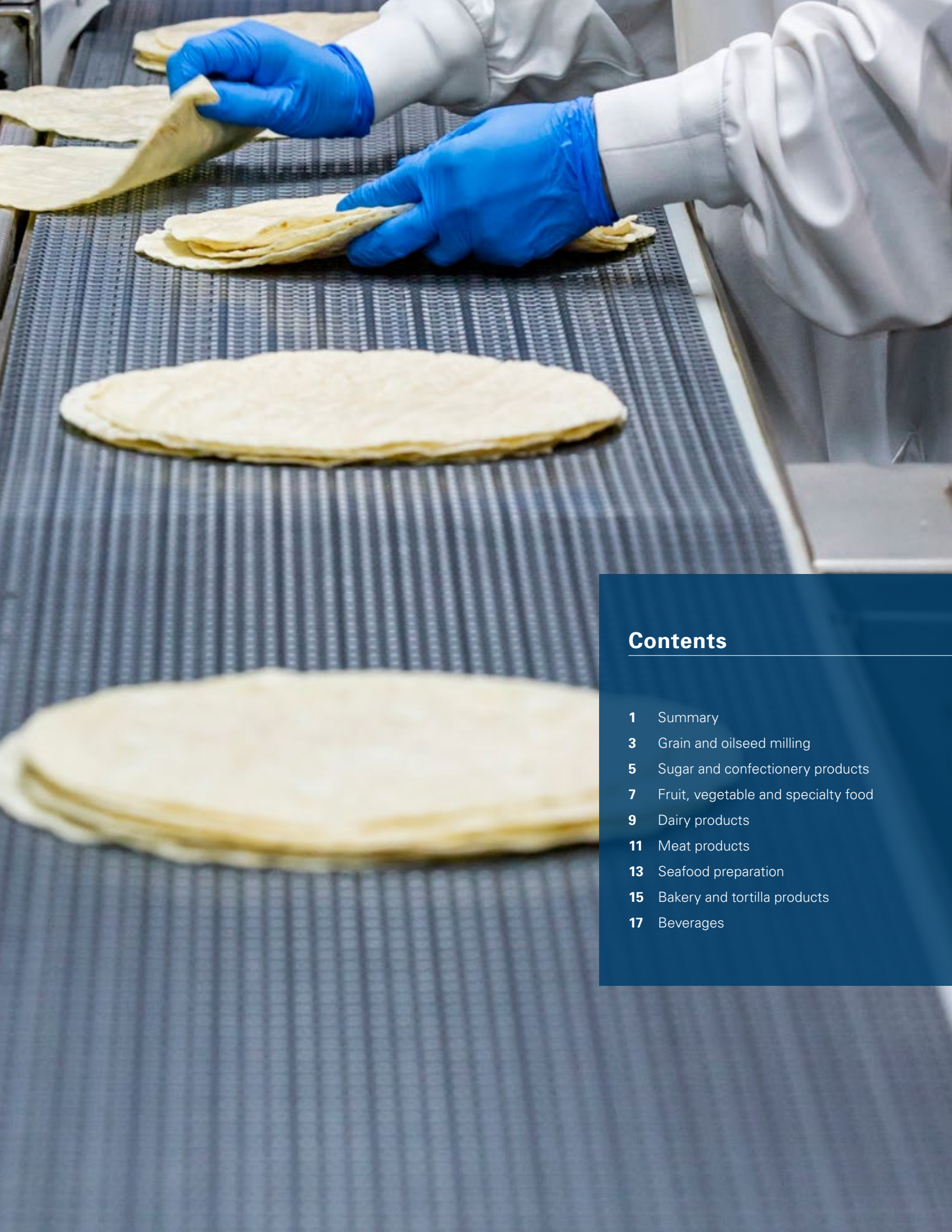




FCC FOOD AND
BEVERAGE REPORT
2021

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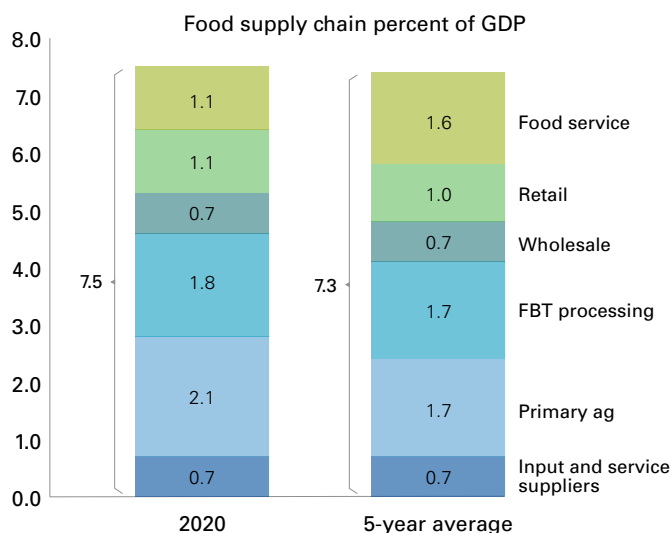
SUMMARY

Get ready, set, grow

The onset of COVID-19 was a shock to many industries as governments worldwide closed portions of their economy, and more people began working from home. Closing foodservices caused significant disruptions to the food supply chain, as manufacturers were forced to re-evaluate their current business strategies and move production away from foodservice to the grocery store. New concerns over employee health forced companies to make significant investments in personal protective equipment (PPE) and adjustment to procedures. The sector showed tremendous resilience. Gradual re-opening of economies created new opportunities and challenges as consumer behaviours were continually shifting, forcing food manufacturers to remain agile.

Food and beverage manufacturing sales increased 3.5% year-over-year (YoY) in 2020 from \$118.7 billion to \$122.9 billion. Sales declines from the foodservice industry were offset by increases in domestic grocery store sales and growing exports. GDP fell 1.0% from lower investment and higher costs. The share of the food and beverage manufacturing sectors in the overall Canadian economy grew by 0.1% to 1.8% (Figure 1) as other industries like air transportation, oil extraction and accommodation services recorded a decline.

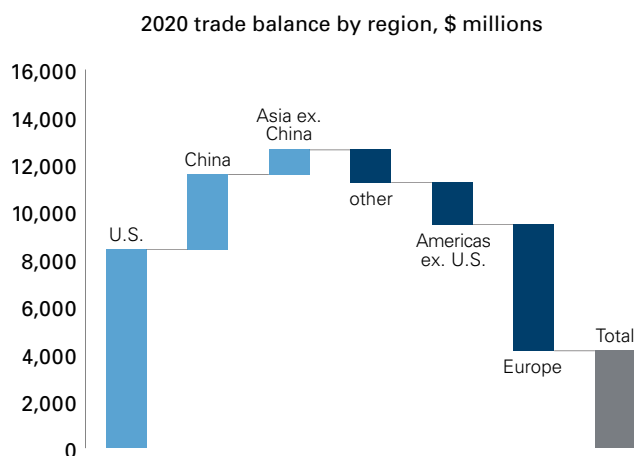
Figure 1: Food and beverages manufacturing became a larger part of the economy in 2020



Source: Statistics Canada and FCC calculations

Food and beverage manufacturing exports grew by 4.8%, driven by strong demand for healthy and high-quality foods, a weak Canadian dollar in the spring, and higher prices in the fourth quarter. Strong export demand will be a big part of the 2021 growth story. Export growth in 2020 came mostly from the U.S. and China. Total food and beverage imports grew by 4.6% in 2020 YoY as a diversified portfolio of countries increased exports to Canada (Figure 2).

Figure 2: Food and beverage trade surplus driven by the U.S.



Source: Statistics Canada and FCC calculations

Net income before taxes as a per cent of sales in food and beverage manufacturing was 4.0% higher in 2020, rebounding from a 1.4% net loss in Q2 to 7.3% in Q4. Margins were squeezed by increases in wages, PPE costs, cost reduction measures from retailers and higher commodity prices. Consumers focusing on basic needs and bulking up on larger-sized products meant selling lower margin items as well. Higher margins made on frequent impulse and convenience items declined with social distancing.

While the pandemic has brought losses that can never be recouped, opportunities are being presented for Canada's food and beverage industries to thrive. In many ways, the pandemic did not create these opportunities but accelerated the underlying trends that promote them. These include consumer demands for local, convenient, healthy and sustainable foods. Challenges for the industries include a global movement toward nationalism and domestic productivity challenges. By some measures, 2020 productivity per employee in food and beverage manufacturing is 22% higher in the U.S. versus Canada.

