

DECEMBER 2012

Food Price Index 2013

UNIVERSITY OF GUELPH
ECONOMIC BRIEF

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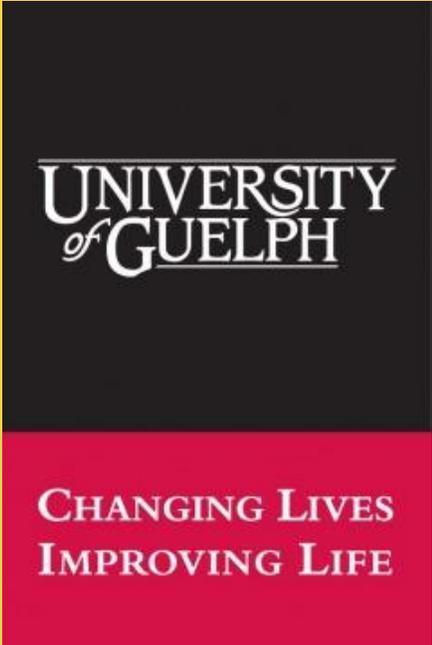
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The logo for the University of Guelph, featuring the text "UNIVERSITY of GUELPH" in a white serif font on a dark blue background. Below this, on a red background, is the motto "CHANGING LIVES IMPROVING LIFE" in a white sans-serif font.

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The projections in the University of Guelph Food Price Index 2013 (FPI 2013) focus on factors that are expected to shape food prices for Canadian consumers over the next fiscal year. Assuming that current laws and regulations remain unchanged during the projection period, the FPI 2013 provides the basis for examination and discussion of Canadian retail food prices. Key results of this report suggest food retail prices in Canada will increase above the inflation rate over the next year.

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Food Price Index 2012

The University of Guelph Food Price Index 2012 projected food prices to increase no more than 2% over the last calendar year. We expected to see price increases in meat. We also postulated that because commodity prices had softened somewhat in 2011, the pressure on retail prices of bakery prices would be eased. Our forecast and the actual price increases that materialized are summarised in Table 1.

Table 1: Summary of Forecast vs. Real Data

Source: (Statistics Canada, 2012)

Category	Forecast	Real Data	Difference
All Foods	Less than +2%	+1.0%	
Meat	Less than +3%	+3.8%	-0.80%
Bakery Products	Less than +3%	+1.2%	
Fresh Vegetables	+1%-3%	-7.3%	-8.30%
Restaurant Prices	Less than +2%	+1.9%	

Overall Canadian food retail prices in the last fiscal year rose 1.0 percent, with the greatest increase in meats and eggs, 3.8 and 5.9 percent increases respectively. Likewise, food purchased from restaurants saw prices increase 2.2 percent. (Statistics Canada, 2012). The Food Price Index 2012 was very close to the real Canadian retail prices. Much of this was attributed to the fact commodity prices were fairly stable and were reflected in prices in 2012. The price of fresh vegetables were expected to increase but, in fact, decreased the past year. This was a result of two factors: the American food distribution industry moving more

investment towards technology, and the strong Canadian dollar. Such factors allowed for input costs to decline significantly in food distribution, stronger buying power for American and other imported vegetables, and ultimately less out-of-wallet spending for the Canadian consumer at the cashier. Food prices overall decreased as the looming entrance of Target caused retailers like Walmart to keep prices low for consumers. Meat, bakery goods, fresh vegetables, and restaurant prices that are part of the Consumer Price Index are found in Appendix A. Factors Affecting Retail Food Prices

Factors Affecting Retail Food Prices

Nine main drivers in three fundamental domains are expected to influence the effect upon retail food prices in 2013. The relative impact, effect, and likelihood the drivers on food prices in our forecast for this year are outlined in Table 2.

