

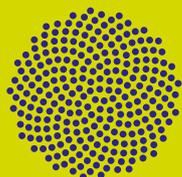
October
2021

Food Drink Ireland Business Monitor

Funding Brexit

Q3 2021

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Paul Kelly
Director

Substantial Brexit funding needed in Budget 2022

The food and drink sector is deeply resilient but now faces major disruption to its markets from Brexit in the midst of a global pandemic. In 2020 33% of Irish food and drink exports went to the UK market with Irish food products accounting for seven of the ten most exposed country/ food and drink product matches in the EU. Ireland needs to maintain our market position in this high value, high quality market that has a substantial food deficit and not relinquish it to global competitors.

Irish food and drink businesses are also experiencing inflationary pressures across most cost headings due to a combination of macro external factors which include global and domestic supply chain constraints and raw material inputs as well as Brexit and Covid-19.

Brexit has added significantly to trading costs including transport and logistics and additional administration both for trade with the UK but also for trade with the EU using the land-bridge. Transport costs have also been affected by the major driver shortage impacting that sector and for international business, the cost of freight containers has exploded since the beginning of the year.

Food businesses are also identifying strong increases in utility costs, in particular energy and also in packaging.

FDI's Budget 2022 submission recommendations are framed to ensure that Ireland's most important indigenous manufacturing sector can control its cost base whilst also innovating and improving both productivity and sustainability.

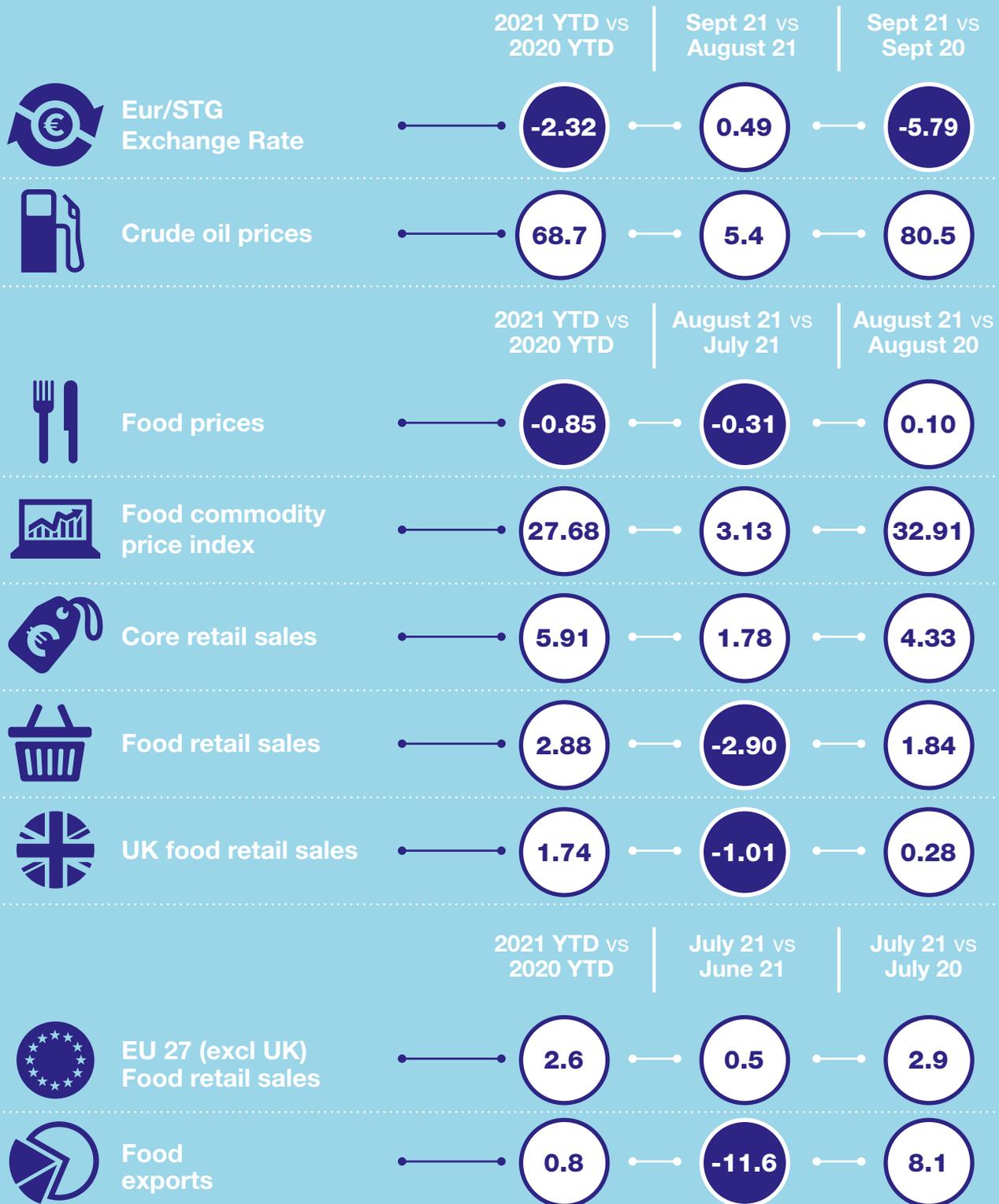
These state aid supports and funds from Ireland's €1 billion allocation from the Brexit Adjustment Reserve should be targeted as follows:

