

January 27, 2021

Foodservice in Hindsight and Into the Future

Many predictions made back when the pandemic began became true for the protein industry. From the immediate assumption of a demand shift from foodservice to retail, or the price volatility at the wholesale level, to the inevitable government intervention, the responses—and to a lesser degree their impacts—were relatively easy to see even though we did not have much to compare it with.

Although price volatility was an easy prediction as an outcome from the pandemic's initial disruption, many did not expect for many protein prices at the wholesale level to remain high throughout the year. One would think that the initial highs reached by production disruptions and strong retail demand would have been offset by lows caused by the contraction in foodservice, entertainment, and hospitality industries. Also, while there is a positive correlation between wholesale and retail prices, chicken prices, for instance, went in the opposite direction; retail prices moved about 6% up, while wholesale prices declined about 10%.

However, production adjustments continue to take place to balance the supply equation, and price volatility appears not to be as important a factor as it was back when the disruption began.

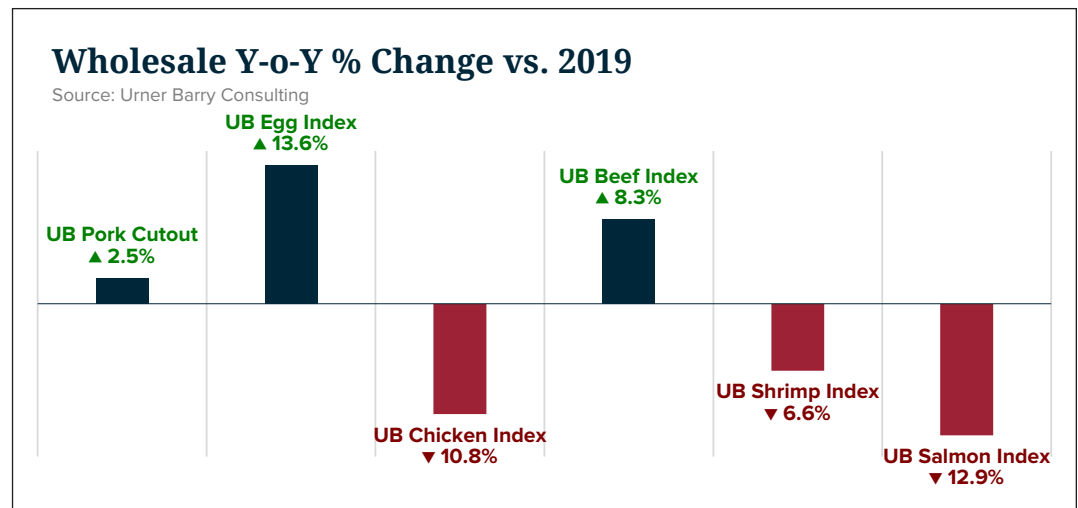


Figure 1. Wholesale prices illustrated using Urner Barry's Wholesale Price indices.

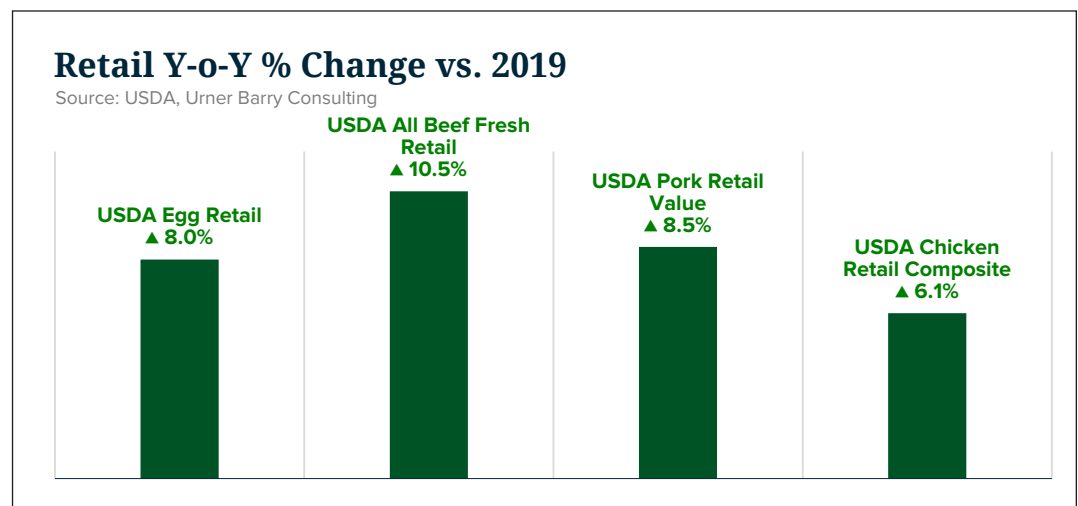


Figure 2. USDA's retail prices. Percent change of yearly average prices from a year ago.

