FCC Annual Food Report 2022

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FARM CREDIT CANADA

Contents

SUMMARY

Several external factors impacted Canadian food industries in 2021, which resulted in higher input costs, amplified labour shortages and upended food consumption patterns. Early in the year, there was hope that the pandemic could soon be behind us however, new variants provoked more disruptions, restrictions and uncertainty. Despite these challenges, food manufacturers proved to be resilient.

Supply disruptions originating from months of factory slowdowns limited key inputs availability and drove up their cost. Furthermore, drought in Western Canada and the U.S. reduced overall crop production in North America, causing commodity prices to rise. This forced manufacturers to pass these higher costs to retailers and customers resulting in the highest monthly food inflation figures since 2009. Businesses also faced higher overall labour costs due to a challenging labour market characterized by a limited available worker pool and a highly competitive recruitment environment.

Strong demand exacerbated supply issues but was overall a welcome signal. Food manufacturing sales increased 14.8% YoY in 2021 from $109.1 billion to $125.2 billion, led by higher prices, strong exports, and a rebound in food service sales (Table 1). Volumes grew by an estimated 5.5%, with prices up 8.7% on a monthly average basis. Grocery and specialty food retail sales increased 0.4%, driven entirely by inflation. Fast food sales grew 15.6% to within 1% of 2019 sales, as consumers sought convenience. Restaurant sales, which made up 39.9% of total food and beverage service sales in Canada, grew 23.6% in 2021 and remained 22.4% lower than in 2019.

Table 1: Manufacturing sales and exports grew in 2021

All figures in million $	2021	YoY% change	2020	YoY% change
Food manufacturing sales	125,226	14.8	109,104	2.1
Food exports	46,063	16.9	39,417	5.1
Food imports	31,828	3.4	30,786	5.5
Food trade balance	14,234	64.9	8,631	3.7
Grocery & specialty food retail sales	116,650	0.4	116,134	10.9
Restaurant retail sales	26,609	23.6	21,525	-37.2
Fast food retail sales	33,397	15.6	28,902	-14.3
Specialty food service sales	3,921	19.1	3,292	-47.8
Total estimated food retail sales	180,576	6.3	169,853	-5.4

Source: Statistics Canada

Sales could also have been stronger. A tight labour market and high absenteeism contributed to unfilled orders reaching $10.9 billion, a 41.2% increase YoY. The job vacancy rate in food manufacturing was 5.4% on average in 2021 compared to 4.7% for all industries and 3.7% in 2020 (Table 2).

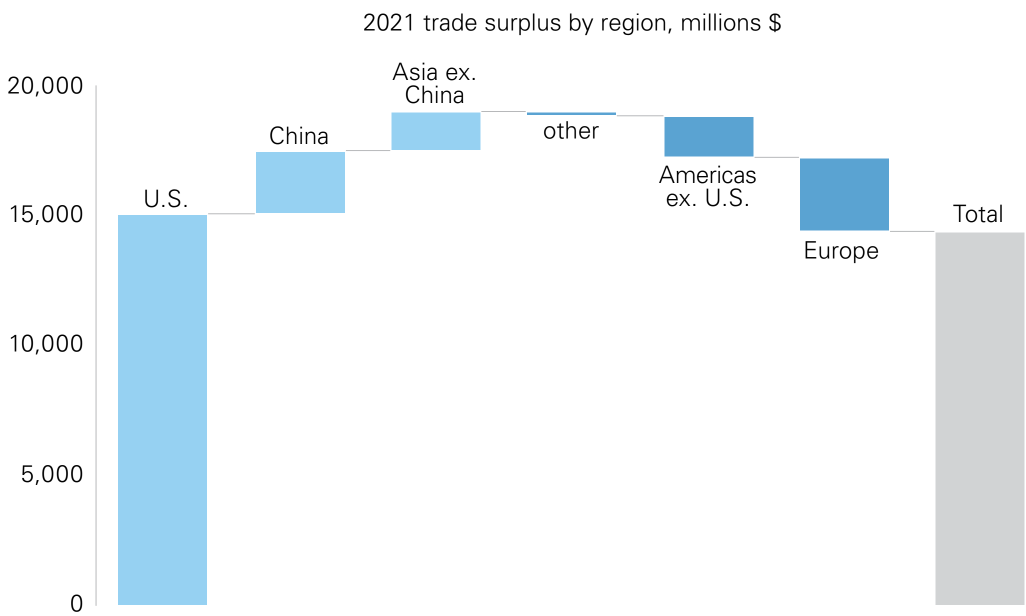
Table 2: Most economic indicators rebounded in 2021

Economic indicators (monthly or quarterly averages)	2021	YoY% change	2020	YoY% change
Food manufacturing price index (Jan 2020 = 100)	111.0	8.7	102.2	4.1
All-item CPI (2002=100)	141.6	3.4	137.0	0.7
Food CPI (2002=100)	157.5	2.5	153.7	2.3
Total employment all industries	18,871,842	4.9	18,004,400	-5.1
Food manufacturing employment	249,208	4.4	238,819	-2.9
Job vacancy rate all industries (%)	4.7	1.4	3.3	0.1
Job vacancy rate food manufacturing (%)	5.4	1.7	3.7	0.1
Disposable income ($ millions)	1,438,303	2.9	1,397,673	8.9
Saving rate (%)	10.9	-3.6	14.5	12.4

Source: Statistics Canada

Food manufacturing exports grew by 16.9% in 2021, driven by strong demand for healthy and high-quality foods and higher prices. Export growth came from the U.S., Mexico, Philippines and South Korea. Conversely, exports to China declined over 16% on lower pork demand. Total food imports grew by 3.4% in 2021 YoY as a diversified portfolio of countries outside the U.S. increased exports to Canada, led by Brazil.

Figure 1: Food trade surplus solely driven by the U.S.

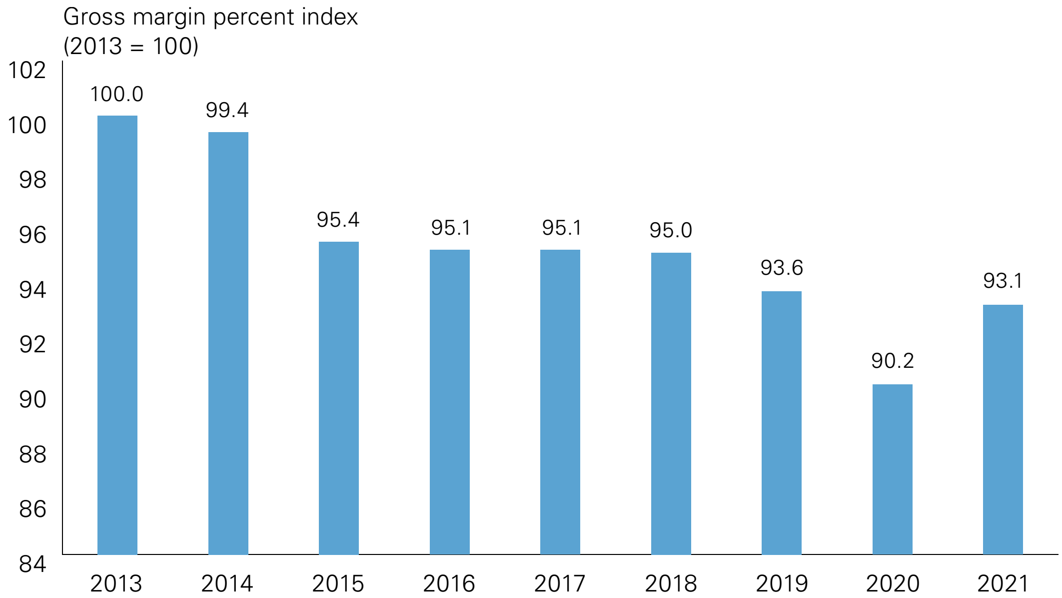


Source: Statistics Canada, FCC Economics

The total share of domestically manufactured food consumed in Canada increased an estimated 1.9% after declining for two straight years, as the "buy local" trend appears to have successfully boosted Canadian sales.

Gross margins as a percent of sales in food manufacturing increased in 2021 YoY but remain below historical levels and below 2019 (Figure 3). Manufacturers have struggled to pass on higher labour and material costs for almost a decade. Higher costs throughout the economy have allowed businesses to pass on these higher costs in 2021, improving margins slightly. At the individual industry level, results widely differ.

Figure 3: Gross margins grew in 2021 but remain below historical levels



Source: Statistics Canada, FCC Economics

While 2021 was a good year, it could have been great. Economic conditions are expected to evolve in 2022 and sales are forecasted to continue growing, yet at a slower rate. The labour market continues to be a challenge and consumer pressure on inflation is mounting. International tensions and economic uncertainty in Asia and Eastern Europe also pose a global threat. Exports represented 36.8% of sales in 2021. The cost of borrowing is also rising after nearly two years of record low interest rates.

FCC Economics projects sales to increase 7.4% to $134.5 billion

We shouldn’t lose sight of opportunities. Consumer demand for affordable, convenient and sustainable foods remains strong, the latter being a major focal point of governments. Meeting sustainability demands while keeping consumer costs low and affordable will go a long way towards growing the sector.

Stronger disposable income and higher savings in 2021 will support 2022 food consumption growth, although inflation is diminishing many households’ purchasing power. Margin growth will depend on several factors, the biggest being the COVID pandemic’s evolution and how businesses adapt to interest rates increases and labour costs.

