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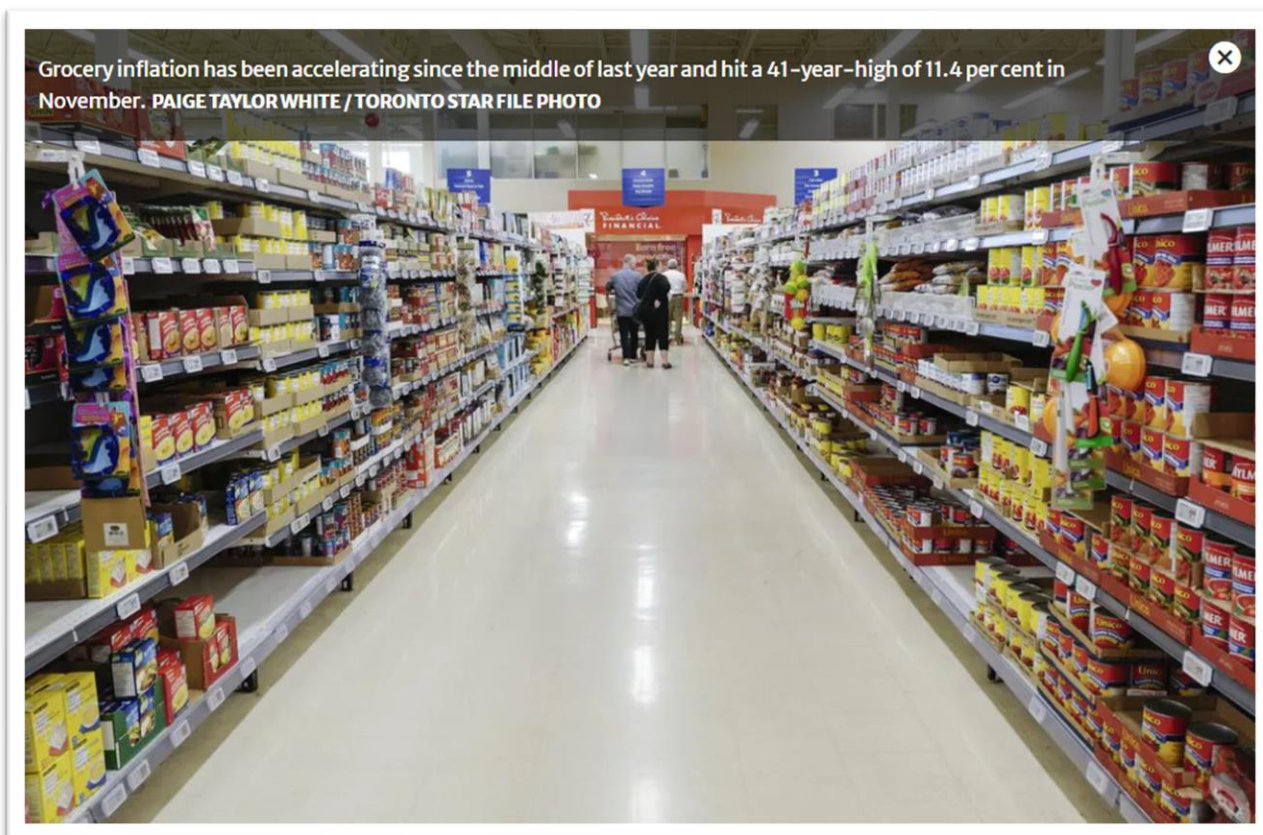
ANALYSIS

Supermarkets continue to increase profits on back of inflation, data shows

Canada's big three supermarket chains have continued to boost their profits amid record high grocery prices, a new Star analysis has found.

