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**Scotland Food & Drink  
Partnership**

# Food and Drink: Inputs, Inflation, Costs and Commodities

30 Jun 2022

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## Report Sources:

- AHDB
- Bank of England
- Capital Economics
- DEFRA
- FAO
- Freightos
- FT
- HMRC
- IGD
- Kantar
- Logistics World
- Mintec
- Nielsen
- Ofgem
- ONS
- Refinitiv
- The Grocer
- The Knowledge Bank
- UK Parliament
- USDA

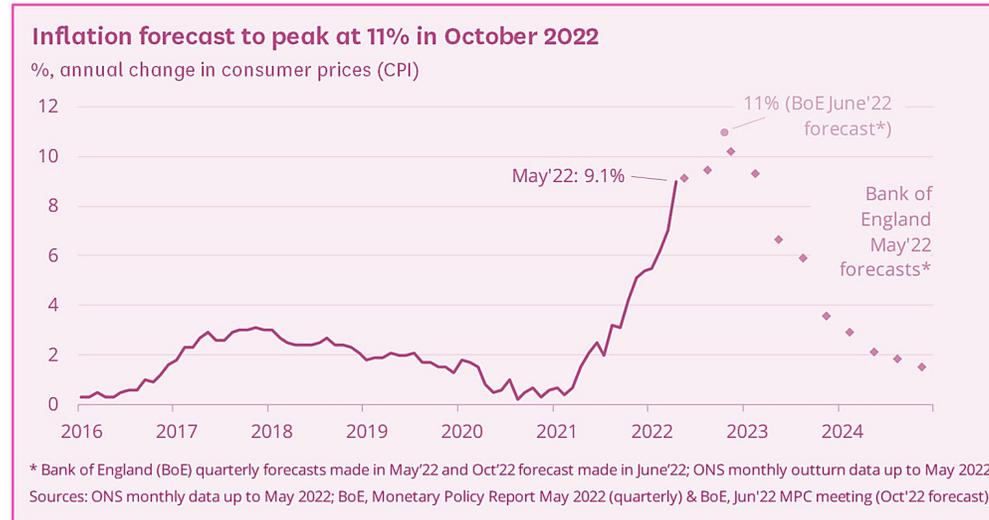
## GLOBAL OUTLOOK

Inflation has been the key global macroeconomic theme of the 2022 calendar year to date. High fuel and energy costs, raw material shortages and supply chain disruptions continue to **squeeze consumer budgets**. Over the course of June **central banks** from Washington to Zurich raised rates by bigger margins than markets expected, signalling they would do whatever it takes to rein in **surging inflation** — even if that means triggering a **recession**.

### UK

The number of UK sectors reporting a fall in output doubled in May, as **inflation continued to drive down demand for goods** and services, according to the latest Lloyds Bank UK Sector Tracker.

**UK food and drink producers saw output contract** for the first time since July 2021 (47.5) as new order levels also fell (49.2 in May vs. 53.3 in April). Firms attributed weakened demand to a **slowdown in client stockpiling** amid sharply rising prices. The OECD's forecast for the UK for next year is for **zero growth**.



### EUROPE

Analysts Capital Economics said the **recession risks** are highest in Europe, where the inflation-induced cost of living crisis is coupled with **possible gas shortages**. The decision by Germany to trigger the second stage of its **national gas emergency plan**, taking it a step closer to **rationing**, underscored the threat.

### USA

Jamie Dimon, Chairman and CEO of JPMorgan Chase & Co described the challenges facing the U.S. economy akin to a **"hurricane"** and urged the Federal Reserve to take forceful measures to avoid tipping the world's biggest economy into a **recession.** **"That hurricane** is right out there down the road coming our way. **We just don't know** if it's a minor one or Superstorm Sandy," he added. **"You gotta brace yourself.** JPMorgan is bracing ourselves."

# Inflation Impact



# INFLATION: Inputs / Contributions

The Office Of National Statistics (ONS) has released its latest inflation data up to May 2022. This is **the highest year-on-year inflation level for 40 years**, recording 9.1% on the CPI index and 7.9% on the CPIH index. The older RPI measure of inflation reached 11.7% up from 11.1% to February 2022.

Inflation has stayed **relatively level** when **compared to April**, up only 0.1% on the CPI measure. This is principally because the energy price cap, the key contributor to inflation, was raised in April and now remains at the same price for the next 6 months.

Price rises in **food and drink** continue to **accelerate**, up 2% in May to **8.7%** year on year. At the same time last year food and drink inflation was -1.3%.

