

# Covid-19: Impact on Trade Report

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## Macro-Economic Context

### Political

In the **US**, political wrangling and disagreement about a second Covid-19 relief package is continuing. The Senate is scheduled to take a month long recess at the end of the week, but it is unclear if lawmakers will leave Washington without a deal.

Tens of millions of Americans have lost crucial unemployment benefits as well as a federal moratorium on evictions as these protections and payments have expired. Democrats and Republicans are negotiating to put in place further supports, but significant space remains between the parties. Democrats are proposing a \$3 trillion rescue plan that would include restoring \$600-per-week jobless aid payments that expired on Friday and extending them through to January, while Republicans are pushing a \$1 trillion package that would reduce those payments substantially.

**France's** top scientific body has said the country risks losing control of its Covid-19 outbreak and the head of the doctors' union in **Germany** has said it is already facing a second wave, as the number of infections rises across Europe.

### Economic

In the **US**, new orders for manufactured goods grew for a second consecutive month in another sign of improvement for the factory sector. Factory orders rose 6.2 per cent in June versus the prior month, according to Census Bureau figures released on Tuesday. That was better than economists' forecast for a 5 per cent gain and followed growth of 7.7 per cent in May.

Indicating the level of disruption and reduced revenue in the travel industry globally, online travel reservation company Booking.com plans to reduce its global workforce by a quarter. The **Amsterdam**-based company employs more than 17,000 people and the cut would affect about 4,250 jobs.

**Diageo** has reported a bigger-than-expected decline in underlying net sales as demand for its whisky, vodka and gin fell in all markets except North America. The group reported an 8.4 per cent drop in organic sales for the year ended June 30<sup>th</sup>, larger than the 7.3 per cent fall analysts had expected. By region, organic sales in Asia fell the most, dropping 16 per cent due to the impact of Covid-19. The company's markets in Latin America, Africa, Europe and Turkey also posted double-digit falls in sales, mainly due to disruptions to supply chains and fewer social occasions due to the pandemic. North America was the only bright spot, with sales rising 2 per cent, reflecting strong demand for tequilas and ready-to-drink beverages at supermarkets and alcohol stores

**BP** halved its dividend - the first reduction since the Deepwater Horizon disaster in 2010, as the UK oil major bolsters its finances after the Covid-19 pandemic severely hit the industry. The company cut the shareholder pay-out by 50 per cent for the second quarter to 5.25 cents a share, marking a drastic turn around since the start of the year when BP's confidence about cash generation led it to raise the dividend to 10.50 cents. The collapse in energy demand triggered by government measures to curb the spread of Covid-19 has badly affected the entire energy sector and crippled earnings.

## Societal

The **Australian** state of Victoria has increased the maximum fine for anyone found breaking Covid-19 isolation orders to almost \$5,000, after hundreds of people infected with Covid-19 were found to have left their homes. The increased fine comes after new infections continued to climb even after a six-week lockdown was put in place in Melbourne, forcing the state to further tighten restrictions.

**Poland** has reported record daily increase in Covid-19 cases for the fourth time in a week, with more than a third of them found in the southern Silesia region, which has been grappling with another outbreak among coal miners. **Iran** confirmed on Tuesday August 4<sup>th</sup> over 2,700 new Covid-19 infections, its highest single-day count in more than a month, as the health ministry called for those without masks to be fined.

In **Denmark**, where the government and parliament are due to begin discussing the fourth phase of reopening – including nightclubs – later this month, the state epidemiologist, Kare Molbak, said on Tuesday he could not recommend proceeding.

## Technological

No further update from previous report.

