

Make Informed Decisions

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## Commodity Pressure on Canadian Food Prices

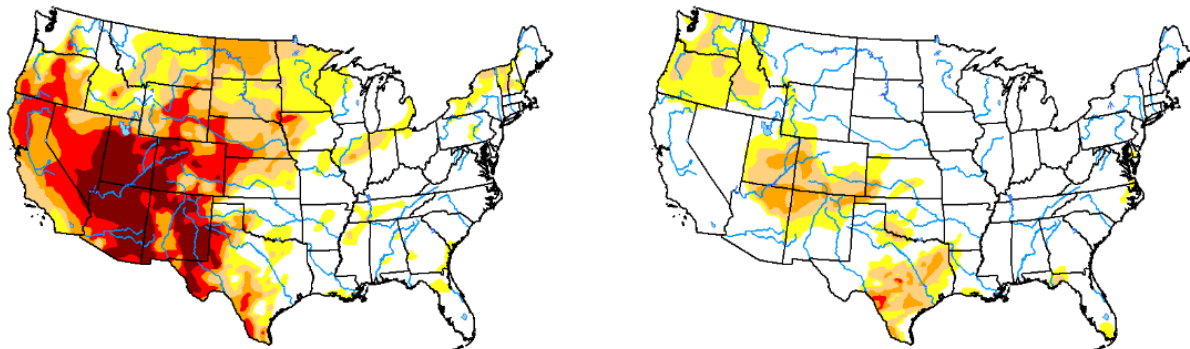
As has been warned and noted in Grocery Trade Report for about 6 months, there is agricultural commodity price pressure brewing. As of early 2021, that pressure has become obvious. The USDA recently released a report which showed a big reduction in estimated corn yields. It was the largest reduction by USDA in 25 years and sent grain futures soaring again. Corn and soybean stocks are going to remain tight for the foreseeable future. High crop prices, particularly corn, tend to spill over and pressure all crops higher including processed vegetables. Grain corn is a food inflation driver, including meats.

In addition, there is now a large drought area in the U.S. southwest. There has not been a serious drought in the U.S. mid-west crop regions in several years. Conditions this year may be pointing in that direction for planting and growing in 2021.

### United States Drought Monitor

#### Drought Classification

- None
- D0 (Abnormally Dry)
- D1 (Moderate Drought)
- D2 (Severe Drought)
- D3 (Extreme Drought)
- D4 (Exceptional Drought)
- No Data



