

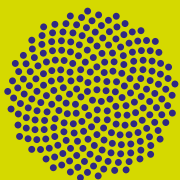
Q1

March
2018

Food Drink Ireland Business Monitor

Preparing for a plastics strategy

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FD Food
Drink
Ireland
Ibec



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Director

Packaging prevents food waste

Packaging is essential to bring many food and beverages to our tables. It helps reduce food waste and protects quality and freshness. Food packaging also lets consumers see the nutritional information on the label to help make informed choices. Food and beverage packaging plays a key role in protecting, containing and preserving the produce contained within. Modern packaging is a central element in the efficient manufacturing, handling and distribution of food from the factory to the consumer's kitchen. Consumer safety is the overriding objective of food and beverage producers and packaging ensures effective communication to consumers and its safe use and handling. Because of effective packaging processes, food wastage rates (pre-consumption) are 2-4% in industrialised countries. This compares with 50% in developing countries. Moreover, the environmental impact of avoidable household food waste is eight times greater than the impact of total packaging waste going to landfill. Packaging ensures that people can buy and use products when they want them, in good condition and with little wastage. Inadequate packaging is far worse for the environment than over-packaging, since 10 -15 times more energy and materials are locked up in household goods and food than in the packaging around them.

Food and drink companies have a strong focus on sustainable sourcing, resource efficiency and sustainable consumption and are now working to integrate a circular economy approach to their business operations. Packaging is a very important pillar within this approach and includes measures such as efficient use of natural resources, reduced packaging weight, refills, less packaging, awareness and education programmes on packing use and recycling and research and development.










Proposal for a deposit and return scheme for sealed beverage containers must be considered in the context of our existing and successful waste packaging collection and recycling scheme in Ireland - Repak. The substantial financial commitment by food and drink companies as funders of Repak has seen Ireland exceed major EU packaging recycling and recovery targets. Before industry began funding Repak, 94% of all packaging went to landfill. Now 93% of all packaging is recycled and recovered, according to the EPA.

Placing a deposit return scheme directly on top of our existing scheme, would put this progress at risk. Removing easily recycled and valuable materials like aluminum and glass from our current system, would dramatically increase processing costs and impact the cross-subsidy of less recyclable materials.

Additionally, beverage packaging makes up just 4.5% of litter according to the Department of Environment. Tackling litter louts requires awareness programmes, and enforcement of the Litter Act. Providing recycling bins in public, which so few local authorities do, would dramatically reduce on-the-go littering.

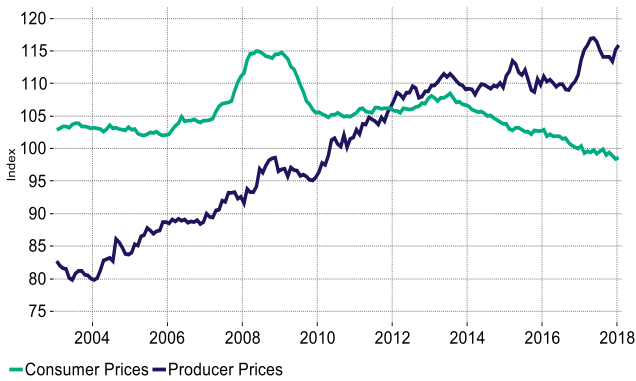
Ireland's waste packaging collection and recycling scheme is built on the principle of shared responsibility. This 'shared cost' approach is one where business, waste collectors and householders share the cost of segregated packaging waste collections. This recognises the obligation on collectors to collect waste from households, with householders contributing towards the provision of a service (under the principle of polluter pays) and business contributing to the additional costs of collecting packaging waste for recycling separately from other waste. FDI believes that this should continue to be the case to build on our recycling rates.

Food business snapshot

		2016 VS 2015	Q4-2017 VS Q4-2016	Dec 17 VS Nov 17	Dec 17 VS Dec 16
	Food prices	-1.4	-1.3	-0.5	-1.6
	Core retail sales	1.8	4.5	-0.7	4.5
	Food retail sales	2.5	4.1	-0.1	3.8
	Exchange rates	12.8	2.07	-0.6	4.53
	Crude oil prices	-11.3	12.5	2.2	11.1
	Food commodity price index	-1.5	1.4	-3.7	-0.6
	UK food retail sales	1.8	3.0	-0.5	3.2
	European food retail sales	0.46	3.4	-1.2	3.2
	Food exports	3.2	5.8	-8.5	-1.4

