Bord Bia's Understanding Covid-19

Topline Takeouts

- Lockdown continues in a number of countries worldwide with Governments imposing restrictions. Sweden and the UAE remain the notable global outliers at this point with limited lockdown measures imposed in either market to date, however notwithstanding this, trade to both markets has been impacted.
- The Euro has weakened against sterling and the dollar. The inability of the EU block to agree collective action was interpreted in currency trading markets as a weakness and contributed to a weakening of the currency early in the week.
- Unemployment continues to rise in Covid affected countries, particularly in the hospitality sector.
- With the foodservice industry collapsing, tempered solutions are beginning to appear with some wholesalers opening their doors to consumers. In the UK, Deliveroo are extending their home delivery service to offer a range of Marks & Spencer essential groceries, milk, bread and ready-made meals, to help people isolating in their homes.
- The price to freight goods internationally has trebled in recent weeks – as a result of increased complexity and imbalances in container distribution globally.

Macro Economic Context

Political

In the UK, the deputy chief medical officer Jenny Harris speaking at a Downing Street press conference raised the possibility that restrictions would have to continue for up to six months. The significant restrictions on people's freedom to move were introduced on March 23rd and are to be reviewed after three weeks - on April 13th. Commenting that if the UK ended social distancing measures too rapidly "all our efforts would have been wasted".

Although some senior figures in the Johnson government are eager to ease the lockdown as soon as possible, scientific experts have warned that withdrawing them too quickly risks a second wave of coronavirus cases later this summer that could overwhelm the NHS. Echoing Jenny Harris, Neil Ferguson, a professor at Imperial College London who has worked closely with Downing Street on modelling and dealing with the coronavirus outbreak, suggested that the full lockdown restrictions should stay in place "probably until the end of May, maybe even early June".

In the **United States**, President Trump accepted that significant levels of social restrictions and distancing would continue until at least the end of April. This follows previous public statements around expecting the US to be open for business by Easter. The reversal is seen as a manifestation of the increasing seriousness of the crisis and the pressure being put on

US healthcare systems, particularly in New York and in New Orleans. A number of governors of US states – who hold significant powers over emergency response and limits on movement – had publicly contradicted the President on the viability of the Easter timeline. The extent of the disruption and likely length of the crisis raised the prospect of a need for further economic stabilisation measures from Congress. On Monday March 30th, Speaker Nancy Pelosi said, “We have to pass another bill that goes to meeting the need more substantially than we have”. A US navy hospital ship arrived in New York that day to free up beds in the cities hospital system.

In contrast, **Sweden and the UAE** remain the notable global outliers at this point with limited lockdown measures imposed in either market to date, however notwithstanding this trade to both markets is impacted.

Economic

Currency movements

Last week the Euro traded strongly against other major world currencies and had appreciated to some extent. At the start of this week (March 30th), there were trading declines, most particularly against GBP.

This came in the wake of rating agency Fitch’s decision to downgrade the UK’s sovereign debt from AA to AA- over the weekend, saying debt levels will jump as the government ramps up its spending to offset the near shutdown of the economy in the face of coronavirus. Sterling appreciated nonetheless as markets responded positively to the UK’s government and Bank of England’s responses to the crisis. The UK government has thus far agreed a total support package of direct tax and spending measures to the tune of £119bn (5.3% of GDP), according to analysis from Capital Economics.

After the unprecedented support packages pushed through last week in many developed economies, the only one missing was for the European Union as a whole. The inability of the EU block to agree collective action was interpreted in currency trading markets as a weakness and contributed to a weakening of the currency early in the week.

For exporters selling to markets outside the Eurozone, the relative weakening of EUR makes their product more attractive and affordable to buyers in those markets.

Unemployment

Over 3million people filed for unemployment benefit in the United States between March 15th and March 21st.

In the UK, Nomura has modelled that unemployment will double in the coming months, despite the UK government’s action of guaranteeing 80% of the salary of furloughed workers. Nomura’s report shows unemployment in the UK will rise to 8% by June – which would account for 2.75million people. In January, according to official figures from the ONS, unemployment in the UK was 3.9%.

Official unemployment figures from stricken continental European countries have yet to emerge. Italy, France and Spain have all to some extent tried to forestall mass unemployment by guaranteeing employers salary costs, but the extent to which this has been successful in staving off unemployment has yet to become clear.

