
Trends in retail

COVID-19 and food price trends



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COVID-19 and Food Price Trends

Despite the fact that COVID-19 is not a food crisis, this pandemic has significant consequences for the food supply chain. The impact varies across countries and commodity sectors, reflecting factors such as the importance of trade, differences in the functioning of supply chains and the market, which producers and farmers supply. Some of these effects may be relatively short-lived while others may be longer lasting.

The pandemic caused border and facility closures, shifted consumer demand from foodservice to food retail and created unemployment and underemployment. It also introduced modifications in production, manufacturing, distribution and retailing practices to accommodate enhanced safety procedures, from testing of personnel to additional time for sanitizing. The consequences and uncertainty of the pandemic continue to affect the global economy including Canada.

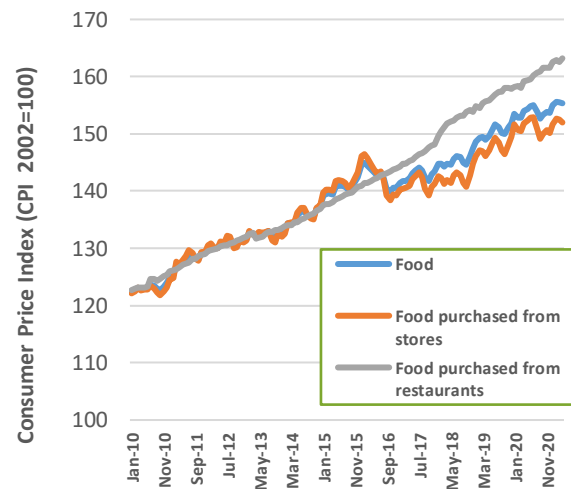
In this issue, retail food price trends in Canada are analyzed emphasizing the short-term trend in the pre- and post (first wave) COVID-19 situation to understand the impact and shed some light on food price trends.

According to Canada's Food Price Report, 2019¹, long-term food prices show an increasing trend representing a normal inflationary pattern. However, since the financial crisis of 2008, food prices have become more volatile making it very challenging to predict food prices. The COVID-19 situation has added more challenges to such predictions

Overall food prices

Overall food prices in Canada have jumped about 2.3 per cent in 2020 compared to 2019. This represents a 2.4 per cent increase in food purchased from stores and a 2.2 per cent increase in food purchased from restaurants. Figure 1 illustrates that despite the significant impact of COVID-19 on restaurant sales, menu prices show less volatility, but with higher rates of increase. Alberta food prices show a similar pattern, but with a 2.6 per cent increase in overall food prices, a three per cent increase in food purchased from stores and a 1.9 per cent increase in food purchased from restaurants.

FIGURE 1: OVERALL FOOD PRICE TRENDS IN CANADA



Source: Statistics Canada

Food purchased from stores

Meat prices

In Canada, Consumer Price Index (CPI) data shows that meat prices increased by about 4.6 per cent in 2020 compared to 2019 with beef, pork and chicken prices recording 6.5 per cent, 4.8 per cent and 3.3 per cent increases respectively.

According to Statistics Canada, about 85.6 per cent of Canada's total beef supply was produced domestically in 2019. Canadian retailers are therefore, mostly reliant on domestic beef supply.

COVID-19 impacted the Canadian beef supply-chain by forcing shutdowns and slowdowns in meat processing plants, and pushing consumers to panic-buy in fear of a shortage. This situation resulted in a sharp atypical increase in the price of beef in June and July 2020. The CPI for beef was increased by about 22 per cent in June 2020 when compared to the average CPI for beef in 2019. For example, the monthly average price of one kilogram of a sirloin steak was \$26.70 in June 2020, 14 per cent more compared to the average monthly price of \$23.38 in June 2019.

In addition to these demand and supply issues, some other factors may have contributed to this price hike. One factor related to the pandemic may include a situation where certain premium cuts of beef normally sold to foodservice were being sold by retailers. Some other factors may have exerted upward pressure on beef prices even before the

¹ Canada's food price report. 2019.

pandemic such as decreasing cattle inventories and increasing input costs.

The beef industry was able to weather this situation towards the end of 2020 by restarting slaughter and processing operations after the first wave of COVID-19. However, the additional cost of restarting processing operations (providing personal protective equipment, retrofitting their plants with equipment that allows social distancing, increasing cleaning and safety measures) and the impact of a second wave, have put upward pressure on retail beef prices again in the first quarter 2021. Year-to-date beef prices were up five per cent in April 2021.

