

## Food Retailers

## Tracking Food at Home Inflation: CPI 1.2% in Jan., but still 25%+ vs. pre-pandemic

Industry Overview

## Food at Home CPI (+1.2%) down another -10bp in January

The Food at Home CPI was +1.2% in January (-10bp vs. Dec.), slowing for the 17<sup>th</sup> 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 +12.7%, down -60bp vs. Dec.), while four-year trends (+25.6%) reaccelerated vs. December and remain near 40-yr highs, Exhibit 5.

## Inflation remains higher for dry grocery (+2.5%)

By category (Exhibit 6), inflation in non-perishables continued slowing (-30bp to +2.5% in January) while perishables were ~flat vs. December (at -0.1%). Flattish trends in perishables inflation reflected continued moderation in proteins (now slightly negative y/y) offset by upticks in produce (still slightly inflationary) and dairy (still slightly deflationary) – Exhibit 8.

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

The Food Away from Home CPI was +5.1% in January (compared to a 40-year high of +8.8% in March), slowing -20bp vs. December (Exhibit 10). Food Away from Home inflation outpaced Food at Home for the 11<sup>th</sup> straight month (with March marking the first time we observed this trend in ~1.5 years).

## Food PPI (-2.3%) reaccelerates vs. December

The Finished Consumer Foods PPI was -2.3% in January, up +180bp vs. December (which was near ~8-year lows & compares to ~50-year highs of +16.0% we observed in late 2022, Exhibit 12). The PPI also reaccelerated on a four-year basis (+80bp to +23.4%), while two-year trends slowed (-90bp to +9.6%) in January (Exhibit 13).

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

The Food at Home CPI slowed -10bp to +1.2% in Jan. while the PPI reaccelerated +180bp to -2.3%

	Nov-22	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
CPI	12.0%	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%
PPI	16.0%	15.2%	12.2%	7.4%	6.1%	4.0%	2.1%	2.4%	0.3%	0.6%	-0.3%	-1.3%	-4.1%	-4.0%	-2.3%

Source: Bureau of Labor Statistics, BofA Global Research

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## PPI &amp; other indicators imply flat to -LSD% CPI ahead

Given the lag in pass-through, PPI trends imply that the Food at Home CPI could continue to slow, potentially turning deflationary in the next three months (Exhibit 15), while wage, diesel and commodity trends imply continued moderation toward ~0% over the next six months (Exhibit 21).

## See slowing same-store sales as inflation wanes

We see slowing same-stores sales for grocers as food inflation continues to ease (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](mailto:robert.ohmes@bofa.com)

Kendall Toscano  
Research Analyst  
BofAS  
+1 646 855 1704  
[kendall.toscano@bofa.com](mailto:kendall.toscano@bofa.com)

## Key terms:

CPI = Consumer Price Index

PPI = Producer Price Index

LSD = low single-digit

## Stock symbols:

WMT = Walmart

KR = Kroger

ACI = Albertsons

TGT = Target

COST = Costco

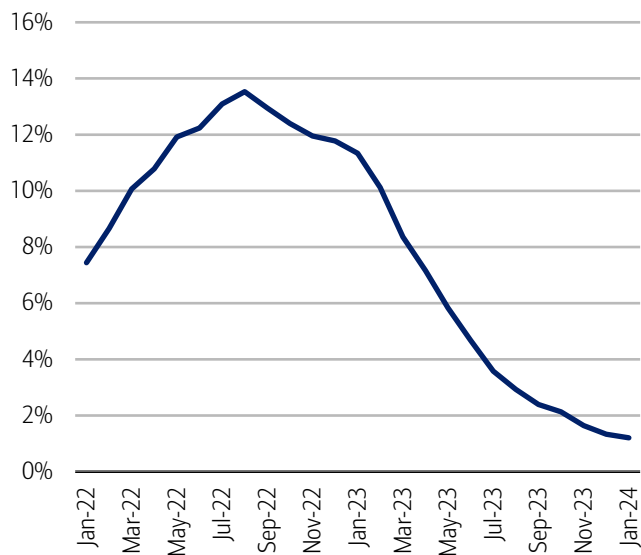
GO = Grocery Outlet

BJ = BJ's Wholesale

## 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 +1.2% y/y in January compared to +11.3% in January 2022 & +7.4% in January 2021

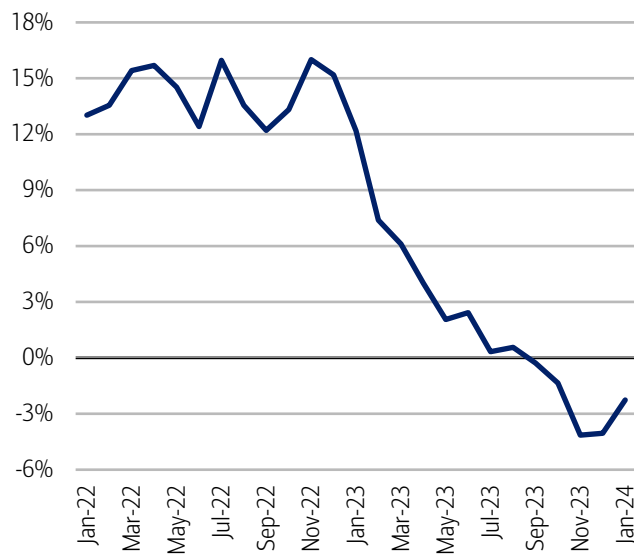


Source: Bureau of Labor Statistics

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

The Finished Consumer Foods PPI was -2.3% y/y in January compared to +12.2% in January 2022 & +13.0% in January 2021

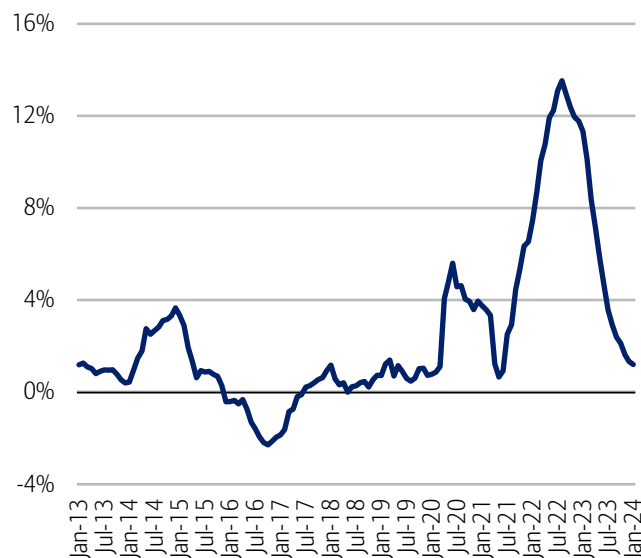


Source: Bureau of Labor Statistics

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

Food at Home CPI was +1.2% in January, moderating compared to +1.3% in December and a 40+ year high of +13.5% in August 2022

