

Food Retailers

Tracking Food at Home Inflation: CPI slows to 1.3% in Dec., but still 25%+ vs. 2019

Industry Overview

Food at Home CPI (+1.3%) moderates further in December

The Food at Home CPI was +1.3% in December (-35bp vs. Nov.), slowing for the 16th straight month vs. a 40+ year high of +13.5% in August 2022 (Exhibit 3). Food at Home inflation also slowed further on a 2-year basis (to +13.3%, down -60bp vs. Nov.), while 4-year trends (+25.5%) were flat vs. November and still near 40-yr high levels – Exhibit 4.

Inflation remains higher for dry grocery (+2.7%)

By category (Exhibit 5), inflation in non-perishables continued slowing (with +2.7% down another -50bp vs. November) while perishables also slowed (-10bp to -0.2%). The slowdown in perishables reflected a -30bp deceleration in proteins (to flat y/y) that was partially offset by modest upticks in produce (still slightly inflationary) and dairy (still slightly deflationary) – Exhibit 7.

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

The Food Away from Home CPI was +5.2% in December (compared to 40-year high of +8.8% in March), slowing -10bp vs. November (Exhibit 9). Food Away from Home inflation outpaced Food at Home for the tenth straight month (with March marking the first time we observed this trend in ~1.5 years).

Food PPI (-4.3%) flat vs. November

The Finished Consumer Foods PPI was -4.3% in December, flat vs. November at the lowest we have seen since Dec. 2015 (compared to ~50-year highs of +16.0% we observed in late 2022, Exhibit 11). The PPI also slowed on a 2-year basis (-80bp to +10.2%) and a 4-year basis (-100bp to +22.2%) in December (Exhibit 12).

PPI & 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 slowing, potentially turning deflationary in the next 3 months (Exhibit 14), while wage, diesel & commodity trends imply continued moderation towards ~0% over the next 6 months (Exhibit 20).

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 (including in price points and higher-margin private label items) as consumers are still adjusting to grocery prices that are up more than +25% vs. 2019.

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Key terms:

CPI = Consumer Price Index

PPI = Producer Price Index

LSD = low single-digit

WMT = Walmart

KR = Kroger

ACI = Albertsons

TGT = Target

COST = Costco

GO = Grocery Outlet

BJ = BJ's Wholesale

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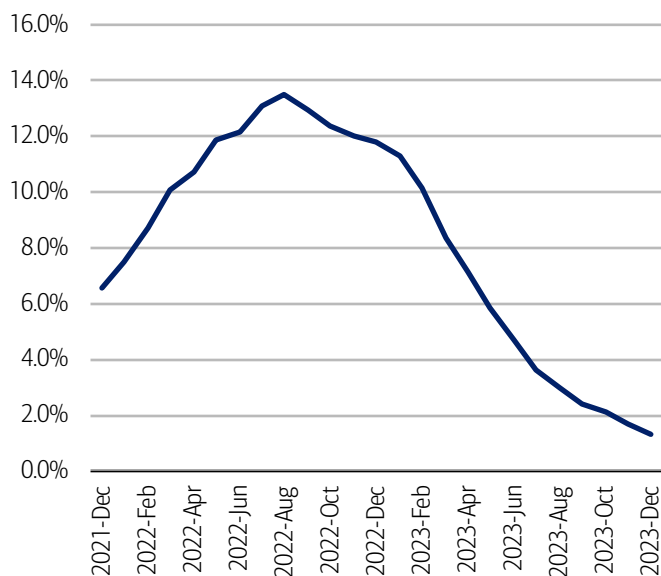
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Food at Home CPI & PPI monthly trends

Exhibit 1: Food at Home CPI vs. Finished Consumer Foods PPI y/y % change, 2-year history

The Food at Home CPI was +1.3% y/y in December compared to +11.8% in December 2022 & +6.5% in December 2021



Source: Bureau of Labor Statistics, BofA Global Research

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

The Finished Consumer Foods PPI was -4.3% y/y in December compared to +15.2% in December 2022 & +12.3% in December 2021

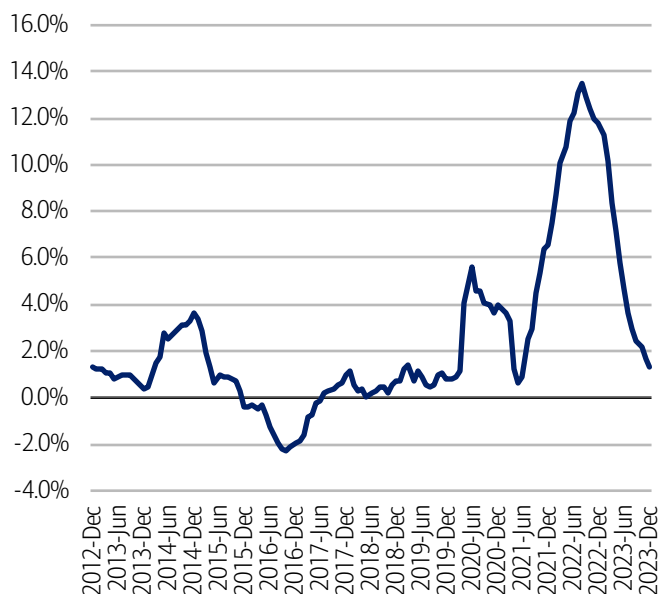


Source: Bureau of Labor Statistics, BofA Global Research

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Exhibit 3: Food at Home CPI, y/y % change (SA)

Food at Home CPI was +1.3% in December, moderating compared to +1.7% in November & a 40+ year high of +13.5% in August 2022

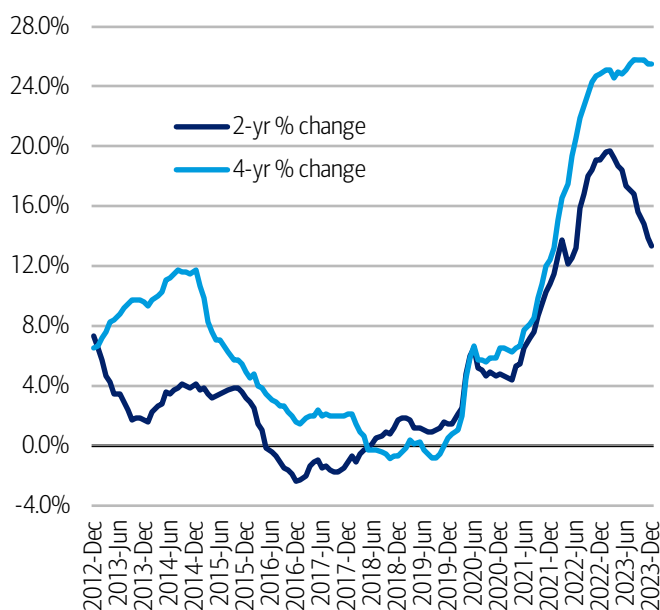


Source: Bureau of Labor Statistics, BofA Global Research

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Exhibit 4: Food at Home CPI, 2 & 4-year % change (SA)

