# COVID-19 IMPACT REPORT #7
Wednesday, 5-6-20

## CONSUMERS – WHAT WE HEARD IN APRIL 2020:

Consumer confidence has taken a beating over the last 6 weeks. One key looming concern is the rate and number of people losing their jobs or have a reduction in hours (reduction in income) during the Covid-19 Crisis. As of April 23, 2020, the Department of Labor reported 30 million Americans have applied for unemployment benefits. This represents approximately 19% of the labor force (source: Pew Research August 29, 2019).

This unprecedented loss of jobs is also generating a higher level of concern among those still employed of which 25% fear they will lose their job within the next 12 months (Gallup Poll – 4/22/20). This amount of layoffs and rapid rate at which it is occurring has shaken consumers' confidence in the job market. The ripple effect will be an impact on their spending as the economy begins to re-open – what they purchase, when, why and where, as well as the rate at which they return to the labor force.

The University of Michigan's recent Sentiment Survey of April 30, 2020 showed April's sentiment at 71.8; a 17.3 point drop from March.

While the initial impact in mid-March was the concern regarding the Covid-19 virus (62% stated it was their top concern with  personal finances coming in at 38%), by end of April the concern levels began to shift with Covid-19 at 60% and consensus over personal finances at 40%. As more people get impacted financially, their concerns begin shifting. The restoration of consumers' confidence in the job market will be difficult and likely take longer to achieve than many had earlier estimated.

Survey by Lending Tree (April 24, 2020): on consumers' plans for spending stimulus funds:

- 45% on groceries
- 29% on rent
- 22% on debts
- 10% on restaurants/splurge

The recovery of consumer confidence will not occur quickly nor without the conviction that this primary concern (fear of the Covid-19 virus) are laid to rest. Consumers will form their own judgments regarding the risks and that will be based on emotions, their sources of information (social contacts, news, etc.) forming their rationale. For some the fears generated by Covid-19 virus will not quickly disappear but will impact their willingness to be in gatherings or close contact with other human beings – whether at shopping venues, social events, or even restaurants for some time.

Additionally, their preferred shopping habits of pre-Covid-19 will be changed. Covid-19's impact on the consumer and thus the economy will bring about changes in the make up of business practices and ways consumers shop. Many are talking about the consumers "pent up demand" will acceleratethe restoration of the economy but the many ways we have defined consumer behavior in the past will change as a result of the pandemic. Pent up demand no longer represents the consumers stron desire to resume spending habits for goods or services but will also represent their desire to have their freedom of movement restored – just getting out is part of the new pent up demand and it doesn't necessarily involve any spending. (More on the "new normal" in our next report.)

Consumer surveys by Datassentials (4/28/20) taken several times weekly since the initial Covid-19 Crisis shows concerns over Covid-19 has plateaued in recent weeks.

Chart 1: Very concerned (very worried about their own personal health):

| 3/10 | 3/14 | 3/18 | 3/22 | 3/25 | 3/29 | 4/1 | 4/3 | 4/7 | 4/10 | 4/15 | 4/17 | 4/23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 41% | 49% | 61% | 61% | 61% | 60% | 67% | 65% | 61% | 64% | 60% | 61% | 60% |

This is a critical factor when speculating on the consumers interest in moving about more freely.

Another interesting survey by Datassentials regarding consumers avoidance of eating out shows a steadily high level of interest to avoid eating out. As of April 17, 58% surveyed definitely would avoid eating out compared to 38% on March 10. This doesn't bode well with any anticipated "rush to dine out" once the Shelter at Home policies are lifted; but does reveal consumers continuing high levels of fear regarding Covid-19.

One other interesting survey finding from Datassentials reveals most consumers remain apprehensive about re-opening of restaurants. Only 34% stated they would visit restaurants (dine-in) right away. However, by a narrow majority, 51% believed it was OK to visit open air places like beaches and parks.

So the culmination of consumers' attitudes at this point – they remain cautious as fear of the Covid-19 virus is still predominant in their minds. They are getting anxious to have their freedom of movement returned but that doesn't translate into more spending.

## OPERATORS – WHAT WE HEARD IN APRIL 2020:

According to our latest discussions, as many States and municipalities lift or ease their Shelter at Home restrictions, operators are facing overwhelming obstacles to re-open their businesses or open their dining rooms – implement new sanitizing and food safety policies and procedures, rehire and retrain employees, and evaluate current menus are just a few of the myriad of tasks to begin a re-opening process.

