be forthcoming.

Outside Texas, more than a quarter of states in terms of population have begun tightening lockdown restrictions.

New confirmed cases per million residents, previous seven days



Europe includes all countries fully in Europe, regardless of E.U. status.

Economic

Inflation in the eurozone accelerated more than most economists expected to a 0.3 per cent rate in June, as energy prices rebounded from recent lows and the price of food and industrial goods fell. While price growth has rebounded from the four-year low of 0.1 per cent in May, it remains well below the European Central Bank's core target of below but close to 2 per cent, indicating that its monetary stimulus is unlikely to end anytime soon.

The UK economy recorded its largest drop in the first quarter since 1979, shrinking by more than previous estimates as the covid-19 crisis choked activity in March. Output in the UK fell 2.2 per cent in the first three months of the year compared with the previous quarter, the

Office for National Statistics said. This is a sharper contraction than initial estimates of 2 per cent. The fall is now the joint largest drop in UK gross domestic product since 1979.

Societal

German diners are showing a healthy appetite for eating out again as about a month into restaurants reopening in Europe's largest economy visits have almost returned to pre-covid crisis levels. On average over the past seven days, the number of diners was 2 per cent lower than a year ago, an analysis from Commerzbank of OpenTable figures shows. The trend shows appetite for return to restaurants and may be helped along by the German government's reduction of VAT in food service.

India has extended its emergency food support programme for another five months. The central government will extend its free food programme which is providing 800m people with staples including wheat, rice and chickpeas through November. India's economy has been strained by a comprehensive lockdown and rising new case rates.

Technological

Biotech start-up AnGes has launched Japan's first clinical trial in a government-backed effort to develop a homegrown covid-19 vaccine. The trial is expected to be completed by the end of July before being expanded later in the year. The biotech group is developing a vaccine using DNA technology, a method that could yield quicker results and is said to be easier to mass produce than traditional vaccines. But DNA vaccines have yet to be approved for use in humans. More than 100 covid-19 vaccines are in development worldwide as countries aim to reactivate their economies while preparing for the next wave of infections.

Sectors Insights

Meat Summary

Beef

The beef market has seen very little change again over the last week. Base prices for R3 steers remained at €3.60/kg across the board, with R3 heifers receiving quotes of €0.05-€0.10/kg above that. In some cases, farmers having already established relationships with factories may receive quotes of 5c/kg above that. These prices exclude "in-spec" bonus payments. Quotes for P grade cows are now generally between €2.75-€2.85/kg, with R grade cows achieving prices of €3.00-€3.10/kg. Although market prices in Ireland have remained stable over the past few weeks, prices for prime cattle in Northern Ireland and the UK continue to improve. For the week ending June 20th, R3 steers and heifers in NI were receiving average quotes of £3.62/kg (€4.03/kg). Prices paid for R3 steers in Britain saw similar increases during the same week, with steers & heifers averaging £3.68/kg (€4.10/kg) excluding VAT. With the recent increase in demand as many of our export markets emerge post Covid-19, and the recent lifting of further restrictions here in Ireland, weekly throughputs continue to rise steadily. Cattle throughput at meat export plants for the year to-date, has declined by 4%, or 34,805 head, reaching a total of 869,000. Throughput for the most recent week ending June 27th totaled 37,329 head, an increase of 2,100 head (6%) over the equivalent week in 2019.

Livestock

Live cattle exports continue to run well below the equivalent period in 2019. For the week ending June 20th, live cattle exports reached over 5,630 head according to the Department of Agriculture, Food & the Marine. Intra community trade of calves accounted for less than half of all exports, as spring-born calf numbers available for export have decreased. For the year up to the week ending June 20th, overall exports have declined by 23%, or 50,347 head, to 175,000 head. There has been some recovery in 2020 in exports of live cattle to international markets. For the year to-date, shipments to non-EU markets have increased by 50%, to almost 12,000 head. This trade has focused mainly on the Libyan market, followed by Turkey and Algeria.

Sheepmeat

Factory quotes for sheep have seen a further decline again in the past week, with farm gate prices falling by a further 10c/kg, as the strong producer prices experienced during the height of the Covid pandemic are but a distant memory. For the week commencing June 29th, many factories are now quoting prices of €5.20-€5.30/kg, with QA lambs securing a 10-15c/kg price premium in most export plants. However average sheepmeat prices for 2020 are 32c/kg above average sheepmeat prices for the same period in 2019.

