brakes
a Sysco company

# MARKET Report

## SUMMER 2021

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## CONTENTS & KEY MOVERS

Market conditions in 2021 are extremely difficult, with global inflation and logistics challenges impacting all aspects of the worlds food markets. The contents of this report is summarised below.

# FOOD MARKET UPDATE

## SURGING GLOBAL INFLATION SEES FOOD PRICES RISE

### THE SITUATION GLOBALLY

Economies are growing fast as many countries ease coronavirus restrictions. This uptick in demand is coinciding with a global shortage of many key raw materials including food. We saw an early warning of this in May when the UN's Food and Agriculture Organisation reported a 40% monthly increase in their global food price index. This increase is the largest jump seen since 2011, driven by spikes in the cost of vegetable oils and cereals. Away from agricultural markets, energy, fuel and packaging are also experiencing rapid inflation. In the last 12 months the price of crude oil has increased 50% while the average cost of packaging is up 70%. This commodity boom has led to speculation that we may be entering a "supercycle" which describes a period of unusually high demand which keeps prices high for an extended period. Additionally, changing global demand patterns have created a container shortage on East>West shipping routes with prices now up to 5 times higher than pre pandemic. The resulting inflation is impacting all countries. In the USA, headline inflation is now 5.4% - a 13 year high, with fuel and food prices the key drivers.

### THE SITUATION IN THE UK

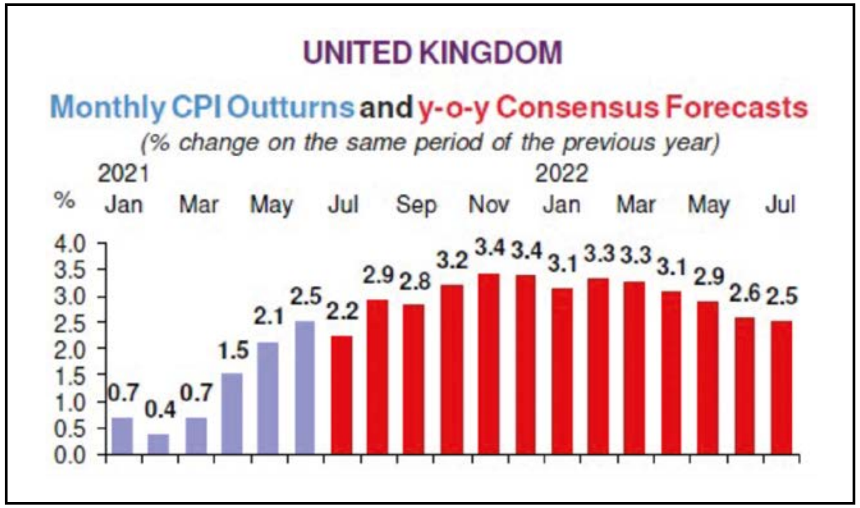
The UK is partially insulated from this commodity pressure by the year on year strengthening of Sterling. But this only protects imported goods. As a result overall UK inflation increased from 2.1% to 2.5% in June, and in spite of some clothing driven softening in July, the consensus among economists and the Bank of England is that prices will continue to rise further as the year progresses. In their August Monetary Policy Committee meeting the BoE forecasted that UK inflation would rise above 4% in the near term causing speculation that they may respond by increasing the cost of borrowing.

In addition to food inflation, our industry is also facing a well publicised labour shortage. Estimates suggest there are currently c100K delivery driver vacancies. This is a longer term problem exacerbated by COVID restrictions and a changing immigration policy. As well as causing disruption, the subsequent wage inflation has materially increased business running costs across the industry.

OVER THE LAST 12 MONTHS:

**50%**
INCREASE IN THE COST OF CRUDE OIL

**70%**
INCREASE IN THE COST OF PACKAGING




Source: Consensus Economics


Source: Financial Times

# INDUSTRY WIDE LOGISTICS CHALLENGE

## HGV DRIVER SHORTAGE ADDS ADDITIONAL COST AND DISRUPTION TO SUPPLY CHAIN

**The UK haulage industry is facing its biggest labour shortage on record. The Road Haulage Association (RHA) estimates that there is a shortfall of 100,000 drivers in the UK.**

This situation has occurred due to a combination of new and existing challenges:

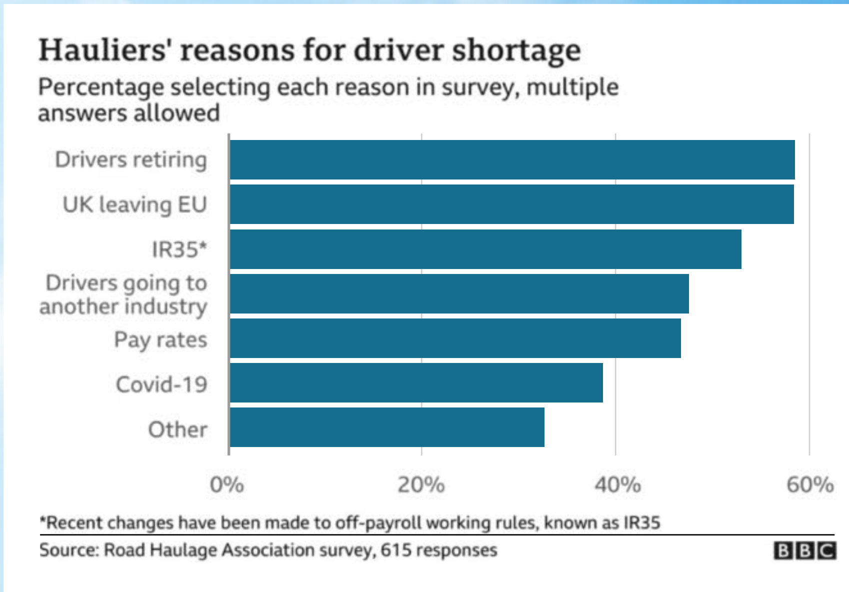
- The average age of HGV drivers is 55 and the industry is struggling to attract younger workers.
- Many European workers returned to their homes during the pandemic and struggled to re-enter the UK market due to post Brexit immigration rules.
- New rules have also created extra border checks and the potential to reduce the profitability of routes into the UK.
- New tax rules (IR35) have made working in the UK more expensive for European drivers.
- A backlog in HGV driver tests reducing the number of new drivers entering the labour market. It is estimated that 25K fewer candidates passed their test in 2020 than in 2019.

