

Covid-19: Impact on Trade Report

August 14, 2020



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Macro-Economic Context

Political

In the **US**, negotiations between the executive branch and the legislature on a second pandemic relief package have floundered. In an attempt to work around Congress, President Trump signed a series of executive orders on Sunday. These have resulted in confusion and uncertainty for tens of millions of unemployed Americans and countless businesses seeking aid after critical benefits lapsed.

White House officials have insisted that Americans would receive the aid promised by Mr. Trump, including a \$400 weekly supplement to unemployment checks swiftly.

But that funding will be contingent on agreement from state officials, who are already struggling amid budget shortfalls caused by the economic crisis, and the siphoning of aid from a federal fund for disaster relief in the middle of what is expected to be an active hurricane season.

A resolution with Congress continues to seem unlikely and recess remains scheduled.

Economic

The **UK** economy shrank by a fifth in the second quarter of 2020, falling into the deepest recession on record and suffering a bigger slump than any other major European economy over that period. Official data released on Wednesday showed that gross domestic product fell by 20.4 per cent quarter-on-quarter, with widespread contractions across all sectors. Productivity saw its biggest fall since the three-day week in the 1970's.

Investors have renewed their confidence in **Germany's** recovery, after economic indicators showed the Eurozone's largest economy has rebounded at a faster pace than its peers in recent months. Sentiment about the economic outlook shot up by 12.2 points to 71.5 points this month, after falling in July, to reach its highest level of optimism since January 2004, a poll of 178 German investors found.

The OECD predicted on Tuesday that the **South Korean** economy would shrink less than expected this year, helped by Seoul's quick and effective response to the coronavirus pandemic. In its latest report on South Korea, the Paris-based organisation of developed economies raised its forecast for Asia's fourth-largest economy to a 0.8 per cent contraction in 2020 from a 1.2 per cent fall it predicted in June. The revised forecast marks the highest growth estimate among 37 OECD member countries and far better than the OECD average of a 7.5 per cent contraction.

Societal

New Zealand has reported its first coronavirus cases outside of quarantine facilities in more than 100 days, prompting the government to order the lockdown of Auckland, the nation's most populous city, for at least three days. Four members of the same family tested positive for Covid-19 and the source of the infection remained unknown, the prime minister said on Tuesday. The family had not travelled overseas, which suggests the return of community transmission of the virus for the first time in more than three months.

International travel remains extraordinarily restricted - illustrated by new data from the **UK**. The number of passengers flying from Heathrow Airport fell nearly 90 per cent in July, as the airline industry struggles to reopen in the face of restrictions on international travel. In July, 860,000 used the airport, a slight rise compared with the previous month but still 88 per cent lower than in the previous year.

Technological

Russia, on Tuesday, became the first country to officially register a coronavirus vaccine and declare it ready for use, despite international scepticism. President Vladimir Putin said that one of his daughters has already been inoculated.

President Putin emphasized that the vaccine underwent the necessary tests and has proven efficient, offering a lasting immunity from the coronavirus. However, scientists at home and abroad have been sounding the alarm that the rush to start using the vaccine before Phase 3 trials — which normally last for months and involve thousands of people — could backfire.

Jens Spahn, the German health minister, has expressed scepticism about Russia's Covid-19 vaccine, saying it had not been adequately tested. In an interview with Deutschlandfunk radio, Mr Spahn said: "It's not about being first, it's about having a tried, tested and safe vaccine which will be given — and that's the important part — to hundreds of millions, maybe even billions of people. The problem is that we know very little because the Russian authorities are not being very transparent," he said.

Sectors Insights

Meat Sector Summary

Beef

Market demand has been reported as quieter, as seasonally we are now in holiday period, resulting in some reduction in home cooking and barbecue demand, while on the other hand the Covid-19 situation is still subduing demand from the foodservice sector.

A number of countries including Ireland have reported Covid incidences in meat plants over the past week that are currently being investigated.