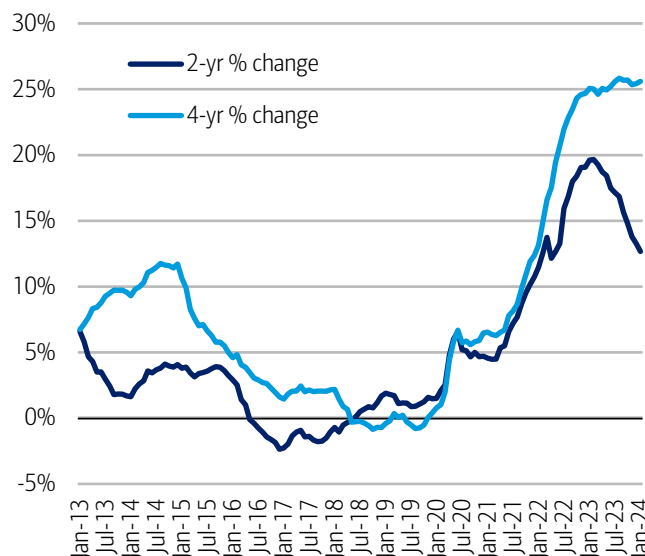


Source: Bureau of Labor Statistics

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

The Food at Home CPI in January slowed further on a 2-yr basis (to +12.7%, down -60bp vs. December), while 4-year trends (+25.6%) reaccelerated vs. Dec. (+20bp) & remain near 40+ year high levels

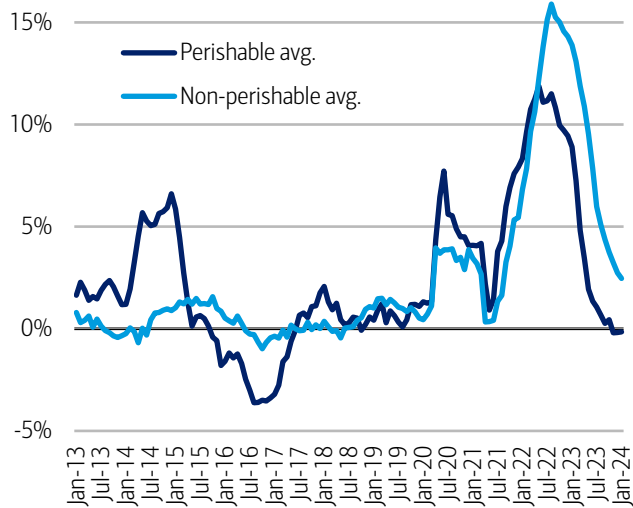


Source: Bureau of Labor Statistics

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**Exhibit 6: CPI category average y/y % change**

Inflation in January moderated further in non-perishables (-30bp to +2.5%), while perishables were ~flat vs. December (at -0.1%)

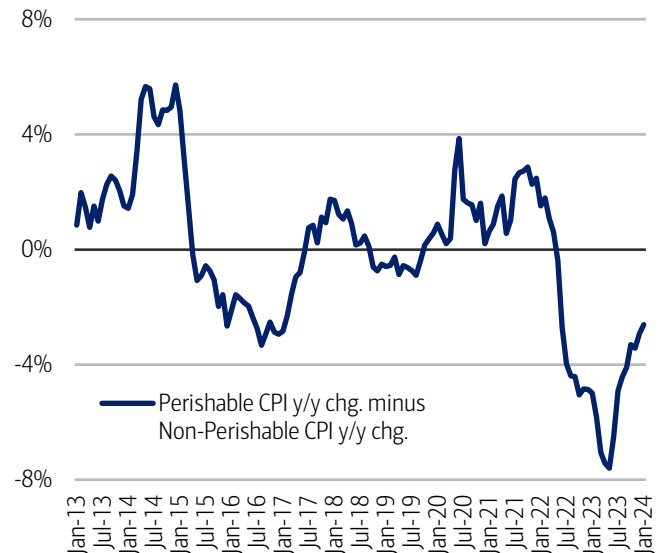


Source: Bureau of Labor Statistics

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

Non-perishables inflation outpaced perishables for the 21st straight month in January, though the spread (-2.6%) has narrowed vs. a record -7.6% in May 2023

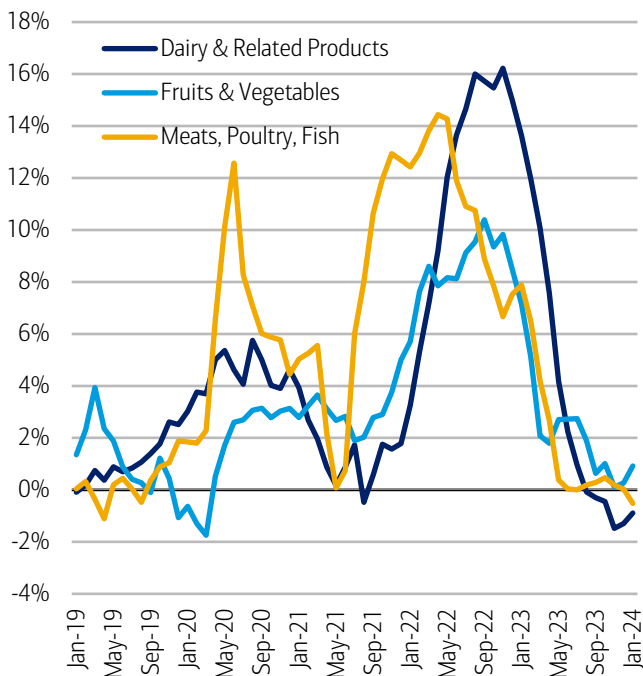


Source: Bureau of Labor Statistics

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

January perishables inflationary trends (flat vs. Dec.) reflected moderation in proteins that was offset by upticks in produce & dairy