ESTIMATED SHORTFALL OF
**100,000**
DRIVERS IN THE UK

The issue is already hitting the industry hard with delayed deliveries and empty shelves being reported in the national press. In August Nando's was forced temporarily to close around 50 outlets due to supply chain issues and KFC announced that driver shortages would mean a reduction in the menu options for several of its restaurants. In retail the milk giant Arla was unable to deliver to 600 Sainsburys stores due to driver challenges.

The industry is responding by increasing salaries by up to 30% in some regions and many firms are also offering welcome bonuses for new drivers. Arla themselves are currently offering £2,000 for new drivers prepared to work weekends with Tesco and Dixons offering £1,500.

**Brakes have a comprehensive plan to keep our customers in stock. We are monitoring local labour markets and paying competitive rates to ensure we get the best staff. We are also exploring all available avenues to recruit additional drivers. As will be the case for all suppliers and wholesalers, inevitably these additional operational costs will have a knock-on impact on the product prices we charge.**




# CATERING SUPPLIES AND PACKAGING

## SUPPLY CHALLENGES AND UNPRECEDENTED DEMAND LIFT PRICES TO RECORD HIGH

**Commodity trackers for amalgamated packaging components show continuous cost inflation since early 2020. Prices have reached all-time highs in 2021 due to a combination of COVID-19 disruptions and adverse weather events.**

**Paper:** the prices of the various grades of paper and cardboard used in foodservice packaging and products are all increasing significantly. A combination of huge increases in packaging demand, caused by the switch to online ordering and tight supply conditions means prices of the four main elements (kraftliner, testliner, fluting and cartonboard) have increased between 13% and 35% year-on-year. This impacts numerous products including cups, food containers and straws.

**Plastics:** prices for polypropylene (PP), High-density polyethylene (HDPE), low-density polyethylene (LDPE) and PET have increased in the range of 16%-30%. Products are in high demand as economic growth rises however production globally has slowed due to adverse weather in the USA and unforeseen plant closures Belgium and Poland. Many suppliers are placing restrictions on volumes and warning that lead times on supply will be significantly extended. Products ranging from cutlery, chemical dispensers, film-wrap and plastic bottles are all seeing prices impacted by these challenges.

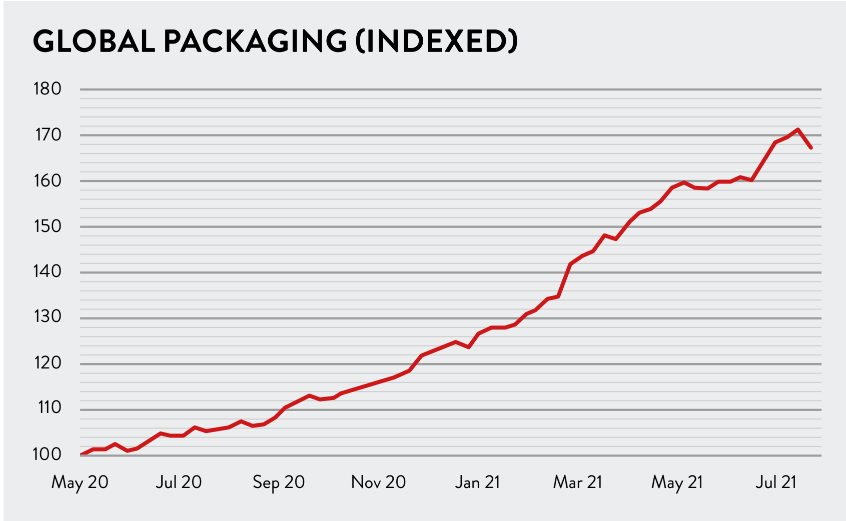
**Metals:** Northern European steel price have reached record levels, up 201% year-on-year on limited supply. Aluminium prices are up also up 49.7% supported by global supply tightness and steady demand.

**As economies recover from COVID-19 there is an expectation that conditions will ease, however the high prices we see now are likely to remain for quite some time.**

