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Deep Dive #2: Trading Down

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1 Introduction

This deep dive report has been commissioned by Agriculture and Agri-food Canada (AAFC) as part of the AgriCommunication Initiative (Stream 2). The purpose of this report, and subsequent industry engagement, is to inform and engage with agriculture and agri-food producers about the trends that are influencing Canadian consumer behaviour and attitudes, with a particular emphasis on trends related to sustainability.

This report aims to support both government and industry stakeholders in understanding why and how consumer behaviour, demand, and expectations evolve in the medium-term and to what extent these consumer trends will potentially impact the agriculture and agri-food sectors. This will support ongoing dialogue within and between governments and industry on how to best position the sector to respond to these trends.

Food choices matter to Canadians. For some, the food they eat is an expression of their identity and deeply held values. Canadians are interested in how food is produced, how it influences their health, and perhaps most importantly, how to ensure reliable access to affordable supplies of it. This research examined Canadian consumers' attitudes and preoccupations with respect to food purchases. Four trends were identified that are expected to influence consumers' food choices over the medium-term, i.e., roughly the next 10 years. Each of these four is described briefly below.

Canadians are concerned about the impact of food systems on the environment. They also register concern about the impacts of climate change on food production. Seniors are more likely to express very high levels of concern with the environmental sustainability of agricultural production, though younger adults are more likely to say that their purchase decisions are influenced by (perceived) climate impact. A preoccupation with environmental sustainability can influence consumer behaviour in a variety of ways, including through a preference for locally produced food and efforts to reduce food waste. However, it is not easy for consumers to discern how food choices impact the environment. There is a low level of reliance on label claims to identify sustainably produced food, combined with skepticism about companies' environmental claims. Consumers are expected to continue to seek information about ways to reduce the negative environmental impact of food choices.

Consumers are very interested in the impact of diet on health and well-being. This is a relatively longstanding interest that is expected to remain highly influential in the coming decade. After price, the nutritional and quality attributes of food tend to be the most influential determinants of food decisions. Specific food-health preoccupations are driven by new scientific knowledge as well as media- or celebrity-based fads that are sometimes quite short-lived. However, despite changes in the specifics, the underlying consumer desire to better understand how food choices affect health outcomes is persistent. Women and young adults are the most likely to be interested in healthy eating, though diet and health concerns cross generational lines. Current health-related trends that are expected to have staying power include the trend toward increasingly personalization of diets based on gender, age, and/or specific health concerns. Consumers are also expected to remain interested in increasing the amount of fresh produce and protein in their diets, especially plant-based proteins.

While price has always mattered to consumers, recent high food price inflation has focussed the Canadian consumer's attention on food affordability. Pandemic-related supply disruptions generated a new set of concerns about food availability. Many experts expressed the view that heightened concern about food security could continue to drive consumer behaviour for at least the next few years and possibly longer. Underlying this view is an expectation among some experts that disruptions to global food production and distribution systems will be frequent in the coming decade. There is also some evidence that food price shocks influence consumer Industry implications of evolving consumer behaviour even after the shock has abated. Consumers have been responding to food price concerns by "trading down" in a variety of ways: they are shopping at discount stores, choosing private-label products, taking increasing advantage of product sales, and buying less fresh and/or high-protein food. They are also seeking to reduce food waste.

The fourth and final trend is increased consumer interest in the social sustainability of the food system. Unlike the other three trends, this is an emerging trend that has yet to have a major impact on the Canadian marketplace. The trend is driven in part by a concern for the well-being of food system workers (grocery cashiers, farm labourers, meat cutters, etc) that came to prominence during the pandemic. It is also driven by a growing

focus on diversity, equity, and inclusion and by the movements that seek to improve the position of historically marginalized groups in Canadian society. Finally, this trend includes the relatively more longstanding concern regarding the welfare of farm animals. Younger adults are particularly interested in social sustainability. The interest in social sustainability is expected by some several experts to be more widespread in the coming years and to drive changes in food purchasing behaviour.

These four trends present opportunities and challenges for the agri-food sector. The domestic market is only one of many markets served by Canadian food producers and manufacturers. It is also a very competitive market, where Canadians regularly chose products from around the world. Canadians' elevated expectations from the food system can therefore create challenges and opportunities for domestic producers and processors. Canadians want affordable, healthy food that supports environmental and social sustainability. Effective communication with Canadian consumers about food issues that matter to them will be critical. In a crowded informational environment characterized by misinformation and confusion, getting one's message across is not easy.