## 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 situation is still subduing demand from the foodservice sector. This has to be balanced against the extraordinarily high retail demand for beef over recent months, which is borne out by Kantar retail sales data published by AHDB in the **UK**. Retail beef sales volumes in the 12 weeks to July 12<sup>th</sup> 2020 increased by 16.1 per cent and by 21.3 per cent in value. All cuts, with the exception of sous-vide, increased their sales volumes, with the main moves as follows - ready to cook +57 per cent, burgers & grills +40 per cent, steaks +33 per cent, processed +29 per cent, and stewing + 29 per cent. In the **US** recent data has shown grocery retail sales to have increased by 13 per cent in the first 6 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.

Cattle throughput at meat and Irish beef export plants for the year to-date to August 2<sup>nd</sup>, has declined by 2.3 per cent, or 25,253 head, reaching a total of 1,047,474. Throughput for the

most recent week ending August 2<sup>nd</sup> totaled 35,267 head, an increase of over 6,100 head on the equivalent week in 2019.

### **Livestock**

For the week ending July 26<sup>th</sup>, 3,546 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 approximately 725 head. Adult cattle aged over 21 months made up almost 1,300 head and the remaining 1,550 animals were comprised of weanlings and store animals.

As in previous weeks, Northern Ireland and Spain were by-far the largest destinations, accounting for approximately 1,600 and 1,300 head, respectively. Other markets for that week included Britain (334), Italy (186), the Czech Republic (64) and France (8). During the equivalent week in 2019, there were just 2,279 cattle exported. For the year to-date, overall exports of live cattle from Ireland have declined by 18 per cent, or 40,000 head, to 195,100 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 137,500 head. Recent shipments of young bulls to Libya and breeding female cattle to Russia 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**

With the conclusion of the Muslim festival Eid Al Adha on Monday, August 3<sup>rd</sup> sheepmeat prices have taken a significant hit in all export plants, with prices dropping by another 20c/kg on the previous week. For the week commencing August 3<sup>rd</sup>, quotes of €4.90-€5.00/kg are being found across all Irish sheepmeat export plants. QA lambs are continuing to command a 10c/kg in meat export plants. Successive weeks of price cuts have seen factory quotes fall by over 50c/kg in the past 3 weeks. Prices in 2020 have performed very well, with the average sheepmeat price in 2020 over 36c/kg higher than the 2019 average price for the first 30 weeks of the year.

Sheep throughput for the week ending August 1<sup>st</sup> stood at 77,304 head, increasing by nearly 3,000 head on the previous week as factories actively sourced lambs for the upcoming Eid religious festival. Throughputs for the year now run 8 per cent above 2019 levels, with numbers of spring lamb being presented at factories increasing by over 100,000 head on 12 months ago. With high numbers of lambs now passed through export plants, smaller numbers of lambs being presented is expected to decrease.

### **Pigmeat**

The average price paid for grade E pig prices in Ireland for the week ending August 2<sup>nd</sup> 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 risen to €1.50/kg. Irish prices have fallen by 15 per cent since early February, with prices now remaining stable for the past 2 months. Grade E prices in many EU countries continue to fall slowly as demand on the continent remains stagnant.

A total of 66,607 pigs were sent for processing during the week ending August 2<sup>nd</sup> 2020. This was a decrease of nearly 1,300 head compared to the same week 12 months ago. So far for 2020, pig throughput levels are currently running above 2019 levels, with 2,038,173 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 (+15,901).

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 USDA outlook, the forecast for global chicken meat production is revised marginally lower to 100 million tons as declines in the United States and China are more than offset by growth in Brazil and the EU. Despite a dampening in the outlook, world production in 2020 remains higher (nearly 1 percent) versus last year. Demand will be relatively resilient as consumers pursue lower-priced animal protein in the face of an economic downturn. Global chicken meat exports are revised 1 per cent higher to 11.8 million tons as robust China demand propels Brazil, Thailand, and U.S. shipments. In Ireland, cumulative poultry throughput for 2020 stands at 60.79 million head after 29 weeks, this is a 3.2 per cent increase compared to the same period 12 months ago.