The Food at Home CPI in December slowed further on a 2-yr basis (to +13.3%, down -50bp vs. November), while 4-year trends (+25.5%) were flat vs. Nov. & still near 40+ year high levels

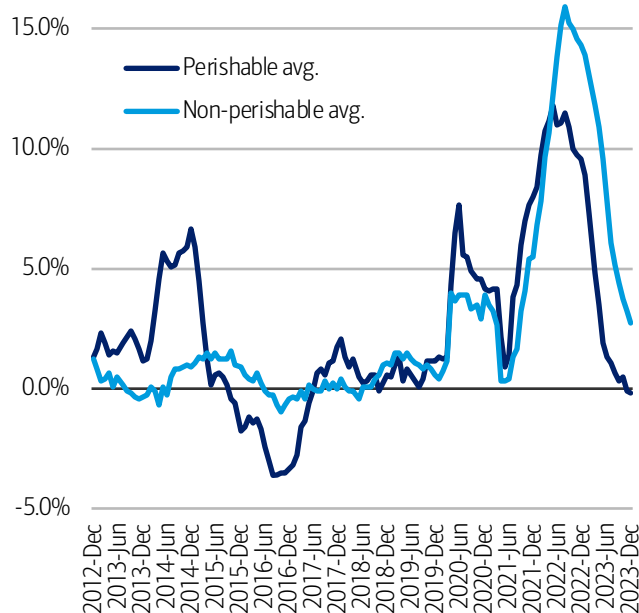


Source: Bureau of Labor Statistics, BofA Global Research

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Exhibit 5: CPI category average y/y % change

Inflation in December moderated further in non-perishables (to +2.7%, down -50bp vs. Nov.), while perishables also slowed (-10bp to -0.2%)

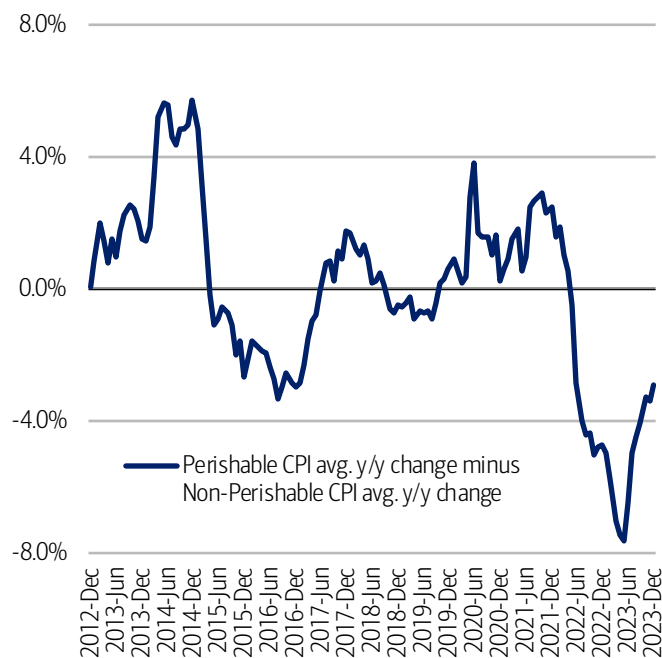


Source: Bureau of Labor Statistics, BofA Global Research

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Exhibit 6: Perishable CPI avg. minus Non-Perishable CPI avg. spread

Non-perishables inflation outpaced perishables for the 20th straight month in December, though the spread (-2.9%) has narrowed vs. a record -7.6% in May

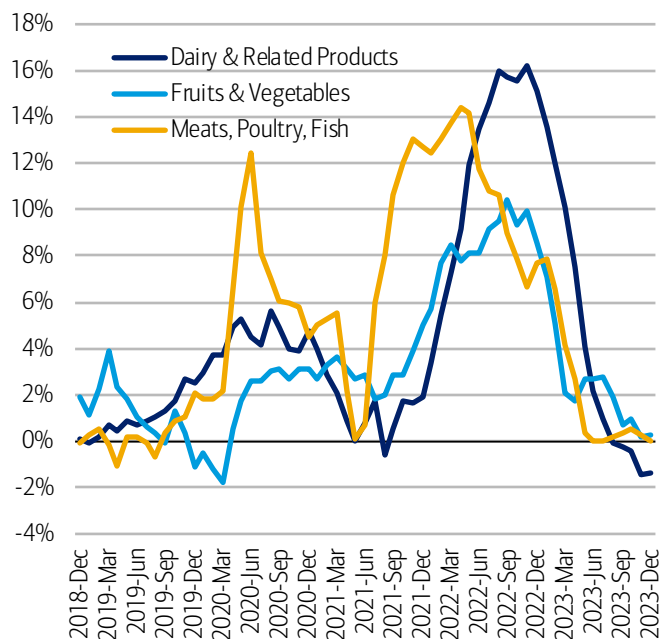


Source: Bureau of Labor Statistics, BofA Global Research

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Exhibit 7: CPI y/y % change by perishable subcategory

December's slowdown in perishables inflation reflected moderation in proteins that was partially offset by slight upticks in produce & dairy

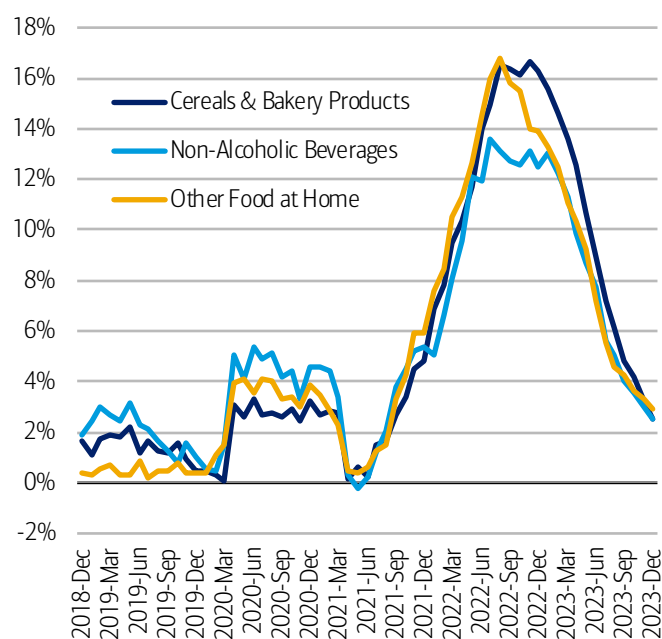


Source: Bureau of Labor Statistics, BofA Global Research

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

December's slowdown in non-perishables inflation reflected continued moderation across subcategories

