Centre for FutureWork

Statistics Canada Aggregate Data on Food Retail and Food Processing Profits

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Of all aspects of the recent surge in inflation in Canada, the one that certainly generates the most anger among Canadians is the rise in food prices. This is totally understandable. Food is an essential commodity: we all must eat. We go to the store every week, and are confronted face-to-face with the painful reality of surging food prices. Average grocery prices have increased 11% in the last year, much faster than even the overall inflation rate (which averaged 6.3% in the same time).

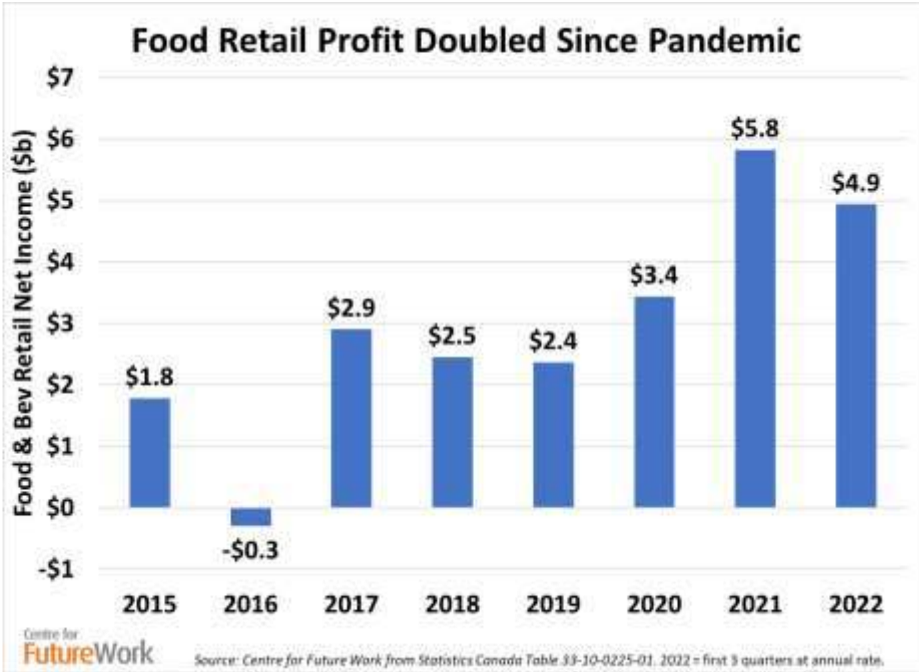
Canadians also have a visceral reaction to the concentrated oligopolistic power represented by the major supermarket chains. The three biggest chains (Loblaw, Metro, and Sobey's) control, including with their numerous subsidiary brands (Food Basics, Superstore, etc.), almost two-thirds of food retailing in Canada.

Past exposés of anti-competitive behaviour by supermarkets – like the long-running scandal over price-fixing for bread products, or the simultaneous decision by all three chains to cut wages for grocery clerks by $2 per hour after the COVID lockdowns – have made Canadians rightly suspicious of the greed and power of these companies.