The Canadian federal and provincial governments have identified food processing as a key contributor to our economic recovery. The focus of government investment is to increase food autonomy and focus on safe plant output. This investment, along with very low interest rates, could be the catalyst the sector needs to solve a productivity deficit.

Most economic indicators in the food and beverage industries are strong relative to the broad economy (tables 1 and 2), showcasing its resilience. Capital expenditures and employment in food and beverage fell less in percentage terms versus all industries combined. The all-item CPI inflation in 2020 was 0.7% (Table 2) compared to 2.3% food inflation.

FCC projects sales to increase 4.8% to \$128.8 billion

Increases in disposable income and savings in 2020 will be supportive of growth in food consumption. Margin growth will depend on several factors, the biggest being the evolution of the COVID pandemic. A successful vaccine rollout would alleviate some PPE related costs and allow the full re-opening of foodservices. Global economic health is also important because exports represented an estimated 32.0% of food and beverage sales over the previous five years.

Table 1: Manufacturing sales and exports grew in 2020 YoY

Food and beverage sales facts (\$ millions)	2020	YoY% change	2019	YoY% change
Manufacturing sales	122,886	3.5	118,747	4.0
Exports	40,754	4.8	38,886	6.6
Imports	36,655	4.6	35,054	3.9
Trade balance	4,099	7.0	3,832	2.7
Total food and beverage store retail sales	143,103	10.5	129,530	3.0
Total foodservice retail sales	55,330	-28.2	77,026	4.4
Total food establishment retail sales	198,433	-3.9	206,556	3.5

Source: Statistics Canada

Table 2: Most economic indicators pointed downward in 2020

Economic indicators	2020	YoY% change	2019	YoY% change
All industries GDP (\$ millions 2012 dollars)	1,875,795	-5.3	1,980,087	1.8
Food and beverage GDP (\$ millions 2012 dollars)	33,572	-1.0	33,898	2.3
Capital expenditure (\$ millions)	242,635	-9.5	267,973	1.7
Food and beverage capital expenditure (\$ millions)	4,180	-8.4	4,561	23.9
Food CPI	153.7	2.3	150.2	3.4
All-item CPI	137.0	0.7	136.0	1.9
Unemployment rate	7.8	62.5	4.8	-5.9
Participation rate	64.4	-2.0	65.7	0.3
Total employment all industries	17,999,200	-5.2	18,985,600	2.2
Food and beverage employment	140,458	-3.1	144,898	3.9
Disposable income	345,732	8.6	318,210	3.8
Household debt	50,003	-3.2	51,646	6.6

Source: Statistics Canada and FCC calculations



GRAIN AND OILSEED MILLING

Introduction

Declines in foodservice demand and higher input costs created profitability challenges for grain and oilseed millers. Higher selling prices and the re-opening of global foodservice are expected to support a potentially exceptional 2021.

Reductions in foodservice revenue resulted in sales declining 3.6% in 2020 YoY (Table A.1). Demand for flour and other baking products increased at the onset of the pandemic, partially offsetting foodservice declines but waned through the year as cooking fatigue set in.

Labour productivity and wages compounded profitability challenges in 2020. Businesses struggled to shift production from foodservice to retail resulting in overtime and higher wages. On top of that, social distancing and sanitation rules slowed production resulting in sales per employee declining 14.8% YoY. The net result was wages as a percent of sales increasing to 5.6%. GDP declined 11.5% due to weaker sales and higher input costs. A return to pre-COVID production should normalize labour costs and productivity in 2021.

Table A.1: Sales per employee fell from higher wages and total employment

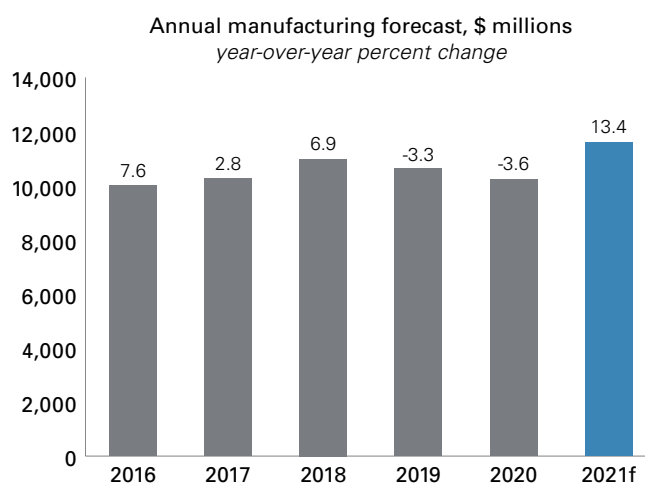
Grain and oilseed milling (NAICS 3112) quick facts	2020	YoY% change	2019	YoY% change
Sales (\$ millions)	10,237	-3.6	10,618	-3.3
Exports (\$ millions)	8,208	8.6	7,559	-2.1
Imports (\$ millions)	4,408	10.9	3,974	2.3
Trade balance (\$ millions)	3,800	6.0	3,585	-6.5
Average number of jobs	8,715	13.1	7,706	4.9
Estimated average hourly wage	31.99	12.6	28.40	-2.9
Wages % of sales	5.6	26.3	4.5	36.9
Sales per employee	1,174,657	-14.8	1,377,965	-8.5
GDP	2,191	-11.5	2,476	1.4

Source: Statistics Canada

Sales forecast

FCC projects sales to increase 13.4% in 2021. This would result in sales 11.0% higher compared to 2019 (Figure A.1). The re-opening of foodservices will support strong demand for grains and vegetable fats, and growing demand for plant-based proteins will boost protein processing. The second and third quarters are projected to see the strongest YoY increases because of weak sales and relatively lower prices in those quarters during 2020. Swings in the Canadian dollar and the health of the U.S. economy can drastically impact these projections, with the value of U.S. exports representing 51.4% of total sales over the past five years.

Figure A.1: Grain and oilseed milling sales expected to increase 13.4% in 2021YoY



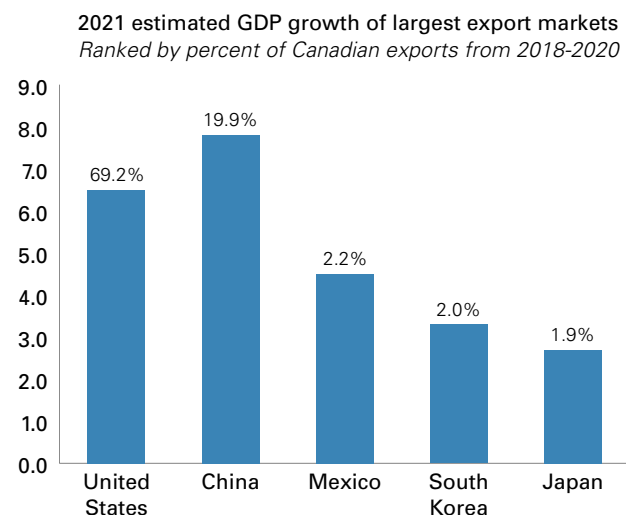
Source: Statistics Canada, Quandl and FCC calculations



International trade

Strong Chinese grain demand lifted prices during the winter of 2020-21. This could be just what the industry needs to get through one of the worst years in recent memory.

Figure A.2: The U.S. and China provide the best 2021 export opportunities



Source: World Bank, IMF, Statistics Canada, U.S. Census Bureau

The U.S., China, South Korea and Japan are large importers of Canadian grain and oilseed milling products. They are expected to record positive GDP growth (Figure A.2) in 2021, supporting export opportunities for Canadian companies.

Grocery report

Grocery sales of products using grains and oilseeds increased 15.1% in 2020 YoY (Table A.2). This exceeded the total grocery food increase of 12.3% as consumers purchased more baking products for the home. All categories had positive YoY growth, and all but one saw double-digit sales growth. Cereal sales grew 9.4% but fell below the all-grocery sales increase, a category that has been on a decline in recent years.

Table A.2: Grain and oilseed sales at the grocery store outperformed total grocery sales

Grocery sales statistics and performance indicator versus total grocery

Category	YoY annual sales % change	YoY annual units % change	Average annual retail inflation %
Grains and oilseed total	15.1	10.8	3.9
Top 3 sales performing categories			
Flour	40.7	31.5	7.0
Lard	23.5	17.3	5.3
Oil	19.2	17.1	1.8
Bottom 3 sales performing categories			
Baking mixes	15.3	12.9	2.1
Margarine	14.4	9.8	4.2
Cereal	9.4	6.8	2.4

Source: Nielsen Data and FCC calculations

Note: A green shade highlights above-average performance relative to total food grocery benchmarks (food as defined by FCC) which recorded a sales change of 12.3%, unit change of 7.2% and retail inflation of 4.8%. Red denotes subpar performance relative to the total grocery benchmarks. Yellow denotes performance within 2%.