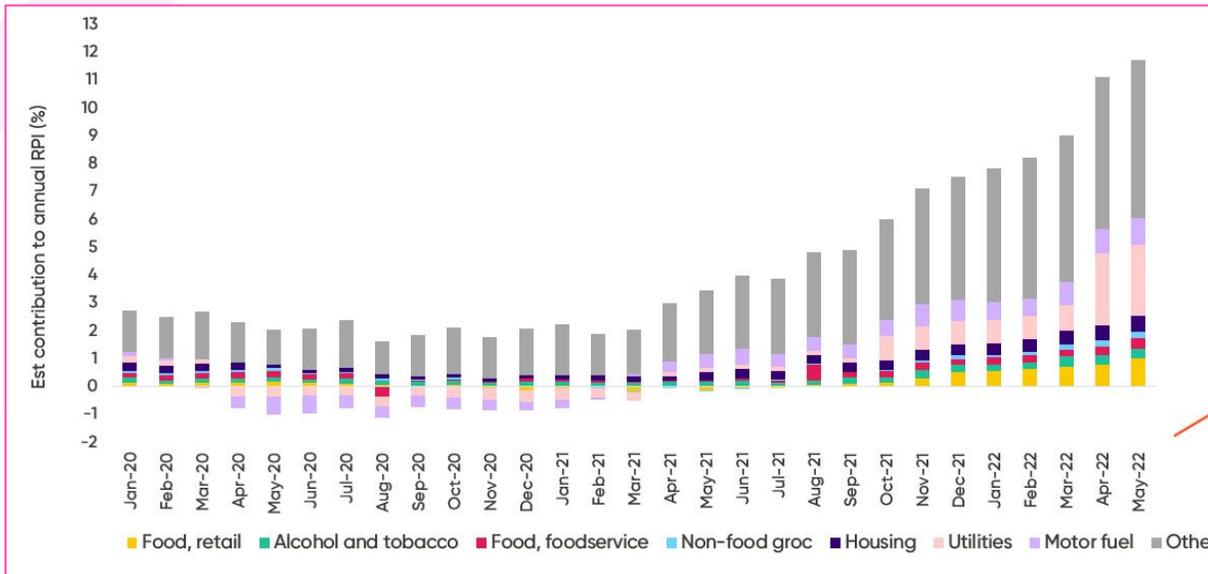
IGD forecasts that **food inflation** is likely to reach **15%** in late summer.