## **Dairy Sector Summary**

The 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 per cent respectively. Whole and skim milk powders were also lower by 7.3 per cent and 4.3 per cent respectively. The market is correcting slightly to the stronger prices in recent months. There are also concerns about the impact of a recession in key dairy markets for the rest of 2020 and into 2021.

## **Seafood Sector Summary**

The markets for Irish **whitefish** remain challenging due to oversupply in recent weeks. Irish retail sales are holding up but foodservice demand is still down significantly on last year with those outlets open, still only handling a portion of their usual volumes for this time of year.

The **crab** sector is also challenging with very low prices being paid to fishermen. The Chinese market is now effectively closed due to a nervousness around imported seafood, and prices being offered render shipping to the market as not being viable. Latest reports from **China** are that while good restaurants who have survived the pandemic are now trading back as normal and are getting busier, other restaurant outlets have been wiped out due to cash flow problems. Meanwhile all major seafood wholesale markets in China are now subjected to weekly Covid-19 tests as a result of the latest cluster of cases in Dalian, which pointed to the infection source as coming from imported frozen seafood.

Other sectors of the **shellfish** category are also suffering due to weak demand in continental **Europe**, particularly for high value species such as shrimp, velvet crab and lobster. Irish oysters are seeing small uplifts in demand in some markets but logistics to Asia remain an on-going challenge. Export statistics from January to May 2020 reveal the scale of the challenge facing the Irish oyster export sector with volumes down by 56 per cent compared to the same period in 2019. Market indications are that conditions remain extremely difficult for this sector with only the premium grade oysters making any inroads into the market at reasonable prices. The **mussel** sector continues to suffer due to sluggish demand in the traditional markets in Europe. There has been some positive uplift in sales on the Irish market as the domestic tourist season is underway but the volumes are not sufficient to offset the drop off in export demand for this sector. The demand for Irish **langoustines** is still weak in the core European markets with value sales down around 50 per cent to the biggest market, Italy. Export values to the UK are also down 37 per cent looking at the period from January to May 2020, compared to the same time period in 2019. On a more positive note, the recent monthly export figures for May compared to April are more encouraging for this particular sector with export volumes for langoustines up by 78 per cent largely going to Italy and Spain.

The **pelagic** sector has been performing reasonably well over the last few months but there are still challenges across certain export markets. Demand in **China** is sluggish while the market situation in **Japan** is more positive for Irish mackerel in particular. Conditions are challenging across **Eastern Europe** with lots of cheaper fish from international competitors available. Demand in **Western Europe** is improving. The sector is now gearing up for the season ahead which will commence towards end September.

## Alcohol Sector Summary

No update on previous report except that the industry in Ireland is disappointed at the postponement of the opening of “wet” pubs which were due to open on August 10<sup>th</sup>.

## Prepared Consumer Foods Sector Summary

Our client companies have reported strong growth in demand from the Irish foodservice sector in recent weeks. The lead up to the August Bank Holiday weekend has seen more people going on holiday in Ireland with demand increasing from the traditional coastal holiday locations around the country. Foodservice demand in the cities remains lower than normal as these locations feel the greatest impact from the loss of the foreign tourist trade. In general client companies are reporting increasing foodservice demand from the **UK** and the continent. While the growth in volumes from these markets have improved they have not yet returned to previous levels.

Demand for retail products has remained strong in recent weeks. The latest retail market data indicates that total retail sales in the four week period to mid-July are up almost 18 per cent compared to the same period in 2019. This represents a decline on the previous 4 week period up to mid- June which had shown growth of almost 25 per cent. The slowdown in retail growth is not unexpected as consumers now have more options to consume food outside the home. Our client companies have noted an increase in demand for convenience and food-to-go products as businesses reopen and greater numbers return to work.

## Horticulture Summary

No further update from previous report.

## Market Insights

### Retail

This week's insight from markets provides further evidence of recovery in consumer confidence, retailer innovation, increasing preference for nutritious foods and government initiatives to support local business. While the retail channel consolidates its position, foodservice and the duty-free channel continue to face challenges.

