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Household purchasing power, inflation, and unfair practices

Inflation in Europe has been primarily driven by rising energy prices, but recently food inflation has become the main contributor to price rises, affecting European households' ability to access affordable and healthy food. This situation, which continues despite the fact that food commodities are now trading around pre-crisis levels, is particularly concerning as it exacerbates the already fragile state of households due to the COVID-19 crisis.

To address the issue, SAFE calls for action from European institutions, including the introduction of price control mechanisms, tracing the origin of food price increases, monitoring the effects of inflation on consumers, and addressing unfair practices, to protect consumers and prevent long-term socioeconomic consequences.

State of Inflation in Europe

Inflation has made the headlines in Europe in the previous months, being largely focused and skewed towards energy prices, which have been more directly and heavily impacted after the start of the war in Ukraine. However, inflation on food goods is now the main driver of overall inflation in the Eurozone with double-digit figures when most of the other categories have ebbed away. This is greatly weakening European households' purchasing power and is preventing millions of Europeans from accessing sufficient affordable and healthy food. The situation of households, already fragilised by the COVID-19 crisis, has become even more precarious.

SAFE has continuously advocated for better affordability of food products across Europe and for the social inclusion of at-risk and disadvantaged population groups. In its continuity, SAFE is calling on all actors to take responsibility in reducing the pressure on households' budgets and urges the European institutions to do everything in their power to address the fragile situation of households in Europe and work towards constructive and effective solutions to rising food prices.

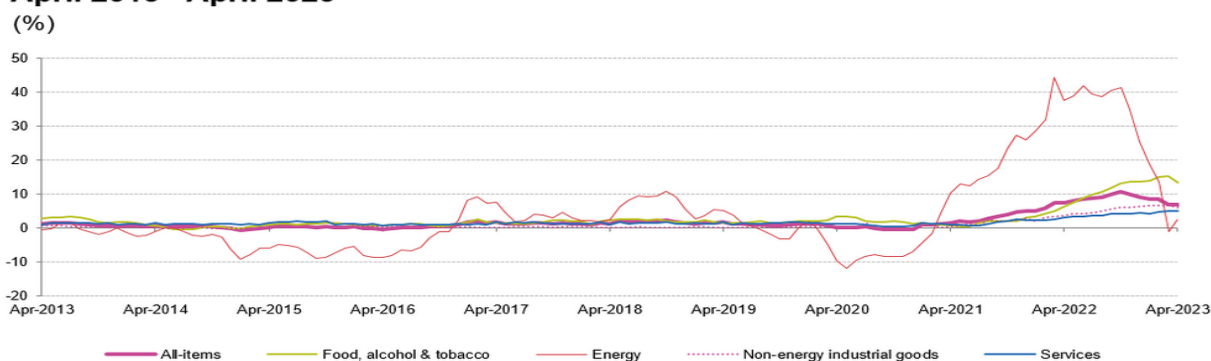
Background

Looking at inflation broken down by EU Members States (MSs), it appears that even if it has been hitting the EU as a block, the situation in MSs is rather heterogeneous. For the year 2022, the average inflation rate in the EU was 9.2% (8.4% in the Eurozone); however, this ranges from 5.9% in France to 19.4% in Estonia which represents almost a four-fold difference (Eurostat, 2022). Central and Eastern European households are more severely hit by inflation. Along with the Netherlands and Belgium, MS affected by double-digit inflation rates are all Central and Eastern European states.

The driver of inflation has shifted during the last few months. If energy prices were largely driving the inflation in the Euro area in 2022, the prices tamed in early 2023. However, foodstuff inflation kept

