

Covid-19: Impact on Trade Report

July 17th, 2020



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Macro-Economic Context

Political

The **EU Council** summit where decisions are expected about the proposed €750bn recovery funds is happening on July 17th. In advance, leaders from the southern European countries most affected by Covid-19 have been having a series of one to one meeting with German Chancellor Angela Merkel. The Spanish and Italian leaders hope to convince Merkel to back the programme as grants without condition, in contradiction to the position being staked out by the Netherlands along with Austria, Sweden and Finland. The Austrian EU minister dampened expectations for a deal out of this summit, saying she 'could not imagine' that a deal will be reached this weekend.

Economic

US consumer prices bounced back in June, posting their first monthly rise since before Covid-19-related shutdowns rattled the economy. The consumer price index climbed 0.6 per cent from May, a swing from a 0.1 per cent drop a month earlier, beating economists' forecast for a 0.5 per cent increase. Petrol accounted for more than half of the index's growth in June, reflecting a recovery in fuel prices as more Americans returned to the road. Food prices also increased.

OPEC's statistics body has said it expects demand for oil to rebound significantly in 2021, even allowing for persistent Covid-19 impacts on behaviour through that year. At a total level, the body has seen demand decline by 8.9 million barrels per day (b/d) to 90.7m b/d in 2020. It expects demand to increase by 7m b/d in 2021.

Industrial production in the **eurozone** recovered more slowly than expected in May and remains a fifth below its levels of a year ago, Eurostat data published on Tuesday revealed. The record 12.4 per cent rise in eurozone industrial output in May was below the 15 per cent consensus forecasts of economists surveyed by Reuters, curbing recent enthusiasm over signs of a quicker than expected recovery in Europe's economy.

Societal

Almost a third of **UK businesses** plan to cut jobs, which would be a record, before the government furlough scheme ends in October, the British Chambers of Commerce has found. A record 29 per cent of companies expect to shed jobs in the months ahead, while just 12 per cent intended to add headcount, the business group said. The survey results add to fears of more layoffs as the government's job retention scheme winds down.

The city of **Tokyo** has raised its coronavirus alert level to the top of a four-point scale as an expert group warned that the virus was spreading in the metropolis. New cases in the Japanese capital have been above 100 for six days in a row and the positive rate in tests has crept up to 6.2 per cent.

Technological

The **US** government and other funding entities have been investing in potentially better diagnostic tools for Covid-19 in parallel to the investments in pursuit of a vaccine.

3M is partnering with researchers at the Massachusetts Institute of Technology in a bid to develop a low-cost diagnostic test for coronavirus that can be mass produced and could deliver results "in minutes". The sort of rapid coronavirus test 3M and MIT and others hope to develop and roll out forms part of the US government's broader strategy to scale up testing and treatment of the disease. These so-called point of care tests do not need to be sent to laboratories for testing and, while slightly less precise, could help alleviate a backlog at labs. Owing to a surge in coronavirus cases across the US south and west and shortages of key chemicals used in diagnostic tests, the average turnaround time for results in the US has started to climb.

Sectors Insights

Meat Sector Summary

Beef

The beef market has seen improvement over the past week with base prices for R3 steers increasing to around €3.65/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 4th, average prices paid in **Northern Ireland** increased by 4p/kg, with R3 grade steers and heifer prices now averaging £3.68/kg. These prices were equivalent to €4.06/kg excluding VAT. Prices paid for R3 prime cattle in **Britain** saw little change with steers and heifers both now trading off a base of £3.68. In euro terms, these prices were equivalent to €4.06/kg excluding VAT.

Across **Europe**, average R3 young bull prices are equivalent to €3.48/kg excluding VAT, which is 14c/kg below the average Irish R3 steer price.

The **European Commission** recently published its short term outlook on EU beef production and consumption for the remainder of 2020. Beef exports increased in Q1 by 4 per cent year-on-year, with shipments to countries other than the UK increasing by 30 per cent. Consumption of beef is projected to decline to 10.4kg per capita in 2020, reflecting restaurants closure during Covid-19 lockdown, tighter supplies domestically and lower beef imports.