Pigmeat

Across Europe over the past few weeks, the pigmeat market has stabilized, with reports of meat sales improving and tightening live supplies. After successive weeks of price drops to the average Irish price, it has now stabilized. Irish pig prices are running 15c/kg below prices for the same week in 2019. The latest reported Irish pig price is making between €1.64-1.68 inclusive of VAT. Irish prices have fallen 17% since late February, with European prices showing an even greater decline during this period. The latest figures show that average EU prices are currently 1c/kg behind current Irish prices. A total of 68,350 pigs were sent for processing during the week ending June 27th 2020. This was an increase of over 1,600 head on the same week 12 months ago. So far for 2020, pig throughput levels are currently running slightly above 2019 levels, with 1,706,112 pigs sent for processing in the Republic so far this year. China has continued to face challenges, responding to African Swine Fever, along with the impact of Covid-19. The market prospects for the remainder of the year continue to point towards record pigmeat imports. For the first four months of 2020, China has overtaken the UK as the number one partner country for Irish pigmeat suppliers. During this period, pigmeat exports to China rose by 22% to 33,000 tonnes.

Poultry

Poultry supplies remain largely unaffected by Covid-19 at meat plant level. For the 1st four months of the year, poultry throughput is around 7% higher at 37 million head compared to the corresponding period last year. Demand remains firm, as consumers shop the category more frequently and purchase more per trip in response to lower prices. Given the decline in the foodservice category, poultry imports have declined by 28% to 29,000 tonnes in the first four months of 2020 compared to prior year levels. The latest results of the recent Bord Bia

Quality Mark TV campaign indicated that over 80% of all who purchase chicken claim to always or sometimes look for the QA mark when shopping. These results show how the Quality Mark continues to resonate with consumers.

Dairy Sector Summary

Year to date, Irish milk output is up ~3.6% to 2.284bn litres, with milk output for the main milk producing regions combined up ~ 2.4% year on year (Jan- Apr).

Week 27 sees Dutch prices were up just over 1% overall – driven solely by a robust €150/mt increase for butter. Reports of tight trading conditions for some specifications of butter in recent weeks as well as good demand resulting as eateries reopen are all possible contributors to the increase. Whey and SMPE decreased by €20/mt each, while WMP and SMPA remain unchanged. There was an increase in feed to herds contributing to SMPA stabilisation while food grade dipped €20/mt week on week.

Week 27/2020	WHEY €/tonne	BUTR €/tonne	SMPE €/tonne	SMPA €/tonne	WMP €/tonne	WOW % Diff
	€ 710	€ 3,300	€ 2,160	€ 2,020	€ 2,680	
WOW +/- EUR/PMT	↓ -€20	↑ €150	↓ -€20	⇒ €0	⇒ €0	1.02%

In the US, CME cheese continues on its upward trajectory. Although only representative of young cheese and reasonably small volumes, the month on month positive price differential of over 13% and close to 41% month on month, year on year is evident. The next GDT auction is scheduled for July 7th. Market sentiment is turning bearish for the second half of 2020 with a general sense of ambiguity / nervousness about the months ahead.

Seafood Sector Summary

No further update from previous report.

Alcohol Sector Summary

In a week where Ireland's pubs got the green light to re-open, there are worrying trends impacting markets elsewhere. USA - As Covid-19 cases rise in several US states, bars and restaurants are being partially blamed for people not social distancing. California, Arizona, Texas and Florida have all reversed their decisions to re-open as of 1st July 2020. Texas is now shutting down many of the bars it had initially allowed to open. In New York State, the Liquor Store Association is pushing back against extensions granted to restaurant licences, permitting alcohol sale-to-go, claiming that restaurants are 'acting like liquor stores that also sell food'. In New Jersey, the Governor has reversed plans to allow restaurants to resume indoor dining. On a positive note, as Pennsylvania reopened more of its liquor stores last weekend, it also published results for online sales which were quite remarkable. Year-on-year to Jun 27th, online sales jumped in value from \$5m to \$26.3m, or 428%.