Bottom line

Re-opening foodservices will increase demand for edible oils, flour, and other baking products domestically and abroad. Plant-based products are expected to capture a greater portion of food spending as consumers focus more on healthy alternatives. Canada's grains and oilseed milling industry is well-positioned to capitalize on these trends. Strategic considerations for manufacturers include the diversification towards non-meat-based protein options, flour and other baking needs, including home-grown edible oils.



SUGAR AND CONFECTIONERY PRODUCTS

Introduction

Shifts in demand and increased production costs have challenged profitability for the sugar and confectionery industry: 2021 should be sweeter with the opening of foodservice.

Healthy eating trends influence demand for products within the sugar and confectionery industry and have done so over the past few years. In 2020, changes to shopping behaviours led to sales falling 7.7% YoY (Table B.1).

Manufacturers responded to declines in demand by cutting employment by 5.6% in 2020. Sales per employee still declined despite lower employment, impacting GDP with total labour cost growing slightly. Higher distribution costs also negatively impacted GDP and profitability.

The re-opening of the economy in the second half of 2021 is expected to increase sugar demand from foodservice and chocolate industries, providing a healthy rebound. Consumers are also looking for indulgence foods after going through various lockdowns.

Table B.1: A double whammy of higher wages and lower sales impacted the industry in 2020

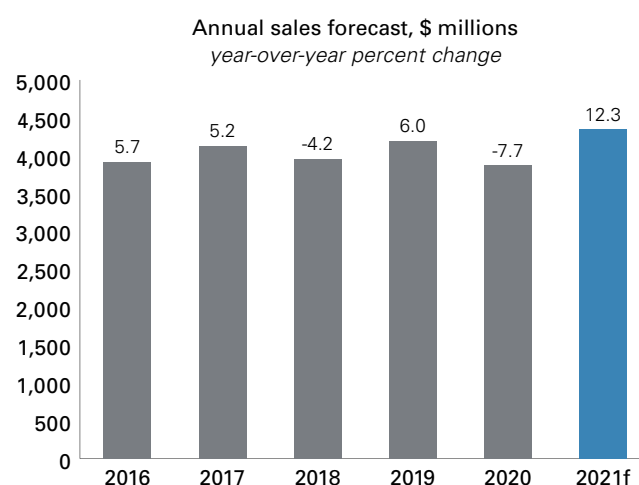
Sugar and confectionery product manufacturing (NAICS 3113) quick facts	2020	YoY % change	2019	YoY % change
Sales (\$ millions)	3,871	-7.7	4,193	6.0
Exports (\$ millions)	3,414	4.4	3,269	7.4
Imports (\$ millions)	3,170	2.0	3,109	1.4
Trade balance (\$ millions)	244	52.2	160	807.7
Average number of jobs	9,312	-5.6	9,866	1.1
Estimated average hourly wage	23.44	21.6	19.28	-20.3
Wages % of sales	10.0	15.9	8.7	-16.6
Sales per employee	415,633	-2.2	424,981	4.8
GDP	1,479	-10.2	1,648	9.9

Source: Statistics Canada and FCC calculations

Sales forecast

FCC projects sales to increase 12.3% in 2021 (3.7% above 2019). The sales rebound is more about moving back to normal growth after declining 7.7% in 2020 (Figure B.1). An earlier Easter in 2021 provides a slightly shortened selling season that could lessen growth in Q1. Sales in Q2 and Q3 should be the strongest YoY given the double-digit declines seen in those quarters in 2020.

Figure B.1: Sugar and confection product sales expected to increase 12.3% in 2021 YoY



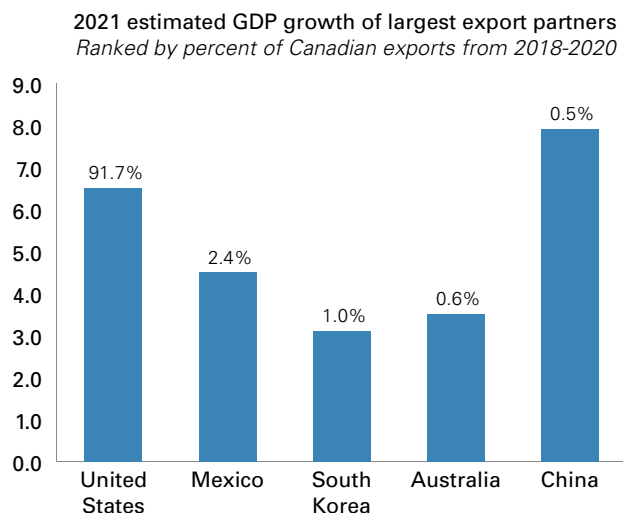
Source: Statistics Canada, Quandl and FCC calculations

International trade

Over 91% of sugar and confectionery product exports go to the U.S. Second is Mexico at 2.4% (Figure B.2). The U.S. provides the best market for Canadian products due to proximity and similar taste profiles. Mexico is projected to have slightly higher GDP growth in 2021 versus the U.S. (according to the World Bank) and could be an untapped market for Canadian products. The presence of American products in Mexico is strong competition.



Figure B.2: North America provides the best 2021 export opportunities



Source: World Bank, IMF, Statistics Canada, U.S. Census Bureau

Grocery report

Grocery sales of sugar and confectionery products increased 8.0% in 2020 YoY, falling below the total grocery food increase of 12.3%. High sales growth in sugar, chocolate products, and snacking fruit and nuts is evident and a result of at-home baking and emphasizing more on health-balanced snacking options. Confectionery products performed relatively poorly. Candy, marshmallows and gum all saw sales growth below the grocery total (Table B.2).

Table B.2: Sugar and confectionery product sales underwhelmed at the grocery store in 2020

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	8.0	3.1	4.7
Top 3 sales performing categories			
Sugar	20.8	21.0	-0.1
Snacking fruit and nuts	17.1	11.0	5.4
Chocolate products	7.7	4.8	2.8
Bottom 3 sales performing categories			
Candy	5.1	0.1	5.0
Marshmallows	2.2	4.2	-1.9
Gum	-19.8	-24.1	5.6

Source: Nielsen Data and FCC calculations

Note: A green shade highlights above-average performance relative to total food grocery benchmarks (food as defined by FCC) which recorded a sales change of 12.3%, unit change of 7.2% and retail inflation of 4.8%. Red denotes subpar performance relative to the total grocery benchmarks. Yellow denotes performance within 2%.

Bottom line

Strategic considerations include export opportunities beyond the U.S. market. Healthy eating is expected to continue in 2021, but indulgence is also a major trend. The combination of healthy and premium ingredients can introduce differentiation and offer interesting niche markets. Product development and marketing can be reassessed to support consumers' balanced approach to eating.



FRUIT, VEGETABLE AND SPECIALTY FOOD

Introduction

This industry is especially broad, including canned and frozen fruits and vegetables, and frozen dinners and pizzas. 2020 was a profitable year as strong demand increased sales. 2021 is expected to be less fruitful.

Centre-of-store shopping outperformed the perimeter in 2020. With more people working from home, consumers filled pantries and freezers and moved to home meal prep. Frozen food and non-frozen products in this industry offer convenience, affordability, and increasingly nutritious options. This is evident by the 9.9% increase in sales in 2020 YoY (Table C.1). The industry weathered the initial storm of COVID in Q2 2020 as sales grew over 11% in the quarter. High demand for value-added products like frozen fruit and vegetables increased profitability. Lower labour costs also improved the industry's profitability as total employment declined 1.9% YoY, with wages as a percent of sales down to 11.4%. A declining trade balance and higher production and distribution cost lowered GDP growth relative to sales.