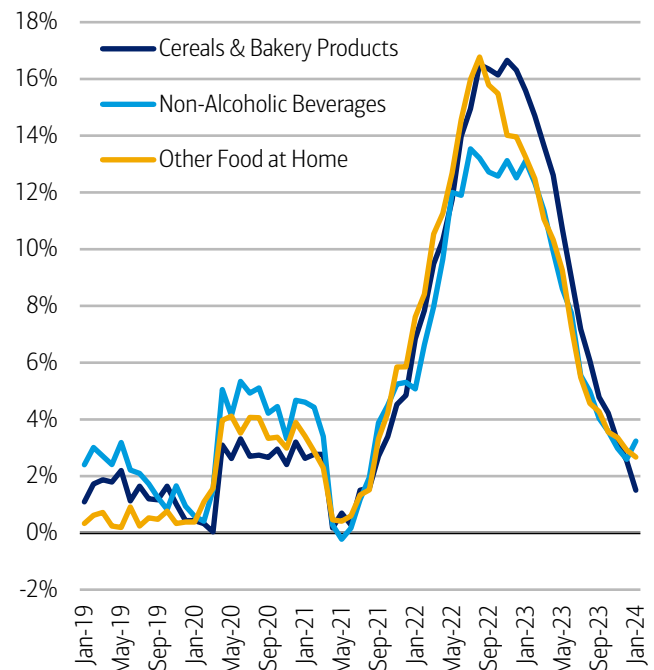


Source: Bureau of Labor Statistics

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

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

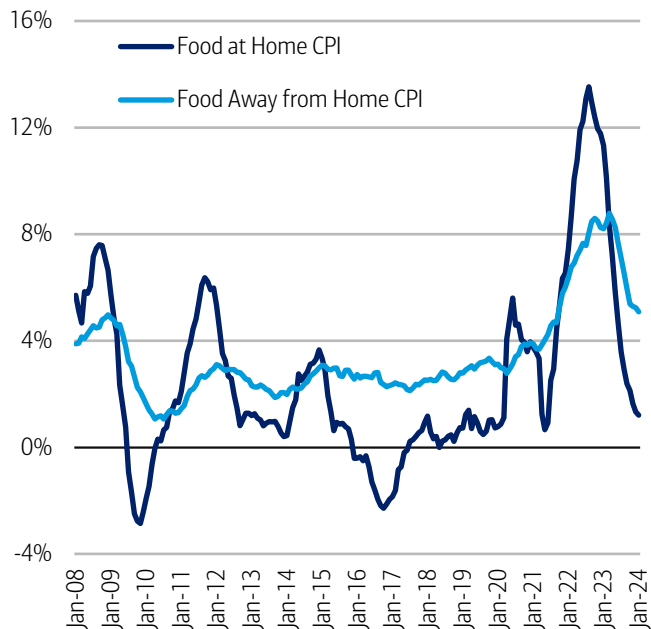


Source: Bureau of Labor Statistics

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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 -20bp to +5.1% in January (compared to March's 40+ year high of +8.8%), but outpaced the Food at Home CPI for the 11th straight month

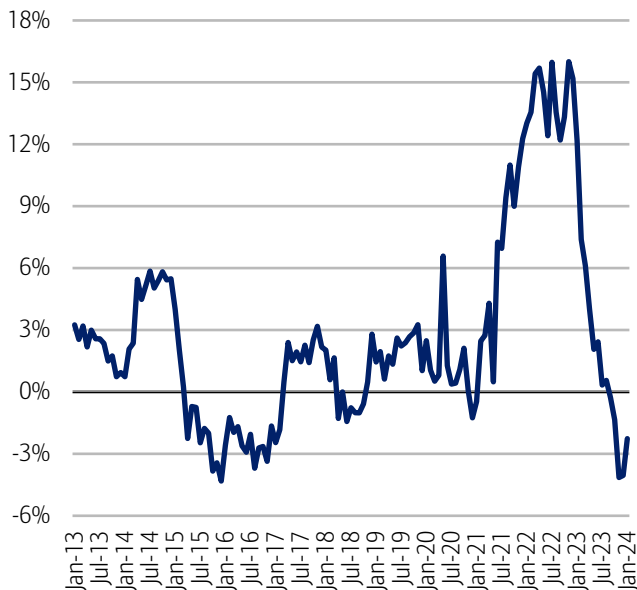


Source: Bureau of Labor Statistics

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

The Finished Consumer Foods PPI was -2.3% in January, +180bp vs. December (which was near 8-year lows & compares to ~50-year highs of +16.0% we observed in late 2022)

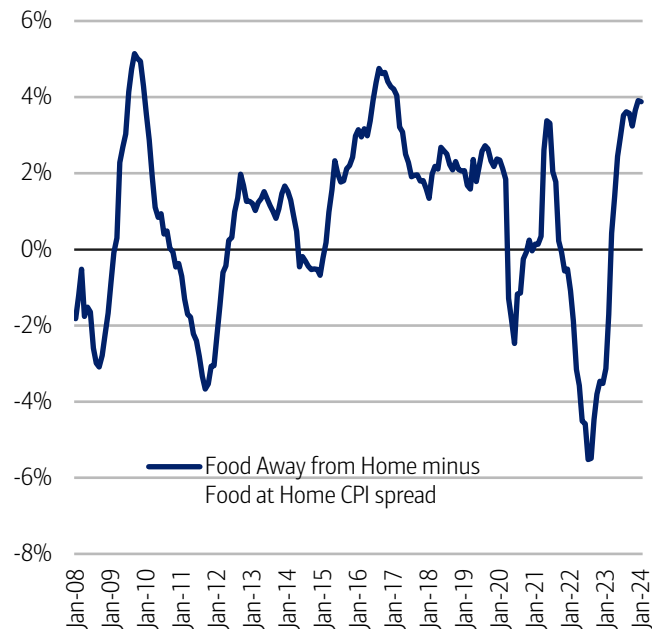


Source: Bureau of Labor Statistics

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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 January for the 11th straight month (with March marking the first time since mid-2021, ~1.5 years)