Although not to the same extent, pork prices reported a similar trend. The CPI for pork increased about eight per cent in June 2020 when compared to June 2019. Monthly average retail prices of a pork chop (\$12.26 per kilogram in June 2019) increased by about three per cent to about \$12.58 in June 2020.

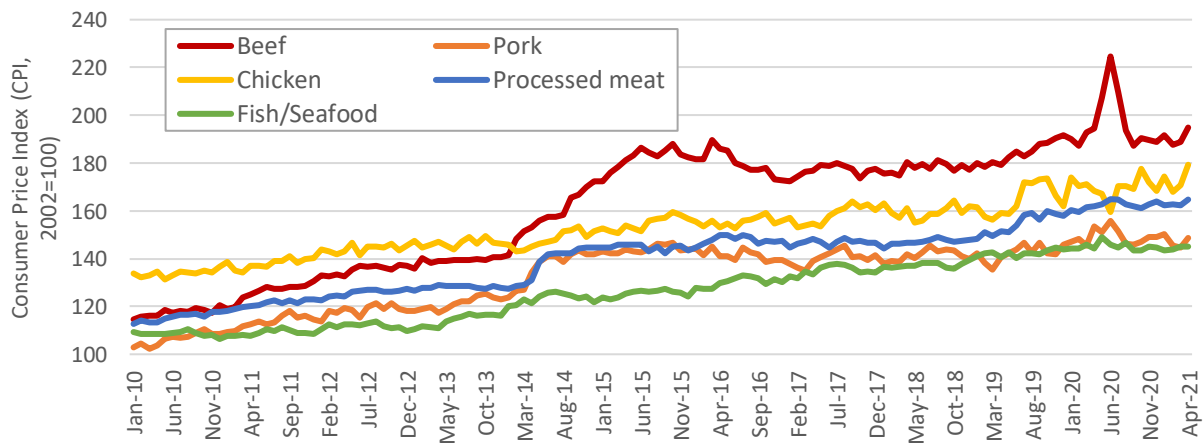
Chicken prices performed in the opposite way during the first wave of the pandemic. Despite the fact that chicken prices were increasing year-over-year, prices in June 2020 fell about one per cent compared to average prices in June 2019. For example, the price of one kilogram of chicken fell to \$6.87, which was nine per cent less than the average price of \$ 7.52 per kilogram in June 2019. The chicken industry is closely linked to the restaurant industry. Foodservice represents about 40 per cent of Canadian production². The sudden drop in demand from restaurant closures led to increased supply and therefore, resulted in lower retail prices.

Industry measures such as cutting spring and summer quotas helped to bring the supplies back into balance. However, strong consumer demand and increasing input and processing costs are putting upward pressure on chicken prices. This is reflected in the seven per cent year-to-date price increase in April 2021.

Processed meat and seafood prices increased by about five per cent and two per cent respectively in 2020 when compared to 2019. The significant price increase for processed meat can also be attributed to consumers' panic-buying and supply constraints. Processed meats are mostly imported. Border closure and logistical disruptions during the pandemic may have also influenced this price increase. Seafood depends on two distinct supply chains: aquaculture and wild capture³. The aquaculture supply chain has experienced a lot of volatility, particularly with our reliance on Asia for aquaculture imports.

In Alberta, meat prices recorded trends similar to Canada except for pork. Pork prices increased only by 2.5 per cent as compared to 4.8 per cent in Canada in 2020. This may be attributed to a low level of consumer demand for pork in Alberta.

FIGURE 2: MEAT PRICE TRENDS IN CANADA



Source: Statistics Canada

² Chicken Farmers of Canada

³ Canada's Food Price Report, 11th Edition

Dairy prices

The dairy industry faced an initial shock from the early lockdowns of COVID-19, but bounced back sharply. The industry lost food service customers. However, consumers began cooking and baking like never before driving demand.

Short-term CPI data for Canada indicates that fresh milk, butter, cheese and ice cream and related products prices increased 1.8 per cent, 4.2 per cent, 3.6 per cent and 4.9 per cent respectively in 2020 as compared to 2019.

