

Consumer Corner

Food price trends



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Rising cost of food

The rising cost of food is one of the main concerns Canadian consumers have had for a number of years.¹ The annual publication Canada's Food Price Report² shows that prices in almost all major food categories such as bakery, dairy, meat, seafood, fruits, vegetables, restaurant food and other food are forecasted to increase by two to four per cent in 2020. This 2020 forecast predicts that for the average family, total household food expenditure will increase to \$12,667 from \$12,180 in 2019.

In this issue, both long- and short-term food price trends in Canada are analyzed using available data. The insights gained may be useful for strategy development for Alberta food businesses and for concerned consumers.

Long-term food price trends: Canada vs Alberta

The long-term food price analysis by Canada's Food Price Report is illustrated in Figure 1. Normally, prices would fall between lines A and B. However, after 2008, food prices have become more volatile. Specifically, bakery and dairy product prices rose above the normal inflationary pattern after 2008. Meat prices show above-normal prices starting in 2012 and peaked in 2016. Fruit and vegetable prices also peaked in 2016. Another notable price trend is restaurant food. In the late 1980s, restaurant food was the most affordable food categories; by 2018, it was among the most expensive food categories.

Figure 2 illustrates a comparison of average food prices in Canada and in Alberta for specific categories. It shows that food prices in Alberta are slightly lower than the Canadian average. Price trends for specific food categories behaved more or

less the same way except for the dairy category. After 2010, Alberta dairy product prices trended slightly higher than average Canadian prices. While general food and restaurant food prices are increasing steadily without much volatility, vegetables, along with fruit and meat, show more volatility. The other noteworthy fact is that, except for vegetables and restaurant food, prices in all other major food categories have stabilized or trended downward during the last couple of years.

The common factors affecting long-term food prices include energy costs, extreme weather conditions, disease, the trading environment, exchange rate fluctuations, policies and regulations, and population and consumer food purchasing dynamics.

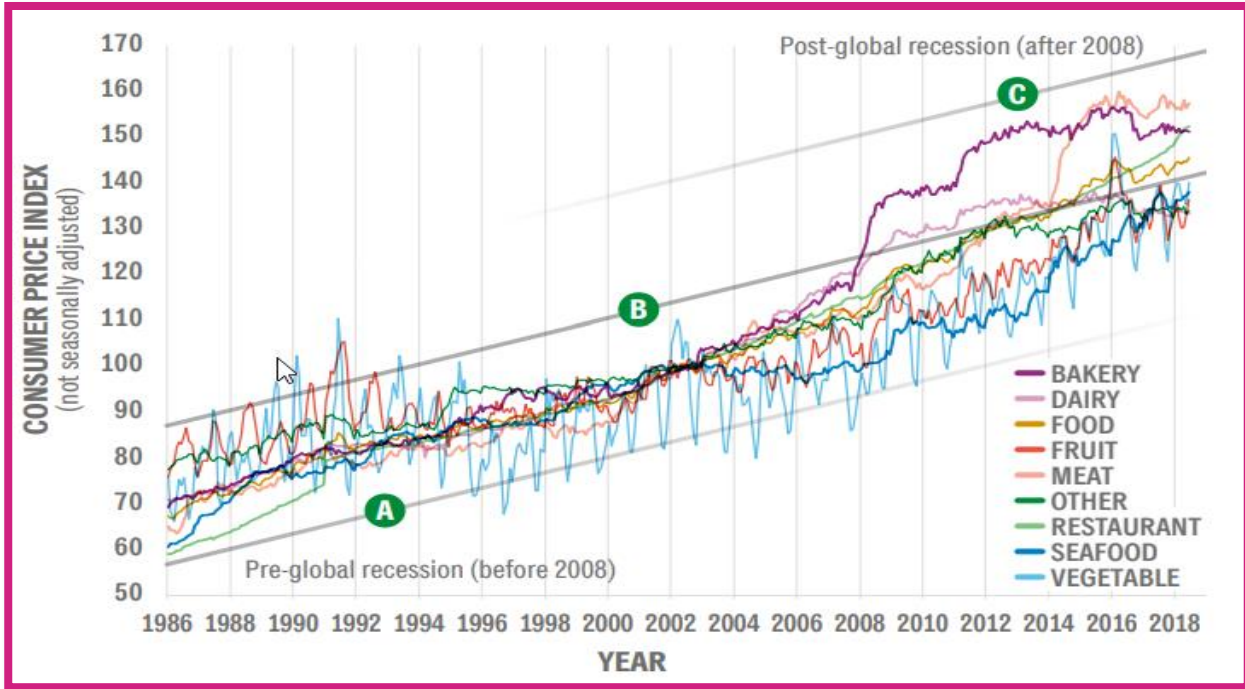
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¹ CCFI, 2019. 2019 Public Trust Research.