Table C.1: Strong sales growth and higher productivity supported the health of the industry in 2020

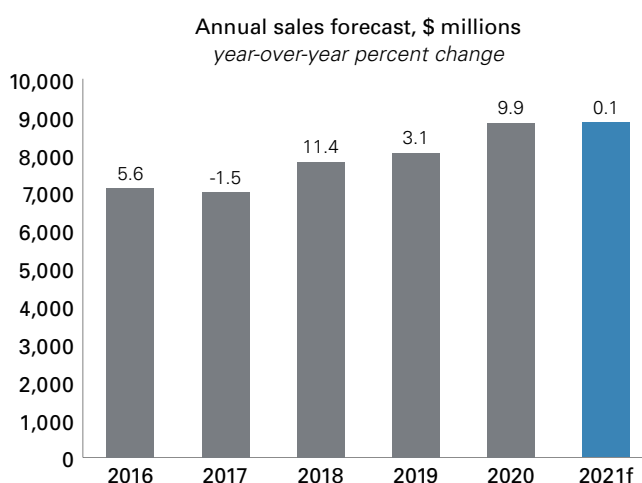
Fruit, vegetables and specialty food manufacturing (NAICS 3114) quick facts	2020	YoY % change	2019	YoY % change
Sales (\$ millions)	8,835	9.9	8,042	3.1
Exports (\$ millions)	4,002	3.9	3,853	5.6
Imports (\$ millions)	4,967	3.0	4,824	5.3
Trade balance (\$ millions)	-966	-0.5	-971	4.2
Average number of jobs	18,926	-1.9	19,303	3.2
Estimated average hourly wage	22.82	1.0	22.59	-0.3
Wages % of sales	9.1	-11.4	10.3	3.5
Sales per employee	466,810	12.0	416,622	-0.1
GDP	2,986	3.6	2,882	3.4

Source: Statistics Canada and FCC calculations

Sales forecast

FCC projects sales to increase 0.1% in 2021. Growth during the first three quarters is projected to be flat to negative and then be offset by growth of over 3% in the fourth quarter. The 9.9% sales growth in 2020 is not expected to be a long-term trend. Consumers will purchase less preserved and prepared products post-pandemic and trend towards fresher products and foodservice meals (Figure C.1). Continued product innovation focused on healthy options is important for sustaining growth.

Figure C.1: Fruit, vegetable and specialty food sales expected to increase 0.1% in 2021 YoY



Source: Statistics Canada, Quandl and FCC calculations

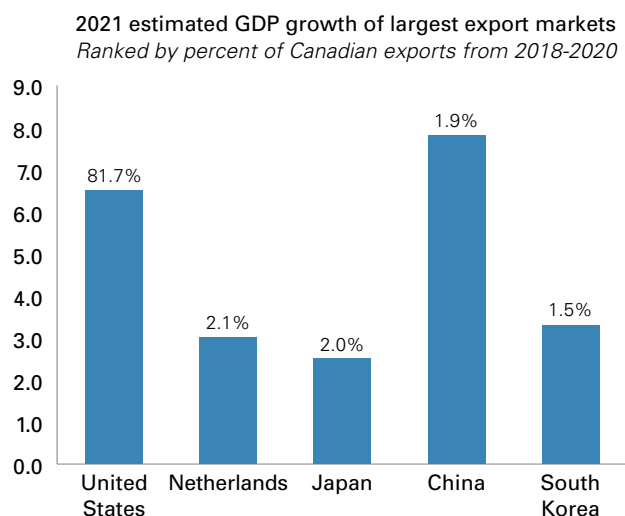


International trade

82% of all fruit, vegetable and specialty food exports go to the U.S. (Figure C.2). Canned products are easily transported continentally. But it makes business sense to keep shipments of frozen fruits, vegetables and juices within North America.

Free-trade agreements with Japan (CPTPP) and South Korea (CKFTA) provide opportunities to grow exports. Canadian food is seen in high regard across the Pacific, a great opportunity when combined with expected GDP growth in these trade-partnering countries.

Figure C.2: Asia provides a growing opportunity for export growth



Source: World Bank, IMF, Statistics Canada, U.S. Census Bureau

Grocery report

Grocery sales increased 18.5% in 2020 YoY, exceeding both the total grocery food increase of 12.3% and the fresh produce increase of 9.8% (Table C.2). Within this, all center-of-store categories within the industry saw positive sales growth in 2020 YoY.

Customer stockpiling increased sales of frozen produce and dinners relative to fresh, as demand for fresh product took a back seat. With more customers eating more at home, often on tighter budgets, ready-to-eat meals sales grew 19.8% YoY in 2020. This double-digit growth should subside as the economy re-opens, but the market share of refrigerated products should continue to be strong as customers look for convenience and aim to limit waste by buying frozen product with longer shelf-life.

Table C.2: Canned, frozen and bagged produce sales did well in 2020 at grocery stores

Grocery sales statistics and performance indicator versus total grocery

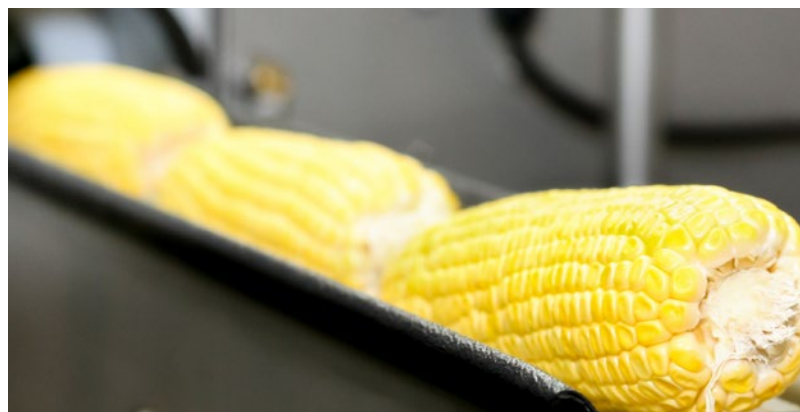
Category	YoY annual sales % change	YoY annual units % change	Average annual retail inflation %
Prepared produce and specialty food total	18.5	12.0	5.9
Produce (including fresh) and specialty food total	9.8	6.2	3.4
Top 3 sales performing categories			
Frozen fruit	24.8	19.4	4.5
Frozen vegetables	23.9	19.1	4.0
Frozen dinners	19.8	10.9	8.1
Bottom 3 sales performing categories			
Fresh vegetables	13.7	7.7	5.5
Fresh fruit	7.4	4.8	2.5
Bagged salad	3.0	-0.3	3.3

Source: Nielsen Data and FCC calculations

Note: A green shade highlights above-average performance relative to total food grocery benchmarks (food as defined by FCC) which recorded a sales change of 12.3%, unit change of 7.2% and retail inflation of 4.8%. Red denotes subpar performance relative to the total grocery benchmarks. Yellow denotes performance within 2%.

Bottom line

Growth in this industry is expected to slow as foodservice providers reopen. Consumers are expected to increase purchases of fresh produce. Private label options will persist in this category, pressuring profitability. The rise of refrigerated meals and partially prepared meal-kit options offers convenience. Consider product innovations that offer convenience and high-quality frozen and canned fruit and vegetable products. The focus will continue to be on health, new cuisine, and flavour options.



DAIRY PRODUCTS

Introduction

Dairy product revenues were stronger than anticipated in 2020 due to strong grocery demand and better-than-expected demand from pizzerias. The rebound in restaurant and hotel demand is forecast to support growth in 2021 as grocery sales are expected to soften. One threat to monitor is the growth in alternative dairy beverages such as oat and almond milk.

Industry sales grew 16.8% in 2020 YoY (Table D.1). Higher prices and strong demand for value-added products propelled growth. Dairy manufacturing is one of the few industries for which COVID-related increases in wages were met by even higher sales. Labour efficiency was excellent, with sales performance achieved with 9.3% fewer employees in 2020. Sales per employee increased 28.8%, and wages as a percentage of sales fell to 7.4%. It was not all good news, however. Production and input costs increased more relative to the sales gains, flattening GDP and profitability.

Demand for cream and cheese at restaurants, hotels and other food establishments is expected to increase in 2021 as COVID restrictions ease. Stronger foodservice demand is forecasted to offset sales declines at grocery stores.

