Impact of Coronavirus on European Foodservice

far.rabobank.com

RaboResearch
Food & Agribusiness
far.rabobank.com

Maria Castroviejo
Senior Analyst
+31 61 244 6848

Coronavirus is rapidly spreading across Europe. The travel & tourism (T&T) industry, including domestic and international visitors and business travel, is one of the most affected by the situation. Since travelers represent a significant portion of foodservice demand, revenues for restaurants and bars will decline. The magnitude of this decline will depend on the duration of the crisis, the weight of travel-related demand on total foodservice revenue, and the impact of coronavirus on economic growth.

Travel-Related Demand Under Pressure

Although disruptions to daily life outside Italy (under quarantine) are limited, event cancellations, corporate policies banning business trips, and changes in consumer behavior are triggering travel cancellations everywhere (some sources mentioned 25% to 40% outside Italy). And T&T-related demand represents 20% to 40% of total revenue for restaurants, bars, and cafés, depending on the country.

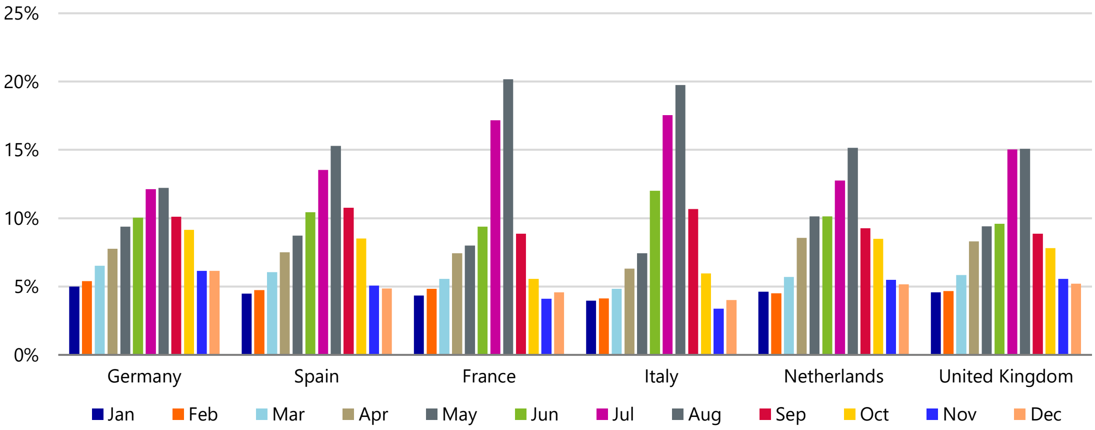
Spain and Italy are the countries where T&T accounts for a larger proportion of GDP (*see Table 1*) and also those where foreign visitors have the largest weight in total nights spent at tourist accommodations during March and April (*see Figure 1*). Foodservice revenue lost due to cancellations of foreign visitors are the least likely to be compensated. However, in Spain, attending bars and restaurants is part of daily life, making total industry revenue less dependent on travelers, despite the high weight of tourism on total GDP.

Travel-related demand represents a higher share of total foodservice sales for countries like the UK and Germany. Yet in Germany, the UK, and France, tourism in March and April is predominantly domestic, and revenue lost in certain locations may at least be partially recovered somewhere else within the country.

March: A Low-Season Month in Europe

Seasonality is a major mitigating factor, and March is a relatively quiet month for traveling. April has a larger weight in the annual tourism figures, due to the Easter break, but the crucial months for the industry are June to September. Therefore, if the current situation persists into the summer months, its adverse impact would increase more than proportionally. Germany is the country where the difference between summer months and March/April is the smallest; Italy and France show the largest seasonality.