GRAIN AND OILSEED MILLING

Introduction

Record prices and stronger foodservice demand in North America boosted sales and profitability after declines in 2020. High input costs and supply-chain bottlenecks put pressure on output and prevented a good year from being great.

Sales increased 48.9% in 2021 (Table A.1). Gains were largely a result of record prices and higher exports, but we did see a return of some foodservice volumes that helped offset a decline in grocery sales. Demand for flour and other baking products increased at the onset of the pandemic but declined double digits in 2021. Selling price gains were largely in vegetable fats and oils, increasing 37.9%. As an input in many other foods, fats and oil demand is largely inelastic and cost increases can be more easily passed on. These products are also in high demand as healthy and sustainable food consumption grows. Breakfast cereal manufacturing selling prices inflated 5.3%, bringing down the total industry inflation slightly.

A large percent of sales remained in Canada in 2021 despite the increase in the value of exports. Of all grain and oilseed products sold in Canada, just under 55% was Canadian manufactured. This is the first time since 2013 that Canadian buyers purchased more domestic products than imported.

The industry added over 250 jobs in 2021, an increase of 3.1%. Businesses recorded an increase in productivity in 2021, partially driven by investment, and partially in response to a tight labour market.

Table A.1: A larger percent of sales stayed in Canada in 2021

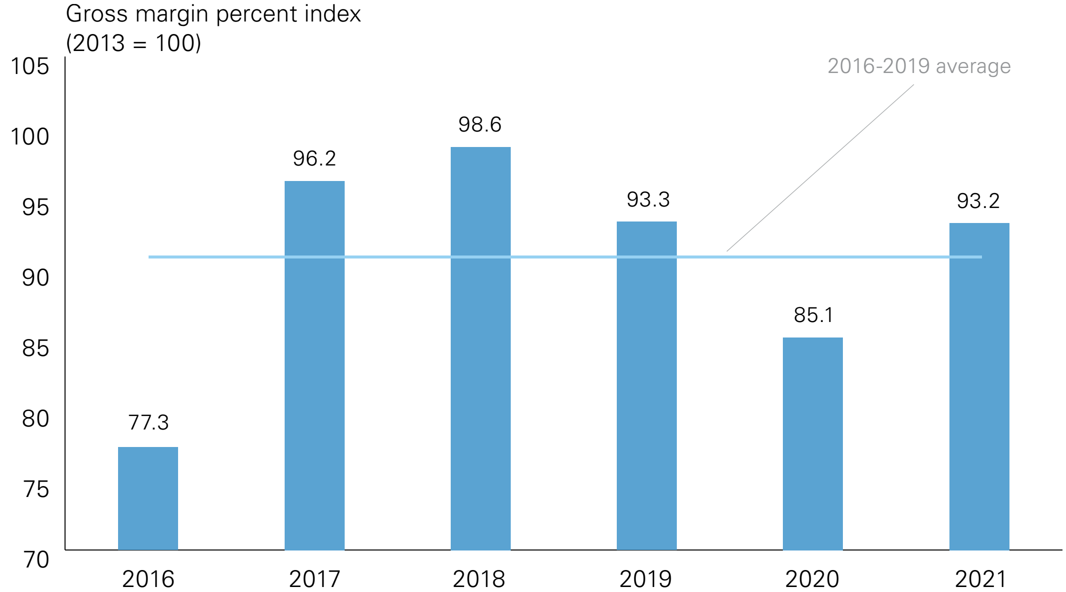
Grain and oilseed milling (NAICS 3112) quick facts	2021	2021 YoY % change	2020	2020 YoY % change
Sales ($ millions)	15,846	48.9	10,639	-1.2
Exports ($ millions)	10,358	25.9	8,229	8.8
Imports ($ millions)	4,499	2.0	4,412	11.0
Trade balance ($ millions)	5,859	53.5	3,817	6.4
Average number of jobs	8,991	3.1	8,722	13.2
Estimated average hourly wage (including OT)	27.2	-21.9	34.8	25.5
Selling prices (index, Jan. 2020 = 100)	136.8	31.8	103.7	5.4

Source: Statistics Canada, FCC Economics

Gross margin

Gross margin as a percent of sales increased off 2020 lows but remains below historical levels. FCC Economics' gross margin index was 93.2 in 2021, up from 85.1 in 2020 and slightly above the 2016-2019 pre-COVID average, but below the 2013 base year and below 2019 (Figure A.1). Q3 and Q4 margins where the strongest of the year as businesses passed on cost increases. Overall, for the year, materials as a percent of sales were flat compared to 2020. Margin gains were also a function of lower over-time costs and lower COVID wage supplements relative to 2020. Total labour costs remain elevated.

Figure A.1: Gross margins improved in 2021

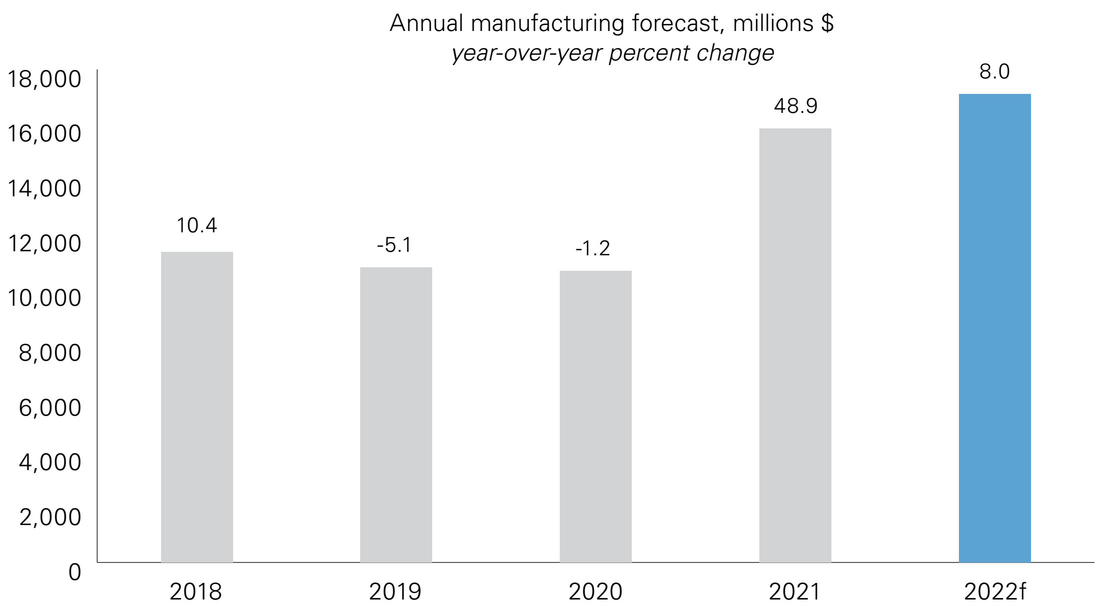


Source: Statistics Canada, FCC Economics

Sales forecast

FCC Economics projects sales to increase 8.0% in 2022. Strong prices and the expectation that food services fully re-open will support sales. The 2022 crop is anticipated to record yields returning to normal after the drought ravaged production in Western Canada in 2021. As the year goes on, sales growth could subside and dip below zero if prices weaken; however, export volumes should remain robust as global demand for healthy grains and oils show no signs of slowing. Swings in the Canadian dollar can drastically impact these projections, with exports representing 65.4% of total sales in 2021.

Figure A.2: Grain and oilseed milling sales expected to increase 8.0% in 2022



Source: Statistics Canada, Barchart, Moody’s Analytics, FCC Economics

Grocery report

Grocery sales of products using grains and oilseeds decreased 7.1% in 2021 YoY (Table A.2). This was below the total grocery food increase of 0.3% as consumers cut back on baking related purchases and bought fewer cheap-bulk foods like rice. Above-average inflation also hurt volumes. Oil products and margarine sales where flat, but volumes were down over 12%. Breakfast cereals continued its pre-pandemic sales decline after rising in 2020 (although sales under-performed versus total industry last year as well).

Pasta products were the big winner in 2021 with sales increasing 7%. Secondary baking products like baking powder, baking soda and yeast saw sales drop over 16%. Flour tonnage declined almost 20% after rising over 30% in 2020. As people started to work more from the office, interest in bread-making and other home products dissipated, a trend expected to continue.

Table A.2: Grain and oilseed sales at the grocery store underperformed food sales growth

Grocery sales statistics and performance indicator versus total grocery

Category	YoY annual sales % change	YoY annual units % change	Average annual retail inflation %
Grain and oilseed products total	-7.1	-12.0	5.7
Top 3 sales performing categories			
Oil	0.0	-12.2	13.8
Margarine	-1.0	-9.3	9.4
Flour mixes	-2.0	-7.5	6.4
Bottom 3 sales performing categories			
Breakfast cereal	-5.9	-7.8	2.0
Rice	-12.0	-11.0	-1.0
Flour	-19.1	-19.2	0.2

Source: Nielsen

Note: A green shade highlights above-average performance relative to total food retail which recorded tonnage change of 2.9%, sales change of 0.3% and inflation of 3.3%. Red denotes subpar performance relative to the total grocery benchmarks. Yellow denotes performance within 2% threshold of the average.

