

Covid-19: Impact on Trade Report

July 24th, 2020



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Macro-Economic Context

Political

EU leaders have struck a deal on a landmark Covid-19 recovery package that will involve the European Commission undertaking massive borrowing on the capital markets for the first time. After days of sometimes bitter debate, the bloc's heads of government agreed on a €750bn package aimed at funding post-pandemic relief efforts across the EU. After extended negotiations, the stimulus package is to be structured as €390bn in grants and €360bn in low interest loans to support the economic recovery from the effects of Covid-19.

Economic

Central government borrowings from the markets have hit a record high in developed countries in the first five months of 2020 as governments ramped up spending to deal with the Covid-19 pandemic. Governments issued debt securities worth \$11tn between January and May 2020 — almost 70 per cent higher than average issuance occurring in the same period over the past five years.

Those global figures were echoed in data from the **UK's** Office of National Statistics: The UK government borrowed more in the first three months of this financial year than it did in any full year except two at the height of the financial crisis. Public sector net borrowing rose to £127.9bn between April and June, an increase of £103.9bn in the same months the previous year and by far the largest cash deficit in a single quarter since records began.

Countries in the **Middle East and North Africa** are facing deeper recessions than their emerging market peers as the region bears twin shocks of lower oil prices and Covid-19. An expatriate exodus of 5 to 10 per cent of the population is likely, shrinking nominal gross domestic product. An analysis by MUFG expects GDP to contract in MENA in 2020 by 5.5%.

Societal

Iran registered another record in Covid-19 deaths as the Islamic republic steps up its efforts to ensure more citizens wear face masks in public. The latest daily tally published on Tuesday showed 229 Covid-19 patients died. A more forceful campaign urges citizens to wear face masks in public, while the police said on Tuesday that some businesses were shut down for failing to observe hygienic standards.

The **Australian** state of Victoria recorded a continuing surge in new Covid-19 cases, accounting for 374 of the 387 new cases announced in Australia on Tuesday. The new infections come a day before the wearing of masks outdoors becomes mandatory in the state capital, Melbourne, and a neighbouring municipality. New South Wales, which has closed its border with neighbouring Victoria, recorded 13 new cases on Tuesday, none of which are believed to have an interstate source.

Health authorities in **China** reported eight new local Covid-19 cases in the country to the end of Monday as an outbreak in the western region of Xinjiang continued to grow. The new cases in Xinjiang, home to the Uighur ethnic minority, take the infection tally recorded since last Wednesday to 55. Officials have put Xinjiang's capital, Urumqi, on a "wartime" footing, locking down residential areas and barring non-essential travel in a bid to limit the spread of the virus.

Technological

A Covid-19 vaccine developed by the University of Oxford appears safe and triggers an immune response. Trials involving 1,077 people showed the injection led to them making antibodies and T-cells that can fight coronavirus. The UK government has already ordered 100 million doses of the vaccine. This is the third vaccine to clear this stage of testing. The vaccine will now proceed to wider and larger testing. The best case scenario will have a functioning vaccine cleared for use by the end of the year, however this remains highly ambitious.

Sectors Insights

Meat Sector Summary

Beef:

The beef market has seen further improvement over the past week with base prices for R3 steers increasing to around €3.70/kg with R3 heifers receiving quotes of €0.05-€0.10/kg above that. These prices exclude “in-spec” bonus payments. Quotes for O grade cows are now generally between €3.05/kg-€3.10/kg, with R grade cows achieving prices of €3.10-€3.20/kg. For week ending July 11th, average prices paid in Northern Ireland have increased for the past week, with R3 grade steer and heifer prices now averaging £3.70/kg. These prices were equivalent to €4.09/kg excluding VAT. Prices paid for R3 prime cattle in Britain saw slight variation during the same week, with steer prices increasing to £3.69/kg and heifers declining slightly to £3.67/kg. In euro terms, these prices were equivalent to €4.08/kg and €4.06/kg excluding VAT.

Across Europe, average R3 young bull prices are equivalent to €3.49/kg excluding VAT, which is 17c/kg below the average Irish R3 steer price.

In our markets, demand levels are reported as easing slightly as the holiday season starts to pick up and as normal retail demand patterns slow down. While the pick-up in foodservice continues, it remains at a low level, as is expected to persist for the rest of the year. This has led GIRA to forecast a 33% reduction in meat demand in the foodservice sector. Meanwhile the EU Commission in its Summer Outlook predicts an overall decline of 2.3% in beef consumption in 2020, reflecting lower EU production and imports, and reduced consumption during the confinement period.

