Viewpoint

Special

June 2022

Exploring the outlook for food inflation

Economics from IGD

What's in it for you?

The Benefits:
how this report will help you

EU Exit and COVID-19 have been followed by new challenges – conflict in Ukraine has driven global prices for a range of essential commodities to record levels.

These changes are now being felt by UK shoppers in the form of accelerating inflation. Many are seeing their real incomes fall and it will be some time before this process plays out – the worst may be yet to come.

In this report, we provide IGD's view of how inflation is influencing the economy, the food and consumer goods industry, and shoppers themselves.

We connect you to original sources and to IGD's wider research, to help you build a fuller picture of what is happening now and what might come next.

The Aim:
about this series of reports

Our experts track and monitor multiple sources of information. Combined with our knowledge of the industry and shopper insights, this shapes our 'Viewpoint'.

We provide this analysis as part of IGD's Social Impact activity because we believe it supports better planning and decision making, to the benefit of the shoppers we serve and society as a whole.

We will continue to monitor closely the longer-term impact of the conflict in Ukraine, the cost of living crisis and other major themes, keeping you up to date in future issues of this series.

Viewpoint from IGD

Exploring the outlook for food inflation

The UK economy is facing its strongest period of inflationary pressure since the 1970's and the cost of living issue is at the forefront of economic and political agendas.

The conflict in Ukraine has worsened a gloomy picture, shocking commodity prices and restricting supply chains. The economic impacts of the conflict (eg: disrupted production, economic sanctions) are likely to last beyond the end of the fighting, with far-reaching implications for the food and consumer goods industry.

Where are we now?

Critical household items such as food, fuel and energy have driven annual CPI inflation to +9.0% in April 2022.

The Bank of England expects inflation to peak at around 10% in Autumn, before falling back towards target (2%) in 2023.

The Office for Budget Responsibility (OBR) has forecast the deepest fall in living standards since records began. Few households will avoid inflation; however, it is clear the most vulnerable households will be hit the hardest.

IGD expects general inflation to persist for longer than official forecasters, due to the impacts of the war in Ukraine, pre-existing supply chain challenges and the limited effectiveness of monetary and fiscal policy.

What does it mean for the economy?

New data from ONS shows that the value of the UK economy fell slightly in March, with reduced retail demand a key factor in this. Consumers may already be responding to inflation by reducing expenditure.

The latest Bank of England forecasts suggest that the economy will remain near static over the short to medium term, whilst inflation will continue to build. This suggests undesirable 'stagflation' and raises the risk of recession, especially if further 'shock' events are encountered.

Unfortunately, it is unlikely that either monetary or fiscal measures can protect consumers from these effects – IGD anticipates that household wealth in the UK is likely to decline. Food and consumer goods are largely non-discretionary and therefore businesses in this sector may be protected to a degree, but are still likely to be affected by reduced household spending power.

Food price inflation - when will it peak?

IGD anticipates that inflation for food and drink has further to run in the UK – annual CPI inflation for food and drink is forecast to be between +10% and +12% over 2022 as a whole, with a peak of +15% over summer or autumn. This assumes that the 'basket' of goods bought remains static. In reality, action by businesses or shoppers may cushion inflation effects slightly. Looking ahead, a number of contributory factors will cause persistent food price inflation through to mid 2023. Some items may see prices begin to fall after that point, but not all.

If correct, this would be even higher than the inflation seen in 2007-08. The strongest inflation pressure is expected to come from meat, cereal products, dairy and produce.

The UK food and consumer goods industry is uniquely exposed to current pressures due to a reliance on food imports and the impacts of EU Exit.

How will consumers react to rising inflation?

IGD expects the mood of shoppers to remain bleak for the foreseeable future while they have to contend with the cost of living crisis.

IGD expects all consumers to be impacted by rising inflation and a decline in real wages. Consumers are likely to pursue saving money tactics as far as possible.

With IGD predicting higher than forecast food price inflation, this will see a family of four needing to increase their spend on food and groceries from £396 per month to £439 per month. A family of two adults and two children will need to find an extra £43 per month or £516 over the year.

Despite the recent support package announced by the Chancellor, it is likely that the hardest hit households over the coming year will be those in the 'squeezed middle'.

Spend on seasonal events such as Christmas is likely to be impacted this year. Shoppers are less likely to focus spend on premium food and grocery products. Eating out spend is also likely to be impacted.

In this issue

Meet our experts

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Where are we now?

Viewpoint from IGD

IGD expects inflation to persist for longer than the official forecast from the Bank of England. There are three key factors driving our forecast:

- The war in Ukraine has greatly aggravated the cost of living crisis in the UK (see our previous Viewpoint report). However, the inflationary pressure we have seen in the first half of 2022 was largely a symptom of events that pre-date the conflict. Conflict-related impacts are expected to begin to have an impact on inflation soon.
- Global supply chains remain under severe pressure. Shortages of key products have led to increased costs for businesses including transportation, raw materials, and energy prices. Many have not yet passed these costs on to consumers but will need to do so at some point.
- Policy responses from the Bank of England (e.g. raising interest rates) may be ineffective, as inflation is primarily driven by supply issues.

Commercial teams across the food and consumer goods industry may not have experienced a similar period of inflation previously. Businesses face challenges to manage the current situation appropriately.

What's happening?

Inflation in April hit +9.0%, the highest level for 40 years. The Bank of England now expects inflation to peak at over 10% in Autumn 2022.

Inflation is being driven by a combination of price rises in key household items:

- The domestic energy price cap rose by 54% in April. Household bills now average nearly £2,000 a year. The Bank of England is forecasting that the cap will rise by a further 40% in October.
- Food is making a significant contribution to inflation, increasing to 6.7% over April.
- Fuel prices are currently at record levels. Oil prices surged due to the conflict in Ukraine as Russia supplies around 10% of the world's oil, as well as significant volumes of gas.

In addition, the UK now has the highest tax burden for 70 years, adding further pressure to household budgets.

During the cost of living crisis, the government has sought to help households. Households have recieved a council tax rebate and significant energy price discount. In addition vulnerable households will receive further support, totalling £1,200.

Furthermore, there has been an increase in the National Insurance threshold and a cut in fuel duty.

Businesses are also managing a complex array of interconnected pressures, which will contribute to broader inflationary pressure:

- Supply chains remain stressed as the global economy recovers from COVID-19. Lockdown measures in China amplify these concerns.
- Job vacancies across the UK economy are at record levels (1.3m) and economic inactivity remains high post-pandemic. A shortage of labour supply is driving upward pressure on wages.
- Steep commodity price rises in energy, grain, oilseeds, and metals are eroding margins.
- EU Exit and other regulatory changes have led to falling trade volumes, increased administration and labour shortages in key industries (eg: HGV drivers and butchers).

Why it matters

The OBR has forecast that over 2022, UK households will face the largest fall in living standards since records began. For many households, both working and non-working, this raises serious welfare concerns.

Economic resilience is weak, real wages have effectively flatlined since the 2008 financial crisis. If real wages had maintained their pre-2008 trajectory, households would now be around 40% better off than they are.

Data at a glance

Imported ammonia nitrate (fertiliser) prices

Price (£ per tonne)

Source: AHDB, June 2022

Forward market price, wheat

Price (£ per tonne)

