

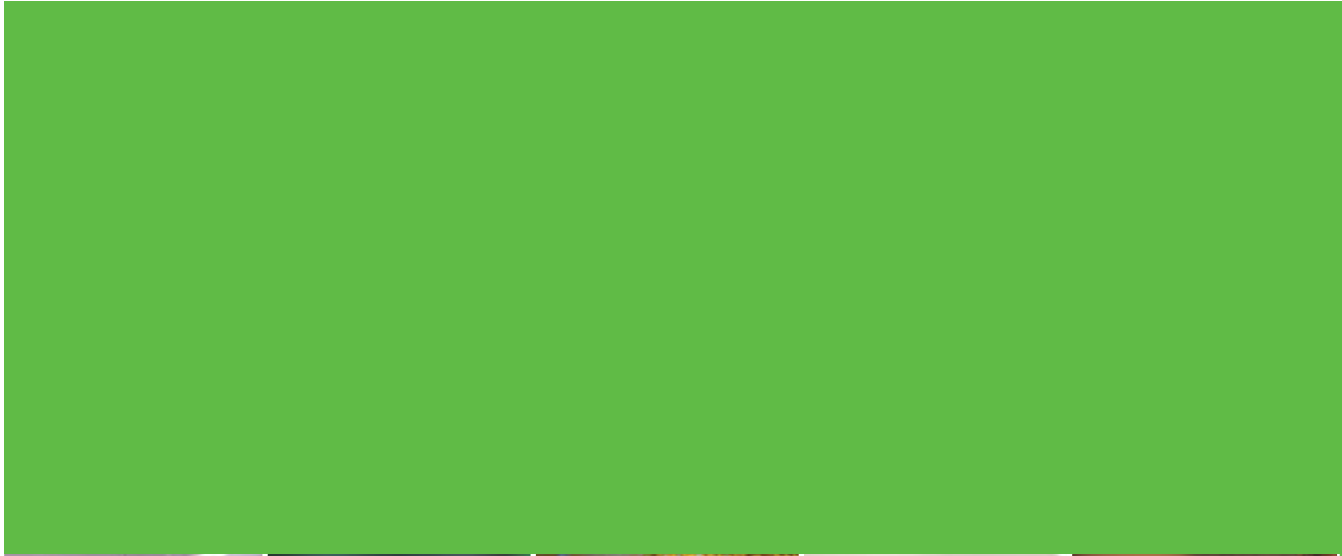
# Performance and Prospects

Irish Food, Drink and Horticulture

*Bord Bia*  
Irish Food Board

# 2008-09





# Performance and Prospects

Irish Food, Drink and Horticulture



# 2008-09

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# Executive Summary

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The Irish Agri-Food sector continues to record the highest usage of Irish produced inputs among major industries within the Irish economy. The sector is facing a number of significant challenges including significant currency volatility, slower consumer spending and increasingly competitive market conditions. However, a strong drive over recent years to enhance product innovation and extend export reach will help the sector address the current difficult market environment.



Output of the Agri-Food sector in gross value added terms reached €15 billion in 2007, rising by 22 per cent on 2006 levels. This compares to output growth across the Irish economy of just over eight per cent.

### Importance of Irish Food Sector

- Output in the Agri-food sector, as measured by Gross Value Added (GVA), reached almost €15 billion in 2007 having expanded by over 22 per cent compared to 2006. Notably, this compares with output growth across the Irish economy of just over eight per cent in 2007 and indicates a very positive performance for the sector.
- The Agri-food sector accounts for approximately nine per cent of output or about 16 per cent of total industrial sector output<sup>1</sup>. Within this, the food processing sector contributed €10 billion in output in 2007, an increase of almost 24 per cent compared to 2006.
- The Agri-food sector is a major employer. Total employment in the sector reached 164,600 in 2006, falling slightly to 160,000 in 2007. This represents approximately eight per cent of the national workforce. Of this, 110,400 persons, or 69 per cent are engaged in primary agriculture while 49,600 (31 per cent) are employed in the food processing industry.
- Productivity in the Irish Agri-food sector, as measured by output or GVA per person engaged continued to improve in 2007. Productivity levels in the food processing sub-sector are over two-and-a-half times the national average.
- The export contribution of the sector continues to grow. In 2007, it accounted for ten per cent of overall merchandise trade exports, compared to seven per cent in 2002.
- The Irish Agri-food sector has a high utilisation rate of domestically sourced raw materials and other inputs. This reflects the strong linkages between the primary agricultural and food processing sectors. In particular, the food and drinks sector has the highest usage of Irish-produced inputs among a range of high profile sectors at 74 per cent.

### Sectoral Performance

- Irish food, drink and horticulture exports faced a challenging market environment throughout 2008 with significant currency volatility, slowing consumer spending and reduced access to credit all impacting on exporters. **For the year, exports are estimated to have declined by less than seven per cent to just over €8.16 billion. This follows a rise of €1.4 billion during the 2006/2007 period.**
- For many manufacturers, the difficulty in securing credit both for short term cash flow and longer term capital investment is also impacting on business operations. While commodity prices eased as the year progressed, in many cases they remain ahead of levels evident over recent years.
- **The best performing sectors in 2008 were meat and livestock, particularly beef, ready prepared meals, luxury chocolate confectionery and seafood.** A significant easing in dairy prices and a slower market for alcoholic beverages affected export values in these categories.
- Despite the fact that Sterling weakened by 30 per cent during 2008 against the Euro, **the UK market still accounted for an estimated 43 per cent of total exports, reflecting a strong performance in the beef and cheese categories in particular.**
- **Diversification to other EU markets continued with 33 per cent of exports destined for those markets.** This reflects the ongoing drive by the industry to increase its continental based customer and market portfolio. Exports outside of the EU suffered from a significantly weaker dollar for much of the year and a slower global dairy market.
- **The combined value of meat and livestock exports is estimated at almost €2.58 billion for 2008. This is some two per cent ahead of 2007 levels.** Beef exports performed very strongly during the year, offsetting lower export values for pigmeat, poultry, sheepmeat and live animals.
- **The value of Irish beef exports increased by an estimated seven per cent in 2008 to reach €1,687 million. Around 99 per cent of exports in value terms stayed within the EU.** A decline of almost seven per cent in numbers processed through export meat plants combined with lower carcass weights led to the volume of Irish beef exports easing by eight per cent to 483,000 tonnes. However, this was more than offset by a rise of around 16 per cent in prices.

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<sup>1</sup> Census of Industrial Production, 2006, Early estimates, www.cso.ie

Irish food, drink and horticulture exports faced a challenging market environment throughout 2008 with significant currency volatility, slowing consumer spending and reduced access to credit all impacting on exporters. For the year, exports are estimated to have declined by less than seven per cent to just over €8.16 billion. This follows a rise of €1.4 billion during the 2006/2007 period.

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- It is estimated **the value of Irish pigmeat exports in 2008, excluding the impact of the product recall in December, fell by around two per cent to €360 million.** A gradual improvement in EU pig prices during 2008 helped improve the market environment for Irish pigmeat as the year progressed. However, the recall of pigmeat products due to some pigmeat produced between September 1st and December 6th having traces of dioxin, impacted significantly on trade towards year end. It will be some time before the full extent of the product recall is known.
- Irish poultry production continues to fall with a drop of almost five per cent estimated for 2008. The fall in poultry production was partly offset by higher prices although a significantly more competitive market environment in the UK affected returns. Overall, **the value of Irish poultry meat exports is estimated to have eased by eight per cent to €223 million.**
- **The value of Irish sheepmeat exports is estimated to have fallen by ten per cent in 2008 to €166 million.** A sharp fall in sheep led to exports falling by 15 per cent to 42,000 tonnes cwe. Lamb prices showed some improvement during the year, rising by four per cent to €3.70/kg.
- **The value of Irish livestock exports fell by 13 per cent in 2008 to an estimated €148 million.** Lower live cattle and pig exports were the principal drivers of the decline.
- Overall, it is estimated that the value of **dairy exports for the year eased by five per cent to reach €2.2 billion.** Following an excellent performance in 2007, dairy prices came under pressure as 2008 progressed. Stable to slightly lower volumes were evident for most product categories with the exception of infant formula. While prices declined during 2008, the levels evident for the first half of 2008 were for most products ahead of corresponding 2007 levels, which helped to maintain export values.
- **The overall export performance of the prepared foods category was positive considering the competitive environment in which exporters were operating.** Overall, exports of products covered under the prepared foods category fell by an estimated 15 per cent to €1,543 million. However, indigenous exports have largely maintained at 2007 levels. Ready meals, pizzas, luxury chocolate confectionery and bakery all put in positive export performances. However, the value added meat sector faced a more challenging market environment.
- **Beverage exports** witnessed a more challenging market environment in 2008 due to the weakness of the US dollar and slower consumer spending. **Overall, exports are estimated to have declined by 13 per cent to almost €1,250 million.** The strongest performing category was whiskey, with exports recording double digit growth. Beer and cider exports slowed while overall liqueur exports were affected by structural changes in distribution.
- **The value of edible horticulture and cereal exports fell by five per cent in 2008 to an estimated €236 million.** Mushroom exports fell by around ten per cent in both volume and value terms due to the continued weakness of Sterling and a competitive UK market exacerbated by strong supplies from both domestic producers and imports from countries such as Holland and Poland. Cereal exports increased further, although lower prices affected exports values as the year progressed.

### Consumer Trends

- As the global 'credit' crunch starts to affect day to day lives, Irish and UK consumers are feeling its effects. It is not surprising that the media focus on food and energy prices, the credit crunch, and the recession have taken their toll on consumers' perceptions of both the UK and Irish economies.
- In response to this, Bord Bia undertook a consumer research study, 'Feeling the Pinch', to understand what is really happening as consumers continue to feel their finances being squeezed.
- Consumers are worried not just at a general level, but also about very specific issues facing them. Worries about finance and the economy seem to trump non-financial issues such as global warming.
- As specific issues start to create anxiety there are opportunities for brands to alleviate these worries. Brands can position themselves as helping consumers to get value for money.
- Brands need to position themselves as being on the consumers' side – supporting consumers' desire to spend wisely, rather than impeding them. The level of scrutiny that consumers will apply to price means that brands need to be open and up-front with consumers.

Figures from the IMF's latest projections suggest world economic growth will slow from five per cent in 2007 to three and three quarters per cent in 2008 and two per cent in 2009.

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### Executive Summary

- Brands will also need to ensure that any premium they are charging over their competition is clearly justified in the minds of consumers.
- It is necessary to understand the broader competitive context in which manufacturers are operating. Consumers tend to approach spending in a credit/debit way – they look to save in some areas so that they can continue to spend in others – and this is particularly the case when times are tough. Manufacturers need to assess what consumers are spending on and how they need to shift value perceptions of their category in light of this.
- Implications emerging from the 'Feeling the Pinch' study can be distilled into five broad themes:
  - The importance of empathy
  - Protect your differentiation
  - Redefine your competitive set
  - Look, listen and react
  - Plan for the recovery
- A key issue for Irish food & drink exporters is the volatility in exchange rates. Sterling has weakened to a record extent against the Euro in 2008, exacerbating an already difficult operating environment. However, the consensus emerging now is that Euro should start to depreciate against sterling during 2009. The Dollar strengthened against the Euro during the 2nd half of 2008, which represents good news for producers in the Euro zone, including Ireland. However, a renewed weakening in December highlights the current level of volatility that exists.
- Prices of major agricultural commodities have been declining over recent months at a rate ahead of what can be explained through production gains alone. Other important factors have impacted on price levels, including the financial crisis, the halving of world crude oil prices and the appreciation of the US Dollar. More generally, uncertainty is emerging as a dominant feature of world agricultural markets.
- The FAO Food Price Index dropped by more than 30 per cent during the second half of 2008. The sharp decline in the index reflected the rapid decrease in international prices of all major food and feed commodities. Looking ahead, further decreases in food commodity prices are anticipated by the IMF with the exception of beef. In overall terms, the IMF is projecting a reduction of almost six per cent in food prices in 2009.
- The WTO trade negotiations collapsed in Geneva in July. However, along with the WTO itself, several countries are calling for the negotiations to recommence. While the multilateral trade negotiations have stalled, it is important to keep sight of the economic implications of the further opening up of markets in agriculture.
- The recently agreed "Health Check" paves the way for a gradual increase in milk quotas and an increased level of modulated payments. The increase in modulated payments will come at the expense of the Single Farm Payment and means it is more important than ever that modulated funds are made accessible to sectors and producers most in need of assistance.

