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Is Food Really More Expensive in Canada Than the US?



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Introduction

According to a May, 2014 Commentary by the CD Howe Institute¹, consumer prices are broadly higher in Canada. Nowhere is this more so the case than in food. In his paper, Nicholas Li observes that, based on OECD data, food purchased in the home was about 57% more expensive in Canada than in the US in 2011. Meats and the milk, cheese, and eggs group were observed to have the largest cost differential, at 76-77% more expensive than in the US. Li comes to a familiar conclusion- blame supply management.

But before rushing to judgment, a little perspective is required here. Canada and the US have free trade in almost all food products, with the exception of Canadian supply managed products (dairy, poultry and eggs), US sugar, tobacco products, and alcoholic beverages. Canada is a large net exporter of many food products, including some that are more expensive in Canada than in the US according to the CD Howe study. The proportion of household disposable income spent on food is relatively small in both Canada and the US. The Canadian grocery markets is supposed to be among the most aggressively competitive in the world, so it would seem genuinely surprising if Canadian grocery retailers that are such fierce rivals didn't bother arbitraging these allegedly large Canada-US price differences. One of the features of competitive Canadian grocery retail culture is a tradition of frequent discounting and loss-leader selling of products that happen to be supply managed- milk, cheese, eggs, chicken breasts, etc. Thus, there are reasons to question whether food prices are really 57% higher in Canada.

Moreover, dramatic differences observed on pricing in food products between Canada and the US should give us pause to consider the success of our trade agreements, especially as we negotiate new trade agreements. In a simplistic view, price arbitrage (which admittedly ignores important elements such as brands, package sizes, market outlet, retail pricing practice, local competition, etc.) should drive the price of products we import to be higher in price compared with the US by the cost of transport; products exported to the US would be priced lower than that in the US by the cost of transport. Egregious price differences between countries are not consistent with this.

The purpose of this paper is to consider the dynamics, metrics, and implications in comparing food prices between Canada and the US.

Food Costs in the US and Canada

Data on the costs of food are compiled by the US Department of Agriculture- Economic Research Service². The most recent data on household expenditure on food consumed in the home by the USDA is for 2012. It shows that in the US, food and non-alcoholic beverage purchases consumed at home were 6.6% of consumer expenditures. Canada came in with expenditures of 9.6%. This appears close to the 57% spread from the OECD data quoted by Li.

¹ *Sticker Shock: The Causes of the Canada-US Price Differential* by Nicholas Li
http://www.cdhowe.org/pdf/Commentary_409.pdf

² <http://www.ers.usda.gov/data-products/food-expenditures.aspx#26636>

However, a little more context is required. According to the USDA, US household consumer expenditures were \$US 34,541; For Canada it was \$US 27,761. This gives total expenditures on food for a US household of \$US 2,273 and a Canadian household of \$US 2,679. The implication is that, over the course of a year, Canadians spent about \$US 406 more on groceries than Americans did. This is just under \$US 8/week, or about 18%. The implication is that when we factor in observed differences in consumer spending for all goods, apparently the difference in food expenditures is not quite so egregious.

Moreover, the above describes food consumed in the home; what about food expenditures more broadly, including food consumed outside the home? In 2012, the Bureau of Labor Statistics (BLS) in the US released a study of comparative food expenditures, based on its Consumer Expenditure Survey³. It compared similar Canadian data collected by Statistics Canada under the Survey of Household Spending. It showed the following, based on 2009 information, as summarized in Table 1 below. Compared with the USDA data for 2012, the BLS study showed somewhat higher proportional spending on food consumed in the home in both the US and Canada,. Canadians to appear to spend more on food in the home than Americans; however, Americans appeared to have a higher expenditure on food outside of the home. The result is that on further analysis, in 2009, it appears that both Canadians and Americans spent about 15% of total consumer expenditures on food. In other words, it suggests that what Canadians and Americans spend on food in total as a share of consumer spending is about the same. Interestingly, the study was conducted using 2009 data during the height of the economic recession which was more severe in the US than in Canada. If this is viewed as an extreme period, in a more normal period presumably US food expenditure would be relatively higher.

