

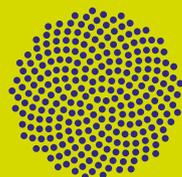
March
2022

Food Drink Ireland Business Monitor

Inflationary pressures worsen

Q4 2021

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Paul Kelly
Director

Food and beverages companies experience substantial input cost pressures

Inflationary pressures for Irish food and drink businesses have worsened in recent months due to a combination of macro external factors including Brexit, Covid, supply chain constraints and raw material inputs.

The rate of cost inflation in the sector continues to rise across all the main inputs and is increasingly accompanied by supply shortages of these inputs. Global food commodity prices for example are up 33% year on year according to the FAO Food Price Index. The Index's most recent increase was led by solid gains in vegetable oils and dairy sub-indices, partially offset by a decline in sugar prices for the second consecutive month. Meat and cereal sub-indices remained largely unchanged. According to the FAO:

- World wheat prices eased in January, down 3.1%, with increased seasonal supplies from large harvests in Australia and Argentina. However, support from continued strong demand amidst tight global availability of higher-quality wheat along with uncertainty over exportable supplies, prevented prices from declining further.
- The rise in the Vegetable Oil Price Index reflected higher quotations for palm, soy, rapeseed and sunflower seed oil. Rapeseed and sunflower seed oil prices were buoyed by, respectively, lingering supply tightness and surging global import demand. Rising crude oil prices also lent support to international vegetable oil values.
- The Dairy Price Index increase was underpinned by a tightening in global markets, reflecting a reduction in export availabilities, especially from Western Europe, where a reported reduction in milk deliveries in some large milk-producing countries and

lower stock levels supported prices. Expectations for milk production in Oceania to remain below its average levels in the months ahead added to the tightening in global dairy markets. In addition, milk processing and transportation delays due to COVID-19-related labour shortages further contributed to higher dairy prices.

- The January decline in international sugar price quotations was mostly related to favourable production prospects and good harvest progress in major exporters, India and Thailand, and improved rains in key growing areas of Brazil. In addition, lower ethanol prices in Brazil exerted further downward pressure on world sugar prices in January.

The latest CSO Wholesale Price Index for Energy Products (i.e., fuels purchased by manufacturing industry) shows a 19.9% annual increase for all energy fuels excluding electricity. According to the same Index electricity has increased 156.9% over the last year. Gas spot price futures had over the past decade varied between €20/mwh and €30/mwh. Shortages this winter have seen rapid spikes, but futures markets had expected a gradual return to under €40/mwh by Q2 2022 in November and even by early January 2022 by the first half of 2023. Futures prices, although highly volatile, are now not seeing a return to sub-€40/mwh before 2024. Whilst the situation remains volatile the market does point to gas prices being higher for longer.