Table 2: Fundamentals and Drivers of Canadian Retail Food Prices

	Drivers	Impact	Effect	Likelihood
Macroeconomic	Climate	Moderate to Very Significant	Upward	Likely
	Geopolitical/Economic Risks	Significant	Upward	Highly Likely
	Input Cost	Significant	Slightly Upward	Highly Likely
	Energy Prices Increases	Moderate	Slightly Downward	Likely
	Currencies & Trades	Significant	Downward	Highly Likely
Sector	Canadian Food Distribution & Retail Landscape	Very Significant	Downward	Likely
Domestic	Consumer Debt & Deleveraging	Significant	Downward	Likely
	Inflation	Moderate	Negligible	Likely
	Consumer Income & Income Distribution	Slightly Moderate	Negligible	Likely

Macroeconomic Effects

The consequences of the 2012 North American drought had relatively strong impact on food production and, in turn, food prices (National Drought Mitigation Center, 2012). The extremity of this drought, the biggest of its kind in recent North American history, saw food prices increasing at a rate well above normal expectations. This was especially the case for corn and soybean crops in the Midwest, the area hit hardest by the drought. The coming year will see climate impacts on food prices incur bigger effects; mainly due to the lack of buffer stocks many countries

have in place to mitigate the impact of such events. Buffer stocks will need to be rebuilt over the next few years in order to mitigate of food prices increases, as any sort of future production disruption without sufficient buffer stocks would have more negative effects in Canadian wallets.

In assessing the geopolitical and economic risks, we suggest that energy prices may not have as strong of an impact as we have seen in the past five years. The relatively stable oil prices seen in 2012 should continue to stay so

over the next year. As the U.S. maintains its current strategy to be the world's next biggest oil producer, the Middle East geopolitical environment will thus continue to have reduced impacts on energy prices overall (International Energy Agency, 2012) Up to 30% to 40% of the American corn crop is being diverted into biofuels, which will contribute to further expected price increases for corn-based processed foods in 2013 (Oxfam, 2012). Also, the continued strength of the Canadian dollar compared to the weakened Euro and U.S Dollar enabled cheaper imports in 2012, and this is expected to continue during 2013 (The Canadian Chamber of Commerce, 2012).

Sector & Domestic Effects

Retail rivalry has strengthened in the past year, and will accelerate in the coming year. This competition is fueled by American retail giant Target opening up in Canadian markets as early as March 2013. The Target entry paired with Walmart's expected 4.6 million square feet of retail space increase in Canada (Walmart Canada, 2012). Half of these Walmart's new locations will include a full range of groceries. To

combat this expansion, Canadian grocery forces Loblaws and Sobey's have plans to expand their square footage, at a rate twice as fast as the nation's population rate over the next three years (Empire Company Limited, 2012). Given the greater domestic food competition and unfavourable demographic forces these aggressive retail expansions indicate that a retail food price war will be coming to Canada in the next few years.

"Loblaws and Sobey's have plans to expand their square footage at a rate twice as fast as the nation's population rate over the next three years."

Domestically, the percentage of outstanding consumer debt fell in 2012 to its level prior to the recession, although the total amount continues to increase. Consumers are likely to focus on paying down their debt (Royal Bank of Canada, 2012). Likewise, consumer goods are expected its continued decline such as housing costs and clothing in the coming year. As Canada moves into a "low inflation" economy in 2013, consumers should note that impacts on gas and food price hikes will be much more evident. The current economy is similarly creating very few jobs, which will add budgetary pressure on consumers during 2013.

Food Price Index 2013 Forecast

The FPI 2013 forecast that retail food prices to increase 1.5% - 3.5% overall, growing faster than that of inflation, all things being equal. It is expected the food prices will increase steadily in the coming years. Table 3 outlines our forecasts. The full forecast can be found in Appendix B.