Bottom line

With outputs like flour and edible oils being ingredients required by downstream food and beverage manufacturers, retail and foodservice, the industry is poised for growth in demand. Interest in sourcing a higher portion of local grains and oilseeds driven by convenience and sustainability trends, explains the success of this year’s domestic consumption. Healthy grain and oilseed products are continuing to gain traction here at home and abroad. Canada’s processing capacity is positioned to expand.

SUGAR AND CONFECTIONERY PRODUCTS

Introduction

After a difficult 2020, the sugar and confectionery industry had one its strongest years for revenue growth on record. At the onset of the pandemic, volumes of confectionery products and refined sugar heading to foodservice establishments declined as consumers stocked up on essentials. 2021 saw a shift back towards purchasing candy, chocolate and other feel-good foods. Healthy choices remain a key trend in Canada, but indulgence isn't going away.

Sales increased 15.0% in 2021 to $4.5 billion (Table B.1). Manufacturing selling prices increased just over 4.9% as the largest contributor to sales was volume growth. Higher cocoa/chocolate prices contributed to inflation, but they also had the largest positive influence on volume gains. Halloween and Christmas seasons boosted confection sales.

Manufacturers responded to increases in demand by increasing employment by 4.3% in 2021. Employment remained below 2019 level but ended the year with gains in Q4. Sales per employees increased over 10% on productivity gains.

Imports grew more than exports in 2021 as Canada increased sugar imports from Brazil nearly 35%. Exports grew a modest 3%, with increased exports to the U.S. and Italy.

Table B.1: Higher volumes boosted sales and gross margin in 2021

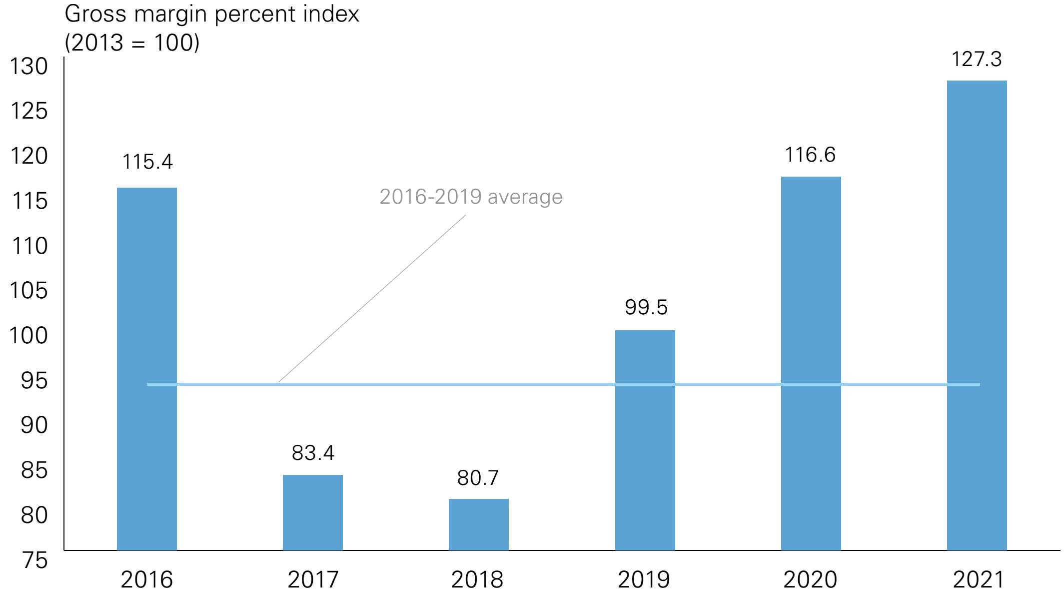
Sugar and confectionery product manufacturing [3113] quick facts	2021	2021 YoY % change	2020	2020 YoY % change
Sales ($ millions)	4,525	15.0	3,934	-7.1
Exports ($ millions)	3,544	3.7	3,418	4.6
Imports ($ millions)	3,343	5.2	3,179	2.2
Trade balance ($ millions)	201	-16.0	239	50.4
Average number of jobs	9,713	4.3	9,308	-5.7
Estimated average hourly wage (including OT)	24.6	4.3	23.6	19.3
Selling prices (index, Jan. 2020 = 100)	109.2	4.9	104.1	5.2

Source: Statistics Canada, FCC Economics

Gross margin

Gross margins increased for the third consecutive year in 2021, driven by strong growth in Q1 and Q2. A higher Canadian dollar helped offset increases in many input prices, including raw cane sugar. This, combined with strong selling prices offset higher labour costs. Results can differ widely depending on the core products produced, but overall, 2021 was a strong year for the industry.

Figure B.1: Gross margins in sugar and confection have been strong during the pandemic

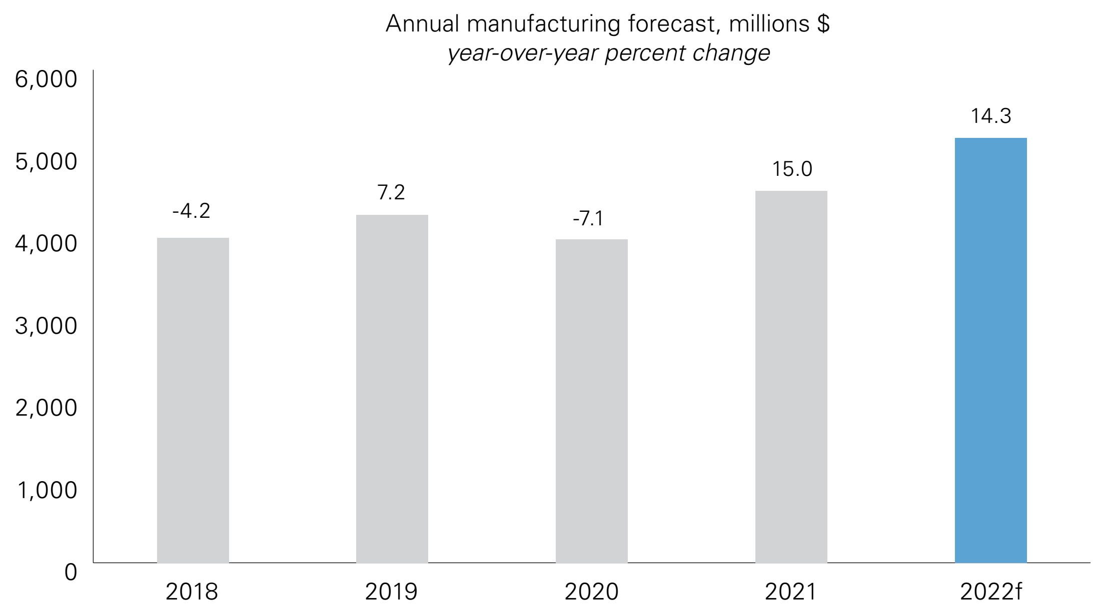


Source: Statistics Canada, FCC Economics

Sales forecast

FCC Economics projects sales to increase 14.3% in 2022. Growth momentum from 2021 is expected to continue into the summer of 2022 before moderating later in the year. We're expecting a strong Easter selling season. Sales in Q4 2022 is expected to in the 0-2% range with the expectation that consumer spending starts to slow. Higher inflation can also nudge consumers away from impulse purchases made at the checkout counter like gum, candies and chocolate bars. Refined sugar exports are also expected to lower in 2022 on higher U.S. production.

Figure B.2: Sugar and confection product sales expected to increase 14.3% in 2022



Source: Statistics Canada, Barchart, Moody's Analytics, FCC Economics

Grocery report

Grocery sales of sugar and confectionery products increased 3.3% in 2021 YoY, beating the total grocery food increase of 0.3% (Table B.2). Sales rebound in sugary drink mixes, candy and chocolate. Above-average inflation in sugar did not offset declines in volumes, and sales declined 12% as households baked less at home (after sales rose over 20% in 2020). However, sales remain above pre-pandemic levels.

Table B.2: Higher prices boosted sugar and confectionery product sales in 2021

Grocery sales statistics and performance indicator versus total grocery

Category	YoY annual sales % change	YoY annual units % change	Average annual retail inflation %
Sugar and confection total	3.3	-3.8	7.4
Top 3 sales performing categories			
Sugary drink mixes	15.0	6.2	8.6
Candy	11.0	10.2	1.1
Chocolate products	4.0	0.0	4.1
Bottom 3 sales performing categories			
Marshmallows	-4.0	-7.2	3.3
Gum	-6.0	-4.1	-1.9
Sugar	-12.0	-17.6	6.8

Source: Nielsen

Note: A green shade highlights above-average performance relative to total food retail which recorded tonnage change of 2.9%, sales change of 0.3% and inflation of 3.3%. Red denotes subpar performance relative to the total grocery benchmarks. Yellow denotes performance within 2%.

Bottom line

As the consumer becomes mobile again, opportunity abounds. For this industry, convenience and indulgence are differentiators for candy, chocolate and other sugary pleasures. Strategic considerations include finding opportunities to capitalize on consumer spending alongside reopening of food services and hospitality.

FRUIT, VEGETABLE AND SPECIALTY FOOD

Introduction

This industry is especially broad, including canned and frozen fruits and vegetables and specialty foods like frozen dinners or pizzas. 2021 was challenging as demand softened for canned products and higher production costs ate into margins.