Domestic market

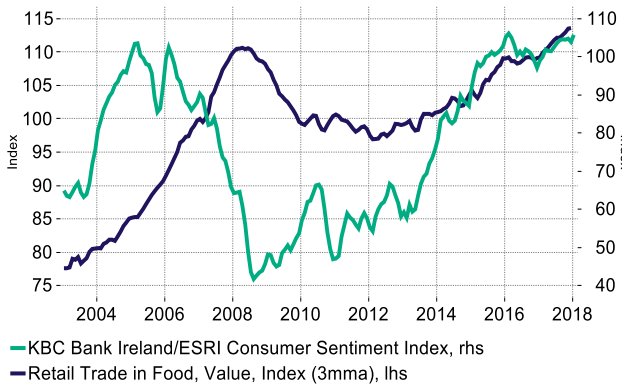
Figure 1: Food prices



Food prices

According to the latest Central Statistics Office (CSO) figures, food prices decreased by 1.8% in the year to January and increased by 0.2% in the month. This low inflation has been driven by integration of global supply chains along with structural change in the Irish retail market. Looking at price dynamics along different stages of the supply chain, agricultural output prices increased by 7.9% in Ireland in the first half of 2017. Producer prices only increased by 3.4% despite the sharp increase in input costs. Consumer prices then fell by 2.5%. This suggests that both retailers and food producers are seeing their margins shrink in the current environment.

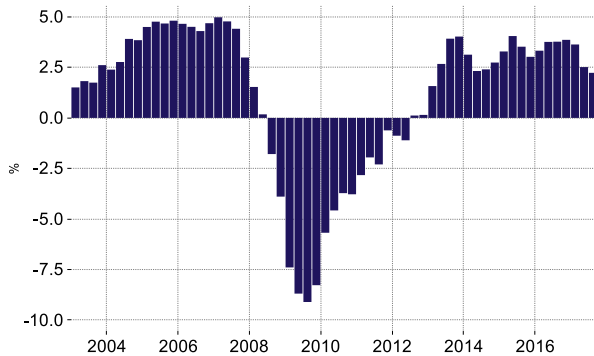
Figure 2: Food retail and consumer sentiment



Retail sales and consumer sentiment

In the full year to end on 2017, total sales values increased by 3.9% compared to 2016's growth of 2.4%. Specialised food stores were the only category of the 11 major retail categories not to experience value growth over the last 12 months. This is not surprising, as in the first half of 2017 consumer food prices fell by 2.5% in Ireland. In the first half of this year, consumer spending growth was relatively weak and only grew by 1.6%. Fortunately, there was a pick-up in Q3 2017 as consumer spending increased by 2.7% annually. Disposable income and employment continue to grow while inflation remains weak. Ibec forecasts growth of 3% in consumer spending for the full year.

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

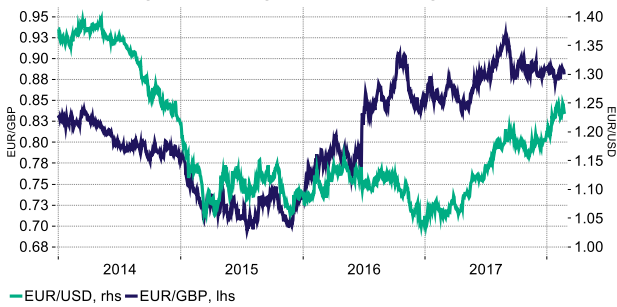


Employment forecast

We expect employment for the full-year of 2017 to have increased by 2.6% or 55,000 net jobs. This represents some slowdown on 2016 when employment grew by 2.9%. Growth rates are likely to slow further as we approach full employment. How low unemployment can go before we reach 'full employment' depends on several factors. These include the ability of the economy to absorb or re/attract skilled workers living abroad and public policy efforts to retrain workers and increase our low participation rates. It is notable that the number of Irish persons returning from abroad has not grown significantly despite the economic turnaround and indeed fell in 2017. It is also unlikely that we will see a repeat of the levels of mid-2000s migration from other sources. These factors mean that we could reach full employment before the end of 2018.

Macro Trends

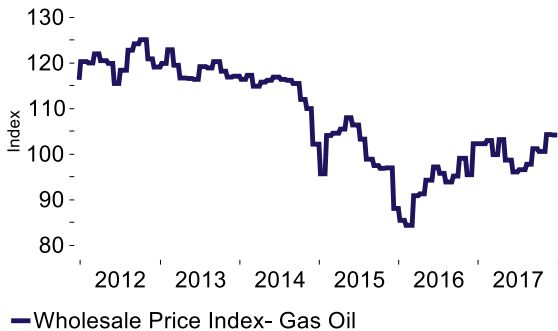
Figure 4: Sterling and dollar exchange rates



Sterling exchange rate

Sterling performed strongly in January as the market responded to a more conciliatory approach to Brexit talks. However, analysts are warning of the possibility of a return to last year's low for sterling as Brexit negotiations continue. The Euro closed the month at £0.88GBP. There is growing consensus amongst market analysts that the Euro will be the star performer in 2018, and that the Euro-Dollar exchange rate could rise towards \$1.30 over coming months. The Euro closed the month at \$1.24USD. This positive outlook is based on political stability and strong economic recovery in the EU.

