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**Scotland Food & Drink
Partnership**

The Challenge of Cost Increases and Labour Shortages

15.11.21.

Background

Global food prices have surged because of bad weather, such as droughts in North and South America and heavy rain in Europe, and the supply chain problems that came with the easing of coronavirus restrictions.

The FAO food price index rose at an astonishing annual rate of 31 per cent in October. The IMF's food and beverages commodity index rose at a similar rate. In real terms, after taking into account inflation, global food commodity prices are now higher than their 2008 and 2011 peaks, just before the Arab spring protests that were partly caused by soaring food costs.

Analysts say higher costs for production, processing and transport will keep prices elevated.

Report Sources;

- Mintec
- FT
- AHDB
- ONS
- Refinity
- Rabobank
- FAO
- FDF
- NFU
- Bloomberg



Background – November 2021

Labour, Energy, Freight. Packaging

Prices in most food market categories have reacted directly to the UK's labour shortage and input cost increases.

The UK food supply chain also continues to experience inflationary pressures such as

- record high freight costs
- elevated packaging material prices

Higher input costs as **gas, electricity** and **fertiliser** prices reach record levels.

The UK's **natural gas price rose sharply by +585.3% y-o-y and +93.1% m-o-m** in the first week of October due to a combination of supply concerns and growing demand.

The cost of fertilisers, which are made from natural gas, has surged as many manufacturers have also stopped their plants because of soaring gas prices, adding to the strain.

Responses to these events include **higher meat, dairy, and grain prices** on the back of shortages, delivery constraints, and increased production costs.

Oilseed and vegetable oil prices were already at **high levels**.

For less perishable raw materials such as nuts, the resulting impact of the labour shortage has been an **increase in warehouse stocks and the consequent rise in storage costs**.

With market participants reporting that **freight rates will remain high** until the beginning of 2022, this factor will remain a significant driver for most commodities.

UK manufacturer prices

Source: ONS, October 2021; Index 2015 = 100



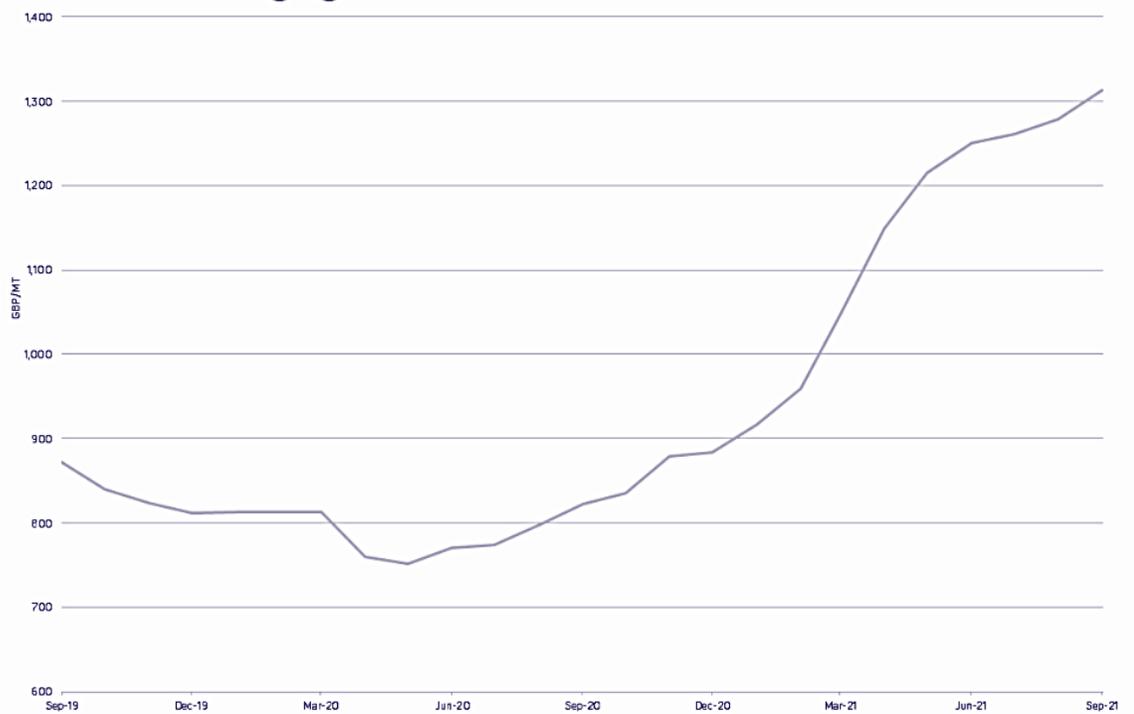
Crude oil prices have soared this year

Brent (\$/bl)



Source: Bloomberg

UK MCI Packaging Index



Source: Mintec Analytics

UK gas prices soar

Day-ahead price at the UK National Balancing Point (£ per therm)



Source: Refinitiv

Packaging

The UK packaging **Mintec Category Index (MCI) increased by 60% y-o-y to GBP 1,313.42/MT in September 2021.**

The price increase is attributed to unprecedentedly high energy prices curtailing production capabilities for several packaging-dependent sectors in the UK, leading to a significant competitive disadvantage. These elevated energy prices are already severely impacting producers of tissue, newsprint, and **food packaging** in the UK, limiting their manufacturing capabilities. Besides the high energy prices, the current logistical constraints and high inland freight rates are causing **months-long delays**.

