Market and Sector Insights Covid-19 Impact on Trade:

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BORD BIA
IRISH FOOD BOARD

Rialtas na hÉireann
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Macro Economic Context

Political

As Covid-19 infection rates and death rates fall in Spain, protests at the continued state of lockdown and restrictions on economic and social activity have become larger and nightly. The protests have been centered in Madrid and in more affluent areas - where there has been long standing opposition to the socialists in power. Prime Minister Pedro Sanchez has to go to parliament on Wednesday to ask for permission to further extend the lockdown.

Economic

The leaders of Germany and France have proposed a breakthrough European Commission borrowing and grant programme. The proposal would facilitate €500bn of joint debt raising for the Commission which would be disbursed as grants, not loans, to industries and countries in need as a result of Covid-19. Joint debt had been seen as a red line for German politics for a long time and Germany had been leading the resistance to southern states suggestions of its necessity up to last month.

The proposal while welcomed by Spain and Italy, has already been negatively commented on by finance ministers from Netherlands, Austria, Denmark and Sweden. Negotiations on bringing those countries along are beginning in earnest. There remains significant ambiguity on how the programme would be administered if approved. European Commission President Ursula von der Leyen is to present full proposals next week.

Societal

Denmark, Finland and Norway are debating whether to maintain travel restrictions on Sweden but ease them for other countries. The debate and conflict will provide insight for other countries re-openings and what shape international travel will take, particularly for adjacent European countries in the coming months.

Sweden now has the highest mortality rate per capita according to an FT analysis of a seven day average recorded deaths. Estonia, Latvia and Lithuania have entered into a 'travel bubble' arrangement where travel with the Baltic states can happen. But attempts to do the same in Scandinavia are limited by the big variance in death rates between the countries.

Sectors Insights

Meat Sector Summary

Beef:

Last week, ending May 17th, **beef** markets were showing the impact of tighter supplies across many countries. The Covid-19 crisis has increasingly impacted on the processing sector, with a number of processing facilities across Europe either restricting or suspending processing volumes, resulting from operational issues, lower staffing density and other related factors. Consumer demand was generally described as quieter than previous weeks. However as a result of the lower supply volumes combining with retail promotions, there has been heightened demand across a number of popular cuts. More fast-food chains have opened for business again, which is driving some demand for manufacturing beef. However overall levels are well below normal. In Ireland, steers are receiving base-quotes of between €3.55/kg and €3.60/kg, with an additional €0.05 to €0.10/kg available for heifers. These prices exclude "in-spec" bonus payments. Cull cow prices have also increased, with O grades mostly securing between €2.80/kg and €2.90/kg.

Cattle slaughterings in Ireland for the week ending May 17th declined by 5,942 head, in comparison with the equivalent week in 2019, to 26,911 head. For the year to-date, supplies have fallen by 4.5% (31,683 head).
In the **UK**, cattle prices have stabilised with prices for the week ending May 10th, up for most categories. Average R3 steer prices were unchanged at 331 pence/kg (€3.75/kg). R3 heifers were up by 1% to 330 pence/kg (€3.74/kg) and R3 young bulls recovered by 2% to 324pence/kg (€3.67/kg). Prices for O3 cows increased by 5% to 256 pence/kg (€2.90/kg).

Live Exports:

For the week ending May 10th, **live cattle exports** totaled just over 4,600 head, according to the latest figures published by the Department of Agriculture, Food and the Marine. Out of this total, intra-community trade of calves accounted for more than 3,600 animals. As in previous weeks, Spain was the predominant market for calves, taking over 2,600 head. Other markets for Irish calves included Italy (370), Northern Ireland (357), the Netherlands (192) and Britain (60).

Hogget supplies have all but dried up leaving factories reliant on spring lambs which are not yet in a position to satisfy demand. The speed of the transition from hoggets to new season lamb is very much dependent on temperatures, grass growth and lamb thrive. For the present moment, that pinch-point in supplies is helping to maintain strong producer prices in spite of the challenges of Covid-19.