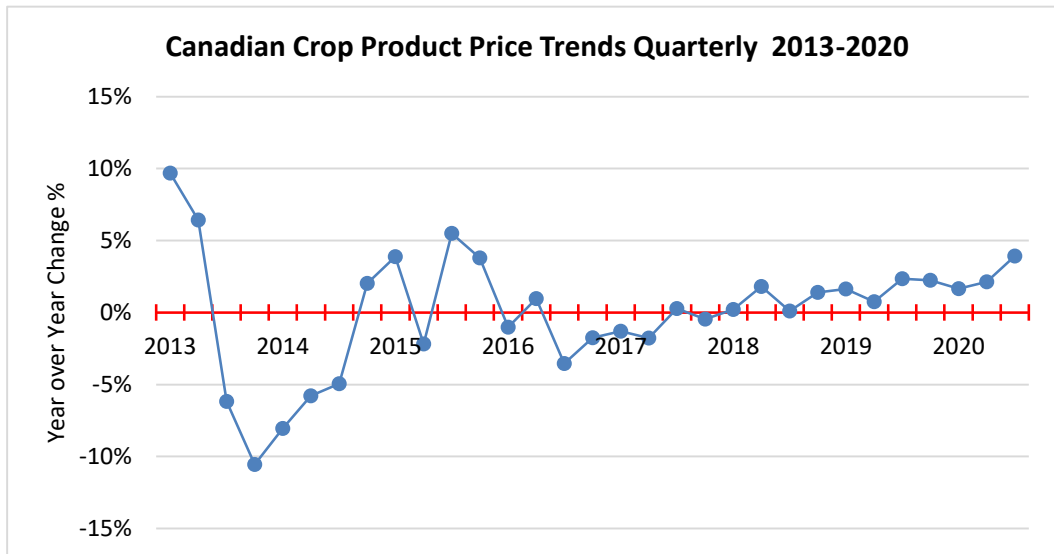
January 12, 2021

January 14, 2020

Source: United States Drought Monitor, <https://droughtmonitor.unl.edu/>

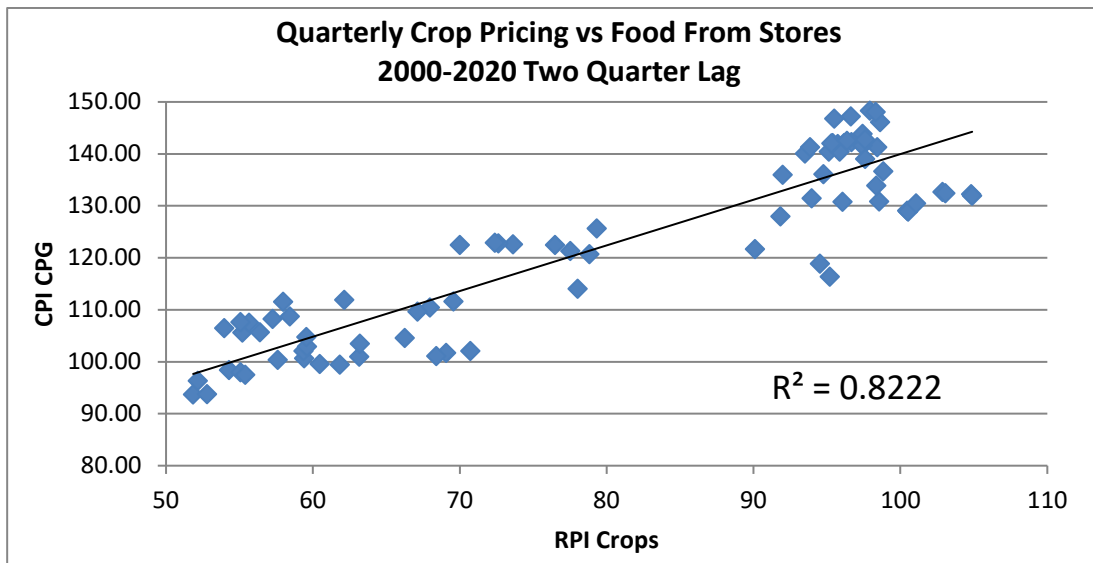
### Crop Based Inflation Warning

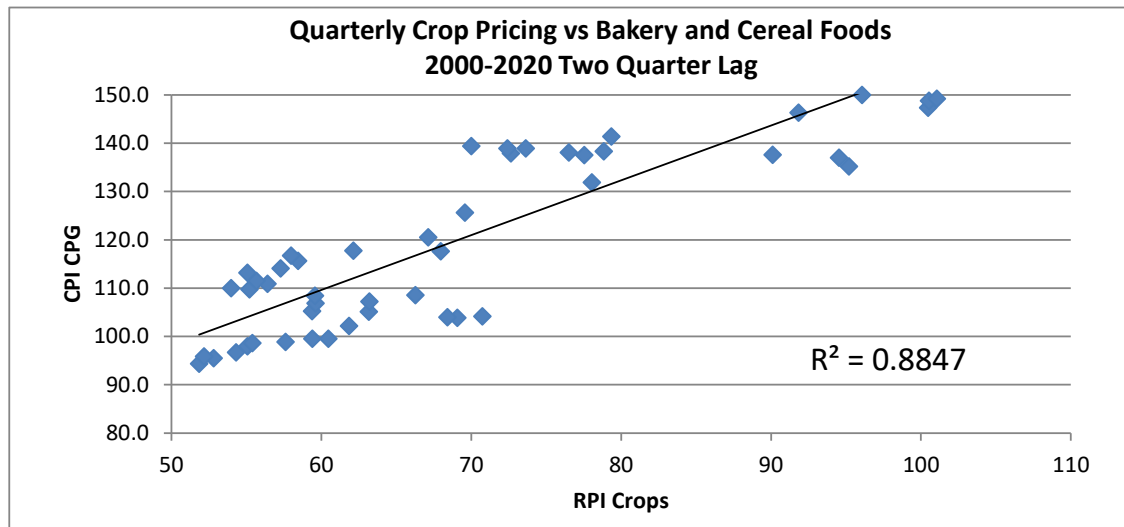
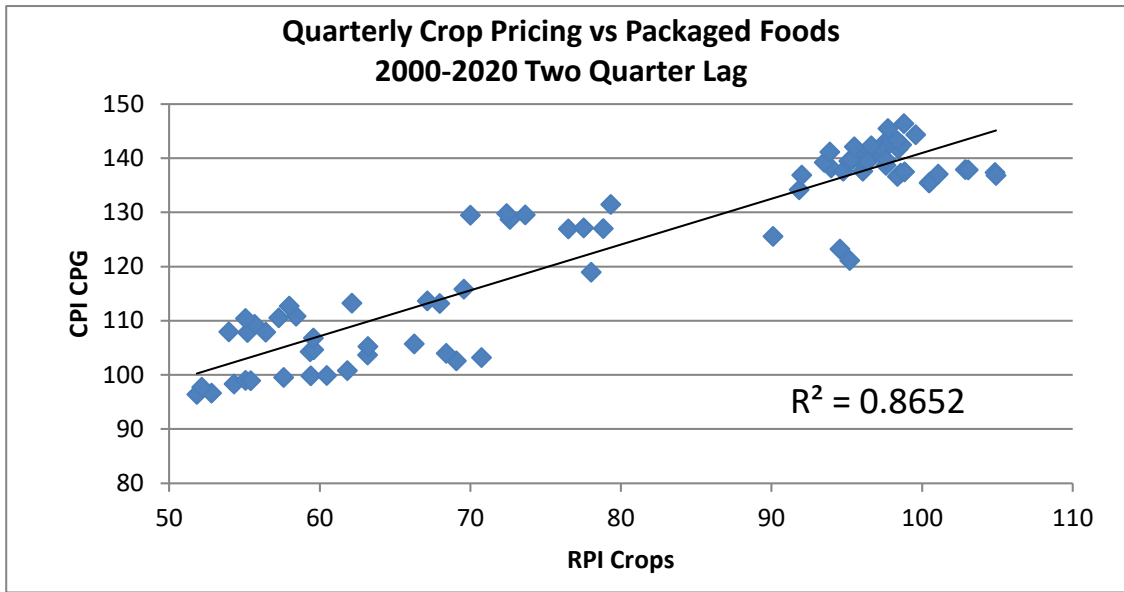
The bottom line is that there has not been crop-based food inflation pressure in several years. Modest crop inflation and even deflation ran through 2016 to early 2019. There were hints of inflation in the second half of 2019 and that carried into 2020. By the third quarter this year Canadian crop-based inflation was nearing 5%. Into the fourth quarter this year, the inflation was looking more like 10% or more. That continued into 2021.



### Strong Statistical Relationship

This is important to grocery food pricing because there is a strong and direct relationship between crop prices and food inflation. Their relationship extends to the inflation for all the food purchased from stores as well as to the total consumer packaged goods purchased from stores. It even extends down to specific items such as bakery and cereal products. If there are higher crop prices, it tends to lead to higher food prices, with a time lag to work through the food manufacturing and distribution system.





**Why it Matters**

There is underlying food cost inflationary pressure facing food manufacturers and grocers. This is happening at a time of intensifying competition, again, at retail. Both happening at the same time indicates grocery margin pressure is coming.

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January 2021

*A version of this note first appeared in the December 2020 edition of [Grocery Trade Report](#). For a free two-month trial just email [Kevin@KevinGrier.com](mailto:Kevin@KevinGrier.com). Conversely visit [www.kevingrier.com/publications](http://www.kevingrier.com/publications) to subscribe.*