

Food for thought

The role of food prices in the cost of living crisis

19 May 2023

Torsten Bell, James Smith & Lalitha Try

The cost of living crisis is often thought of as a cost of energy crisis. That is an understandable, but increasingly inadequate, view. In particular, it understates the growing role of food prices (up by 25 per cent over the past year and a half) in the squeeze on living standards that households – especially low- and middle-income households – are living through.

While energy prices have risen faster, food makes up a far larger share of the typical household's consumption (13 versus 5 per cent in 2019-20). This, combined with food prices continuing to rise even as energy bills fall back, means that by this summer the average increase in food costs since 2019-20 (£1,000) will be larger than that for energy bills (around £900). And this is not just true at the average: this will also be the case for a majority of households (56 per cent or 16 million). The food price shock is about to overtake the energy price shock as the biggest threat to family finances.

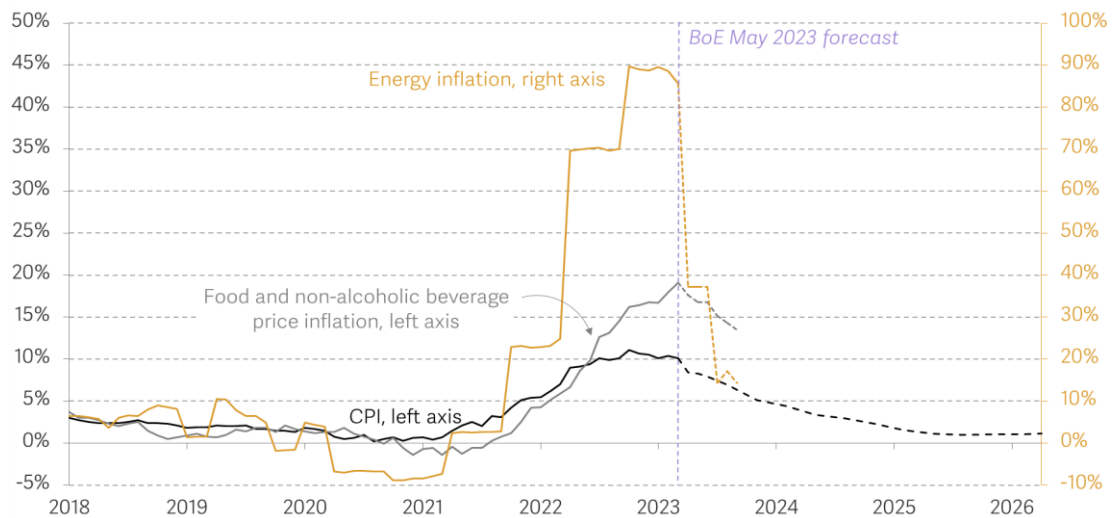
This spotlight examines the contribution of food prices to today's high inflation and the pressure on households' living standards, before considering how families and government have responded to date.

Inflation is on the way down. Having plateaued close to 40-year highs since the Autumn, sharp falls are anticipated from next week: [a near 2 percentage point reduction from March's 10.1 per cent is expected in April](#), as Figure 1 shows. This marks the end of the peak energy costs part of this crisis, albeit without energy bills remotely returning to pre-crisis norms. This first significant fall is driven by April 2022's large increase in the energy price cap dropping out of the annual inflation calculation. But next week will also see confirmation that energy prices will actually fall from July – the energy price cap is expected to be reduced from [£2,500 to £2,063](#) – reflecting the retreat of wholesale energy prices, and contribute to inflation falling back further through 2023.

Figure 1

Headline inflation is falling, but food prices will continue to rise rapidly

Annual overall, energy and food and non-alcoholic beverage CPI inflation: UK



Notes: Forecasts for food and energy inflation are inferred from rounded estimates of the contributions to CPI inflation taken from Bank of England staff projections and so are indicative.