CPI Inflation 2012 - 2022



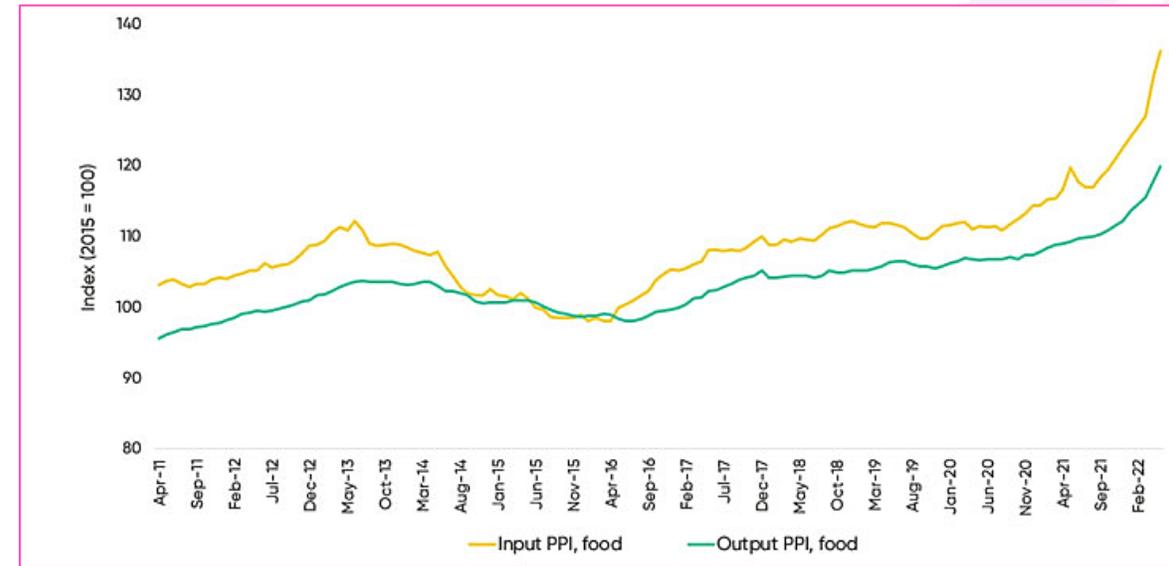
Source: ONS

## RPI Contributions



Source: ONS /IGD

## Producer Price Indices Food



Source: ONS / IGD

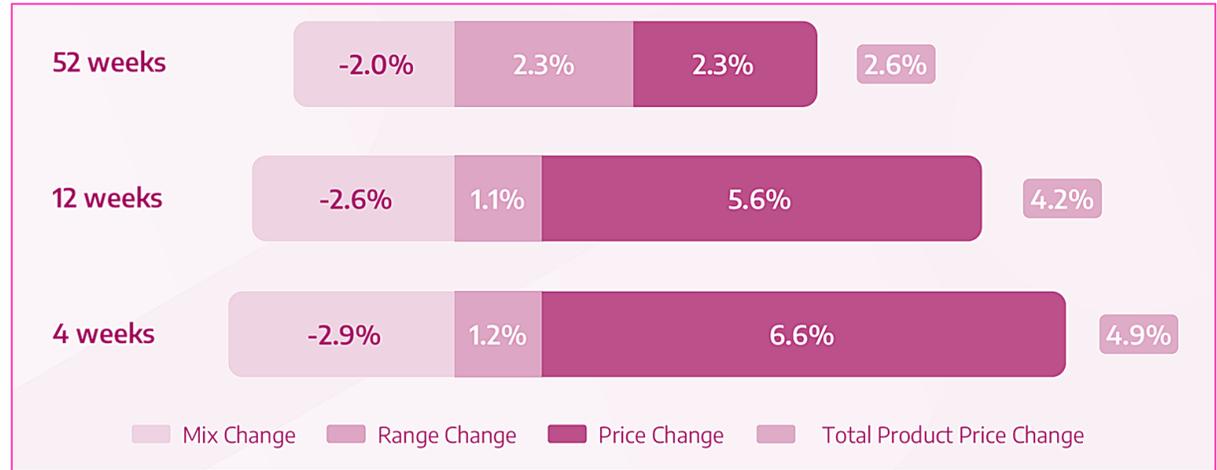
## IMPACT: Grocery / Foodservice

### Retail

According to Nielsen price inflation in UK grocery retail is now **+6.6%** year-on-year as the 2nd wave of 2022 CPIs hit the market.

However, **negative mix**, meaning that shoppers are choosing to trade down, is significantly reducing total basket prices, reflecting **low consumer confidence**. However, the analysis also shows that it is some of the the **cheapest product segments** that are seeing the **highest price increases** because there is nowhere to trade-down to (see below).

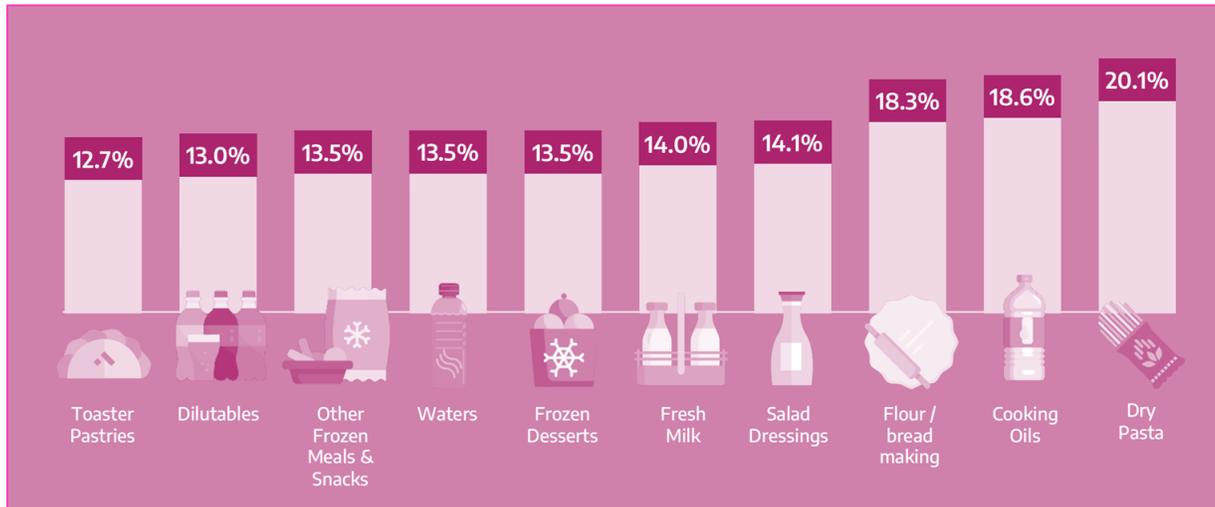
### Total Store Inflation Trends Vs Year Ago (w/e 21st May 2022 )



**Key:** Range Change = what the retailer makes available    Mix Change = what shoppers choose at shelf  
 Price Change = what the retailer did to the price

Source: Nielsen

### Top 10 Food and Drink Categories Total Price Change Last 4 weeks Vs Year (w/e 21st May 2022 )



Source: Nielsen

### Foodservice

Luke Johnson – the one-time chairman of PizzaExpress and a serial investor in hospitality businesses – said he fears **foodservice** operators could be in for “**two years of hell**” as the cost of living crisis and rampant inflation bites. “Tens of thousands of companies” have **huge arrears** with HMRC, landlords and CBILS loans, creating a “**perfect storm**”.

Mr Johnson said the labour-intensive nature of the industry meant it was more exposed to **wage inflation** than other sectors, while it has also had to “suffer” the burden of **increased regulation**.

# Commodities



## DAIRY

Wholesale prices are once again firming as production falls away from the peak. **All product prices were up** compared to May, though some had a more mixed picture.

**Cream** prices had the strongest increase in the month. With supply now falling and capacity no longer stretched, this limited spot availability compared to last month. Prices started the period in the £2600s for most and rose up to the £2800s by the end. The beginnings of the summer holiday season in Europe eased continental prices a little, which combined with the **increase in UK prices** has brought the two closer in line.