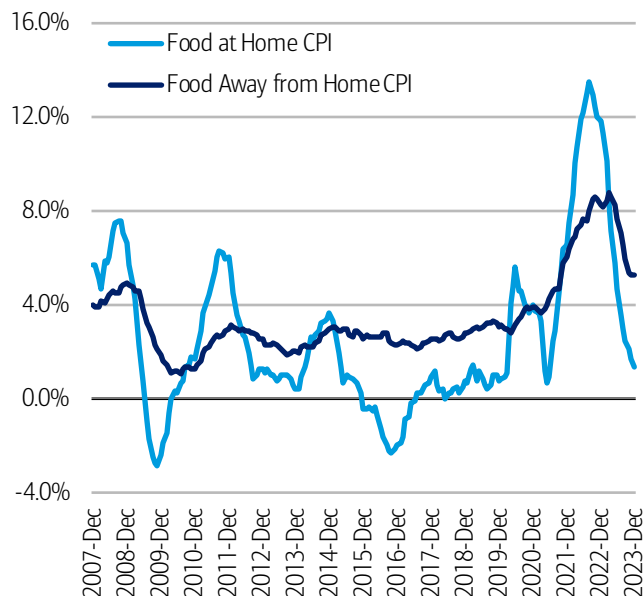


Source: Bureau of Labor Statistics, BofA Global Research

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Exhibit 9: Food at Home vs. Food Away from Home CPI, y/y change

The Food Away from Home CPI slowed -10bp to +5.2% in December (compared to March's 40+ year high of +8.8%), but outpaced the Food at Home CPI for the 10th straight month

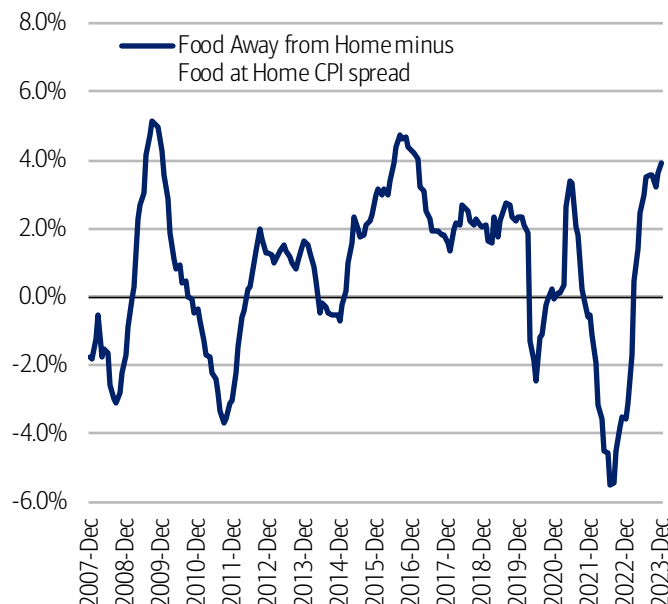


Source: Bureau of Labor Statistics, BofA Global Research

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Exhibit 10: Food Away from Home minus Food at Home CPI spread

The Food Away from Home CPI outpaced the Food at Home CPI in December for the 10th straight month (with March marking the first time since mid-2021, ~1.5 years)

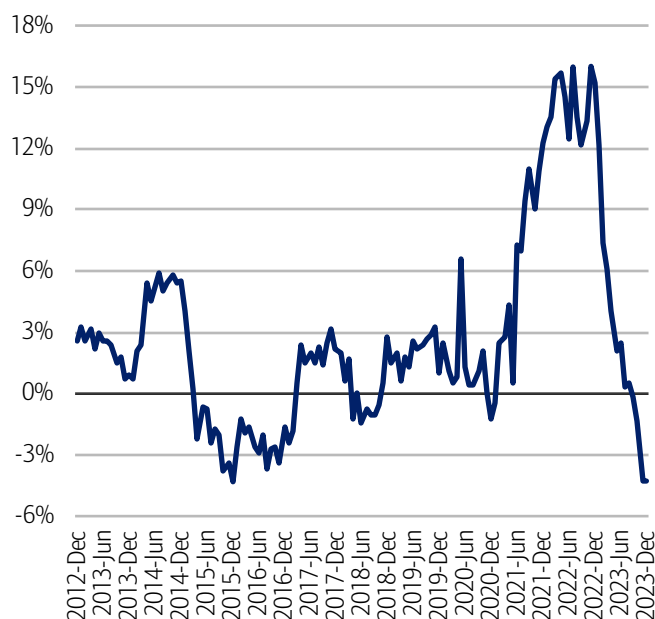


Source: Bureau of Labor Statistics, BofA Global Research

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Exhibit 11: Finished consumer foods PPI (y/y % change)

The Finished Consumer Foods PPI was -4.3% in December, flat vs. November & still at the lowest since Dec. 2015 (compared to ~50-year highs of +16.0% we observed in late 2022)

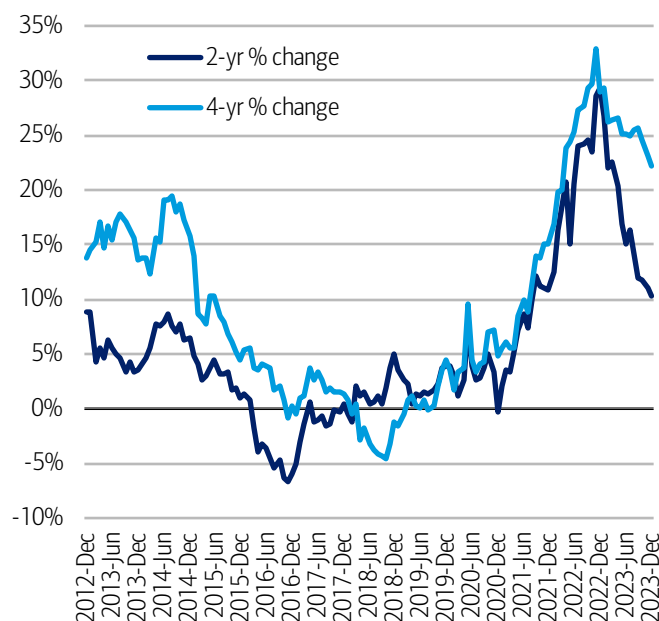


Source: Bureau of Labor Statistics, BofA Global Research

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Exhibit 12: Finished consumer foods PPI, 2 & 4-year % change