This report builds on the findings regarding consumer concerns about affordability, by doing a deeper dive into consumers' responses to high food price inflation in Canada over the past two years. Canadians' increasing preoccupation with food affordability is driving a range of consumer behaviours that are designed to contain overall food costs, ranging from brand and store-switching to changing the types of foods purchased. Taken together, these strategies are referred to as "trading down." This report also considers the factors that may cause these habits to endure over the medium term. Finally, it considers implications for industry of consumers' greater food price sensitivity and identifies both risks and opportunities arising from this trend.

Methodology

This deep dive report represents the outcome of research effort by Darcie Doan Consulting, the Canadian Agri-food Policy Institute (CAPI), and the Canadian Centre for Food Integrity (CCFI).

Darcie Doan Consulting conducted 12 one-on-one videoconference discussions with industry experts to inform the findings presented here. Each discussion was approximately 45 minutes in length. CAPI conducted one discussion. A representative of AAFC attended each of these discussions. One participant provided written responses to the discussion questions. Taken together, the consultation process with industry experts included 14 participants. Industry experts were from the following sectors: grocery retail (4), food marketing, market research, and food innovation (5), food and food ingredient manufacturing (3), agri-food investing (1) and academia (1). The discussions were semi-structured, and guided by a set of questions regarding which trends the industry expert believed would be most influential over consumer behaviour in the coming decade, how those trends are influencing and will influence consumer behaviour, and how their company/industry is responding or intends to respond to the trends.

Findings were refined and described by drawing on a review of relevant industry and academic literature, as well as data analysis. The literature review included recent, relevant, and publicly available materials regarding consumer trends in the Canadian food and beverage market including academic research into consumer attitudes and behaviour, public opinion research reports, trend reports, forecasts and reports by industry insiders, and studies of actual food and beverage spending.

Quantitative analysis, in the form of econometrics and aggregated queries, was performed on data provided by CCFI from its consumer trust surveys. The surveys were conducted by Ipsos in the years 2018 through 2023, inclusive. The resulting datasets were six distinct cross-sections; that is, individuals could not be tracked through the years as in longitudinal or panel data. However, observations were pooled together such that trends could be identified through time, to the degree that survey questions were similar enough to permit standardization of variables across each of the six datasets.

2 Executive Summary

Recent high food price inflation is causing consumers to place a higher relative priority on price compared to other decision-making factors. They are increasingly making trade-offs between attributes like convenience, quality, and even nutrition to keep price low. Consumers are trading down to discount retailers and private label brands. They are buying food items that are on sale and making effort to seek out promotions. Consumers are also trying to waste less food, and to limit purchases of perishables.

Industry experts expect that many or all of these behaviours will persist. The reasons are twofold. First, consumer behaviour is “sticky” in the sense that it often persists beyond the conditions that gave rise to it. For example, consumers may start shopping at dollar stores for food in response to recent increases in food prices, but they would be expected to continue shopping at dollar stores if food price inflation slows. Secondly, many experts believe that high rates of food price inflation are here to stay. Underlying factors that are driving prices higher, such as climate change, geopolitical instability, and labour shortages, are expected by many to persist into the foreseeable future. This will, in turn, cause food prices to rise at a higher rate than had been the case in previous decades.

Trading down represents a shift in core food-buying habits. Such a shift has broad implications for the food industry. Certain companies and brands stand to capture additional market share in this price sensitive environment. The consumer interest in saving money provides opportunities for growth in sales of products and brands that are perceived as higher value, for e.g. larger formats that offer lower per-unit costs. Economically sustainable strategies in a price-sensitive environment will involve adopting cost-containment throughout the supply chain and pricing products at a level that covers costs. Efforts to improve transparency in pricing may help drive loyalty, as will providing consumers with the information and education that they need to eat well while keeping costs low.

3 Food Price Sensitivity in Canada

A variety of economic forces have led to high food price inflation in Canada over the past two years. As a result of higher food prices, Canadian consumers are spending their grocery dollars more intentionally and with greater care. Canadians' increasing preoccupation with food affordability is driving a range of consumer behaviours that are designed to contain overall food costs, ranging from brand and store-switching to changing the types of foods purchased. Taken together, these strategies are referred to as "trading down."

These behaviours are expected by many experts to persist. Underlying this is an expectation that shocks to food production and distribution systems will be frequent in future years due to extreme weather events, global insecurity and risks to trade, and rising costs for inputs which will in turn drive up food prices. Furthermore, there is some evidence that consumer behaviour in response to food price shocks is "sticky," in that it persists even after the initial shock has passed. This may reflect an attitudinal change, wherein consumers place a higher priority on containing overall food costs. It may also reflect a desire on the part of consumers to continue using new skills that they acquired during times of economic stress – such as how to find deals on grocery staples.