Table 3: Forecast for 2013

Forecast for 2013	Expected Price Increase
Meat	+4.5% to +6.5%
Fish & Seafood	+1.0% to +3.0%
Dairy	+1.0% to +3.0%
Eggs	+3.5% to +5.0%
Grains	+1.4% to +2.7%
Fruit & Nuts	+1.0% to +3.0%
Vegetables	+1.0% to +3.0%
Overall Food Expenditures	+1.5% to +3.5%

Beef and pork prices are expected to increase by 6-8% and 8-10% respectively in the coming year. This increase in beef prices are largely due to higher grain prices for cattle feed. As grain prices increase, farmers bring their inventory to slaughter and process much faster. This year thus saw an influx of supply of beef which brought down prices for a while. However, because the inventories are now much lower than last year, pressures on beef production and distribution will arise on the price for consumers. Pork prices are affected more adversely as Canada, as the sector is seeing more herd liquidation, causing a higher cost of production, augmented by a smaller supply response as there are fewer businesses in the pork production

market. The pork market over the past few years has been moderated and depressed for consumers, inferring it will respond in a larger increase than what we have seen.

The impending competition of new retailers is expected to increase prices of grains and cereals, especially when it comes to bread. Prices are expected to go up by 2-4%. This postulation is compounded with increased consumer preference towards alternatives to breads, hinted by both Weston and Maple Leaf Foods (Canadian Grocer, 2012). The growing specialty bread market, with items such as gluten-free and whole grain breads, will see price increases greater than that of traditional sandwich breads.

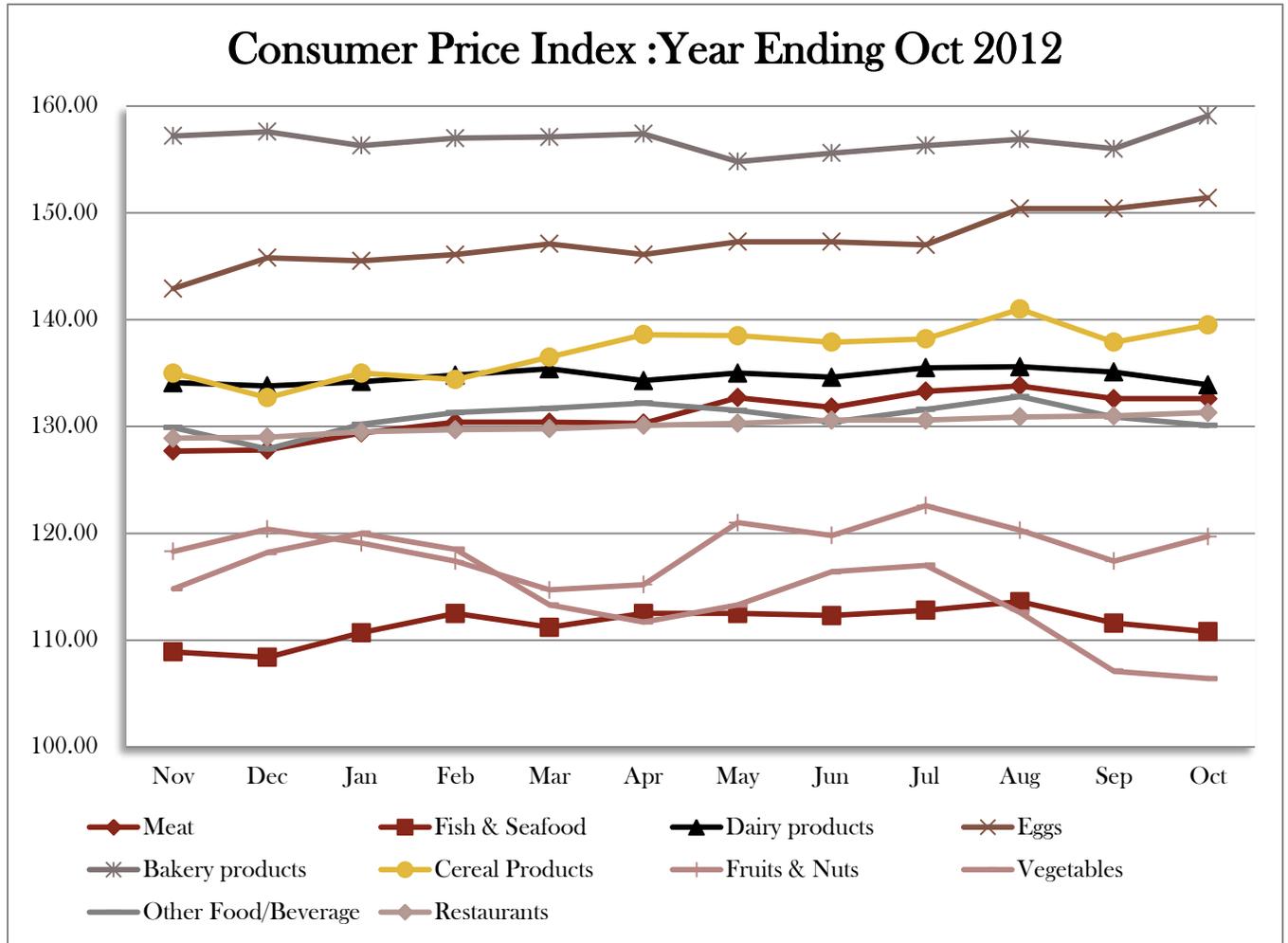
We expect the overall category for dairy products to see price increase 1-3%, as Canadian consumers are growing away from sodium slabs and more towards higher quality cheeses. The category is still growing, evidenced by more companies growing their cheese portfolios, making it possible to price up. The changing composition of the egg product category may see considerable price changes in the following year, up to an expected 5%. Due to the increase in animal welfare based technology, the increased cost of such capital may show up as high prices on price tags.