As is apparent in Figure 3, highly processed dairy products show more volatility in price compared to less processed fresh milk. Butter prices increased significantly by six per cent year-to-date in April 2021. Demand for butter in 2020 was up 12.4 per cent in Canada. More Canadians at home cooking and baking may have contributed to this trend. In Alberta, prices reported a similar trend.

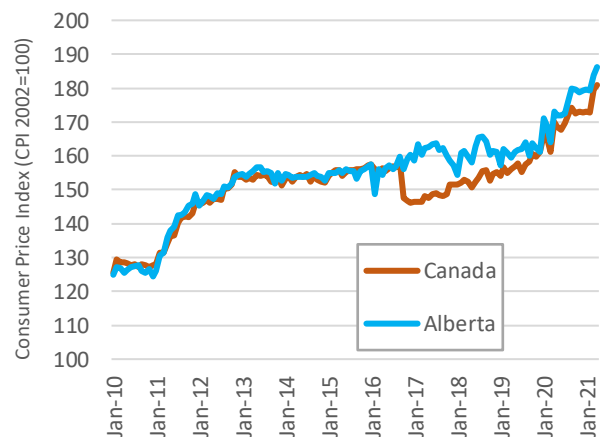
Egg prices

Canadian egg prices increased significantly in 2020. The CPI for eggs increased by about eight per cent in 2020 as compared to 2019. The monthly average retail price for a dozen eggs increased by about 11 per cent from \$3.20 in 2019 to \$3.60 in 2020. The CPI and average monthly price both increased by about six per cent year-to-date in April 2021.

Similar to dairy, egg prices quickly recovered from a small drop in March 2020. The drop in price may be attributed to the sudden oversupply due to loss of foodservice customers. However, as in the case of butter, increasing home cooking and baking have helped to increase the demand for eggs and drive prices up. In addition to the pandemic impact, consumers' healthy eating lifestyles (keto diets, meatless menus etc.) and eggs being selected as a substitute for meat may have driven the demand up for eggs. Higher cost of feed is likely another factor that has contributed to the rising price of eggs.

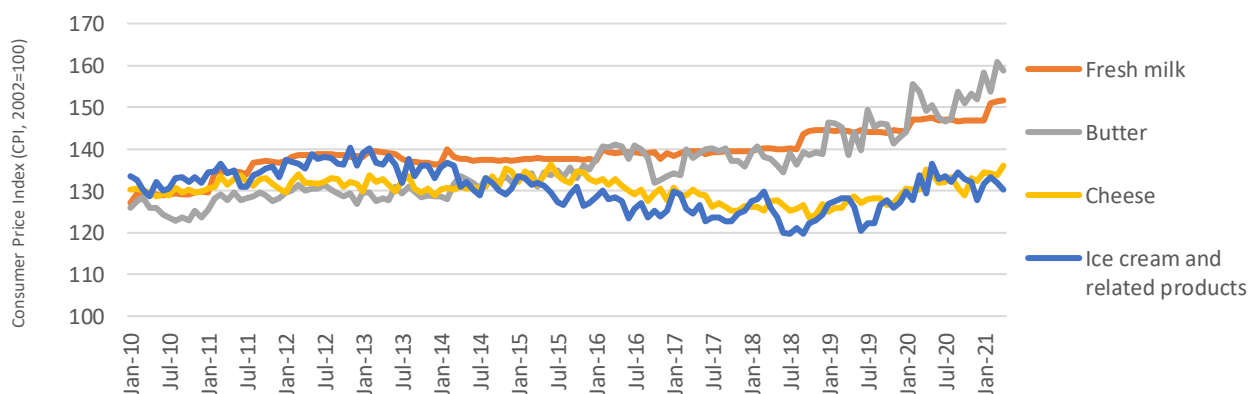
The Alberta average annual CPI for eggs shows a similar trend but was 2.7 per cent higher than the Canadian CPI, indicating higher egg prices in Alberta.

