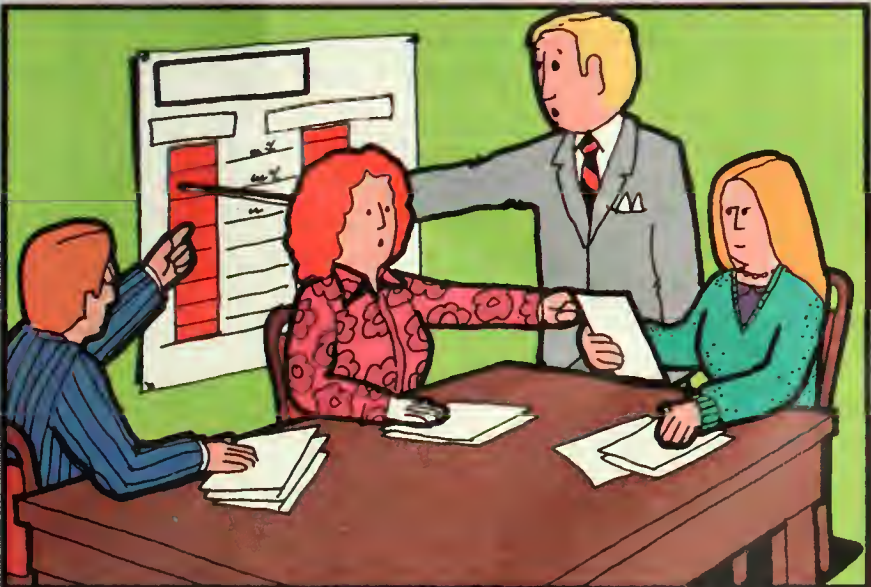
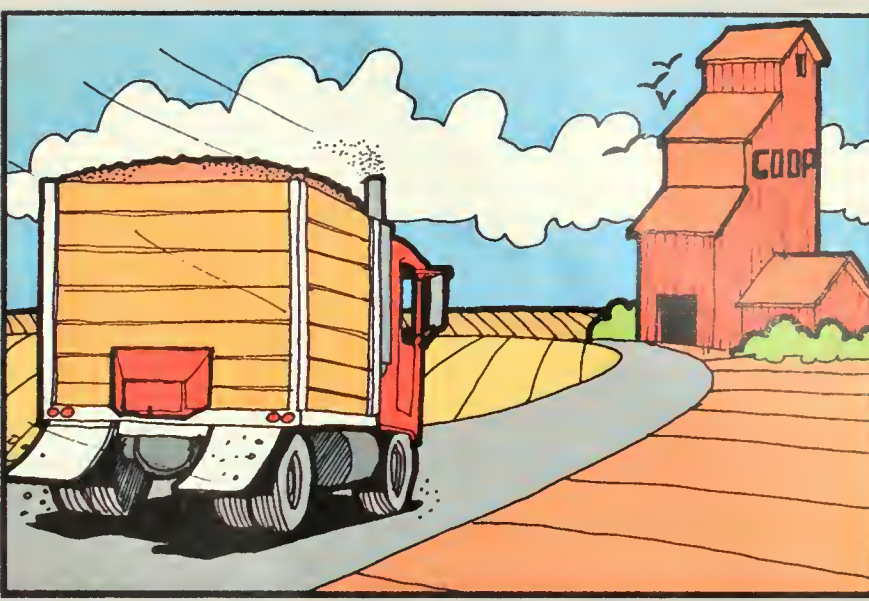


YOUR FOOD DOLLAR\$...

WHERE DO THEY GO?



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INTRODUCTION

Food is a necessary item in everyone's budget, and Canadians spend about one-fifth of their take-home pay for food. We buy food almost every day, and that makes us very aware of price changes. We often react angrily to price increases.

Why do prices go up? Where does the money go? Who benefits most? Are the increases necessary? What can we do about it?

This booklet answers many of these questions. It provides a clearer understanding of Canada's food industry and the role of the consumer in it.



