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**Scotland Food & Drink  
Partnership**

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

Sep 2022

# Contents

| Topic               | Page |
|---------------------|------|
| Global / UK Outlook | 3    |
| Inflation Impact    | 6    |
| Commodities         | 9    |
| Energy              | 13   |
| Packaging           | 16   |
| Fuel / Freight      | 18   |
| Labour              | 22   |

## Report Sources:

- Aggregated Gas Storage Inventory
- AHDB
- Air Cargo News
- AMIS
- Baltic Exchange
- Coldwell Banker Richard Ellis (CBRE)
- Defra
- DHL
- Focus Economics
- Freightos
- HM Treasury
- IBISWorld
- IGD
- Kantar
- Lumina
- Mintec
- NatWest
- New York Federal Reserve
- NielsenIQ
- OECD
- Ofgem
- ONS
- OPEC
- Refinitiv
- S&P Global
- Sea Intelligence
- The Grocer
- The Knowledge Bank
- Trading Economics
- Transport Exchange Group
- UK Hospitality

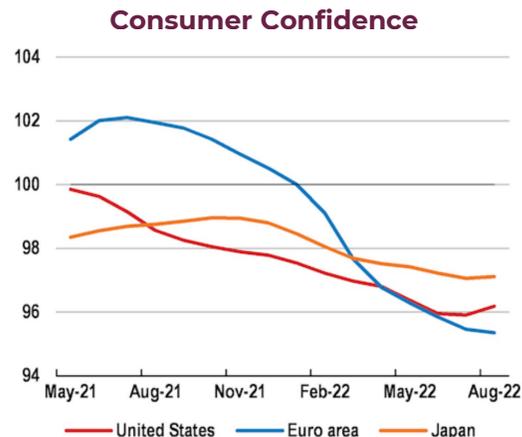
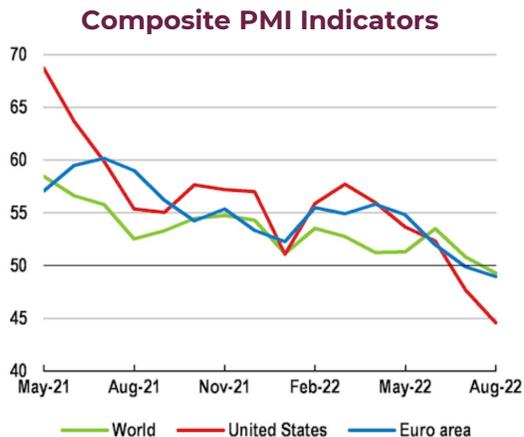
## GLOBAL OUTLOOK

With the global economic cycle turning and monetary tightening by most of the major central banks increasingly taking effect, **headline inflation is projected to peak in the current quarter** in most major economies, and to decline in the fourth quarter and throughout 2023 in most G20 countries. Even so, annual inflation in 2023 will remain **well above central bank targets** almost everywhere.

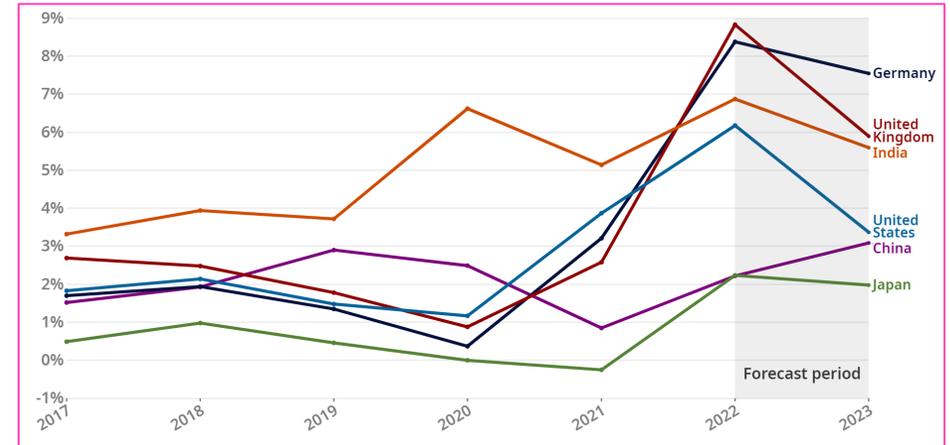
The United States, which began monetary policy tightening earliest, is expected to see more progress in bringing inflation back to target than in the euro area or the United Kingdom.

By contrast, with the recent spike in energy costs working its way through the economy and with monetary policy tightening beginning later than in the United States, **both headline and core inflation are projected to remain elevated in much of Europe.**

The inflation picture across the major emerging-market economies varies widely. **Inflation is low** and stable in **China**, while in Brazil and Mexico significant pressures are expected to subside towards targets as interest rate rises take effect. **Very high inflation** rates in **Turkey** and **Argentina** are projected to continue in 2023, albeit somewhat lower than in 2022.



## Global Inflation / Forecast



Source: OECD Economic Outlook, Interim Report Sept 2022

Business survey indicators point to **stagnating output** in many economies (left), while **consumer confidence** has fallen to **strikingly low levels** in most advanced economies. The OECD Composite Leading Indicator for the OECD economies is also now at the **lowest level since the global financial crisis.**

With nominal wage growth failing to keep pace with inflation, household real disposable incomes have declined in many OECD economies, **curbing private consumption growth.**

## UK INFLATION: 2022 / 2023

### UK

Inflation **dropped to 9.9%** in August from July's 10.1%. The reading was driven by moderating price pressures for transport; recreation and culture; and restaurants and hotels.

