
FOODSERVICE
COVID-19
BULLETIN
FOOD INDUSTRY
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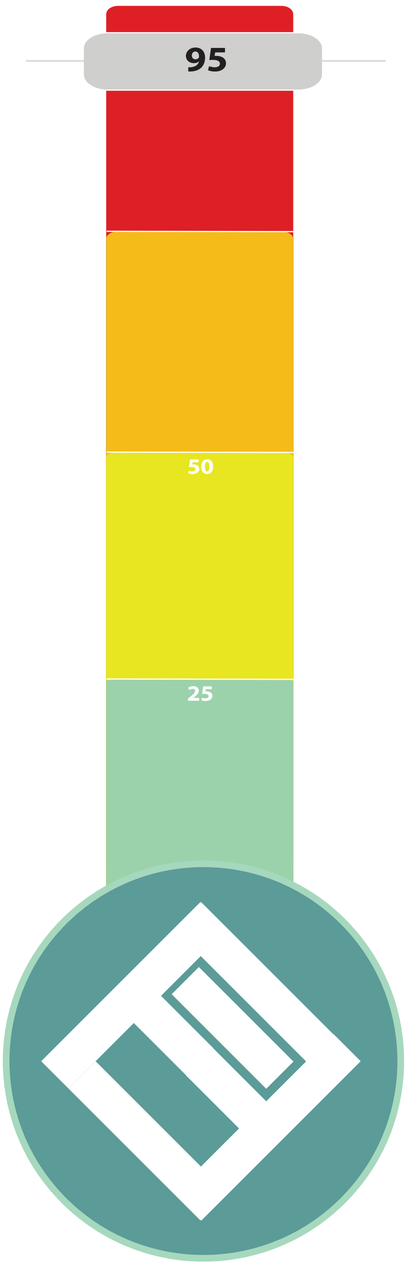
MONDAY 06 APRIL 2020

WELCOME TO FOOD INDUSTRY FORESIGHT'S FIRST COVID-19 FOODSERVICE BULLETIN!

Where to gaze?

Since we announced the Bulletin's launch one week ago, we have done extensive research, deliberating how to best analyse and predict the fallout of the global COVID-19 pandemic and lockdown on the Australian economy, but more specifically on the Australian Foodservice market.

We are planning for these Bulletins to be published on a fortnightly basis in the coming months as we closely monitor foodservice market developments from a supplier, a distributor, a foodservice operator and a foodservice consumer perspective. Naturally, these are our views and deliberations based on our extensive experience, expertise and historical data series particularly in the Australian Foodservice market, and as such they merely constitute our predictions and reflections. It is anyone's guess what the actual economic and market consequences will be as well as the final timeframe.



FOODSERVICE VIRUS THERMOMETER

So, where should we look towards in modern history to compare today's pandemic in terms of global spread and severity; and the answer is, of course, the Spanish Flu which was an influenza pandemic that spread across the globe during 1918 and 1919 at the end of World War One. The SARS outbreak in 2003 pales in comparison, both to today's pandemic as well as the Spanish Flu as does the 2009 Swine Flu pandemic.

However, in 1918 the world and its global economy was a dramatically different place, rendering comparisons to today's situation much less relevant in terms of economic and market fallout.

So, the most obvious answer becomes the Global Financial Crisis from mid-2007 to early- 2009 and its consequences for the Australian Foodservice market; rather than the Great Depression that started with the stock market crash in October 1929 and lasted for a decade. Again, the world was a very different place during the Great Depression, even though the certain outcome of the COVID-19 global lockdown state will be a worldwide recession, if not a depression.

What did the Australian Government do in response to the GFC?

This is what it did in terms of fiscal stimulus packages:

I. October 2008 – A$10.4 billion including:

i. A$4.8 billion in pre-Christmas pensioner payments
ii. A$3.9 billion in family support
iii. A$1.5 billion tripling first-home buyers grant
iv. A$187 million in training positions

II. February 2009 – A$42 billion including:

i. A$26 billion in infrastructure projects
ii. A$2.7 billion in small-business tax breaks
iii. A$12.7 billion in cash bonuses for everyone earning less than A$80,000

So, in total, it amounted to A$52.4 billion in fiscal stimulus which equated to 4.2% of GDP. In addition, the Reserve Bank cut interest rates by one percent to 3.25%.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Today, the Morrison Government's current proposed spending injection is equivalent in terms of proportion of GDP to that made in the governmental GFC response, that is 4.2%. The Government's proposed fiscal stimulus measures include:

March 2020 – A$83.6 billion in total

i. March 16, 2020 – A$17.6 billion

ii. March 22, 2020 – A$66 billion

This does not include the Federal Parliament approving a further A$40 billion unspecified slush fund. This unspecified money pool adds another 2% of GDP to the stimulus measures.

