

Written evidence submitted by the Institute of Grocery Distribution (FS0021)

Executive summary

Q2. Inflation outlook

IGD [forecasts](#) that food inflation over 2022 will average 10-12% year-on-year, with a peak of 14-16% being reached in late Summer / Autumn.

This assumes that no corrective action is taken by businesses or shoppers – in reality, some changes will be made and “effective” inflation may be a little lower at around 9%.

Beyond that point, inflation is expected to dissipate slowly, returning to more normal levels by Summer 2023. Most inflation pressure is expected to come from cereals, dairy, produce and proteins.

Since the forecast was developed, severe drought has impacted European farm outputs and there is now some risk that strong inflation will persist longer than initially expected, especially if drought continues into 2023.

Businesses will remain keen to manage price change for shoppers and any major reduction in business cost is expected to result in lower retail prices.

Q3. Household food security

IGD is able to monitor the perceptions and behaviours of food shoppers closely, via its unique monthly *ShopperVista* survey.

ShopperVista shows that rising inflation has forced the majority of households to respond in some way, including the more affluent.

There are signs that the quality and quantity of food being bought is falling, with implications for long-term health and satisfaction.

Written evidence submitted by the Institute of Grocery Distribution (FS0021)

About [IGD](#)

IGD is an organisation of two interconnected communities. Profits from *Commercial Insight* are reinvested into *Social Impact* - together, they work to drive change that makes a tangible difference for society, businesses and individuals.

[Social Impact from IGD](#) is delivered in four key areas:

- ▶ **People** – focused on giving young people opportunities to develop their employability and life skills, and on building the knowledge and capability of industry colleagues, to foster an inclusive, productive workforce
- ▶ **Health** – nutrition experts use the latest research and behavioural science to develop practical tools that help the whole industry. IGD is collaborating with companies to adopt best practice and implement change
- ▶ **Sustainability** – focused on mobilising the industry to tackle climate change, reduce food waste, increase food surplus redistribution, develop sustainable packaging systems and accelerate progress towards *Net Zero*
- ▶ **Economics** – supporting better strategic planning and decision making, for the benefit of consumers, through economic analysis and engagement with policy makers

Written evidence submitted by the Institute of Grocery Distribution (FS0021)

(Q2) Inflation outlook

“What is the outlook for UK food price inflation in the short and medium term? What policy interventions should the Government consider?”

2a. Outlook

Chart 1: Annual inflation, food and non-alcoholic drink, CPI method

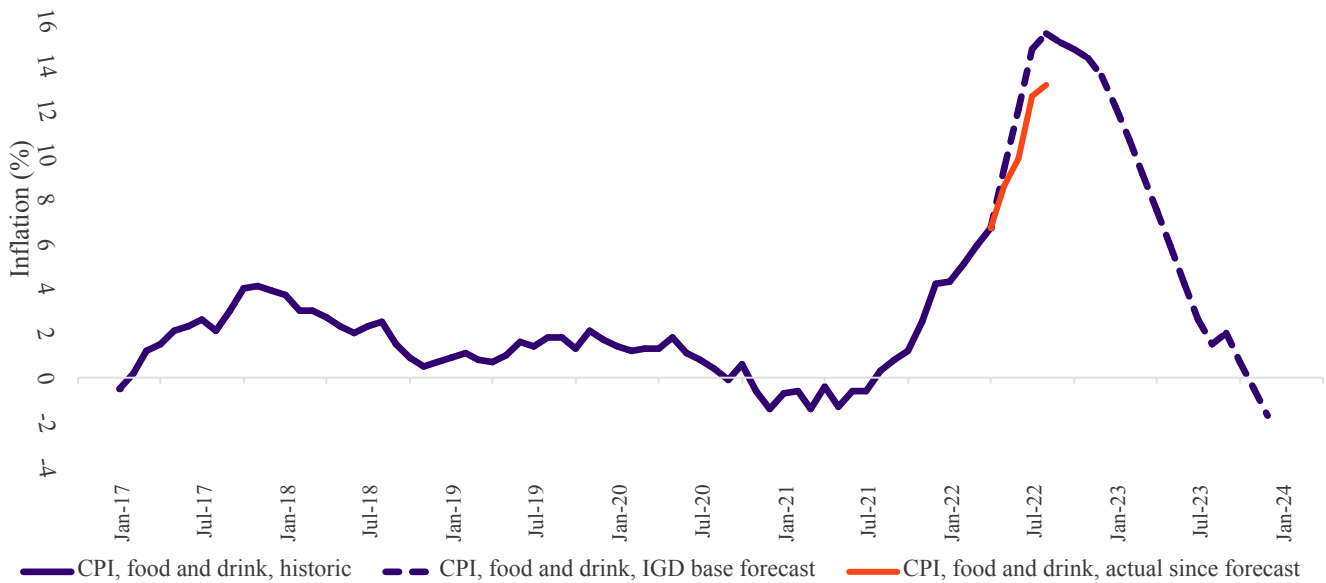
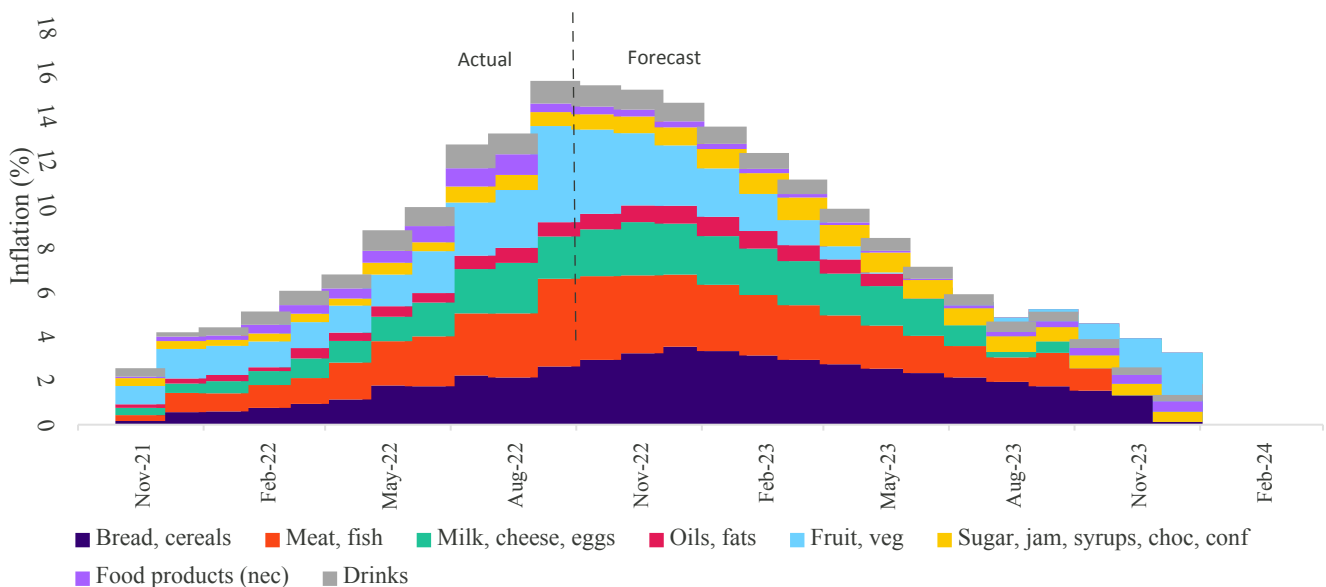