Source: AHDB, June 2022

Day-ahead market price, UK natural gas

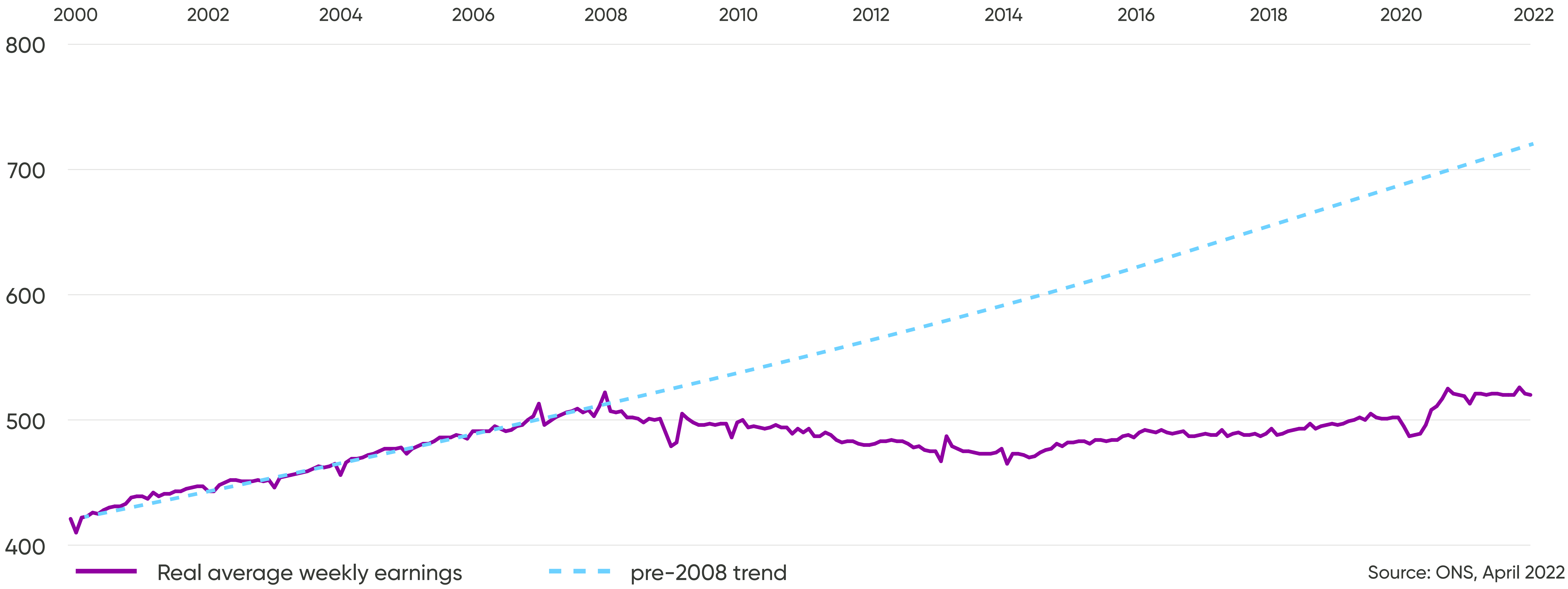
Price (£ per therm*)

Source: OFGEM, June 2022

* A therm is a unit of heat energy equivalent to 100 cubic feet of gas, which the wholesale natural gas trades in.

Data at a glance

Real average weekly earnings (£)



Source: ONS, April 2022

Implications for your business

Supply concerns to persist

The war in Ukraine has stressed already fragile supply chains.

The long-term impact of the war in Ukraine remains unclear – it is likely that markets for energy, food and finance will remain significantly disrupted until production and export of food from Russia and Ukraine return to normal.

Indonesia's export ban on palm oil and India's export ban on wheat are examples of the secondary impacts emerging from the conflict.

COVID-19 is likely to continue to cause supply disruption. Widespread lockdowns across China highlight that the global picture of the pandemic differs from that in the UK.

Limited government support

With government finances in a weak position, the government will likely look to maintain high tax revenues, whilst limiting the role of the state.

Public perception of government intervention has shifted following unprecedented support during COVID-19. There is now an expectation of timely and generous government support in hard times.

It is uncertain how far government support, however generous, can protect consumers from inflationary forces.

Implications for your business

Cost increases for businesses

Businesses need to be prepared for significant and persistent cost increases across all elements of their cost base. Expect wage costs, transportation, raw materials, and energy prices to eat into margins.

Weakened economic environment

Retailers can expect weak demand and an extremely competitive retail environment. Volumes are likely to be down, with shoppers increasingly focused on value. Expect increased pressure from the discounters on the 'Big four'.

Sluggish recovery for eating out

IGD painted a gloomy picture for eating out over the coming years in its latest market forecast report.

Expect some households to cut back on out of home spending. Increased fuel costs may suppress the numbers of those returning to work in offices, maintaining pressure on the food-to-go sector.

What does it mean for the economy?

Viewpoint from IGD

With the threat of COVID-19 apparently fading in the UK, economic challenges dominate the public agenda - those responsible for economic oversight and management are being tested, hard.

Inflation is now the dominant economic theme, impacting confidence and spending – inflation has risen so high, so fast, that it is likely to push the economy into recession or, at least, into 'stagflation'.

Government finances may be able to bear a very small increase in spending (eg: enhanced benefits, grants for domestic energy costs). Targeted effectively, this could help the most vulnerable households but, with inflation so high, it will be difficult for benefits to keep pace in most cases. For example: pensions rose 3.1% in April 2022, based on the CPI inflation rate in September 2021 but, by the time the change was implemented, inflation was far higher, so pensioners are still worse off in 'real terms'.

The recently announced government support package to help households across the UK manage higher energy bills brings total government spending on the cost of living crisis to £37bn. This has been partly funded by the temporary Energy Profits Levy on UK oil and gas companies.

In practice, the scope for a purely monetary (Bank of England) policy response is limited. Fiscal (government) policy may be more impactful as a response to inflation.

Government may also wish to discourage strong wage increases in order to prevent development of a damaging 'wage-price spiral'. In May 2022, the Governor of the Bank of England urged pay restraint when speaking to a committee of MPs. Businesses may be hard to persuade, however - with labour demand high and unemployment low, businesses may wish to raise wages as high as they can in order to retain and recruit workers.

In the longer-term, government will need to take a lead in developing and strengthening the UK economy, focusing on productivity, sustainability and technology. This is the best route to renewed prosperity.

What's happening?

Slow economic growth is typical for the UK, which is a mature economy faced with a number of structural challenges (eg: labour shortages, ageing population, low productivity growth).

The COVID-19 pandemic hit the economy hard in 2020, but recovery began in 2021. Annual growth was initially rapid, due to the low comparative base, but this has now slowed.

The latest forecasts from the Bank of England suggest that inflation will cause growth to slow to a negligible level over the short to medium term.

Recession is not predicted by the Bank of England but, with growth so low, there is little 'safety margin' to account for further economic shocks – even a minor shock might tip the UK back into economic contraction.

New data from ONS shows that the economy shrank very slightly, in real terms, in March 2022. This preliminary finding may be revised, but it is clear that the recovery from COVID-19 has now run out of momentum.

Data from several sources suggests that low confidence and reduced consumer demand for goods and services is behind the downturn – consumers dominate the economy and, when demand is weak, the economy suffers.

The base interest rate stood at +0.1% in December 2021 but has been raised, cautiously, since then in response to rising inflation and now stands at +1.0%, which is still very low by historical standards.

Why it matters

There are two major tools available for macro-economic management – fiscal policy (tax and spending) and monetary policy (central bank activity).

In the UK, management of inflation is the role of the Bank of England's Monetary Policy Committee (MPC), which is independent of government.

The MPC's aim is to hold UK inflation at the target rate of +2.0% year-on-year - plus or minus 1.0% - as measured by the Consumer Price Index (CPI). To do this, two monetary policy tools are available:

- Adjusting the Bank of England's base interest rate
- Supplying money to, or removing money from the economy

'Loose' or 'expansionary' monetary policy (ie: low interest rates and / or quantitative easing) tends to encourage demand in the economy and thus drive inflation upward.

'Tight' or 'contractionary' monetary policy (ie: high interest rates and / or quantitative tightening) has the opposite effect, reducing demand and holding inflation back.

The MPC has followed generally very loose policy since the Credit Crunch of 2008 – from October 2020, the Bank researched the possible impact of negative interest rates, which have never been used in the UK. Base rates have now begun to rise, however, suggesting that this plan is on hold.

It is not certain, however, how effective tighter monetary policy is likely to be in controlling current inflation pressure. There are several reasons to believe that it may not be effective:

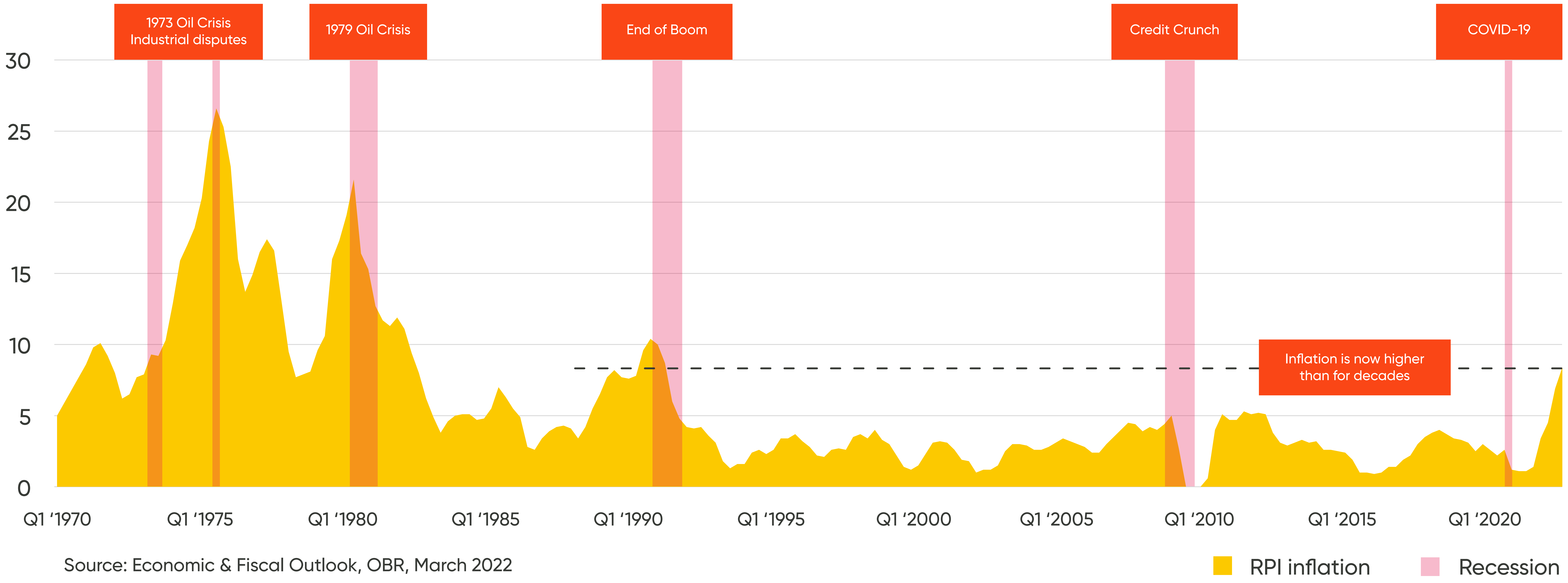
- Inflation is being driven by rising costs for energy and materials, worldwide, not by demand in the UK market specifically (ie: inflation is primarily 'supply side', with war being a major factor)
- Revised monetary policy may not take effect quickly enough to address rapidly-accelerating inflation; effects of this are hard to predict exactly and typically manifest over the medium to long term
- The UK economy remains very fragile after the shocks of EU Exit and COVID-19 – tightening monetary policy may smother the recovery or even trigger recession
- Higher interest rates would increase the cost of servicing government debt, which is currently very high – increased taxes or lower spending may be just as harmful to citizens as high inflation

Data at a glance

UK inflation and recessions

Recession is often, but not always linked to inflation

Annual inflation, RPI method (%)



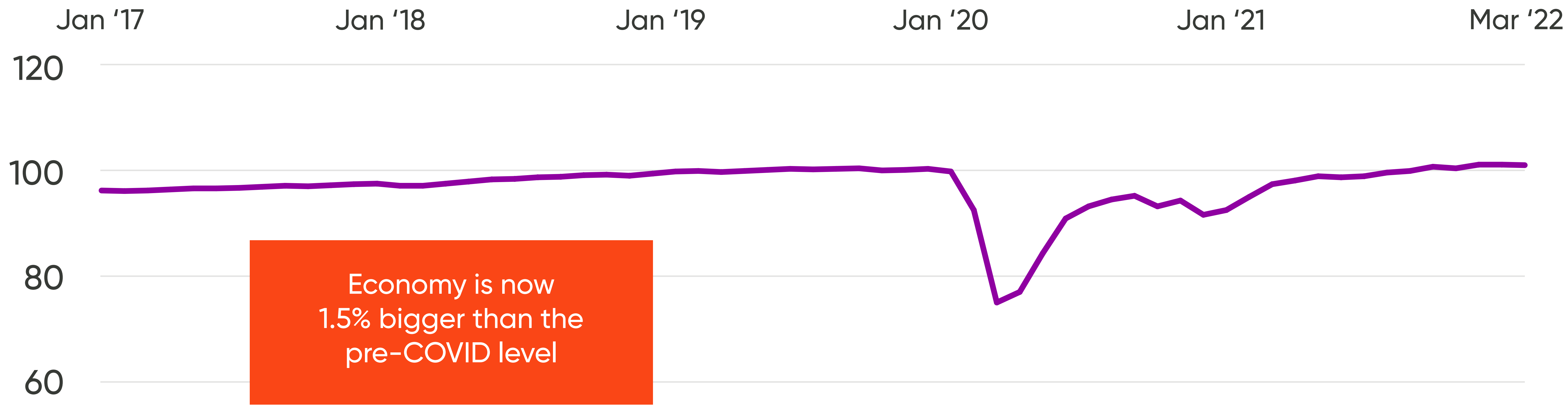
Source: Economic & Fiscal Outlook, OBR, March 2022

Data at a glance

UK GDP Volume performance

UK real GDP (Index, 2018 = 100)

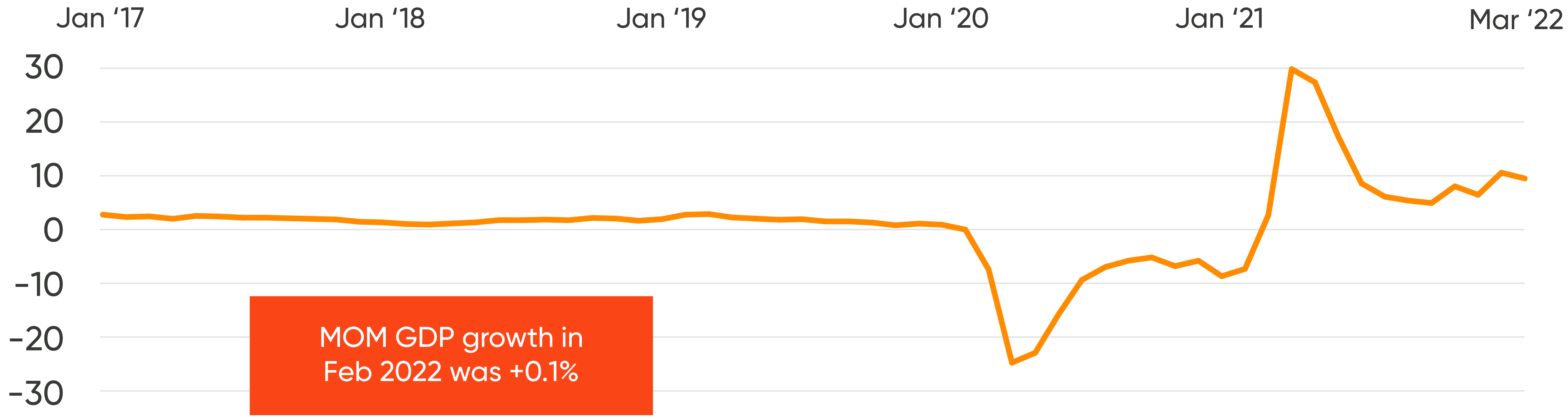
Source: GDP Monthly Estimate, ONS, June 2022



UK GDP YOY volume growth

UK real GDP growth, YOY (%)

