

# Covid-19: Impact on Trade Report

August 28th, 2020



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# Macro-Economic Context

## Political

The **UK** government is to urge companies to launch regular workplace testing to check staff for Covid-19 to help keep the economy going through a potential winter surge in infections. Meetings have been taking place between business leaders and Whitehall officials over how to ramp up the use of mobile testing units in factories and offices around the country. Some employers could be allowed to stay open even if there are fresh local lockdowns in their area if they are conducting regular testing of their staff.

## Economic

The **German** economy contracted by a record 9.7 per cent in the second quarter as consumer spending, company investments and exports all collapsed at the height of the coronavirus pandemic. Consumer spending shrank by 10.9 per cent in the quarter, capital investments by 19.6 per cent and exports by 20.3 per cent, seasonally adjusted data showed. It was the most dramatic decline in German economic activity recorded since the end of WW2. Employment declined by only 1.3 per cent in the quarter, a sign that the government's efforts to shield the labour market from the coronavirus shock with its short-time work programme has functioned well.

Sydney-listed Scentre Group, owner of the Westfield shopping malls in **Australia** and **New Zealand**, on Tuesday posted a A\$3.6 billion (US\$2.6 billion) interim half-year loss, citing challenges posed by the coronavirus pandemic. The loss compared with net profit of A\$740 million in the same period a year earlier, due to a A\$4.1 billion write down of its assets. The company said part of the loss was attributable to tenants unable to pay rent.

**Nigeria's** economy shrank 6.1 per cent in the second quarter compared with a year earlier, bolstering forecasts that Africa's biggest economy is heading for its second recession in four years amid the coronavirus pandemic and the oil price slump. Nigeria reported last week that its unemployment rate had jumped to 27.1 per cent, while 28.6 per cent of Nigerians are underemployed, as of the second quarter.

## Societal

Bars and restaurants in and around Marseille will have to close at 11pm from Wednesday night and the obligatory wearing of masks will be extended to the entire city in an attempt to control an upsurge in coronavirus infections. **France**, particularly in its two biggest cities Paris and Marseille, has suffered a steep upturn in the number of Covid-19 infections in recent weeks, as have several other Western European countries.

Schools and kindergartens in Seoul have been forced to close and move their classes online as the **South Korean** government ratchets up measures in response to a worsening resurgence in coronavirus transmission across the country. The move is the latest in a series of actions in the past week to reinstate social distancing measures across the country, including restricting travel in and out of the capital and mandating people wear masks while in public in the city. The Korea Centers for Disease Control on Tuesday reported 280 new confirmed Covid-19 infections, marking nearly 3,200 new cases reported over the past 12 days in what is the country's worst coronavirus emergency in six months.

## Technological

Researchers at the University of **Hong Kong** have recorded what they say is the first genetically proven case of Covid-19 reinfection — 14 weeks after the patient originally caught the virus. The 33-year-old man was admitted to hospital with moderate Covid-19 symptoms in Hong Kong in March, then tested positive again in August on returning from a trip to Spain after displaying no symptoms.

## Sectors Insights

### Meat Sector Summary

#### Beef

Overall retail beef demand in our markets is still reported as strong, with reports of **UK** grocery retail demand across all products still tracking at 14 per cent over last year's levels, as indicated by Kantar. Some cuts are in good demand due to regional shortages, resulting from lower processing volumes, due to Covid related restrictions. However volume demand is reported to be reducing relative to the previous 3-4 months increases in retail sales.

For week ending August 15th, average prices paid in **Northern Ireland** have seen no change for the past week, with R3 grade steer and heifer quotes remaining at £3.75/kg. These prices were equivalent to €4.16/kg 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 £3.76/kg. In euro terms, these prices were equivalent to €4.17/kg excluding VAT. Across **Europe**, average R3 young bull prices are equivalent to €3.54/kg excluding VAT, which is 17/kg below the average Irish R3 steer price.

