

Food Retailers

Tracking Food at Home Inflation: CPI +1% in Feb., but still 25%+ vs. pre-pandemic

Industry Overview

Food at Home CPI (+1.0%) slows -20bp in February

The Food at Home CPI was +1.0% in February (-20bp vs. Jan.), slowing for the 18th straight month vs. a 40+ year high of +13.5% in August 2022 (Exhibit 4). Food at Home inflation also slowed further on a two-year basis (to +11.2%, down -150bp vs. Jan.) as well as on a four-year basis (-40bp to +25.2%) – although four-year trends remain near 40-year high levels, Exhibit 5.

Inflation remains higher for dry grocery (+2.5%)

By category (Exhibit 6), inflation in non-perishables continued to slow (-30bp to +2.1% in February) while perishables also slowed in February (-10bp to -0.2%). The modest slowdown in perishables was driven by dairy (still negative y/y) and produce (still slightly positive), while proteins modestly reaccelerated (but still slightly down y/y) – Exhibit 8.

Food Away from Home CPI (+5%) outpacing Food at Home

The Food Away from Home CPI was +4.5% in February (compared to a 40-year high of +8.8% in March), slowing -60bp vs. January (Exhibit 10). Food Away from Home inflation outpaced Food at Home for the 12th straight month (with March 2023 marking the first time we observed this trend in ~1.5 years).

Food PPI (+2.8%) inflects positively

The Finished Consumer Foods PPI of +2.8% in February was +440bp vs. January and compares to an eight-year low of -4.1% in November (on tough comparisons (Exhibit 12). The PPI also accelerated on a four-year basis (+430bp to +28.4%), while two-year trends were roughly flat (at +10.4%) in February (Exhibit 13).

Exhibit 1: Food at Home CPI vs. PPI for Finished Consumer Foods, y/y % change

The Food at Home CPI slowed -20bp to +1.0% in Feb. while the PPI reaccelerated +440bp to +2.8%

	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
CPI	11.8%	11.3%	10.1%	8.4%	7.2%	5.8%	4.7%	3.6%	2.9%	2.4%	2.1%	1.6%	1.3%	1.2%	1.0%
PPI	15.2%	12.2%	7.4%	6.1%	4.0%	2.1%	2.4%	0.3%	0.6%	-0.3%	-1.3%	-4.1%	-3.4%	-1.6%	2.8%

Source: Bureau of Labor Statistics

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Inflation indicators imply flattish CPI trends ahead

Given the lag in pass-through, PPI trends imply that the Food at Home CPI could reaccelerate in the next three months (Exhibit 15), while wage, diesel & commodity trends imply continued moderation towards ~0% over the next six months (Exhibit 21).

See muted same-store sales trends for grocers

We see muted same-stores sales trends for grocers as food inflation remains low (or continues easing) on a y/y basis but unit/volume sales pressure continues (see our latest [Nielsen update](#)). We think shoppers will continue to favor value and variety (incl. in price points and higher-margin private label items) as consumers are still adjusting to grocery prices that are up more than +25% vs. pre-pandemic.

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Equity
United States
Food Retailers

Robert F. Ohmes, CFA
Research Analyst
BofAS
+1 646 855 0078
robert.ohmes@bofa.com

Kendall Toscano
Research Analyst
BofAS
+1 646 855 1704
kendall.toscano@bofa.com

Key terms:

CPI = Consumer Price Index

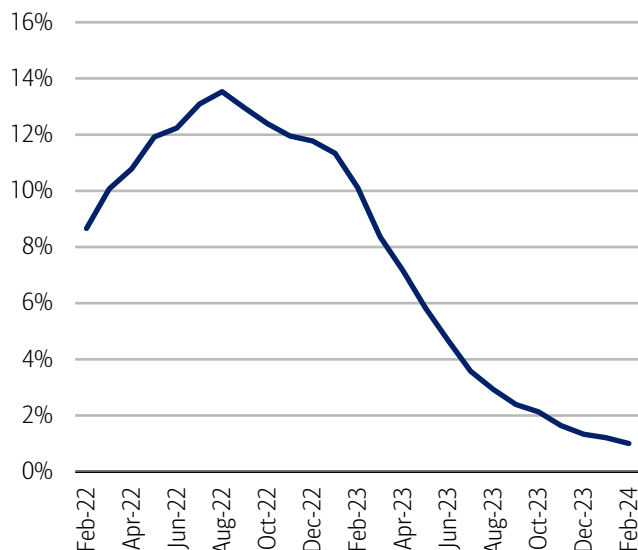
LSD = low-single-digit

PPI = Producer Price Index

Food at Home CPI & PPI monthly trends

Exhibit 2: Food at Home CPI y/y % change (2-yr history)

The Food at Home CPI was +1.0% y/y in February compared to +10.1% in February 2023 & +8.7% in February 2022



Source: Bureau of Labor Statistics

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Exhibit 3: Finished consumer foods PPI y/y % change (2-yr history)

The Finished Consumer Foods PPI was +2.8% y/y in February compared to +7.4% in February 2023 & +13.6% in February 2022

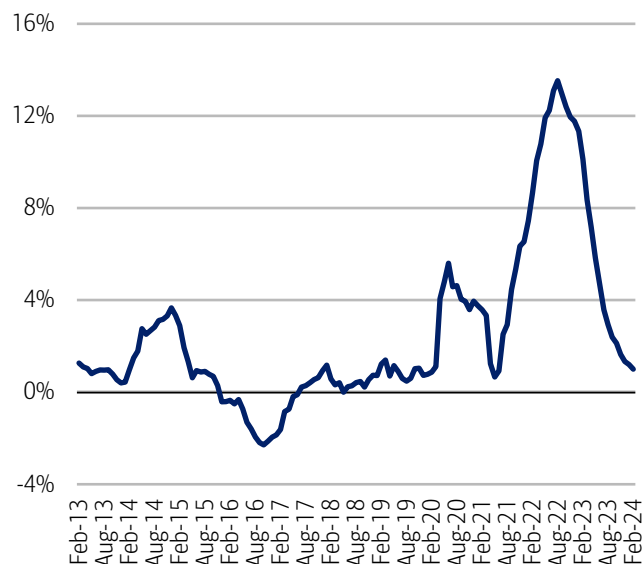


Source: Bureau of Labor Statistics

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Exhibit 4: Food at Home CPI, y/y % change

Food at Home CPI was +1.0% in February, moderating compared to +1.2% in January and a 40+ year high of +13.5% in August 2022