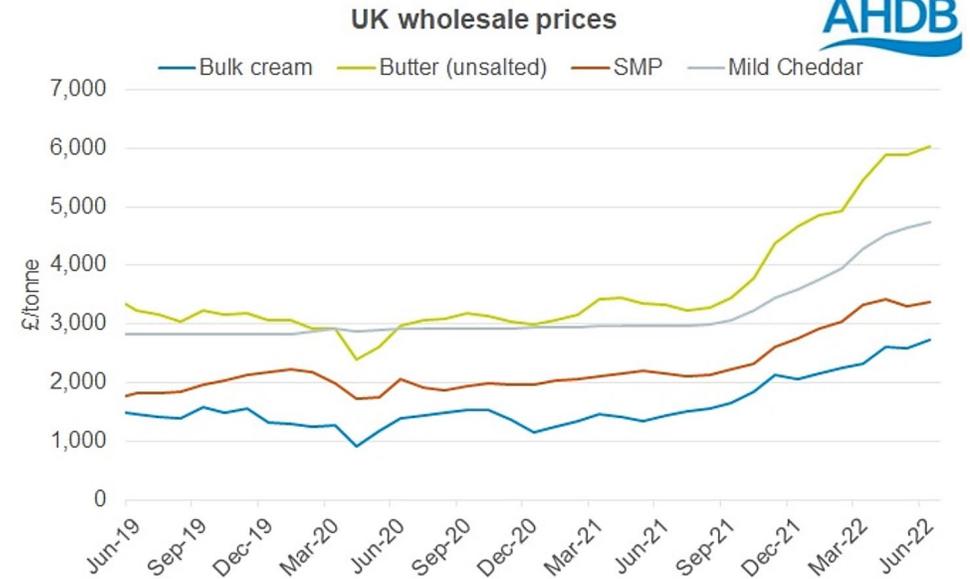
**Butter** prices followed the cream market **upwards**, though with a more modest rise. Prices went up 2% on the month compared to cream's 6%. The average butter price for June exceeded £6,000/t, a height **not seen since 2017**.

**Mild Cheddar** prices rose again. Markets were relatively stable compared to the last few months and the price increases have slowed down. However, the underlying drivers of tight supplies and strong demand remain.

### UK wholesale prices

£/tonne	Jun-22		May-22		Jun-21	
	Average	Range	Average	% change	Average	% change
Bulk cream	2,734	n.a.	2,579	6%	1,433	91%
Butter	6,020	310	5,890	2%	3,320	81%
SMP	3,380	300	3,310	2%	2,150	57%
Mild Cheddar	4,740	255	4,650	2%	2,980	59%

Source: AHDB



### Dairy Index Global (MCI)

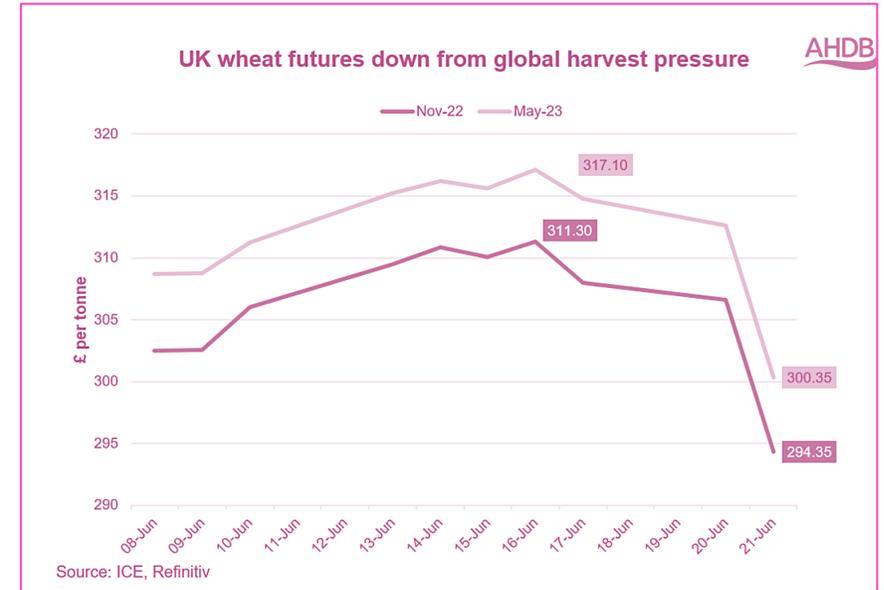


# CEREALS / HOPS

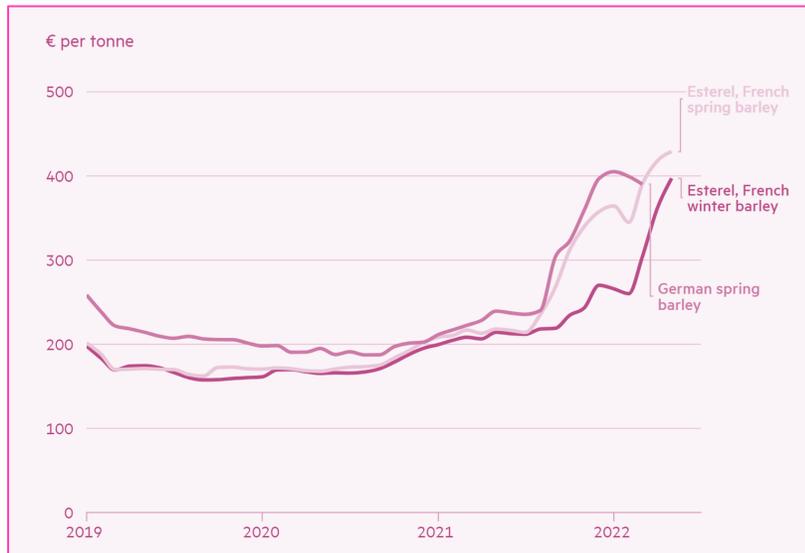
## Wheat

**Huge volatility** continues in global grain markets and continues to filter down into domestic prices. UK wheat futures (Nov-22) have **fallen** in three consecutive sessions, closing at £294.35/t on 23 Jun and down £16.95/t since mid-June.

