

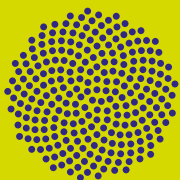
**April  
2020**

# **Food Drink Ireland Business Monitor**

## **Food and drink recovery**

**Q4 2019 analysis  
and 2020 outlook**

Brought to you by





**Paul Kelly**  
Director

## More financial liquidity vital to food and drink sector

Ireland, along with the rest of the world, is experiencing an unprecedented time of uncertainty as countries attempt to slow the spread of Covid-19. The spread of the Covid-19 pandemic across Europe has put massive strain on companies' finances and supply chains across a wide spread of industries and the effects of these pressures will have long lasting effects on the economy. Only through a collaborative effort by industry, government and households will the Irish economy be able to mitigate the negative effects of Covid-19 and then gradually recover.

Covid-19 represents a major supply shock to the Irish economy and in this sense, it is very different from previous recessions which resulted from falling demand. After the initial stage of mitigating any economic slowdown due the temporary closure of non-essential services such as restaurants or bars, a robust plan for economic recovery is needed for the food and drink industry. This crisis will damage both business and consumer confidence moving forward and there needs to be appropriate fiscal measures and in-depth industry planning in place in order to rebuild this confidence and help to ensure a full economic recovery.

FDI has welcomed the initial Government announcements of liquidity supports but has called for the introduction of a short-term export credit insurance scheme plus a range of other financing measures including greater liquidity supports and loan guarantees. Even in normal times, food and drink manufacturing has a large financing requirement. It accounts for €2.67 billion of credit advances annually which is 60% of total advances to Irish manufacturing<sup>1</sup>.

1. [Credit advanced to Irish resident private sector enterprises](#), Central Bank, 2020

Whilst the sector continues to put food and drink on Irish tables, large market outlets for our industry have been decimated. Very specific and more ambitious financing measures will be needed to aid recovery.









Over 250,000 people work in agri-food and drink and supporting services supplying the majority of produce to Ireland's €15bn domestic grocery and food service/hospitality sector as well as €13bn of exports to overseas markets. Our farmers and food processors have continued to supply high quality food and drink to Irish consumers through grocery and convenience stores but have seen demand largely disappear in Irish food service and hospitality. Exports are experiencing huge difficulties as well, not just in food service and hospitality, but more generally as displaced product creates market turbulence. Restarting the Irish food service and hospitality sector and regaining export market positions are of critical importance to the Irish food and drink industry for the rest of 2020 and 2021.

Ibec's proposals on supports 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. The proposals include the following list.

1. Inject liquidity to restart domestic food service and hospitality supply chains and improve resilience of exporters:
  - €2bn State funded zero interest working capital fund
  - 12-month zero interest loans on State supported schemes
  - ISIF commercial paper purchase programme of €2 bn.
2. Leverage state backed guarantees to increase the financing available to Irelands largest indigenous sector:
  - Extend the SME credit guarantee scheme to cover re-financing, portfolio cap to 50% & facility cap to €5mn
  - Remove facility premium on credit guarantee and provide State cover for loan interest.
3. Ensure the expected gap in supply of export credit insurance does not impact on the ability of Irish food and drink firms to export:
  - Introduce a new scheme covering short term export credit insurance for companies in line with the new temporary state aid framework.

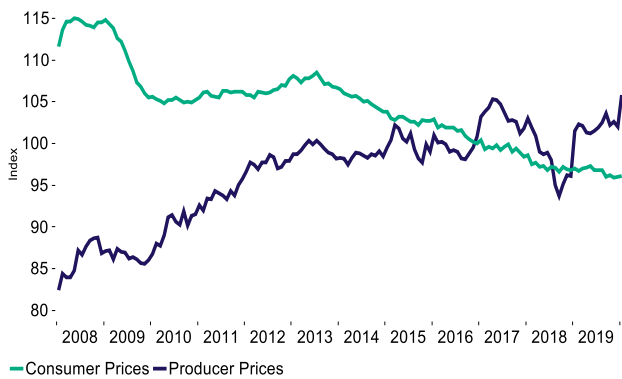
With one in eight jobs in the economy linked to agri-food and drink, these measures are necessary to support the wider economy and not just the food and drink industry.