### International Economy Prospects

- The international economic environment has deteriorated markedly since the summer of 2007 and this is shaping what is now a much more uncertain and challenging global operating environment for 2009. The downturn now appears to be extending to economies previously thought to be resilient, such as China, India and other emerging markets.
- The current global economic malaise has led to a severe tightening in credit conditions and availability of funds, both within the financial sector, and between this sector and the non-financial sector. Despite a range of policy measures aimed at alleviating the 'credit crunch', it is likely that a return to more normal lending conditions will not transpire until mid- to late-2009 at the earliest.
- Figures from the IMF's latest projections suggest world economic growth will slow from five per cent in 2007 to three and three quarters per cent in 2008 and two per cent in 2009. Activity across the advanced economies is expected to contract by around one-quarter of a per cent in 2009.

The major slowdown in the global economy fuelled by the credit crunch is leading to most major economies heading into or towards recession. This is impacting strongly on consumer confidence and leading to reduced spending levels.

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### Industry Issues

- **Slowing consumer spending** – The major slowdown in the global economy fuelled by the ‘credit crunch’ is leading to most major economies heading into or towards recession. This is impacting strongly on consumer confidence and leading to reduced spending levels. This presents a challenge to food manufacturers to develop innovative solutions for consumers which also provide a sustainable market return.
  - **Access to capital** – The sharp contraction in the global financial system is impacting strongly on the ability of food manufacturers to secure capital for short term funding and longer term investment plans. This situation is being exacerbated by the extended periods of credit being sought by some customers.
  - **Currency volatility** – With almost 70 per cent of Irish food and drink exports destined for non-euro zone markets, trade has been adversely affected by the considerable fluctuation in exchange rates over the last 12 months. The weakening of Sterling by more than 30 per cent combined with the ongoing volatility in the US dollar is impacting significantly on the competitiveness of Irish exports to these markets. Oil price developments combined with the outcome of the current credit crunch will dictate currency movements over the medium term.
  - **Rising manufacturing costs** – While the rise in global food commodity prices over the last two years is to be welcomed for sectors such as meat and dairy, it has had the effect of raising ingredient costs for prepared food manufacturers, which are proving difficult to pass on to customers.
  - **Increasingly competitive marketplace** – The growing scale of retail groups across Europe enhances their bargaining position with suppliers, which can make it difficult to secure higher prices and also put pressure on suppliers in terms of marketing supports. In addition, new suppliers continue to emerge. This is particularly evident in the prepared foods and meat sectors. A number of these suppliers benefit from lower input and manufacturing costs and greater economies of scale.
- **Policy developments** – Any significant policy changes have the potential to significantly alter global trading conditions, particularly if import tariffs and market supports are reduced strongly, as has been proposed. To this end, the eventual outcome of the DOHA round of WTO talks will be a critical driver of the trading environment for Irish food and drink exports. While a deal remains unlikely in the immediate term, it remains important for the sector to prepare strategies to overcome the increased competitive pressure anticipated in the European market if and when a deal is finally reached.
  - In a Bord Bia industry survey carried out in November/December 2008, Irish food and drink manufacturers identified a number of market related challenges in doing business in the UK that were having a very high/high impact on their business:
    - 83 per cent listed difficulty in securing a price increase. This compares to 76 per cent in 2007 and 54 per cent in 2006 that stated price deflation was having a very high/high impact on their business.
    - 78 per cent mentioned currency fluctuations
    - 73 per cent listed rising input costs
    - 65 per cent mentioned changing consumer purchasing behaviour with a focus on value for money
    - 64 per cent highlighted customers delaying payment or failing to pay at all as having a very high/high impact on their business.



In response to the evolving needs of Irish companies for in-depth market intelligence in developing sales both on the domestic and export markets, Bord Bia has a comprehensive market research programme planned for 2009.

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### Bord Bia Initiatives

- The **Marketplace Roadshow** will continue in 2009 with two modules planned examining the Spanish, Swedish and Danish markets. This follows similar initiatives in 2008 involving Benelux and Italy. The roadshow aims to assist Irish companies develop their strategies in relation to key markets. They will focus on one to one meetings between suppliers and potential customers.
- The third **Bloom** garden festival will take place in the Phoenix Park from the 28th May to 1st June 2009. This builds on the success of the show over the last two years. Bloom combines the skills of Ireland's top designers and horticulturalists with Ireland's specialty and artisan food producers to create a consumer showcase for the best in ornamental and edible produce.
- **Bord Bia Vantage** will continue to act as the vehicle for delivering our small business programmes via trade, consumer and industry activities in Ireland, the UK and the United States. The programme operates under three channels, namely Vantage Point, Plus and Partner. In 2009, Vantage Plus will focus on branding, cost analysis, innovation and distribution. Vantage Partner will involve the participation of 16 client companies while Vantage Point will continue to offer interactive market intelligence to small food producers.
- **The Brand Forum** focuses on developing the branded route to market for Irish companies. The forum will meet four times a year in Dublin and twice at regional locations in 2009 with events focusing on issues currently facing food and drink brands. Other services provided by the Brand Forum include workshops, customised services and trend newsletters.
- **Leadership Summit**. Following the inaugural event in 2008, this year's Leadership Summit will focus on the theme 'Great Leadership in Challenging Times'. The event, which takes place in the Royal College of Physicians on 20th May 2009 will include keynote addresses from leading experts in strategy and business development.
- **Market Knowledge**. In response to the evolving needs of Irish companies for in-depth market intelligence in developing sales both on the domestic and export markets, Bord Bia has a comprehensive market research programme planned for 2009, including:
  - Consumer Lifestyle Trends Programme – price responsiveness & shopping behaviour in a downturn.
  - PERIscope research in Ireland, Northern Ireland and Great Britain.
  - In depth examination of opportunities for Irish dairy exporters in selected European markets
  - The Sustainability Agenda
  - Distribution options for Irish manufacturers on the Continent
  - Weekly FoodAlert
- **foresight4food** – Bord Bia's innovation programme continues to develop and evolve to reflect the needs of food and horticulture manufacturers. Central to the programme is the foresight4food initiative, which to date has helped 35 Irish manufacturers drive their product development processes. The foresight4food programme offers services in three core consumer focused innovation areas: stimulation, ideation and validation.
- The **Food Dudes** programme will be extended further in 2009. To date 1,000 schools involving 140,000 children have participated in the scheme. A further 315 schools and 42,500 children are targeted for 2009.
- The implementation of the **beef marketing strategy** enters its second year in 2009. It seeks to build on progress made in 2008, which saw 17 new high value retail and 7 foodservice listings secured as well as five new accounts opened. The strategy seeks to increase the value of Irish beef exports by €170 million over the five year period to 2013 through the repositioning and differentiation of Irish beef in key markets.
- A **Food Trade Delegation to Japan** was part of the Official Trade Mission led by An Taoiseach, Mr Brian Cowen, T.D. in early January 2009. Bord Bia's participation follows similar involvement in delegations to China, India and the Middle East in recent years. A further trade delegation is planned for the United States in March.

# The Economic Environment

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The operating environment for the food and drink sector in Ireland is closely linked to the wider economic context. In this section we present an overview of the economic backdrop for the sector, firstly by reference to the overall economic impact of the Agri-food sector and secondly through considering the recent developments in and the outlook for the global and Irish economies over the short- to medium-term.



The Agri-Food sector accounts for almost nine per cent of economy wide output or about 16 per cent of total industrial sector output. Within this, the food processing sector contributed €10 billion in output in 2007.

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## The Irish Agri-Food Sector

Before considering the recent economic developments and prospects, it is important to reflect on the context in terms of the overall economic impact and contribution of the Irish Agri-food sector.

The Agri-food sector is very important in the Irish economy and continues to play a key role in economic development. This is clearly illustrated by reference to a number of key measures.

### Output

Firstly, output in the Agri-food sector, as measured by Gross Value Added (GVA), reached almost €15 billion in 2007. Agri-food accounts for approximately nine per cent of economy-wide output or about 16 per cent of total industrial sector output<sup>2</sup>. Within this, the food processing sector contributed €10 billion in output in 2007, an increase of almost 24 per cent compared to 2006.

#### Output in the Irish Agri-food Sector Industry – Gross Value Added at Factor Cost – € Millions

	2007	% OF STATE
Primary Agriculture	4,189	3%
Food Processing	10,556	6%
Total Agri-food Industry	14,746	9%

Source: Indecon analysis of Department of Agriculture Factsheets 2007

### Employment

The Agri-food sector is a major employer. Total employment in the sector reached 164,600 in 2006, falling slightly to 160,000 in 2007. This represents approximately eight per cent of the national workforce. Of this, 110,400 persons, or 69 per cent, are engaged in primary agriculture while 49,600 (31 per cent) are employed in the food processing industry.

#### Employment in Irish Agri-food Industry – Persons Engaged

	2006	% OF STATE	2007	% OF STATE
Primary Agriculture	110,900	6%	110,400	5%
Food Processing	53,700	3%	49,600	2%
Total Agri-food Industry	164,600	8%	160,000	8%

Source: Indecon analysis of Department of Agriculture Factsheets 2006 & 2007

### Productivity

Productivity is an important factor impacting on economic growth and is a key determinant in the improvement of living standards and income levels. In relation to the Irish Agri-food sector, productivity, as measured by output or GVA per person engaged, has continued to improve in 2007 (see table below). It is particularly notable that productivity levels in the food processing sub-sector are over two-and-a-half times the national average, which is a very positive feature of the sector.

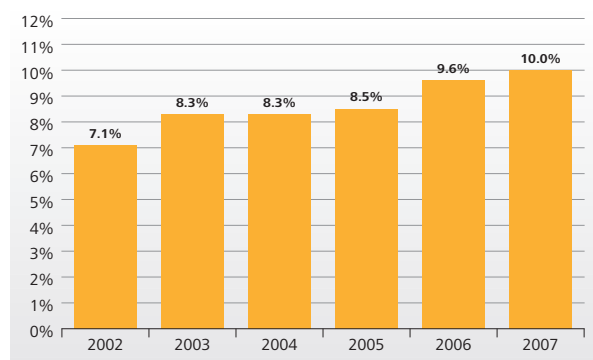
#### Productivity in Irish Agri-food Industry – 2007 GVA per person engaged – €

	2007
Primary Agriculture	37,945
Food Processing	212,832
Total Agri-food Industry	92,160
Economy Wide Average	83,228

Source: Indecon analysis of Department of Agriculture Factsheets 2007 & key agriculture sector statistics

### Export contribution

#### Total Agri-Food & Drink Exports as a Percentage of Total



Source: Indecon analysis of CSO Export data

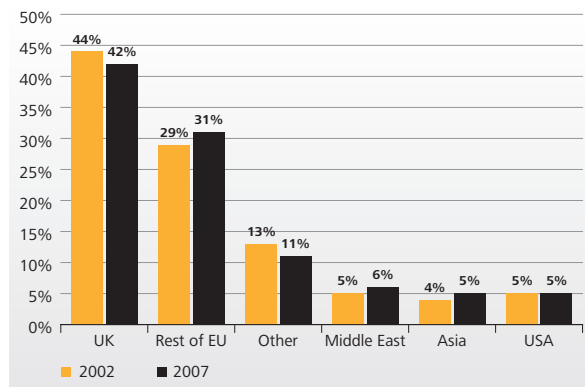
Ireland is a small open economy and our economic growth prospects are closely dependent on our ability to develop viable, high value exporting activities.

The Irish agri-food sector is an important case in point and is characterised by a high level of international trade and export contribution. In particular, export volumes from the food and drinks sector have continued to expand in recent years, attaining a level approaching €9 billion in 2007.

The export contribution of the sector is demonstrated in the chart above, which shows that Agri-food exports represented ten per cent of overall merchandise trade exports in 2007. This share has increased from just over seven per cent in the 5-year period since 2002.

According to figures from Forfás's Annual Business Survey of Economic Impact, total exports in the food and drinks sector accounted for almost two-thirds (65 per cent) of overall manufacturing exports among agency-supported firms during 2007. This highlights the importance of the sector within the context of the indigenous/Irish-owned economy.

#### Distribution of Irish Food and Drink Exports, (2002–2007)



Source: Indecon analysis of Bord Bia data

In terms of the destination of Irish Agri-food exports, the UK remains the single most important market, accounting for an estimated 43 per cent of overall food & drink exports in 2008.

Looked at from the perspective of market penetration, imports of Irish-origin food & drink products represented over one-fifth of overall imports of food & drink into the UK.

Ireland's other major destination markets for food & drinks are among the remaining EU Member States (collectively accounting for 33 per cent of exports). The US and Asia each account for around 5 per cent of exports. It is notable that exports of Irish food & drinks to Asia increased to approximately €400 million in 2007, reflecting the growing importance of emerging markets.

The food and drinks sector has the highest usage of Irish produced inputs among a range of high profile sectors in the Irish economy, with close to three quarters of the sector's inputs sourced domestically.