Cattle throughput at meat at **Irish** beef export plants for the year to-date to July 11th, has declined by 3.2 per cent, or 31,815 head, reaching a total of 941,932. Throughput for the most recent week ending July 11th totaled 35,758 head, an increase of 1,111 head (3.2 per cent) 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 5th, live cattle exports reached over 4,600 head according to the Department of Agriculture, Food & the Marine. At 1,530 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 (1,145 head), and almost 550 weanlings and stores were also sent there. The movement of cattle to **Northern Ireland** has continued to perform strongly over recent weeks, with just over 2,270 head traveling north during the week ending July 5th, which included a combination of calves and store cattle for further feeding, along with finished cattle for

processing. Live exports to Northern Ireland are up 63 per cent for 2020. For the year up to the week ending July 5th, overall exports have declined by 20 per cent, or almost 44,875 head, to 183,947 head. The primary reason for this decline has been fewer calves being sent to **other EU** markets, which have collectively fallen by over 29 per cent, or 52,800 head, to 134,345 head. In particular, the calf trade to the **Netherlands** has fallen by 34,400 head (-41 per cent). 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 opening again around the continent, demand for veal is beginning to recover.

Sheepmeat

The improvement of factory prices across the country has continued over the past week, with farmers welcoming the price increases of a further 15c-20c/kg on the week previous. The positive increase in prices comes on the back of factories looking to secure lamb supplies ahead of the Eid al-Adha religious festival celebrated by Muslims at the end of July. For the week commencing July 13th, many factories are now quoting prices of €5.45-€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 60c/kg higher than they were this time last year.

Sheep throughput for the week ending July 11th stood at 64,386 head, increasing by over 3,300 head on the previous week as factories actively source lamb supplies. Throughputs for the year continue to run 5 per cent above 2019 levels, with numbers of spring lamb being presented at factories increasing by over 52,000 head on 12 months ago. Recent spells of rain will be a welcome sight to many farmers as grazing conditions have improved, taking the pressure of producers who were struggling to finish spring lambs off grass.

The **European Commission** has recently brought out their short term outlook for **EU** Agricultural markets for 2020. Their projections show that imports of sheepmeat are expected to fall in 2020. Tight sheep supplies in **Australia** and **New Zealand** due to declining flock sizes and strong prices in Asia will result in a decline in shipments during 2020.

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 stabilized. 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 4th was 162.58c/kg.

A total of 67,578 pigs were sent for processing during the week ending July 11th 2020. This was an increase of 4,200 head on the same week 12 months ago. So far for 2020, pig throughput levels are currently running slightly above 2019 levels, with 1,837,069 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 28 weeks of 2019. (+14,808)

According to the **USDA** latest projections taken in July, global pigmeat production is expected to increase by 2 per cent to 96 million tonnes during 2020 compared to previous forecast in April. This reflects higher expected output in **China**. Rebuilding of the pig herd continues as producers recover from ASF and take advantage of record-high prices, resulting in a 6 per

cent increase in the forecast. However, pig supplies are well below historic levels and pigmeat production is forecast 15 percent lower year-over-year. Global pigmeat exports are raised to 10.9 million tons, reflecting strong demand from China. China's imports are raised to 4.4 million tons, up from the previous forecast of 3.9 million tons.

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 per cent) 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.

Dairy Sector Summary

For period Jan – May, Irish milk output is up ~4 per cent to 3.439bn litres. Milk output for the main milk producing regions combined is up ~ 2.4 per cent year on year (Jan- Apr).

January – May figures show:

- **Argentina** +9%
- **Australia** +5.4%
- **New Zealand** -0.3%
- **USA** +1.8%
- **EU 28** (Jan- Apr) +2.3%

Traditional summer holiday period reflected in lean trading in the past couple of weeks, and this is set to continue into August.

Dutch Dairy Prices for week 29 below

Week 29/2020	WHEY €/tonne	BUTR €/tonne	SMPE €/tonne	SMPA €/tonne	WMP €/tonne	WOW % Diff
	€ 700	€ 3,330	€ 2,140	€ 2,030	€ 2,720	
WOW +/- EUR/PMT	⇒ €0	⇒ €0	↓ -€10	↑ €20	↑ €40	0.46%

European prices for **SMP** back on average 3.5 per cent week-on-week. **Butter** has remained stable this week and whey down negligibly.

