

PROCUREMENT
PARTNERS

Market Report June 2022

A Note From Our MD

Our industry is facing unprecedented challenges with Energy costs, Labour costs and food inflation having significant impact on profitability. Consumers are also being impacted and having to review how best to manage outgoings and make choices that will potentially impact revenues.

Our report highlights the myriad of factors that will impact profitability and sets out some suggestions on how best to mitigate these cost increases. On a positive note we are seeing good occupancy in the Hotel sector and the casual dining market is holding up well.

Now is not the time to cut standards and compromise on quality, it's a time to engage with customers and offer great value and utilise seasonal produce and "work smarter" with your suppliers.

"There is nothing more expensive than an empty restaurant" and if you offer great service and quality it will always pay you back.

Procurement Partners supports its clients and works closely with suppliers to ensure that we provide a proactive service for all of our customers.

Matt Tough

Meat & Poultry

- Britain and New Zealand have agreed on a free trade deal which the government says will boost the economy, but the NFU states it will introduce cheaper products such as lamb to the UK market, putting extra pressure on UK producers therefore we would anticipate that lamb pricing will become more competitive.
- Feed prices leapt 15% in Feb, and with energy rising by 40%, pork producers are either scaling back production or leaving the sector entirely. Over the past 60 months no fewer than 40 farmers have left the pork sector, the National Pig Association reports.
- UK beef prices have increased by 20-25% due to demand and a lack imported alternatives available and price increases on input due the conflict in Ukraine and general cost o production in the UK currently.
- UK deadweight cow prices are still increasing. As of April 2022, the average is 463p/Kg, which is 33p up from the same period in 2021, and 80p up from the same period 5 years ago.
- Over the past twelve months input costs in to poultry have already risen by over 50%, with added effect from the conflict in Ukraine.
- Two new avian flu outbreaks in Suffolk, and bird flu now in Scotland have significantly effected poultry pricing, these are following the outbreaks in France that effected over 200 farms.
- Over the past month we have seen EU pork price increases of 25%+ which are expected to continue to rise over the coming weeks. This is mainly down to grain prices almost doubling.
- The UK pork market is increasing in line with the EU.

Recommendations

- Look to supplement meat dishes with more plant based alternatives
- Review current range of products and look to source alternative cuts that deliver better value
- Review menu tariffs and where appropriate increase them in line with the market



Seafood

- Raw material cost of salmon has pretty much doubled since the start of the year, hence the large increases coming through. Salmon represents circa 40%-50% of the fish spend across the hospitality industry. Increases in price are down to a number of factors. In summary – problems with the Chilean market (disease) lead to the US buying up Norwegian product typically destined for us, less fish laid down last year as volumes were suppressed through Covid, producers able to leave fish in pens longer due to colder waters, higher cost of feed, crude oil price affecting exchange rate to Norwegian Krone, and perhaps some market manipulation from the key producers as well.
- That said going into June we are seeing salmon prices starting to stabilize / reduce which should continue over the coming month.
- White fish prices are continuing to increase due to ongoing issues with the supply of pollock, which already had supply issues before the Russian sanctions. This isn't just an issue for IQF, but also products such as fishcakes that use pollock as a main ingredient. As a result, hake prices are increasing as the most common alternative.
- The Canadian lobster season should be getting started, but poor weather has delayed the start and as a result volumes available are lower than anticipated. Native lobsters are starting to appear, but it's also early in the season and so prices are higher than later on as normal.
- Large spike in the cost of US scallops came into effect 01/05/2022. With the end of the Japanese season and the start of the US season, a price increase of 15% is anticipated. UK prices will also increase as the market aims to source locally to offset the impact of imported shellfish pricing.
- UK seafood exports to the EU are still being hampered by license confusion at ports.
- Both sea bass & bream from Turkey have increased by ~3% because of the increases in energy, costs, fish feed & logistics. In addition Bream prices have also increased by ~4% because of shortage of Biomass created during the lockdowns.
- There is still no Scottish mackerel as the quota is finished for now. Norway mackerel remains out of season until the end of May with there being patchy supply from the south coast.

