

Inflation

and the Independent Grocery Industry

IGA
Independent
GROCERS ALLIANCE

— EST. 1926 —

nga NATIONAL
GROCERS
ASSOCIATION

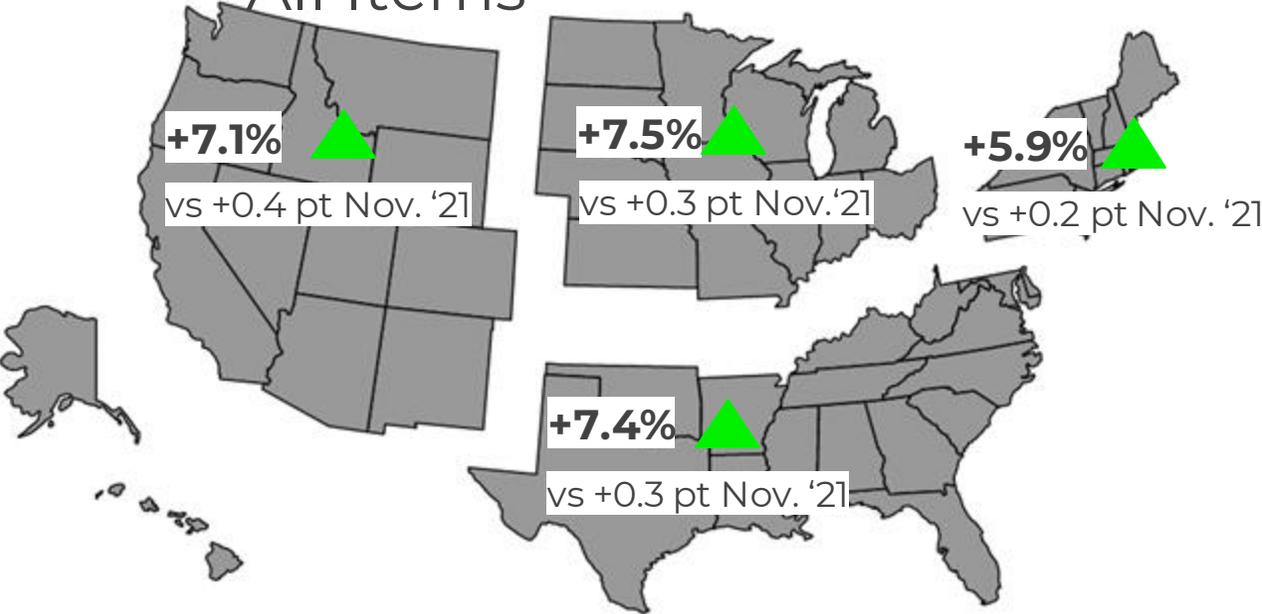
Posting the largest 12-month increase since the period ending June 1982, the all-items index rose 7.0 percent for the 12 months ending December

Shelter, Used Cars and Trucks, and Food drive increase in CPI

Annualized % Chg vs Dec. 2020

Consumer Price Index
All Items

+7.0% ▲
+0.3 pt vs. Nov '21



Shelter
+4.1% ▲
vs +0.4 pt Nov. '21

Used Cars and Trucks
+37.3% ▲
vs +3.5 pt Nov. '21

Food
+6.3% ▲
vs +0.5 pt Nov. '21

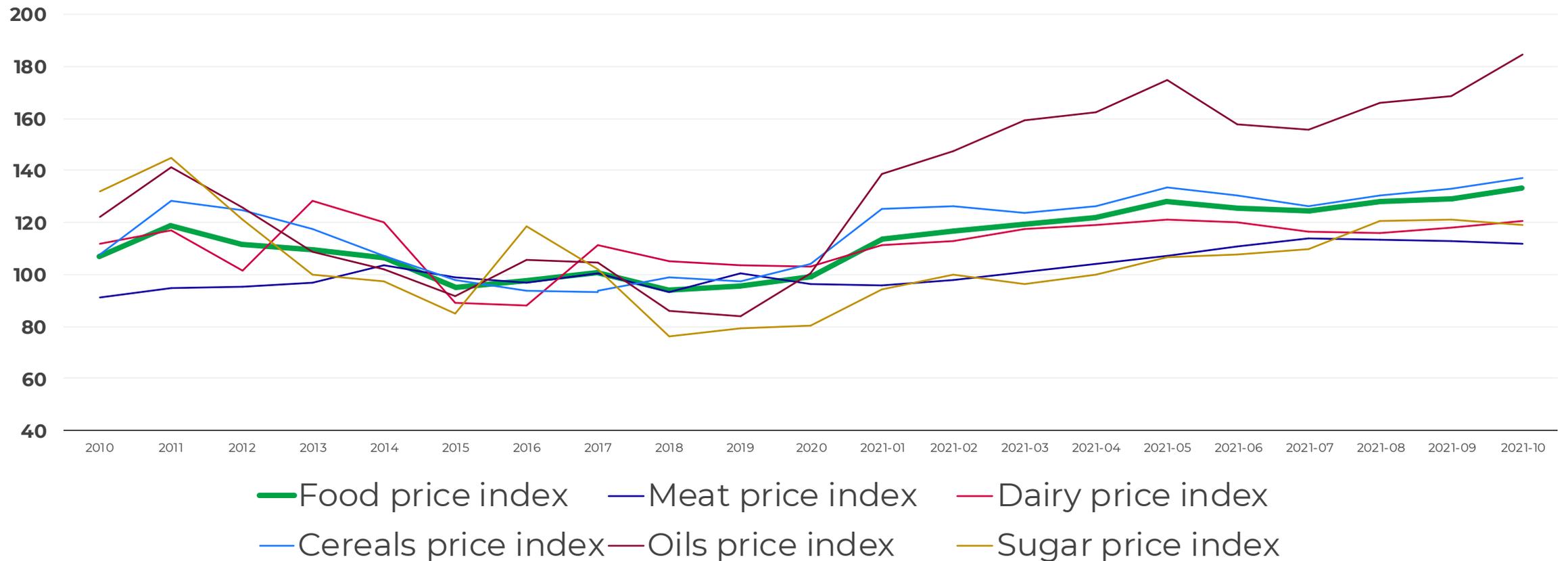
Food at Home
+6.5% ▲
vs +0.4 pt Nov. '21