US harvest pressure, combined with a strong US dollar impacting US exports, is behind much of this price softening. The war in Ukraine is providing the floor for the market, but if Northern Hemisphere harvests continues their pace and demand remains subdued, AHDB suggest that any significant **price increases may be capped**.



Barley € per Tonne 2019-2022



Source: Mintec

## Hops

British hop growers are urging brewers to renegotiate prices to help mitigate crippling costs.

Hop growers are facing increases of over 15% in wage costs and approaching **100% in fuel costs**, The British Hop Association warned this week, as well as “significant increases” in the price of fertilisers, spray chemicals, string and other inputs.

It was therefore “imperative that brewers, hop merchants and hop traders are **open to discussions** to **re-negotiate upwards** their contracted and uncontracted hop prices to absorb the huge inflationary pressures faced by growers”, said the BHA.

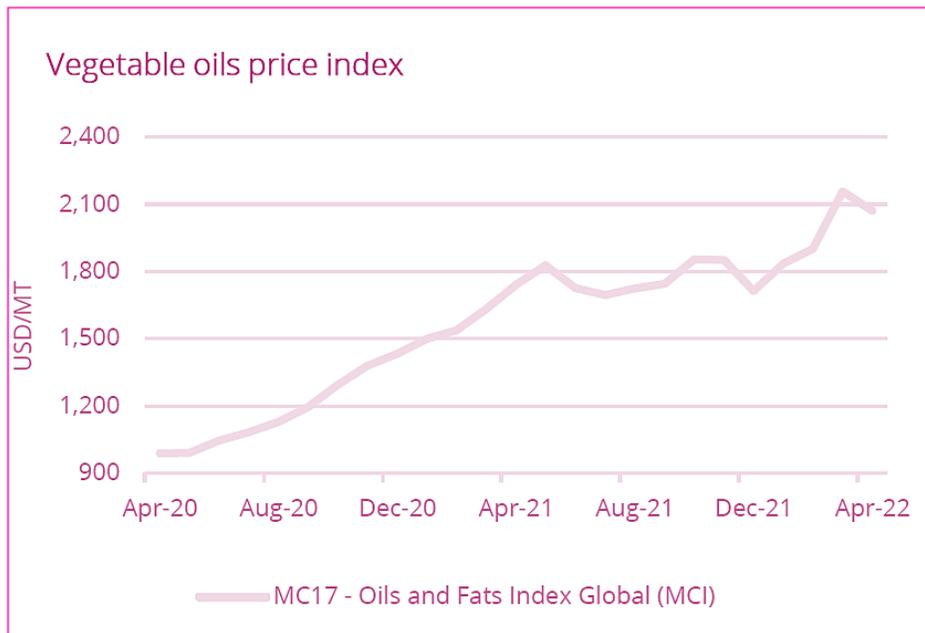
## VEGETABLE OILS

The Mintec Category Index (MCI) for EU vegetable oil **declined by 18.6%** month-on-month € 1,218/MT on the 17th of June 2022. This represents a **decline of 22.2%** from the record high reached on the 14th of March. However, the MCI remains **up by 29.2% year-on-year**.

The decline observed in June is attributable to several factors. First, increased imports of sunflower oil from the Black Sea region have put downward pressure on EU sunflower oil prices. This also had a knock-on effect on the prices of alternative vegetable oils (rapeseed oil and palm oil) as buyers **reduced demand** due to better coverage.

### Palm

In May, Indonesia reversed the ban on palm oil and derivative exports and replaced it with a Domestic Market Order (DMO). An export acceleration scheme was put in place by the government of Indonesia to expedite palm oil shipments. This came as a relief to the global vegetable oil market, further contributing to the **decline** in the EU MCI due to an increase in supply.



According to the United States Department of Agriculture (USDA), the global vegetable oil supply for the 2022/23 MY is forecast to **increase by 3% y-o-y**. Expectations of higher output and improvements in supply conditions could continue to put downward pressure on EU vegetable oil prices.

However, high input costs, logistical disruptions and inflationary pressure may keep prices high.