WHAT HAS HAPPENED TO FOOD PRICES?

Before 1970, food price increases were very gradual, about 2.5% each year. Then the situation changed dramatically; between 1970 and 1979, the average annual increase rose to about 10%. Of course, the price of every food item did not increase by the same amount. Although no prices were lower in 1979 than in 1970, the prices of some items, like sugar, fluctuated widely over this period; others, like eggs, increased more steadily.

In 1980, the average increase in retail food prices was about 10.5% above those of 1979. This was well below the increases for the previous two years, but larger price increases are predicted. Now it costs almost twice as much to feed a family of four as it did in 1974. Why?



WHY DO FOOD PRICES CHANGE?



There are many reasons for the ups and downs of food prices, both within and outside Canada. Worldwide inflation, shifts in currency values, international marketing trends, pressures of supply and demand, production changes, and the rising costs of food production, processing and handling are all major contributors.

For example, the increase in grain prices in 1980 was due largely to drought conditions in North America. Higher grain prices in turn affect the prices of dairy products, poultry, eggs, pork and beef.

Another example was the sharp increase in Canadian agricultural commodity prices back in 1973-74; this could be traced, in part, to poor grain and rice crops in many countries. That reduced world supplies, and the Soviet Union added to the global shortage by buying grains abroad rather than cutting back on consumption. World prices were forced up in response to the increased demand.

Let's look at supply and demand. The *supply* of a commodity is the amount available for the marketplace. The amount consumers want to buy is the *demand*. When supply satisfies demand, prices are stable. However, when supply exceeds or doesn't meet demand, prices fluctuate.

Canada is blessed with an abundant supply of food, and supply has often been greater than demand. This surplus temporarily lowers prices for the consumer. However, it also causes the farmer to produce less of that commodity the next season. The reduced supply pushes prices back up, creating new incentive for increased production. This results in cycles of high production and low prices, followed by low production and high prices.



Certainly all food prices do not rise simultaneously or at the same rate. Short-term, wide fluctuations can occur because of non-controllable factors such as disease, insect damage and the perishability of certain items. Weather is the most common cause of short-term changes in production — frost, drought or heavy rains.

We can expect seasonal variations in production and prices, although modern advances have reduced the amount of these changes. For example, the Christmas demand for turkeys, or the heavy use of barbecue meats in summer keep prices high. Also, yearly changes can result from planned changes by farmers anticipating an increased or lowered demand for a commodity.

Longer-term changes can usually be traced to changes in demand, in the cost of farming, processing and merchandising, or advances in production technology. Changes in technology can lower unit costs and give us new or improved products.

Some examples of changes in demand that have affected production were the shift from butter to margarine, declining egg consumption, and increases in the amount of beef eaten in the 60s and 70s.

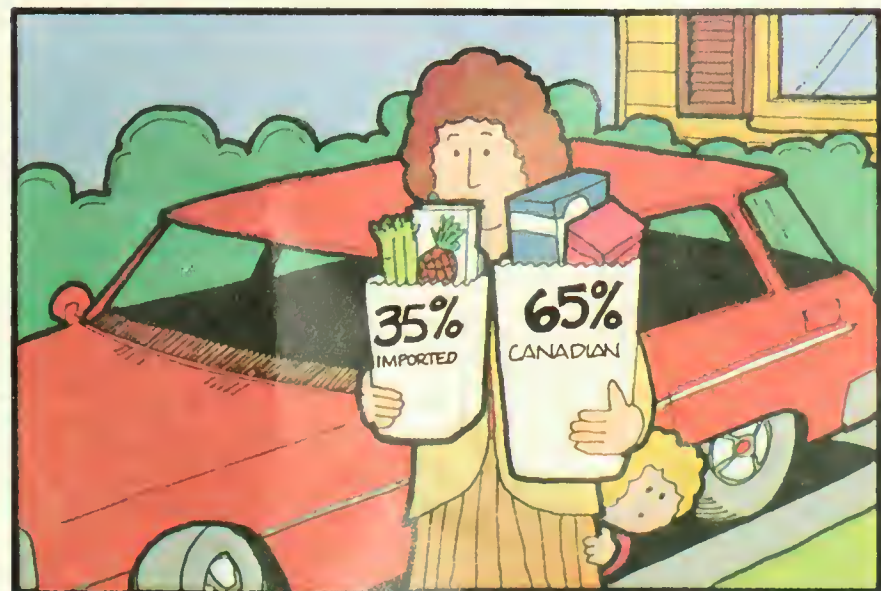
Energy costs are rising rapidly; these enter the food system at all levels of production and marketing. They affect the costs of fertilizers, heating and transportation, and are a major influence on food prices. The food system currently accounts for about 15% of all energy consumed.