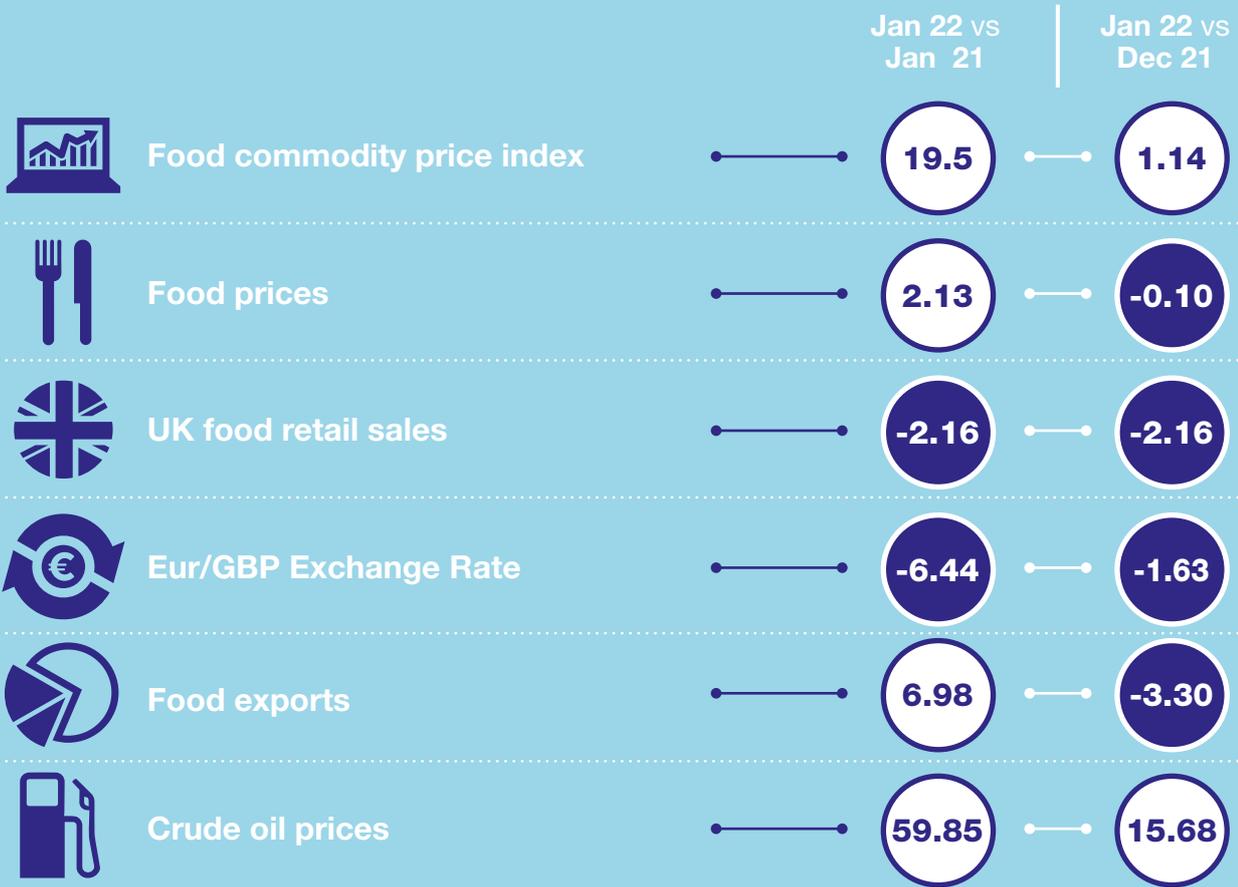
Food Drink Ireland surveyed member companies in July, November and February to assess the extent and impact of input cost increases. The surveys found that the majority of food and drink companies experienced substantial increases across a range of inputs with the situation worsening between the surveys particularly for raw materials, energy, packaging, transport and shipping.

Looking at the main factors respondents attributed the input costs to, almost all considered global supply chain constraints, raw material shortage and Covid impacts very relevant or relevant. A majority considered both Brexit and domestic supply chain constraints very relevant or relevant

Looking ahead to the next 6-12 months, respondents most commonly cited food commodities, energy and labour as the areas where further cost inflation was to be expected but most other input costs were expected to increase too.

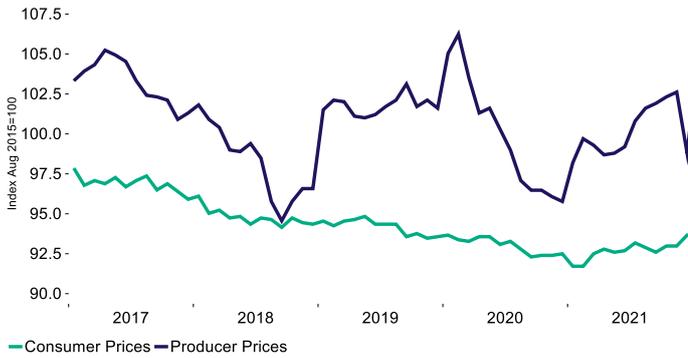
FAO and CSO statistics and our own survey results are showing that cost inflation and also shortages of key inputs are worsening. Whilst food and drink manufacturers work tirelessly to absorb increases within their businesses, rising inflation in commodity prices can quickly erode producers' margins if they aim at keeping consumer prices down. Whilst general consumer price inflation is now 5%, consumer price inflation for food and non-alcoholic beverages is only 2.1% and costs will inevitably have to be passed on to customers.