Seafood Sector Summary

There is some cautious optimism as the **Irish** foodservice market opens up as demand for seafood builds slowly. There are reports that the market is currently at around 50 per cent of pre-Covid levels. It will be interesting to see how the market develops - many processors are still suffering from very tight margins as operating to Covid-19 strict protocols puts additional costs and pressures on the business. The frozen food market continues to grow apace both in Ireland and the **UK** with Kantar UK figures confirming that frozen fish sales have grown by 8.9 per cent in value and 8.8 per cent in volume in the 52-week ending June 14th.

On the export front, whitefish exporters are reporting that market conditions in **France** are still challenging with local fish supplies favoured at auctions to the detriment of imported

product. The **Spanish** market also continues to be challenging with prices for **hake** and **megrin** still under pressure, with the latter holding firm to some extent. Recovery would seem to be solid in the **Spanish** HORECA market. Prices for Irish **oysters and mussels** are still challenging in the main export markets. The negative effect on the foodservice sector is evident from recent **French** data which shows that June food service turnover is 43 per cent lower (valued drop of €3.5bn) than the same month in 2019. The processors in Killybegs continue to concentrate on selling their frozen stocks and reducing inventory, so as to make space for the next round of fishing due later in the season. According to reports by BIM, considerable progress has been made in reducing the volume of frozen stocks held in store.

The latest news emerging from **China**, that multiple samples of Covid-19 have been detected on the outer packaging of Ecuadorian shrimp coming into the country, is having a further detrimental blow to exports of Irish seafood into this market, as consumer fears grow around imported shellfish. While according to the official statistics from the Japanese Ministry of Finance, in May 2020 alone, **Japan** imported 1,189MT of **horse mackerel**, and Ireland held a 12 per cent of share as the 4th biggest supplier. Japanese consumption trends have shown that consumers are becoming increasingly conscious about food safety. Market reports confirm that Irish seafood products long established in the Japanese market are doing well amongst their mainstream consumers whilst new to market, premium and fresh/chilled products have been staggering due to the drastic decline in Horeca and tourism sales.

Alcohol Sector Summary

In **Ireland**, we are now more than two weeks in, in terms of the reopening of pubs serving food. The Government has decided to delay the opening of pubs and nightclubs until August 10th.

With regard to the **US**, according to the New York Times, dated July 14th, among those states that re-opened and subsequently were forced to reverse because of spikes in cases, were some of the most valuable geographies to Irish exporters - **California, Texas and Florida**. Other valuable states to Irish exports are putting their re-opening plans on hold, such as **North Carolina, New Jersey, Oregon and Washington**. According to the **WSWA**, since October 2019, the **United States** has levied a 25 percent tariff on a range products from the EU, and by August 12 the **United States Trade Representative (USTR)** must review these tariffs. “ In a concerning development, USTR also included a new *supplemental* list of EU products, which includes vodka, gin, and beer from the UK, Germany, France and Spain (*not Ireland*) that could potentially be subject to new tariffs. In addition, USTR has initiated a separate investigation related to Digital Services Taxes (DSTs) adopted or under consideration by a number of countries to determine whether the policies are unreasonable or discriminatory or restrict U.S. commerce. This investigation could potentially lead to further tariffs on wine and spirits imports.”

If interested registration for a WSWA webinar on the topic can be found [here](#).

Bord Bia is continuing with its plans, including a Zoom presentation by US-based platforms LibDib and SevenFifty.com, which is scheduled to take place the week of July 27th.

Prepared Consumer Foods Sector Summary

With the re-opening of the hospitality industry there are more opportunities for people to consume food outside the home. New guidelines have been put in effect limiting the number of people allowed in restaurants. Time limits on how long people will be able to stay have also been implemented. Businesses have adapted their premises to comply with these guidelines. The increase in foodservice volume in the Irish market is providing a welcome boost to client companies servicing the channel. They expect orders to grow in the coming weeks as consumers get more comfortable with eating out. Companies are reporting that foodservice demand from the **UK and the continent** remains stable.

Our client companies have noted an increase in demand for **convenience and food-to-go** products as more people return to work. City centre stores which had been severely impacted during the lockdown period are seeing volumes grow as shoppers return. While the increase in demand is a welcome development, overall volumes still remain low. Demand for retail products has remained strong in recent weeks. The big weekly shop is now a firmly established behaviour with consumers. Developing weekly meal plans and shopping to a list are assisting consumers limit the number of trips to the supermarket.

