



Farm Credit Canada

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# 2025 FCC Food and Beverage Report

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## Introduction

A quick glance at the financials of the food and beverage manufacturing sector suggests an uneventful year in 2024. Expenses and sales experienced less than a 1% shift, leaving only a slight improvement in profit margins. However, this is far from the truth. Inflation started to retreat, the Bank of Canada began cutting interest rates and tensions in the labour market eased. In 2024, cocoa prices skyrocketed, cattle prices remained elevated and grain prices declined. The year ended with the announcement of a change in the U.S. leadership and the threat of [tariffs](#).

It's shaping up to be another eventful year in 2025. Trade disruptions will take centre stage for the sector as exports, sales and margins are pressured. Aside from trade disruptions, the sector will also have to grapple with the impacts of a slowing population on [labour supply](#) and the strength of consumer demand. Per capita expenditure on food and beverages declined for the fourth consecutive year in 2024, due to household budget pressures. However, food and non-alcoholic beverages did show signs of recovery near the end of 2024. Alcohol continued to struggle. How long trade disruptions persist and how the Canadian economy fares will determine the strength of consumer spending in 2025.

Entering another year of uncertainty is nothing new for food and beverage manufacturers. The sector has proven that it is resilient and adaptable in challenging times.

### Food and beverage manufacturing during uncertain economic times

Canada's economy is set for another challenging year. The Bank of Canada recognized that its forecast for 2025 real GDP growth of 1.8% may be downgraded if the U.S. imposes tariffs on our exports. With the uncertainty of trade disruptions, a sharp economic slowdown, if not a recession, is a real possibility in 2025.

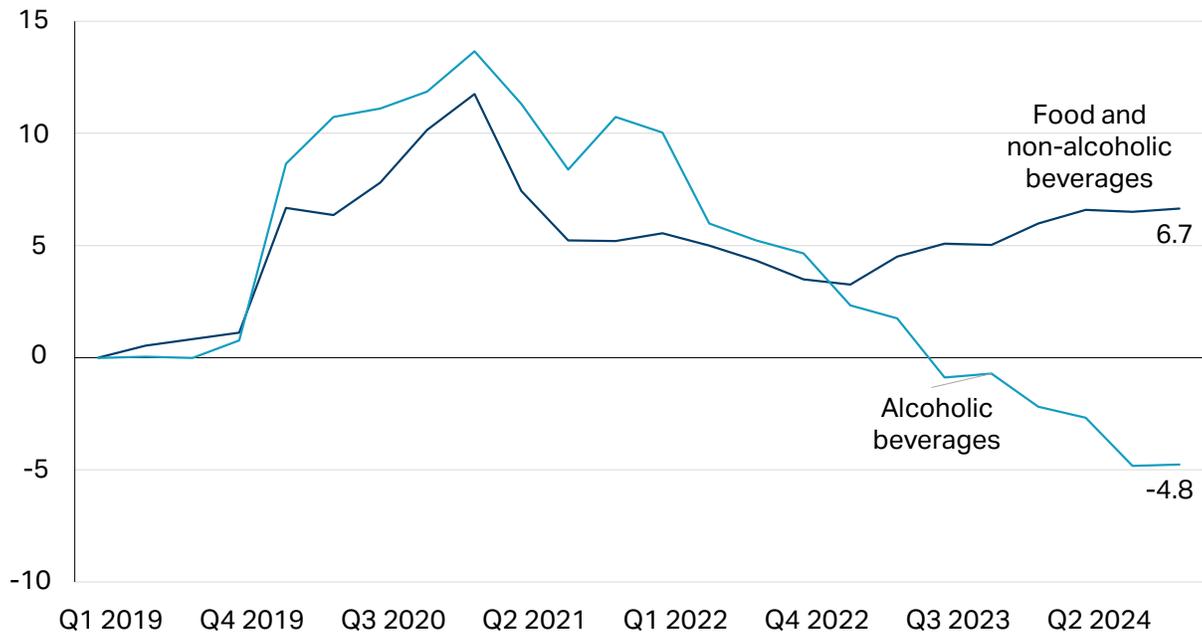
Historically, food and non-alcoholic beverage retail sales have fared better than other sectors during difficult economic times since they're necessities. Even so, uncertain economic times do not bode well for consumer demand overall.

Canadians' consumption of food and non-alcoholic beverages started to bounce back in 2024. However, consumption of alcohol continues to decline (Figure A.1). In 2025, consumers will continue to look for value in their food products and watch spending on premium or discretionary items.



