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Monthly Briefing Report

Month ending 28 February 2022

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Introduction

In addition to my Weekly Briefing Report, which remains free of charge, I provide a premium version which includes a subscription to my Quarterly Briefing Report and Monthly Briefing Reports. You can find details here.

I would value your feedback on topics you would particularly like me to add to my coverage – you can contact me at peter@peterbackmanfs.com or 07785 242809.

A month of news

This February did not conform to the February that we normally know. It was a month of news, and here are the 'headlines' that I've picked out:

- Ending of covid restrictions
- The weather
- Travel patterns

I'll address each of these at bit more below, however I feel I must also acknowledge the most significant news in the month. Tragically, war broke out in Ukraine (ironically on the same day as 'Freedom from Covid' day came into force in England) – although the immediate impact on the UK is obviously not known, price rises, product shortages and maybe worse are now in the pipeline.

During February, the eating out market fell and each of the headlines had its own impact on the foodservice sector. Only one of them – removal of covid restrictions - is positive. And it is still to be seen how effective that one positive is in the face of the negatives as we move into March, and then Easter and warmer weather

Covid restrictions

Covid restrictions ended in England on 24 February – they are due to end in Scotland in the second half of March, but they are due to remain in Wales and Northern Ireland beyond the end of March.

The very few days between the lifting of restrictions in England and the time of writing this Monthly Briefing Report, are insufficient to draw any conclusions about the impact.

But some things seem likely: mask wearing will ease off, but many people will still continue to wear them. This would underline a continuing hesitancy amongst sectors of the population – some of the elderly perhaps, the naturally timid, people who are immune-compromised, those looking after the elderly, and so on. While there doesn't appear to be a direct correlation between mask-wearing and eating out, I think we can assume that continued mask wearing is a sign of continuing reluctance to eat out amongst some sectors of the population.

On the other hand, removal of restrictions is almost certain to have a more direct, positive impact on prospects for nightclubs and other businesses which have found it difficult to operate while restrictions have applied. They can now go ahead and start to recover some of their lost business.

The weather

The weather has been particularly brutal – Storms Dudley, Eunice, and Franklin struck ferociously in the middle of the month, disrupting commercial and personal lives and causing damage to property.

While the impact on specific restaurants, pubs and the like in the affected areas may have been significant, the overall impact on the UK foodservice market will have been fairly small during February

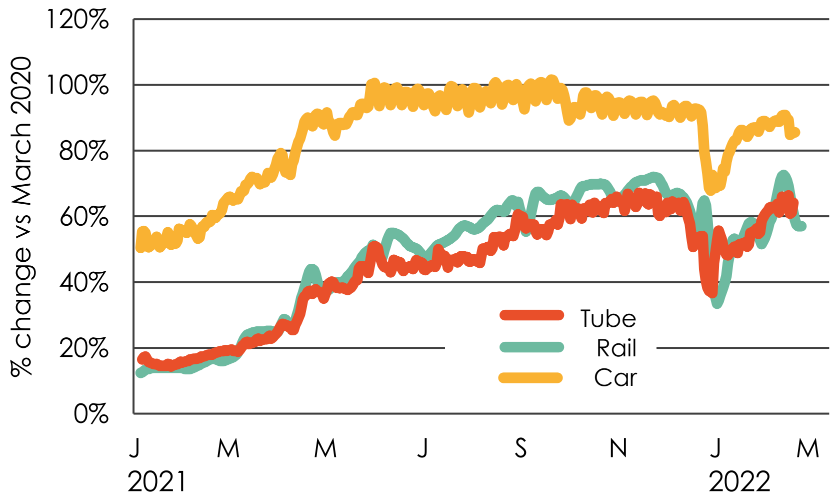
Nevertheless, as I have frequently commented, the increasingly volatile weather will be causing further, and perhaps increasingly serious, dislocations and impacts on the foodservice sector and its supply chain, over the years ahead.

In the meantime, even in the best years, the eating out market requires good trading over the Spring period – especially over Easter. And past years have demonstrated the significant impact that the weather has on these trading levels. Good weather is sorely needed over the next few months – and there must be hopes that overall good weather is not to be disrupted by periods of wind, rain and generally unreliable conditions. As I say, we must hope.

