

Why food inflation will remain elevated for the next 6-12 months

The latest figures from the ONS surprised many commentators, with CPI jumping to 10.4% in February 2023 following 3 consecutive monthly falls from a peak of 11.1% in October 2022. Within this data, CPI Food was a key component behind this increase with February 2023 seeing a sharp jump in prices to 18.3% (from 16.8% in January 2023) with the divergence between overall CPI and CPI Food continuing to increase. In this article we consider the key factors behind why CPI Food remains elevated and why we believe food inflation will remain high for the next 6-12 months before easing.



In the UK, food inflation is being driven by a number of converging factors; (1) high energy costs; (2) increasing cost of raw materials, and; (3) labour shortages, with the war in Ukraine the key driver behind the first two.

All stages of the food supply chain from field to fork are dependent on their use of energy and fuel, along with the eco-system which supports the chain (e.g. transportation and logistics infrastructure). The sharp increase in energy costs following the start of the war in Ukraine had an immediate impact on the cost of production for those businesses unhedged and although energy prices have since eased, they remain elevated relative to historic levels.

After a period of relative stability, food commodities began to steadily increase at the start of the pandemic as global supply chains became strained and disjointed. This increased sharply when the war in Ukraine started.

Closing thoughts

In view of the above factors, we believe food inflation will remain high over the next 6-12 months before price rises begin to slow and settle although clearly there remains a wide trajectory of potential outcomes here depending on how the war in Ukraine evolves. It's clear from our discussions with clients and recent surveys that many businesses were not able to fully recover cost increases in 2022 and therefore, there's still latent inflation in the food supply chain which needs to work its way downstream to the end-consumer.

As a reminder, Ukraine is one of the world's top agricultural producers and exporters and had a significant market share by volume in wheat (10%), corn (15%), barley (13%), and sunflower oil (50%), and is ranked fifth, third, second and first largest exporter respectively of these key food crops.

Food commodity prices eased when the Black Sea Grain Initiative was agreed in July 2022 which enabled the flow of agricultural goods to flow from the region however food commodity prices remain ~38% higher than pre-pandemic levels.

Sterling depreciation in 2022 amplified this as virtually all key food commodities are priced in US Dollar and with the UK importing around 45% of the food it consumes it was inevitable raw materials prices would go up. Added to this, we continue to experience an increasing number of extreme weather events linked to climate change which will inevitably create further supply chain disturbance and imbalances in 2023 and beyond.

Finally, labour is a significant part of the cost of producing and distributing food in the UK. The UK Agri-Food sector employs 4.1m people or 13.4% of the workforce in Great Britain with Food and Drink Manufacturing sub-sector accounting for ~456,000 of this total.

In the latest FDI State of Industry Survey (Q4 2022), the number of vacant positions for every 100 jobs in the Food & Drink Manufacturing sector alone was 7.0% which was more than double the UK Manufacturing Sector as a whole (3.3%). Shortages in the sector are long-standing and structural - e.g. negative sector perception, geographic location (e.g. rurality), etc. - with the shortages exacerbated in recent years by a combination of Brexit and COVID-19, which saw a significant number of lower-cost and skilled EU workers returning to their country of origin. These shortages have resulted in higher wages as businesses seek to attract and crucially retain workers. It's hard to see how labour availability will improve over the next 12 months, indeed with National Living Wage going up in April 2023 this will add further cost to the system.



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