

Covid-19: Impact on Trade Report

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Macro-Economic Context

Political

The OECD has published a report on the employment outlook for 2020. The organisation frames the Covid-19 crisis as one moving from a health crisis to a jobs crisis.

Unemployment rose to 8.4 per cent in May, with 54.5 million people out of work, across OECD member countries. The group expects that to increase to 9.4 per cent by the end of 2020, even in an optimistic scenario in which the virus recedes and remains under control.

Keeping people in employment through wage subsidy schemes has been a key tool for governments across Europe. The **UK** government launched on Wednesday a plan to try and transition furloughed employees back into work. A 'job retention bonus' of £1000 will be paid per worker to companies that bring staff out of the furlough scheme. In addition, in an attempt to bolster the hospitality and tourism sector, VAT for those sectors has been reduced to 5 per cent from 20 per cent.

Next week there will be an **EU** summit to decide the fate of Europe's €750 billion economic recovery plan. There continues to be resistance, led by the Dutch, to the scheme as currently proposed, which would deliver grants not loans to recipient countries and businesses. The Dutch - along with Austria, Sweden and Denmark - are seeking stronger obligations to reforms for recipient countries. Their position has been summarised as being "the price for greater financial solidarity is greater involvement in your national affairs by the rest of the EU". This position is seen as politically unacceptable and akin to 'troika-style monitoring' by southern states.

Economic

The **European Commission** has slashed its growth forecasts for the EU economy this year, warning the block will suffer a "significantly" deeper recession than previously anticipated due to the length of the sweeping lockdowns imposed to tackle the coronavirus pandemic. In its first updated economic projections since May, Brussels said EU gross domestic product would shrink by 8.3 per cent this year — a deeper drop than the 7.4 per cent that it previously forecast and the worst on record. The commission also lowered its forecast for a potential economic rebound in 2021, estimating growth of 5.8 per cent, down from a previous forecast of 6.1 per cent.

Societal

Positive tests and hospitalisations in the **US** continue to rise. About 50,000 new cases are being diagnosed daily - a positivity rate of 9.1 per cent based on the testing rates of 510,000 per day. This positivity rate is the highest seen since early May. New cases remain concentrated in California, Florida and Texas.

In **Japan**, there were 106 new cases of Covid-19 in Tokyo on Tuesday 7th July in a continuation of recent trends that have raised fears of a possible resurgence of the virus in the Japanese capital. It is the sixth consecutive day that the number of confirmed Covid-19 cases in Tokyo has surpassed 100 according to figures reported by national broadcaster, NHK. Many of the recent cases in Tokyo have been among younger people and are linked to intensive testing of particular nightlife establishments.

In **Australia**, lockdown restrictions will be re-imposed on metropolitan Melbourne from midnight on Wednesday July 8th, Victoria's premier said, following an "unsustainably high" number of new coronavirus cases. Daniel Andrews, Victoria premier, said the steps were necessary after 191 new cases had been found in the state. The state of Victoria conducted more than 26,000 coronavirus tests on Monday.

Technological

In the **US**, the federal government will pay the vaccine maker Novavax \$1.6 billion to expedite the development of 100 million doses of a coronavirus vaccine by the beginning of next year.

Separately, **China's** Sinovac Biotech has gained approval in Brazil to start final phase human trials of its potential coronavirus vaccine. The study, set to begin this month, will recruit nearly 9,000 medical workers in Brazil. The vaccine, which is being developed jointly with Brazilian biomedical producer Butantan, was tested in macaque monkeys in January, after which the company gained approval to test the vaccine in humans in China.

Sectors Insights

Meat Sector Summary

Beef

The beef market has remained steady over the last week. Base prices for R3 steers remained around €3.60/kg with R3 heifers receiving quotes of €0.05-€0.10/kg above that. These prices exclude "in-spec" bonus payments. Quotes for O grade cows are now generally between €2.75-€2.80/kg, with R grade cows achieving prices of €3.00-€3.10/kg.

For week ending June 27th, average prices paid in **Northern Ireland** increased by 2p/kg, with R3 grade steers and heifer prices now averaging £3.64/kg. These prices were equivalent to €4.03/kg excluding VAT.

Retail demand has remained strong, with most recent Kantar shopper data showing the volume of beef sales in the **UK** to have risen by 16 per cent in the 12 weeks to June 24th, over the same period last year. Mince sales increased by 25 per cent, steak by 27 per cent, stew by 32 per cent and burgers by 45 per cent, while roasts decreased by 1 per cent and sliced cooked meats by 5 per cent.

Reports are also indicating more demand for beef from across the foodservice channels, though this is still curtailed by restaurants running at a capacity of maximum 50 per cent of normal.