Annual average inflation **rose to 7.0%** in August (July: 6.5%). Meanwhile, core inflation(excluding food and energy) **rose to 6.3%** from July's 6.2%.

Consumer prices **increased 0.50%** over the previous month in August, a smaller increase than the 0.61% rise recorded in July. August's result marked the weakest reading since January.

Analysts at Goldman Sachs expect UK headline inflation to peak at **10.9% in October**, significantly lower and earlier than their previous forecast peak of 14.8% in January.

At the same time, they expect the expansionary nature of the fiscal intervention, the Energy Bill Relief Scheme, to result in **higher core inflation** and wage growth.

More than **half of the items in the price index** (right) show inflation **above 4% in the United Kingdom**, the United States and the euro area, reflecting a sharp increase compared to a year before and more than doubling their targets.

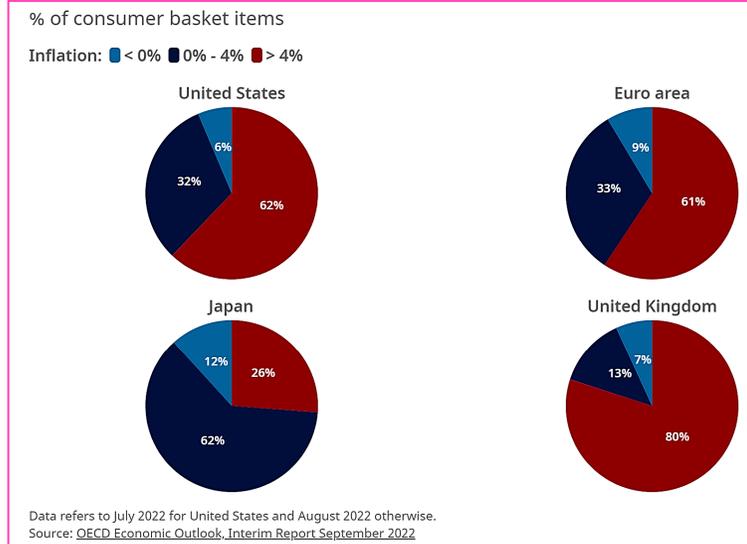
On the 22 Sep a majority of the Bank of England's nine-member monetary policy committee (MPC) voted to increase the **key base rate** by **0.5 percentage points to 2.25%** – its **highest level since 2008** – judging that the risks of inflationary pressures becoming entrenched outweighed the short-term dangers to the economy.

### UK Inflation August 2022



Source: ONS, Focus Economics Sep 22

### Inflation Levels of Consumer Goods and Services



# Inflation Impact



# IMPACT: Retail

## Retail

According to the British Retail Consortium and NielsenIQ food inflation accelerated strongly to **10.6%** in September, up from 9.3%. This is above the 3-month average rate of 9.1% and is **the highest rate of inflation in the food category** that they have recorded.

However, food inflation continued to lift **value growth** in dairy (+9.3%) and bakery products (+6.9%). There were value sales **declines** across beers, wines and spirits (-4.5%), fresh produce (-2.3%), and confectionery (-2%).

Kantar analysis shows that shoppers are taking steps to manage their budgets including broadening the range of stores they visit, with the **discount grocers benefiting**.

Sales of the **very cheapest value** own-label products were **up by 33%** this period versus a year ago with nearly one in four baskets containing one of these lines. Overall spending on all retailer own-label lines was **£393m higher** during the latest four weeks, pushing own-label's share of the market to 51.1%. (Kantar)

Aldi's sales rose by 18.7% over the 12 weeks to 4 September 2022, reaching a **9.3% market share** and making it **Britain's fourth largest supermarket for the first time**. Meanwhile Lidl grew sales by 20.9% and its market share has increased to 7.1%.

Value Growth GB Retail 4 w/e 12 Sep 22



Source: NielsenIQ 4 w/e 10 Sep 22

With CPI inflation expected to remain close to current (+10%) levels for the rest of the year and **large increases in energy costs** anticipated as we enter autumn, data provider Nielsen is forecasting FMCG growths for the rest of the year to sit close to **+2/+3% driven by inflation**.

However with **negative volume growth** continuing into Q4 there is the potential for the industry to **bring forward seasonal promotions** during the Autumn half-term.

% Value sales bought on offer



Grocery Multiples 21% (+1% points)

Source: NielsenIQ 4 w/e 10 Sep 22

## IMPACT: Foodservice

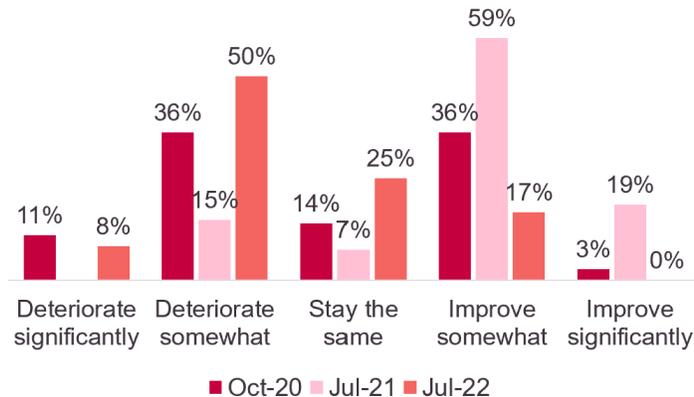
The Eating and Drinking Out Market has been heavily affected by the cost of living crisis – Penetration, Frequency and Spend **all falling**, quarter-on-quarter.