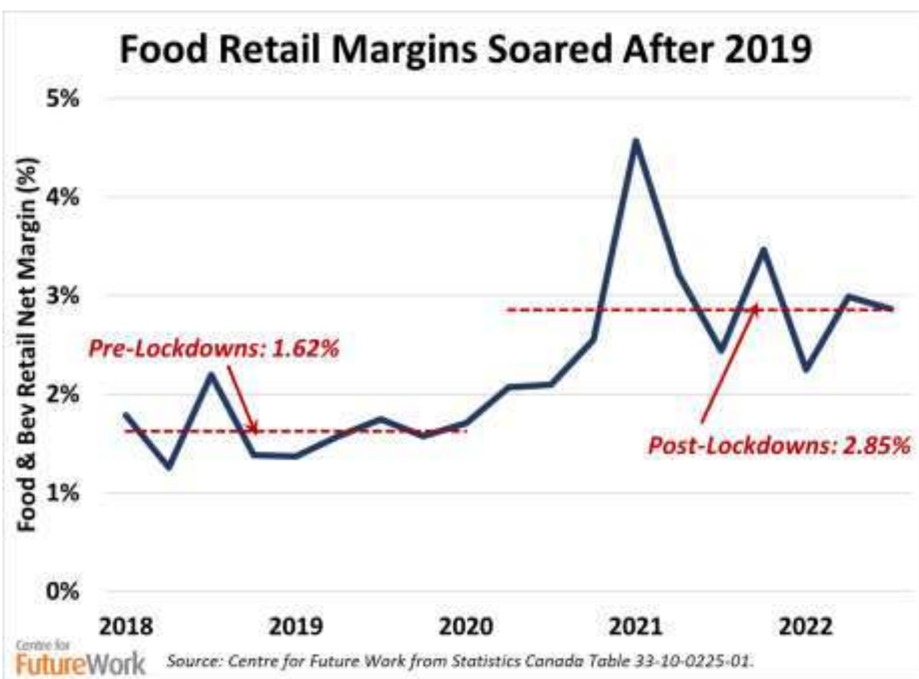
The supermarket chains complain they are being unfairly singled out for responsibility for food inflation. They claim they are innocent victims, caught in the middle: merely passing along higher prices they are charged by their own suppliers. They invoke vague references to 'profit margins' and other financial ratios to pretend their profits are not unusual – even though they are at record highs (confirmed by their own financial reports).

This is thus an opportune moment to remind Canadians of crucial economic facts regarding food retail profitability. Here are four key indicators, based on aggregate Statistics Canada data, showing that Loblaw and the other chains are not innocent intermediaries. These companies have seized the opportunity provided by the volatile conjuncture of disrupted supply chains (from the pandemic, climate disasters, and the war in Ukraine) and consumer desperation, to increase prices well beyond what would be required to cover their own input costs.

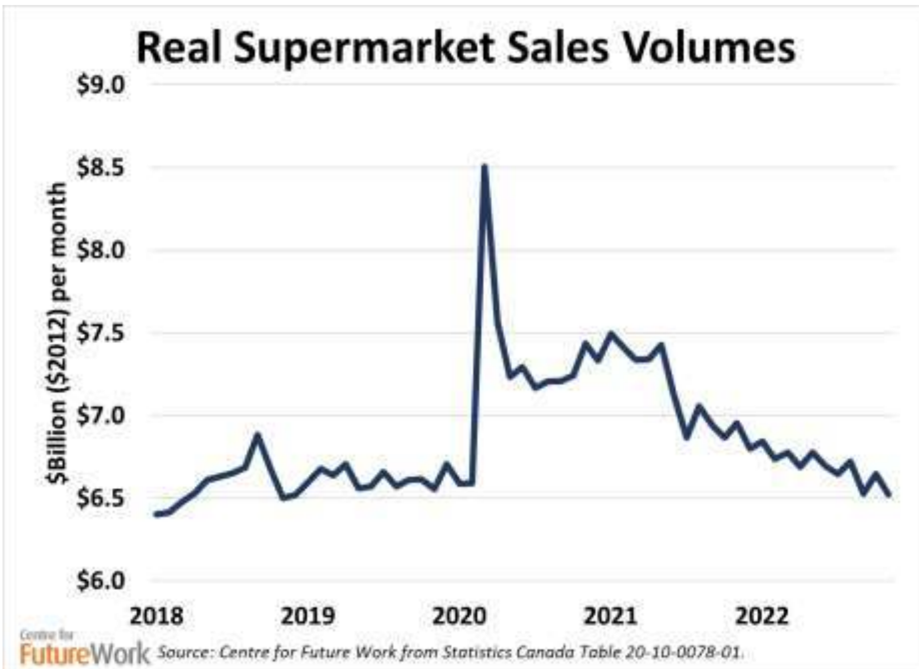
A. Food retail profits have doubled compared to pre-pandemic norms. Statistics Canada data shows food retailers have earned about $5 billion per year in net income since COVID, more than twice what they earned in 2019.