The PPI in December slowed on both a 2-year basis (-80bp to +10.2%) & 4-year basis (-100bp to +22.2%)

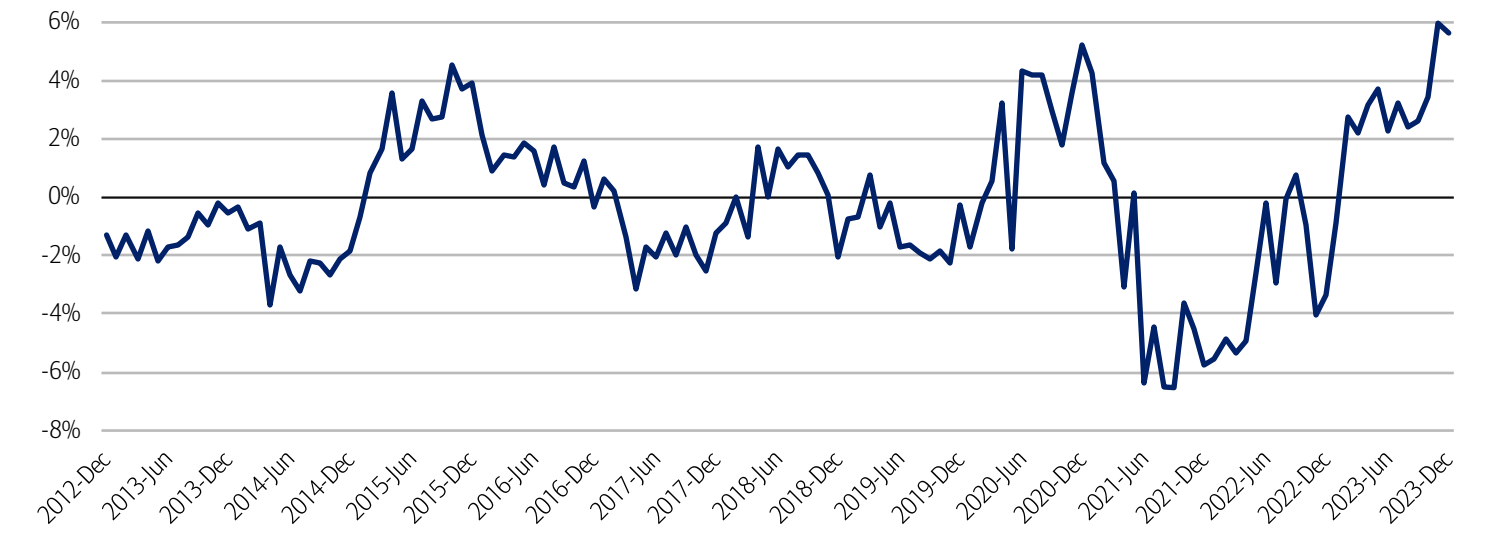


Source: Bureau of Labor Statistics, BofA Global Research

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Exhibit 13: Food at Home CPI minus PPI for Finished Consumer Foods y/y % change

The CPI minus PPI spread was +5.6% in December, down vs. +6.0% in November (the highest in ~50 years), and positive for the 11th straight month after largely negative trends we observed over the ~2 years prior



Source: Bureau of Labor Statistics, BofA Global Research

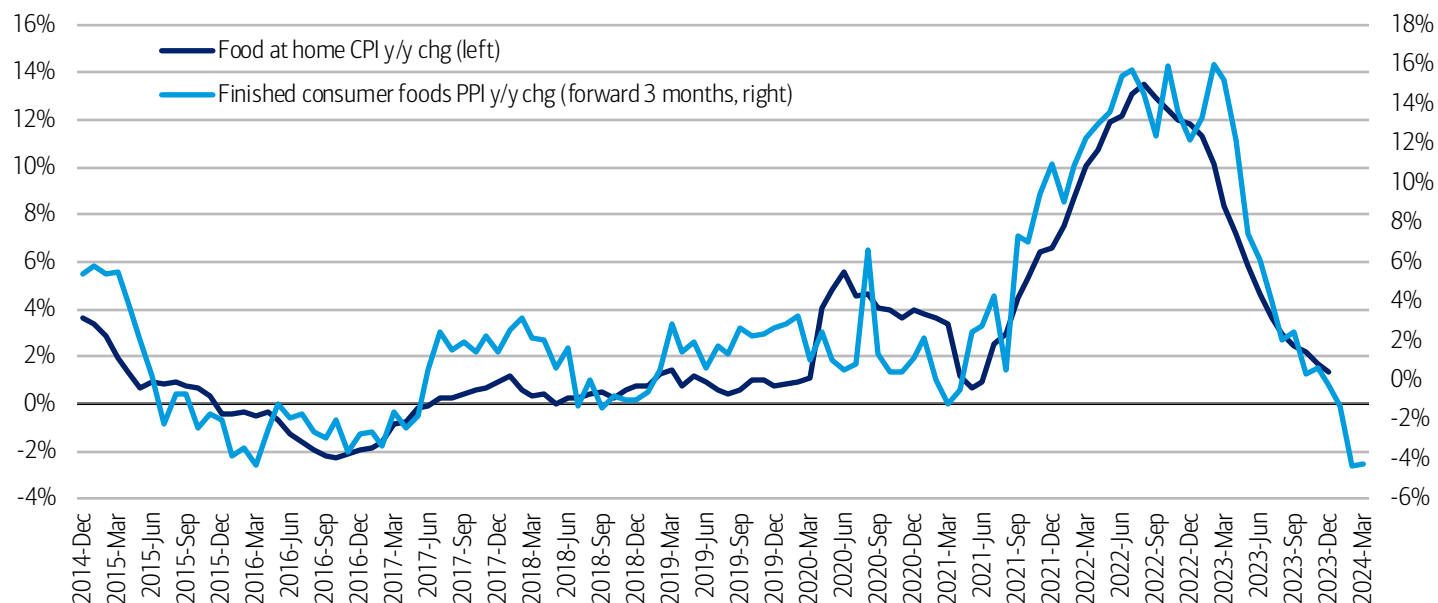
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Food inflation forecasts