Our initial hypothesis suggested that as consumers' income shrank, protein consumption would trade down towards the lower-priced proteins, just as we saw during the initial stages of the pandemic when wholesale egg prices shot up to record-highs. Yet, we believe that despite persistent high unemployment figures, particularly in the foodservice, entertainment, and hospitality industries, which accounts for about

11% of the labor workforce, the injection of money into the system through emergency unemployment benefits has helped protein consumption remain relatively intact. For instance, shrimp sales at the retail level remain at significantly higher figures compared to a year ago, while wholesale ribeye prices managed to reach a seasonal record high in Q4. Even prices for food away from home, which represents the foodservice sector, also moved up in 2020 compared to 2019.

Disposable income moved up and remains relatively high, mainly due to this cash injection to the system and to the fact that expenditures in air-travel, sporting events, and other similar activities remain severely contracted.

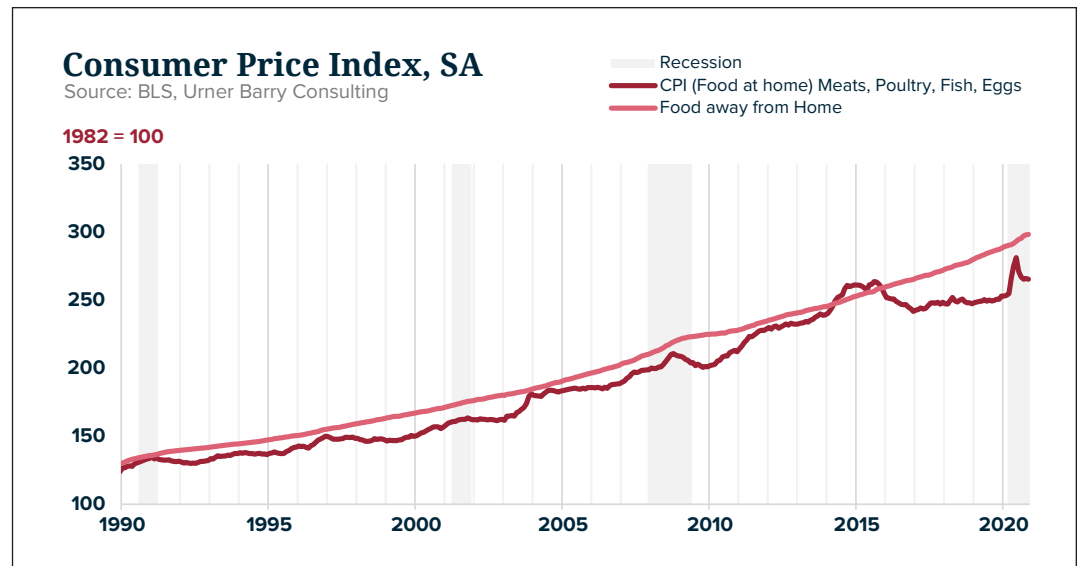


Figure 3. Consumer Price Index for Food Away from Home, and Food at Home for Meats, Poultry, Fish and Eggs. Seasonally Adjusted.