Food Away from Home
+6.0% ▲
vs +0.6 pt Nov. '21



Food pricing rising at different rates

Food Agricultural Organization (FAO) food price index



% change in latest average FMCG price

6.8%
United States

2.6%
Mexico

24.6%
Brazil

17.4%
Chile

1.5%
United Kingdom

1.2%
Italy

5.7%
Poland

8.8%
Russia

3.9%
China

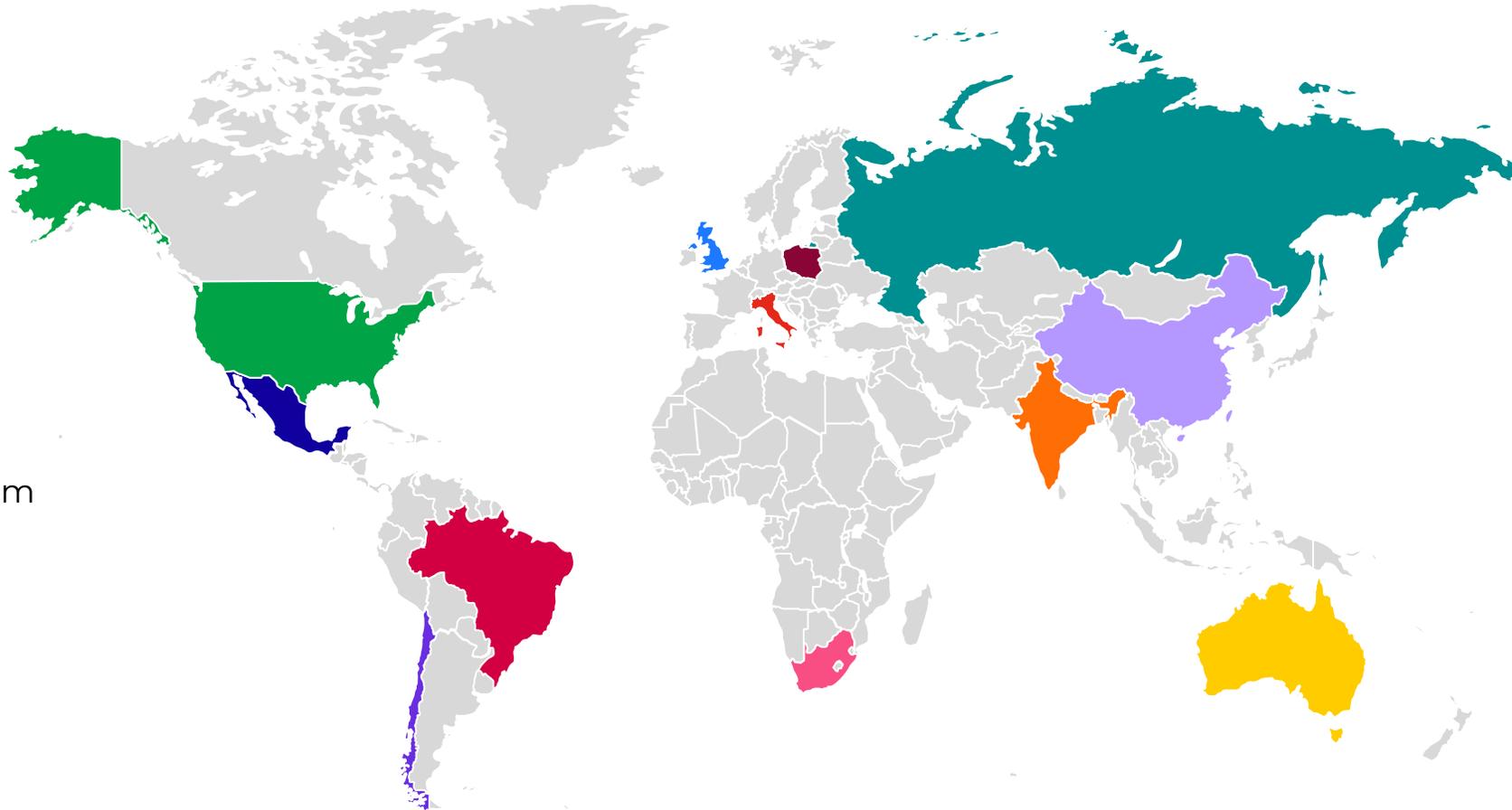
-0.5%
India

-2.5%
Philippines

1.5%
Singapore

1.5%
Australia

4.6%
South Africa



Source: NielsenIQ RMS latest available monthly data. Europe 4 w/e 4.10.21; US 4 w/e 9.10.21; Aust 4 w/e 4.9.21 Latam 08,21

What is causing it?