- Introduce a State-supported export credit insurance scheme.
- Invest €300 million in competitiveness and trade promotion.
- Keep the EWSS and grant support under review including for those significantly impacted by Brexit.
- Extend the Revenue Warehousing Scheme to Brexit impacted companies.
- Extend the Foreign Earnings Deduction to more markets.
- Extend and re-finance the 'Ready for Customs' grant scheme.

Other recommendation in the FDI Budget 2022 submission include:

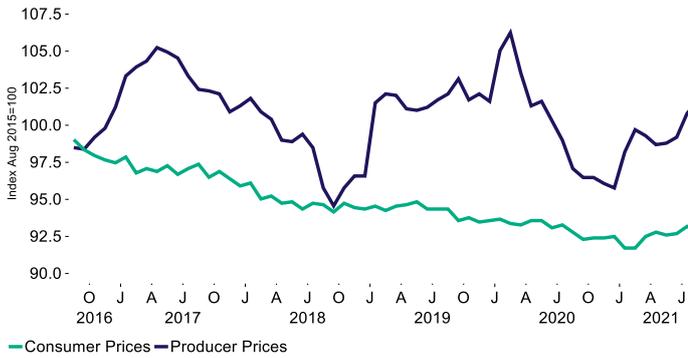
- Provide an additional €400m to drive low carbon investment in industry by scaling up and expanding industry supports.
- Reduce alcohol excise rates by 7.5%, introduce a new craft cider excise exemption scheme and allow alcohol excise on bad debts to be written off.
- Revamp the commercial rates exemption scheme to incentivise food business operators and cold storage companies, as occupiers of commercial property, to carry out much needed maintenance, improvements and retrofitting or energy saving investments.
- The ongoing review of the Employment and Investment Incentive Scheme (EIS) should amend the scheme so as to enhance its support for start-ups in the Irish whiskey / spirits sector.

Food business snapshot



Domestic market

Figure 1: Food prices



Food prices

Prices on average, as measured by the CPI, were 2.8% higher in August compared with August 2020. In August 2021, prices on average as measured by the Consumer Price Index were 2.8% higher in August compared with August 2020. Consumer prices in the month of August increased by 0.6%. Food prices increased by 0.1% in the year and decreased by 0.3% in the month. Non-alcoholic beverage prices increased by 0.8% in the year and increased by 0.5% in the month.

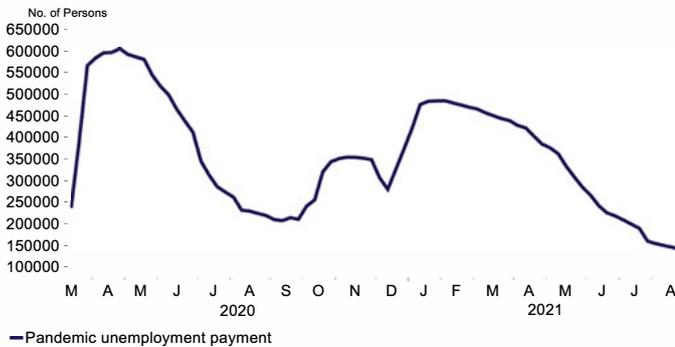
Figure 2: Food retail and consumer sentiment



Retail sales and consumer sentiment

Retail sales increased by 3.5% in August 2021 when compared to July 2021 on a seasonally adjusted basis. On an annual basis, retail volumes were 6.0% higher than in August 2020. Retail sales for August 2021 were 14.8% higher when compared to two years earlier (August 2019). The volume of retail sales (ex bars & motor) rose by 2.7% in August over the previous month and increased by 3.5% when compared to August 2020.