FOUR MAIN ELEMENTS OF **PAPER PACKAGING** HAS INCREASED BETWEEN
**13%-35%**
**YEAR-ON-YEAR**

**PLASTIC PACKAGING** COSTS HAVE INCREASED BETWEEN
**16%-30%**

**EUROPEAN STEEL** PRICES
**UP 201%**
**YEAR-ON-YEAR**




Source: Mintec

# VEGETABLE OIL

## LOW CROP LEVELS SEE VEGETABLE OIL PRICES CONTINUE TO RISE

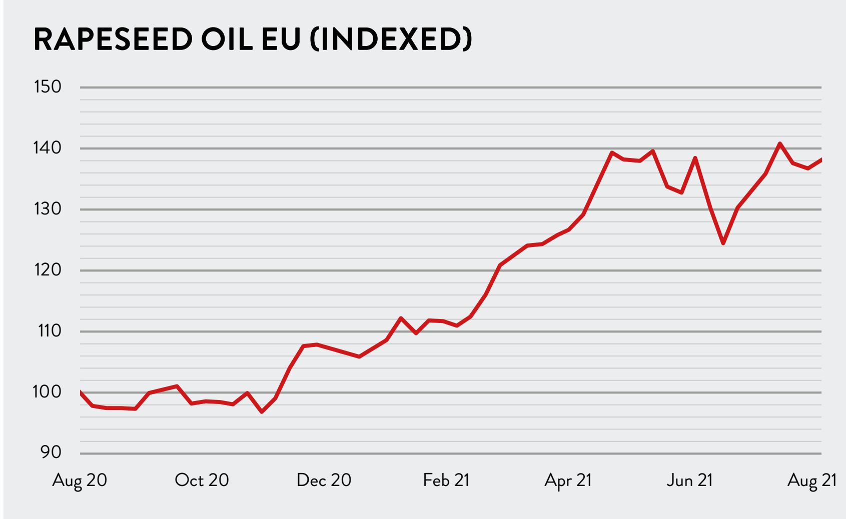
**Poor weather conditions globally have pushed the prices of vegetable oils to record highs. In Europe rapeseed production for 2020/21 was revised down in May to 16.1m tonnes, the lowest level since the 2008/9 season. This prompted rapeseed oil commodity prices to reach new all-time highs in both April and August.**

The surge in price is not being caused by supple issues alone. Demand is increasing rapidly from both the foodservice and biodiesel sectors as western economies expand after lockdowns. Rapeseed oil is an essential feedstock for biodiesel, the market for which is heavily linked to demand for crude oil. Since the low point in April 2020 the price of crude oil has increased 160%.

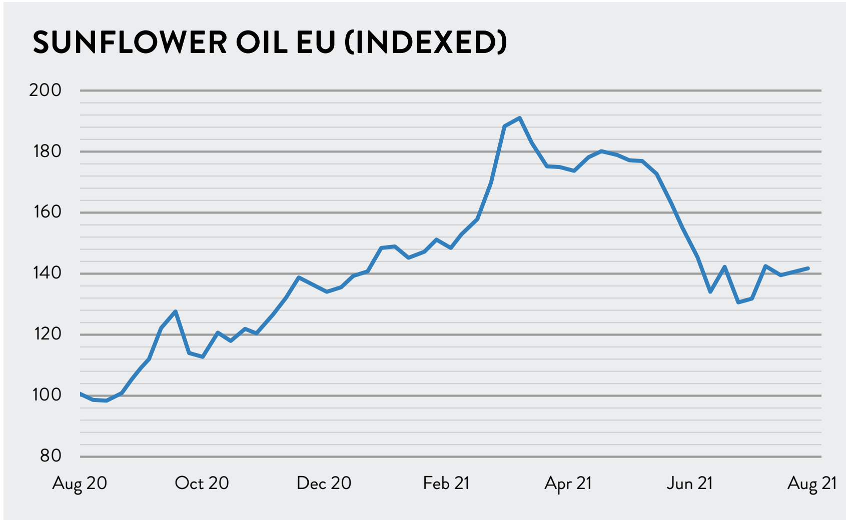
PROJECTIONS FOR **2021/22 RAPESEED CROP** REMAIN **3.5%** BELOW THE 5 YEAR AVERAGE

Price increases to foodservice providers were often able to be delayed in 2020 as lockdown resulted in excess volume, however in 2021 these increases have become unavoidable. Furthermore within the wider vegetable oils complex; palm, sunflower and soyabean oil markets have also been impacted and prices have soared.

Early indication of the 2021/22 rapeseed crop from research group Strategie Grains does suggest a 2.5% increase in production. However this remains 3.5% below the 5 year average and recent heavy rains in Europe over the summer have cast doubt on this projection.




Source: Mintec




Source: Mintec

# CANNED TOMATOES

## HIGHER PRODUCTION COSTS HEAVILY IMPACT PROCESSED TOMATO PRICES

**Globally the price of tomatoes has been increasing for the last 5 years, with product from European markets seeing a particular jump since 2019.**

For a relatively low value item such a tomatoes the price of raw material itself only tells a portion of the story when it comes to product price. The costs of production and processing have a major impact in the final product.

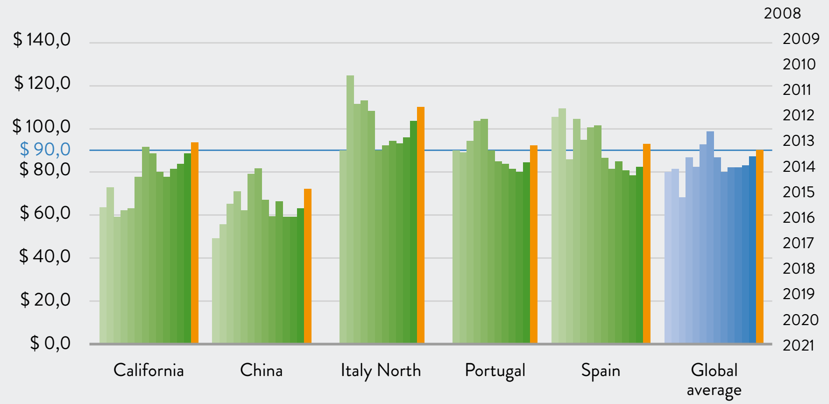
The disruption to global trade caused by the pandemic has resulted in high inflation for numerous commodities and logistics fees. For the tomato industry the most significant of these has been the increased cost of steel +70% YoY, which is used for canning, along with the cost of freight from Asia. This combined with rising energy prices and labour challenges due to the Coronavirus have created an extremely challenging and costly environment for growers and processers.

Looking forward, prices are expected to remain high. Currently only 10% of Italy's new crop has been harvested as some rain and hailstorms in the Emilia Romagna region has delayed operations. Investigations into the damage that this weather may have caused is still underway but early estimates suggest up to 1000 hectares could be affected.