Source: GDP Monthly Estimate, ONS, June 2022



Implications for your business

Expect workers to be more assertive

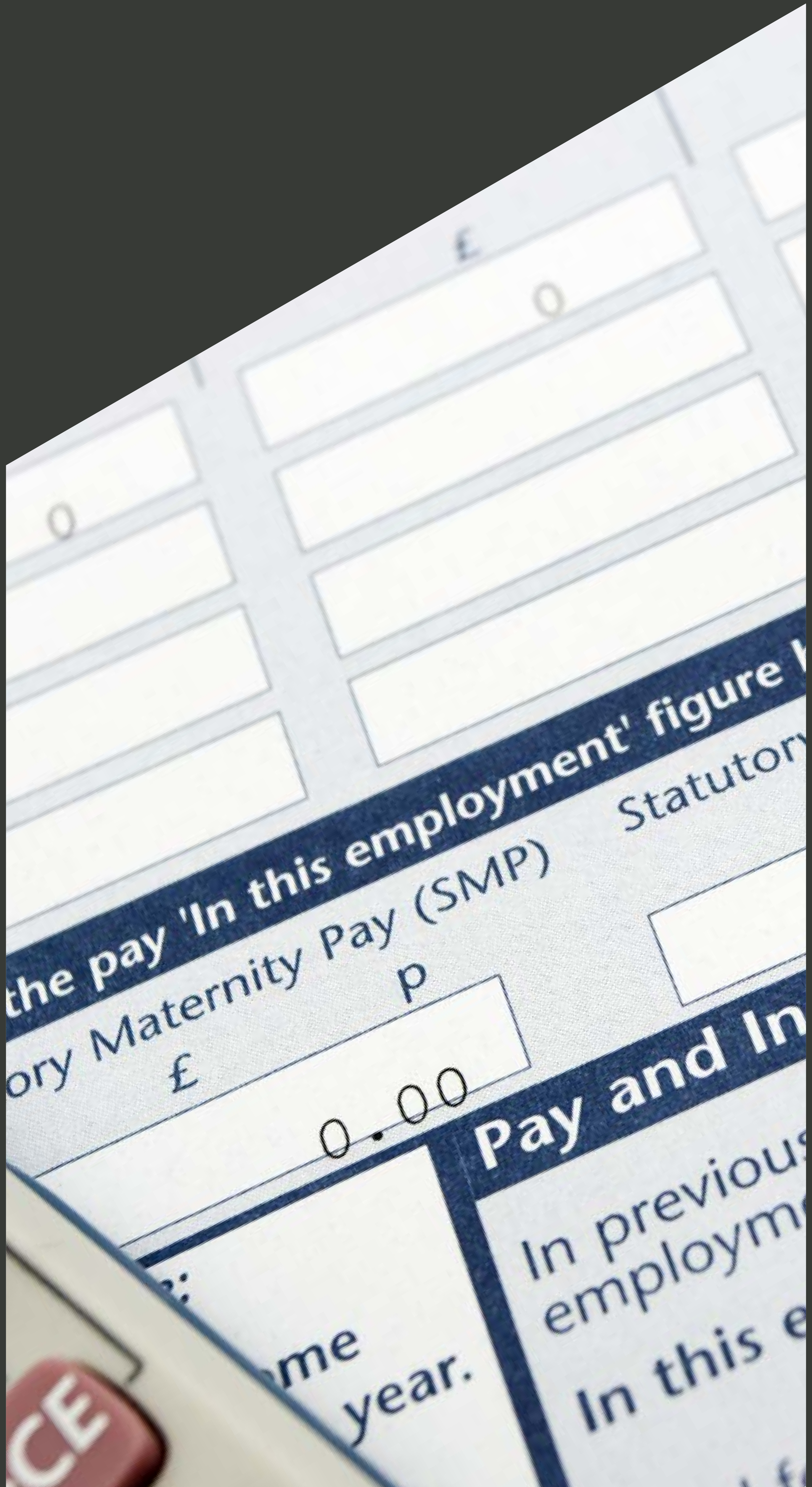
Unemployment in the UK is low, whilst demand for labour remains high, for now – though the Bank of England anticipates a small increase in unemployment over the next few years.

Labour market pressures may make workers more assertive in demanding higher pay to compensate for rising living costs over the coming months.

IGD's contacts in the food and consumer goods industry indicate that this is, in fact, happening and most employers seem willing to increase pay, where possible.

Employers unable to maintain competitive pay may find it more difficult to recruit and retain workers, exacerbating existing labour issues.

However, it should be noted that higher pay is in itself, a potential inflation driver, if employers recoup higher costs by increasing prices. This can create a self-sustaining wage-price spiral.



Implications for your business

Inflation erodes the value of savings

The wealthiest consumers may see little day-to-day impact from inflation but would still see accumulated wealth eroded, if interest paid on savings does not keep pace.

Savings will allow some households to go on spending over the next few years – Bank of England research suggests that saving less than usual or drawing on savings are the two most common responses to inflation.

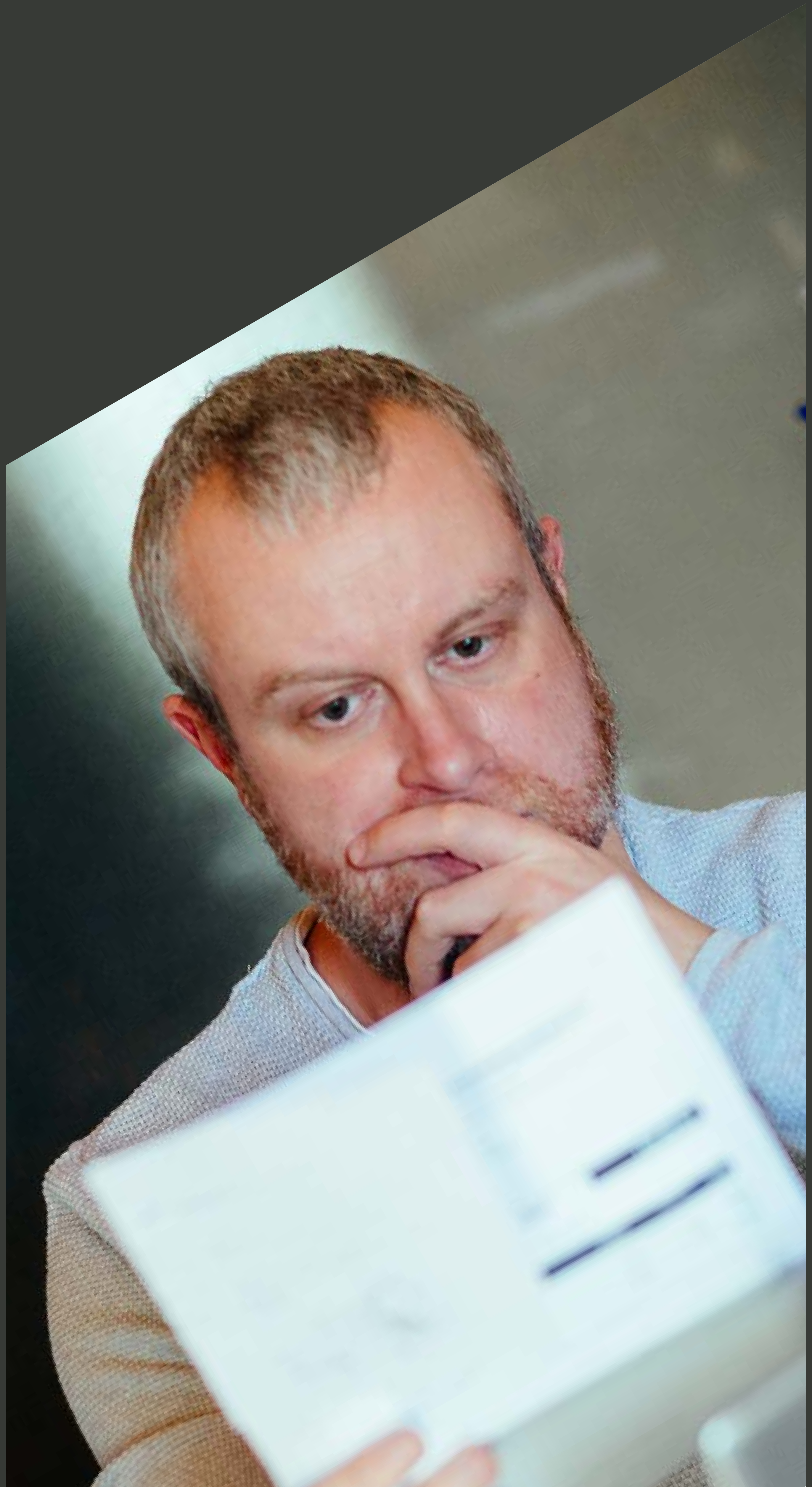
Not all households have significant savings, however – and those that do may be unwilling to unlock them, given the uncertain situation.

Businesses must take the lead

Legislation and regulation continue to evolve, but government is likely to be pre-occupied with fiscal and economic management in the years ahead, rather than major reforms.

Businesses may have to take the lead on sustainability and other issues, but this may also be difficult, given the pressures on management.

Businesses will need to balance the need to trade effectively in the short term with longer term development.



Food price inflation - when will it peak?

Viewpoint from IGD

IGD anticipates that inflation for food and drink has further to run in the UK – annual CPI inflation for food and drink is forecast to be between +10%-12% over 2022 as a whole, reaching a peak of +15% over summer or autumn (this assumes that the 'basket' of goods bought remains static).

If correct, this would be even higher than the inflation seen in 2007-08. The strongest inflation pressure is expected to come from meat, cereal products, dairy and produce.

Inflation is currently expected to ease by mid-2023 and prices for some items may fall back and global markets normalise. There are, however, many possible variables which might change price outcomes, perhaps causing inflation to peak higher or last longer. Examples include:

- Further export bans in major agricultural nations
- Speculation in food commodities
- Tax increases on alcohol and tobacco
- Trade disruptions connected to EU Exit (eg: new border arrangements in 2023)
- Uncontrolled increases in labour cost, which cannot be absorbed by businesses
- Unfavourable weather in the Northern Hemisphere growing season
- Weakening of Sterling versus other currencies

Strong price increases are clearly a threat to UK households, especially those that are already financially vulnerable.

