Food inflation has yet to hit Canadians

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Once so cheap and plentiful it barely registered in the consciousness of most Canadians, **wheat is suddenly a hot commodity, with prices soaring to record highs. Barley is skyrocketing and canola can't be had for love or money.**

That's all great for farmers, but it might not be so good for consumers. According to Statistics Canada, about 17% of the average family budget currently goes to food. At some point the blockbuster price hikes in food commodities will show up in the supermarket.

Food inflation has already hit other countries such as China and Mexico, where public outrage forced governments to declare price freezes. The phenomenon is also hitting the United States, where, according to recent figures from BMO Nesbitt Burns, average supermarket prices have jumped 5.6% over the past 12 months, the highest jump since 1990. In Britain, grocery prices are up 6.6% and they are up 4.8% in Europe.

For a number of reasons, rising shelf prices have yet to make a big impact in this country.

"We're not seeing the knock-on effect you would traditionally expect," said Craig Alexander, deputy chief economist at Toronto-Dominion Bank. "Commodity prices have soared, but it hasn't fed through to broad-based inflation."

Patricia Mohr, vice-president of economics at Bank of Nova Scotia, agrees. While current grain prices are "quite extraordinary," food price increases for Canadians "have been quite modest." What's more, she says, supermarket prices could fall back in the coming months as the U.S. economy slows.

Normally, when prices for basic commodities move up -- think of the energy crisis of the 1970s and '80s --it delivers a shock to the rest of the economy. Consumers struggle to afford the higher costs, which typically results in a recession.

Meanwhile, food industry giants Kraft Foods and The Kellogg Co. have both announced plans to boost their prices after taking earnings hits because of higher ingredients costs, and anecdotal evidence suggests more companies will do the same. "When the price of your raw material quadruples, you can't afford not to raise your prices," Timothy Dodd, chief executive of the Dakota Growers Pasta Co., told The New York Times in a recent interview.

The good news this time around, according to most economists, is that the blow dealt by higher grain prices is dampened by the high loonie.

"The rise in the Canadian dollar has actually led to lower inflation in Canada," Mr. Alexander said. "The Bank of Canada was initially worried about inflation, but the opposite has happened, and inflation fell below the BOC's core target."

Canadians can also thank Wal-Mart Stores Inc., whose move into grocery retailing has forced the supermarkets to keep their prices low to stay competitive.

What has economists such as Mr. Alexander particularly intrigued about the current situation is that other key commodities, such as oil, are rising along with grain.

Yesterday, world crude prices passed US$96 a barrel, not far off the record high reached this year. But the inflationary pressures are being offset by lower prices in areas such as consumer goods, where outsourcing to such low-cost manufacturing countries as China and India has enabled retailers to cut their prices.

"This ongoing shift by businesses to low-cost areas of the world is a big story," Mr. Alexander said.

But when the larger picture is taken into account, the outlook is less rosy. While Canadians have been somewhat insulated from inflation so far, our trading partners have not. China, a key player in global commodity markets, is smarting from higher costs and its economy is starting to show the strain. The United States, the world's biggest economy, is struggling with numerous woes, from the credit crunch to food and energy inflation. If the rest of the world takes a hit, so will Canada.

The global economy is slowing down, said Mr. Alexander, who argues that the resulting decline in demand will take the steam out of commodity prices. The bad news is that lower inflation can mean declining economic activity. And declining economic activity may mean a tighter squeeze at the grocery checkout for the average Canadian