Pigmeat:

In the **pigmeat** sector, some disruption to pig throughput was reported two weeks ago as key export meat plants scaled back production where Covid-19 cases were detected. Pig throughput has increased by nearly 14,000 head in the past week as factories return to full capacity. For the latest week ending the 16th May, pig supplies reached 65,250 or 2,500 head lower compared to the corresponding week during 2019. Demand for pigmeat remains mixed, with activity in the foodservice channel remaining sluggish, and retail demand returning to more normal pre Covid-19 levels. The best demand reported continues for sausages, sliced cooked meats, bacon and ham fillets.

Dairy Sector Summary

Overview:

The welcome signs of stabilisation continued throughout last week coinciding with a cautious reawakening of global economies. Exporters and commentators concur that we are very much in the early days of a potential recovery with many of the opinion that recent positive price increments may well be a short-term bounce. Retail demand for butter has sustained itself since the outset of the crisis as initial stockpiling has turned into consistent demand as people continue to work, eat and cook from home.

European internal market measures are being availed of with the following offers published at the time of writing -SMP: 1200mt, Butter: 15343mt, Cheese: 28344mt. Reported demand is stable with ingredient butter prices in particular performing well. The latest Dutch Dairy Board price (week 20) saw positive price gains across the board, particularly welcome for skim and butter which suffered significant downward pressure particularly throughout March and April.

Oceania are at the tail end of their season reflected in GDT Event 260 with a marginal 1% total increase. WMP had the lion's share of the pot, with 10575mt on offer. In total, 16787mt was sold with only AMF, Lactose and SMP showing positive stride event on event.
Somewhat surprisingly, the bounce in butter and cheese prices echoed by EU and USA were not visible in Wednesday 20th GDT and quantities of each on offer were low. In the US, prices have rebounded positively in the last month. CME block cheese prices closed last week at approx. €3640/mt, an increase of over 70% on the previous month. Butter also bounced by 35.5¢ last week. The government's intervention appears to have helped, however its Food Box initiative has come under scrutiny.

Alcohol Sector Summary

Production remains unchanged from last week. Some distillery visitor centres are planning to open their café/restaurant facilities for takeaway purchases under social distancing conditions from June 8th. The slow reopening of the on trade in some key markets will help sales but it will take time to return to more normal levels. Retail and online sales continue to perform strongly. In the US the performance in the off trade in the US has been remarkable during the last three months. Where in most markets, the spike in off trade and online sales lasted for a few weeks, it has sustained for the entire period in most states, and is continuously growing. Week-on-week, growth in the off trade achieved 25% in the week ending May 10th. However, only 8 states have allowed bars to reopen to date, and off trade and online sales still do not compensate for the losses in the on trade. In the UK, retail sales remain strong. Beer and craft beer have been very badly affected by the closure of the on trade but with key EU markets beginning to open their café's and on trade, this should begin to get trade moving again. However, it will take some time to return to more normal levels.

Prepared Consumer Foods Sector Summary

The Irish Prepared Consumer Foods sector is experiencing a mixed impact from the Covid-19 situation. Our foodservice companies' sales continue to be hampered as a result of the foodservice shutdown. Retail sales are up in total, with ambient grocery experiencing a positive impact, while chilled food and in-store bakery demand continues to be suppressed.

The latest retail market data indicates that total retail sales for the month of April are up in excess of 20% compared to the same month in 2019. Changes in shopper behaviour, driven by the lockdown, have led to changes in the volumes consumers are purchasing across the categories. Consumers who were previously time poor are now working from home and spending more time cooking meals in the home. As there are less people going to work, the need for products to meet the out of home breakfast and lunchtime occasions has declined. Client companies manufacturing convenience food to go products have been strongly impacted by the drop in retail demand. Sales of impulse products from the in-store bakery have also been challenged by the changed consumer breakfast behaviour. As the Irish Government's roadmap for reopening society and business starts to come into effect, we are seeing the reopening of foodservice outlets in Ireland. There has been a phased opening of some drive-thru fast food restaurants recently, with more likely to follow in the coming weeks. We have seen many examples of restaurants pivoting their businesses to delivery, order & collect models. The reopening of farmers markets will help many smaller and artisan producers to begin or grow sales again. The gradual reopening of the foodservice channel has started across a number of European markets. Client companies are starting to see an increase in the number of orders from these markets.