Unlike 2020, centre-of-store shopping underperformed the perimeter in 2021. Customers returned to buying fresh produce, hurting volumes of frozen and canned fruits and vegetables. However, there is optimism for 2022. Frozen food and non-frozen products offer convenience, affordability and increasingly nutritious options. With inflation reducing consumers' purchasing power, these (often cheaper) products offer a solution.

Sales declined 1.4% in 2021 after increasing 8.6% in 2020 (Table C.1) yet remained 7.1% higher than 2019. Imports declined in 2021. However, Canadians still ate less domestically produced products than the year prior. The industry struggled with productivity in 2021, with sales per employee declining as employee counts increased and wages grew double digits.

Table C.1: Both sales and gross margin declined in 2021

Fruit and vegetable preserving and specialty food manufacturing [3114] quick facts	2021	2021 YoY % change	2020	2020 YoY % change
Sales ($ millions)	8,649	-1.4	8,774	8.6
Exports ($ millions)	4,339	8.3	4,007	4.0
Imports ($ millions)	4,767	-4.1	4,970	2.9
Trade balance ($ millions)	-428	-55.5	-963	-1.3
Average number of jobs	19,627	3.7	18,927	-1.9
Estimated average hourly wage (including OT)	25.6	12.1	22.8	1.0
Selling prices (index, Jan. 2020 = 100)	102.5	2.8	99.6	3.4

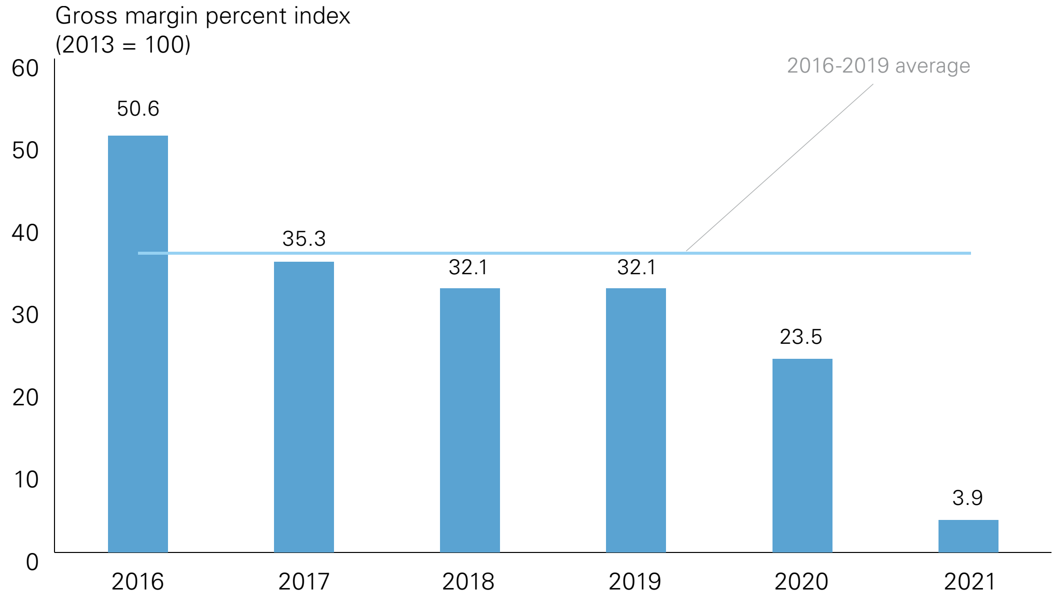
Source: Statistics Canada, FCC Economics

Gross margin

The broad scope and continuous innovation within the industry makes it difficult to compare profitability over time. Frozen and speciality foods now make up a larger percent of the industry but has come with lower margins. The expectation is that margins improve as penetrating pricing strategies on new products lessen and production investments increase productivity.

Raw material inflation and labour costs both contributed to lower margins in 2021 (Figure C.1). Q3 and Q4 saw improvement but didn't offset early-year weakness. Hourly wages increased over 12% and cost of materials as a percent of revenue increased over 6%. With over 53% of product sold in Canada being imported, a rising dollar along with higher production costs make it a competitive Canadian market.

Figure C.1: Margins have steadily declined as the industry expands into higher volume, lower margin categories

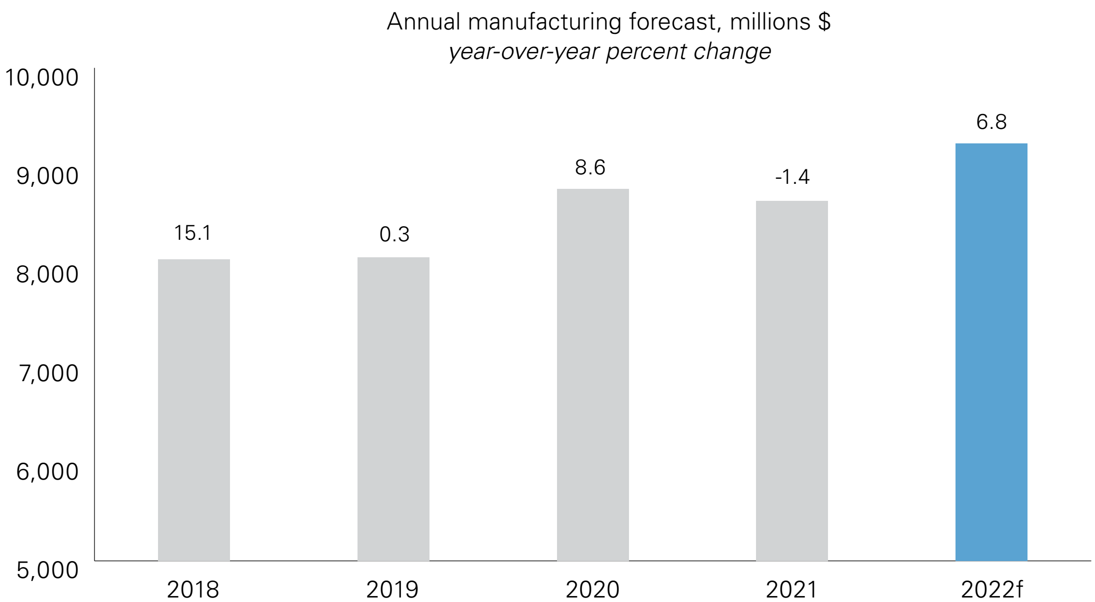


Source: Statistics Canada, FCC Economics

Sales forecast

FCC Economics projects sales to increase 6.8% in 2022. Growth is expected to be particularly strong in the second and third quarters, growing around 10%. Canned and preserved products do well during times when the purchasing power of customers is tight. Canadians are seeing elevated food prices, which will benefit lower-cost canned products. Frozen foods are also expected to see strong sales, led by continued product innovation focused on healthy options.

Figure C.2: Fruit, vegetable and specialty food sales expected to increase 6.8% in 2022



Source: Statistics Canada, Barchart, Moody's Analytics, FCC Economics

Grocery report

Grocery sales fell 1.1% in 2021 YoY, underperforming the total grocery increase of 0.3% (Table C.2). Fresh fruits and vegetables had a strong year with bagged fresh vegetables and pre-cut fruit doing very well, highlighting a continued demand for fresh convenient foods. Centre-of-store categories saw the largest declines, with canned tomatoes, mushrooms and beans all seeing double-digit declines in sales and tonnage versus 2020. Frozen fruit and vegetables also had modest sales declines in 2021 after seeing growth of 25%+ in 2020, but sales remained 19% above 2019.

Table C.2: Canned products underperformed compared to fresh in 2021

Grocery sales statistics and performance indicator versus total grocery

Category	YoY annual sales % change	YoY annual units % change	Average annual retail inflation %
Fruit and vegetable products total	-1.1	-3.7	2.6
Top 3 sales performing categories			
Mixed pre-cut fruit	22.0	16.2	4.5
Bagged leafs	6.8	8.9	-1.9
Bagged salad	5.9	4.1	1.7
Bottom 3 sales performing categories			
Canned tomatoes	-14.0	-17.2	3.5
Canned mushrooms	-16.0	-17.1	1.6
Canned beans	-16.2	-15.2	-1.2

Source: Nielsen

Note: A green shade highlights above-average performance relative to total food retail which recorded tonnage change of 2.9%, sales change of 0.3% and inflation of 3.3%. Red denotes subpar performance relative to the total grocery benchmarks. Yellow denotes performance within 2%.

Bottom line

Continued focus on promoting convenience, nutritional enhancements and affordability are three primary drivers attracting consumers to this category. This will be paramount as households' savings dissipate and higher consumer spending slows.

DAIRY PRODUCTS

Introduction

Dairy product revenues grew in 2021 but were lower than anticipated due to softer demand. Revenue gains in foodservices outweighed declines from retail. The progressing rebound in restaurant and hospitality demand is forecast to support growth in 2022. Higher prices will help, but we're anticipating softer grocery volumes. In the face of inflation, the growing threat of alternative dairy products like oat and almond milk should be monitored as they expand their offering into value-added products.

Industry sales grew 0.8% in 2021 YoY (Table D.1). Higher prices drove growth as volumes are estimated to have decreased slightly. Demand remains strong for products like creamers, ice cream and cheese and these will likely be the drivers of growth in 2022.

The industry has historically been very efficient with labour; however, 2021 was trying. A tight labour market meant longer hours worked per employee and higher overtime costs, eating into profitability.