Travel patterns

Travel patterns remain well below pre-covid levels – and travel by car, rail (especially into London) and by tube all fell in February compared with January.

Change in use of modes of transport



Source: Department for Transport; Peter Backman

While there was no specific piece of news, the Department for Transport continued to update their information. The chart brings alive the changes that have occurred during covid – and the point to which they brought us in February.

Travel picked itself up following the massive – and massively unexpected – dip just before Christmas as the nation locked down in the face of omicron.

By early February, tube and rail travel reached the previous peaks seen in last October and November. By most accounts this was driven by a return to work across the country and especially in city centres. But by mid-February these numbers were falling. While the reasons are unclear a number have suggested themselves.

The weather (which I have already mentioned) may have been a factor. And perhaps there is a new, natural maximum number of people going back to work at their workplaces – and that natural level is being reached. If so, it suggests that office working may be levelling out at about 60% (say 70% to be positive) of pre-pandemic levels.

But travel by rail and tube are not the only modes of travel. Changes in car travel have shown a similar 'shape' to train and tube travel – but at a higher level. It seems that the figure is settling out at about 90% of pre-pandemic levels. And bus travel (not shown in the chart) has also shown a similar pattern, slightly higher than tube and train travel.

Not all travel is associated with work – it also covers leisure activities, shopping, and just getting around. So it's not realistic to draw conclusions about the meaning of these numbers for foodservice, in general, and specific sectors. However, the figures do point to generally lower levels of travelling activity – somewhere in the range of 60% to 90% of pre-covid levels.

So where will the market go from here?

My view is that the foodservice market is in for a tricky few months – and sales will probably not do much more than stay even in many sectors, and it may fall in others. I have come to this conclusion on the basis of three factors:

1. The decline in the market against comparative 2019 figures since the start of the year that I have already described – the factors behind this decline will continue to exert pressure
2. Consumers are facing rising costs on many fronts, even while their income is rising more slowly – the result is a squeeze on disposable income and therefore there is less money available for eating out (amongst other things)
3. The advance warning from the performance of the US foodservice market – of which more below
4. Fallout from the war in Ukraine which although unknown at the moment will not be at al helpful

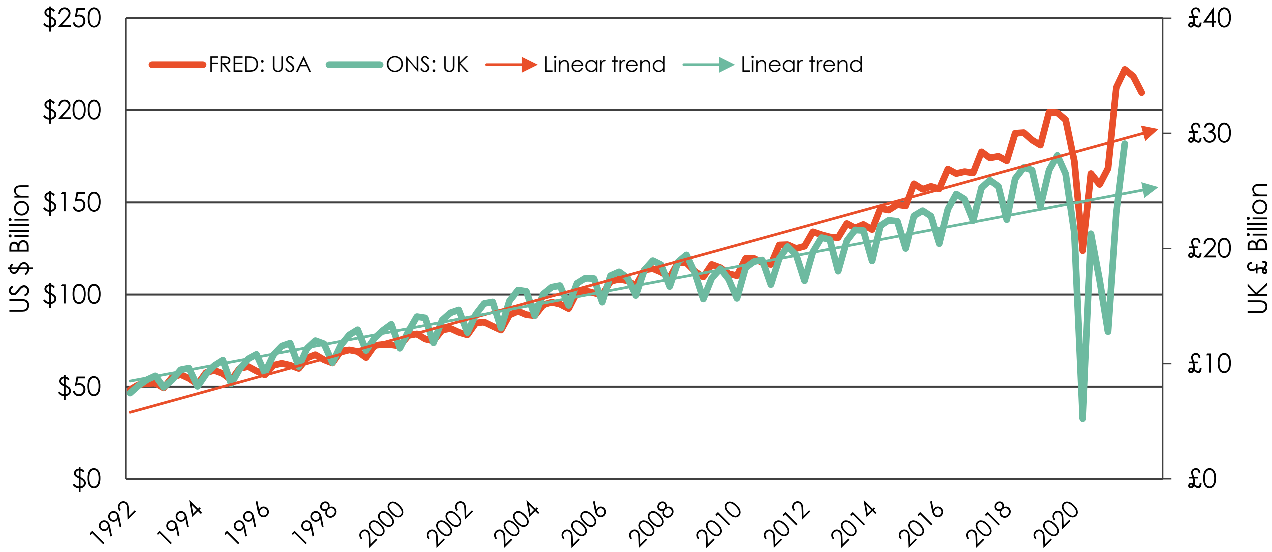
This situation of little or no growth comes at a very awkward time for many operators who will shortly (from 1 April) see a rise in VAT, and the ending of the rent moratorium which will embolden some landlords to pursue aggressive action to recover unpaid rent. At the same time, the National Minimum Wage is due to rise.