# Energy



# ENERGY

## Crude oil

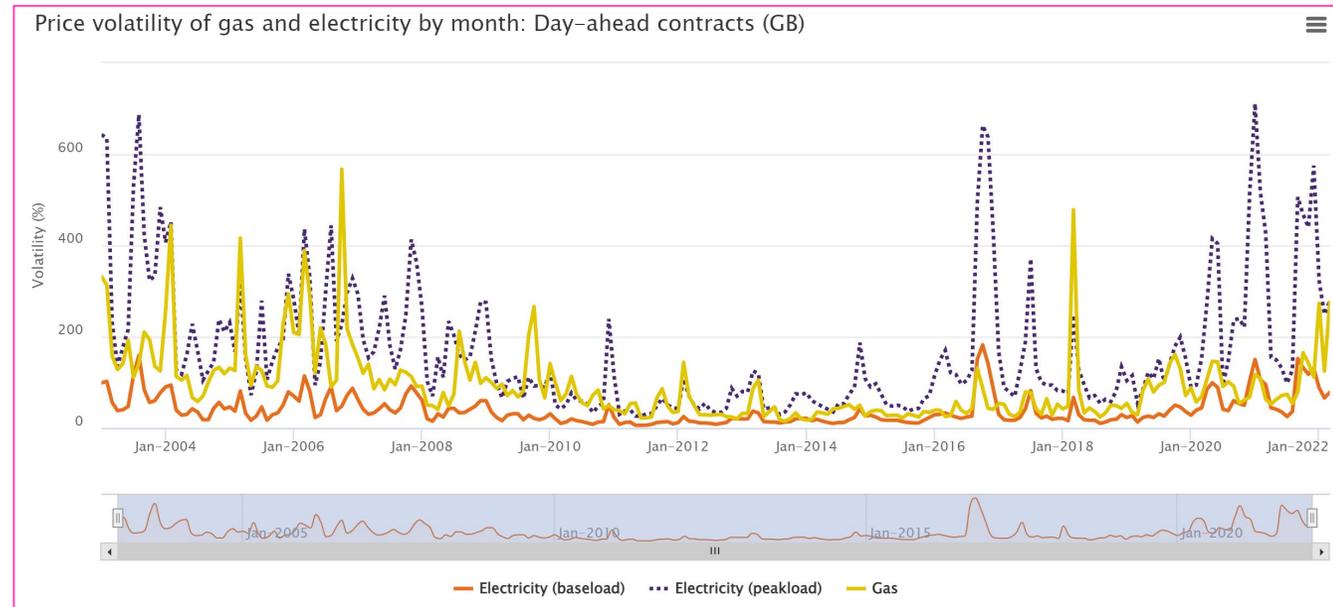
The Brent crude oil price rose by **8.6%** week on week (w-o-w) on the week of the 15th of June to USD 118.3/Bbl, **up 196%** year-on-year (y-o-y). The price increased in June due to ongoing supply concerns, which continue to heighten market uncertainty. The Russia-Ukraine geopolitical conflict remains the main driver for crude oil prices, alongside firm demand.

## Natural gas

The price of EU natural gas rose by **13%** w-o-w up to the 15th of June 2022, reaching GBP 230.4/100 Therm, up **9%** month-on-month (m-o-m) **and 123% y-o-y**. Prices continued to rise in line with supply curtailments and ongoing market uncertainty as Russia continues to reduce gas supplies to the EU.

On the 22nd of June, the International Energy Agency (IEA) warned that the **EU should prepare for a 'total shutdown' of gas supplies before winter**. This will likely result in higher prices as supply concerns are exacerbated, and the EU are unlikely to be able to make up for the shortfall in time for winter. EU countries are searching for **alternative supplies**, including LNG from the US and gas from Norway and Azerbaijan.

According to market sources, Europe's total storage caverns are currently only 57% full, **much below the target** of 80% to be met by November 2022.



Source: Ofgem

The price of **US natural gas** also rose in May 2022, **up 25%** m-o-m, and **179% y-o-y** to USD 81.0/100 Therm. The lower-than-average natural gas inventories have supported prices due to growing demand, which outpaced production. Additionally, **hotter than average temperatures across the US** have driven the usage of power generators to cool buildings. Natural gas is used to generate electricity, and thus demand has risen compared to 2021 as a result.

# Packaging



## PACKAGING

The Global Packaging Mintec Category Index (MCI) declined by 5.6% month-on-month (m-o-m) to USD 1,828/MT in May, primarily driven by easing prices in the metals market (steel, aluminium). However, the index was up by 7.4% year-on-year (y-o-y) and by 2.7% since the beginning of the year.