Table D.1: Higher demand for processed dairy and higher productivity supported output in 2020

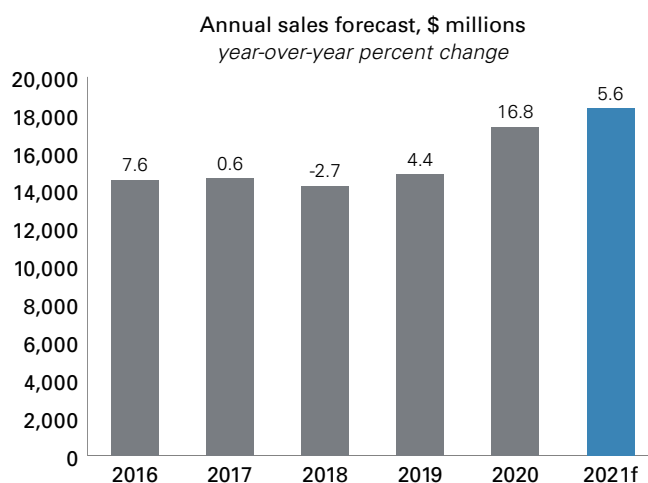
Dairy product manufacturing (NAICS 3115) quick facts	2020	YoY % change	2019	YoY % change
Sales (\$ millions)	17,371	16.8	14,867	4.4
Exports (\$ millions)	888	15.5	769	23.4
Imports (\$ millions)	1,119	3.9	1,076	11.7
Trade balance (\$ millions)	-231	-25.0	-308	-9.7
Average number of jobs	24,652	-9.3	27,166	8.9
Estimated average hourly wage	28.53	28.9	22.13	-8.7
Wages % of sales	7.4	-0.6	7.5	-2.1
Sales per employee	704,646	28.8	547,256	-4.1
GDP	2,965	0.2	2,959	-1.8

Source: Statistics Canada and FCC calculations

Sales forecast

FCC projects sales to increase 5.6% in 2021. This growth will be driven by the re-opening of foodservice, inflation, and continued demand for value-added dairy products like cheese and butter. The second quarter of the year is projected to see the strongest growth YoY given its relatively poor performance in 2020 versus the other quarters.

Figure D.1: Dairy product sales expected to increase 5.6% in 2021 YoY



Source: Statistics Canada, Quandl and FCC calculations



Grocery report

Sales of dairy products at Canadian grocery stores were up 12.3% in 2020 YoY, matching the total grocery food growth of 12.3% (Table D.2). For many core categories, inflation was behind sales growth. For this reason, we are unenthusiastic on overall volume demand growth in key categories like fluid milk and yogurt. Most dairy products have a relatively short shelf-life versus other heavily stockpiled foods in 2020, partially explaining its under-average performance.

Products that replace foodservice preparations saw strong growth. For example, coffee creamers and ice cream saw their volume and sales grow double digits. While in many cases these increases were not enough to offset losses from foodservice, it is nonetheless evidence of strong underlying demand for a wide variety of dairy products.

Alternative milk beverages (e.g., soy, almond, oat, etc.) performed well relative to traditional dairy, with sales increasing 20.9% and volume increasing 19.8% in 2020 YoY. FCC estimates the Canadian grocery market share of alternative milk beverages versus traditional milk beverages is 11.3%, up from 10.3% in 2019.

Table D.2: Products made with dairy cream sold well in 2020

Grocery sales statistics and performance indicator versus total grocery

Category	YoY annual sales % change	YoY annual units % change	Average annual retail inflation %
Dairy total	12.3	6.5	5.5
Top 3 sales performing categories			
Coffee creamers	33.5	26.2	5.8
Ice cream	20.0	12.1	7.0
Whipping cream	20.0	14.1	5.2
Bottom 3 sales performing categories			
Milk	7.7	1.7	6.0
Yogurt	3.3	1.3	2.0
Dips	3.1	0.9	2.2

Source: Nielsen Data and FCC calculations

Note: A green shade highlights above-average performance relative to total food grocery benchmarks (food as defined by FCC) which recorded a sales change of 12.3%, unit change of 7.2% and retail inflation of 4.8%. Red denotes subpar performance relative to the total grocery benchmarks. Yellow denotes performance within 2%.

Bottom line

The 2021 outlook for the dairy industry rests on three topics: labour, foodservice demand, and fluid milk sales. Hourly wages grew in 2020 YoY but declines in employment lowered pressures on labour costs. Moving back towards full employment while controlling wages will be difficult as the job market eventually heats back up. The re-opening of restaurants will help cream and milk demand and fuel industry sales growth. Conversely, grocery sales are forecast to decline. Strong competition for alternative dairy beverages must be monitored.



MEAT PRODUCTS

Introduction

Profitability in the meat manufacturing industry was mixed in 2020 as significantly higher costs offset higher meat sales. Evolving consumer behaviours, including reduced animal protein consumption and the rise of non-meat protein options, represent headwinds. Foodservice closures reduced sales, while cases of COVID-19 among employees led to plant closures, slower line speeds and ultimately supply issues. For those facilities that haven't been impacted by employee cases, the plant closures created increased opportunities due to higher prices and weaker competition. Overall, higher prices and strong global demand for meat helped sales increase 2.9% in 2020 YoY (Table E.1).

Higher employment in July and August offset declines in March and April, surprisingly, resulting in a 2020 YoY employment gain. With higher compensation costs, total labour costs increased, but higher sales partially outweighed labour's impact on profitability. Sales per employee were up, but overall labour costs increased relative to sales, reflecting weakened productivity from slower line speeds. Additional COVID-related production costs impacted profitability, and a declining trade balance lowered the industry's GDP.

Table E.1: Export growth propelled sales growth in a challenging 2020

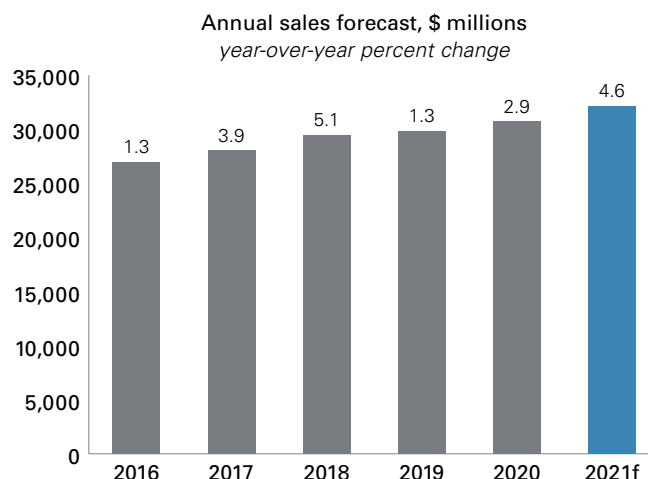
Meat product manufacturing (NAICS 3116) quick facts	2020	YoY % change	2019	YoY % change
Sales (\$ millions)	30,710	2.9	29,834	1.3
Exports (\$ millions)	9,562	10.2	8,679	11.3
Imports (\$ millions)	4,232	10.4	3,832	-0.4
Trade balance (\$ millions)	5,331	10.0	4,846	22.8
Average number of jobs	65,092	0.6	64,704	2.1
Estimated average hourly wage	23.66	5.1	22.01	-1.4
Wages % of sales	9.6	5.1	9.1	5.8
Sales per employee	471,792	2.3	461,080	0.8
GDP	5,671	-0.1	5,674	-6.2

Source: Statistics Canada and FCC calculations

Sales forecast

FCC projects sales to increase 4.6% in 2021. Strong global and domestic demand for meat, alongside the recovery in foodservice, will support increased sales beginning in Q2 through the remainder of 2021.

Figure E.1: Meat product sales are expected to increase 4.6% in 2021 YoY



Source: Statistics Canada, Quandl and FCC calculations

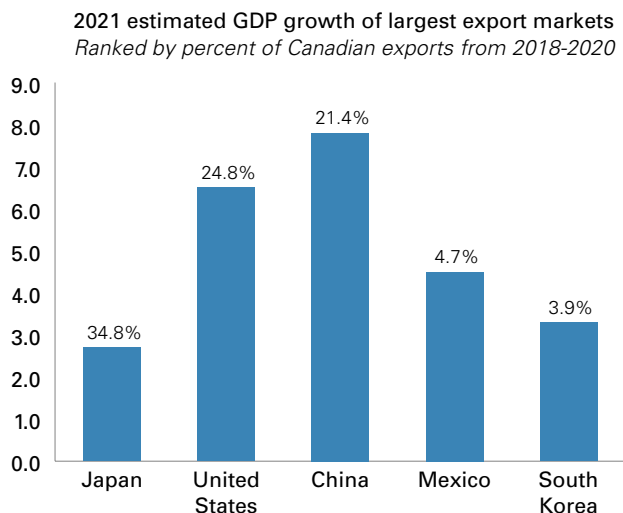
International trade

Chinese global imports of meats were up 59.6% in 2020 YoY as China's pork production continues to be hit by ASF and demand for beef remains strong.

China could continue to provide short-term opportunities for pork, but as China rebuilds its herd, Canadian processors should also look elsewhere for growth. Free-trade partners Mexico, Japan and South Korea are all expected to increase pork imports and are anticipated to record growth in 2021 GDP (Figure E.3).