Other factors that contribute to food price changes are interest rates, labor costs, and the increasing demand for convenience foods and packaging. Modern farmers use large quantities of expensive inputs, and changes in interest rates can mean a lot of money in a year. Direct labor costs are the largest component of the "food bill" beyond the farm gate, with packaging costs second.

Also, while Canada is a major exporter of food, mostly wheat, she also imports from 30% to 40% of her food from other countries. The cost of importing food has gone up in recent years because of the increasing costs of transportation and handling, and the change in the value of the Canadian dollar relative to other currencies.



Canada has a complex food industry, with many people and organizations involved. Food prices reflect all the activities in the system.

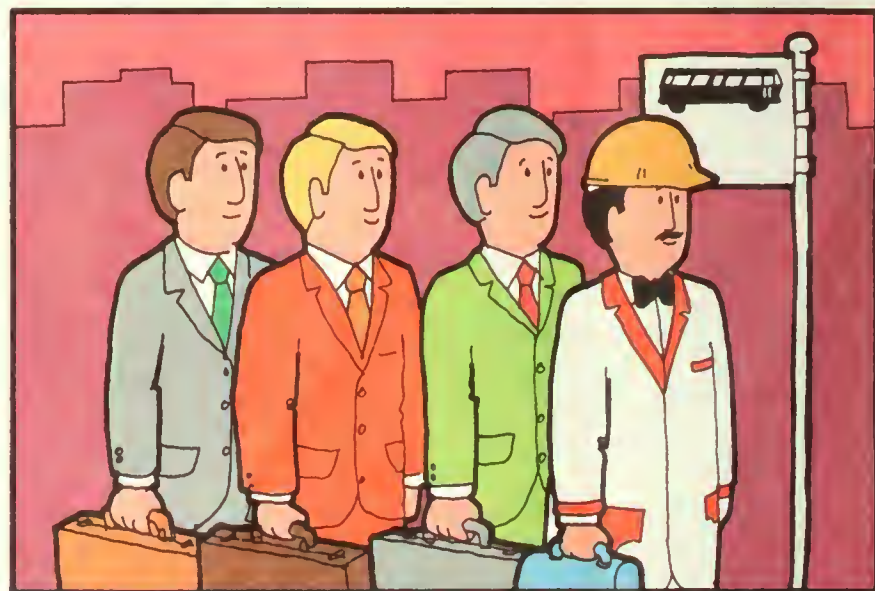


WHERE DOES THE FOOD DOLLAR GO?

To get food to the table, it has to be collected, transported over great distances, stored, graded, processed, packaged and marketed. The billions of dollars that Canadians spend each year on food support a complex mix of people and organizations that comprise the food system.

There are five basic elements in the food chain: the primary producer (the farmer and the fisherman), the processor, the wholesaler, the retailer and the consumer. All affect food prices. The best-known are the farmers and the supermarkets. The roles of all the other participants are less understood, but are very necessary, as only a few foods, such as fresh fruit or vegetables, can be sold directly from producer to consumer.

The actual list is long. It includes feed mills, grocers, marketing boards, truck drivers, meat-packing plants, makers of packaging, egg hatcheries, wholesalers, and so on. One of every four Canadians works in this industry. The consumer dollar goes along this chain, paying for wages, salaries, gas and oil, interest on borrowed capital, profit margins and all the other expenses. Although it varies from product to product, on average about 60% of the consumer dollar goes to all those beyond the farm gate or the dock, while the rest goes to the farmer and fisherman, the primary producers.



