Food Drink Ireland Business Monitor

June
2020

Export led recovery

Q1 2020 Analysis

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Ibec

Export credit insurance vital to food and drink sector

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A survey of food and drink CEOs has highlighted the need for the introduction of a short-term export credit insurance scheme, continuation of the temporary wage subsidy scheme and further injections of liquidity to restart domestic food service and hospitality supply chains and improve the resilience of exporters.

Food and drink manufacturing has a turnover of €28 billion. This is the engine that powers the rural economy across Ireland supporting 250,000 jobs, but it is dependent on sales in domestic and exports markets. The CEO survey found that 68% of companies are experiencing a reduction in their order books, 64% are seeing a reduction in their customer base and 73% expect a decline in export sales. With 81% of respondents involved in exporting food and drink, it is crucial that supports are put in place to help businesses regain market positions overseas. Ireland is now an outlier across Europe in the provision of short-term export credit insurance – a specific state aid measure to address the crisis provided for by the European Commission. This competitive disadvantage must be rectified urgently.

The CEO survey also found 66% of companies are experiencing reduced production levels and 51% have experienced layoffs or short time working arrangements but only 14% expect a substantial decrease in employment. The continuation of the temporary wage subsidy scheme is critical to maintaining employment and skills in the sector particularly as it recovers lost markets.

The survey also found:

- 57% of food and drink companies could stay open for three months or less using existing cash reserves, with no revenue.
- 41% expect the time to get paid by customers to increase.
- 21% expect demand to return to pre Covid-19 levels within 3-6 months after restrictions end and 41% within 6-12 months.
- Over the next three years changes foreseen by CEOs include:
  - Physical changes to the workplace (52%)
  - Greater use of remote working (50%)
  - Increased investment in technology (45%)
  - Greater use of flexible working (43%)
  - Changes to current product ranges (41%)
  - More focus on online sales/services (41%)

Additional measures for business liquidity are particularly relevant to the food and drink sector in light of the substantial domestic food service and hospitality customer base and the disruptions in crucial and longstanding export markets. With one in eight jobs in the economy linked to agri-food and drink, these measures are necessary to support the wider economy and not just the food and drink industry.

Ibec CEO survey, late April 2020.
552 respondents of which 48 were food and drink industry.
Of the food and drink respondents 54% were small businesses, 23% were medium businesses and 23% were large businesses.

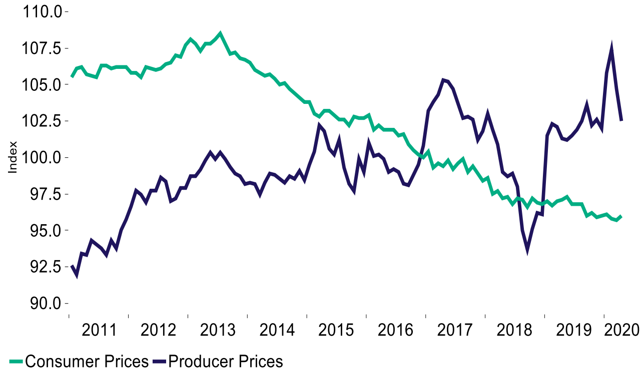
Food business snapshot

	2020 YTD vs 2019 YTD	May 20 vs Apr 20	May 20 vs May 19
Food prices	-1.27	0.1	-1.33
Food commodity price index	2.42	-1.87	-5.72
Exchange rates	-0.07	1.25	1.79
Crude oil prices	-36.08	69.39	-52.56

	2020 YTD vs 2019 YTD	Apr 20 vs Mar 20	Apr 20 vs Apr 19
Core retail sales	-4.88	-22.23	-22.37
Food retail sales	9.45	1.47	15.55
UK food retail sales	5.5	-4.4	7.1
EU 27 (excl UK) Food retail sales	7.2	-4.8	6.8
Food exports	1.26	-8.03	-2.42

Domestic market

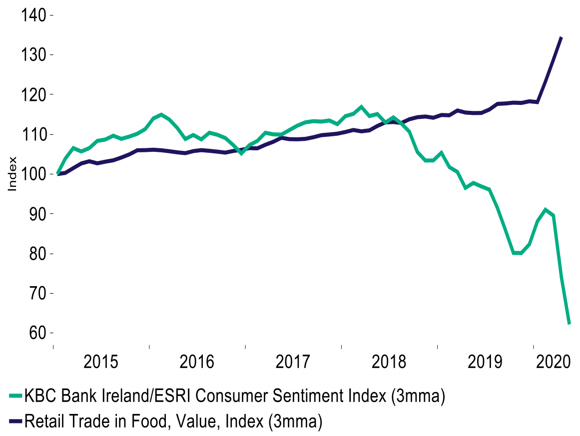
Figure 1: Food prices



Food prices

In April 2020, prices on average were 0.1% lower when compared to April 2019 as measured by the Consumer Price Index. Consumer prices in April also decreased by 0.4% however there was a small increase of 0.3% in the average price of Food and Non-Alcoholic Beverage products based on increases in the average prices of fish, oils and fats, and vegetables.