Cattle throughput at Meat and Irish beef export plants for the year to-date to July 18th, has declined by 3%, or 31,254 head, reaching a total of 977,299. Throughput for the most recent week ending July 18th totaled 35,367 head, an increase of 561 head over the equivalent week in 2019.

Livestock

Live cattle exports continue to run well below the equivalent period in 2019. For the week ending July 12th, live cattle exports reached over 4,350 head according to the Department of Agriculture, Food & the Marine. At 1,761 head, the calf trade to other EU member states has slowed down significantly in-line with seasonal availability. Spain was the predominant market for calves (1,425 head), and almost 700 weanlings and stores were also sent there. The movement of cattle to Northern Ireland reduced last week, with over 700 less cattle traveling north during the week ending July 12th. 1,518 cattle were exported to Northern Ireland, including a combination of calves and store cattle for further feeding, along with finished cattle for processing. Live exports to Northern Ireland are up 63% for 2020. For the year up to the week ending July 12th, overall exports have declined by 18.5%, or almost 42,776 head, to 188,300 head. The primary reason for this decline has been fewer calves being sent to other EU markets, which have collectively fallen by over 28%, or 52,300 head, to 136,106 head. In particular, the calf trade to the Netherlands has fallen by 34,400 head (-41%). The Dutch veal sector is highly reliant on sales into the foodservice markets of Italy, France and Germany, which have been seriously affected by Covid-19. However with the foodservice sector opening again around the continent, demand for veal is beginning to recover.

Sheepmeat

The recent improvements in prices for sheep in Irish export plants have held firm, with farmers welcoming the stabilising of lamb and hogget quotes. The commencement of Eid al Adha next week in the Muslim religious calendar has seen many factories keen to secure good supplies of factory ready lambs ahead of celebrations. Demand has spiked in the past 2-3 weeks, with the stabilisation in quotes evidence that demand is still strong. For the week commencing July 20th, many factories are now quoting prices of €5.40-€5.50/kg, with QA lambs commanding a 10c/kg price premium in most export plants. Prices are in a much healthier position than they were 12 months ago, with Irish prices nearly 70c/kg higher than they were this time last year.

Sheep throughput for the week ending July 19th stood at 67,563 head, increasing by nearly 3,200 head on the previous week as factories actively source lamb supplies. Throughputs for the year now run 6% above 2019 levels, with numbers of spring lamb being presented at factories increasing by over 59,000 head on 12 months ago. Recent spells of good weather has resulted in excellent grass growth, with many farmers able to finish lambs off grass.

Pigmeat

Across Europe over the past few weeks, the pigmeat market has stabilized, with reports of meat sales improving and tightening live supplies. After successive weeks of price drops to the average Irish price, it has now stabilised. Irish pig prices are running 15c/kg below prices for the same week in 2019. The latest grade E pig price for week ending July 11th was 162.89c/kg.

A total of 67,375 pigs were sent for processing during the week ending July 18th 2020. This was an increase of 2,138 head on the same week 12 months ago. So far for 2020, pig throughput levels are currently running slightly above 2019 levels, with 1,904,444 pigs sent for processing in the Republic so far this year. This is less than a 1% increase in the throughput figure compared to the first 28 weeks of 2019. (+16,946)

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% higher to 11.8 million tons as robust China demand propels Brazil, Thailand, and U.S. shipments.

Dairy Summary

With just shy of 24,000mt sold, GDT Event 264 was a muted affair compared to Event 263.

Overall, prices were down 0.7%, the biggest decrease since the event held on May 5th.

Butter saw the largest decline, down 4.9%. Dutch Dairy Board prices for week 30 saw butter, whey and WMP remain as you were while SMP food grade increased by €30/MT and feed grade by €10/MT. CME prices closed last week down 1.3% on previous week – the first downward movement since the end of June.

Seafood Summary

There has been some recovery in the foodservice sector in Ireland as a result of the partial lifting of Covid-19 restrictions. Performances vary widely between the different segments of the foodservice market-with sales to workplace canteens severely down, whilst sales to those restaurants now open being reasonably good. It is estimated that sales within the foodservice sector are currently running at around 50% of pre Covid-19 levels. Retail sales of seafood continue to perform strongly, particularly for prepacked and frozen seafood as previously reported.