According to market participants, new orders for **paper packaging** are scheduled for the end of this year.

For **aluminium packaging**, the LME (3-month) price rose to a new high of USD 2,853/MT, up 9.6% m-o-m and 60% y-o-y in September 2021, supported by global supply tightness and soaring demand.

Plastic packaging costs have also increased significantly, with the **UK PET price rising by 44% y-o-y, while UK HDPE climbed by 51% y-o-y in September 2021.** The market was driven by a global supply shortage, with many US and EU production factories under Forces Majeures since the beginning of 2021.

Strong demand has exacerbated this tight supply, and soaring freight rates has meant that there have been limited imports to compensate for this supply deficit.

The packaging index is likely to stay elevated until the logistic bottlenecks and energy crisis settle.

“High prices are here for at least another year.”

Carlos Mera, Head of Agri-Commodities Market Research Rabobank
October 21

Commodities – November 2021

Even if a stroke of luck brings exceptional weather conditions and bumper crops over the next year, it will not be enough to replenish inventories and bring down prices to previous levels, say analysts.

Wheat

In a year of extreme weather, growers in key producing regions of many food commodities faced output declines. Wheat futures prices are up 20 per cent from the start of the year as Russia, North America and Argentina were affected by drought, while European producers were hit by rain. The last time wheat prices soared to current levels was in the aftermath of the 2012 drought in the US.

Oats

Oat prices, meanwhile, have doubled this year after a severe drought in Canada wiped out almost half of its crop. As the world's largest oat producer and exporter, Canada's oat production drives global trade, and this year its crop shrank 44 per cent, according to Gro.

Sugar

Drought in Brazil, the large producer and exporter of sugar and coffee, has hit both commodities. Sugar is up 26 per cent since the start of the year, while coffee has jumped 56 per cent. Farmers in the largest coffee growing regions were also hit by unseasonal frost in July, which damaged many trees, raising fears for the next season's crop.

Spices

Spice, garlic and ginger prices are surging, making inflation likely across a vast range of everyday food products. The price of spice, garlic and ginger have risen up to 50% in some cases, suppliers have warned. Mintec commodity market analyst Jara Zicha told The Grocer that a range of factors, from distribution difficulties to adverse weather conditions, were contributing to the price increases.

UK milk prices



Source: Mintec Analytics

RSOR - Rapeseed oil fob R'dam (MBP) (DH-3)



Source: Mintec Analytics

Euronext wheat and maize price



Source: Mintec Analytics

UK wholesale prices

£/tonne	Oct-21		Sep-21		Oct-20	
	Average	Range	Average	% change	Average	% change
Bulk cream	1,855	n.a.	1,656	12%	1,540	20%
Butter	3,780	845	3,440	10%	3,140	20%
SMP	2,330	425	2,230	4%	1,980	18%
Mild Cheddar	3,240	350	3,070	6%	2,920	11%

Source: AHDB

(prices refer to deals agreed between 27 September and 22 October 2021)

Labour

The National Farmers' Union (NFU) and FDF have produced a report outlining current workforce shortages in the industry and measures applied by respondents to counter this labour shortage, such as increasing staff wages, retention bonus scheme, flexible shift patterns and extra holidays.

Despite a concerted effort, most survey respondents felt that they were still **unable to recruit** or retain sufficient levels of staff.

“Given the scale and nature of the challenges outlined it is not surprising that it is having a profound impact. In particular, there are a number of specific skill shortages. For example one that is affecting all parts of the food and drink supply chain is the shortage of HGV drivers which is impacting on the collection and distribution of food. With butchers being another that is resulting in less UK produced meat in the shops.

As a result, the impacts include scaling back production and reduced quality of produce; the replacement of UK grown produce with international imports; delivery delays; increased pressure on staff; and reduced business profitability, growth and investment.”

It is a combination of the speed and severity of these impacts which are beyond the capacity of the industry to adapt to in the short term, that is placing parts of the supply chain precariously close to market failure – an outcome that while not resulting in food shortages would have unprecedented impacts for the UK in terms of the variety, availability of UK produce and price.”

*Establishing the labour availability issues of the UK Food and Drink Sector
August 2021*

THE KNOWLEDGE BANK

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Thank you

If you have any queries about this report please contact:

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