

Agricultural Producers Association of Saskatchewan



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Farmers and Food Prices



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Executive Summary

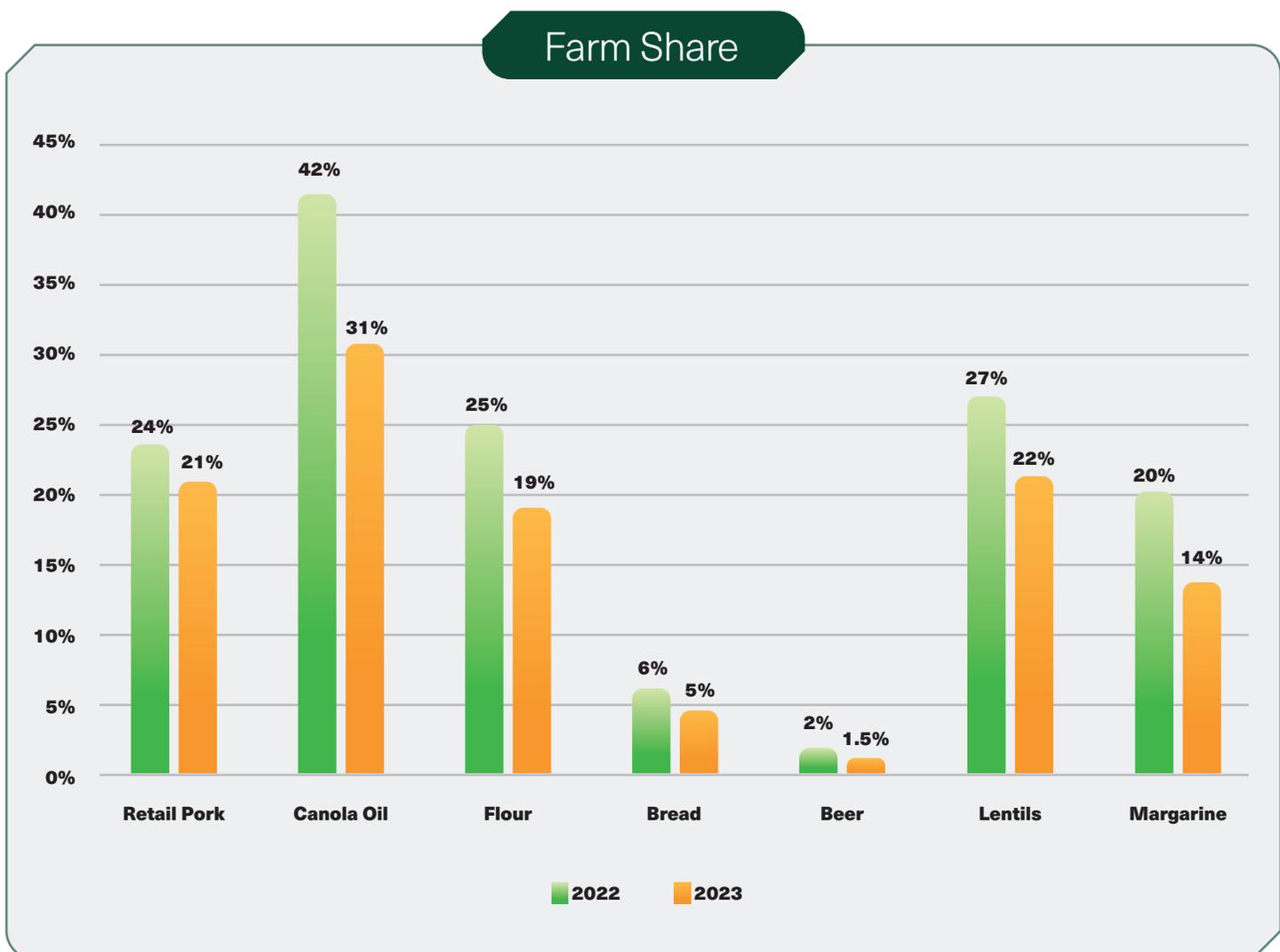
Farmers are getting less while consumers are paying more. The Agricultural Producers Association of Saskatchewan (APAS) has updated its 2023 study that examined seven distinct retail products derived from Saskatchewan farm commodities. The updates aim to provide comparative data identifying changes to the share of grocery store prices attributed to specific farm commodities and the various consumer products derived from them.

