

Restaurants Industry

December CPI: FAH – FAFH gap widens, CPI – PPI spread stable

Industry Overview

FAFH inflation largely stable on 1-yr and 2-yr

The Food Away from Home (FAFH) Consumer Price Index (CPI) was largely stable m/m at 5.2% in December vs 5.3% y/y in November. On a 2-year basis, Food Away from Home CPI growth decelerated slightly in December to 13.9% from 14.2% in November.

LSR stable, FSR slightly faster on 1-yr, slower on 2-yr

Among restaurants, Limited Service (LSR) inflation was stable +5.9% y/y in December (vs. +6.0% in November) while Full Service (FSR) increased to +4.5% y/y (vs. +4.3% in November). On a 2-year basis, Limited Service inflation ticked down to +12.9% y/y (vs +13.1% in November) while Full Service inflation decreased to 13.1% y/y (vs +13.7% in November). In December, food at employee sites and schools increased 3% y/y, lower than November's +4%.

FAH – FAFH widens in December, remains negative

In December, Food at Home (FAH) CPI inflation slowed to +1.3% y/y (vs +1.7% in November); on a 2-year basis, FAH inflation slowed to +13.3% y/y (vs. +13.8% in November). On a one year basis, the negative gap between FAH inflation and FAFH inflation increased to -3.9 ppt in December vs -3.6 ppt in November. The FAH – FAFH inflation gap turned negative in March (for the first time since September '21) and is now above the 10-yr avg of -1.1 ppt. The gap between FAH and LSR widened in December to -4.6 pts vs -4.4 pts in November. The gap between FAH and FSR also widened in December to -3.2 pts (vs -2.7 pts in November).

CPI leads PPI, gap stable vs November

From June of 2021, PPI inflation increased sharply – climbing to a multi-year high of +15.6% in April '22 -- and the spread between FAFH CPI and Finished Consumer Foods was negative through 2022 (i.e., consumer inflation lagged producer inflation), pressuring restaurant margins. The CPI-PPI spread turned positive in February 2022, widened to its highest YTD level in November (9.6 pts) and held steady in December at 9.5 ppt. The CPI-PPI spread is elevated relative to the prior peak of 6.7 pts in July. A positive CPI-PPI gap is salutary for restaurants, and the stable gap in December implies sequentially stable food margins.

Food inflation benefits topline, with margin offset

We expect FAFH inflation to continue to moderate as futures point to disinflation/deflation. We believe in normal operating environments (i.e., where other operating expenses are more stable), modestly positive inflation is beneficial as consumers accept higher prices that restaurants can then use to leverage fixed costs on other lines. We expect restaurants that can price strategically – those with scale and forward contracts -- will likely see the payoff in the form of traffic share gains.

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Glossary

CPI: Consumer Price Index – A measure of the average change over time in the prices paid by urban consumers for a representative basket of consumer goods and services.

FAFH: Food Away from Home - Includes all meals including tips at fast food, take-out, delivery, concession stands, buffet and cafeteria, at full-service restaurants, and at vending machines and mobile vendors.

FAH: Food at Home – Refers to the total expenditures for food at grocery stores (or other food stores) and food prepared by the consumer unit on trips.

Finished Consumer Foods PPI – The Producer Price Index (PPI) is a family of indices that measure the average change over time in the selling prices received by domestic producers of goods and services. Finished consumer foods are ready for sale to the final-demand user, including unprocessed foods such as eggs and fresh vegetables, as well as processed foods such as bakery products and meats.

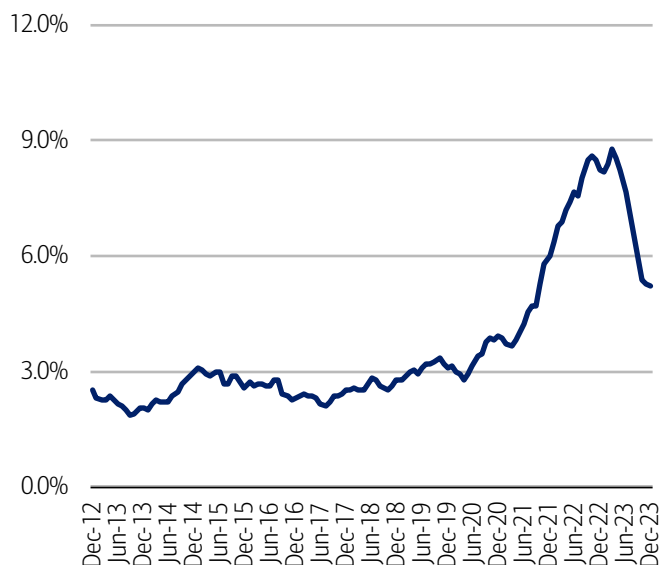
Source: Bureau of Labor Statistics

LSR: Limited Service Restaurants - establishments that provide food service to patrons who generally order or select items and pay before eating

