



Bank of Ireland Sectors Team Food and Drink Review and Outlook

August 2022



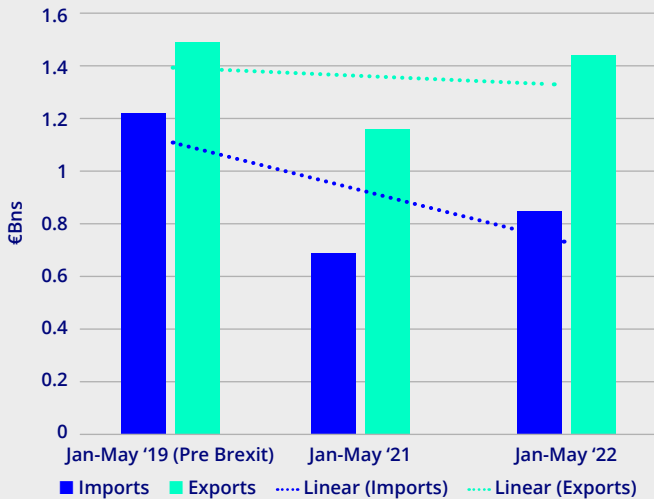
**Bank of
Ireland**

Classification: **Green**

Summary

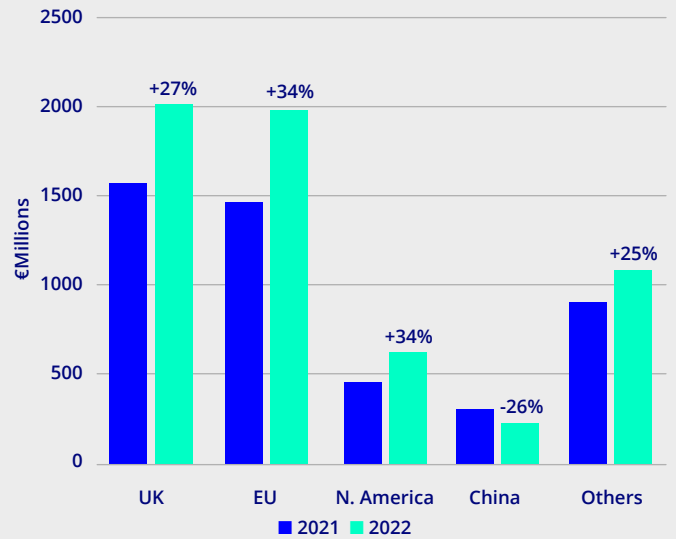
Despite the challenges of inflation, sentiment remains positive in the sector¹. Volumes in the processing sector continue to grow² on the back of a strong export performance and Brexit related import substitution. Input increases from 2021 have been substantially recovered, which has resulted in food inflation hitting 6.7%³ in June 2022 compared to the previous year. Businesses continue to focus on cost recovery, with further price increases likely to be implemented towards the end of this year, as the impact of commodity and energy price increases, resulting from the war in Ukraine, make their way to bills of materials. From a transaction perspective, businesses are looking to increase capacity – both in terms of production and storage – in order to meet growing opportunities.

Figure 1: Trade Balance between Ireland and Great Britain has shifted post Brexit
Ireland to GB Food Exports and Imports Pre and Post Brexit (January to May)



Source: CSO

Figure 2: Food and Drink Exports 2022 vs 2021 (January to May)



