

November 16, 2020

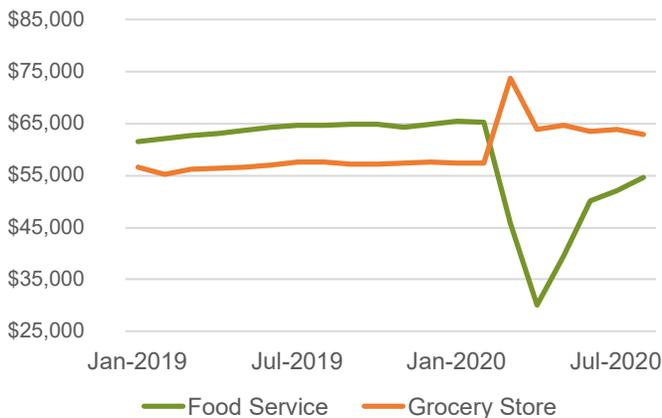
## Executive Summary

As COVID-19 lockdowns hit, consumers started spending more money at grocery stores than at food service locations for the first time in five years according to Census Bureau data. Mandates to curb the spread of COVID-19 pushed restaurant sales down and, it is possible, may have changed consumer behavior forever.

- Retail food sales dropped 54.2% from January to April according to the U.S. Census Bureau. Since the April low, restaurant recovery has been slow, and studies indicate a significant number of restaurants are closed for good.
- Grocery store sales increased 28.6% from February to March as consumers switched from eating out to cooking at home.
- Empty grocery store shelves were a result of the shift in consumer spending at restaurants to grocery stores, but processors have largely resolved the supply issues.
- Impacts to agriculture vary. Some, like high end seafood, are challenged and others, like frozen produce, are benefiting from grocery stores becoming the main food supplier.
- Consumers have increased cooking at home, getting takeout or delivery and using online grocery ordering for curbside pickup or delivery. Some of these trends could be here to stay.
- A large portion of the population will not return to restaurant or bars until the threat of COVID-19 is gone.

## The Shift

### Sales



Source: U.S. Census Bureau Advance Monthly Sales; Food Services and Drinking Places and Grocery Stores

Consumers went from preparing only 40% of their meals at home to nearly 90% as pandemic closures swept through the U.S. Restaurant sales dropped 30% and 34.3% month over month in March and April respectively. Although sales have increased 46% since bottoming out in April, they remain 15.2% below January levels. Restaurant restrictions were softened, and some consumers started to spend more on food outside the home and less on stocking their pantries. Nielsen CGA reports that 50% of consumers have returned to restaurants while 65% have ordered take out.

Grocery sales peaked in March, up 28% from January. Consumers sought shelf stable products, such as dried beans and frozen produce, to cut down on the number of trips to the store. As a result of some increased restaurant activity, grocery sales have moderated but remain up 9.1% from the start of the year.

Total food sales, measured by adding food service and grocery sales, dropped 24% from January to April. However, this does not equate to a reduction in the value of food at the agriculture producer level. Restaurants with more overhead have higher dollar sales than grocery stores and are the main driver of reductions in total food sales.

### ***Online Sales***

Before COVID-19, online grocery sales represented between 10% and 15% of grocery spending. In March and April, online grocery sales reached 28% market share. Amazon's online grocery sales tripled from Q2 2019 to Q2 2020. What consumers are willing to purchase online could impact demand for certain agriculture and protein products. Traditionally consumers have bought less fresh food online, specifically dairy, bakery, produce and meat/seafood. However, consumers purchased those categories online for the first time, showing a willingness to purchase broader food categories online.

### ***Food Processors***

Food processing plants were impacted by the shift as well as protocols to maintain social distancing amongst plant workers which limited production capacity. At the beginning of the pandemic grocery shelves were empty. However, this was not a lack of food supply in the U.S.; this was due to the impacts on food processing plants. Products, like five-pound tubs of sour cream destined for restaurants, weren't packaged for grocery store shelves. In order to address the shift and limited production capacity, processors reduced the number of Stock-Keeping Units produced. This has led to larger format packaging at grocery stores and less variety, but the supply chain disruptions have largely been resolved.

## **The Specifics**

Traditionally, the majority of **seafood** has been consumed outside the home. Therefore, reduced demand hit the industry hard, especially high-end species, such as halibut and shellfish, that are typically sold through fine dining establishments, cruise lines and casino buffets. Plus, the seafood industry is reliant on overseas markets that shut down during the pandemic. However, grocery shoppers increased their purchases of seafood and in the last week of May seafood was the fastest growing supermarket category according to Nielsen. In a survey conducted by the Global Aquaculture Alliance, a large grocery chain reported a 40% increase in seafood sales. Many industry experts believe increased sales will translate into the future since new consumers entered the market and conquered their fear of preparing seafood at home.