#### Use of domestic inputs

It is well known that the Irish Agri-food sector has a high utilisation rate of domestically sourced raw materials and other inputs. This reflects the strong linkages between the primary agricultural and food processing sectors, and is an important factor stimulating domestic demand and lowering imports. In particular, the food and drinks sector has the highest usage of Irish-produced inputs among a range of high profile sectors in the Irish economy, with close to three-quarters of the sector's inputs sourced domestically (see table below).

#### Usage of Domestically Sourced Inputs – Comparative Position of Irish Food & Drinks Sector

SECTOR	% OF IRISH-PRODUCED INPUTS
Manufacturing of Food and Beverages	73.9
Manufacture of wood and wood products	66.2
Manufacture of basic metals	35.2
Manufacture of machinery and equipment n.e.c.	35.1
All Manufacturing	29
Manufacture of chemicals, chemical products & man-made fibres	14.7
Manufacture of electrical and optical equipment	9.2

Source: Indecon analysis based on CSO, Census of Industrial Production

#### Research and Development

Research and development activity is seen by governments, policy makers and economists as an important driver of industrial performance and economic growth.

#### Spending on Research and Development in the Irish Food and Drinks Sector

R&D SECTOR	GRAND TOTAL – € MILLIONS	
	2003	2005
Software/Computer Related	378.3	404
Electrical/Electronic Equipment	212.2	279
Pharmaceuticals	190.2	267
Instruments	115.9	124
Food Drink & Tobacco	42.3	64
Machinery & Equipment	39.4	51
Other Services	25.2	41
Chemicals	17.3	33
Other	54.8	65
<b>Grand Total</b>	<b>1075.6</b>	<b>1328.743</b>

Source: Forfás BERD data

Expenditure on R&D within the food and drinks sector placed the sector in 5th position out of 16 sectors monitored by Forfás.

A noteworthy feature is that business expenditure on R&D within the food and drinks sector placed the sector in 5th position out of 16 sectors monitored by Forfás, accounting for some €64 million in expenditure in 2005 and employing over 1,000 persons in R&D activities (eight per cent of the national total). Ongoing investment in this area constitutes an important input to the development of high value products.

## INTERNATIONAL ECONOMIC PROSPECTS

### Challenging global economic backdrop

The international economic environment has deteriorated markedly since the summer of 2007 and this is shaping what is now a much more uncertain and challenging global operating environment for 2009.

Economic activity is slowing rapidly, with the most recent data pointing to a synchronised global downturn among the advanced industrialised economies of the US, Europe and Japan. However, the downturn now appears to be extending more broadly to include economies previously thought to be resilient, such as China, India and other emerging markets.

### Downturn precipitated by financial crisis

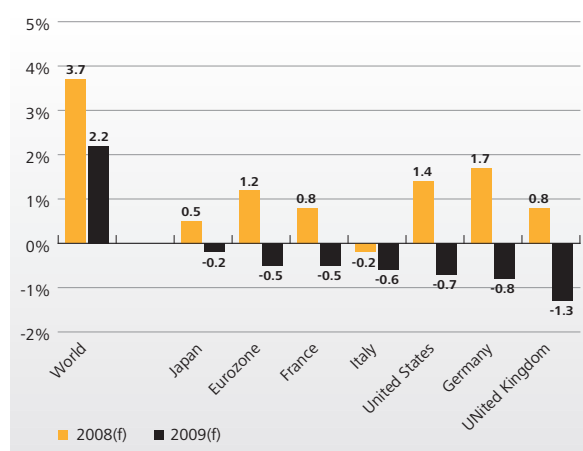
The initial cause of the current global economic malaise was the banking crisis that begun to unfold in the US and which extended to the UK and Europe in the summer of 2008.

This has led to a severe tightening in credit conditions and availability of funds, both within the financial sector, and between this sector and the non-financial sector. This, in turn, has led to a sharp deterioration in business and consumer confidence, while international stock markets have endured substantial downward corrections.

Despite a range of policy measures aimed at addressing the banking crisis and alleviating the 'credit crunch', it is likely that a return to more normal lending conditions will not transpire until mid- to late-2009 at the earliest.

## The outlook remains very uncertain

IMF GDP Growth Rates for Key Developed Markets (2008–2009)



Source: IMF World Economic Outlook November 2008 Update

These developments form the backdrop for the current uncertain economic outlook and the resulting downward revisions to economic growth projections, particularly across the advanced economies.

Overall, according to the IMF's latest projections (as of November 2008), world economic growth is projected to slow from five per cent in 2007 to 3.75 per cent in 2008 and over two per cent in 2009. Activity across the advanced economies is expected to contract by around 0.25 per cent in 2009, with a recovery expected to take place in late 2009 and into 2010.

The Euro zone economy is expected to contract by around 0.5 per cent during 2009, according to the latest IMF projections, with growth expected to remain below potential until mid-2010.

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### The Economic Environment

## DEVELOPMENTS IN KEY MARKETS FOR IRISH FOOD AND DRINKS

### United Kingdom

Worryingly for the Irish food & drinks sector, economic conditions in the UK, our largest export market, have deteriorated markedly and the latest projections indicate a further weakening ahead. The adjustment in the construction sector is expected to continue, while house prices are likely to fall further. These factors, combined with turmoil in the banking and financial sectors, have impacted severely on business and consumer sentiment, with domestic demand under downward pressure. The latest IMF forecasts indicate an expected contraction in UK GDP of 1.3 per cent in 2009 after estimated growth of 0.8 per cent in 2008. Growth may resume in late 2009 if current conditions stabilise but this outcome, as for other major economies, remains uncertain. More positively, inflation is set to remain very subdued and this has encouraged the Bank of England to facilitate a recent marked easing in monetary policy.

### Euro Zone

The Euro area economy slipped into recession during 2008, again reflecting the adverse financial conditions, weaker housing market & construction activity and greater uncertainty all combining to reduce domestic demand. The Euro zone economy is expected to contract by around 0.5 per cent during 2009, according to the latest IMF projections, with growth expected to remain below potential until mid-2010. Headline inflation is projected to fall to around 1.5 per cent during 2009.

### Germany

Within the Euro zone, economic activity in Germany, after a strong start in 2008, has recently begun to decline, reflecting weaker private consumption and export demand. The German economy is projected to contract further in 2009 (by about 0.8 per cent, according to the IMF) on the back of falling investment spending and weakness in its main trading partners. Activity is expected to recover in late 2009 and return towards trend growth rates in the second half of 2010.

### France

As in the case of Germany, economic growth in France is also estimated to decline in 2009, with the latest projections indicating a contraction in GDP of around 0.5 per cent during 2009. Again, this is expected to be followed by a gradual pick-up of activity by around the middle of 2010.

### United States

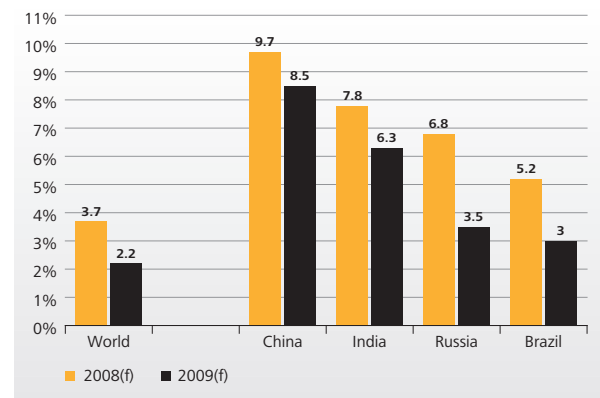
The US economy is facing extremely difficult conditions and is currently in recession. This reflects the genesis in that country of the banking/financial crisis and the sharp downturn in the housing and construction sectors. The credit crunch has resulted in a pronounced contraction in activity and a rapid deterioration of the labour market.

Once financial conditions normalise, GDP growth in the US should resume in late 2009 and early 2010, but this is likely to be at a slower pace than during past recoveries. As in the UK, reflecting the weakness of demand and the fall-off in commodity and energy costs (see further below), inflationary pressures are rapidly subsiding and inflation is likely to continue to decline and remain very subdued in 2009. This is also facilitating a rapid lowering of Federal Reserve interest rates.

## EMERGING MARKETS

### Brazil

IMF GDP Growth Rates for Key Emerging Markets (2008–2009)



Source: IMF World Economic Outlook November 2008 Update

The expansion that gathered pace during 2007 was sustained in the first half of 2008, although activity appears to be slackening owing to a worsening of financial conditions. Domestic demand has been the main driver of growth. The trade surplus is shrinking, essentially due to buoyant demand for imports, and the current account has shifted into deficit. Dynamism in the labour market continued to deliver robust job creation. Inflation picked up considerably from mid-year.

The Euro strengthened by more than 30 per cent against Sterling during 2008, which makes trades to the UK, a market that accounts for 43 per cent of total exports significantly more challenging for Irish exporters. Further volatility in exchange rates is anticipated during 2009.

## China

GDP growth has fallen, from a peak of nearly 12 per cent to a pace in the high single digits. Export growth is weakening and, with slower capital formation, domestic demand is also projected to ease in 2009, before recovering in 2010. Deflation is on course to continue, in part due to moderating commodity prices but also reflecting slower output growth.

## India

Growth has continued to slacken to under eight per cent in 2008. Inflation is high, driven by commodity prices, but the peak appears to have passed. The current account deficit has risen substantially and there is downward pressure on the exchange rate. The economy is projected to slow further over the next year and to recover in tandem with the world economy in 2010.

## Russian Federation

The fallout from the global financial crisis will sharply reduce real GDP growth in Russia through 2009, with a pick-up expected in 2010. With a reversal in the substantial rise in oil and metal prices, the pattern of terms of trade gains fuelling rapid growth in domestic demand has come to an end. Inflation has risen strongly, but may now have peaked and should decline in 2009-10. Fiscal and current account balances are expected to worsen sharply.

## Currency Movements Impacting on Competitiveness

A key issue for Irish food & drink exporters concerns the movement in exchange rates. This is particular the case in relation to developments in the Euro-Sterling exchange rate, but also in relation to the Euro-Dollar rate.

Sterling vs Euro 2008



Source: European Central Bank

## Euro versus Sterling

Throughout 2008, the euro has continued to strengthen against Sterling, sustaining the trend from 2007. This makes trading conditions for euro zone producers – including Irish food & drink producers – who are exporting into the UK much more challenging. (As noted previously, Ireland's food and drink export share to the UK stood at 42 per cent in 2007).

Sterling continued to weaken against the euro in the latter part of 2008. However, the consensus emerging now is that Euro should start to depreciate against sterling during 2009 as economic conditions in the Euro zone and interest rates decline relative to the position in the UK. Exchange rate movements are notoriously uncertain but, if realised, this prospect should help improve the situation for Irish food and drink exporters in the near-term.

Even in the absence of a weakening in the euro vis-à-vis Sterling, there may be some potential benefits for food & drink exporters. These could include:

- To the extent that Irish food & drink producers can switch some of their production inputs from elsewhere in the eurozone to the UK, the weakness in sterling may assist in lowering Irish production costs in euro terms;

- Where UK retailers of food & drink are more dependent on imports from Irish and other eurozone producers and close substitutes are not readily available, these retailers are likely to be more amenable to accepting some price increase for their imported product; and
- Similarly, if British producers seek to increase their exports of UK produced food & drink to eurozone countries on the back of their improved competitive position, this increases the potential for Irish producers to replace diverted produce from the UK domestic market.

### U.S. Dollar vs. Euro

U.S. Dollar vs. Euro 2008



Source: European Central Bank

Between August and early December 2008, the Dollar strengthened against the Euro which represented good news for producers in the Euro zone, including Ireland. However, since late 2008, the Dollar's appreciation against the Euro has been halted somewhat but indications suggest that the Euro will weaken against the Dollar during the first half of 2009. With the US import share of Irish food and drink exports remaining at about 5 per cent, this may provide some competitiveness gains for the sector.

During the latter part of 2008 prices for agricultural commodities declined from the record levels evident in the early part of the year. Prices have fallen at a rate ahead of what can be explained through production gains alone.

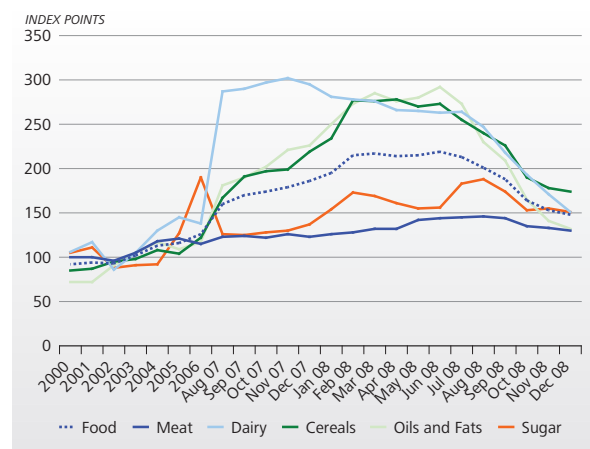
### COMMODITY AND FOOD PRICES

#### Weakening prospects are slowing commodities prices

Weakening global demand is impacting on commodity prices. Oil prices have declined by over 60 per cent since their peak, retreating to levels not seen since early 2007 despite the decision by the Organization of Petroleum Exporting Countries to reduce production.