3.1 Factors and attitudes underlying the trend

While assessments of value for money have always been an important part of Canadian consumer purchasing decisions, concerns around affordability have increased in importance recently due to a series of shocks that have led to high rates of food price inflation. These shocks have included the global COVID-19 pandemic and the war in Ukraine, both of which had important impacts on global supply chains for both agricultural inputs and agricultural outputs.

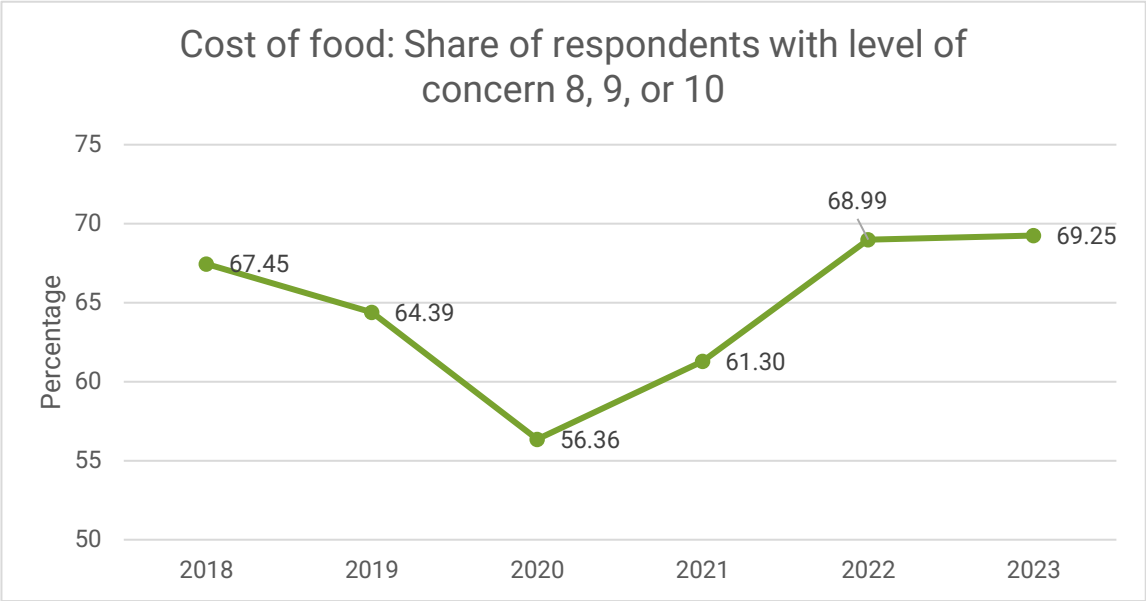
Since late 2021, the price of groceries in Canada has risen more sharply than the all-item Consumer Price Index (CPI) with staple food items showing some of the largest price increases (Statistics Canada, 2023b). More specifically, from December 2021 to January 2023 (the peak of the recent inflationary period), the index for food purchased from stores rose by 100% (from 5.7 to 11.4), while the all-item index inflation was 23% (a rise from 4.8 in December 2021 to 5.9 in January 2023) (Statistics Canada, 2024). This type of food inflation had not been seen in Canada since the late 1970s (Statistics Canada, 2023c).

Food price inflation is not the only type of inflation facing Canadians. Prices for utilities, transportation, and housing are also on the rise. Low-income Canadians, in particular, are finding it difficult to pay all of their household expenses. According to a November 2023 survey by the Angus Reid Institute, almost half of Canadians feel that they aren't keeping up financially, which is nearly quadruple the number who say they are getting ahead (12%). This same survey also found that a majority of Canadians find it difficult to feed their family (Angus Reid Institute, 2023). Statistics Canada conducted a survey in 2022 that asked Canadians how they were coping with higher living costs. During the spring of 2022, before inflation had peaked, nearly three in four Canadians reported that rising prices were affecting their ability to meet day-to-day expenses. Two-thirds of Canadians in this survey reported being very concerned about rising food prices, in particular (Statistics Canada, 2023a).

While consumers may lack an in-depth understanding of underlying forces pushing prices higher, they are keenly aware of the impacts on their own grocery spending.

According to CCFI consumer surveys, the percentage of all Canadian consumers who are highly preoccupied with "cost of food" (levels 8 through 10) has continued to rise since 2020, reaching an all-time high of 69.25% in 2023.

Figure 3.1. Concern with cost of food through time.