Export markets remain challenging particularly with partial lockdown measures now in place across a number of markets again. Spain has been showing some slight improvements in prices for monkfish although other species are reporting variable prices and it is very much a buyers' market. The market for langoustines remains difficult with low prices being reported in Italy and sales volumes continue to be small. The prospects for recovery in the short to medium term are poor given the difficult trading conditions in France, Spain and Italy where the traditional boost in sales from the tourist season has not materialised. Demand for oysters is still weak across the markets and competition from French supply is high in many of our main export markets. Irish salmon continues to do well in the market maintaining good prices and strong demand despite a fall in the price of conventional salmon in recent weeks.

Prices for whitefish in Scotland are variable with hake and haddock prices more or less at 2019 levels whilst species such as megrim and monkfish are under serious pressure and are significantly down on same period in 2019.

China remains very difficult due to the recent scares around imported seafood and customs clearance is a major challenge now due to testing at ports, resulting in delays in getting product into the market. Crab prices in Ireland are currently back on previous years due to weak demand from China and prices from the market are currently too low to be economically viable for Irish exporters to ship product.

Alcohol Summary

There has been no changes/updates in this sector from last week's report.

Prepared Consumer Foods Summary

Demand from foodservice outlets is continuing to improve as the Irish hospitality industry re-opens and as more people take breaks at home. The initial volume surge from stocking up has passed and volumes are now being driven by consumer demand. Client companies are reporting weekly growth in volumes as consumer confidence in eating out increases. Client companies supplying the UK market have reported stable volumes in recent weeks.

In the last few months many of foodservice manufacturers /companies have adapted their selling models. They have developed online sales capability through their websites. Some have developed direct to consumer models using a mix of home delivery and a click-and-collect services. This has provided a new income stream for companies and they are planning to run their new routes to market in parallel to those which had previously existed.

The growth in demand for frozen foods in the Irish retail market is holding. Irish manufacturers are reporting that orders remain strong as consumers continue to increase their purchases from the category. Companies supplying frozen retail products to the UK market are seeing a similar pattern. Retail sales in chilled meals, in-store bakery and deli remain suppressed. Demand in ambient grocery products linked to scratch cooking and home baking remain in growth. The increased in online shopping has remained strong and is expected to continue as consumers try to limit the number of trips to stores.

Horticulture Summary

No change from previous report.

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Market Insights

Retail

Retailers continue to press their suppliers to adapt to changing circumstances and this week saw Casino, the **French** retail company issue a 12 page guide to its suppliers setting out seven consumer trends around animal welfare, origin, eco-design, bulk buying, simplicity, plant based products, flavour and “sensoriality” that need to be addressed. This week also saw the 7th Edition of the Nielsen GS1 **Italy** Observatory report showing that the flag indicating country of origin (especially Italian) is the most reassuring image on consumer products; a similar initiative to the “Made in Italy” logo has just begun in **Poland** with the “Polish Product” label.

Retail sales figures continue to vary across markets, perhaps linked to the degrees and impact of lockdown and reopening. A Fung Business Intelligence survey is indicating a positive outlook for department stores in **China** with operators fast-tracking omnichannel strategies as well as integrating offline and online consumption. Many are also exploring live-stream, short videos and WeChat groups as new sales avenues, with almost 80% reporting that technology such as virtual dressing rooms is helping increase customer traffic and sales.

In **Italy** food prices increased by 2.1% in June, slightly down from 2.4% in May, according to Istat, while the **Polish** Central Statistics Office reported a monthly increase in retail sales of 8.4% but a decrease of 1.3% y-o-y. In the **UK**, supermarket sales growth dropped to 14.6% y-o-y during the four weeks to 12 July, down from 18.9% in June according to the latest Kantar data. However, over the longer 12-week period, the grocery market share figures in **UK** show take-home grocery sales rose by 16.9%. In **Sweden** June sales in grocery increased by 9.3% y-o-y according to the Swedish Grocery Trade index while activity in grocery retail outlets during June 2020 was stronger than normal with sales growth of 6.4%. In **Germany** the trade association (HDE-Handelsverband Deutschland) forecasts a drop of 4% y-o-y for retail trade in Germany while the Food and Beverage retail trade forecasts a slight increase on the 2019 figure.

Metro **Russia** has announced the launch of a new programme to assist recovery in the sector with retail customers to receive price discounts while restaurants can avail of a special discount on fresh products like fish and fruits. The cost of the initiative will be over €15 million. Meanwhile the fall in tourism continues to penalise retail chains in **Spain** with estimated losses at around €83 billion for 2020 with particular damage in retail chains based in main tourism areas.

