

Market Insights Covid-19 Impact on Trade:

2nd April, 2020



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Bord Bia's Market Insights Covid-19

Topline Takeouts

- **EU:** Some EU government members are turning to data and mobile technologies to seek help with tracking the spread of the virus and in particular are looking to China's response where the government is currently engaging in 'location-tracking' of citizens via their smartphones, for public health purposes.
- **Italy:** In Italy there are emerging, albeit marginal, reports of people chafing against the limits on their freedoms and absence of earnings. How long Italian society will be able to endure will be a litmus test for other western, democratic countries who locked down later.
- **United States:** President Trump stated that a death total between 100,000 and 200,000 would indicate "we have done a very good job". Modelling data from the White House estimates deaths of more than one million without any mitigation measures being taken.
- **South East Asia:** Across the region countries are struggling to deal with the spreading pandemic and a return to normal business conditions for food exporters appears distant.
- **UK:** Wholesaler Brakes is the latest UK foodservice specialist to diversify its offer and has begun selling direct to consumers for the first time.
- In the **UAE**, Bidfood and other foodservice dedicated distributors have also begun selling through B2C channels and are taking home delivery orders through Whatsapp to compensate to some extent the loss of foodservice orders.
- **Logistics:** Oil demand has reduced by 20%, or 20 million barrels/day affecting logistics. Transatlantic shipping freight rates, which, pre Covid-19, averaged \$0.80/kg now cost between \$2.50 and \$4/kg, according to the International Air Transport Association.

Macro Economic Context

Political

In the United States, President Trump stated that a death total between 100,000 and 200,000 would indicate "we all together have done a very good job". Modelling data from the White House estimates deaths of more than 1 million in the US without any mitigation measures being taken.

Presumptive Democratic presidential nominee Joe Biden on Thursday called for the Democratic convention – at which the nominee will be formally chosen – to be delayed from mid-July to August, becoming the most prominent Democrat to urge such a postponement.

Economic

The International Energy Agency has estimated that the global oil demand is reducing by 20% as the global economic shutdown continues. That is equivalent to 20 million barrels a day. At the same time as demand is decreasing so dramatically, Saudi Arabia and Russia have been increasing oil production in a bid to regain lost market share from US firms.

The result has been a dramatic fall in prices. Brent crude which was trading at over \$50 a barrel at the start of March was close to \$23 on March 30th

In normal circumstances, a dramatic fall in the price of oil should translate to cheaper transportation costs for exporters. While petrol and diesel are cheaper at pumps for road transport now, the disruption to shipping activity and the reduction in loads being borne on ships have resulted in significant increases in sea borne freight prices. Airfreight costs have been increasing steeply as capacity has been removed. About half the world's airfreight cargo is normally carried on passenger jets. With the vast majority of global passenger flights now cancelled, there has been major strain on capacity and that has driven prices up.

Rates which had averaged \$0.80 per KG for a transatlantic shipment are now available for between \$2.50 and \$4 per KG, according to the International Air Transport Association. Some airlines are making passenger jets available solely for cargo flights, in response to the prices available. But with supply staying constrained, the expectation is that airfreight rates will stay elevated for the foreseeable.

US unemployment

In the U.S., 6.6 million people filed for unemployment in the week between March 23rd and 27th, data released by the US Labor Department on Thursday, April 2nd showed. In the preceding week, 3.4 million people had filed. The previous highest one week record for new filings was 695,000 new claims in 1982.

EU Corona Bonds

European finance ministers clashed last week over whether the European Union should issue so-called corona bonds — a proposed joint debt instrument which all

member countries would guarantee. Nine countries, including France, Spain, Italy and Portugal, backed the idea while Germany and the Netherlands rejected it. Finance ministers have been given until April 9th to agree ideas on how to support and protect the economies of Europe. The reticence of Germany and the Netherlands was seen as evidence by some of a failure of solidarity and collective action within the bloc, evidence that each country must fend for itself.

Social

The erection of border checks between Schengen agreement countries has created supply chain distress and waits of up to 15 hours to cross borders for trucks. On March 23rd the European Commission asked member states to set up “Green Lanes”, which prioritise the passage of goods across borders with a maximum delay of 15 minutes.

A joint statement from FoodDrinkEurope, which represents Europe’s food and drink manufacturing industry, and other major actors in Europe’s food supply chain, urged EU member states to keep the common market open.

"Our ability to provide food for all will depend on the preservation of the EU Single Market," it said.

Italy Update - Italian Chafing

In Italy there are emerging, albeit marginal, reports of people chafing against the limits on their freedoms and absence of earnings. Armed police have been deployed to supermarkets in Palermo in Sicily over fears that customers would not pay for food.

