WEEKLY BRIEFING REPORT

Week ending 27 March 2022

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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

Historians don't like what they call 'counter factual' questions: What would have happened if Edward VII hadn't abdicated? What would have happened if the American Revolution had petered out? Historians don't like these questions because there are too many unknowns and "what ifs".

But let's try this counter factual: What if we hadn't had covid? I pose this question because I'm noticing two, opposing states of mind.

On the one hand: partly as a consequence of covid, but mainly as a result of the war in Ukraine, we are facing unprecedented inflation – massively rising fuel costs, major increases in basic food prices. And this is true not only right now but probably well into the future.

And on the other hand: it's Spring, and like many others I'm getting out and about again, meeting people from across the foodservice sector. And one thing I'm noting from some of them - especially manufacturers of packaged groceries and impulse products – is a spring in their step. They are getting enquiries from all over the place. And orders are coming in.

So, what on earth is happening between these two opposite perspectives - threatening inflation versus a spring in the step? I think there may be two things at work. The first is that growing demand really is there. But it's from a low base – so any improvement looks good. And it's an aggregate growth – some parts of the market are ahead of where they used to be in 2019, and some are still on their knees. But, on aggregate, there seems to be some real improvement.

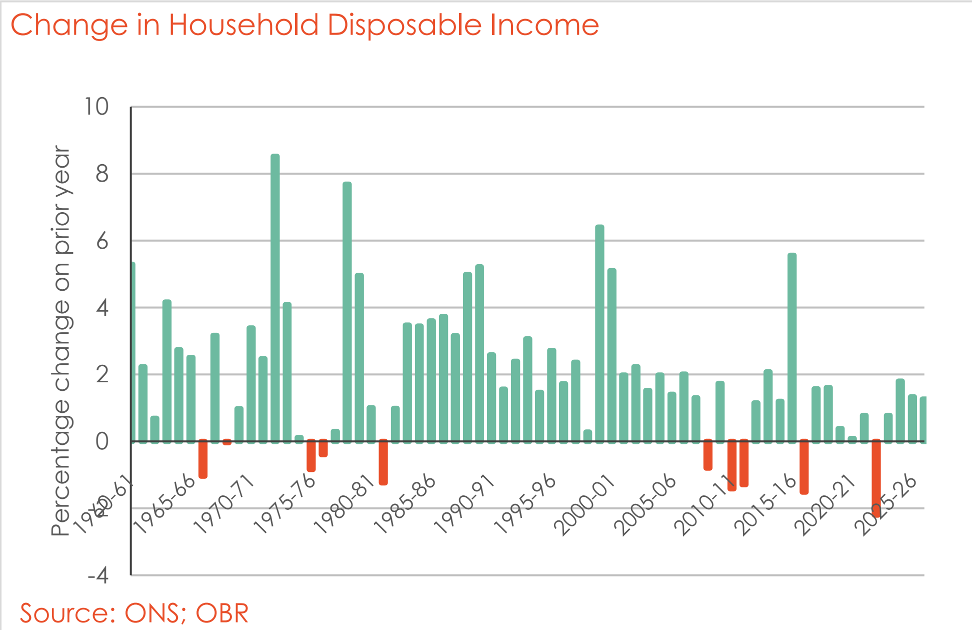
The other thing is an effect of covid – and this is where I'll re-introduce my counter-factual question: What if we hadn't had covid? I suspect that without covid we would be more naive about our capabilities in the face of the knocks, setbacks, and tragedies of the last two years. We, who are still here, have survived, and importantly I suspect we have been hardened by covid – and our perceived ability to live with it.

Without that hardened attitude we'd be more scared than we are about inflation - and the other pressures facing us. Maybe, rather than being scared, we now believe deep down that we can beat what gets thrown at us. I don't believe for one minute that people think everything in the future will be rosy, but maybe we now know that the only thing to fear is fear itself (as President Roosevelt said). Or is this just the relative calm before an inflationary storm of unprecedented proportions? I wish for the first – I fear for the second but with hope we are hardened against it.

The numbers

I don't know whether to be heartened or scared by the analysis produced by the Office for Budget Responsibility ahead of the Chancellor's Spring Statement last week.

The OBR analysis included a chart showing trends in households' disposable income over the 70 years from 1956. They included 57 years of growth. But there were also 13 years (including the current year) when income fell or when growth was almost negligible.



Now, these years of decline (or no growth) fall into four major periods. The first was up to the early mid-1980s, when periods of downturn were followed by periods of significant growth. The second period ran from the mid-1980s until the Northern Rock banking crisis of 2007; this was a period of twenty years' continuous growth. Over these two periods combined, there were 50 years when growth substantially outplayed any short periods of decline.

But since 2007, things have been different. The period covering the twelve years up to 2019, was a time of austerity when household disposable income was as likely to fall as it was to rise. And the final period, including the covid years, is a period of stuttering growth that includes this year, when households will see the largest fall in their disposable income in the whole 70-year series.

Now I take two things from this record. On the one hand, in the last 12 years we have had five years of decline (and one of almost no growth) culminating with year's projected fall of -2.2%. What I find scary about this is that the weakening of households' incomes has been sustained over the last dozen years, and yet projected growth is still weak. This augurs badly for spending not only generally but specifically in the foodservice sector.

But I am also heartened by the analysis. The forecast average growth over the coming years is 1.5% a year. Encouragingly, in the early twenty-teens, also following several years of declining household income, we experienced low disposable income growth not far off this level – and yet this was a period of sustained growth in the restaurant sector.

So how will households react to the current cut in their disposable income? Some face such severe pressures that they are having to make real cuts in their spending priorities. Others will be able to shrug off any fall in income. For most people – and they are the core base of restaurant demand - there will be awkward trade-offs; they will keep on spending, but on what?

Should we be scared, or heartened, by what they decide?

News in the past week

Financial & Legal

- Rent debt arbitration comes into force to resolve disputes
- Temporary 50% business rates relief for hospitality businesses confirmed in the Spring Statement

Foodservice

- Hospitalityforall.co.uk established to speed up recruitment processes for refugees from Ukraine

Pubs

- Pubs to open to 1:00 am for three nights of Platinum Jubilee in June

Leisure

- Business Travel Association say corporate travel trips were down -49.6% in the second week of March versus the same week in 2019
- Everyman cinemas sales rose 102.5% in the year to end December 2021

Around the World

- Burger King franchisees still operating in Russia
- McDonald's franchisees still operating in Russia
- Pret to open in Germany and Luxembourg this summer

Around the World Delivery

- Just Eat Takeaway to support international growth of McDelivery from McDonald's

Delivery Offers in the Week

- Deliveroo: Treat yourself to 20% (or more) on Tasty Thursday
- Deliveroo: Special offers that make March a whole lot tastier
- Deliveroo: 25% off with Meal Deals! Get Rugby ready
- UberEats: 50% off Mother's Day gifts
- UberEats: Buy One Get One Free from selected favourites
- UberEats: 30% off from McDonald's
- UberEats: Send a little LOVE – we'll give you 50% off
- UberEats: Get 50% off your next 5 orders when you spend £15 or more