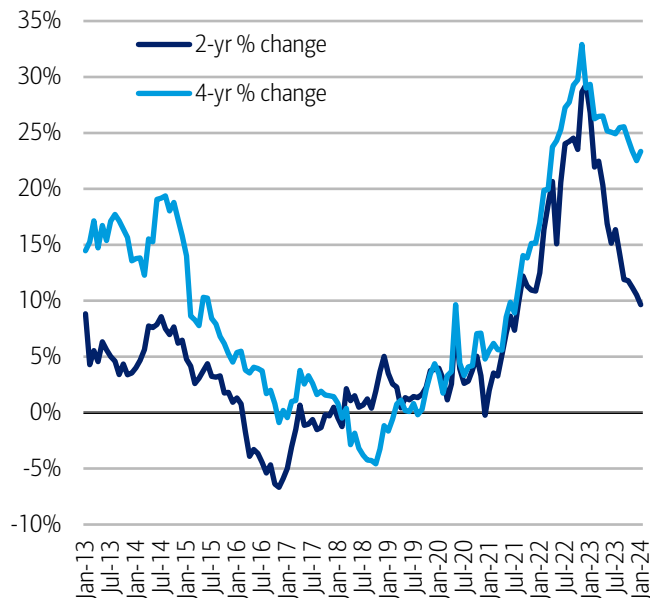


Source: Bureau of Labor Statistics

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

The PPI in January also reaccelerated on a 4-year basis (+80bp to 23.4%) while 2-year trends slowed (-90bp to +9.6%)

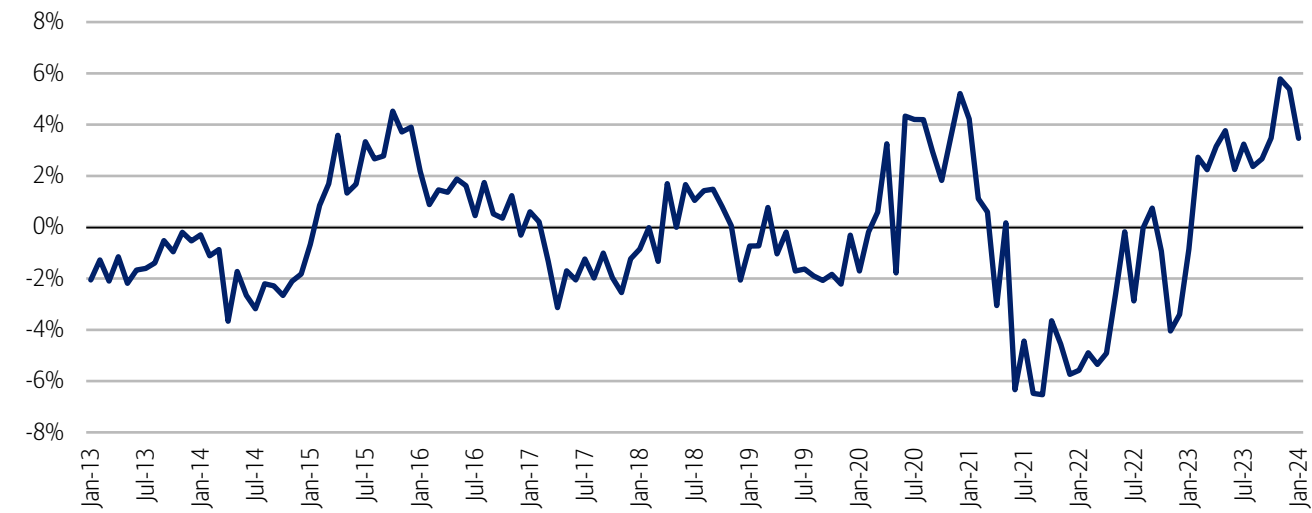


Source: Bureau of Labor Statistics

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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 +3.5% in January, down vs. +5.4% in December (& +5.8% in Nov., the highest in ~50 years), and positive for the 12th straight month after largely negative trends we observed over the ~2 years prior



Source: Bureau of Labor Statistics

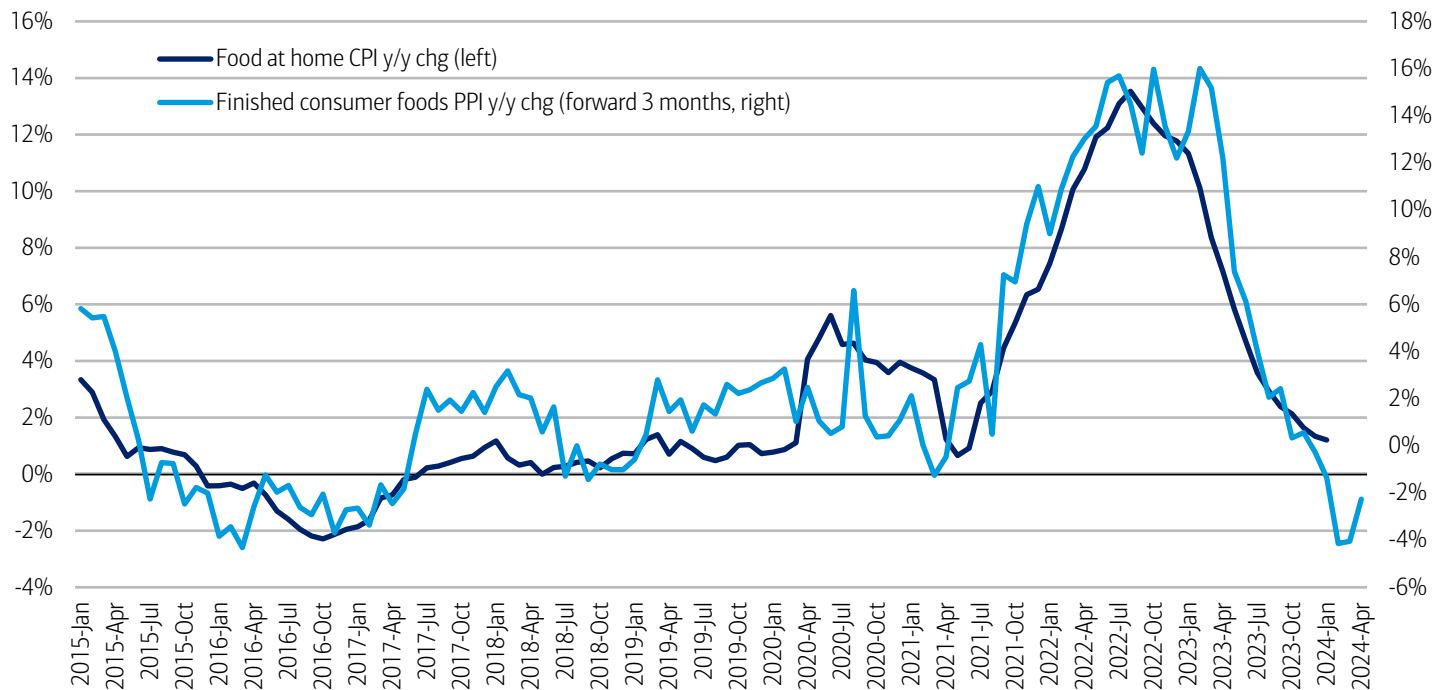
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## Food inflation forecasts

