

Restaurants Industry

January CPI: FAH – FAFH gap stable in January, still negative

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 5.1% in January vs 5.2% y/y in December. On a 2-year basis, Food Away from Home CPI growth decelerated slightly in January to 13.7% from 13.9% in December.

LSR, FSR slightly slower on 1-yr; FSR slows on 2-yr

Among restaurants, Limited Service (LSR) inflation was mostly stable +5.8% y/y in January (vs. +5.9% in December) and the Full Service (FSR) m/m trend was similar +4.3% y/y (vs. +4.5% in December). On a 2-year basis, Limited Service inflation was stable to +12.9% y/y (vs +12.9% in December) while Full Service inflation slowed to 12.7% y/y (vs +13.1% in December). In January, food at employee sites and schools increased 3% y/y, flat versus December's +3% y/y.

FAH – FAFH stable in January, remains negative

In January, Food at Home (FAH) CPI inflation was stable at +1.2% y/y (vs +1.3% in December); on a 2-year basis, FAH inflation slowed to +12.7% y/y (vs. +13.3% in December). On a one-year basis, the negative gap between FAH inflation and FAFH inflation was stable at -3.9 ppt in January vs -3.9 ppt in December. The FAH – FAFH inflation gap turned negative in March (for the first time since September '21) and remains above the 10-yr avg of -1.1 ppt. The gap between FAH and LSR was stable in January at -4.6 ppts vs -4.6 ppts in December. Similarly, the gap between FAH and FSR was stable in January at -3.1 ppts (vs -3.2 ppts in December).

CPI leads PPI, gap narrows versus December

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 2023, widened to its highest level in November (9.4 ppts). While the CPI-PPI spread narrowed in January to 7.3 ppt – from 9.2 ppt in December -- it remains elevated relative to the prior peak of 6.7 ppts in July '23. A positive CPI-PPI gap is salutary for restaurants; the narrowed gap in January implies sequentially higher pressure on 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 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.

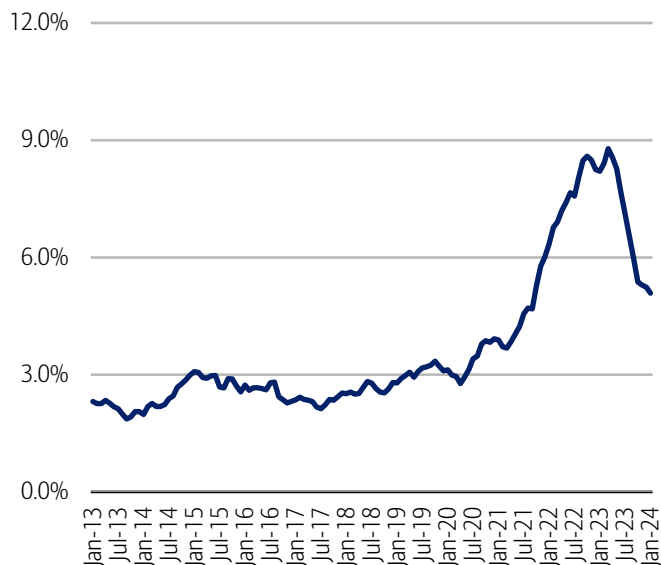
Source: Bureau of Labor Statistics

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 +5.1% y/y in January, stable versus +5.2% in December

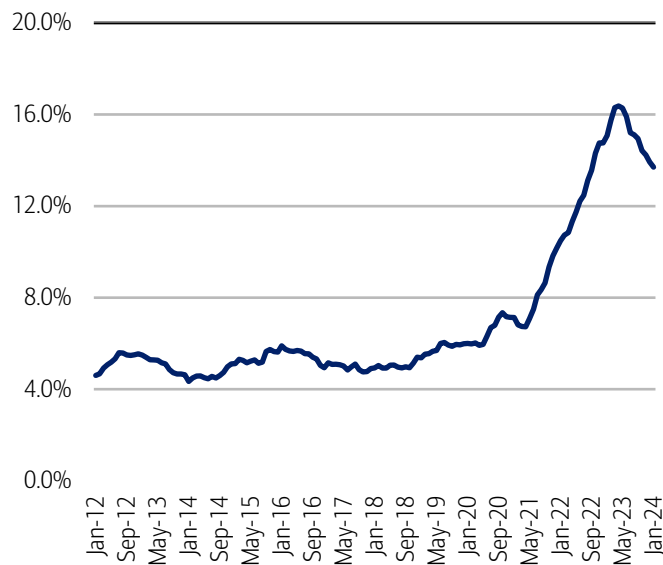


Source: Bureau of Labor Statistics

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

On a 2 year basis, FAFH inflation ticked down to +13.7% y/y in January (vs +13.9% y/y in December)



Source: Bureau of Labor Statistics

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

Limited Service inflation was stable at +5.8% in January (vs +5.9% in December)



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 was stable at +12.9% in January (vs +12.9% y/y in December)