While the majority of Italians are supportive of the need for continued restrictions, disruptions and intermittent flare ups have been seen more so in the country’s poorer south. Closed banks have made it more difficult for people to access state pensions and other payments.

In response Prime Minister Giuseppe Conte announced that €400m would be distributed to mayors to fund food coupons for locals.

How long Italian society will be able to endure will be a litmus test for other western, democratic countries who locked down later.

Governments and people tracking measures

In China, the government is currently engaging in ‘location-tracking’ of citizens via their smartphones, for public health purposes. While this measure is hard to imagine in Europe — which has a long history of legal protection for individual privacy —the coronavirus pandemic is applying pressure to Europe’s data protection model. Governments are turning to data and mobile technologies to seek help with tracking the spread of the virus, supporting public health responses and mitigating wider social and economic impacts.

Following the example of China and South Korea, developers in several European states are working on an app that will alert people who have come into contact with someone who has been diagnosed with Covid-19.

Pan-European Privacy-Preserving Proximity Tracing (PEPP-PT) project has set underlying interoperable standards and technologies that they claim will maintain EU privacy laws while facilitating contact tracing apps.

Several nations are working on apps that let users enter a unique code if they are found to have the virus. The software will then send an alert to other people they have recently come into close contact with, advising them to go into quarantine or take other protective measures.

PEPP-PT expects to see the first apps based off its technology on the market by the middle of April.

Market Insights

Despite much positive media coverage in the West, reports of ‘Post-Covid’ markets in South and East Asia are misleading, according to our team in the region. Across the region countries are struggling to deal with the spreading pandemic and a return to normal business conditions for food exporters appear distant. **Thailand** has imposed a state of emergency until April 30th though cases continue to spread from the cities to the countryside. **Indonesia** declared a state of emergency on March 31st and despite cases spiking, the Indonesia Doctor’s Association warn the situation is “far worse than has been officially reported” in the world’s ^{fourth} most populous country.

Vietnam began a 15-day period of lockdown on April 1st, **Malaysia’s** lockdown is scheduled to continue until April 14th while **the Philippines** – despite talks of an emerging food crisis – is considering extending its lockdown beyond the planned April 12th. According to the Philippines Retailers Association, retail spending in the Philippines declined by as much 50% in the immediate aftermath of the outbreak, however since the lockdown this has improved somewhat. Tourism accounts for 12% of the Philippines’ GDP and the lack of Chinese tourists in particular has already cost the economy the equivalent of €266m, with the foodservice channel at standstill for over two months now.

While clusters continue to emerge in **Singapore** the city-state has been largely successful so far in flattening the curve. However travel restrictions and social distancing measures for a country heavily dependent on tourism, continue to tighten, and the challenges for food exporters due to reduced food service sales and the cargo logistics constraints, look set to continue for the foreseeable future. The foodservice sector accounts for 0.8% of Singapore’s GDP and 78% of restaurants do not expect to survive a further six months of pandemic-induced declines in revenue. In North East Asia the situation is also less positive than is widely reported.

Though **Japan** was, for weeks, lauded for its low number of reported cases, recent spikes since the postponing of the Olympics have called the official numbers into question and there is growing talk of a possible lockdown of Tokyo in the near future. Even **Korea** - which has been praised globally for flattening the curve - continues to battle new clusters and to tighten restrictions at borders.

Panic buying and hoarding of food, prompted by fears of virus-induced lockdowns, have raised the stakes for Asian governments already concerned about food security and political stability. Prices of rice, the continent's staple carbohydrate source, have surged more than 25% to date this year to USD \$564 (EUR 515) per MT, the highest since 2013. Despite the supply uncertainty, global production of milled rice remains at a record high of 500 million MT in 2019, with global stockpiles at an all-time high of more than 180 million MT. Thailand, the world's second^d-largest exporter, maintains that its exports will not be affected despite suffering its worst drought in decades.

The **UAE** has now implemented a strict lockdown since April 2nd, with only pharmacies and supermarkets remaining open. The UAE imports 90% of its food; with such a high reliance on imports food security and security of supply are the top priority. As a result, the UAE has rolled out food security laws seeking to regulate the stock of food commodities in the country in the event of crises, emergencies and disasters. On request of the Irish Agricultural Attaché funnelled through the EU Trade Counsellor, Dubai Municipality have brought in a temporary relaxation on the need for Arabic labelling and production date on products during COVID-19 emergency for products from the EU. This will shave costs for exporters which is welcome given the prohibitive air transport costs situation. The lack of a direct air freight route is particularly impacting the premium online retailer Kibsons who have a wide range of Irish products in their portfolio.

