Q4

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Food Drink Ireland Business Monitor

Mitigating Brexit

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Food Drink Ireland

Ibec

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Mitigating Brexit

Brexit involves an unprecedented fracture of the Single Market, with Ireland particularly exposed. Agri-food and drink remains particularly reliant on the UK market and is the sector most exposed to Brexit. Whilst the UK as a percentage of our overall exports has dropped in recent years and now stands at 37%, in value terms it continues to increase and now stands at €4.5bn (a 32% increase since 2010). This demonstrates the importance of maintaining our market position in this high value, high quality market that has a substantial food deficit and not losing the market to global competitors. Irish food and drink exposure in absolute value terms is similar to other large exporters to the UK (France, Belgium, Netherlands, Germany, Italy). However, in percentage terms it is 4 – 5 times higher. Typically, less than 10% of their agri-food exports are to UK. This highlights the unique circumstances faced by Irish agri-food and the need for exceptional mitigation measures. A further €4bn of exports go to EU-26 with most using the UK land-bridge. It is also an important trade route in the other direction for food ingredients and finished goods travelling from the continent.

Irish companies are already experiencing the effects of Brexit – from the sterling depreciation since June 2016, to massive uncertainty for production, logistics and consumer sentiment to the cost of contingency stocks.

In the event of a no deal Brexit and the immediate imposition of tariffs and restrictive TRQs, it is therefore vital that the EU institutions and national governments recognise the potential for economic disruption and take decisive steps to offset such risks. Tariffs are in effect a tax on trade and commerce. They would decimate much of Ireland’s

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agri-food exports to the UK. In order to support businesses during a hard Brexit, alleviation measures will be needed to support Irish agri-food. Tariffs flow back to central exchequers at national and EU level and must be recycled into a tariff stabilisation fund to offset serious damage to exports and job losses. Additionally, a temporary EU state aid framework to support companies through any adjustment period with funds amounting to 5% of the value of current annual export sales to the UK will be needed annually for three years from domestic and EU sources to help Irish companies innovate, diversify into new markets, train staff and invest for the future in capital towards enabling technology, carbon efficiency, plant renewal and expansion geared to improved competitiveness. Measures are also needed to ensure land-bridge access to continental Europe and the provision of sufficient capacity on direct sea-routes.

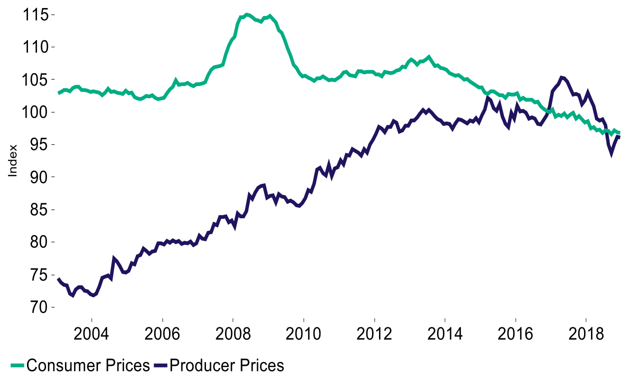
In the event of approval of the Withdrawal Agreement, discussions will begin on the future relationship between the EU and the UK. In addition to guaranteeing tariff and quota free trade, a priority for the food and drink sector will be the minimisation of regulatory divergence in the sector. The focus should also be to establish a mechanism that will allow keeping EU and UK food standards under the scope of veterinary legislation as well as under food law in general, as closely aligned as possible and ensuring mutual recognition of SPS certification (food safety and phytosanitary) by the EU and the UK. A continued close relationship between the UK and EFSA is also key to continued future alignment of food standards. The objective must be continuing joint risk assessment with a common data base to minimise divergence in standards and avoid trade impediments.

Food business snapshot

	2017 vs 2016	Q4-2018 vs Q4-2017	Dec 18 vs Nov 18	Dec 18 vs Dec 17
Food prices	-2.0	-2.0	-0.1	-1.6
Core retail sales	1.8	2.7	0.4	3.8
Food retail sales	2.7	4.0	0.8	4.1
Exchange rates	7.0	0.0	2.0	1.7
Crude oil prices	6.6	6.6	-13.8	-15.8
Food commodity price index	8.1	-6.7	0.1	-4.3
UK food retail sales	2.4	2.6	0.2	4.1
European food retail sales	3.1	2.4	-0.4	1.9
Food exports	12.6	0.0	-7.0	0.0

