The Impact of COVID-19 on Food Retail and Food Service in Canada: Preliminary Assessment

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ABSTRACT
COVID-19 has imposed a series of unique challenges on the food retail and food service sectors in Canada. Almost overnight, the roughly 30% of the food dollar that Canadians have been spending on food away from home has shifted to retail.

RÉSUMÉ

COVID-19 a imposé une série de défis uniques aux secteurs de la vente au détail et des services alimentaires au Canada. Presque du jour au lendemain, les quelque 30% de l'argent consacré à l'achat de nourriture hors foyer par les Canadiens ont été transférés aux achats en épiceries.

INTRODUCTION

The impacts of the COVID-19 outbreak on the food retailing sector in Canada are significant and, to a great extent, unexpected. The impacts fall into two major categories, the first being the actual impacts of public health on individuals, on employees in retail and food service, and on individuals throughout the rest of the supply chain, and the second being the dramatic change in what and where people want to buy their food. While there is an immediacy to the impacts of COVID-19 on the food retail and food service industries, there is a remarkably uncertain projection for the future in a world where the SARS-CoV-2 virus is manageable and we go back to 'normal' life. The new 'normal' is unlikely to be the same for the retail/food service level of food markets as life was in January 2020.

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BACKGROUND

In Canada, for example, over the period 1997 to 2017, household expenditure share on food away from home increased from 20% to 30%.[1] Revenues generated by different industrial categories of retail trade and food service (Figure 1) illustrate the significant increase in revenues in food service and drinking places (deflated 2002 dollars), while food and beverage stores, convenience stores, and beer, wine and liquor store revenues remain relatively flat across the period from 2004 to 2020. Both food retail and food service sectors are significant in terms of employment within Canada. As seen from data in Figure 2, the share of employees in food retail declined from a peak of 3.7% of 14.6 million employees in 2009 to 3% of 17 million employees in 2019. The share of food service employees, on the other hand, increased from 6% of total employees in 2010 to 6.7%, on average, over the period 2017-2019.

Brown (2018) reported that, as of April 2018, 28% of 1000 Canadian respondents had shopped for groceries online (with 6% regularly). These numbers were up from 15% of survey respondents from 18 months earlier. In 2018, Statistics Canada reported an increase in food service and drinking places that report e-commerce sales from 7.3% of businesses in 2016 to 22.9%.[2]

AND THE COVID-19 PANDEMIC HITS

Although Canadians had awareness of the SARS-CoV-2 virus elsewhere in the world, the first report of a presumptive case of COVID-19 in Canada occurred on January 25, 2020, in

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[1] Authors calculations using Statistics Canada. Table 11-10-0222-01. Household spending, Canada, regions and provinces. https://doi.org/10.25318/1110022201-eng and Statistics Canada. Table 11-10-0197-01. Survey of household spending (SHS), household spending, summary-level categories, by province, territory and selected metropolitan areas. https://doi.org/10.25318/1110019701-eng

[2] *Source*: Statistics Canada. Table 20-10-0072-01, Retail E-commerce sales, unadjusted (x 1,000). https://doi.org/10.25318/2010007201-eng

Toronto. The virus began to get more serious attention from the public as states of public emergency were declared by individual provinces (March 13-27). With the shutdown of schools and eventually other non-essential services, heightened concerns were felt throughout the country.

The recommendations/orders to stay home immediately changed the way individuals looked at food purchases. First of all, everyone (both children and adults) became housebound (with the exception of essential workers). Second, people realized that they personally were vulnerable, to disease and to loss of employment, and that food habits needed to change – for example, eating three meals a day at home, changing the frequency of 'shopping' trips, and being faced with the unavailability of certain places where they had traditionally shopped. At terrific speed, the following changes were felt in the food retail and food service system:

1. Eating and drinking places were closed with the exception of take-out or delivery options.
2. There was a surge in the demand for online grocery shopping that caused the existing infrastructure to struggle (evidenced by web sites that crashed or operated extremely slowly and by long turnarounds in delivery time options from between 1-2 days to 10 days or more).

The shutdown of sit-down restaurant dining switched food purchases to grocery stores. This significantly changed the volume and types of foods purchased at grocery stores without the stores having time to adjust their supply chains. In some notable cases, the shopping behaviour resulted in shortages of products in grocery stores (e.g., toilet paper), which exacerbated people's concerns and may have increased stockpiling behaviour.