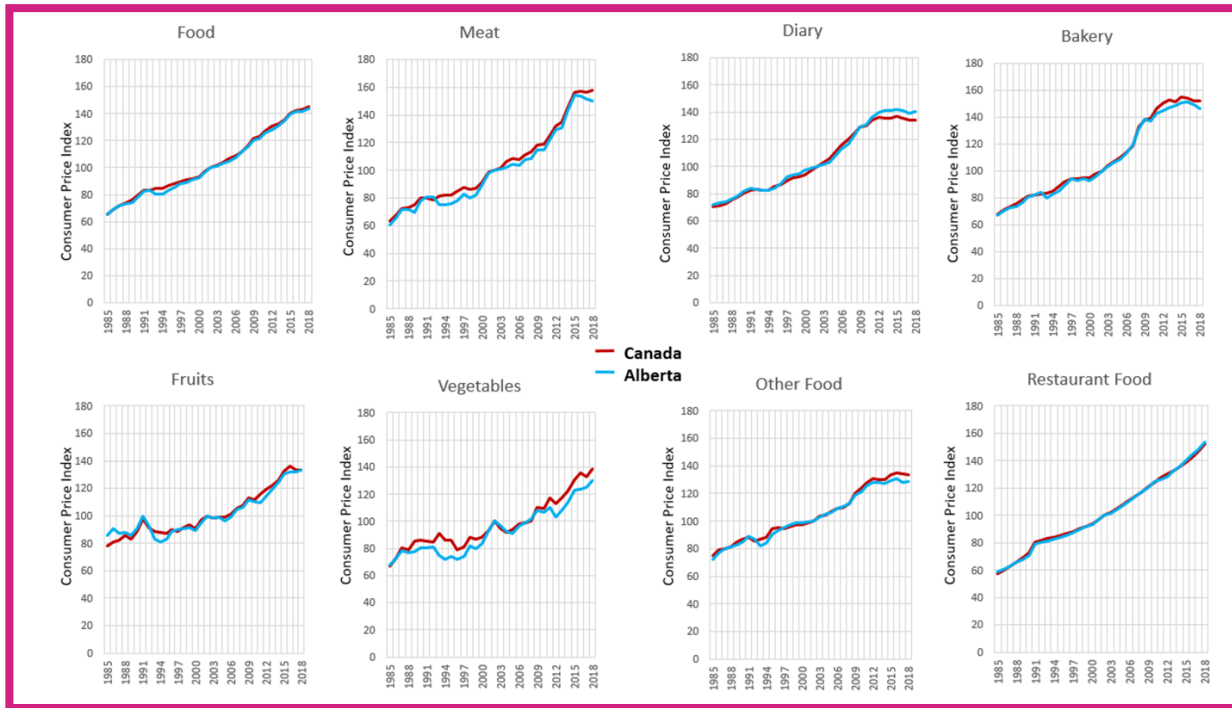
² Canada's Food Price Report 2019, Dalhousie University and University of Guelph.

Figure 1: Long-term food price trends in Canada



Source: Canada's Food Price Report 2019

Figure 2: Comparison of average food prices in Canada and Alberta



Source: Statistics Canada

Short-term food price trends

The same factors that affect long-term food price trends affect short-term prices as well.

While the Consumer Food Price Index (CFPI) illustrated in Figure 1 above is used to understand long-term price trends, it has limitations in providing an understanding of short-term price trends. The three main limitations are:

1. **Substitution bias**, which causes certain increases in price to be overstated because it ignores the presence of substitutes.
2. **Representation of novelty** that results in a temporary distortion of the actual cost of living after the introduction of new products.
3. **Effects of quality changes** that cannot always be represented accurately because quality is extremely hard to measure.

Given these limitations, in order to analyze short-term price trends, this analysis used actual retail prices for selected food categories.

Meat prices

Meat prices have risen significantly across Canada. Prices started to increase sharply in early 2014 and peaked in 2016. Prices then began to level off in 2017 and continued to decrease gradually into 2018, but not to pre-2014 levels.

