Food Price Report **2015**

Forecast Revision

February 3, 2015

Recently, the economic landscape in Canada has significantly shifted, with wide-ranging effects. The Food Institute of the University of Guelph released its annual retail price report when the Canadian dollar was worth $0.88 against the American dollar. Our loonie's sudden fall, primarily due to the lowest crude oil prices and lower interest rates, compelled the Food Institute to revise its food retail price forecast for 2015 for the second time in 5 years. As many anticipate further interest cuts by the Bank of Canada, coupled with rate increases by the American Federal Reserve, some analysts predict that the Canadian dollar could fall to $0.75, perhaps even lower. While we expected the Canadian dollar might soften somewhat, we did not anticipate the degree to which it decreased. Our currency just experienced its largest 2-year drop ever.

Canada is likely to import over $40b worth of food products this year. Among the myriad food products are fruits and nuts, vegetables, coffee, fish, chocolate, many imported processed foods, some speciality meats and alcohol beverages. We expect our weaker domestic currency to add further pressure, forcing prices upward for these products.

Due to the closure of manufacturing plants in recent years, Canada relies more heavily on processed food imports in response to consumer demand. For example, cereal imports increased by more than 18% in 2014. Prices could also rise for many products which are now imported, but were not before. Additionally, juice and specialty meat products may also be subject to increases.

Most importantly, due to a weaker dollar, edible vegetables, fruits and nuts are likely to see significant price increases. Fruits, nuts and vegetables represent anywhere from 15% to 25% of the average Canadian household's food expenditures, clearly making it an important component of consumers' nutritional diets. Because they are edible imported products, and there is a lack of substitutes, they are especially vulnerable to currency fluctuations.

It was expected that the price for some food imports would increase anywhere from 3% to 5% this year. Given that the Loonie is currently worth lower than $0.80 now, and its value may decrease even further, food importers may be compelled to hedge further against the Loonie, or simply pay more for several products at once. We expect vegetables prices to increase by 5.5% to 7.5% by the end of 2015 (from 3% to 5% in original forecast). Consumers may feel some changes at retail tellers starting this spring, unless food distributors change their pricing strategies before winter's end. We expect a similar increase for fruits and nuts – up from our 1% to 3% prediction in December to 3% to 5% – but not as significant as vegetables.

Lastly, lower energy costs will have a particular impact on food sold in remote areas in Canada – regions far from urban centres. This will likely offset some of our currency upward effect, but only partially. Consequently, for this year, we predict food prices overall will increase at 0.7% to 3.0%, in lieu of our earlier prediction, which was 0.3% to 2.4%.

Forecast Adjustment Comparison of Food Prices in 2015

Food categories	Forecast in December 2014	New Forecast for 2015
Vegetables	3% to 5%	5.5% to 7.5%
Fruits and Nuts	1% to 3%	3% to 5%
Other Categories Meats Fish & Seafood Dairy Products and Eggs Grains Hospitality	No change	
Overall	0.3% to 2.4%	0.7% to 3.0%

Table Summary: This table compares the original forecast of 2015 Canadian food prices that was made in December 2014 to the new forecast of January 2015, as described on page 1.

This report was prepared by Professor Sylvain Charlebois, Professor Michael Von Massow, and Dr. Paul Uys h.c.

For more information please visit **https://www.uoguelph.ca/foodinstitute/featured-content/food-price-report-2015** or contact **foodinstitute@uoguelph.ca**