Consumers are trading down to **lower cost channels** with Retail currently winning thanks to appealing meal deals and QSR also doing well – driven by top brands and new loyalty schemes

Coffee and Sandwich shops were the leading channel last quarter. However, having experienced a **-2ppts share loss**, they're now in second place behind QSR.

Drink only occasions are **losing share** in pubs & bars, down by **-6.3ppts** vs last quarter. These changes are mainly driven by 18-24 yrs who are **dropping out of drink only occasions**. Typically they have lower salaries and therefore are the most affected by cost of living pressures.

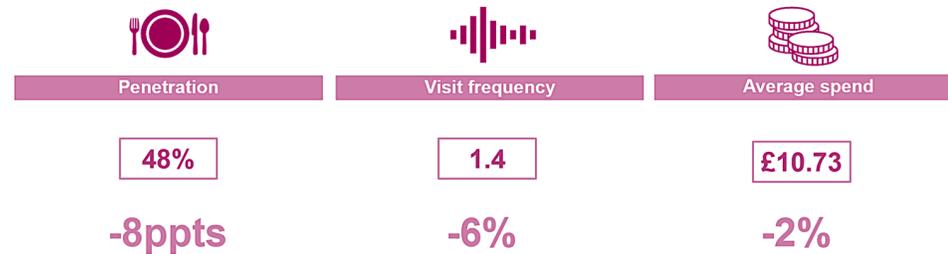
### Foodservice Business Leaders' Expectation of trading conditions over next 12 months



Source: Lumina

### Eating and Drink Out Occasions

12 w/e 12.06.22. Vs 12 w/e 04.09.22.



Source: Lumina

Kate Nicholls, head of lobby group UKHospitality, said the prospect of rising interest rates would leave many pubs, restaurants and hotels **vulnerable** as they had come out of the pandemic with **higher borrowing** than other parts of the economy.

She estimated debt stood at **£12bn**, or roughly **twice the level of deposits**, and said members asking about new loans were reporting being offered rates of more than 10 per cent.

£ Value Led

Pubs and Bars  
**73%**

↑ **+5ppts**

Vs 12 WE 08.08.21

# Commodities



## CEREALS

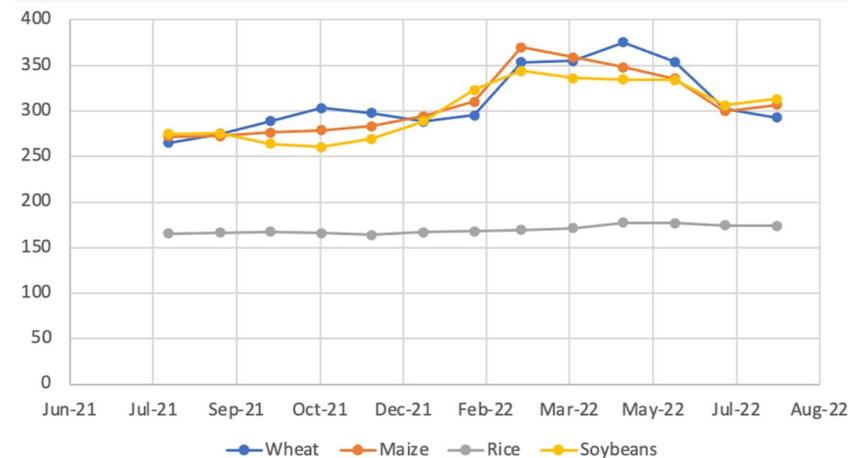
Late September markets saw a broad sell off on fears of a global economic downturn grow. This is a factor to watch going forward, as rising inflation and recessionary concerns remain a watchpoint for demand. Should **demand rationing** start to happen, this could alter the outlook for longer-term grain prices.

### Wheat

According to the Agriculture Market Information System (AMIS), the global wheat production forecast for 2022 is only slightly below that of 2021, with **higher production forecasts** for Canada, China, Russia, and the United States offsetting lower export prospects for the European Union and India.

Prices remained stable in the second half of August amid **signs of resurgent international demand**, increased tensions in the Black Sea region, and worries about soil moisture conditions ahead of the 2023/24 planting in some regions.

### International Grain Council Commodity Price Indices



Source: AMIS Market Monitor Sep 2022

### Global Grain Futures

| Futures market    | UK feed wheat | Paris milling wheat | Chicago wheat | Chicago maize |
|-------------------|---------------|---------------------|---------------|---------------|
| Contract month    | Nov-22        | Dec-22              | Dec-22        | Dec-22        |
| Price (per tonne) | £291.15       | €356.75             | \$338.56      | \$266.73      |
| Change on week    | +£6.95        | +€10.50             | +\$15.06      | +\$0.29       |

03/10/2022

Source: AHDB

GB 2022 harvest progress was earlier than in any of the previous five years. **Grain yields** are reportedly **good** this season.

### Markets

There was support for global grains at the end of September as both Chicago wheat and maize futures (Dec-22) **gained 4.7% and 0.1%** respectively. Driving this was the continued escalation in the Black Sea region as Russia claimed annexation of parts of occupied Ukraine, and the US quarterly grains stocks and USDA Small Grains 2022 Summary.

Western parts of US growing regions had **heavy crop abandonment** due to dry soils and according to the USDA this will be **the second smallest US wheat crop in the last 20 years**.