Figure 3: Numbers on COVID-19 related payments

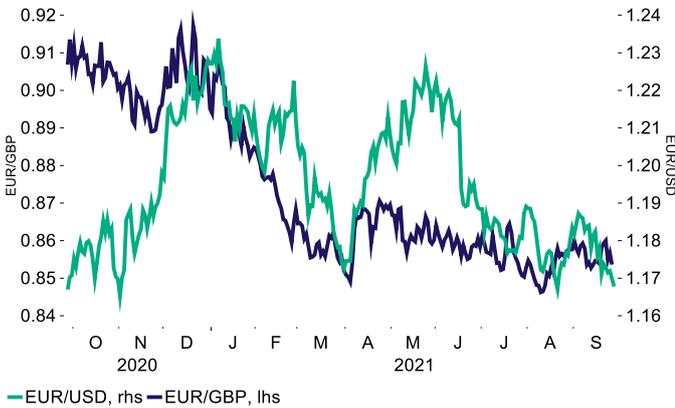


PUP

The reopening of many sectors has brought about a rapid improvement in employment over the summer, with numbers on the Pandemic Unemployment Payment (PUP) down to just under 110,000 people, the lowest since the payment was introduced. There is a combined total of 290,461 people on either the PUP or Live Register, compared to just under 500,000 on the PUP alone at its February peak. The monthly COVID-adjusted unemployment rate, which considers both people on the PUP and the Live Register, is 12.4%. This remains significantly above the 5% unemployment rate just before COVID.

Macro Trends

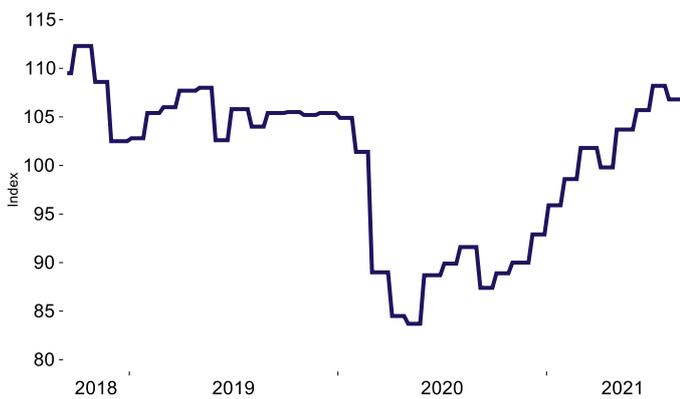
Figure 4: Sterling and dollar exchange rates



Sterling/dollar

According to the AIB Weekly Market View the action in some of the key currency pairs for much of the summer has been confined to fairly tight ranges. The EUR/USD rate has, for the most part, traded in a compressed \$1.17-1.19 corridor since mid-year. Meanwhile, EUR/GBP has spent most of this timeframe in a narrow 85-87p band, with a brief period below the 85p level to a low of 84.5p earlier this month.

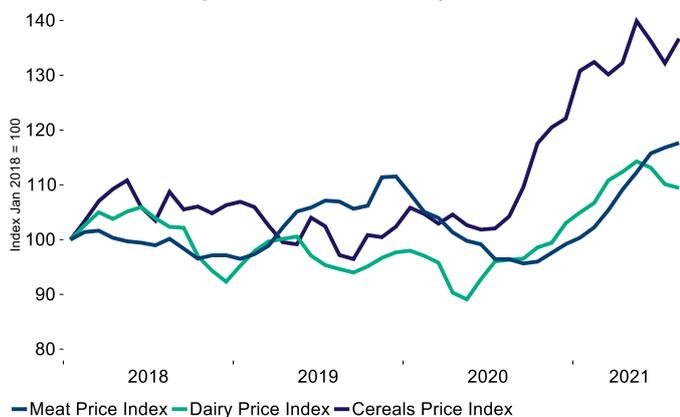
Figure 5: Wholesale Price Index-Gas Oil



Wholesale prices

Monthly factory gate prices decreased by 0.8% in August 2021 according to the CSO. This compares to a decrease of 1.5% for August of last year. The annual percentage change showed a decrease of 1.4% in August 2021, compared to a decrease of 2.1% in the year to July 2021.

