

Inflation Outlook

CPI rose 3% in the year to January 2025, up from 2.5% in the 12 months to November. CPI inflation has been below 3% since March 2024, and the higher-than-expected jump in January was largely driven by transport, food and non-alcoholic beverages. With the hike in employer taxes and wage inflation from April, it's hard to see any immediate reprieve on inflation.

Whilst CPI gives a broadline indication of price inflation; it's important to recognise Food only accounts for around 10% of this basket. Unfortunately, we currently see a more acute inflation trend on Food, particularly in the unprocessed categories, which unlike processed foods, benefit less from cost mitigating measures such as ingredient substitution and recipe engineering. Staple products including meat, eggs, butter and cereals have all increased in pricing year on year.

Eggs

The UK market is currently facing a significant challenge on egg supply. Avian Flu coupled with increasing welfare demands is creating a perfect storm for shortages. Consumption is tracking at +6% year on year however increasing production costs and regulations is challenging the viability of this sector. Most recently, Avian Flu has led to the culling of 2 million birds prompting immediate shortages and breeding stock disruption. The National Farmers' Union (NFU) has called for government intervention to support farmers and stabilise the market. We are working with suppliers to optimise product options and ensure continuity of supply.

Fish and Seafood

Pricing on white fish has been relatively elevated with poor landings and strong demand from the frozen market. Weakening sterling has also increased the costs of imports. The haddock spawning season will start in March, and this will lower fillet yields and increase price. Coley is a much more reliable choice during the spring period as they do not present the same spawning issues.

Salmon prices have settled since the upturn in costs over January and a number of investments at farm level including vaccinations and improved sea lice treatment are supporting production volumes. With Easter round the corner this will put some pressure on availability and price into March and April.

Meat and Poultry

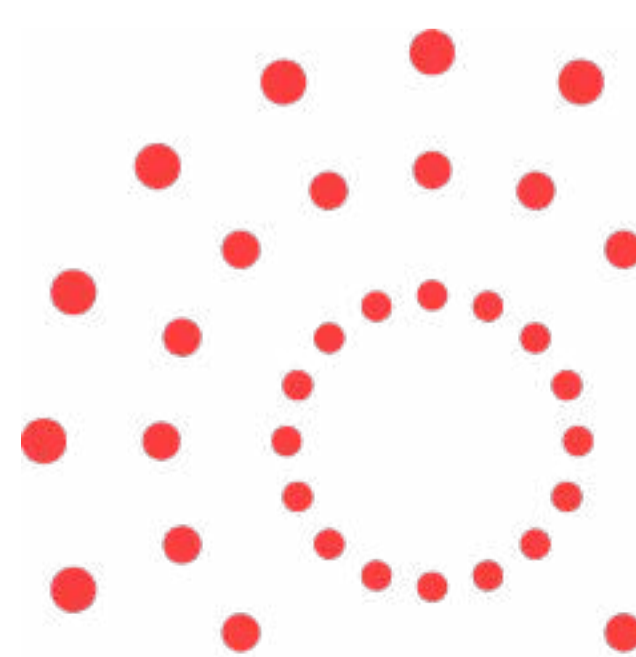
Beef prices have continued to climb with month-on-month movements of 8% and pricing almost 30% higher than last year. These are record highs and whilst this is encouraging more volume onto the market in the short term, overall beef output is still expected to be lower. With demand remaining strong, prices are not stabilising.

As shared by AHDB, the historical supply base is contracting, likewise, incentives to divert land use away from food production will undermine domestic supply in meat supply chains. To ensure supply continuity we will see greater dependency on import markets and flexibility on origin markets.

With the continued pressure on price, we will see consumers trade down into forequarter cuts; mince and dice beef are seeing significant demand across both Foodservice and Retail – though do remain the most competitively priced options.

Lamb prices have remained firm and will be a challenge for many customer menus. With the onset of Ramadam and Easter in April, lamb demand will peak so could put add some volatility to price trends over this period.

Poultry prices have also seen increases on the month, with EU pricing increasing +2%. Demand has remained strong however challenges of Avian Flu and Newcastle Disease have put pressure on supply (particularly Poland – the EU's largest supplier, which currently has a shortage of breast fillet). Longer term there is some optimism regarding a boost in supply – though ongoing activity to promote higher welfare initiatives (in part due to the European Chicken Commitment) will add cost to supply chains.



Dairy

Milk pricing remains stable into March with key processors announcing price holds. Global milk supplies have been increasing slightly however consumer demand has remained firm. The prices remain high versus last year. Dairy commodities demonstrated a similar trend with bulk cream, butter and cheese prices stabilising.

Bakery

Whilst wheat prices softened month on month, prices are trending +10% year on year. Sub optimal weather conditions for the Winter crops in Russia and the Ukraine has seen forecast yields downturned.

Crop quality is also an issue with less class one crop available across Europe – some suppliers, such as Hovis, are moving to more specific origin sourcing (predominantly Germany) to ensure more consistent quality longer term.



Fresh Produce

With temperatures rising and longer days ahead we'll see the start of the European Summer Season towards the end of the month. We'll also see some great domestic arrivals with asparagus becoming more available and new season Jersey Royals.

All Potato lines are in good condition with pricing remaining stable. Core line Vegetables such as Cauliflower, Broccoli, swede and Parsnips are all in good supply and will represent good value on menus.

The summer salad season begins in early April. Early reports on produce and quality have been encouraging with no concerns around supply. Cucumbers have been arriving from Holland with tomatoes and peppers also becoming available.

Spanish strawberries will continue to arrive throughout the month with Dutch also becoming available. Papaya and blood oranges are also at their best this month; product volumes are strong, and both options will add a twist to menus!

Whilst overall produce pricing is steady into March; the produce sector is particularly vulnerable to increasing labour and energy costs which is expected to support long term pricing.




Any questions?

Please contact your Account Manager if you have any questions about this month's news.

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