Food business snapshot



Domestic market

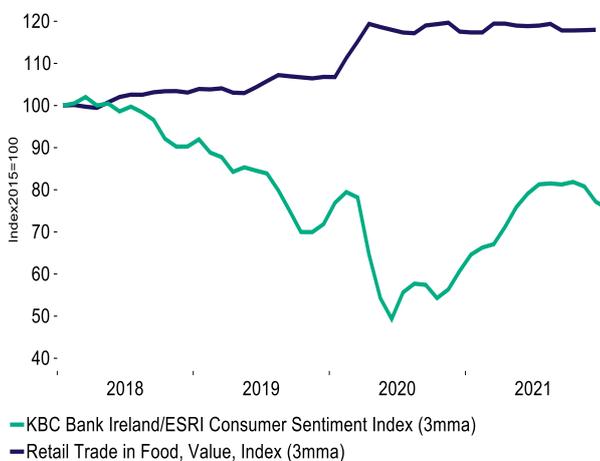
Figure 1: Food prices



Food prices

Prices on average, as measured by the CPI, were 5% higher in January compared with January 2020. In January 2022, prices on average as measured by the Consumer Price Index decreased by 0.4% in the month. During January of last year, prices rose by 0.1% in the month. Food prices increased by 2% in the year and decreased by 0.1% in the month. Non-alcoholic beverage prices increased by 3.9% in the year and increased by 0.1% in the month. The main factors contributing to the annual change of Food & Non-Alcoholic Beverages increased due to higher prices across a range of products such as bread & cereals, meat and mineral waters, soft drinks, fruit & vegetable juices.

Figure 2: Food retail and consumer sentiment, 3mma



Retail sales and consumer sentiment

Retail prices across the economy were 5.0% higher in January compared with January 2021. The latest figures from the CSO show that consumer prices in January decreased by 0.4% on a monthly basis. This marked the first monthly decrease after 14 months of rising prices. The KBC Bank Irish consumer sentiment index increased to 81.9 from 74.9 in December, largely reversing the sharp drop last month from the November reading of 83.1. At current levels, Irish consumer confidence is still marginally below the 26-year average of the series.

Numbers on COVID-19 related payments

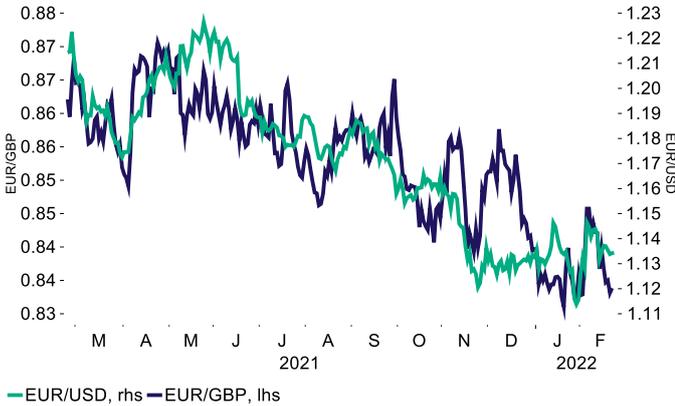


PUP

The rollout of the pandemic unemployment payment has been broadly successful in softening the impact of the pandemic on workers in highly disrupted sectors and setting the stage for a more rapid recovery. Numbers on the PUP have fallen below 57,000, down by 88% from the February 2021 peak of unemployment. A recent analysis of closed PUP cases by the Department of Social Protection showed that, of those who transitioned off the payment and into work since mid-Summer, 62% returned to their former employer, while 12% found new employment in the same sector. This leaves just over a quarter who took up work in a different sector than they had worked in before the pandemic.