Figure 1: Nights spent at tourist accommodations by month*

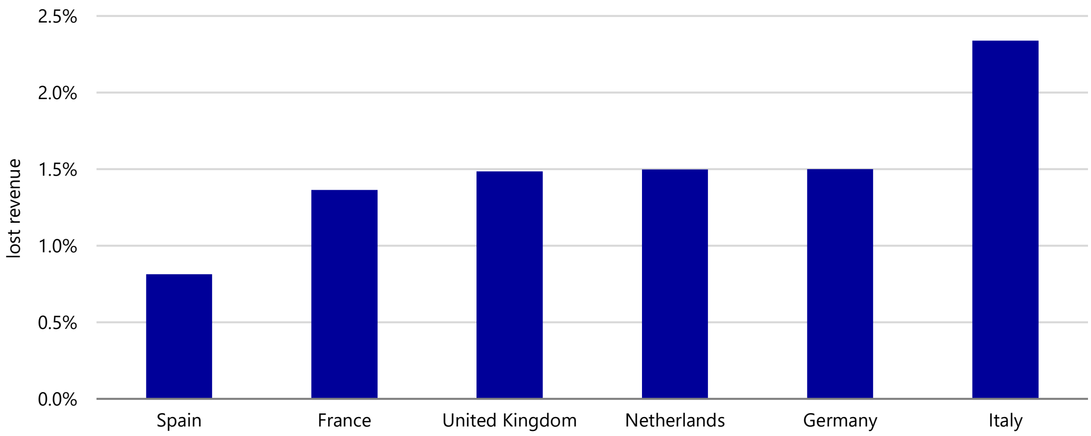


*Data reflects the average of 2017 and 2018
Source: Eurostat, Rabobank 2020

Impact Under Current Situation: Traveling Hit, Daily Life Continues

In most locations, the current situation is affecting travel-related demand, but sales related to daily activity are still stable. Considering a 30% decline of T&T for March and April (60% for Italy), a return to normality afterwards, and a 35% weight of T&T in total foodservice sales (Spain 20%), we estimate that the lost revenue in 2020 for the foodservice industry would range from 0.8% to 2.3% of the annual total (*see Figure 2*). Part of the impact could be mitigated by consumers spending on foodservice at home or rescheduling trips.

Figure 2: Impact on annual foodservice revenue under current scenario

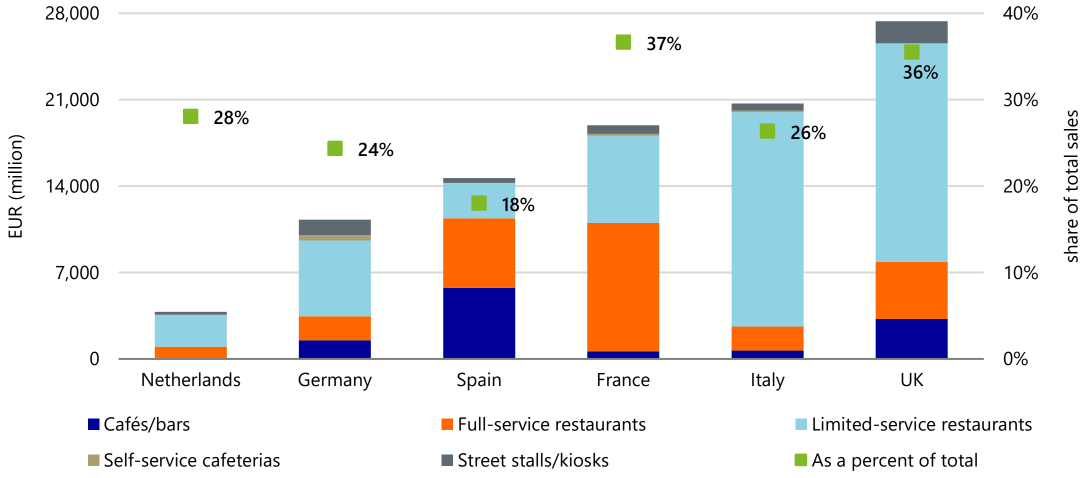


Source: Rabobank 2020

Potential Escalation: Home Delivery and Takeaway as Winners

Time is not the only concern. If the situation deteriorates or isolation is imposed, daily activity will be altered and consumers will avoid visiting bars and restaurants. Instead, they may opt, in some cases, for home delivery or takeaway meals. In that case, fast food restaurants would benefit the most, since delivery and takeaway already represent a larger share of their sales than they do for other formats. Takeaway and delivery are more common in the UK and France, while it is a less-used alternative in Spain and Germany, where eating on premises is preferred.