How long will it last?

How will consumer behavior change?

What should retailers do?

What is causing it?

Attention Family and friends:

There will be 15% Inflation Fee added to all tickets, Please ask our staff for more details.

Thank you for your Patience and understanding

STICKER SHOCK

RESTAURANT ADDS INFLATION SURCHARGE

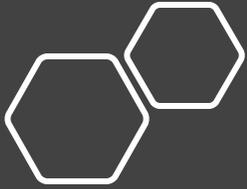
LINCOLNTON

Pandemic & Inflation trends – consumer prices

U.S. Price Inflation Index to Total Price & Non Promoted Price







Labor trends

- Pre-covid
- Changing demographics
- Income rationalization (child care)
- Entrepreneurship / Gig economy
- Safety

Quit rate at an all-time high

The share of workers who are voluntarily quitting their jobs reached a record level in September at 3%.



Energy

- Change in demand (covid)
- Global consumption trends
- Foreign supply constriction
- Global instability

U.S. gas price per gallon

— U.S. REGULAR GAS PRICE FOR ALL FORMULATIONS



GRAY SHADED AREA REPRESENTS U.S. ENERGY INFORMATION ADMINISTRATION'S 2022 FORECAST. THIS PRICE IS A WEIGHTED AVERAGE BASED ON THE WEEKLY SAMPLING OF 900 RETAIL OUTLETS.

CHART: LANCE LAMBERT • SOURCE: U.S. ENERGY INFORMATION ADMINISTRATION (EIA)

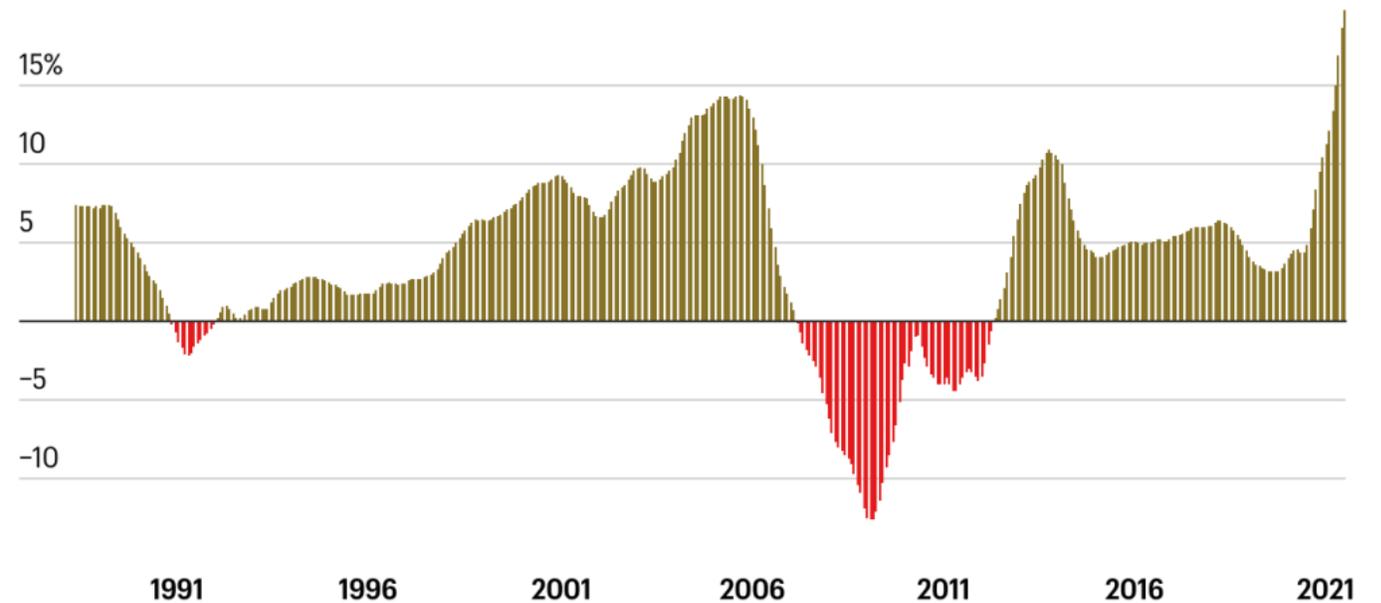
FORTUNE

HOUSING

- Lingering housing bubble effects
- Constricted supply
- Reverse urban migration
- Interest rate effects