However, as in previous periods of strong price change, suppliers and retailers are likely to adapt their ranges in order to strengthen their value proposition (eg: offering fewer premium lines and more lower-cost options).

Shoppers themselves are also likely to be agile, adapting their behaviours, and so the inflation actually experienced by household may be somewhat less than IGD estimates (see Chapter 4). Actual effective inflation in this market may be closer to 9%.

What's happening?

The conflict in Ukraine has illustrated the agricultural importance of Ukraine and Russia. Combined, they account for 27% of global wheat exports and over 60% of the global supply of sunflower oil. Prices in these commodities have responded dramatically to the conflict, forward market prices for wheat have risen by over 50%.

The medium-term impacts of the conflict are starting to become clearer. IGD expects several cost increases to feed through to consumer prices over the coming months in waves:

- Products that rely on wheat for feed, such as white meats will see significant price change. Chicken, with short production timescales, will see prices increase in the short-term (weeks).
- Natural gas price rises will drive material cost increases for animal housing, manufacturing and greenhouse heating. This will feed through to prices later in the year.
- Fertiliser prices are up nearly 200% year-on-year. Farmers are reported to be unable to afford fertiliser at these prices. If prices do not revert, there is likely to be a decline in yields over coming seasons.
- Two-thirds of those on the Seasonal Agricultural Workers Scheme (SAWS) last year were Ukrainian. The government is confident any shortfall in labour will be filled from elsewhere, however, expect increased training costs. The minimum wage for the SAWs has also been increased significantly, driving costs up.
- Significant amounts of foil and wood pulp are sourced from Russia. This has driven up packaging prices. Plastic packaging prices have also increased due to their dependence on the use of oil and the impact of COVID-19 lockdowns in China.

Even if the war were to end in the coming months, it is likely that impacts across the food and consumer goods sector could be felt for years:

- Ukrainian export infrastructure has been heavily damaged and, in some cases, destroyed. Export volumes will be reduced for years to come. For key commodities such as wheat and sunflower oil, this will result in increased pressure on supply.

- It is unlikely that Russian and Belarussian sanctions will be loosened across the EU, UK, and US in the short-term. Expect long-term supply issues for key items such as phosphates and white fish.

The conflict has shocked a fragile and complex global food production system, which will generate several ripple effects over the coming years:

- A shortage of supply in sunflower oil led to a significant price rise in other cooking oils. To protect domestic consumers, the Indonesian government banned the export of palm oil. Expect other nations to prioritise domestic supply of key commodities over export markets.
- The slump in demand for fertiliser risks the commercial viability of the plant at Billingham, risking future fertiliser and CO_2 supply in the UK (CO_2 is a by-product of the fertiliser making process, much-used in the food and consumer goods industry).
- Inflation widens inequality, which will add to the challenges in the government's Levelling Up agenda.
- Globally, political change and instability is often driven by economic change. Record food prices played a crucial role in the Arab Spring of 2011, the FAO food price index is higher now than it was in 2011.

Why it matters

The UK is a net-food importer, with around 40% of its food produced elsewhere exposing the UK to global food price rises and supply shocks. With the UK now outside the EU, EU nations are unlikely to place high priority on supplying UK consumers.

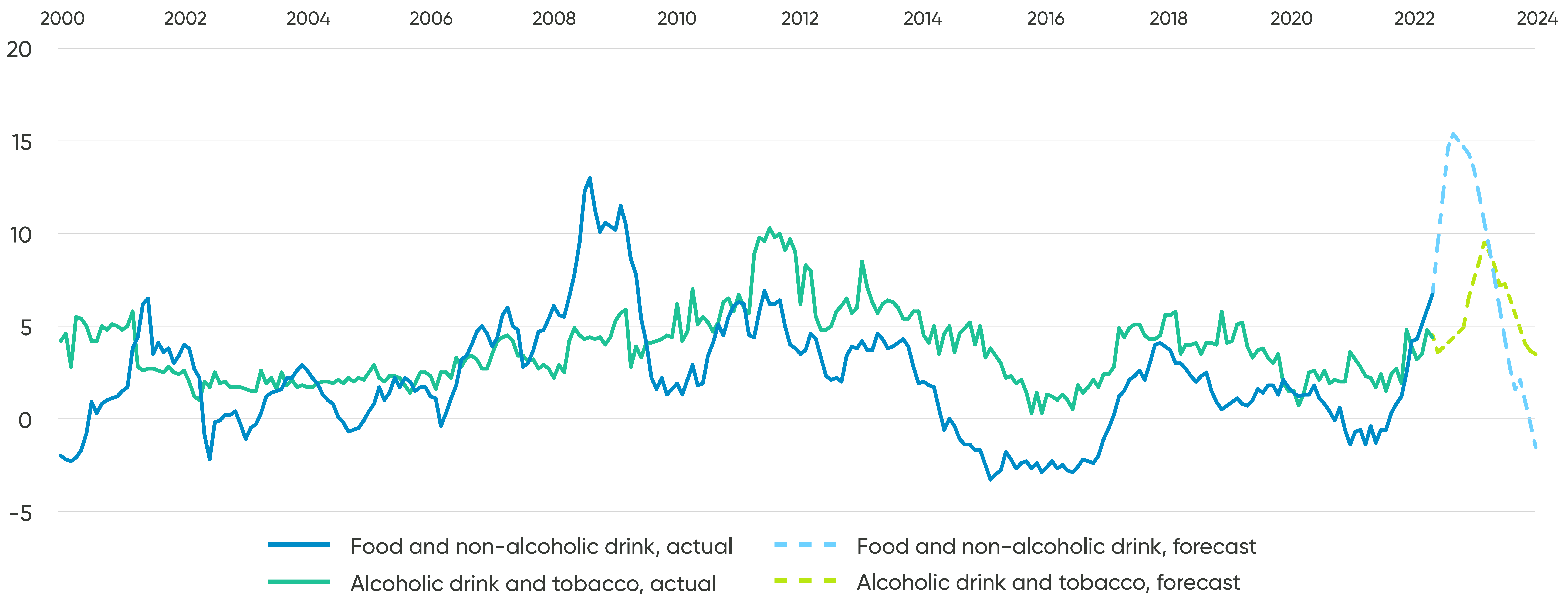
With prices of key commodities at record levels and sanctions applied to certain products, criminal related activity across the food industry is likely to be a material risk to businesses.

Data at a glance

Food price inflation forecasts

Inflation, year-on-year, CPI method (%)