Chart 2: Annual inflation, food and non-alcoholic drink, CPI method



Source: IGD Research, September 2022 (forecast issued June 2022)

In June 2022, IGD [forecast](#) that food price inflation over 2022 would average 10-12% year-on-year, with a peak of 14-16% being reached in late Summer / early Autumn (Chart 1).

Beyond that point, inflation was expected to dissipate, returning to more “normal” levels by Summer 2023. Most inflation pressure was expected to come from cereals, dairy, produce and proteins (Chart 2).

Written evidence submitted by the Institute of Grocery Distribution (FS0021)

This forecast assumed that neither businesses nor shoppers would adjust their behaviour and that product “mix” remained unchanged.

In reality, all parts of the food system – including shoppers themselves - respond readily to inflation, to reduce the impact. “Effective” inflation for shoppers may therefore be closer to 9% over 2022.

Since the forecast was developed, food price inflation has run slightly behind IGD’s expectations, with prices in the key product categories progressing as follows:

Category	Progress vs forecast, Jun-Aug 2022
Bread, cereals	In-line
Meat	Below
Fish	Above
Milk, cheese, eggs	Above
Fruit	Below
Vegetables	Below

Source: ONS and IGD calculations, September 2022

Summer 2022 was exceptionally hot and dry, impacting agricultural yields across the UK and Europe, with implications for food pricing.

Energy prices have risen ahead of expectations, mainly as a result of the ongoing war in Ukraine. The value of *Sterling* has fallen sharply, to the lowest level in decades and the impact of this may be severe – this is not included in the forecast.

There is therefore still high risk that the “peak” inflation values predicted by IGD will still be reached, but slightly later than initially expected.

Looking ahead, key variables affecting future food pricing include, among other things:

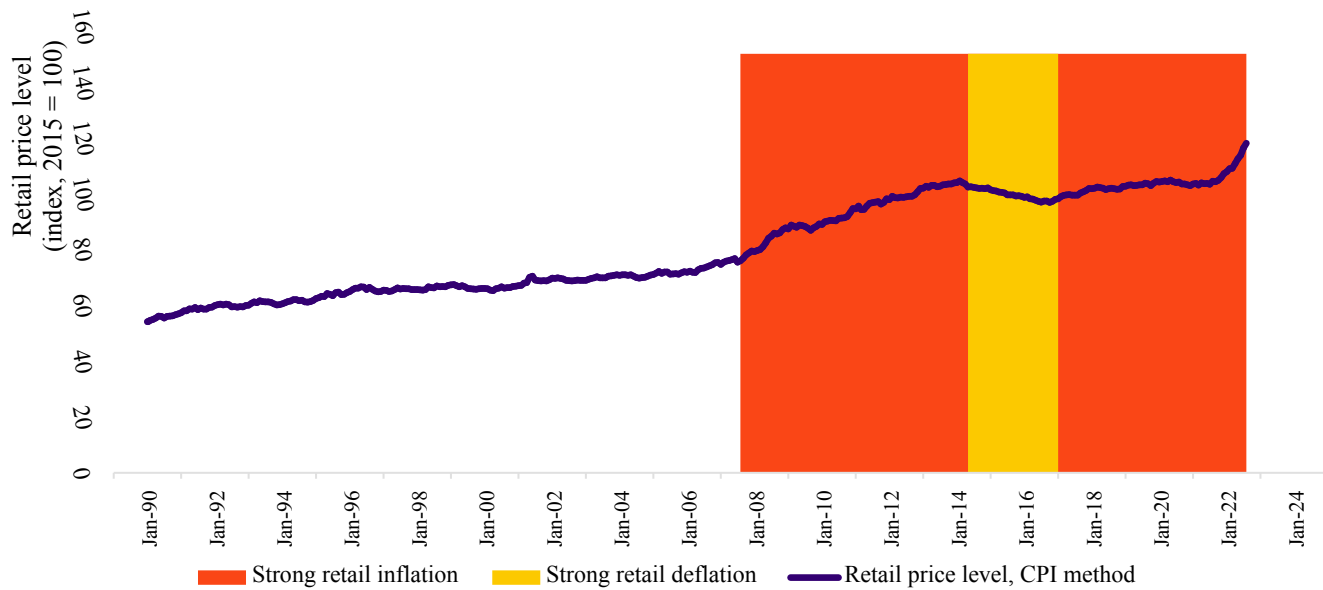
- Business decisions made by farmers
- Commercial interactions in the food supply chain
- Energy price policy for businesses and households
- *Sterling* performance
- War in Ukraine
- Weather, in the UK and elsewhere

If developments are unfavourable (eg: farmers decide not to plant crops) then high food price inflation may persist further than expected into 2023.

2b. What happens when inflation ends?

Written evidence submitted by the Institute of Grocery Distribution (FS0021)

Chart 3: Periods of strong food price inflation / deflation



Source: ONS, September 2022

Eventually, high inflation is certain to end, although lower inflation would not necessarily equate to lower prices. Shopper hardship and other economic impacts will likely continue long after inflation eases.

Historically, it has been quite rare for overall food prices to fall – the food price CPI has been negative in only 5 out of the 31 years since 1990 (source: ONS).

However, food prices did fall significantly after the last period of high food price inflation. Food prices went up 31% over 2008-12, then fell 5% over 2014-17 (Chart 3).

These price movements broadly followed changes in actual production cost in terms of timing and degree. Production costs remained elevated over 2014-17 and would not permit a larger downward correction.

IGD anticipates that overall food prices will fall in future, as soon as business costs permit and mirroring any reduction in business cost.

This is what has happened previously and fierce price competition between businesses creates a powerful incentive to repeat the process.

(Q3) Household food security

“How are the rising cost of living and increasing food prices affecting access to healthy and nutritious food?”