U.S. home price growth

Year-over-year change in the S&P CoreLogic Case-Shiller Home Price Index



THE MOST RECENT READING (AUGUST 2021) CAME IN AT A RECORD 19.8%

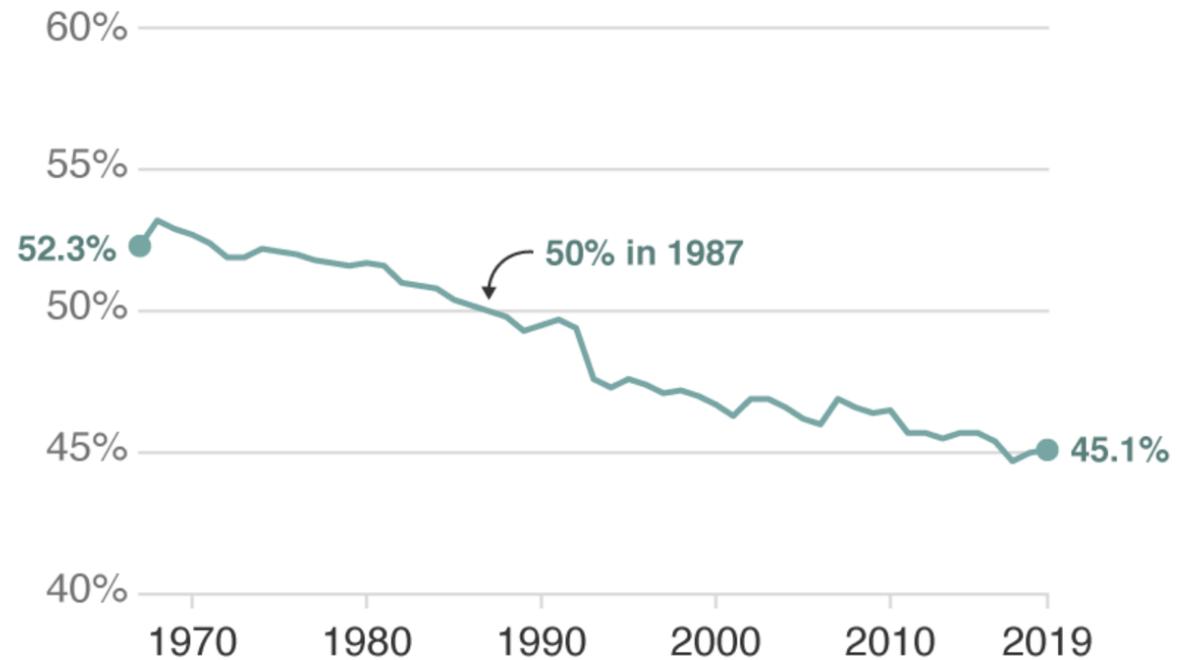
CHART: LANCE LAMBERT • SOURCE: S&P DOW JONES INDICES LLC

FORTUNE

Socio-Political effects

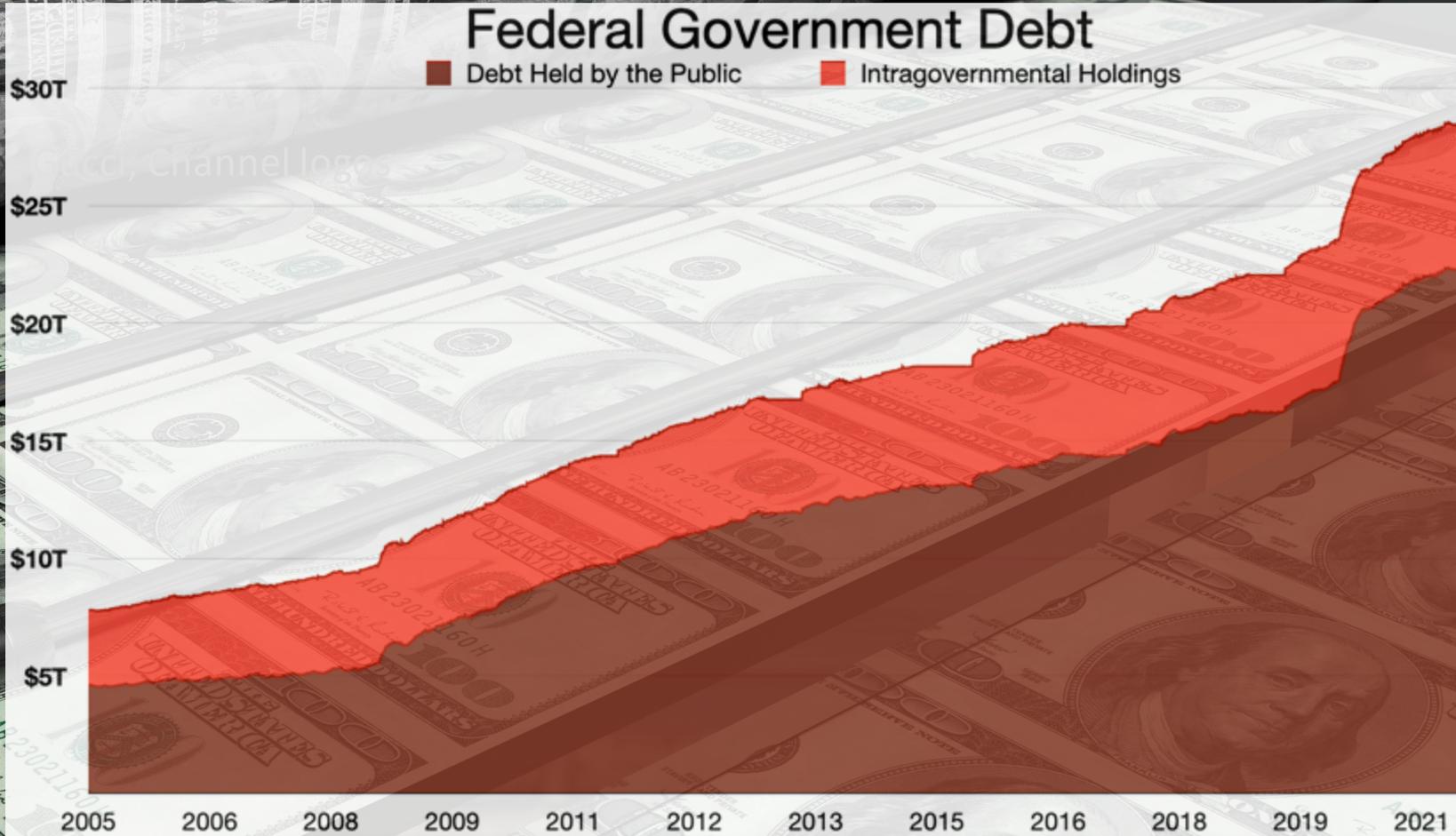
- Changing narrative
- Two income family pressures
- Changing labor union narrative
- Cost of education
- Extreme polarization between classes
- Extreme polarization in political party ideology

