

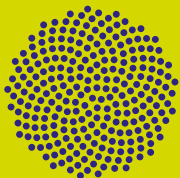
Q2

June
2018

Food Drink Ireland Business Monitor

Challenging Brexit

Brought to you by



FD Food
Drink
Ireland
Ibec



Paul Kelly
Director

Brexit – better prepared but more worried

A recent major Brexit survey of the Ibec membership showed that a large majority of companies are now actively engaged in Brexit planning, despite the massive uncertainty that remains. FDI carried out an analysis of the food and drink responses to the Ibec survey. Our findings reflect the same position as the previous Ibec Brexit survey in summer 2016 – food and drink companies are more worried even though they are better prepared.

From an export perspective 50% of food and drink companies said Brexit would have a negative impact on the value of export sales (an increase from 42% in summer 2016) compared with 28% of businesses generally.

59% of food and drink companies had a hedging or pricing arrangement in place (an increase from 51.5% in summer 2016) compared with 35% of businesses generally.

The biggest impacts that the UK leaving the EU would have on respondent's businesses in the food and drink sector were:

- Cost of custom compliance with procedures with NI/GB (83% for food and drink compared with 45% for all business)
- Exchange rate movements (67% for food and drink compared with 47% for all business)
- Value of export sales (56% for food and drink compared with 29% for all business)
- Volume of export sales (50% for food and drink compared with 27% for all business)

The deeply integrated nature of food and drink supply chains across the island of Ireland were reflected in responses to a question on the impact of Brexit on the island of Ireland. 89% expressed concern about increased custom and certification procedures (60% for all businesses) and 72% highlighted the risk to all-island supply chains, including rules of origin (43% for all businesses)

The most common elements of contingency plans for food and drink companies are:










- Focus on new geographical markets outside the UK (50% compared with 32% for all business)
- Diversification of business into new products (33% compared with 25% for all business)
- Alternatives to transit of goods through the UK (28% compared with 25% for all business)
- Sourcing strategies for materials (22% compared with 21% for all business)

Companies are also looking at skills needs and potential shortages after Brexit. Customs procedures is seen as the area where the greatest skills shortages are likely to occur. Training existing staff supplemented by recruitment within Ireland is seen as the primary remedy. Logistics, distribution and supply chain management skills are the next most frequently cited areas where skills shortages are anticipated.

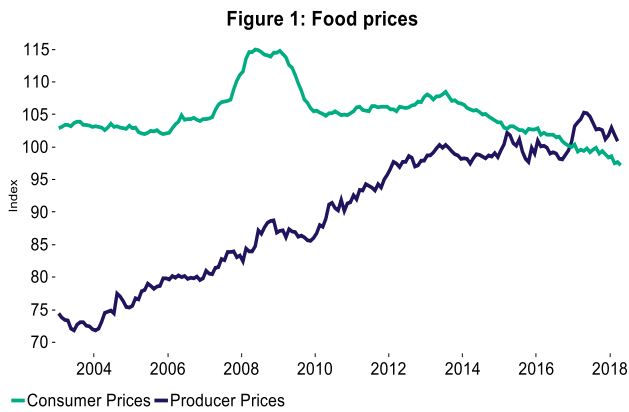
FDI continues to call for Brexit policy measures to support and protect Ireland's most important indigenous sector, specifically:

- A transition period of sufficient duration to improve business certainty.
- An ambitious EU-UK future trade agreement avoiding tariffs, TRQs and regulatory divergence.
- Avoid a hard border with Northern Ireland.
- Exceptional state aid support for stabilisation, competitiveness and diversification to remedy a serious disturbance in the Irish economy due to the fracture of the single market.
- Minimise customs burdens and regulatory checks (animal products) as part of any future trade agreement (mutual recognition of standards to expedite trade between approved consignors/ consignees, simplified procedures consistent with the Union Customs Code and maximum collaboration on SPS, veterinary and product standards)
- Special arrangements to facilitate transiting goods using the UK land-bridge.
- Common legal recognition and technical application in both Ireland and Northern Ireland of the three All-island Spirits Geographic Indications for Irish whiskey, Irish Cream and Poitin.
- Continuation of a seamless system, like the existing EMCS, to manage and record movement of excisable produce in duty suspension between Ireland and UK.
- The UK should also remain part of the European Common Transit System to ensure smooth transit of goods to, from and through the UK.