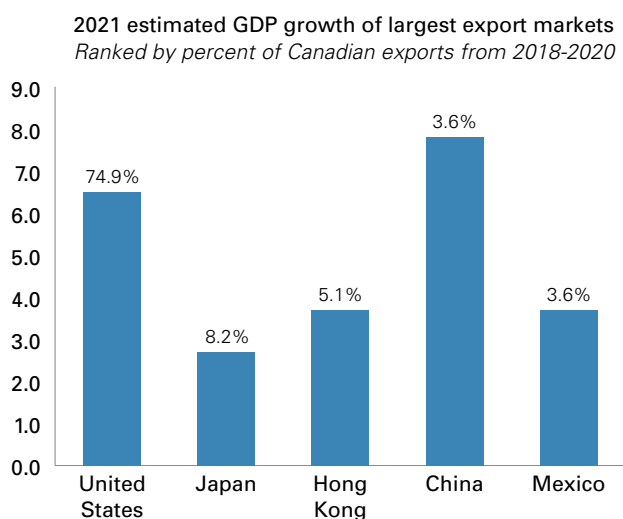
Figure E.3: Asia provides an opportunity for pork exports growth in 2021



Source: World Bank, IMF, Statistics Canada, U.S. Census Bureau

The U.S. is the largest Canadian beef importer, and its foodservice recovery could boost Canadian exports in 2021. Asian countries provide growth and diversification opportunities for exporters (Figure E.4).

Figure E.4: Asia provides an opportunity for beef exports growth in 2021



Source: World Bank, IMF, Statistics Canada, U.S. Census Bureau

Grocery report

Meat sales at the grocery store had an up-and-down year, finishing with sales up 13.2%, slightly above the total grocery food increase of 12.3% (Table E.2). Foodservice-inspired foods like breakfast sausages and bacon grew over 15%. Conversely, lunch meat and chicken had relatively weak sales versus other categories. Lunch meats grew 10.1% (2.2% below the national grocery sales benchmark), with many people not packing sandwiches to school and work. Chicken's underperformance is more a story of Canadian customers becoming tapped out on how much chicken they are eating at home and minimal population growth in 2020. FCC estimates the average Canadian consumed 35.2 kilograms of chicken in 2020 vs 35.4 in 2019.

Table E.2: Foodservice inspired foods like bacon outperformed all meats in 2020 YoY

Grocery sales statistics and performance indicator versus total grocery

Category	YoY annual sales % change	YoY annual units % change	Average annual retail inflation %
Meat total	13.2	8.0	4.8
Top 3 sales performing categories			
Sausages	19.2	10.4	7.9
Bacon	15.4	13.7	1.6
Beef	15.4	6.6	8.3
Bottom 3 sales performing categories			
Turkey	13.5	2.1	11.1
Lunch meats	10.1	7.8	2.1
Chicken	7.6	4.8	2.7

Source: Nielsen Data and FCC calculations

Note: A green shade highlights above-average performance relative to total food grocery benchmarks (food as defined by FCC) which recorded a sales change of 12.3%, unit change of 7.2% and retail inflation of 4.8%. Red denotes subpar performance relative to the total grocery benchmarks. Yellow denotes performance within 2%.

Bottom line

The meat manufacturing industry has proved resilient and adaptable during the pandemic on the back of strong domestic and global demand. Animal proteins are still highly valued by consumers. An emphasis on local foods opens partnership opportunities between suppliers and foodservice establishments. Rising animal protein alternatives and global competition are challenging the operating environment of meat manufacturers.

SEAFOOD PREPARATION

Introduction

The seafood industry experienced disruptions in 2020. The fishing industry completed the spring crab and lobster season, creating adequate supply for processors. However, major demand shifts caused by the foodservice shutdown resulted in lower prices and 2020 sales being down 6.4% YoY (Table G.1).

Lobster and crab are the two largest seafood industries in Canada. Lower value of exports in lobster and crab is mostly due to lower prices. The U.S. remains the dominant market for Canadian seafood products.

Foreign labour supply disruptions impacted processors' capacity in early 2020, with an overall 8.0% decline in employment YoY. Overall, sales per employee increased 1.7%. Industry GDP grew 0.7% because of lower input prices relative to prices received.

Table G.1: Export declines dragged down sales in 2020 YoY

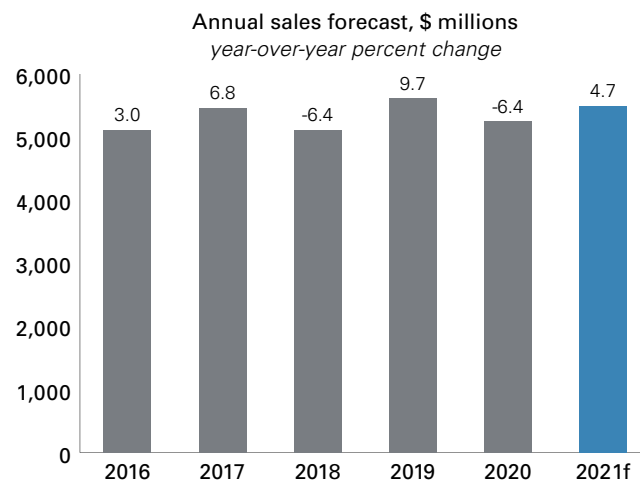
Seafood product preparation and packaging (NAICS 3117) quick facts	2020	YoY % change	2019	YoY % change
Sales (\$ millions)	5,245	-6.4	5,606	9.7
Exports (\$ millions)	4,338	-11.3	4,889	5.7
Imports (\$ millions)	3,259	-2.7	3,351	5.7
Trade balance (\$ millions)	1,079	-29.8	1,538	5.8
Average number of jobs	19,719	-8.0	21,433	-0.8
Estimated average hourly wage	21.21	6.1	19.99	-1.2
Wages % of sales	15.6	8.1	14.4	-6.7
Sales per employee	266,107	1.7	261,562	10.5
GDP	1,168	0.7	1,159	2.3

Source: Statistics Canada and FCC calculations

Sales forecast

FCC projects sales to increase 4.7% in 2021. Despite this increase, sales are expected to remain 2.0% lower than 2019 (Figure G.1). Sales are very seasonal. We expect strong sales growth in the first half of 2021 due to relatively strong demand. A return to full employment and increased tourism in North America could further boost sales.

Figure G.1: Seafood product sales are expected to increase 4.7% in 2021 YoY



Source: Statistics Canada, Quandl and FCC calculations

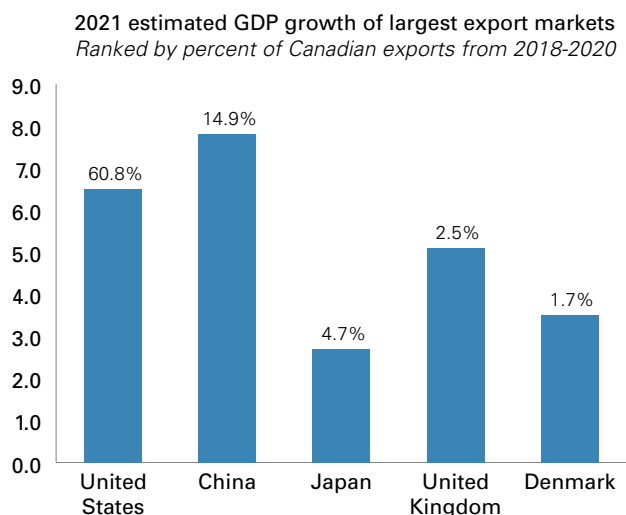
International trade

Seafood exports are primarily destined to the U.S. and Asian markets (Figure G.2), representing 66% of total exports. Although Europe remains a small trading partner, CETA could present increased market opportunities in 2021 and beyond.

Russia is anticipated to surpass Canada as the world's largest exporter of seafood in the next two to three years. Russia exported more to China, Japan, and the EU in 2019 than Canada. Re-opening economies and restaurants could boost global demand for Canadian products, especially if higher savings and pent-up demand make wholesalers look for high-quality products.



Figure G.2: The U.S. and China provide the best export opportunities in 2021 after seeing declines in 2020



Source: World Bank, IMF, Statistics Canada, U.S. Census Bureau

Grocery report

Grocery sales increased 18.6% in 2020 YoY, exceeding the total grocery food increase of 12.3% as consumers stocked up purchases of canned and frozen seafood (Table G.2). Sales of fresh seafood underperformed relative to canned and frozen, although sales growth was in line with total grocery. The category's sales performance is impressive when considering that inflation was below average in the main categories, and growth was driven by volume.