Source: ONS and IGD estimates, June 2022

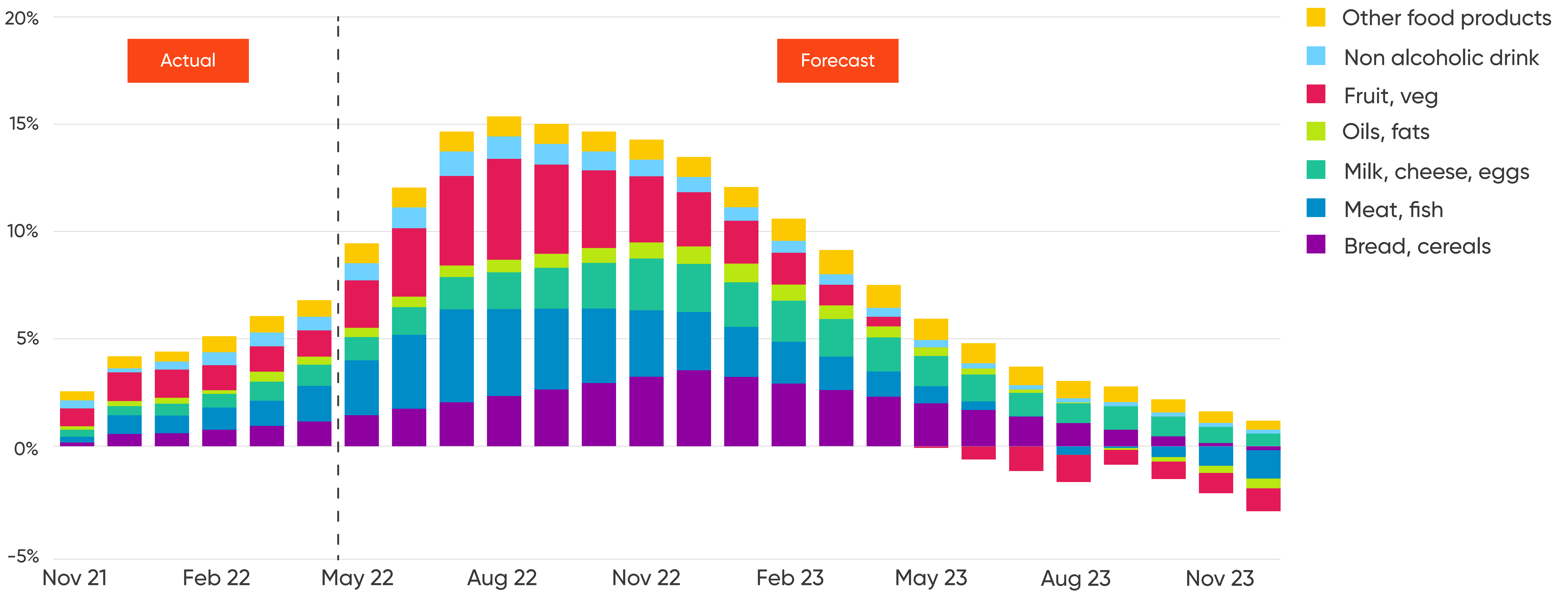


Data at a glance

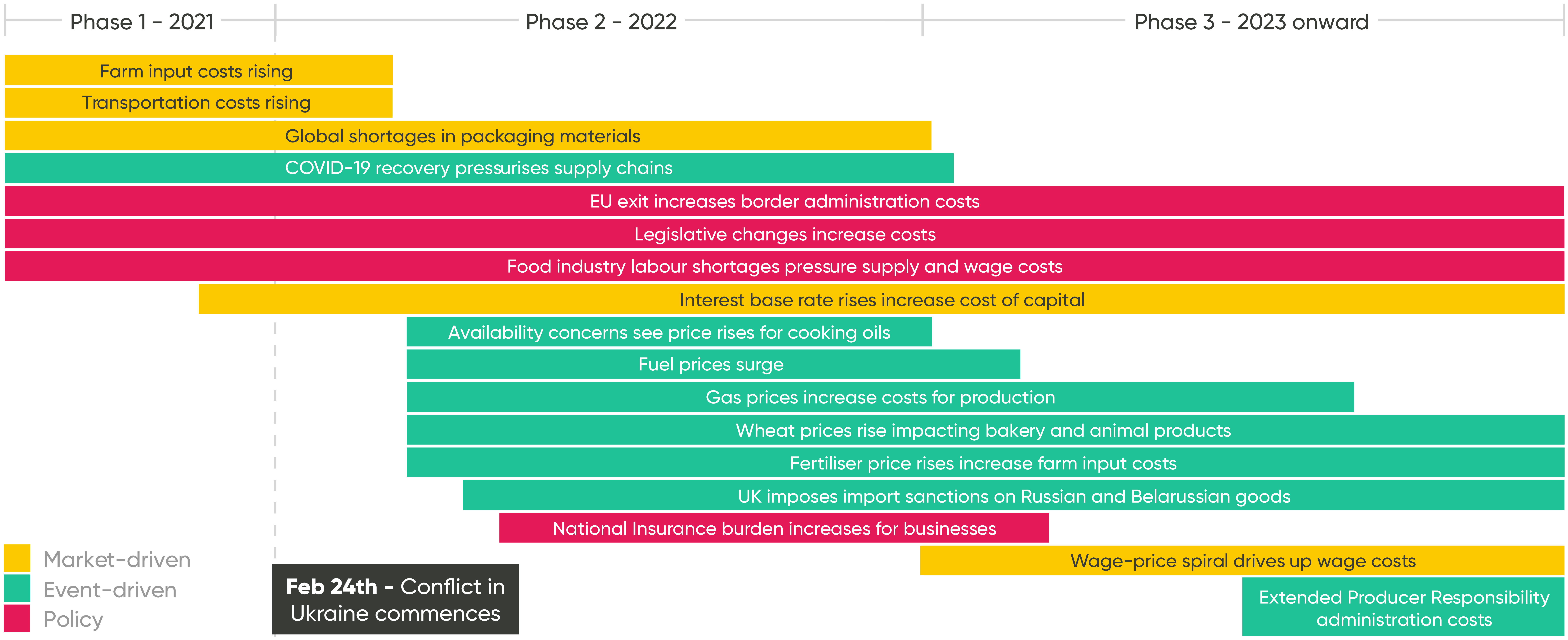
Inflation forecasts by category

Contrib. to food and drink inflation, YOY, CPI method (%)

Source: ONS and IGD estimates, June 2022



Key drivers for food price inflation



The timeline sets out how long key inflationary drivers will impact prices across the food and consumer goods industry. Timings are approximate, other events may appear.

Methodology

IGD's food price inflation forecast is based on historical precedent, using 2008 as a model.

This was a period of unusually strong food price inflation, driven by weak supply for grains, high energy prices and restricted trade.

2008 is therefore a close, but imperfect, match with current conditions.

For each food category, IGD adds a price 'spike' to current price data, equivalent in duration and amplitude to the spike seen in 2008.

This spike represents the effects of the war in Ukraine.

Since the UK food market is already in an inflationary phase due to recovery from COVID-19, price effects are expected to be more severe than seen previously.

There are, however, many variables which may change the amplitude or duration of inflation effects.

Implications for your business

Availability concerns

The conflict in Ukraine and the subsequent sanctions imposed on Russia have restricted the supply of key products including wheat, sunflower oil and packaging.

IGD's shopper research shows that shoppers have already noted worsening availability across a range of foodstuffs, especially oils.

Prepare for these availability concerns to persist throughout 2022, with implications for customer service, industry reputation and sales performance.

Availability is likely to be key to relations between suppliers and retailers, as much as price is – if goods are not available, suppliers, retailers and shoppers all lose.

Material risks to supply chains

Global supply chains are experiencing high levels of political, economic, and fraud risk. It is crucial that in-depth due diligence is maintained. Businesses that can react rapidly to sudden changes in supply chains will hold advantages.

Implications for your business

Permanent scarring

The UK is at risk from losing productive agri-food capacity as some businesses will close due to dramatically increasing costs. Expect market consolidation along the supply chain.

Government Food Strategy

The Government Food Strategy will set out a long-term plan to develop a prosperous and resilient food system. This will provide some clarity to businesses on the direction of policy, providing some certainty in investment decisions.

Food insecurity across the industry

The food and consumer goods sector is the largest employment sector in the UK, employing around four million people. Some of these jobs are in low skill, low paid employment. A number of these employees are at risk of food insecurity, raising welfare concerns.

How will consumers react to rising inflation?

Viewpoint from IGD

IGD expects the mood of consumers to remain bleak for the foreseeable future while they have to contend with the cost of living crisis.

With IGD's food price inflation estimates higher than official forecasts, this will see a family of four needing to increase their spend on food and groceries from £396 per month to £439 per month. A family of two adults and two children will need to find an extra £43 per month or £516 over the year.