**Figure A.1: Expenditure on food and non-alcoholic beverages rose in 2024, while alcohol fell again**

Change in real household spending since Q1 2019, percent



Source: Statistics Canada



## Opportunities and challenges for food and beverage manufacturers in 2025

The focus in 2024 was on [inflation](#). While it has slowed down, prices are still increasing (albeit at a slower pace) and the consumer remains under pressure. Price is an obvious factor when making food purchase decisions, but consumers also care about different attributes. Consumers are seeking [products that resonate](#) with them, whether it's a specific health attribute or a benefit they want. This is evident in the rising number of consumers following a specific diet, including high protein, low sugar, low carbohydrate, gluten-free, vegan, or choosing a specific attribute such as traceable ingredients and convenience.

Food manufacturers are also preparing for the rise in consumers turning to pharmaceuticals to manage their appetite, especially in the U.S. According to a recent study by Cornell and Numerator, within six months of adoption, households with at least one GLP-1 user reduced spending on groceries by 5.5%. The results varied by category, but calorie-dense, processed items were the hardest hit.

Finally, a diverse Canadian population has prompted interest in a wider variety of food products, offering opportunities to food and beverage manufacturers to serve growing market segments. Innovation to leverage trends in food preferences, evolving demographics and connections to health will be a valuable way to differentiate a product and drive sales.

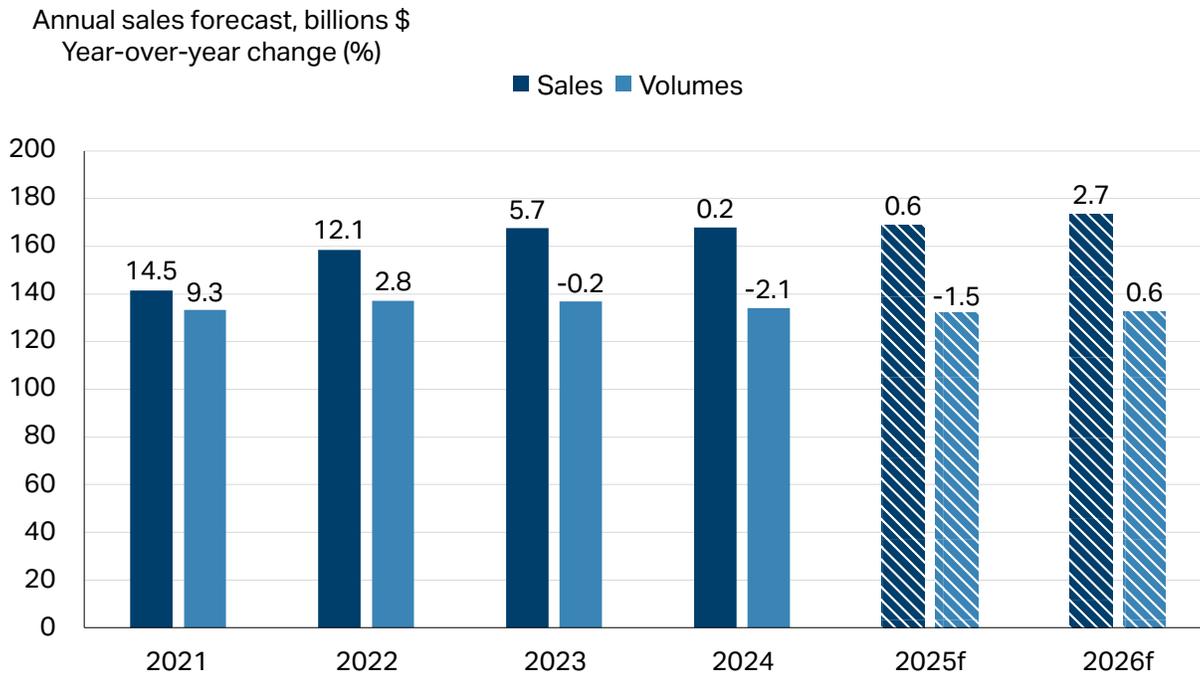
Each section of this report includes a Market Insights section highlighting a challenge or opportunity to watch in the market.