Let's examine the various steps.

Farm Production

Farmers are decreasing in number, and now represent less than five per cent of Canadians. But they are producing more, because of larger farms and more efficient machines. Today's farmer feeds about 55 people, as compared with 11 in 1940. Most commercial farms are now worth at least a quarter of a million dollars. The farmer's costs are climbing quickly — costs for feed, fertilizers, equipment, disease control, and all the other production necessities. Total operating expenses of Canadian farmers have increased more than 300% since 1971.

Contributing to primary production are scientists, veterinarians, inspectors, graders and others. All this costs a lot of money.



Processing

All foods must undergo some form of processing before they are ready to eat. Grains are milled into flour and combined with other ingredients in baked goods. Fruit and vegetables are canned or frozen. There are thousands of different items on store shelves. For some, like eggs, processing is simple. For others, such as frozen prepared dinners, it is considerably more complex. Because processed food can easily be transported and stored with no loss in quality or nutritional value, it gives consumers great freedom of choice. Processing also means that Canadians do not have to depend on imported foods during the winter.

Food and beverage processing is Canada's largest manufacturing industry. In 1978, the industry employed about 225,000 people in more than 4500 plants; this represented 13% of all workers in the manufacturing sector.

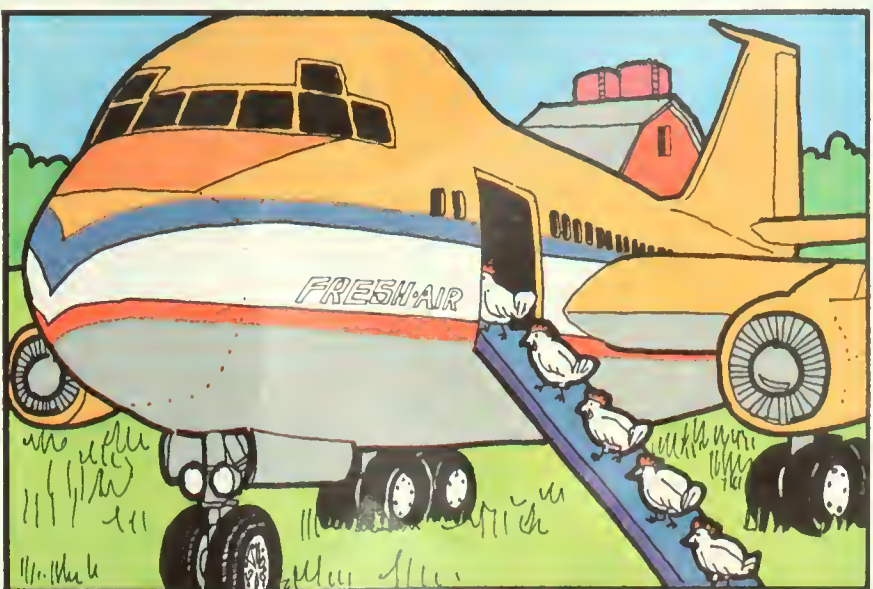
In the processing sector, the higher costs of inputs such as food ingredients, packaging materials, labor and energy were major reasons for higher selling prices. In the past decade, both labor and energy have more than doubled in cost.



Assembly and Distribution

To get food from the farm to the consumer, we need transportation, buying, selling and storage. For most products, the distribution sector includes brokers, wholesalers, co-operatives and marketing agencies, and transporters. Brokers bring the buyer and seller together. Wholesalers assemble the product for sale to the retailers and arrange for the transportation and storage of the bulk food.

Transportation and storage are essential to the food system. For example, getting wheat from the farm to the flour mill or port terminal may involve truck, rail and water transportation. In some cases, refrigerated rail cars and trucks are needed to get produce from field to table quickly and at peak quality. And fresh fruit and vegetables can be stored only in expensive environment-controlled facilities.