In line with market developments, the IMF's baseline petroleum price projection for 2009 has been revised down from \$100 to \$68 a barrel.

FAO Food Price Index  
1998 - 2000 = 100



Source: FAO

Between 2006 and 2007 commodity prices, with the exception of sugar, continued to rise, with dairy products experiencing the sharpest increase.

More recently, however, prices of major agricultural commodities have been declining from the record levels reached as recently as June 2008, amidst favourable prospects for global supplies. Since then, prices have fallen, at a rate ahead of what can be explained through production gains alone. Other important factors have impacted on price levels, including the financial crisis, the halving of world crude oil prices and the appreciation of the US Dollar. More generally, uncertainty is emerging as a dominant feature of world agricultural markets.



The ESRI expects Irish GNP to contract by 2.6 per cent in 2008 and by 4.6 per cent in 2009. Employment is expected to fall by 116,000 in 2009.

## Recent Trends in Food Prices

The FAO Food Price Index (FFPI) dropped by more than 30 per cent during the second half of 2008. The sharp decline in the index reflected the rapid decrease in international prices of all major food and feed commodities.

After reaching a high of 278 points in June 2008, the FAO Cereal Price Index fell by more than 35 per cent by December, and is now 20 per cent below its level one year earlier. International cereal prices remained under downward pressure in anticipation of a strong rebound in world supplies. Developments in other markets, particularly the energy and financial markets, also contributed the drop in prices of major cereals.

The FAO Oil/Fat Price Index fell further to 132 points in December, which is 55 per cent below the June record and is 13 per cent below the level recorded in December 2007.

Subdued demand in response to previous record high prices coupled with an improved global 2008/09 supply outlook, are by and large behind the fall.

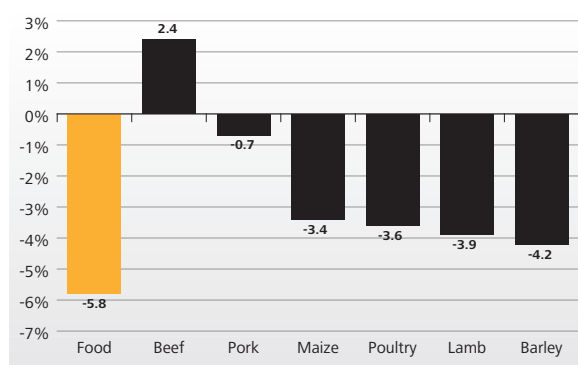
The FAO Meat Price Index fell to 130 points in December, 12 per cent below its peak in August. Meat prices rose steadily since the beginning of 2008 but rising slaughter rates combined with a slowdown in demand have begun to put downward pressure on meat prices.

The FAO Dairy Price Index fell to 151 points in December, a reduction of almost 40 per cent since August. The price index has now fallen by about 50 per cent from its peak in November 2007.

The FAO Sugar Price Index stood at 151 points in December, slightly below the previous month and 20 per cent above the corresponding period of 2007. The October decline in the price index largely reflected the influence of factors outside the sugar market, namely declining crude oil prices and a strengthening of the dollar.

## Prospects for Food Prices

### Food Commodity Expected Price Increases (2008–2009)



Source: IMF World Economic Outlook Databases

Looking head, further decreases in food commodity prices are anticipated by the IMF with the exception of beef. In overall terms, the IMF is projecting a reduction of almost six per cent in food prices in 2009.

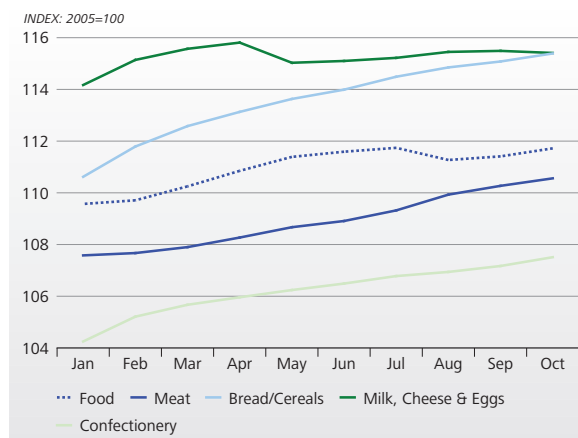
Cereals price forecasts indicate that all types of cereals are anticipated to fall in price in 2009.

Meat price forecasts suggest prices for all types of meats, with the exception of beef, are anticipated to decline.

## Consumer Food Prices

Turning to consumer food prices, data for the Euro zone show that food prices have been generally rising, albeit gradually, throughout 2008.

### Eurozone Food Price Inflation (2008 to date)



Source: Eurostat

Considerable uncertainty exists regarding the global economic outlook for 2009, which is impacting on the market prospects for the food and drink sector. Currency volatility and consumer demand developments are the two key uncertainties facing the industry.

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### The Economic Environment

### Outlook for 2009

According to the IMF, headline consumer price inflation in Europe is set to fall from 6.2 per cent in 2008 to 4.6 per cent in 2009. As previously noted, food commodity prices are expected to fall by 5.8 per cent this year. This, in turn, is expected to translate into lower consumer food price inflation in 2009 compared with 2008.

Based on USDA calculations, food price inflation stood at 6.3 per cent for the first ten months of 2008. In 2009, however, prices are forecast to increase by between 3.5 per cent and 4.5 per cent for this category, which is still well above the minimal food inflation seen earlier this decade. Indeed, if realised, food-at-home prices will rise over ten per cent in just two years by the end of 2009.

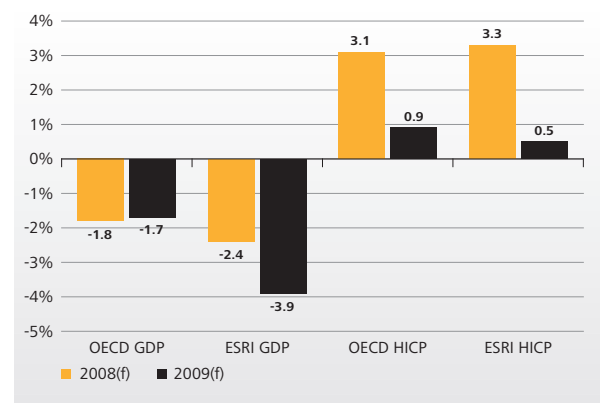
Contributing to the expected decline in 2009 food price inflation have been the reductions in inflation forecast across all the key items. Red meat and poultry prices are now expected to rise by around 3.5 per cent this year, with seafood prices increasing by about four per cent. Lower grain and feed prices are also a major factor.

### THE IRISH ECONOMY

This report is being prepared at a time when world financial markets are in a state of unprecedented turmoil. Within Ireland, poor third quarter Exchequer returns and a sharp rise in Live Register numbers reflect a significant weakening in economic activity over the course of 2008. Based on figures from the Department of Finance, it appears that the General Government Deficit will be 5.5 per cent of GDP this year.

The ESRI expects GNP to contract by 2.6 per cent in 2008 and by 4.6 per cent in 2009. Employment is expected to fall by 116,000 in 2009. This is expected to push up the level of unemployment to an average rate of 9.4 per cent from 6.1 per cent in 2008.

OECD and ESRI GDP Growth and Inflation Rates for Ireland (2008-2009)



Source: ESRI, OECD

The Irish economy has deteriorated sharply since the summer of 2008 and the latest data from the CSO has confirmed that the Irish economy entered recession (according to the technical definition) in the third quarter of 2008, with GNP contracting by 4.9 per cent year-on-year after a decline of 2.3 per cent on an annual basis in the second quarter.

The rapid deceleration in economic activity is evident in the labour market, where a sharp rise has been recorded in the Live Register figures on the number of unemployment benefit claimants. In addition, the public finances have deteriorated markedly and the latest figures from the Department of Finance indicate an estimated outturn for 2008 for the General Government Deficit amounting to 6.3 per cent of GDP, with a further widening of the deficit to 9.5 per cent of GDP predicted for 2009.

The sharp reversal in fortunes for the Irish economy largely reflects the impact on the wider economy of the severe downward correction that has taken place in the housing market, coupled with the effects of the tightening in credit conditions and the adverse competitiveness impacts of exchange rate movements.

Weak international conditions in 2009 will mean that there is limited prospect of external demand filling the gap left by falling domestic demand. Growth may recover in 2010 as the housing construction cycle bottoms out but much will depend on an improvement in international economic conditions.

More positively, given the very weak economic background and the reversal in commodity prices, the previous upward movement in consumer price inflation has reversed and the outlook is for a continued weakening in price inflation with the increasing likelihood that prices will decline on average during 2009.

The most recent forecasts from the ESRI are that CPI inflation averaged 4.2 per cent in 2008 and will decline by some two per cent in 2009. Recent cuts in interest rates by the ECB will also have a positive effect, some of which has already been reflected in the sharp reduction in inflation in November. The preferred EU measure of inflation, the Harmonised Index of Consumer Prices (HICP), which excludes inter alia mortgage interest payments, is set to fall from 3.3 per cent in 2008 to 0.5 per cent in 2009.

In overall terms, the Irish economy is set to experience a difficult period over 2008/2009 with the economy under-performing compared to the Euro zone region as a whole, following a period of out-performance over recent years.

## KEY ISSUES FOR THE FOOD AND DRINK SECTOR

### Future Uncertainty

This year's outlook has been prepared in an environment characterised by increased instability in financial markets and signs of weakening global economic growth. Although projections for agricultural commodity markets have always been subject to a number of uncertainties, these have taken on more importance in this year's edition. The performance of the Irish economy has deteriorated markedly through 2008 and considerable uncertainty surrounds both the domestic and international economic outlook. This uncertainty extends to the currency markets and to the critical issue for the agri-food sector of future movements in the Euro against both sterling and the dollar. A key uncertainty is whether the Euro will continue its recent appreciation against sterling which is a major concern for the sector.

## The Doha Development Agenda

The trade negotiations collapsed in Geneva on July 29, 2008 over issues of agricultural trade between the United States, India, and China. In particular, there was insoluble disagreement between India and the United States over special safeguard mechanism (SSM), a measure designed to protect poor farmers by allowing countries to impose a special tariff on certain agricultural goods in the event of an import surge or price fall. However, along with the WTO, several countries are calling for the negotiations to recommence. While the multilateral trade negotiations have momentarily stalled, it is important to keep sight of the economic implications of the further opening up of markets in agriculture, industrial and consumer goods, and services.

## CAP Health Check

The recently agreed 'Health Check' paves the way for a gradual increase in milk quotas and an increased level of modulated payments. The increase in modulated payments will come at the expense of the Single Farm Payment and means it is more important than ever that modulated funds are made accessible to sectors and producers most in need of assistance.

## OVERALL ASSESSMENT

The agri-food sector remains of critical importance to the Irish economy. The sector has performed strongly across a number of dimensions recently with significant increases in output and productivity levels. The export performance of the sector has been impressive especially when compared with other indigenous sectors.

Innovation in the sector as measured by research and development activity is on a rising trend which holds out the prospect of future growth based on the development of new products.

There are a number of factors at work which will impact on the sector over the next year. These include the difficulties in the financial markets and the associated deteriorating international situation. Two of the sector's main export markets – the UK and Euro zone economies – have experienced a sharp slowdown in activity and are now in recession. The recent rapid appreciation of the Euro against Sterling is also another development of concern, given the continued importance of the UK market for agri-food exports.

In this difficult climate, the priority for the sector will be to maintain and improve competitiveness and to continue to develop new export markets.

# The Marketing Environment

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As the global credit crunch sets in and starts to affect day to day lives, Irish and UK consumers are feeling its effects. With high profile media coverage of financial problems, the reality of a new economic era is hard to ignore.



The outlook for businesses and the economy more broadly will very much depend on the consumer reaction to this downturn and how they modify their behaviour.

Bord Bia undertook a consumer research study, 'Feeling the Pinch', to understand what is really happening as consumers continue to feel their finances being squeezed. Information was gathered in late July 2008 in the UK from a nationally representative online survey of over 2000 UK adults (aged 18+). Comparative information was added in August for Ireland with a nationally representative online survey of over 500 adults (aged 18+).

