

Restaurants Industry

February CPI: FAH – FAFH gap narrows in February, still negative

Industry Overview

FAFH inflation slows on 1-yr and 2-yr

The Food Away from Home (FAFH) Consumer Price Index (CPI) slowed to +4.5% in February vs 5.1% y/y in January. On a 2-year basis, Food Away from Home CPI growth decelerated in February to +13.3% vs. +13.7% in January.

LSR and FSR slower on 1-yr and 2-yr

Among restaurants, Limited Service (LSR) inflation ticked down to +5.2% y/y in February (vs. +5.8% in January) while Full Service (FSR) was slower at +3.8% y/y (vs. +4.3% in January). On a 2-year basis, Limited Service inflation edged lower to +12.7% y/y (vs +12.9% in January) while Full Service inflation slowed to 12.1% y/y (vs +12.7% in January). In February, food at employee sites and schools increased 4% y/y, higher than January's +3% y/y.

FAH – FAFH remains negative in February

In February, Food at Home (FAH) CPI inflation was stable at +1.0% y/y (vs +1.2% in January); on a 2-year basis, FAH inflation slowed to +11.2% y/y (vs. +12.7% in January). On a one-year basis, the negative gap between FAH inflation and FAFH inflation decreased to -3.5 ppt in February from -3.9 ppt in January. The FAH – FAFH inflation gap remains above the 10-yr avg of -1.1 ppt. The gap between FAH and LSR narrowed in February, at -4.2 ppts vs -4.6 ppts in January. Similarly, the gap between FAH and FSR in February was -2.8 ppts (vs -3.1 ppts in January).

CPI leads PPI, gap narrows sharply m/m

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, and widened to its highest level in November (9.4 ppts). In February the CPI-PPI spread narrowed markedly — to 1.7 ppt from 6.7 ppt in January -- implying sequentially a smaller tailwind to food margins.

Food inflation benefits topline, with margin offset

We expect FAFH inflation to moderate through the year as futures point to disinflation/deflation. Although inflation poses pressure on food margins, we believe in normal operating environments (i.e., where other operating expenses are more stable), modestly positive inflation is salutary as consumers benchmark against the rising prices at grocery stores and restaurants have less incentive to discount. 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.

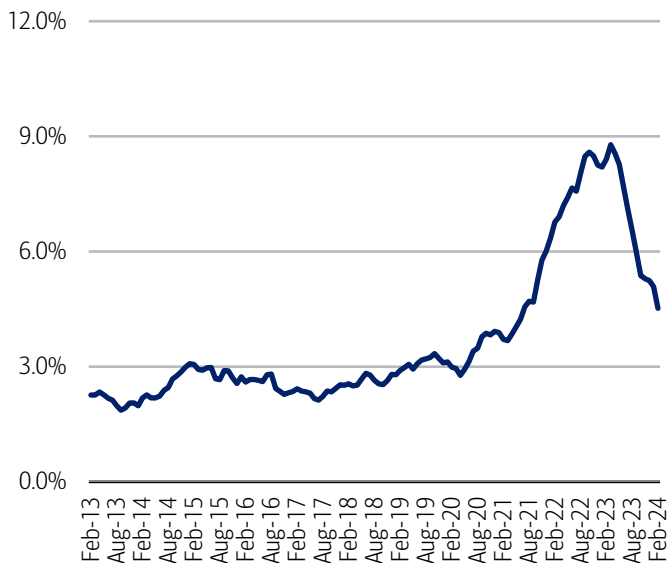
Source: Bureau of Labor Statistics

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 +4.5% y/y in February, lower versus +5.1% in January

