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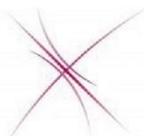
ECONOMIC REPORT

to assess the impact
of Covid-19 on the
brewing sector in
Europe in 2020-21

-
Update - June 2022

A woman with blonde hair, wearing a white long-sleeved shirt and a black apron, is holding a white rectangular sign with the word "CLOSED" written in large, black, serif capital letters. The sign is suspended by a thin white string. The background is a blurred indoor setting, possibly a brewery or a bar.

CLOSED



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Glossary

EU	European Union.
EA19 = Euro area	19 members of the euro area: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, Spain.
Europe 28	EU + UK.
Eurostat	The statistical office of the European Union.
hl (hectolitre)	Metric unit of volume or capacity. One hectolitre equals 100 litres.
Hospitality	See On-trade definition below.
IPASS	Income, payroll and social security contributions.
On-trade	Sales through (licensed) pubs, clubs, bars, restaurants, etc., also called the hospitality sector.
Off-trade	Sales through wholesale and retail (shops, supermarkets and other outlets).
Prodcom	Statistics on the production of manufactured goods. The term comes from the French "PRODUCTION COMMUNAUTAIRE" (Community Production).
Production value	Calculated using manufacturer selling price (MSP), i.e. sales at ex-factory price, therefore minus sales tax, VAT retailer and wholesaler mark-ups (as per Euromonitor's definition).

Summary

Ongoing COVID-19 measures taken by governments in 2021 continued to hit bars, restaurants and events, disproportionately impacting brewing and keeping beer hospitality sales 35% below 2019 volumes. Overall, beer volumes in 2021 remained more than 7% lower than 2019 numbers whilst beer production in the EA19¹ was also 11% below 2019, contrasting with the fortunes of wines and spirits, which actually saw an increase in production compared to 2019. COVID-19 in 2021 continued to affect the contribution that beer makes to the wider economy. In 2021, in spite of the 2.3 million jobs generated by beer, there were still over 250,000 fewer jobs created by beer than in 2019, whilst value-added was over 10% down and government tax revenues 13% down, principally due to the €5.2 billion in lost VAT receipts collected through beer hospitality pre-COVID.

This document updates a report from April 2021 on the economic impact of Covid-19 on the European beer sector.² That report outlined the impacts of the pandemic over the course of 2020 and provided a view on the outlook for 2021. Recently available data enables us to look back on the actual beer sector developments over 2021, when COVID-19 restrictions returned to the hospitality sector as governments sought to minimise the impact of successive waves of new COVID-19 variants, even as extensive vaccination programmes were rolled out across Europe.

The impact of COVID-19 in 2020 – a recap

In 2020, in response to the COVID-19 pandemic, governments implemented extraordinary measures to try and combat the transmission of the disease. In most European countries, from March 2020 onwards, the hospitality sector was either fully closed, or partially open with significant restrictions. Social gatherings, including nearly all medium- and large-scale festivals, events and celebrations, were postponed or cancelled as governments sought to restrict physical gatherings. As a direct result of this, the April 2021 report estimated that the European beer sector experienced a 42% reduction in on-trade beer sales, which was only slightly offset by an 8% increase in off-trade sales. This development profoundly impacted the sector's ability to support jobs and generate tax revenues for governments.

Recovery is in sight, but 2021 indicators still remain well below 2019 levels

The year 2021 provided a mixture of ups and downs for the beer sector. In the former camp were speedy vaccination rollouts in some countries and the gradual return of summer tourists in others. In the latter, there were new COVID-19 variants and the consequent resumption of some restrictions, including further drastic shutdowns of the hospitality sector. Our updated modelling presents the following results for 2021.

COVID-19 impact on beer sales and production

- The on-trade share of the beer market in 2021 was less than one quarter, compared to the one third it consistently represented each year from 2017 to 2019.
- On-trade beer consumption reached 78 million hectolitres but was still 42 million hectolitres (or 35%) below 2019 levels. Whilst many countries experienced hospitality consumption growth, the segment continued to decline in others.

¹ The EA19 is the group of 19 members of the euro area.

² Europe Economics (2021) 'Economic Report to assess the impact of Covid-19 on the brewing sector in Europe in 2020' <https://brewersofeurope.org/uploads/mycms-files/documents/publications/2021/covid-impact-report-final.pdf>

- Off-trade consumption remained above 2019 levels, at 263 million hectolitres (nearly 6% above 2019), slightly lower than its peak in 2020 when some consumption shifted from the on- to the off-trade.
- At 342 million hectolitres, beer consumption overall in 2021, though 8 million hectolitres above 2020, was still nearly 8% below 2019 levels.³
- Whilst spirits and wine manufacturing recovered in 2021 (ending the year 5% and 3% above their 2019 output levels, respectively), beer production increased only marginally and remained 11% below its 2019 level.