Cattle throughput at Irish beef export plants for the year to-date to August 22nd, has declined by 1 per cent, or 11,603 head, reaching a total of 1,148,421 head. Throughput for the most recent week ending August 22nd totaled 34,378 head. This is an increase of 187 head compared to the same week in 2019.

#### Livestock

For the week ending August 15th, live cattle exports reached almost 3,231 head according to the Department of Agriculture, Food & the Marine. At just 458 head, the calf trade to export markets has slowed down significantly in-line with seasonal availability. **Spain** remains the predominant market for calves at 409 head, and nearly 300 weanlings and stores were also sent there. The movement of cattle to **Northern Ireland** has performed strongly over recent weeks, with just over 1,600 head travelling north during the week ending August 15th which included a combination of calves and store cattle for further feeding, along with finished cattle.

For the year up to the week ending August 15th, overall exports have declined by 14 per cent, or almost 33,300 head, to 206,051 head. The primary reason for this decline has been fewer calves being sent to other **EU** markets, which have collectively fallen by over 27 per cent, or 52,025 head, to 139,101 head. In particular, the calf trade to the **Netherlands** has fallen by 34,496 head (a 42 per cent decline). The Dutch veal sector is highly reliant on sales into the food service markets of Italy, France and Germany, which have been seriously affected by Covid-19. However with the foodservice sector open again around the continent, demand for veal is beginning to recover. Exports to International markets in 2020 have increased by over 80 per cent, with over 14,200 head destined for third countries. A shipment of around 3,000

Friesian bulls to **Libya** is currently being organized for early September. Exports to Libya have increased by over 5,300 head in 2020 so far.

### **Sheepmeat**

The average sheepmeat price for last week saw no change, remaining at €4.87/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 24th are between €4.90-€5.10/kg, with Quality Assured lambs still commanding a 10c/kg price premium. With prices in livestock marts resulting in better returns for farmers, factories may struggle to source sheep numbers. Prices in 2020 have performed very well, with the average sheepmeat price in 2020 over 38c/kg higher than the 2019 average sheepmeat price.

Sheep throughput for the week ending August 15th stood at 54,076 head, increasing by over 1,490 head on the previous week, and all export plants reported a full kill week. Throughputs for the year now run 5 per cent above 2019 levels, with numbers of spring lamb being presented at factories increasing by over 74,000 head on 12 months ago. With high numbers of lambs now passed through export plants, smaller numbers of lambs being presented at export factories is expected to continue.

### **Pigmeat**

The average price paid for grade E pig prices in Ireland for the week ending August 15th remained at €1.63/kg. This is however, a decrease of 8c/kg on the same week last year. Irish prices currently sit 12c/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 relatively unchanged for the past 11 weeks. Pigmeat demand in foodservice remains stagnant as restaurants, pubs and hotels struggle to get back to full operation with continuing Covid-19 restrictions.

A total of 67,258 pigs were sent for processing during the week ending August 22th 2020. This is a decrease of 1,307 pigs on the previous week. So far for 2020, pig throughput levels are currently running above 2019 levels, with 2,229,757 pigs sent for processing in the Republic so far this year. This is a 1 per cent increase in the throughput figure compared to the first 34 weeks of 2019. (+21,061)

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 of Covid-19. 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 in demand

in the foodservice sector. In Ireland, cumulative poultry throughput for 2020 stands at approximately 70 million head after 32 weeks, this is a 3.2 per cent increase compared to the same period 12 months ago.

## Dairy Sector Summary

The past week has seen further price pressure for core ingredient categories. **US** (CME) block cheese prices fell again last week, closing at -37 per cent (~€3070/mt) which is below the four week equivalent, representing -18 per cent year-on-year. Butter is also coming under pressure at -13 per cent month-on-month. **Oceania** cheddar prices are also back -18 per cent year on year as is 82 per cent butter, reportedly back -10 per cent (~€2940/mt) month-on-month. In **Europe**, EEX trading is at in or around €3400-3450/mt for butter, €2128 for SMP, €710 for whey.

Week 35 **Dutch** Dairy Board Prices are more stable with increases for Whey, Butter and SMPA. WMP fell by €20/mt.