Beef and pork prices were comparatively higher than chicken prices. A number of factors were pushing retail beef and pork prices higher. The North American livestock industry is highly integrated, so events that occur in the U.S. can affect the Canadian market.

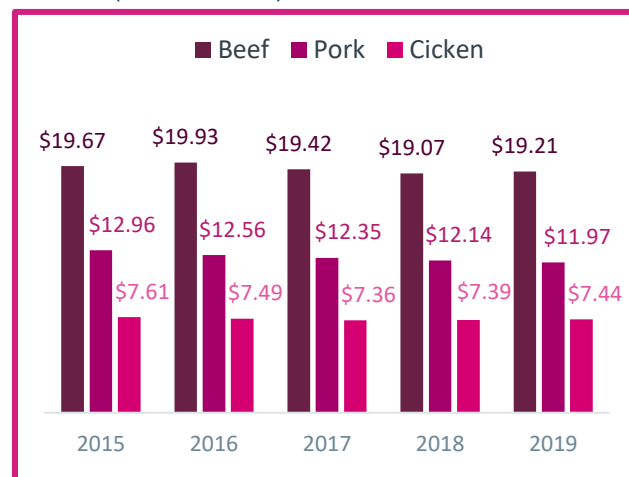
Higher **beef prices** can be partly attributed to a temporary reduction in the number of slaughter-ready cattle, which is caused by a combination of drought and high feed costs in the U.S. during the 2013 to 2015 period. The resulting higher prices for cattle through to retail beef caused increased profits

at the farm level and the cattle herd expanded after 2016. This supply increase drove beef prices down slightly after 2016.

As Compared to 2016, beef prices in 2019 have declined in every cut/form except for prime rib. Prime rib happens to be the most expensive cut and it increased from \$31.60 per kg in 2016 to \$32.65 per kg in 2019. Ground beef, which is the least expensive form reported by Statistics Canada, was priced at \$12.45 per kg in 2016, compared to \$11.41 per kg in 2019.

Canadian **hog and pork prices** generally follow a four-year North American price cycle with two years of below average slaughter and higher than average hog prices, followed by two years of higher than average slaughter and lower hog prices. Generally, loin and rib prices peak in the summer and there is a distinct seasonal demand for ham at Christmas and Easter. However, an increased supply of domestic pork drove hog prices downward in 2019.

Figure 3: Meat prices (dollars per kilogram) in Canada (2015 to 2019)



Source: Statistics Canada

Chicken, on the other hand, shows only a small variation in retail price over the years, which may be

due to supply management³ of the sector. Prices went up during 2015 and 2016 due to increased demand for chicken. This was a substitution impact because of higher red meat prices during that time. The most expensive chicken cut is fresh boneless skinless breast, widely used in restaurants and also a preferred barbecue item for many Canadians. Consumers' healthy eating trends have also increased the demand for chicken breasts and that too can drive up the price. Wings are particularly popular during the winter season. Leg quarters have traditionally been one of the least expensive chicken cuts in grocery shops. However, the price of leg-quarters has risen steadily in the past several years due to greater consumption of 'ethnic cuisine'. Consumer price sensitivity for other more expensive cuts has driven popularity and demand for chicken legs as well.

Processed meats are largely imported. A relatively strong U.S. dollar has put upward pressure on imported processed meat prices in Canada during the last few years.

Dairy prices

According to Statistics Canada, short-term dairy prices have been stable. Milk, butter and cheese prices stand at about \$5.35 per four litre jug, \$4.85 per 454 gram stick, and \$2.65 per 250 gram brick, respectively.

In Canada, a supply management system is used to regulate dairy, poultry and egg production, producer prices and imports. This same system allows producers to use their quotas to produce and sell products in the identified agricultural sub-sectors. The system coordinates the prices producers receive but does not control retail prices. However,