The 2023 research showed that despite high commodity prices in 2022, food prices escalated beyond what could be solely justified by these higher commodity prices. Utilizing the same methodology developed by respected Canadian market analyst Kevin Grier, and the United States Department of Agriculture (USDA) Economic Research Service's (ERS), data from 2023 on pork, canola oil, lentils, margarine, bread, flour and beer, the study reinforces the conclusion that the price increases in retail products

cannot be fully explained by the cost of underlying commodities.

This year's report highlights the misalignment between falling commodity pricing and rising retail prices, casting a light on a systemic issue within the food supply chain. Despite expectations of volatility, the widening gap sheds light on the disconnect that adversely affects both producers, who are compelled to accept lower returns, and consumers, who face increasing prices.

Through this updated report, APAS continues to champion the need for enhanced transparency and accountability throughout the supply chain. Our goal is to ensure equitable treatment for producers and consumers alike by shedding light on these discrepancies and advocating for positive change.





Introduction

The persistent escalation of food prices remains a central concern among Canadian households. The Agricultural Producers Association of Saskatchewan's 2023 Farmers and Food Prices Report shed light on how the portion of food prices that makes its way back to the farmer does not directly correspond to the increasing food prices. This raises a pivotal question: despite lower commodity prices, why do food prices continue to surge?

Last year, grocery store executives were summoned by government to discuss establishing a grocery code of conduct. These discussions attempted to pinpoint the cause of rising food prices within the food supply chain. Despite assertions from these executives denying responsibility for the price hikes, the relentless increase in grocery store prices persists without a clear explanation.

Also in 2023, APAS provided a distinct perspective on a key segment of this intricate supply chain—the dedicated farmers and ranchers of Saskatchewan. The products stemming from their efforts form the cornerstone of numerous staples on the shelves of grocery stores.

Building on the previous work, the 2024 report re-examines seven distinct products crafted from Saskatchewan ingredients. Our goal is to layer the year-over-year changes to further dissect the share of grocery store prices that trickle back to the producers and evaluate the real impact of commodity price fluctuations on retail prices. Our findings deepen existing concerns, namely that the connection between commodity prices and retail food prices seems increasingly tenuous. This disconnect is manifesting in the reality that producers earn less while consumers are burdened with higher prices.

Beef has been excluded from the 2024 update. This stems from a reassessment of the previous methodology, which represented the farm share attributable to cattle producers, and focused on the feedlot stage rather than the ranch. In the pursuit of refining farm gate pricing assessments to enhance accuracy, the decision was made to remove beef from the 2024 report to mitigate any potential misunderstanding.

The Study

The seven products in the APAS basket are:



These products were chosen as they represent some of the key commodities grown in Saskatchewan – hogs, canola, wheat, barley, and lentils. They are also common household foods for Saskatchewan consumers and represent a variety of processing lengths. Pork is analyzed as ‘retail pork’, meaning that it is not a single cut of the animal, but an amalgamation of all cuts that come from a harvested animal, and the total cost of those products at a retail level.

APAS engaged Kevin Grier, an experienced and respected meat and grocery market analyst, to create a base analysis of the farm share of the retail cost for these products in

2022 which was then built upon using 2023 data. Through his research, Grier replicated the methods and processes used by the USDA’s Economic Research Service.

The USDA’s ERS has extensive analytical experience in farm share of the food dollar. They have published their methodologies and their research is widely used and cited. With that context noted, there are three main components that help calculate the farm share of specific food products: prices, conversion factors, and share tabulation.



Prices

There are two prices that are used in determining farm share:

1

The retail price of a food product.

2

The farm commodity input price for that product.

For example, the two prices that would be used to examine the farm share for hogs as a component of the price of pork would be the retail price of pork and the farm price of hogs. Another example would be flour and wheat. That is, the retail price of flour would be compared to the farm price of wheat.