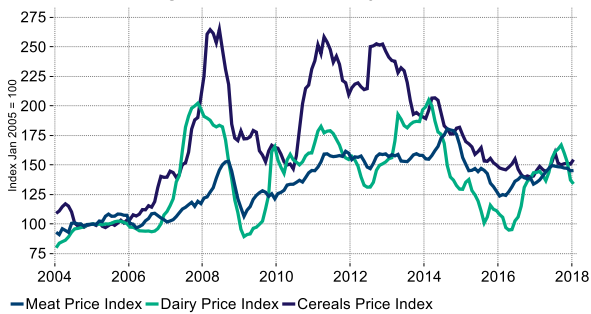
Figure 5- Wholesale Price Index- Gas Oil



Wholesale price index – gas oil

According to latest CSO statistics, the price of Energy products decreased by 2.6% in the year since January 2017, while Petroleum fuels increased by 2.3%. In January 2018, the monthly price index for Energy products decreased by 5.0%, while Petroleum fuels increased by 2.3%.

Figure 6: Food commodity indices

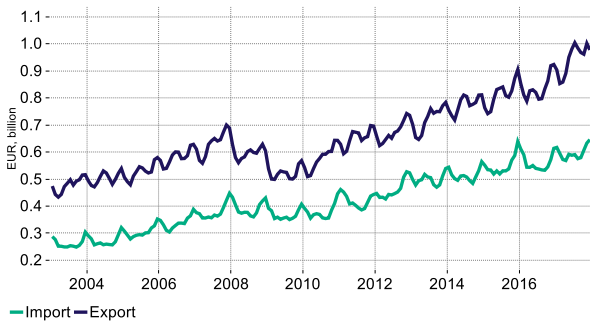


Food commodity indices

FAO Food Price Index (FFPI), the organisation that measures monthly change in international prices of a basket of food commodities, reported an increase of 1.1% in February 2018 from the previous month and now just 2.7% in the year. Rising world prices for staple grains and dairy products more than offset lower prices for vegetable oils, leading global food commodity prices up in February 2018.

Trade

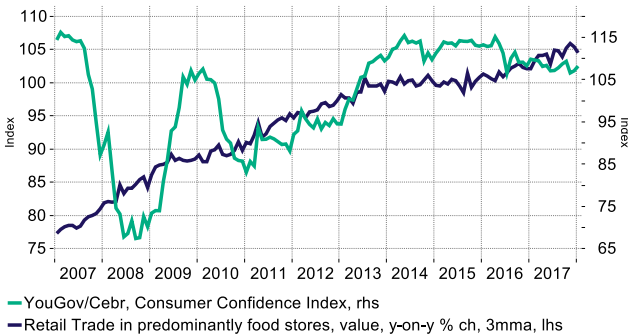
Figure 7: Irish monthly food trade, 3 mma



Irish monthly food trade

Food exports increased by 12% last year. The strongest growing category was dairy as exports were up 36% on the back of global commodity prices. Other components also experienced strong growth, as meat exports grew by 7%. Excluding dairy, food exports increased by 6%.

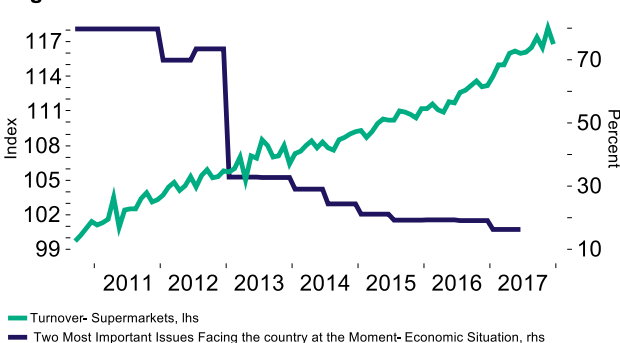
Figure 8: UK consumer confidence and food retail



UK consumer confidence and food retail

British retail sales volumes increased by 1.9% in 2017 compared to 2016, the lowest annual growth since 2013. Reports indicate that UK consumers are still reining in their spending in the face of rising inflation. UK inflation rate did ease to 2.7% in December 2017 and has remained the same rate in January 2018. This is a drop from a near six-year high of 3.1%. However, in January 2018 food prices remain high at 4%.

Figure 9: EU consumer confidence and food retail sales



Consumer sentiment and retail sales

Consumer sentiment in the EU has been improving in recent years. The average retail trade for the year 2017, compared with 2016, rose by 2.6% in both the euro area and EU28. In December 2017 compared with November 2017, the seasonally adjusted volume of retail trade decreased by 1.1% in the euro area and by 1.0% in the EU28, according to estimates from Eurostat, the statistical office of the European Union. Turnover in supermarkets increased by 3.2% across the EU in December compared to the same period in 2016.



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