

Why did the price of bread drop?

Global and local conditions drive bread price reductions in bakeries

- VAT reduction and stability in the wheat market favor the accessibility of bread for Costa Ricans

Musmanni applied a significant reduction in the selling price of bread in all its bakeries thanks to external and internal factors that would reactivate consumption projections in Costa Rica.

There are two main causes for this change: the reduction of the Value Added Tax (VAT) and an improvement in the global wheat market conditions.

Luis Diego Montero, Manager of FIFCO Retail, Musmanni's holding company, explained that in 2023 the decrease from 13% Value Added Tax (VAT) to 1% will be applied to several of the bread products in the basic food basket, including the famous *melcochón* bread with cheese.

In the case of Musmanni, the reduced price applies to plain *melcochón* and *melcochón* with cheese, and the chain is already applying promotions aimed at stimulating consumption.

As of February 1, the *melcochón* with cheese entered the list of staple foods and will go from 900 to 800 colones, a reduction of 100 colones (-11%). The plain *melcochón* will cost 25 colones less, as it was already part of the basic food basket, but will drop from 775 to 750 colones. In addition, Musmanni activated a promotion on Tuesdays and Thursdays: three plain *melcochones* for 1,500 colones, which reduces the unit price to 500 colones each, 35% less.

The price of wheat showed a downward trend during the last four months of 2022, as a result of some agreements during the war between Ukraine and Russia, which has been the main cause of the global increase in the price of wheat and some other cereals. This contributed to the reduction in the price of flour, the main raw material used to make bread. It is a slight change, but reflects directly in production costs (See: European cereals)

Contribution to households

The reduction in the price of bread becomes a contribution to the household budget, where according to indicators of the National Institute of Statistics (INEC), between December 2019 and December 2022,

European grains

The conflict between Russia and Ukraine started in the third week of February 2022 and directly impacted the world grain market. Both countries are among the world's leading producers and exporters of corn, wheat and barley and together contribute an estimated 30% of global wheat production.

In May, India, the world's second largest wheat producer, temporarily halted its wheat exports, pending market performance.

Both factors were compounded by the escalation of energy tensions in Europe, which increased the cost of fuel and electricity, factors that also made grain production, harvesting and transportation more expensive.

Already in the second half of 2022 there was the release of grain from Ukraine and the baking industry reduced the tension caused by shortages and speculation.

Source: Data from Market Monitor, cited by theweek.com

the monthly per capita cost of bread and cookies within the basic food basket went from 4,086 colones to 5,298 colones, an increase of 1,212 colones in a two-year period.

According to Montero, "the price of bread certainly receives a lot of attention, due to the number of people who depend on its production and sale for their livelihood. Both groups were strongly affected by the shortage of wheat, the high costs of raw materials in the manufacture of bread, the increase in the price of fuel, all factors that caused the average cost of bread to rise three times in the previous year."

He also highlighted the positive impact of the price changes towards the end consumer.

"The announcement of a reduction, and the promotions in our bakeries, becomes good news for households and generates new opportunities for consumption of a product so present in the Costa Rican diet, such as bread, due to its nutritional value, its energy contribution and its ability to generate moments of sharing and enjoyment," emphasized Montero.

Bread, a relevant food

Data from the Costa Rican Foreign Trade Promoter (PROCOMER) show that during the first quarter of 2022 the country imported fine bakery products for \$21.6 million while the local industry had invested \$503,000 in machines and equipment for bakery and pastry, as well as \$2.2 million in bakery mixes and preparations. These amounts reflect the importance of the bakery industry in the Costa Rican economy.

The specialized portal *Statista* projected that the global bread market will grow 5.87% annually between 2023 and 2027.

About FIFCO

FIFCO is a beverage and food company with 115 years of history, and operations in Costa Rica, Guatemala, Mexico, El Salvador and the United States, 9 manufacturing plants and 15 distribution centers. It has 3 business divisions that include "Florida Bebidas" (food and beverages), "Florida Hospitality" (real estate) and "Florida Retail" (retail sales). It exports to 16 countries around the world and has a portfolio of 1,500 products.