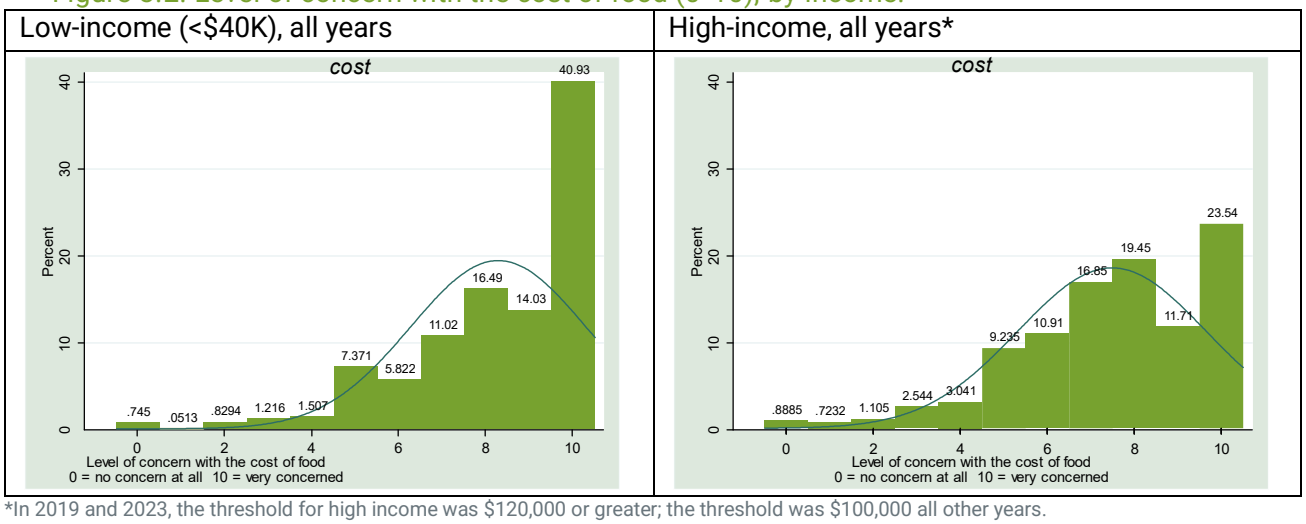


Source: CCFI survey data; image created internally.

Surveys also reveal that it is food affordability, which can be generally defined as higher food prices relative to incomes, rather than rising prices *per se,* that most concerns consumers. According to research by CCFI, although concern about the overall cost of food has been increasing significantly over the past few years, concern about the affordability of healthy food has grown at an even steeper rate. Half of Canadians say they are very concerned about the affordability of healthy food compared to a year ago (47% provided a rating of 9-10) which is a significant eight points higher than last year, and almost twenty points higher compared to 2020.

An elevated level of concern about cost of food is widespread but, as might be expected, it is highest among low-income Canadians. In 2023, 40% of low-income Canadians (defined as those from households with annual income below $40K) rated their level of concern about the cost of food as a 10/10, and a further 28% rated it as an 8 or 9 out of 10. Among those in the highest income category, concern was lower but still pronounced: 31% of Canadians from households in 2023 with annual income over $120,000 rated their concern with cost of food at a 10/10, and a further 30% rated their concern as an 8 or 9. When analysed across all years, the trends are similar, as pictured below: 40.93% of low-income households (left panel) were “very concerned” (level 10) with the cost of food, while only 23.54% of high-income households (right panel).

Figure 3.2. Level of concern with the cost of food (0-10), by income.



*In 2019 and 2023, the threshold for high income was $120,000 or greater; the threshold was $100,000 all other years.

Few respondents rated their levels of concern about cost of food below a 5 (moderate concern), demonstrated by the short bars in the image above. This may be an indication that a preoccupation with affordability is, to some extent, independent of the actual ability of Canadians to pay their grocery bills. For some Canadians, food insecurity is a real and growing challenge, while for others it is a perception or fear. However, whether real or perceived, this preoccupation can drive behaviour change.

3.2 Trading-off, and trading down

The preoccupation with affordability is increasing consumer willingness to make trade-offs between value and other attributes. While price, or value for money, is consistently rated by Canadian consumers as the most important factor in food purchase decisions, the importance of this factor has been increasing relative to other factors such as convenience. While the increasing relative importance of price over other attributes between 2022 and 2023 is modest, it is indicative of a greater willingness on the part of consumers to compromise, or give up, certain attributes to save money. Industry experts confirm that this type of behaviour change is widespread and significant. These trade-offs are being forced by high prices relative to incomes, and a sense among some consumers that they must prioritize price over other factors.

Figure 3.3. Top factors affecting food purchase decisions, 2022 and 2023.

Factor*	2022	2023	Δ
Price	52%	53%	↑
Quality	31%	30%	↓
Nutritional value	21%	21%	=
Environmental impact	12%	8%	↓
Locally produced	14%	15%	↑
Freshness	25%	23%	↓
Convenience	5%	4%	↓
Brand image	3%	2%	↓

* These factors were allocated the highest number of points (out of 100) by respondents. For example, in 2022, 52% of respondents allocated the largest number of points to "Price" when asked to allocate 100 points among various factors which affect their food purchasing decisions.
Image created internally. Data source: CCFI Research Reports, 2022 and 2023.