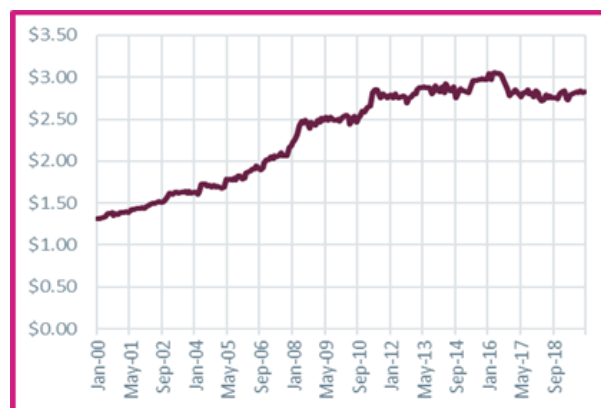
³ Supply management (SM) is a national agricultural policy framework used in Canada that controls the supply of dairy, poultry and eggs through production and import controls and pricing mechanisms designed to ensure that these farms can be profitable and Canadian consumers have access to a high-quality, secure supply of these

during 2012 to 2015, U.S. exports of dairy products to Canada increased by 54 per cent primarily due to diafiltered milk,⁴ which drove down the cost of some processed dairy products. That may have helped stabilize the price of cheese and other processed dairy products during that time.

Bakery

Canadian bakery products include bread, cakes, pastries, biscuits, breakfast cereals and frozen bakery. Bread is the largest sub category, so the average bakery price largely depends on the price of bread. Even if long-term bakery prices have been increasing at a higher rate, the short-term trend shows price stabilization with an average of \$2.75 per 675 gram loaf. The average bread price went up to around \$2.95 per 675 gram loaf in 2016, and the record price was \$3.06 per 675 gram loaf in April 2016. Increasing wheat prices and processing costs were believed to be behind this price increase. The bread price fixing scandal likely had some impact as well.

Figure 4: Monthly average bread prices (dollars per 675 gram loaf) (2000 to 2019)



Source: Statistics Canada

sensitive products at stable prices without shortages and surpluses.

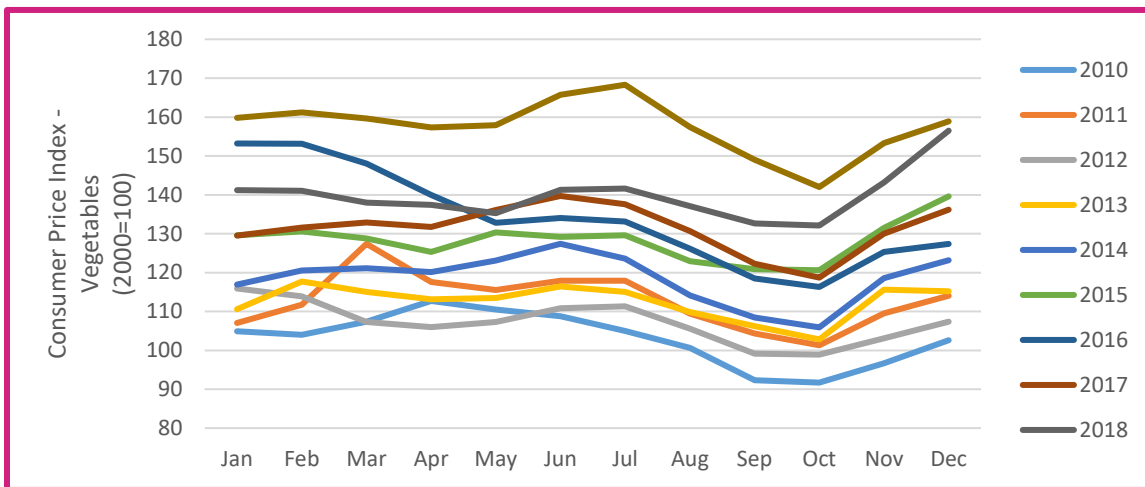
⁴ What is diafiltered milk? 2016. Dairy farmers of Canada. <https://dairyfarmersofcanada.ca/en/dairy-in-canada/dairy-news/what-diafiltered-milk>.

Fruits and vegetables

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 rates 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.