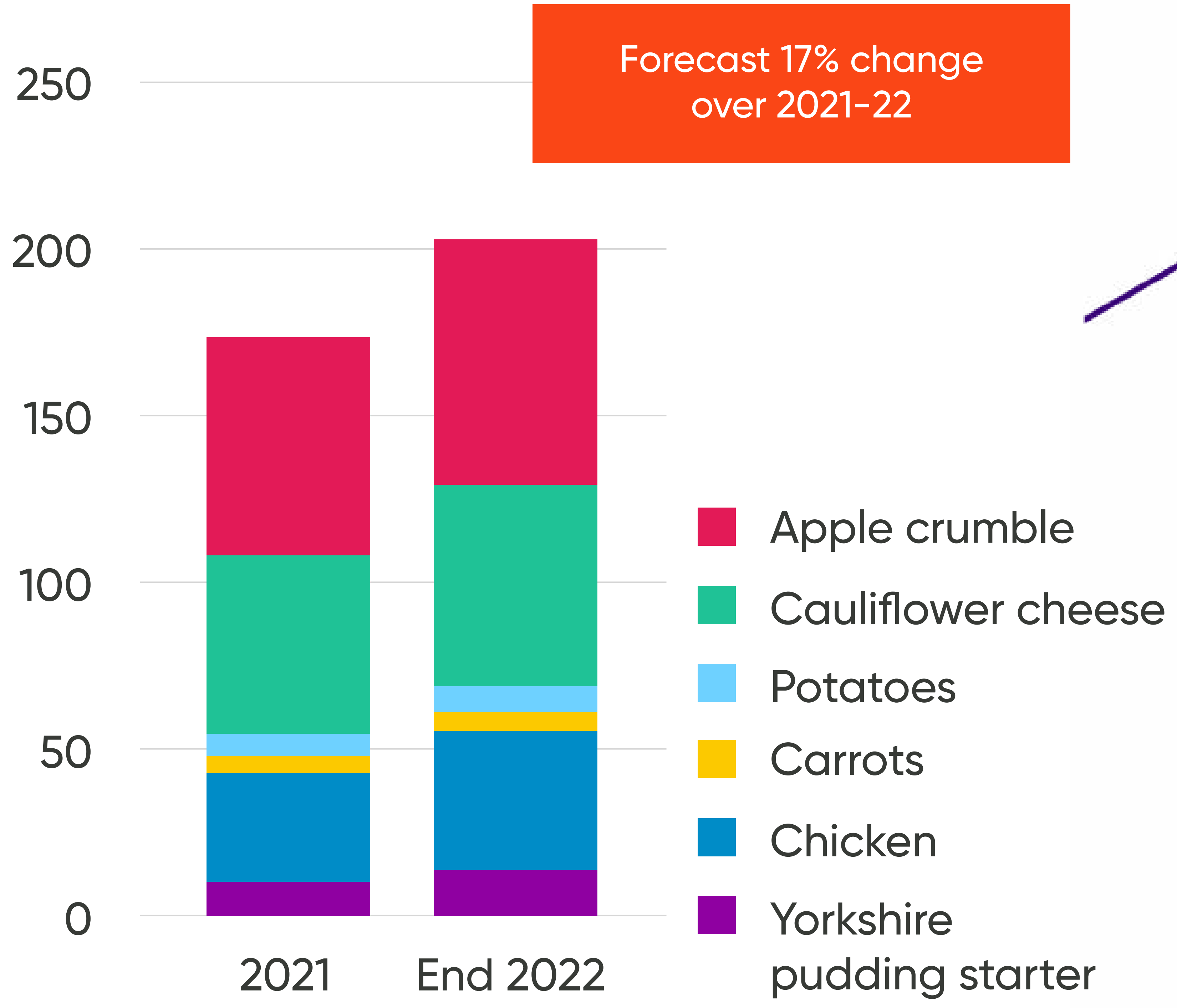
Key items impacted in the medium term are those directly (bread, flours) and indirectly (meat) derived from grain. European cuisine is skewed towards these commodities and traditional meals are likely to rise in price the fastest. For example, IGD expects a roast chicken dinner, including potatoes and vegetables to cost an additional 17% by the end of 2022.

Despite the recent support package announced by the Chancellor, it is likely that the hardest hit households over the coming year will be those in the 'squeezed middle'.

IGD expects all shoppers to be impacted by rising inflation and a decline in real wages. Shoppers are likely to pursue saving money tactics.

Cost of a chicken dinner

Price per portion (pence)



Source: ONS / IGD calculations, June 2022
Note: Does not include energy cost, gravy, condiments, custard

What's happening?

With inflation reaching a 40-year high in April 2022, there has been a sharp increase in the number of shoppers believing that food and grocery prices are higher than the previous month.

- 87% perceived that food and grocery prices had increased in the previous month, up from 57% in August 2021.

Food price rises are perceived to be increasing the most for dairy, fresh produce, fresh meat and fish – mentioned by two-thirds or more of shoppers. This compares to 56% mentioning cooking oils and 35% mentioning alcohol.

Shoppers are fearful about future food prices. Our ShopperVista data shows that 93% of shoppers in May expected food to get more expensive in the year ahead, with 46% believing food prices will get much more expensive, one of the highest levels ever recorded.

Rising inflation concerns, coupled with reduced real incomes are contributing to very low shopper confidence as measured by [IGD's Shopper Confidence Index].

Shopper spending priorities are changing as rising food and grocery prices challenge spend in other parts of the household budget.

- 45% claimed to have spent more on food and groceries in the last month, up from 37% in August 2021
- Fewer claim to have spent more on foodservice, clothes and garden improvements last month compared to August'21

Spending priorities differ by shopper groups. While lower income groups were more likely to have spent more on food and groceries, higher income groups were more likely to have prioritised spending more on other areas such as foodservice, home and garden improvements, and clothes shopping.

As inflation is likely to impact households further, IGD expects shoppers to continue to focus their spend on food and groceries and less on foodservice.

Shoppers are now more focused on saving money tactics when food and grocery shopping, though are divided in the approaches they are taking.

- One in seven lower income households claim to be missing more meals
- Higher income households are more likely to be planning their shopping

Data at a glance

Some UK households will struggle to buy food

Source: Money Saving Expert, IGD calculations, June 2022

Household	Food and drink spend Jan 2022 (MSE est)	Food and drink spend Jan 2023 (IGD est)	Difference
1 adult	£128 / month	£142 / month	£14 / month
2 adults	£228 / month	£253 / month	£25 / month
2 adults, 1 child	£312 / month	£346 / month	£34 / month
2 adults, 2 children	£396 / month	£439 / month	£43 / month

Why it matters

With the [Governor of the Bank of England warning of apocalyptic food prices] and energy companies predicting that up to 40% of people might fall into [fuel poverty] this year, it is likely that a significant number of shoppers will continue to struggle financially.

Given the news coverage of the cost of living crisis, and the impacts of the war in Ukraine on [availability] and prices, expect shoppers to become even more sensitive to price increases. The threat of rising inflation and interest rates could see more value seeking behaviour.

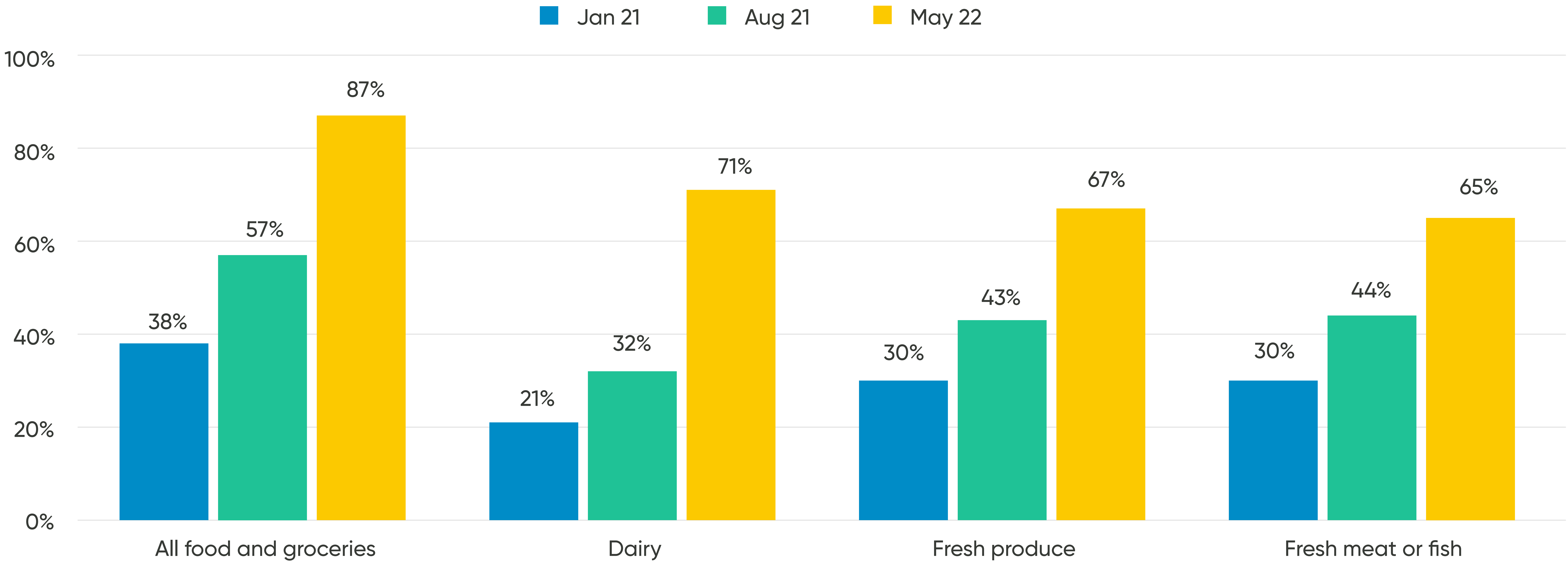
Those struggling financially will be looking for suppliers and retailers to adapt ranges and pricing to meet their needs.