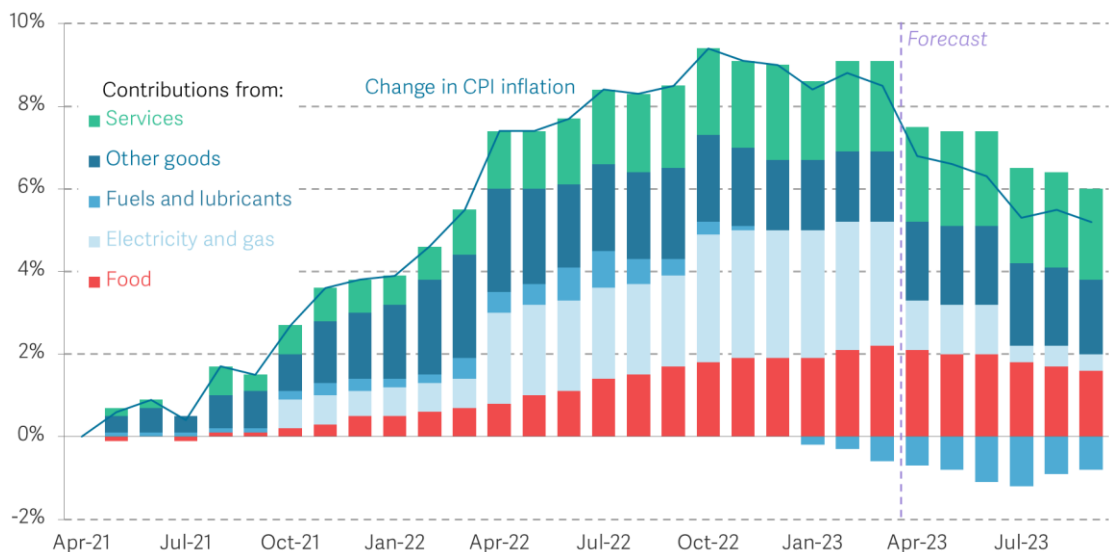
Source: Bank of England, Monetary Policy Report, May 2023; ONS, Consumer Price Inflation.

But while energy's role in this crisis may have peaked, that of food very much has not. Food price inflation reached around 19 per cent in March, the highest in almost half a century. While food price *inflation* should eventually fall relatively rapidly later this year ([global food commodity prices are down nearly a quarter since May 2022](#)), [factory gate prices](#) – which tend to lead movements in consumer food prices – suggest that the *level* of food prices could easily continue rising into the summer. As a result, food prices will be contributing far more than energy to CPI inflation through the remainder of 2023. It won't just be the Bank of England paying more attention to food prices, households are too: [more households are now more worried about food than energy prices \(51 versus 48 per cent\)](#).

Figure 2

From April, food will contribute more to CPI inflation than energy

Contributions to the rise in CPI inflation since April 2021: UK



Notes: Bank of England data from April 2023 onwards is from Bank staff projections.