Domestic market

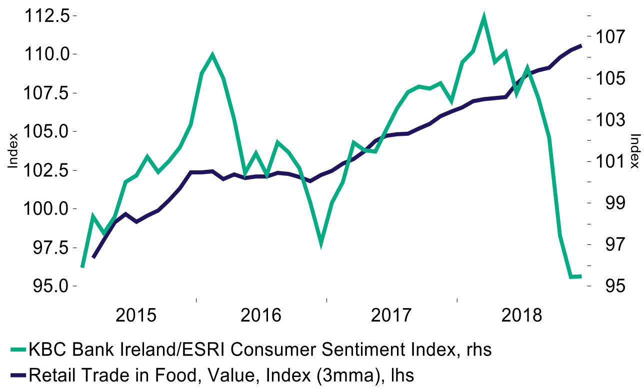
Figure 1: Food prices



Food prices

In 2018 food prices fell by 2.2% and are now lower than they were in 2001. In December, overall prices increased by 0.7% compared to the same month in 2017. The divisions which caused the largest downward contribution to the overall CPI in the year were Miscellaneous Goods & Services (-0.28%), Furnishings, Household Equipment & Routine Household Maintenance (-0.17%) and Food & Non-Alcoholic Beverages (-0.15%). Food & Non-Alcoholic Beverages fell due to lower prices across a range of products such as meat, bread & cereals, sugar, jam, honey, chocolate & confectionery and fruit.

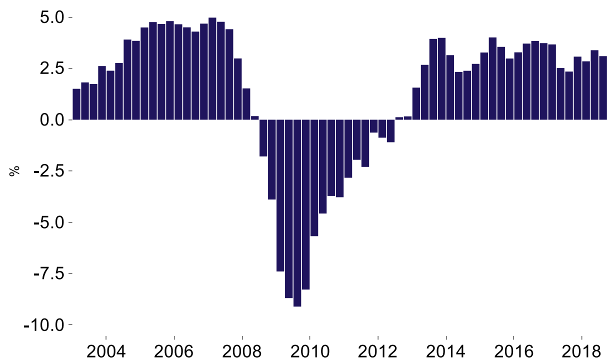
Figure 2: Food retail and consumer sentiment



Retail sales and consumer sentiment

Overall, 2018 was a good year for the domestic economy as consumer spending grew by 4.6% (in value terms) in the first nine months. Consumer sentiment weakened in the latter part of the year on the back of growing economic uncertainty. However, this was not reflected in core retail sales as turnover grew by 4.7% in September and October while volumes grew by 5.6%. Christmas was a relatively good period for Irish retailers. In December retail spending grew by 3%. Continued employment and wage growth will have a positive impact on consumer spending this year. The retail sales stats for the supermarkets and convenience sector confirm there is still no evidence of inflation. Full year growth of 5.3% by volume and 4.2% by value represents the strongest year for this sector since the economic downturn of 2007/8. Turnover is starting to catch up up with volumes which shows strong growth in the retail sector. Ibec forecasts consumer spending growth of 2.9% in 2019.

Figure 3: Employment, y-on-y % ch

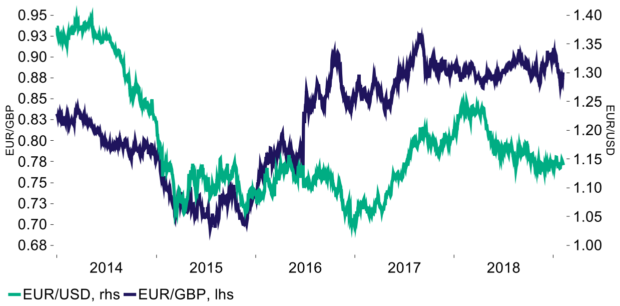


Employment forecast

Employment growth is yet to show any signs of slowing. In Q3 2018, employment was 3% higher than the same period in 2017 with 66,700 more people at work. The fastest growing sectors were construction (14%), administration (13.6%) and hospitality (10%). However, some sectors did record losses. Retail employment fell by 1.3%, while employment in manufacturing fell by 1.8%. This was driven by structural changes in both sectors. For this year, Ibec forecasts that employment will grow by 2.5%. This growth will slow to 1.9% in 2020 as we reach full employment and firms struggle to find workers to fill job vacancies.

Macro Trends

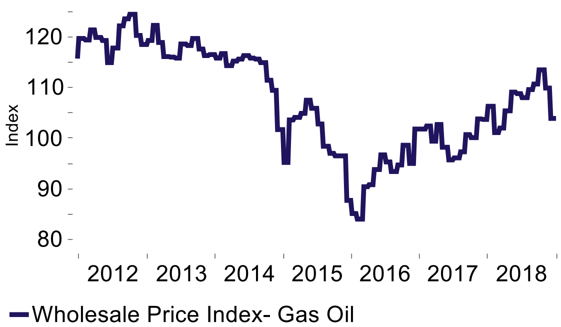
Figure 4: Sterling and dollar exchange rates



Sterling exchange rate

Recent forecasts by the Bank of England paint a bleak picture for Irish exporters in the event of a no-deal Brexit. If something resembling the deal currently on the table is eventually ratified, with close economic ties, the Bank expects Sterling to only depreciate by between 2% and 5%. This would leave Sterling at somewhere around 90p versus the Euro in 2019. While this situation would be past the point of pain for Irish companies it could settle at lower levels in the future. On the other hand, in a no-deal scenario, the Bank has forecasted that Sterling could depreciate by anywhere between 10% and 25%. All else equal, this would see Sterling at an unprecedented 110p versus the Euro in 2019. At these levels, large numbers of Irish firms would not have sufficient margins to supply the UK market without complete price pass-through to British consumers. As it stands the early part of 2019 is likely to be a period where margins will be squeezed for many Irish exporters.

