

REPORT HIGHLIGHTS: CANADIAN FOOD MANUFACTURING

An overview in 2010, 2020 and Forecast to 2030

Context and a Brief Overview of Methodologies

Canadian food and beverage manufacturing plays a key role in supporting farmers, and the rest of the food supply chain. Despite lacking investment, thin margins, additional grocers' fees, and aging facilities, food and beverage manufacturing remains Canada's second strongest manufacturing industry. For Canada to become a global force in innovation and food processing, the industry needs to be broadly recognized through better, and more supportive policy. Further, as seen through the pandemic, domestic manufacturing is critical to Canadian security – food security included.

This report uses 24 variables to examine the Canadian food and beverage manufacturing industry and the context in which it operates. Data is collected to examine the state of the industry in 2010 and 2020, and to forecast where the industry will be in 2030 should it continue on the current trajectory. All data is from publicly available sources. This two-pager provides the key points from the Report's findings.

Labour and Greenfield Investments are Significant Market Concerns

- Canada has had a small number of large companies operating federally, but that number has been shrinking over the past ten years with approximately 20 new federal facilities opening in the recent decade compared to 4,000 in the US.
- Manufacturing is experiencing a labour shortage, but there are concerns that the shortage is due to working conditions and wages which are unattractive and unable to retain workers. Women and underrepresented peoples also present an opportunity which has not yet been fully realized by the sector.
- A lack of greenfield investments is stunting both innovation in food manufacturing and the upgrades of old facilities and old technology.

Grocers' Fees, Increasing Input Prices are Eroding Thin Margins

- Fees by grocers are not a new practice, but they are an increasingly used practice in 2020 to structure supplier-grocer relationships.
- The price of food products at factory gate has been steadily increasing, but might be eroded by measures such as grocer's fees. Factory gate prices rose by 27 per cent, compared to prices at farm gate which rose by 25 per cent over the same time period.
- Machinery and equipment prices have increased by 36.1 per cent over the past decade, and will continue to do so.
- Home renovations and regional lockdowns in 2020 have impacted construction and put upward price pressure on the construction of new facilities, which may be a deterrent or at least a consideration for companies wishing to expand or build their businesses in Canada.
- Wages, in constant dollars, have increased by 16 per cent over the past decade, two per cent above inflation of goods and services at 14 per cent. Hourly food manufacturing wages remain below the average for the goods producing industries of \$30.36. Food manufacturers may be pressured to increase wages to retain skilled workers.
- As new players such as Google and Amazon enter the transportation market, advances in transportation in the future may benefit food manufacturers and reduce costs.

REPORT HIGHLIGHTS: CANADIAN FOOD MANUFACTURING

An overview in 2010, 2020 and Forecast to 2030

As the Second Largest Manufacturing Sector, Food & Beverage Manufacturing is Important to the Canadian Economy

- Food manufacturing contributed \$26.5 billion to Canadian GDP in 2020.
- Just ten manufacturing sectors, including food manufacturing, contribute 80 per cent of manufacturing's total contribution to GDP.
- Despite the last decade seeing few new food plants open and significant closures, food manufacturing was the second largest manufacturing sector in Canada after transportation equipment in 2020. Food manufacturing also still managed to grow its GDP contribution from 13.18 per cent in 2010 to 13.47 per cent in 2020.
- Food prices continue to climb in Canada, but grocers' fees in addition to low margins may not see manufacturers benefit from these rising prices.

The Sector is a Strong Exporter and Important for Domestic Food Security

- About 70 per cent of all processed food and beverage products in Canada come from domestic manufacturers.
- Where foods are imported, over half of Canada's food imports come from the US, but over the past ten years that value has contracted to make room for new import partners.
- Despite difficult Canada-US relations from 2016 onwards, Canada increased its trade with the US from a share of 65.1 per cent of exports to 70 per cent of exports in 2020. Biden's "Buy America" policy may cause challenges in the next decade.
- Canada has and continues to be a strong net-exporter of food products and global leader in food and beverage product exports. Should manufacturing begin to leave Canada in the coming years, there will be implications for that position.
- From the recent vaccine procurement, Canada has unfortunately seen that while it has a strong reputation globally, its trading partners will prioritize their own populations first. Domestic production is important.
- Trade deals over the past decade, including the new CETA and TPP alongside the new NAFTA, have increased access to global markets for Canadian food products.

Federal Government Support Has Historically been Limited

- Federal government support for food and beverage manufacturers, at least direct monetary support, has historically been limited. It is possible that federal support is lacking because a majority of support comes from provincial governments. It may also be a matter of food and beverage manufacturing's strong performance in contributions to GDP making it appear unsympathetic to government support.
- The pandemic's spotlight on the food supply chain has resulted in more federal government support than ever before.

Technology Provides Hope, and Environmental Concerns Must be Addressed

- The digitization of food manufacturing has been on the horizon for some time, but a majority of Canadian food manufacturers have not implemented the transition to Industry 4.0.
- In 2010, consumers were thought to be the main cause of food waste, but this has been found to be untrue. Numbers from 2020 indicate that food processing and manufacturing account for some 37 per cent of food waste.
- Food waste, where not rescued, ends up in the land fill and produces emissions equal to putting an additional 12 million cars on the road in Canada each year.

Overview of Economic Factors and Drivers with Forecasted Industry Impacts

This report examines 24 different economic factors and drivers for the past, current and future trajectory of Canadian food and beverage manufacturing and processing. In the analysis of each section, the impact's significance, its effect on industry growth and the likelihood of the impact was considered for the next ten years. The table below summarizes that analysis.

Report Sections	Variables in the Section	Impact ¹	Effect on Industry Growth ²	Likelihood ³
Market Overview	Market Structure	Moderate	Positive	Likely
	Employees	Moderate	Variable	Likely
	Annual Sales of Manufactured Goods	Insignificant	Positive	Very Likely
	Margin	Moderate	Negative	Unlikely
	Foreign Direct Investment	Significant	Variable	Very likely
Production: Environment & Costs	Industrial Product Price Index	Moderate	Negative	Unlikely
	Machinery and Equipment Price Index	Moderate	Variable	Likely
	Non-Residential Building Construction Price Index	Insignificant	Negative	Unlikely
	Unit Labour Cost	Moderate	Variable	Likely
	Farm Production Prices Index	Insignificant	Negative	Unlikely
	Freight Rail Services Price Index	Insignificant	Variable	Likely
	Fees from Grocers	Significant	Negative	Likely
Situating Food Manufacturing in the Canadian Economy	Percentage of Total Canadian GDP	Insignificant	Positive	Likely
	Size of Industry Relative to Other Canadian Manufacturing Industries	Moderate	Positive	Likely
	Size of Grocery Market in Canada	Significant	Negative	Very likely
	Food Price Inflation Index	Moderate	Variable	Likely
Situating Canadian Food Manufacturing Globally	Food and Beverage Goods Imported to Canada	Insignificant	Positive	Very likely
	Top 5 Destinations for Canadian Food and Beverage Goods	Insignificant	Positive	Very likely
	Canada's Trade Balance on Food and Beverage Manufactured Goods	Insignificant	Positive	Very Likely
	The Effects of Trade Deals	Moderate	Positive	Very likely
Government Environment	Government Financial Support for the Sector	Moderate	Variable	Unlikely
	Federal Legislation	Moderate	Positive	Likely
The Environment and Technology	Technology	Significant	Positive	Likely
	Environment	Significant	Variable	Very likely

¹ Varying between insignificant, moderate, significant.

² Varying between negative, variable, positive.

³ Varying between unlikely, likely and very likely