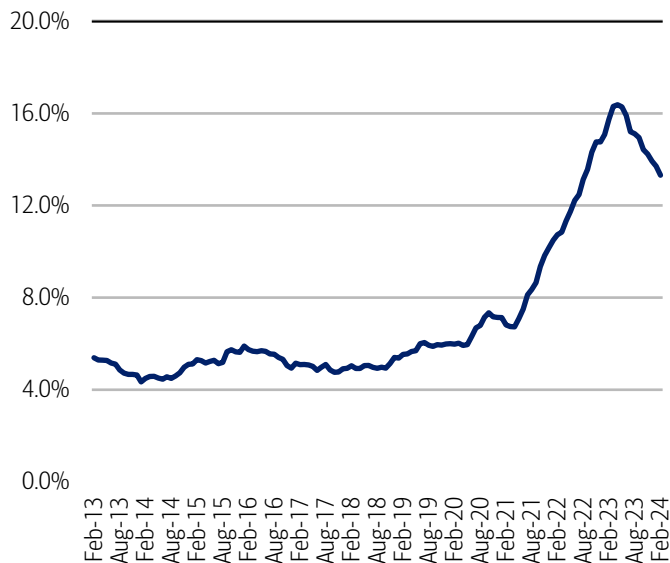


Source: Bureau of Labor Statistics

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

On a 2 year basis, FAFH inflation ticked down to +13.3% y/y in February (vs +13.7% y/y in January)

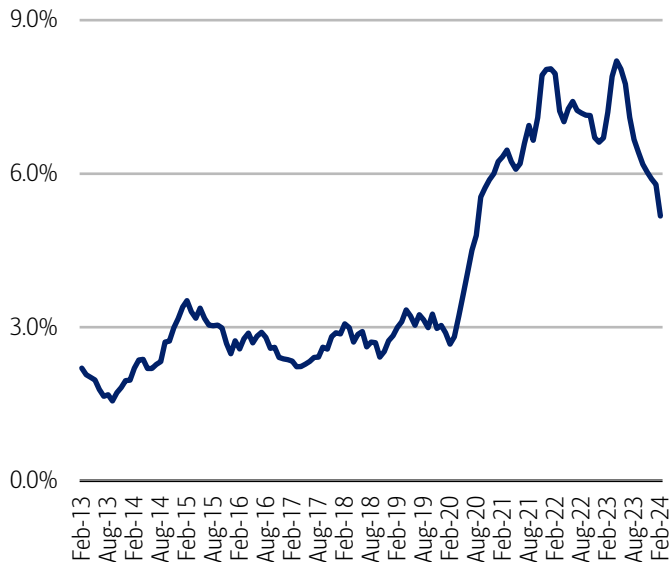


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Exhibit 3: Limited Service CPI average CPI y/y % change

Limited Service inflation decrease to +5.2% in February (vs +5.8% in January)

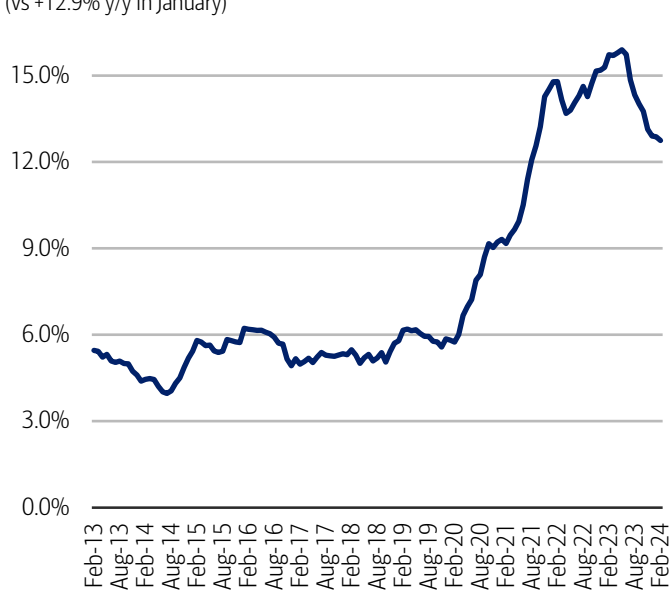


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Exhibit 4: Limited Service CPI, 2-yr % change

On a 2-year basis, Limited Service inflation decreased to +12.7% in February (vs +12.9% y/y in January)

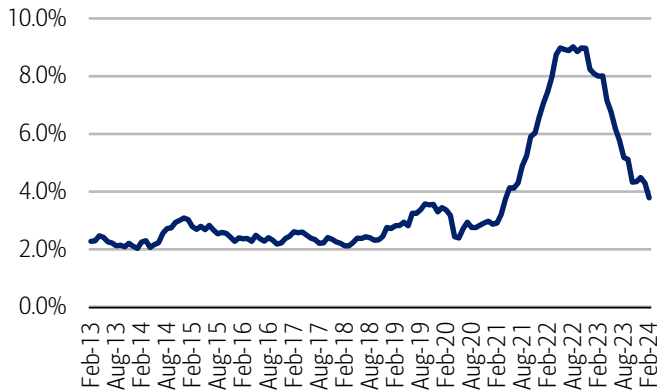


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Exhibit 5: Full Service average CPI y/y % change