COVID-19 impact on employment

- Overall supported employment regained approximately half of the number lost over the course of 2020, ending 2021 with 2.3 million jobs, compared to the 2.6 million in 2019 and 2 million in 2020.
- Much of the bounceback was driven by the gradual recovery of the on-trade, but all upstream and downstream market segments contributed to the employment growth.
- Job generation in the beer on-trade in 2021 was still 16% below 2019 levels because of the only gradual recovery of the on-trade beer market.

COVID-19 impact on value-added

- The beer sector and its suppliers contributed €55.6 billion to value added in 2021, 10% up on 2020 but still over 10% down on 2019.
- The gradual recovery of the on-trade drove the majority of value-added growth, with on-trade value added increasing by 22% compared to 2020 as hospitality outlets and events welcomed more customers, but it remained 21% below the value it added in 2019.
- Also fuelling the overall growth were the off-trade and supply sectors, each adding more value to the supply chain than they did in 2019.

COVID-19 impact on government revenues

- Overall tax revenues generated by the beer sector and its suppliers reached €40 billion – a growth of 10% since 2020 but still 13% below the 2019 level.
- After their dramatic fall in 2020 as beer hospitality collapsed, VAT receipts collected in hospitality establishments and events grew by 22% but were still 35% down on 2019.
- The supplier sectors in 2021 collected €11.5 billion in income, payroll and social security contributions, up by 14% from 2020 as more than half the losses incurred in 2020 were recovered.

Outlook for the future

Whilst the impact of COVID-19 may be receding, it is clear that the European economy is now facing new, additional pressures which will affect consumer spending and place greater financial burdens on many businesses.

So, whilst Europe gets used to “living with COVID” and it is less likely that extensive hospitality restrictions and full travel bans return, it remains unclear whether the social impact of the pandemic, coupled with other challenges, will accelerate more fundamental shifts in business practises and consumption patterns.

Whilst overall beer volumes may return, the impact of beer on the wider economy might be subject to uncertainty if the change in the split between on- and off-trade is maintained in the future. Whilst higher volumes in the off-trade would offer new opportunities for some brewers, consumers, job development, value creation and revenue generation, it is also possible that these will replace other delivery channels (bars and restaurants in the on-trade) that have traditionally been more labour intensive and have supported more jobs.

³ Estimates rounded for presentational purposes.

1 Introduction

This is the update of the “Economic report to assess the impact of Covid-19 on the brewing sector in Europe in 2020”. As such, it provides an extra year of data (for 2021) which will help understand the impacts of measures taken by governments to stop the spread of Covid-19 over 2020 and 2021.

The pandemic had a devastating effect on the European economy in 2020, but it is in the hospitality and tourism sector where these effects were amongst the most severe. As a key sector in delivering food and drinks this severely affected the beer sector. The drop in sales and value generated through the on-trade sector was a predictable consequence of governments’ interventions through lockdowns and social distancing measures. The Brewers of Europe asked Europe Economics to provide an update to show any impacts of the Covid-19 restrictions beyond 2020.

The report uses information provided by The Brewers of Europe, and complements it with data from Eurostat, Euromonitor⁴ and our own estimates and calculations. It covers the 27 members of the European Union (Austria; Belgium; Bulgaria; Croatia; Cyprus; Czech Republic; Denmark; Estonia; Finland; France; Germany; Greece; Hungary; Ireland; Italy; Latvia; Lithuania; Luxembourg; Malta; Netherlands; Poland; Portugal; Romania; Slovakia; Slovenia; Spain; Sweden) and the United Kingdom.

⁴ While every attempt has been made to ensure accuracy and reliability of the data, Euromonitor International cannot be held responsible for omissions or errors of historical figures or analyses.

