

Mondelez

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The Freddo Index: The most important economic indicator you've never heard of

Social media was swept into a chocolatey haze on Monday after supermarket Tesco PLC (LON:TSCO) cut the price of Freddo's, Cadbury's small frog-shaped chocolate bars, to what many consider to be the 'correct' price of 10p each, last seen around 2005.

To celebrate #Tesco100Years we've got Freddo's back down to 10p!
pic.twitter.com/xttBtbwQgS

— Tesco East Ardsley (@TescoArdsley) January 21, 2019

While the rise in the price of a chocolate frog may not carry the same financial weight as, say, GDP growth or consumer price indices, the Freddo Index has become a somewhat unique way of indirectly measuring not only inflation rates but also the rising cost of living.

Hopping above inflation

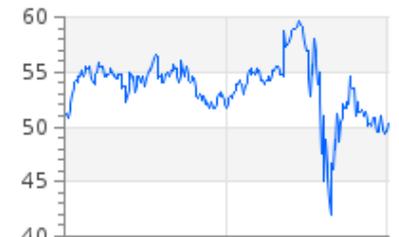
According to **data from UK voucher website vouchercloud**, the price of a Freddo rose to 25p in 2018 from the original (or 'correct' level depending on your view) of 10p.

On average, this accounted for a year-on-year (YOY) price rise of 4.36%, almost double the average YOY inflation rate in the period of 2.33%.

Price: 51.26

Market Cap: \$73.16 billion

1 Year Share Price Graph



May 2019 November 2019 May 2020

Share Information

Code: MDLZ

Listing: NASDAQ

52 week	High	Low
	59.95	41.2

Sector: Food & drink

Website: www.mondelezinternational.com

Company Synopsis:

Mondelez International is a snack food and beverage company. The Company manufactures and markets snack food and beverage products, with a portfolio of around 58 brands, which include nine billion dollar brands: LU, Nabisco and Oreo biscuits; Cadbury, Cadbury Dairy Milk and Milka chocolates; Trident gum, and Jacobs coffee and Tang powdered beverages.

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Even this was less than the original price rise to 30p, which was only reduced by manufacturer Cadbury's after a public outcry.

If the price rises were applied in line with the average inflation rate, Freddos would instead be priced at around 15p, a 40% discount to the actual price.

If the numbers are extrapolated to 2030 (assuming sugar taxes don't ban Freddos by then), the cost of a smiling chocolate frog will be 36p, almost twice as high as it should be based on inflation, which would take it to 20p.

Freddonomics

The mathematics hasn't stopped at using Freddos to critique above-inflation price rises either (train companies and energy providers take note), as in 2017 Arran Watt from Irvine in Ayrshire established an economic treatise, dubbed 'Freddonomics', that postulates that to keep up with our insatiable desire for Freddos the minimum wage would need to jump well-above its current level to offset the frog-shaped hole in your pocket.

What acc goes through this boys head ???????? pic.twitter.com/3OBfDFaPLy

— courtney bryden ???? (@courtneybrydenX) August 29, 2017

Watt's calculations were as follows;

- In 1999 the UK minimum wage was £3.60 per hour (p/h), so at 1999 prices you could buy 72 5p Freddos with one hour of wages
 - In the 2017 tax year the minimum wage (now dubbed the National Living Wage) was £7.50 p/h, however with Freddo prices having risen to 25p you could only buy 30 of them with one hour's wage
 - To redress the balance, Watt proposed increasing the minimum wage to £18 p/h, that way you could still purchase 72 Freddos with your hourly wage, a smashing haul!
- While the treatise was quickly circulated on social media (with some proposing a gold standard-esque policy to peg sterling to Freddos), it was brought down by one key element ... Freddos have never been 5p.

Since relaunching in the 1990s, the base Freddo rate has always been 10p, although now we can do some of our own maths in line with the 'Freddonomics' principle;

- Recalculating the 1999 figure, you would be able to purchase 36 10p Freddos on your hourly wage of £3.60 p/h
 - So, to purchase 36 Freddos with your hourly wage at the 25p price tag in 2017, the minimum rate would only need to rise to about £9 p/h
- However, this is still ahead of the £7.50 p/h minimum rate in 2017, and also above the current rate of £7.83 p/h.

Even if Freddo prices remained at 25p into the new tax year in April 2019, the planned minimum wage increase to £8.21 p/h would **still** not be enough to cover your Freddo habit.

Given that we all refuse to cut down on chocolate, the relative cost of Freddos to your pay packet is a simplistic aggregate for how the cost of living has risen over time.

Leapfrogging 'shrinkflation'

The one affliction that Freddos seem to have avoided in the consumer goods market is 'shrinkflation', a move by manufacturers to reduce the size of products to retain flat prices in the face of rising inflation.

New data released by the Office for National Statistics (ONS) on 21 January showed that over 200 products, including chocolate brands Maltesers, M&Ms and Minstrels, all shrank in size between September 2015 and June 2017.

While shrinkflation has been an established custom in the UK, the plunge in the value of the pound following the Brexit vote forced many firms to either cut sizes to maintain margins or pass on the increased manufacturing costs to customers as the cost of imports rose.

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