Cattle throughput at meat at Irish beef export plants for the year to-date to July 4th, has declined by 3.5 per cent, or 32,926 heads, reaching a total of 906,174. Throughput for the most recent week ending July 4th totaled 37,153 heads, an increase of 1,879 heads (5.3 per cent) 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 28th, live cattle exports reached almost 4,600 heads according to the Department of Agriculture, Food & the Marine. At 1,950 heads, the calf trade to other **EU** member states has slowed down significantly, in-line with seasonal availability. **Spain** was the predominant

market for calves (1,709 heads), and almost 600 weanlings and stores were also sent there. The movement of cattle to **Northern Ireland** has performed strongly over recent weeks, with just over 1,700 heads traveling north during the week ending June 28th, which included a combination of calves and store cattle for further feeding, along with finished cattle for processing.

Sheepmeat

In the past week factory quotes across the country for spring lamb have seen a move in the right direction after successive weeks of price cuts. Farm gate prices have increased by 10c/kg to 15c/kg as the trade has strengthened both in the factory and the mart prices. For the week commencing July 6th, many factories are now quoting prices of €5.30-€5.40/kg, with QA lambs securing a 10-15c/kg price premium in most export plants. Average sheepmeat prices for 2020 are 32c/kg above average sheepmeat prices for the same period in 2019.

Sheep throughput for the week ending July 4th stood at 60,936 heads, increasing by only 100 head on the previous week. Throughputs for the year continue to run 5 per cent above 2019 levels, with numbers of spring lamb being presented at factories increasing by over 49,000 heads on 12 months ago. Recent spells of rain will be a welcome sight to many farmers as grazing conditions have improved, taking the pressure of producers who were struggling to finish spring lambs off grass.

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 grade E pig price for week ending July 4th was 162.58c/kg.

A total of 63,379 pigs were sent for processing during the week ending July 4th 2020. This was a decline of over 700 heads on the same week 12 months ago. So far for 2020, pig throughput levels are currently running slightly above 2019 levels, with 1,769,491 pigs sent for processing in the Republic so far this year. This is less than a 1 per cent increase in the throughput figure compared to the first 6 months of 2019 (+11,492).

Poultry

Irish poultry supplies at meat export plants for the first half of 2020 are 3 per cent higher at 55 million heads compared to prior year levels. According to the latest EU short term agricultural outlook from the European Commission, EU poultry production during 2020 is expected to fall by 2 per cent, as the industry adapts to lower demand and market uncertainties.

Dairy Sector Summary

Wet, windy and humid conditions over the past week with some good grass growth, welcomed by farmers. For period January to May, Irish milk output is up roughly 4 per cent to 3.439 billion litres. Milk output for the main milk producing regions combined is up around 2.4 per cent year-on-year (January to April).

January – May figures show:

- **Argentina** +9%
- **Australia** +5.4%

- **New Zealand** -0.3%
- **USA** +1.8%
- **EU 28 (Jan- Apr)** +2.3%

Traditional summer holiday period reflected in lean trading in the past couple of weeks and is set to continue into August.

EU Prices

Another positive bounce for **butter** across Dutch/German/French quotations, up on average €78/mt.

German butter price +€25 / French +€180 and Dutch +€30.

SMP back €10 on Dutch but up €150 on French quotations.

Whey back €10/mt on Dutch and down close to 1 per cent across all three quotations.

Dutch Dairy Board Prices:

Week 28/2020	WHEY €/tonne	BUTR €/tonne	SMPE €/tonne	SMPA €/tonne	WMP €/tonne
	€ 700	€ 3,330	€ 2,150	€ 2,010	€ 2,680
WOW +/- EUR/PMT	↓ -€10	↑ €30	↓ -€10	↓ -€10	→ €0

PSA

Offers for PSA closed on June 30th.

Current stock levels/category are:

SMP x 20,136mt

Cheese x 47,711mt

Butter x 67,694mt

Oceania

GDT event 263 was up over 8 per cent, with \$3197, the largest price.

Event 263 saw the largest increase since late 2016 and driven in the main by WMP, up 14 per cent with some commentators citing ONILs tender as a rationale for strong performance.

USA

CME Block **cheese** continues to make positive strides, over 44 per cent year-on-year at €5230/mt (representative of young cheese and reasonably small volumes).

Seafood Sector Summary

Restaurants and pubs serving food in **Ireland** have been open for a week, and while too early to get a clear view, it is expected that pent-up demand will no doubt continue to drive activity in the near term. Due to the continued challenging markets of **Spain** and **France**, and the fact that restaurateurs can readily access a wide range of good quality cheap seafood, this indeed will prove challenging for Irish processors/producers.