Exhibit 14: 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

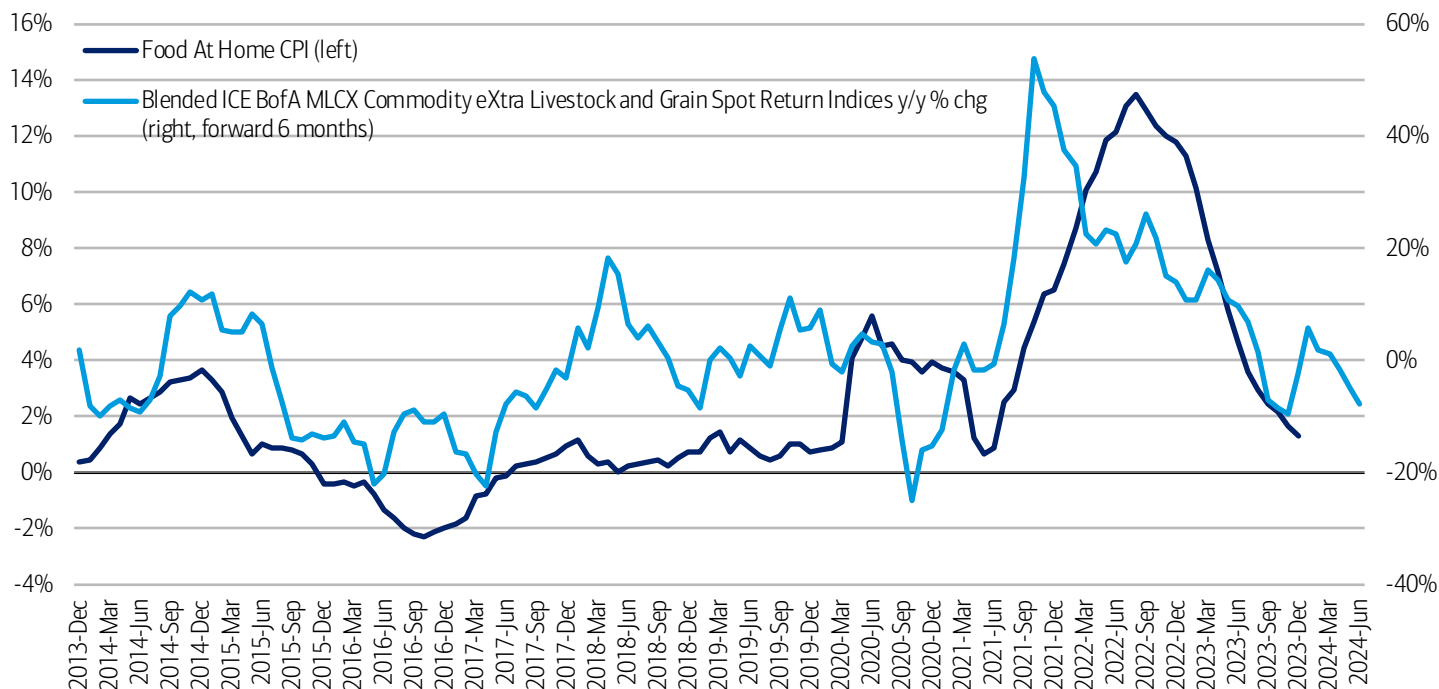


Source: Bureau of Labor Statistics, BofA Global Research

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Exhibit 15: 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 6 months

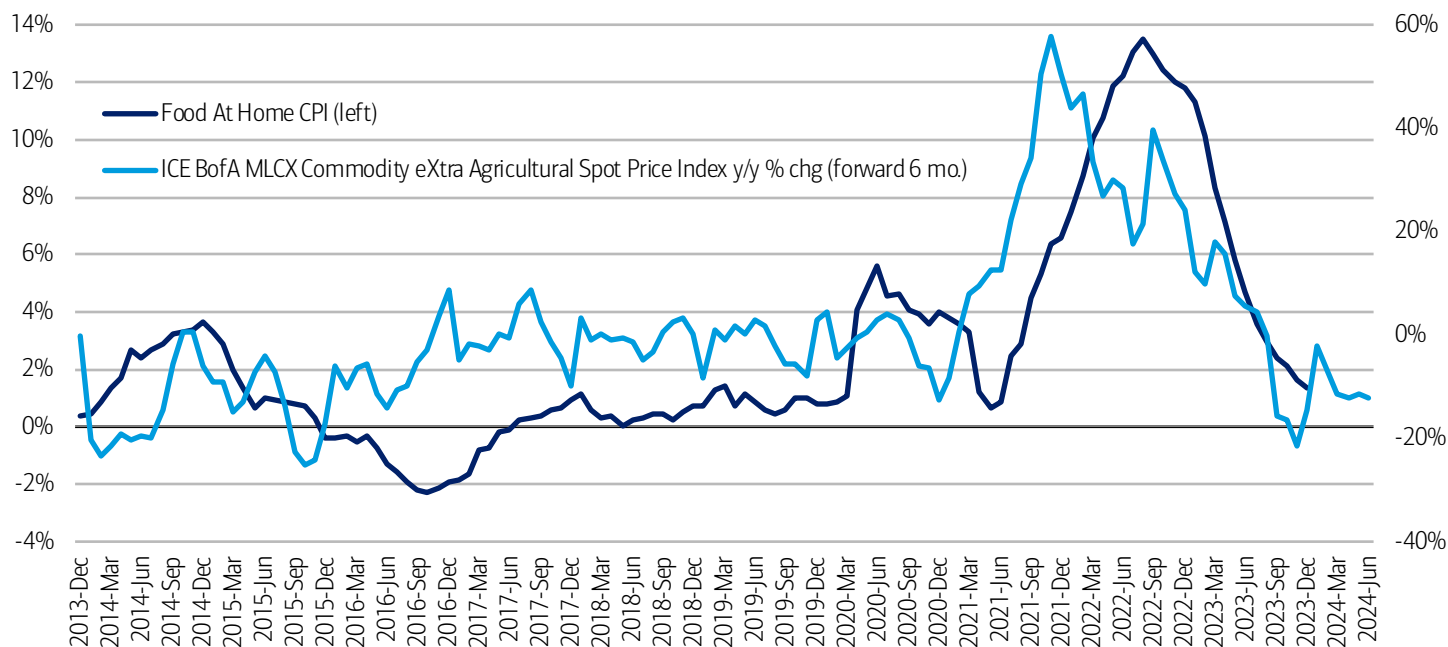


Source: Bureau of Labor Statistics, Bloomberg, BofA Global Research, ICE Data Indices, LLC