Week 35/2020	WHEY €/tonne	BUTR €/tonne	SMPE €/tonne	SMPA €/tonne	WMP €/tonne
	€ 670	€ 3,350	€ 2,050	€ 1,970	€ 2,700
WOW +/- EUR/PMT	↑ €10	↑ €20	⇒ €0	↑ €20	↓ -€20

Total Irish Dairy exports for the first six months of 2020 are up approximately 8 per cent to €184.35 million and in volume terms by approximately 5 per cent to 35,128mt. For the period January – June, our largest export market by volume for dairy was the European Union, which accounted for close to 285,000mt, followed by the United Kingdom and Africa accounting for 160,000mt and 131,000mt respectively.

## Seafood Sector Summary

Full half year export statistics covering the period January to June 2020 were released recently, and the scale of the impact of Covid-19 on the seafood sector is evident when comparing to the same period in 2019. Total seafood exports are down 15 per cent in value, driven by a 4 per cent decrease in export volumes and a corresponding reduction of 11 per cent in the average prices secured across all export markets for the sector,

Exports to Ireland's core markets in **Europe** have been severely impacted with Italy recording a 43 per cent reduction in export values, followed by France at 29 per cent, Germany at 18 per cent, the **UK** at 15 per cent and Spain, the best performer showing just an 8 per cent decrease during this period. Exports to the main **Asian** markets are showing a similar trend for the 6 month period with values reducing by 81 per cent to China, 51 per cent to Japan and 23 per cent to Hong Kong. The South Korean market has bucked the trend during this period with exports rising by 21 per cent in value terms while similar positive developments have also been recorded across the main markets in **Africa**. Irish exports to Nigeria have increased by 126 per cent, with other increases noted- Cameroon by 571 per cent and Egypt by 18 per cent, mainly driven by mackerel, horse mackerel and blue whiting sales.

The top performing species during this 6 month period have been **pelagic** exports with horse mackerel exports increasing by 23 per cent, blue whiting was up by 6 per cent and mackerel exports down by a moderate 4 per cent in value terms. The impact of Covid-19 on the premium

**shellfish** sector is evident when analysing these trade statistics with frozen langoustine sales decreasing by a massive 37 per cent, oysters similarly down by 40 per cent, live crab was down by 45 per cent and Irish mussel exports decreased by 15 per cent.

The mood in the sector remains sober as regional lockdowns continue across many of Ireland's main export markets; the all-important tourist season has not materialised to help lift sales and international trade and buyer events continue to be cancelled all around the globe as a result of the pandemic.

Bord Bia is continuing its efforts to assist the sector with its national Irish **whitefish** campaign currently underway in Ireland and similar promotional campaigns are also happening across France, Japan, China and Vietnam in an effort to generate sales, build customer loyalty and grow awareness of Ireland as a source of quality, sustainably sourced seafood.

## Prepared Consumer Foods Sector Summary

The latest **retail** market data indicates that total grocery sales in the 12-week period to mid-August are up almost 18 per cent compared to the same period in 2019. This represents a decline on the previous 12-week period up to mid-July which had shown growth of just over 23 per cent. The 4-week data also shows a slowing in retail sales. Reduced trips to retail outlets and larger volumes purchased per trip remain the main drivers of change versus the previous year. Client companies supplying the retail sector are expecting volume increases in product categories associated with lunchbox items as schools begin to open in the next week.

**Foodservice** demand in the Irish market is stable. Client companies are cautious in their outlook for September. Foodservice demand in the cities remains lower than normal as these locations feel the greatest impact from the loss of foreign tourist trade. The Eat Out to Help Out initiative in the **UK** market is leading to an increase in out of home food consumption. This growth in customer numbers eating out is having a positive impact on the demand for foodservice related products. Our client companies are seeing an increase in volumes from the UK market as a result. Orders from the continent remain strong.