In **Algeria** lockdown measures have also increased this week, with a 7pm to 7am curfew imposed in the capital Algiers. Restaurants and cafes are now closed across the country and all outdoor markets closed in the region of Bidas. Similarly in **Egypt** all restaurants and bars have closed. Tourism brings over \$1 billion revenue per month into the Egyptian economy, contributing 12% of the annual Egyptian GDP and employing 10% of the country's workforce. Further west in **Nigeria**, the greater Abuja and Lagos areas are now in full lock down. The government initially closed all outdoor food markets and supermarkets but have since reopened them yesterday (2nd April) for 4 hours per day every 48 hours until March 31st.

Although half of the world's population is now in lockdown, in **Sweden** schools remain open and the movement of people has not been restricted. While gatherings of more than 50 people are banned, shops and restaurants operate normally, but people over 70 are advised to stay at home. In **Finland, the government** is extending the state of emergency legislation until May 13th, with an order for restaurants to close

immediately. Ferries between Finland and Sweden will carry only goods and freight and passenger traffic has now been terminated. Earlier this week Finland threatened to close the land border with Sweden due to differences regarding the management of the current pandemic, however this was subsequently abandoned.

Logistics

In the Philippines, there is speculation that the port of Manila, the country's largest at five million TEUs annually, will shut in the coming days as knock-on effects from the nationwide lockdown continue to hamper port operations. Currently at 98% of maximum capacity, the port has a further 14 ships awaiting discharge and is expecting 25 new arrivals this week. The Manila International Container Port ordinarily dispatches 4,000 containers into the city every day, but this number has declined by 60% following the lockdown. Some 8,200 containers are pending collection, 10% of which contain essentials such as food and medicine. The Philippine government has designated transportation of basic goods an essential service, however the Philippine Port Authority reports that cargo trucks are prohibited from entering Manila as vague rules and erratic enforcement engender uncertainty among businesses trying to recover containers before the seven-day free storage period expires. Unclaimed containers attract additional port charges and may ultimately be forfeited to the government.

Extensive blank sailings have left virtually no empty containers available at European ports, according to the latest data, and extreme measures implemented to slow the spread of COVID-19 could delay the recovery of container demand. Container xChange's Container Availability Index (CAx), shows there is almost no container equipment in Europe and North America as a result of withdrawn capacity and the inability of carriers to turn around boxes and position them where they are needed. The shortage of empty containers in the European hubs of Rotterdam and Antwerp are at their lowest levels since the index was launched in 2018, and shippers requiring empties for exports from Europe say the containers are very hard to find.

Despite a reduction in the number of ferries from the UK to the continent, this is not impacting deliveries of food products for the moment. On the main Calais-Dover route P&O Ferries has four out of its five boats in service whereas DFDS is operating as normal, as are Brittany Ferries freight lines. Elsewhere, **Belgium** has closed its border with **the Netherlands** due to the lockdown disparities on both sides of the border.

From a **US** perspective, experts are forecasting potential disruption at ports and factories due to Covid19 incidents and labour shortages due to "shelter in place" orders. This will also affect fruit and vegetable harvesting in California also due to the reliance of the food industry on foreign labour, more than 200,000 guest workers each

year, 90% of whom come from Mexico on H-2A temporary visas where the issuing American consulates have shut down.

The **United States** also relies on foreign suppliers for almost 20% of its food, including 80% of its seafood, with almost half of that coming from Asia. About half of US imported dairy products come from Europe, including 25% of cheese imports coming from Italy.

Retail

The latest **UK** grocery market share figures from Kantar show year-on-year supermarket sales grew by the fastest rate in over a decade during the 12 weeks to March 22nd – increasing by 7.6%. However, the rate of growth in the most recent four weeks was nearly three times higher at 20.6%, making March the biggest ever month of grocery sales as shoppers stocked up amid the coronavirus crisis. Grocery sales amounted to £10.8bn during the past four weeks – even higher than levels seen at Christmas. The discounters are the clear winners from a growth perspective; Lidl's sales were up 17.6% during the 12 weeks, as its market share increased by 0.5 percentage points to 6.1%, while Aldi reached a new record high market share of 8.2%, growing sales by 11.0%. With growth of 7.4%, Sainsbury's was the fastest-growing of the traditional Big Four, followed by Tesco at 5.5%, Asda at 4.9% and Morrisons at 4.6%. Iceland benefited from shoppers stocking up on frozen items, with its sales up by 11.7%. Meanwhile sales in Co-op and Waitrose were up 9.4% and 7.5% respectively.