INCREASED COST OF STEEL FOR CANNING, THE COST OF FREIGHT FROM ASIA, RISING ENERGY PRICES AND LABOUR CHALLENGES HAVE CREATED AN **EXTREMELY CHALLENGING AND COSTLY ENVIRONMENT FOR GROWERS AND PROCESSORS**

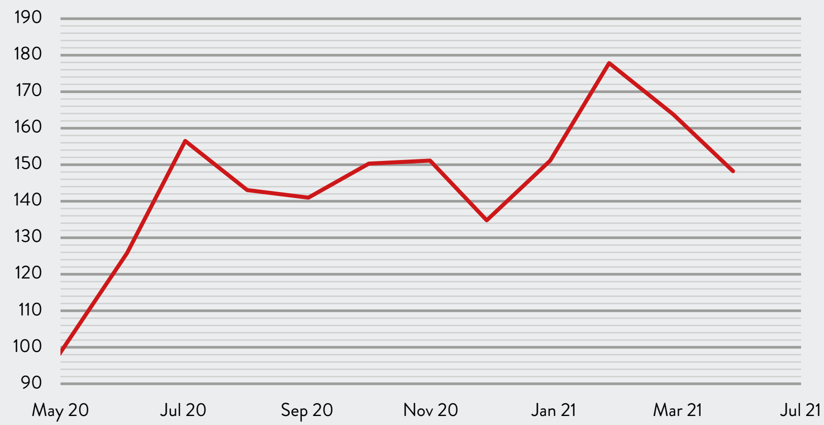
Evolution of processing tomato price levels over past 14 years

**FIELD-GATE PRICES (USD/METRIC T)**




Source: WPTC, OANDA

**TOMATO IT (INDEXED)**




Source: Mintec

# FROZEN POTATOES

## RETURNING DEMAND AND LOWER CROP YIELDS BRING FIRMER PRICES

**Frozen potato products saw prices decline 12 months ago when low foodservice demand due to coronavirus lockdowns across Europe coincided with a strong harvest, creating a supply surplus.**

In 2021 farmers have reacted to this and the North-western European Potato Growers association (NEPG) reported in July that the planted area for it's EU members has decreased by 500k hectares. The first decrease in 20 years.

This reduction in planting and in turn estimated production output is already impacting commodity prices which are also facing pressure from returning demand. Mintec data shows that Dutch processing usage in 2021 is now broadly inline with pre pandemic levels highlighting the return of foodservice volume to the industry.

European growers however are now facing concerns due to heavy rainfall and serious flooding in some key growing region of Germany, Belgium and the Netherlands. In Belgium's Wallonia region test digs have suggested that as well as lost crops due to flooding there is also concern that the quality of surviving crops have been compromised.

**These factors are all expected to support firmer prices in the 2021 season.**

PLANTED AREA FOR EU MEMBERS HAS **DECREASED** FOR THE FIRST TIME IN 20 YEARS TO

**500,000**

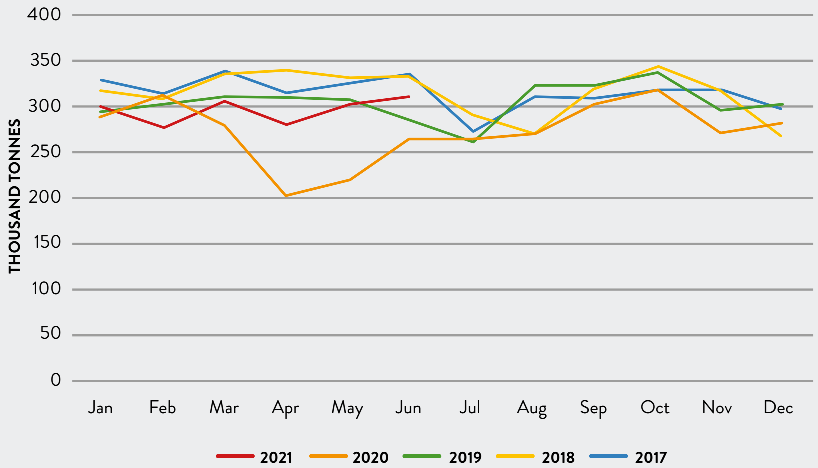
**HECTARES**

### PRODUCTION (MILLION TONNES, ALL POTATOES)

| Country | 2016 | 2017 | 2018 | 2019 | 2020 | 2021f | 5-Year Avg (2016-20) | 2021 vs 2020 (%) |
|---|---|---|---|---|---|---|---|---|
| Belgium | 2.4 | 4.4 | 3.1 | 4.0 | 4.0 | 3.5 | 3.7 | -11.1 |
| Germany | 10.8 | 11.7 | 8.9 | 10.6 | 11.6 | 10.8 | 10.7 | -6.1 |
| France | 7.0 | 8.6 | 7.9 | 8.6 | 8.7 | 8.3 | 8.2 | -5.2 |
| Netherlands | 6.5 | 7.4 | 6.0 | 7.0 | 7.0 | 6.5 | 6.8 | -6.8 |

Source: NEPG

### MONTHLY DUTCH PROCESSING POTATO USAGE




Source: Mintec

# PORK

## HIGH DEMAND HAS SUPPORTED RISING PORK PRICES OVER THE SUMMER

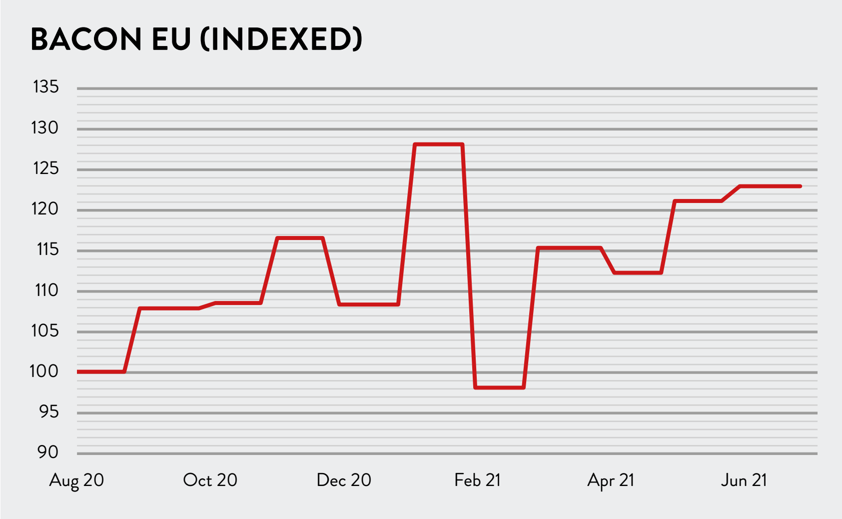
**After declining at the end of 2020, pork prices in both the UK and Europe have risen over the summer period.**