By [Marco Chown Oved](#) Climate Change Reporter

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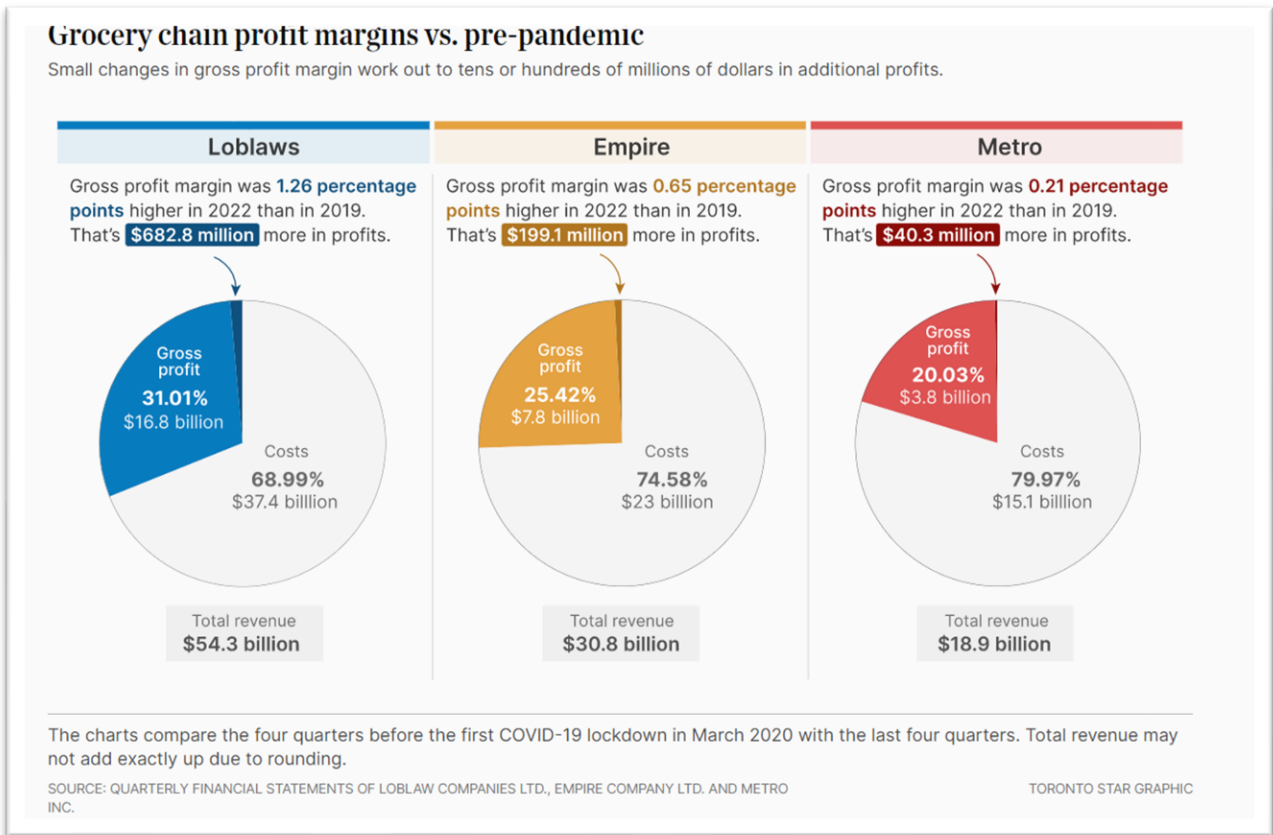
Canada's big three supermarket chains have continued to increase their profits on the back of record high grocery prices, a new Star analysis has found.

Loblaw, Empire (Sobeys) and Metro have all reported even bigger profits and profit margins than they did six months ago, when the Star published an investigation into grocery inflation.

If their profit margins had stayed where they were before the first COVID-19 lockdown in 2020, the three supermarket chains would have made almost \$1 billion less in gross profit over the past year, according to their own published financial statements.

“The supermarkets have made hay on the crisis of the pandemic and everything that’s happened afterward,” said Jim Stanford, an economist and director of the Centre for Future Work, an economic think-tank.

“A combination of supply disruptions, consumer desperation and corporate pricing power has allowed them to increase profits to never-before-seen levels.”



While the big three supermarkets say they are raising their prices only to pass along the increased costs from their suppliers, their financial reports paint a different picture.

In the two quarters since the Star's investigation, grocery prices have reached new highs and the large corporate food retailers have increased their profit margins even more.

Loblaw posted its biggest gross profit margin yet — 31.4 per cent — in the second quarter this year.

The company has now increased its quarterly gross profit over the previous year for 28 straight quarters — that's seven full years.

In the first three quarters of 2022, Empire has posted the three biggest gross profits in its history.