The industry was substantially hurt by declining exports and declines in restaurant demand. Gains at the grocery did not outweigh these declines. However, the volume increases at the grocery store provide some comfort that there remains a strong underlying demand for seafood in Canada.

Table G.2: Seafood demand at grocery stores performed well in 2020 YoY

Grocery sales statistics and performance indicator versus total grocery

Category	YoY annual sales % change	YoY annual units % change	Average annual retail inflation %
Total seafood	18.6	17.7	0.8
Frozen seafood	24.1	21.9	1.8
Canned seafood	14.6	14.4	0.1
Fresh seafood	12.3	11.3	1.0
Frozen fish and chips	-5.2	-12.4	8.2

Source: Nielsen Data and FCC calculations

Note: A green shade highlights above-average performance relative to total food grocery benchmarks (food as defined by FCC) which recorded a sales change of 12.3%, unit change of 7.2% and retail inflation of 4.8%. Red denotes subpar performance relative to the total grocery benchmarks. Yellow denotes performance within 2%.

Bottom line

Canada's potential to increase exports of seafood like lobster (fresh and frozen), shrimp and crab beyond the U.S. to China, Europe, Japan and other countries is very strong. The opening of foodservice establishments both at home and in the U.S. will benefit Canada's seafood industry late in 2021 as seafood is traditionally consumed in restaurants and through tourism. Canada's Blue Economy Strategy 2040 outlines the potential of Canada's seafood industry as it pertains to long-term, sustainable job creation and GDP contribution. The future looks bright for Canada to become a leader in the global blue economy.



BAKERY AND TORTILLA PRODUCTS

Introduction

The foodservice industry is an important market for baked goods. In Q1 2020, the industry was off to a fast pace, with sales increasing 16.4% before experiencing a significant demand shift. Beginning in March, weaker restaurant demand resulted in a significant decline in bread sales. Other products recorded strong demand as sales of cookies, crackers and pasta at grocery stores partially outweighed the broader decline in sales. As the pandemic carried on, grocery purchases weakened and sales from April to December were 3.8% down YoY. Towards the end of 2020, fast-food restaurant demand began to recover, supporting bakery sales. Overall, this industry held steady with a growth of 0.8% YoY (Table F.1).

Total employment fell 5.0% in 2020, but higher wages increased wages as a percent of sales 1.9%. Increases in production, distribution and COVID-related costs resulted in flat GDP in 2020. Profitability was pressured due to higher costs.

Table F.1: Higher wages were offset by declines in employment in 2020

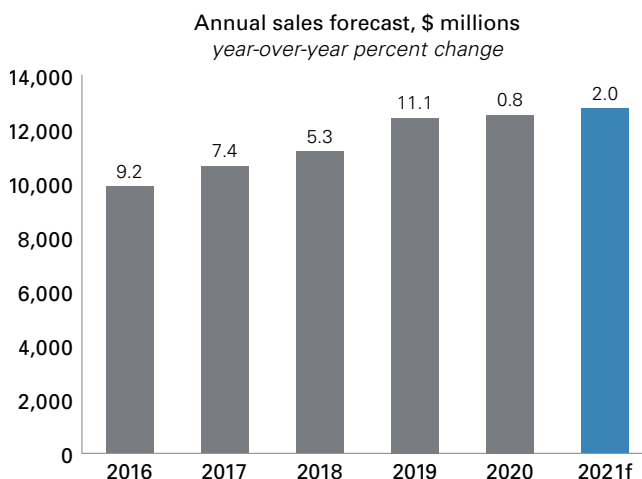
Bakery and tortilla manufacturing (NAICS 3118) quick facts	2020	YoY % change	2019	YoY % change
Sales (\$ millions)	12,502	0.8	12,408	11.1
Exports (\$ millions)	4,326	1.2	4,277	10.3
Imports (\$ millions)	2,251	3.2	2,181	7.4
Trade balance (\$ millions)	2,076	-0.9	2,096	13.5
Average number of jobs	46,721	-5.0	49,189	2.1
Estimated average hourly wage	21.52	9.4	19.67	-0.1
Wages % of sales	13.1	1.9	12.9	-10.3
Sales per employee	267,583	6.1	252,243	8.9
GDP	4,525	-0.3	4,541	8.2

Source: Statistics Canada and FCC calculations

Sales forecast

FCC projects sales to increase 2.0% in 2021. Sales growth is expected to be the strongest in Q2 and Q3 YoY; however, this could change if there are any further setbacks re-opening restaurants.

Figure F.1: Bakery and tortilla sales are expected to increase 2.0% in 2021 YoY



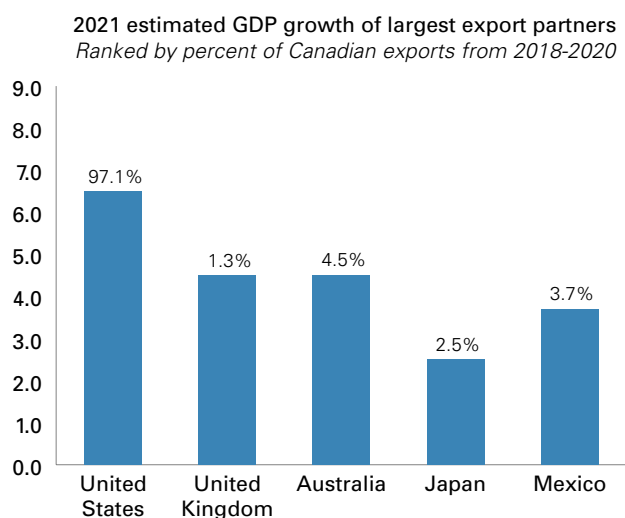
Source: Statistics Canada, Quandl and FCC calculations



International trade

Due to the perishable nature of products, 97% of exports are destined to the U.S. (Figure F.2). With similar market challenges occurring in the U.S. exports were relatively flat YoY, growing only 1.2% (Table F.1). This is a substantial decline relative to the five year growth rate of 10.5%. Expect exports to pick up in 2021 as demand from foodservices and healthy grain products increase. Another factor that will influence export performance will be the value of the Canadian dollar – we expect volume growth in exports.

Figure F.2: The U.S. continues to be the best export opportunity



Source: World Bank, IMF, Statistics Canada, U.S. Census Bureau

Grocery report

Bakery and tortilla grocery sales grew 6.2% in 2020 YoY, falling well short of the total grocery food increase of 12.3% (Table F.2). Units grew 0.6% as inflation lifted sales. A large portion of the inflation and low unit growth is because of consumers buying larger product sizes to stock up. Pre-packaged bread, rolls, tortillas and wraps all had strong growth as consumers ate more meals at home. Grocery store bakery sales were negatively impacted by lowering store baked products, primarily due to slower store traffic.

Double-digit growth in pizza crusts and dough sales highlights the strong demand for pizzas during the pandemic, both homemade and from foodservice. Expect these sales to shift more to foodservices in 2021 as restrictions ease. In-store baked product sales should grow as customers make more frequent store visits, limiting pre-packaged growth. Additional growth will come from healthy high protein, whole grain varieties. The customer's demand for local products is stronger.

Table F.2: Pre-packaged bread underperformed relative to total grocery in 2020 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	6.2	0.6	5.6
Top 3 sales performing categories			
Prepackaged rolls	16.5	12.4	3.6
Prepackaged tortillas and wraps	15.2	14.0	1.0
Prepackaged bread	6.3	4.7	1.5
Bottom 3 sales performing categories			
In-store made bread	-0.5	-4.5	4.2
In-store made rolls	-11.4	-43.7	57.4
In-store baked desserts	-12.5	-14.3	2.0

Source: Nielsen Data and FCC calculations

Note: A green shade highlights above-average performance relative to total food grocery benchmarks (food as defined by FCC) which recorded a sales change of 12.3%, unit change of 7.2% and retail inflation of 4.8%. Red denotes subpar performance relative to the total grocery benchmarks. Yellow denotes performance within 2%.

Bottom line

Opening foodservices across North America is key to growth in 2021. Small manufacturers can capitalize on the buy-local trend as consumers demand to know more about where their food is coming from. Product development using functional and immune-boosting ingredients could be considered for brands centred around health.