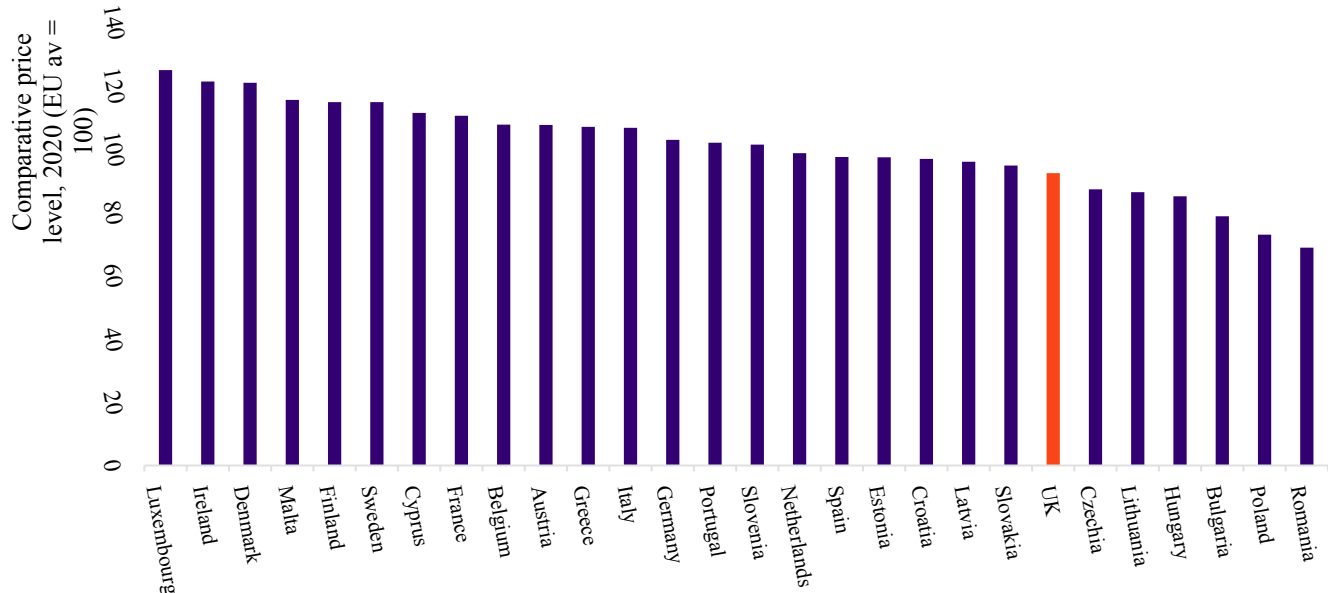
3a. Household position

Written evidence submitted by the Institute of Grocery Distribution (FS0021)

Many UK households were suffering from economic hardship and food-stress before the current inflationary “spike”. (source: [UK Food Security Report 2021](#), Defra, December 2021).

However, this is likely due to high overall living costs in the UK – food and drink is not particularly expensive in the UK, relative to other West European countries (Chart 4).

Chart 4: Comparative price levels, food and drink



Source: Eurostat, September 2022

Consumers now face strong inflation across almost all areas of household expenditure. The total cost-of-living is rising well ahead of average income growth, leaving most consumers worse-off in real terms.

IGD's *ShopperVista* research shows that food prices are a leading determinant of financial confidence for consumers – when inflation is high, financial confidence is eroded (Chart 5).

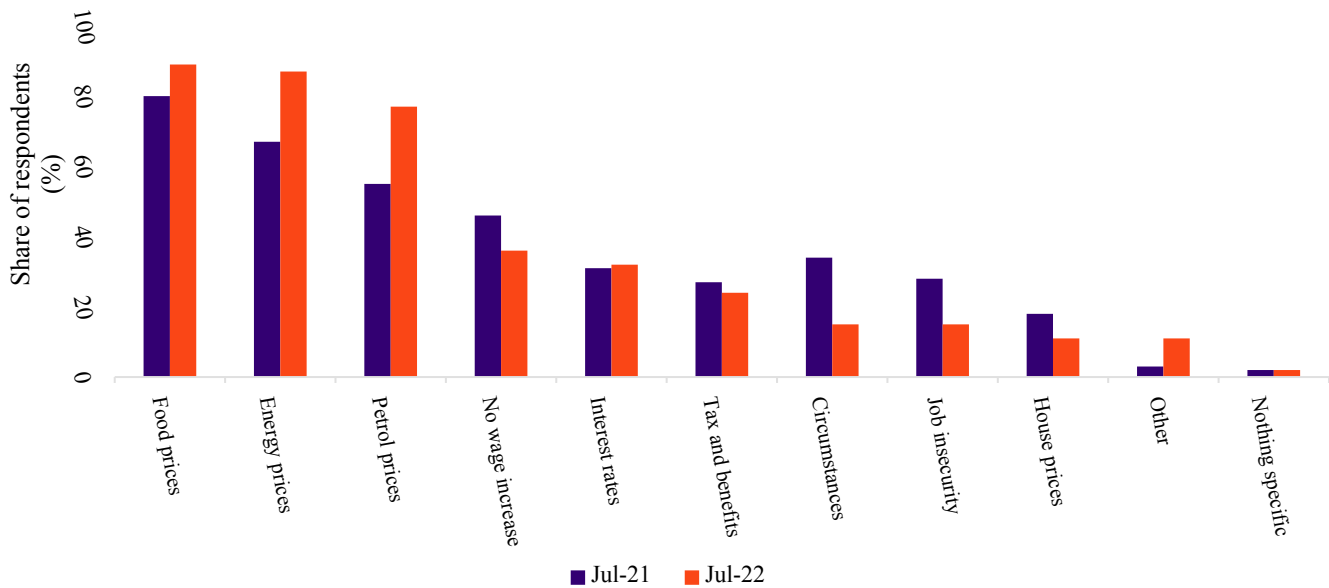
The least well-off households are most vulnerable, since they have limited savings and allocate a higher proportion of expenditure to food and drink (this is known as “Engels’ Law”).

The link between low income and poor diet is well-known (source: [Health Inequalities in the UK](#), Kantar, 2018 and others).

As rising food prices and other economic pressures take effect, eroding prosperity, the quantity and quality of food eaten will likely fall for at least some households.

Written evidence submitted by the Institute of Grocery Distribution (FS0021)

Chart 5: Reasons why shoppers expect to be worse-off in the year ahead



Source: ShopperVista, IGD Research, September 2022

Base: GB shoppers expecting to be worse-off

3b. Impact on consumers

ShopperVista research shows that consumers are responding to inflation, making different choices in what and where they shop/eat (Charts 6 and 7). They display a range of “savvy shopping” behaviours, including:

▶ Eating out less:

- Fewer restaurant meals
- Fewer takeaways
- More packed lunches

▶ Making better use of resources:

- Cooking from scratch, avoiding convenience foods
- Making more use of leftovers
- Planning meals

▶ Shopping more effectively:

- Avoiding “impulse” buys
- Buying goods on promotion
- Trading down (eg: buying own label goods rather than brands)

Written evidence submitted by the Institute of Grocery Distribution (FS0021)

Chart 6: "Which of the following have you done recently?"