For week ending August 2nd, average prices paid in **Northern Ireland** have seen further increases for the past week, with R3 grade steer prices rising to £3.74/kg, and heifer prices averaging £3.76/kg. These prices were equivalent to €4.13/kg and €4.15 respectively, excluding VAT.

Prices paid for R3 prime cattle in **Britain** also saw significant change during the same week, with steer and heifer prices increasing to £3.74/kg. In euro terms, these prices were equivalent to €4.13/kg excluding VAT.

Across **Europe**, average R3 young bull prices are equivalent to €3.53/kg excluding VAT, which is 22c/kg below the average Irish R3 steer price.

In the **US** recent data has shown grocery retail sales to have increased by 13 per cent in the first six months of the year, while foodservice sales declined by 23 per cent. For the three months (April-June) foodservice values declined by 39 per cent and any improvement will be largely dependent on a second economic stimulus package, which is expected to be announced in August or September.

Cattle throughput at Irish beef export plants for the year to-date to August 9th, has declined by 0.8 per cent, or 8,480 head, reaching a total of 1,079,312. Throughput for the most recent week ending August 9th totaled 31,838 head. This is over twice the throughput for the equivalent week in 2019, where factory gate protests had resulted in factories working on a reduced capacity or were closed.

Livestock

For the week ending August 2nd, 4,710 live cattle were exported, according to the latest figures published by the Department of Agriculture, Food and the Marine. Out of this total, calves accounted for only 583 head. Adult cattle aged over 21 months made up 1,050 head and the remaining 3,000 animals were comprised of weanlings and store animals.

Northern Ireland and Libya were the largest destinations, accounting for approximately 1,450 and 1,881 head, respectively. Other markets for that week included Spain (862), Italy (59), the Kazakhstan (399) and Kosovo (60).

During the equivalent week in 2019, there were just 1,326 cattle exported. For the year-to-date, overall exports of live cattle from Ireland have declined by 15 per cent, or 36,638 head, to 199,846 head. The primary reason for this decline has been fewer calves being sent to other EU markets, which have collectively fallen by 28 per cent, or 52,000 head, to 138,157 head.

Recent shipments of young bulls to Libya and breeding female cattle to Kazakhstan have been welcomed by the industry, as the decline in intra community trade has been offset by the increase in exports to markets outside of the EU and UK.

Sheepmeat

The average sheepmeat price for last week dropped again to €486.40/kg. In the past month, average sheepmeat prices have fallen by over 45c/kg, wiping up to €10/sheep off the price compared to last month. Quotes for the week commencing August 10th are between €4.80-€5.00/kg, with QA lambs still commanding a 10-15c/kg price premium.

Prices in 2020 have performed very well, with the average sheepmeat price in 2020 over 38c/kg higher than the 2019 average price for the first 32 weeks of the year.

Sheep throughput for the week ending August 8th stood at 44,432 head, decreasing by over 33,000 head on the previous week as factories had a shorter kill week due to the bank holiday along with Covid-19 disruptions at export plants. Throughputs for the year now run 7 per cent above 2019 levels, with numbers of spring lamb being presented at factories increasing by over 92,500 head on 12 months ago. With high numbers of lambs now passed through export plants, smaller numbers of lambs being presented at factories for the coming weeks is expected.

Pigmeat

The average price paid for grade E pig prices in Ireland for the week ending August 2nd remained at €1.63/kg. This is however a decrease of 8c/kg on the same week last year. Irish prices currently sit 13c/kg above the EU Grade E price, which has stabilized to €1.51/kg. Irish prices have fallen by 15 per cent since early February, with prices now remaining stable for the past 2 months. With some further easing of lockdown measures over the past few weeks across the world, demand for pigmeat has improved slightly.

A total of 55,761 pigs were sent for processing during the week ending August 9th 2020. Throughput was down on the previous due to the August bank holiday and further disruptions in meat processing factories due to Covid-19 outbreaks. So far for 2020, pig throughput levels are currently running above 2019 levels, with 2,093,934 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 31 weeks of 2019(+15,791).