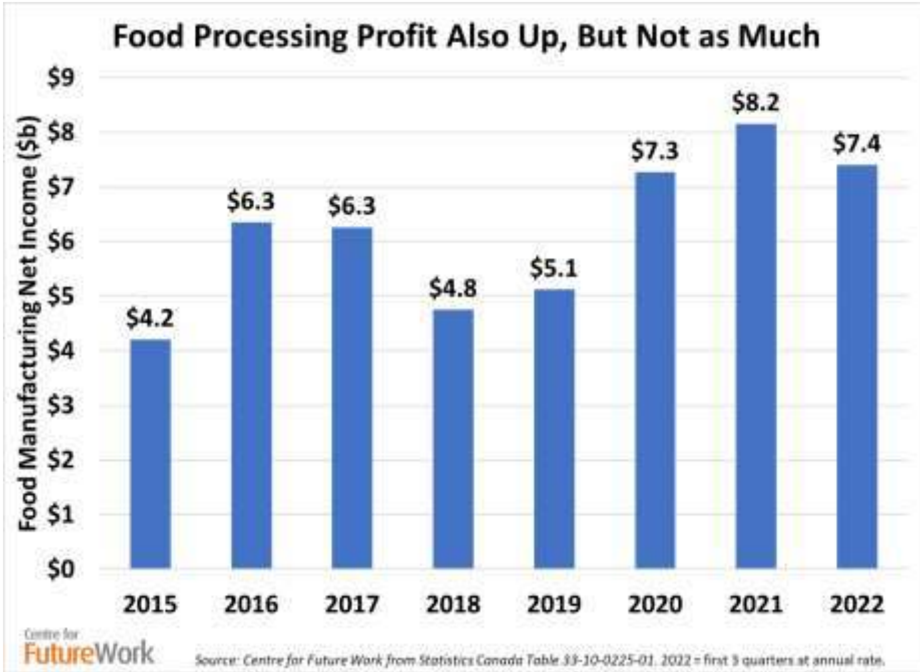
<u>B. Those higher profits are NOT the result of a constant profit margin collected from a growing base of sales</u>. The supermarket executives claim that their profits are up only because total sales have increased; their 'profit margin' (defined as the ratio of some measure of profit to total revenues) has been stable, they claim. This argument is empirically false. The average net profit margin in food retailing (net profit as a share of total revenue) has increased by about three-quarters since before the pandemic (from 1.62% from 2018 through early 2020, to 2.85% since then). The profit margin has remained elevated even as the economy re-opened and inflation took off.



C. Perversely, the quantity of food sales has been falling since the lockdowns. Supermarket sales spiked during the initial lockdowns as a result of panic buying and the closure of restaurants. Sales remained unusually high for the rest of 2020 and early 2021. Then, as inflation took off, the real quantity of grocery sales began to decline – and it is now lower than volumes sold before COVID (despite three years of population growth since then). Painfully, Canadians are actually buying *fewer groceries* than before the pandemic – but paying much more for them. This attests to the hardship and even hunger that many Canadians are experiencing as a result of the food price crisis. And contrary to their claim they are collecting a constant profit margin from a growing business, supermarkets' real business is actually *shrinking*. Yet their profits are up strongly, anyway.



D. Yes, food processors have also increased prices and are earning higher profits. Food retailers are indeed paying more for the products they buy from their own suppliers, which they then resell to final customers. Supermarkets have increased their prices above and beyond what would be required to cover those higher supplier costs (thus explaining their rising profits and profit margins). But like the supermarkets, food processors have also increased prices more than justified by *their* own increased costs (for raw materials, agricultural output, labour, energy and transportation). Food manufacturing profits have grown notably since the pandemic: up 42% in the latest 12-month period, compared to 2019. That's less dramatic than the doubling of profits in food retail, but food processors' swollen profits have nevertheless contributed to excess inflation in the overall food supply chain.