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Exhibit 16: 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 volatility (reacceleration followed by moderation) in the Food at Home CPI over the next 6 months

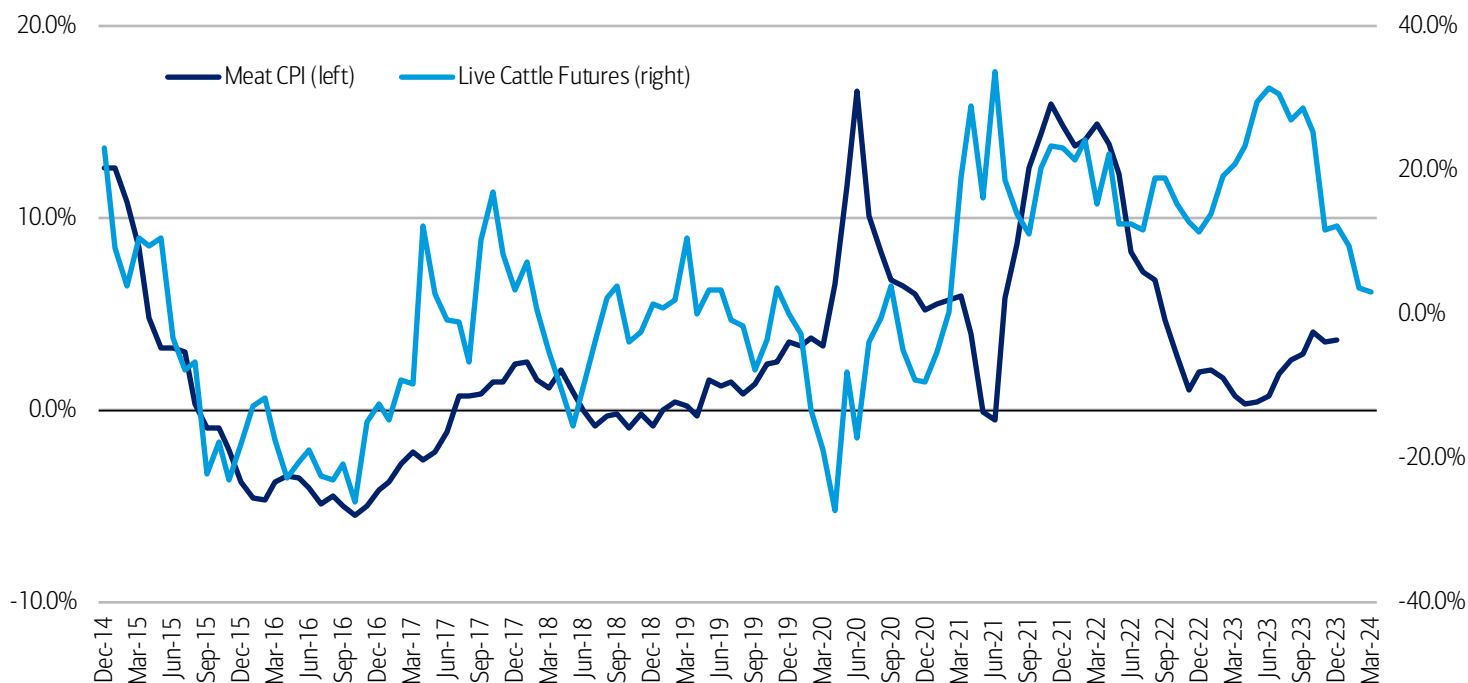


Source: Bureau of Labor Statistics, Bloomberg, BofA Global Research, ICE Data Indices, LLC

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Exhibit 17: 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

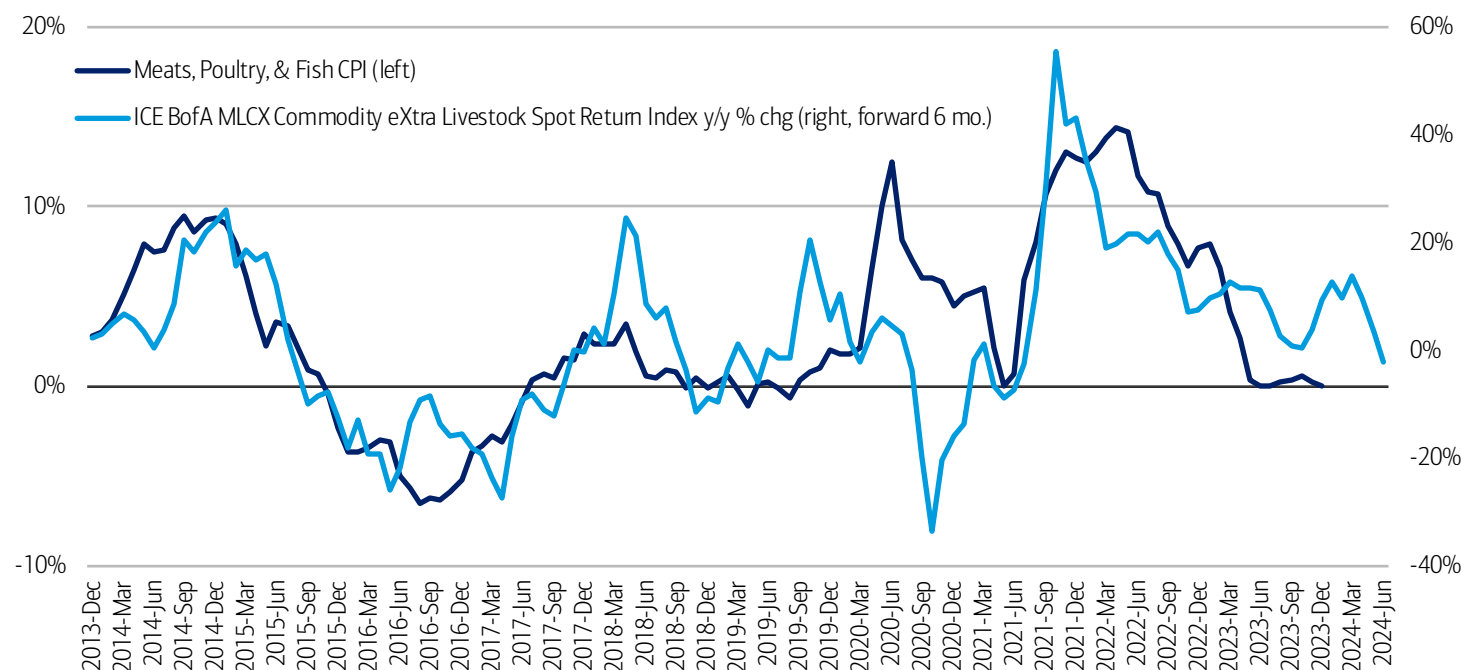


Source: Bloomberg, Bureau of Labor Statistics

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Exhibit 18: 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 & Fish CPI over the next 6 months