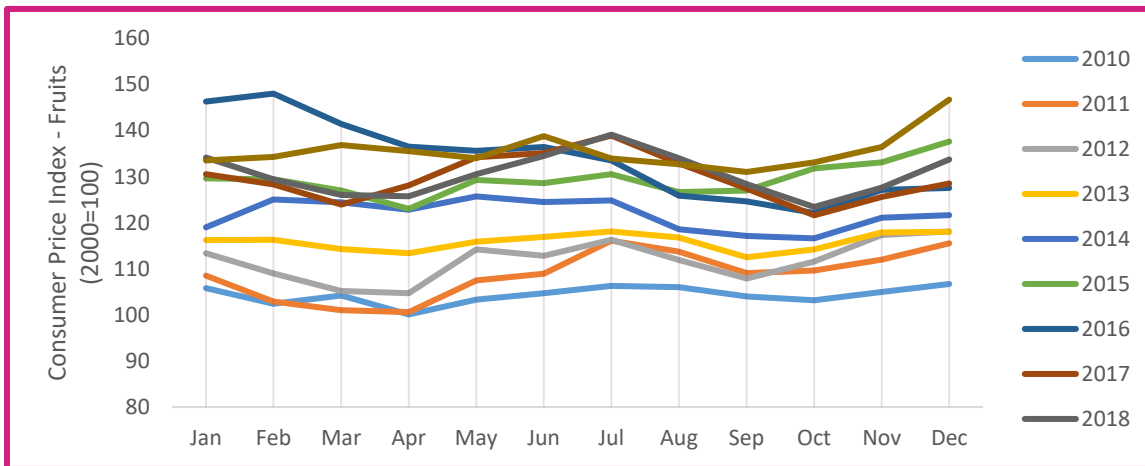
The yearly trend graphs (Figures 5 and 6) below illustrate relative monthly vegetable and fruit prices from 2010 to 2019. Although not every year shows the same trend, seasonality plays a major role in the determination of vegetable prices in Canada. The seasonality trend is not as prominent in fruit prices. For vegetable prices, the summer months tend to show a decline in relative prices that align with the Canadian growing season.

Figure 5: Relative monthly price trends – Vegetables



Source: Statistics Canada

Figure 6: Relative monthly price trends – Fruit



Source: Statistics Canada

Other food

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. In recent years, consumer trends—such as demand for convenience, health and wellness—and ethnic food trends have driven up the demand for some products. As a result, prices have been increasing 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.

Restaurant food

Apart from the meat category, restaurant food shows the biggest price increase in both long- or short-term trends. According to Restaurant Canada,⁵ menu prices jumped by 4.2 per cent in 2018, the largest increase since the introduction of the Goods and Services Tax (GST) in 1991. Historically, menu prices at full-service restaurants have increased faster than at quick-service restaurants. However, in 2018 that trend flipped as quick-service restaurant menu prices increased by 5.3 per cent compared to a 3.8 per cent increase at full-service restaurants.

In recent years, a combination of rising labour costs, higher food costs, increased utility rates and other operating expenses took a toll on restaurants. According to Restaurant Canada, the main reason behind menu price inflation was that restaurants were forced to pass most of these increases on to consumers, as there was a little room to absorb additional expenses. In addition, time deprived consumers are demanding more prepared meals

⁵ Restaurant Canada. 2019. Food Service Facts 2019.

which is driving up the demand for food away from home and its price.

Key take-away

Long- and short-term food price trends show some notable and impactful moments in Canada's food price history.

One notable trend is that food prices increased between 2007 and 2012⁶ following a global economic slow down. No single factor explains why the increase in food prices was global and widespread. Potential drivers included a general increase in global demand, low international stock-piles (especially for grains), high energy and fertilizer prices, adverse weather (which lowered production in some years), increased use of crops such as maize to produce biofuels, and trade policies such as export bans.

The most notable events in the short-term trends include a beef price shock in 2015, the dairy proteins (diafiltered milk) loophole and the impact of U.S. imports (fresh fruits and vegetables), and the bread price-fixing scheme that was revealed in 2018.

These significant events illustrate potential vulnerabilities of Canada's food sector and the volatility of food prices. It also shows that industry and government are limited in their ability to be proactive and take action to stabilize food prices. Such conditions have a greater impact on those Canadian households that allocate a larger proportion of their expenditures to food. This is generally the case with lower-income households, households headed by seniors and households located in less populated areas where market competition is less prevalent.

As explained, higher food prices are a result of a number of interrelated and complex factors. Unfortunately, there is no simple remedy for the

⁶ Economic Insights. The increase in food prices between 2007 and 2012. Statistics Canada.

situation. However, affected households can consider taking some of the actions listed below to lessen the impact of a food price shock, including:

- **Find bargains** – buy bulk or buy less processed rather than pre-cut or processed items. Examine opportunities for group buying and use coupons.
- **Cut back** on expensive cuts of meat and consider buying less expensive proteins such as chicken, eggs and pulses.
- **Choose frozen** – frozen fruits and vegetables provide essentially the same fiber and mineral content.
- **Reduce food waste** – this is the greatest way to save money. Plan meals and buy only what is needed. Resist impulse purchases to save a significant amount on one's grocery bill.