### Plastics

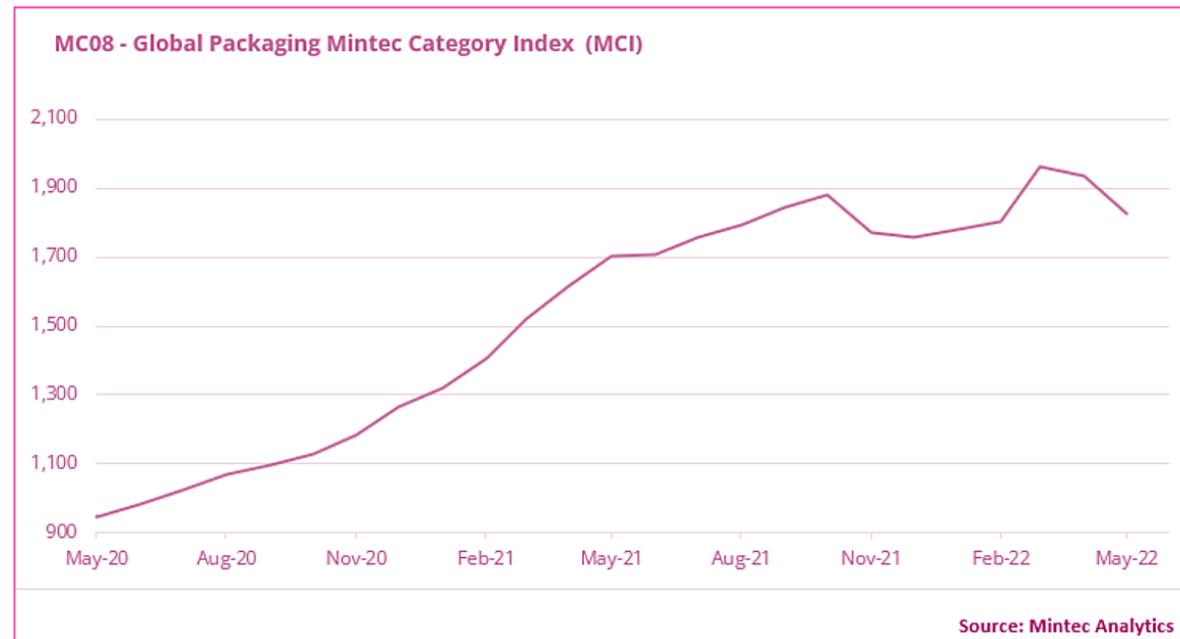
According to market sources, on the 14th of June 2022, Russia cut gas supplies via Nord Stream to Germany by 40%. The decline in gas deliveries to Germany and other EU countries, including France and Italy, high crude oil prices and sustained logistical disruptions are likely to keep EU plastic prices elevated.

### Metals

Steel and aluminium prices continued to ease in May 2022 as COVID-19 lockdowns in China, the war between Russia and Ukraine, and rising inflation heightened the uncertainty around demand levels.

### Paper

The EU paper packaging market prices stayed flat for most grades in May 2022 due to improved availability and lessened demand. There are no significant price changes expected in June.



# Fuel / Freight



# FUEL / ROAD FREIGHT

## Consumer Fuel Price

In May 2022 the average consumer price for petrol was 165.9 pence per litre (ppl) while the average price for diesel was 179.7 ppl.

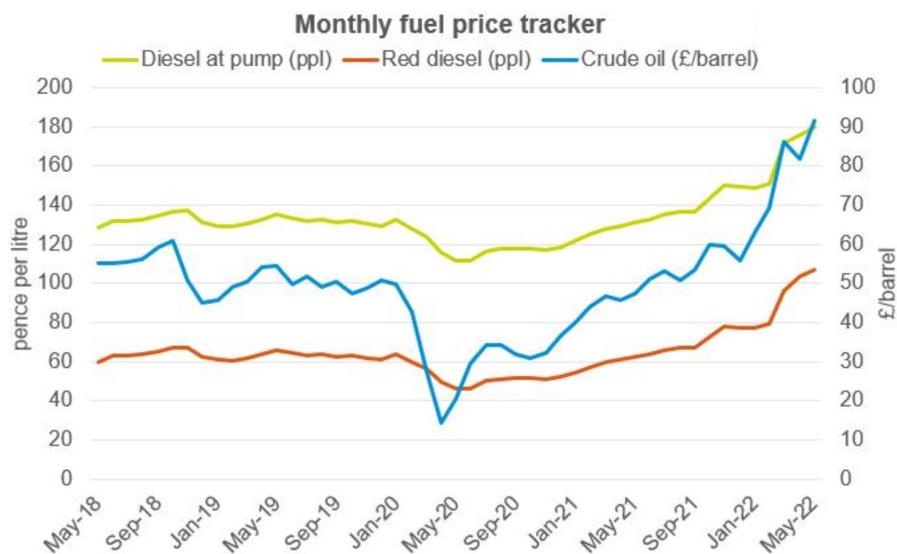
From March 2022 the fuel duty for both petrol and diesel was 52.95 ppl, accounting for around 32% and 30% of the end prices of petrol and diesel, respectively in May 2022.

The **increased price of diesel** has a significant impact on the wider economy because businesses typically use the fuel to fill vans and lorries.

### Monthly fuel tracker

Month	OPEC price (US\$ / barrel)	OPEC price (£ / barrel)	UK red diesel (ppl)*	UK diesel pump price
May-22	113.87	91.46	106.88	179.58
Apr-22	105.64	81.68	103.67	175.72
Month-on-month change	8.23	9.78	3.22	3.86
% change	7.8%	12.0%	3.1%	2.2%
May-21	66.91	47.52	62.30	130.93
Year-on-year change	46.96	43.94	44.58	48.65
% change	70.2%	92.5%	71.6%	37.2%

Source: Defra, DECC, OPEC, ECB



Source: HMRC, Defra, DECC, OPEC

The price of petrol at UK forecourts made its **biggest daily jump** in 17 years on 07 June. A litre of petrol cost an average of 180.73p according to the data firm Experian Catalist – up an astonishing 2.23p compared with the previous day.

The increase in prices has been blamed on **increased demand** for fuel **across the world**, including in China and the US as Covid restrictions loosen.