Marketing Agencies

An orderly marketing system is needed to assure an even flow of product on the market at a steady and fair price for both producers and consumers. Therefore, many sectors of the agricultural industry have chosen to set up provincial or national marketing agencies.

There are more than 100 provincial marketing boards in Canada, operating in all provinces, and covering most of the main commodities. Also, there is a small number of national marketing boards or agencies, such as the Canadian Dairy Commission and the marketing agencies for eggs, turkeys and chickens. Supervisory bodies oversee the activities of these boards.

The objectives of these marketing boards are: to maintain stable and adequate incomes for producers; to stabilize commodity prices; to standardize terms of sale; to promote new markets; and to maintain or improve product quality.

Marketing boards have the power to perform many different functions. Some can license producers, collect fees, ensure compliance with regulations, and regulate the quantity and quality of production and marketing, by establishing production quotas and controlling the flow of product to market. Some negotiate prices and contracts between farmers and buyers, establish producers' prices, pool receipts from product sales, do market research and provide information to producers. Generally, the marketing boards have proved to be quite successful in meeting their objectives.



Retailing

Retailers give consumers easy access to the food they want to buy. Part of the service is to offer food in the popular quantities, by cutting and packaging it. The retailer displays the food and supplies information through advertising. Services differ in various types of retail outlets. Many retailers also perform wholesale and distribution functions, such as in-store baking and contracting for private-label or "no-name" products.

In 1978, Canada's 31,617 food retail outlets employed about 117,000 people. Most of their expenses were for materials and supplies, wages and salaries.

In the retail sector, recent years have shown a shift from the traditional supermarkets to larger stores, such as the superstores, and also to smaller specialized stores.

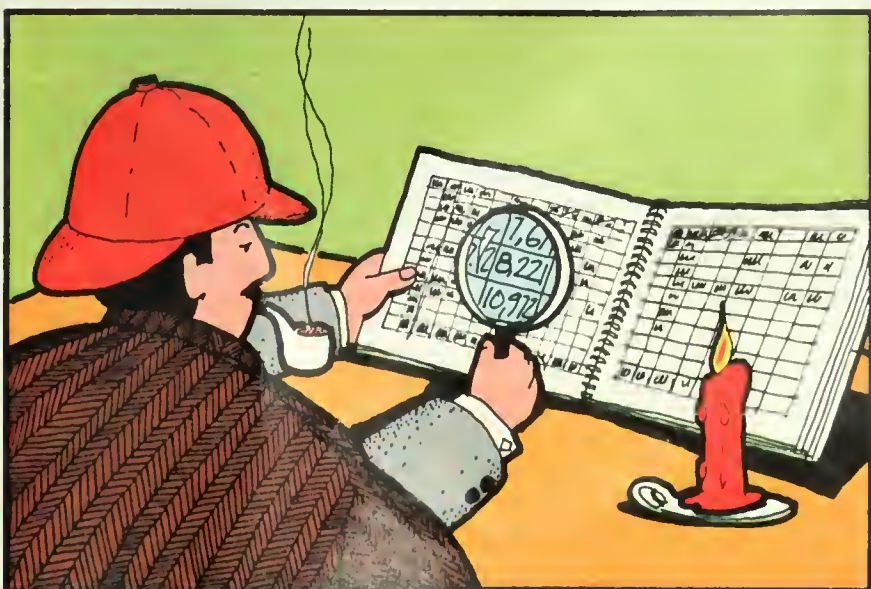
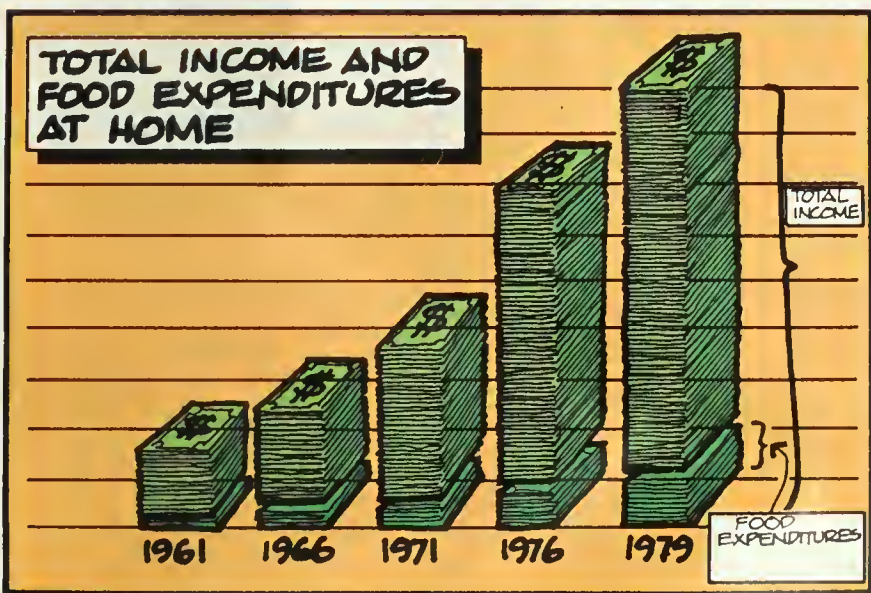