Retail prices are collected from the Statistics Canada data table entitled, "Monthly average retail prices for selected products¹." This data forms the basis of the Statistics Canada Consumer Price Index (CPI), which is widely cited and readily accessible. The retail prices tracked by Statistics Canada are characteristically in the package size and composition of typical consumer food products. Each good or service in the CPI basket is representative of consumer spending patterns. The Statistics Canada

retail price data speaking specifically to Saskatchewan is used in this research. The exception is beer which is not listed in the above noted table. Beer prices were collected independently.

Farm product prices for the specific commodities are also from Statistics Canada, and again with a Saskatchewan focus. That data is contained in the table entitled, "Farm product prices, crops and livestock²" and is weighted by monthly deliveries as sourced from the Canadian Grain Commission³. As with the consumer prices, this data is widely cited and readily accessible. There is consistency in data comparability between the Statistics Canada consumer and farm prices which is important for the purpose of this effort on farm share.

¹ <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810024501>

² <https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=3210007701>

³ <https://www.grainscanada.gc.ca/en/grain-research/statistics/grain-statistics-weekly/archived.html>



Conversion Factors

From that point, the USDA methodology uses a conversion factor to determine how much of a farm product it takes to create a unit of the food product. For example, according to the USDA, milling wheat yields approximately 73 per cent flour and 27 per cent co-products. That calculation means that producing 1 pound of flour requires 1.37 pounds of wheat. This calculation also accounts for the selling of co-products, leaving an accurate representation of the cost of wheat in the bread.

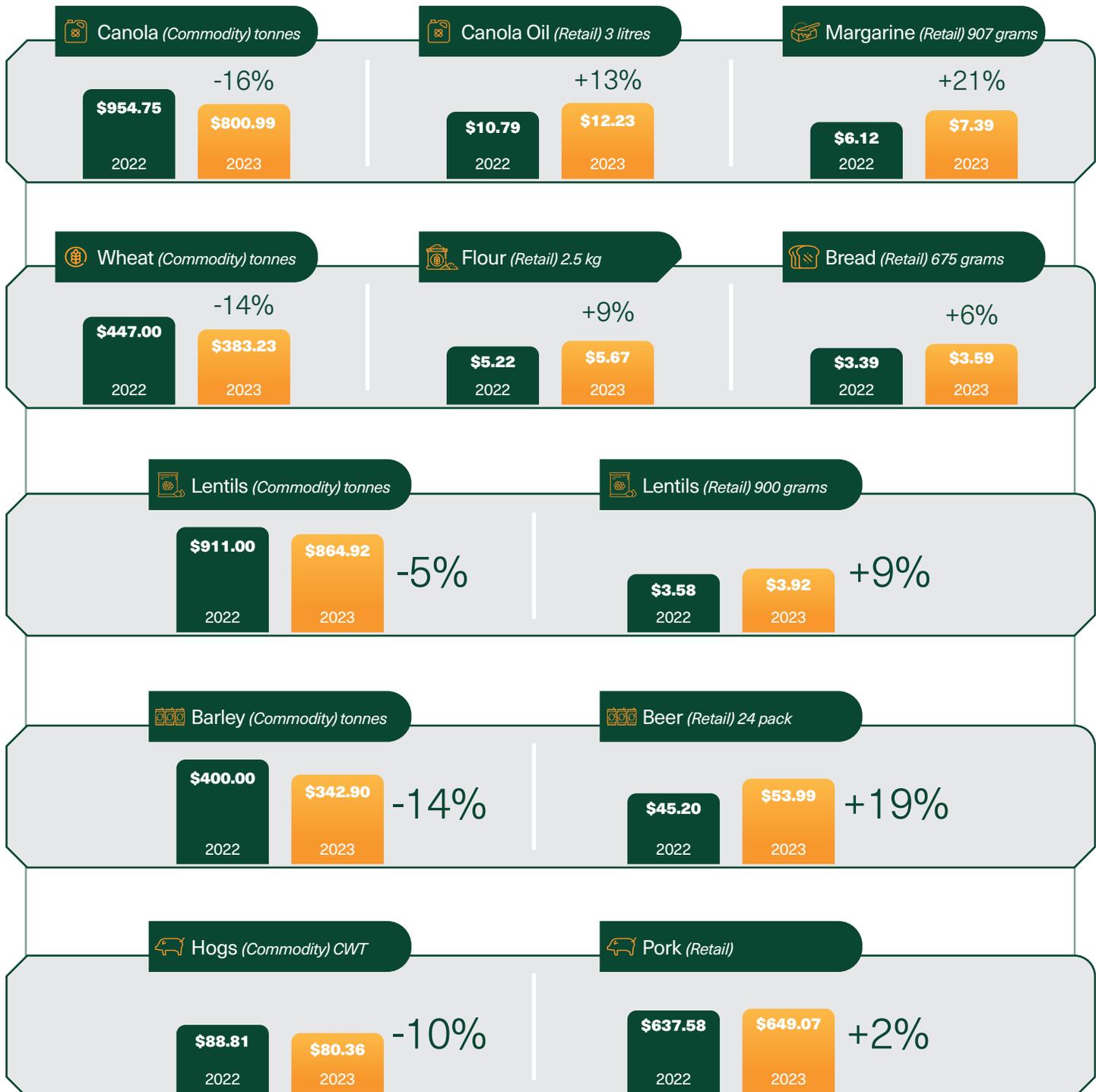
The assertion here is that the USDA conversion factors should be utilized where available. The USDA conversion factors have been thoroughly researched and the food production methodologies would not differ materially between Canada and the United States.