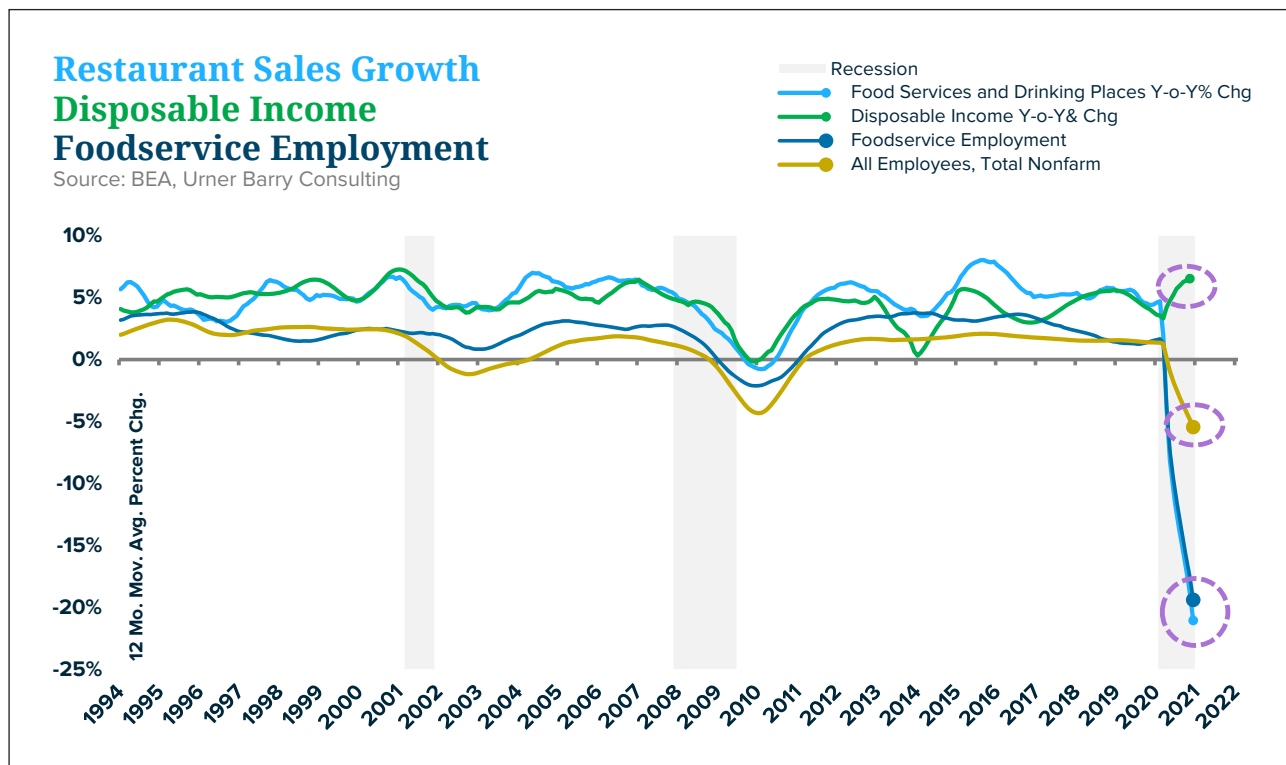


Figure 4. Restaurant Sales Growth and Disposable Income, Y-o-Y Chg, 12 Month Moving Average. Source BEA, Urner Barry Consulting.

Although foodservice sales began contracting as expected in Q4 due to colder weather across the country, further indoor dining restrictions as a result from rising COVID-19 cases and fatalities in late November and December, are likely to make winter predictions worse. According to OpenTable data, seated diners' figures remain hovering between 60% and 40% below 2019 levels. This data suggests that if cases and fatalities remain high, foodservice will also remain contracted.