### 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 turn deflationary in the next 3 months

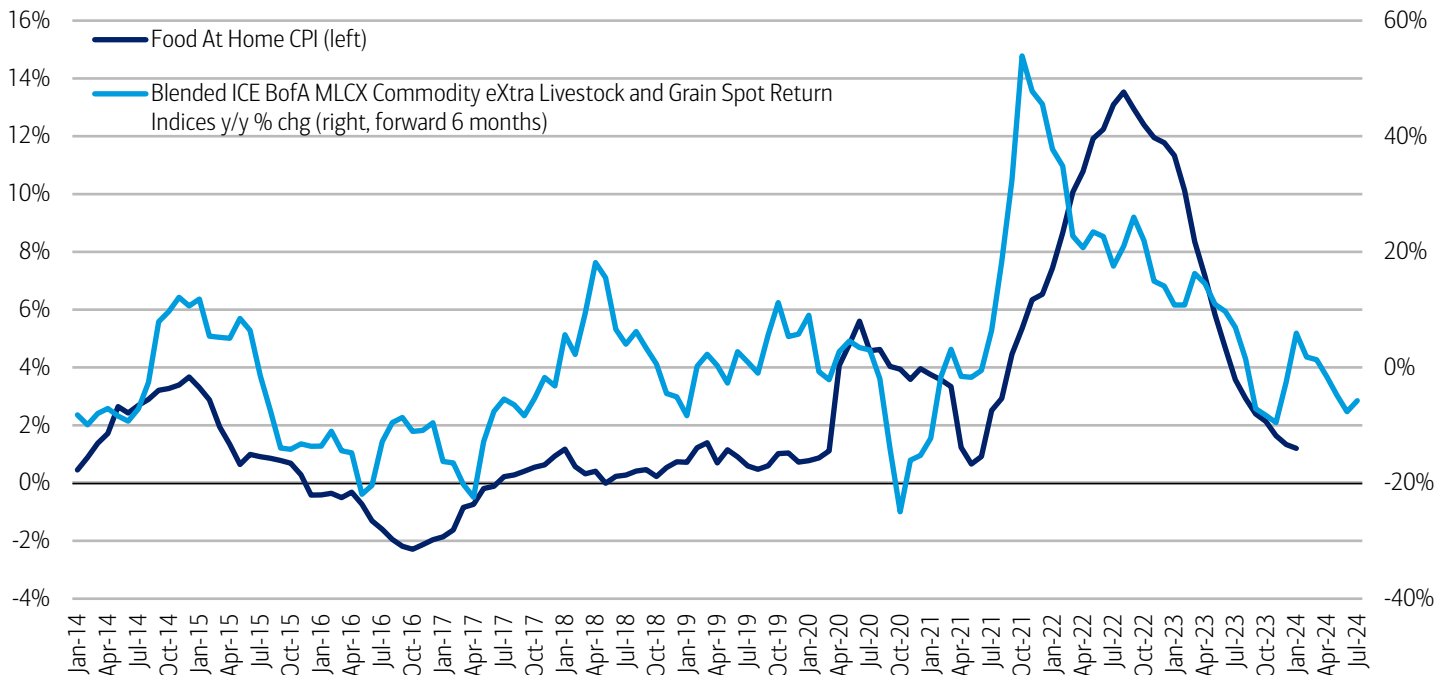


Source: Bureau of Labor Statistics, BofA Global Research

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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

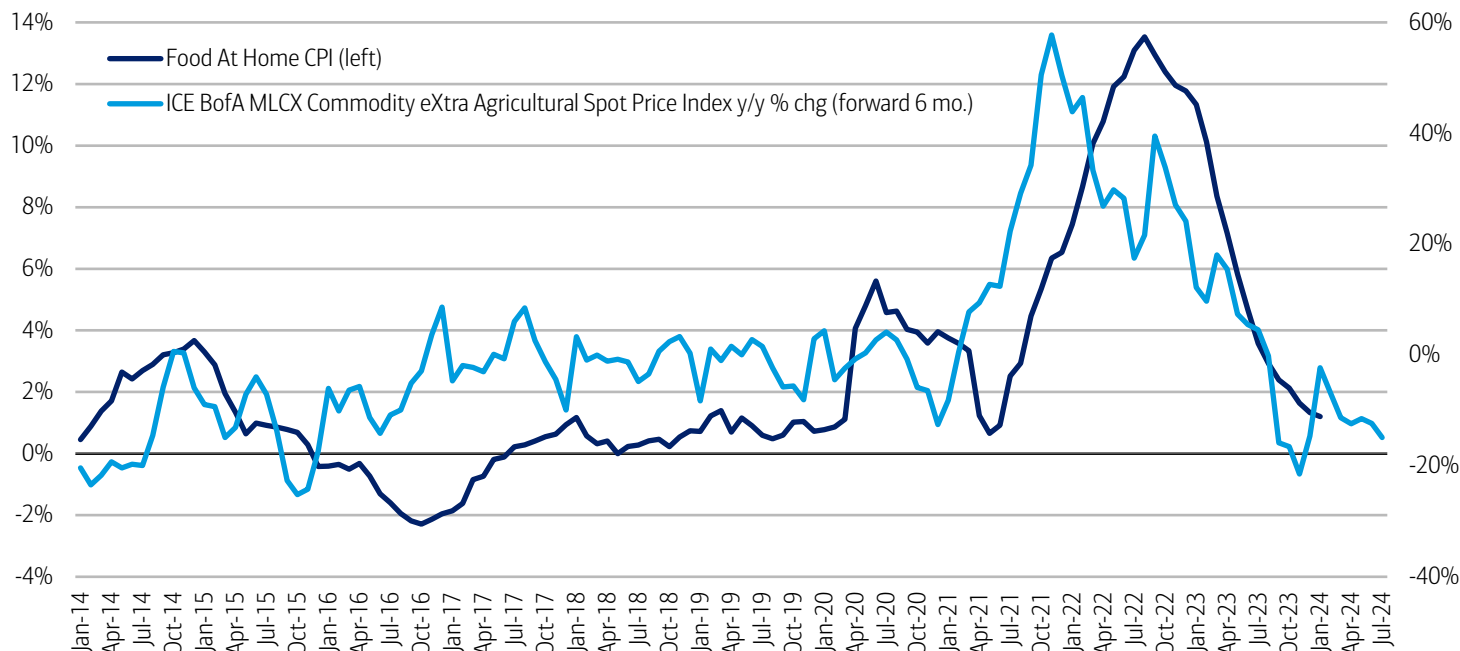


Source: Bureau of Labor Statistics, Bloomberg, BofA Global Research, ICE Data Indices, LLC