Actions taken by food service, food retail, and government in response to the declaration of public emergency status and the changes in consumer behaviour that ensued included the following:

1. Distribution of food service excess foods to centres feeding vulnerable people and to food banks (with higher usage due to the sudden unemployment of major sectors of the population) (Harvey, 2020).
2. Grocery store chains and supermarkets hired more employees to deal with online orders and distribution, provided additional support to employees, and raised wages (Wilson, 2020).
3. Grocery store chains changed their just-in-time inventory management strategies to be able to deal with uneven shortages throughout their largely national distribution networks, in some cases avoiding distribution centres completely (Canadian Grocer, 2020).
4. Grocery store chains develop strategies to deal with older and more vulnerable shoppers, including specific shopping hours for the vulnerable group only and targeting the vulnerable group first for grocery delivery.
5. Grocery store chains installed protective plastic shields to protect cashiers and adopted customer management strategies to maintain safe distances between customers; food service delivery systems adopted no-contact food drop off to reduce contact between customer and delivery person (Shah, 2020).
6. Grocery store chains attempt to deal with the surplus of certain foods arising from reduced demand from food service through diversion to consumer-ready retail products. Short-term problems arise due to "transportation shortages caused by an overwhelmed trucking industry, processing and packaging challenges, a sharp decline

in bulk customers due to the mass closures of restaurants and bakeries, and inconsistent distribution to stores" (Shaw, 2020).

7. Regulatory rules related to labeling and food packaging began to be adjusted to facilitate product processing for retail as opposed to bulk processing for food service (Health Canada, 2020). Further adjustments to regulatory policy are recommended by some analysts, including relaxation of some anti-trust measures related to retailers collaborating on supply logistics (Keogh, 2020).
8. Food retailers step up in response to request for aid from food banks and shelters (for example, Loblaw Company Ltd., 2020a, 2020b; Opinko, 2020; Metro Inc., 2020).
9. The Competition Bureau signalled that it will generally refrain from exercising scrutiny in circumstances where there is a clear imperative for companies to be collaborating in the short term to respond to the pandemic (Competition Bureau, 2020).

WHAT WILL HAPPEN TO FOOD EXPENDITURES AS THE ECONOMY RECOVERS?

It is difficult to predict exactly what might happen in the food service and food retail sectors as Canada recovers from the economic and public health effects of this COVID-19 outbreak. Once states of emergency are lifted, then food service will likely reopen, and the question of how long it might take for people to be comfortable eating in restaurants again remains open.

Income elasticities of demand for food-away-from-home purchases are considered to be more elastic than similar elasticities for food-at-home purchases. From Table 1, the potential impact of the COVID-19 outbreak on potential food expenditures in total and by segment can be illustrated. A base of the 2017 food expenditure levels is used to translate percentage expenditures into 2017 dollars. An assumption of a 7% impact on disposable income in 2020 and a 3% impact on disposable income in 2021 is used as the shock to the system.

The above numbers assume that restaurants are allowed to open again in 2020 and that the income effects are distributed across the two years rather than being captured in one or two quarters of 2020. The results highlight the shift between food away from home and food at home (even in the absence of restaurant closures) arising from the oppositely signed income elasticities.

SUMMARY

Food retailing and food service sectors are both important economically in Canada. Prior to the COVID-19 crisis, the food retailing sector has been evolving to higher sales through supermarkets and convenience stores, and the food service sector has been growing considerably, taking food market share away from food retailing. Actions taken under the states of emergency imposed to deal with the pandemic in Canada have changed the reality of food purchasing and the confidence people have in the ability of the food retail system to maintain consistent food and grocery availability. Some reactions by the public, such as increased online purchasing with grocery delivery, will likely be maintained after the pandemic restrictions are over. There are uncertainties about how the public will react after states of emergency are lifted in terms of restaurant visits and the types of foods that will be purchased through food retail.

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Table 1. Possible Effects of Lower Disposable Income on Food Expenditure and the Share of Food Spending on Food Away from Home and Food at Home

	Income Expectations	Food Expenditures	Share of Expenditure on Food Away from Home	Share of Expenditure on Food at Home
Estimated Income Elasticities of Demand 1997-2017		0.17	1.36	-0.41
2020	7%	-1.19%	-9.52%	2.87%
2021	-3%	-0.51%	-4.08%	1.23%
		In 2017 billion dollars		
2020		-77	-186	128
2021		-33	-80	56

Source: Author calculations.