## Horticulture Summary

Demand for fresh produce on the domestic **retail** market has remained strong in recent weeks. On average in the twelve weeks ending mid-June, retail sales volume for fresh produce was up about 20 per cent. Growing conditions have been good in recent weeks but recent wet weather is proving challenging for growing and harvesting with softer conditions. Equally, the demand for **mushrooms** in the UK has been strong (12 weeks to mid-August showing volume growth of 21 per cent in retail) in a period when sales are seasonally lower. In **amenity** horticulture plant sales have been strong on both the domestic and export market. The key challenge for the industry currently is around maintaining an adequate supply of labour in a busy period and the implementation of safety protocols on site to protect workers and manage effectively any issues that arise as a result of Covid-19.

## Market Insights

### Retail

#### Retail

Recent figures from ING indicate that **Dutch** supermarkets will achieve a turnover increase of 6.5 per cent in 2020, large retailers are the biggest beneficiaries of the lockdown but specialty stores also performed well with forecast growth of 3 per cent. Meanwhile Q1 figures for **Germany** show a significant increase in retail sales compared to 2019, rising by 9.8 per cent, a large proportion of which is due to the panic/bulk buying in March, according to the Federal Association of the German Food Industry (BVE).

Supermarkets in Asia have not fared as well as their European counterparts with Dairy Farm Group, which operates one of the largest supermarket chains in **Asia**, reporting a 9 per cent decline in H1 sales in key North and Southeast Asian markets. Its convenience store operations were particularly impacted by social-distancing requirements, although a degree of recovery can be expected in H2, led by China, according to IGD Retail. Similarly, in the **Philippines** SM Retail Group, a major supermarket operator, reported an 18 per cent decline in H1 sales with the company now rapidly pivoting to e-commerce solutions reports IGD Retail.

Meanwhile Nielsen **Spain** warns that a new challenge is emerging for the retail channel there, brought on by economic difficulties. While data shows a rise in year-on-year supermarket spending of 4.5 per cent in July 2020, the purchasing power of many consumers has diminished in recent months as 60,000 businesses have been forced to close. In the **US** Lidl is pressing ahead with plans to open 50 new stores by the end of 2021 as part of a \$500 million investment. This comes at a time of employment uncertainty in the US and a recent report showing Lidl's prices are up to 45 per cent lower than those of nearby national competitors, making Lidl an attractive proposition for shoppers on a budget according to progressivegrocer.com.

### Price

**Saudi Arabia's** consumer price index jumped by 6.1 per cent year-on-year in July, following the tripling of the VAT rate from 5 to 15 per cent. The combination of high inflation over the next 12 months and the suspension of the Cost of Living Allowance will put pressure on household incomes and is a key reason why the economic recovery from the pandemic will be weak, according to economic research company, Capital Economics.

### Consumer Habits

Retail shopping has become less frequent in the **Netherlands** according to distrifood.nl with the average debit card spend per shop visit increasing by 20 per cent. Meanwhile a study conducted by Vlam shows that **Belgians** are buying more fresh and organic products during Covid-19. In week 11 there was an 18 per cent increase in purchases of organic products, a higher buying frequency than any other product during lockdown, according to Gondola.

New research from Shopmium shows that supermarket visits in the **UK** have all but returned to pre-Covid levels but that the crisis has resulted in long-term changes to purchasing behaviour. The study shows that while 75 per cent of UK consumers are now visiting grocery stores twice or more a week, nearly half of them (48 per cent) altered their purchasing behaviour with a switch to healthier products (52 per cent) and buying more local produce (30 per cent) according to KamCity.

In **Germany**, the milk segment of the consumer brand "Du bist hier der Chef" is gaining popularity among consumers with the product coming from cows that have had at least four months of grazing, eaten mainly fresh grass indoors during the growing season and have been fed on regionally produced feed. The criteria for meeting the standard goes beyond the standard for organic milk.

According to a survey conducted by Bain & Company, the **Italian** consumer profile has shifted dramatically since the pandemic. 43 per cent of respondents say that they now spend more time cooking than before the pandemic, and will continue to do so, while people continue to be reluctant to return to daily activities and routines that require physical proximity.