Consumers were asked about their attitudes and behaviour with regard to the economy and their personal finances over the past year and the coming 12 months.

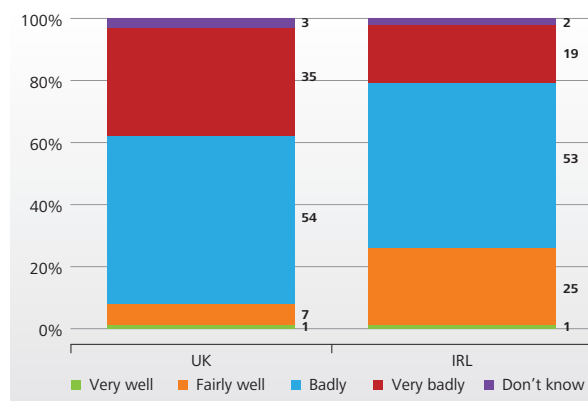
### Macroeconomic context

The consumer spending boom is over. House prices and discretionary incomes are falling. This is a very different economic landscape from that which consumers and businesses have been used to for the past 15 years. Both the UK and Irish economies are experiencing a recession and the impact of this bleaker landscape on consumer confidence and behaviour will be significant. The outlook for businesses and the economy more broadly will very much depend on the consumer reaction to this downturn and how they modify their behaviour.

### Anxiety levels

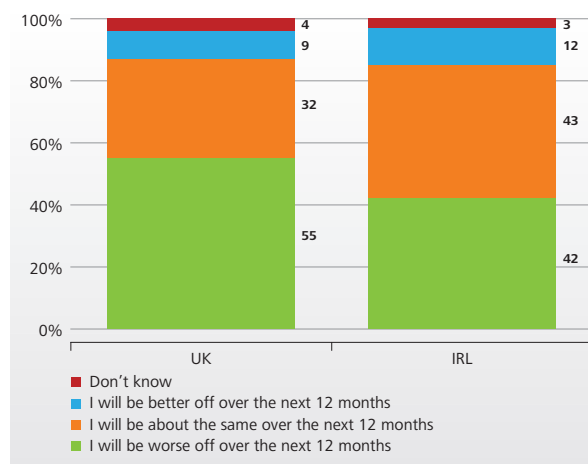
The focus on food and energy prices, the credit crunch, and the recession have taken their toll on consumers' perceptions of both the UK and Irish economies. In the UK, 89 per cent of consumers feel that it is going badly or very badly. In Ireland the situation is similar, although Irish consumers were slightly more positive in August as 25 per cent of respondents still felt that the economy was going fairly well, compared to just seven per cent of UK consumers.

How do you think things are going for the economy these days? July/August 2008.



The changing economic situation over the last year, and public perceptions of it, has also led to growing concerns over personal financial security. As well as worries growing over the past year, many people believe that they will become less well off over the coming 12 months. The chart below shows that 55 per cent of people in the UK and 42 per cent in Ireland feel that they will become worse off in the next 12 months.

How do you feel about your personal financial situation over the next 12 months compared with the last year?



In both countries very few people feel that they will become better off in the next 12 months. This growing feeling of anxiety is likely to shape the spending habits of a large proportion of consumers in both countries.

## Specific concerns and worries

A number of themes emerge from this. First, consumers are worried not just at a general level, but also about very specific issues facing them. Recent research on Irish consumers from Red C suggests this may be changing with more than 40 per cent of respondents expecting the recession to impact on their lives and similar proportions concerned about job security. 61 per cent of the Irish population are fairly or very worried about the cost of electricity and gas in the home.

Secondly, it is personal, immediate worries that are causing the most anxiety for consumers.

Finally, worries about finances and the economy seem to trump non-financial issues such as global warming.

As specific issues start to create anxiety there are opportunities for brands to alleviate these worries.

## Impact on consumer spending

When asked if these concerns were impacting on their spending behaviour, more than 1 in 4 Irish consumers identified socialising out of home as the key areas where spending will be curtailed according to the Red C research. This was followed by eating out in restaurants and cafés. Grocery spend has been affected with 2 in 3 consumers stating that they had decreased their grocery spending in the three months to October.

Similar trends have been evident in the UK with IGD research published in October suggesting that 25 per cent of UK consumers had cut back on eating out. One in six shoppers indicated that they had cut back on food shopping. Overall, 57 per cent of UK shoppers indicated that they had economised in some way over the last six months. These developments are leading to shoppers investing more time into shopping and choosing products.

## Assessing anxiety

The study findings have been used to create an Anxiety Index that aggregates the specific concerns that consumers have into a broader measure of anxiety. This index allocates each consumer a score based on their concerns about some of the specific issues detailed above. As anxiety increases, consumers begin to change their consumption behaviour, so it is important to be able to understand and quantify the overall anxiety that consumers feel.

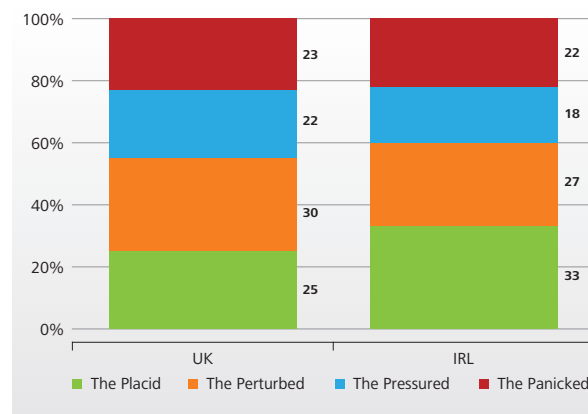
As specific issues start to create anxiety there are opportunities for brands to alleviate these worries.

The purpose of this index is two-fold. Firstly, to understand if there are any significant distinguishing characteristics of those with different levels of worry, in particular with regard to socio-demographics. Secondly, to enable the prediction of future behaviour as anxiety levels change. This is possible by exploring the correlation between levels of anxiety and willingness to make sacrifices in order to save money.

Based on the index we identified four segments of consumers, ordered by increasing level of anxiety: The Placid, The Perturbed, The Pressured and The Panicked.

Understanding anxiety levels of many customers will help the development of appropriate positioning, promotional and communications strategies.

The % of consumers in each of the anxiety segments



For both the UK and Ireland around 1 in 4 people fall into the 'Panicked' group; this is a significant section of the population for whom the current economic situation is very worrying. Notably, for both countries the characteristics of these population groups is very similar and both the level of income and housing tenure strongly influences people's likelihood to belong to this group.

In both countries the proportion of people belonging to the 'Panicked' group rises as their income is reduced. The higher the income the greater likelihood that they belong to the 'Placid' group.

Understanding the anxiety levels of your customer base will help you to develop appropriate positioning, and promotional and communications strategies for those consumers.

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### The Marketing Environment

Anxiety is highest amongst those who own their home with a mortgage – 28 per cent of the UK population who own their home with a mortgage fall into the ‘Panicked’ segment and 30 per cent for Ireland for the same population group. Equally, those in rented accommodation have high anxiety levels with 30 per cent in the UK and 25 per cent in Ireland belonging to the ‘Panicked’ segment.

It is important to note that many people can still be defined as Placid – generally those with higher incomes. In the UK this represents 25 per cent of the population and 33 per cent in Ireland. Generally, price or promotion-based activities may not be needed to prevent these consumers from trading down or reducing consumption.

Anxiety and worry are powerful emotions – helping consumers to alleviate these emotions offers the potential to build powerful and enduring brand connections. Understanding anxiety levels will help the development of appropriate positioning, promotional and communications strategies.

It will also help to predict the value trade-offs that they are likely to make in the face of financial pressures.

### Cutting back and trading off

There is a strong correlation between the level of anxiety that consumers feel and the spending cutbacks they implement.

The most popular money-saving actions for Irish consumers involve using offers and deals, coupons and vouchers or even switching to a cheaper brand. For the UK, the most popular actions are similar; keeping track of prices and taking advantage of promotions to get products that they are already buying for a lower price. Consumers are prepared to sacrifice convenience if it means that they don’t have to compromise the goods and services that they want to consume.

Large proportions of the UK and Irish population are prepared to ‘trade down’ in the sense that they will choose cheaper brands and cheaper retailers in order to save money.

Consumers are willing to give up luxuries such as shopping for fun, updating goods to keep up with styles and fashions and eating out. However, these trade-offs only tend to be considered after consumers have saved what they can through price checking and trading down.

Consumers will look to make other cuts in their spending and consumption ahead of cutting their Fairtrade, environmentally friendly and organic purchasing.

Brands need to position themselves as being on the consumers’ side – supporting consumers’ desire to spend wisely, rather than impeding them. The level of scrutiny that consumers will apply to price means that brands need to be open and up-front with consumers. Attempts to mask price rises run the risk of back-firing, as evidenced by the recent press attention on Kraft’s decision to reduce the thickness of Dairylea slices instead of increasing their price.

Brands will also need to ensure that any premium they are charging over their competition is clearly justified in the minds of consumers. Communications that focus purely on price risk devaluing any price differential.

Brands need to understand the broader competitive context in which they are operating. Consumers tend to approach spending in a credit/debit way – they look to save in some areas so that they can continue to spend in others – and this is particularly the case when times are tough. In a category in which consumers are prepared to consume less, manufacturers need to assess what consumers are spending on instead and how they need to shift value perceptions of their category in light of this.

Brands need to continue to give consumers multiple reasons to choose their products over the competition and it will be important to keep reminding consumers of the broader value you add to their everyday lives.

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### The Marketing Environment

### Strategic & marketing implications

Implications emerging from the 'Feeling the Pinch' study can be distilled into five broad themes:

#### The importance of empathy

It may sound obvious, but it is critical in difficult times for brands to position themselves as being on the consumers' side. Anxiety and worry are powerful emotions and helping consumers to alleviate them offers the potential to build powerful and enduring brand connections.

Brands will need to support consumers' desire to spend wisely, rather than impeding them. And it is important to be open and up-front with consumers – any attempts to mask price rises or short-change consumers are likely to backfire.

It is important to note that such strategies should not be seen as purely defensive. Slowdowns represent an opportunity to introduce new consumers to your brand at a time when past loyalties and habits may be open to challenge.

#### Protect your differentiation

While price will clearly be important to consumers in a slowdown, very few consumers make decisions on price alone. Brands need to continue to give consumers multiple reasons to choose their products over the competition and it will be important to keep reminding consumers of the broader value that products add to their everyday lives.

While it is not necessarily the case that consumers will cut the most expensive things first, you can be sure that they will always look to cut or trade down in the least engaging areas of expenditure.

Continuing to invest in the brand will not only help to drive engagement, differentiation and sales in the short term, it will also build brand health for the long term. Of course this doesn't mean that investment should just continue unchecked. Now is a good time to thoroughly evaluate investment and cost-effectiveness, and re-direct spending where appropriate.

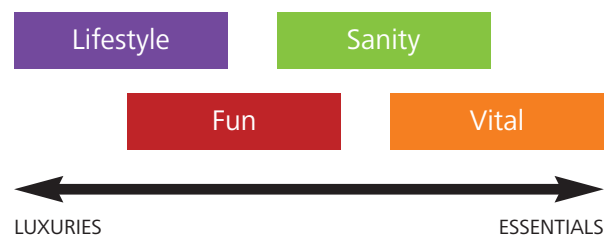
Ethical and environmental values will continue to provide an opportunity for differentiation, particularly with those consumers who will be trying to reconcile their desire to live a more sustainable lifestyle and their need to economise. There will be opportunities for brands to help consumers to find the right compromise between their values and their wallet.

#### Redefine your competitive set

During a slowdown, consumers tend to adopt a credit/debit approach to managing their finances.

The key implication of this is that brands need to understand the broader competitive context in which they are operating – encompassing not just direct competitors, but also direct and indirect substitutes from other categories. In a category in which consumers are prepared to consume less, what are they spending on instead, and how do value perceptions of the category and the brand need to change to reflect this?

Consumers tend to manage their monthly income through a series of 'mental wallets'. For some these mental wallets actually translate into a number of bank accounts that are ring-fenced for specific purposes.





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Things move quickly in a slowdown, and developments are often hard to predict. It is therefore critical to continuously monitor what your consumers are doing, and how they are feeling.

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### **Look, listen and react**

It is important to keep in mind that no two slowdowns or recessions are the same. The contributing factors tend to be different, and in any category the market context will have moved on significantly since the last slowdown. As a result, consumers will not necessarily respond in the same way, so neither should brands.

Things move quickly in a slowdown, and developments are often hard to predict. It is therefore critical to continuously monitor what consumers are doing, and how they are feeling. The emphasis should be on monitoring consumers, not the economy. By the time most economic data is published, consumers have moved on.

