Q2

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Food Drink Ireland Business Monitor

Protecting food suppliers

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The demanding nature of grocery retail

FDI welcomed the introduction last year of grocery sector regulations by the Minister for Jobs, Enterprise and Innovation.

The regulations, which FDI had long campaigned for, can help address the major imbalance in the relationship between major grocery retailers and suppliers. Five large retailer groups now control 89% of the Irish market. Food and drink companies face a range of unfair practices including a failure to respect contractual terms, de-listing threats and unilateral deductions off-invoice without sound business reasons.

One year since the activation of the Grocery Regulations it is worth recalling that the Competition and Consumer Protection Act 2014 gave powers to the Minister for Enterprise to make these Grocery Regulations but in doing so the Minister was to give due regard to a number of principles outlined in the Act. These included:

- the desirability of the promotion of competitive trade between grocery goods undertakings,
- the importance of grocery goods undertakings conducting their trading relationships in good faith and in a fair, open and transparent manner,
- the importance of providing grocery goods undertakings with reasonable certainty in respect of the risks and costs of trading,

- the impact on the development and maintenance of strong, innovative, efficient and competitive production and supply bases in the grocery goods sector.

Last year the UK supermarket chain Morrisons was forced to repay cash and discipline staff after it was found to have breached the grocery market code of conduct for a second time by demanding lump sums of about £2m from suppliers following an intervention by the Uk Grocery Code Adjudicator (GCA). The GCA said Morrisons admitted to making 19 requests which were above and beyond agreed deals with suppliers in contravention of the UK Grocery Code.

Food and drink companies and consumers are best served by a grocery market that is both fair and competitive, one that offers choice and convenience, and provides an outlet for new products and suppliers. The new rules have the potential to help to address some of the unfair pressures and demands currently put on suppliers by major retailers. In short they present a unique opportunity to create a fair trading environment in the Irish grocery sector. However to protect food and drink suppliers, the importance of effective and efficient enforcement of the Regulations is paramount. The Competition and Consumer Protection Commission (CCPC) must be a strong voice on these issues and it is clear that the proactive approach of the UK Grocery Code Adjudicator is a good model that should be followed here to ensure the principles of fair trading, enshrined in the legislation are adhered to. Queries relating to the Regulations can be emailed to grocery@ccpc.ie

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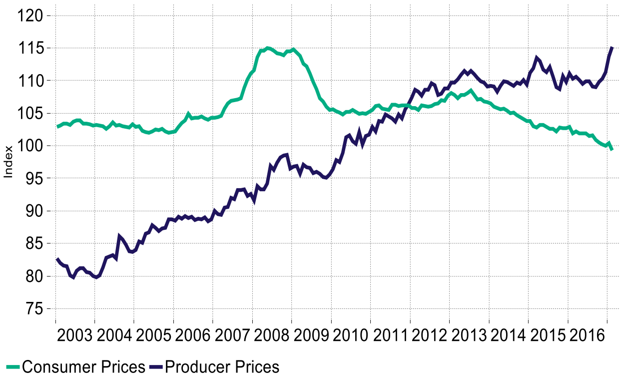
Food business snapshot

	2016 vs 2015	Q1-2017 vs Q1-2016	Mar 17 vs Feb 17	Mar 17 vs Mar 16
Food prices	-1.4	-2.5	0.3	-2.5
Core retail sales	1.8	3.1	0.2	3.2
Food retail sales	2.5	1.5	-0.1	2.5
Exchange rates	12.8	11.6	-1.0	10.8
Crude oil prices	-11.3	55.67	1.55	31.1
Food commodity price index	-1.5	15.9	-2.8	13.4
UK food retail sales	1.8	1.8	0.3	2.4
France food retail sales	0.46	3.6	1.0	2.6
Food exports*	3.2	5.6	4.2	4.5

* At the time of publication the latest available data for food exports was Feb 2017. For this variable, the second column compares the first two months of quarter 1, the third column compares Feb with Jan and the fourth compares Feb 2017 with Jan 2017.