Since the April 1st, Aldi and Lidl UK are easing restrictions on consumer purchases as supplies in store improve. Aldi had placed a limit of four items per shopper on all lines but as of today it only applies to 13 product categories, including hand sanitiser and toilet roll. Lidl said restrictions were being lifted on ambient products with the exception of toilet roll, as footfall stabilised and customers followed guidance on shopping for essentials. In an effort to boost product availability Marks and Spencers (M&S) has introduced more branded lines to its food ranges. The retailer's usual preference for own-label has been relaxed with the temporary addition of branded lines such as Rummo pasta and Tilda rice. The retailer praised all of its suppliers for stepping up to the challenge of extra demand, with one producing 250% more cheddar blocks, slices and grated packs by redeploying staff and another is producing 200% more packs of minced beef after installing new factory equipment. Tesco Ireland this week has committed to maintaining the price they pay for Irish beef until June, highlighting their commitment to beef farming families by continuing to pay the same price to the processors for the next three months, as it has been since the start of 2020 when Covid-19 wasn't a factor.

According to the Vakcentrum in **the Netherlands**, despite increases in turnover, it is emerging that Dutch retailers are not actually making any money below the line due to the increased costs associated with installing plexiglass in front of cashiers and floor

markings in store, extra cleaning measures, hiring extra security and flexible additional staff and opening longer hours. Consumer behaviour has become so erratic that it has resulted in a combination of extreme shortages and high wastage that is eroding margins. Crossborder shopping is also impacted by the current lockdown with **German** retailers reporting a 30% decline in turnover in stores on the Dutch border and similarly on the Swiss border, while Dutch retailers are also reporting the impact in stores both on the Belgian and German borders.

In **Italy** the average shopping basket has increased by 17.8% compared to March of 2019, with ambient grocery being the clear winner with for example a 55% increase in sales of canned meat products. Conad has announced this week that it will close its deli counters for cured meats and are looking to replace this with prepacked longer shelf life cooked and cured meats due to the change in shopping patterns. Following the government introduction of food stamps on the March 30th, many Italian retailers, including Lidl, Conad and Selex, have committed to applying a 5-10% discount on purchases that are made with food stamps in their stores. During the week of March 16th-22nd, retail sales in Italy were up 5.4% compared to the same period in 2019, and online sales saw a record increase of 142.3% compared to 2019. Supermarket sales increased by 18.5%, while hypermarkets (-12.2%) and cash and carry sales (-52.4%) decreased.

We are starting to see some signs of increased indulgence and comfort eating with sales of sweet spreads (e.g. Nutella) up 61.3% and ice-cream and wafers up 21.5%, despite a shift in consumer concerns from personal health to the health of the Italian economy. This is reported to be having a direct impact on protein purchases as concerned consumers start to trade down. In contrast to this, newly launched research by Kansas University and funded by the beef checkoff and pork checkoff show year-on-year meat sales in the US increased by 91% in March as consumers forced to prepare more meals at home. While retailers in France are reporting similar sentiment to Italy, with consumers now closely monitoring their budget after the initial stock piling has subsided and a preference for private label product, similar to the 2008 recession, is emerging. 19% of Spaniards admit they are eating more than before the lockdown, and 9% declare that they eating less healthily, compared to 60% who say they maintain their eating routines, according to a study by El CoCo.

The Belgian government lifted its ban on retail promotions this week due to consumer protests. The measure was originally introduced to dissuade consumers from stockpiling but in a market where consumers are used to constant promotions, most notably in retailers like Colruyt known for its “red prices”, they perceived this measure as directly impacting the cost of basic foodstuffs. Delhaize has decided however not to reintroduce promotions, but instead is applying a unilateral discount of 5% to all products. In Italy most retailers at this stage have cancelled promotional offers in favour of maintaining fixed prices, like Coop who has decided to freeze the prices of all private label and branded packaged products until May 31st.

Similar to the McDonalds/Aldi partnership announced last week in Germany, the second largest US retailer, Kroger, has announced this week that it is partnering with the nation's largest foodservice distributor, Sysco providing temporary jobs to employees who've been let go as a result of the coronavirus. These workers will remain Sysco employees, with Sysco paying their salaries and they will return to work in Sysco facilities when the foodservice channel reopens. Coronavirus concerns are causing employee walkouts and strikes however at Amazon, and Whole Foods in the US, Delhaize in Belgium and Carrefour in France, amid employee concerns that retailers are providing inadequate protections against COVID-19 as fellow employees increasingly test positive for the virus.