Table 1 Food Expenditure as Shares of Consumer Spending in the US and Canada

	Percentage of Consumer Spending, 2009	
	US	Canada
Food at home	8.6	11.6
Food away from home	6	3.7
Total food	14.6	15.3

Source: US Bureau of Labor Statistics, 2012

Comparisons of US and Canadian Food Prices

Over the past several years in Canada and the U.S. the overall trend in food prices has been driven and influenced by three overriding factors. The first is the overall food commodity price surge that began with increasing grain prices associated with drought, increasing export demand, and US and Canadian policies to encourage corn usage in ethanol fuel production. These factors, but particularly the government ethanol policies, combined to create a massive increase in corn prices. The increase in corn prices in turn drove up the costs of the broader

³ "Consumer Expenditure Survey" *Focus on Prices and Spending* 2 (16) March 2012. US Bureau of Labor Statistics <http://www.bls.gov/opub/btn/archive/how-do-us-expenditures-compare-with-those-of-other-countries-pdf.pdf>

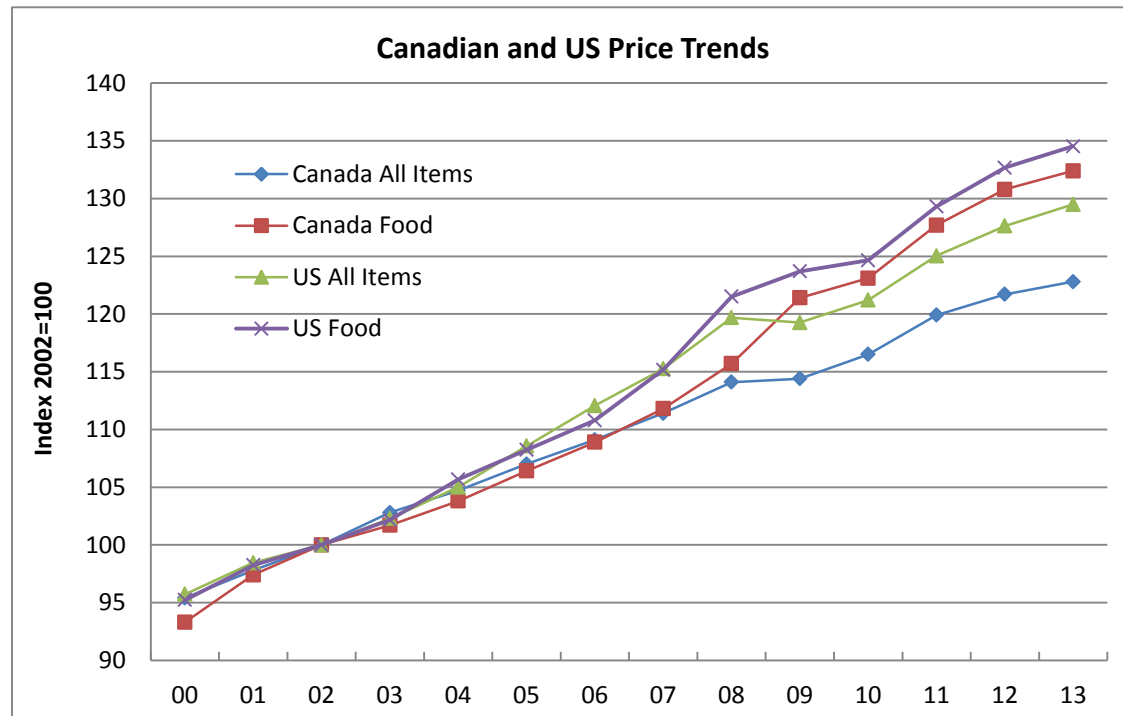
grain/oilseed complex, horticultural products that compete with grains and oilseeds for land, and eventually livestock.

Another major factor influencing food prices on both sides of the border was the impact of the 2009 recession. Data on consumer sentiment in both Canada and the U.S. has shown that consumers continue to be very cautious spenders. They continue to hunt more vigorously for bargains and continue to trade down to lower priced items and lower priced marketing channels.

Closely related to the new consumer sentiment is the aggressive competition at the retail level, driven by Walmart. Exceptional competition as exemplified by increased square footage and mergers has placed downward pressure on pricing in both Canada and the U.S.

The point is that the overall factors that drive pricing in Canada and the U.S. have been similar. That should not be surprising given the similarities of both markets. It should also not be surprising given that commodities are traded freely between both countries.