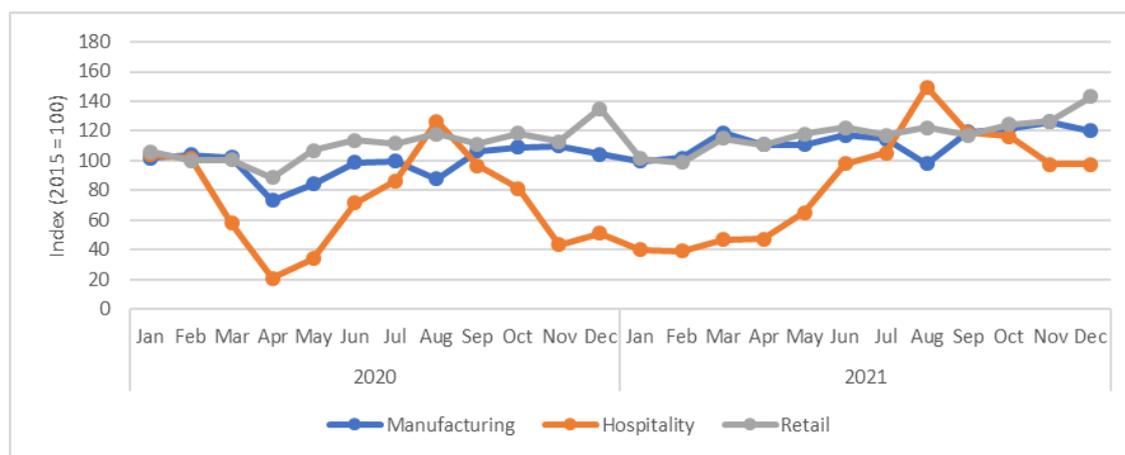
2 Economic trends

The consequences of government restrictions over the course of the pandemic have been dramatic. This was the result of the restrictions implemented by most Member States. Whilst the pandemic has undoubtedly had a devastating effect on the whole European economy, it is arguably the hospitality and tourism sectors where the effect has been amongst the most severe. As key sectors in providing food and drink to consumers, the restrictions on these sectors, where one third of all beers are typically served,⁵ have had knock-on impacts throughout the beer value chain.

2.1 Evolution of sales (aggregate economic sectors)

Figure 2.1 shows the monthly sales evolution in the manufacturing, hospitality and retail sectors in the Euro Area. The sharp drop seen in the hospitality sector in early 2020 was repeated in winter 2020 / spring 2021 as restrictions took hold again.

Figure 2.1: Evolution of sales in main aggregate sectors, 2020-2021 (EA19, index 2015 = 100)



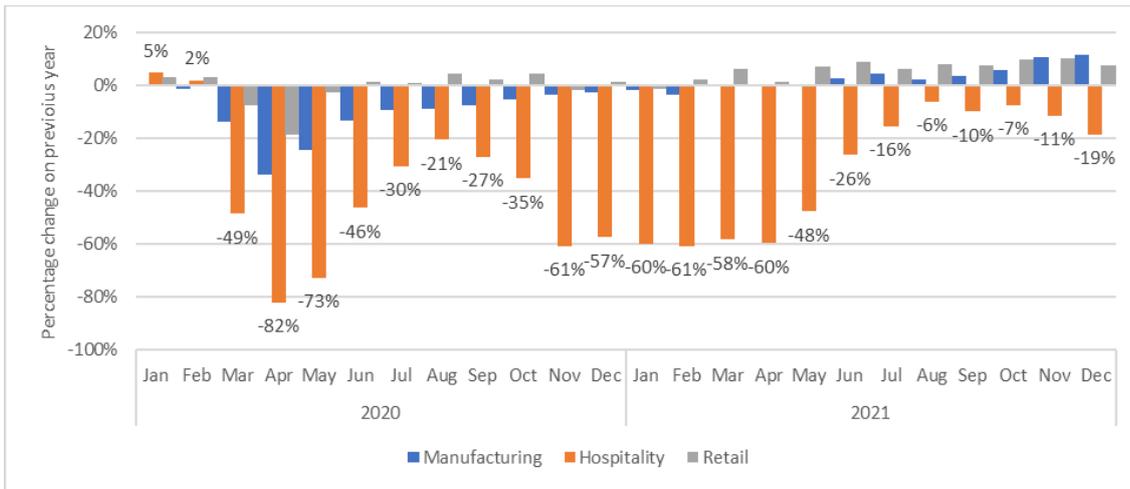
Note: Index of turnover for “Manufacturing”, “Accommodation and food service activities” and “Retail trade, except of motor vehicles and motorcycles”. Data are calendar adjusted and have a 2015 base year.

Source: Eurostat.

Striking results are found when we compare 2020 and 2021 with 2019. The slight gains in retail seen in June-October 2020 (as consumers returned to retail outlets and events upon restrictions loosening) were short-lived, leaving the sector to resume negative growth alongside manufacturing and hospitality in the winter (Figure 2.2).

⁵ The share of beer by volume consumed in the on-trade averaged 35% between 2015 and 2019 (Euromonitor).

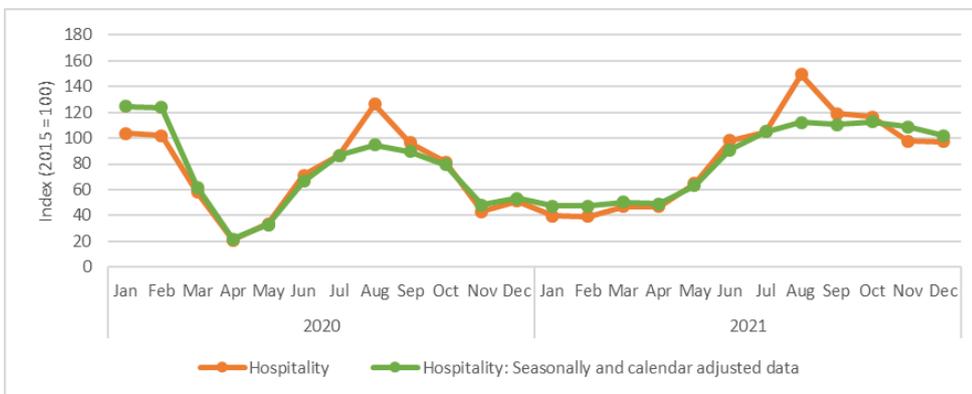
Figure 2.2: Change in sales relative to 2019 levels (EA19, %)



Note: Percentage change on 2019 levels of the index of turnover for “Manufacturing”, “Accommodation and food service activities” and “Retail trade, except of motor vehicles and motorcycles”. Data are calendar adjusted and have a 2015 base.
 Source: Eurostat.