In Ireland, an estimated 140,000 people have been laid off as a result of the crisis thus far. RTÉ reports that 70,000 restaurant staff, 50,000 pub and bar staff and approximately 20,000 créche and childcare workers have been laid off due to COVID-19 so far. All of these can avail of the COVID-19 Pandemic Unemployment Payment which is at the rate of €350 a week, significantly more than standard jobseekers allowance of €208.

Social

Flow of people and goods across borders has significantly reduced globally, and most dramatically within the previously free flowing Schengen agreement countries (an agreement between EU countries where internal border checks have largely been abolished). All members of the Schengen agreement have temporarily reintroduced border controls. Flow of goods across those borders now takes significantly more time, with the attendant costs. The closure of all of Europe’s external borders has made the flow of goods from outside the Union more difficult and expensive also.

As a result, suppliers of fresh fruit and vegetable have begun to warn that supplies of both may become scarce in Europe as controls hamper the flow of produce and also the people needed to harvest the crops.

In Kenya, a major supplier of green beans and peas to Europe, it is reported that half of the workers in the sector have been sent home on mandatory leave because of the industry’s inability to ship orders, even as demand from European retailers surge.

A shortage of migrant workers also threatens to disrupt production in several top European suppliers including Spain, the biggest exporter of fruit and vegetables in the EU.

Some 16,000 Moroccan seasonal workers, mostly women, were expected to arrive in the Huelva region in Spain to pick strawberries and red fruits under an agreement between the two countries. Less than half had made it by March 12, as Morocco closed its borders to passenger traffic

Finally, the price to freight goods internationally has trebled in recent weeks – as a result of increased complexity and also of imbalances in container distribution globally.

Market Insights

Over the weekend of the 28-29th March, India was the latest country to move into lockdown, with 1.3 billion people ordered to stay at home. Thailand, South Africa and Russia also put similar measures in place in the last number of days and, according to local reports, Indonesia is also poised to follow suit in the coming days. From an Irish export destination perspective, Sweden and the UAE remain the notable global outliers at this point with limited lockdown measures imposed in either markets to date, however notwithstanding this trade to both markets is impacted.

The situation at ports in China continues to improve, with Shanghai Yangshan Port back to 90% container processing capacity and over 50% of cargo ports in Hubei Province back in operation. According to China Aviation Bureau, air cargo flights are almost back to the same volume as before the outbreak with local logistics companies planning to expand their international cargo operations and charter flights for air cargo shipments to cope with the growing air traffic suspensions across the world. Restaurants in China continue to report a slow recovery with turnover reported at 50-60% of normal turnover for this period and demand for premium products like oysters still back by up to 60%.

Elsewhere in Asia, following the cancellation of the Olympics last week, Tokyo entered a “soft” lockdown on Saturday 28th March with residents being asked to stay at home, work from home, and avoid going out on weekday evenings. Retailers in Hanoi, Vietnam are reporting to be well prepared with well stocked shelves in bricks and mortar stores and online vendors reporting they have tripled their revenues.

The spike in the number of cases in South Africa, the worst affected country on the African Continent to date, has pushed other African countries to also undertake strict measures, with the real concern in the long term being the acute lack or non-existence of ICU beds in Africa. Kenya, Egypt, and Senegal have imposed overnight curfews; Uganda has restricted visitors from high-risk countries; and Rwanda has banned inter-country travel. In South Africa the vast majority of low income families earn their living in the informal economy, however due to the lockdown there is a ban on street vendors and markets, hence this will not only destroy their livelihoods but will also mean they will have to pay more to get access to food.

From a logistics perspective in a number of European countries, including France and Germany, the government has relaxed restrictions on night deliveries and Sunday motorway bans for lorries to meet the heightened store replenishment demands.

In France, Rungis is the latest wholesale market to start to sell to the public, offering an online order platform to consumers in the greater Paris area. The French government are publically encouraging consumers to buy French to support French farmers, with the leading hypermarket chain Leclerc following suit launching a radio campaign this week offering loyalty card holders 20% credits when they buy French fruit and vegetables and seafood. In Sweden, Lidl has come out publicly looking to support Swedish food producers.