### **Retailer Reaction**

Promoting its sustainability credentials, Carrefour MAF has partnered with **UAE** start-up, Circa Biotech, to upcycle food waste from Carrefour warehouses into value added products, such as animal feed and fertilizer. The initiative will be operational by the end of 2020, with the aim of processing three to five tonnes of food waste daily according to Food Navigator Asia.

Meanwhile the consumer demand to support local is taken up by Edeka **Germany** in its latest marketing campaign. With TV ads, POS materials and their new slogan “Together here and now, for our local Region” the retailer is pushing its focus on supporting regional products. This complements its online and social media campaign focusing on local farmers, production facilities and pushing sustainability, welfare and CSR, reports LebensmittelPraxis.

In the **UAE** Carrefour MAF has signed an MoU (Memorandum of Understanding) with Emirates Bio Farm - the largest private organic farm in the country. According to Zawya.com, the partnership will see Carrefour source up to 450 tonnes of Emirates Bio Farm organic produce, and apparently lead to more affordable prices in-store. The agreement is in line with Majid Al Futtaim’s (MAF) strategy of supporting local farmers in the UAE, and complements a further MoU signed with the Ministry of Climate Change and Environment (MOCCAE) to increase the availability of local produce across Carrefour stores in the country.

Elsewhere, in **Kuwait** NOX Management has created the largest indoor “vertical farm” in the Middle East. This new venture with German firm, “&ever”, and will use dryponics technology to grow vegetables and herbs on 3,000 sq. metres with a daily output of up to 550 kg of salad, herbs, and cresses. The products are available in all leading retailers and co-ops under the brand name “&ever Kuwait” reports Zawya.com.

### **Digital**

Inside Retail Asia reports that **Chinese** e-commerce giant Alibaba Group’s revenue soared 34 per cent in Q2 as the company emerged strongly from the impact of Covid-19 in its home market.

In the **UK**, a new study by Waitrose has found that one in four shoppers now use online for groceries at least once a week, double the figure for 2019 according to KamCity. While the lockdown has been the catalyst for change, the supermarket suggests this shift in buying behaviour is now irreversible. The “How Britain Shops Online” report also found that 77 per cent of people now conduct at least some of their grocery shopping online, compared to 61 per cent a year ago.

Sales figures for the **Danish** digital grocery store nemlig.com show that in July, the company doubled its sales compared to the same month last year according to Foodsupply.dk.

Meanwhile **Middle East** retailer Lulu Group is facilitating contactless payments through the PayBy app, responding to high demand for contactless transactions since the arrival of Covid-19, according to IGD.

In the **US**, PR Newswire reports that the alcohol e-commerce retail space has grown over 350 per cent since March. Drizly, one of the leading innovators in this space, has predicted a 20

per cent increase in off-premise alcohol purchases via online within the next five years, compared to less than 2 per cent in early 2020.

## Foodservice

The Federal Statistical Office in **Germany** reported a real drop in sales in restaurants and hotels of 39.7 per cent in the first half of 2020. This is the largest drop in sales the industry ever recorded. Guido Zöllick, President of the German Hotel and Restaurant Association (Dehoga), is calling for further political support such as a change in tenancy and lease law and the extension of the short-time work allowance and the expiry of the VAT reduction.

### Innovation

The use of personal reusable cups is being safely reintroduced to Starbucks stores across the **Middle East**. As part of the careful reopening of Starbucks stores across the Middle East, the company has introduced a completely contactless experience to allow customers to use their reusable cups. A ceramic mug now houses the reusable cup from barista to customer, eliminating any shared touch points between the customer and Starbucks staff.

In **Russia** the retail giant “Ashan” is introducing machine-only staffed stores in response to Covid-19, a worry to some experts who fear it could lead to increased unemployment according to Retail.ru.

## Local Manufacture and Logistics

In **Germany** the Federal Department of Agriculture announced that Nutri-Score labelling system will be made compulsory. Assuming clearance by the EU Commission it will be effective from November. Julia Klöckner, Minister for Food, Agriculture and Consumer Protection also plans to push for an EU-wide standardized nutrition labelling.