Figure 6: Food commodity indices

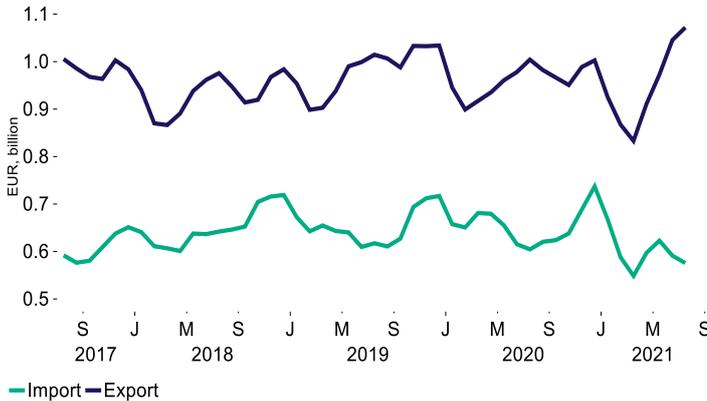


FAO

The FAO Food Price Index (FFPI) rebounded rapidly in August. FFPI averaged 127.4 points in August 2021, up 3.9 points (3.1 percent) from July and 31.5 points (32.9 percent) from the same period last year. The FFPI's rebound in August after two consecutive months of decline was led by strong gains in the sugar, vegetable oils, and cereal sub-indices.

Trade

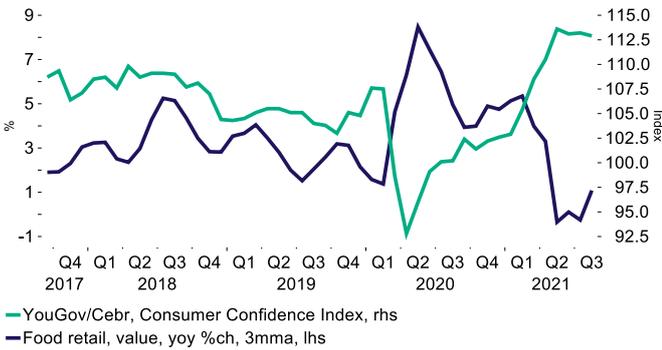
Figure 7: Irish monthly food trade, 3 mma



Irish monthly food trade

The latest CSO goods exports and imports classified by commodity data which includes food and beverages amongst other commodities goods saw exports decrease by over €700 million in July 2021 compared with July 2020. Goods imports fell by €634 million in July of this year compared with the same month in 2020. Looking closer at the food sector, exports of dairy and eggs increased by €30 million to €326 million in July 2021 compared to the same time last year. Imports of dairy and eggs decreased by €19 million in July 2021 compared to July 2020. Vegetable and fruit exports increased by €12 million to €35 million compared with the same month in 2020. Imports of vegetable and fruit decreased by €13 million in July of this year to €101 million.

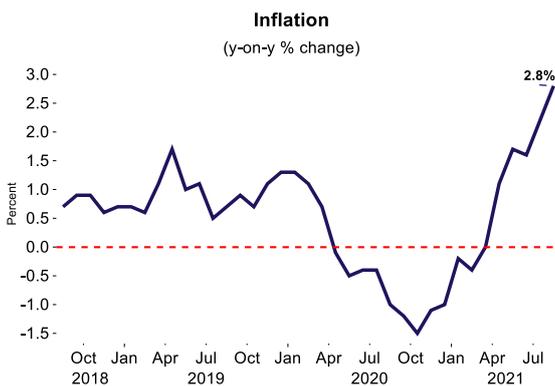
Figure 8: UK consumer confidence and food retail



UK consumer retail sales/ consumer sentiment

According to the UK Office for National Statistics retail sales volumes fell by 0.9% in August 2021, following a 2.8% fall in July; however, volumes were up by 0.3% in the three months to August compared with the previous three months, and in August 2021 were 4.6% higher than their pre-coronavirus (COVID-19) pandemic February 2020 levels. Food store sales volumes fell by 1.2% in August 2021, with some evidence to suggest that the further easing of hospitality restrictions had an impact on sales; people increased their social spending such as eating and drinking at restaurants and bars. Consumer confidence decreased marginally but is still on a high with the UK now largely free of coronavirus restrictions.

Figure 9: Inflation



Inflation

Irish food and drink businesses are experiencing inflationary pressures across most cost headings due to a combination of macro external factors which include global and domestic supply chain constraints and raw material inputs as well as Brexit and Covid-19. In recent months we have seen annual price increases of almost 3%. Globally there are significant price pressures facing producers with a range of key inputs to manufacturing, construction and consumer goods showing record global price spikes as the economy re-opens. Higher energy prices, including for petrol and diesel, has contributed significantly. In Ireland inflation is holding at 2.1% which is expected to rise as we move into 2022.



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