In Europe prices saw a sharper increase earlier in the year as several outbreaks of African Swine Fever in China resulted in high levels of speculation around export demand. As the year progressed however it does now appear that China have managed to contain the risk of ASF and the peak of their demand has passed. In 2021 China's Ministry of Agriculture reports that only 2200 pigs have been culled, compared to approximately 1.4million across 2018 and 2019. The EU is a net exporter of pork and this reduced demand has allowed prices to soften in recent months.

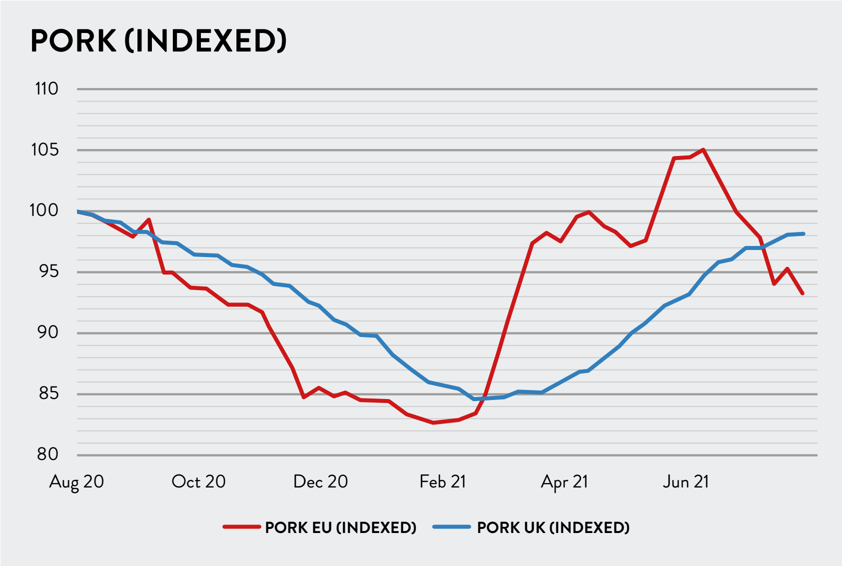
UK pork has seen a more steady increase in price over the summer and are continuing to trend upwards. Domestic demand has remained high in 2021 with retail sales still above pre-COVID levels. As foodservice continues to recover this is expected to add to demand and support prices for the rest of 2021.

Bacon prices while following the broad trend of pork overall are typically more volatile. Commodity prices from Europe evidence this with prices only falling briefly in February this year before quickly recovering to near 20% YoY growth.

**UK PORK** HAS SEEN A STEADY **INCREASE IN PRICE** OVER THE SUMMER AND CONTINUES TO TREND UPWARDS.




Source: Mintec




Source: Mintec

# BEEF

## STEADY DEMAND AND LABOUR SHORTAGES PUSH BEEF PRICES HIGHER

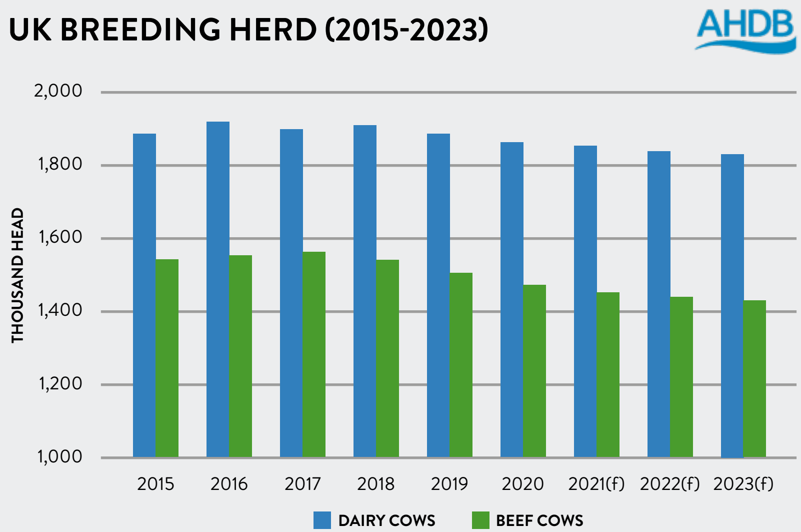
**Cattle prices in the UK have continued the steady upward trajectory which has been evident since the sharp decrease caused by the lockdown in spring 2020.**

Lower cattle availability in both Ireland and the UK has supported the elevated prices and the trend is expected to continue for the rest of the year. Retail demand has held up well through the lockdowns and while demand from foodservice will increase as it opens up, this is likely to be lower than pre-pandemic levels. The popularity of imported beef in foodservice should ensure that GB beef remains at a premium price.