A 2023 study by the Agri-food Analytics Lab considered price relative to nutrition, specifically, and found that price is increasingly more important than nutrition for a sizeable portion of the Canadian population (Agri-Food Analytics Lab, 2023b). When asked if they prioritized cost over nutritional value when shopping for groceries, more so than a year ago, almost half of Canadians surveyed said that they did. The same survey found that almost two-thirds Canadians are apprehensive that compromising on nutrition due to high food prices may have adverse long-term effects on their health. The willingness to trade nutritional value for lower price is a sign of the severity of the budgetary constraints that some consumers face.

In terms of food-related topics that Canadians are searching for information about, "how to spend less money on food" is the second most popular topic after "nutrition and healthy eating." In CCFI's 2023 public trust survey, fully half of all Canadians reported seeking out information about how to spend less on food, up slightly from 2022.

4 Influence of the trend on behaviours: trading down

Increasing consumer willingness to compromise on attributes such as quality, nutrition, sustainability, and convenience in favour of saving money is translating into a range of specific behaviours. Taken together, these behaviours are referred to as "trading down." These are trades that consumers are making voluntarily where they are taking a loss (or perceived loss) in one area in order to gain on price. For some types of trades, this loss may come mainly in terms of a loss of familiarity, as consumers may no longer be doing all of their shopping at their customary grocery store, or purchasing the same brands to which they previously were loyal. In other cases, the trade-offs will involve a more tangible loss in terms of food quality, quantity, or nutritional value.

4.1 Channel-switching

The first set of trades that consumers are making are related to the channels used to purchase food. Whereas Canadians may previously have eaten out (or ordered take-out) with some regularity, they are cutting back on restaurant-prepared meals, or trading down in quality by increasingly purchasing from fast-food businesses rather than fine dining.

Some industry experts reported that consumers have substituted prepared meals from the grocery store for some of their restaurant dining. This is supported by survey findings. In both the 2022 and 2023 public trust surveys by CCFI, roughly 4 in 10 Canadians said they were "eating outside my home less" in response to higher food prices. A survey by the Agri-food Analytics Lab that focussed on restaurant dining in the context of high inflation found that 8% of Canadians reported that they *no longer dine out at all*. The increased reliance on home-prepared rather than restaurant-prepared food will represent a loss of convenience, novelty, and quality for many of the Canadians who are making this choice.

Other industry experts highlighted a growing demand for fast food meals – viewed by consumers as both cheap and filling – suggesting that consumers are still eating out regularly, but only at restaurants with lower price points. The aforementioned survey by Agri-food Analytics Lab found that a large majority of Canadians (77%) report that they are opting for more affordable dining establishments, with a further 76% showing a preference for dining establishments that offer discounts, rebates, and loyalty programs (Agri-Food Analytics Lab, 2023a).

4.2 Store-switching

Canadians are also changing where they shop for groceries. They are increasing their visits to so-called "discount stores" that have a reputation for lower prices, at the expense of traditional or higher-end grocery retail chains.

According to a 2023 Agri-food Analytics study, almost 60% of Canadians report having visited "discount stores" more frequently in the past 12 months, while almost half (47%) report having increased their visits to dollar stores over the past year. Experts interviewed are also reporting significant changes in where people shop, with a shift toward discount banner stores (e.g., Food Basics, No Frills) or others, such as Costco and Walmart, that have a reputation for charging lower mark-ups. Industry experts also confirmed that Canadians are also increasingly shopping for shelf-stable food products at dollar stores – dollar stores do not typically stock fresh produce, meat, or dairy.

Sales and purchase data corroborate the shift to discount retailers. A 2023 study by Nielson IQ reports that discount retailer and dollar store share of total food trade in Canada was 45.8% in 2022 and that sales in this segment increased by 11% in the last quarter of 2022 (Allison, 2023). Nielson finds similar trends in the United States.

Statistics Canada's Retail Commodity Survey suggests that consumers have pivoted away from food and beverage stores to general merchandise stores, including warehouse clubs such as Costco, supercentres such as Walmart, and other general merchandise retailers for their food purchases. In early 2021, just as food prices

began to rise significantly, almost 75% of food sales were from food and beverage stores, this share fell to about 70% in late 2022. At the same time, the share of food sales at general merchandise stores increased from 21.6% in early 2021 to 25.9% in late 2022 (Statistics Canada, 2023a).

While store-switching could be viewed as a temporary response to a shock, one retail industry expert reported that once consumers start shopping at discount stores, they typically continue doing so.