Horticulture Summary

No further update from previous report.

Market Insights

Topline Takeouts:

- Manufacturers rationalise product offerings
- Sustainability remains important for consumers and retailers
- Foodservice delivery key to sustaining the channel

Retail

Retail and Price

This week Bloomberg reports that Moondalez International plans to eliminate a quarter of its products in order to streamline manufacturing during the pandemic. "SKU rationalization" aims to reduce inventory and packaging costs and ease logistics for online ordering and echoes last week's comments from Danone CEO Emmanuel Faber that retailers are now looking for simplicity and core ranges from big brands.

While growth in international consumer confidence remains patchy, **China** has seen a spend of 450 million yuan (€56 million) on imported goods at Hainan's four duty-free malls in the first week of July, while wholesale agriculture prices show a slight uptick and **New Zealand's** airfreighted exports of live lobsters to **China** surged 53 per cent year-on-year in May, according to Auckland International Airport.

First half-year figures from Jumbo Supermarket in the **Netherlands** show turnover growth of 14.2 per cent which is ahead of the market average according to Nielsen, with Jumbo attributing this to increased spend per supermarket visit due to Covid-19.

In **Germany** the price war between Aldi and Lidl shifts up a gear this week with Lidl lowering prices by a further 10 per cent. According to Lebensmittelzeitung these discounters expect the costs associated with the action to be shared by industry and suppliers. This drive for customers may be a response to the Federal Statistical Office figures showing that the retail sector grew by 6.9 per cent in the first quarter of this year compared to last year period but discounters' growth remained almost unchanged at 0.8 per cent. Meanwhile in **Italy**, retail sales fell by 2.63 per cent in the first week of June, the fourth consecutive week of decreases.

UK supermarket inflation dropped in June following the return of in-store promotions with The Grocer Price Index of over 60,000 individual SKUs showing a contraction of 0.9 per cent year-on-year price inflation in June.

Consumer Habits

In the **UK**, a YouGov survey has shown that over 50 per cent of shoppers will choose local sources rather than a supermarket following lockdown and 70 per cent of respondents say they would continue to shop locally to some extent when all restrictions are lifted.

The **Italian** government push for consumers to support local appears to be gaining traction with a survey by large Italian meat producer Fileni showing that 78 per cent of consumers recognise the "100 per cent Italian origin" labelled meat products and 2 per cent of those surveyed said they have increased their purchases in the Made in Italy and "Km0" categories.

Retailer Reaction

Retailers in **Germany** continue to respond to consumer demand for sustainably produced food which is now a “must have” as distinct from a “nice-to-have” offering. According to the Capgemini Research Institute survey of 7,500 consumers and 750 companies, 79 per cent of the respondents are currently rethinking their buying behaviour and attaching more value to social responsibility and environmental friendliness with 52 per cent claiming to have a higher “emotional attraction” to products and organisations that are perceived as sustainable.

The trend of supporting local suppliers continues apace in the **Middle East** also with LuLu Hypermarket launching the Emarat Awwal (Emirates First) initiative across all Lulu hypermarkets in **UAE** and in other **Gulf** countries. The Commercial Director of **UAE** retailer Spinneys, Tom Harvey, reports that Spinneys highest growth area at present is the frozen food segment with consumer recognition of the quality of frozen food and awareness of the impact on the price of imported fresh food caused by rising air freight costs (See Bord Bia Bulletin interview with Tom Harvey on this topic [here](#)).

Carrefour **Polska** is also developing a project "Straight from the field up to 50 km" aimed at shortening the supply chain. Research from Mastercard shows that during the pandemic Poles appreciated local entrepreneurs as well as local retail and service outlets. The trend is replicated in **Spain** with supermarket Supersol's local initiative also includes support for the fishing sector.