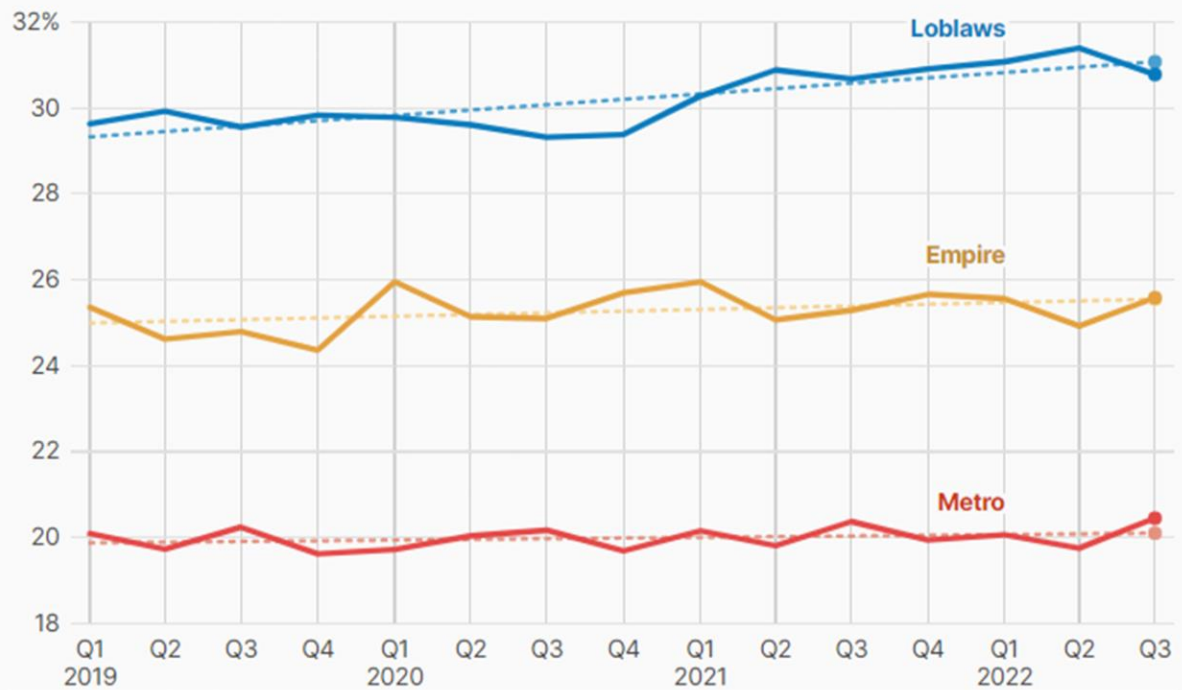
Empire has now posted six straight quarters of year-over-year increases in quarterly gross profits.

It's a similar story at Metro, which reported a gross profit margin of 20.5 per cent in its fourth quarter — its best yet.

Metro has increased its quarterly gross profit year-over-year for four straight quarters.

Grocery chain gross profit margins

The three largest supermarket chains in Canada make more than \$100 billion in sales each year. Small increases in gross profit margin produce hundreds of millions in additional profits.



Gross profit margin is gross profit as a per cent of sales. Dates are in calendar quarters.

SOURCE: FINANCIAL STATEMENTS FOR LOBLAW COMPANIES LTD. (RETAIL SEGMENT),
EMPIRE COMPANY LTD. (FOOD RETAIL SEGMENT) AND METRO INC.

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The Star asked each company to comment on their financial success at a time when Canadians have been forced to spend more on food.

“We have very clearly stated that since inflation took off last year, our food gross margin has not increased. Our prices are not growing faster than costs, and we are not taking advantage of inflation to drive profit,” said Loblaws spokesperson Catherine Thomas.

“It is absolutely inaccurate and misleading to suggest otherwise.”

Empire did not respond to a request for comment. In his comments to investors last week, Empire CEO Michael Medline said inflation hurts the company.

“We can’t pass it all on, and we don’t pass it all on,” he said. “We pray for the end of inflation.”

“When you take it apart, inflation does not help our margin, it does not help our company.”

Metro declined to comment. On a call with investors last month, Eric La Flèche, president and CEO of Metro, said the company is only passing along cost increases to its customers, and sometimes not even that.

“We don’t pass it all at once. And in some cases, we don’t pass it at all. We absorb some of (that) cost inflation,” he said.

The Star shared its analysis with David Macdonald, a senior economist with the Canadian Centre for Policy Alternatives, who said: “It does appear that the pandemic has put the grocery industry on a new plateau with higher margins.