This tightening of the US wheat crop, and continued uncertainty in Ukraine, is keeping the **bullish sentiment in markets** even as Ukrainian exports continue to flow out of the region.

## DAIRY

Market activity was somewhat limited in August / September. This was in part due to **tight milk supplies** and in part to buyers reportedly buying hand-to-mouth, reluctant to stock up while **prices remain high**.

**Exchange rates** also played a role this month. The weakening of the pound through the month brought higher sterling prices to those taking part in European markets.

**Cream** prices saw firmness in the first part of the reporting period, with prices **going up** into the £2900s for many. Prices then dipped back a bit in the last two weeks of the reporting period, though generally stayed above the prices seen in late August.

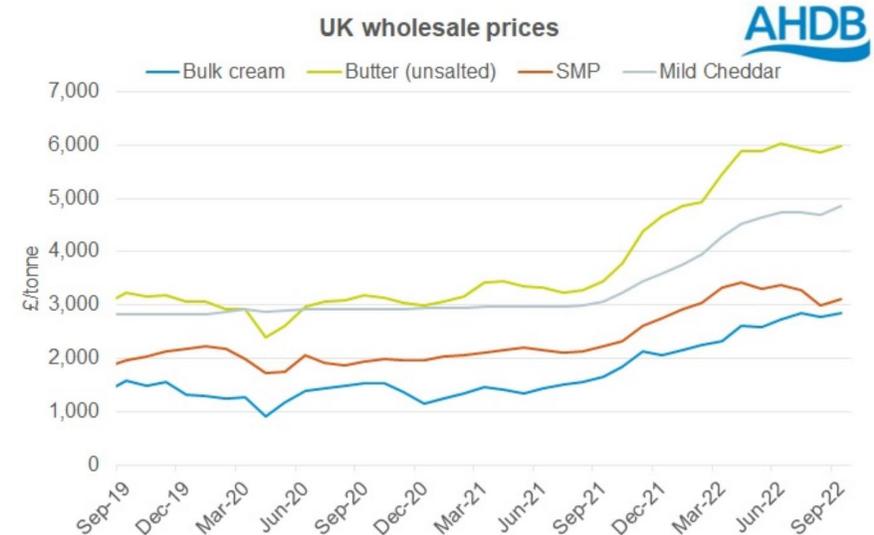
**Butter** prices also **rose** on the month. This was thought to be in part from currency fluctuations, as pricing on the continent was said to be more stable. Reports indicated a tricky time for butter producers, with the **current butter price** running **below the cream equivalent**, making it **unappealing to make butter**.

**Mild Cheddar** prices rose over the previous month as activity picked up after the summer lull. This was attributed to renewed interest after the summer coupled with continuing **tight supplies**.

### UK wholesale prices

| £/tonne      | Sep-22  |       | Aug-22  |          | Sep-21  |          |
|--------------|---------|-------|---------|----------|---------|----------|
|              | Average | Range | Average | % change | Average | % change |
| Bulk cream   | 2,858   | n.a.  | 2,774   | 3%       | 1,656   | 73%      |
| Butter       | 5,980   | 375   | 5,850   | 2%       | 3,440   | 74%      |
| SMP          | 3,110   | 200   | 2,990   | 4%       | 2,230   | 39%      |
| Mild Cheddar | 4,860   | 250   | 4,700   | 3%       | 3,070   | 58%      |

Source: AHDB



### China

Global import demand is expected to weaken in 2022–23 following elevated levels of milk and whole milk powder production in China. China's milk **production increased** by around **4%** in 2021–22 following recent herd expansion and improved milk yields. China's imposition of mobility restrictions in the first half of 2022 caused **a substantial reduction in domestic demand for liquid milk**, leading to an oversupply.

As a result, China now has a large inventory of whole milk powder which is expected to **reduce their demand for milk powders**, especially in the second half of 2022.

# COFFEE

## Volatility

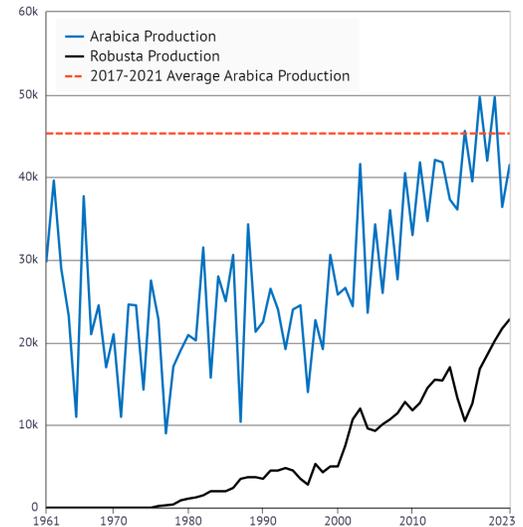
Arabica coffee is the world benchmark for coffee futures contracts that trade on the Inter Continental Exchange (ICE). Arabica accounts for 75% of the world's production and is mostly cultivated in Brazil (40% of the world's total supply) and Colombia.

In May 2022, the Brazilian arabica coffee belt experienced a cold front that **shook up prices**. This followed a frost the previous year that disrupted production, contributing to a pattern of **nervousness** around the global supply of coffee beans.