Data at a glance

Net % stating that the cost of food has got more expensive in last month

(% stating more expensive – less expensive) – Top ranking categories

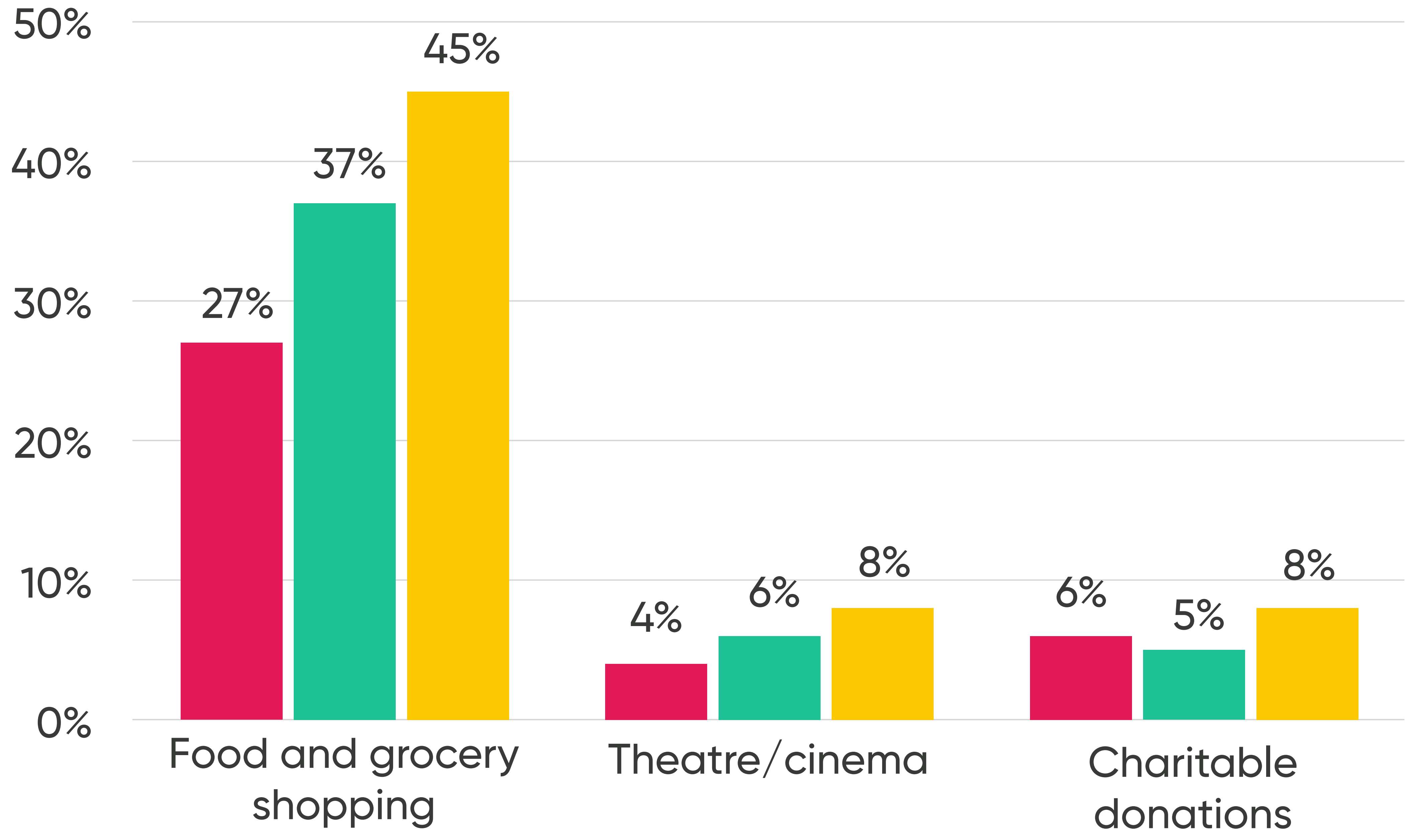
Source: IGD research, Base 1,094 adults aged 18+, 13-15 May 2022



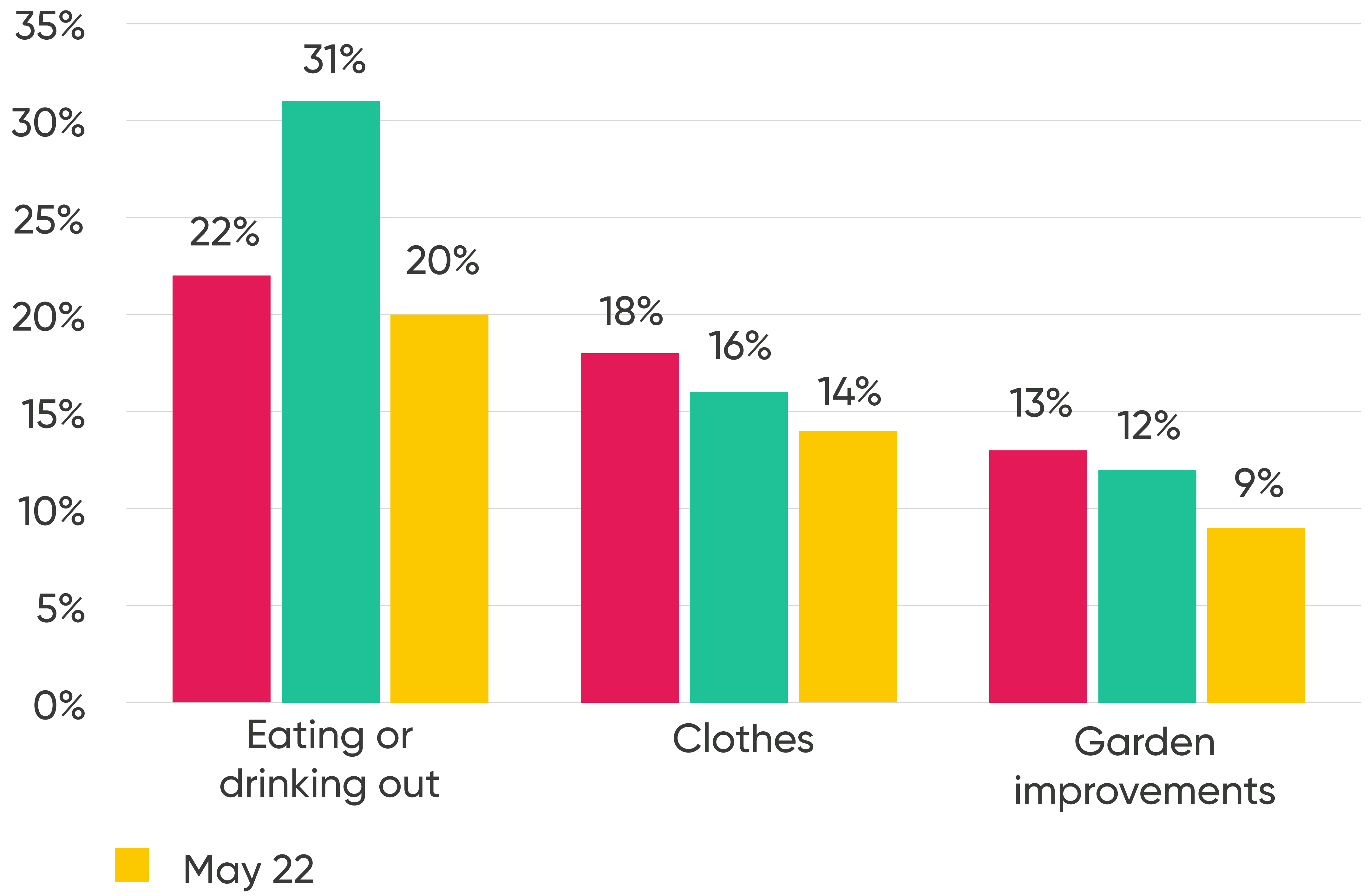
Data at a glance

Source: IGD research, Base 1,094 adults aged 18+, 13-15 May 2022

Spent more on in last month
(increased spend in May'22)



Spent more on in last month
(reduced spend in May'22)



Data at a glance

Changing spending priorities

Source: IGD research, Base 1,094 adults aged 18+, 13-15 May 2022

	Spent more on in last month	Plan to spend more on in next few months
1	Food and grocery shopping	Food and grocery shopping
2	Eating or drinking out	Holidays, travel
3	Clothes shopping	Eating or drinking out
4	Holidays, travel	Clothes shopping
5	Garden improvements, betting/lottery	Home improvements
6	Charitable donations	Garden improvements
7	Theatre/cinema, home	Theatre/cinema
8	Household goods	Household goods

Implications for your business

Changing retail offer

Retailers will need to reflect shoppers' increased money saving focus in ranging decisions and price architecture.

Expect fierce competition

Food retail businesses may also come into increasing competition with discount operators, as this part of the market regains lost ground, and will need to offer lower-priced options.

Channel performance will vary

Retaining the attention of shoppers and maintaining share of overall household budgets will be a focus, and mechanisms such as loyalty schemes and direct communication may be invaluable in this regard.

Next steps

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