Pelagic

Over the past three months processors have focussed efforts engaging existing customers and have sought new customers to move their significant stocks in cold storage. The mood overall is currently more positive, with **China** and **Japan** showing increased activity and **West African** markets remaining strong. In addition, demand in **France**, **Germany**, and **Eastern Europe** has improved somewhat, and in **Spain** and **Italy** trade has picked up. The normalising of freight costs and container access has also helped the situation.

Demersal/Shellfish

France and **Spain** remain challenging for hake and megrim. The ongoing woes for frozen at sea prawns continue with significant volumes of frozen stock not sold. The price paid to the fishermen for lobster is stable and good demand has been noted in France from the restaurant trade and supermarkets. With regard to brown crab, current prices being offered by processors is currently poor. Sales to **China** have largely stopped due to new regulations and the price of crab is currently on the floor. There is some small demand around **Europe** but as Lisbon has gone back into lockdown, this has curtailed opportunities that were opening up in Portugal. Fishing yields have been reportedly poor, with the regular easterlies compounding matters.

Alcohol Sector Summary

No further update from previous report.

Prepared Consumer Foods Sector Summary

The prepared consumer food sector continues to focus on meeting the requirements of its existing customers. The growth in retail of 25 per cent for the 4-week period to mid-June has caused production and supply chain challenges which retail focused companies have been working through. Irish retail customers are reporting a slight increase in dwell time in store as consumers give themselves permission to browse a little more. Companies supplying the **UK** market have reported volume growth in recent weeks. UK customers are reporting a concern about personal finance among consumers and those worries will affect the products people are selecting. They are also reporting that consumers are still sticking to shopping lists. Irish food producers supplying continental **Europe** are starting to see volume growth as the foodservice channel starts to open again. The lifting of travel restrictions across many countries is also expected to have a considerable impact on the demand for foodservice products as the hospitality sector reopens to cater for tourism.

Horticulture Summary

No further update from previous report.

Market Insights

Topline Takeouts:

- Manufacturers assess Covid fall-out
- Online powers ahead
- Foodservice continues slow recovery

Retail

Price and Retail Sales

Retailers are now looking for simplicity and core ranges from big brands, according to Danone CEO Emmanuel Faber. Barrons.com report his prediction of increasing demand for more healthy, affordable food and the localization of supply chains with a “just-in-case” approach rather than the current “just-in-time” focus.

Australia`s retail sales rose 16.9 per cent in May according to the Bureau of Statistics as consumers returned to stores, with some sectors reporting pre-pandemic footfall figures.

In **China** the Shanghai government is supporting the introduction of nighttime shopping to generate spend while positive consumer sentiment in China is reflected in rising pork prices. **Russia** is also seeing increased spending on food and drink; the trend is not universal however, with disappointing figures from HDE in **Germany** where consumer confidence has not yet returned to pre-Covid levels. Meanwhile confidence in retail is emerging in **Saudi Arabia** where the Saudi Gazette reports that Tamimi Markets, known for quality and variety continue expansion plans with new store openings.

Consumer Habits

James Mills, Head of Strategic Demand at Mars, believes the three trends that will influence shoppers are a return to trusted brands, meaningful choice and making the most of special moments in uncertain times. In **Poland** Nielsen research highlights shopper demand for quality and promotions, shopping close to home and the growing importance of private labels.

This cautious approach is also evident in **France** where a study by Alvarez & Marsal indicates that shoppers now prioritize safety over products and price.

We reported on **Italian** food shopper sentiment in last week`s Market Insights Report. This week we see from the IBRIS survey in **Poland** that 57.8 per cent of Poles intend to limit meat consumption in favour of plant-based products with retail chains such as Lidl Polska responding to this trend by expanding their range of vegetarian and vegan products.

Reports of increased intake of alcohol in the **US** is disputed in a report in Forbes Magazine indicating that despite increases in off-premise sales, alcohol sales generally are not spiking.

In **Saudi Arabia and UAE** a recent consumer study conducted by EY Future Consumer Index showed 33 per cent of respondents will “stay frugal”, 23 per cent are “back with a bang”, 21 per cent will “keep cutting”, while 14 per cent are “cautiously extravagant” and 8 per cent looking to “get back to normal”.

Retailer Reaction

Retailers are pushing hard to win back shoppers to their aisles. The successful application to the EU by the **Italian** government to label pork as Italian is a boost to the country's producers and retailers. In future (just as with beef) the label will show the country of production, slaughtering and processing enabling shoppers to distinguish uniquely Italian produce.

In **Germany** retailers are now exploring whole-of-business digital strategies. According to the *Lebensmittelzeitung*, Edeka is restructuring its internal organization structure by opening a quality management and quality assurance department, focusing on topics such as traceability and animal welfare. In **France** Carrefour, Intermarché and Ocado (Monoprix Plus) will adopt the American Innit technology, a shopping assistance tool that provides a personalised nutri-score to shoppers.

