Daily Livestock Report

Sponsored in part by CME Group

Vol. 18, No. 200 / October 14, 2020

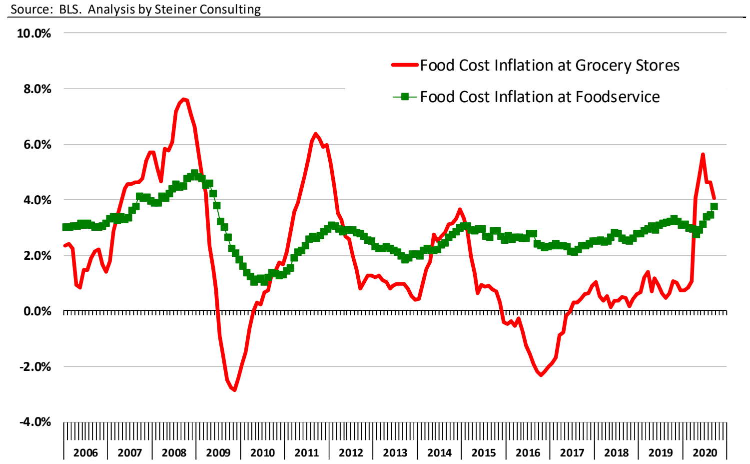
The pace of food cost inflation has slowed down in the last two months but it still remains substantially higher than in the last three years. Overall food cost inflation in September was 3.9% higher than a year ago compared to headline inflation at +1.6%. What is especially interesting in the latest update from the US Bureau of Labor Statistics is that **cost inflation for food consumed away from home (foodservice) largely closed the gap with cost inflation for food consumed at home (grocery stores)**. This would suggest that consumers have started to shift some of their purchasing behavior and foodservice demand has started to recover. In June, cost inflation for food consumed at home was up 5.6% compared to the previous year while inflation for food consumed away from home was 2.9% higher. By September, prices for food at the grocery store were up 4.1% y/y while prices at foodservice were 3.8% higher.

But even as food cost inflation at foodservice has been trending higher in the last three months, there is a great disparity in cost inflation across segments. Fast food appears to have far outpaced demand at sit down, full service restaurants, with prices rising at a much faster pace. While this makes sense given their experience with delivery and availability of drive thru facilities, the cost inflation data offers some tangible evidence. **September food cost inflation at limited service establishments was 5.5% higher than a year ago compared to a 2.8% increase for full service restaurants**. The pace of inflation at full service averaged 3.2% in 2019 and the first quarter of this year. However, since April the pace of food cost inflation in the segment has averaged 2.7%. On the other hand, food cost inflation at limited service restaurants averaged 3% through March. Since then it has averaged 4.3% and it has been on a steep upward trend. The government inflation data also noted that food cost inflation at employee cafeterias and schools was down 3.4% in September and it has averaged –3.5% since June compared to an average inflation pace of 1.4% a year ago. With all the work at home options and remote learning, the data makes sense but it also helps explain what's driving fast food inflation at this time.

Chicken retail price inflation is currently outpacing beef and pork price inflation. To be clear, beef and pork prices at retail still remain well above the price of chicken. However, in September the composite chicken retail price was pegged at a little over $2 per pound, 7.5% higher than the previous year but 3.7% lower than what it was in June. By comparison, the average retail beef price in September was $6.37 per pound, 15.7% lower than what it was in June but 6.1% higher than a year ago. The average pork retail price last month was $4.05 per pound, down 4.5% compared to June but still 4.5% higher than last year. The reason why we find the higher pace of inflation for chicken is that wholesale price inflation has been quite limited. According to USDA, wholesale prices for whole broilers in September averaged about 63.5 cents per pound, 18.4% lower than the September average a year ago. The retail price for fresh, whole chickens at retail in September was $1.54 per pound, 3.7% higher than last year. The price of boneless chicken breasts at retail averaged $3.3 per pound last month compared to a wholesale value of 99 cents per pound, 8% higher than in 2019.

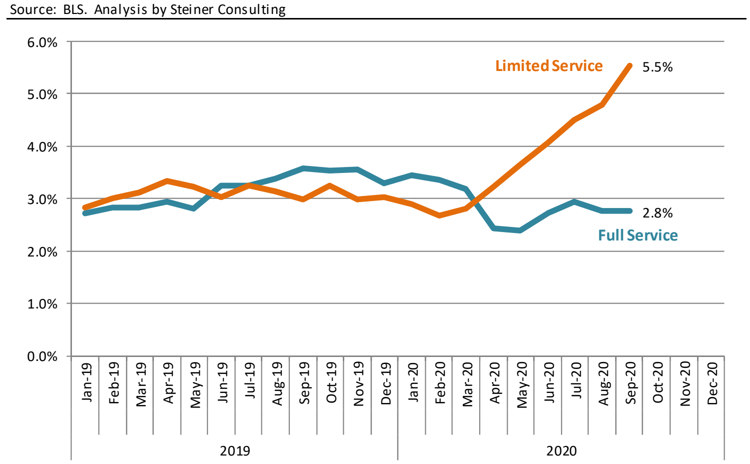
Food Inflation at Grocery Stores and Foodservice

Source: BLS. Analysis by Steiner Consulting



Food Cost Inflation at Full Service and Limited Service Establishments

Source: BLS. Analysis by Steiner Consulting



Year/Year Change in Beef, Pork and Chicken Prices at Retail

Data Source: USDA Monthly Retail Price Series and Steiner Consulting