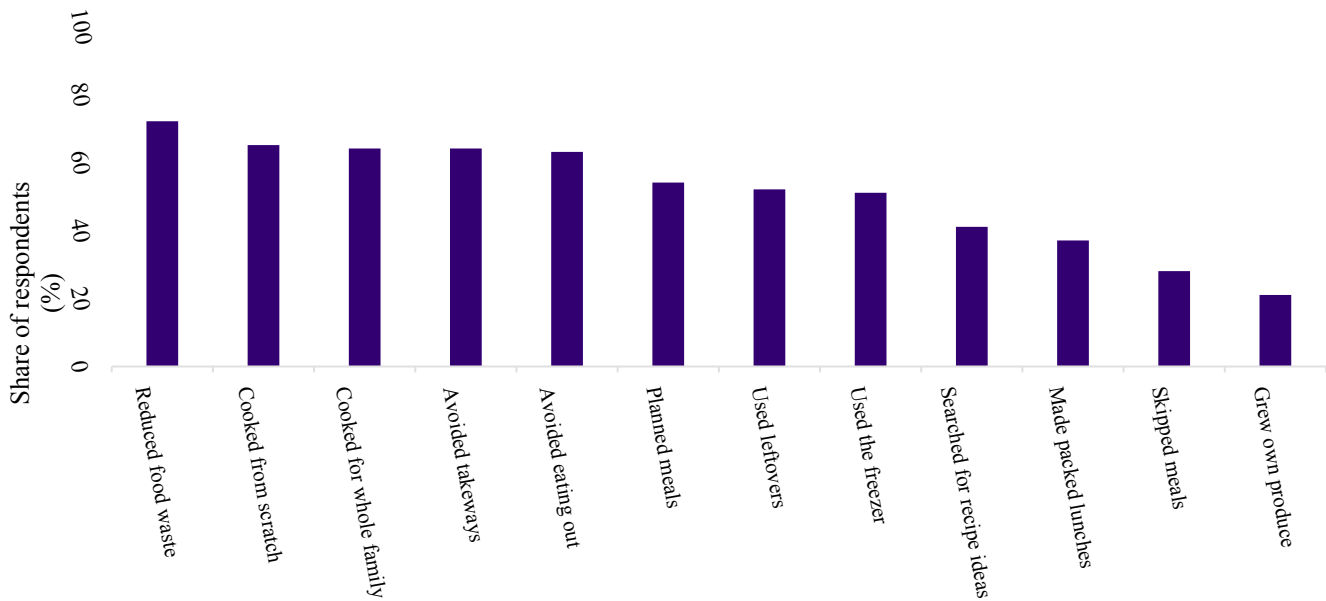
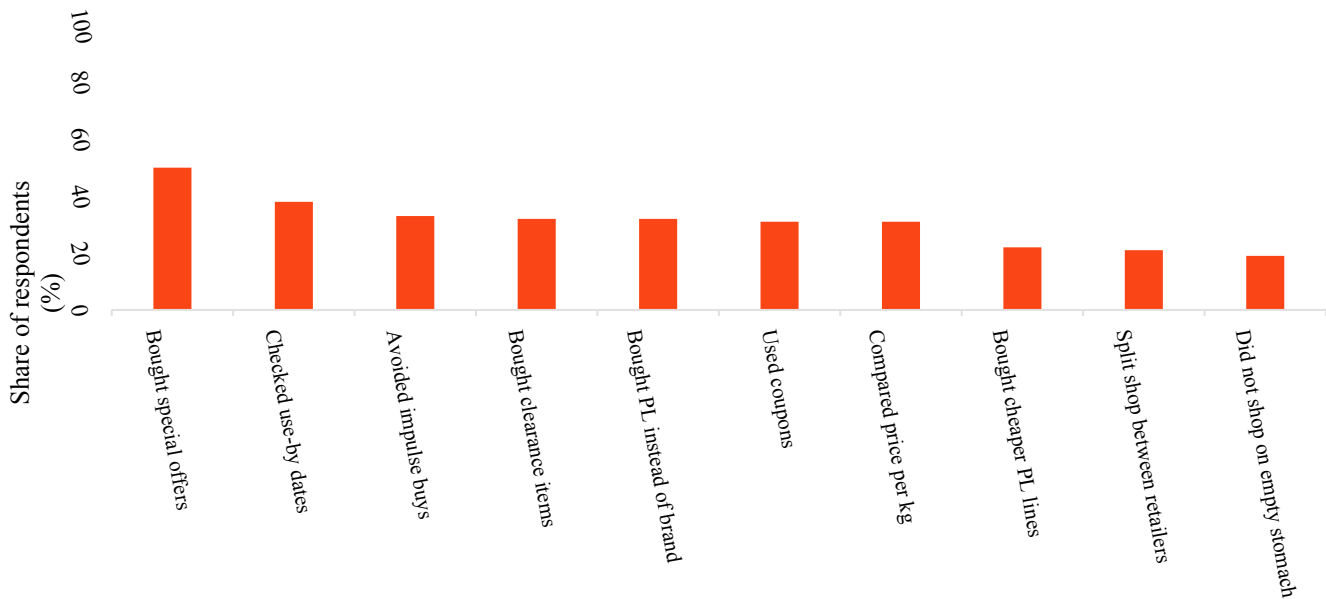


Chart 7: "Which of the following have you done recently to save money?"



