Food Inflation Report

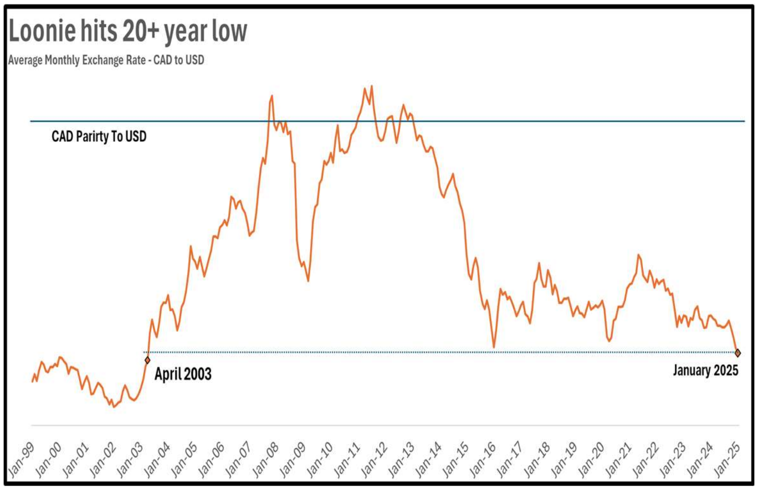
February 2025

Inflationary pressures on the horizon

Food inflation continues to moderate, and in January was deflationary due to food purchased at restaurants and the impact of the removal of GST. Customers at the register continue to find ways to lower prices, including buying more items on sale, and substituting for less expensive brands or products. However, there remains concern around the potential inflationary pressures that will need to be closely monitored, and managed. All eyes right now are on the tariff-counter tariff dynamic between the United Sates and Canada; however, the weak Canadian dollar (CAD) is a present and growing concern.

The Effects of FX

The weak foreign exchange (FX) rate will continue to place pressure on consumer prices for imported goods in the months ahead. The Canadian dollar is at its lowest level in 20 years, placing pressure on new food purchases, which will flow through in higher food prices—especially during the winter when we rely more on imports such as fresh produce. Since most of our fresh produce is priced in U.S. dollars, a weaker loonie means higher costs for essentials like lettuce, tomatoes, and avocados. Even goods from non-U.S. suppliers, such as coffee from South America or citrus from Spain, can often be priced in USD, providing little relief from FX pressures for Canadians.



The currency impact extends beyond produce. Many products have an underlying commodity exposure (coffee, wheat, vegetable oil, sugar) that are purchased and sold in USD, and suppliers continue to seek to pass on their higher costs. While many of these are justified given the current economic situation, we continue to work closely with our suppliers to manage prices for customers, but expect this to be a headwind for food prices in the coming months.

Tariffs, if enacted, will be inflationary in both Canada and the U.S.

With a short-term reprieve on tariffs between Canada and the US, it's worth considering how they could impact food prices if implemented. A 25% tariff doesn't necessarily mean a 25% increase at the grocery store— some costs are absorbed across the entire supply chain, but some will inevitably end up as a higher priced product.

If trade tensions escalate, Canadians could potentially see higher prices on all products that come from the U.S., including dairy, meat, and packaged foods, along with potential supply disruptions and market uncertainty.

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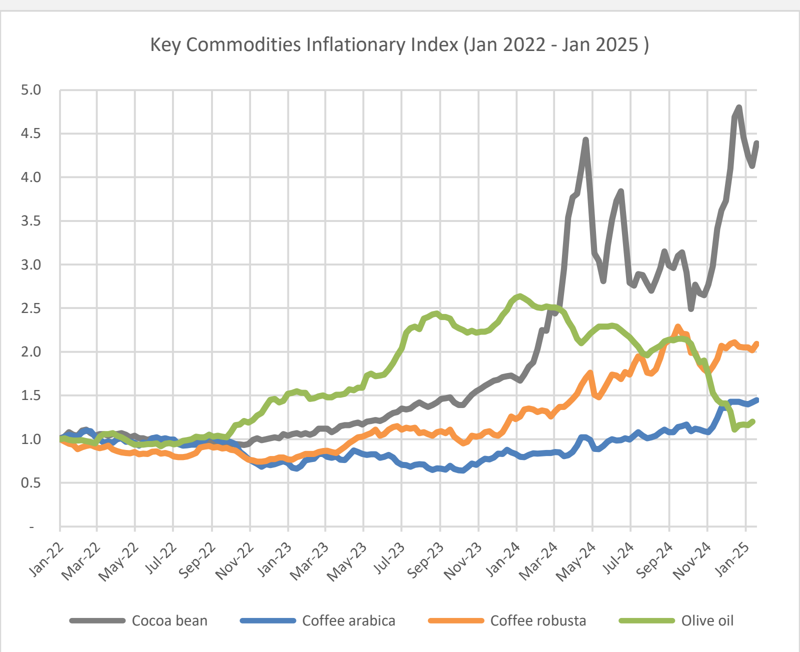
The impact of tariffs

- **Higher Costs for Canadian Producers** – Tariffs on agricultural products and ingredients used for food-processing could make it more expensive to produce food in Canada, which increases the price of products on shelf. For example, peanut butter that is processed in Canada, but with peanuts from the U.S. would see a 25% tariff or tax on its ingredients. This is also true for some grain-based products (grown here, sent to the U.S. for manufacturing and then sold back in Canada), and processed meats.

- **More Expensive U.S. Imports** – Canada is the 2nd largest market for U.S. agricultural exports, annually importing more than $20 billion. Specifically, the U.S. supplies about two-thirds of Canada's vegetable imports, one-third of fruit imports, over half of Canada's beef imports, and our country is the top market for US processed and prepared/ preserved pork. If Canada's counter tariffs on U.S. products go into effect, this is likely to increase the price of these foods on the shelf.

- **Supply Chain Disruptions** – Trade uncertainty may cause delays, shortages or price spikes in certain food products. From customers choosing to stock up on items in advance, to potential shipping lags as companies look to onboard new suppliers from new markets, customers may see more instability at shelf.

Commodity volatility continues to increase prices



Coffee – Prices for both Arabica and Robusta beans have hit record highs - **+81% YOY**, driven by extreme dry weather in Brazil. A recent crop survey downgraded next year's harvest expectations, continuing to increase prices. With supply tightening, costs are likely to remain elevated, particularly as demand remains high.

Cocoa (Chocolate) – Cocoa prices continue to climb to **+144% YOY** as global supply struggles to meet demand. Post-harvest shortages have left little inventory, and next year's production estimates have been slashed. Even with occasional price dips, the long-term outlook points to continued high costs for chocolate products.

Olive Oil – Production is rebounding after recent shortages, and we continue to see price reductions each quarter and a total -**54% YOY.** While costs aren't expected to return to pre-pandemic levels, they should continue to ease compared to last year.

For more information, please contact pr@loblaw.ca

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