Percent of income going to the middle class, 1968-2019



US Census Bureau, Jan 2021

Massive government deficit spending



Consumer behavior



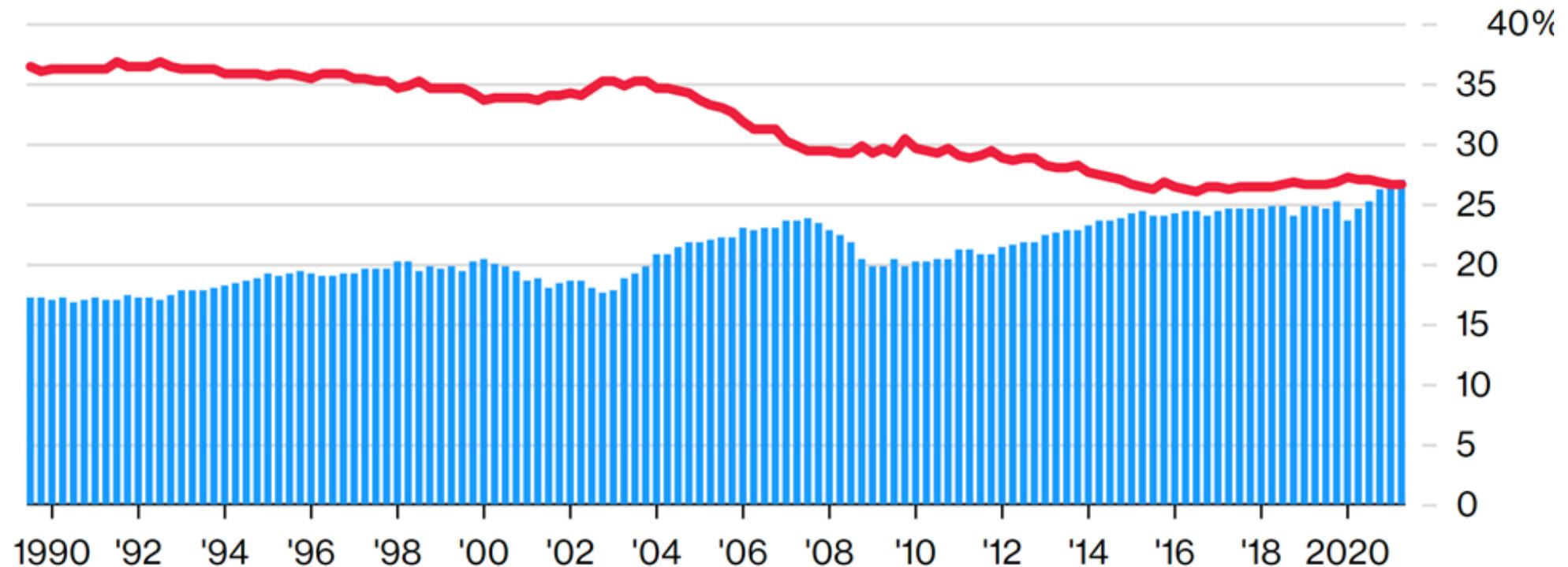
Luxury goods market trends



Rise of the Super Rich

Middle-class Americans now hold less wealth than the top 1% by income

■ Top 1% / Middle 60%



Source: Federal Reserve



ENERGY COSTS

Immigration

Labor

Housing

Security

Global Demand

Deficit spending

TRADE POLICY



Underlying causes and longer-term shifts

Market pressures



Rising costs of raw ingredients



Rising costs of shipping



Rising delivery volumes



Rising costs of labor

Underlying factors



Extreme weather events



Reverse migration



Added cross border complexities



Shipping & port bottlenecks



More labor intensive operating models



Increased demand of online & delivery



Labor gaps in low wage employment

Key drivers (with expected length of impact)

Climate change

Long-term

COVID uncertainty

Mid-term

Shifted consumption

Long-term

Financial polarization

Long-term

Socio-Political

Long-term



27

283 850

120/120



77 680



798



12

Water

Capacity 127 ↑

Demand 72 ↑

Water Pumping Station

Capacity 55 ↑

Building Price 45000

Requirements

15000

This large production facility will quench any thirst!

Basic Water Tower

Water Pumping Station

A line of military tanks, possibly M1 Abrams, is shown in a muddy field. The tanks are arranged in a line, moving from left to right. The foreground tank is in sharp focus, showing its turret and main gun. The background is hazy, with utility poles and power lines visible against a grey sky. The overall atmosphere is somber and industrial.

How long
will it last?

How long will it last?