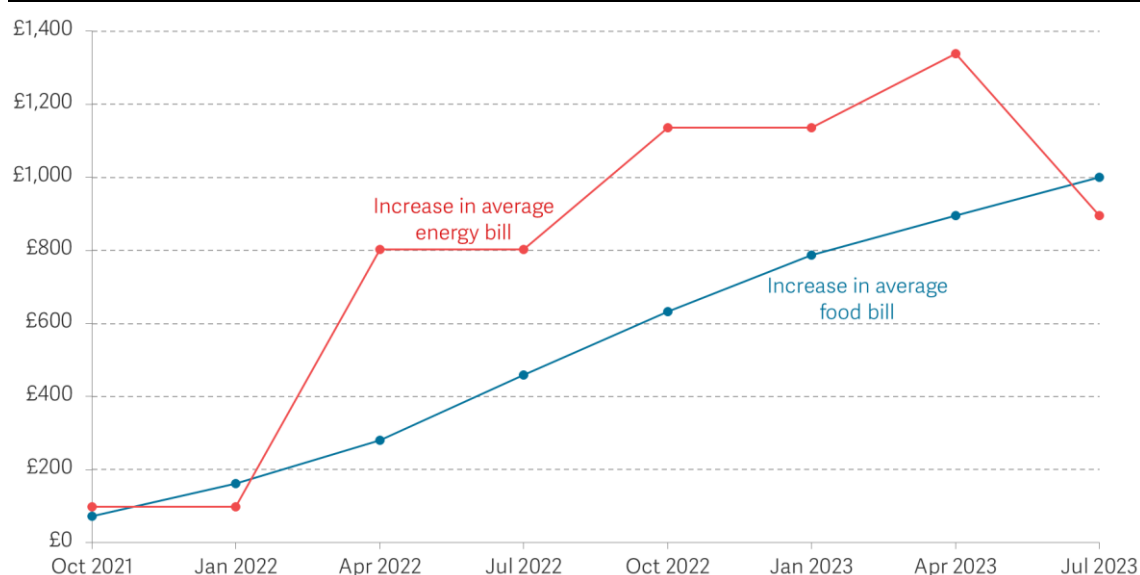
Source: Bank of England, Monetary Policy Report, May 2023; ONS, Consumer Price Inflation.

Although the public have recognised the challenges of rising food prices, it's far from clear that political and policy debates have caught up to the scale of what is going on. Maybe that's not surprising: pain arriving via millions of weekly supermarket receipts is less visible to policy makers than that announced via a single Ofgem press release. But this needs to change and fast, because by this summer, food costs will have overtaken energy bills in the scale of the shock they are administering to family finances.

While we have seen bigger energy price rises, food makes up a far larger share of the typical household's consumption (13 versus 5 per cent in 2019-20). This, combined with food prices continuing to rise even as energy bills fall back, means that, by this summer, the increase in food bills since 2019-20 (£28 billion in total, averaging £1,000 per household) will be larger than that for energy (around £25 billion or £900 per household), as shown in Figure 3.

Figure 3 **The average food bill increase since 2019-20 will be larger than the average energy bill increase by the summer**

Average increase in annual household consumption on food and energy since 2019-20 at prices in each quarter: UK



Notes: Q4 2022 and Q1 2023 data include £400 energy bill discount. The Bank of England forecast for food and non-alcoholic beverage inflation used in this analysis is inferred rounded estimates of the contributions to CPI inflation taken from Bank of England staff projections. Data is for annual household consumption, using the prices in each quarter. Consumption baskets are held fixed from 2019-20.

Source: RF analysis of ONS, Living Costs and Food Survey; OBR, Economic and Fiscal Outlook, March 2023; Bank of England, Monetary Policy Report, May 2023; ONS, Consumer Price Inflation; Cornwall Insight, Energy Price Cap forecast.

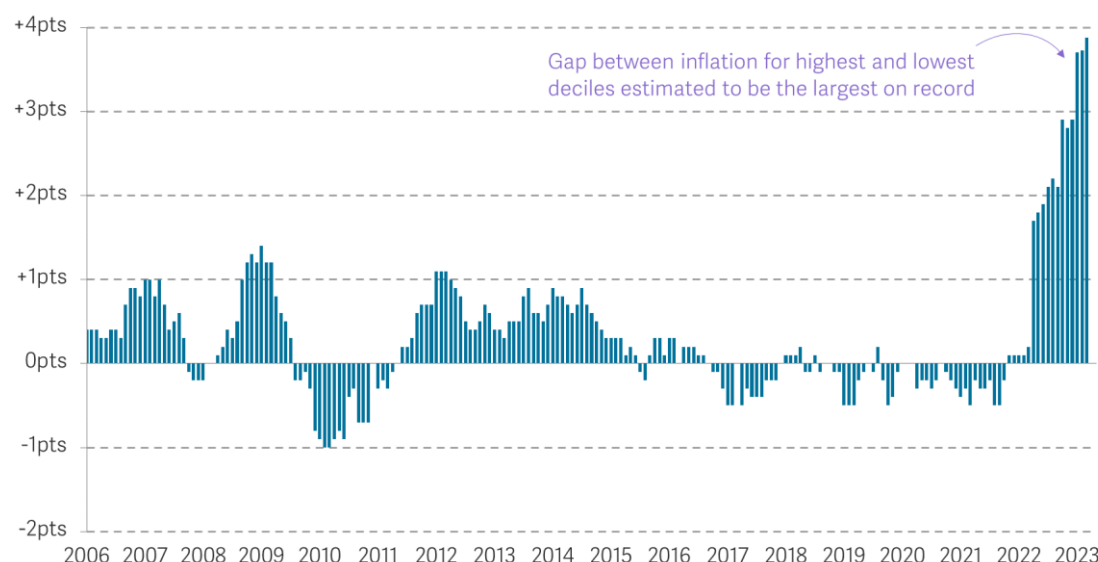
We can also model the scale of the impact across individual households given large variation in food and energy consumption. In Q3 2023, 16 million households (56 per cent) are set to face a bigger food than energy cost shock since 2019-20.