With that noted, there is no USDA beer, lentil, or canola oil tabulation. Relevant conversion factors have been researched for these three products from publicly available sources or cooperating organizations.

The Results

The data clearly indicates a decline in overall farm shares, which validates the notion that farm shares are subject to fluctuations over time and are influenced by a variety of factors. However, a deeper examination of the differences between commodity price changes and grocery price changes unveils a more complex narrative.

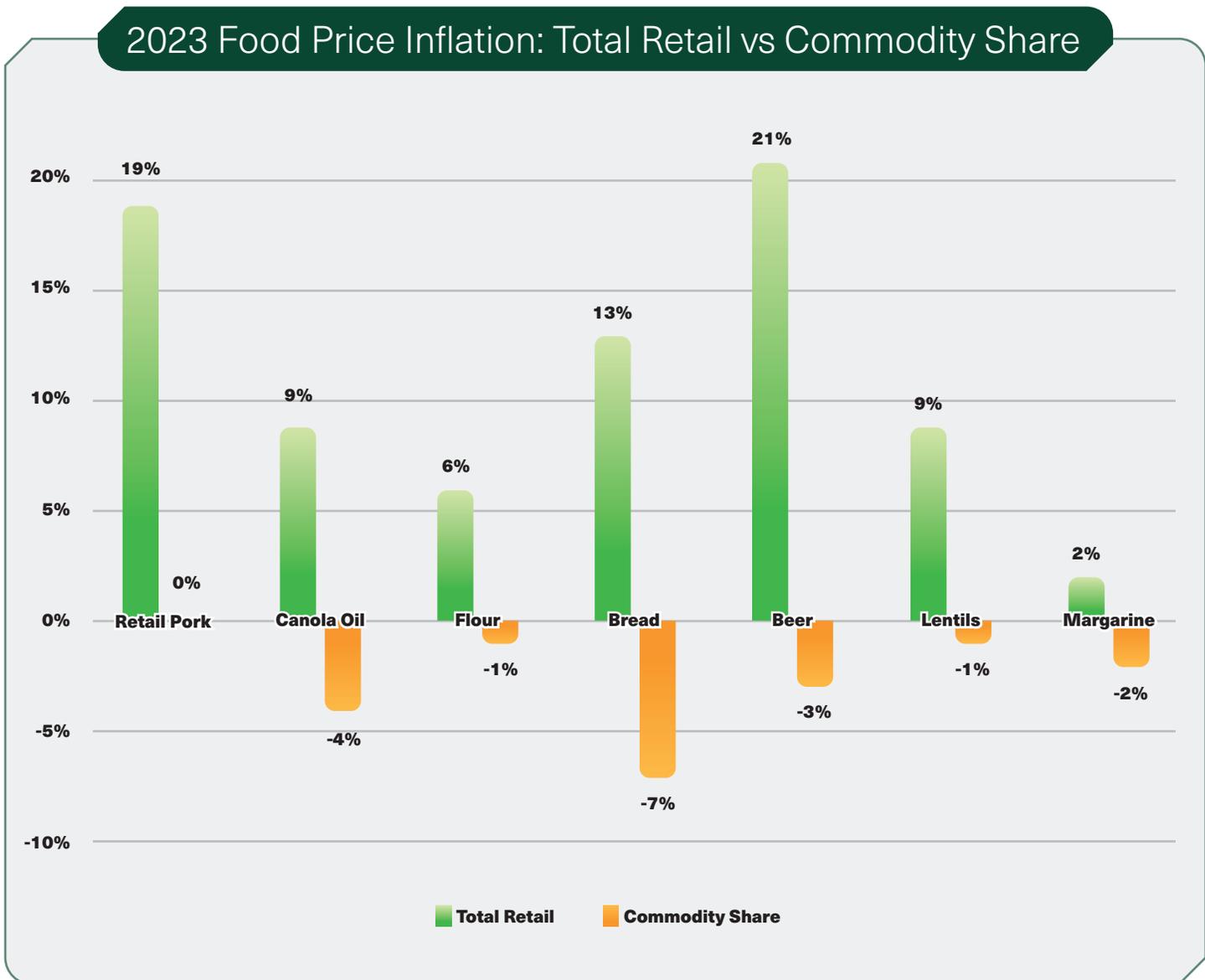
The table below highlights a stark contrast between commodity and grocery shelf pricing. In every instance, there is a noticeable reduction in the price of the commodity while there is a consistent increase in the grocery price. To further illustrate this point, APAS continued our inflation analysis from 2023.