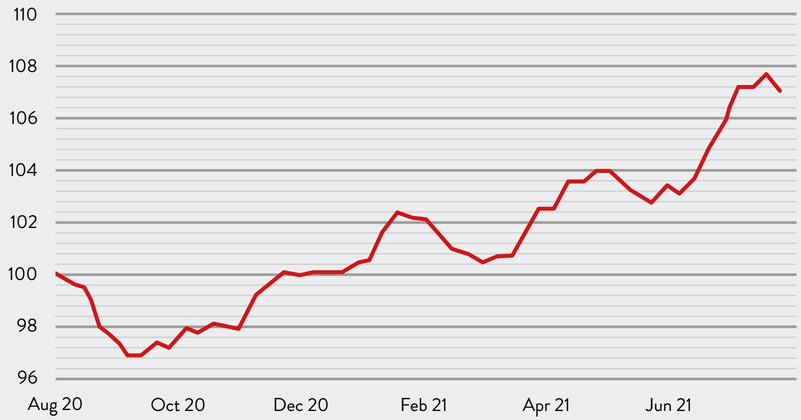
MOST MEAT PROCESSING PLANTS RECRUITED APPROXIMATELY **80%** **OF STAFF FROM THE EU.**

The continuing labour shortage in the UK is impacting beef prices quite significantly. The short-term impact of workers having to self-isolate due to COVID-19 is that some firms have reported having to operate with 10% fewer staff than needed. The longer-term issue is the impact of Brexit on an industry heavily reliant on overseas or migrant labour. Most of the meat processing plants recruited approximately 80% of their staff from the EU. However, post-Brexit, the industry is struggling to recruit staff from the EU due to issues around extra documentation and legal complexities. Increasing wages and adopting more automated processes helps to a degree, however the industry is being forced to downsize production volumes, particularly where specific cuts require more work from skilled butchers.

### UK BREEDING HERD (2015-2023)




### BEEF UK (INDEXED)




Source: Mintec

# CHICKEN

## AVIAN FLU CONTINUES TO LIMIT CHICKEN SUPPLIES IN EUROPE

**Commodity prices for EU chicken have risen consistently since the start of 2020 with spot prices now up approximately 40% since the December low point.**

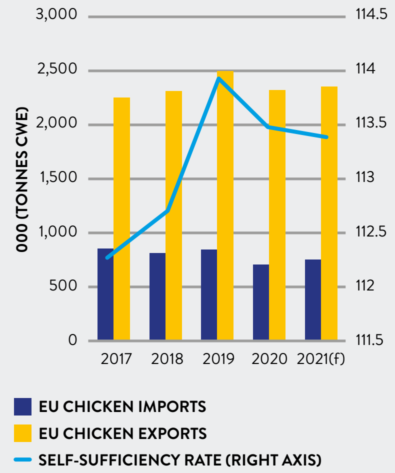
Chicken demand has remained strong throughout the pandemic. During the early lockdowns consumers favoured chicken as a lower cost source of protein while foodservice demand experienced a smaller drop off in volume due to Chicken's prominence in the takeaway market. Demand in Europe is now expected to continue rising as foodservice volumes grow.

> THE COST OF FEED, FALLING EU MAIZE PRODUCTION AND UK LABOUR SHORTAGES ARE CONTRIBUTING TO **HIGHER PRICES IN 2021.**

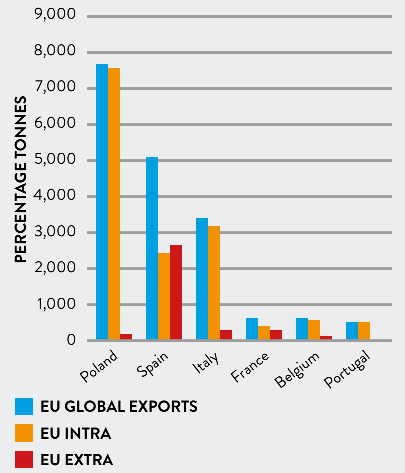
In the face of this high demand, supply has been a major concern. An outbreak of Avian Influenza in Poland, the largest EU exporter, has forced farmers to slaughter over 35 million birds in attempts to halt the spread. This has taken significant volume out of the market and pushed prices up.

The final factor impacting chicken prices is the input costs of production. The cost of feed has risen sharply at the end of 2020 due to high demand from China and falling EU maize production. This combined with labour shortages in the UK caused by a decline in the migrant workforce is contributing to higher prices in 2021.

### EU SELF-SUFFICIENCY RATE

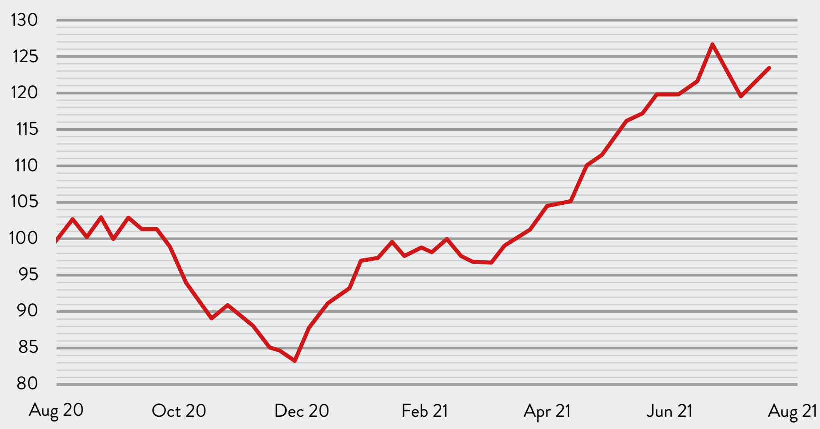



### TOP EU CHICKEN EXPORTERS (2017-2020)




Source: Mintec

### CHICKEN BREAST EU (INDEXED)




Source: Mintec

# DAIRY

## TRADE DISRUPTION DUE TO BREXIT & COVID CREATES UNEVEN DAIRY MARKET

**The demand balance between retail and foodservice will be a key factor in dairy pricing in the coming months. It is expected that the balance will shift in the direction of pre-pandemic levels, however retail demand will remain elevated this year. Brexit will also play its part with the end of the EU exit transition period at the end of 2020 leading to a dramatic dip in both imports and exports.**