## Food business snapshot

	2019 VS 2018	2020 YTD VS 2019 YTD	Feb 20 VS Jan 20	Feb 20 VS Feb 19
 Food prices	-0.67	-1.08	-0.1	-1.03
 Core retail sales	2.65	1.61	-3.12	0.46
 Food retail sales	3.36	4.15	-0.26	3.41
 Exchange rates	-0.81	-3.77	-0.85	-3.44
 Food commodity price index	1.78	9.67	-1.04	8.08
 UK food retail sales	2.60	1.75	-0.09	1.94
	2019 VS 2018	2020 YTD VS 2019 YTD	Jan 20 VS Dec 19	Jan 20 VS Jan 19
 EU 27 (excl UK) Food retail sales	2.50	2.73	0.89	2.73
 Food exports	4.91	4.43	-6.85	4.43

# Domestic market

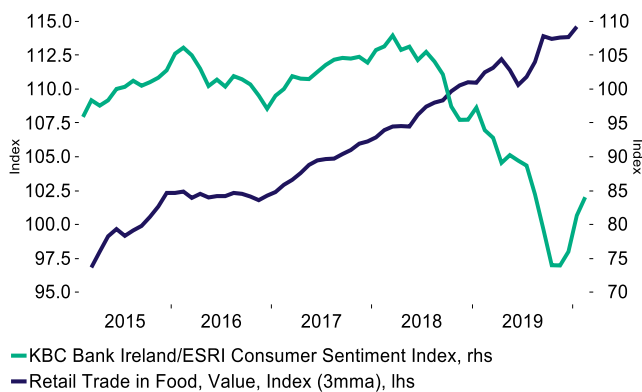
Figure 1: Food prices



## Food prices

In December 2019, prices on average, as measured by the Consumer Price Index, were 1.3% higher compared with December 2018. There was a 0.9% decrease in the average prices of Food and Non-Alcoholic Beverage products which was reflective of the annual decrease in the category due to lower prices across a range of products such as vegetables, sugar, milk, chocolate and confectionery.

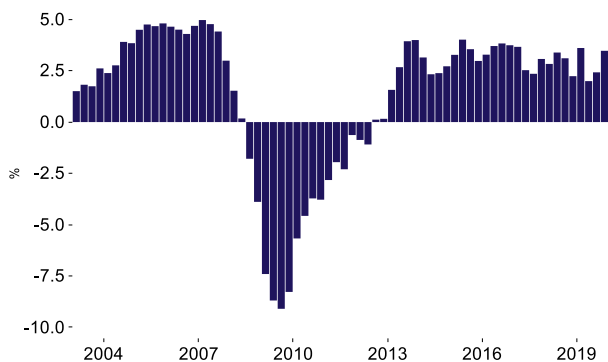
Figure 2: Food retail and consumer sentiment



## Retail sales and consumer sentiment

It was a positive Christmas period for Irish retailers in 2019 with the total value of core retail sales (excluding cars and bars) increasing by 3.2% when compared to December 2018. Discounting continued to be a common practice across the sector, which is reflected by the increase of 5.4% in the volume of retail sales. There was fluctuation in consumer sentiment in Ireland in 2019 mainly driven by uncertainty as the Brexit drew closer. However, in Q4 there was a increase in consumer sentiment as outlined by the KBC Bank Irish Consumer Sentiment Index which rose to 81.4 in December from 77.1 in November. This monthly improvement in consumer sentiment represents the largest month on month gain for Irish consumers in almost five years.

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

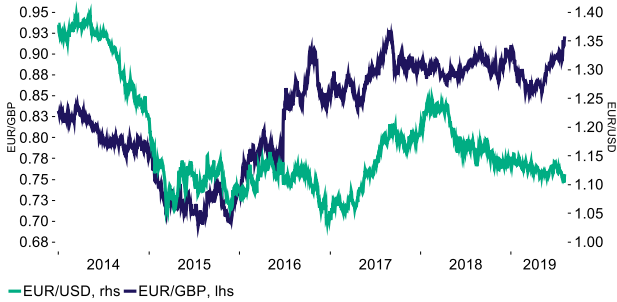


## Employment forecast

The Irish labour market remained close to full employment in Q4 2019 according to the CSO, with the monthly unemployment rate at 4.8% in December. Despite this positive performance there is still disparity between the pool of available labour and the growing demand for jobs across industries. The number of people employed in Ireland has grown 25% since 2013 however the labour force has grown by only 11%. Availability of labour will be a key issue for the food and drink industry moving forward as highlighted in Food Drink Ireland’s publication on the labour challenges in the prepared consumer foods sector, “*A sector with a lot on its plate*”.

# Macro Trends

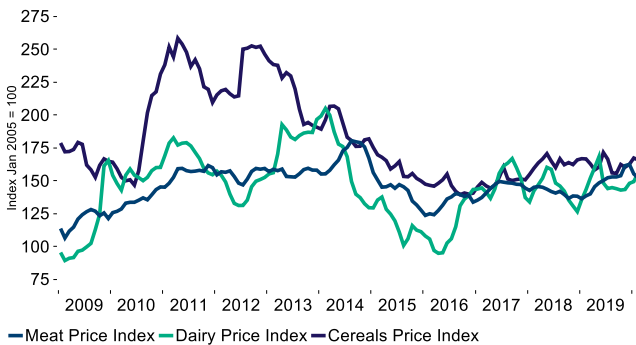
Figure 4: Sterling and dollar exchange rates



## Exchange rates

According to AIB’s FX Centre, Sterling was volatile in 2019 largely due to the changing political situation in the UK. In Q4 we seen Sterling make large gains upon news that an agreement was near on a revised Brexit deal. The Conservative party majority which is now established in the UK parliament should bring some stability to Sterling in early 2020 but another period of volatility is expected as negotiations with the EU begin. Based on the strong growth in the US economy in 2019, the dollar continued to perform strongly at the end of 2019 ranging at around \$1.09-1.12 range since mid-July. In Q3 and Q4 however, we have begun to see a slower growth rate at a moderate 2% in this period.