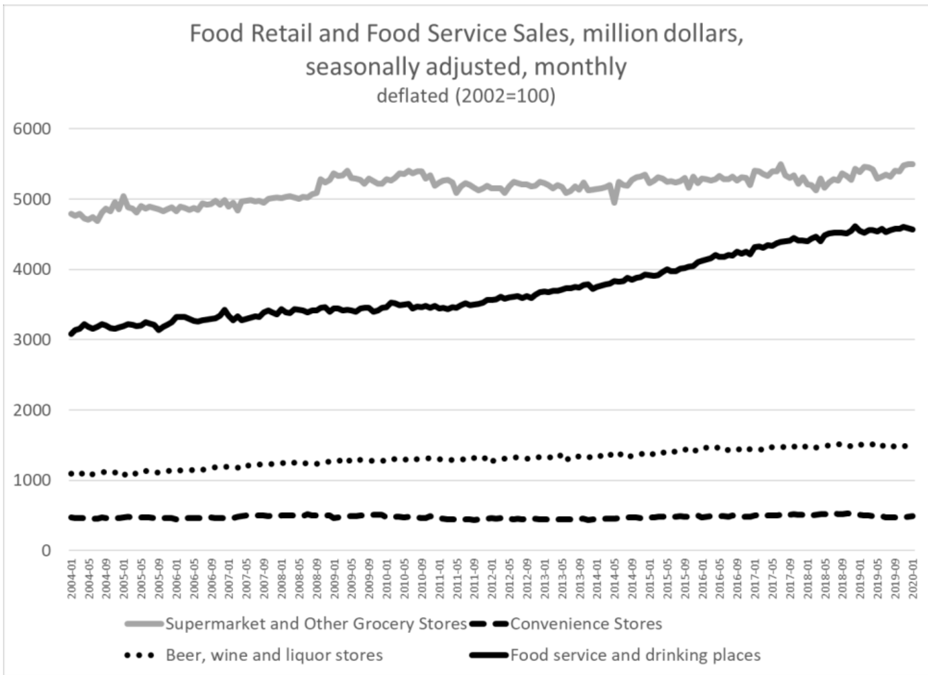

Figure 1. Food retail and food service sales, million dollars, seasonally adjusted, monthly (deflated 2002=100)

Source: Statistics Canada. Table 16-10-0047-01, Manufacturers' sales, inventories, orders and inventory to sales ratios, by industry (dollars unless otherwise noted). https://doi.org/10.25318/1610004701-eng

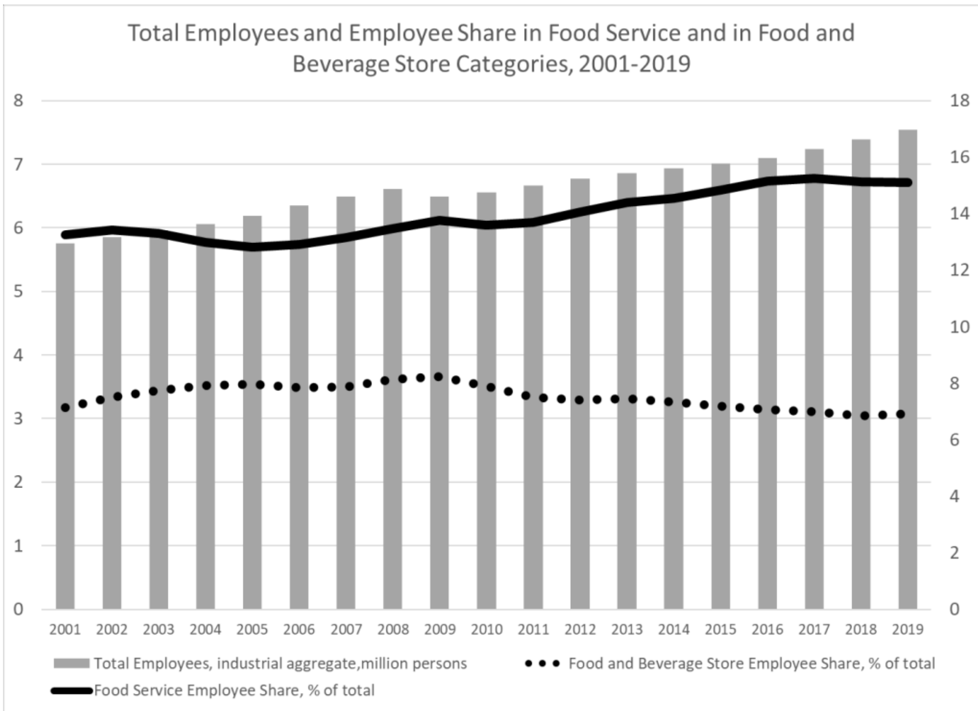

Figure 2. Total employees and employee share in food service and in food and beverage store categories, 2001-2019

Source: Statistics Canada. Table 14-10-0023-01, Labour force characteristics by industry, annual (x 1,000). https://doi.org/10.25318/1410002301-eng