

Inflation is Firmly Embedded IN THE FOOD INDUSTRY

The inflation we are experiencing today is a result of the repercussions of Covid and a series of steps and perhaps missteps in response to the Covid crisis. Starting with a move by many countries to financially support individuals and companies to help weather declines in sales and incomes, a period of high government spending and low interest rates followed. These two steps, while necessary at the time, provided the fuel for inflation.

While these steps provided some degree of financial relief, Covid's immediate impact on the economy was labour and product shortages making the term supply chain common place. (Recall the shortage of some food products on grocery stores shelves when Covid first hit in 2020.)

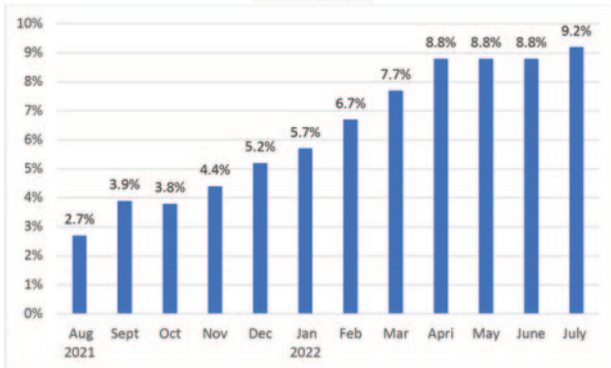
With shortages in labour and products, prices started to climb for almost all products in our economy. Food products lead the upward march in prices at grocery stores and restaurants in Canada and the U.S.

The following chart shows the rapid rise of food prices in Canada over the last year from an annual rate 2.7% in August 2021 to over 9% in July of 2022. Food inflation in the U.S. is even higher. The U.S. food inflation rate in August of 2022 was 11.4%.



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Canadian Food Inflation Rates 2021-2022



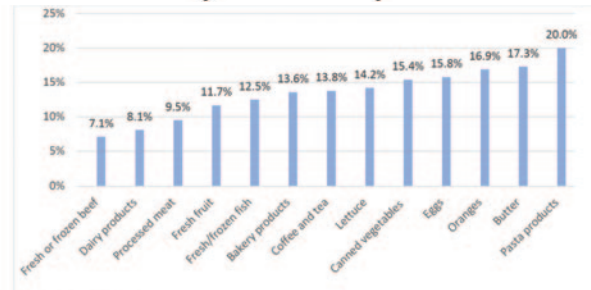
Statistics Canada

A look at how prices have changed for individual food products demonstrates how fast the price of food has increased just in the last year. The following chart shows price increases for selected food products in Canada as provided by Statistics Canada. At the low end are beef and dairy products in the 7% to 8% range. (However, I question the accuracy of Statistics Canada's number for the beef category as our recent grocery store pricing survey shows prices for beef of all types have increased significantly.)

Some stores told us that they no longer display prime rib beef at the counter but only cut to order as fewer people are buying this top priced product.)

At the upper end of price increase are eggs, oranges, butter and pasta products. In addition to increased sticker prices, a number of food companies have repackaged their products into smaller formats to effect a price increase. This is common practice now for cereals, snack food and other packaged food products.

Canadian Food Price Increases July 2022 over July 2021



Statistics Canada

To counter high inflation rates and slow down the economy, Canada and the U.S. have been steadily increasing interest rates. Both countries have been raising interest rates by 75 basis points or higher at each of the last several central bank reviews.



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The overall US inflation rate in August was 8.3% down only slightly from 8.5% in July. This news released in mid-September caused a sharp decline in the US stock market as realization sunk in that inflation will be harder to tame than expected and that further interest rate increases will be required. As evidence of how quickly inflation has flared up, the February 2020 inflation rate in Canada was 1.1% and 1.7% in the US.

Behind the inflation story is what is happening in the Canadian food industry.

Many grocery stores are finding it difficult to

fully stock their shelves. One week there may be a shortage of lettuce, another it may be fruits, prepared foods or packaged food products. Grocery stores are also finding it difficult to find staff at the stocking and checkout levels. Food retailers and distributors are finding that some food processors are not prioritizing the Canadian market by not consistently providing bilingual labelled products.

Food processors are facing a number of on-going challenges including keeping a full complement of production staff, increased costs for food inputs and a shortage of some types of packaging materials.

To date many food companies have been able to pass on increased costs to their customers be it at the grocery, foodservice or other levels. It appears that food processors tend to initially bear the brunt of increased costs while they try to pass price increases on to their customers. Reports show the US food processor gross margins have recently declined by about 10% but they are improving. This points to the need for food processors to be scrupulous in managing their costs and ensure that costs are passed on to customers so that profits do not erode.

With this inflationary period food companies more than ever need to know their costs in detail on a real-time basis. While prices used to be set for a year, companies need to know how their costs are changing for ingredients, packaging, shipping and labour to be able to determine their profit margins and whether an adjustment to their prices is required to maintain profitability. Controlling costs and improvements in efficiencies remain on-going prime tasks of food industry management. **WFP**



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