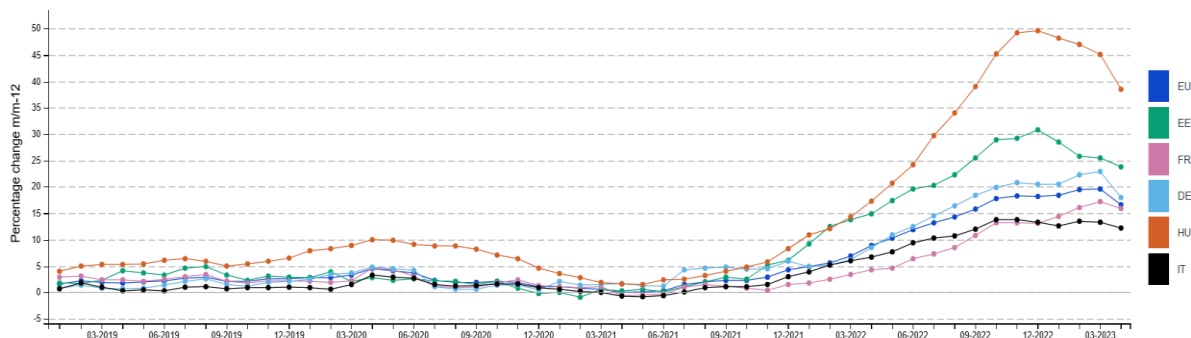
rising and is now the main component of the burden of inflation on European households. The overall inflation according to the harmonised index of consumer prices in the Euro area established at 7.0% in May 2023, the same index indicates that inflation is reaching 13.5% on foodstuff, more particularly on processed food with a 14.6% inflation rate. The same rate remains extremely high on unprocessed food at a 10.0% level (Eurostat, June 2023).

Euro area annual inflation and its main components, April 2013 - April 2023



Source: Eurostat, available here: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Inflation_in_the_euro_area

The steep increase in foodstuff prices is general around the EU. However, the situation is heterogeneous in different countries, with a peak at around 50% compared to M-12 in Hungary and 30% in Estonia, while it is around 20% in Germany, and southern European countries tend to observe a lower rate (Food price monitoring tool, Eurostat, 2023). What is particularly concerning from a consumer’s point of view is that this trend tends to become more geographically homogeneous in the last 3 months, which indicates that this is a structural trend of important and steady price increase that will continue in time and is not only the result of external shocks.



Source: Eurostat, Food price monitoring tool, available here: <https://ec.europa.eu/eurostat/cache/website/economy/food-price-monitoring/>

This inflationary situation on food products is leading to concerning impacts on European consumers. European households are unevenly affected by price increases in foodstuff. The loss of consumer purchasing power in Europe is a general phenomenon. However, it has struck disadvantaged households

more deeply, in Central and Eastern European Member States, where purchasing power parity (PPP) was already lower than in Western Member States.

It is estimated that households in the Euro area have already lost between 1.1% and 9.2% of purchasing power over the past year (Allianz Research, 2023). This loss of purchasing power has been dramatic for the bottom 20% income quintile category and has led consumers to cut costs and make cheaper and less qualitative food choices. This also slows the recovery of European economies, as consumers pay more for food and spend less on discretionary items.

Other features of high inflation in some European countries and categories of consumers are also explained by heterogeneous market structures, consumption habits, and dependence on food imports from Ukraine:

- Markets that rely more heavily on discount retailers are more impacted by price increases in foodstuff.
- Processed food tends to be more sensitive to price increases due to its share of energy and packaging costs.
- Dependence on food imports from Ukraine is driving price increases in Eastern Europe.

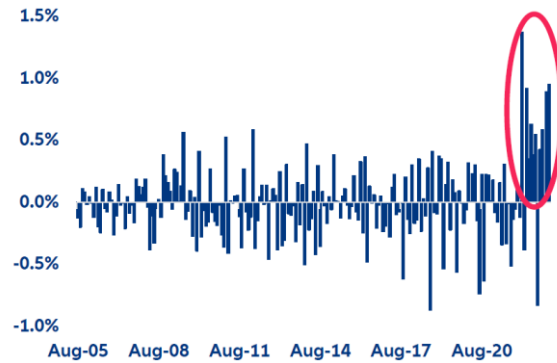
These factors are aggravating the impact of price increases on disadvantaged households, which are put under unprecedented pressure regarding their food consumption possibilities and choice. This could lead to dramatic socioeconomic consequences and deeply weakens the ability of European households to meet their needs.

Unexplained food inflation, who benefits from the crisis?