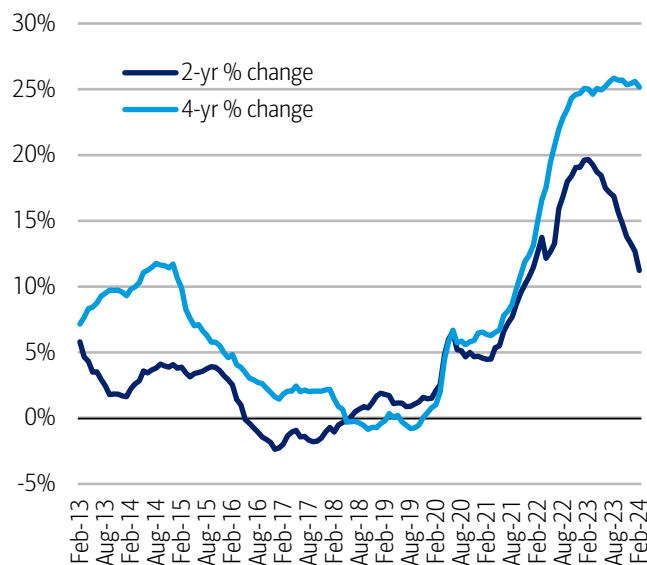


Source: Bureau of Labor Statistics,

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Exhibit 5: Food at Home CPI, 2 & 4-year % change

The Food at Home CPI in February slowed further on a 2-yr basis (to +11.2%, down -150bp vs. January), while 4-year trends also slowed (-40bp to +25.2%) but remain near 40+ year high levels

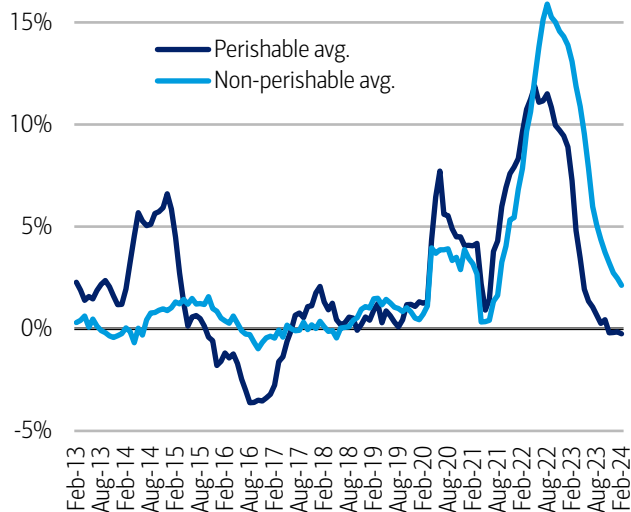


Source: Bureau of Labor Statistics

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Exhibit 6: CPI category average y/y % change

Inflation moderated further in non-perishables (-30bp to +2.1%), while perishables also slowed in February (-10bp to -0.2%)

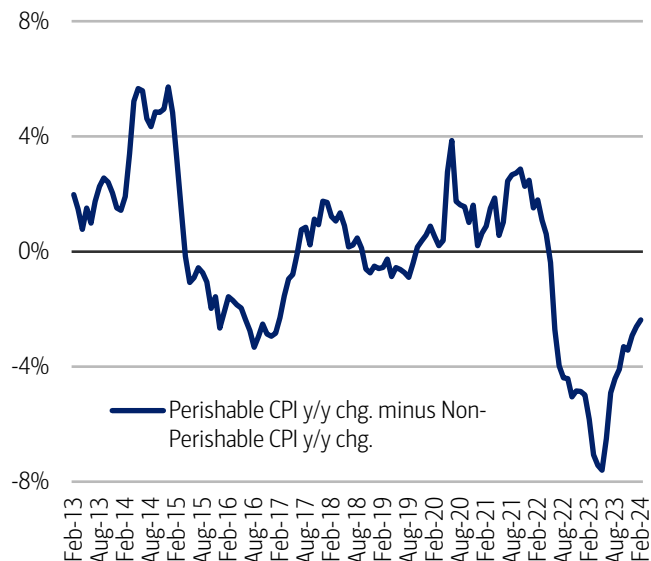


Source: Bureau of Labor Statistics

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Exhibit 7: Perishable CPI avg. minus Non-Perishable CPI avg. spread

Non-perishables inflation outpaced perishables for the 22nd straight month in February, though the spread (-2.4%) has narrowed vs. a record -7.6% in May 2023

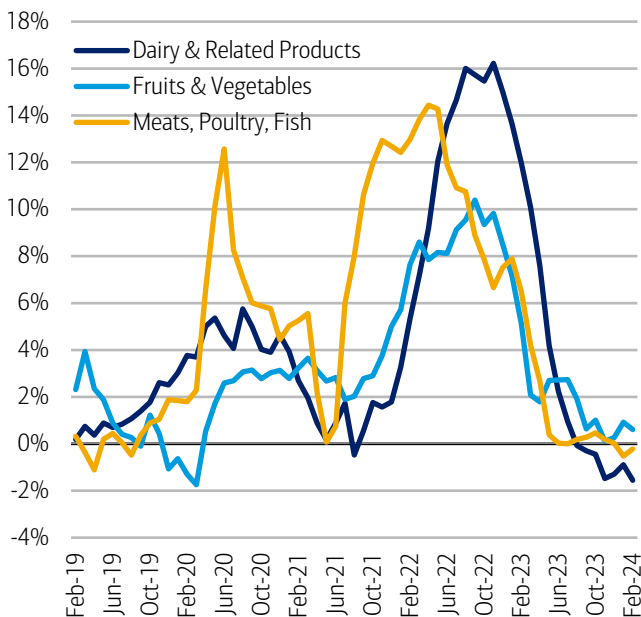


Source: Bureau of Labor Statistics

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Exhibit 8: CPI y/y % change by perishable subcategory

February perishables inflationary trends (-10bp vs. Jan.) reflected lower produce & dairy inflation that was partially offset by an uptick in proteins