Food business snapshot

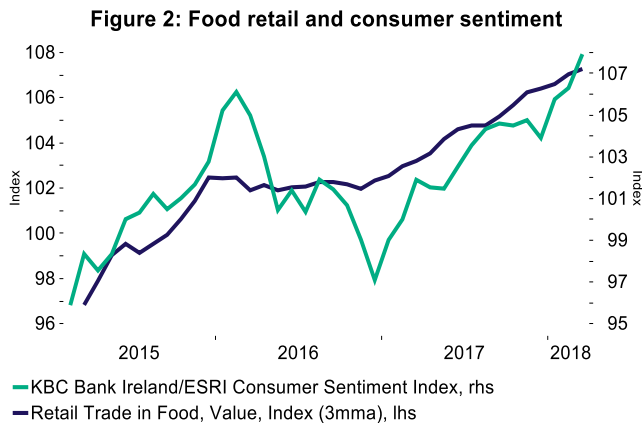
		2017 VS 2016	Q1-2018 VS Q1-2017	Mar 18 VS Feb 18	Mar 18 VS Mar 17
	Food prices	-2.0	-1.8	0.2	-1.9
	Core retail sales	1.8	2.1	-2.3	0.0
	Food retail sales	2.7	3.9	-0.5	3.6
	Exchange rates	7.0	2.07	-0.6	4.53
	Crude oil prices	17.5	12.5	2.2	11.1
	Food commodity price index	8.1	-1.7	1.0	0.8
	UK food retail sales	2.4	2.2	0.1	1.7
	European food retail sales	3.1	2.9	0.0	3.0
	Food exports	12.6	3.6	2.3	3.8

Domestic market



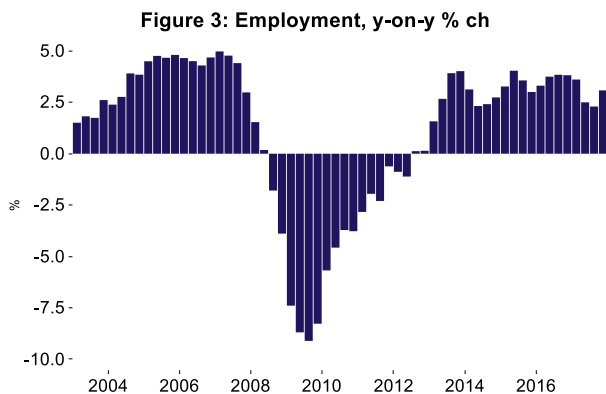
Food prices

Disposable income in Ireland is rising by over 5% per annum and with consumer price inflation flat, purchasing power (excluding borrowing) has never been greater in the history of the State. Prices on average, as measured by the Consumer Price Index, were 0.4% lower in April compared with April 2017. Consumer Prices decreased by 0.2% in the month. Annual changes of Food & Non-Alcoholic Beverages fell due to lower prices across a range of products such as meat, vegetables, bread & cereals and jam, honey, chocolate & confectionery. Changes of Food & Non-Alcoholic Beverages in the month decreased due to lower prices across a range of products such as vegetables, coffee, tea and meat.



Retail sales and consumer sentiment

Storm Emma was a leading factor in significant growth in both sales value and volume in the supermarkets and convenience stores sector in the first quarter of 2018. Food and clothing prices remained low as Irish consumers continue to be strongly motivated by price and value in 2018. Consumer spend is expected to grow by over 4% in value terms in 2018, and by 2.6% in volume, this would take the total household spend above €100 billion for the first time.

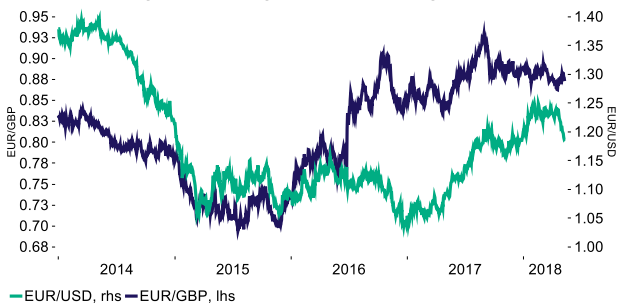


Employment forecast

Last year employment grew by 2.9% and the total number of people at work is now only 1.2% lower than 2007. Employment is now approaching peak levels, and, in many sectors, it has exceeded 2007 levels. Employment in ICT is now 37% higher than 2007. Both retail and construction are the two sectors that are furthest from peak levels being 6% and 46% below 2007 levels respectively. For 2018, Ibec forecasts that employment growth will slow to 2.7% as the economy approaches full employment. This will bring the unemployment rate down to 5% by the end of 2019.

Macro Trends

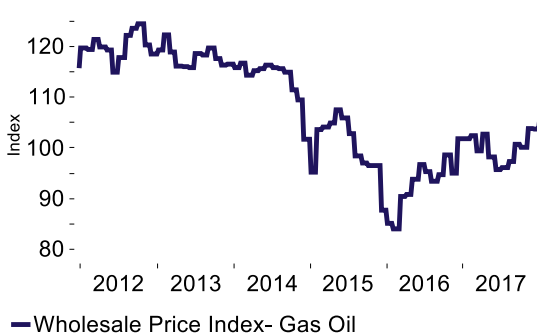
Figure 4: Sterling and dollar exchange rates



Sterling exchange rate

The Effective Exchange Rate (EER) measures international cost competitiveness and depends on exchange rate movements between trading partners. If the index rises, there has been a loss in competitiveness, as the euro has appreciated relative to the currencies of our trading partners. This would increase purchasing power (imports become cheaper) but exports become more expensive which undermines competitiveness. Since 2016 the EER for Irish goods exports increased (lost competitiveness) as sterling depreciated. However, this relative appreciation was larger for sectors that are more reliant on the UK. In a piece of new analysis, Ibec has shown that the deterioration in Sterling has in effect wiped out the last 10 years of competitiveness gains for food exporters as measured by the EER but had a much more muted impact on the wider economy.