Although half of consumers have returned to restaurants, only 15% have returned to drinking establishments. As a result of lock downs and consumers' hesitation to visit drinking places, alcohol producers reliant on on-premise<sup>1</sup> consumption have struggled. On-premise **wine** sales were down 31%

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<sup>1</sup> Consumption outside of the home, ex: tasting rooms and restaurants

year over year in July. Despite some producers facing huge challenges others are capitalizing on the shifting dynamics.

Consumers aren't drinking less and therefore off-premise<sup>2</sup> alcohol sales have soared. According to Nielsen, off-premise beer and wine sales have increased 18.3% and 24.7% since the pandemic respectively. Increased off-premise sales typically benefit larger producers who sell through distributors. Consumers are not only going to the stores to stock up on adult beverages, wine shipments have also sky rocketed. Year over year, direct to consumer wine sales were up 17% in September according to Wines Vines Analytics and online sales increased 423.1% by end of June according to Nielsen. Massive increases in these sales channels have not off-set the lost value from on-premise sales, however. The value of total wine sales for the 12 months ending September decreased 7% year over year. Much like total food sales, this is driven by the higher dollar value of restaurant sales. However, alcohol consumption has increased during the pandemic and the overall impact to wine grapes is likely a slight increase in demand.

Like seafood and alcohol, consumers' protein purchasing habits have changed. Meat processing plants faced slowdowns and shutdowns as workers contracted or feared contracting COVID-19. With fewer workers on packing lines, processors could not break down cuts of meat into traditional portions. Retail packaging of meat shifted to larger portion sizes. Yet, consumer demand for beef continued to outpace processing capacity. Ground beef prices are still elevated, up 6% year over year. Ground beef prices peaked in June at \$4.73 per pound, up 22% from January. Traditionally beef demand is responsive to retail price change as higher prices stifle consumer demand. Poultry, pork and seafood all serve as alternative proteins to beef. Chicken breast meat reached \$3.35 per pound, the highest in five years. Because all protein prices increased consumers were less price sensitive.

## The Future

### *Restaurants*

If things are going to go back to normal, there is still a longways to go. According to consumer studies conducted by Nielsen CGA, 67% of those who have not returned to eating and drinking outside the home won't do so unless there is a vaccine, or the threat of COVID-19 is completely gone. Another 16% aren't returning due to concerns over their financial situation. So, until the pandemic is over and economic conditions improve, a large portion of the population will continue to abstain from restaurants and bars. A bit more concerning is, even when conditions improve, Nielsen CGA reports 12% of consumers have realized they no longer feel the need to enjoy the experience of dining out and according to Deloitte, 32% of consumers anticipate they will dine-out less.

With temperatures dropping, outdoor dining will likely become less viable. This is problematic as 42% of consumers feel safe dining at restaurants because of outdoor dining options. According to Nielsen CGA and McKinsey & Company, 80% of consumers report at least medium anxiety about indoor dining. The near term future looks grim with 40% of restaurants believing they won't make it another six months according to a survey by the National Restaurant Association.

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<sup>2</sup> Bought for home consumption, ex: grocery and liquor stores

On Oct. 1, the U.S. House of Representatives passed The Restaurant Act which would provide access to \$120 billion in grants to the challenged restaurant industry, perhaps providing a glimmer of hope.

Although food service is arguably the hardest hit industry of this pandemic, the long-term outlook should be positive. Restaurants have been part of communities and culture for centuries. Even though, sadly, many may not survive the rough patch, the industry will persevere. Numerous agriculture producers rely on restaurant sales and a return to normal restaurant activity could mean repaired sales for many.

### ***Grocery Stores***

Although the pandemic has been devastating to many, the grocery industry has clearly benefited. Grocery stores quickly adapted by offering curbside pickup or delivery options. According to a U.S. consumer poll, 78.7% responded that they have been shopping for groceries online, a drastic increase from 39% pre-pandemic. If consumers have had a good experience with online grocery sales, the convenience factor may convince them to continue the habit post-pandemic.

### **Stay up to Date**

[Restaurant and bar restrictions with details by state](#) – continually updated

[Nielsen CGA On-Premise Insights](#) – published every other week

[National Restaurant Association](#) – periodic updates

[Northwest Farm Credit Economic Insight Page](#) – continually updated

[Northwest Farm Credit Quarterly Market Snapshots](#) – published quarterly