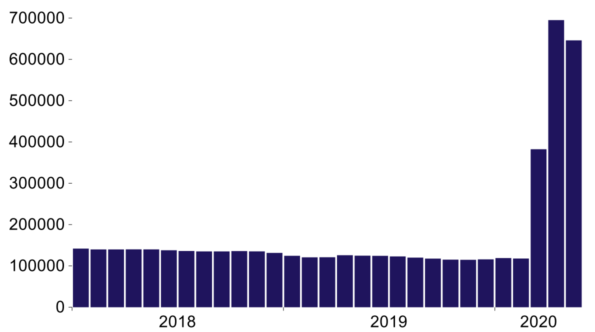
Figure 2: Food retail and consumer sentiment



Retail sales and consumer sentiment

In April 2020, the KBC Consumer Sentiment Index saw its largest-ever fall in a single month, now at levels last seen amid the 2008 financial crisis. The current Covid-19 crisis has clearly affected Irish consumers both financially and economically, with three in every five consumers now acknowledging that it will have an effect on their individual household finances. In May, KBC found that there was a small improvement in consumer sentiment, but many are still worried about the long-lasting effects to the economy with 86% of consumers expecting austerity in the coming years.

Figure 3: Numbers unemployed

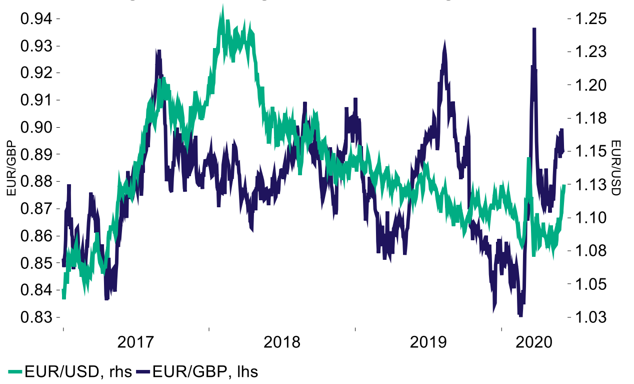


Employment forecast

The Covid-19 crisis has had a significant effect on unemployment as monthly unemployment officially was 5.6% in May 2020. However, a new COVID-19 Adjusted Measure of Unemployment could indicate a rate as high as 26.1% if all claimants of the Pandemic Unemployment Payment were classified as unemployed as per the CSO. Based on this adjusted rate Ibec estimates, following sectoral analysis of capacity under the Government roadmap, that in a best-case scenario unemployment will fall from over 28% in Q2 to 16% by Q4 and finally to around 7% by the end of 2021.

Macro Trends

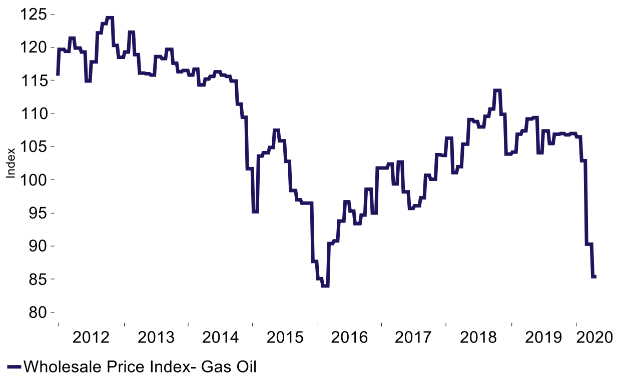
Figure 4: Sterling and dollar exchange rates



Exchange rates

Volatility continued to be a theme with the value of Sterling in Q1 2020 according to the AIB FX Centre as a result of Covid-19 and Brexit. This was particularly evident in March where the euro rose from 84p to 95p, with some very big intra-day price movements before Sterling recovered to 88p by the end of the month. This volatility means that it is extremely hard to forecast into 2020 for Sterling particularly as Brexit negotiations continue. In terms of the dollar, similar to 2019, AIB predict that EUR/USD could trade in a narrow range over the coming months mostly contained in approximately a $1.07 to $1.12 corridor. Currencies may start to edge higher against the dollar later in the year however, depending on the economy's ability to recover from the Covid-19 crisis.

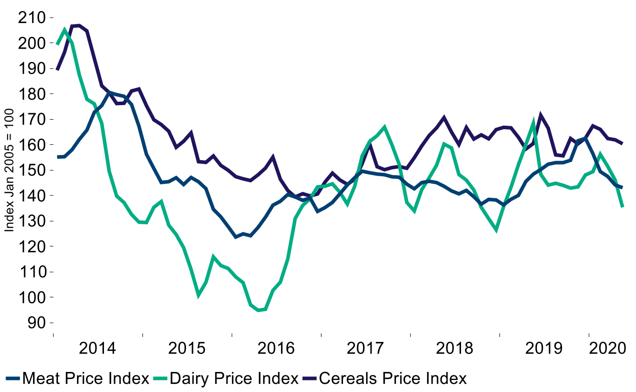
Figure 5: Wholesale Price Index-Gas Oil



Factory gate prices

Monthly factory gate prices decreased by 1.8% in April 2020 according to the CSO. This compares to an increase of 0.2% for April of last year with the annual percentage change showing a decrease of 6.1% in April 2020. The sharp decline in the wholesale price index for Gas Oil (other than autodiesel) continued in April 2020, falling by a further 5.4%. This follows a 12.2% decrease in March and the annual change in April 2020 stands at 21.8%.

