

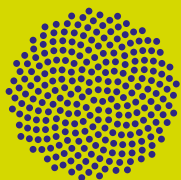
Q4

December
2017

Food Drink Ireland Business Monitor

Custom and practice

Brought to you by



FD Food
Drink
Ireland
Ibec



Paul Kelly
Director

At sea with new trade and customs arrangements

Currently the UK is a member of the single market and is a member of the customs union and applies the EU common external tariff and trade policy. If any, or all, of these things change there will be an impact on trade and customs. No 3rd country has a customs-free border with the EU.

Irish food and drink exports in 2016 were over €11bn and imports were over €7bn resulting in total trade flows of €18bn. These goods leave and enter Ireland mainly by crossing the Irish sea. According to the Chamber of Shipping 750,00 lorries were carried on the central Irish sea corridor in and out of Dublin with a further 100,000 on the southern corridor through Rosslare. A further 770,000 lorries were carried across the Irish sea between Britain and Northern Ireland. 45% of lorries on routes across the Irish sea contain perishable food, meat/poultry, fruit/veg, mushrooms, flowers/plants and fish.

A new customs border between the EU and UK will present major challenges to how business operates which will impact both exporters and importers. Many exports and imports are now delivered 'just in time' with some companies operating within a 30 minute window for delivery of goods to customers based in the UK and vice versa. For food and drink products, time delays would be extremely disruptive.

Burdensome customs procedures, including veterinary and other checks, along with associated administrative costs and delays, and disruptive alterations having to be made to production, would have significant and far reaching economic costs. The land border between Ireland and Northern Ireland also presents numerous additional challenges.










Changes to transport and transit procedures will impede the smooth movement of goods, particularly if the UK leaves the European transit system as it reduces administrative obligations and costs by allowing goods to move within the transit system (i.e. between the different customs territories) with taxes and charges payable at the final destination only.

Of even greater concern is the impact of divergent food and agricultural standards. In light of the onerous sanitary and phytosanitary (SPS) obligations on third country imports into the EU (border checks to ensure compliance with EU food safety, plant and animal health regulations), it is critical that early and due consideration is given in any forthcoming EU/UK negotiations to the application of official food and feed controls. In light of the importance of the landbridge through Britain, this should include cooperation between customs and veterinary authorities to avoid duplication of checks.

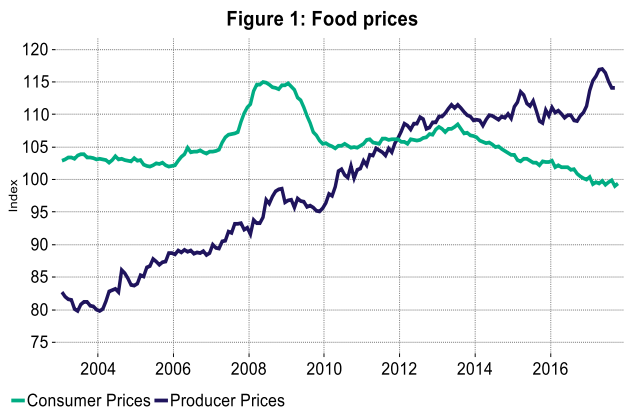
Ibec have clearly outlined the trade and customs challenges posed by Brexit and proposed [25 specific solutions](#). And whilst the solutions ultimately will reflect the agreement reached between the EU and UK, an objective must be to minimise the cost and market impact of new impediments to the movement of goods.

Finally businesses need to consider not only how tariffs and duties might impact their cost base and overall competitiveness, but also consider what capability they may need to put in place to support a customs border and if their current supply chains are optimised in light of potential Brexit outcomes. Ibec have produced a [Brexit Toolkit](#). This includes supply chain considerations that should be addressed immediately (understanding how duties and border controls could affect a business's supply chain and overall competitiveness) but also integrated into ongoing business planning (exploring options for optimising the supply network of the business for duties and border controls).

Food business snapshot

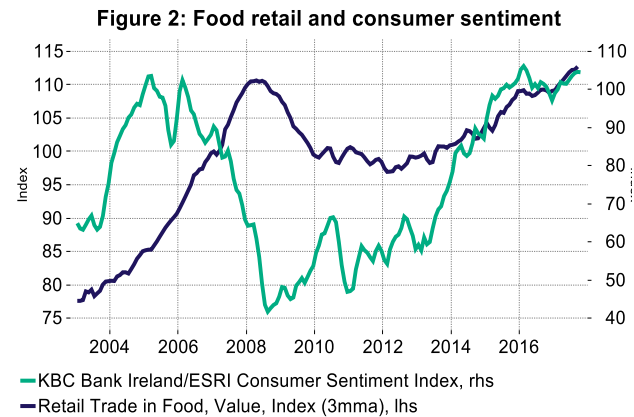
| | | 2016 vs 2015 | Q3-2017 vs Q3-2016 | Sept 17 vs Aug 17 | Sept 17 vs Sept 16 |
|---|----------------------------|--------------------|--------------------------|-------------------------|--------------------------|
|  | Food prices | -1.4 | -1.8 | -0.9 | -1.9 |
|  | Core retail sales | 1.8 | 4.1 | 0.7 | 4.8 |
|  | Food retail sales | 2.5 | 3.1 | 1.3 | 4.8 |
|  | Exchange rates | 12.8 | 5.58 | -1.93 | 4.82 |
|  | Crude oil prices | -11.3 | 13.8 | 8.6 | 20.6 |
|  | Food commodity price index | -1.5 | 7.0 | 0.8 | 4.5 |
|  | UK food retail sales | 1.8 | 2.4 | -0.1 | 1.9 |
|  | France food retail sales | 0.46 | 0.1 | 2.2 | 1.1 |
|  | Food exports | 3.2 | 14.5 | 6.8 | 7.9 |