FSR: Full Service Restaurants - those establishments engaged in providing food services to patrons who order and are served while seated and pay after eating

Exhibit 1: Food Away from Home CPI, y/y % change

Food Away from Home CPI was +5.2% y/y in December, lower versus +5.3% in November

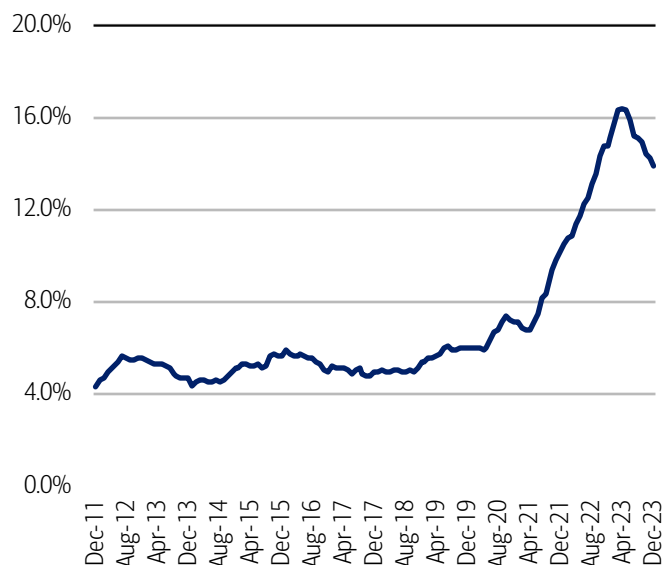


Source: Bureau of Labor Statistics

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Exhibit 2: Food Away from Home CPI, 2-yr % change

On a 2 year basis, FAFH inflation ticked down to +13.9% y/y in December (vs +14.2% y/y in November)



Source: Bureau of Labor Statistics

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Exhibit 3: Limited Service CPI average CPI y/y % change

Limited Service inflation decreased to +5.9% in December (vs +6.0% in November)

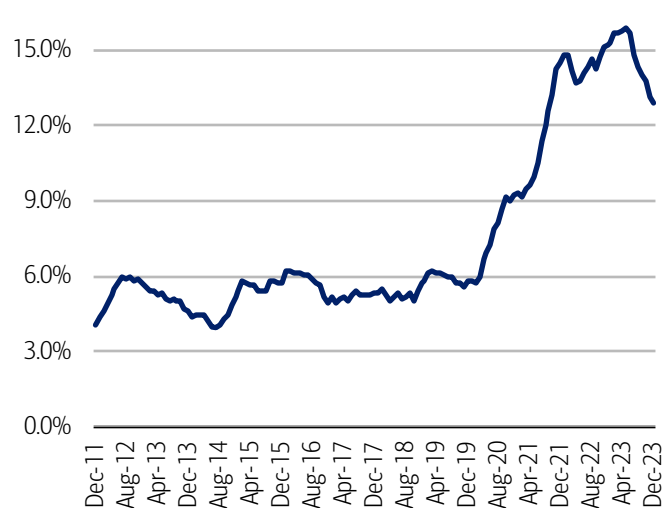


Source: Bureau of Labor Statistics

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Exhibit 4: Limited Service CPI, 2-yr % change

On a 2-year basis, Limited Service inflation ticked lower to +13.1% in November (vs +12.9% y/y in October)

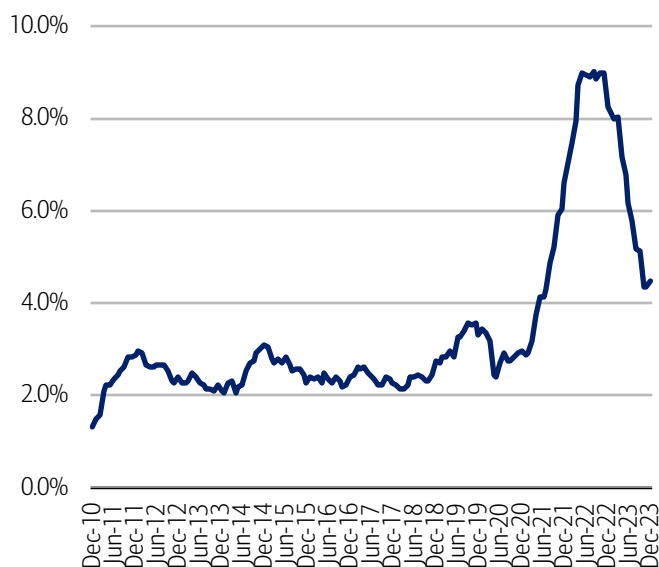


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Exhibit 5: Full Service average CPI y/y % change