Source: ShopperVista, IGD Research, September 2022

Base: >1,000 GB shoppers, balanced sample

Fieldwork: May 2022

Note that availability of goods at all price levels is important. If the cheapest items are not available, hard-pressed shoppers may not be able to trade-up to the next-cheapest.

ShopperVista data shows relatively high levels of [concern](#) amongst shoppers over the ability of businesses to maintain availability of goods.

IGD research shows that "savvy shopping" behaviours have become more common in 2022, even for the most affluent shoppers. However, there are limits to how far this can address inflation at the current level.

Written evidence submitted by the Institute of Grocery Distribution (FS0021)

In August 2022, 11% of shoppers interviewed by IGD said that they could not reduce household spending any further. Food security is falling and signs of hardship are growing.

A significant number of shoppers now report missing more meals to save money (Charts 8 and 9). This includes some shoppers from the more affluent socio-economic groups.

Chart 8: Shoppers skipping more meals to save money

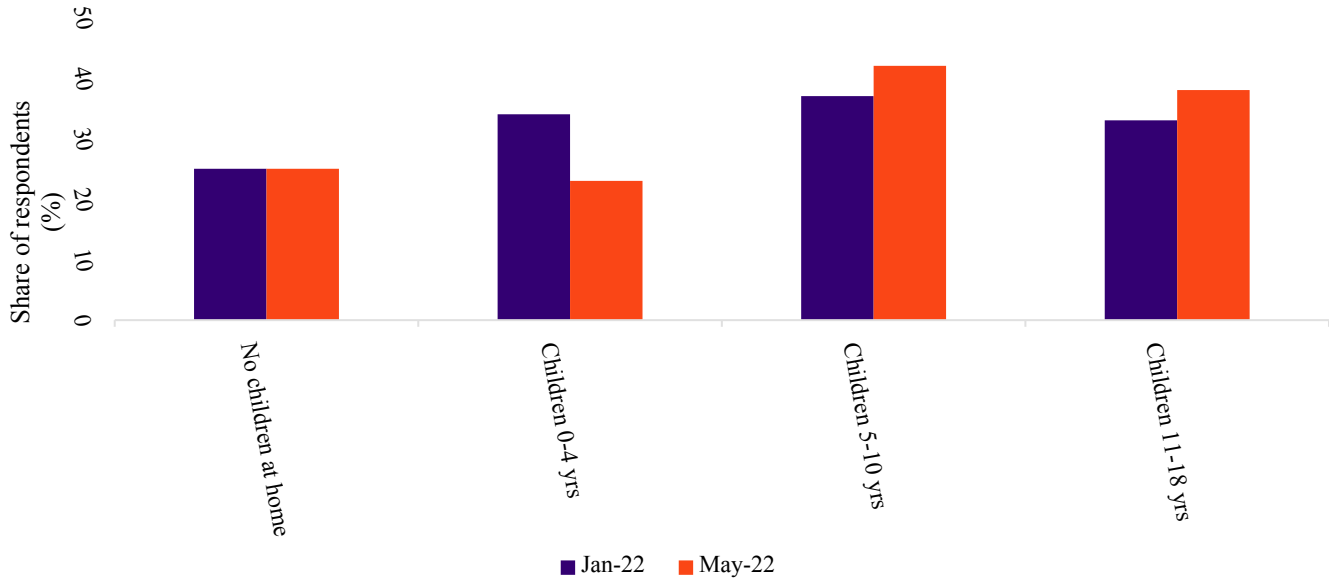
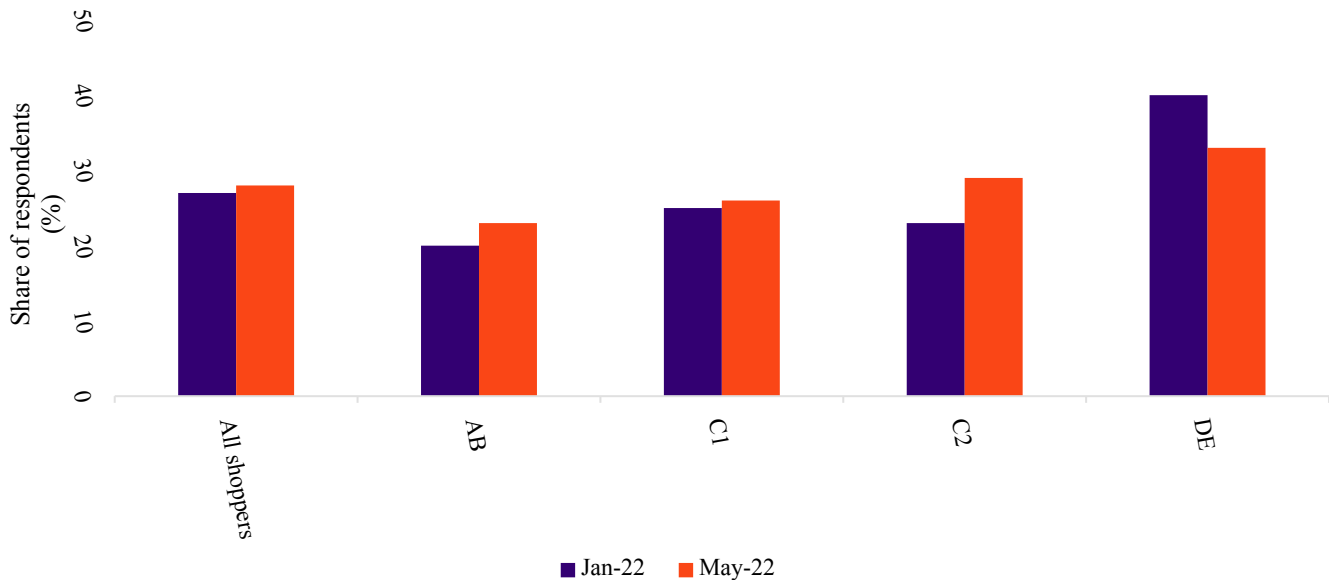


