

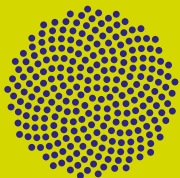
Q3

December
2018

Food Drink Ireland Business Monitor

The Human Resource

Brought to you by



FD Food
Drink
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Director

Help companies attract and retain skilled workers and address labour shortages

The development of the Irish agri-food sector over the last 50 years has been supported by the development of a wide range of expertise and knowledge in both private and public sectors and across all levels of the sector. This skills and knowledge base provide a valuable and solid footing for the continued development of the sector and there is a clear need to ensure that those working in the food and beverage industry are valued and recognised as key to the industry's success. However, with the changing economic landscape and for the sector to reach its full potential, there are numerous challenges and skills gaps which must be filled up and down the supply and value chains. These include:

- The need to attract and develop management and leadership capability.
- Lack of 'in-company' capability to accelerate market development and direct market access.
- Capability to access finance through business and financial planning expertise.
- Lack of technical capacity to absorb new research and innovation from research bodies.
- Inability to develop management teams, implement succession planning, plan for mergers and acquisitions and professionalise corporate governance structures.
- Limited ability to attract and access third level graduates with skillsets to address these gaps.
- Lack of skilled operatives in certain key areas such as engineering, maintenance and technicians.

There is a need to ensure the skills base of the agri-food industry reflects not just the current business demands but the challenges of future growth in existing and new markets. A welcome development has been increased funding supports for enterprise-led training initiatives including Skillnets and industrial apprenticeships. There now needs to be a focus on apprenticeships and upskilling to address the lack of technical operators for a fast-growing indigenous industry that is spread across the country.










While the lack of skilled workers and upskilling needs to be addressed, it is also important to highlight that labour availability remains a critical issue within agri-food.

Many food processors are facing a serious challenge in securing the necessary labour resources at general operative level which are essential to maintaining current operational activity in processing. The consequences could seriously hinder industry capability and undermine its ability to retain high-end customers and take advantage of much needed market diversification opportunities.

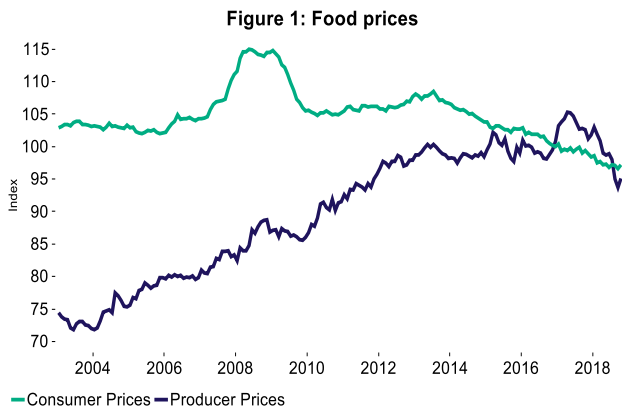
Recent Irish economic recovery, increased job creation and the surge in construction activity has meant that food processors are now faced with a major challenge in attracting workers into all positions, but particularly into unskilled general operative roles. Despite ongoing significant efforts to recruit from the Irish and European labour force, the critical nature of the current situation is deepening as the economy approaches full employment again. The situation has now deteriorated to levels where it is having a real impact at individual factory level and negatively impacting the ability of companies to plan for expansion and indeed to meet day-to-day operational demands to service existing customers.

Government assistance in the form of employment permits is essential. A failure to resolve this issue will in the short term reduce processing capacity, limit companies' ability to serve existing customers and take on new business opportunities which are critical in the context of Brexit and in fact endanger existing business. In the longer term, it will undermine the potential future expansion of the sector as per the Food Wise 2025 targets. There is a need to urgently extend the employment permit schemes across the food processing sector so that labour shortages do not impact on existing business and growth prospects.

Food business snapshot

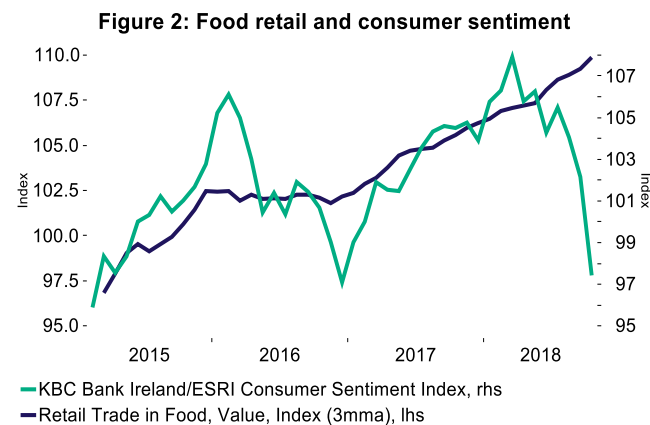
		2017 VS 2016	Q3-2018 VS Q3-2017	Oct 18 VS Sep 18	Oct 18 VS Oct 17
	Food prices	-2.0	-2.5	0.6	-2.2
	Core retail sales	1.8	3.9	-0.5	3.9
	Food retail sales	2.7	3.8	0.1	4.4
	Exchange rates	7.0	-0.6	-1.1	-0.9
	Crude oil prices	17.5	43.0	1.0	37.1
	Food commodity price index	8.1	-6.3	-0.9	-7.4
	UK food retail sales	2.4	4.4	0.3	2.6
	European food retail sales	3.1	3.1	0.2	3.6
	Food exports	12.6	-6.3	3.2	-10.7