Recommendations

- Seek to buy seasonal sustainable British fish by work closely with your fishmonger to find the most suitable options for your menus and look for 'catch of the day products'

Dry Stores & Frozen

- The cost of wheat is also increasing, which is having a knock-on effect along the chain with bakers being forced to increase prices.
- UK potato crops appear to be good so far this year, on track for no real issues.
- UK feed wheat futures continued their upwards trend. The May-22 contract settled at £316.00/t on Friday, up £23.00/t from the previous week and another record high. The Nov-22 contract also reached a new record settling at £268.55/t. It is key to note volumes traded remain relatively low.
- Concerns remain regarding supply of old crop Ukrainian commodities despite rail movements. According to APK-Inform, the first rail-shipment of Ukrainian maize is heading to Europe. Due to the significantly reduced capacity of rail exports versus sea exports, the consultancy predicts only 1.0MT of grain will be exported from March to June. This also impacts the grains used in the production of food oils.
- An extended dry season has impacted the Ivory Coast's cocoa production. An unexpected amount of rain recently has given local producers hope for a significant harvest from late May. Ivory Coast is the world's largest producer of cocoa.
- A 4 year drought and seasonal cyclones are impacting Madagascan vanilla production. Expectations are that it'll drop by up to 30% on last year.
- India has recently banned exports of wheat from May 13th, this coupled with the reduced supply from Ukraine is causing significant price increases in wheat and other by-products.
- Sunflower prices have been increasing due to the effects of the conflict in Ukraine. Ukraine, along with Russia accounts for 80% of global supply causing increase of 30%+

Recommendations

- Revisit ability to use 'own-label' product as opposed to branded lines in non-emotive areas.
- Evaluate current supply / collection of food oils as prices are volatile, and the value of waste oil is also increasing so ensure that your terms reflect this.

Dairy

- UK milk deliveries are running lower than last year. A combination of poor silage quality and labour shortages are said to be the main causes. The farmgate milk price has risen over 20% year on year. This is compounded by feed pricing and utility costs also increasing.
- There are equivalent knock-on effects in butter and cheese as pricing of these products is tied to the current milk price, not the cost at the time production was started (e.g. 18 months ago for some cheeses).
- Global demand for dairy products is increasing, as production continues to fall. Naturally then, the price of milk is rising rapidly as there is simply less milk available.
- The number of milking cows in GB totalled 1.64m head as of Jan 1 2022, a decline of 2% (34k) in a year. Youngstock (young farm animal) numbers are increasing year on year, but due to rising production costs farmers are unlikely to increase their herd sizes.
- UK production of butter and cheese has seen a year-on-year (2020-2021) increase of circa 18%. Whether this continues remains to be seen given the cost factor implications.
- Avian flu is still impacting egg producers. New rules mean that free-range eggs have to now be marketed as "barn eggs". Retailers have increased their prices of free-range eggs by 13-16% over the last 12 months, while the price from producers has only risen by 1-2%.

Recommendations

- Review current source to market on bulk dairy lines such as butter and cream. Produce suppliers often provide competitive terms as the cost to serve is already largely covered by your fruit and vegetable purchases.
- Re-evaluate current cheese offering and seek competitive alternatives. Looking at non-branded options in some cases will be more cost effective. This principle also carries through to butters (e.g. Lescure vs own-label English butter).





Fruit & Veg

- The labour shortages in food production and skilled roles that relied on European workers are well documented, and 2022 is predicted to get even worse with the UK becoming less and less appealing to EU workers. Increased salaries are being offered to attract workers, which will naturally lead to increased prices.
- Fertiliser prices have spiked to record highs due to multiple global factors including reduced supplies from Russia and Belarus, supply chain disruptions and an export ban by China
- European tomato crops are suffering widespread issues. Fuel and fertiliser issues, strikes in Spain, adverse weather and a virus in the Canary Isles.
- Colder weather has impacted the quality of berry imports, with raspberries being most affected.

Recommendations

- Given the market conditions in Europe, and the volatility of pricing in this category, we would recommend utilising UK produce and re-engineering menus to reduce reliance on imported produce and therefore mitigate cost increases.
- Careful management of waste is a key tool to protect margins – this is applicable across all categories in light of the current market volatility.

Other areas of interest

- Inflation, which is currently at 9%, the highest rate in 4 decades, and is rumoured to reach double figures before things get better.
- UK Energy bills are seeing up to 50% increase in prices, capped until October 2022 where it's likely they'll increase yet again. At the time of writing many of these increases may not be added to the costs of products, so expect a compensatory increase at some point.
- Hotel occupancy in London is reported as being 58.8% in February. Highest figure since November 2021, but still 25% below pre-pandemic levels. Outside the cities the numbers recovered much quicker, due in part to people being more comfortable in remote locations.
- Food and drink sales to the EU fell 12% in 2021, meaning overall exports were down on 2020 despite surges on salmon and whisky. This could lead to softening price premiums on UK produced items, which in turn will naturally have a striking impact on imports.
- Dawnfresh, one of the UK's largest fish & seafood producers/processors has collapsed, resulting in 200 jobs lost. This is just one the casualties of the harsh times of recent years, and for one of the largest to fail it just shows how difficult the industry has become for producers of all sizes.
- COVID outbreaks in Shanghai and Shenzhen have not caused major supply-chain disruptions or price spikes, despite leading to some reduction in port productivity.