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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

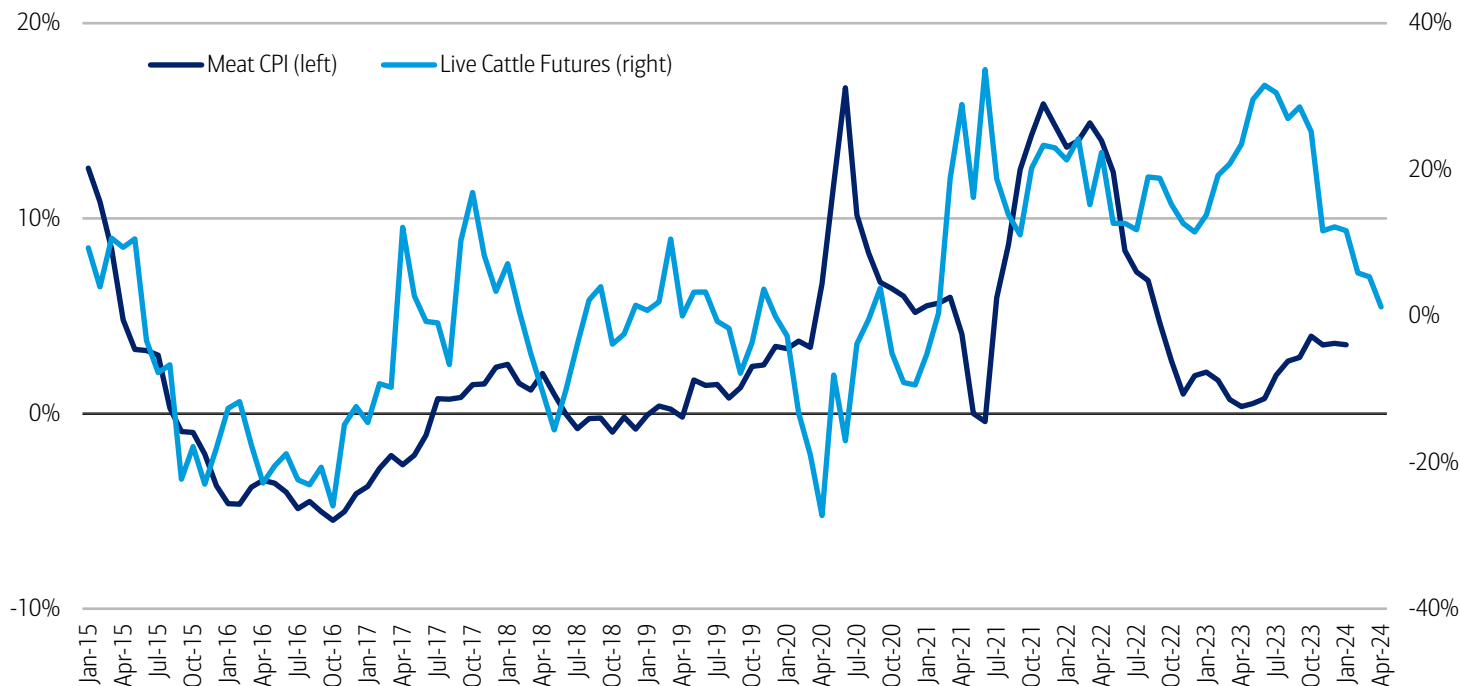


Source: Bureau of Labor Statistics, Bloomberg, BofA Global Research, ICE Data Indices, LLC

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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 moderating trends in the Meat CPI over the next three months

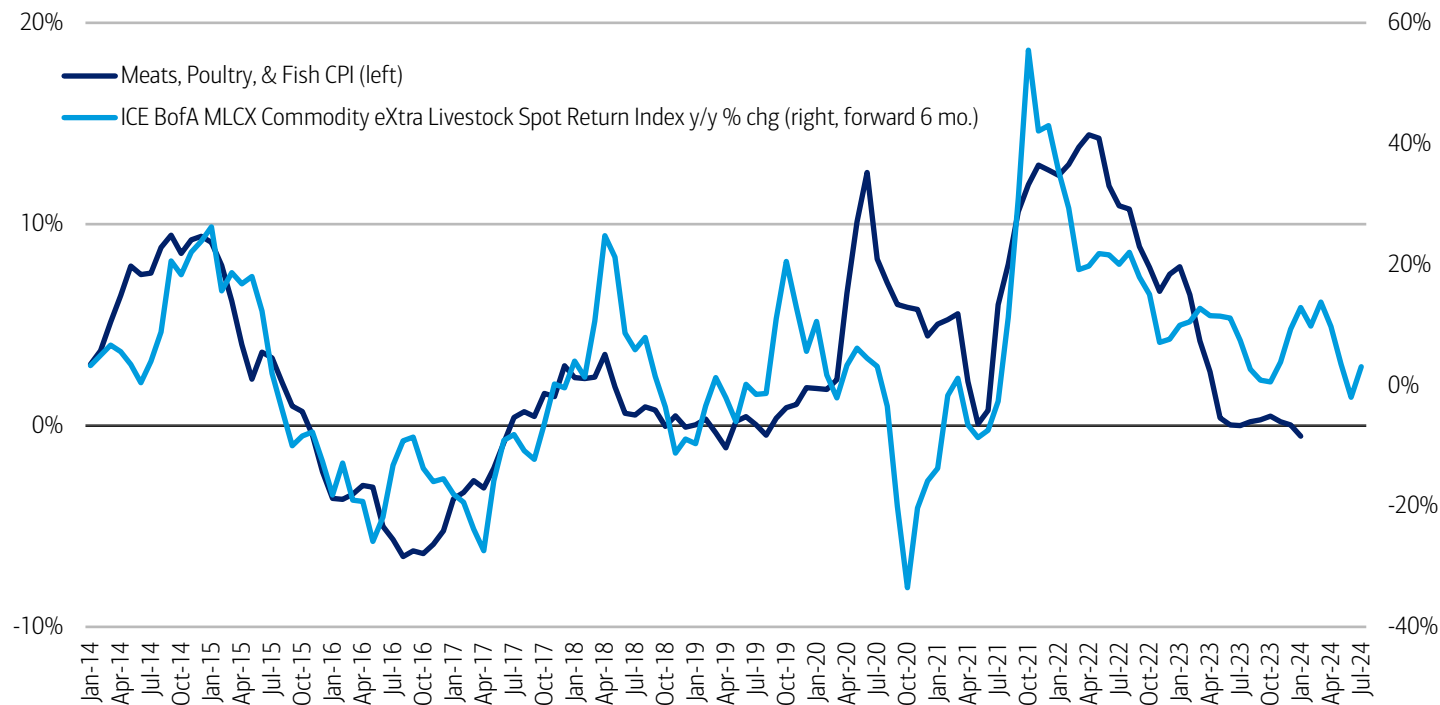


Source: Bloomberg, Bureau of Labor Statistics

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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 a potential reacceleration, followed by moderation, in the Meats, Poultry &amp; Fish CPI over the next six months