Table D.1: Moderately higher prices drove sales growth in 2021

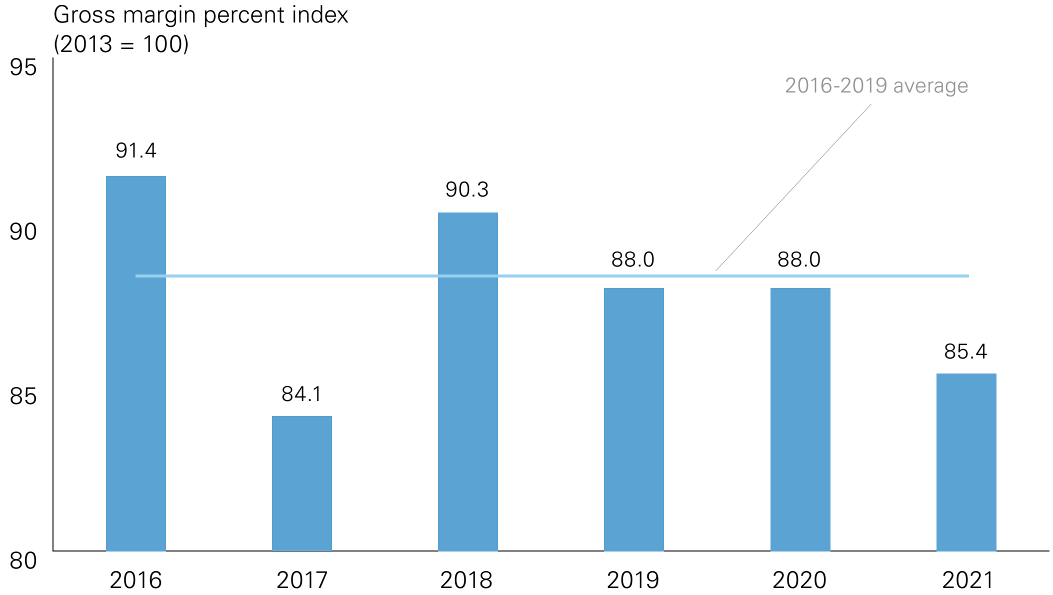
Dairy product manufacturing [3115] quick facts	2021	2021 YoY % change	2020	2020 YoY % change
Sales ($ millions)	16,022	0.8	15,901	8.6
Exports ($ millions)	888	0.1	887	15.4
Imports ($ millions)	1,220	9.0	1,119	4.0
Trade balance ($ millions)	-332	42.7	-233	-24.4
Average number of jobs	26,816	8.7	24,668	-9.2
Estimated average hourly wage (including OT)	25.6	-7.1	27.6	24.7
Selling prices (index, Jan. 2020 = 100)	104.4	2.8	101.6	2.1

Source: Statistics Canada, FCC Economics

Gross margin

Gross margin as a percent of sales decreased in 2021 on higher labour and material costs (Figure D.1). The industry has historically struggled to pass on cost increases and 2021 was no different. Over the past 20 years, only 2017 saw lower margins. Plastic packaging and paperboard container costs increased an estimated 19.4% and 14.5% YoY in Q4, respectively. Hourly wages remained elevated in 2021 (down versus 2020 but up 19% versus 2019) and employees also worked more hours, driving up labour costs. The 2022 outlook for margins rests on the processors' ability to pass on the higher farmgate milk price.

Figure D.1: Margins have steadily declined as the industry expands into higher volume, lower margin categories



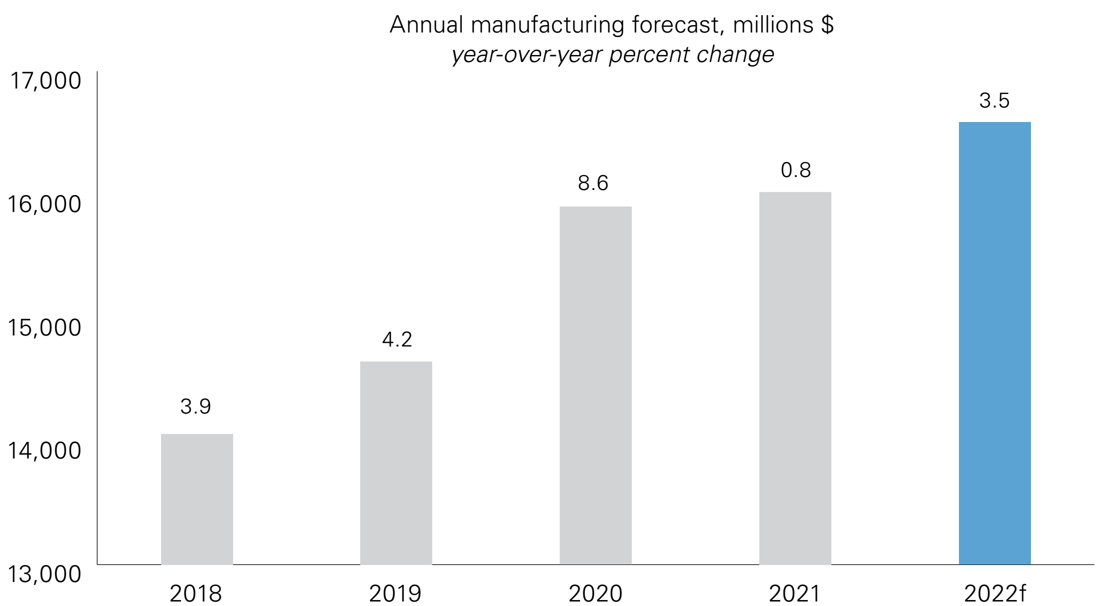
Source: Statistics Canada, FCC Economics

Sales forecast

FCC Economics projects sales to increase 3.5% in 2022. This growth will be driven by foodservice re-opening, inflation and continued demand for value-added dairy products like cheese and butter. The second half of the year is projected to see the strongest growth YoY given its weaker performance in 2021 versus other quarters.

Dairy retail inflation has historically been lower than most products. This is unlikely the case in 2022. The farmgate price of milk components increased in February as producers recorded higher feed costs at the farm level. Higher prices of dairy products at the manufacturing and retail levels would influence the relative prices of animal proteins consumers face and perhaps lead to shifting consumer behaviour.

Figure D.2: Dairy product sales expected to increase 3.5% in 2022



Source: Statistics Canada, Barchart, Moody's Analytics, FCC Economics

Grocery report

Dairy products sales at Canadian grocery stores were up 1.0% in 2021 YoY and volume fell 3.3% (Table D.2). For many core categories, sales growth was modest. Fluid milk sales declined 1.0% and cheese sales increased 1.6%. Sales growth would have been lower if it weren't for inflation. Milk volume sold declined 4.4% and cheese volume declined 1.7%. Coffee creamers were the top growing item for the second year in a row and markets recorded an increase in holiday drinks like eggnog as people gathered for the holidays.

Alternative dairy beverages (soy, almond, oat, etc.) performed well relative to traditional dairy, with sales increasing 3.2% and volume increasing 2.3% in 2021 YoY. FCC Economics estimates the share of alternative dairy beverages is 12.7% of traditional and alternative dairy market. Alternative dairy beverages are on average 35% more expensive per litre, although the price gap has been narrowing. Enhanced milk like high protein, lactose-free, and vitamin rich milk is also growing strong, but from a smaller base. These products offer the dairy industry a growth opportunity through target marketing.

Table D.2: Creamers and yogurt led dairy grocery sales growth in 2021

Grocery sales statistics and performance indicator versus total grocery

Category	YoY annual sales % change	YoY annual units % change	Average annual retail inflation %
Dairy total	1.0	-3.3	4.5
Top 3 sales performing categories			
Coffee creamers	31.1	24.3	5.5
Yogurt	4.0	0.6	3.3
Milkshakes & eggnog	3.0	0.7	2.1
Bottom 3 sales performing categories			
Frozen yogurt	-6.0	-3.7	-2.8
Powdered milk	-24.0	-25.8	2.8
Canned milk	-10.6	-10.4	-0.3

Source: Nielsen

Note: A green shade highlights above-average performance relative to total food retail which recorded tonnage change of 2.9%, sales change of 0.3% and inflation of 3.3%. Red denotes subpar performance relative to the total grocery benchmarks. Yellow denotes performance within 2%.

Bottom line

Monitoring consumption habits and costs will be key to success. Evolving demand from foodservice channels and for value-add dairy products provide optimism. Keep an eye on growth in alternative beverages and consider strategies to maintain market share. Increasing input costs and inflation will impact gross margin in the year ahead.

MEAT PRODUCTS

Introduction

2021 meat manufacturing industry profitability was mixed. Costs increased dramatically, but through the year, processors could pass higher expenses to retailers. As restrictions eased in Q3, demand rebounded, helped by a high consumer savings rate, making it easier for processors to increase prices. Evolving purchasing behaviours, including attention paid to animal protein consumption and the rise of non-meat protein options, represent headwinds in the domestic market. Foodservice closures reduced sales, while employee cases of COVID-19 led to high absenteeism at plants, slower line speeds and ultimately supply issues. A tight labour market also contributed to the struggle to find qualified employees and led businesses to increase wages.

Exports rose 14.7% as sales to growing markets like Mexico, Philippines, South Korea, Vietnam and Indonesia. This led the way and helped offset steep declines of pork exports to China and Hong Kong. China has made headway in growing their hog herd after a tough spell with ASF (African Swine Fever) which hurt Canadian pork businesses. Overall, higher prices and strong global meat demand helped sales increase 14.7% in 2021 YoY (Table E.1).

