All MSN Outlook.com Skype MSN Home

Make MSN your Homepage
Français Page Options Sign In
Like 298k

NEWS

Follow

AdChoices

By Mary Gazze, The Canadian Press, thecanadianpress.com, Updated: April 6, 2011 11:20 PM

Tim Hortons price jump canary in a coal mine

Share 0 Tweet Share 0

A cup of Tim Hortons coffee is poured as the company's financial year end results are announced at an AGM in Toronto on Friday May 14 2010. As higher prices percolate at Canada's largest coffee and doughnut chain, Canadians should brace themselves for a costlier double double and other fast food, as world food prices continue to grow, experts say. THE CANADIAN PRESS/Chris Young

TORONTO - As increased prices percolate through the menu at Canada's largest coffee and doughnut chain, observers are warning Canadians to brace themselves for higher prices at other chains as well because of rising ingredient costs.

Tim Hortons (TSX:THI) has announced that Canadian customers will pay seven cents extra for a large cup of coffee starting Monday. That brings the cost to $1.57 plus tax, or about 4.5 per cent more.

And with the price of wheat flour used in bread, doughnuts and muffins increasing 68.4 per cent over the last year, Tim Hortons is also raising the cost of bakery products at its cafes, said spokesman David Morelli. However, he wouldn't get into specifics about which products or how much.

Tim's has already raised prices at its U.S. locations by about three per cent.

The worst rains in decades in major coffee grower Colombia have created a breeding ground for a fungus that destroys coffee plants. That problem, along with more people in growing economies like China and India who are willing to spend their money on a java jolt, has led to dwindling world coffee stockpiles.

Coffee future prices for Robusta beans closed at US$2.65 a pound on Wednesday — up sharply from US$1.39 a pound in March of last year, but lower than the record high of US$2.97 recorded last month. The price for higher-end Arabica beans has doubled over the last year.

Prices for Robusta coffee could rise to $3.05 per pound in the next few weeks, George Kopp, an analyst at the International Futures Group in Chicago, said Wednesday.

"I just don't think this was a short-lived thing," he said, explaining that Brazilian and Colombian coffee harvests have not been recovering as well as expected, which is driving up prices. And potential disputes with farmers, who are demanding more for their beans, may intensify existing supply problems.

"I'm hearing rumours that producers in Central America are reneging on contracts with big processors as they are looking for higher prices," he said.

At-home brews Maxwell House and Folgers increased prices last year, and Starbucks announced last month that it will sell packaged coffees for an average of 12 per cent more. The chain also raised prices on some drinks in its coffee shops last year.

In an emailed statement, McDonald's Canada said that it was well positioned to "mitigate" cost pressures and higher commodity prices affecting the restaurant industry, but did not comment on whether it will raise prices.

Meanwhile, the rising prices of other foods — from sugar to grain to beef — mean consumers may start paying more for meal options wherever they dine out.

Tim Hortons said its expenses keep growing.

"Costs have risen significantly, including commodities like wheat and cooking oil, labour and operating costs, and most notably coffee bean prices, which have nearly doubled," Morelli said in an emailed statement.

Garth Whyte of the Canadian Restaurant and Foodservice Association said it is a tough time for restaurants, which are also dealing with pressures like the effects of the harmonized sales tax in Ontario and British Columbia, and higher minimum wages.

"Right now a lot of restaurateurs, their backs are against the wall. It's been very difficult to keep prices down just because of all the issues that are happening," he said.

Food commodity prices have been climbing steadily for slightly less than a year. Canadians haven't felt too much of a pinch so far because of the higher loonie and tough competition between grocery store chains. But that isn't expected to last.

Tim Hortons' 4.5 per cent coffee price increase is in line with predictions for Canada that suggest an average five to seven per cent increase in the general cost of food by the end of the year, said Adrienne Warren, senior economist at Scotiabank.

The prices of commodities like coffee, cocoa, wheat, sugar and beef started rising about nine months ago and it takes about that long for costs to work their way down to consumer wallets, she said. The higher price for oil and gas used by trucks to deliver food only adds to the price Canadians pay.

"Once the costs increase at the wholesale level and the grocery store level, you can expect some pass through as well to restaurants," she said.

"Potentially, you might see some announcements from some of the major restaurant chains of cost increases over the fall as well."

Increased demand and disasters in major food producing countries — floods and drought in Australia, drought in Russia and floods on the Canadian Prairies — have driven food commodities prices up 41.8 per cent compared with last year, according to Scotiabank's most recent report.

And the rising cost of wheat means livestock feed is more expensive, which pulls up the price of beef and pork products along with it.

Bruce Cran, president of the Consumers' Association of Canada, said people won't run out to buy home coffee makers as long as price increases at outlets like Tim's remain small and are justified.

"I don't think a few cents is going to change anybody's habits at this stage," he said.

"I won't say that we like it, but I think it's acceptable at the moment that places like Tim Hortons pass on their extra charges as long as there's a reason for it."

Major Canadian meat and baked goods manufacturers like Maple Leaf Foods (TSX:MFI) and George Weston Ltd. (TSX:WN) raised prices this month due to the higher cost of flour, pork, beef and chicken used in deli meats.

Warren said the intense competition between grocery stores has meant that retailers have been eating the rising costs so far, but they can't do it for much longer.

"Eventually, down the road, there's only so much they can absorb of the higher cost and eventually those costs, maybe not entirely but at least partially, get passed on to the consumer in terms of higher prices," she said.

Note to readers: This is a corrected story. The name of the Canadian Restaurant and Foodservice Association representative is Garth Whyte.

related video

Please install the latest version of the free Adobe Flash Player. Download now.

For help with Flash, see Adobe's Flash Player Support page.

Lumosity Brain Games
Challenge memory and attention with scientific brain games.
www.lumosity.com

Reverse The Aging Process
5 Simple Steps To Looking 10 Years Younger And Body Shaping System
www.healthy-beauty-fitness.com

How To Win MegaMillion
Professor Reveals How To Win MegaMillion 2 Times In A Row!
www.winning-numbers.us/cn/1.4