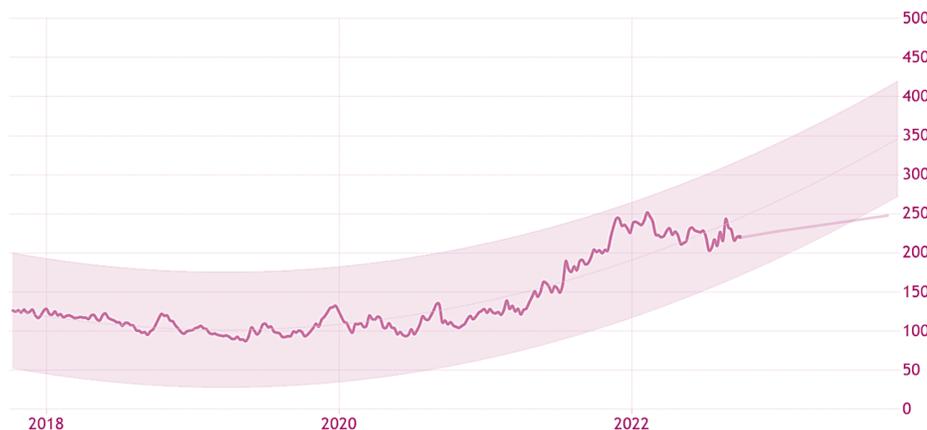
The aforementioned weather conditions have exacerbated a long-running problem. **Coffee commodity prices** have been **going up for several years**. In June 2022, Brazilian coffee prices averaged at BRL 1,333 (about £220) per 60kg bag, **up 49%** on the previous year.

Add in broader Logistics problems – not least those relating to the container pileup in the seas around China – as well as inflation and labour shortages, and it's a recipe for **price volatility**.

## Brazil Green Coffee Production



## Coffee Cost Tracking (USD / lb) 2018-22



Source: Trading Economics

## Outlook

In September Arabica coffee futures on ICE extended **losses** toward **\$2.15 per pound**, approaching levels not seen in over six weeks, as showers in Brazil's coffee belt may aid the crop outlook.

Forecasts for rains in Minas Gerais, which accounts for about 30% of Brazil's arabica crop, are expected to provide much-needed moisture and **improve the outlook for next year's crop** in the world's top producer.

Meanwhile, the latest data showed ICE-certified arabica **stocks fell** to a fresh 23-year low of 417,306 bags on October 3rd.

# Energy



# ENERGY

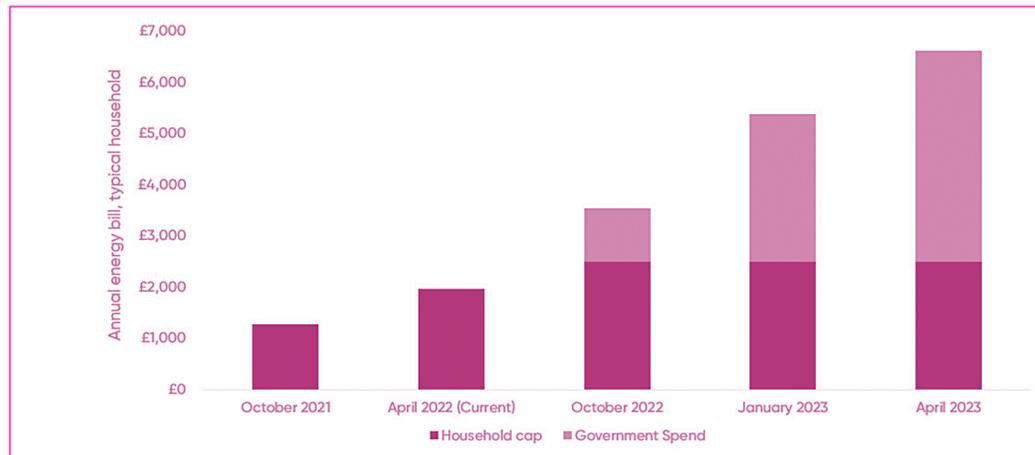
## Energy Bill Relief Scheme

The UK government has announced an Energy Bill Relief Scheme to fix electricity and gas prices for **all businesses**, charities and public sector organisations for an **initial six months** from 1 October.

Details of the scheme include:

- Wholesale prices will be fixed for all non-domestic energy customers at **£211 per MWh for electricity** and **£75 per MWh for gas**.
- The discount will be automatically applied to bills.
- The scheme will be reviewed after three months. There will be an option to extend support for “vulnerable businesses” (not yet defined).
- The scheme applies to fixed contracts agreed after 1 April and variable and flexible tariffs and contracts.
- This applies to all non-domestic energy customers in England, Scotland and Wales. A similar scheme will be established in Northern Ireland (where the energy market is subject to EU rules).

## Changes in Energy Price Cap - Household



Source: Ofgem, UK Government, IGD

## Energy Price Guarantee

The UK government has also announced the **Energy Price Guarantee**, which will limit the average annual household energy bill to:

- Daily charge (**28p gas, 46p elec**)
- & Unit rates (**10p/kWh gas, 34p/kWh elec**)

The Energy Price Guarantee means that annual ‘*typical*’ household bills (as defined by the government) *could* be well below the previously-announced cap of **£3,549 per year**. Many households will, however, still be **well above** the government quoted figure of **£2500**.

More significant savings for consumers will be felt in 2023. The latest analyst expectations were that the price cap *would* have risen to an average of **£5,300** or more from January.

# ENERGY

## Natural gas

UK natural gas futures extended gains to around **300 pence a therm**, as news of potential damage to the Russia-built network of Nord Stream pipelines exacerbated worries about the future of Russian supply to the continent. Still, prices have **eased by more than 60% from their March record peak** as recent data has shown that European natural gas storage sites were being filled faster than expected. **Gas storage sites in the UK were 95.8% full** as of September 25th, higher than the EU average of 87.7%, according to data from the Aggregated Gas Storage Inventory.