Table E.1: Exports and higher prices propelled sales growth in 2021

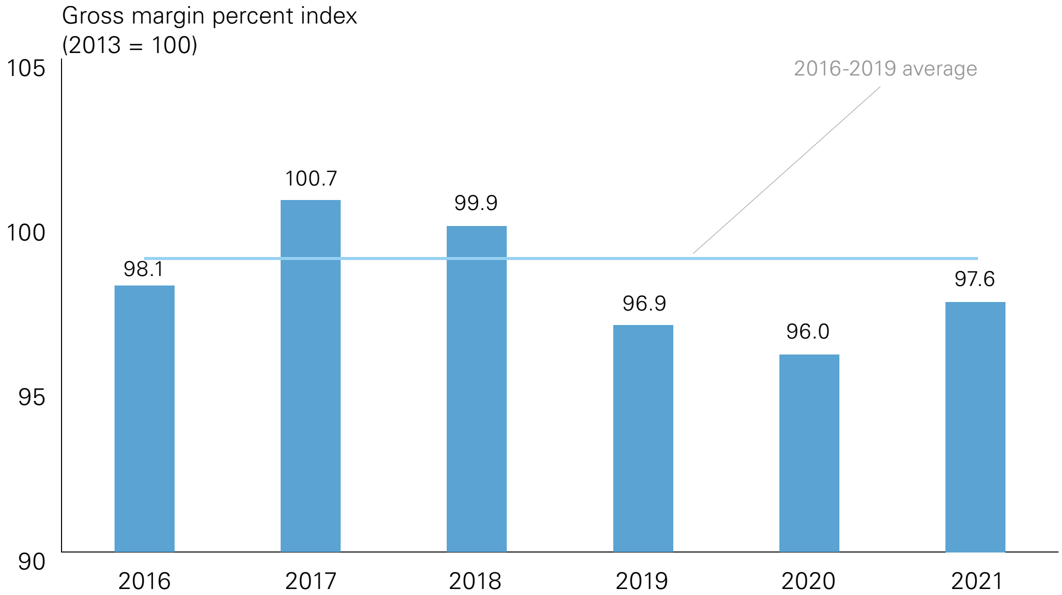
Meat product manufacturing [3116] quick facts	2021	2021 YoY % change	2020	2020 YoY % change
Sales ($ millions)	35,313	14.7	30,790	3.4
Exports ($ millions)	10,975	14.7	9,571	10.3
Imports ($ millions)	4,506	6.5	4,233	10.4
Trade balance ($ millions)	6,469	21.2	5,338	10.2
Average number of jobs	63,037	-3.2	65,113	0.6
Estimated average hourly wage (including OT)	24.6	4.2	23.7	7.5
Selling prices (index, Jan. 2020 = 100)	113.2	8.0	104.8	8.7

Source: Statistics Canada, FCC Economics

Gross margins

Gross margin as a percent of sales increased to 2019 levels in 2021 after declining in 2020. Margins improved as the year progressed. Q3 and Q4 were relatively strong quarters but impacted by raw material inflation and employee absenteeism. Labour costs declined for the year but remain elevated versus 2019 and don't tell the whole story. Employment fell below 2018 levels in this tight labour market, with reports of culling animals. This impacted volumes and forced businesses to find additional margin dollars through price increases. Beef and pork margins started the new year a bit weaker but remain comparatively healthy. We expect them to lower, and there's a risk of weakness due to ongoing labour shortages and wage pressures.

Figure E.1: Margins bounced back but are historically low

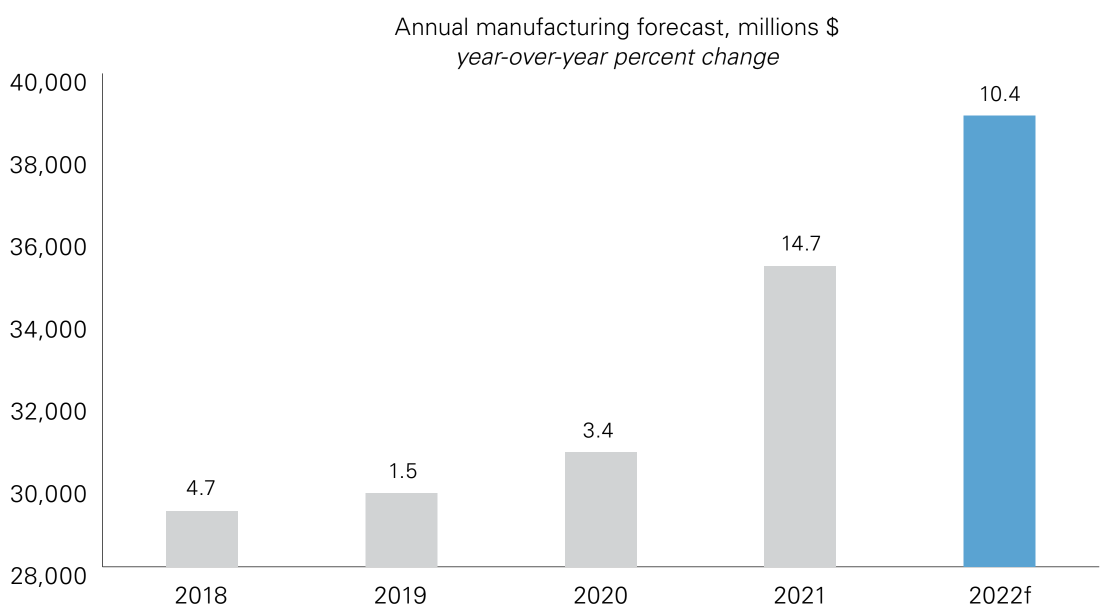


Source: Statistics Canada, FCC Economics

Sales forecast

FCC Economics projects sales to increase 10.4% in 2022. Strong global and domestic demand for meat, alongside high prices, will support increased sales. Domestic consumption of red meat declined in 2021, which is expected to reverse in 2022 with the re-opening of foodservices. Inflation can impact volumes and the types of cuts purchased, but we expect prices to stabilize, and outlying demand to remain robust. Sales growth will likely diminish as the year goes on, impacted by smaller cattle herd and lower pork exports to China.

Figure E.2: Meat product sales are expected to increase 10.4% in 2022



Source: Statistics Canada, Barchart, Moody's Analytics, FCC Economics

Grocery report

Grocery store meat sales declined 1.0% in 2021, underperforming the total grocery increase of 0.3% (Table E.2). Meat inflation was 5.8%, reaching over 10% in beef and pork in Q4 as higher livestock prices, supply-chain disruptions and labour challenges contributed to increased consumer prices. Volumes declined 6.8% YoY.

Convenience meat products were 2021's big winners. Jerky sales increased 9.1%, lunchmeat sales grew 4.0% and bacon was up 2.9%. Like other meat categories, volumes were impacted by higher prices, although not enough to cause a sales decline. Lunchmeat volumes started to pick up steam in Q4 when many people started to return to school and work – a trend likely to continue in 2022.

Meat alternatives like tofu and plant-based meat products outperformed traditional meat sales growth; however, growth slowed from 31.6% in 2020 to 7.7% in 2021. Tonnage in meat alternatives also fell, declining 2.1% over 2020.

Table E.2: Convenience inspired foods like jerky, lunchmeat and bacon outperformed all meats in 2021

Grocery sales statistics and performance indicator versus total grocery

Category	YoY annual sales % change	YoY annual units % change	Average annual retail inflation %
Meat total	-1.0	-6.4	5.8
Top 3 sales performing categories			
Jerky	9.1	2.0	7.0
Lunch meats	4.0	-0.9	5.0
Bacon	2.9	-6.4	9.9
Bottom 3 sales performing categories			
Fresh beef	-4.2	-6.8	2.8
Fresh pork	-5.0	-9.0	4.5
Canned meat	-6.3	1.3	-7.5

Source: Nielsen

Note: A green shade highlights above-average performance relative to total food retail which recorded tonnage change of 2.9%, sales change of 0.3% and inflation of 3.3%. Red denotes subpar performance relative to the total grocery benchmarks. Yellow denotes performance within 2%.

Bottom line

It's been a balancing act for meat manufacturing. Processors rallied to source, retain labour and capitalize on strong demand in global and domestic markets. The year ahead looks bright as inflation subsides and meat sales look robust driven by foodservice, convenience meat products and exports.

SEAFOOD PREPARATION

Introduction

The seafood industry had a strong 2021. Global seafood demand started to move back from retail towards foodservice, helping volume shift towards more premium fish like salmon. Sales increased 22.3% in 2021, surpassing both 2020 and 2019 (Table G.1).

Exports grew over 41% YoY in 2021 led by a rebound in lobster and crab trade with the U.S. and a growing diversified list of importers in Europe. Higher prices supported exports and sales in the later part of the year, but overall, on a monthly average basis, prices declined on weaker prices in Q1 and Q2.

Employment grew just over 7% in 2021 but remained below 2019 levels. Businesses have been increasingly efficient at using labour throughout the past decade, and 2021 was no different.

The aquaculture industry in Canada has been growing steadily and accounts for over 28% of total seafood value according to the Canadian Aquaculture Industry Alliance. Going forward, growing sustainable fishing farms will likely be the long-term driver of growth.