Inflation Analysis

The following graph presents an overview of the inflation rates for various food products in the year 2023. Additionally, the segments colored orange represent the inflation rate attributable solely to changes in commodity prices, based on the calculated farm-level contribution to the overall cost structure within each product category.

To illustrate, if the sole driving factor behind the escalating prices of margarine were influenced by the costs associated with canola, we would expect to see a 3 per cent decrease in margarine for 2023. However, the actual observed inflation for margarine in 2023 surged by 21 per cent.



This comparison was calculated using the farm share for 2022, and 2023 monthly commodity prices⁴ and delivery amounts⁵, creating a weighted yearly average price. By calculating the food price for each item using these numbers, it is possible to see what the 2023 food price

would have been if all other players in the supply chain had not contributed to a change in cost. The graph above illustrates this comparison, offering a visual representation of the disparity between theoretical and actual price adjustments over the period.

⁴ <https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=3210007701>

⁵ <https://www.grainscanada.gc.ca/en/grain-research/statistics/grain-statistics-weekly/archived.html>

**FARMERS
ARE
GETTING
LESS.**

**CONSUMERS
ARE
PAYING
MORE.**

What does this mean?

Farmers are getting less while consumers are paying more. In the 2023 report, we noted the complex nature of food inflation, pointing out that neither commodity nor farm gate prices solely determined its direction. The addition of new data unveils concerning questions about the dynamics within the food supply chain. Absent

comprehensive transparency across the entirety of the supply chain, delineating who exactly profits at the expense of both consumers and producers remains a challenge. It is however becoming increasingly evident that farmers are receiving less while consumers are faced with higher costs.

Conclusion

While fluctuations in the farm share are expected year to year with the change in commodity prices, the stark contrast observed in this report – characterized by declining commodity prices and escalating food costs – merits attention. The pursuit of understanding the forces propelling food price inflation remains vitally important, offering potential advantages not only to consumers but to producers as well.

This report fundamentally challenges the assumption that rising consumer food prices are a consequence of producers claiming an excessive share. The data clearly demonstrates that fluctuations in commodity prices are not predictive of, nor a primary catalyst for, the variations in grocery pricing from one year to the next.





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