Source: CSO

Irish Food & Drink Export Sales by Sector

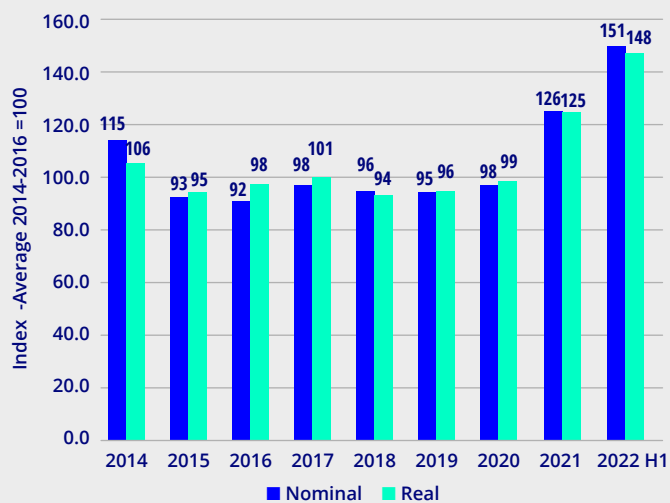
Jan - May	2022 €Ms	Diff to 2021 (€Ms)	% Ch	% of total
Beef & offal	1,085	259	31%	17%
Sheep & offal	191	43	29%	3%
Pig Meat	214	-17	-7%	3%
Poultry & egg	62	22	53%	1%
Other Meats	2	0	33%	0%
Total Meat (excludes value added)	1,554	307	25%	25%
Dairy	2,353	622	36%	38%
Drinks (alcoholic)	746	163	28%	12%
Horticulture & Cereals	101	-16	-14%	2%
Seafood	253	-1	-1%	4%
Prepared consumer foods	1,198	199	20%	19%
Total	6,206	1,273	26%	100%

¹ 85% of those surveyed in Love Irish Food industry survey in May 2022 were optimistic for their firms prospects.

² CSO Volume of production for Industrial Sectors - March-May 2022 Food.

³ Source CSO.

**Figure 3: UN Food & Agricultural Organisation
Food Price Index**



Key Sector Trends H1 2022

Export Growth: Irish Food and Drink exports have rebounded strongly in 2022 with January to May figures showing growth of 26%⁴ compared to the same period in '21. Growth in exports to the EU has been one of the strongest drivers of overall performance, some of which may be due to Brexit related substitution on the continent. North American exports performed well – largely driven by the continued growth of Irish Whiskey – but also by a significant increase in infant formula exports, caused by supply issues with domestic producers. Exports to China continued to fall, impacted primarily by the reduction in demand for Pigmeat as local production ramped up in the aftermath of the swine flu outbreak. From an overall sector basis, dairy continues to be the main driver of growth.

Brexit Related Import Substitution: The balance of trade of food and drink between Ireland and Britain has changed significantly. Pre Brexit, in 2019, over Jan to May, food and drink imports from Great Britain were at a level that was approximately 82% of exports, however post Brexit in both 2021 and 2022 it had dropped to under 60% - see Figure 1. The pre Brexit figures represented reflected the immense variety of food and drink products that arrived on Irish shores from consolidated warehouses in Great Britain, reflecting the ways in which large multinationals tended to treat the UK and Ireland as one entity for distribution purposes. Ireland was and continues to be the largest export destination for UK food and drink⁵. While imports from Great Britain have increased from the low point of 2020, when British companies struggled to adjust to the new customs formalities, the balance of trade has changed significantly and appears now to be embedded. This has created new opportunities for local producers to substitute products previously coming from Great Britain.

Inflation Management: Input cost inflation was already significant in 2021, before the invasion of Ukraine. In 2021, the Food and Agricultural Organisation (FAO) basket of commodities was 28% ahead of the previous year and there were also significant input increases related to energy, both in terms of direct energy supply and indirect effects on packaging. Producers struggled to recoup all of the input cost with some price increases delayed to early 2022 and this had a knock on effect on consumer food inflation in 2022.

CSO Food and Non-Alcoholic Beverages showed an inflation level of 6.7% in June 2022. We are yet to see consumer price inflation reflect the substantial input costs that are anticipated in 2022. Looking to the FAO price index as a benchmark, while showing some fall back since April, the basket of commodity prices tracked remains 18% ahead of 2021 in real terms and energy increases also have to be taken into account. In the UK, the Institute for Grocery Distribution forecast UK food price inflation of up to 15% before the end of 2022⁶.