	36 month trend	Inflation Effects
• Energy futures	Constricted	HIGHER
• Housing futures	Constricted	HIGHER
• Interest rate forecasts	Rising	LOWER
• Political instability	Rising	HIGHER
• Labor availability	Constricted	HIGHER
• Shopper demand	Bifurcated	BOTH

Beware of averages: Inflation effects are not homogenous

**Existing
Constrained**



**Newly
Constrained**



**Cautious
Insulated**



**Unrestricted
Insulated**

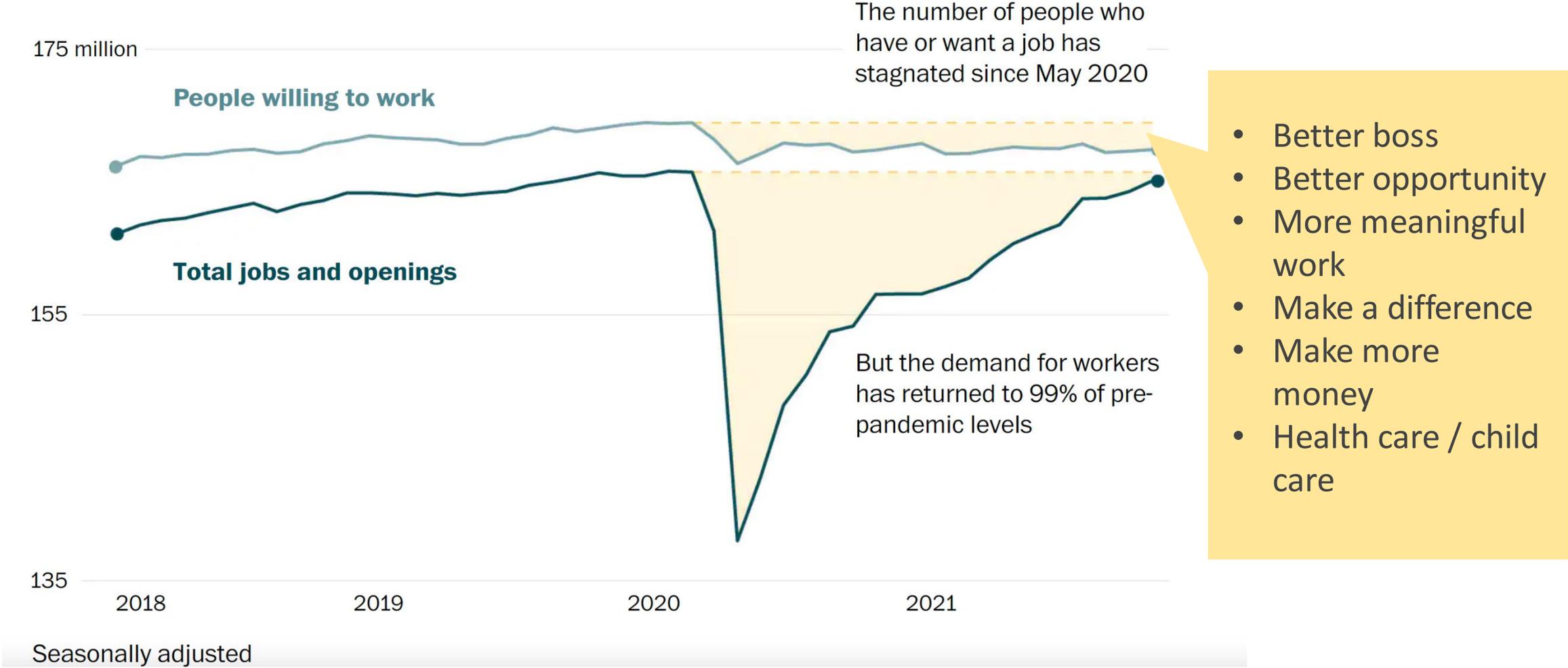


Pay attention here

