



## **2021 Inflation Estimates**

To help you further prepare for 2021 budgets, CPS is committed to providing you with guidance around price increases expected for the upcoming year. There are many factors to consider when budgeting for procurement needs, including:

- Historical price increases
- Impacts to local, regional, national, and international markets
- Input from vendors

For a well-rounded approach, CPS considers all of the above factors. Plus, 2021 will have additional complexity due to the uncertainty surrounding COVID-19 and its impact on our vendors and the economy.

Our CPS goal is to provide as much information as possible to help you more effectively budget for 2021. Additionally, your Client Account Manager (CAM) and the entire CPS team is always available to answer any questions or to provide guidance as your organization is preparing your 2021 budget.

### **Historical Inflation**

United States core inflation (all items except food and energy) has averaged 1.81% annually over the last 10 years and 1.94% annually over the last 5 years<sup>1</sup>. This means that, on average, a good purchased for \$1 in 2010 cost \$1.18 in 2020 ( $\$1 + (1.81\% \times 10)$ ).

Food inflation is removed from the core inflation calculation because it tends to be far more volatile. The annual increase in the cost of food in the United States averaged 3.39% from 1914 to 2020<sup>2</sup>. United States food inflation has averaged 2.04% annually over the last 10 years and 1.88% annually over the last 5 years<sup>3</sup>. This means that, on average, a good purchased for \$1 in 2010 cost \$1.20 in 2018 ( $\$1 + (2.04\% \times 10)$ ). The volatility in food inflation increased significantly in 2020 due to the impacts of COVID-19.

The Federal Open Market Committee (FOMC) targets annual inflation of 2%, and nearly all forecasts for future annual inflation in the United States are 2-2.4%<sup>4</sup>.

### **Headwinds**

The largest factor currently driving inflation across procurement categories is COVID-19. During the first half of 2020, we saw significant swings in the cost of PPE, meat, toilet paper, and other goods as well as a large increase in unemployment. While some of the items with price volatility in early 2020 have stabilized (such as meat products), we expect there to be impacts on the same or other items in the second half of 2020 and into 2021. Unfortunately, the items that will be impacted are difficult to predict.

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<sup>1</sup> <https://www.usinflationcalculator.com/inflation/united-states-core-inflation-rates/>

<sup>2</sup> <https://tradingeconomics.com/united-states/food-inflation>

<sup>3</sup> <https://www.usinflationcalculator.com/inflation/food-inflation-in-the-united-states/>

<sup>4</sup> <https://knoema.com/kyaewad/us-inflation-forecast-2019-2024-and-up-to-2060-data-and-charts>

## Category Analysis

- Administration/Office Supplies

Copy paper volatility has decreased compared to prior years. For other administrative and office supplies, Amazon has played a large part in driving down the costs of these items with transparent pricing and a large online marketplace. CPS vendors are anticipating a 4% increase on average.

- Environmental Services

The majority of environmental service items are chemicals (housekeeping, jan/san, laundry, ware wash, etc.) or plastic (disposables, can liners, etc.). The costs of the chemical and plastic products are driven by the cost of the inputs, and our vendors anticipate a 3-8% increase in these finished goods. These anticipated increases may be partially offset by increased competition in the space.

- Food and Beverage

As previously noted, food and beverage prices tend to be more volatile due to tariffs, supply chain issues, disease, and weather. There is expected to be additional uncertainty around food prices for the next 6-18 months as the US continues to feel the impacts from COVID-19. There could be additional outbreaks at processing facilities, impact to the migrant workforce, and demand challenges as many restaurants and hotels are closed or opened at limited capacity.

Unfortunately, it is difficult to predict which products will be impacted in 2021. The average price of food in the US increased 4.5% in the 12 months ended June 2020<sup>5</sup>.

For disposables and other non-food kitchen items, the inflation will vary based on demand. In general, our vendors are anticipating 2-5% average increases in pricing. Packaging is expected to increase 6-10% based on increased demand. Gloves are seeing a considerable increase in demand due to additional precautions and are expected to increase in price from 20-100%.

- PPE

At this time, CPS and its vendor partners are not providing an inflation estimate for personal protective equipment. The unpredictability is due to supply and demand volatility and raw material shortages. Additionally, there is global instability and governmental factors that drive the supply chain.

- Plant Operations

Plant operations items encompass both physical goods and services. Our vendors are indicating that physical goods are increasing by 2-4% based on historical analysis and current market trends.

- Technology

Due to competition in the technology space and continued improvement in technology, prices for information technology, hardware, and software tend to experience declining inflation (deflation).

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<sup>5</sup> <https://www.usinflationcalculator.com/inflation/food-inflation-in-the-united-states/>

**CPS Benefits**

The CPS team proactively works to provide you with cost-saving solutions to improve your bottom line. As a Group Purchasing Organization (GPO), CPS has the purchasing power to deliver exceptional value and significant savings by negotiating discounts from manufacturers, distributors, and other vendors based on collective volume. Because of this large volume, CPS is able to both mitigate some cost increases and identify alternative products and services to meet your procurement needs.

Please do not hesitate to reach out to your Client Account Manager (CAM) with any questions during your 2021 budget process or when any procurement needs arises.