Seafood Sector Summary

The Irish domestic market for seafood continues to perform well both within the multiple retail, independent retail and now home delivery channels. There is plenty of fish available to supply the wholesale market and demand is growing. The *temporary tie-up scheme* in Scotland is reported as having a positive impact on prices overall as well as increased demand from the French and UK markets. It is unclear yet what the uptake will be from Irish fishermen to the proposed *temporary tie-up scheme* that is now available. French and Italian markets are slowly opening with an emphasis on sourcing local, while demand in Spain for key whitefish species such as megrims has been strong. There have been reports on some small sales commencing for shellfish across Europe, while organic salmon remains stable across key European markets.

Horticulture Summary

There is no major change regarding potatoes and fresh produce, with demand in the multiple retail channel continuing to be strong, and in particular a brisk trade in the purchase of larger packs of potatoes. However, labour issues continue to remain critical. Garden centres and landscaping work resumed on May18th, which is positive news for the amenity and ornamental sector. Nurseries are reporting brisk orders.

Market Insights

Retail

The French Confederation of Retail Food, which represents 300,000 small food operators estimates that between 15% and 20% of street vendors will cease trading as a result of the 2 month street markets closure. To date only 35% of the 10,000 street markets in France have reopened with another 20-25% expected to do so this week.

According to Nielsen during the 8 weeks of confinement in **France** volume sales grew faster than value sales demonstrating that consumers have traded down. It's the first time in years that volume outgrew value for FMCG. P4 (April) value grew by +5.5% compared to +8.1% volume.

In the **UK** a quarter of convenience store retailers have reported a large decline in sales over the past two months, according to the latest Covid-19 Impact Study released by the Association of Convenience Stores. While two-thirds said they had seen a sales increase since lockdown began 34% said their sales had fallen, while 26% reported that sales had fallen significantly.

Sales of FMCG products in Belgian supermarkets jumped 17.3% compared to the same week in 2019, which ended on May 10. Alcoholic beverages were also strong.

In **Germany**, trade journal, Lebensmittelzeitung states that despite ongoing meat industry discussion regarding working conditions due to Covid-19 cases, Aldi South and North have announced a plan to reduce meat shelf prices by 29th of May, potentially leading to a widespread price reduction should other retailers follow suit. They also report that German online grocery retail space is seeing vast growth with April 2020 sales doubling those of April 2019, emphasising the viability of online food retail as a key channel going forward. Overall e-commerce sales stood at 6.8 billion EUR, 17.9% higher compared to 2019 Figures.

Fleischwirtschaft reports, that German food prices rose by 4.8% in April 2020 - the highest value since February 2017. Unusually high vegetable and butter prices had most impact. January 2020 saw groceries averaging 2.3% more expensive than 2019. This lay at 3.3% in February and 3.7% in March. On average, meat prices exceeded the April 2019 prices by 9.3%. China's large meat demand is likely to be the main reason for this.

Wegmans, the 100 store family owned retailer based in the North East of the **US,** have reaffirmed their commitment to transparency in pricing since the federal government communication that grocery price increases hit a 46 year high in April. Wegmans are an important retailer for several Irish grocery brands with a strong premium positioning.

During the first 17 weeks of the year, ICA's four profiles had over 3,900 **Swedish** promotional campaigns, which corresponds to the same level as in 2019. In contrast, during the last two weeks, 18 and 19, the announced national campaigns decreased by 30 percent compared to last year.

According to MAPA, home beef consumption increased in **Spain** by 21% in March compared to 2019.

According to industry sources in the **Czech Republic,** Tesco has started counting the number of customers entering and leaving its stores and limiting the number so that each shopper has at least 16 sqm of space. For a 5,000 sqm hypermarket, this means at most 312 shoppers. It said that it closed the doors at some stores in recent days and weeks as soon as the limit was passed.

Alimentado reports on a survey by the Spesarossa.it delivery platform, showing that **Italians** increasingly prefer to shop at small supermarkets and neighbourhood shops. Of those surveyed, 29% preferred to shop at large supermarkets, and 53% preferred small supermarkets and shops.