FIGURE 4: EGG PRICE TRENDS IN CANADA AND ALBERTA



Source: Statistics Canada

FIGURE 3: DAIRY PRODUCT PRICE TRENDS



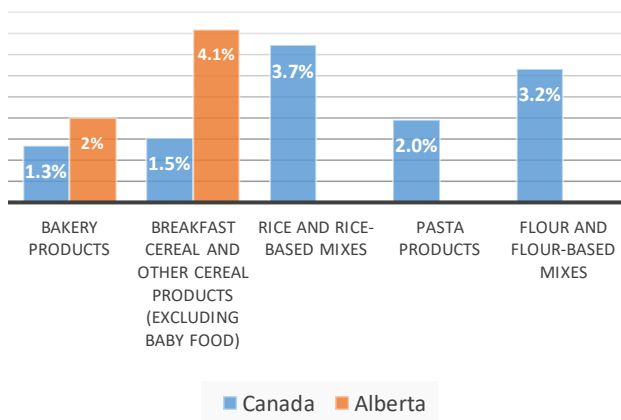
Source: Statistics Canada

Bakery, cereal and related product prices

The bakery category includes bread, cakes, pastries, biscuits, and frozen bakery. Breakfast cereal, rice, pasta, flour, and other related products are also included in this section.

Bread is the largest sub-category in bakery, so the average bakery price largely depends on the price of bread. Price inflation for selected categories are provided in Figure 5.

FIGURE 5: PRICE INFLATION FOR SELECTED BAKERY, CEREAL AND RELATED PRODUCTS. 2019 TO 2020



Source: Statistics Canada

Figure 5 shows that prices for every product category in this group have increased in 2020 compared to 2019 in Canada. The significant increase in rice and rice-based mixes and flour and flour-based mixes may be attributed to panic buying of dry groceries during the first wave of the pandemic and increasing home cooking and baking. According to Canada's Food Price Report 2021⁴, rising wheat prices in 2020 could also have had an impact on bakery products prices.

For Alberta, CPI data are available only for bakery products and breakfast cereals. Higher price increases for these categories may be attributed to the higher than average demand for these product categories in Alberta.

Fruits and vegetable prices

Fresh fruit and vegetable prices have been increasing over the years. Canada has a short growing season and the supply chain for fresh fruits and vegetables is heavily reliant on imports from the U.S. and other countries. Weather conditions in the fruit and vegetable producing regions of the

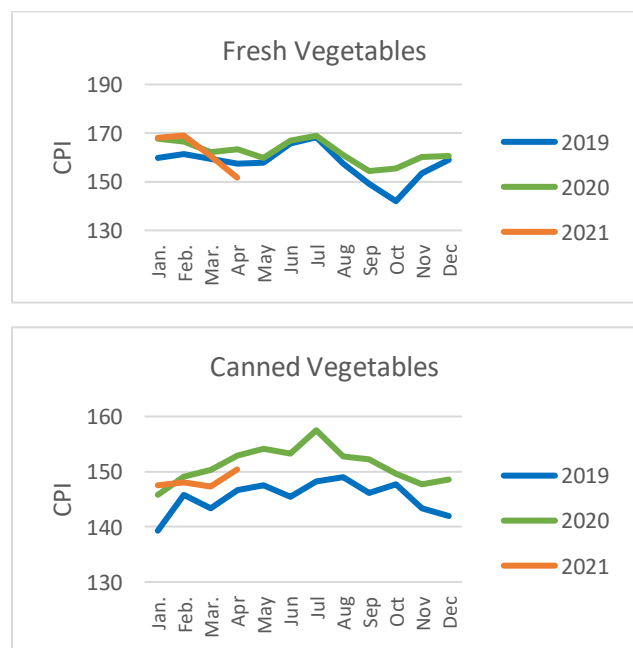
U.S., exchange rate fluctuations and seasonality in Canadian production are the main drivers of fruit and vegetable prices in Canada. Recent healthy eating trends and the demand for fresh fruits and vegetables may also have contributed to some of the price increases.

The CPI for fresh fruits and vegetables increased by 0.5 per cent and three per cent respectively in 2020 compared to 2019 indicating that COVID-19 may have affected fresh vegetable prices more than fresh fruit prices in Canada. However, notable price increases are reported for canned fruits (5.7 per cent increase) and canned vegetables (four per cent increase). Consumer stockpiling and storability aspects of canned products may have driven these prices up.

As illustrated in Figure 5 and 6, prices of fresh and canned vegetables in quarter one of 2021 are moving below the 2020 average monthly prices, while for fruits, both fresh and canned prices are still above 2020 levels.

In Alberta, the CPI for fresh fruits and vegetables increased by 0.7 per cent and 4.2 per cent respectively in 2020 compared to 2019, indicating slightly higher price increases in Alberta.