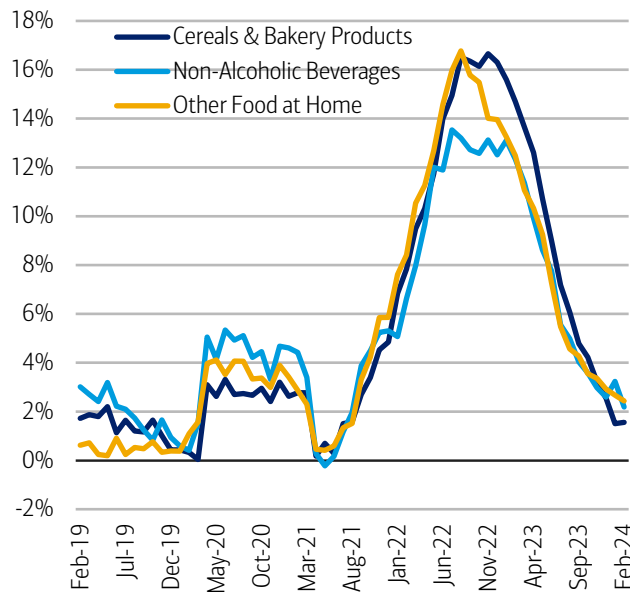


Source: Bureau of Labor Statistics

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Exhibit 9: CPI y/y % change by non-perishable subcategory

February's slowdown in non-perishables inflation reflected moderation in non-alcoholic beverages & other food at home that was partially offset by a reacceleration in cereals/bakery products

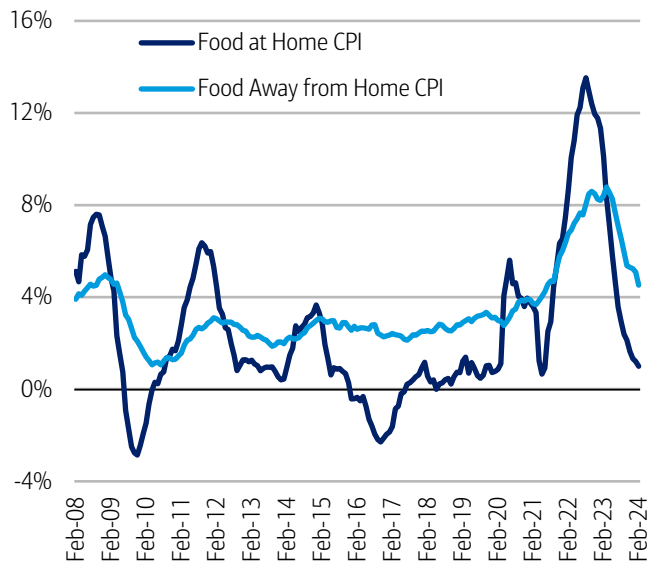


Source: Bureau of Labor Statistics

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Exhibit 10: Food at Home vs. Food Away from Home CPI, y/y change

The Food Away from Home CPI slowed -60bp to +4.5% in February (compared to last March's 40+ year high of +8.8%), but outpaced the Food at Home CPI for the 12th straight month

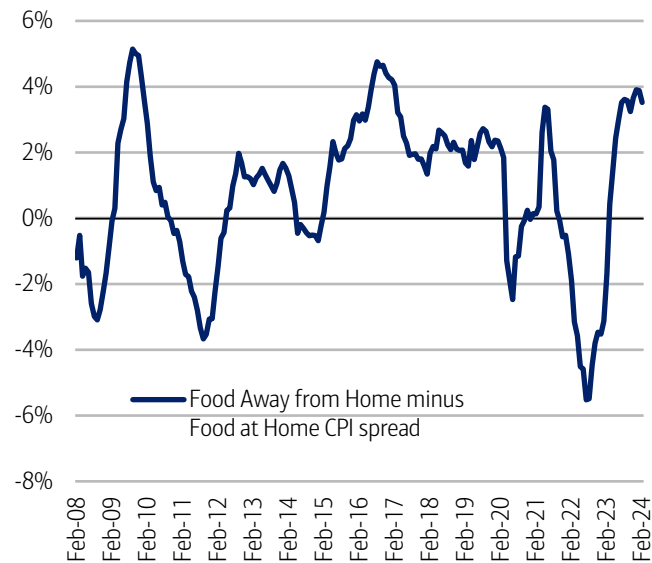


Source: Bureau of Labor Statistics

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Exhibit 11: Food Away from Home minus Food at Home CPI spread

The Food Away from Home CPI outpaced the Food at Home CPI in February for the 12th straight month (with March 2023 marking the first time since mid-2021, ~1.5 years)

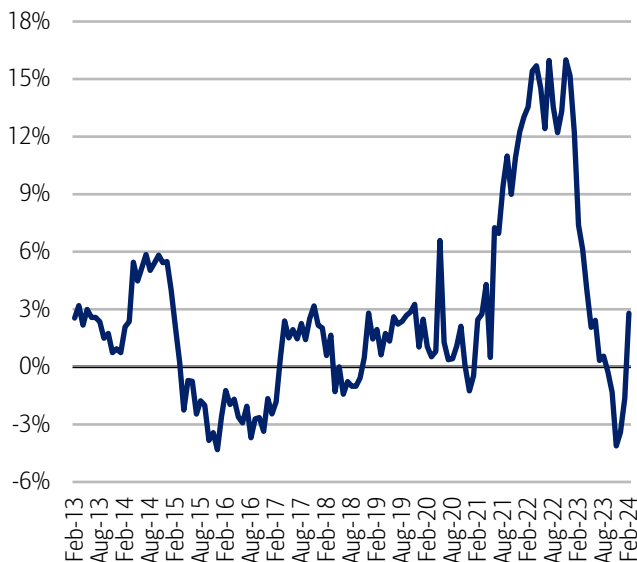


Source: Bureau of Labor Statistics

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Exhibit 12: Finished consumer foods PPI (y/y % change)

The Finished Consumer Foods PPI was +2.8% in February, which is +440bp vs. January (and compares to an 8-year low of -4.1% in Nov. & a ~50-year highs of +16.0% in late 2022)

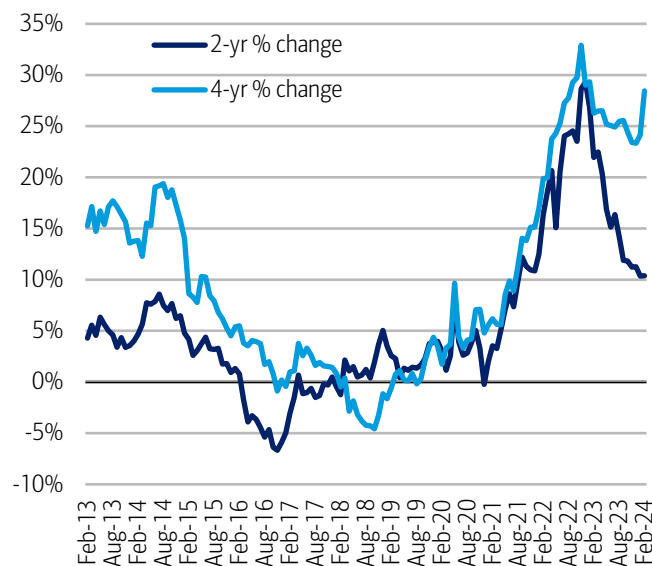


Source: Bureau of Labor Statistics

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Exhibit 13: Finished consumer foods PPI, 2 & 4-year % change