According to the latest projections by Rabobank for Q3, EU 27+UK pork production is expected to decline by 0.5 per cent in 2020. Exports have been strong in 2020, even with the disruptions with Covid. However uncertainties are rising with some temporary suspensions in trade with China, which has taken over 60 per cent of exports from the EU and UK so far this year. Exports of American pigmeat to China are expected to be up 18 per cent year-on-year with demand in Asia remaining high.

Poultry

According to the latest projection for H2 by Rabobank, Demand for poultry will improve as the Covid-19 containment measures in the hospitality and foodservice sectors are eased. Global trade will remain unstable in the 2nd half of the year and although demand will recover, supply-demand imbalances, and access issues could distort trade. Rabobank have said that a trend of nationalism and buying local could have an impact on exports. Exports in the EU had declined sharply in H1, falling by 8 per cent year-on-year. Overall EU consumption is expected to decline by 1.9 per cent in 2020 to 24kg per capita as a consequence of the fall of the foodservice sector.

In Ireland, cumulative poultry throughput for 2020 stands at 62.88 million head after 30 weeks, this is a 3.3 per cent increase compared to the same period 12 months ago.

Dairy Sector Summary

The last Global dairy trade auction 265 saw prices fall by 5.1 per cent overall. Butter and cheddar prices were down by 2.8 per cent and 5.3 percent respectively.

EU prices across the board are showing small downward pressures during the quieter holiday period of August with SMP down 2.38 per cent to €2,050 while butter and WMP remain unchanged at €3,330 and €2,720 in the latest Dutch auction.

On the farm, grass growth has remained strong over the past two weeks with growth across the country averaging 69kg DM/ha. Milk price announcements for July are coming through with some co-ops holding June price and other increasing price by 1c/litre for July milk.

The **EU** is currently forecasting an increase of milk output of 0.7 per cent for 2020.

Seafood Sector Summary

Demand for Irish **pelagics** is still volatile. Demand in China has picked up but demand for high specification mackerel destined for the Japanese market is still relatively weak due to many people still working from home and demand for the traditional mackerel based lunchbox is low. Many customers in Europe are still processing from stock purchased earlier in the year so new orders are slow to come through and competition is challenging from cheaper supply sources from the Faroes and Norway.

European markets for **whitefish** also remain volatile with demand weak in Spain for species such as megrims and monks due to the collapse of the tourism market. Similar trends are evident across other markets in Europe whilst on the home market, sales through independent outlets are strong but foodservice is still poor due to limited menus and some sectors still remaining closed due to Covid-19 restrictions. Data from Kantar has shown that that in the 16 weeks ending June 14th 2020, fresh prepacked fish mix, prawns, haddock and salmon were the best performing species during this period. Total haddock sales grew by 2.7 per cent which was due to a slight increase in shopper numbers as well as consumers buying more volume per trip. Frozen haddock sales grew by 28.8 per cent, whilst fresh haddock sales declined by 9.3 per cent in the same period. As reported previously, demand for Irish organic salmon continues to buck the trend with sales strong throughout the year across key markets in Europe and exporters now planning for the busy traditional end of year sales. The oyster sector is still in challenging times with demand poor in the French market which accounts for around 70 per cent of exports and accessing the Chinese market, due to logistics and nervous consumer sentiment, continues to be difficult.

Alcohol Sector Summary

No further update from previous report.

Prepared Consumer Foods Sector Summary

Demand for retail products has slowed down a little in recent weeks as consumers now have more options to consume food outside the home. Online grocery sales have maintained growth as it provides a reliable option for consumers who do not wish to visit a supermarket. Retailers have added capacity to meet demand for online shopping. Local independent retailers have developed online, email and phone ordering capability allowing them to meet demand in areas not covered by the larger retailers.

Our client companies focused on foodservice markets have seen growth in demand in recent weeks. The increase in foodservice volume in the Irish market is providing a welcome boost to client companies. They expect orders to remain stable in the coming weeks but they are cautious on their outlook from September onwards.