The ongoing negotiation on prices between suppliers and retailers continues to be challenging. In the UK, the most recent report by the Groceries Code Adjudicator (GCA) highlighted the strain on supplier retailer relations⁷. A quarter (26%) of suppliers said they had experienced a refusal by a retailer to consider a request for a cost price increase (CPI) or an unreasonable delay from the retailer in concluding the request. It is the most raised issue in the GCA's surveys over the last five years.

The focus on cost management resulted in some delays in new product development and innovation as suppliers concentrated on key sellers and increased efficiencies. Danone⁸ recently highlighted that it was looking at consolidating its range of products as a cost cutting response.

Supply Chain Shortages and Delays: Global food supply chains continue to be challenged, particularly as a result of the war in Ukraine and to a lesser extent COVID-19 lockdowns in China. Supply chain volatility has been reflected in higher stock holdings amongst operators as they seek to insulate themselves from delays. This has absorbed additional working capital. From an Irish perspective, pricing and delays, rather than availability have been the primary issues, the exception being sunflower oil, which is increasingly being substituted as an ingredient.

Return to Out of Home Eating: In line with the relaxation of Covid restrictions, Bord Bia project that Food and Drink sales in Foodservice will grow by 58% in 2022, albeit that a significant element of growth will be inflation driven. As consumers return to out of home eating, there has been a reflected drop in retail sales. Kantar suggests that retail sales in grocery have fallen by 6.5% in the 12 weeks to May '22, however given the previously mentioned impact of inflation the volume drop is likely to be in double digit figures. For suppliers, anticipating these changes has been challenging, particularly given the current commodity volatility and supply chain delays.

Climate Change Impacts and Response: The agrifood industry continues to be at the forefront of both climate related impacts and responses. The impact of climate change on commodity volatility continued. For example, increased wheat plantation in India, was hoped to alleviate some of the shortages caused by the war in Ukraine, however the heatwave in May 2022 resulted in decreases in yield of between 10% to 35% in key wheat growing areas⁹. From a global marine perspective, as seas warm, salmon farming production in some areas has been challenged¹⁰. In Italy up to one third of agricultural production - including olive oil and tomatoes – is at risk due to the recent drought¹¹. As we look ahead, regardless of the outcome of the war in Ukraine, it is clear that climate change is going to result in increased commodity volatility and supply chain challenges.

Food producers, have also been at the forefront of response to the challenge. According to the Love Irish Food PWC SME Barometer over 70% of respondents have or are working towards a net zero commitment. Key sustainability investments reported are in the areas of energy consumption (78%), packaging and plastics reduction (68%) and water usage (50%).

⁴ Source: Bord Bia Performance and Trade Prospects

⁵ Exports Q1 2022 | The Food & Drink Federation (fdf.org.uk)

⁶ Food inflation likely to reach 15% this summer (igd.com)

⁷ Inflationary pressures strain relationships between retailers and suppliers - GOV.UK (www.gov.uk)

⁸ French food company Danone reduces product range to cut costs (irishexaminer.com)

⁹ Heatwave takes a toll on north India's wheat yield (mongabay.com)

¹⁰ NZ King Salmon to close farms due to rising sea temperatures | RNZ News

¹¹ Italian Drought Puts One-Third Of National Agriculture Production – Like Tomatoes And Olive Oil – At Risk (forbes.com)

Key Sector Activity H1 2022¹²

Appetite for investment in the industry was strong in 2022.

CapEx driven development drove investment as operators increased capacity to take advantage of Brexit related import substitution and expanding global markets. Due to the tightness of the labour market, automation was a key feature of developments. The need to retain and attract workers was also reflected in the growing trend of operators becoming “accidental landlords” in a bid to provide accommodation for key workers. There was also an increased use of stocking loans as operators sought to build

resilience in their supply chains and sought to manage the volatility of commodity prices.

Private equity and venture capital funds continued to be active in the sector in the first half of 2022. Domestically, the Redesdale fund, focused on early stage food and drink companies, closed two investments, in Soothing Solutions and Thanks Plants¹³. Melior Equity Partners, also announced investment in the long established Irish SME Rose Confectionery.