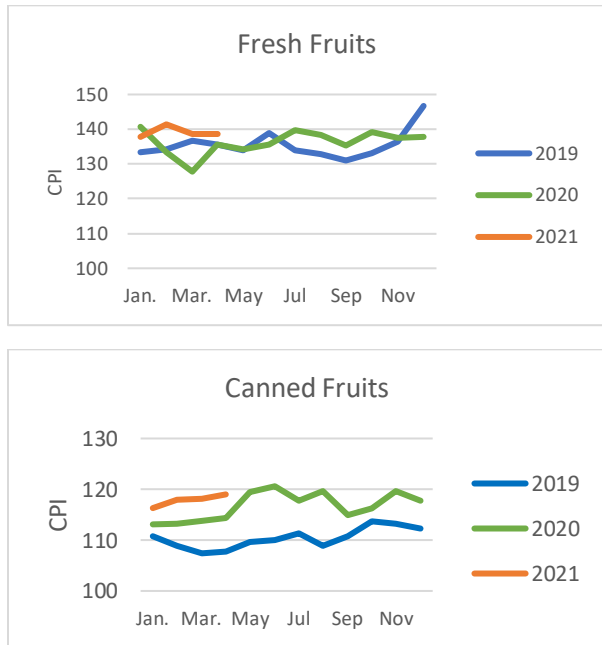
FIGURE 6: A COMPARISON OF CPI FOR FRESH VS CANNED VEGETABLES, 2019, 2020 AND 2021



Source: Statistics Canada

⁴ Canada's Food Price Report, 11th Edition. 2021

FIGURE 6: A COMPARISON OF CPI FOR FRESH VS CANNED FRUITS, 2019, 2020 AND 2021



Source: Statistics Canada

Other food prices

Other food products include sugar and confectionery, edible fats and oils, condiments, spices and vinegars, other food preparations like snack foods and non-alcoholic beverages like juices, tea and coffee. As this group of food products contains a variety of products, analyzing price drivers is difficult.

Short-term price trends show that potato chips and snack foods, condiments, spices and vinegars, frozen food preparations and non-alcoholic beverages increased 2.9 per cent, two per cent, 1.5 per cent and 2.2 per cent respectively. Consumer stockpiling and home cooking and baking may have contributed to these price increases.

In recent years, consumer trends - such as demand for convenience, health, wellness -, and ethnic food trends have driven up the demand for some products. These trends may also have contributed to the price increases for snack foods and other convenient food and beverage options. At the same time, these same trends may drive down prices for unhealthy fats and oils, sugar and confectionary products as the demand for such products are decreasing over time

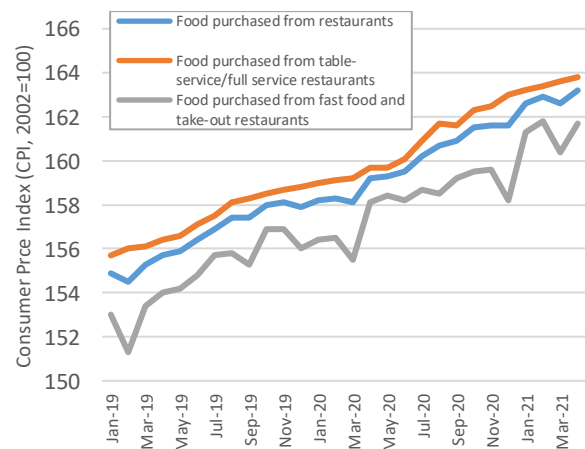
Food purchased from restaurants

The pandemic led to a dramatic disruption in the restaurant industry. The industry reported a drastic drop in sales in March and April 2020 due to lockdowns and physical distancing measures. The recovery has been slow because of the second wave restrictions and the uncertain conditions of the pandemic.

The CPI data for Canada report that the price of food purchased from restaurants increased 2.2 per cent in 2020 as compared to 2019. This includes food purchased from full service restaurants reporting about a 2.2 per cent increase and food purchased from fast food/take-out restaurants recording a 2.1 per cent increase. As illustrated in Figure 7, the price of food purchased from fast food/take-out restaurants fluctuated more than the price of food purchased from full service restaurants.