The share of the consumer's dollar going to each sector of the food system differs widely among products. It can be affected by changes in prices and costs at each stage, changes in the level of services, and changes in productivity at each level. The long-term trend to a larger share beyond the farm gate reflects the extra services demanded in the processing sector.

ARE FOOD PRICES TOO HIGH?

When food prices go up, consumers wonder if the increases are justified. Let's examine this question. Prices must be high enough to encourage food production to meet demand, but not so high as to result in excessive profits. Since demand for food is expected to increase with population and income growth, prices need to rise to encourage production on marginal lands and to increase productivity on existing land.

While the increase in food prices in the 70s was greater than that for non-food prices, we must consider some contributing factors. In addition to the general inflationary pressures in the economy, food prices were affected by the growing world demand for food, by poor crops in several countries and the resulting effects on the costs of producing livestock.



Despite this, almost every year since 1961 the annual increase in incomes has equalled or surpassed the increase in food prices. In other words, a consumer's "real" income has continued to rise in spite of food price increases. However, while rising incomes have largely offset rising prices, some lower income groups have a difficult time, as food takes a much larger slice of the income of the poor than the middle or upper income people.

Another way to assess the food price situation is to compare the proportions of disposable income spent on food. Disposable income is the money you have left from salary or wages after taxes. On average, Canadians spend about 18% of their disposable income on food and alcoholic beverages. That's the lowest in the world, except for the United States. It is considerably less than the percentages in France, Japan and the United Kingdom. Over the past 30 years, the percentage of disposable income spent on food has *decreased*. Notwithstanding the higher food prices today, it takes less than one-half the number of work hours to earn enough money to buy food for one week for a family of four.

In 1961, the average Canadian spent more than 21% of disposable income on food. The figure gradually dropped to 17.6% in 1977. In the next few years it fluctuated about the present level of 18%. These figures were for *all* food expenditures, including eating away from home. The amount Canadians spend on food outside the home has been gradually increasing.

There is no evidence that profits in the food industry are excessive. Major studies of food pricing in Canada show that profits are a relatively small component of sales in the food industry. Even if all sectors eliminated all their profits, food prices would change very little — perhaps five or six cents per dollar. On average, profits in the food industry are roughly in line with profits for the non-food sector.

IS THE CANADIAN FOOD SYSTEM EFFICIENT?

Food handlers and processors are aware that the way to improve profits is to find ways to operate at lower costs, and to avoid waste of resources. So, the incentive is there to produce an efficient system.

Efforts by the food handlers and processors to cut costs can be hampered by consumer demand for high-quality products that are easy to use. Responding to these demands costs money for such things as costlier packaging, more sophisticated processing and handling, research and development. For these and other reasons, an increasingly larger share of the consumer food dollar goes to the handling and processing sectors.