Speed of response will then be crucial, whether it be to how consumer sentiment is changing, or to how competitors are reacting. Organisations need agility and efficient decision-making if they are to take advantage of the rapidly changing landscape.

### **Plan for the recovery**

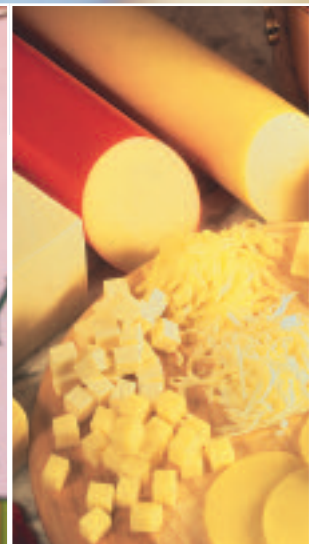
Despite what we have got used to over the past 15 years, economies are cyclical and just as a slowdown was inevitable, there will be a recovery. Organisations shouldn't lose sight of the longer term, and should be planning for this recovery before it has begun. If strategic and innovation planning grind to a halt now, you will inevitably be playing catch up when the recovery begins.

# Sectoral Review and Outlook

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## Overview

Irish food, drink and horticulture exports faced a challenging market environment throughout 2008 with significant currency volatility, slowing consumer spending and problems with regard to access to credit all impacting on exporters. For the year, exports are estimated to have declined by less than seven per cent to just over €8.16 billion. This follows a rise of €1.4 billion during the 2006/2007 period.



Exporters were faced with the Euro strengthening by more than 30 per cent against Sterling during 2008 and as much as ten per cent against the US dollar in the first half of the year.

Like total merchandise exports, the food sector had to deal with the Euro strengthening by more than 30 per cent against Sterling during 2008. Likewise the Euro strengthened by ten per cent against the US dollar in the first half of the year before weakening from late summer. These developments coincided with a sharp fall in consumer spending across key markets as the year progressed. For many manufacturers, the difficulty in securing credit both for short term cash flow and longer term capital investment is also impacting on business operations. While commodity prices have eased as the year progressed, they still in many cases remain ahead of levels evident over recent years.

Overall, the value of exports in 2008 recorded an estimated fall of less than seven per cent or €564 million to reach just over €8.16 billion.

The best performing sectors in 2008 were meat and livestock, particularly beef, ready prepared meals, luxury chocolate confectionery and seafood. A significant easing in dairy prices and a slower market for alcoholic beverages affected export values in these categories.

#### Irish Food & Drinks Exports

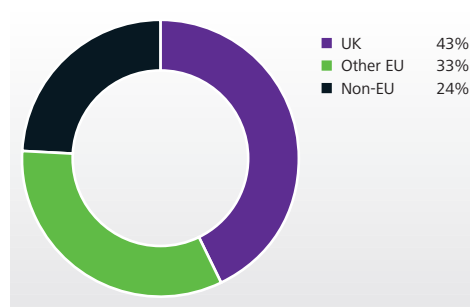
CATEGORY	2007 € million	2008(E) € million	2008/2007 % +/-
Dairy Products & Ingredients	2,329	2,202	-5.4
Prepared Foods	1,822	1,543	-15.3
Beef	1,570	1,687	+7.5
Beverages	1,440	1,246	-13.0
Pigmeat	368	360	-2.2
Seafood	352	352	0.0
Poultry	243	223	-8.0
Edible Horticulture & Cereals	249	236	-5.1
Sheepmeat	184	166	-10.0
Live Animals	170	148	-13.0
<b>Total Food &amp; Drinks</b>	<b>8,727</b>	<b>8,163</b>	<b>-6.5</b>

The **United Kingdom** remained the key market for Irish food and drink exports, accounting for 43 per cent of the total. This was despite the significant weakening of Sterling and reflects a strong performance in the market by beef and cheese in particular.

Continued diversification by prepared foods companies to other EU markets combined with a strong rise in the value of beef and whiskey exports helped increase the proportion of Irish exports going to **other EU member states** to almost 33 per cent.

A slower global market for dairy products combined with the weakness of the US dollar against the Euro for much of the year impacted on exports of Irish food and drinks to non-EU markets. For the year, it is estimated that these markets accounted for around 24 per cent of total food and drink exports in value terms.

Distribution of Irish Food & Drinks Exports, 2008(e)



#### MEAT AND LIVESTOCK

The combined value of **meat and livestock exports** is estimated at just over €2.58 billion in 2008. This is around two per cent ahead of 2007 levels. Beef exports performed very strongly during the year, rising by more than seven per cent to €1,687 million while poultry exports declined by eight per cent to €223 million. The value of pigmeat exports, excluding the impact of product subject to recall in December, is estimated to have fallen by just over two per cent to €360 million. A substantial fall in sheep supplies resulted in the value of exports falling by ten per cent to €166 million.

Exports of live animals eased as lower feedlot demand due to reduced profitability in Spain and a slower veal market impacted on live cattle exports. Live pig exports to Northern Ireland were also reduced due to lower availability. For the year, exports are estimated to have reached €148 million, representing a decline of 13 per cent.

The trade for Irish beef during much of 2008 showed a strong improvement. Tighter Irish cattle supplies combined with a significant fall in EU imports from South America provided a more positive market environment in key markets.

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### Sectoral Review and Outlook

#### Irish Meat & Livestock Exports

	2007 € million	2008(E) € million	2008/2007 % +/-
Beef	1,570	1,687	+7
Pigmeat	368	360	-2.2
Poultry	243	223	-8
Sheepmeat	184	166	-10
Live Animals	170	148	-13
<b>Total</b>	<b>2,535</b>	<b>2,584</b>	<b>+2.0</b>

#### BEEF

The trade for Irish beef during much of 2008 showed a strong improvement on year earlier levels. Tighter Irish cattle supplies combined with a significant fall in EU beef imports from South America provided a more positive market environment for Irish beef in key markets. However, during the autumn a noted slowdown in consumer spending was evident, which resulted in switching to cheaper cuts and meats impacted on market returns. In addition, issues regarding dioxin levels in Irish beef during December and a more cautious reaction by some customers created more difficult trading conditions in the run up to Christmas.

Bluetongue movement restrictions continued to alter trading patterns in markets such as France and resulted in increased volumes of more competitively priced beef being available, particularly on the French and Italian markets.

Irish cattle prices recorded a rise of around 15 per cent during 2008 with R3 steer prices improving by 42c/kg. This was twice the level of increase seen across Europe. British steer prices increased by eight per cent in Euro terms but given the considerable weakening of Sterling were some 26 per cent higher in Sterling terms.

Irish cattle disposals declined considerably in 2008 with export meat plant supplies falling by almost seven per cent to 1.58 million head. Average carcase weights are estimated to have fallen by more than one per cent during 2008. This led to the volume of Irish beef exports easing by eight per cent to 483,000 tonnes. The higher cattle prices evident led to the value of Irish beef exports rising by more than seven per cent to €1,687 million. Over 99 per cent of exports in value terms were destined for EU markets.

The implementation of a five year marketing strategy for Irish beef commenced in 2008. The European Meat Forum (EMF), which attracted 194 buyers, importers and media formed the cornerstone of activity. This EMF, combined with ongoing market specific activity in conjunction with industry, involving both existing and potential customers across retail and foodservice, has led to the following achievements during 2008:

- 17 new retail high value listings
- 7 new foodservice high value listings
- 5 new accounts being secured

This means Irish beef is now listed by almost 70 retailers across Europe and represents a significant first step in the successful implementation of the marketing strategy agreed with industry.

#### Beef Exports (€ million)

2007 € million	2008(E) € million	2007/2006 % +/-
1,570	1,687	+7.4

**Irish exports to the UK continued to perform well, although lower overall availability of Irish beef resulted in export volumes falling by an estimated six per cent to 261,000 tonnes, valued at an estimated €847 million.**

Progress continues to be made in developing the market position of Irish beef, particularly in the multiple retail and higher value foodservice market segments. Trade was helped by lower UK prime beef production and a reduced presence of Brazilian beef on the market. However, the considerable weakening of Sterling as the year progressed impacted on trade.

**Export volumes to Continental EU markets eased by eight per cent to 217,000 tonnes** due to lower Irish supplies and increased supplies of competitively priced beef from suppliers such as France and Germany. **This leaves exports of Irish beef to the Continent valued at some €830 million.** Irish beef continues to be listed with more multiple retail chains in more EU markets than beef of any other national origin.

While trade levels were helped by reduced volumes of Brazilian beef on the market, a slower import demand was evident as the year progressed. The strongest performing region was Scandinavia, with exports rising by five per cent to 44,000 tonnes. Shipments to the Netherlands, France and Italy were lower as reduced availability and increased volumes of French young bull beef impacted on trade. However, the presence of Irish beef at retail level continues to strengthen.

Exports to Spain and Portugal fell after a number of years of strong growth as reduced demand and lower prices impacted on Spanish import volumes.

A gradual improvement in EU pig prices during 2008 helped improve the market environment for Irish pigmeat. However, it is likely to take some time before the full impact of the product recall on exports is finalised.

**Exports of Irish beef to International markets amounted to around 5,000 tonnes in 2008.** Russia remained the principal market, although rising stock levels and difficulties securing export credit insurance impacted on trade as the year progressed.

### Prospects for 2009

The market environment for Irish beef in 2009 will be largely influenced by consumer demand, particularly for higher value cuts and the ongoing strength of the euro. Since the middle of 2008, there has been a noticeable switch to lower value cuts in key markets as consumers seek to reduce spending. How this factor plays out over the next 6 – 12 months will strongly influence Irish cattle prices.

Figures from the UK show that during the 12 week period to November, household purchases of beef eased by two per cent. Within this, a significant switch between cuts was evident with purchases of roasting joints and steak cuts falling by 20 and 12 per cent respectively. On the other hand, mince purchases continue to improve, rising by five per cent compared to corresponding 2007 levels while purchases of 2nd quality stewing cuts were 12 per cent higher. Similar trends are being recorded on the Continent.

Little change is expected in global beef export availability while EU production is anticipated to fall slightly. Lower production is anticipated in the UK, Germany and Italy with French output stabilising, all of which will help import demand. Despite the decline in EU beef consumption due to lower availability, the scale of the deficit on the EU market in 2009 is forecast to rise by 17 per cent to almost 190,000 tonnes.

Over recent months there has been a steady increase in the number of Brazilian farms approved to supply the EU, albeit to less than seven per cent of pre-restriction levels. A continuation of this trend would see some gradual modest recovery in the volumes of Brazilian beef on the EU market. While Brazilian prices have eased over recent months following a rise of 50 per cent, they are likely to remain above historical levels, which will affect their competitiveness. Despite easing in the final quarter, German wholesale prices for South American sirloins remain some 14 per cent ahead of corresponding 2007 levels.

In Ireland, some increase in cattle disposals is anticipated, particularly given the sharp fall evident in export meat plant supplies since late October. However, export meat plant disposals are not likely to exceed 1.62 million head, which remains well below 2007 levels. As a result, Irish export volumes in 2009 are anticipated to rise by around 15,000 tonnes. This follows lower exports of live cattle during 2007 and some increased carryover of cattle from 2008.

A further fall of two per cent in UK prime beef supplies is expected to boost import requirements, which will help the market demand for Irish beef. However, some recovery in imports of South American beef is anticipated, although volumes are likely to remain well below historical levels. Irish beef remains well placed to gain its share of any growing import requirements, particularly at retail level.

In terms of Continental EU markets, demand for Irish beef will be largely dictated by the level of consumer demand, which will drive overall import volumes. The best market prospects are likely to be in Scandinavia, Italy and Spain. Trade to International markets looks set to remain competitive as availability of export credit insurance is also becoming an issue in some markets.

### PIGMEAT

A gradual improvement in EU pig prices during 2008 helped improve the market environment for Irish pigmeat. However, the recall of pigmeat products due to a sample of pigmeat produced between September 1st and December 6th having traces of dioxin, impacted significantly on trade towards year end. It will take some time before the final impact of the product recall on the value of exports is finalised.

A slight decline in Irish pig supplies was more than offset by a rise of nine per cent in Irish pig prices. However, the impact on exports in December combined with a more competitive UK market reduced the value of exports. For the year, the value of exports, excluding the impact of recalled product is estimated to have declined by around two per cent to €360 million.

Meat plant supplies eased by an estimated two per cent in 2008, reflecting a decline in the breeding herd and a reduced level of sow disposals. Increased productivity and a decline in live exports of finished pigs to Northern Ireland helped reduce the level of decline.

Stable domestic demand helped by some switching to pigmeat as consumer spending slowed helped maintain consumption. Initial indications suggest that the full recall of Irish pork and bacon products had a relatively limited impact on purchasing decisions by Irish consumers. Overall, consumption is estimated to have been maintained at 33kg per capita. The domestic market now accounts for almost 50 per cent of Irish pigmeat output.