In Spain 80% of independent neighbourhood proximity stores in Madrid have closed due to a drop in footfall, although they remain open elsewhere in Spain, however only 45% of forecourt stores remain open nationwide.

In Germany, home delivery frozen food specialist Bofrost have reported that their orders have doubled, while Nielsen are also reporting significant peaks in frozen food purchases (fish fingers +124%, frozen pizza +60% and frozen-vegetables +188% in week commencing 9th

March) in German bricks and mortar stores. In an effort to redeploy staff, McDonalds have signed an agreement with Aldi offering their staff temporary “secondment” contracts in Aldi stores as German retailers double their demand for temporary staff.

In Italy, queuing at retail outlets continues to intensify. The Italian government has issued food stamps in an attempt to address this and looting that has begun in the south.

In the UK Deliveroo are extending their home delivery service to offer a range of Marks & Spencer essential groceries, milk, bread and ready-made meals, to help people isolating in their homes. The items, available from 120 M&S franchise stores at BP service stations across the UK, can be ordered via the Deliveroo app with no delivery charge. This move comes as Britain’s supermarkets have admitted they cannot cope with the sharp increase in demand for online food ordering. Customers who are able to are asked to keep shopping in stores. Prior to the pandemic, online sales accounted for approximately 7% of total food sales in the UK, and as demand ramps up delivery slots are selling out weeks in advance as seen in recent weeks in Italy and elsewhere in Europe. Ocado is changing its ordering process to increase the slots available, restricting customers to one order per week and rationing more products.

In the US while a national state of emergency has been announced, lockdown measures differ significantly between states, and compared to other international lockdowns, with most states still allowing gatherings of up to 50 people. No state has closed its borders to the rest of the country, although a New York-Connecticut-New Jersey quarantine was mooted last week. The main change over the weekend of the 28-29th March was the dropping of any discussion about the economy recovering by mid-April, with the extension of the 15-day nationwide stay-at-home order for a further 30 days. In the majority of states, schools are closed until after the Spring break on the 17th April with stay-at-home orders in place, however schools in California for example have decided to remain closed for the remainder of the school year. Table service restaurants and bars remain open in approximately fifteen states (primarily Florida, Kansas, Mississippi, Missouri, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Tennessee, Texas, Utah and Wyoming). In Illinois while bars and restaurants have been ordered to close, gyms, bowling alleys, theatres and private clubs remain open, limiting their occupancy to 50 people. McDonalds and other QSR outlets remain open for takeaway and Shake Shack have added steaks to their takeaway menu in New York. AWG forecast that 10% of US restaurants will not survive the lockdown, however QSR is expected to rebound quicker. Democratic primaries have been postponed in a number of states including Indiana and Louisiana.

From a logistics perspective, US ports and trucking agencies are deemed essential services and are currently operating as normal. However, the storage of containers will become an issue as containers continue to arrive in US ports but the businesses they are destined for, bars and restaurants, are progressively shutting down. Pre Covid-19 wine and spirits importers for example had been stock piling in warehouses to avoid Tariffs imposed in October, so warehouses are already at capacity.

In the Middle East with all passenger flights in and out of the UAE grounded since the 25th March, importers and consolidators dependant on air freight have confirmed that transport costs are now at almost commercially prohibitive levels as goods now need to be transited through other airports that are operating cargo routes to Dubai, with the closure of a number of routes including the Emirates Dublin-Dubai air route. On Monday 30th March the UAE adopted a law to organise strategic food stocks as the UAE is dependent on imports for approximately 80 to 90% of its food.

In Saudi Arabia, in contrast to the UAE, all restaurants and open-air and indoor markets and malls were closed as of this weekend, with the exception of pharmacies and supermarkets. All foreign pilgrims have been banned from entering the country five months ahead of the annual Hajj pilgrimages, which attracted 2.5 million pilgrims in 2019 and underpins Saudi Arabia's tourist industry.

Sector Update

Overview

Across all sectors **retail sales** are holding up well, while foodservice sales have more or less stopped. All clients have policies in place in case a production worker tests positive for Covid-19 but many companies are still looking for clarity on the exact protocols. At retail there has been a rationalisation of stock keeping units (sku's) and smaller clients are worried that they are losing shelf space.