It's important to understand why this combination of food and energy price rises is so toxic for low-income households. Both are essentials which typically represent a higher proportion of lower- as opposed to higher-income households' spending. In 2019-20, food made up 15 per cent of total spending for the lowest income households compared with 10 per cent for

the top, while those figures are 7 per cent and 3 per cent for energy.¹ The result is, as Figure 4 shows, we estimate that inflation is currently more bottom heavy than at any point on record (albeit with data only going back to 2006).

Figure 4 **High food and energy inflation means low-income households are experiencing effective inflation rates more than 3ppts higher than high-income households**

CPI-consistent estimates of the difference in the annual inflation rate between the first and tenth equivalised disposable income decile: UK



Notes: The inflation rates shown in this chart are based on reweighting the components of CPI by the expenditure shares of people in different income deciles for January 2023 to March 2023. Prior to January 2023 the data is taken from the ONS's published CPI inflation rates for different household groups.

Source: RF analysis of ONS, Consumer Prices & CPIH-consistent inflation rate estimates for UK household groups: November to December 2022; and BEIS.

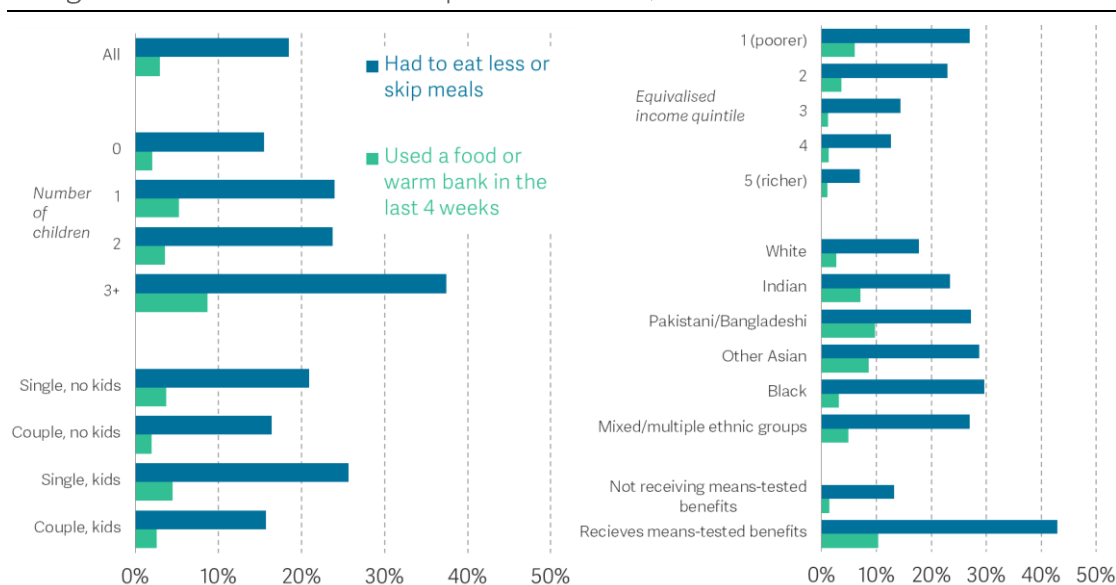
But a higher inflation rate is not the only reason why an energy- and food-dominated cost of living crisis bites deeper for low- and middle-income households. The modelling above is telling us the scale of the shock from rising prices given pre-crisis consumption patterns. But one way in which people protect themselves from such shocks is to change those consumption patterns. Specifically, when the price of some food products rise, consumers switch to others. But that strategy isn't available in the same way to those on lower incomes. Techy [US evidence](#) makes this point, but it's intuitively obvious: if you're already buying own-brand essentials at the supermarket, you can't trade down to a cheaper alternative.