The PPI in February also accelerated on a 4-year basis (+430bp to 28.4%) while 2-year trends were roughly flat (at +10.4%)

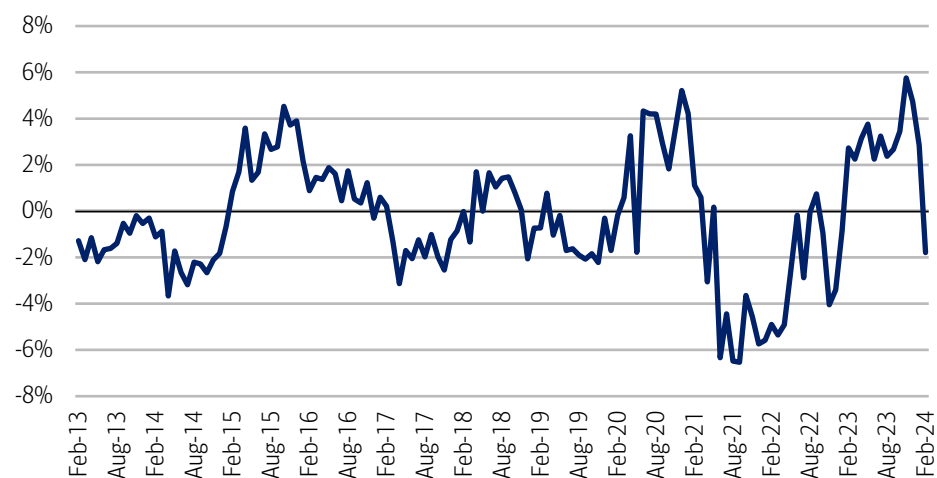


Source: Bureau of Labor Statistics

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Exhibit 14: Food at Home CPI minus PPI for Finished Consumer Foods y/y % change

The CPI minus PPI spread was -1.8% in February (down vs. +2.8% in January & +5.8% in November, the highest in ~50 years), inflecting negatively for the first time in over a year



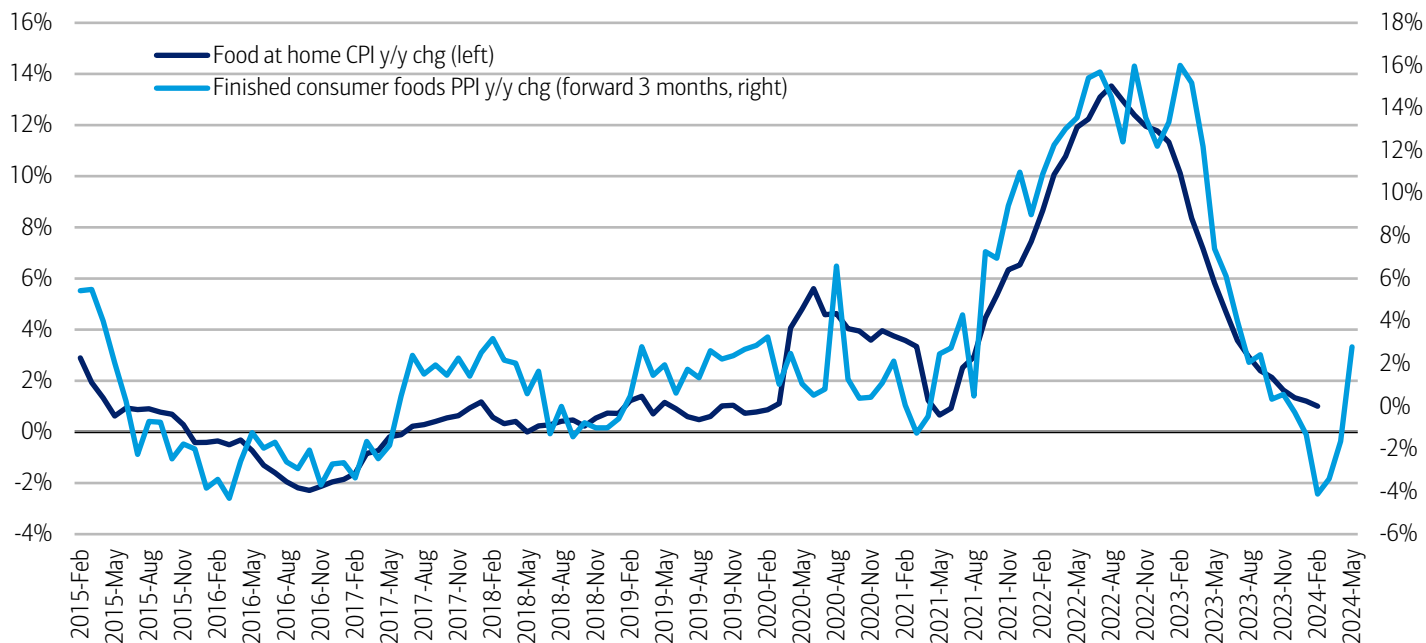
Source: Bureau of Labor Statistics

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Food inflation forecasts

Exhibit 15: Food at Home CPI Forecast based on Finished Consumer Foods PPI (forward 3 months) y/y % change

PPI trends have historically been strong indicators of forward inflation at retail. Recent PPI trends imply the CPI could reaccelerate in the next 3 months

