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Dalhousie Forecasts Again

December is the time of year when economists feel compelled to forecast for the upcoming year and forecasting food prices always grabs media attention. Before looking at the forecasts of one particular group it is worthwhile providing perspective on the current year.

Through the first ten months of 2017 the food from stores inflation rate has been about -1% compared to 2016. During October the food from stores inflation rate hit 0.6% compared to October 2016. Total food inflation, including restaurants is flat to slightly lower. Assuming a similar rate of inflation for the remaining two months of the year, inflation for food from stores will likely average about -0.5% for 2017.

From 2001 through 2017, food from stores and all food inflation averaged 2.5% in Canada. The greatest rate of food store inflation was 2001 and 2009 at 5%. Inflation in 2008, 2011 and 2015 was at 4%. The rate in 2017 was the record lowest rate in the 2001 to 2017 period.

Looking ahead to 2018, Dalhousie University, in partnership with the University of Guelph, once again boldly goes forth with their annual food inflation forecasts. Recall that last year at this time they Dalhousie were the ones that forecast 2017 food price inflation of 3-5%. That caused a great stir among poverty groups in Canada, which of course was all for naught. Dalhousie was forecasting near record inflation for Canada, but they got the record in the wrong direction. Inflation turned out to be record low, instead of the near record high they were looking for. Even in their mid-year report this summer, Dalhousie was sticking to their guns and looking for food prices to go up 3-4%, as if wishing would make it so.

Recall also that in the mid-year report, Dalhousie was even insinuating that the problem was not their forecasts, but the CPI itself. They said, “Most would accept that the Consumer Price Index (CPI) is not entirely accurate. Actually, given the complexity of assessing inflation, the CPI was never meant to be perfect. However, this year, with food inflation, the CPI seems inaccurate.” In retrospect, that kind of thinking is pretty much on par with a university arts education. What matters is not what is, but what you want. So who knows?

In the 2018 outlook report, Dalhousie looks back at their 2017 report and says, “Some of our predictions for 2017 were realized.” That brings to mind the old line about a blind squirrel finding the odd nut. Beyond that, while the 2018 report does not blame the CPI for the poor 2017 forecast, it does point to other factors also beyond their control.

> "…but most of the food categories were affected by a significant structural change, which started in September 2016. We believe major discounting and disruption within the Canadian food distribution landscape caused by the increasing pressures coming from Walmart, Costco and Amazon led to this major shift in the market. Coupled with these sectoral changes were misleading macroeconomic forecasts set forth by most financial institutions 12 months ago. Most believed the Bank of Canada would decrease its overnight rate in 2017, and that the Canadian Dollar would be below $0.70, in comparison to the U.S. Dollar."

So in other words, with regard to "structural change," they seem to have failed to recognize the impact of competition on food prices. Well who saw that coming?

With regard to the $0.70 dollar forecasts, in January 5 of this year, the Financial Post reported that "the median forecast of analysts surveyed by Bloomberg for the currency to weaken to 74.07 US cents by the end of the year." A September 2016 "Richter survey of bank forecasts" had December 2017 C$ at 0.80 for Scotiabank; 0.78 for BMO and 0.73 for CIBC. At that time, Laurentian Bank saw robust Canadian economic activity sufficient to move the USD/CAD to 83¢ by the end of 2017. As such, while the dollar is important for food inflation, I am not sure if we can blame "most financial institutions," as easy as that is to do.

With regard to the 2018 food price forecast, Dalhousie says food prices should increase by 1-3%. That of course is akin to saying the sun comes up in the east, given the historic performance of food inflation in Canada noted above.

Other "insights" from the report include, "People eat out, eat on the go, or eat at their desks more often than ever before. Meals, in the traditional sense, are slowly disappearing in Canada." I think I first heard that at a conference in 1983. Another gem was, "It's about consumers finding time to shop for food amidst all the other daily tasks, and with their struggle to achieve a healthy work/life balance while still having high quality options."

Finally another line of uncertain meaning was: "Convenience is now trumping price as a key decision factor for an increasing number of consumers." Well sure, maybe. Is it more important than price? How many consumers think it is more important than price? Is it more or less over time? We are left wondering…or maybe not. Of course the report also contains obligatory references to the impact of climate change. That is a must in any university report.

Why it Matters

The Dalhousie predictions don't matter, of course. What is interesting though is that the predictions receive a great deal of media attention. There are few topics that draw the attention of the media like food prices. The media believes, rightly so, that consumers are very focused on food prices. Clearly the media doesn't think convenience is "trumping price."