> *Consumers, because of the food inflation and because of rising cost of living, they have had to look at discount shopping, but once you start with discount shopping, research has shown that there are less and less consumers that then go back to what we call "regular banners." Once consumers go to discount they start looking at it as the right way to shop for everyday food. We don't expect that to change. When you look at the footprint of the five large grocers, 80% of new stores that are opening are all discount. There is actually no question that it's a trend that will continue. – Industry expert*

Analysis of CCFI data conducted as part of this study confirms the relationship between store-switching and a desire to spend less on food. Pearson correlation showed a statistically significant relationship between store-switching and the following three survey responses: the ranking of food affordability as an issue (1 to 7); being more concerned about the affordability of healthy food than a year ago; and seeking out information in the last six months on how to spend less on food (2022).[1] The average likelihood of being interested in spending less food was 35.91%; for store-switchers, it was 45.67% (see Figure 4.1). These results controlled for year, being concerned about household waste, food waste in Canada, being concerned with climate change, age (senior or young consumers), and gender.

Figure 4.1. Switching stores and spending less on food.

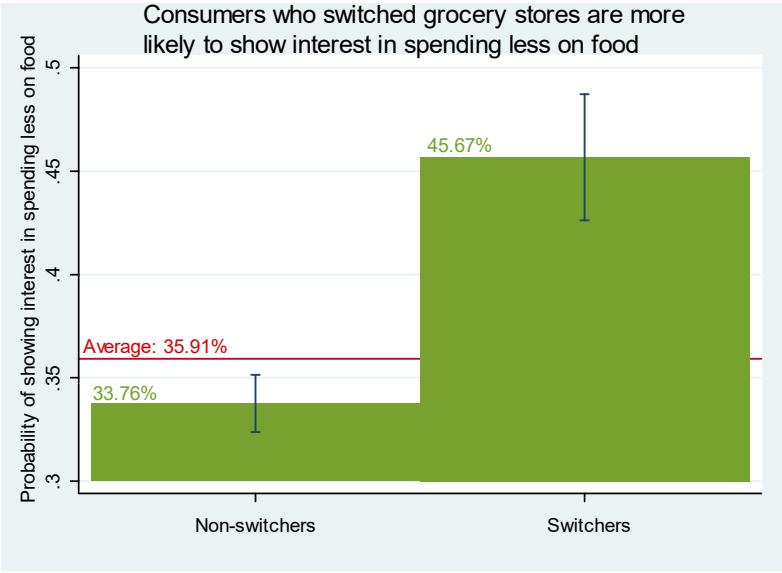


Image created internally.

[1] In 2023, the CCFI survey question was changed from binary (seeking information or not), to scalar (ranking interest, 0-10, in "learning more" about how to spend less on food). Multinomial logistic regression based on 2022 and 2023 data showed that those who changed grocery stores were more likely to be interested in spending less on food (either by reporting in 2022 that they had sought information in the last six months; or by ranking their level of interest as a 10 out of 10 in 2023).

4.3 Buying less food and reducing waste

In some cases, consumers are simply choosing to buy less food. Statistics Canada data on food spending shows that shoppers are spending more but buying less. Since grocery prices began to increase in early 2021, constant dollar sales—a measure of the volume of sales at food and beverage stores—have trended downwards. In 2022, current dollar sales at food and beverage stores, when measured on a volume basis, were down 3.6% (Statistics Canada, 2023a). In two recent surveys by CCFI (2022 and 2023), over one third of Canadians indicated that they had reduced the amount of food purchased in response to higher food prices.

A reduced volume of food purchased may reflect a variety of behaviours at the consumer level. Several industry experts mentioned a recent upsurge in theft at food retail. There has also been a widely reported increased reliance on food banks, by vulnerable groups in particular (Harrison, 2023; Schmunk, 2023). Canadians are also reconfiguring their diets. They may be reducing the amount of food or the number of meals they eat. One industry expert mentioned a trend towards reconfiguring eating patterns by replacing one or more meals per day with snacks. This reconfiguration results in cost-savings through an overall reduction in the amount of food consumed as well as a reduced need for expensive, centre-of-plate offerings. This trend toward reconfiguration will be discussed further later in this report, in terms of its impacts on meat and fresh produce consumption.

Reduced food purchases may also reflect successful efforts by consumers to reduce food waste in the household. To the extent that food is being eaten, rather than thrown away, the volume of food purchases may decline without impacting the volume of food consumed. Survey evidence confirms that Canadian are increasingly preoccupied with reducing food waste. The CCFI 2023 public trust survey found that reducing food waste is now the most popular response to rising food prices, chosen by 45% of Canadians (up from 35% last year). In a survey by the Agri-food Analytics lab, almost 80% of Canadians asserted that they had significantly reduced food waste in the past year.