Full Service inflation decreased to +3.8% in February versus +4.3% in January

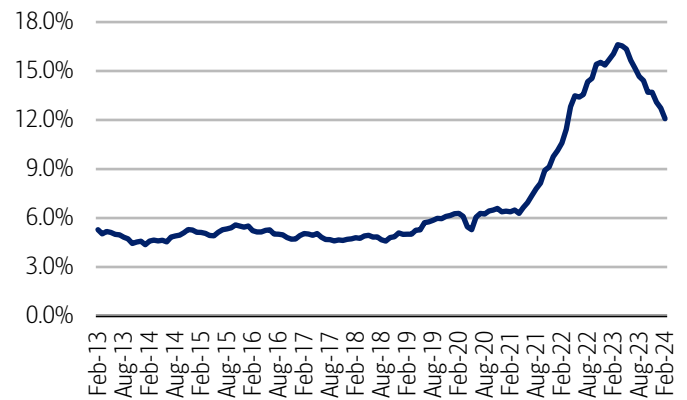


Source: Bureau of Labor Statistics

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

On a 2-year basis, Full Service inflation decreased to +12.1% in February versus +12.7% in January

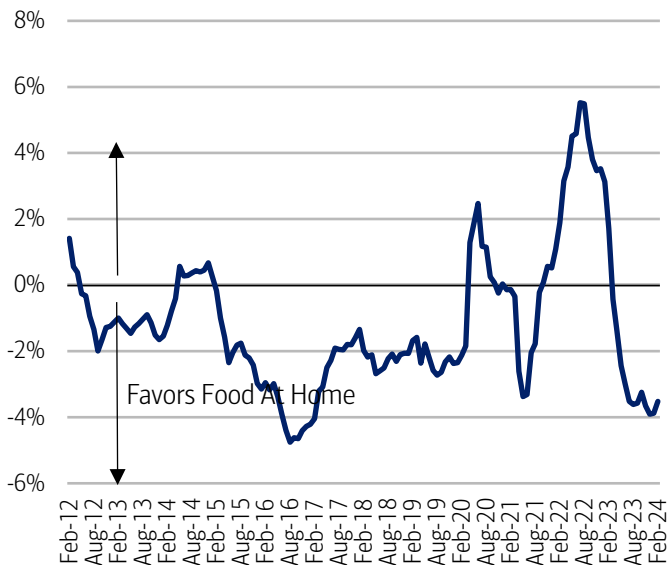


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Exhibit 7: FAH minus FAFH y/y % change

FAH vs FAFH spread narrowed in February to -3.5 ppt

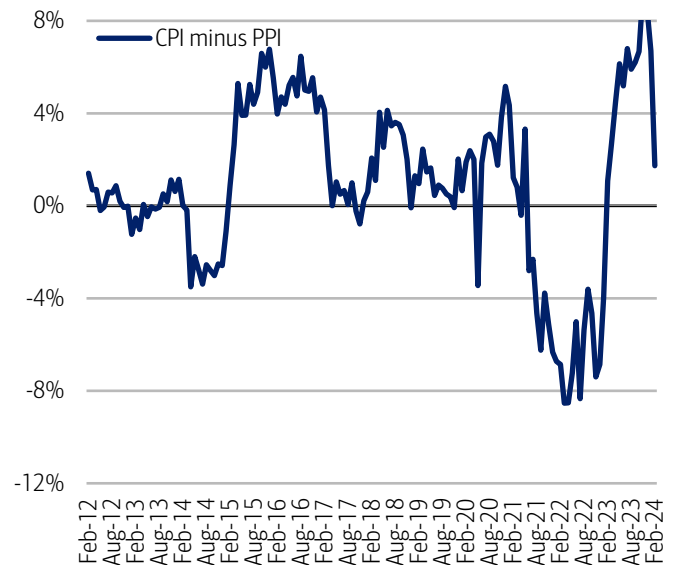


Source: Bureau of Labor Statistics

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Exhibit 8: CPI minus PPI y/y % change

CPI vs PPI spread decreased to +1.7% in February versus +6.7% in January



Source: Bureau of Labor Statistics

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