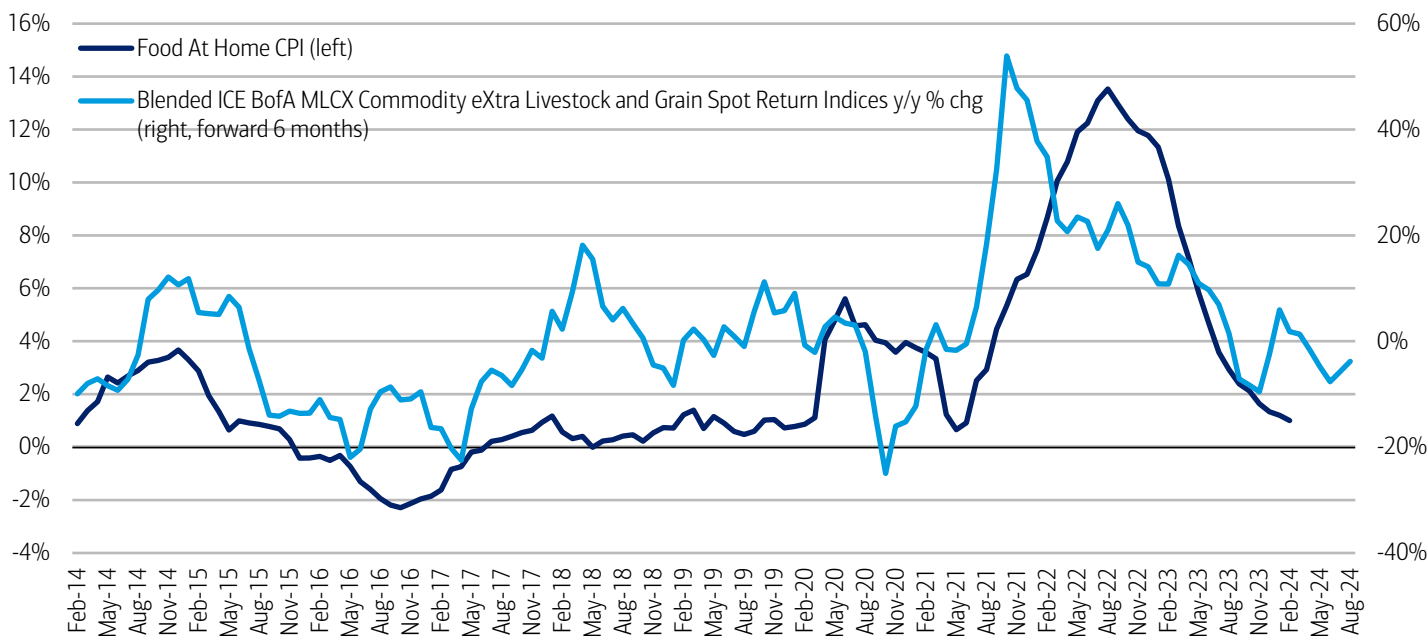


Source: Bureau of Labor Statistics

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Exhibit 16: Food at home CPI forecast based on blended ICE BofA MLCX Commodity eXtra Livestock & Grain Spot Prices (fwd. 6 mo.) y/y % change

Livestock & grain commodity spot price trends imply volatility, but continued positive y/y trends, in the Food at Home CPI over the next six months

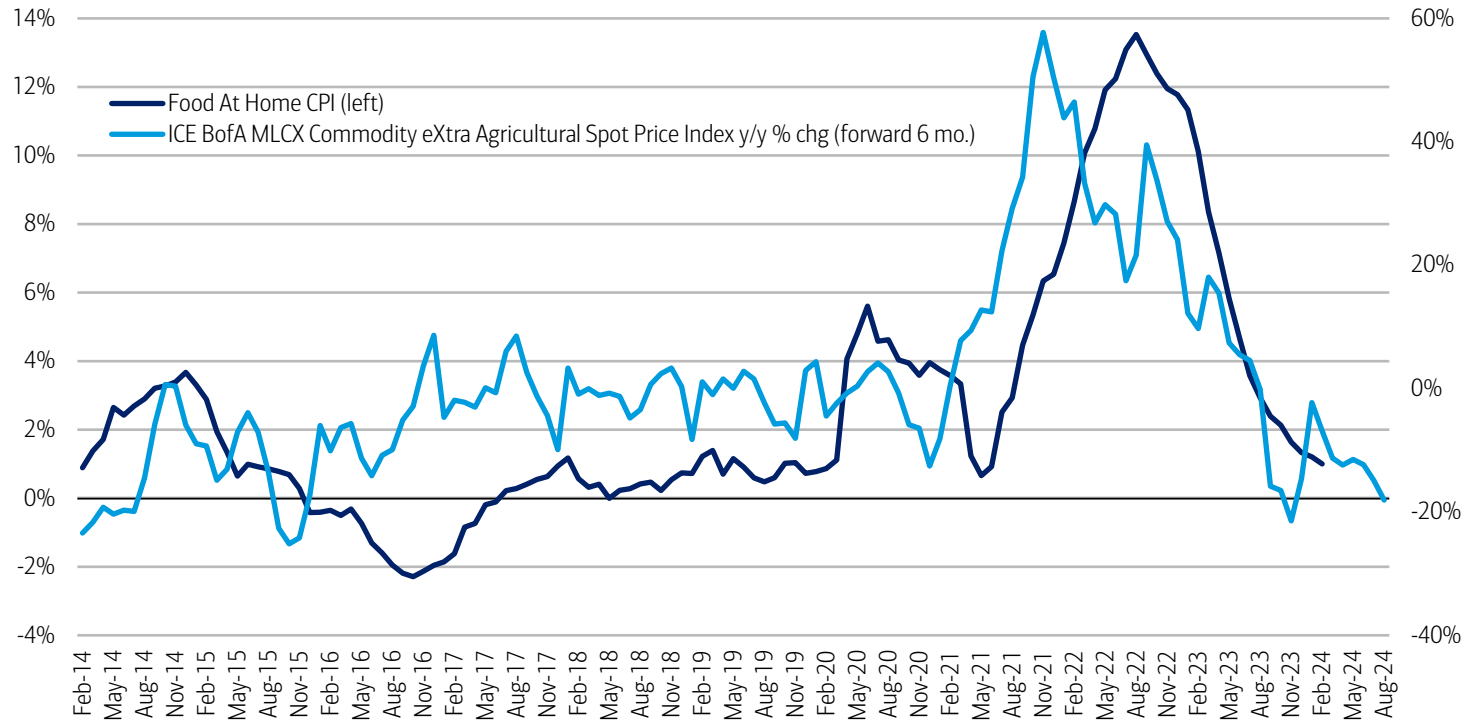


Source: Bureau of Labor Statistics, Bloomberg, BofA Global Research, ICE Data Indices, LLC

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Exhibit 17: Food at home CPI forecast based on ICE BofA MLCX Commodity eXtra Agricultural Spot Return index (fwd 6 mo.) y/y % change

Agricultural commodity spot prices imply overall moderation in the Food at Home CPI over the next six months

