



PREVIEW – Chocolate makers eye Easter for signs of pick up

Wed Apr 8, 2009 12:44pm EDT

- * Industry facing toughest markets in over 10 years
- * Signs of trading down from premium products
- * Late Easter should benefit chocolate makersBy Katie Reid and Tracy Rucinski

By Katie Reid and Silke Koltrowitz

ZURICH, April 8 (Reuters) - Chocolate makers will closely eye this year's Easter trade for any signs of higher demand for treats as the industry faces its toughest markets in over a decade with the economic slump hitting consumers' appetite.

"For the first time in 10 years, we are seeing chocolate consumption fall in both value and volumes," said Vontobel analyst Claudia Lenz.

The traditionally resilient chocolate industry is grappling with lower demand as shoppers tighten their belts and keep a close eye on their food bills as they worry about job losses.

Even the premium chocolate sector, which has enjoyed years of strong growth, is suffering as shoppers opt for cheaper alternatives for their chocolate fix, analysts said.

"We are definitely seeing signs of trading down from premium chocolate products to standard goods," said Investec Securities analyst Martin Deboo. "This is good news for Cadbury (CBRY.L), Hershey (HSY.N), Mars and Nestle (NESN.VX)."

Switzerland's Lindt & Spruengli's (LISP.S)(LISN.S) bunnies are facing fierce competition from cheaper private label brands, with discount supermarket chains like Aldi aggressively pushing their own gold bunnies.

Lindt, which traces its origins to a Zurich confectionery shop established in the 1840s, said last month it would shut its boutiques in American shopping centres as it expects demand for its high-end chocolates to drop this year.

But consumers are likely to get a taste for chocolate again in the second half of the year and strong brands like Lindt are well placed to benefit, independent analyst James Amoroso said.

"By then, people will have had time to get used to living in a crisis and some of their old spending habits will return. It's medically proven that chocolate makes you feel good," he said.

And companies are likely to benefit from a later Easter this year, which has given them more time to promote their Easter eggs and chocolate bunnies, while retailers have also had more time to stock up.

"Easter was very early last year, coming straight after Valentine's Day and was the worst on record," said Kepler Capital Markets analyst Jon Cox. "This year might be the second worst on record, but there are signs that things are improving."

Last week, the world's largest chocolate maker, Barry Callebaut (BARN.S), said volumes had jumped 20 percent in March as retailers started to build up their stocks again while Swiss supermarket chains Coop and Migros also sounded an upbeat note.

"Sales are going quite well so far, we are not seeing a slowdown," said Coop spokesman Karl Weisskopf, adding that an important part of sales is done in the last week before Easter.

NO PRICE HIKES

But consumers are still more price sensitive than ever, making price increases very difficult this year, Barry Callebaut CEO Patrick De Maeseneire said last week.

"I don't think there are going to be price increases in the next twelve months as companies would be hurt by this," he said.

"Consumers are particularly price sensitive in Germany, where we have observed a trend to trading down towards private label products and promotional brands," De Maeseneire said.

"The companies that didn't increase prices or have done severe promotions are those that are winning," he said.

Last month, Lindt said it would wait for as long as possible before it hikes prices, spreading any increases over the next 24 months as it looks to its presence in the market and Vontobel's Lenz said the group will try to introduce higher prices through the launch of new products.

"This economic situation has been like a wake-up call for consumers who have gotten into the habit of shopping at certain places and have not necessarily been looking for the best deals," Amoroso said.

De Maeseneire said, however, there was currently no need to increase prices for milk and white chocolate as their average costs are at the same level as they were two years ago.

But he noted that the cocoa price was still at a high level and the ingredient costs for dark chocolate were 30 percent higher than they were two years ago.

Cocoa futures in London rose to a 24-year high in late January due largely to the decline in deliveries from the world's top grower, the Ivory Coast, but prices have since then declined as the world economic downturn starts to hit demand.

(Editing by Jon Loades-Carter)

© Thomson Reuters 2009 All rights reserved.