Farmers markets are continuing to trade well. These markets provide a key sales outlet for a diverse range of local food producers. Traders have adapted to the new trading environment by installing screens, wearing PPE and promoting the use of contactless payments. Our smaller producers are reporting that volumes are stable and markets are providing a regular revenue stream. Market traders who developed online sales and collection models during the initial lock down period have these maintained offerings.

Horticulture Summary

No further update from previous report.

Market Insights

Retail

Current consumer sentiment around food purchasing during Covid-19 is neatly captured in the new data for June coming out of **Singapore** which reveals that supermarket sales rose 43 per cent, while foodservice sales fell 44 per cent in the same period compared to 2019 according to SingStat.

Prices

Food inflation continues to rise with prices in **Belgium** increasing 3.2 per cent year-on-year, led by fruit, veg, meat and fish which experienced inflation of 6.1 per cent. Prices for processed products (bread, confectionery, dairy products, but also alcohol and tobacco) rose 2.4 per cent according to Gondola. The South **China** Morning Post reports a rise in inflation of 2.7 per cent year-on-year in July, driven by higher food costs, while food prices were ahead 6 per cent in June in **Poland**.

The reasons behind the rise in food costs are unclear but the price-conscious **Dutch** shopper is reported this week as being less inclined to do the weekly shop in a number of different stores, opting instead for full-service supermarkets with wider aisles. However, discounters are expected to regain lost ground as the danger of recession approaches according to distrifood.nl.

Retail

SM Retail in the **Philippines** has reported a drop in retail revenues for H1 of 18 per cent to PHP139.2 billion (USD\$2.84 billion), with strong performance in food (up 15 per cent) being offset by heavily impacted non-food revenues. Meanwhile in **Saudi Arabia**, Fitch forecasts 2020 food spending growth of 4.4 per cent year-on-year, a revision on the pre-Covid forecast of 2.4 per cent year-on-year. Fitch's medium-term forecast (2020-2024) has changed to 3.1 per cent year-on-year, from the previous annual average of 2.4 per cent.

Q2 results for the **Swedish** convenience channel show a drop reflecting disruption to stores servicing customers from commercial offices. A loss of 11.6 per cent was measured in the industry's own Convenience Stores Index according to Fri-Kopenskap.

Meanwhile, McKinsey's latest review of **Nigeria's** retail sector shows that consumers are continuing to move to online for non-essential purchases while sourcing essential supplies from Bricks and Mortar stores.

Consumer Habits

In **Germany** the food and beverage trade association (BVLH) has published key Covid findings of a study by the University of Göttingen which shows that German retail is well positioned to manage the Covid crisis. Bulk buying has decreased, with 33 per cent of consumers paying more attention to origin of product and consumers continuing to avoid shopping during peak hours. It also finds that while consumers are driven to find value because of the precarious employment situation, they are also seeking out high quality food and often organic options, according to Lebensmittelzeitung.

Also in **Germany** LebensmittelPraxis reports the results of research by the Oliver Wyman consultancy firm which conducted a survey of 1,000 consumers. 25 per cent of respondents stated that they have bought less meat overall since the beginning of the pandemic, 20 per cent said that they spend more money on meat, citing organic meat.

Market research company IWSR has identified five trends affecting alcohol consumption during Covid-19 which point to a desire for quality over quantity. The main trends were the demand for premium products, support for local producers, sustainability, convenience and health.

Retailer Reaction

In the **UAE**, Majid Al Futtaim (MAF), the holding company with exclusive rights to the Carrefour franchise in the Middle East, has opened the Central Kitchen facility at the Carrefour Regional Distribution Centre in Jebel Ali to supply Carrefour stores with ready-to-eat, easy to cook meals and “grab and go” items. The 7,000 sq.metre site, when fully operational, will provide shoppers with a choice of 40 different meals daily. The move is a loss to external suppliers to MAF according to RetailAnalysis IGD.