Price Of Gas On The Wholesale Market In UK For Delivery Period - Winter 2022



Monthly Crude Oil Prices



## Crude Oil

Brent crude futures rebounded to **\$87 per barrel**, bouncing off their daily lows of \$84.4 as investors weighed US production cuts caused by Hurricane Ian against persistent fears of a demand-sapping global recession and a stronger dollar. The international benchmark is now on track to post **its first quarterly decline in more than two years** amid increasing headwinds to global growth.

However, adding to concerns about tight global supplies, the OPEC+ cartel and allied producers agreed on 05 Oct to **collectively reduce output by 2mn barrels a day**. The move threatens further inflationary pressures in a world economy already burdened by an energy crisis. These tightening financial conditions exacerbate the risk of a **global recession** that could **hurt energy demand**, while a stronger dollar further rattles markets.

# Packaging



# PACKAGING

## Global

The Global Packaging Mintec Category Index (MCI) **declined** for the fifth consecutive month, to USD 1,525/MT in August 2022, **down by 1.2%** month-on-month (m-o-m) and **14.9%** year-on-year (y-o-y), primarily driven by falling plastics and metals' prices in the EU and US.

However, the index declined at a slower rate than the previous month, due to prices in the paper market remaining stable m-o-m.

## PET

In the EU PET market, the price declined marginally by 0.5% m-o-m, to EUR 1,801/MT, due to subdued secondary demand resulting from **record-high inflation** and expectations of further declines in the coming months. Additionally, market participants reported the arrival of **competitively-priced import cargos** on the back of easing freight rates.

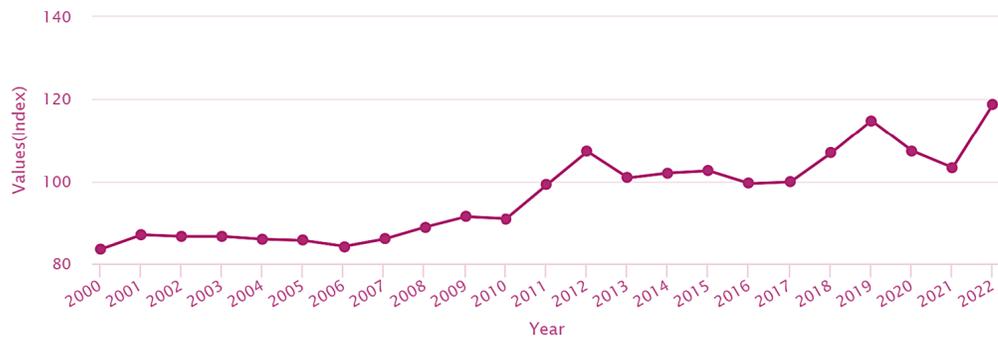
However, while prices across all EU plastics grades were down in August compared to the same period in the previous year, the EU PET **remained up by 49.6%** y-o-y, due to comparatively higher demand and **soaring input costs**.

### Global Packaging Index



Source: Mintec Analytics

### Producer Price Index Paper & Paperboard



Source: IBISWorld

## Paper

IBISWorld estimates that the price of paper and paperboard will increase at a compound annual rate of **2.4%** to reach 120.0 points over the five years through 2022-23. Paper and paperboard prices are influenced by global supply and demand particularly in China and parts of North America.

Paper prices have also been affected by the rise of e-commerce. As **demand for packaging has increased** over the period, a number of paper mills have ramped up production of cardboard packaging at the expense of paper production, causing a supply shortage of paper, **intensifying the price rises**.

# Fuel / Freight



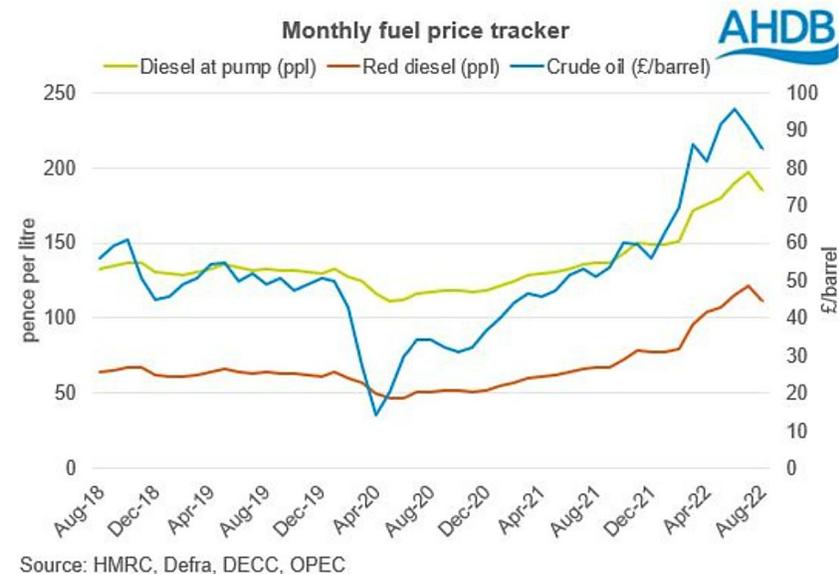
## FUEL / ROAD FREIGHT

### UK

The overall **price-per-mile** for road freight **has risen continuously for six months**, after decreasing significantly at the beginning of 2022 – now **12.5% higher** than this year's lowest prices in February, according to the TEG Road Transport Price Index.