Domestic market



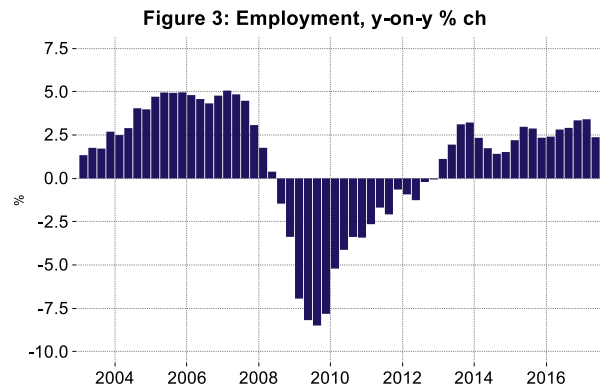
Food prices

Food prices in Ireland decreased by 1.1% in October compared to the same month in 2016 (CSO). Food & Non-Alcoholic Beverages decreased due to lower prices across a range of products such as bread & cereals, chocolate & confectionery, fish and mineral waters, soft drinks, fruit & vegetable juices. Butter prices however have more than doubled compared to the same month in 2016. In general, rising commodity prices continue to put pressure on input costs and thus margins. Overall inflation remains weak in Ireland having grown year to year by 0.5%. Furniture, clothing and food were the primary drivers of low inflation in Ireland.



Retail sales and consumer sentiment

Supermarkets and convenience stores are now growing in both volume and value. Volume growth continues to lead value growth, but this gap declined in September measuring only 0.3% in the difference. The growth rates in the September CSO report are the highest in nine years. With the Consumer Price Index continuing to show food and take-home alcohol deflation, these figures suggest shoppers are trading up rather than taking the savings. While costs have gone up for many food processors they haven't been able to pass these price increases onto consumers as they are still experiencing deflationary pressures.

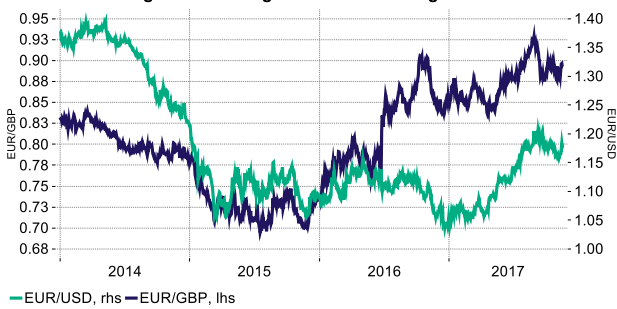


Employment forecast

The CSO's most recent monthly unemployment estimates contain an implied estimate of employment growth for the first half of the year. These estimates suggest that the pace of employment growth was 3.4%. This represents a pick up on employment growth of 2.9% in 2016 and is well ahead of expectations. All indicators suggest that the labour market is now tightening rapidly and weathering Brexit uncertainty well. It is still likely that some slowdown in the pace of employment growth will occur in 2018 as Brexit begins to bite on labour intensive sectors such as tourism and manufacturing.

Macro Trends

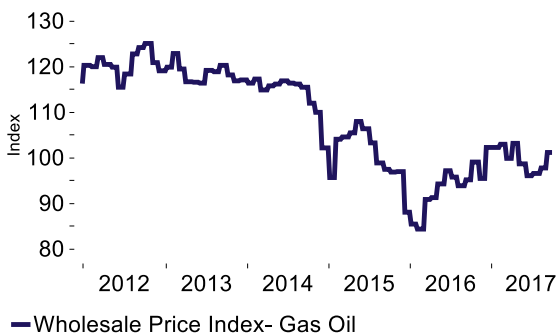
Figure 4: Sterling and dollar exchange rates



Sterling exchange rate

The euro-sterling exchange rate has remained close to or above 90p for much of Q3 and into Q4 as continued uncertainty emanating from the UK impacts on the pound. With the eurozone economy continuing to strengthen, further developments in the currency's relationship with the euro over the coming year will have as much to do with politics as economics. Interest rates, set by the Bank of England, will also play a significant role. The 25-basis point increase in rates announced saw sterling weaken slightly as the Bank struck a downbeat tone. It was notable the Bank's forecasts implied a potential output estimate for the UK of only 1.5% which is extremely low (Ireland's by contrast is somewhere between 3% and 4%). This was driven by concerns that Brexit would lower long-term investment and labour supply in the UK thus making inflation more likely at lower levels of growth.