Create and implement new standards, policies and procedures for food safety and restaurant cleaning/sanitizing practices would include employee health evaluations and practices, rehire and retrain employees on those new policies as well as new social distancing best practices. Work stations will need to be reconfigured as well as dining rooms to create more distance between customers and employees, limiting the number of customers – logistics will have to be worked out. Masks and gloves for employees will have to be procured and policies put in place, additional hand sanitizer dispensary points will have to be set up in the restaurant, ensure restaurant is capable of handling "cashless transaction" payment options (might require new software upgrades), remove customer access to any Self Service items to avoid cross contamination. In the case of most QSR's which offer self-serve drinks, an additional employee will need to be stationed to fulfill that function. In some instances installing plexiglass shields at the cashier station to limit their exposure. Continue to focus on the Off-Premise model. Another whole set of issues has emerged regarding obtaining supplies to re-open – to include food and packaging as well as cleaning supplies, face masks, etc. Operators will need to ensure their distributors have the needed items for re-opening and possibly have to establish some degree of credit for their initial order.

Once all of this has been established and other State and Federal mandates have been met, then operators have to hope the consumer returns.

The hard question for operators is "will I survive this Crisis" and the answer is more complicated than just a yes or nor. Or any financial evaluation "to determine their liquidity and estimated cash burn rates" to decide if their business will survive. Many smaller operators and a majority of Independents have put their lives into their restaurant business. There is a lot of emotions beyond blood, sweat, and tears, and financial investments put into their enterprise. In many cases we have heard this Crisis has beaten down their will to continue. Right or wrong, this is one of the driving forces behind so many Independents closing their businesses.

The other side of this equation, many operators are working hard to figure out ways to weather this Crisis (see our list above); to survie in some form. Understanding that the old way of doing business doesn't exist anymore. They are making the necessary changes and adjustments, adapting new thoughts and ways of running their restaurant.

## SUPPLY CHAINS – WHAT WE HEARD IN APRIL 2020:

According to the latest report from the CDC, as of May 1, 2020 thousands of U.S. workers in meat processing plants have been infected with Covid-19 and at least 20 have died. Workers in 115 plants in 19 States have been diagnosed with Covid-19 resulting in 25 meat processing plants closing or partially closing. This will create a disruption in the supply line. According to the USDA, these closed or partially closed plants represent 15% of the beef and 30% of the pork production. However, the USDA was quick to respond that this does not mean there will be a meat shortage. However, for the consumer, they can expect to see higher prices and absence of some selections of beef and pork. As of this weekend (5/3/20) several grocery store chains are limiting consumer purchase of meats to 1 package.

For the operator/restaurant industry, it will mean higher prices – especially for chains that feature fresh beef like Wendy's and McDonald's Quarter Pounder.

The USDA stated that once these plants begin to re-open it is estimated to take 8 to 12 weeks to get the system back up to 90% production.

The Chairman of Tyson Foods sent an open letter to the Sunday New York Times, Washington Post and several other media outlets on Sunday, April 26, 2020 warning that the food supply chain is breaking due to these closures and that millions of pounds of meat supply from cold storage will be depleted. Tyson further stated, "If we hold where we are, with the same number of plants down but no further closures, then we estimate there should be enough processed meat in storage to last through the beginning of May." Since Mr. Tyson's letter, there have been 2 more major closures of beef processing plants. So the timetable will no doubt be accelerated.

Another critical component to the supply chain is hog and beef ranchers have been withholding supply to processors since mid-March because beef and hog prices were down approximately one-third since the beginning of the year. This has created another bottleneck in the supply chain. Even if meat processing plants were ready to go to 90% production today, they do not have enough raw product available to meet production demands. This will also slow output from producers.

Yet another factor that is creating turmoil with the supply chain has been reductions in manpower as many workers refuse to work in the current environment. Another piece to this conundrum is the introduction of more stringent safety measures such as bigger gaps between shifts and physical distancing between workers. These changes in protocols have reduced production by as much as 10-25% from normal.

The nation's food supply system is under assault. An intricate, well-balanced system for matching food supply with demand has been thrown out of whack. Every step of the way, from farm to table, has been effected by the Covid-19 crisis. In response, all shareholders at every step of the process are scrambling to find ways to quickly restore the stability – but it will take time.

Bottom line, there are numerous elements that are generating disturbances to the food supply chain due to the Covid-19 Crisis and will impact available supply

5/5/20 Breaking News: From several of our Wendy's contacts we have learned that over the weekend a scattering of Wendy's locations have temporarily stopped selling burgers. Areas reported thus far are in KY, SC, OH, CA, MI, and NY. One analyst estimates that 1,000 locations or 18% of Wendy's U.S. restaurans are affected.

For our next report – we will cover the definitions of consumer behavior and expectations, updates on the supply chain and what the restaurant of the "new normal" will probably look like. We will also provide an update of results from those States that have opened or plan to open in early May.