Figure 5- Wholesale Price Index- Gas Oil



Wholesale price index – gas oil

Gas prices for mid-sized industrial users increased by 3% in the second half of 2018. This was roughly the same as the EU average. Electricity prices for the same users grew by 7.1% in the second half of this year. This was the sixth largest increase for any country in the EU.

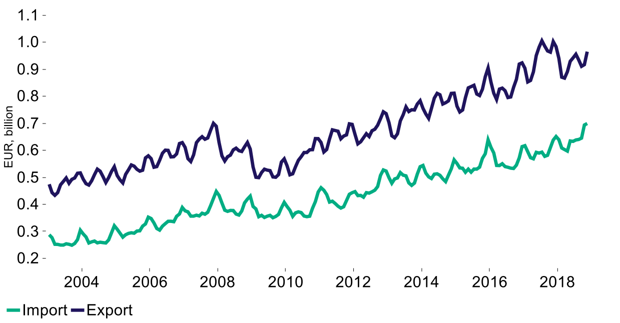
Figure 6: Food commodity indices

Food commodity indices

The FAO Food Price Index (FFPI) the organisation that measures monthly change in international prices of a basket of food commodities, was steady in December but lower in 2018 compared to 2017. In December 2018, which was nearly unchanged from its November value, saw lower dairy and sugar prices that were largely offset by firmer cereal prices and somewhat higher prices of meat and oils. However, for the whole of 2018 prices were 3.5% down from 2017 and almost 27% below its highest level in 2011. Sugar values dropped the most in 2018, with also vegetable oil, meat and dairy prices registering year-on-year decreases. However, international prices of all major cereals rose in 2018.

Trade

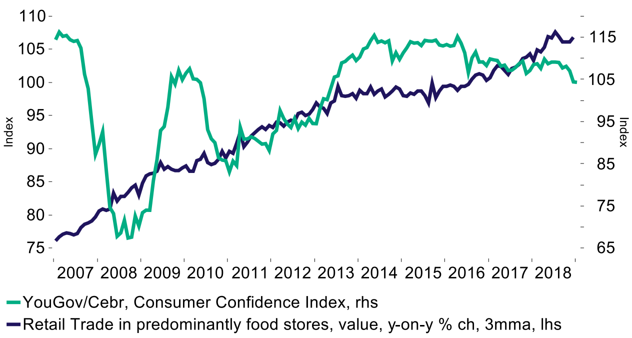
Figure 7: Irish monthly food trade, 3 mma



Irish monthly food trade

Food exports fell by 2.3% in 2018. However, the underlying performance of the various food categories was mixed. Some exports grew such as meat (1.9%), dairy (8.2%), vegetables (6.6%), cereals (2.1%) and feeding stuff (7.7%). However, these gains were offset as exports of fish (-6.1%), sugars(-5.2%) and miscellaneous products (-21.4%) all fell.

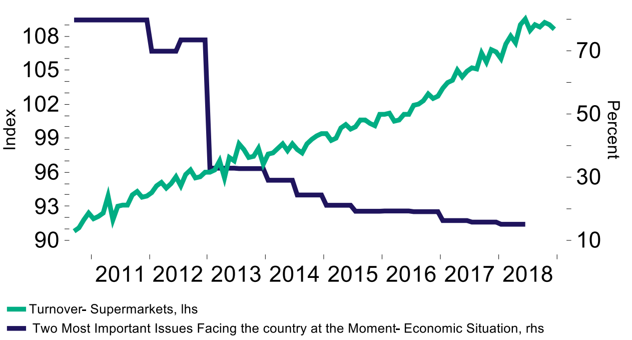
Figure 8: UK consumer confidence and food retail



UK consumer confidence and food retail

There has been a marked slowdown in retail sales in the United Kingdom throughout 2018. In the three months to December 2018, estimates in the volumes decreased by 0.2% with declines across all main sectors except fuel. Looking at annual growth rates, sales volumes in 2018 increased by 2.7%; an annual slowdown in comparison with the peak of 4.7% experienced in 2016. Non-food stores was the largest contributor towards the decline seen in December 2018 for both volume and value at -1.1%, suggesting that UK consumers are curtailing discretionary spend at present. There is little optimism in the retail sector in the UK as the worry over a no deal Brexit looms large in the first quarter of 2019. However, supermarkets experienced strong growth as turnover grew by 2.6% in Q4 and in December sales were 4.1% higher.

Figure 9: EU consumer confidence and food retail sales



Consumer sentiment and retail sales

Eurozone economic data for the latter part of 2018 was weaker than had been expected. As a result, many forecasters are now expecting weaker growth for 2019. The European Commission has revised its forecasts for 2019 down from 2% to 1.3%. Sales in supermarkets, however, remain strong and in Q4 sales grew by 2.4%.

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