Figure 5- Wholesale Price Index- Gas Oil



Wholesale price index – gas oil

According to latest CSO statistics, the price of Energy products increased by 11.0% in the year since September 2016, while Petroleum fuels increased by 5.5%. In September 2017, the monthly price index for Energy products increased by 6.0%, while Petroleum fuels increased by 2.4%.

Figure 6: Food commodity indices

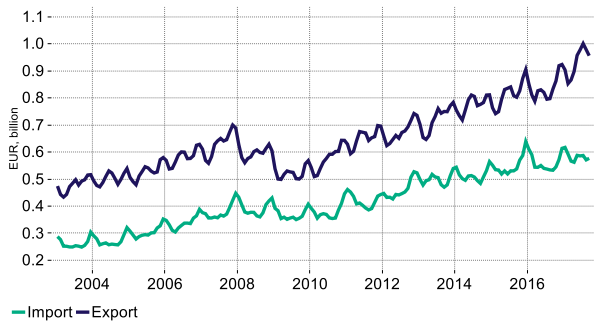


Food commodity indices

The FAO Food Price Index (FFPI) the organisation that measures monthly change in international prices of a basket of food commodities, reported an increase in October. The latest rise put the Index above last year's level, however remains below its all-time high registered in 2011. With the exception of cereals, all other indices used in the FFPI fell in October.

Trade

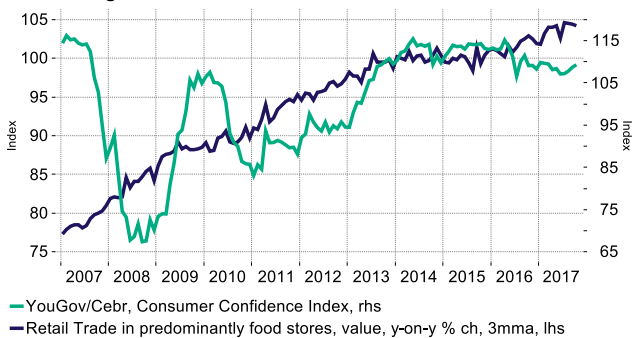
Figure 7: Irish monthly food trade, 3 mma



Irish monthly food trade

Exports of Food and live animals increased by €48 million (+5%) to €1,002 million in September 2017 compared with September 2016. This increase was almost entirely attributable to an increase in the exports of Dairy products. There was a decrease in exports of sugar, sugar preparations and honey by €12 million and beverages decreased by €7 million. Imports of Food and live animals increased by €58 million (+11%) to €599 million. Meanwhile, imports of beverages decreased by €15 million. Total food exports are up 8% year to date.

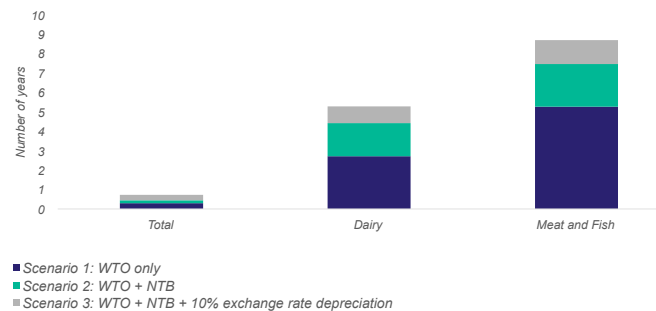
Figure 8: UK consumer confidence and food retail



UK consumer confidence and food retail

Since the beginning of this year, post Brexit currency movements have made a bigger impact on inflation in the UK, currently at 3%. This is the highest level of inflation in five-and-a-half years and is well above the 2% inflation target set by the Bank of England. Food inflation was up 4.2% in October compared to the same month in 2016. Additionally, increases in clothing and transport costs have pushed up UK inflation in recent months.

Figure 9: Brexit diversification timeline



Export diversification

A recent report by Intertrade Ireland and the ESRI estimated the impact of a no 'deal' hard Brexit (introduction of WTO tariffs) on Irish trade with the UK. Overall it found that Irish exports to the UK would fall by 20%. However, certain sectors such as food and drink are much more reliant on the UK than others and are also subject to higher tariffs under WTO rules. For these goods, market diversification is essential, however, it will take time. Assuming non-UK exports for dairy and meat and fish continue to grow at the 10-year average rate, it would take five (dairy) and nine years (meat and fish) to make up for lost trade with the UK. There is also the strong possibility that it could take even longer than this, as without the UK the EU would run a trade surplus for food (it currently runs a deficit), which would put downward pressure on food prices in the EU.



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

www.fooddrinkireland.ie

 [@fooddrink_irl](https://twitter.com/fooddrink_irl)