

How Rising Inflation is Affecting Farmers, and what that Means for Consumers



With inflation consistently on the rise, Canadians are finding it more and more difficult to afford food. In December 2021, The Arrell Food Price Report predicted another 5% - 7% increase on food prices over 2022, and those estimates were made before another large disruption to the food chain occurred, the war in Ukraine.

Farmers have also seen their bottom-line costs increase tremendously over the past few years, with a sharp rise in 2021 and 2022. Crucial inputs to their business have seen drastic price increases throughout 2021 and 2022. As an example:

- Diesel fuel prices increased 47.4% from January to May 2022.
- The average Canadian grain farmer — wheat, canola, barley, oats — would have spent \$60 to \$65 per acre on fertilizer in 2021. This year, costs are more like \$130 to \$140 per acre, according to estimates from Fertilizer Canada. For the average farm, according to Statistics Canada's Census of Agriculture, of 778 acres, that means an increase of about \$56,000.



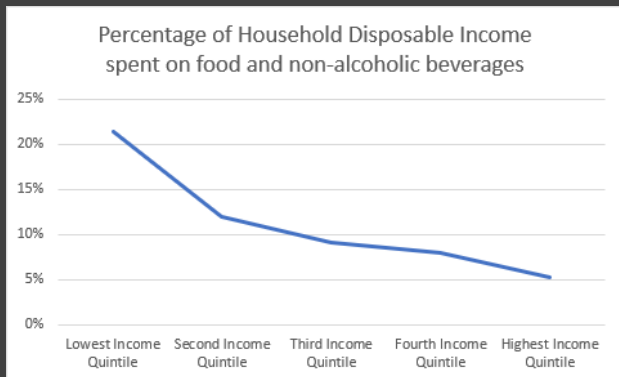
These inputs are absolutely necessary for a farmer to grow their crops or feed their animals. Farmers have no lower-cost alternatives to turn to. The 2022 crop has been described as the most expensive, and therefore most risky, crop in history.

While Canadians are seeing all goods increase in price, food inflation is outpacing most other commodities. For most of its history, Canada has ranked among the few countries that consumers spend less than 10% of their income on food (9.1%).

However, maintaining this affordability has and will likely continue to become more difficult for Canadians. While the median income in Canada grew by 6.6% between 2015 and 2019, the national average food expenditure (including both food retail and food service) increased by 16.3%, with food retail on its own increasing by 19%. This means that Canadians are having to allocate a higher proportion of their income for food. This trend has been exacerbated by COVID-19. From April 2021 to April 2022, Canadians saw food prices increase by 9.7%, far above the annual average.

CFA, in its own calculations for Food Freedom Day, showed how Canadians of different income levels are being impacted by rising food prices. The results found that lower-income Canadians are being affected far more heavily by these changes than higher-income Canadians.

While inflation is a burden on every Canadian, farmers are always committed to providing safe, affordable and nutritious food the Canada and the world, and do their best to accomplish that as efficiently as possible.



With recent surveys showing that nearly half of all Canadians are finding it difficult or very difficult to feed their families, it's time to try and understand how inflation and rising costs are affecting farmers, the food supply chain and ultimately the consumer.

Rising Costs for Farmers and what that means for food prices

While the costs of food production have increased, there has been a simultaneous increase in many commodity prices, the price at which farmers can sell their raw product. With harvest in Canada and other major production areas still to come for many products, it is yet to be seen if those increases will balance out the increased costs, but our members across Canada have raised concerns to CFA that many farmers and ranchers will face losses if things continue on with their current trends.

However, these increased costs to farmers are not why consumers are seeing increased prices on the retail shelves in most cases, due to the fact that the vast majority of farmers are “price-takers”.

As price-takers, farmers cannot set the price of their product. While some can control when they sell, whenever they go to sell at market, they are given whatever price the market will pay for them. That means when costs go up, farmers don't have the option to simply sell their products at a higher price to offset those increases like many other businesses do.

A few agriculture sectors, including dairy, poultry and eggs, operate under Canada's supply management system, which matches production levels to the level of demand. This unique system also allows farmers to work together to ensure the price they receive covers their cost of production, providing a means through which farmers can influence the price of the products they sell based on the rising costs they experience.

The Food Supply Chain

For food to get from farms and into grocery stores, they must move through the food supply chain. This includes many different sectors such as transportation, processing, manufacturing and packaging. Each link in that chain has also been under inflationary pressure, and unlike most farmers, they can pass those costs further down the chain, which can lead to increased food prices.



The transportation, processing and restaurant/retail sectors have all been experiencing severe labour shortages as well as an overall costlier environment to operate. The food and beverage industry reported a vacancy rate of over 20% before COVID-19, with estimates as high as 25% earlier in 2022. Transportation costs have also increased, with intermodal transportation (moving large-sized goods in the same steel-based containers through two or more modes of transport) prices increasing by 25.5% between June 2021 and June 2022. Many small businesses in the retail and restaurant sectors have had difficulty finding employees.

All of these different factors come together to make food production and service more expensive in Canada compared to previous years.

The Retail Cost of Food

Ultimately, the grocery store is where the impacts of food inflation are felt for the average consumer. While all the factors noted above would translate to increased prices on the shelves as grocers need to maintain financial sustainability,

There is no single, conclusive reason as to why food inflation has outpaced regular inflation. While farmers are the foundation of the food supply chain, their impact on food prices is minimal as most farmers have no ability to set the prices at which they sell.