Import volumes were largely unchanged during the year at around 75,000 tonnes cwe. However, the drop in availability and the reduced level of trade in December led to the volume being available to export easing by around eight per cent to just over 130,000 tonnes cwe. It remains unclear how much product will be returned as part of the product recall in December.

It is to be hoped that any customer/consumer reaction to the recent product recall will be shortlived and that through a proactive communications and marketing campaign, Irish pigmeat will rebuild its presence in key export markets during 2009.

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Irish pig prices recorded a recovery of nine per cent in 2008 at €1.44/kg with the strongest increases evident in the July to September period before easing off over the final months of 2008. The weakness of sterling impacted strongly on trade to the UK while higher than anticipated supplies on the Continent reduced the scope for further price increases. This left Irish prices at 94 per cent of the EU average price.

#### Pigmeat Exports (€ million)

2007	2008(E)	2008/2007
€ million	€ million	% +/-
368	360	-2.2

**The UK remains the principal destination for Irish pigmeat with exports in 2008, excluding the impact of the product recall, expected to reach 70,000 tonnes cwe, representing a decline of over ten per cent on 2007 levels.** However, it remains to be seen how much product will be returned as part of the recall. A more competitive UK market with strong supplies of Dutch and Danish product combined with the ongoing weakening of sterling impacted on trade.

In terms of **Continental EU markets**, shipments were broadly similar to year earlier levels with some diversion of product from the UK market evident. Shipments were expected to reach 38,000 tonnes cwe. However, as with the UK it remains to be seen how much product will be involved in the product recall. Somewhat stronger shipments to Germany helped by a better import demand helped to offset lower trade to markets such as France and Italy.

Exports to **International markets** held up reasonably well for much of the year although slower shipments to Russia were evident during the autumn as higher stock levels and difficulties faced by importers in securing credit affected demand. Also, the strength of the Euro against the dollar for much of the year impacted on trade. Prior to the recall, shipments were expected to reach around 23,000 tonnes cwe, broadly similar to corresponding 2007 levels.

A stronger presence of US pigmeat on the Japanese market impacted on Irish trade with shipments for the year estimated at 5,500 tonnes cwe prior to the recall. Shipments to Russia also showed some decline reaching an anticipated 6,000 tonnes prior to the recall.

However, exports to China and Hong Kong continue to grow and were on course to reach a combined 7,000 tonnes cwe in 2008.

### Prospects for 2009

It is to be hoped that any customer / consumer reaction following the recent product recall will be short lived and that through a proactive communications and marketing campaign, Irish pigmeat will rebuild its presence in key export markets during 2009. However, early indications suggest that trade has been slow to recommence on European and international markets.

Bord Bia, through its overseas offices continues to work with industry and DAFF to reinforce the positive message from EFSA and national food safety agencies in the individual markets. The focus will be on demonstrating to customers the integrity of the controls implemented by the Irish authorities and that there is absolutely no risk to public health from Irish pork and bacon.

Tighter EU pig supplies and the potential for pigmeat to benefit from increased consumer focus on purchasing lower priced cuts and meats will help to provide a more positive market environment for pigmeat. Figures from the EU Commission suggest that EU pig supplies in the first half of 2009 will be almost four per cent below corresponding year earlier levels before increasing during the second half of the year.

The decline in the Irish breeding herd in 2008 would suggest a drop of around five per cent in finished pig supplies in 2009. However, the removal of sows from a number of farms as part of the dioxin investigation will further reduce availability. It is estimated that the removal of sows could reduce finished pig supplies in 2009 by around ten per cent on 2008 levels.

Some further improvement is anticipated in EU pig prices by the EU Commission during the second quarter of 2009.

Import demand in the UK is likely to be affected by an anticipated increase in domestic supplies during the early part of 2009. Lower supplies across the Continent should present opportunities for Irish pigmeat as the year progresses while International market demand will continue to be affected by the relative strength of the Euro and ongoing strong competition from other suppliers such as Brazil, the United States and Canada.

Lower supplies should provide better prospects for Irish pig prices once export markets recover, while lower feed costs given the fall away in grain prices over recent months should also provide some relief to producers.

Tighter lamb supplies are anticipated in 2009 in both the UK and France. In addition, a drop of up to 23 per cent in New Zealand export supplies is expected to boost their prices as the year progresses.

## SHEEPMEAT

A sharp fall in sheep availability combined with only a modest easing in domestic consumption impacted on the volume of Irish sheepmeat exports during 2008. For the year, it is estimated that export volumes fell by up to 15 per cent to around 42,000 tonnes cwe.

Lamb prices showed some improvement during the year, rising by four per cent to €3.70/kg. Continued efforts by the industry to add value to lamb exports by increased levels of cutting and a wider range of markets helped to boost the value of exports. Overall, **it is estimated that the value of exports fell by ten per cent in 2008 to €166 million.**

Export meat plant supplies were more than 12 per cent lower during the year as a slightly smaller carryover of lambs from 2007, a lower lamb crop and fewer ewe lambs being processed led to lamb supplies falling by more than 13 per cent to 2.2 million head. Cull ewe supplies continued to moderate with a drop of almost nine per cent recorded.

### Sheepmeat Exports (€ million)

2007	2008(E)	2008/2007
€ million	€ million	% +/-
184	166	-10

The Irish market now accounts for just over 30 per cent of total sheepmeat output leaving it as the second most important market after France. Lamb consumption eased as the year progressed in response to slower consumer spending, resulting in a fall of less than three per cent for the year at 19,500 tonnes.

### France continues to account for more than 50 per cent of Irish sheepmeat exports at an estimated 21,000 tonnes.

Demand for sheepmeat in France remained slow during the year reflecting a fall of eight per cent in retail lamb sales while the significant weakening of Sterling made UK lamb very competitive on the market.

New Zealand continues to build its presence of chilled lamb on the EU market with chilled volumes estimated to have increased by five per cent in 2008 to 48,000 tonnes. Volumes of chilled New Zealand lamb on the French market were three per cent higher at around 14,000 tonnes.

Exports to the **UK** continue to perform reasonably well although the strong growth of recent years eased off with shipments standing at around 12,500 tonnes. Increased UK production combined with lower Irish mutton supplies impacted on trade.

Shipments to Northern Europe continue to perform strongly with sales to Sweden reaching an estimated 2,500 tonnes in 2008. Shipments of light lamb to Mediterranean markets improved towards the end of the year due to a better demand in Portugal and to a lesser extent Italy. However, better quality hill lambs are being retained in Ireland for either the domestic market or are being brought to higher weights for other markets.

The growth in boneless exports continued in 2008 with an estimated 35 per cent of shipments in boneless form compared to 30 per cent in 2007. This highlights the continued diversification of Irish sheepmeat exports.

## Prospects for 2009

A further decline in Irish sheep availability is anticipated for 2009 given the ongoing decline evident in the breeding flock. Figures from the June 2008 CSO livestock survey show a further fall of eight per cent in breeding sheep numbers, which leaves numbers 750,000 head below June 2005 levels. For the year, a further decline of over five per cent is anticipated in Irish sheep supplies. This would leave export volumes at just under 40,000 tonnes.

Tighter EU lamb supplies are anticipated in 2009 with both the UK and France predicting reduced production levels. In addition, a fall of up to 23 per cent anticipated in New Zealand lamb supplies is expected to boost their export prices. However, overall demand for lamb may not be as strong given the economic situation anticipated across Europe.

France will continue to remain the key market with their import requirements likely to be determined to a large extent by the level of consumer demand and availability from other suppliers.

Lower UK consumption levels are expected to help maintain UK export volumes during 2009 and with Sterling expected to remain weak, it will assist their price competitiveness.

Further potential for growth exists in Northern European markets.

The Irish poultry industry faced a challenging year in 2008 as competitive pressures in the UK impacted on returns.

Live cattle exports eased in 2008, reflecting considerably lower feedlot demand in Spain and a weaker veal trade in key markets.

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#### POULTRY

The Irish poultry industry faced a challenging year in 2008 as competitive pressures in the UK impacted on returns. Broiler prices increased by three per cent, in line with overall EU trends. However, production levels continue to fall with a drop of almost five per cent anticipated for the year as a whole. Lower output was recorded in broiler, turkey and duck production.

Poultry consumption across Europe showed some further improvement, which led to better import demand in key markets. Overall, poultry imports into Europe were marginally lower due to a drop in shipments from Brazil, which wasn't fully offset by increased imports from Thailand.

The fall in poultry production was partly offset by higher prices although a significantly more competitive market environment in the UK affected returns. Overall, **the value of Irish poultrymeat exports is estimated to have fallen by eight per cent to €223 million.**

Higher prices combined with a moderation in feed prices helped producers, although higher energy, packaging and labour costs resulted in a competitive market environment being maintained.

Poultrymeat Exports (€ million)		
2007	2008(E)	2008/2007
€ million	€ million	% +/-
243	223	-8

Exports continue to focus on value added products and chilled cuts. Exports of processed poultry account for 70 per cent of the total in value terms. The UK continues to be the key market for Irish poultry, accounting for almost 80 per cent of total exports. The sector continues to face stiff competition from processed poultry products coming into the EU from markets such as Thailand at very competitive prices. In 2008 EU imports of processed poultry is estimated to have exceeded 500,000 tonnes.

#### Prospects for 2009

Little change is anticipated in EU poultry production during 2009 and given its relative price, poultry demand is likely to perform better than most meats in the slower economic environment. Overall, consumption levels are expected to rise slightly.

Irish poultry production looks set to decline further, reflecting the ongoing competitive nature of the European poultry sector given the ongoing presence of imports on the market.

Overall, broiler prices are expected to be broadly similar during 2009 while an anticipated lower feed price would help provide more stability to the market environment for Irish poultry producers and processors.

#### LIVE ANIMALS

**The value of Irish livestock exports fell by 13 per cent in 2008 to an estimated €148 million.** This was largely due to lower live cattle and pig exports while live shipments of sheep continued their decline of recent years.

##### Livestock Exports (€ million)

SPECIES	2007	2008(E)	2008/2007
	€ million	€ million	% +/-
<b>Total</b>	<b>170</b>	<b>148</b>	<b>-13</b>
Cattle	111	93	-16
Pigs	54	51	-6
Sheep	5	4	-20

#### Live cattle exports

Live cattle exports reached 147,000 head in 2008, down by 60,000 head on year earlier levels. The value of this trade is just over €93 million. The principal reasons behind the decline in export levels in 2008 were considerably lower feedlot demand in Spain due to a lack of profitability and a slower veal demand.

For the year, calf exports are estimated to have declined by almost 40 per cent to 55,000 head. Lower exports were evident to both Spain and the Netherlands.



Following an excellent performance in 2007, dairy prices came under pressure as 2008 progressed reflecting a considerable slowdown in the global dairy market. While prices eased, the levels evident for the first half of 2008 were for most products ahead of corresponding 2007 levels.

Exports of weanlings and store cattle were mixed. Shipments to Italy held up well after a slow start, helped by reduced levels of imports of French cattle. However, shipments to Spain fell sharply reflecting a lack of restocking by feedlots due to the poor profitability levels being reported. For the year, total exports of weanlings and store cattle is estimated to have reached almost 75,000 head, which represents a fall of 25,000 on 2007 levels.

The key destination for weanlings/stores was Italy at 46,000 head, which was similar to year earlier levels. Exports to Spain more than halved to reach an estimated 13,000 head while shipments to Northern Ireland stood at around 15,000 head.

Total exports to Northern Ireland were around ten per cent lower at 33,000 head as a weaker Sterling combined with stronger prices in Ireland impacted on trade.

### Prospects for 2009

The outlook for Irish live cattle exports remains reasonable for 2009. The principal uncertainties facing the trade are the likely level of veal demand given the ongoing slowdown in consumer spending, the level of feedlot demand in Spain and the strength of competition from French cattle on the Italian market.

The relative price of veal suggests that in a period of slower consumer spending, consumption levels are likely to weaken. This combined with the likely return of increased live calf exports from the UK suggest that the market for Irish calves seems set to be competitive.

The recent rise in Spanish cattle prices and an easing in feed prices should help boost profitability in the feedlot sector in Spain. However, the level of losses reported by some operators would suggest restocking demand is going to take some time to recover. Taking this into account, the level of Irish live exports to Spain are likely to improve somewhat during 2009, albeit remaining below the levels evident prior to 2008.

Increased levels of French live cattle exports to the Italian market are anticipated for 2009 as issues surrounding Bluetongue vaccination between the France and Italy appears to have been resolved. However, the relative price of Irish cattle is likely to help shipments. Overall, some decline in export levels is anticipated.

Little change is expected in live exports to Northern Ireland.