The lack of recovery of the hospitality sector becomes more apparent when seasonal patterns are removed from the data: note the green line in Figure 2.3 remaining materially below the 2015 level (the base) during 2020 and much of 2021, whilst the unadjusted orange line appears to exceed it materially in summer months.

Figure 2.3: Evolution of hospitality sales, 2020-2021 (EA19, index 2015 = 100)

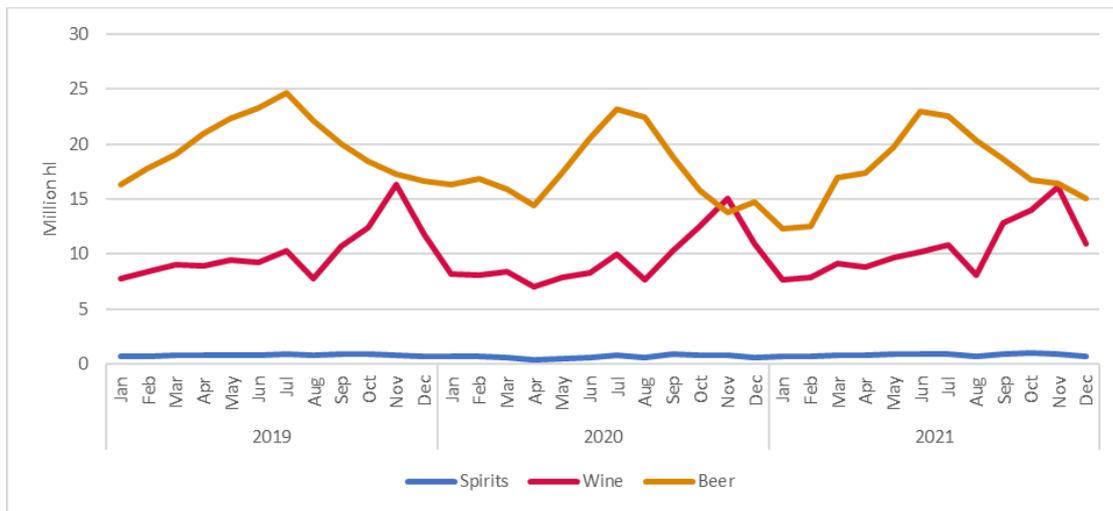


Note: Index of turnover for “Accommodation and food service activities”. ‘Hospitality’ series is calendar adjusted only.
 Source: Eurostat.

2.2 Production

Turning to production, we compare the volumes of beer, wine and spirits produced in 2020 and 2021 with 2019 levels. We note that all three sectors experienced maximum losses in April 2020 (Figure 2.4). Over the subsequent months, the sectors’ production appeared to resume their seasonal patterns, albeit at lower levels.

Figure 2.4: Alcoholic drink manufacturing volumes, 2019-2021 (EA19, million hl)



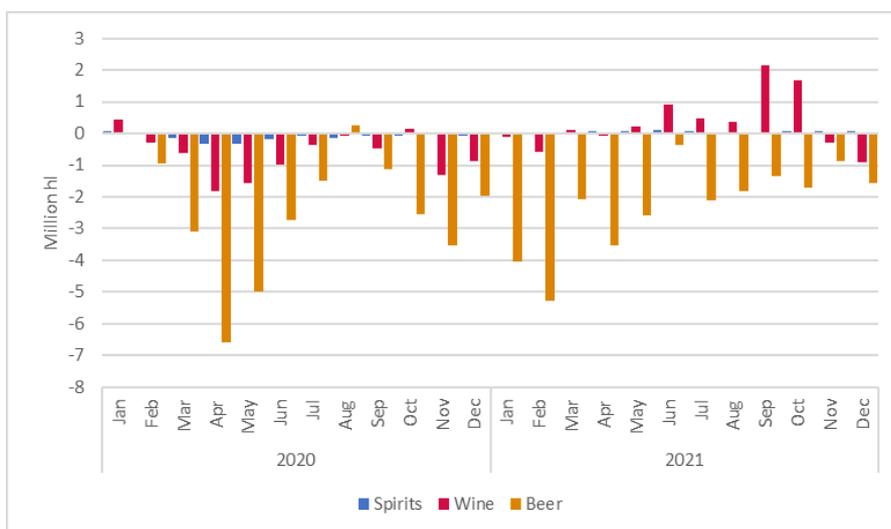
Note: Series constructed using a volume index of production (monthly data, 2015=100) and produced volumes (2015).
 Source: Europe Economics calculations using Eurostat Prodcom data.