Figure 6: Food commodity indices

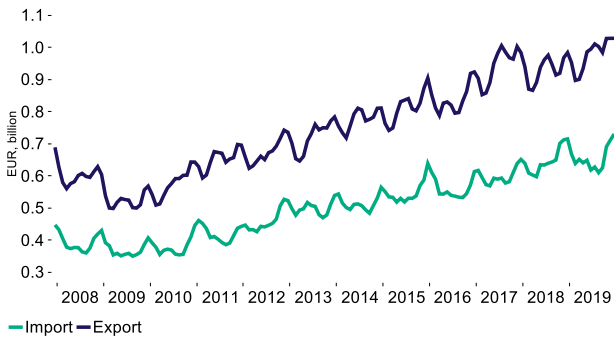


## Food commodity indices

The FAO Food Price Index (FFPI) increased for the third consecutive month in December 2019 with an average of 181 points, up 2.5% from November. Strong performance in a number of categories such as the sugar and dairy markets pushed up the overall value of the Index to its highest level since December 2014. This strong performance in Q4 however does not reflect 2019 overall. The FFPI averaged 171.5 points, only 3 points (1.8 percent) higher than in 2018 and still significantly below its highest levels in 2011 of 230 points.

# Trade

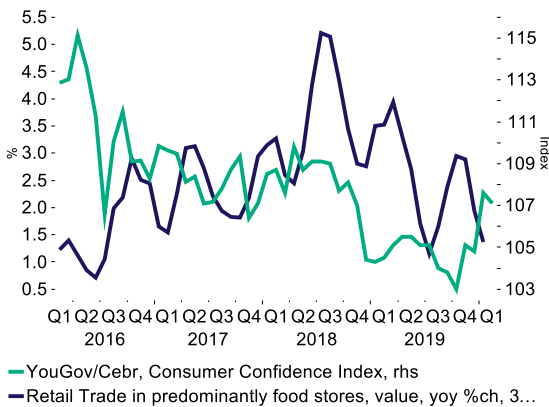
Figure 7: Irish monthly food trade, 3 mma



## Irish monthly food trade

Growing trade tensions between the US and other global trading blocs have put significant pressure on the global economy in recent times which led to a difficult end to 2019. There was an increase in trade towards the end of Q4 which has been seen as a leading indicator of eurozone export orders and production stabilising. This may signal that the impacts of global trade tensions are easing. These positive trends are likely to be significantly offset, however, by the impact of public health measures taken to limit the spread of the Covid-19 in Q1 2020.

Figure 8: UK consumer confidence and food retail

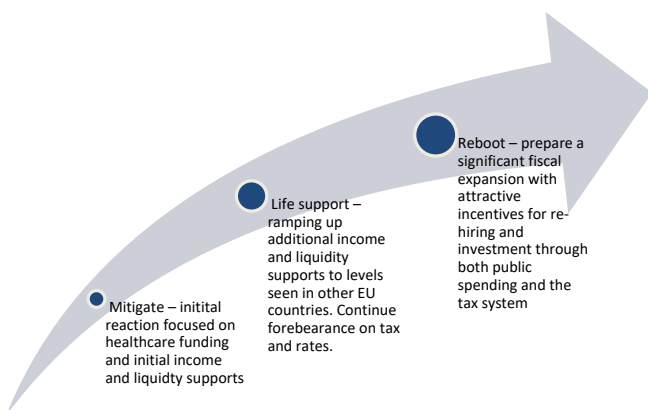


## UK consumer confidence and food retail

UK consumer sentiment fell dramatically between Q3 and Q4 in 2019 before recovering towards the end of December as outlined by the YouGov/Cebr Consumer Confidence index due to uncertainty caused by the general election. Retail trade in the UK however decreased at the end of Q4 2019 despite this recovery as per the Office for National Statistics (ONS) with the quantity of sales in food stores fell by 1.3% in December, the largest fall since 2016.

## Global trade landscape

As we move in 2020, there will be a significant change to the global trade landscape. According to the WTO Goods Trade Barometer, which fell in December 2019, global trade will continue to weaken as we move into 2020 once the effect of Covid-19 in Q1 is analysed. This expected decline emphasises the need for wide-scale plans to be in place to support the global trade economy and to ensure there is a foundation for it to recover following the crisis. The above graph prepared by Ibec outlines broad phases that it expects the economy to go through and recommendations for each stage.





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