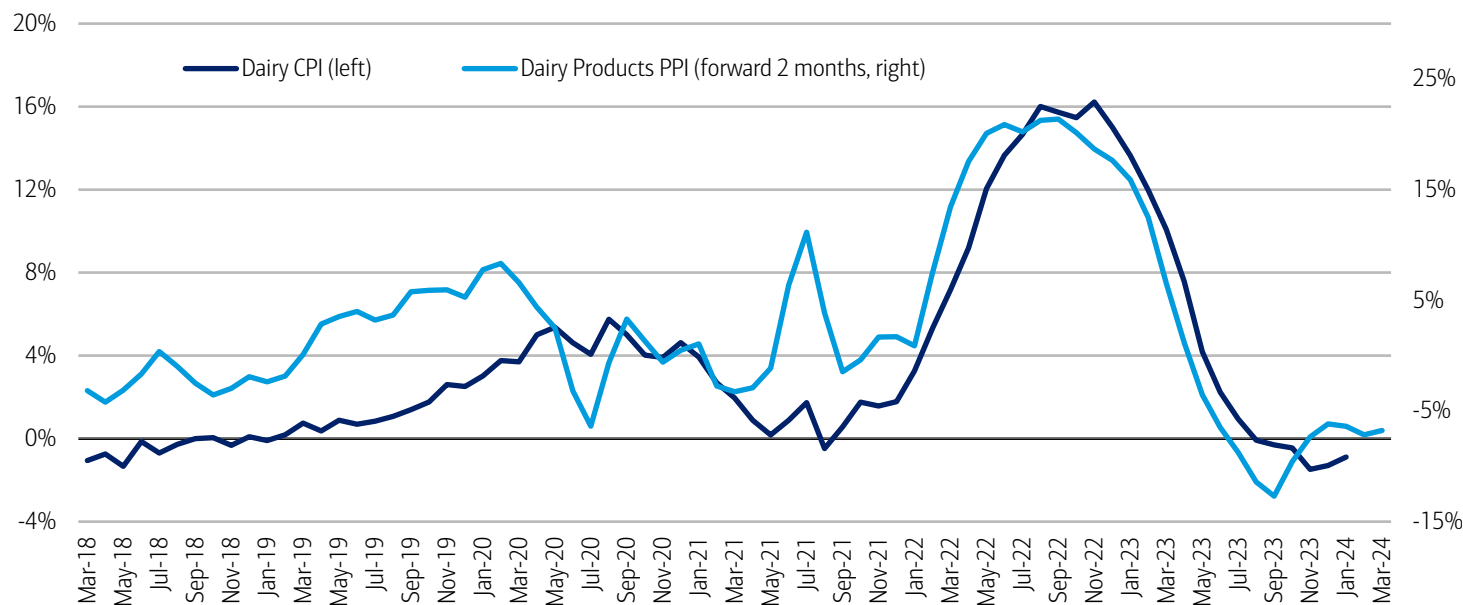


Source: Bureau of Labor Statistics, Bloomberg, BofA Global Research, ICE Data Indices, LLC

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

Dairy PPI trends imply modestly rising Dairy CPI trends over the next 2 months



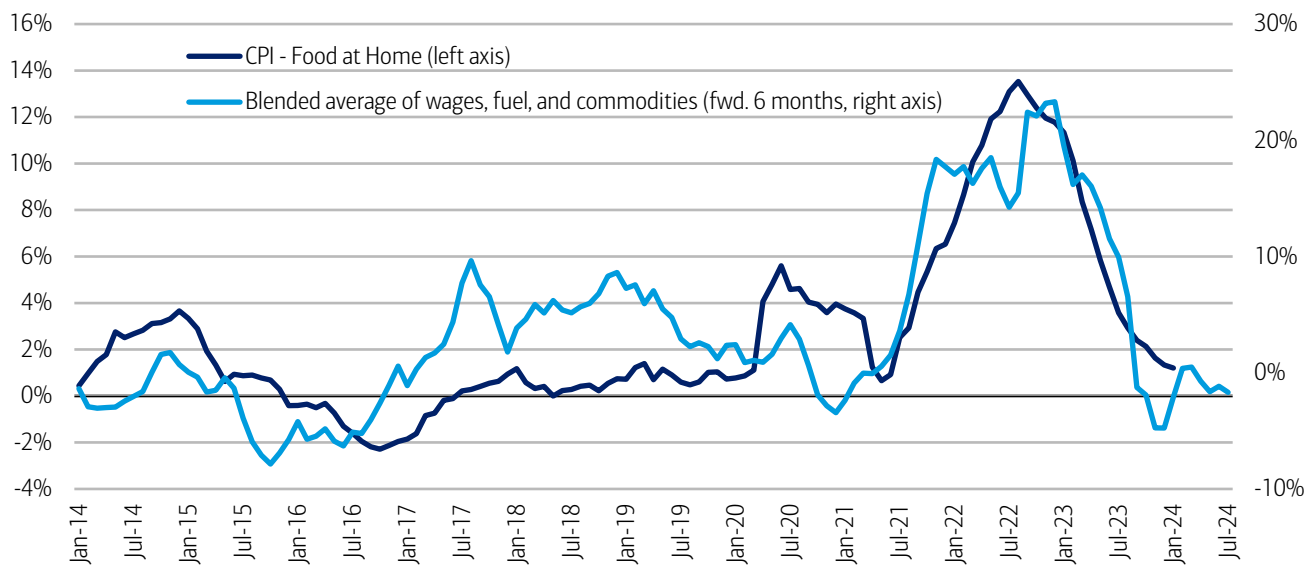
Source: Bureau of Labor Statistics, BofA Global Research

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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