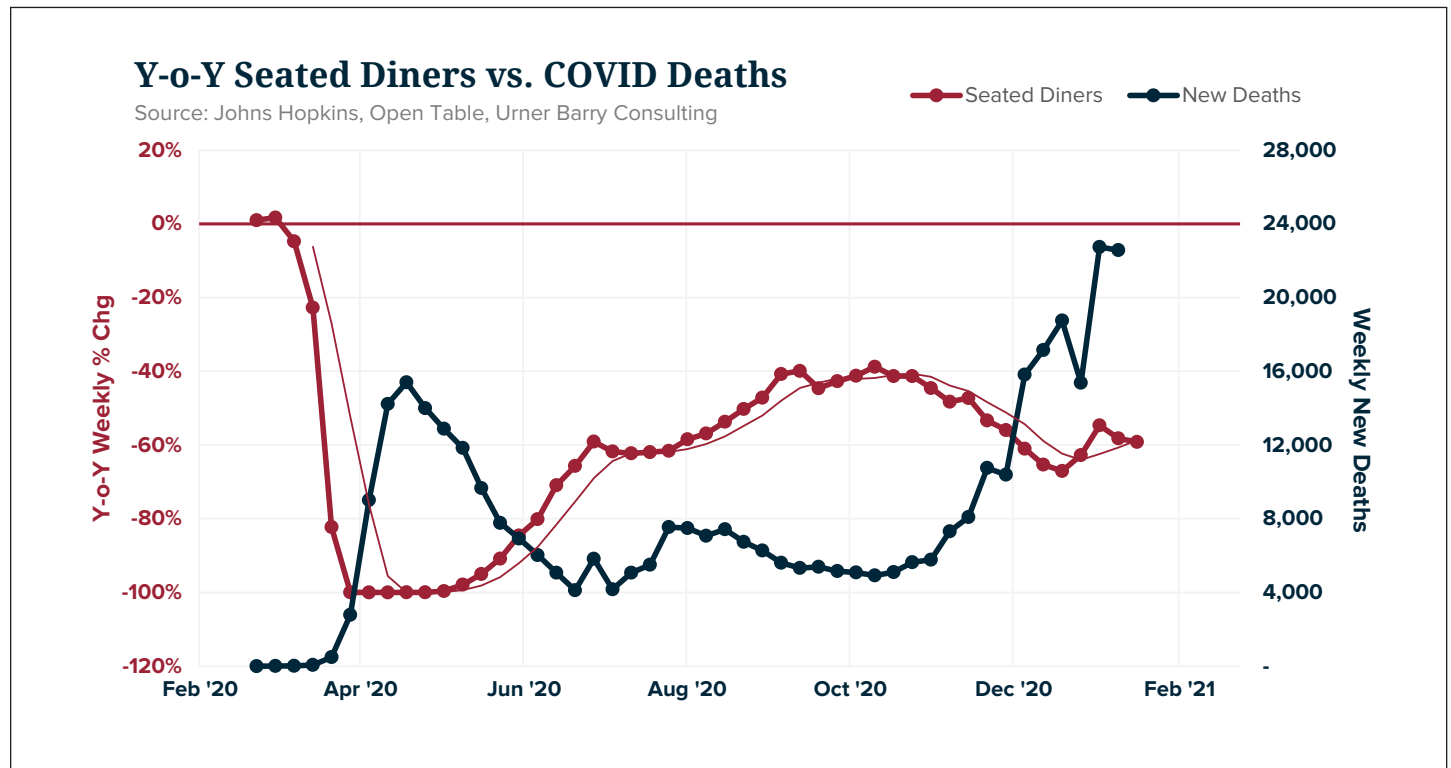


Figure 5. Weekly aggregate of COVID-19 related deaths and weekly average of seated diners at a sample of restaurants on the OpenTable network. Source: Johns Hopkins University, OpenTable, Urner Barry Consulting.

What is not obvious and clear is what lies ahead as vaccine rollouts take place. We still have cold weather across the country until at least mid-March while COVID-19 cases and hospitalizations remain high. There will be another injection of government relief money in the system that should help the economy buffer the persistent negative effects of the pandemic.



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Our revised prediction in June was for foodservice to contract anywhere between 14% and 24%, and a retail growth between 12% and 17% in 2020. Actual seasonally adjusted figures came in at about 19% contraction for foodservice, and an 11% growth in retail in 2020. The predictions for 2021 have a much wider range given the uncertainty of what the vaccine rollout continues to look like. In the best-case scenario, we expect as early as late March or early April for foodservice sales to begin improving considerably. In the worst-case scenario, we could see this trend delayed until June.

Employment in the foodservice sector ended 2020 approximately 19% below pre-pandemic levels. To get back to pre-pandemic levels in 2021, the industry would need a rather abrupt recovery. Although a swift recovery is possible, getting to pre-pandemic levels will be hard to accomplish. Our best-case scenario is for a 12% year-over-year recovery from 2020 figures, and about 10% below pre-pandemic levels. Although this does not sound terribly encouraging, this would be sort of a “V” shaped recovery.

Retail sales will probably remain strong throughout the year although lower year-over-year for obvious reasons. Our main concern is the potential recovery of the sectors that remain significantly contracted, such as tourism, entertainment, and naturally, restaurants and bars. Once we begin to see signs of significant recovery in foodservice—and to some extent other negatively impacted sectors—we believe there will be periods of high price volatility and quite likely a rise in overall protein prices at the wholesale level. Such a rise will mainly be demand driven rather than a sudden drop in supply. Proteins that relied more heavily on foodservice sales prior to the pandemic, like some main seafood items such as shrimp or salmon, will welcome a rise in wholesale prices after experiencing multi-year lows in 2020.