The upcoming year will also see a record number of people going to food banks. This is especially the case if pork, cheese, and bread prices are to spike as high as our forecast predicts. Likewise, 2013 may see even more wasted food than before. Canadian households are wasting 38% of products purchased in store. Restaurants are not doing that much better, with nearly half of all food purchased going to waste. This attention to detail of growing food prices should progressively cause greater awareness of wasted food in the Canadian home

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Appendix A



Appendix B

Food expenditures, Summary Categories	Forecast % Low	Forecast % High
Food	1.56%	3.45%
Meat	4.57%	6.57%
Beef	6.00%	8.00%
Pork	8.00%	10.00%
Poultry	4.00%	6.00%
Other meat and poultry	3.00%	5.00%
Meat, processed	3.00%	5.00%
Fish and seafood	1.00%	3.00%
Dairy	1.00%	3.00%
Cheese	1.00%	3.00%
Milk	1.00%	3.00%
Butter	1.00%	3.00%
Ice cream, ice milk and other dairy products	1.00%	3.00%
Eggs	3.00%	5.00%
Grains and Cereals	1.35%	2.70%
Bread and unsweetened rolls and buns	1.00%	2.00%
Cookies and crackers	1.50%	3.00%
Rice and rice mixes	1.50%	3.00%
Pasta products	1.50%	3.00%
Other bakery, cereal grains and cereal products	1.50%	3.00%
Fruit, fruit preparations and nuts	1.00%	3.00%
Fresh fruit	1.00%	3.00%
Preserved fruit and fruit preparations	1.00%	3.00%
Nuts and seeds	1.00%	3.00%
Vegetables and vegetable preparations	1.00%	3.00%
Fresh vegetables	1.00%	3.00%
Preserved vegetables	1.00%	3.00%
Other		
Margarine, oils and fats (excluding butter)	1.50%	3.00%
Coffee and tea	2.00%	4.00%
Non-alcoholic beverages	1.00%	3.00%
Miscellaneous (includes condiments spices vinegars, infant food, frozen prepared food, soup, ready-to-serve prepared foods, snack and other preparations)	1.00%	3.00%
Food purchased from restaurants	1.06%	3.06%
Restaurant - meals	1.00%	3.00%
Restaurant - snacks and beverages	1.50%	3.50%