Innovation

In September Aldi will install an automatic counting system in 450 stores in **Belgium** to regulate the number of shoppers in store at any one time according to Gondola.

Lidl **Germany** has started a loyalty program named “Lidl Plus” this week. Currently it is still in the testing phase in Berlin-Brandenburg area, but the plan is to implement it nation-wide. The app-based system will be used for identifying consumer behaviour to develop personalized advertisement and product offers. As incentive for using the app the consumer can collect bonus points and will receive special discount offers.

Meanwhile, Bünzing, a northern placed retailer in the **German** market, has started to open new small city stores as walk-in vending machines where consumers can shop 24/7.

Digital

Majid Al Futtaim, reported to Retail Analysis IGD this week that Carrefour’s online orders between January and June had risen 917 per cent in Saudi Arabia, 747 per cent in Egypt and 257 per cent in the United Arab Emirates with a 200 per cent to 220 per cent increase in the number of online customers on average across the **Middle East** region.

In **Indonesia** Matahari Putra Prima Tbk (MPPA), which operates Hypermart, Foodmart, Primo and Hyfresh online stores, will partner with Grab to offer an on-demand grocery delivery service. Shoppers are able to access a wide range of quality fresh products and household items on the GrabMart platform. 27 stores are ready to support this collaboration and more stores will be added throughout 2020 according to Retail Analysis Asia. What is innovative here is that stores that do not form part of the MPPA Group can also participate in this marketplace structure which is already in operation in **Singapore** and **Indonesia** where shoppers can order from non-aligned retailers from one portal.

Foodservice

The **German** hospitality industry is suffering its greatest crisis since the post-WW2 period, reports Foodservice magazine. Almost 60 per cent of the 7,200 companies surveyed recently

fear that their future existence is threatened as a result of the pandemic with losses of 60 per cent reported for the period January to July. 7 per cent of businesses in the sector remain closed such as nightclubs, as well as smaller restaurants and cafes, where social distancing cannot be maintained. The fear of a second lockdown in foodservice is also evident with wholesalers taking a short-term purchasing approach to avoid overstocking. Other contributory factors are the current hot weather with diners unwilling to sit outside and the 50 per cent limit on diner numbers.

The **Italian** Minister for Agriculture, Teresa Bellanova, has approved an “Italian supply chain bonus”, with €600 million being allocated to catering businesses that have suffered a loss of turnover from March to June 2020 of at least 25 per cent compared to the same period in 2019. They will be eligible to receive a grant of at least €2,500 towards the purchase of Italian-made products according to ilpuntocoldiretti.it.

In an effort to encourage dining out in **Poland**, Coca-Cola launches its "Coca-Cola from us" campaign this week, which will distribute one million bottles of its signature drink to patrons of local restaurants.

In the **US**, a new Gallup survey reveals Americans are more likely to dine at restaurants when they are operating at limited seating capacity because they feel safer. While only 30 per cent of respondents are "very" or "somewhat" likely to eat at a restaurant functioning at full occupancy, 45 per cent would visit the establishment when operating at half capacity. Additionally, 39 per cent and 50 per cent respectively say they would eat-out if the capacity limit is three-quarters and one-quarter.

Meanwhile **UAE** hoteliers were among the top beneficiaries, as consumer spending jumped 15 per cent in June compared to April with spending in restaurants improved by 47 per cent according to wam.ae. In Kenya statistics released by the Federal Competitiveness and Statistics Authority (FCSA) shows that foodservice in Africa continues to struggle. In **Algeria** restaurants and cafés are due to open this week while in **Kenya** the government has banned the sale of alcohol in restaurants and all bars have been closed.

Local Manufacture and Logistics

New Zealand's gin category has seen 27 per cent growth annually, mostly fuelled by the introduction of flavoured gins according to Food Navigator. One premium gin company is set to export its naturally coloured black gin in Asia, with the first shipments expected to land in Hong Kong, Singapore, China and Japan this month.