Figure 3: Delivery and takeaway sales by format and country, 2019



Source: Euromonitor 2020

Long-Term Impact: Recession Risk and Foodservice Vulnerability

The disruption created by coronavirus is putting economic growth at risk. Only its impact on T&T could potentially be enough to send GDP growth into negative territory. Governments are likely to take extraordinary mitigating measures in order to avoid recession, but growth rates forecasted for 2020 before the outbreak seem optimistic at present.

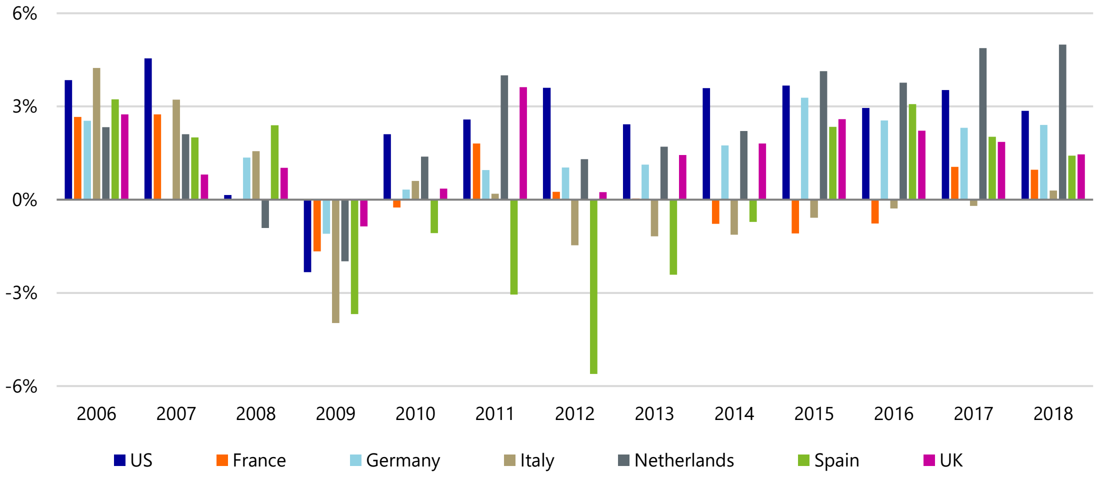
Table 1: Potential impact of the outbreak on T&T and GDP

	2020 GDP growth estimates, pre-outbreak	*Tourism's contribution to GDP*	*Impact on GDP of a 30% decline in tourism in March-April*
Netherlands	1.2%	4.3%	0.2%
Germany	0.6%	3.9%	0.2%
Spain	1.5%	11.8%	0.5%
France	1.0%	7.4%	0.3%
UK	0.8%	3.7%	0.2%
Italy	0.3%	11.8%	0.8%*

* 60% decline in tourism & travel.
Source: Rabobank 2020

Historically, spending in foodservice has been sensitive to economic momentum, and in 2009, revenues contracted in all countries, reflecting fewer transactions and lower spending per transaction (*see Figure 4*). Despite demographic and lifestyle changes, we would expect an economic downturn to still have some adverse impact on demand.

Figure 4: Annual growth of foodservice revenue, 2006-2019



Source: Euromonitor 2020

Damage Is Limited but Unevenly Spread, With a Risk of Higher Impact

Under the current scenario, the foodservice industry will suffer a decline in revenue but no structural damage.

If the situation deteriorates or persists over time, the impact will grow more than proportionally. Growth in delivery and takeaway would benefit fast food operators. Groups with scale and geographic diversification also are well-positioned to survive through a difficult period, as are independents with low fixed costs.

Operators with high financial leverage or significant fixed costs may be confronted with insurmountable difficulties if their revenues are sharply down and renegotiating debt or occupancy costs is not possible. For stronger players, this may trigger buy & build opportunities.

A more structural impact on economic growth would result in a sustained decline in traffic and revenue, despite the differences between now and the operating environment in 2009. This would trigger deeper changes for the entire industry and its way of operating.

Imprint

RaboResearch
Food & Agribusiness
far.rabobank.com

Maria Castroviejo	Senior Analyst	maria.castroviejo@rabobank.com +31 61 244 6848

Banking for Food