Plans are underway to determine the level of supplier interest in Bord Bia participating at Virtual Bar Convent Berlin in October. This event targets bar and cocktail bar owners, bartenders and mixologists, importers and distributors from Germany and surrounding

countries, as well as other markets. All expressions of interest are required no later than July 8. Bord Bia will host a Zoom presentation during the 3rd week in July, by US-based platforms LibDib and SevenFifty.com. LibDib is a supplier-managed distribution platform for the US and SevenFifty is a platform that connects the three-tier system, minimising complexity and providing increased control to suppliers.

Prepared Consumer Foods Sector Summary

The latest retail market data indicates that total retail sales in the 4 week period to mid-June are up almost 25% compared to the same period in 2019. This level of growth is in line with the growth for the last 3 months. With most meals still consumed in the home, demand for products associated with scratch cooking and home baking remain strong. Our client companies have noted an increase in demand for convenience and food-to-go products as businesses reopen and greater numbers return to work. The growth in online shopping has remained strong. With physical distancing likely to remain a feature for the immediate future, online shopping is expected to see continued growth. With all domestic travel restrictions now lifted we have started to see the hospitality industry re-open. Our foodservice-focused client companies have noted a strong increase in volumes in the last week as many outlets start trading. Client companies supplying the UK market have reported volume growth in recent weeks, and are also seeing continued growth in volumes to the continent. This growth is facilitating the return to work of many employees who had been temporarily laid off. It will also have a positive impact on the cash flow of companies over the coming weeks.

Horticulture Summary

No further update from previous report.

Market Insights

Topline Takeouts:

- Consumers prioritise value, health and local
- Online secures its foothold
- Foodservice lifting and innovating

Retail

Price and Retail Sales

The **German** federal government's recent decision to reduce VAT on food and other goods has generated renewed competition at food retail level with Aldi following last week's Lidl reduction of 3%. **Poland** will introduce VAT reductions on 1 July but there are no indications that this support will be introduced elsewhere.

In the **UK** promotional activity still remains below pre-Covid levels. Kantar figures last week showed that grocery inflation had accelerated from 3.1% to 4% during the past month, its highest level since 2012.

South Korean retail sales rose 2% in May, powered by online shopping, which rose 13.5%. Within the online channel, food products stood out, rising 39% according to the Ministry of Trade.

Meanwhile panic buying has started again in the **Australian** state of Victoria. Coles and Woolworths have reimposed volume restrictions on several food products.

Consumer Habits

Shopper focus on value for money, health, shopping local and supporting local producers appears to be a growing trend at retail level since restrictions began to ease and the foodservice channel started its tentative recovery.

Dutch consumer psychologist Herman Konings describes the current situation as an '*intervirum*' during which the consumer is all too aware of the dangers of a second wave of Covid-19 where one in six consumers has modified behaviour drastically, another one in six has embraced the packed pub etc, and the majority have a heightened awareness of hygiene.

In France a Kantar report on consumers' priorities during the lockdown shows that the French still aspire to "eat better" but are increasingly attentive to prices. This value for money theme is replicated in **Germany** where Nestlé is monitoring its newest investment, emphasising its quality credentials while operating in a competitive marketplace.

The latest **British** Retail Consortium's survey into consumer behaviour and sentiment towards the coronavirus appears to show people are now feeling more relaxed about visiting retail stores with 53% of respondents indicating that retailers were doing enough to protect the public from coronavirus and only 9% disagreeing.

Consumer views on sourcing protein in **Italy** indicate that 45% of respondents would introduce meat substitutes into their diet for environmental reasons, according to a survey carried out

for the frozen food brand Findus by market research firm Ipsos. This percentage rises to 60% for Italians under 24; sustainability is recorded as being important to 9 out of 10 consumers.

In **Germany**, a survey by the international Data & Analytics Group YouGov, showed 56% of respondents approve the removal of meat products from the supermarkets where suppliers have recorded Covid-19 infections. In addition a survey from Appinio in Hamburg of 1,000 interviewees indicated that 47% will now check the origin/provenance of the meat they purchase, 24% plan to buy organic meat, 22% will opt for a butcher they trust and 10% aim to switch to vegan nutrition due to the Covid-19 developments at the meat processor Tönnies.

Retailer Reaction

Retailers are responding to customer demands in **France and Italy** with supports for local suppliers, an initiative on animal welfare in **Germany** and a purchasing policy favouring local suppliers at Five Guys in **Spain**. Carrefour in **Italy** has added 'Pasta dei Consumatori' to their retail outlets. This is part of the 'Consumer Brand' movement, aimed at supporting the local agri-food sector, while giving choice back to the consumer around ingredients used, and producer remuneration.