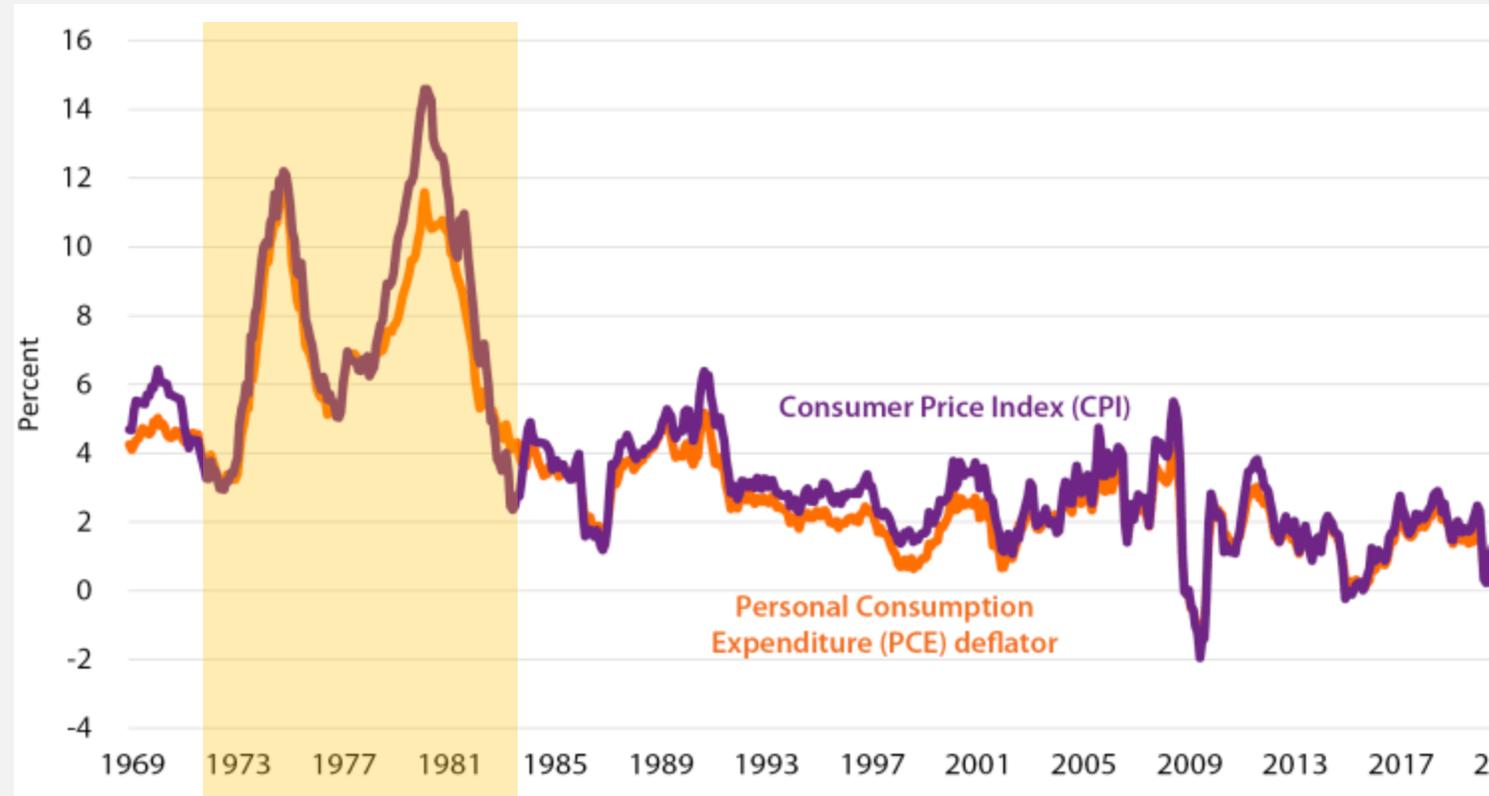
Conflicting hypotheses

- Government subsidies end gone, the reality of inflation in food, fuel & housing sends people back to work, and depresses consumer spending
- Work ethic survives
- People used to government overspending flock to unions, demand higher wages, and support political parties who promise more for less.
- Entitlement mentality grows

The great quit...



Opportunity from adversity



Key question:
What can we learn from
previous inflationary periods?