So operators are seeing their costs increasing at a time of no growth - that will be a time of significant danger for many operators.

What can we learn from the US?

As I noted in my latest Weekly Briefing Report, data published by The Federal Bank of St Louis and the ONS show a remarkably similar pattern in the evolution of restaurant sales in the US and the UK respectively. This chart shows how the data have moved over the last 30 years:

30 year Comparison of Quarterly Restaurant Revenues:
FRED and ONS



Sources: Federal Reserve Bank of St Louis (FRED); ONS; Peter Backman

Note: Information from FRED is based on monthly figures; in this chart I have combined them into quarterly figures to allow comparison with ONS quarterly data.

There are some major similarities between the two sets of data in the ways that they demonstrate patterns of growth over the past 30 years in both the US and the UK:

- For a start there is the sheer regularity of quarterly changes – in both countries
- Prior to covid, there was only one period of stasis / slight decline in both countries - at the time of the Great Recession 2010-2012

In overall terms, over the past 30 years, the US has grown at 6% CAGR – the UK at 4% CAGR. And the faster US growth is further enhanced when inflation is taken out of the figures. When that is done, the US has grown at 3.5-4% CAGR – while in the UK the figure, as demonstrated by these figures, is closer to 0.5% CAGR.

The long term patterns of growth and decline are similar in both countries but with some differences that may be worth noting:

- The UK grew faster in the early 1990s
- From about 2000 to 2010, growth in both countries was similar
- Since 2010, the US has grown considerably more rapidly

Changes during covid are noticeable:

- Demand in the UK fell considerably further
- … But bounced back further too.

This information is helpful in drawing conclusions about the differences between the UK and the US (often used as a weathervane of the direction of travel in the UK). US growth, while not stellar, has been more profound than the UK; indeed, ONS figures, like those I have published over the years in my Market Structure and Trends (MST) data model, show modest long term growth in UK restaurants.

But short term trends, and the regularity of short term changes, are remarkable, a nd remarkably similar, in the two countries. And, as such, they seem to be sufficiently close to allow direct comparisons between the two; that means it is possible, and probably reasonable, to use the more up to date FRED data to forecast what may happen in the UK over the coming quarter.

Consequently, as I wrote in my latest Weekly Briefing Report "… the figures point to a forecast … that says, by May, in the UK we will see a downturn, of perhaps 20% to 30% below the run up to Christmas."

In conclusion

Over the next few months, the eating out sector – restaurants especially – is likely to see a continuing downturn driven by pressure on the money in consumers' pockets. This pressure is itself likely to be exacerbated by the fallout from what is happening in Ukraine in terms of fuel and grain shortages which will drive up costs everywhere; and not to forgot the additional impact on consumer and business confidence and other, as yet unknown or unrecognised, effects.

The eating out sector, facing its own cost pressures, is in a weak state to cope with weakening demand.

If you want to know any more, or if you have any comments, or concerns, please contact me on 07785 242809 or at peter@peterbackmanfs.com

The remainder of this Monthly Briefing Report contains a noticeably brief summary of corporate activity over the medium and long term that has been reported in the past month.

News in the month

Restaurants

- Hawksmoor sales fell -56.8% in calendar 2020at Home shows there is

QSR

- Grind sales fell -82.5% in the year to end April 2021
- 23.5 Degrees, Starbucks franchisee, sales rose 86.8% in the year to end August 2021

Pubs

- Wells & Co sales fell -26.2% in the year to end October 2021
- British Beer & Pub Association says on-trade beer sales fell -£5.7bn in 2021
- Heavitree Brewery sales fell -8.0% in the year to end October 2021

Hotels

- Torquay Leisure Hotels turnover fell -63.3% in the year to end April 2021

Leisure

- Champneys sales fell -71.5% in the year to end April 2021
- Heathrow passenger numbers fell -19.4 million in 2021