Carrefour **France** is offering food companies the opportunity to avail of their online shopping platform with the successful companies receiving full payment for and sale of their goods in return for a commission to Carrefour.

In **Germany** Rewe North begins "Initiative Tierwohl"-TV (Animal Welfare Initiative) an instore TV campaign on a pilot basis in Hamburg. Live-Stream pictures from sheds of regional, small farms will be transmitted in order to generate trust in the meat sold instore; the campaign starts with poultry.

In **Spain**, Makro has teamed up with "Lola Market" in 12 cities to establish a foothold in the online delivery market while in **China**, Metro is teaming up with digital solutions provider DMall. In **Belgium** Delhaize plans to open a further 30 new stores – primarily convenience stores – in 2020 in response to Covid-19 with expanded opening hours and a focus on local produce.

On the downside, in **Germany** the retail chain Galeria Karstadt Kaufhof intends to close 62 of its 172 stores; the company points to the absence of economic prospects as a result of Covid-19.

Foodservice

The foodservice channel resumes business to varying degrees as different governments set out their protocols for easing restrictions.

The changes to the "ticket restaurant" (meal voucher) system in **France** has given a shot in the arm to the channel there. In addition, following the general reopening of schools, the leaders of 12 catering companies have announced that they will continue to provide an outlet for produce from French farmers and suppliers in canteens.

Ikea in the **Netherlands** (and elsewhere one expects) is working with its market managers to reopen its food offering, not surprising given that 50% of Ikea's customers cite the restaurant as a reason to visit the store.

Sales of meal boxes in the Netherlands were 85% higher in April 2020 than the same month last year and while visits to supermarkets are increasing it is expected that Hello Fresh, Marley Spoon and Ekomenu will retain a significant proportion of subscribers

A negative consequence of the Covid-induced closure of many Galeria Karstadt Kaufhof stores (see Retail above) in **Germany** will see the closure of around 40 restaurants of the Le Buffet and Dinea brands and 750 job losses according to Gastronomie.

Spend in **British** foodservice outlets was down 80% in April while price and deal-related visits reached record levels, according to new research by insights firm The NPD Group. However spending in pubs is forecast to reach £210m when premises open their doors this coming weekend, July 4th.

All bars and pubs in **Dubai** received notice from Dubai Police to stop serving alcohol as of Wednesday, June 24, until further notice. This comes as video on social media shows people not abiding by social distancing.

Online Offering

Online purchasing continues to hold its position despite the easing of lockdown. Swiss Foodservice operators noted a 250% increase in online orders during COVID19, suggesting a long-term trend for the usually more conservative Swiss gastronomy sector.

However online services are not risk free during Covid. **Chinese** food delivery service giant Ele.me announced that all of its couriers in Beijing are being tested for Covid-19 after one tested positive this week, resulting in one of the platform's fresh food partners, closing a warehouse and withdrawing its service from the on-demand app.

Singaporean foodtech firm TiffinLabs is responding to the new normal by creating an international network of 1,000 ghost kitchens across the US, Europe and Asia.

Also planning for the future is **China** property developer Country Garden which has launched a robotics restaurant complex in Foshan, Guangdong province. The intelligent restaurant is the first of its kind and its development was accelerated by recent trends emerging from the pandemic.

Local Manufacture and Logistics

China imposed new importation measures following outbreaks in high profile food suppliers such as Tyson in US. GAC will suspend the importation accreditation of overseas fresh food enterprises when COVID-19 clusters occur, while mandatory coronavirus testing on fresh foods will be implemented at ports.

The Ministry for Agriculture and Labour in North Rhine-Westphalia and Lower Saxony, **Germany** presented a ten-point plan last Friday, aimed at improving the safety in the slaughtering and cutting sector.

The **UAE** has launched a National System for Sustainable Agriculture to increase self-sufficiency from targeted agricultural crops to 5% annually and average farm income to 10%. Socially, the system aims to raise workforce in the sector by 5% annually while environmentally it targets a 15% annual reduction in water used for irrigation per production unit.

The **Italian** Ministry of Agriculture, Food and Forestry is continuing to work with the EU on obligatory origin labelling for food products made in Italy, with the aim of protecting the "Made in Italy" brand.