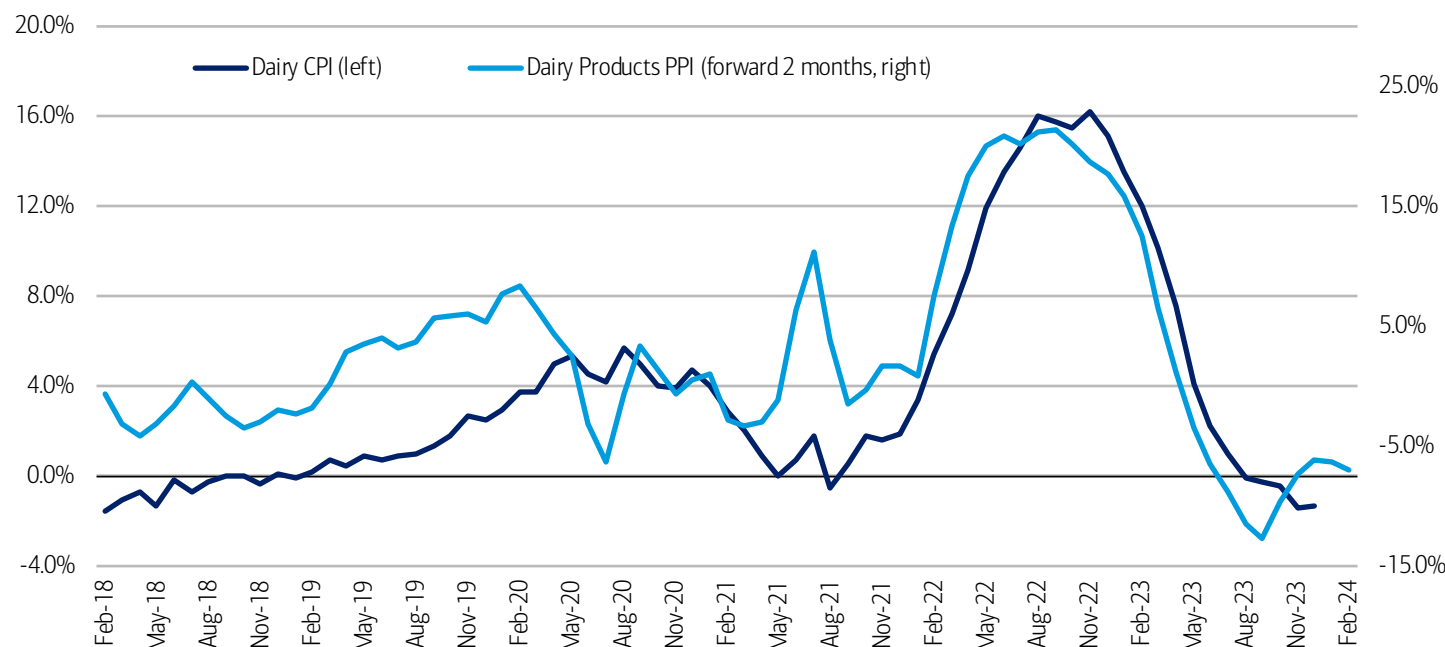


Source: Bureau of Labor Statistics, Bloomberg, BofA Global Research, ICE Data Indices, LLC

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Exhibit 19: Dairy CPI forecast based on Dairy PPI (forward 2 months) y/y % change

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

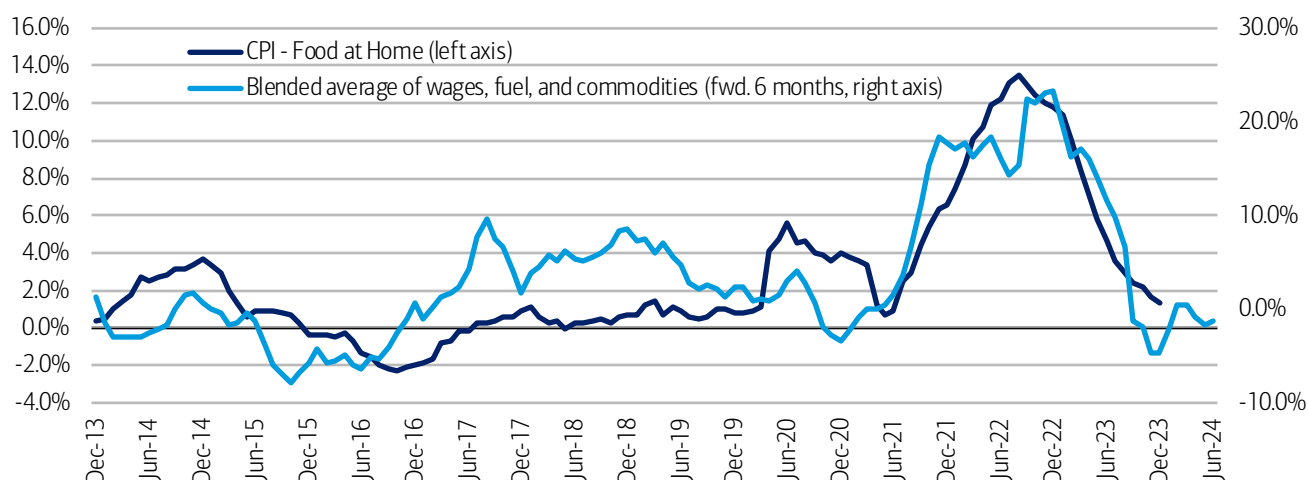


Source: Bureau of Labor Statistics, BofA Global Research

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Exhibit 20: 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 potential continued moderation (with some volatility) in the Food at Home CPI towards ~0% over the next 6 months

