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MCT COMPASS

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Restaurant Recovery Slows

Recovery in restaurant sales has stalled, after bottoming out in April when same-store sales and foot-traffic plunged 55% below the previous year as Americans were ordered to stay home and restaurants and bars were shuttered. The shutdown drove CME block and barrel cheese prices to lows not seen in decades. Since then, states have implemented various stages of reopening with debated levels of success, and those Americans willing to dine out, buy takeout, or have their meals delivered have turned to restaurants to help relieve their cooking fatigue.

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By July, same-store sales had retracted a large share of the deep losses that occurred in spring, but then recovery in restaurant sales flatlined. In August, same-store sales were down 18%, according to Black-Box Intelligence. While acknowledging the remarkable improvement that occurred over an incredibly short period, the restaurant industry has nonetheless issued warnings that consumers' willingness to dine out as the weather turns cold could waver, and the recovery of lost sales needed to reach pre-COVID levels could take months if not years. Because foodservice gains have driven consumption improvements for cheese and butter for several years, the road to recovery for these dairy products could also be fraught with potholes.

While total foodservice sales still lag year-ago levels, the impact varies by type of restaurant. By mid-July, quick-serve restaurant (QSR) chains experienced an 11% decline in transactions compared to a year ago, while full-service restaurant (FSR) sales fell 27%, according to the NPD Group. Had it not been for consumers' fatigue of cooking every meal at home, sales at FSRs could have been worse. These establishments benefited from sales of delivery and takeout, known as off-premises dining, which increased a whopping 91% compared to year-ago levels and helped offset on-premise declines of 62%. This summer, al fresco dining helped build consumer comfort levels with the pandemic dining experience; however, analysts are now concerned that colder weather combined with social distancing and other public health requirements could limit on-premise dining, resulting in slower sales as

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Ken's Corner

by Ken Meyers
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Disruption in foodservice caused by COVID-19 is far from over. In fact, COVID-19 likely accelerated trends in the restaurant industry that were already under way. Prior to the pandemic, full-service restaurants were experiencing declines in both traffic and sales due to consumers' growing preference for takeout and delivery given the convenience of food-delivery apps. COVID-19 just hastened the transition.

Establishments that were quick to adopt these new formats have been rewarded while those slow to adjust have suffered. Sizzler, one of the country's first steakhouse chains, filed for bankruptcy protection earlier this month. The 62-year-old chain's dining format, which included an all-you-can-eat salad bar, didn't fit with pandemic trends.

At the same time, consumers are also doing more online grocery shopping, with a recent survey showing that more than half of consumers are willing to increase their online purchases of dairy products.

These almost immediate and seismic shifts in consumer behavior likely would have slowly unfolded over the next decade or so. But if these rapid changes in behavior prove permanent, the entire food system could be forced to adjust more quickly than anticipated. **MCT**

Markets Still Unsettled

Cheese markets are unsettled heading into the final quarter of the year. While CME block prices remain above $2.50/lb. and barrel prices are lifting, a nearly 90-cent chasm still exists between the two Cheddar prices. Nonfat dry milk prices are also rising on strong global demand and improving prices in Europe and New Zealand. Butter seems to be the only major dairy product that cannot sustain a price rally ahead of the upcoming holiday season. While butter prices appeared poised to lift off at the end of September, a surprising stocks report sent prices sliding toward $1.50 once again. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Sep	2.2650	1.6400	16.34	1.5300	12.96	0.3225	1.0025
Oct	2.1475	1.7300	18.83	1.6500	14.01	0.3300	1.0650
Nov	1.9675	1.6525	17.91	1.6300	14.18	0.3300	1.0925
Dec	1.8350	1.6250	17.01	1.5800	14.17	0.3200	1.1175
Jan	1.7450	1.5300	16.00	1.6050	14.42	0.3275	1.1350
Feb	1.6525	1.5000	15.31	1.6225	14.44	0.3200	1.1275

** CME prices.*
***NASS prices.*

...consumers likely to pull back on dining out

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consumers stay home.

The breakdown of restaurant sales helps explain why cheese demand remained better than expected through summer and butter piled up in warehouses. QSRs predominantly offer Mexican, pizza, and burger fare, and all require cheese, while fine-dining establishments, which bore the full brunt of COVID-19, use vast quantities of butter. In addition, retail sales of butter and cheese surged by double-digits this year compared to year-ago levels. IRI reports that retail butter sales through August were up nearly 28%, and natural and processed cheese sales increased 15% over the same period last year. Weekly sales volumes for each category have normalized, but retail sales could spike again to offset losses from potentially lower foodservice business this fall and winter, indicating that dairy markets could remain volatile for months to come.

During the worst of the market rout, Uncle Sam flooded the dairy market with billions of dollars in consumer food aid, which now in the final stages of making its way through the supply chain is helping to keep markets unpredictable and untethered to historical norms. Within a short amount of time, CME Cheddar blocks plummeted to $1/lb., followed by a run to $3/lb., before heading back down into the $1.50s, only to breach $2.60 by the end of September. This unprecedented volatility can be attributed, in part, to the fact that USDA food aid spending focused on natural cheese, namely Cheddar. Singling out one variety of cheese to be included in food aid could be why the block-barrel price spread exceeded $1/lb. and the reason for a more than $10/cwt. gap between Class III and Class IV milk prices. Both the cheese price spread and the milk price gap are remarkable in their own right, but to have them occur within a six-month period is somewhat unbelievable.

Recovery from this point forward could be slower than what occurred over the past few months and hinge on future USDA purchases, the rate of new COVID-19 infections, and cheese supplies, which will be boosted by a new cheese plant slated to open next month. Markets are largely headed in the right direction and mostly mended from this spring's fallout, but stumbling blocks and uncertainties will persist, making it difficult for restaurant sales to return to pre-COVID levels anytime soon. **MCT**

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