On the **logistics** side, France and Germany are accepting deliveries, but there are some delays at borders. Shipments to Northern Europe (Nordics) are being delivered by road. A number of clients have tried to build some stocks in key markets such as the United Kingdom. However, there is concern about importing raw materials and goods, and the subsequent delays especially with goods that cannot be bought in Ireland. For some sectors, warehouse and cold storage space is coming under pressure. The shortage of containers for shipping to Asia remains an issue and will take 5-6 weeks to normalise.

China and other Asian markets are showing signs of recovery, with positive indications from Emirates Sky Cargo and Qatar in recent days regarding possible extra capacity. Products such as oysters are beginning to see demand pick up slowly across Asia. There is concern from industry concerning cash flow and late payments for orders filled earlier in the year.

Beef

In the beef sector Covid-19 has started to impact on production, with the demand at factory level for "in spec" heifers and steers, with out of spec cattle seeing difficulties getting into the production line. Cattle prices have seen a sharp drop, with O grade cows falling by over 50c/kg. Issues in terms of ordering and meeting specifications have been accelerated in the past few days. There is a very low demand for steak cuts at retail level. The decline in demand in Europe is having a big impact on sales of Irish beef, with prices falling as much as 66% depending on the cut and the market in question.

Livestock

Livestock has been significantly impacted due to restrictions based on cattle marts domestically. The collapse in the demand for calves reported across key markets remains a significant concern for exporters. There is still a demand for Irish animals in some markets, but prices have declined by €10-20 per head, with greater decline expected this week. Given the export costs per animal, this price reduction will make the sector less viable to many exporters. Logistically, there are no issues reported in the export of livestock from Ireland as temporary border delays have now been reduced.

Sheepmeat

There has been no significant impact on production of Sheepmeat to date, however there is an expectation that throughput will fall towards the end of the first week in April (w/e 29/3/2020). Throughput is currently up 17% YOY with no issues on sourcing sheep. Sales of sheepmeat into domestic foodservice operators has fallen significantly, however with strong demand from retail this has negated the offset and is a similar situation in exports markets. Logistically, sheepmeat producers are not facing any issues currently.

Pigmeat

In the pigmeat sector, there is currently no major impact on production to date. Throughput, however, saw a decline of 17% on the previous week, and is slightly down on 2019 figures. There is also limited cold storage capacity and producers are unable to freeze significant volumes of product.

Poultry

Poultry production is being maintained, however value added lines continue to be temporarily suspended across the industry. Similar to other categories in the sector, there is a strong demand for poultry at retail level, with an estimated increase of between 30-40 %. Demand is expected to fall in the short term but is expected to maintain a 20% YOY in comparison to '19.

Dairy

The dairy industry is still focusing its resources on milk collection and processing while at the same time looking to the future and trying to plan for various scenarios. Supplying into Asian markets continues to be difficult but the situation is easing with greater availability of reefers. The hit to Foodservice is counterbalanced by a very significant surge in retail demand – butter and cheese packers are at full tilt and in the shadow of peak production and output. There is significant movement of stocks evident as retailers rally to keep shelves full. Ingredient buyers are engaging and buying to stock now for Q2. Mid-tier Consumer dairy companies exposed to foodservice in the UK and Ireland have faced a dramatic drop off in orders. Cáis, the Association of Irish Farmhouse Cheesemakers, carried out a survey amongst its members that highlighted an estimated 75% drop in sales as a result of the closure of foodservice outlets. Cáis also expressed concern for jobs as well as for finding a home for excess milk produced, on their own farms and as well as speciality milk from sheep, goat and buffalo. The association acknowledged that it was incredibly grateful for the support received by retailers to date but that continued support was required to keep the industry operational.

Alcohol

In the alcohol sector, distribution in key markets is still operating well. On the trade end, distribution is slowing to a halt in most markets because of a drop in on-trade demand. On the supply side, production is lower due to staff protocols, but there is worry that when raw material supplies diminish, some imported ingredients may be difficult to secure. The off trade is performing well, as consumer switch to home consumption and this is expected to continue. It is important to note that warehousing capacity is now coming under severe pressure in most export markets. Distilleries continue to produce with protocols around staff and social distancing. Many distilleries are producing alcohol-based hand sanitiser and this is generating some cash flow.