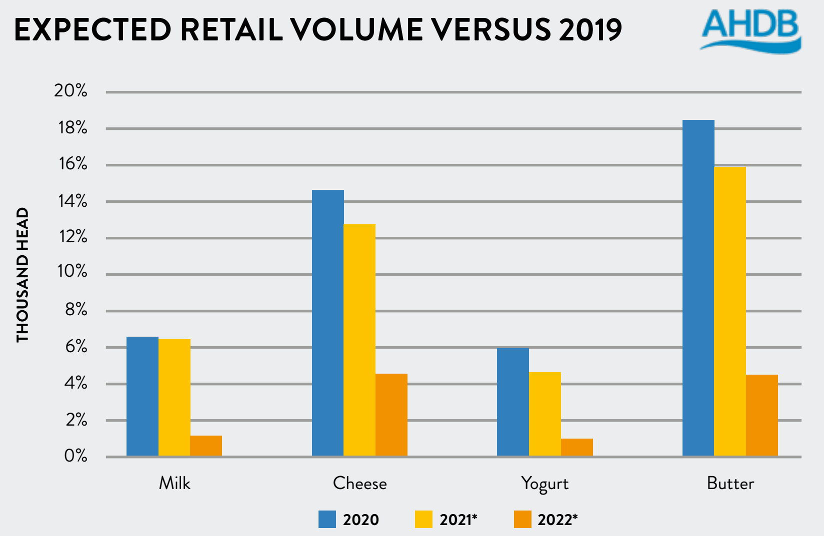
For butter and cheese, the drop in imports has been greater than the drop in exports. Butter has relatively tight domestic supply and so until foodservice volumes recover fully, and more commodity butter is imported, prices will remain high. For cheese, the drop in imports is substantial enough to incur a year-on-year drop in available supplies, despite higher domestic production. In the longer-term, as import demand returns, UK pricing will again be influenced by global trends which may mean lower prices. The extent of this will depend on how new import regulation for EU products and on-going logistical challenges affect the competitiveness of imports.

For milk, the industry continues to balance higher yields and a long-term reduction in the milking herd, but high feed costs could limit how much farmers push for yield. This tightness in global supply and demand on feed is leading to upward pressure on domestic prices.

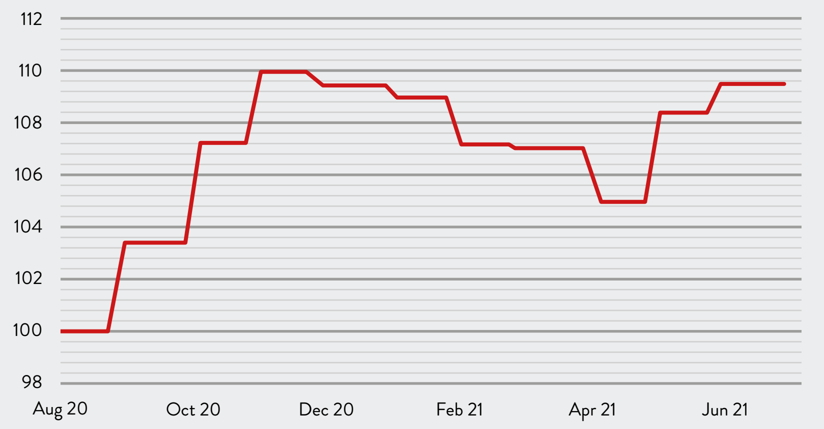
Dairy prices aren't the only consideration; both processor and farmer margins are likely to be pressured by high input costs. Processors are dealing with higher energy and labour costs, as well as shortages in packaging materials and freight transport that are affecting the wider supply chain

UNTIL FOODSERVICE VOLUMES RECOVER FULLY, AND MORE COMMODITY BUTTER IS IMPORTED, **PRICES WILL REMAIN HIGH.**

### EXPECTED RETAIL VOLUME VERSUS 2019




### MILK FRESH (INDEXED)




Source: Mintec

# BREAD AND FLOUR

## LOW STOCK LEVELS AND INCREASED IMPORTS KEEP WHEAT PRICES ELEVATED

**The impact of the extraordinarily bad UK wheat harvest of 2020, the worst in 40 years, is still impacting prices in 2021. Prices have reduced from the high point seen in February; however, the year-on-year price is still around 10-15% higher. This Y-o-Y price difference has a major impact on products purchased on annual supply contracts.**

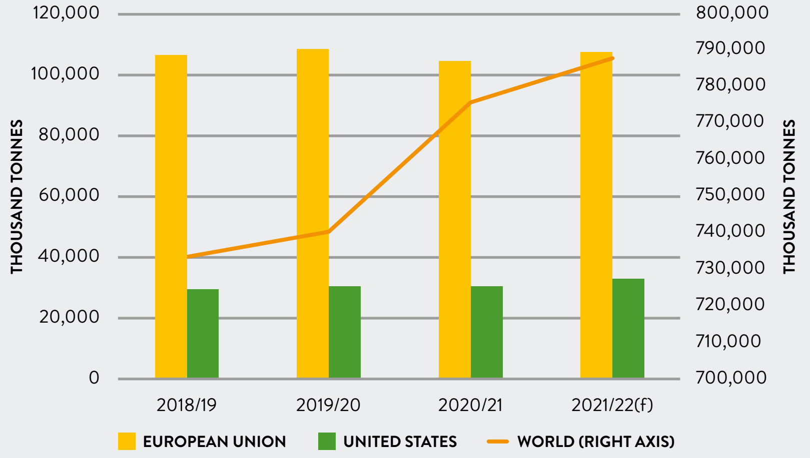
A typical UK harvest is around 15 million tonnes of wheat, however some of this is not of sufficient quality required by millers and so we import wheat primarily from Canada (for bread-making), France (for French speciality products), the USA and Germany. Figures from Defra put the 2020 UK wheat crop at 9.7 million tonnes which resulted in imported volumes in H2 2020 being 54% above the 5-year average.