Macro Trends

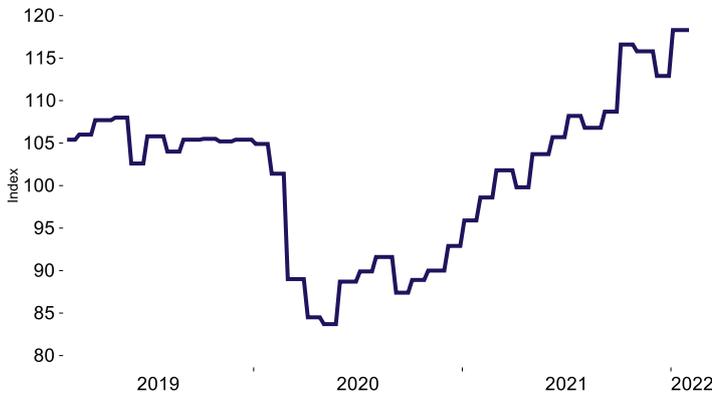
Figure 4: Sterling and dollar exchange rates



Sterling/dollar

According to the AIB Forex Market Outlook the dollar held a stronger tone from mid-2021 until near to the end of the year against a broad range of currencies. The US currency rose by 5% in trade weighted terms over this period. The euro was a notable casualty, falling from \$1.22 in June to a low of \$1.12 in late November, as the key support level of \$1.16-1.17 eventually gave way during the autumn. The EUR/GBP 83p level is a major support point for the euro, which has not been overcome by sterling since the Brexit referendum in 2016. Both the UK and the eurozone are experiencing a steady economic recovery from the pandemic. Both are also experiencing high levels of inflation, but the two regions' respective central banks are adopting different stances, which will affect the currencies in 2022.

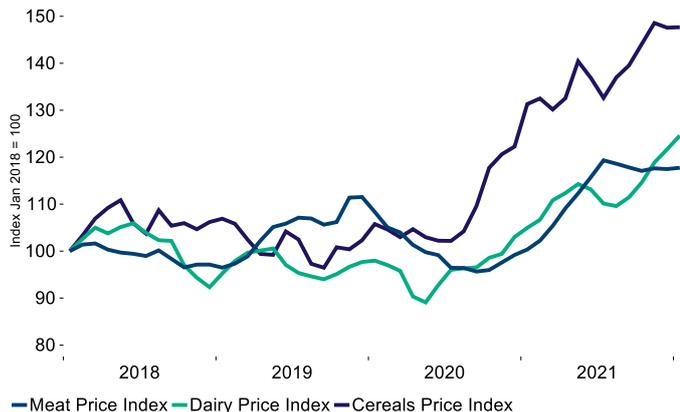
Figure 5: Wholesale Price Index-Gas Oil



Wholesale prices

Monthly factory gate prices increased by 0.1% in January 2022 according to the CSO. This compares to an increase of 1.1% for January of last year. The annual percentage change showed an increase of 3.5% in January 2022, compared to an increase of 4.5% in the year to December 2021.

Figure 6: Food commodity indices

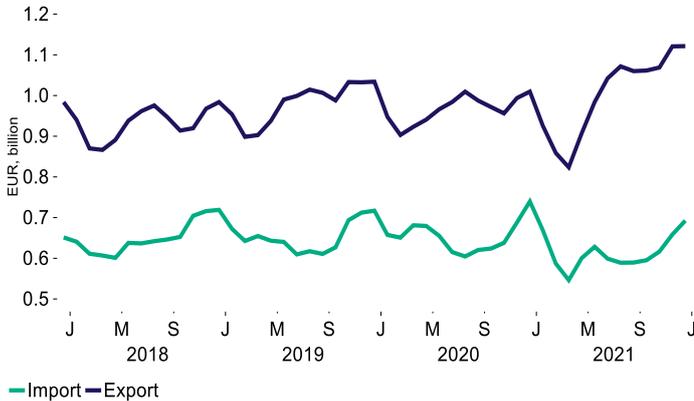


FAO

The FAO Food Price Index (FFPI) averaged 135.7 points in January 2022, 1.5 points (1.1 percent) higher than in December 2021. The FFPI's rebound in January was led by solid gains in vegetable oils and dairy sub-indices, partially offset by a decline in sugar prices for the second consecutive month. Meat and cereal sub-indices remained largely unchanged.