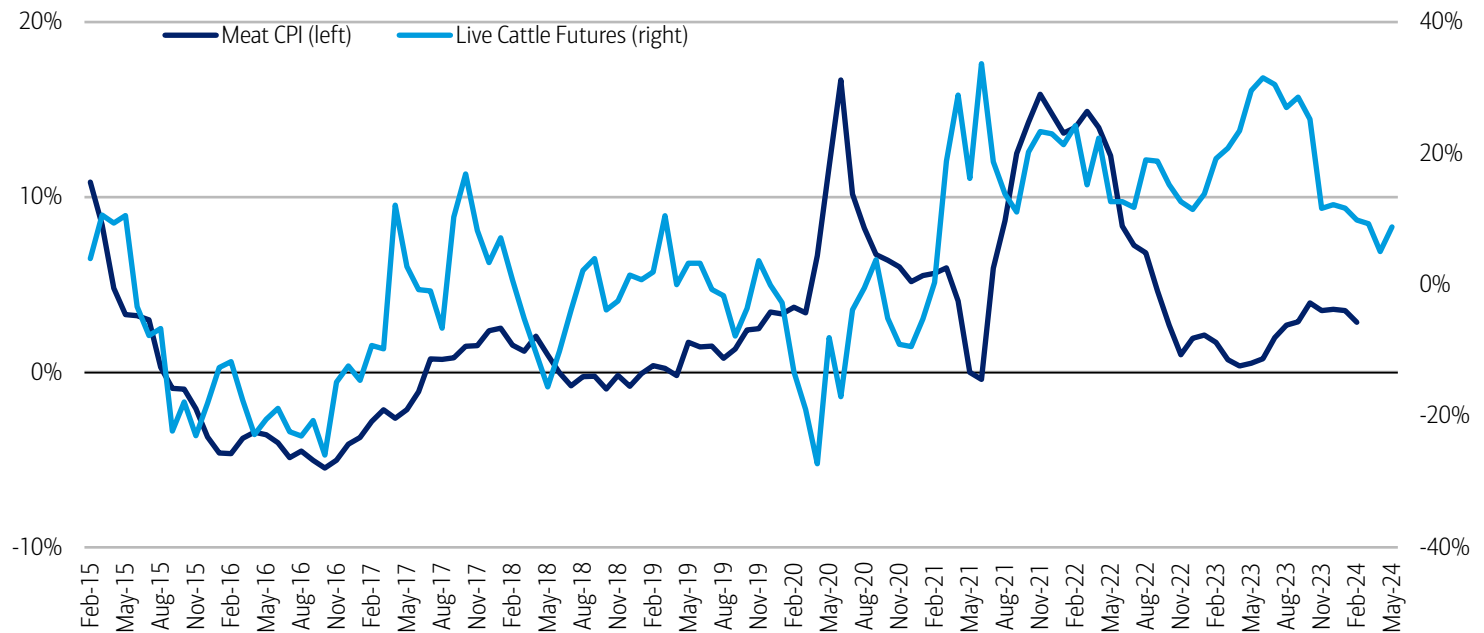


Source: Bureau of Labor Statistics, Bloomberg, BofA Global Research, ICE Data Indices, LLC

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Exhibit 18: Meat CPI forecast based on live cattle futures (assuming prices stay at current levels) forward 3 months, y/y % change

Live cattle future trends would historically imply higher overall levels in the Meat CPI over the next three months

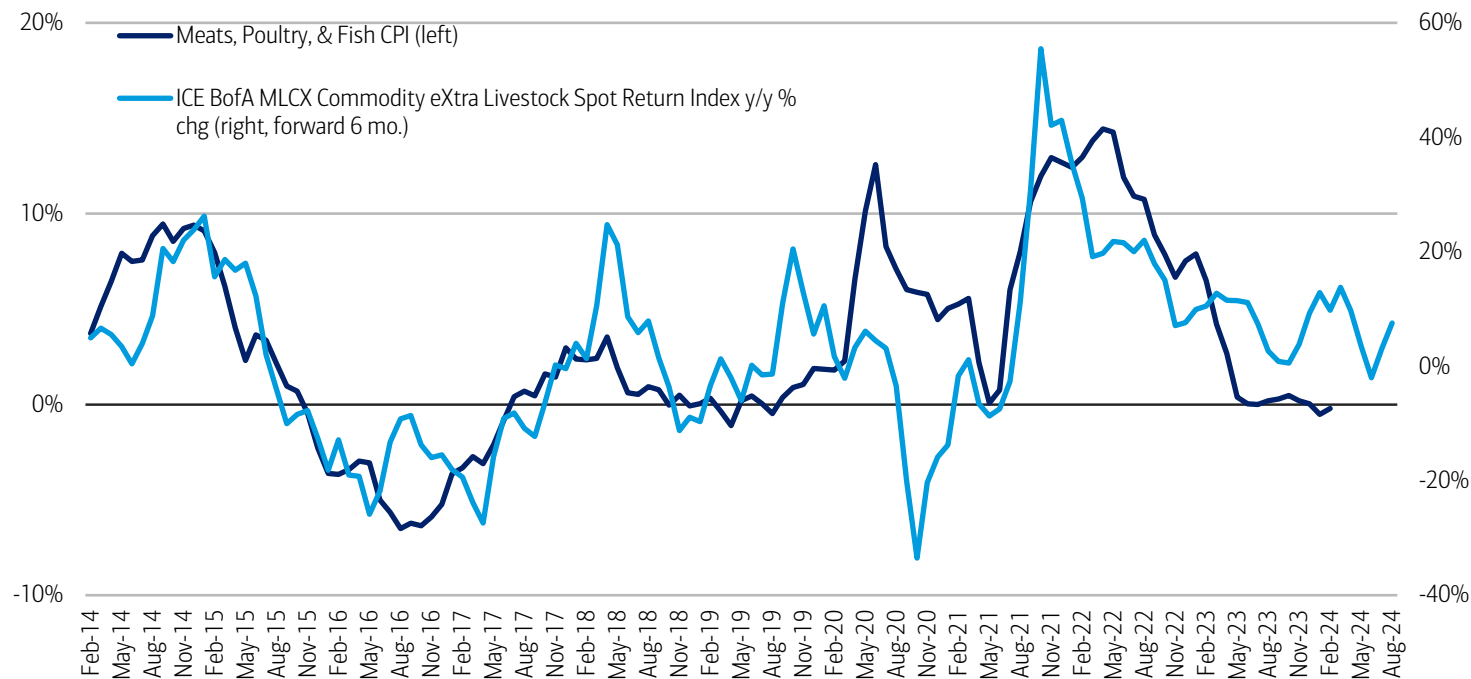


Source: Bloomberg, Bureau of Labor Statistics

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Exhibit 19: Meat, Poultry & Fish CPI forecast based on ICE BofA MLCX Commodity eXtra Livestock Spot Prices (forward 6 mo.) y/y % change