4.4 Brand-switching

Another primary savings strategy for US and Canadian consumers is to purchase less expensive brands. Several industry experts reported a recent shift from branded to private label products. According to the same 2023 study by Nielson IQ, private label product sales grew steadily — and faster than national brands — over the last 3 quarters of 2022 with private label share of total consumer packaged goods sales exceeding 19% in the US, a record high, and 18.5% in Canada. A 2023 survey by the Agri-food Analytics lab confirms the rise of store brands, with almost two-thirds of Canadians reporting that they were more inclined to opt for generic brands over national brands as a cost-saving measure, when compared to the previous year.

4.5 Shopping on deal

A higher level of price sensitivity also reveals itself in greater uptake on promotions and sales. Industry experts report that consumers are increasingly taking advantage of time-limited sales on food items. According to one industry expert, the proportion of the grocery basket that is typically purchased “on deal” is just over a third, but of late that proportion is creeping upwards and approaching 50%. Consumers will substitute on-sale items for other items they had been intending to purchase and will also, if they have the liquidity, buy more of a given item when it is on sale.

> *The consumer will tend to trade down to discounters first in shelf-stable stuff. They will go to a large discount store and buy volume if they have the cash to buy in bulk, and then they will go to their neighbourhood store to buy produce. – Industry expert*

In addition to taking advantage of on-the-spot sales discovered at the store, consumers are also investing more effort to find product-specific discounts. A recent survey by the Agri-food Analytics Lab found that Canadians are employing deal-finding strategies such as coupons, apps, and flyers to a greater extent over the past year. Notably, three-quarters of Canadians had availed themselves of coupons. Consumers are also taking advantage of discounts associated with products that may be at or near expiry. Apps such as FlashFood (in partnership with Loblaws) allow consumers to easily identify opportunities to buy discounted food that might otherwise go to waste; they are often billed as food-rescue apps. According to the same survey by Agri-food Analytics Lab, more than half of Canadians had explored food-rescuing apps, and 41% had actively sought out "enjoy tonight" deals, or discounts on perishable food that is about to be unsellable.

4.6 Altering their diet

As food prices have risen, Canadians have examined their consumption of items that are typically higher-priced and may also be perishable, such as meat and fresh fruit and vegetables. While these are generally viewed as nutritionally dense foods, there is increasingly a sense that consumption of meat, in particular, can and should be reduced in response to high prices. CCFI's most recent public trust survey found that one quarter (26%) of Canadians said they had eaten less meat in response to high food prices. When asked a similar question as part of a survey by the Agri-food Analytics Lab, nearly half of Canadians said they had reduced the quantity of meat or protein sources they purchase due to increased food costs. The higher share in the latter survey may be a result of including "or protein sources" in the question - other protein sources could include eggs, dairy products, or plant-based proteins.

In the same CCFI survey, almost one quarter of Canadians indicated that they had purchased more frozen food in response to rising prices. The switch from fresh to frozen may be in response to a relatively lower sticker price for frozen, but it may also reflect a desire to reduce food waste as frozen food is more easily stored for long periods. There has also been a shift toward more frozen meat and produce, for similar reasons.

A further 18% of Canadians said they responded to high food prices by purchasing foods that were generally "less nutritious or healthy." Industry experts report a shift toward more shelf-stable products that can be purchased in bulk to take advantage of volume discounts or price promotions, as opposed to fresh food. The trade-off between price and nutritional value was discussed earlier in this report, including the consumer's general discomfort with this cost-saving strategy that they may be adopting out of perceived necessity.

5 Implications of the trend for government and industry decision-makers

5.1 Longevity of the trend

Consumers are expected to continue to make food choices that are reflective of a high degree of price sensitivity in the coming years. Even if food price inflation rates slow, some industry experts expect that consumer behaviour changes may be "sticky" in the sense that they persist beyond the conditions that gave rise to them. If food prices were to stabilize or decline relative to other key prices in the economy, consumers might be expected to revert, at least partially, to their former food-buying habits. However, as discussed earlier in this report, they may not revert completely. Some industry experts expect that habits developed in response to recent high rates of inflation, such as shopping at discount retailers, will persist.

Many industry experts also expressed the view that the factors that are pushing food prices higher will, themselves, persist. Should this be the case, food prices will continue to rise at an elevated rate, and consumers will have to adjust to a new reality in which food expenses account for a larger share of their total spending. Underlying this expectation is the view that factors such as climate change, geopolitical instability, and input shortages are with us for the long term, and that price increases arising from these factors cannot be absorbed by supply chain actors but must, instead, be passed on to consumers.