Canadian consumers and workers should not have to take sides in finger-pointing between oligopolistic food retailers like Loblaw, and oligopolistic food processors like Cargill or PepsiCo. They blame each other, each trying to deflect criticism over their own profits. But both of these powerful corporate blocs have taken advantage of supply disruptions and consumer desperation to enhance their profits, amidst conditions of economic and social crisis gripping our society.

It is interesting to note that both food retailers and food processors rank among the key sectors in Canada's economy that have caused most of the inflation experienced by Canadians – and not coincidentally captured the biggest increases in profits, as a result. In recent research published by the Centre for Future Work, we identified 15 highly profitable sectors which have been the main sources of higher Canadian inflation since the pandemic.

These 15 sectors account for more than 100% of the economy-wide growth in corporate profits since 2019 (aggregate profits in the other 37 sectors tracked by Statistics Canada have declined). After-tax corporate profits reached a record share of Canadian GDP during the post-pandemic surge in inflation; these strategic sectors benefited from that profit surge. It won't be a surprise to Canadians that the industries that raised prices the most, have also experienced the biggest growth in profits.

Growth in Profit, 15 Super-Profitable Sectors				
Sector	**Change Annual Net Income Since 2019 ($b)**	**Rank**	**Change Annual Net Income Since 2019 (%)**	**Rank**
Oil & Gas Extraction & Service	$38.0	1	1011%	1
Banks & Deposit Institutions	$17.3	2	60%	17
Misc. Financial Intermediation	$13.7	3	31%	24
Real Estate	$12.4	4	35%	23
Mining	$11.3	5	695%	2
Wood & Paper Products	$9.5	6	552%	3
Primary Metal Mfctrg.	$7.1	7	148%	7
Other Retail	$6.0	8	132%	11
Motor Vehicle Dealers	$5.4	9	210%	5
Insurance Companies	$4.8	10	111%	15
Petroleum Refining	$4.7	11	40%	22
Building Materials Wholesale	$4.2	12	117%	14
Machinery & Equipment Wholesale	$3.2	13	53%	19
Food & Beverage Retail	$2.8	14	120%	12
Food Manufacturing	$2.4	15	47%	21
Top 15 Sectors	**$142.9**		**89.2%**	
All Non-Financial Industries	**$79.2**		**30.1%**	
All Financial Industries	**$32.2**		**28.4%**	
All Industries	**$111.4**		**29.6%**	
Source: Centre for Future Work from Statistics Canada Tables 33-10-0225-01 and 33-10-0227-01. Compares 2019 annual net income to latest four quarters (4Q2021 to 3Q2022).				

Both food retailing and food manufacturing are on this list, however they are in good company. As shown in the table above, there are 13 other sectors which have profited even more dramatically from the pandemic and resulting disruptions. Leading culprits include the petroleum industry (whose profits rose over 1000% compared to 2019), banking, mining, real estate, building materials, and new car sales.

The fact that supermarket super-profits are not unique (and by some measures slightly less expansive than the even higher profits being reaped in other strategic sectors) does not let the supermarket chains off the hook. The evidence is clear: food retailers have taken advantage of the pandemic and its aftereffects to extract more surplus from their workers and consumers. (The simultaneous wage cuts imposed on grocery clerks by the three major chains confirms that their workers, not just consumers, are victims of their anti-competitive power.) Their profits have clearly contributed to inflation, and should be challenged: with excess profit taxes, stronger competition rules, and better labour standards.

But our legitimate anger at the supermarkets should be the start of a bigger conversation about the power of corporations to charge whatever the market will bear, even in a social and economic emergency. The enormous profits captured by companies in all of these sectors are undermining the standard of living of most Canadians, spurring inflation, and now sparking a myopic counter-reaction by the Bank of Canada that is likely to end in recession. That's the last thing Canadian workers need after the chaos of the last three years. But the line of accountability for that recession goes through the Bank of Canada and its aggressive interest rate hikes, to the corporations whose greed and opportunism sparked the inflation in the first place.

Dr. Jim Stanford is Economist and Director of the Centre for Future Work, a labour economics research institute with offices in Vancouver and Canberra, Australia. The Centre's research is available at www.centreforfuturework.ca.