Livestock spot prices imply volatility in the Meats, Poultry & Fish CPI over the next six months

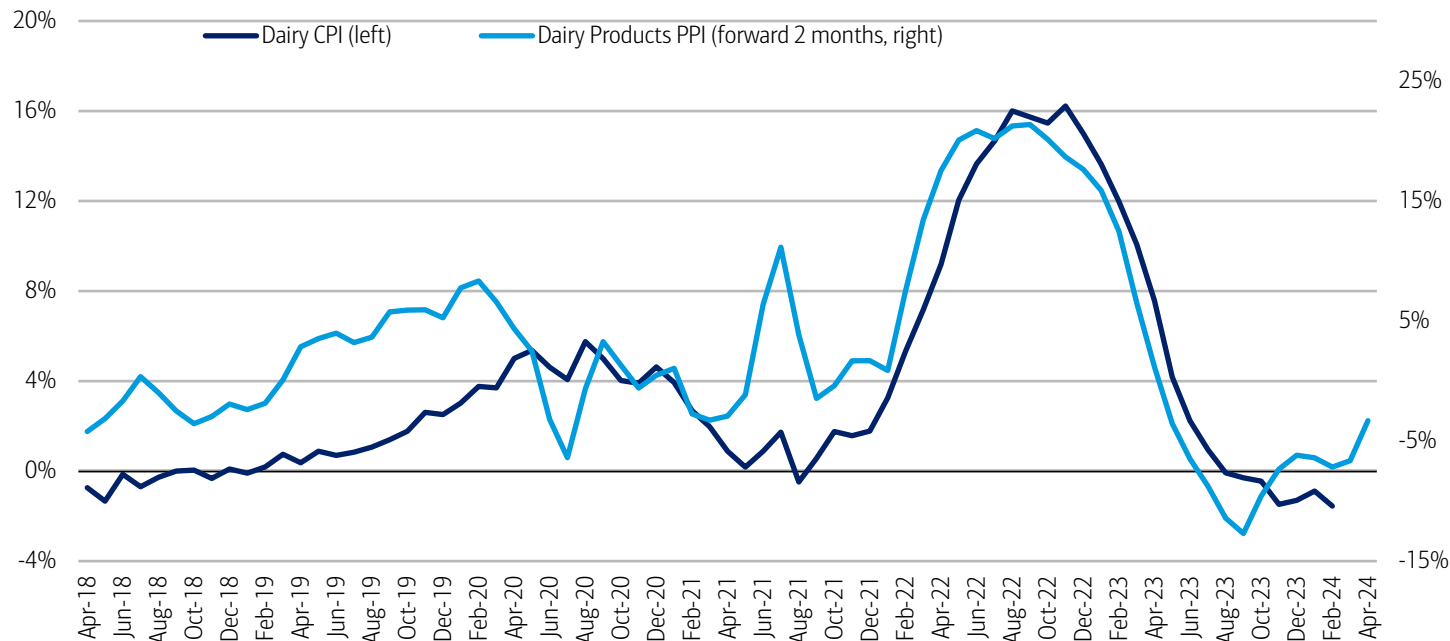


Source: Bureau of Labor Statistics, Bloomberg, BofA Global Research, ICE Data Indices, LLC

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Exhibit 20: Dairy CPI forecast based on Dairy PPI (forward 2 months) y/y % change

Dairy PPI trends imply modestly a potential reacceleration in Dairy CPI trends over the next 2 months

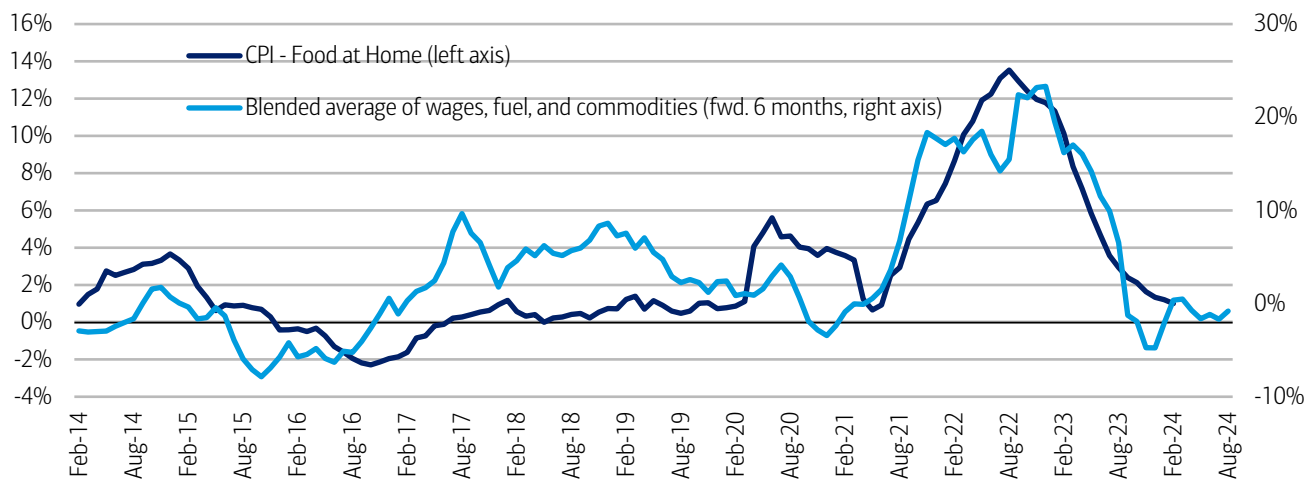


Source: Bureau of Labor Statistics

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Exhibit 21: Food at Home CPI Forecast based on blended average of wages, fuel & commodities (forward 6 months) y/y % change

A blended average of wage, fuel & commodity costs implies overall continued moderation in the Food at Home CPI towards ~0% over the next six months