We can see that the beer sector was also significantly affected in early 2021 coinciding with the spread of a new variant of the virus (and subsequent social restrictions), causing a double-dip contraction (Figure 2.5). This left beer production in 2020 and 2021 29 and 27 million hectolitres lower, respectively, than it was in 2019, and over the whole of 2021 it had clearly not made up the ground lost over 2020.

In summary, we remark the following about production in the pandemic-affected years:

- In 2020, all alcoholic drink sectors experienced significant production contractions compared with their aggregate 2019 levels: -15% for spirits, -6% for wine, -12% for beer.
- In 2021, spirits and wine manufacturing recovered, ending the year 5% and 3% above their 2019 output levels, respectively. Beer manufacturing, on the other hand, remained 11% below 2019 levels. In addition to reflecting the ongoing increased exposure of beer to the challenges faced by an on-trade that continued to suffer shutdowns and significant restrictions in 2020, this might also reflect the perishable nature of beer in comparison to other alcoholic products: spirits production is not seasonal, and wine production depends mainly on the time of harvest, rather than the consumption patterns.

Figure 2.5: Monthly alcoholic drink manufacturing compared to 2019 levels (EA19, million hl)



Note: Series constructed using a volume index of production (monthly data, 2015=100) and produced volumes (2015).
 Source: Europe Economics calculations using Eurostat Prodcom data.

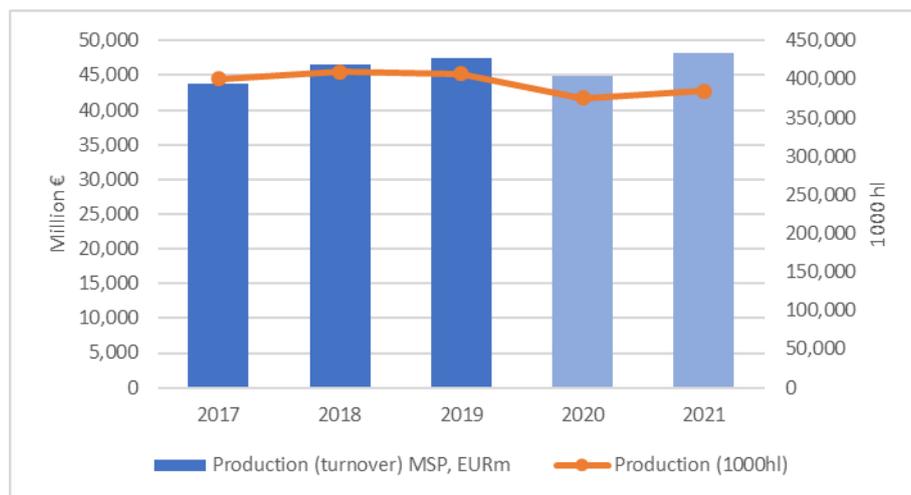
3 Direct impacts on the beer sector

This chapter presents the impacts occurring in 2020 as a result of lockdown measures and how they continued to affect the beer sector in 2021. We show the impacts on total production, consumption in on- and off-trade markets, and purchases.

3.1 Production

Beer production values and volumes have evolved in different ways over the course of the pandemic. The sustained recent increase in production values (reaching over €47 billion in 2019) was interrupted in 2020, suffering a drop of €2.6 billion (shown by the blue columns in Figure 3.1). However, the pre-Covid trend recovered in 2021 with values above those of 2019, an increase that also reflects the change in prices (and inflationary pressures) that took place that year. In terms of volumes, the recovery is much more modest: the figure below shows that production in 2021 was still 5% below its 2019 level (orange line in Figure 3.1).

Figure 3.1: Beer production values and volume: Europe – 28 countries (million € and 1,000 hl)



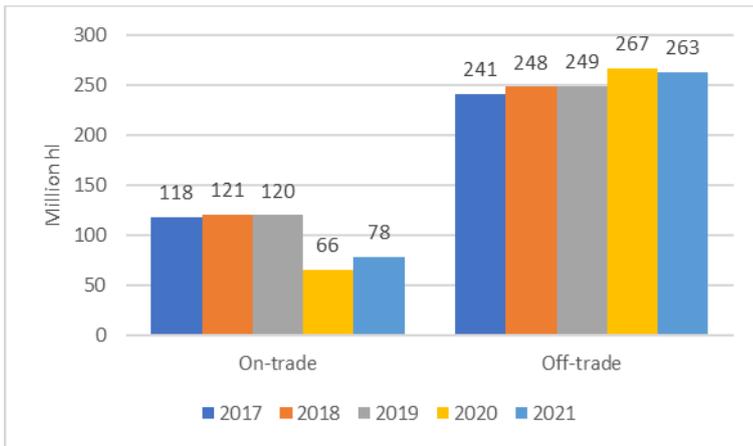
Note: 'Production (turnover), EURm' values are in current prices (without adjustment for inflation). Production in 1000 hl.
Source: Euromonitor, The Brewers of Europe and national associations.