#### Prices

**German** consumer sentiment is rising according to the trade association HDE (Handelsverband Deutschland) index which measures the expectations of 2,000 consumers around purchasing, saving and finance; the index rose 1.8 points to 98.14 points compared to June.

In **France** Carrefour announced a significant reduction in its net loss in the first half of the year, due mainly to online food sales during lockdown. Meanwhile Aldi in the **UK** confirmed its plans to create 4,000 new jobs in 2020 despite the pandemic as it remains on track to meet its target of 1,200 stores by 2025, according to The Grocer.

Retail in the Duty Free segment continues to suffer however, in line with the fall off in air travel. The **Thai** duty-free retailer King Power is forecasting a 50 per cent decline in sales this year with only 2 of their 11 nationwide outlets reopening since the pandemic began, which is having a negative impact on the sale of Irish whiskey.

#### Consumer Habits

In **Germany** a new Rheingold study of the effects on consumers of Covid-19 has shown how it has impacted attitudes around nutrition, cooking and eating. It suggests that working from home and cooking at home are leading to a sharper focus on family nutrition, structured daily routines, maintenance of social unity, mitigating sadness, staying healthy and active, and being more pragmatic. These shifts in attitude suggest further demand for healthy, hygienic food offerings with food safety guarantees and a preference for packaged and pre-cooked products.

Staying in **Germany**, research from AMM shows 30 per cent of consumers stated that they had increased their purchases of organic products during the pandemic. Already retailers Edeka, Rewe and Aldi are reporting growth of 11.4 per cent, according to the Organic Food Production Alliance (BÖLW).

This consumer need for nutrition is also borne out in the **Netherlands** where specialty shops such as greengrocers, bakers and butchers - for the first time in 30 years - gained market share from the larger retailers. Consumers are willing to pay more for specialty products to cook at home while the reluctance of many vulnerable people to go shopping in busy stores is also playing a part according to Foodholland.

## Innovation

Retailers continue to innovate to attract business in the **UK**, according to The Grocer. Waitrose has begun a drive-through order collection service at seventy of its supermarkets where customers drive to a dedicated parking bay, confirm their arrival and await delivery of their shopping to their vehicles, without the need to enter the store. Also in the UK, customers of M&S can now use an app to pay for their shopping in 310 food halls. Users scan the barcodes of the items they purchase before paying through the app with the payment card they have saved on it, all designed to give customers a contact-free experience.

## Digital

E-commerce has become increasingly popular among **German** consumers over the past few months and according to Lebensmittel Praxis, recent figures show that online retail sales in June increased by 30 per cent compared to 2019. Egypt has seen online purchase growth of 747 per cent from January to June this year according to CEO of Majid Al Futtaim, the owner of the Carrefour franchise in the **Middle East** and **Africa**. Elsewhere PWC reports the strength of online grocery shopping habits of consumers in the Middle East, with 51 per cent of the respondents saying that they shopped for groceries online or by phone, either to pick up in-store, or, more commonly, to be delivered to their homes. Of those, 92 per cent said that they are likely to continue purchasing online after the pandemic. The results of the survey also showed that 61% indicated that their spending on groceries has increased, while 42 per cent cut back on restaurant food delivery and pick up. Meanwhile Retail.ru reports that the **Russian** online retail chain “Utkonos” has reached record sales during spring and summer, up 66 per cent compared to the same time last year.

## Foodservice

In **China**, Retail News Asia reports that Yum China (KFC, Taco Bell & Pizza Hut brands) marked its 10,000th store milestone in July, with Q2 sales showing a recovery on the Q1 lockdown.

Starbucks third quarter performance shows a drop in sales globally, however results in China were favourable, with sales down 19 per cent compared to the global decline of 40 per cent on pre-pandemic projections.