Full Service inflation increased to +4.5% in December versus +4.3% in November

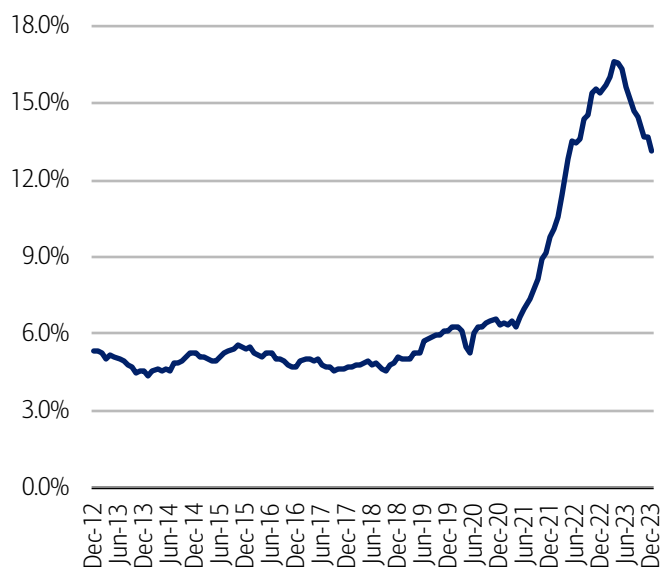


Source: Bureau of Labor Statistics

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Exhibit 6: Full Service CPI, 2-yr % change

On a 2-year basis, Full Service inflation decreased to +13.1% in December versus +13.7% in November

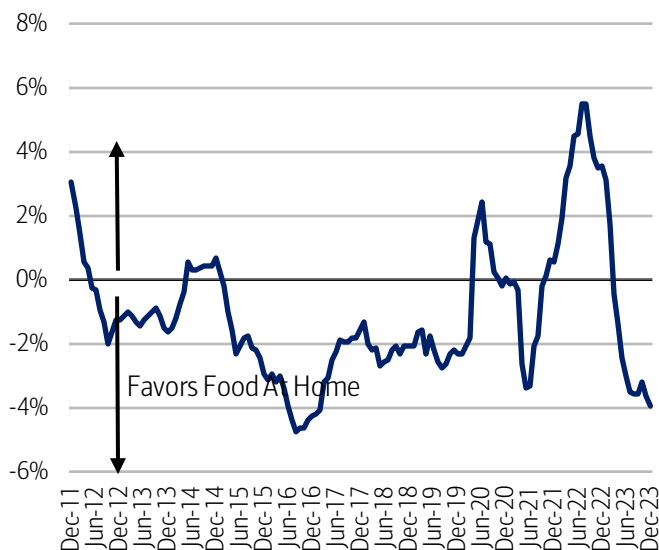


Source: Bureau of Labor Statistics

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Exhibit 7: FAH minus FAFH y/y % change

FAH vs FAFH spread decreased in December to -3.9 ppt

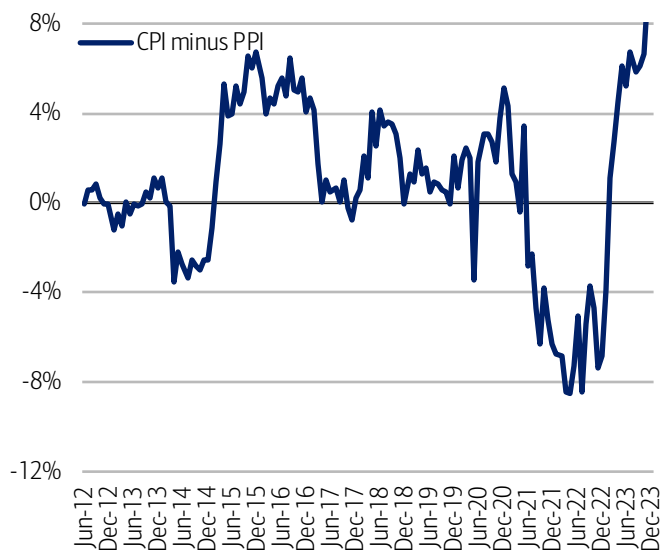


Source: Bureau of Labor Statistics

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Exhibit 8: CPI minus PPI y/y % change

CPI vs PPI spread was stable at 9.5% in December versus 9.6% in November



Source: Bureau of Labor Statistics

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