3.2 Evolution of consumption and sales

Covid-19 restrictions caused a significant drop in beer consumption, notably in the on-trade, and a material redistribution of beer consumption between the on- and off-trades, visible in both 2020 and 2021.

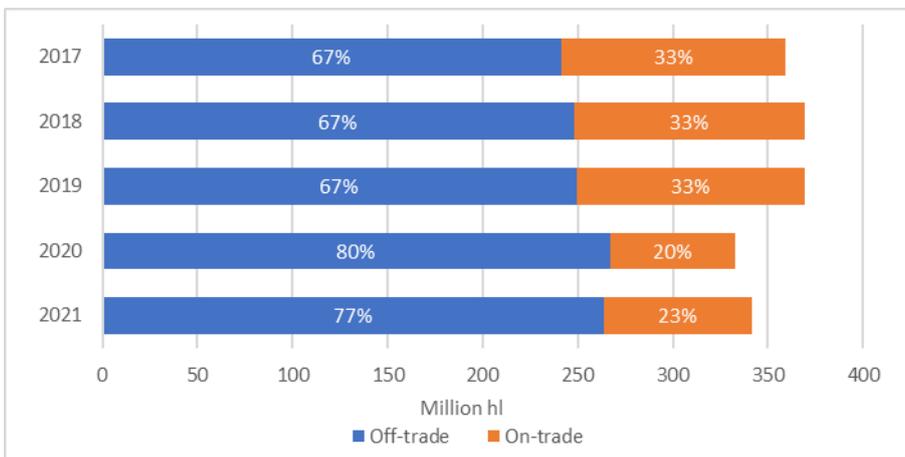
- On-trade consumption in 2020 fell by 45% compared to 2019. In 2021, it regained some of the ground lost in 2020, reaching 78 million hectolitres, but remained 35%, or 42 million hectolitres, below 2019 levels (Figure 3.2, Figure 3.3).
- Off-trade consumption gained some of the lost on-trade consumption in 2020, increasing by 7% relative to 2019. In 2021, it remained above 2019 levels, at 263 million hectolitres, despite some rebalancing of consumption back to the on-trade.

Figure 3.2: Beer consumption on- and off-trade markets: Europe – 28 countries (million hl)



Source: data from The Brewers of Europe, national member associations and Euromonitor.

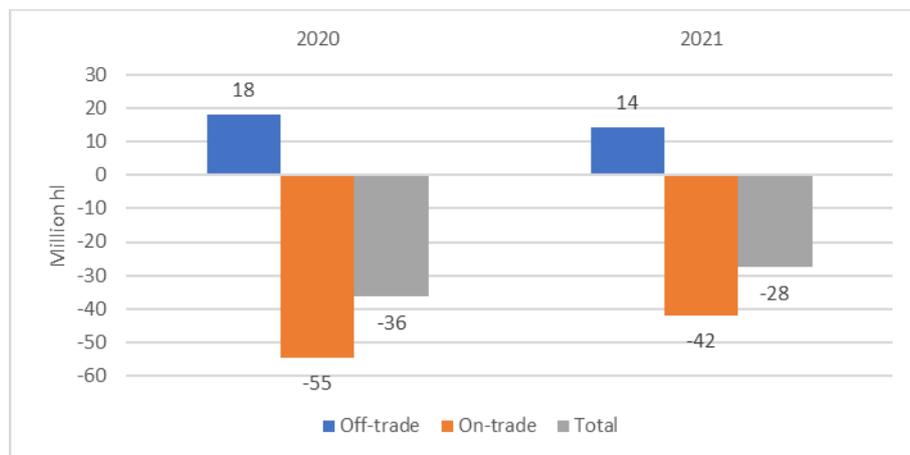
Figure 3.3: Beer off- and on-trade shares: Europe – 28 countries (million hl and %)



Source: data from The Brewers of Europe, national member associations and Euromonitor.

Overall, consumption in 2021 remained markedly below 2019 levels – by 7.5% (Figure 3.4). One explanation is that shutdowns continued to suppress consumer activity across Europe during 2021. But this finding may also suggest that, without interventions, there may be a fundamental, longer-term change in consumer habits at play here (the increased risk perceptions garnered during the early stages of the pandemic could still be influencing consumers’ willingness to consume in on-trade establishments).