Table G.1: Record exports drove sales growth in 2021

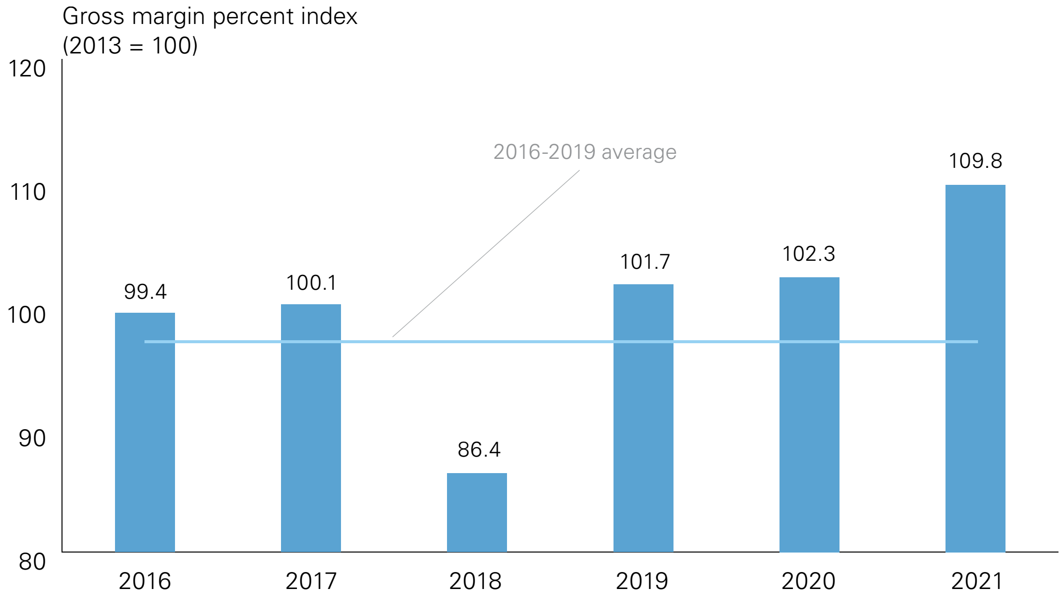
Seafood product preparation and packaging [3117] quick facts	2021	2021 YoY % change	2020	2020 YoY % change
Sales ($ millions)	6,316	22.3	5,166	-11.0
Exports ($ millions)	6,130	40.8	4,352	-11.0
Imports ($ millions)	3,585	10.0	3,260	-2.8
Trade balance ($ millions)	2,545	133.1	1,092	-28.9
Average number of jobs	21,125	7.1	19,716	-8.0
Estimated average hourly wage (including OT)	24.3	15.5	21.1	5.1
Selling prices (index, Jan. 2020 = 100)	95.2	-1.7	96.9	-2.5

Source: Statistics Canada, FCC Economics

Gross margins

Gross margin as a percent of sales increased in 2021 compared to both 2020 and 2019 (Figure G.1). Higher gross margins were a result of growing foodservice volumes, where a more premium mix of products with higher margins is sold. Raw fish costs increased an estimated 21% YoY and total hourly labour costs increased over 20%. However, these higher costs where offset by strong volumes and stronger prices in Q3/Q4. We expect 2022 to be a mixed year. Sales of higher-value fish like salmon should support margins, but we’re expecting lower total volumes YoY that could impact profitability if labour costs continue to rise.

Figure G.1: Seafood product margins where strong in 2021

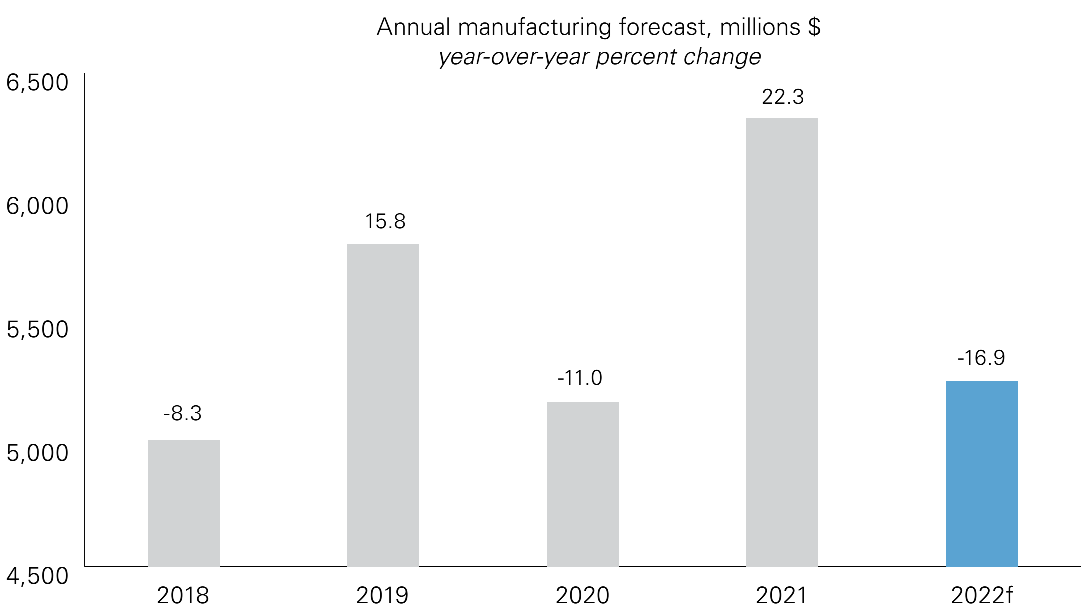


Source: Statistics Canada, FCC Economics

Sales forecast

FCC Economics projects sales to decrease 16.9% in 2022. Despite a very strong year in 2021, sales are expected to retreat to the long-term trend in 2022 (Figure G.2). Q1 is anticipated to be the strongest quarter, as exporting businesses benefit from the global re-opening. Sales growth in the second half of the year will be partially impacted by the elimination of salmon farming licences in the B.C. Discovery Islands, impacting plants in the Lower Mainland and Vancouver Island. East coast salmon farming expansion will partially offset these declines.

Figure G.2: Seafood product sales are expected to decrease 16.9% in 2022



Source: Statistics Canada, Barchart, Moody's Analytics, FCC Economics

Grocery report

Grocery seafood sales increased 0.1% in 2021 YoY, slightly below the total grocery food increase of 0.3% as consumers purchased less canned seafood (Table G.2). Much like other industries, convenience was important in seafood, with sushi seeing a 33.0% increase in sales, almost all driven by increased volumes. Imitation and fresh seafood performed in line with total grocery, although imitation saw much stronger volume growth. Overall, seafood inflation (2.4%) was below the food average of 3.3%.

Table G.2: Canned seafood sales declined in 2021

Grocery sales statistics and performance indicator versus total grocery

Category	YoY annual sales % change	YoY annual units % change	Average annual retail inflation %
Seafood total	0.1	-2.3	2.4
Top 3 sales performing categories			
Sushi	33.0	28.5	3.7
Imitation seafood	1.0	11.2	-9.4
Fresh seafood	0.1	-2.1	2.3
Bottom 3 sales performing categories			
Other canned seafood (not tuna/salmon)	-6.9	-12.0	5.8
Canned tuna	-8.0	-8.1	-0.3
Canned salmon	-14.0	-16.6	2.8

Source: Nielsen

Note: A green shade highlights above-average performance relative to total food retail which recorded tonnage change of 2.9%, sales change of 0.3% and inflation of 3.3%. Red denotes subpar performance relative to the total grocery benchmarks. Yellow denotes performance within 2%.

Bottom line

Foodservice demand and export markets are paramount to Canada's seafood industry success. These two channels provide significant sales opportunities that drive volume, especially for premium products like salmon, lobster and crab. Long-term opportunities include communicating the convenience and health of seafood products to drive at-home consumption and support sustainable aquaculture growth in Canada.

BAKERY AND TORTILLA PRODUCTS

Introduction

The foodservice industry is an important market for baked goods. In Q3 and Q4, sales increased over 16% as COVID restrictions eased and people ate out more. Cookies, crackers and pasta recorded sales growth of nearly 20% in November, picking up where it left off pre-pandemic when it grew over 20% in 2019 and over 30% in Q1 2020.

Grocery sales declined for the year as consumers purchased less shelf-stable baked goods like pasta and less bread volumes. Gains where made from improved foodservice volumes and strong exports to the U.S. Overall, industry sales grew 11.5% YoY (Table F.1) as healthy snacks and starches demand remains strong.

Total employment increased nearly 9% in 2021 while average hourly wages including overtime where flat. Hours worked per employee were up, which contributed to higher overall labour costs as the tight labour market impacted hiring.