Chart 9: Shoppers skipping more meals to save money



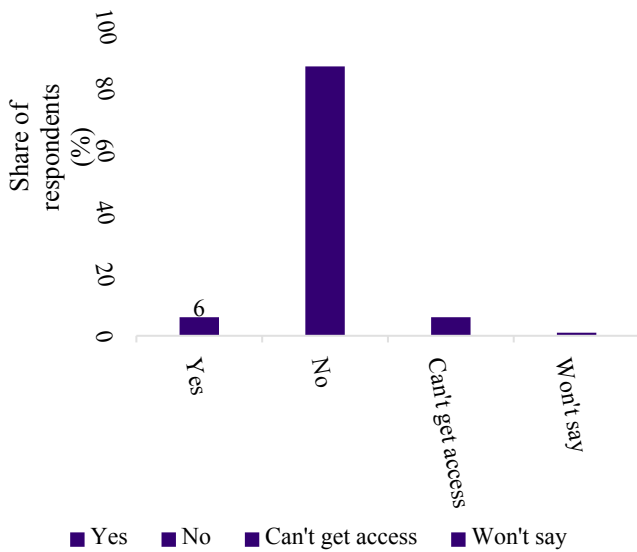
Source: *ShopperVista*, IGD Research, September 2022

Base: >1,000 GB shoppers per month, balanced sample Fieldwork: May 2022

Some shoppers report using food banks and interest in food banks is growing – in March 2022, 6% of shopper had used a food bank recently and 7% of shoppers expected to use them in the near future. By August, this had risen to 11% (Charts 10 and 11).

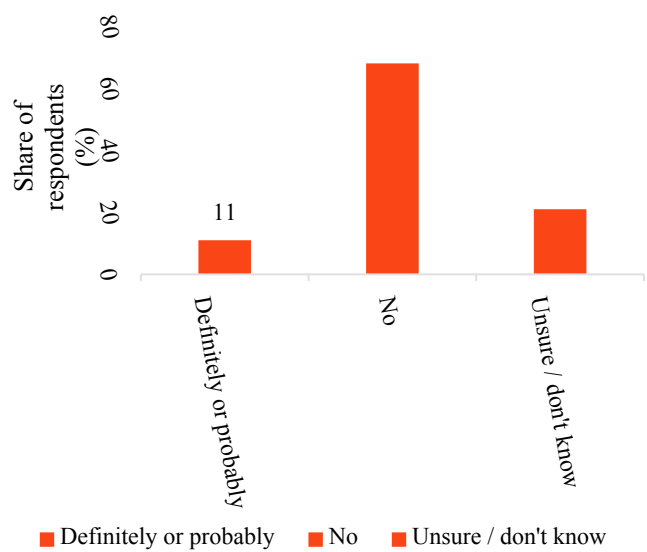
Written evidence submitted by the Institute of Grocery Distribution (FS0021)

Chart 10: "Have you used a food bank in the last 3m?"



Source: ShopperVista, IGD Research, September 2022

Chart 11: "Do you expect to use a food bank in the next few months?"



Base: >1,000 GB shoppers per month, balanced sample

Fortunately, the majority of shoppers are still able to afford sufficient food, but perceived quality of food bought is falling and satisfaction with the value-for-money achieved is also down (Charts 12, 13, 14 and 15).

("Quality" in this instance refers to taste, convenience and other functional attributes, not necessarily nutritional quality).