Figure 3.4: Beer consumption compared to 2019 levels: Europe – 28 countries (million hl)

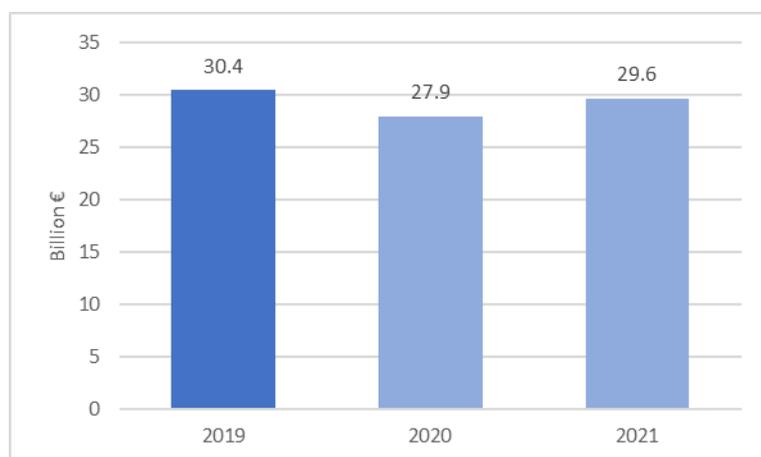


Source: data from The Brewers of Europe, national member associations and Euromonitor.

3.3 Upstream purchases

As production and consumption faltered in 2020, a corresponding drop in brewery purchases followed suit. The value of upstream purchases fell by €2.5 billion between 2019 and 2020, or 8% (Figure 3.5). In 2021 brewers' purchases reached €29.6 billion – just €800 million short of 2019 levels – supporting more economic activity upstream than was possible in 2020. As with production values, however, we note that at least some of this recovery is likely to be driven by inflationary pressures upstream which increased the nominal value of purchases.

Figure 3.5: Brewery purchases 2017-2021: Europe – 28 countries (million €)



Source: data either taken directly or derived from Eurostat, The Brewers of Europe and national member associations.

4 Economic impacts

The economic impacts of the beer sector extend to other sectors in the economy. This includes the sectors supplying its inputs, but also the channels brewers use to distribute beer to consumers through retail stores or serving beer in hospitality establishments and at events (when Covid-19 restrictions allowed it).

This section provides our estimates in terms of jobs, value added and tax revenue. The impacts are presented to distinguish between the following channels: direct impacts (those aggregated from all the brewers in the sector); impacts in the retail and hospitality sectors (also referred to as on- and off-trade markets); and supply impacts (the sectors supplying inputs to the brewing sector).

4.1 Employment

Figure 4.1 shows that the large reduction in the number of jobs directly⁶ and indirectly generated by the beer sector in 2020 did not fully recover in 2021. In 2019, nearly 2.6 million jobs were generated by beer, a figure which dropped to 2 million in 2020 and recovered to 2.3 million in 2021. The on-trade sector has been the main driver of the fall since 2019: 30% (or 500,000 jobs) lower in 2020 and 16% lower in 2021, relative to 2019 levels.

Figure 4.1: Employment supported by the beer sector: Europe – 28 countries (jobs)



Source: Europe Economics calculations.

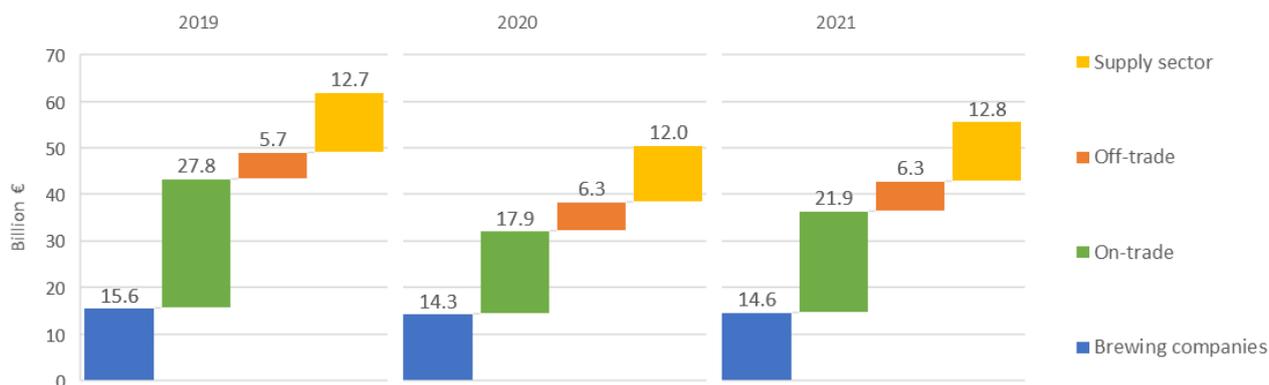
4.2 Value-added

Value-added is calculated from the employment impacts presented above and estimates of apparent labour productivity (gross value added per person employed) in the relevant sectors. Plainly, the reduction in on-trade activity in 2020 drove the knock-on reduction in value-added; the sector's activity in 2021 has clawed back some of that (Figure 4.2).

⁶ We do not have data on the direct employment in brewing companies for all countries in 2020 or 2021. To give an approximate figure we have computed the figures using the proportionate change in total production (in hectolitres).