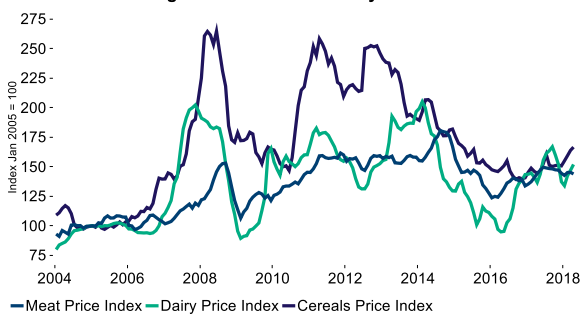
Figure 5- Wholesale Price Index- Gas Oil



Wholesale price index – gas oil

According to latest CSO statistics, the price of Energy products increased by 15.9% in the year since April 2017, and Petroleum fuels increased by 2.4%. In April 2018, the monthly price index for Energy products decreased by 9.8%, while Petroleum fuels increased by 3.5%.

Figure 6: Food commodity indices

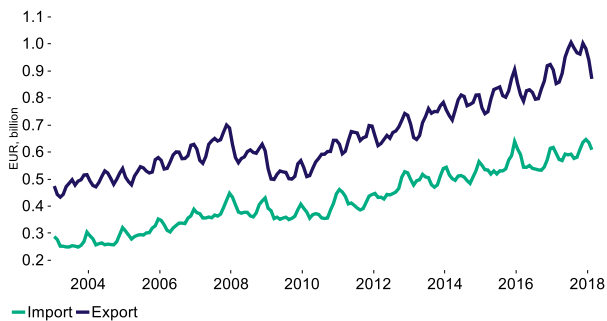


Food commodity indices

The FAO Food Price Index (FFPI) the organisation that measures monthly change in international prices of a basket of food commodities, reported no change in the month from April 2018 to March, however there was an increase of 2.7% from the corresponding period last year. While prices of most cereals and dairy products continued to increase in April, sugar prices fell further. Vegetable oil and meat markets also remained under downward pressure.

Trade

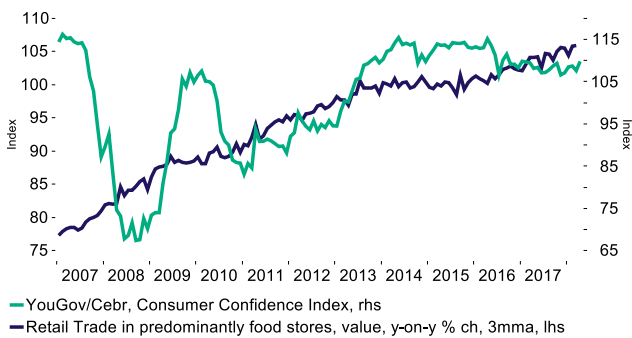
Figure 7: Irish monthly food trade, 3 mma



Irish monthly food trade

Despite the threat of Brexit food exports continued their strong growth. Exports of food grew by 12.5% last year. Within this, meat exports grew by 7% and dairy exports by 36%. The strong growth in dairy exports has been heavily driven by an increase in global butter prices which have almost doubled over the past two years (and for a time last September had increased by 126% on the price in mid-2016).

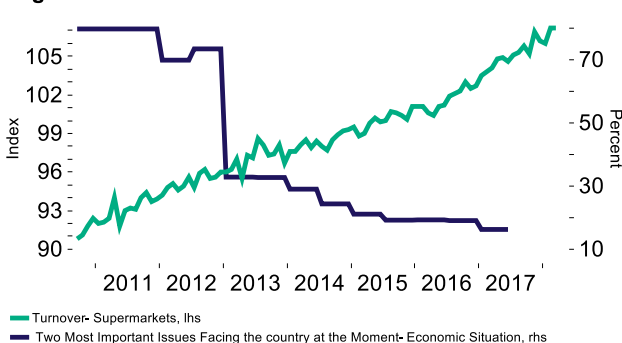
Figure 8: UK consumer confidence and food retail



UK consumer confidence and food retail

Supermarkets in the UK performed well with turnover up 2.2% in the first quarter of this year. This was driven by rising prices as food inflation was 3.4% in the first quarter of this year. Meat prices increased by 2.9% while the price of milk, cheese and eggs increased by 4.9%.

Figure 9: EU consumer confidence and food retail sales



Consumer sentiment and retail sales

Last year the European economy performed better than expected. GDP grew by 2.4% and the unemployment rate is now 7.1%. This had a positive impact on consumer spending and sentiment. Retail sales in supermarkets increased by 2.9% in the first quarter of this year and in March sales were 3% higher than the same period in 2017.



Food Drink Ireland
84/86 Lower Baggot Street, Dublin 2
Tel: (01) 605 1500; Fax: (01) 638 1500

www.fooddrinkireland.ie

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