Domestic market

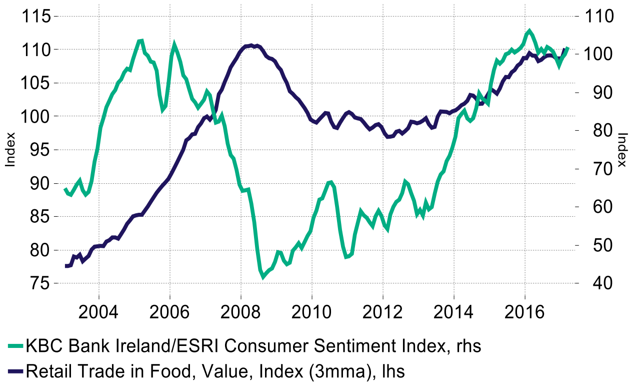
Figure 1: Food prices



Food prices

In Ireland, latest CSO figures reveal food prices decreased by 2.5% in the year to March, and non-alcoholic beverages decreased by 3.1% in the year to March. Food & Non-alcoholic Beverages fell due to lower prices across a range of products such as ham, honey, chocolate & confectionery, bread & cereals, vegetables & milk, cheese & eggs.

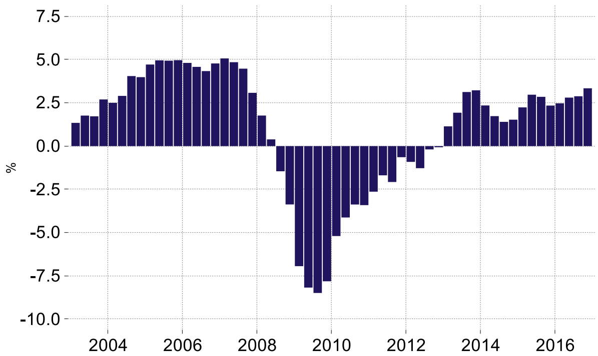
Figure 2: Food retail and consumer sentiment



Retail sales and consumer sentiment

The end of last year saw a slowdown in retail sales. The beginning of 2017 however, has seen an improvement. Turnover in the first 3 months was up 3.1% on the same period last year while volumes were up 6%. Growth in supermarkets was slightly lower as turnover increased by 1.7% while volumes were only up 3%. Whether this momentum continues is still uncertain. Consumer fundamentals remain sound but growth will largely depend on what happens to the sterling exchange rate over the coming months.

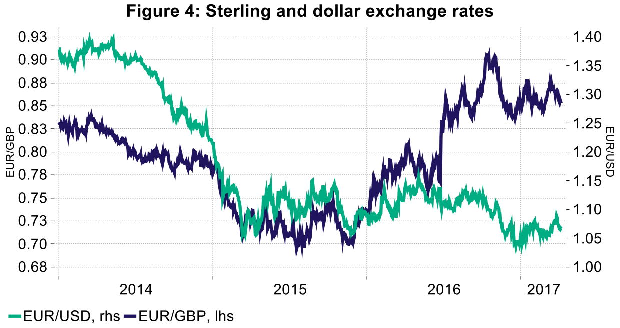
Figure 3: Employment, y-on-y % ch



Employment

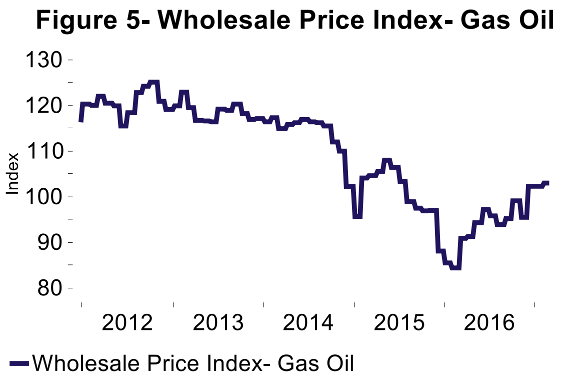
Employment rose by 3.3% (65,100) annually in Q4 of 2016. Employment excluding the construction sector is now 3,400 higher than peak, and short term unemployment is reduced to levels not seen since early 2006. All of this points to a labour market which is tightening quickly with unfilled vacancies (12,700) running at twice their level in 2011.

Macro Trends



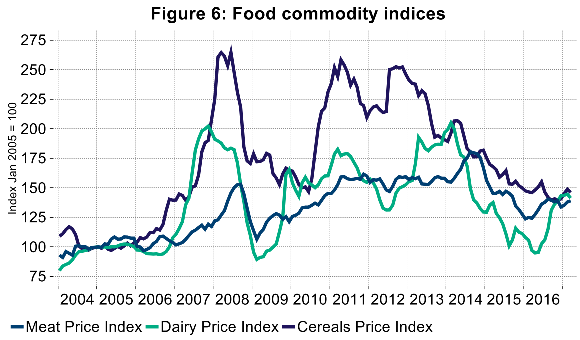
Sterling and dollar exchange rates

The weakness in sterling faded a little at the end of last year and at the beginning of 2017 with a number of forces impacting on the currency. Higher imported inflation (2.3% in January) may encourage the Bank of England to raise interest rates, drawing in capital and strengthening the currency. Rising US interest rates along with continued strong economic growth should see the US dollar strengthen during the course of 2017.