For now, we remain optimistic that the recovery trend will be positive whether it is swift or gradual through 2021 into 2022. Data from 2020 will prove rather useful when analyzing prolonged market shocks. Through data and experience, industry participants and analysts predicted many potential outcomes that were close to what happened. Hopefully, we do not run into another pandemic, even if we are now slightly better prepared.

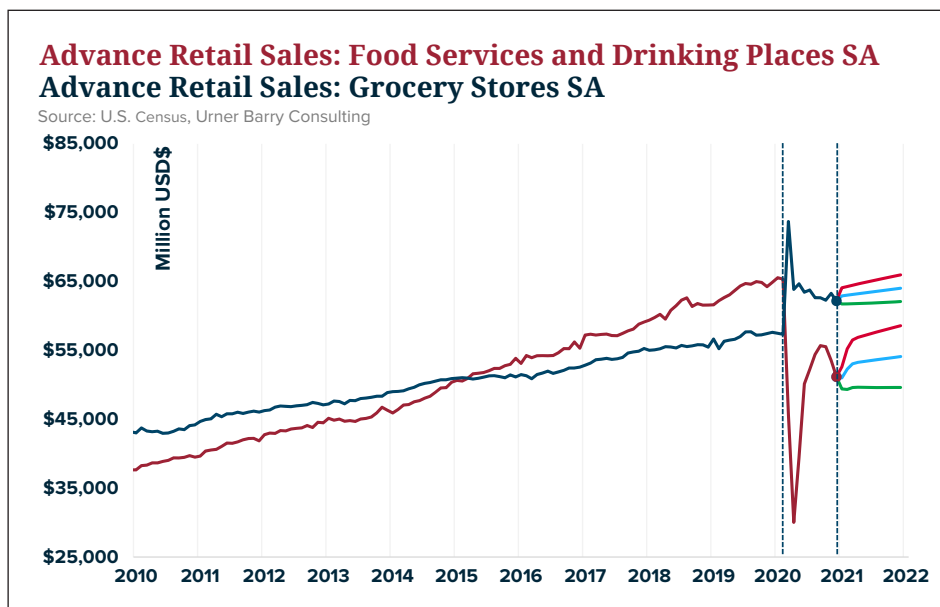


Figure 6. Retail Sales for Foodservice and Grocery Stores, Seasonally Adjusted.
 Source: U.S. Census, Urner Barry Consulting.

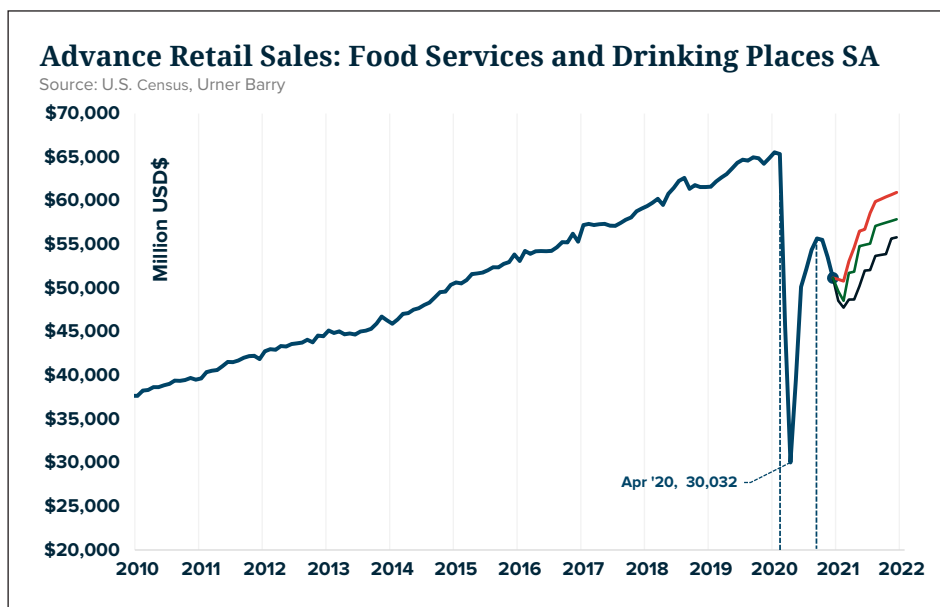


Figure 7. Retail Sales for Food Services and Drinking Places, Seasonally Adjusted.
 Source: U.S. Census, Urner Barry Consulting.