Netherlands' online grocery turnover last week reached a peak of €36.7m, €2m above the week before and even €1m more than Easter. According to the IRI, this is due to capacity improvements being able to answer demand.

The battle around alcohol sales continues in **South Africa.** When the country moves to Level 3 of Lockdown Regulations, the government is proposing that off-premises purchase of alcohol will be allowed, subject to limited hours.

Traditional markets in **Singapore** have reported newfound success in the online category, with some retailers reporting a 300 per cent rise in sales since the nationwide lockdown. However, analysts believe the surge to be temporary with demand reverting after the lockdown ends on 2 June. Meanwhile, **Malaysian** online grocery retailer Mygroser reported a 1000 per cent surge in demand during the country's nationwide lockdown.

In **Japan**, IGD report that Rakuten's revenue from online services (including e-commerce) increased 12.8% YOY to €1.5bn in the period to March.

Retailwire reports that PepsiCo has launched two direct to consumers websites to meet demand during the Covid-19 pandemic. Pantryshop.com and Snacks.com have been launched in the **US** market. The two D2C platforms were developed from concept to execution in less than 30 days. Investing in eCommerce and digital capabilities and talent has been — and will continue to be — a big part of that effort," said Gibu Thomas, PepsiCo senior vice president & head of eCommerce, in a statement.

Foodservice

The **UK** hospitality sector saw sales decline 21.3% in the first quarter of 2020, according to the UK Hospitality Quarterly Business Tracker, with the drop concentrated in March as the UK moved into COVID-19 lockdown. Contrastingly, according to BarclayCard data, online spend for eating and drinking – including takeaways – grew 24.6% in April compared with the previous year but overall consumer spend fell by 36.5%. Within this, spending in restaurants, bars and pubs contracted by 96.9%.

Compass, the world's largest catering group, has today launched a £2bn share offer as it seeks to reduce debt and increase its liquidity during the coronavirus crisis which has had a severe impact on its business. Compass revealed that in April organic revenue had plummeted 46.1%.

According to feedback from a leading French service operator they are predicting that volumes may decrease by around 50% over the coming months, compared to normal trading, as post confinement measures impose less tables. The reduced profitability may indicate a reluctance for many operators to re-open soon.

Food-service.de reports that **German** restaurants must fill out a contact tracing document for each individual customer. This document contains the customer's name, address, contact details and their time of entry & exit. This data must be kept in the restaurant for 3 weeks. Customers may only be served if they agree to the documentation. They also indicate that foodservice sales are increasing but at a very slow pace. In calendar week 19 (4.5-10.5) foodservice businesses reported that they had achieved 33-35% of sales of what would be achieved in a normal week. Until then this figure stood at around 25%.

Italian Restaurant Union, URBR, has outlined the problems that Italian restaurants are facing with the new re-openings: many risk being unable to reopen from the point of health and safety, have not received financial aid yet, and worry that they will not be able to make a profit with the new measures in place. From May 18th, shops, bars, restaurants can reopen with table service.

AmRest Group, which manages KFC, Pizza Hut, Burger King and Starbucks restaurants in **Poland**, is reporting losses of as much as EUR 41.6 million after the first quarter.

Swedish Institute of Investigation, HUI, is to present a new study that shows how the Covid-19 crisis strikes the hospitality industry in the country. The report shows that as many as 80,000 jobs may disappear and that 9,000 companies in the hospitality industry are at risk.

Starbucks is reopening in **Japan**, and McDonalds are returning to dine-in operations from take-out only. McDonalds reported a 4.9% YOY increase in revenue in the year until March.

Thai restaurants within shopping malls are now permitted to resume dine-in services but alcohol remains excluded from menus.

In the **Philippines** where the world's longest lockdown is ongoing, development experts note that after lockdown consumers, especially those considered poor, may reduce their consumption of meat products as they continue to tighten their belts due to lost income and savings, and that social distancing in the food-service sector would result in lower customer capacity and so lower food demand.

China Beverage News reports AB InBev are seeing signs of early recovery in **China** since restaurants and bars have reopened, with drink volumes down 17% in April, a jump up from the 46.5% drop seen in January-March.

