

MARKET REPORT – SEPTEMBER 2019

viewpoint



Empowering
smarter
buying decisions.

CPI High Risers

CPI (overall index)	2.5%	2.4%	1
Description	Jul-18	Oct-18	Ja
Margarine and other vegetable fats	14.2	14.2	2
Crisps	4.1	3.7	-
Fresh or chilled vegetables	1.2	2.8	:
Fruit and vegetable juices	3.2	3.4	:
Other preserved or processed fish	5.4	3.1	:
Vegetables including potatoes and tubers	1.2	1.5	:
Potatoes	-2	-3.6	:
Tea	-1.1	-4.1	0
Other tubers and products of tuber vegetables	-3.1	-6.3	:
Oil and fats	11.8	4	8
Wine from grapes	-2.6	1,7	
Fish	3.2	2.8	:
Fast food and takeaway food services	3.3	3.5	:
Alcoholic beverages and tobacco	3.5	4	:

Brexit Means Uncertainty

Though the third anniversary of the Brexit referendum has come and gone, little is certain but that the agri-food industry will be affected no matter the eventual outcome. What this impact will be exactly remains unclear but there are ways in which the industry can and must prepare.

UK food prices have reached their highest rate of inflation in more than five years, while unpredictable and extreme weather conditions have left many suppliers struggling. 2018 saw the “beast from the east” rapidly followed by heavy rains and flooding and then a heatwave over the summer. As a result, consumers are seeing the costs of British-grown staples such as cabbage, onions, and potatoes rising. In 2018, the value of exports was greater than that of imports in almost all categories of food, feed, and drink. As such, buyers of all foods will likely feel some impact from Brexit, but some much more than others.

Rising Prices

Pork and bacon products are predicted to see a crisis. [The UK is a key part of the EU market and all imports of pork and bacon to the UK currently come from the EU.](#) These are a high usage product and price rises will be widely felt. A No Deal Brexit would likely result in massive trade disruption, with extra checks and paperwork at ports leading to significant delays in the supply chain both into and out of the UK. A major concern is that cheaper meat from the United States and elsewhere will be imported, undercutting UK pork suppliers. A survey of organisations working in pig farming from the National Pig Association found that more than half of respondents employed at least one EU worker. This indicates that a hard Brexit could see costs rising in terms of labour in the sector too.

[Dairy is also vulnerable, with producer Arla Foods predicting a sharp rise in prices and product shortages.](#) Non-tariff trade barriers and labour shortages are predicted to cause the most issues. Arla's report found that every seven minutes of port check times would add 10 hours to transportation times and a likely minimum of £111 extra per container.

Oils and fats have experienced a significant year-on-year inflation for several months and though some of the past months have been a little lower, it is still one of the top ten biggest movers. This will be a trend to keep an eye on as the past several years have shown its volatility.

Open Communication

With outcomes still uncertain, suppliers need to keep a close eye on their products and to prepare for volatility. As prices increase, supply chains will be squeezed. Availability of some products will likely be cut. One leading dairy wholesaler sources 95% of its products from the UK but is still paying close attention to Brexit outcomes. It anticipates an increase in UK produced products and is looking into UK alternatives to foods usually sourced from the EU such as French Brie. The organisation demonstrates how alternatives will need to be found for some products. [Innovation may see goods previously imported from the EU begin to be sourced from the UK. Under current EU legislation, certain food names are protected, meaning that Champagne and Roquefort cheese can only come from their eponymous regions in France. These also extends to certain British foods like the Cornish Pasty. These products once protected under EU geographical identification schemes, will no longer be automatically recognised under a no-deal scenario and may need to reapply to be recognised by new UK schemes.](#)

Understanding customer demand on a real-time basis will be one of the most important factors for remaining nimble. Disruption in supply chain communication will heighten any issues Brexit presents, while strong links can promote transparency, accountability, and more rapid responses to a changing situation. As supply chains are re-shaped by new tariffs, communication will only become more challenging. A supply chain with greater variety offers greater redundancy and will avoid repeats of situations like KFC's chicken shortage when the fast-food retailer switched to a sole supplier. Dealing with more suppliers, however, also makes communication more complicated.

In turn, managers will need to ensure they also benefit from this transparency. While costs may increase, organisations will need to be wary of environmental and ethical factors as legislation changes. The provenance of a product is increasingly important to customers and, in the long term, it will be vital to

promote high food standards throughout the UK, building a globally recognised food brand. As previously stated, undercutting products from the US may seem to benefit buyers while costing UK producers. However, customer opinion may be as important a deciding factor as cost when sourcing. The lively debate about the possibility of chlorinated chicken imports from the United States should encourage organisations to consider consumer priorities before committing to a new supplier. Some customers may be willing to pay more for products from the UK or EU over imports from elsewhere.

[The rapid growth in popularity of veganism is also playing a role in shaping catering.](#) Lower demands for meat and dairy, and greater acceptance of plant-based meals have the potential to counteract some price rises in meat and dairy. However, July saw margarine and vegetable fats with one of the highest inflation increases from the same month in 2018. [Ethically sourced, grass-fed meat also meets demand for more environmentally friendly sources](#) and its popularity further demonstrates a willingness to pay more for higher quality and more ethical produce.

Be Ready to Adapt

The catering industry will need to adapt. If the resources are not there to significantly increase budgets, need to be aware that availability of these foods will be reduced. Buyers must work with those creating menus to adapt accordingly.

The supply chain will be squeezed. Exact outcomes are still unclear but adaptable organisations with open communication channels will be capable of responding quickest. Understanding which areas of the supply chain are most vulnerable and making choices about how to react to this will place your organisation in a position to make the most of such rapidly changing circumstances.