

FRESH INTELLIGENCE

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FEBRUARY 2018

Foodservice Price Inflation (FPI) - December Overview

The Foodservice Price Index (FPI) gives the industry a key insight into how prices are changing by category compared to the same month the previous year. This metric is especially important given the current economic and political climate in the UK and the uncertainty around how it will affect food prices.

Overall FPI increased in December to +5.4%, up from +3.4% in November and remains above CPI and RPI inflation measures. The weak pound effect has mostly fed through to fruit, vegetable and dairy prices which gives us a reason for hope amid the uncertainty that surrounds the UK's economic future. However, market forces in each category are still having a significant effect on price fluctuations even when currency impacts have weakened.

Fruit

Fruit inflation has slowed down as it tends to do at the end of every year, however some key growing regions around the world are experiencing poor weather conditions affecting supply and quality which is propping up prices. UK growers are finding it difficult to recruit enough unskilled workers and some predict they'll be unable to source sufficient labour in 2018.

Vegetables

Like fruit, vegetable inflation appears to have mellowed in December but harsh weather conditions in Europe in early 2018 means price increases are likely for January. Freezing conditions in Southern Spain could cause shortages of lettuce, broccoli and other products over the coming weeks which will feed into the FPI inflation figures over the next few months.

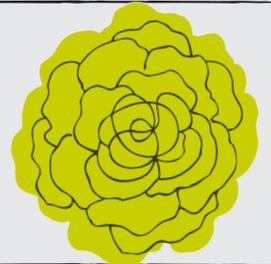
Dairy

The dairy industry is undergoing several initiatives aimed at maintaining even prices and steady supply after a turbulent couple of years. Butter supply and prices have stabilised over recent months as production has improved, we expect this stability to remain throughout the first half of 2018.

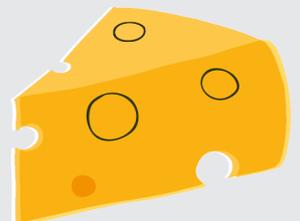
December's
Headline **+5.1%**
FPI figure

Inflation by category

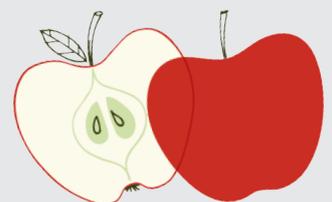
Vegetable
+2.7%



Dairy
+7.3%



Fruit
+3.5%

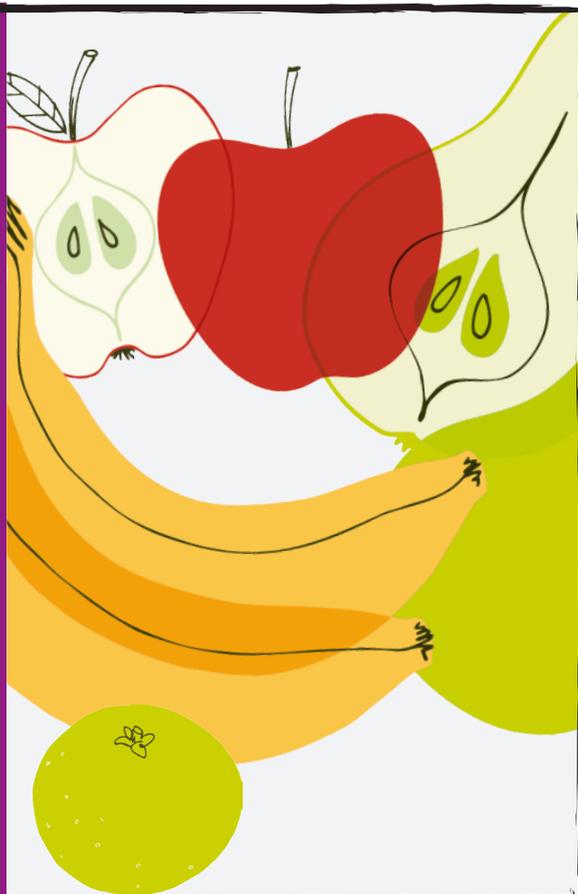


Category Overview

Fruits

The fruit market is highly seasonal and this year is no exception. The Fusarium fungus continues to wipe out Cavendish banana crops in much of the world and may soon reach the Caribbean which is where most of the UK's supply originates. The Cavendish banana dominates the export trade and currently the disease, which can be spread in as little as a speck of dirt, can only be slowed down rather than contained. There is currently no viable alternative to the Cavendish and as a result we can expect the worldwide supply of bananas to tighten further. South Africa is forecasting lower fruit crop estimates compared to last year caused by an ongoing drought issue with the biggest impacts being reported on plums, nectarines, apples, pears and grapes.

Britain's labour supply of unskilled workers to harvest, process, pack and distribute produce remains in crisis mode with many businesses finding it difficult to hire enough workers and many predicting that they will be unable to source sufficient workers in 2018. The uncertainty of labour supply is affecting growers who will incur penalties if they are unable to fulfil their supply contracts.



Vegetable & Salads

The freezing weather conditions in Southern Spain could cause shortages of lettuce, broccoli, basil, tomatoes and many others supplied to the UK. The shortage has already caused a commodity price rise of 50% between December 17 and January 18. Suppliers are looking for alternatives from other Mediterranean regions to combat the shortage and avoid a repeat of last year's vegetable crisis.

Packaging waste has become a hot topic this January, with the government proposing plastic-free supermarket aisles and growing public support for supermarkets to sell more loose fruit and vegetables.

The lack of migrant workers is also having an impact in this category, with the largest producer of Jersey Royal potatoes warning that crops may be left to rot in the fields. Producers are having to look for staff outside of the EU hired on special permits, as migrant workers from within the EU increasingly prefer to work in France and Germany following the Brexit referendum and the resulting weaker exchange rate.



Category Overview



Dairy - butter, milk & cheese

Mintel predicted in March that sales of dairy milk would continue to fall over the next two years; the fall in cow's milk being linked to the growing consensus that plant-based milks might be far better for humans than cow's milk.

Last month we reported butter prices had risen due to butter shortages; this month due to steady supply and falling raw costs, the butter sector has been relatively steady.

Cheese continues to see growing demand. For the UK most of the volume growth we have seen in exports has been in cheddar, where there have been substantial increases in exports to both EU and non-EU countries. In the EU, growth has mainly been in exports to Ireland, the Netherlands, and Denmark. With Brexit on the horizon, and trade agreements still uncertain at this stage, the development of new export markets is a positive story, yet the EU will remain the major importer of our cheese.

CGA-Prestige FPI Report - January 2018



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