In-store promotions are returning according to TASS news agency with **Russian** retailers engaged in heavy in-store promotions, while promotions on beer in the **Netherlands** have increased dramatically according to *distrifood.nl*.

Digital:

With the consumer switching to online shopping, **German** retailers are increasingly focusing on digital strategies to enhance shopping experiences and gain market share. According to *Lebensmittelpraxis*, 32 per cent are actively pursuing a comprehensive digital strategy, while a further 48 per cent are currently implementing individual digital projects. In previous years, only 14 per cent had implemented digital strategies.

Kaufland has extended its Click & Collect service to additional stores in **Poland** while Makro, the biggest cash and Carry in **Spain** has resorted to direct selling to shoppers, a clear indication of that company adapting to changing economic circumstances.

In **China**, JD.com a leading online platform, is partnering with IWF Health on Asia's biggest fitness trade show and have launched a new sustainability programme with P&G.

US e-commerce grocery continues to grow with online sales reaching \$7.2 billion in June, a 9 per cent increase from May according to the latest Brick Meets Click/ Mercatus Grocery Survey. May sales were up 24 per cent compared to April, while April sales increased 37 per cent compared to March according to Progressive Grocer.

Dramatic change in purchasing behaviour is emerging among people over 75 years of age in **Sweden**. A study from the University of Gothenburg shows 23 per cent of the cohort purchase food online at least once a month; before the pandemic, it was only one percent. In total, 79 per cent of the population now shop online once a month.

E-commerce continues to grow in **Italy** with 1.3 million new online consumers according to Netcomm, with increases in online sales of fresh and packaged food in March and April up 130 per cent.

Online delivery companies are now re-examining their business models. **Dutch** online supermarket Picnic is maintaining the minimum order €35 it introduced during the lockdown period for efficiency and sustainability reasons.

Foodservice

Month-on-month **Australian** foodservice sales rose 30.3 per cent in May, with online takeaway platforms reporting 300 per cent growth year-on-year according to the Bureau of Statistics.

In **Spain**, bars and restaurants continue to adapt to business post-covid. The lack of tourists is damaging, however consumption outside the home has now reached almost 70 per cent of pre-crisis levels.

According to commersant.ru there has been a gradual recovery in food service in **Russia** since June 23rd reopening in Moscow and St. Petersburg.

In **Spain**, Makro - the leading Cash and Carry business - has launched its own e-commerce service. It is an exclusive service for the foodservice sector with a minimum order of €150 for delivery within 24 hours.

According to research undertaken by the Ifo - Institute for Economic Research – 67 per cent of Foodservice operators across **Germany** fear for the long-term effects of Covid-19 on business.

In the **US**, McDonalds has hit the pause button on its reopening plans for at least three weeks amid a resurgence of coronavirus cases throughout the country.

The foodservice and hospitality channel in **Italy** continues to struggle. One in three businesses currently has less than 50 per cent of their normal turnover, and 21.8 per cent are worried about closure according to a survey conducted by Fiepet (Italian federation of retail and catering businesses).

Food Inspiration and Royal Dutch Horeca (KHN) surveyed 100 chefs in **the Netherlands** and concluded that more compact menus and buying local will be key moving forward, both from the perspective of becoming less dependent on foreign supply chains and that of keeping local producers and manufacturers 'healthy' in a broad sense.

The **UK** hospitality sector reopened on July 4th with the new one metre social distancing guidance in place. The shift to home working and away from the food-to-go channel is being felt in the UK as lunch-time stalwart "Pret a Manger" has announced it will undergo a restructure closing 30 of its UK sites after experiencing a 74 per cent drop in sales year-on-year.

Online Foodservice

The food delivery operator, Delivery Hero in **Germany** has recorded a 94 per cent increase in orders for the second quarter compared to the previous year while Propel reports that in the **UK** UberEats general manager confirmed that orders on the platform had jumped significantly since lock-down began, rising by more than 160 per cent.

Local Manufacture and Logistics

In **Germany** the production shutdown at Tönnies in Rheda-Wiedenbrück has been extended until July 17th. The turnover of the meat industry increased by 14.8 per cent during the first 4 months of this year according to the Federal Statistical Office, a big driver was the increasing export to China.

According to Reuters, **China** has halted products from two additional meat plants in Brazil, despite having them certified as virus-free.

4,500 Holstein cows have arrived in **Abu Dhabi** to enhance food security according to Khaleej Times. The first shipment from Uruguay is destined for Al Ain Farms, one of the leading dairy companies in the **UAE**.