

Pricing

The price we as consumers end up paying for our food is determined by a multitude of factors. FoodTruths has had a look at what some of these determining factors are to help you understand why your food costs what it does. This knowledge can help when deciding if the price you are paying for something really is fair.

Seasonality

For fresh produce to grow, each variety requires different growing conditions; our stone fruit and sweet corn like warmer temperatures and our apples and zucchinis, for example, need the weather to be a little cooler to grow. In a nutshell this explains seasonality. Different produce grows best in the different conditions that each different season brings.

It costs a grower a lot less to produce a fruit or vegetable when it is the optimum growing season for that variety. The produce can literally be picked and sold straight to the consumer. When produce is being grown and sold out of season it is a much more complex set of processes involved from orchard to table.

For example the majority of tomatoes in NZ are now grown in greenhouses, there are some that are grown outdoors still, however they can only be done so in summer and early autumn. These greenhouses have to be heated to mimic the optimum growing conditions for a tomato and this heating is an added expense to the producer. In colder months when tomatoes are not in season the cost of heating is higher, hence a higher price at the supermarket for your tomatoes.

Produce nowadays does appear to be available year round. Some of the out of season produce we consume may be imported which can be a reason it is more expensive as storage, transportation and freight costs all need to be considered.

The produce may have also been kept in cold storage for a period of time, if you're buying apples in January for example they won't be fresh from the orchard they would have been picked when in season and stored, again another expense which results in a higher purchase price for the consumer.





Lack of competition

In NZ we have what has been coined a supermarket 'duopoly'. The Commerce Commission recently released their findings into the grocery sector and at the core of the problem they reported was the structure of the market. The report found that while there is a range of 'fringe' smaller grocery retailers, they have a limited impact on competition as they are unable to compete with the major grocery retailers on price and product range. It went on to say that competitors wanting to enter or expand into the New Zealand grocery sector face significant challenges including a lack of competitively priced wholesale supply and a lack of suitable sites for large scale store development.

For consumers this inevitably means we pay consistently high prices as there is little to no incentive for our large supermarkets to compete with each other. The report also noted that the level of profits being earned by the major grocery retailers are consistently and materially above what they would expect in a workably competitive market.

Freight & transportation

As our demand for access to produce year round increases and our expectation that we can have what we want regardless of the season we must factor in the cost of transportation when considering the price we pay for our goods. Produce grown locally, nationally and internationally must make its way to our docks and there are a variety of costs involved such as fuel, taxes, labour, regulation compliance. In June of this year the International Monetary Fund (IMF) reported that ocean freight rates as measured by the Baltic Dry Index (a measure of shipping costs) had increased around 2-3 times in the last 12 months while higher gasoline prices and truck driver shortages in some regions were also pushing up the cost of road transport services.

Overseas demand

When there is demand for NZ grown products and produce overseas, producers and suppliers who are all running businesses with the desire/need to make a profit are forced to compare 'apples with apples' as the saying goes and sell to the highest bidder. If they can export their wares for a better price then it is a better financial decision for them to do so. We in NZ are then left having to pay higher prices for locally grown produce to prevent it from being exported overseas. Larger overseas markets due to larger populations have greater buying potential and local producers must keep up the supply to ensure relations between these buyers remain.

Taxation

NZ has a 15% GST rate which applies to all food and beverage. In Australia for example certain foods are exempt from GST, such as fresh produce. The prices we pay for our food in NZ may appear higher as a result of this.

Inflation

Inflation data from June 2021 showed that prices rose more than expected and the consumer price index (CPI) was up by 3.3% CPI measures the changing price of the goods and services New Zealand households buy, It provides a measure of inflation.

Stats NZ reported that food prices increased 2.4 percent in the year ended August 2021.

In August 2021 compared with August 2020:

Fruit and vegetable prices increased 2.1 percent
Meat, poultry, and fish prices increased 2.2 percent
Grocery food prices increased 1.9 percent
Non-alcoholic beverage prices decreased 0.6 percent
Restaurant meals and ready-to-eat food prices increased 4.6 percent.

Unforeseen

Unforeseen disruptions such as earthquakes, floods and pandemics (Covid 19) can cause disruptions to the supply chain (such as freight delays) and can also alter the behaviour of other consumers (such as panic buying or stock piling) which will result in price fluctuations, generally an increase.

Resources:

<https://www.consumer.org.nz/articles/saving-money-on-produce>
<https://www.tomatoesnz.co.nz/industry/industry-overview/>
<https://www.rbnz.govt.nz/research-and-publications/fact-sheets-and-guides/factsheet-what-is-inflation>
<https://blogs.imf.org/2021/06/24/four-facts-about-soaring-consumer-food-prices/>
https://comcom.govt.nz/_data/assets/pdf_file/0026/260378/Retail-grocery-market-study-Draft-findings-Infographic-29-July-2021.pdf
https://comcom.govt.nz/_data/assets/pdf_file/0024/260376/Market-study-into-the-retail-grocery-sector-Draft-report-Executive-summary-29-July-2021.pdf
<https://www.stuff.co.nz/national/the-detail/300360278/the-detail-what-makes-food-so-expensive-in-new-zealand>
<https://www.stats.govt.nz/information-releases/food-price-index-august-2021>