Food chains Yum China and Popeyes are sticking to their expansion plans in China. Yum China continues to see opportunities in tier 4 and 5 cities and dining in still accounts for a large proportion of sales, while Popeyes will open its first outlet in Shanghai.

McDonalds recently distributed a guide to franchisees in the **US** outlining procedures for safely reopening the fast-food chain's dining rooms across the country. The guide entitled "The Dine-In Reopening Playbook" allows franchisees discretion over opening timelines but states McDonalds would require employees to have their temperatures taken before work, wear gloves and face masks, and wash their hands every hour, and contains instructions like putting "closed" signs on tables to promote social-distancing and cleaning bathrooms every half-hour.

National Restaurant News reports that fears around health, safety, and an economic recession will shape the **US** restaurant industry for months and years to come. Desire for convenience will continue to drive customers to digital order apps and free delivery, while value and creative menu offerings will also be important. Industry experts are also predicting that consumers will reward brands with good social conscious with their loyalty- based on how they treated both consumers and staff during Covid-19.

A report released this week by TIPS indicates that the **South African** tourism and hospitality services are expected to recover slowly, thanks to the double blow of limits on both international travel and many entertainment services, including restaurants. Restaurants, which employed 400, 000 people in 2019, are unlikely to be able to open fully even under Level 3 of the lockdown regulations.

Local Manufacture & Logistics

Eleven employees have tested positive for Covid19 in the Arrivé d'Essarts-en Bocage meat factory in Vendée, **France,** last week. In the Kermené Côtes d'Armor meat factory, 69 employees have tested positive and have been asked to self-isolate at home. 34 cases have been found in Tradivals (groupe Sicarev) abattoir at Fleury-lès-Aubrais. Their some 400 employees will all be tested and they will remain closed until 25th May.

In Germany there are similar challenges. According to leading meat trade newspaper Fleischwirtschaft, German meat plants, including Müller-Fleisch, Westfleisch and Vion plants are facing continued criticism from governments & media due to rising COVID cases of staff.

The Chinese ban on four **Australian** beef plants continues in the aftermath of the countries' dispute over the coronavirus' origins. Together the 4 facilities, which have a combined weekly capacity of 38,700 head, account for 35 per cent of Australian beef exports to China. The ban will severely hurt an industry that was on track for AUD 3.5 billion (EUR 2.1 billion) worth of trade with China this year.

The **Polish** Minister of Agriculture and Rural Development Tho the EC for financial support for the poultry and pigmeat sectors. The Minister emphasised that the measures prepared by the European Commission to support certain markets (milk and meat) are insufficient.

The organic sector always grows in times of crises, according to the director of **Dutch** industry body Bionext, Michaël Wilde. While research by GfK revealed household penetration of 95% in 2019, retail market share remains low at 4.3%. Wilde explains that both the shift from out-of-home to at-home consumption and consumer's heightened need to trust their food are currently working in the sector's favour, and he anticipates stronger figures coming out of 2020

Chinese dairy giant Yili is reporting Q1 sales and profits down 10.7% and 16.9% respectively. However, outlook for 2020 remains bullish, planning to increase production capacity and focus on online retail channels for growth, leading to expected revenues of $13.6bn.

Bakkavor, the £1.8bn annual turnover 'leading provider of fresh prepared food in the **UK,** has reported that trading has been impacted and overall sales are below expectations in a recent Covid 19 update. In the UK (representing 90% of their business), the impact of Covid has resulted in a reduction across all of their categories most notably in salads and food-to-go. Orders have also reduced in the US and in China the outbreak has had a significant impact on their business. However the situation in China is stabilising and their sites are resuming service as orders gradually rebuild.

Greencore has seen its sales drop by around 40% in recent weeks due to a slump in demand for food to go products. The company said that Covid-19 has had a significant impact on the shape of **UK** food consumption. Weekly demand in its food to go categories dropped by 70% and was 60% below last year levels.

In **China,** authorities issued a new directive to all ground handling agents at airports on May 8th not to accept cargo more than 28 hours before a flight and all shipments must have a Cargo Booking Advice (CBA) to gate-in the cargo. According to SCMP, Lufthansa are expanding in China due to high cargo services demand.