Don’t Fear Rising Food Prices

Description

As food prices rise and the value of the loonie falls, grocery store operators such as **Loblaw Companies Limited** (TSX:L), **Empire Company Limited** (TSX:EMP.A), and **Metro, Inc.** (TSX:MRU) are bracing for a shift in consumer spending.

According to the *Winnipeg Free Press*, a new survey by the Angus Reid Institute found “nearly six in 10 Canadians (57%) say it’s become more difficult in the past year to feed their families.” About 70% also said they were switching to cheaper brands to stretch their grocery budgets.

Last year, food prices rose 3.7%. However, this masks the big cost increase for certain items like fresh vegetables (up 13.3%) and fresh fruit (up 13.2%). For example, lettuce prices shot up 22%, apples rose almost 12% and oranges were up about 9%. With fresh foods feeling specifically squeezed, 40% of Canadians said they were buying less healthy foods because they’re cheaper.

How will rising food costs impact food retailers?

The worst may already be over

Because Canada imports about 80% of its fresh fruits and vegetables, currency fluctuations have a major impact on grocery bills. When the loonie falls (as it has been), prices for those goods soar. The chief cause of the weak loonie has been low oil prices.

For example, roughly a third of Canada’s GDP is connected to raw materials, so when oil prices collapsed, multiple provinces entered a recession. Oil and gas investments fell by more than 35% last year with that weakness continuing into 2016. Estimates have Canada losing over 100,000 oil and gas sector jobs in 2015 alone.

The solution to rocketing food prices is simple: strengthen the currency. For the currency to strengthen, oil markets need to stabilize and rebalance. Luckily, that already seems to be happening.

Right now, global oil production is about two million barrels per day above consumption. By 2017, the EIA expects this gap to close and be completely eliminated by the end of the year. The last time the market was completely balanced, oil was at $100 a barrel. The country of Kuwait predicted prices would reach US$50 a barrel by the end of this year. Higher oil prices would halt food inflation fairly quickly.

Food retailers may not have much to fear

So, as analysts start talking about how food inflation will hurt retailers, the worst could already be over. Since February, the Canadian dollar has continued to rise from CAD$0.70/US$1 to CAD$0.77/US$1, making food imports from the U.S. cheaper. Items like beef, chicken, bacon, eggs, bread, celery, potatoes, and tea actually fell in price last month. Higher oil prices should continue pushing the loonie even higher.

If you're an oil bull, don't fear the falling loonie or rising food prices.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:EMP.A (Empire Company Limited)
2. TSX:L (Loblaw Companies Limited)
3. TSX:MRU (Metro Inc.)

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