The 2021 year-to-date CPI for restaurant food indicates that prices have increased 2.5 per cent with food purchased from full service restaurants recording a 2.6 per cent increase and food purchased from fast food and take-out restaurants recording a 2.3 per cent increase. These price trends may indicate that the increasing cost of restaurant operations (complying with COVID-19 safety protocols, increasing food ingredients costs) are being passed on to consumers in early 2021.

FIGURE 7: RESTAURANT FOOD PRICE TREND



Key takeaways

Overall, food prices in Canada have jumped about 2.3 per cent in 2020 when compared to 2019. Prices of all major food categories increased significantly with meat, eggs, fresh vegetables and some processed food and ingredients (butter, flour, rice, canned fruits and vegetables) reporting record level price increases. The impacts of the pandemic and the uncertainty that accompanies it may be one reason for the increasing food prices. However, besides the

pandemic, many other factors contributed to rising food prices including higher oil prices and the devaluation of the Canadian dollar.

While COVID-19 continued to affect Canada's agri-food chain and global food systems, other notable factors may include the impact of extreme weather events, trade environment exchange rates, and disruptions in food processing, food distribution and retailing. And changes in consumer food purchasing behavior.

Canada's food price report forecasts that overall food prices in Canada would increase three to five per cent in 2021. This is based on a family that includes a man (age 31–50), woman (age 31–50), boy (age 14–18) and girl (age 9–13), the annual food expenditure is predicted to be \$13,907 in 2021, which would be an increase of \$695 (five per cent) compared to 2020, excluding foodservice. The provincial breakdown of the forecast however, predicts a below-average food price increase for Alberta.

Data highlights

This section provides an update on retail and food service sales trend data in Alberta. Table 1 provides data for retail food and beverage sales in Alberta.

Retail food and beverage stores sales were down in Q1 2021 compared to Q4 2020. While grocery stores recorded a six per cent sales reduction, specialty food stores and beer, wine and liquor store sales recorded a 32 per cent and 20 per cent reduction respectively. Record sales reported in Q4 2020 (probably because of seasonal buying and uncertainties around the second wave of COVID-19 restrictions) may be the reason for the decreasing sales in Q1 2021. Consumers were stocked up. However, annual quarterly sales were down by only one per cent for grocery stores and three per cent for specialty stores. Annual quarterly sales for beer, wine and liquor store recorded a 17 per cent increase.

Lockdown measures and social distancing during the first and second wave of COVID-19 significantly affected food service sector sales. The easing of lockdown measures after the first wave helped to improve sales of all sub-sectors in Q3 2020. However, with second wave restrictions, Q4-2020 to Q1-2021 sales and annual Q1 sales in Alberta declined significantly by eight per cent and 15 per cent respectively. In terms of total value, annual quarterly sales for Q1 2021 for drinking places (alcoholic beverages), full service restaurants and special food services restaurants recorded significantly lower sales with 45 per cent, 27 per cent and 39 per cent respectively. Limited-service eating places is the only category that recorded a one per cent sales increase.

TABLE 2: RETAIL FOOD AND BEVERAGE SALES IN ALBERTA (in thousand dollars)

Categories	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q4 2020 to Q1 2021	Annual Q1 change
Grocery stores	3,047,867	3,268,375	3,130,643	3,230,685	3,024,616	-6%	-1%
Supermarkets and other grocery stores	2,867,657	3,028,172	2,904,873	3,029,365	2,836,639	-6%	-1%
Convenience stores	180,211	240,204	225,770	201,320	187,978	-7%	4%
Specialty food stores	169,274	160,724	198,626	243,830	164,656	-32%	-3%
Beer, wine and liquor stores	602,020	861,645	844,816	878,652	707,269	-20%	17%

TABLE 3: FOOD SERVICE AND DRINKING PLACES SALES IN ALBERTA (in thousand dollars)

Categories	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q4 2020 to Q1 2021	Annual Q1 change
Total, food services and drinking places	2,015,068	1,483,690	2,122,299	1,851,369	1,710,018	-8%	-15%
Special food services	137,864	65,499	85,420	88,105	84,509	-4%	-39%
Drinking places (alcoholic beverages)	43,839	16,740	47,818	35,990	24,303	-32%	-45%
Full-service restaurants	853,324	496,290	875,755	701,441	625,603	-11%	-27%
Limited-service eating places	968,347	903,833	1,113,303	1,025,834	975,603	-5%	1%

Source: Statistics Canada