Chart 12: Food shoppers using money-saving measures in the last month

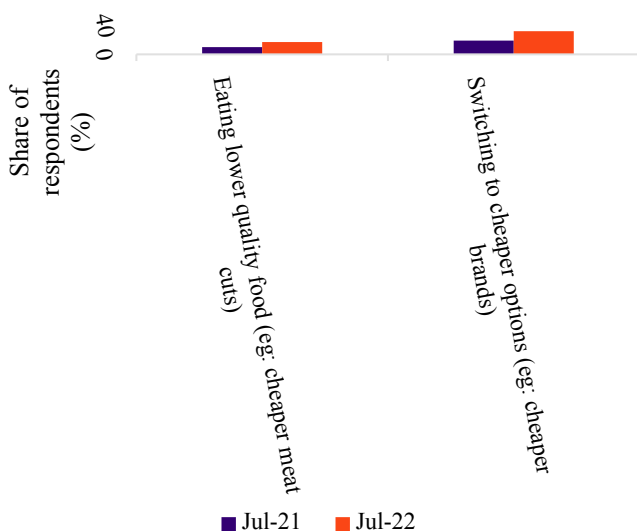
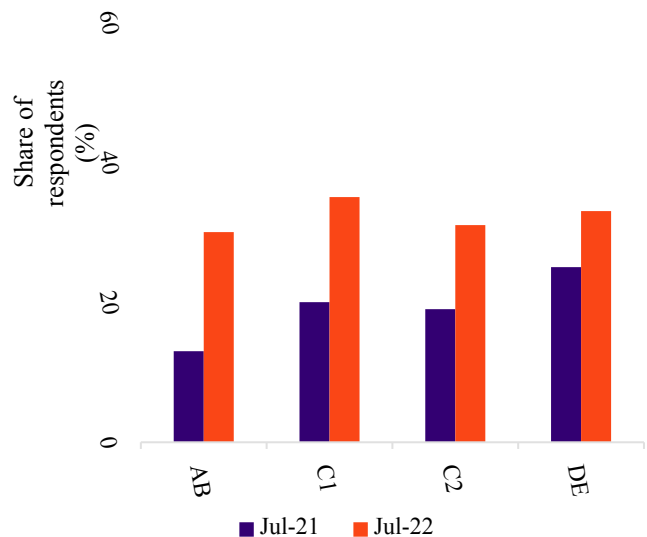


Chart 13: Food shoppers switching to cheaper options (eg: cheaper brands)



Written evidence submitted by the Institute of Grocery Distribution (FS0021)

Chart 14: Food shoppers satisfied with how much they spent on the most recent trip

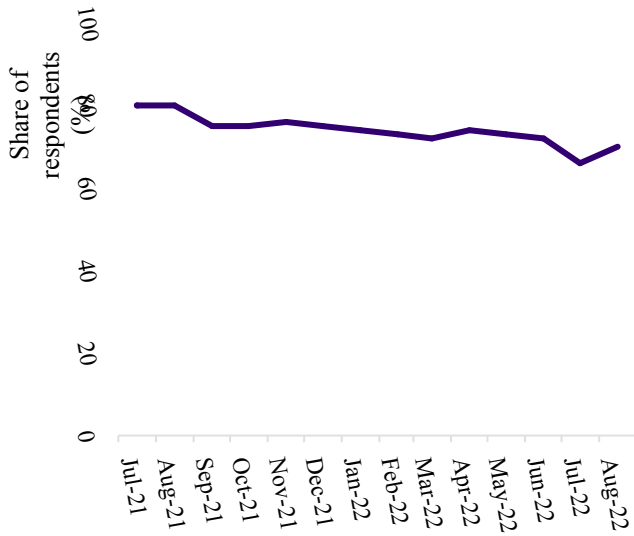
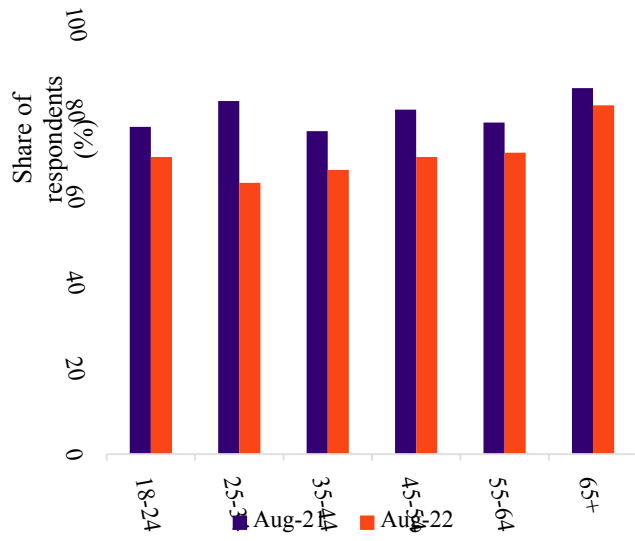


Chart 15: Food shoppers satisfied with how much they spent on the most recent trip



Source: ShopperVista, IGD Research, September 2022
2022

Base: >1,000 GB shoppers per month, balanced sample Fieldwork: August