In a sign of how fast the landscape changes right now, we have another stimulus package being put before Parliament this week; the Job Keeper Allowance to the tune of A$130 billion. This is not totally unprecedented, during World War Two, Government stimulus measures reached, at its peak in 1943, more than 14% of GDP.

As we all know, current interest rates are at an all-time low. The RBA reduced interest rates as there was insufficient fiscal response, but recently stated that further interest rate cuts are off the table.

How many commercial foodservice operators will we have at the other end?

Considering the sudden closures, some of them permanently, of commercial foodservice outlets over the past three weeks, it is natural to look at what happened to commercial outlet numbers in the immediate years following the GFC. Declines were not dramatic, except for Hotels & Motels from 2009 to 2011 (-16.1%). With QSR Chains being one of the winners in that time period, their numbers went up by an average compound growth rate of 6.1% between 2007 and 2011. (See table)

At that time, the stagnation and decline in the market in terms of outlet numbers was evident first and foremost in comparison with the strong growth in annual channel outlet numbers year on year in the decade leading up to the GFC. In those days, as certain as 'summer follows winter', Restaurants grew by 3.5 - 5% p.a. as Australians made eating out a way of life. This negative trend in total Restaurant numbers was only reversed last year!

CHANNEL	2007-09 per annum	2009-11 per annum
RESTAURANTS	0.0%	-1.0%
INDEPENDENT CAFÉS	1.5%	1.0%
HOTELS & MOTELS	-0.3%	-16.1%
QSR CHAINS	5.0%	7.3%
QSR INDEPENDENTS	-2.7%	1.0%
CLUBS & PUBS	-2.1%	-1.9%
FUNCTION CATERERS	1.0%	-4.1%

Once we are emerging from our current crisis, the declines will have happened in far more significant numbers than those seen in the years after the GFC. In other words, the falls will be quite dramatic, but the upturn in outlet numbers are likely to be faster again following the lockdown, despite economically more cautious consumers and increased longer-term unemployment.

Why? For several reasons:

• Australians cannot wait to interact with other human beings again, to touch another human being, to hug each other again after months of social isolation. They will rush out to again frequent their various favourite eateries, to celebrate, to socialise, to eat good food and to drink. Yes, many might not re-open, but many will and more will follow closely behind. As a friend commented: "I am not the social introvert I thought I was, I cannot wait to get out again." The biggest loss for Australians right now apart from the economic loss, is the huge loss of social interaction – families and singles alike.

• The Australian Foodservice market is first and foremost a market of independent restaurants, cafés and fast food operators apart from the QSR Chains. However, Fast Food Chains do not constitute the core of the Australian market; in contrast to the US and UK markets. Commercial outlet numbers will recover faster here as it is far easier and quicker for a single outlet to re-build than it is for a chain, especially, the major chains. In terms of the major QSR Chains, the pyramid reigns both in terms of management overheads, equipment investment overall as well as supply chain investments. After all, it is faster to rebuild one house as opposed to a whole village. Many outlets closing permanently, or saying they are, do so because their foodservice outlet was not profitable and in trouble prior to COVID-19 lockdown. This is the final nail in the coffin. As we all know, turnover in restaurant ownership has always been and will be high, it is one of the characteristics of this commercial channel.

• There will for certain be a trade-down effect in the market in the aftermath of COVID-19, stronger possibly than that seen in the aftermath of GFC.

We therefore predict that the first winners will be:

i. The lower end of the restaurant market including the suburban eateries and their plethora of different cuisines
ii. The clubs
iii. The minor fast food chains

• Many restaurants and cafés that successfully have turned to takeaway and home delivery meals to survive right now, will permanently add that component to their business. However, these outlets will not necessarily want to engage with UberEATS!

In the **next COVID-19 Foodservice Bulletin**, we will discuss what we expect the **size of the impact on foodservice expenditure in the commercial market** will be – now and afterwards.

Stay safe – this, too, shall pass.

With kind regards,

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