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POSTMEDIA



Prime Minister Mark Carney makes an announcement about affordability at a grocery store in Ottawa in January. BLAIR GABLE/FILES

POLITICIANS SEEK TO EASE FOOD COSTS, BUT ARE BATTLING MARKET FORCES

No policy options that won't do more harm than good, former TD Bank chief economist says

SIMON TUCK

OTTAWA Call it the coriander conundrum.

Like with parsley, carrots, dill and most other members of the apiaceae family of edible plants, the retail price of coriander has been growing like a weed.

While the prices of many items on grocery store shelves have been heading north in recent months and years, the price of fresh coriander — and the cilantro leaves that come from the same plant — tends to be even more volatile than most because the plant is a bit precious — it needs good weather, spoils quickly after being picked, and is usually imported.

That means its shelf price, which has more than doubled in price in some markets since the start of the pandemic, is more susceptible to exchange rate fluctuations and fuel price spikes, such as those that followed the recent attacks on Iran and the subsequent closing of the Strait of Hormuz.

The price of coriander is just one small component in the broader basket of items on Canadian grocery store shelves, the costs of which have been rising sharply in recent years. The Bank of Canada said earlier this year that grocery prices climbed about 22 per cent between 2022 and 2025, compared to a jump of 13 per cent for other consumer prices during the same period.

But there are no policy options to deal with grocery prices that won't cause more harm than good, said Don Drummond, a

former high-ranking official at the Department of Finance and chief economist at TD Bank.

"There are no policy levers that would quickly and decisively lower grocery store prices," he said. "All they can do is redistribute who pays and when."

Drummond says the rise in food prices is a trap for governments because most efforts to do something will mean borrowing more money, thereby adding to the burden that future generations will pay for today's consumption. Scratching more cheques for consumers is also dangerous because it's expensive, adds to the expectation that governments will bail people out, and puts further pressure on inflation by boosting demand.

"There is nothing useful that can be done."



The Carney government has taken steps to try to help amid soaring food costs, including providing more money for food banks and local food programs. DARREN MAKOWICHUK/FILES

Many Canadians, however, believe their grocery bills have been climbing faster than the Bank of Canada's statistics show. The central bank says the average Canadian spends about 11 per cent of their budget on groceries, although that figure tends to be much larger for those with limited resources.

For many consumers, the conundrum has simply been about what to do about rising grocery prices, especially when they show few signs of heading back down. They're annoying for pretty much everybody, but a serious issue for those on tighter budgets. In some cases, the price hikes have changed their lives, leaving them unable to pay bills or even hungry. Statistics Canada reported a full four years ago, in the early days of the recent price hikes, that consumers were also

responding to the post-pandemic food inflation by buying less and hunting more for bargains.

For governments, however, the conundrum rests on a misalignment between the economics of grocery prices and the politics, leaving them struggling to try to do something about a major problem that is difficult to influence.

Analysts say the economics are that grocery prices are largely a function of market forces. Michael von Massow, a food agriculture economist at the University of Guelph, said the grocery price hikes over the last five or so years have been a result of poor weather, global warming, currency fluctuations, rising energy and fertilizer costs, the wars in Ukraine and now Iran, and of course pandemic-related supply chain problems — many things, but not an industry conspiracy.

Grocery stores are still earning pre-tax margins of about four per cent on most items, von Massow said, just as they were before the pandemic. "The perception of gouging is grossly overstated."

The Retail Council of Canada, which represents the large grocery chains, says that grocery store margins are lower than the net income of farmers or food manufacturers and processors. Grocery store profits, the group says, have been flat in recent years and driven much more these days by non-food items such as those in the health, beauty and pharmacy aisles.

As for the politics, it's as much about perception than the economic reality. When millions of voters are miffed about something, governments likely won't be stopped from doing something as a response, even if it's mostly to be seen to be doing something. Nor will opposition parties be stopped from accusing governments of not doing enough, or too much, or just doing it wrong.

The Carney government has already taken a number of steps to try to help, targeting both consumers' wallets and the industry itself.

In a bid to help consumers, particularly those most in need, Ottawa brought in a new Canada Groceries and Essential Benefit. This measure, an expansion of the existing GST credit, includes a one-off top-up payment of 50 per cent, plus an increase in payments by 25 per cent for five years beginning in July.

The government also provided more money for food banks and local food programs.

To encourage grocery stores to lower their costs and perhaps their prices, the Liberals spent \$500 million on a Strategic Response Fund to help businesses absorb disruption costs, instead of just passing them on to consumers. They also spent \$150 million on a Food Security Fund that was designed to support smaller players in the food business and brought in tax incentives to encourage the construction or expansion of greenhouses.

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