Prepared Consumer Foods

Significant changes have been reported for clients supplying into the retail sector, with reports that production has increased in the last 3 weeks, in line with Christmas volumes, with some citing 20-25% increase in volume/value. In overall terms there has been a strong increase in sales at suburban retail stores while city centre stores are reporting slower sales, as more people are at home and are cooking from scratch. Retail surges continue to cause concern as client companies do not have the cash flow to purchase stock and raw materials to meet the demand of such surges. Some suppliers are reporting an over-indexing of sales of the more traditional product lines suggesting a consumer shift towards 'back to basics'. Some clients are also reporting major increases in orders coming from discounters in particular.

There are many reports of labour shortages in store, which is impacting on sales of loose products. Low margin products are also reported to be under pressure of being delisted by retailers.

Foodservice sales have fallen, both in Ireland and Europe-wide by anywhere between 60 and 95% with the only sales happening in takeaway or delivery in the restaurant sector. Sales into the airline business are totally gone.

With this collapse, food waste is now a concern for those who need to find a new home for stock that was originally being sold in bulk to wholesalers/foodservice operators. There is a surge in sales coming from the health sector (nursing homes), forecourts, pizza independents and chains. There continues to be concern around ingredients supply such as sugar and flour all of which is imported.

Seafood

The Irish seafood processing sector continues to be caught in an extremely precarious position as a result of the Covid-19 crisis. Whilst the majority of Irish processors are still open for business, they are operating at reduced capacity. Irish processors supplying the multiple retailers are reporting a stabilisation in demand and a slight contraction in the levels of orders they are receiving from their customers. This is being put down to an end to 'panic buying' in the supermarkets as consumers take confidence from the fact that the shelves and chill cabinets have been kept adequately stocked. Irish processors confirm they are comfortable with their raw material supply position for the week ahead at least, and it would appear that for now, there are no major issues in sourcing sufficient volumes of both domestic and imported fish to supply their needs. To service the local market, Irish fishing vessels are now 'fishing to order' subject to demand from processors. Fishermen are typically making shorter, more targeted trips. Some Irish whitefish species is still selling into the Spanish market albeit at reduced prices.

The situation within the pelagic sector remains stable with transport logistics their main area of concern at present. There continues to be demand for Irish live shellfish in China and across other Asian markets and there were some positive indications from Emirates Sky Cargo and Qatar in recent days as regards extra capacity which might ease some of the pressures on this sector in getting their product to market to meet demand. Oyster exports are continuing with demand starting to pick up slowly across Asia for Irish oysters. Most clients are using Qatar Airlines as it is still flying a direct route out of Dublin for time being. The Marine Institute testing laboratories continue to operate as normal and companies are able to secure their shellfish analysis results. Activity in the lobster fishery remain low as prices are depressed and storage facilities are largely full. Other fisheries such as for velvet crab, scallops and razors are not operating with vessels tied up due to lack of demand. Some whelk fishing is continuing but prices are low and transport logistics expensive.

It is anticipated that there will be some harvesting of Irish organic salmon this week and strong sales are expected to core export markets for example in France (in retail) along with good domestic demand to service the smoked salmon sector.

The mussel sector continues to report low levels of activity to a collapse in demand in the foodservice markets in Europe and some retail markets for mussels are now under pressure. Large stocks are now held in cold stores which is a huge draw on cash flow. Stock management is one of the biggest challenges faced in this crisis now by Irish aquaculture.

Horticulture

Within the edible horticulture sector, retail demand is strong. There has been a particularly brisk trade in purchasing larger packs of potatoes. In line with other sectors, the foodservice sector has been impacted negatively with remaining key outlets now closed under additional restrictions announced on March 24th. Labour concerns continue to be a big issue - on farms pickers are going home to their own countries & not coming back due to reduced freedom of movement in the EU. The strawberry/soft fruit sector looks most vulnerable at present.

In the amenity sector, demand for the week up to Friday March 27th was reported as brisk. However, on Friday March 27th new restrictions announced by the Government meant that all garden centres and DIY Stores had to close from Saturday March 28th. This was seen as a huge a blow for the amenity horticulture sector as these are all the key outlets for plant sales (at the critical part of the growing season). With these outlets closed for at least two weeks, nurseries will have to hold onto and maintain current stock. Depending on the crop in question some product may “go over” its best look and may not end up on sale. Some independent garden centres are still selling on line and some plant products are being sold via the main stream grocery retailers.