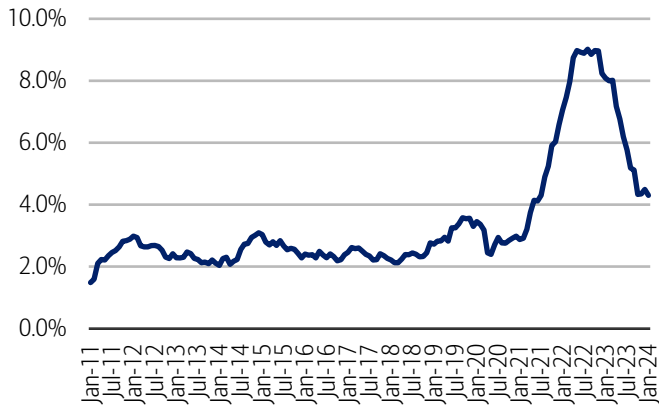


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Exhibit 5: Full Service average CPI y/y % change

Full Service inflation decreased to +4.3% in January versus +4.5% in December

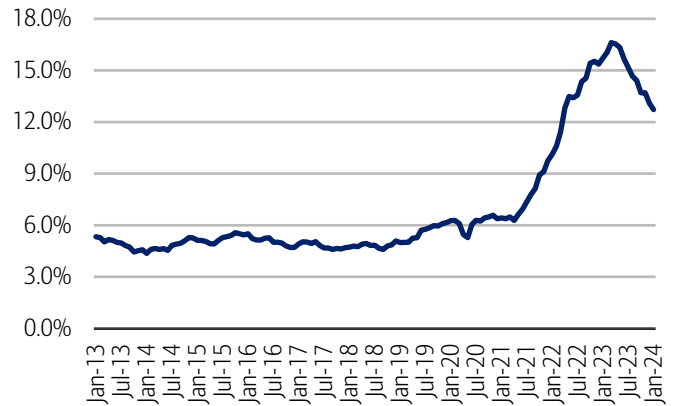


Source: Bureau of Labor Statistics

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

On a 2-year basis, Full Service inflation decreased to +12.7% in January versus +13.1% in December

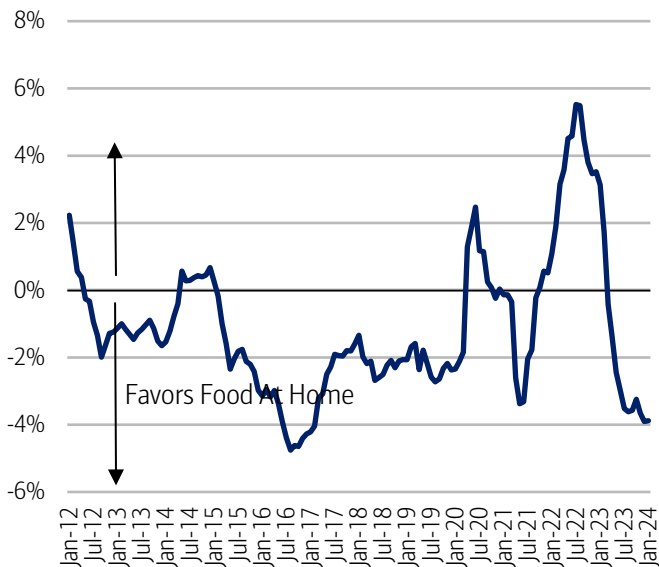


Source: Bureau of Labor Statistics

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Exhibit 7: FAH minus FAFH y/y % change

FAH vs FAFH spread was stable in January at -3.9 ppt

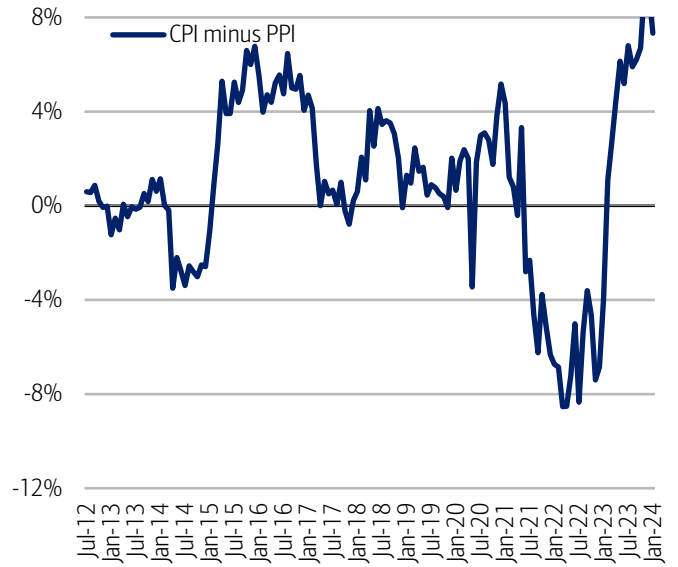


Source: Bureau of Labor Statistics

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Exhibit 8: CPI minus PPI y/y % change

CPI vs PPI spread decreased to +7.3% in January versus +9.2% in December



Source: Bureau of Labor Statistics

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