On an international level, Kerry continued a very targeted acquisition run focused on precision fermentation and functional ingredients with the purchase of Enmex and c-Lecta.

2022 H2 Outlook

Ongoing Inflation: We are likely to see further price increases relating to the war in Ukraine pass through to consumer baskets towards the back end of the year. Futures prices of key commodities, remain elevated, albeit at a lower level than peaks earlier in the year. Energy prices continue to rise and the rise in gas prices, in particular, will affect the costs of food production. The effect of inflation on consumer behaviour in food purchase and consumption is still evolving. In foodservice, menus are already being reworked to address price rises¹⁴. In UK grocery, consumers are moving towards cheaper protein sources¹⁵. In Ireland, there are some indications of a move towards private label in grocery¹⁶.

Energy Uncertainty: Industry across Europe has been asked to make contingency plans for energy shortages. In the event of any limitation in supply, food and drink production would be prioritised, however, the likelihood of increased energy costs in this scenario would put further strain on operators and result in additional price increases to consumers. Recent news that the government is exploring a state aid scheme for companies with high energy usage will be particularly welcomed by the sector¹⁷. While renewable energy investments have been primarily focused on the corporate sector to date, particularly those enterprises subject to the EU Carbon Trading scheme, increasingly SMEs are looking to improve their energy costs through the use of renewables.

Climate Change Response: As the government looks to finalise carbon budgets, it is becoming more likely that producers of dairy and meat in Ireland, will be asked to do more with flat volumes, as the era of primary production growth ceases. Operators in these sectors will be increasingly focused on waste recovery, automation, energy efficiency and added value production as

they look to maximise profit with a static or reducing supply of raw material. However, new opportunities in plant-based eating are being unlocked in areas from vertical farming, to mushrooms and alternative proteins. Increased focus by the government on food and packaging waste reuse will also create opportunities in the circular economy.

Bank of Ireland

Bank of Ireland is committed to its role as a key partner for Ireland's largest indigenous industry. This is amply demonstrated by our ongoing support of the Blas Na hEireann food quality awards and our deep sectoral knowledge. COVID-19 has highlighted the necessity for companies to have an in market, long term, stable, finance partner that can offer timely support, dedicated relationship managers and an understanding of the cyclical nature of the various sub-sectors.



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Roisin joined Bank of Ireland in 2019 as Head of the Food & Drink Sector, in order to support the Bank's business in this strong, indigenous industry. She brings an in depth understanding of the Food & Drink sector to the role due to her wealth of experience in both Ireland and the UK, across a number of companies and product categories. She has held senior commercial positions in both indigenous and multinational consumer goods companies including PepsiCo, Valeo Foods, Carbery, Boyne Valley and Robert Roberts Ltd. Her knowledge base spans end to end product development, from procurement and new product development, to branding, marketing and sales achievement. Roisin holds an undergraduate Law Degree from UCC, an MBA from Warwick Business School and Post Graduate qualifications in Digital Business and Digital Marketing.

¹² [Kerry Group expands its biotechnology capabilities \(rte.ie\)](https://www.rte.ie/news/2022/07/14/kerry-group-expands-its-biotechnology-capabilities/)

¹³ [www.Redesdalefoodfund.ie](https://www.redesdalefoodfund.ie/)

¹⁴ [Why crab claws and fillet steaks are coming off the menu in Irish restaurants - Independent.ie](https://www.independent.ie/news/ireland/why-crab-claws-and-fillet-steaks-are-coming-off-the-menu-in-irish-restaurants-12777777.html)

¹⁵ <https://www.thegrocer.co.uk/meat/shoppers-swapping-other-meat-and-fish-for-chicken-as-cost-of-living-bites/669434.article>

¹⁶ <https://www.kantar.com/uki/inspiration/fmcg/2022-wp-irish-shoppers-face-potential-increase-of-453-euros-to-annual-grocery-bills>

¹⁷ [Heavy energy users in line for State support this winter - The Irish Times](https://www.irishtimes.com/business/energy/heavy-energy-users-in-line-for-state-support-this-winter-1.6344444)

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