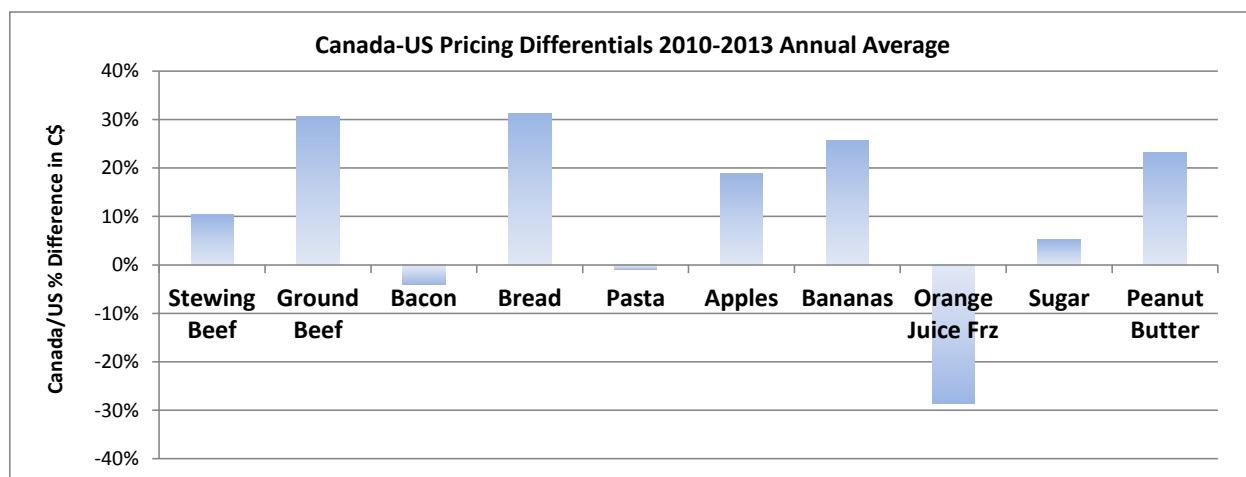
Within that overall context, it is of interest to compare the price trends over the past decade or more for food and all items in both countries. According to Consumer Price Index data from the U.S. Bureau of Labor Statistics (BLS), U.S. food prices have increased by about 35% from 2002. By comparison Canadian food prices increased by 32% over that same time frame, according to Statistics Canada's Consumer Price Index. The baskets used by both agencies are not exactly the same but they are similar enough to make meaningful comparisons. All items in the overall index increased by 23% in Canada and 29% in the U.S.



Source: US Bureau of Labor Statistics and Statistics Canada

Obviously the overall trends are similar but the fact is that U.S. food prices have risen faster than in Canada over that 2002 to 2013 period. During the past five years from 2009 to 2013 food prices in both countries increased by about 9%.

Of course the fact that U.S. prices have risen faster than Canadian prices does not provide an indication of the overall price levels or orders of magnitude. In that regard, however, actual BLS prices can be compared to StatsCan prices. Looking at ten commonly purchased items in grocery stores, it can be seen that for the most part from 2010 to 2013 on average, U.S. prices are generally lower than Canadian prices. Of the ten items canvassed on average from 2010 to 2013, Canadian prices were lower on three items. On average of the ten items, Canadian prices were about 11% higher.



Source: US Bureau of Labor Statistics and Statistics Canada

The bottom line of this is that price trends are very similar between Canada and the United States; any evident differences do not appear material, acknowledging that there are many factors that cloud these price comparisons; these are further discussed below.

Policy implications

Accurate and meaningful comparisons of food prices in Canada and the US are actually exceptionally difficult to make, even given the scale and depth of large surveys such as the USDA, US Bureau of Labor Statistics, or Statistics Canada. For highly specified products there are many potential confounders and variables that create “noise” in the comparisons, creating the prospect for misinterpretation of the results. These include:

- Strength of brands and associated price markup in one country vs. another.
- Retail practice in one country vs. another- in terms of product discounting, or a product being featured as a loss-leader in one country vs. another
- Differences in serving sizes and container sizes
- Differences in product quality- perceived or real
- Status of a retail store banners being compared; premium banner stores tend to price the same product higher than lower banners

- Competitive environment in food retailing in regions of Canada and regions of the US
- Differences in consumer purchase patterns- purchase at grocery stores vs. convenience/drug stores vs. purchase at food service locations
- Differences in indigenous preferences for food products
- Differences in levels/proportions of consumer spending
- Differences in consumption patterns within and outside the home

With these difficulties in measurement observed, the relative cost of food is an important issue in Canada as a major exporter of food and farm products used to make food, and in which food manufacturing is a major component of manufacturing activity. It is also a critical element of social welfare, especially for lower income level households. We also have trade agreements with a very large exporter of food products (the US) and a forthcoming trade agreement with another large exporter in the EU. Given this focus and openness, it would be surprising if our food costs were not at least comparable with our peers.

Before unleashing a wrenching self-examination, a more refined analysis that acknowledges the noise surrounding price comparisons of individual food products suggests that there are not major differences in overall food prices and expenditures. If this were not the case, Canadian consumers and governments that have championed Canada as a global agri-food competitor would rightly be demanding an explanation from the farm, food manufacturing, and retail segments. Rather, as expected in an open economy with an export-oriented agri-food sector, Canadian food prices and overall food expenditures are not materially different than they are in the US.

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