# Inflation Hits Lowest Point in 2 Years: Time to Buy Food Stocks?

## Description

The U.S. is seeing inflation issues on the horizon. Its August core inflation rate came in at +0.3%. That compares with expectations of +0.2% and +0.0% the prior month. While that may not seem like much, it results in a nearly 4% annualized inflation rate–much higher than the market was ready for.



In recent years the U.S. has seen very limited price rises for goods, so the latest news may represent a major shift in conditions.

According to new data, Canada is on a much different track: Canada's August core inflation rate dropped to its lowest level in more than two years.

Economists had expected inflation to come in at 1.4% for the month. Instead, it was just 1.1%.

Slowing food prices contributed heavily to the lower-than-expected results. August food prices increased 1.1% last month after rising at an annual pace of 1.6% in July.

Last year, food prices rose a sizable 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. A survey by the Angus Reid Institute earlier this year 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.

With food inflation slowing, Canadian consumers are likely to up their budgets at grocery stores. Is it time to buy food stocks such as **Loblaw Companies Limited** (TSX:L), **Empire Company Limited** (TSX:EMP.A), and **Metro, Inc.** (TSX:MRU)?

**Not so fast**

There are more factors at work than lower inflation numbers.

Because Canada imports about 80% of its fresh fruits and vegetables, currency fluctuations have a major impact on grocery bills. And there are plenty of reasons to believe the loonie may weaken over the next 12 months.

First, with the U.S. raising interest rates and Canada lowering them, the loonie is very likely to lose value against the U.S. dollar for the foreseeable future.

The Bank of Canada's key lending rate stands at 0.5% after it cut the figure twice earlier this year. Meanwhile, the U.S. raised rates to 0.5% last December. The U.S. Federal Reserve plans to increase rates multiple times next year.

Second, oil prices are likely to see limited gains. When oil goes up, the Canadian dollar strengthens. When oil falls, it weakens. According to Steve Williams, CEO of **Suncor Energy Inc.**, oil markets will remain volatile and difficult to predict.

Williams listed "uncertain growth in demand" as a major headwind. The IEA recently released a report outlining that demand growth hasn't kept up its historical pace. The supply side, which is threatened by Iran's continued output, will also see pressures from project restarts in North American shale plays.

Buying food stocks off higher expected consumer spending may not be as simple as it sounds.



**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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