In the **UK**, weekly like-for-like sales have continued to rise, with sites trading at 70 per cent of last year’s levels during July. However, throughout July sites in London fared slightly worse than the rest of the country, with like-for-likes down 33 per cent, compared with 29.6 per cent outside the capital. Food-led outlets in London were particularly badly hit – down 41.2 per cent – with drink down 30.3 per cent compared with the previous year. Propel also reports that consumer confidence in the hospitality sector remains strong, with 95 per cent feeling confident to return to venues.

Similar to the retail channel, restaurant consumers in the **UK** are reported by Propel as placing greater value on community and sustainability and have shifted their perception of safety and enjoyment. Sentiment towards brands has shifted as value for money has fallen behind safety, sustainability, green credentials, convenience, supply chain, localism and staff welfare. There has also been an improvement in levels of disposable income, with 21 per cent reporting a decline compared with 24 per cent during lock-down.

Positive signs are less evident in the **US** where Forbes reports that McDonalds, Dunkin` Doughnuts and Starbucks are set to close hundreds of US restaurants as those companies report major sales reductions. Dunkin` Donuts, which reported a 20 per cent second-quarter revenue drop, will close 800 or 8 per cent of its retail locations by the end of 2020, including

450 Speedway outlets. McDonalds, whose revenue dropped 30 per cent in the second quarter, will shutter 200 outlets in 2020, including all restaurants within Walmart stores while Starbucks, where net sales dropped 38 per cent in the second quarter, will close 400 locations through 2021 and invest in pandemic-proof sale solutions like mobile pick-ups and drive-thru ordering.

The **Middle East's** restaurant industry is struggling to recover according to data from Eat App. The UAE remains 55 per cent lower than pre- lockdown, Lebanon is currently 76 per cent below while Bahrain has just reopened to consumers and Kuwait looks set to reopen in mid-August. Saudi Arabia is recovering quickest, with dine-in at 33 per cent lower than pre-shutdown and increasing week by week.

The catering sector in **Italy** lost 67 per cent of its usual turnover between March and May, equivalent to around €810 million, according to the Observatory of Collective Catering and Nutrition. Over 30 per cent of Italian cooks are currently unemployed, according to the Federation of Italian chefs (Federcuochi) which also estimated that Italians will spend 40 per cent less on eating out due to Covid-19 and has supported a call for tax relief and the purchase of 100 per cent "Made in Italy" products.

## Local Manufacture and Logistics

National governments continue to show cause when it comes to supporting local suppliers and food producers. On July 30<sup>th</sup> the **Polish** Minister of Agriculture and Rural Development, and the Deputy Director General of the National Agricultural Support Center, met with representatives of Polish organizations of the meat and processed meat sector who encouraged consumers to choose Polish meat with quality certificates in stores or food labels recognized by the Ministry of Agriculture and Rural Development.

According to Retail.ru, the Russian Minister of Commerce has asked large food companies not to take advantage of the shopping mall crisis. Due to the quarantine, the majority of shopping malls around **Russia** have been required to lower rents. Experts fear that foodservice will replace clothing stores which would cause a change in the retail balance in the malls.

In **Italy** the 'Nutriform Battery' nutrition labelling system, the Italian alternative to the French colour-coded Nutriscore system, has been approved by the EU Commission. It can now be applied on packaged food products in Italy on a voluntary basis, with the exception of PDO and PGI products. According to the Minister for Agriculture, the new system does not label products as good or bad, but instead provides consumers with useful information on nutrition and recommended daily intakes, reports [ansa.it](https://www.ansa.it).

The **Romanian** government, on the other hand, did not find favour with the EU Commission for its domestic law requiring large retailers to promote "Made in Romania" food products and source at least 51 per cent of their food products from local suppliers, according to the website [romania-insider.com](https://romania-insider.com). The government was forced to dismantle the law following infringement proceedings by the EU Commission for possible breach of competition rules.