Peter
Backman.

Weekly Briefing Report

Week ending 21 November 2021

Published 22 November 2021

Peter Backman.

Weekly Briefing Report

Week ending 21 November 2021

Published 22 November 2021

About the Weekly Briefing Report

I write the Weekly Briefing Report to provide an immediate view of the market. My premium service (which additionally includes Monthly and Quarterly Briefing Reports) provides a more in-depth view. Learn more and subscribe here

I value your feedback and I would particularly appreciate your thoughts on the topics you would like me to add to my coverage – contact me at peter@peterbackmanfs.com

My insight

Once again there is lockdown in Europe; it's started in Austria and is unlikely to end there. In the meantime, there is rioting in The Netherlands, Denmark, Croatia and other countries over the threat of lockdowns to come and plans to introduce covid passes to restrict access to places where covid infections are believed to be significant – places like restaurants, bars and nightclubs.

In this country, the atmosphere (at least on this score) is more relaxed. Why should this be? Is it because of the wisdom of our political leaders? Or is it the insouciance of the public, many of whom have learned to don masks only when absolutely necessary? Or is it because the impact on the NHS is (currently) limited? Or, is it due to different definitions – an example: in the UK, a death is counted as being due to covid if the person showed a positive covid test in the last 28 days; in Germany, it is if covid appears on the death certificate.

One answer stands out. Look at covid cases. Across Europe, they are rocketing up from low levels since mid-October (not in all countries – France and Italy for example show no such dramatic increase). In contrast, the graph in the UK is a Roman Candle - a consistent, if rather bumpy line (at elevated levels admittedly, but not changing dramatically). And it may be useful to acknowledge that, in the UK a much greater number of tests are conducted per person than in any other country – the more tests, the more cases will be uncovered.

Whatever, I think it's the rocketing line on the graph in many European countries that is spooking politicians, and others; and this is leading to the agonised talk about potential lockdowns, and their actual introduction. The result is the current spate of restrictions - no entry to restaurants, for instance for the unvaccinated (although it'll be OK if they suffered an actual bout of covid).

Clearly, there are underlying drivers which vary from country to country – vaccination rates; numbers of second, and third, jabs; anti-vaccination rhetoric; previous experience in prior lockdowns; and more. But whatever the actual reasons, right now we are seeing a picture in the UK that is less restrictive – a factor with several causes, but above all because our graph is a Roman Candle and not a rocket.

Maybe in the UK we are in this position because of luck – even though it would be wrong to characterise anything to do with the baleful outcomes of covid as "lucky". Maybe we will start to see a change in the shape of our graph too – for the worse. This would lead to a return to conditions which no one wants to contemplate. Let's hope we don't have to. There are fireworks enough in this whole covid thing.

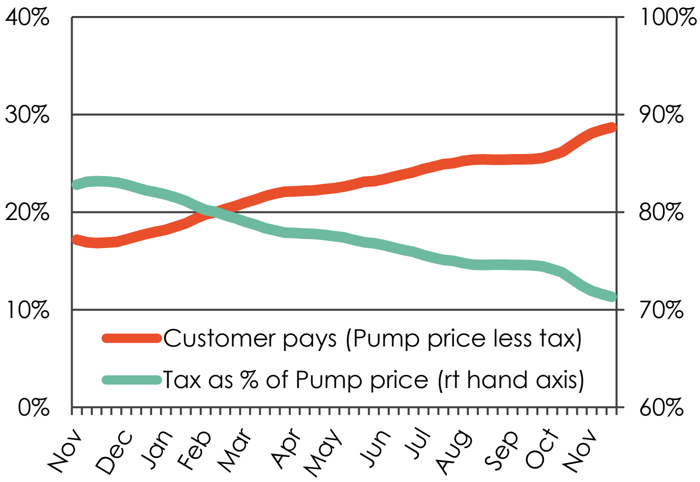
The numbers

In his recent Autumn Statement, the Chancellor of the Exchequer announced that there will be no increase in Fuel Duty next year. Why might this decision lead to a fall in restaurant sales?