The importance of frozen foods to consumers in the **UK** is evident in Kantar’s 12-week data that shows increased sales of 22%. The value of the category can also be seen in **France** this week where Picard, the French leader in the distribution of frozen products signed a partnership with the Marks & Spencer (M&S) chain of stores. From 17 July around thirty Picard products will be available in a dedicated space in 163 M&S shops in **Great Britain and Ireland**.

In the aftermath of the first Covid wave a study carried out by Comeos in **Belgium**, shows that only 1 in 5 consumers postponed their purchases during the lockdown, 33% said they will continue to buy more online in the future and 11% declared having already visited a physical store which they had discovered online during lockdown.

In **Germany**, petrol stations have tapped into consumer demand for on-the-go products and day-to-day necessities according to Nielsen Shopper Insights Webinar. Tank and Rast is

expanding its range of packed, fresh take-away products, in addition to the private label range of Lekkerland, according to food-service.de.

E-commerce

In **Sweden** Frikopenskap reports that strong sales in e-commerce continued in June with an increase of 135.3%, the highest growth since the Grocery Index began measuring e-commerce development in January 2017. Home delivery increased by 84.3% and click-and-collect by 233%. In June, e-commerce accounted for one third of the grocery trade's total growth, compared with one sixth in June 2019. In **Japan** the retailer Aeon expects online revenues to rise 50% and account for a tenth of sales by early 2021 according to IGD Retail.

A PwC survey in the Middle East shows consumers are set to spend more online despite reduced household incomes, with almost half expecting to increase their expenditure in the coming months. Of those that shop online, 92% said they will continue purchasing digitally even after the pandemic.

The online channel accounted for a record 14% of all grocery spend in the UK in the four weeks ending 11 July, according to data from Nielsen increase from the 13% share recorded in the previous four weeks, and 10% share in May. While in North Africa, Chari.ma the **Moroccan** online grocery company is set to launch a new strategy to revolutionize the traditional retail industry, working with more than 200.000 stores over the country.

Foodservice

Mintel has reported significant developments in the **China** hotpot market since Covid, with analysts reporting that **China's** night economy is expected to reach 30 trillion yuan (€3.7 trillion) this year, with overnight takeout orders from 6 pm to 6 am in major cities increasing more than 60% in the past two months, accounting for more than 40% of all-day orders. In **Germany** the easing of Covid-19 restrictions is having a positive impact on the channel according to Food-service.de. Sales rose in real terms by 44.9% in May in comparison to April. However, the Federal Statistics Offices tempered this positive news reporting that sales in May were 64% lower in real terms and 63.4% in nominal terms by comparison to May 2019.

The fragility of the recovery in foodservice can be seen in **Spain** however, regionally the authorities in Barcelona are restricting social activities and reducing the capacity of restaurants, bars and the city's beaches in a bid to combat a significant rise in new Covid cases. The absence of tourists in traditional destinations is also severely impacting business, a classic example being Paris where business in tourist spots is suffering while restaurants in residential areas are seeing a strong increase in activity.

The **Dutch** catering market is struggling, with the majority (80%) of office canteens still closed and those which have reopened seeing a steep reduction in customer numbers. The FoodService Institute predicts a contraction of 28% in the foodservice channel for 2020, which equates to €973m. Unilever Food Solutions, together with a group of 15 other suppliers have come up with an initiative designed to motivate colleagues to lunch together at work, or at least to buy their lunch from their office caterers. **Dutch** Royal Horeca (KHN) initiated legal proceedings against the State last week in an attempt to have restrictions loosened. The Dutch Foodservice Thinktank has conducted a survey among decision makers in the drinks sector that shows declining trust in the government, difficulty in enforcing the new regulations among clientele (with an increased focus on food). An average loss of turnover of €90,000 per establishment is anticipated across 2020, with bars still only able to exploit 28% of their capacity since reopening under new conditions on June

In **Russia**, life is returning to normal according to Alexey Nemer UK, the head of the Moscow service department with more than 81 % (11,891) of the restaurants and bars in Moscow already open. In the **UK**, managed pub, bar and restaurant groups with sites open in England for the w/c 6 July, the first week after lockdown was lifted, have reported that like-for-like sales were down 39.8% on the same week last year, according to the latest Coffey Peach Business Tracker. Responding to difficulties in the sector the **Swedish** government is earmarking SEK 70 million from its regional funds to companies in the hospitality industry. These funds will be distributed to small and medium-sized companies in tourism and the hospitality industry to implement initiatives for increasing capacity.