- OPEC
- Monetary policy
- Gold standard
- Consumer reactions





14% inflation in the United States

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Understanding value

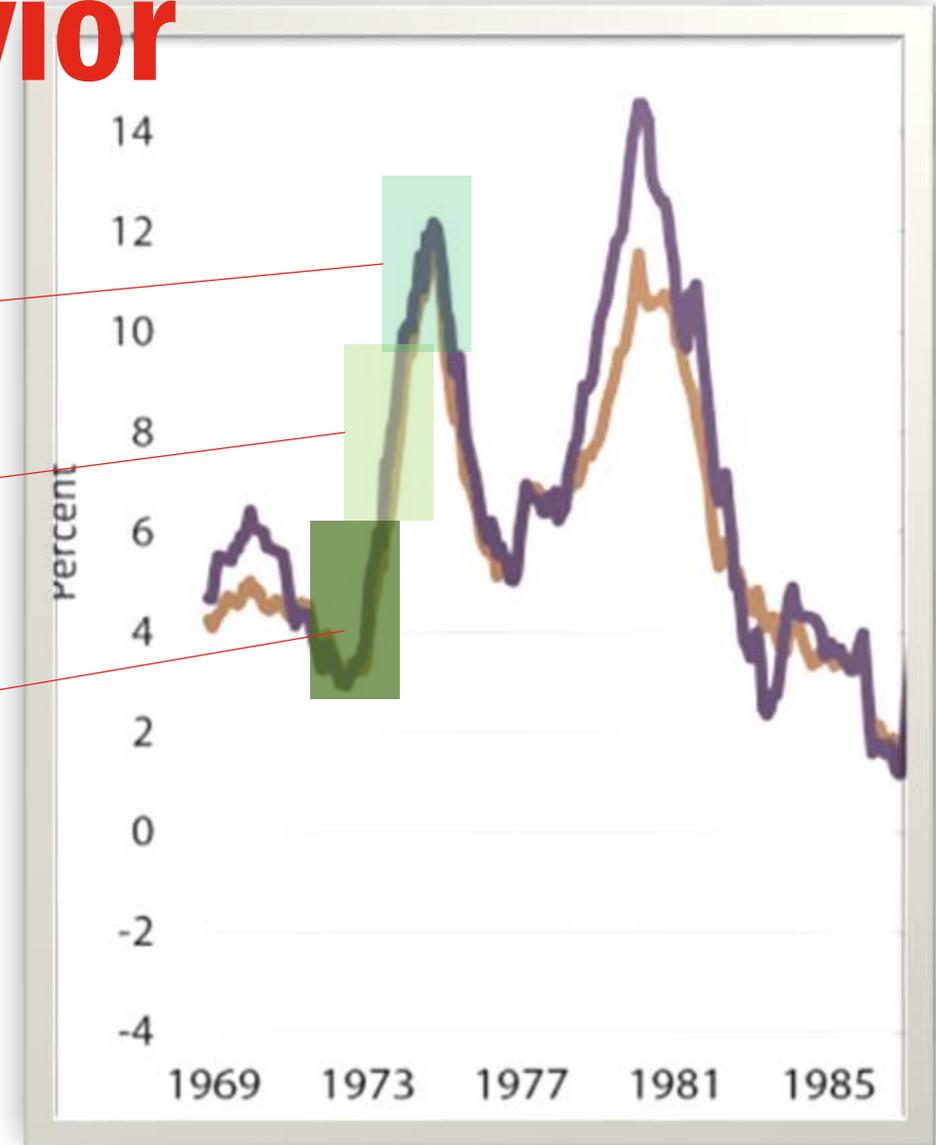


Stages of shopper behavior

New brand choices, loyalty

Alternate choices, compromises

Early shopper hypersensitivity to prices





Born in tough economy

Purpose driven retail



“ The mistake people make is seeing Home Depot as a discounter. We were always high service, always teaching people how to do it themselves...”



“ It’s obvious now, but creating exciting products that were also inexpensive was a totally new idea at the time. Why does inexpensive have to be low quality? Or boring?”

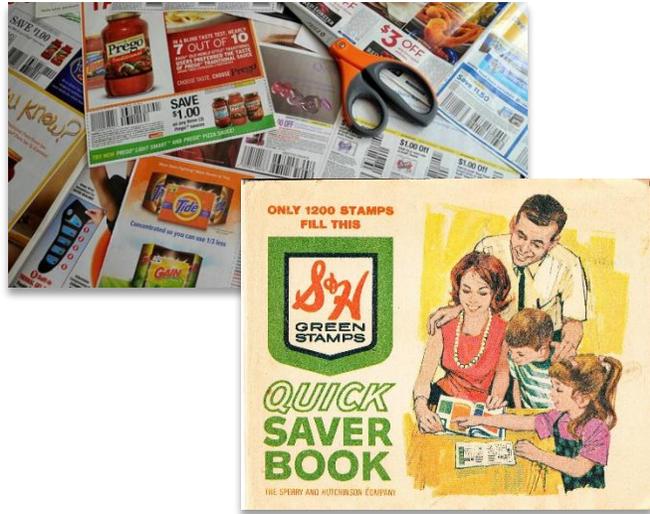


“Letting low income families in on the middle class was always the big idea. Cheap is just a path toward economic equality...”

Value (re)defined

	<u>1980</u>	<u>2019</u>
• Inexpensive	66%	65%
• Fresh / Good Quality	52%	64%
• Good for me	48%	61%
• Taste	49%	59%
• Convenient / easy	42%	44%

Consumer spending in recession



Recession: 1970's



Housing Bubble



Post-Covid

THE WALL STREET JOURNAL
**Coupon-Clipping Fades Into History as
Covid-19 Accelerates Digital Shift**

INFLECTION POINT:
In 2020, digital
coupons exceeded
print redemptions

**Progressive
GROCER**
Digital Adoption to Cripple Print

Shopper value formula



Value visibility demonstrated



**\$3.88 per
person**



**\$11.88 per
person**



**\$19.68 per
person**

Value visibility explored



Value Visible tactics



Key words:
Family
Less
Fresh
Local



Overt value of local





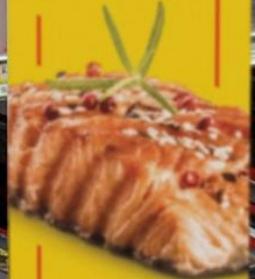
CUT
Fresh



**DOESN'T
HAVE TO COST
More**



**MAKE YOUR
FAVORITE
RESTAURANT
Meals**



**AT HOME
for Less**



**SHOP
Local
& MAKE YOUR**



**Budget
COUNT**



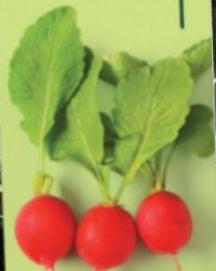
CHICK

Melons

Salad

Salad & CHIPS

SHOP IN Season



EAT Fresh

EAT Fresh



SPEND Less



PINEAPPLE \$4.99

Cantaloupe \$4.99

Orange price tag



Avocado price tag



\$1.87 \$4.99

\$11.44 \$4.99

price LOCK \$4.29

\$11.44 \$4.99

price LOCK \$4.29

\$3.58 \$1.79

Value seeking behavior

- Increased pre-shop deal seeking
- Increased meal planning
- Protein rationalization
- At home versus out of home prioritization
- Reduction in shopping trips
- Increased private label consideration

Influencer

online

online, WOM

WOM

online

online, store

store, online

Summary conclusions

- Hypersensitivity to price but... eroding price reality awareness
- Value perception shifts – not retailer versus retailer but retailers versus restaurant
- Cost of product + cost of acquisition – stimulus = NET SHOPPER VALUE
- Resurgence of coupons / loyalty - but digitally charged
- Increase inventory turns
- Trade up and trade down
- Fewer trips requires Basket maximization
- Eliminate low value add costs



LOCAL
— *Equals* —
FRESH