Trade

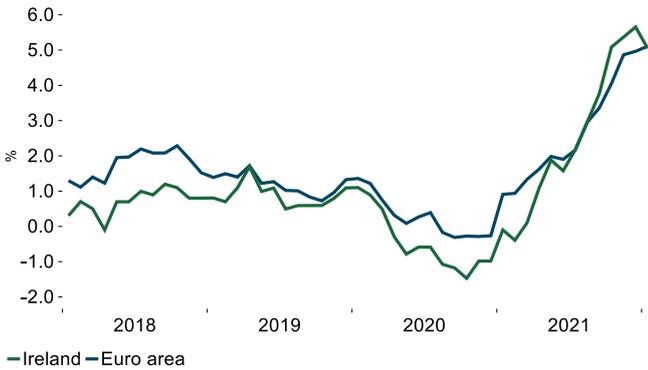
Figure 7: Irish monthly food trade, 3 mma



Irish monthly food trade

The Bord Bia Performance and Prospects Report 2021/ 2022 confirmed Covid-19 caused significant disruption and abnormal trading and marketing in 2021. It also marked the first year of trading with the UK outside the EU's customs union. To that end, the value of Irish food and drink exports increased 4% in 2021 to be worth €13.5 billion. The report highlights strong returns in beef and sheepmeat in 2021, the dairy sector countered challenges with strong growth in cheese and butter, and there was an impressive rebound in the drinks category and robust trading within Prepared Consumer Foods (PCF).

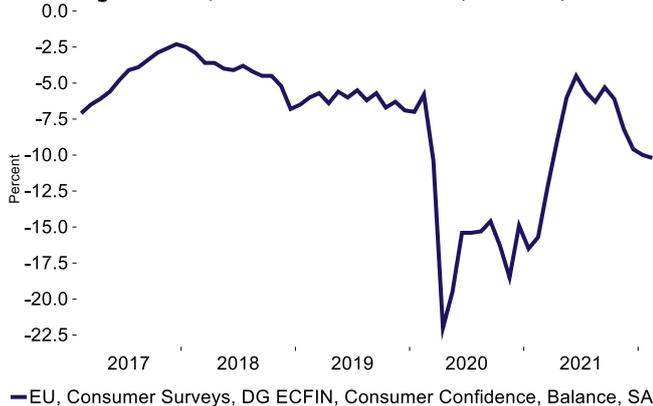
Figure 8: Inflation - Harmonised Index of Consumer Prices (Year-on-year % change)



Global inflation trends

Rising prices in Ireland are reflecting a worldwide trend, with rising energy costs and a crunch in freight capacity being felt across the globe. These, combined with the sudden peaks and troughs of demand due to the stop start nature of activity in a global pandemic, have led to the current inflationary environment. The US is seeing some of the sharpest increases, with annual inflation reaching 6.5% in October. The UK is not far behind, at 4.2%, mirroring the experience in Ireland due to rising heating and utility costs, along with more expensive transport fuel costs. Eurozone inflation is also feeling the pressure, running at 4.9% in November. So far, the European Central Bank, Bank of England and Federal Reserve have all held firm on interest rate hikes, on the premise that the inflation is a transitory adjustment to Covid. As pandemic-driven costs continue, pressure is mounting on the Worlds' central banks to respond by withdrawing some pandemic buying programmes.

Figure 9: EU, Consumer Confidence, Balance, SA



EU

The European economy is recovering strongly from the Covid crisis, albeit with some challenges as re-opening slowed or reversed in some Member States as cases spiked. As this recovery takes place bottlenecks are having a significant impact on supply chains and prices across the continent. The recent European Central Bank survey of professional forecasters in Q4 2021 shows that almost half of all forecasters expect inflation to run at more than 2% in 2022 compared to only one in seven in the same survey in Q2 of this year and one in four in Q3.



Food Drink Ireland
84/86 Lower Baggot Street, Dublin 2
Tel: (01) 605 1500; Fax: (01) 638 1500

www.fooddrinkireland.ie

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