Let's look at the USA. Start talking there about the future direction of restaurant sales and pretty soon someone will raise the question of the price of gas (for which read: petrol). This is because gas prices at the pump are extremely sensitive to the underlying direction of wholesale gas prices (unlike the UK which is where I'll return shortly). That means, for example, that since the start of this year, gas prices at the US pump have risen by 59%. Increases of this amount lead to two things: first, people notice less money in their pockets to spend on other things; and then they become reluctant to spend on any more gas, and this, in turn, reduces their willingness to drive too far (to eat out, for example). This has been a fact of life in the US for decades and is the reason why forecasting US restaurant sales starts with gas prices.

The UK is different because something like 80% of the price of petrol at the pump is tax; and, correspondingly, the amount that the consumer spends for the actual wholesale price of the petrol is small. That means that any major increase in the wholesale price is normally overwhelmed by the tax, rendering pump prices subject to only modest increases.

Share of wholesale petrol price as % of pump price 2020 / 2021



In parenthesis and for completeness, I would note that petrol suffers two taxes in this country – there is the fixed Fuel Duty and then there is VAT, which is applied not only to the wholesale price of the petrol, but it is also applied to the Fuel Duty itself – a form of double taxation.

Right now, tax accounts for about 71% of the pump price, a year ago it was 83%. Now, if the level of Fuel Duty doesn't rise (which it won't for the foreseeable future until, or if, the Chancellor changes direction), but wholesale petrol prices do, then as wholesale prices continue to rise, the overall price increase will - at some point - become disruptive to consumers. There will come a point when the customer, already noticing that pump price increases are taking more and more money out of her pocket, will also start to take action to reduce overall expenditure on petrol – by travelling less (to eat out for example).

Now look at the specifics of the current situation: in the past month, prices at the pump have risen by 22.4%. This is bad enough but if (when?) they start really accelerating, pump price inflation will start to become really meaningful. So long as Fuel Duty remains unchanged, the rise in the price of petrol at the pump, at some point, will start to mirror what happens in the USA with its implications for reducing expenditure on eating out.

So, tax petrol more and, in this specific case, people may be nudged to spend more. I'm not arguing for more tax but, paradoxically, it may help people decide to eat out.

The rest of this report contains a summary of corporate and other activity over the past week:

News in the past week

Financial & Legal

- ONS reported job openings in October were more than 50% higher than pre-covid
- ONS reported unemployment rate was 4.3% in October, close to its pre-pandemic level.
- Insolvency Service reports company insolvencies and creditors' voluntary liquidations in England and Wales were 85% up on October 2020
- ONS reports about 151,000 job vacancies in hospitality

Foodservice

- Wales restaurants, cafes and pubs will not require covid passes

Landlords

- Savill's report rents in central London at -17.4% versus 2019

QSR

- Costa Coffee trials mobile van in Oxford
- Greggs reports temporary disruption of vegan sausage rolls

Pubs

- Revolution Bars LfL sales rose 14% since mid-July versus 2019
- Fuller Smith and Turner sales in the half year to end September were 115% up on last year

Hotels

- Hotels in London in October recorded revpar of £95.22 on occupancy of 65.4% - the highest since February 2020
- Premier Inn UK sales in September were 9% up on 2020, and 11 % up in August
- Membership Collective Group, owner of Soho House owner, reported sales up 57% in the three months to end September versus 2020
- Premier Inn sales were 7.9% up on 2020; F&B sales fell -11.5%

Leisure

- Cineworld revenue in UK and Ireland in October was 27% higher than 2019

Staff Feeding

- Lexington, contract caterer owned by Elior, launched LexUnboxed for corporate meetings and events

Around the World

- Ireland locks down restaurants, pubs and bars

Delivery offers in the week

- Deliveroo: 20% off local restaurants on Tasty Thursday
- Deliveroo: Pigs in blankets, Subway style
- Deliveroo: Pret's Christmas Lunch Sandwich
- UberEats: Discover buy 1 get 1 free
- UberEats: Enjoy £100 off some of your local favourites
- UberEats: 30% off from McDonald's
- Uber Eats: 50% off groceries