Digital

In the **Netherlands**, Ahold-Delhaize CEO Frans Muller admits that the algorithms used during the pandemic were not capable of preventing the empty shelves that characterized the Group's supermarkets during the initial phases of lockdown. However, he predicts that the role of Artificial Intelligence will continue to grow, both in the areas of customer journey and supply chain management; the volume of the retailer's online business grew by 500 per cent, with one in three customers using its app. The increase in e-commerce in **Italy** is now estimated to account for 7.9 per cent of total consumption according to Alimentando. **Singapore**-based online retailers have increased their investments significantly since the pandemic began with Alibaba Group's Redmart hiring more than 500 warehouse and delivery staff and increased logistics capacity by 50 per cent, while also diversifying its upstream supply chain to include locally-grown produce. FoodPanda, originally a “last-mile” foodservice delivery platform, has now expanded into grocery delivery from bricks-and-mortar partners as well as its own warehouses. FairPrice, the country's largest grocery retailer, has increased its delivery capacity by 70 per cent, with two stores converted into dedicated packing centres for delivery according to IGD Retail

Japan continues to innovate its customer service with FamilyMart now using robots to stock store shelves to reduce labour costs and minimise in-store contact according to IGD Retail. The automated option in **Russia** sees food company “Azbuka Vkusa” addressing the perceived risk of shopping by launching vending machines that not only offer snacks but full meal solutions to consumers.

Foodservice

The foodservice sector continues to be challenged even as the lockdown eases. According to ING Bank, the effects of Covid-19 on **Dutch** foodservice will likely be felt until the end of 2021.

In June, the foodservice sector in **France** recorded a decline of 43 per cent of its turnover according to Food Service Vision while sales in fast food restaurants and bakeries are now approaching normal levels.

In **Spain** 21 per cent of the foodservice sector remains closed though signs of recovery there can be seen in exports of Irish beef which shows a recovery of over 50 per cent to foodservice wholesalers according to Irish exporters. **Germany** reached between 55 per cent and 60 per cent percent of its pre-Covid sales in the last week of June according to Food-service.de with drive-through and delivery services the main engines of recovery with sales of between 110 per cent and 120 per cent of the corresponding period in 2019.

Dutch foodservice chain “La Place”, owned by Jumbo Supermarket, has reported H1 turnover of €33m, down from €82m over the same period last year. Jumbo is currently developing a new ‘1.5m’ social distancing model for the buffet model restaurant, but has concluded that this will not work for many of its branches which will remain closed.

In the **UK**, trade was down 44.5 per cent year-on-year during the first weekend that saw bars, pubs and restaurants reopening, according to the latest Coffey Peach Business Tracker which showed that 36 per cent of group-operated venues opened for eating and drinking inside on July 4th and 5th. The UK Chancellor has announced that the VAT rate would be cut from 20% to 5% on food for six months from July 15th until January 12th 2021, along with a voucher initiative aimed at encouraging people to eat out in August.

Similar to trends in the Netherlands in recent weeks, the delivery sector in **Thailand** continues to see opportunities for income growth with government approving measures to regulate food and online delivery after customer complaints that delivery platforms had increased their service fees for restaurants from 20 per cent o rates of up to 40 per cent, according to Reuters.

In **Italy** tourist hotel bookings were down 80.6 per cent in June, compared to 2019, with 93.2 per cent less bookings from international guests, and 67.2 per cent fewer Italian holidaymakers, according to the Federalberghi Observatory. The reasons for this large decrease include: Italians drawing on their annual leave allocations during lockdown; reduced incomes and with many events and means of transport reduced or cancelled, some are choosing not to take holidays.

The foodservice channels that best weathered the pandemic in **Russia** were pizza places, sushi bars and similar fast food service outlets, according to restoclub.ru. Traditionally in Russia there are two sectors that do better than the others during the crises: cheap food places and high-class expensive restaurants. No matter what there will be people who are interested in cheap food options and people who are interested in high class food options.

Local Manufacture and Logistics

The continued closure of Tönnies (**Germany's** largest pig slaughterhouse) in Rheda-Wiedenbrück, North Rhine-Westphalia, has caused a large backlog of animals ready for slaughter. Rapid restocking and higher imports will ease tight pork supply in **China** from Q4, according to the Ministry of Agriculture and Rural Affairs.

New Zealand food exports of traditionally strong-performing products such as seafood and dairy are expected to be negatively impacted in the coming months (down 44 per cent in April year-on-year) according to Foodnavigator Asia due to COVID-19 related transportation challenges and weakened demand from key markets.

China Retail News reports that Yum China (KFC, Taco Bell and Pizza Hut) plans to invest CNY50 million (€6.3 million) to establish a new company, Chuansheng Supply Chain Management, in Chengdu which will be engaged in supply chain management service, food management, and general cargo storage.