### DAIRY PRODUCTS & INGREDIENTS

This category encompasses both primary dairy products such as butter, cheese and milk powders and value added dairy products and ingredients such as infant formula, casein and chocolate crumb.

Following an excellent performance in 2007, dairy prices came under pressure as 2008 progressed reflecting a considerable slowdown in the global dairy market. The weakness of the US dollar and sterling relative to the Euro also impacted on Irish export levels.

Stable to lower volumes were evident for most product categories with the exception of infant formula, which showed further growth in output. While prices declined during 2008, the levels evident for the first half of 2008 were for most products ahead of corresponding 2007 levels, which helped to maintain export values. The exception to this was powder prices which fell sharply from late 2007.

Overall, it is estimated that the value of **exports for the year eased by five per cent to reach €2.2 billion.**

#### Dairy Exports (€ million)

2007	2008	2008/2007
€ million	€ million	% +/-
2,329	2,202	-5

Despite lower prices, milk production in the EU is estimated to have increased in 2008 due to a higher milk quota and growing consumption of dairy products. EU production of cheese increased during 2008, albeit at a lower rate than earlier predicted. Figures from the EU Commission show that during the April to September 2008 period, EU cheese output increased marginally while butter production fell by almost three per cent.

Powder prices fell strongly during 2008 while butter prices also went into significant decline as the year progressed. However, cheese prices have proven more resilient with cheddar prices dipping below 2007 levels for the first time in October.

The best prospects for improved dairy demand are anticipated in China and India, two markets that to date have been less affected by the global economic slowdown.

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In terms of Irish exports, the strongest performing categories during the year were cheese and infant formula. A further growth in output of infant formula helped to offset lower export unit values as the year progressed. The principal destinations remained the United Kingdom followed by Continental EU markets, the Middle East, Asia and the United States.

In terms of cheese, increased production combined with a relatively strong price performance helped to boost exports with the value of trade increasing by more than ten per cent. Most of this increased trade was to the UK market, although further growth was also recorded to France, the Netherlands and Spain.

Butter exports eased during 2008 with lower production combined with a sharp fall in export prices as the year progressed impacting on the value of exports. For the year, it is estimated that the value of butter exports fell by around 20 per cent.

### Prospects for 2009

The prospects for the global dairy market will be largely determined by the global economic situation and its subsequent impact on demand for dairy products. An increased level of volatility is expected to remain the overriding element of the global dairy trade.

Despite current short-term challenges, the medium to long-term outlook remains robust for the dairy sector helped by income growth in many parts of the world, and favourable demographic and cultural trends that have increased awareness of, and improved access to, dairy products.

Little change is anticipated in global dairy demand during the first half of 2009. A recent report by Rabobank anticipates some turnaround in demand levels during the latter part of 2009 based on what it expects to be an improved global economy, increased consumer demand and more competitive product pricing. However, the timing of an economic recovery will be critical.

Some moderation in recent supply growth is expected as producers rein back on investment in response to lower milk prices and higher input costs.

The level of volatility in the marketplace means that processors have to adapt to changed conditions while dairy ingredient users have to manage price fluctuations in balancing the costs of reformulation and recipe flexibility.

The recently agreed 'CAP Health Check' will allow for a one per cent annual increase in EU milk quotas over the next five years, paving the way for their abolition from 2015. This provides potential opportunities given the competitive nature of our production base, even more so given the fact that a number of key member states are unlikely to fill their milk quota over the medium term.

The prospects for Irish dairy exports in 2009 remain somewhat uncertain as the slowdown in the global economy has yet to fully play out in terms of its impact on demand for dairy products. Within the EU, it is hoped that further progress can be made in developing markets for Irish products, particularly cheese. Opportunities also remain for the Irish dairy industry to increasingly serve consumer and market demand for products that deliver in terms of health, nutritional and functional attributes.

### PREPARED FOODS

This category includes a wide range of primary products, which have been further processed and includes ready to eat foods, confectionery and bakery products.

**Exports of the prepared foods performed reasonably well considering the competitive environment in which exporters were operating.** Overall, export values of product covered under the prepared foods category fell by an estimated 15 per cent to €1,543 million. If value added meats and poultry are included, exports stood at €1,920 million.

However, when "other" prepared foods, largely extracts and supplements from multinational companies are removed, indigenous exports were broadly similar to 2007 levels.

Ready meals, pizzas, luxury chocolate confectionery and bakery all put in good export performances.

The export performance in the prepared foods category continues to be driven by considerable product development initiatives and an ongoing drive to expand the range of markets served.

#### Prepared Food Exports (€ million)

2007	2008(e)	2008/2007
€ million	€ million	% +/-
1,822	1,543	-15

The export performance in the prepared foods category continues to be driven by considerable product development initiatives and an ongoing drive to expand the range of markets with increased penetration reported on the Continent. The drive by the sector to premiumise product offerings and highlight health aspects of products has helped to boost sales.

However, prepared food manufacturers continue to face a number of significant challenges, including exchange rate volatility, rising costs of production, higher ingredient costs, price pressures from customers and slowing consumer spending.

The UK remains the key market for prepared food exports although markets such as Benelux, Scandinavia, Spain and Germany continue to develop well.

One of the major exports to the UK is ready meals. The market for frozen ready meals has been under pressure over recent years due to health perceptions in relation to salt and fat levels. However, there are increasing indications that strong innovation incorporating health claims, a reduced emphasis on salt and additives and a stronger focus on premium offerings is driving increasing demand in this category. Mintel projects a growth of 12 per cent in the total ready meals market by 2013, although the frozen segment is expected to decline, albeit at a slower rate than recent years.

Exports of pizzas continue to perform well for Irish exporters, with a strong market share in the UK combined with increased sales to other European markets helping trade levels. The pizza category continues to show the fastest volume growth in the frozen food segment in the UK at almost seven per cent.

Total exports of chocolate confectionery were marginally ahead in the first three quarters of 2008, boosted by the cool summer in the UK market. For the remainder of the year, volumes are estimated to have fallen below 2007 levels, reflecting the more difficult market environment given the considerable weakening of sterling.

Exports of luxury chocolates put in a good performance helped by a wider customer and market portfolio. While the UK remains the principal market, exports continue to develop to markets such as Australia, Russia and the United States. A number of manufacturers have opened cafés and stores in the United States to boost their market presence.

Sugar confectionery exports remained under pressure as a combination of movement of manufacturing to other countries and competition in the marketplace combined to more than offset exports of part produced products. The best prospects for growth continue to be for products with an absence of colourings and additives.

Bakery products put in a steady export performance during 2008 as the category has to date proven more 'recession resistant' with consumers unwilling to trade down to the same extent as some other categories. Also, the resurgence of the packed lunch and reduced eating out of home has helped the market for high quality bakery products. Overall, export values are estimated to have increased by around four per cent with the UK remaining the principal market. However, rising production costs and currency fluctuations continue to leave pressure on margins.

### Prospects for 2009

The market environment for Irish prepared food exports in 2009 looks set to remain challenging, particularly given the projected developments in the Euro/Sterling exchange rate. Much will depend on the ability of exporters to secure better returns from the marketplace while also being able to react to changing consumer purchasing patterns, which is resulting in an increased level of eating at home than has been the case over recent years. Further market diversification is anticipated to the Continent.

Product innovation in relation to health, convenience and value for money as well as targeting products for particular markets will continue to offer the best potential for growth. However, the sector looks set to remain very competitive throughout 2009.

Following a number of years of strong performances, Irish beverage exports came under pressure in 2008. The weakness of the US dollar for much of the year combined with lower consumer spending impacted on trade. However, whiskey exports recorded double digit growth.

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#### BEVERAGES

Following a number of years of strong performances, Irish exports of beverages came under some pressure during 2008. The weakness of the US dollar for much of the year combined with lower consumer spending impacted on the market for Irish exporters. **Overall, exports are estimated to have declined by 13 per cent to almost €1,250 million.** The strongest performing category was whiskey, with exports recording double digit growth. Beer and cider exports slowed while overall liqueur exports were affected by structural changes in distribution.

In terms of non-alcoholic beverages exports, increased consumer price consciousness, a competitive water market and a poor summer led to a difficult market environment.

#### Beverage Exports (€ million)

2007	2008(E)	2008/2007
€ million	€ million	% +/-
1,440	1,246	-13

The principal growth in exports during the year was evident in whiskey, which recorded double digit growth. Trade was helped by increased sales to a broader range of markets. Strongest growth was evident in the United States, Russia, Eastern Europe and South Africa. Trade within the EU also performed to expectations. However, competitive pressure continues to be evident from other European suppliers.

The global market for cream liqueurs continues to show a steady growth. Exports of cream liqueurs from Ireland were affected by a structural change in distribution among the leading producers while the weakening of Sterling also affected trade as the year progressed. The range of markets for liqueurs continues to develop, which offers good long term potential for the category.

In 2008, exports of Irish cider performed well in developing markets such as USA, Australia, France and the Middle East. There were mixed performances across more mature markets, with exports to Northern Ireland growing strongly, helped in part by cross-border trading, while poor summer weather and increased levels of price competition affected growth in Great Britain.

The export performance over recent years has been helped by an increased emphasis on premiumisation within the category as consumers sought to trade up. How this trend plays out in a slower global economic environment remains to be seen. Other issues facing the sector include currency fluctuations, higher costs of glass bottles and difficulty securing price increases despite relatively strong raw material prices.

In terms of non-alcoholic beverages, exports of mineral water slowed again during 2008 as the category remains very competitive with sales under pressure as consumers cut back on spending. Figures from the UK suggest a fall of around six per cent in sales, not helped by the poor summer. Water products that are performing most strongly include those that offer an added benefit or product feature. The bulk of mineral water exports continue to go to the UK.

Sales of smoothies have also showed signs of slowing down due to the high price point of the product and increased pressure on the impulse trade over the last six months. Functional drinks and fruit juices have performed better reflecting ongoing consumer demand for products that meet specific needs. Exports of teas/coffees performed well with increased sales to the UK helping exports to grow by around six per cent.

#### Prospects for 2009

The prospects for Irish beverage exports in 2009 depend to a large extent on how consumer demand develops in key markets such as the United States and the UK. Overall, growth in demand is anticipated for whiskey, which should help to maintain trade levels, although the market is likely to be more competitive. The strength of the Euro remains a concern particularly in the UK and to a lesser extent the United States and other markets where these suppliers are active.

There is a likelihood that the long term trend to premiumise may be affected by a short term switch to more value driven brands. In relation to non-alcoholic beverages, the best export potential appears to be in the functional drinks area, albeit in what is likely to be a very competitive market environment.

Mushrooms continue to represent the largest source of exports for this category. Trade declined in 2008 due to the significant weakening of Sterling and a competitive UK market.

## EDIBLE HORTICULTURE & CEREALS

**The value of edible horticulture and cereal exports fell by five per cent in 2008 to an estimated €236 million.**

Mushroom exports fell by around ten per cent in both volume and value terms due to the significant weakening of Sterling and a competitive UK market due to strong supplies from both domestic producers and imports from countries such as Holland and Poland. Cereal exports increased further, although lower prices affected exports as the year progressed.

### Edible Horticulture & Cereals Exports (€ million)

2007	2008(E)	2008/2007
€ million	€ million	% +/-
249	236	-5

Mushrooms continue to represent the largest source of exports for this category, accounting for almost 50 per cent of the total. There was an eight per cent growth in the UK retail market for mushrooms in 2008 driven mainly by price.

Recent market trends have seen a shift in consumer purchasing, with loose button product now gaining market share up to 18 per cent while the prepacked button mushroom market share has now dipped to under 50 per cent reflecting the relative rise in price for prepacked mushrooms. Other growth sectors within the mushroom category due to increased penetration include value and brown product while flat mushrooms have declined.

A positive development in the Irish context is the increased availability of Phase III compost which means better productivity for growers and helps with profitability. On the downside the costs of production have increased which has impacted on the competitiveness of the sector.

## Prospects for 2009

The Euro/Sterling exchange rate is likely to have the biggest effect on exports in 2009. The other factor which is likely to impact on exports is the state of the UK economy. Trends in the second half of 2008 have shown the first increase in loose sales in a very long time. There have also been increases in value sales as budget conscious consumers look to make savings where they can. The Mushroom Industries in both Ireland and the UK plan to commence a major promotion of mushrooms in the UK market in 2009 which will be aimed at growing the overall UK mushroom market.

## AMENITY EXPORTS

Ireland exports a range of Amenity horticultural products which include nursery stock, Christmas trees and cut foliage products. It is estimated that the value of these exports eased during 2008 with the weakness of Sterling the main driver in slower export sales. With the reduced activity in the Irish housing market, there will be an increased focus on amenity exports in 2009.





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