“Inflation, far from eating away at profits in this industry, has likely increased margins.”

Grocery inflation has been accelerating since the middle of last year and hit a 41-year-high of 11.4 per cent in November. Grocery prices are now rising faster than everything else, except gasoline.

Grocery price inflation

Grocery inflation hit a 41-year-high of 11.4% in November. Grocery prices are now rising faster than everything else, except gasoline.



SOURCE: STATISTICS CANADA,
CONSUMER PRICE INDEX PERCENTAGE CHANGE, YEAR OVER YEAR (FOOD
PURCHASED FROM STORES)

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With Canadians feeling the pinch, the profits of grocers have attracted the attention of politicians and regulators.

In October, the Competition Bureau launched a study of the grocery sector to investigate higher prices and explore how competition could be improved. The bureau noted the study is not a law-enforcement investigation and that it is not examining any specific allegations of wrongdoing. It said it will “take appropriate action” if it finds evidence “that someone may be doing something against the law.”

Shortly afterward, NDP Leader Jagmeet Singh took up the subject both in the House and online, posting a video about “greedflation” and tweeting frequently about it.

“It is extremely frustrating to see that while you and your family cut back on the things you need, the major grocery store chains are using this crisis to get richer and richer,” Singh said in an email to the Star.

“We’re pushing for the government to launch an affordable and fair food strategy which tackles corporate greed in the grocery sector which would include increased penalties for price-fixing and strengthening competition laws to prohibit companies from abusing their dominant positions in a market to exploit consumers.”

After an NDP motion passed unanimously in the House of Commons, a parliamentary committee started investigating the relationship between surging grocery prices and supermarket profits. While MPs have called for the CEOs of the big three supermarkets to testify, to date the companies have only sent executives lower down their corporate hierarchies.



Karl Littler, an industry representative with the Retail Council of Canada, testified that supermarkets are a “a high-volume, low-margin industry.”


“That’s like saying selling multimillion-dollar mansions is a low-margin business because the real estate agent only makes 2.5 per cent,” Stanford said.

“We have to be skeptical about who’s interpreting the numbers here,” he said. “The supermarket executives will really try to spin their numbers to put them in the most flattering light.”

Executives with Loblaw's and Empire testified that profit margins have remained “stable” and “flat” since inflation started to take off.


This is misleading because it minimizes how small changes in gross profit margin translated into massive amounts of money, said the CCPA's Macdonald.

“Because they move so much product, it only takes a small change — half a point, a whole point — to make significantly more profit,” he said.



Are grocery store chains taking advantage of inflation? | Quick question

Economist Jim Stanford and Sylvain Charlebois, director of the Agri-Food Analytics Lab at Dalhousie University, debate whether grocery store chains are profiting from rising food prices driven by inflation.



The Star has focused its analyses of grocery financials on gross profit margin because it's the most basic measure of how much money supermarkets make from selling goods. It measures the difference between the wholesale and retail prices of all products sold.

If the supermarkets were only passing along the price increases from their suppliers, their gross margins would remain stable. But all three companies have increased their margins, suggesting they are passing along those price increases — and then some.

The Star compared the gross profit margins of each grocery chain from the four quarters before the first pandemic lockdown in March 2020 with those from the last year and found the increased margin — even though it was only 1.25 percentage points or less — equalled \$922 million in additional gross profits.

Last month, a study published by Dalhousie University's Agri-Food Lab also used gross profit margin to evaluate where the revenues from higher food prices were going.

The report said it could not conclude that any of the big three supermarkets were guilty of food “greedflation.”

It did, however, find that Loblaws was earning as much as \$1 million a day in “excess” profits — defined as more than the most it had earned in its best quarter in the past five years.

In October, Loblaw announced that it was freezing the prices on its No Name products until the new year, but the move backfired when critics pointed out that the prices would be frozen at never-before-seen levels and its competitor Metro said a price freeze over the holidays was something it did every year.

The increased scrutiny on profits has provoked some strong words from Medline, the Empire CEO, who lashed out at unnamed critics at the company's annual general meeting in September.

“Quite frankly, I am tired of these armchair quarterbacks who make little effort to understand even the basics of our business but are comfortable sitting on the sidelines pontificating about how Canadian companies are reaping unreasonable profits on the backs of inflation,” Medline said, according to published accounts.

“I refuse to apologize for our success.”

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