Online Retail

Online retailers globally continue to struggle with the surge in orders with RedMart, a **Singaporean** subsidiary of the Alibaba Group, suspending new orders for two days this week to manage the backlog of orders. In **Spain**, Mercadona, who is emerging as the clear retail "winner" in the current crisis and who has seen its market share climb from 24.7% to 39.22%, has decided to cease its online service for Madrid customers rather than suffer the backlash other retailers are receiving over long delivery wait times of up to 10 days. In **France** Carrefour have teamed up with Ubereats, who had suffered a 45% decrease in restaurant deliveries last week, to improve its delivery times in Paris and they are looking to extend the partnership to their Belgian and Italian operations also. The impact of the crisis on the online channel in the Netherlands is expected to be significant in the long term. For the moment retailers are focusing resources on replenishing their bricks and mortar stores to the detriment of online, however it is forecast that if the crisis continues for another month, online shopping behaviours will become engrained and at least half of those now ordering online will continue to do so. However while digital transactions have increased by a factor of five at some retailers, digital margins are considerably lower, and often negative due to the overheads associated with order processing and delivery. Self-scanning instore has also dramatically increased with Albert Heijn alone announcing 400,000 new downloads of their self-scanning app which they are also forecasting that consumers will continue to use after the crisis.

The Easter trade

The week before Easter is traditionally a positive one for the food sector in Spain, however the confinement and closure of the foodservice channel will severely impact on Easter sales this year. Research in the Netherlands reports divergent consumer intent in the lead up to Easter; four out of every ten Dutch consumers interviewed are looking forward to Easter, but almost half are looking forward to it less than in previous years. 65% report that they will celebrate differently than in other years. Some

consumers plan to spend more on festive savoury and sweet food products, but more report that they will purchase less than in other years. 31% plan to spend the same amount on celebrating Easter this year, with 11% planning to spend more and 6% significantly more in supermarkets than in other years. On the other hand, 24% plan to spend less and 17% significantly less over the period. 29% will spend more on nibbles for drinks and special products for Easter dinner, while 26% intend to spend less on Easter eggs and other chocolate products, special products for Easter breakfast and brunch and Easter decorations. The second largest retailer in the Netherlands, Jumbo, has warned consumers that it may have some supply issues on certain items in its Easter promotional flyer. Elsewhere in the Netherlands consumer sentiment has been dampened by the estimated loss of more than €15billion in stock exchange shares since February 20th, when stock prices plunged as a result of the Covid-19 outbreak. One in seven households in the Netherlands is reported to have invested in shares or bonds. Polish retailers are preparing for an increase in sales in the run up to Easter with Biedronka and Lidl announcing that they are extending opening hours from 06:00 until 24:00 to comply with new 6am until midnight and they will open 24/7 from the April 7th – 10th.

Foodservice

Two major foodservice chains in **Germany** filed for bankruptcy last week, Vapiano and the well know steakhouse chain Maredo. In the **UK** Carluccio's looks set to become the latest. It comes just a day after The Restaurant Group-owned Mexican chain, Chiquito, filed for administration, putting about 1,000 jobs at risk. In **Canada**, a Restaurants Canada survey has revealed that many jobs lost due to Covid-19 might not return, as nearly one in 10 restaurants have already gone out of business and many more might close within a month. Ontario's nearly \$37 billion foodservice industry represents 4% of the province's GDP. If conditions do not improve, Restaurants Canada estimates that Ontario's foodservice sales will be down more than \$7.7 billion for the second quarter of 2020.

Wholesaler Brakes is the latest **UK** foodservice specialist to diversify its offer and has begun selling direct to consumers for the first time. Brakes' new Food Shop venture went live this week at its Reading, Portbury and Warrington depots as shoppers can now browse its website, call through orders from 9am to 2pm and collect from the depot the following day. Similarly in the **UAE**, Bidfood and other foodservice dedicated distributors have begun selling through B2C channels and are taking home delivery orders through Whatsapp to compensate to some extent the loss of foodservice orders. Brakes and Bidfood have also started delivering food to vulnerable people in the UK, dropping off free food boxes to the 1.5million shielded Britons who cannot leave their homes due to pre-existing conditions that make them especially exposed to Covid-19. Both firms have been sitting on extra produce after non-essential sites were forced to close. In Ireland Pallas Foods are offering a next day Click and Collect service to the general public from three of their warehouse

locations (Dublin; Limerick & Cork); ranges include some of the Brakes and other private label products, in addition to some branded goods.