Wholesale price index – gas oil

The wholesale price of Energy products increased by 10.8% in the year since March 2016, while Petroleum fuels increased by 11.0%. In March 2017, the monthly price index for Energy products decreased by 12.6%, while Petroleum fuels decreased by 2.9%.

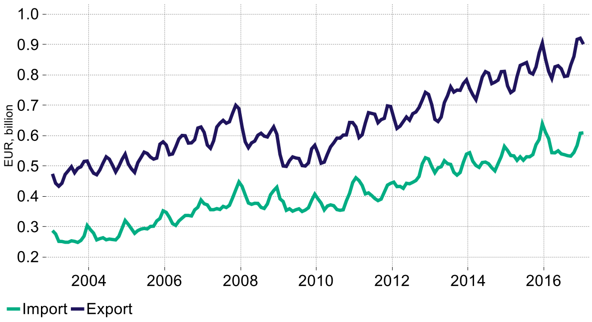


Food commodity indices

Prices of world food commodities declined in March on the previous month – for the first time since July 2016 - amid large available supplies & expectations of strong harvests. The FAO Food Price Index fell by 2.8% in March compared to the previous month. However, it still remains 13.4% above its level a year earlier.

Trade

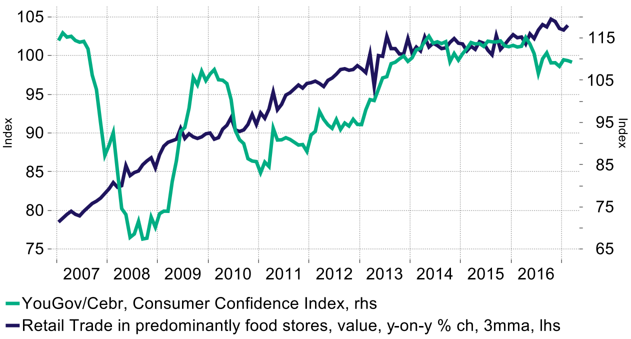
Figure 7: Irish monthly food trade, 3 mma



Irish monthly food trade

The slight strengthening of sterling had a positive impact on food exports to the UK. Last year food exports to the UK fell by 5.2% but the beginning of this year saw some positive gains. Food exports to the UK increased by 4.5% in January and 4.1% in February compared to the same period last year.

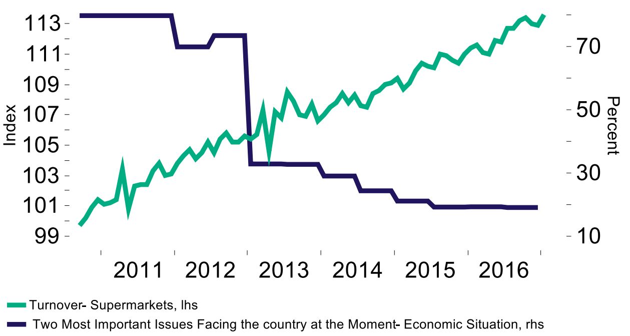
Figure 8: UK consumer confidence and food retail



UK consumer confidence and food retail

UK consumer confidence remains relatively unchanged since UK's vote to leave the EU last June. However forecasts of rising inflation will bring pinched pennies. As we sit between the triggering of Article 50 and a looming general election it is yet to be seen how this year will affect the consumer's confidence. Latest ONS retail sales figures show a decline on the month and on the three months to March. This is the first time we've seen a quarterly decline since 2013, and it seems to be a consequence of price increases across a range of sectors.

Figure 9: EU consumer confidence and food retail sales



EU consumer confidence and food retail sales

Consumer sentiment has been improving across the EU in recent years. In 2012, 70% of respondents said that the economy was the most important issue facing the country, now it has fallen to 19%. In terms of retail sales, last year turnover in supermarkets increased by 1.9% across the EU, The largest increases were seen in Eastern European countries (e.g. Romania 12.1% and Bulgaria 10.6%). The only countries that saw turnover fall were Greece and Finland.

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