However, when compared to August 2021, the overall price-per-mile has dropped from 123.5 points to 123.3 points – a **small decrease of 0.2%**

After a similar period of rising prices, the price-per-mile of **courier vehicles** has **dipped** for the first time since February, with businesses reducing their prices to stay competitive as recession looms and demand shrinks.



### TEG Road Transport Price Index: August

|         | July  | August | MoM Change    | YoY Change    | 12 month |       | 12 month Trend |
|---------|-------|--------|---------------|---------------|----------|-------|----------------|
|         |       |        |               |               | Low      | High  |                |
| Overall | 122.9 | 123.3  | 0.4<br>0.33%  | -0.2<br>0.16% | 106.3    | 129.2 |                |
| Haulage | 116.8 | 117.8  | 1<br>0.86%    | -10.8<br>-8%  | 109.1    | 136.4 |                |
| Courier | 128.3 | 128.2  | -0.1<br>0.08% | 8<br>6.66%    | 110.1    | 128.3 |                |

Source: Transport Exchange Group

### Europe

The European contract road freight rate index reached an **all-time high of 121 points** in Q2 2022, **up 6.1 points** quarter-on-quarter and 13.1 points year-on-year. The European spot road freight rate index also reached a **record high of 134 points**, up 11.8 points from Q1 2022 and 20.1 points from Q2 2021

**Driver shortages** are affecting the entire European continent. Germany is in a particularly critical situation with an estimated shortage of 50,000 to 80,000 truck drivers. Migrant workers account for 24% of the German driver workforce and the loss of Ukrainian citizens returning to defend their country has further **restricted the supply** of drivers in Germany.

## SEA CARGO

### Supply Chain

The improvement in the global shipping network **means shipping times are coming down**, with delays on the trans-Pacific route from China to the US west coast now down from 12 days to less than two, helping to free up capacity on other trade lanes around the world.

The quicker times means **lower costs**, with the price of moving a standard sized 40 ft shipping container from China to North Europe **down** from \$15k in January to around **\$10k** today. A welcome reduction, but still **six times higher** than at the start of the pandemic, data from Freightos, a global freight booking platform, shows.

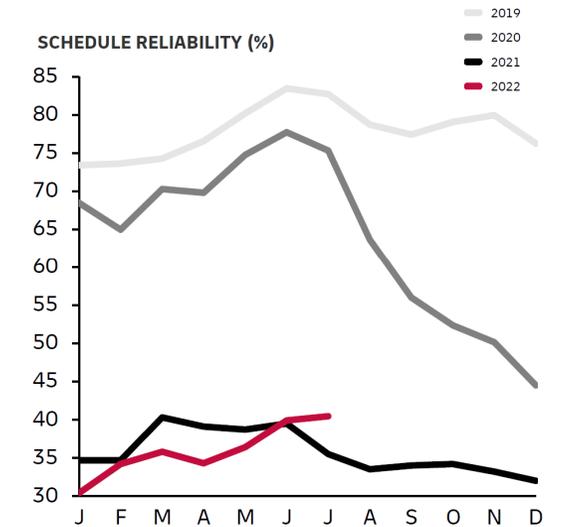
In August, the Global supply chain Pressure Index run by the New York Federal Reserve **fell** for the third straight month in a row, taking it to the **lowest level since January 2021**. The bank's index – which incorporates data on shipping costs, delivery times, backlogs and other statistics into a single measure – is **down 57%** since its peak almost 18 months ago, though it still **remains significantly above** levels seen just before the start of the pandemic.

### Challenges

The reduced pressure is potentially coming thanks to less demand and falling purchasing power among consumers. However this is contributing to **pile-ups in warehouses** around the world as businesses struggle to sell products. Instead of **supply chain bottlenecks** on the sea, they are now often taking place **on land**.

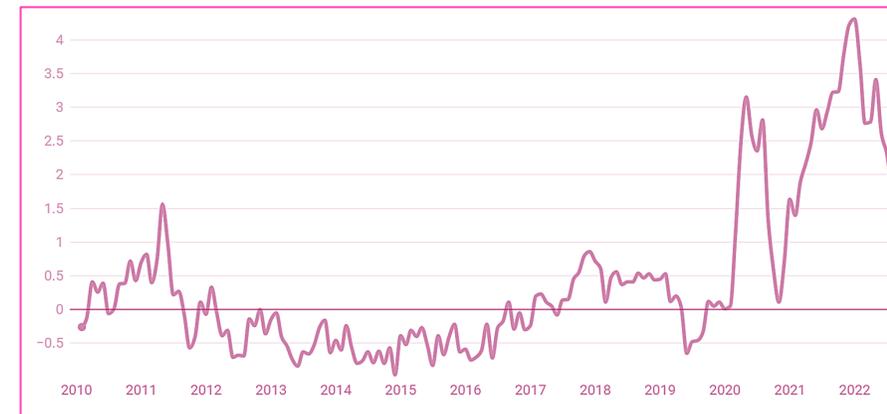
This situation is exacerbated by **infrastructure** that is often **antiquated**, lack of trained staff and by a series of strikes across numerous ports, including Hamburg, Felixstowe and Liverpool.