A squeeze on **capacity at refineries** has also kept pump prices high while oil has fallen from peaks seen at the start of the war in Ukraine.

## SEA / AIR CARGO

The past couple of years have been volatile for shippers around the world. At the beginning of the pandemic, attempts to hedge against dramatic rate drops via capacity management contributed to an increase in prices when consumer demand shot up in the summer of 2020.

Now two years into the supply chain crisis, rates are **beginning to stabilise** – although on some lanes prices are still **400% higher** than they were pre-pandemic.

Blank sailings have kept Asia – North Europe prices level in May. Rates fell just 2% to \$10,579/Forty Foot Equivalent since the end of April – only **6% higher** than a year ago – though they have **decreased** a total of **12%** since the start of the lockdown in Shanghai at the end of March.

### Container Freight rates for June 1, 2022

LANE	Global	Asia – US West Coast	Asia – US East Coast	Asia – North Europe	North Europe – US East Coast
This Week	\$7,622	\$10,762	\$13,796	\$10,579	\$8,395
Last Week	-3%	-6%	-5%	0%	0%
Last Year*	41%	33%	84%	0%	92%

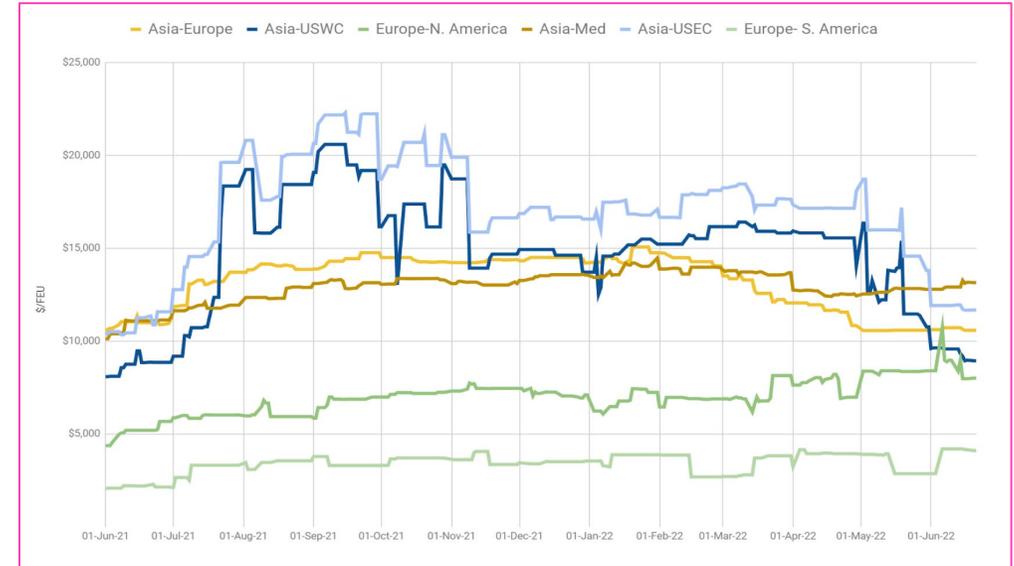
\* Compared to the corresponding week in 2021

Source: Freightos Baltic Index

### Air

The added capacity across the Atlantic Ocean is a welcome relief for air cargo shippers. More flights have helped cool off Transatlantic airfreight rates that have been elevated since the COVID-19 pandemic cratered travel demand and reduced belly capacity on passenger airlines.

### Ocean Container Spot Rates Jun21 - Jun22



Source: Freightos Baltic Index

But Asia – Europe rates had already been falling for much of the year prior to the outbreak in Shanghai. From just after Lunar New Year in February until just before the shutdown in late March, Asia – **Europe** rates **decreased 18%** – or nearly \$3,000/FEU.

This drop suggests seasonal demand trends among European importers or more pronounced **effects of inflation** on consumer spending in Europe.

# Labour



## LABOUR

The UK government has not demonstrated a strong understanding of the labour shortages facing the food and farming sector, according to the Environment Food and Rural Affairs (EFRA) Committee.

In its response to the committee's labour shortages report published in April, the government did not accept the committee's recommendation to lower the English language requirement for Skilled Worker Visa applicants in the food and farming sector such as for butchers. It also rejected the committee's recommendation to undertake a "lessons learnt" exercise on the temporary short-term visa schemes established last autumn. The government also turned down the committee's recommendation to make the Seasonal Workers Pilot a permanent scheme.

However, the government announced that 10,000 additional seasonal worker visas will be issued for the remainder of 2022, of which 2,000 will be allocated to the poultry sector. The Department for Environment, Food and Rural Affairs also said that it will commission an independent review to tackle labour shortages in the food supply chain.

In the light of the government's response, the committee has written to the Independent Chief Inspector of Borders and Immigration, David Neal, who recently announced he would be carrying out an inspection of the immigration system as it relates to the agricultural sector.

The Chair of the EFRA Committee, Sir Robert Goodwill MP, said:

"The government's overall response to our recommendations is wholly inadequate. We continue to be concerned that labour shortages in the food and farming sector pose real risks of further price rises for consumers in supermarkets, reduced UK competitiveness and increased amounts of imported food.

Source: UK Parliament

# THE KNOWLEDGE BANK

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