Domestic market



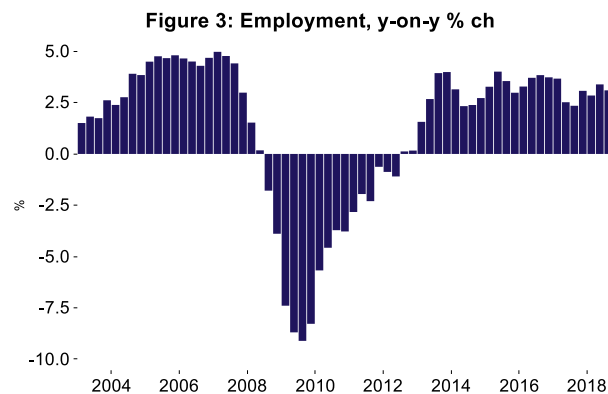
Food prices

Prices on average, as measured by the Consumer Price Index, were 0.9% higher in October compared with October 2017. There were decreases in Furnishings, Household Equipment & Routine Household Maintenance (-4.3%), Miscellaneous Goods & Services (-3.1%), Food & Non-Alcoholic Beverages (-2.2%) and Communications (-1.0%). Food & Non-Alcoholic Beverages fell due to lower prices across a range of products such as meat, bread & cereals and sugar, jam, honey, chocolate & confectionery. Food Prices decreased by 2.2% in the year to October and the price of Non-alcoholic beverage decreased by 1.4% in the year to October.



Retail sales and consumer sentiment

Growth in the population, employment and wages continue to have a positive impact on consumer spending. The total value of consumer spending in the economy is on course to grow by 5% in 2018, with volumes likely to grow by 3.8%. This is consistent with the higher frequency retail sales data which shows that sales have risen by 4% in volume terms in the first eight months of 2018. Trade was strong in Q3, this is due to the persistent gap between sales values and volumes continuing to close to a point where there is now almost like for like growth in both sales' quantities and values. This trend suggests a return to more normal margins in the retail sector.

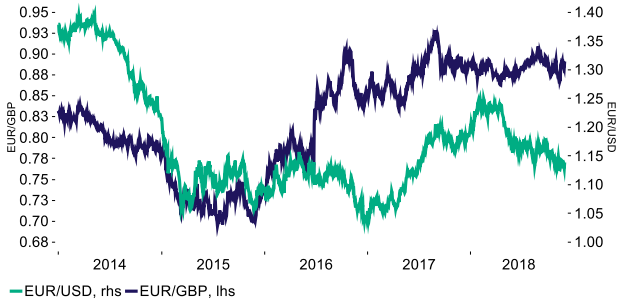


Employment forecast

Employment increased by 3% in Q3 2018 compared to the same period in 2017. The fastest growing sectors are Construction, Accommodation and food, Education and Administration and support. The manufacturing sector on the other hand lost about 4,000 jobs in the last year. Labour intensive sectors expanded to meet demand which bid up wages. Left untended, without offsetting productivity increases, this has the potential to slow the growth of the economy in the medium-term. One way to satisfy labour demand is through inward migration.

Macro Trends

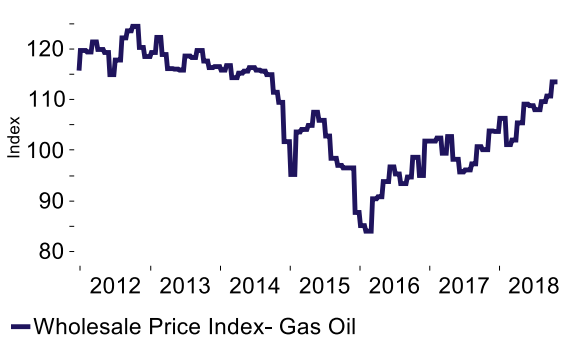
Figure 4: Sterling and dollar exchange rates



Sterling exchange rate

Despite Brexit uncertainty in recent months, the euro-sterling exchange rate has remained relatively stable ranging from £0.87-£0.89. The Brexit withdrawal agreement is a major milestone. It holds the potential for an orderly UK exit, includes a transition period that can be extended until the end of 2022, and has far-reaching provisions to address Irish concerns. The deal is now signed off by EU leaders and approval by the European Parliament is expected in the New Year. The House of Commons is set to vote on the deal, but it looks unlikely to pass, at least on the first occasion. The possibility of ‘no deal’ or indeed ‘no Brexit’ remain in play. It is likely that sterling will depreciate in the event of a hard Brexit. The Bank of England estimates that sterling could depreciate by 25% if there is a hard Brexit.