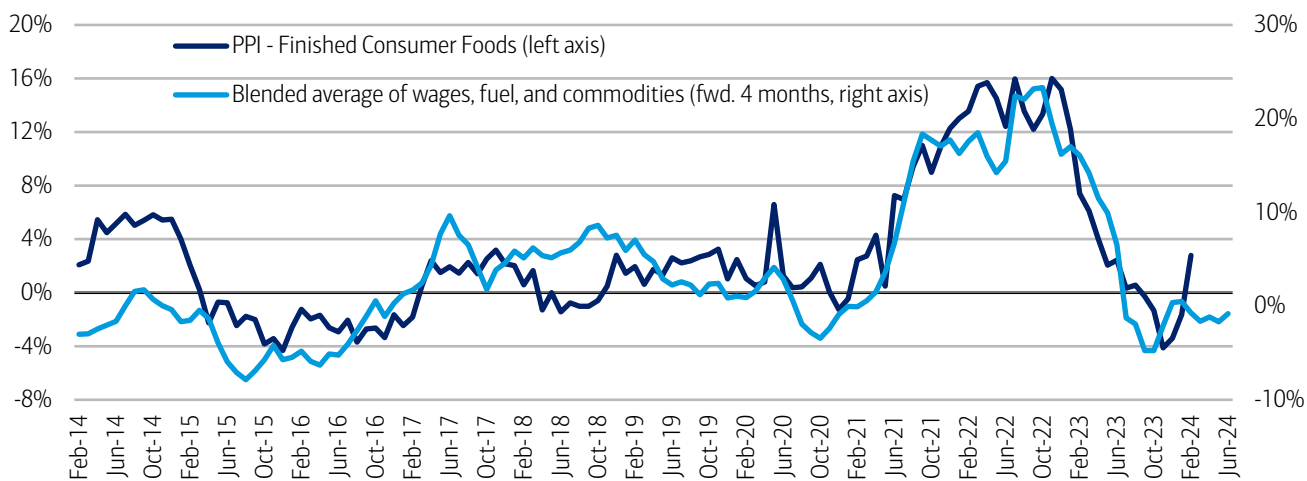


Source: Bureau of Labor Statistics, Atlanta Fed, EIA

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Exhibit 22: Finished Consumer Foods PPI forecast based on blended avg. of wages, fuel & commodities (fwd. 4 months) y/y change

A blended average of wage, fuel & commodity costs imply that food producer prices (PPI) could moderate/turn deflationary again over the next four months

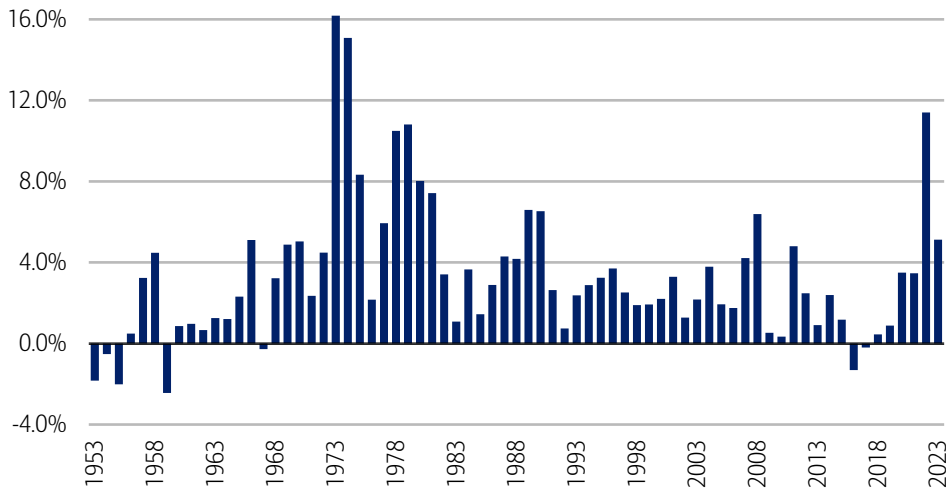


Source: Bureau of Labor Statistics, Atlanta Fed, EIA

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Exhibit 23: Annual average Food at Home CPI y/y % change

Food at Home inflation was +5.1% in 2023 compared to +11.4% in 2022

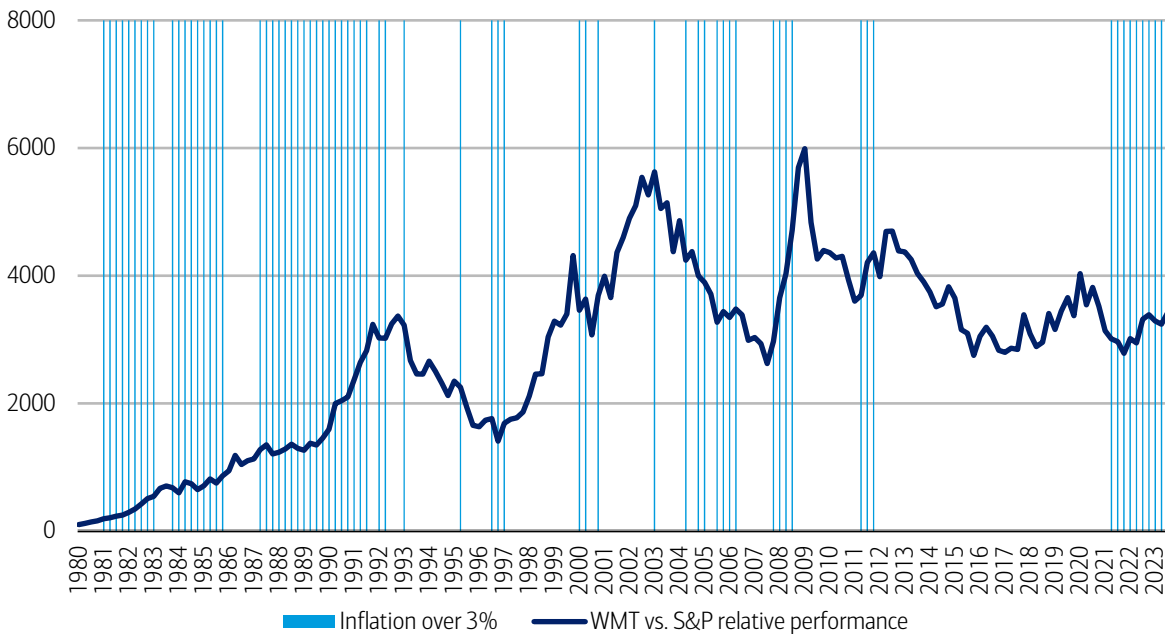


Source: Bureau of Labor Statistics

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Exhibit 24: WMT vs. S&P relative performance, vs. inflation (CPI-U incl. Food, Beverage and Gas) over 3%

WMT historically outperforms following tax stimulus in 1981, 1986, and 2001 and during periods of high inflation



Source: Bureau of Labor Statistics, Bloomberg

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