BEVERAGES

Introduction

Beverage sales, along with its alcoholic beverage sub-industries, posted positive sales growth in 2020. The industry's operating environment was defined by public health orders, foodservice and bar closures, and recession. Challenges should subside in 2021 and give room for more opportunities.

Sales are traditionally generated through grocery retail, foodservice, vending and convenience, and government-run outlets. Lockdown measures shifted points of purchase in 2020 away from foodservice establishments and vending. Even so, this industry recorded 3.9% sales growth compared to 2019 (Table H.1). Consumers' interest in healthy options has grown with more low-alcohol, low-carb and low-calorie beverage options. Consumers are also looking for indulgence beverages after going through various lockdowns.

Profitability was negatively impacted by higher production costs related to COVID. Additional bottling, canning and distribution costs were required for product shipping to retail outlets versus costs related to onsite sales, restaurants or bars. As a result, GDP fell 0.4%. These additional costs will subside as demand from foodservice establishments grows back towards pre-COVID levels.

Table H.1: An increase in alcohol sales boosted industry sales in 2020

Beverage manufacturing (NAICS 3121) quick facts	2020	YoY % change	2019	YoY % change
Sales (\$ millions)	12,866	3.9	12,378	5.1
Brewery sales (\$ millions)	6,353	4.8	6,063	4.3
Distillery sales (\$ millions)	1,201	3.1	1,165	6.4
Winery sales (\$ millions)	1,553	21.3	1,281	-5.3
Exports (\$ millions)	1,405	2.0	1,377	11.5
Imports (\$ millions)	5,888	0.3	5,873	1.2
Trade balance (\$ millions)	-4,483	-0.3	-4,496	-1.6
Average number of jobs	42,088	-4.0	43,826	7.5
Estimated average hourly wage	20.91	-7.2	22.53	6.3
Wages % of sales	10.7	-15.6	12.7	2.6
Sales per employee	305,690	8.2	282,446	-2.3
GDP ¹	6,949	-0.4	6,978	4.4

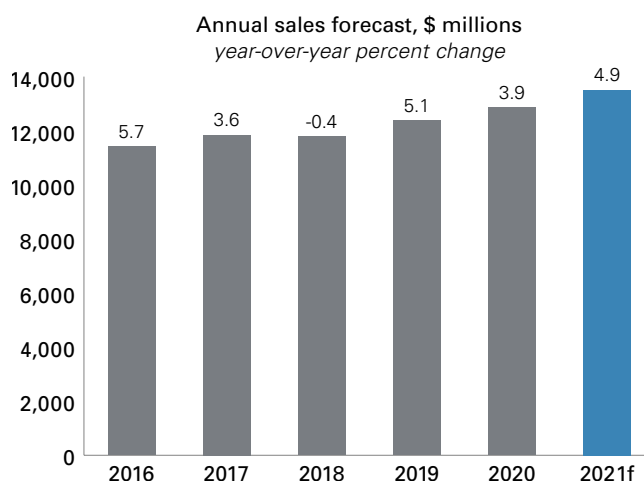
Source: Statistics Canada and FCC calculations

¹Tobacco manufacturing is included in the value

Sales forecast

FCC projects sales to increase 4.9% in 2021. This is on top of a 3.9% increase in 2020. When social distancing measures dissipate, the alcoholic beverage industry should benefit from a pent-up demand driven by higher savings and income and strong desires for friends and family to rejoin over drinks. The reduction in social measures will also promote more convenience beverage sales.

Figure H.1: Beverages sales are expected to increase 4.9% in 2021 YoY



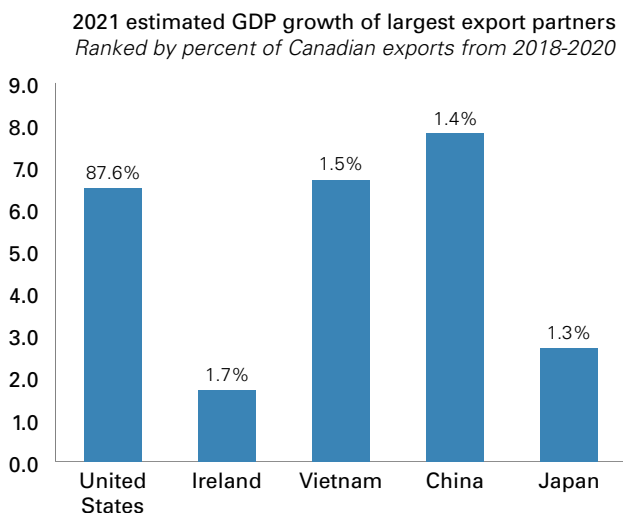
Source: Statistics Canada, Quandl and FCC calculations

International trade

A relatively small percentage of beverage sales over the past five years (10.9%) were exported. Alcoholic beverages from distilleries represent 55.5% of all exports, followed by breweries 15.3% and wineries 13.5%. Exports into the U.S. are expected to increase as foodservices recover. Asian countries, including Vietnam and China, provide diversification opportunities, with their economies expected to grow over 6% in 2021 YoY (Figure H.2).



Figure H.2: The U.S. and parts of Asia provide the best export growth opportunities in 2021



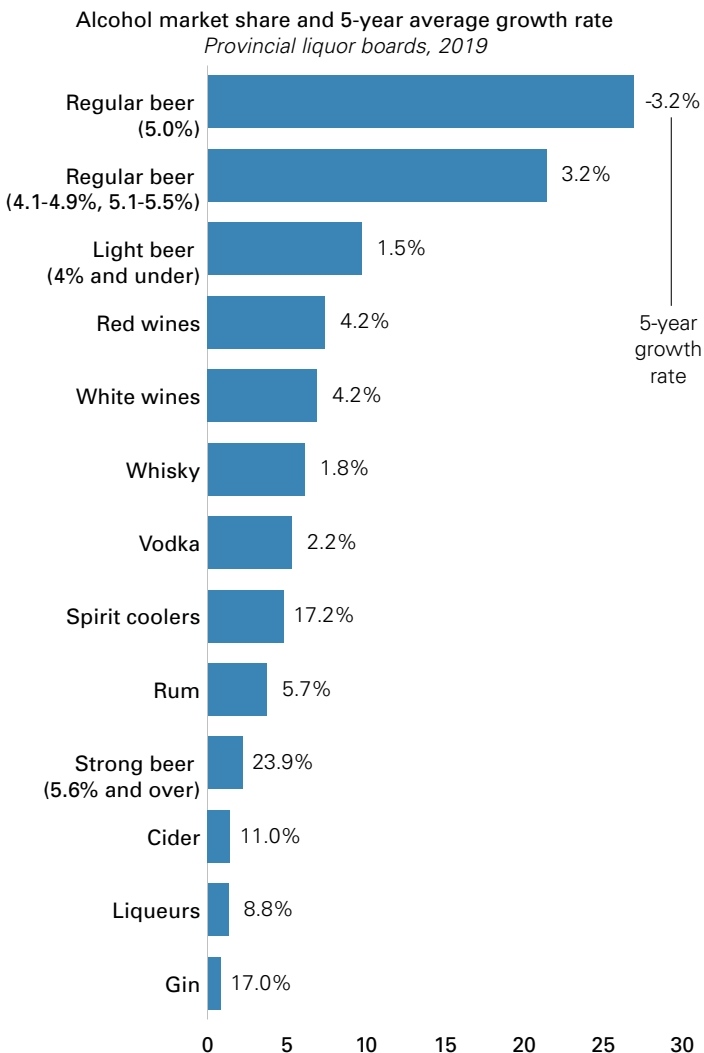
Source: World Bank, IMF, Statistics Canada, U.S. Census Bureau

Alcohol market data

Alcoholic sales represent 70.8% of all beverage manufacturing sales in Canada. Within the sub-industries, beer has 60.2% of the market, distilleries 23.2% and wine 16.0%. Over the past five years, beer, spirit coolers, gin and cider have seen the highest growth rates (Figure H.3). Rum has seen the largest market share decline over the same five year period, with sales declining on average of 5.7% a year. The beverages with the highest sales growth are those popular with younger generations, including beverages that 1) allow for easy flavouring without modifying the underlying alcoholic taste, 2) offer low-calorie options and 3) offer convenient canned or bottled options.



Figure H.3: Spirits, coolers, strong beer and gin have seen the largest market share gain over 5 years



Source: Statistics Canada

Bottom line

Strategic considerations for the industry include possible diversification in export markets. Healthy alternatives are increasingly valued by consumers. Pent-up demand is arguably the most significant in the beverage industry. People will be looking forward to social gatherings when public health measures are lifted.

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