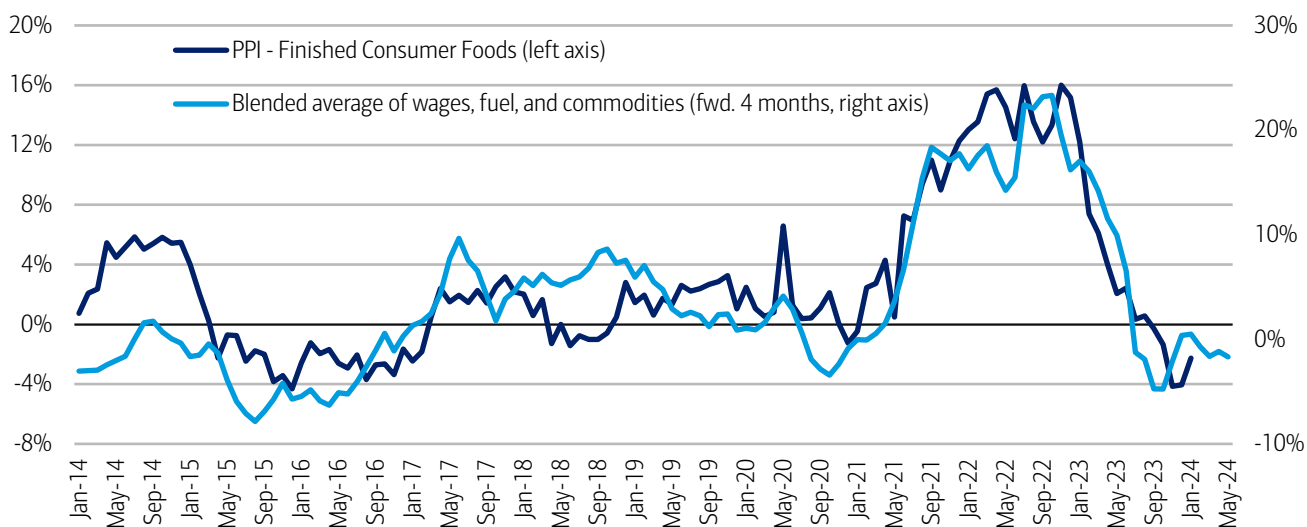


Source: Bureau of Labor Statistics, Atlanta Fed, EIA, BofA Global Research

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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 remain deflationary over the next four months

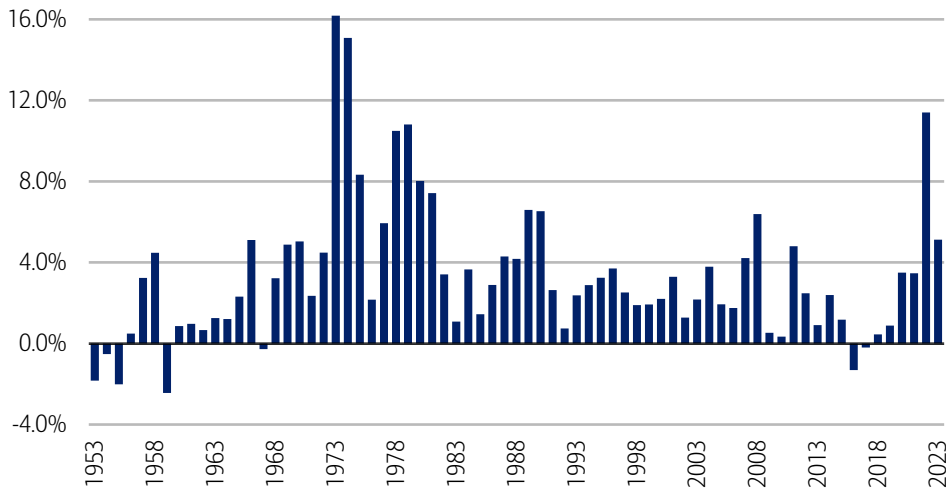


Source: Bureau of Labor Statistics, Atlanta Fed, EIA, BofA Global Research

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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

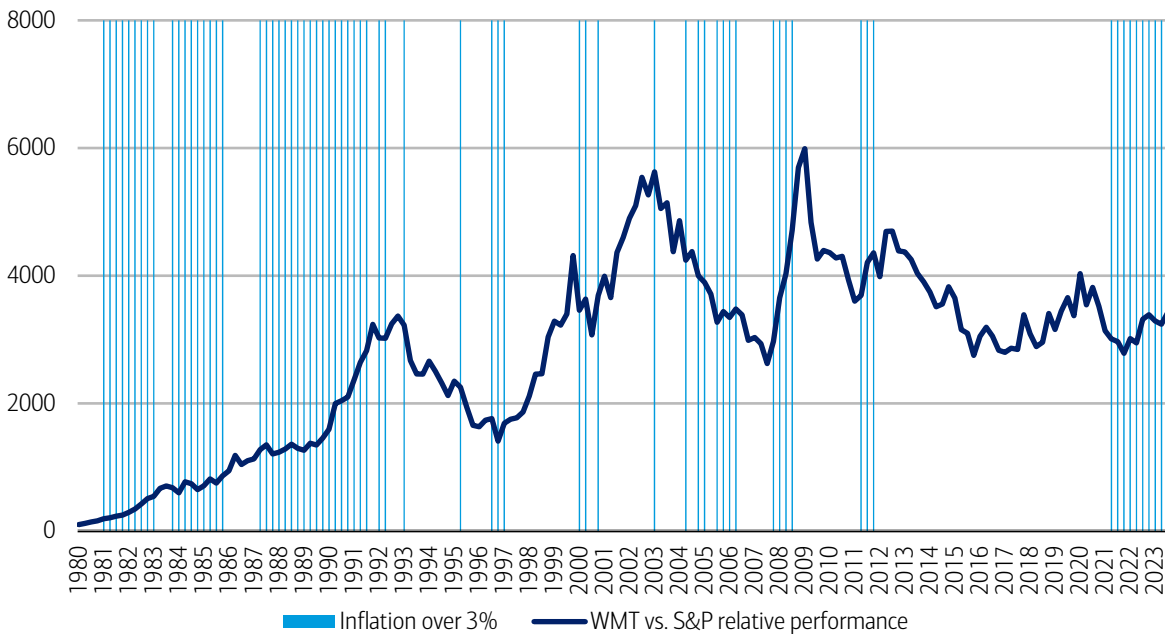


Source: Bureau of Labor Statistics, BofA Global Research

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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: BofA Global Research, Bureau of Labor Statistics, Bloomberg

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