Food prices at the retail level continue to remain high in Europe. However, prices for raw materials are already trading at pre-crisis levels, which have not been passed on to consumer baskets. As an example, wheat, corn, or cereals, which were important drivers of price increases at the beginning of the inflationist crisis are all trading around their pre-crisis levels (Allianz Research, 2023).

The continued and steep increase in food prices is mostly driven by increased prices by retailers and food producers, which have raised their prices by respectively +12% and +17% y/y. “Unexplained inflation” on food is particularly concerning and has skyrocketed, with packaged food actors having increased their prices the most, and retailers passing most of their costs onto customers. Substantial parts of the price increase for consumers can be echoed by increased margins for food producers and retailers during previous stages of the food value chain.

Figure 12: Eurozone - unexplained component of our food inflation model



Sources: Refinitiv, Allianz Research

Source: Allianz Research, available here: https://www.allianz.com/en/economic_research/publications/specials_fmo/europe-food-inflation.html

This situation creates important disparities between Member States and tends to make disadvantaged consumers in poorer countries more vulnerable, which already had fewer purchasing opportunities pre-crisis. Increased margins for food retailers and food producers should leave in a vacuum and contribute to the weakening of millions of European households, in particular disadvantaged and at-risk populations.

More recently, the OECD in its Labour market and wage developments report has highlighted the extreme pressure on households purchasing power facing high inflation rate. The report noted a decrease in OECD countries in real wages, since nominal wages have grown but less than the rise in inflation. This situation has led to widespread falls in real wages which has hurt low-income households the most, this situation is particularly exacerbated in central and eastern Europe with Hungary, Latvia, and the Czech Republic facing two digits decrease in real wages in Q1 2023 vs. Q1 2022 (respectively 15.6%, 13.4%, and 10,4%). Additionally, the IMF itself, in a report published on the 26th of June 2023, acknowledged that the main drivers of inflation in 2023 is linked with increased profits, which accounts for half of the overall inflation in Europe over the past two years.

SAFE stresses the need for all actors to take responsibility to avoid a permanent and serious path into precarity for European households, which could have a lasting impact on their ability to consume and have grave consequences for European people and economies.

Conclusion

The situation of European households is particularly severe, as highlighted by Eurostat. 31,5% of Europeans are unable to face unexpected financial expenses (Eurostat, 2019), while more than 95.4 million of people in the EU, representing 21.7% of the population were considered at risk of poverty or social exclusion in 2021 (Eurostat). More worrisomely, around 6% of European are in a situation

of material deprivation (Eurostat, 2019), it is important to note that all these data were issued before the war in Ukraine, which has been affecting evermore the financial stability of households.

Given the urgency of the situation and the growing insecurity of European households, SAFE is calling on the European Commission and the European institutions to take full measure of the pressure faced by European consumers and to mobilise resources and efforts commensurate with this pressure. Therefore, SAFE continues to advocate for audacious and ambitious initiatives at EU level to empower consumers and protect their purchasing power, such as:

- The introduction of price control mechanisms and the support to Member States instigating them.
- The development of effective tools in tracing the origin of food price increases to prevent unexplained inflation that would leave in a vacuum while harming consumers.
- A direct and systemic monitoring of the effects of inflation on foodstuff and its effects on consumers' behaviours.
- Introduce the infringement of unfair practice for unjustified price increases.

About SAFE - Safe Food Advocacy Europe

SAFE – Safe Food Advocacy Europe was created with the aim of ensuring that consumers' health and concerns remain at the core of the EU's food legislation, while working actively towards the protection of most vulnerable consumers and households. SAFE is currently the only Brussels-based NGO specialised in the protection and representation of EU consumers in the food sector. SAFE strives to ensure safer food standards and make them accessible to all. In doing so, SAFE is monitoring the EU food legislation process and cooperating with EU stakeholders to draft comprehensive food regulations. SAFE notably supports the development of policies and awareness-raising actions which jointly address health, environment, food safety and inclusion, all-the-while being involved in several projects aimed at protecting disadvantaged households and providing access to quality and healthy food for all, such as the [FOOD4INCLUSION](#) grant.