

PROCUREMENT  
PARTNERS

Market Report March 2021

## A Note From Our MD



Welcome to the first edition of Procurement Partner's market review. We will be putting these together using information we have gathered from our suppliers, unique market intel, clients and other industry experts. They will outline issues and trends effecting all key commodities and looking at any larger topics that are currently influencing our industry.

As hospitality is going to reopen and there is eventually some sort of light at the end of the tunnel, now is a great time to get a no commitment and free of charge health check. Before hospitality starts up again we can review your supply chain and implement changes where required, getting your business ready to reopen its doors. We are confident we can deliver savings in excess of 10% at this crucial time. When you couple this with our competitive terms and flexible business model it makes for a compelling option in the market place.

We hope you enjoy the first edition.

All the best

Matt Tough

## Fruit & Veg

The double impact of Covid-19 and tropical storms have put pressure on avocado supplies from Central America. Whilst much of the product shipped in at this time of year comes from Spain and Israel, the main season in Peru (the biggest exporter to the EU and UK) is due to start soon.

Another challenge closer to home is the impact of National Living Wage rises affecting costs for farmers of labour intensive produce such as soft fruits. The NLW has risen 34% over the last 5 years, with another 2.2% rise due in April. Coupled with reduced availability of seasonal workers, this is creating a particular headache for farmers.

Elsewhere, sales of vegetables are up considerably this winter as the trend for scratch cooking during lockdowns has increased. Onions are up 25% and leeks 15% according to the British Growers Association. Whilst this is good news for farmers, the unexpected demand and the harsh Spring mean that we may end up facing shortages in April and May as hospitality trade picks up.

Finally, we are hearing reports of the following - all things to watch out for:

- Cold weather in Spain causing frost damage to salad leaves, and smaller yields
- The same weather causing issues for shelf life on cucumbers
- Issues with some UK potato crops, particularly with skin not setting, and some damages
- Shelf-life on mushrooms being a particular challenge which in turn could increase the costs
- End of season watermelon quality is not good and there is limited availability

# Dairy

Despite domestic milk production being at a 5 year high, and forecast to rise by another half a percent in 2021, the farmgate milk price is 3.3% higher than at the same point last year. One of the biggest influences is the change of consumer dietary habits as more of us have been at home - and are therefore opting for 'store cupboard' style lunches - think cheese sandwich on sandwich bread rather than salt beef and horseradish on granary. This has led to an increase in retail cheese sales of around 16%, along with a similar rise in butter sales due to a related increase in home baking.

Finally, we are using more milk at home as cereal has become breakfast for some, with cereal sales up 8% as well. No doubt this is offset by a reduction in barista-prepared coffee but with feed costs rising for farmers, and global dairy stock lower than expected it's hard to see much of a price reduction happening any time soon.

One bright spot within dairy is the price of cream, which with a short shelf life, and the increased bureaucracy around export means that the UK prices are currently 5% cheaper than at the same point last year, and the average fat content of milk being produced currently is relatively high.

As of the end of 2020, egg prices were up 12% versus 2019. This is in part due to the long-term growth in egg consumption in the UK. Covid-19 has caused challenges for some producers trying to shift medium eggs - typically sold into hospitality and production. Discussions have been ongoing with supermarkets encouraging them to take the medium product versus the large eggs typically preferred - but it does mean that good prices on medium eggs should be available for those hospitality businesses currently trading through takeaway etc.





## Seafood

Norwegian salmon prices are down around 20-25% on this time last year, with the export price from Norway dropping from around £5.30 per kg at this point last year to around £4.15. This is largely due to a reduction in demand as the shutdown of foodservice outlets (Globally, but particularly in China - the world's largest consumer of seafood) and reduction in demand for 'lunch to go' as more people are working from home.

This is mirrored in Scottish salmon exports, which were down 23% last year - another industry that is now dealing with both the impacts of the pandemic, and the additional controls on exported product to the EU as a result of Brexit - an issue so significant that a specialist taskforce was set up by the Government.

The upshot of this for us is that pricing on Scottish salmon (and local seafood) should be lower than usual and therefore might be a viable upgrade for those looking to add some provenance to their menu.

Those using cold-water prawns should expect to see significant price rises as the current post-brexit trade arrangement with Greenland (where 60% of our imports come from) includes a 20% tariff, which we would expect could flow through as a 7-10% increase in delivered price - Greenland is also diverting more of the catch to EU markets, where the tariff does not apply.

As we begin to open our doors again soon, we should prepare for a more limited fresh fish offer as suppliers have shrunk range to protect against stock losses during this long period of suppressed trading. Pricing for fresh product may also be volatile as demand ramps up very quickly.

For those using frozen, many suppliers will be sitting on stock of product frozen down last year and pricing should be lower to reflect that.

# Meat

Animal feed prices are up significantly, 34% year on year at the end of January. This is due to relatively tight supply of grains, and projected harvests for 2021 not looking strong. Global wheat prices rose 9% in January alone. For farmers, this situation has not been helped by the prolonged rainfall in many areas, which has meant animals have had less time outdoors, and therefore more purchased feed is required.

At the same time, there has been a shortage of labour in the processing sector due to Covid-19 and this has meant that carcass weights (notably in pork) have been higher than usual (and therefore the per kg price of pork has dropped). As if it couldn't get any worse for our pig farmers, new paperwork requirements have caused delays to exports and made our product less attractive to buyers in the EU, where prices are already lower than usual.

On the face of it this is good news this is opportunity, however the position is likely to become unsustainable quite quickly, as high-costs and low sell-prices mean that many producers are likely to be losing money on their product, or are marginal at best.

Comparative prices at time of publication are as follows;

**Pork** - Finished pigs around **13-14% cheaper** than last year - no doubt supported by an increase in Chinese domestic production (and a related drop in demand for exported pork).

**Beef** - deadweight beef around **13% higher** than last year - in part because there are less cattle available as there was elevated heifer slaughter during 2020.

**Lamb** - UK lamb circa **13% higher** than last year - the number of sheep being slaughtered each week is notably down.

**Chicken** - delivered prices on key SKU's (supremes, fillets, legs) **up 3%** on last year.



# Market Overview

## Covid-19

The supplier impact of the near complete shut-down of hospitality through the current lockdown is becoming more apparent. Many suppliers are trading at around 10-25% of normal volumes, with some advising that revenue was around 2% of normal levels for the period.

We are seeing the following:

- Some suppliers not trading - either temporarily or otherwise
- Reduced product ranges - as suppliers rationalise to meet their suppliers minimum order requirements
- Stock-outs - forecasts will be little more than guessing games for many upon restart and supply chains take time to crank up
- Reduced / altered delivery schedules - an attempt to control cost
- Product issues - Covid impacts on planting / growing / harvesting due to come down the line
- Availability of credit - suppliers have not had lots of financial support during this period
- Volatility in pricing - due to all of the above

# Market Overview

## Brexit

What appears to be a hastily pulled together set of trade arrangements have caused significant and widely reported impacts on imports and exports as the level of bureaucracy has increased.

This has in particular impacted our fishing sector, where the short shelf life product is being held up on export - and subsequently wasted. As a result, many suppliers are looking to sell more product domestically, which should result in lower pricing on items we fish off our coasts. This particularly impacts product sold fresh - domestic shellfish, freshwater fish and local catch.

The flipside is that the delays apply both ways and so bringing product into the country has become more difficult - we are watching for any particular issues with imported fruit & veg.

Some work is already being done - for example a new direct shipping route from Morocco to the UK will cut 3 days out of the journey time from North Africa.