Table F.1: A rebound in volumes drove sales growth in 2021

Bakeries and tortilla manufacturing [3118] quick facts	2021	2021 YoY % change	2020	2020 YoY % change
Sales ($ millions)	13,866	11.5	12,434	-0.6
Exports ($ millions)	4,810	11.0	4,334	1.3
Imports ($ millions)	2,279	1.0	2,258	3.4
Trade balance ($ millions)	2,531	21.8	2,077	-0.8
Average number of jobs	50,829	8.9	46,691	-5.1
Estimated average hourly wage (including OT)	21.5	-0.2	21.5	9.4
Selling prices (index, Jan. 2020 = 100)	103.9	3.7	100.2	0.2

Source: Statistics Canada, FCC Economics

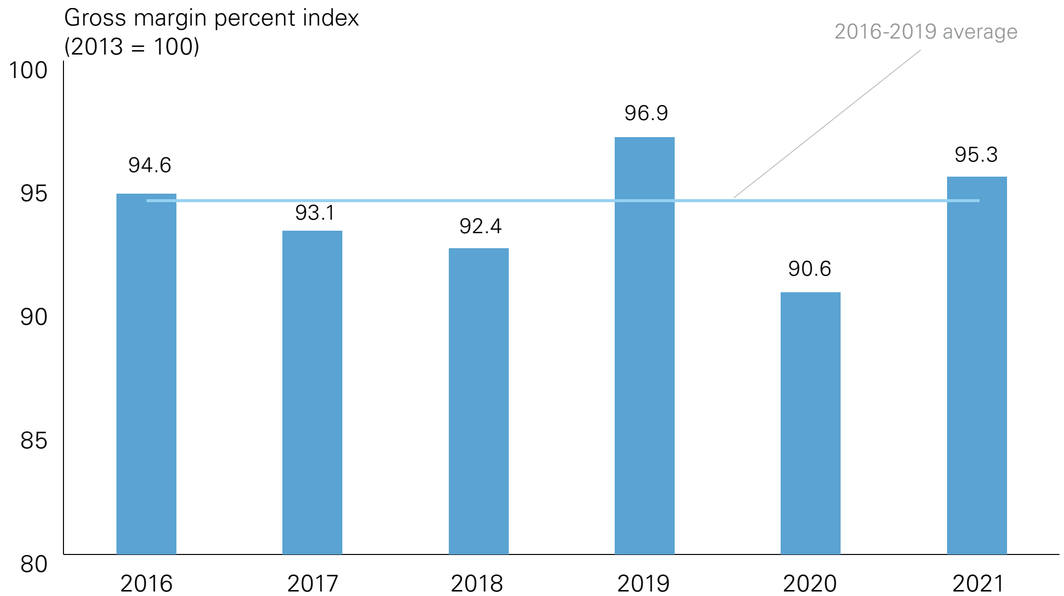
Gross margins

Gross margin as a percent of revenue decreased to a decade low in 2020 (Figure F.1). Margins improved in 2021, particularly in Q3/Q4, but remain below 2019 levels and the 2013 index year. The industry has struggled to pass on material cost increases in the face of aggressive competition.

Raw material costs increased in 2021 but were partially offset by lower labour costs as a percent of sales and higher prices. This doesn't tell the complete story though, and it remains elevated versus 2019. Accounting for inflation, the output value per employee was down YoY as the industry struggled with floor productivity and finding qualified workers. While margins improved on a percentage basis, margins measured in dollars were squeezed because of recruitment challenges and difficulty sourcing inputs.

Selling prices were a strong end to 2021 and start to 2022 creating optimism for the remainder of the year. Improving productivity will be key to long-term success.

Figure F.1: Margins improved in 2021 but remained below 2019 levels

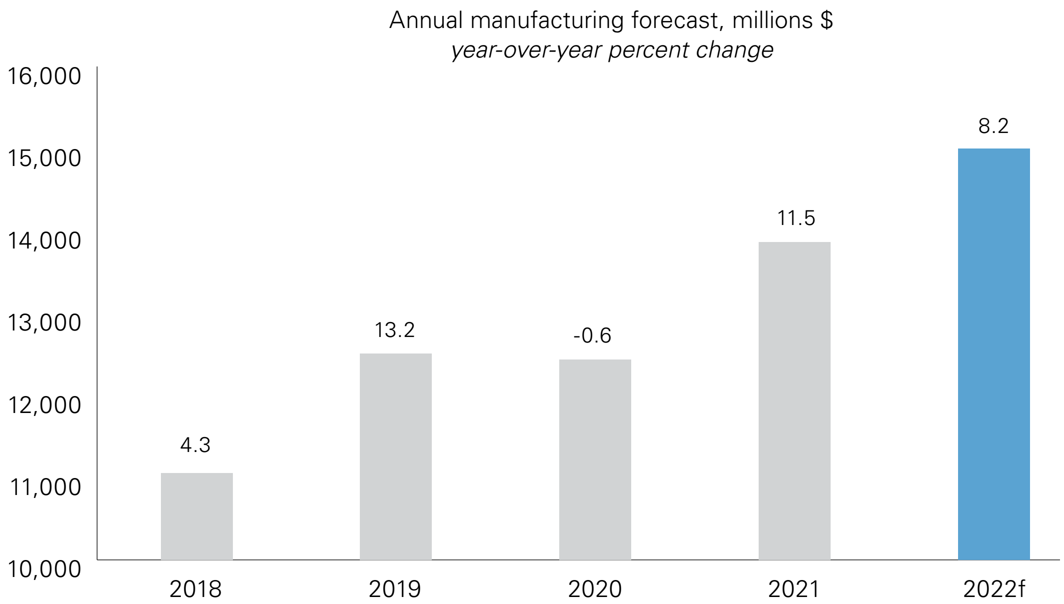


Source: Statistics Canada, FCC Economics

Sales forecast

FCC Economics projects sales to increase 8.2% in 2022. Sales are expected to be the strongest in Q2 as COVID restrictions ease and consumer spending increases. Growth will likely moderate into Q4 as COVID-related consumer savings diminish. Higher inflation is also eroding consumer purchasing power and can also nudge people away from premium and pricier bakery products. In the short term, elevated savings will be supportive of sales.

Figure F.2: Bakery and tortilla sales are expected to increase 8.2% in 2022



Source: Statistics Canada, Barchart, Moody's Analytics, FCC Economics

Grocery report

Bakery grocery sales fell 0.3% in 2021 YoY, slightly below the total grocery increase of 0.3% (Table F.2). Tonnage fell 3.9% and inflation was 3.8%. Bread sales declined 2.1% with tonnages falling 4.3% YoY after sales rose over 6% last year. Pasta was the category with the largest decline in sales, falling over 10% with volumes declining over 11%. Much like other pandemic grocery winners, there was a reduction in sales, although sales remain above pre-pandemic levels.

Pizza crust and dough was the big winner in bakery sales. Sales increased 7.1%. Although we did see sales shift back towards foodservices in 2021, home-cooking remains a strong trend. Tortilla and wrap sales increased 3.0%, continuing its growth streak after seeing 15.4% growth in 2020. Many tortillas in the market advertised additional vitamins and healthy grains, and consumers seem to have responded with volumes up 18% over 2019.

Table F.2: Bread sales underperformed relative to total grocery in 2021 YoY.

Grocery sales statistics and performance indicator versus total grocery

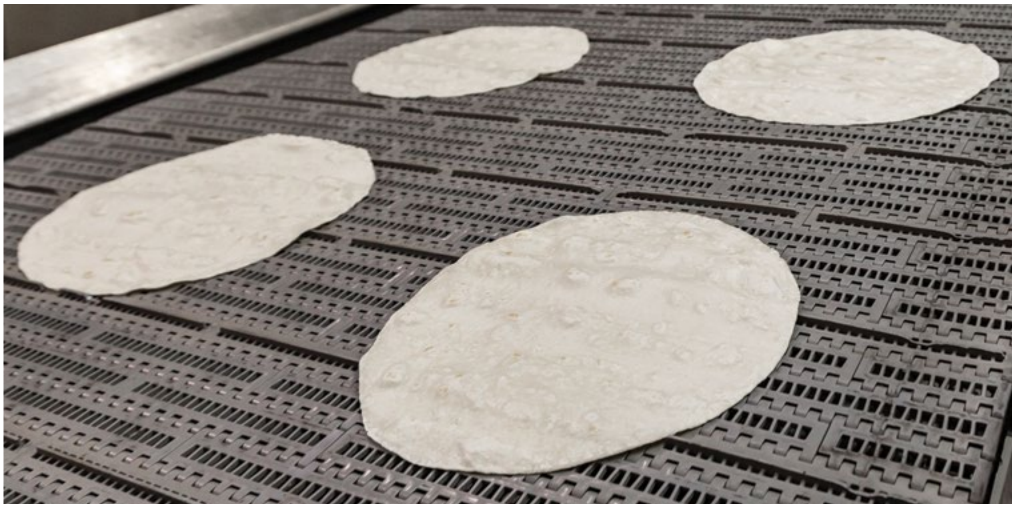
Category	YoY annual sales % change	YoY annual units % change	Average annual retail inflation %
Bakery total	-0.3	-3.9	3.8
Top 3 sales performing categories			
Pizza crust/dough	7.1	1.4	5.6
Tortilla/wraps	3.0	3.4	-0.5
Rolls	2.3	-4.1	6.7
Bottom 3 sales performing categories			
Cookies and crackers	-1.5	-3.7	2.3
Bread	-2.1	-4.3	2.4
Pasta	-10.1	-11.1	1.1

Source: Nielsen

Note: A green shade highlights above-average performance relative to total food retail which recorded tonnage change of 2.9%, sales change of 0.3% and inflation of 3.3%. Red denotes subpar performance relative to the total grocery benchmarks. Yellow denotes performance within 2%.

Bottom line

A foodservice rebound and the convenience and staple products that bakers provide set the stage for solid performance. Opportunity to provide healthy and locally produced goods allows for differentiation. Finding ways to alleviate labour challenge strains will boost productivity and drive growth.



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