- Brewing companies' value-added has increased marginally over the pandemic, from approximately €14.3 to €14.6 billion 2020-21, after initially dropping by more than a billion euros between 2019 and 2020.
- Value-added by the on-trade recovered somewhat in 2021 as some consumption has returned and some has shifted back from the off-trade. Despite this, value-added by the off-trade in 2021 also increased slightly above the €6.3 billion it reached in 2020.
- In the supply sectors, increased production supported by more demand buoyed their value-added above the 2019 levels to nearly €12.8 billion.

Figure 4.2: Value added 2019-2021: Europe – 28 countries (billion €)



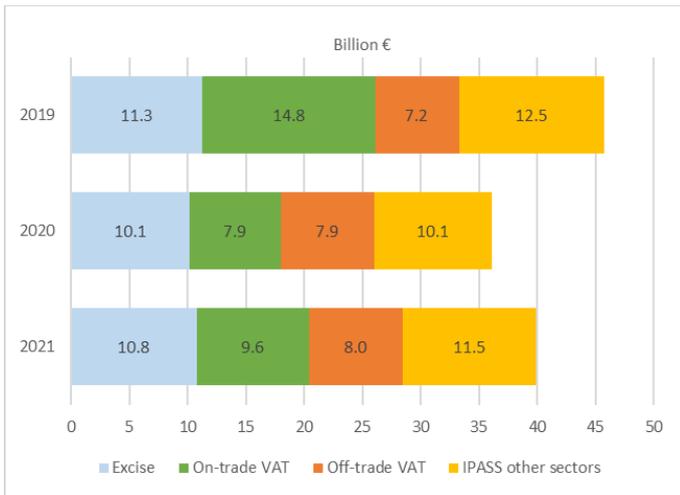
Source: Europe Economics calculations.

4.3 Government revenues

Data limitations continue to restrict the scope of government revenue analysis. We focus on revenues indirectly generated by the beer sector (VAT, excise and tax contributions from other sectors). In 2021, VAT collected from the on-trade continued to be subdued relative to 2019 levels, but off-trade VAT increased slightly since 2020 despite its lower level of consumption since then (Figure 4.3).

- After dropping by nearly €10 billion to €36 billion in 2020, overall government revenues from beer in 2021 are estimated to have been €40bn (up €4 billion since 2020, but still 13% below the 2019 level).
- The recovery in revenues was driven by VAT revenues in the on-trade markets, increasing by €1.7 billion in 2021 but still 35% down on 2019 numbers .
- VAT revenues in the off-trade continued to increase on 2019 levels, although modestly by just 0.05%.
- Higher brewer expenditure led to higher levels of IPASS, up nearly €1.5 billion compared to 2020; but remaining 8% below the 2019 level.

Figure 4.3: Indirect government revenues 2019-2021: Europe – 28 countries (billion €)



Note: IPaSS denotes Income, Payroll and Social Security contributions.
Source: Europe Economics calculations.

5 Conclusions

The year 2021 presented a mixture of outcomes for the European beer sector. This update report provides an insight into those areas where the beer sector has regained some of the ground lost in 2020 and where its activity – and hence its economic contribution – remains subdued.

The **sales** of beer entered 2021 facing a depressed hospitality sector as governments re-imposed (or continued) hospitality shutdowns and restrictions. This continued to impact negatively on overall sales, albeit to a slightly lesser extent than in 2020. **Production**, which closely follows the pattern of anticipated demand due to beer's perishable nature, was similarly held back at lower levels compared to 2019 numbers.

In 2020, we witnessed a significant acceleration of the trend in shifting consumption from the **on-trade** to the **off-trade**. Off-trade outlets became the only source of beer for many consumers in Europe, whilst drinking establishments were forced to close and hospitality/tourism events were cancelled or heavily restricted. In 2021, consumption in the on-trade grew slightly – presumably because of looser restrictions and the rollout of vaccination programmes that year boosting people's confidence as well as their immunity. However, beer consumption was still down overall compared to 2019, with the on-trade beer consumption marginally up on 2020 but still well below 2019 levels.

The **employment** supported by the beer sector's activity in 2021 looked more positive, largely thanks to a more active on-trade sector. However, in 2021 there were still an estimated 250,000 fewer jobs generated by beer when compared to 2019. Breweries and the sectors that supply them also contributed to employment growth during 2021. This had a positive knock-on effect on **value-added** but, as with employment, the total value-added by the beer sector and its suppliers continued to be held below 2019 levels.

A similar story is told by **government tax revenues**, which reached €40 billion in 2021. This contrasts with 2020, during which government-imposed restrictions resulted in governments forgoing a significant amount of tax revenue. However, beer consumption levels remaining still well below pre-pandemic levels meant government tax revenues in 2021 were more than €5 billion below 2019 receipts.



A report produced
by Europe Economics
for The Brewers of Europe



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