Figure 6: Food commodity indices

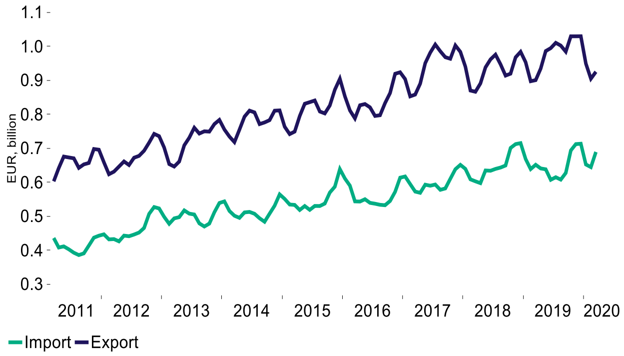


Food commodity indices

The FAO Food Price Index (FFPI) averaged 162.5 points in May 2020, down 3.1 points from April and has reached its' lowest monthly average since December 2018. Covid-19 has created a downward trend for the FFPI for four consecutive months now with all sub-indices being affected negatively with the exception of sugar which in May rose by 7.4%, its' first increase in 3 months. The FAO Dairy Price Index showed the steepest decline in May falling to an average of 181.8 points, down 14.4 points (7.3 percent) from April, registering the third consecutive month of decline.

Trade

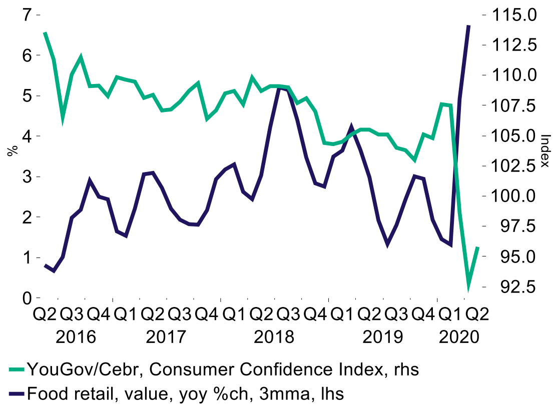
Figure 7: Irish monthly food trade, 3 mma



Global trade

In a normal year, a 1% decrease in world demand would see a fall in Irish GDP of between 0.3% and 0.5%. As it stands, existing forecasts for global output from the IMF suggest a drop of 3% in the value of the global economy in 2020, though the fund has recently expressed an expectation that it will significantly downgrade these forecasts in July. The WTO on the other hand has said that global GDP will fall by between 2.5% in a best-case scenario and 9% in a pessimistic scenario and forecast that Food trade is expected to fall by 12%.

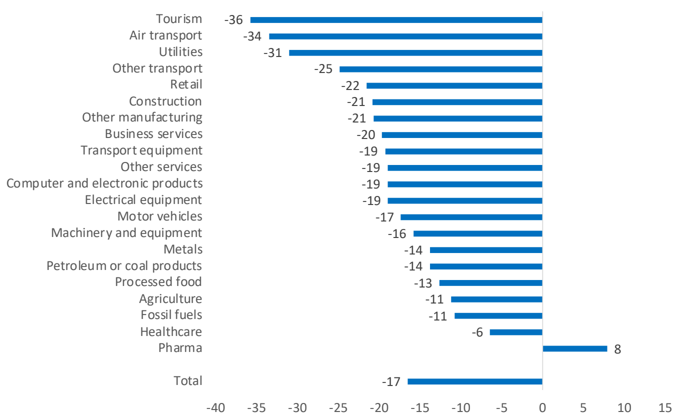
Figure 8: UK consumer confidence and food retail



UK consumer confidence

Despite a sharp increase in food retail in March 2020, food retail in the UK decreased 4.1% in April according to the ONS. Retailers have advised the spike in sales in March was due to panic buying and the decrease in April was to be expected following the strong growth of 10.1% in March. The YouGov/Cebr Consumer Confidence Index dropped 5.9 points to 92.7 in April 2020. This is the third consecutive monthly drop - a negative run that has wiped 14.9 points off the index and the metric is now at its lowest level since January 2012. The survey also found that 89% of consumers expect unemployment to continue to rise and 86% believe Britain is heading towards either a depression or recession on the back of Covid-19.

Figure 9: WTO forecasts for global trade in 2020 by category, % change



WTO forecasts

The WTO forecasts for global trade to contract by between 13% and 30% in 2020 in their best-and worst-case scenarios. Processed food is expected to contract by 13% in 2020. The only sector which the WTO expect to add to global trade this year is Pharmaceuticals (+8%), a sector which makes up a significant value of Ireland's goods exports which is a positive indicator for Ireland as a whole. The larger impact of falling domestic demand on imports may also mean a positive movement in our balance of trade.

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