> *Everyone says inflation is easing, but the factors that are contributing to the rise in the costs of production from end-to-end are not going away. The cost of fuel is rising, the carbon tariffs on fuel are increasing, and fuel costs are a huge driver of expense. We also have workforce constraints and a lack of availability of trucks and truck parts. The cost of fertilizer is rising due to war in Ukraine. Everyone in the supply chain from the beginning to the end is feeling the effect of supply shortages and rising costs. By the time you get to the end of the supply chain you have the cumulative effect of all these cost increases. We no longer have the ability to withstand system shocks. Consumer prices will continue to rise.*
>
> *– Industry Expert*

History has shown that significant shocks can result in lasting consumer behaviour change. People who lived through the Great Depression, for example, remained preoccupied with cost per unit of nutrition for decades to come. Some depression-era attitudes toward food may even have been passed down from generation to generation (Chandler, 2016).

5.2 Implications for agri-food industry

When consumers shift their core buying habits, the implications for industry are widespread. Several grocery industry insiders expect that Canadian consumers have, or soon will, shift their core habits when it comes to food purchases in response to higher food prices. Neilson IQ, for example, writes about a "consumer recession" which they describe as "when the core habits of traditional consumption have shifted, forcing shoppers to behave as though a recession is already here. They consume less, shift their spending to value retailers and brands, and buy more products on promotion." In their analysis of Canadian consumer habits with respect to food, they conclude that a consumer recession is underway (Allison, 2023).

Since, as described in earlier sections of this report, consumers are using a multi-pronged strategy to reduce overall foods costs, there are multiple implications for industry. There are also multiple possible industry strategies for responding to this trend.

Consumer interest in saving money provides opportunities for growth for those products and companies that are perceived as improving their value:price ratio. For example, shifts to larger formats and multi-packs that offer lower per-unit costs appear to be driving growth in categories such as snack foods. Conversely, reducing the size of product offerings while holding price constant is referred to as "shrinkflation" and, if noticed by the consumer, risks giving rise to a backlash. This strategy is perceived as sneaky: actual value-to-price ratio worsens but there is an attempt to make it look as though it has stayed the same.

There is also significant growth in discount retail chains and in private label food products. While margins in these categories may be lower, volume is expanding. Margins may come under pressure across the board as consumers adopt new cost containment strategies. For example, the increasing consumer propensity to buy more items when they are "on sale" has potential to squeeze margins, given that most items that are on sale are priced below cost.[2] Economically sustainable strategies in a price-sensitive environment will involve adopting cost-containment throughout the supply chain and pricing products at a level that covers costs. Reputation also matters here: retailers and food brands that are perceived as having higher prices may suffer in relation to brands that are associated in consumers' minds with lower prices and discounts, regardless of the actual price difference.

Efforts to improve transparency and to communicate regarding the uncontrollable factors that are pushing prices higher may help to counter perceptions of greed and to educate consumers about the forces underlying inflation. The Grocery Code of Conduct, for example, may help counter perceptions that grocery stores engage in unethical business practices. Research by the Agri-food Analytics Lab found that among those Canadians who were aware of the draft Code, almost 70% were supportive of it (Agri-Food Analytics Lab, 2023c). These efforts may be influential in the hyper-charged debate around who is responsible for inflation and what to do about it.

There may also be opportunities to improve the value proposition without reducing price-per-unit. Here, companies and brands must present a very credible claim to enhanced value in areas that are clear consumer priorities. Health and wellness remain a high consumer priority, and products that credibly address wellness needs, including allergies and food intolerances, are poised to see growth. Surveys have shown that consumers are uncomfortable trading away nutritional value for lower prices, and products that claim to deliver on both will have an advantage. Consumers also continue to value sustainability, and products with a credible environmental advantage may be able to maintain market share without relying on competitive pricing. The key to building value beyond price lies in making a very convincing and credible claim. Consumers are sceptical of many label claims, especially those related to environmental sustainability, and in a high-inflation environment they are prone to trading these attributes away. In order to convince the consumer to pay for specific attributes, they must believe both that the attribute is important and that the food product will deliver it.

Finally, there are opportunities to build loyalty by providing consumers with the information that they need to eat well while keeping costs low. Many Canadians are looking for information on how to save money on food, reduce food waste, and improve nutrition and wellness. Food industry players can help by making information on these topics readily available, including through social media channels. Consumers are currently willing to reformulate their diets, try new recipes, and change their buying habits significantly. Old habits are dying and new ones emerging. This represents a moment in which experts can exert significant influence over key consumer behaviours. Armed with information about improved buying, cooking and eating practices, consumers would ideally be empowered to control their food costs, reduce household food waste, and improve their health outcomes.

[2] Conversation with retail industry expert, April 14, 2023

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