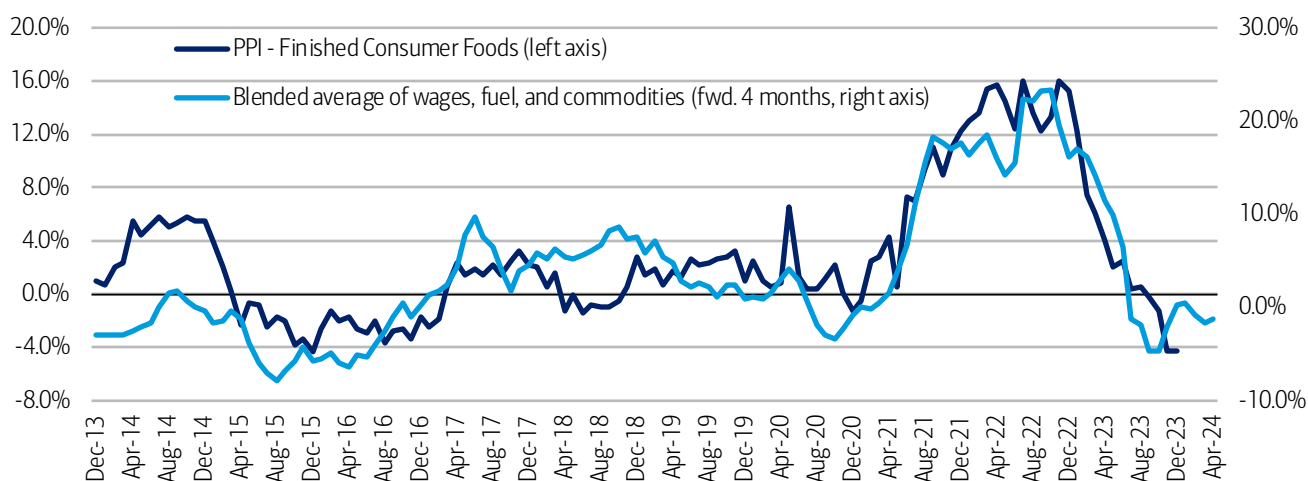


Source: Bureau of Labor Statistics, Atlanta Fed, EIA, BofA Global Research

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Exhibit 21: 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 accelerate, but remain deflationary, over the next 4 months

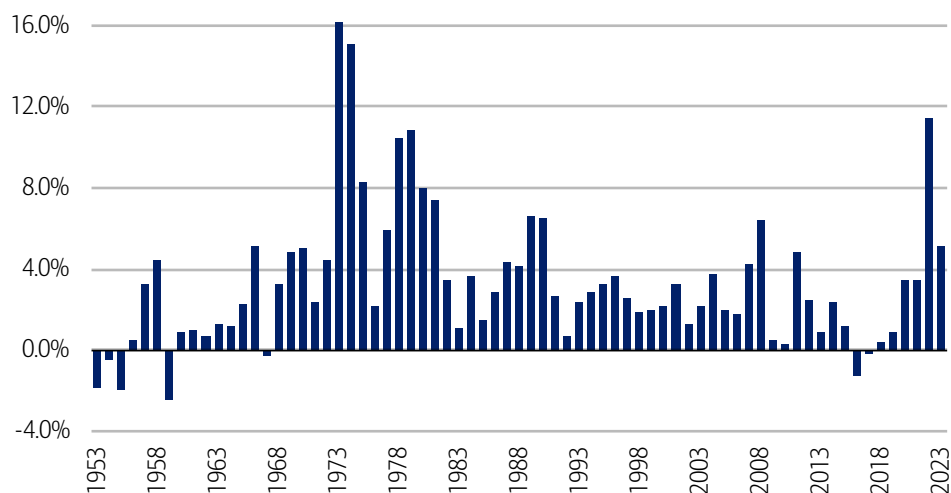


Source: Bureau of Labor Statistics, Atlanta Fed, EIA, BofA Global Research

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Exhibit 22: Annual average Food at Home CPI y/y % change

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

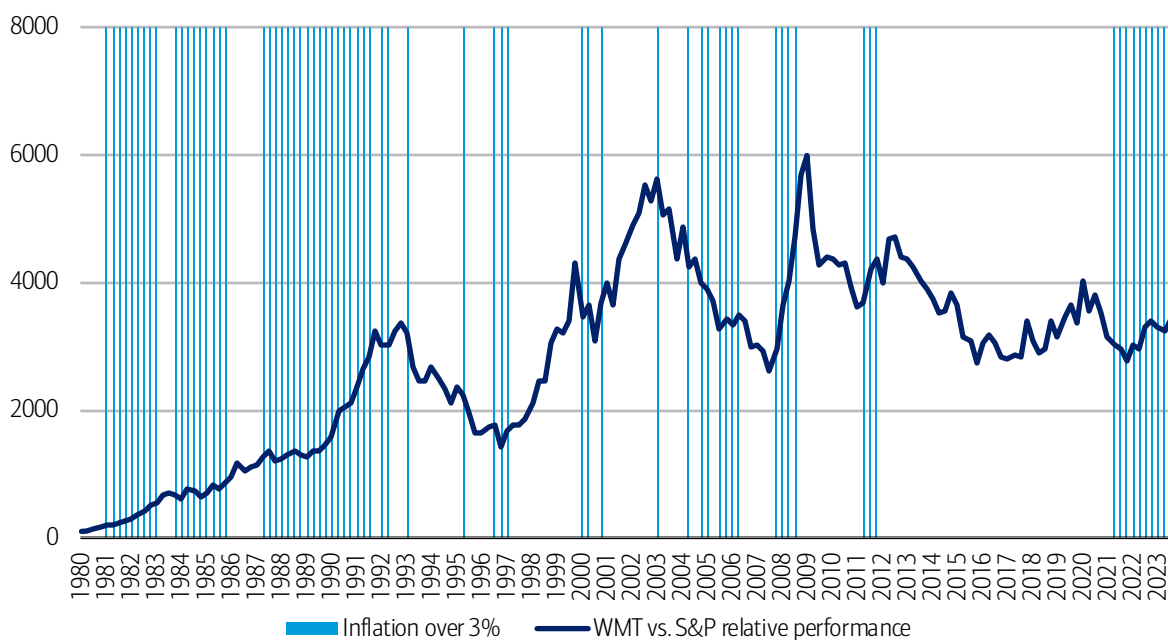


Source: Bureau of Labor Statistics, BofA Global Research

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Exhibit 23: 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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