This leaves UK millers more exposed to global market prices which have increased for several reasons. American ending stocks of maize and soybean are at their lowest level since 2013 and, as maize can be used interchangeably in feed rations instead of wheat, tight stocks of this commodity impacts the wheat market. Dry weather in key maize and soybean growing areas in South America has reduced production and so demand has exceeded supply owing to strong demand from China. Finally, the announcement of a wheat export tax in Russia, the world's largest grain exporter, has increased the price of Russian wheat and lent further support to global grain prices.

It should be noted that while we primarily focus on bread and flour in this section, it is estimated that flour is an ingredient in 30% of all food in the UK meaning that a significant number of our products are impacted by increased wheat prices.

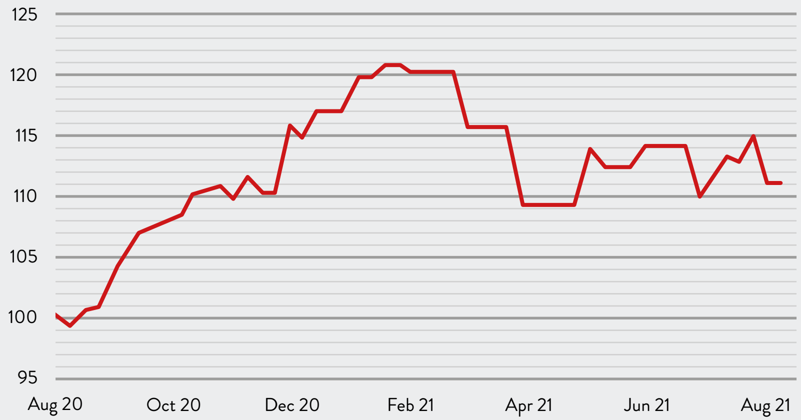
IT IS ESTIMATED THAT FLOUR IS AN INGREDIENT IN **30%** **OF ALL FOOD IN THE UK**

### WHEAT CONSUMPTION: GLOBAL, EU AND US




Source: Mintec

### WHEAT BREAD UK (INDEXED)




Source: Mintec

# HERBS AND SPICES

## SOARING SHIPPING COSTS HIT PRICES FOR FAR EASTERN PRODUCTS

**European consumers of products sourced from Asia and South America are facing higher prices in 2021 due to unprecedented inflation in the cost of sea freight.**

The pandemic has led to significant changes in global trade. This has created an imbalance of supply and demand globally resulting in bottlenecks and delays across trade routes. This issue was exacerbated in 2021 when the Suez Canal was temporarily blocked. Operators are working at full capacity, however the availability of containers on key trade routes is falling considerably short of demand and industry leaders have signalled that prices will remain high into 2022. East to West trade routes have seen the most severe inflation with prices for 40ft containers increasing over 500% from pre pandemic levels.

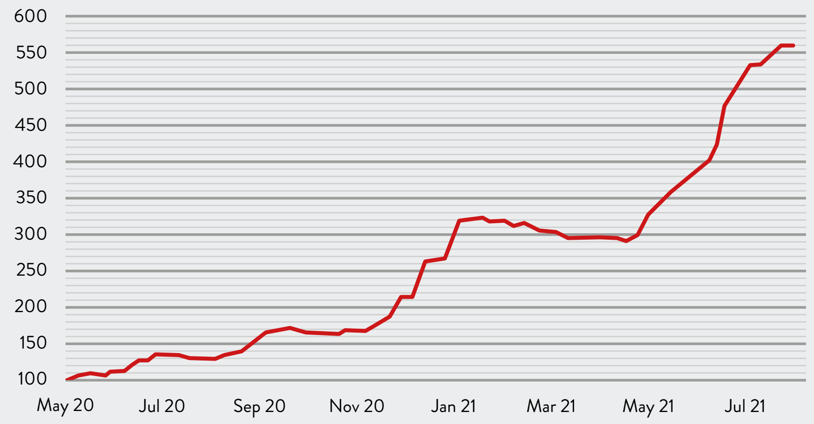
This issue impacts a wide variety of product groups and herbs and spices many of which are sourced from Asia is one such example. These markets however also face local challenges. Pepper prices from Vietnam have been increasing over the past 12 months as high demand from America and China dominate the market. Cinnamon, also sourced from South Asia is seeing rising prices as the crop size declines for the second successive year in 2021. Growers are facing workforce challenges due to the physical labour-intensive work involved.

INDUSTRY LEADERS HAVE SIGNALLED **PRICES WILL REMAIN HIGH INTO 2022**

PRICES FOR 40FT CONTAINERS HAS INCREASED BY

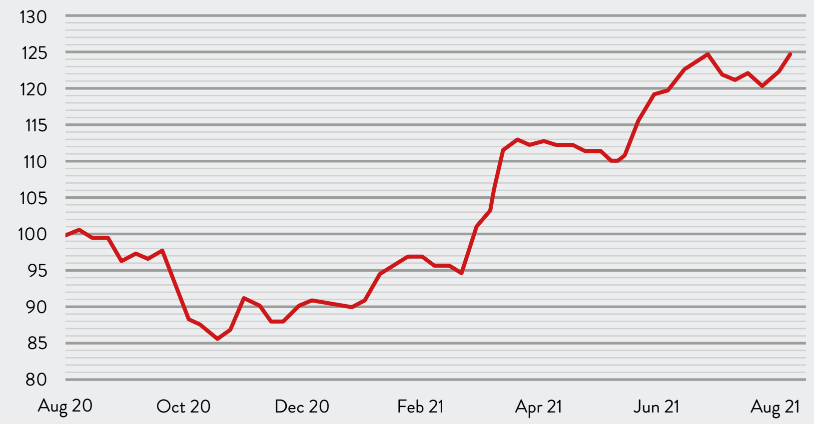
**500%**

### WORLD SHIPPING – CONTAINER COST (INDEXED)




Source: Mintec

### PEPPER VN (INDEXED)




Source: Mintec