### Ocean Container Schedule Reliability



Source: Sea Intelligence, DHL

### Global Supply Chain Pressure Index



Source: New York Federal Reserve

## AIR FREIGHT

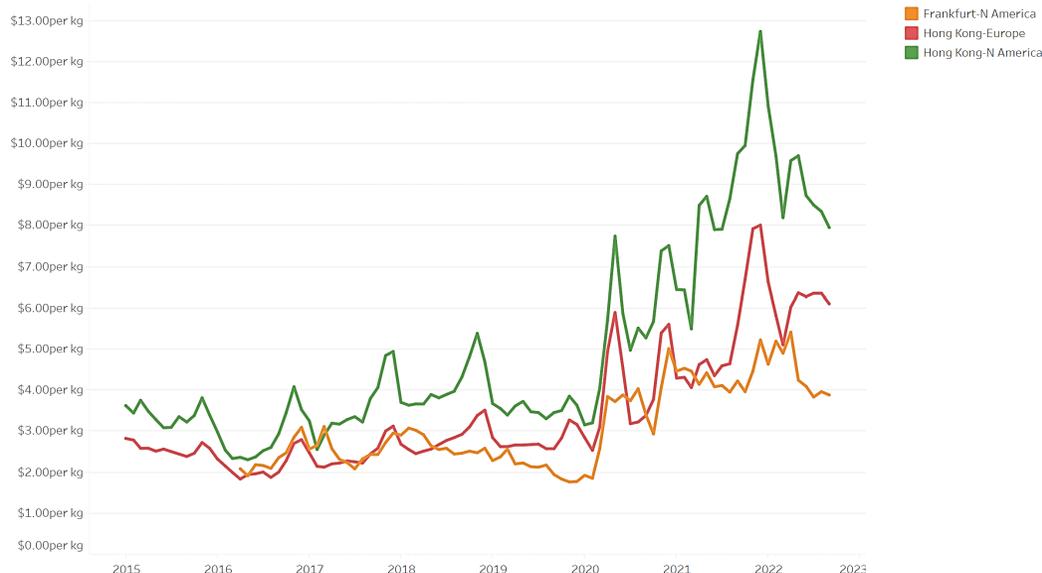
Airfreight rates on key trade lanes out of Asia continued to **weaken** in September despite the industry heading towards the peak season. The latest figures from the Baltic Exchange Airfreight Index (BAI) show that in September rates from Hong Kong to North America **declined by 18.5%** compared with a year ago to **\$7.94 per kg** and are also down on the \$8.33 per kg achieved in August.

The declines are noteworthy for two reasons. First, rates on the trade lane tend to increase from August to September and second it is only the second time since February 2020 that prices on the trade have registered a **year-on-year decline**.

Meanwhile, average prices from Hong Kong to Europe stood at **\$6.09 per kg** in September, which is **down** on the \$6.34 per kg registered in August but remains **9.3% ahead** of the year-ago level. Rates on this lane also tend to increase between August and September.

The falls come as bellyhold capacity continues to return to the Hong Kong market as Covid restrictions are eased and the air cargo outlook remains cloudy. In its latest market wrap-up, TAC Index said: “Normally at this time of year, prices tend to firm up ahead of the peak season. But this year – against a backdrop of high commodity prices, rising interest rates, full inventories, and prospects of stagflation – the **reverse seems to be happening.**”

### Baltic Exchange Air Freight Index



It should of course be noted that prices on both lanes remain **far above pre-Covid levels** – in 2019, rates from Hong Kong to North America stood at \$3.34 per kg and from Hong Kong to Europe rates were \$2.56 per kg.

Meanwhile, on services from Frankfurt to North America average rates stood at \$3.87 per kg, a **decrease of 8.1%** compared with a year ago and down on August's \$3.95 per kg.

# Labour



# LABOUR

## Scotland

Data for August has revealed a renewed fall in permanent staff hires across Scotland, according to the latest Royal Bank of Scotland Report on **Jobs survey**. The report said “**acute**” shortages of skills and candidates weighed on hiring activity.

However, some recruiters also noted that economic slowdown and rising market uncertainty added to the loss of momentum across the Scottish labour market. At the same time, **demand for staff continued to rise**, which drove further **increases** in both **starting salaries and hourly wages**.

“The seasonally adjusted Permanent Placements Index fell below the 50.0 no-change mark, to signal a modest drop in permanent staff appointments that ended a 19- month period of expansion,” said the report. “Growth in temp billings meanwhile moderated to a seven-month low in August.”

## Warehouse Staff

Even as consumer spending cools and the Covid-sparked online boom eases, take-up of **warehouse space** was **up 10%** year on year in the first half of 2022 at 22.6 million sq ft, according to CBRE.

As a result, vacancy rates are at a **new record low** of 1.2%, and the value of new warehouse developments is soaring – reaching a record high of £5.6bn in 2021, compared with £2.3bn the year prior.

More warehousing space **means more staff**, an equation the sector is currently unable to correct. The suppressed volumes could actually mean a greater need for workers, as it means fewer bulk pallets, less efficiency, and less productivity. As a result, the labour crunch is likely to get worse before it gets better with warehouses up and down the country **scrabbling to find enough staff** to deal with the upcoming **Christmas rush**.

## UK Earnings

Average weekly earnings including bonuses in the UK **increased by 5.5% year-on-year to GBP 613** in the three months to July of 2022, above an upwardly revised 5.2% in the three months to June and **exceeding market forecasts of 5.4%**.

Regular pay, which excludes bonus payments went up 5.2%, after a 4.7% rise in the previous period and beating expectations of 5.0%.

Adjusted for inflation, total pay fell 2.6% while regular pay dropped 2.8%, amid **a squeeze in UK living standards**.

# THE KNOWLEDGE BAK

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**Scotland Food & Drink  
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