What happens instead? Poorer households have to cut rather than adjust their consumption – which is another way of saying they eat less: [61 per cent of the poorest one-fifth of households report cutting back on food and other essentials compared to 35 per cent for the richest one-fifth](#). Our own recent survey (Figure 5) confirms this: around one-in-five people had to eat less or skip meals in the preceding month, with this most common amongst those on the lowest incomes (27 per cent), receiving benefits (43 per cent), from certain ethnic minorities (30 per cent for Black respondents), or with larger families (37 per cent).²

Figure 5

Large families and those on benefits have frequently had to cut down on meals and resort to food banks in response to the cost of living crisis

Percentage of respondents skipping meals due to not having enough money, and using a food or warm bank in the past month: UK, 6-13 March 2023



Notes: All respondents (n= 10122); couple, kids (n=2791), single, kids (n=917), couple, no kids (n=1172), single, no kids (n=1452); 0 children (n=7192), 1 child (n=1181), 2 children (n=1075), 3+ children (n=387); receives means-tested benefits (n=1756), not receiving means-tested benefits (n=8366); White (n=9002), Indian (n=120), Pakistani/Bangladeshi (n=104), Other Asian (n=98), Black (n=100), Mixed/multiple ethnic groups (n=202); income quintile 1 (n=950), 2 (n=1251), 3 (n=1215), 4 (n=1018), 5 (n=1138).

Source: RF analysis of YouGov, adults age 18+ Cost of Living Crisis March 2023 wave.

A number of policy conclusions follow. First, policy makers should not jump to the view that falling energy bills mean the job of supporting households through this crisis is complete. The fact that energy bills themselves are set to remain well above pre-crisis levels is also crucial in that regard.

Second, rising food prices supports the Government's approach of rebalancing support this year towards low- and middle-income households. April's 10.1 per cent uprating of benefits and lump sum Cost of Living Payments for those on means-tested benefits will help households pay bills – whether for food or energy.

Third, there are groups who will be particularly hard hit by rising food prices who are relatively less well served by existing policies. Larger families stand out. They face larger food bill increases than a single adult, but receive the same 'one size fits all' Cost of Living Payments. That support would ideally take account of family size, as indeed would the core benefit system itself by removing the two-child limit that is a major driver of rising poverty among larger families.

Everyone realises food prices are rising, but it's less clear that the scale of the increase has been fully understood in Westminster. This summer the food price shock to family finances is on course to overtake that from energy bills. The cost of living crisis isn't ending, it's just entering a new phase.

¹ RF analysis of ONS, Living Costs and Food Survey.

² This research uses data from an online survey conducted by YouGov in March 2023. The total sample size was 10,122 UK adults aged 18+. Fieldwork was undertaken online during 6-13 March 2023. All figures have been weighted and are representative of all UK adults. The figures presented from the online surveys have been analysed independently by the Resolution Foundation. The views expressed here are not the views of YouGov. We are grateful to The Health Foundation for supporting this survey.