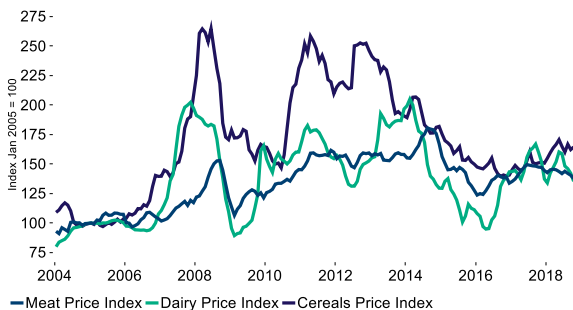
Figure 5- Wholesale Price Index- Gas Oil



Wholesale price index – gas oil

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

Figure 6: Food commodity indices

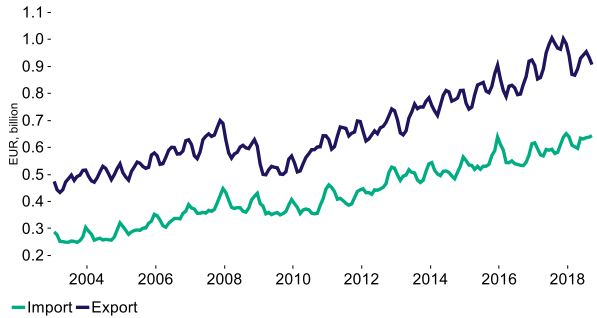


Food commodity indices

The FAO Food Price Index (FFPI) the organisation that measures monthly change in international prices of a basket of food commodities, reported a food price decrease of 7.4% in October 2018 when compared to the corresponding period last year. The October decline in the FFPI was the result of falling dairy, meat and oils prices, which more than offset a surge in sugar prices and a more moderate increase in the prices of cereals. The October FFPI is at its lowest level since last May.

Trade

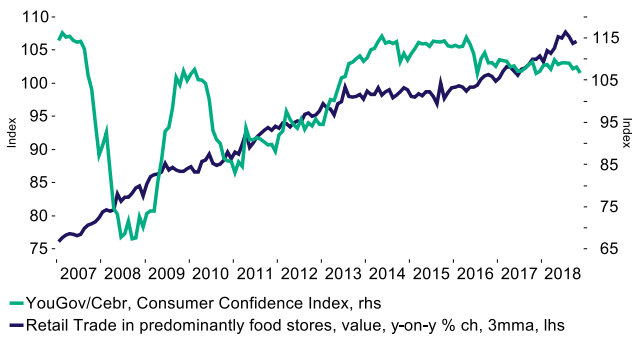
Figure 7: Irish monthly food trade, 3 mma



Irish monthly food trade

Food exports fell by 3% in the first nine months of 2018. However, the underlying performance of the various food categories was mixed. Some exports grew such as meat (3%), dairy (6%), vegetables (9%), feeding stuff (7%). However, these gains were offset as exports of fish (-5%), cereals (-4%), sugars (-8%) and miscellaneous food products (-22%) all fell.

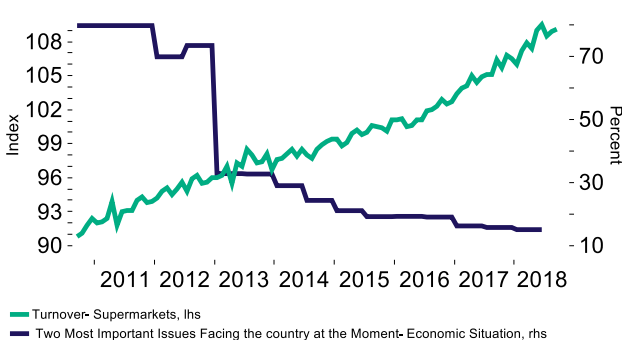
Figure 8: UK consumer confidence and food retail



UK consumer confidence and food retail

In recent months the impact of growing inflation, on the back of the depreciation of sterling, and weak nominal wage growth has become a major drag on real income growth in the UK. Despite this, consumer spending has held up somewhat. This is due to UK savers dipping significantly into their savings to continue to fund consumption. The household savings rate in the UK has always been lower than that in the Eurozone, with the spread in recent years varying between 3% and 4%. That spread has increased to 7% since the referendum, with the savings rate of UK households more than halving since 2016 from 9.4% to 4.5%. Current Bank of England forecasts expect that nominal wages will increase by close to 3% over the next year and the impact of sterling devaluation on inflation will fade. This, however, relies on a Brexit deal being done. In its absence UK household balance sheets could deteriorate rapidly.

Figure 9: EU consumer confidence and food retail sales



Consumer sentiment and retail sales

In the first half of this year total GDP grew by 2.2% in the EU and the unemployment rate is now 6.8%. This had a positive impact on consumer spending and sentiment. Overall consumers feel more positive about the economy. Retail sales in supermarkets increased by 3.3% in the first nine months of this year.



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