Food price increases in Canada are not out of line with the rise of all other prices. Rapidly-rising food prices are simply part of the general inflationary spiral.

WHAT CAN THE CONSUMER DO?

Modern technology has improved the quality, quantity and variety of food available. However, consumers are the final link in the food chain. The choices they make when buying and using food have a direct influence on the demand for these foods, and thus an influence on their price. Canadians can economize and have nutritious meals if they know how food prices change, are willing to vary their diets in response to price changes, and learn how to balance cost and nutrition when buying food.

Consumers should try to economize where possible. They can substitute less expensive foods for the higher-priced ones. They can also save money if they become aware of food cycles and seasonal values, reduce purchases of highly-processed foods, convenience foods and expensive packages, and try products with low advertising costs, such as no-name items. Also, consumers should not forget to subtract non-food items from their total shopping bill to determine food costs.





We offer a list of further suggestions for the consumer. These and other ideas can be found in Agriculture Canada's publication 1651 entitled "Shopping for Food and Nutrition".



plan menus according to Canada's Food Guide, including all four food groups, to make sure each member of the family gets the nutrients needed for good health;

make a list when shopping, after checking supplies at home and the weekly specials advertised;

be aware of buying techniques: compare prices, read labels (grade, ingredients, etc.), buy only the quantity needed and avoid impulse buying;

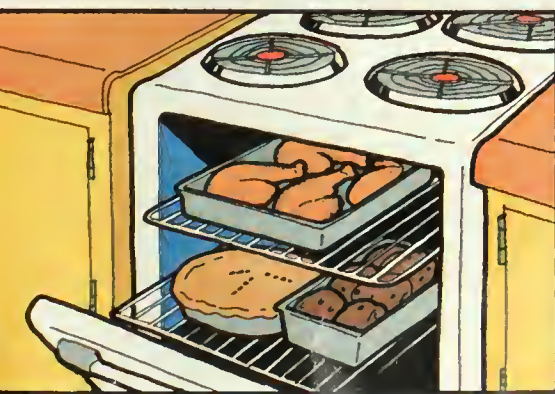
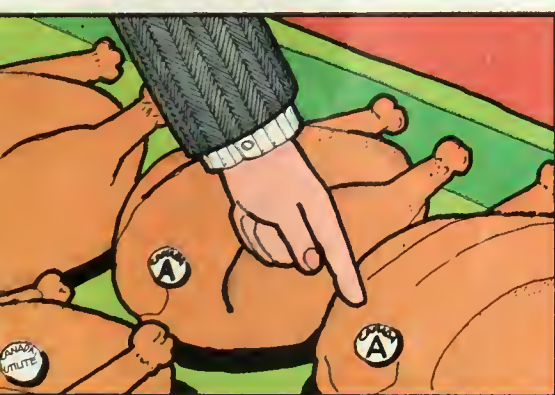
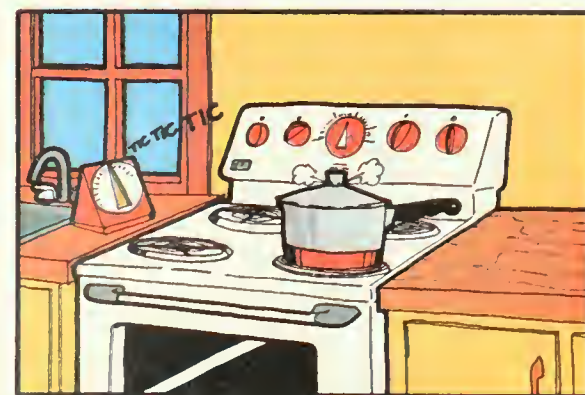


maintain the quality and nutritive value of the food you buy, through proper storage and preparation methods;

be aware of the best methods to conserve energy when buying, storing and preparing foods;

get safe use of food through proper handling practices;

when eating out, keep nutrition and value in mind.





SHOP CANADIAN YEAR 'ROUND and
help to expand Canada's agri-food system.

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