

REFRESH A whole health blog

Food Price Pressures to Subside in 2012

by [Robert Vosburgh](#) in [Refresh](#) [RSS](#) 
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Playing with food prices is sensitive stuff. There are so many venues to shop that supermarkets no longer have as much leeway as they did in simply passing along inflationary costs. Food retailers not only have to consider direct competitors when factoring in their costs, they now have to cast a wary eye at what mass merchandisers are doing, or drug stores, or dollar stores.

Natural and organic foods — already burdened with a premium due to higher production costs — face the added challenge of higher retails. Making these products affordable is a balancing act between manufacturers and retailers. Fortunately for consumers, the industry has grown to the point where incentives like BOGOs, coupons and promotional cuts are more common in mainstream retail outlets like traditional supermarkets.

But even with scale, all stakeholders need to price aggressively to maintain volume. Hopefully, that task will become a bit easier in 2012 as food price inflation is expected to subside a bit from last year's levels.

The Food Institute's [analysis](#) of the Consumer Price Index through November concludes that at-home foods prices will land somewhere between 4.25% and 4.75%. In its 2012 forecast, the Food Institute believes the range will moderate to the 3%-4% range.

Price levels in 2012 will hinge significantly on several macroeconomic factors such as weather conditions, fuel prices, and the value of the U.S. dollar (an indicator of global demand)," FI researchers wrote. "An end-of-year surge in prices has increased the starting point for 2012 prices, which may reflect more moderate inflationary figures for 2012."

The authors note that despite the inflationary pressures put on retailers, most were slow to pass on those cost increases — a key component in the recent, ongoing success of health and wellness categories.

Fresh foods — the cornerstone of the wellness movement — performed very well in 2011 and are poised to make further progress in the coming year. According to the [Perishables Group](#), supermarkets still sell the most fresh fare compared to other channels, and the contribution of produce, seafood, meat, bakery and deli to total-store sales reflects the supermarket segment's dominance in this area.

"Further supporting supermarkets' advantage in the fresh food market, the portion of supermarket sales that fresh foods account for is rising, up 3 percentage points since 2006 and reaching 30% in 2011 year-to-date," a recent report from the firm stated.

The Perishables Group also crunched government data to determine that food inflation will ease

What's Refresh?

Refresh offers unique unique content on the subjects of supermarkets, wellness and sustainability.

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up over the next year, and that will hopefully free up some trade spending. This would be an ideal scenario for natural and organic foods, which often need promotional support to encourage trial and initial purchases. Lower prices then help with the repeat purchases.

But make no mistake: Even though all sorts of reports and polls show that sales of health and wellness products resumed a strong pace after a blip during the depths of the recession, it's foolish to believe that price plays no roll in the sale of health and wellness products.

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