## Our projections for 2025

FCC Economics forecasts that food and beverage sales will increase 0.6% in 2025, from \$167.8 billion to \$168.8 billion. The sector continues to face an adjustment to volumes (that is, sales adjusted for inflation) following two years of strong growth in 2021 and 2022. Volumes remain above 2019 levels but are projected to drop -1.5% in 2025. Looking further to 2026, the trend looks positive for the sector with current sales projections up 2.7% and volumes up 0.6% over 2025 levels (Figure A.2).

**Figure A.2: Slow growth for food and beverage manufacturing in 2025**



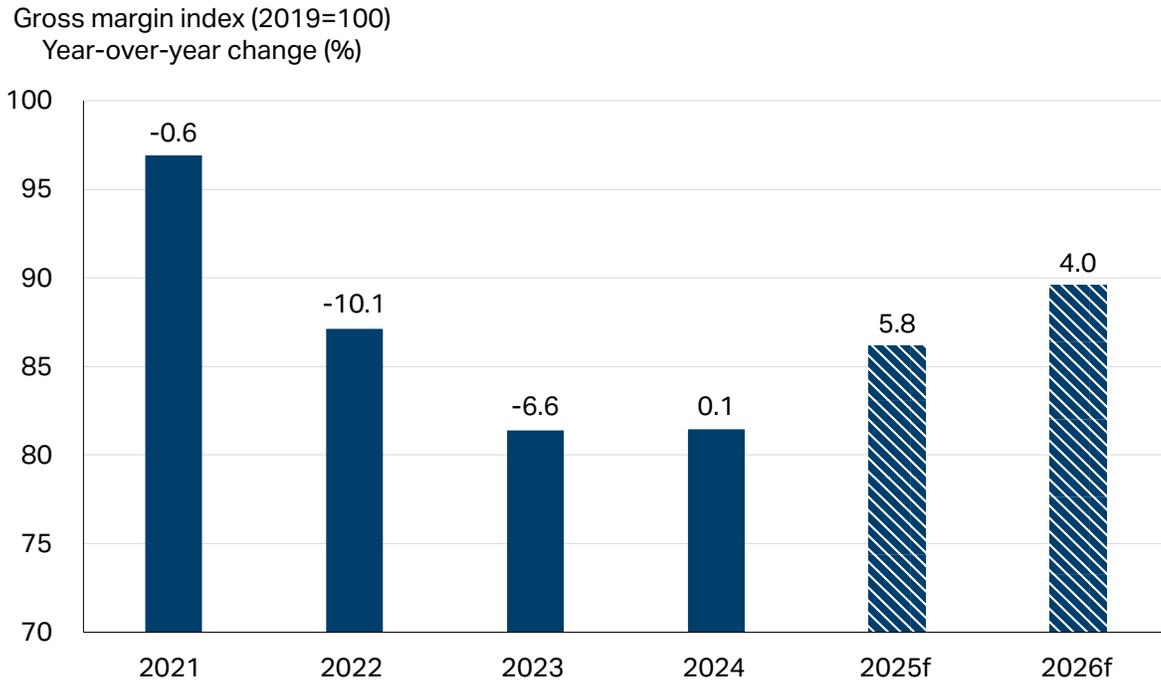
Total sales and volumes (in \$, billions) are on the vertical axis and shown by the height of each bar. The number above each bar is the year-over-year growth as a percent. Volumes are sales deflated by a price index (2020=100).

Source: FCC Economics, Statistics Canada



Gross margins for the food and beverage manufacturing sector will remain below 2019 levels, but margins will vary by sub-sector. The forecasted decline in raw material costs offset the increased cost to wages and benefits for food and beverage manufacturing. Although labour market pressures continue to ease, Canada's labour pool is aging, keeping pressure on wages. Combined with a small uptick in sales, margins are forecast to improve again in 2025 (+5.8%) and 2026 (+4.0%) (Figure A.3).

**Figure A.3: Food and beverage manufacturing gross margins forecast to grow in 2025 and 2026**



Source: Statistics Canada, FCC Economics



While the food and beverage sector faces many factors outside of its control, the biggest uncertainty heading into 2025 is the impact of trade disruptions on margins. Trade disruptions that impact the movement of food and beverage products will likely lower sales and exports, increase costs, and ultimately reduce margins. The impacts will be felt disproportionately by businesses whose sales are highly dependent on exports (Figure A.4) and for those with a weaker financial position going into the year.

**Figure A.4: Reliance on U.S. export market varies across sub-sector**



Source: FCC Economics, Statistics Canada

As such, food and beverage manufacturers would do well to prepare for the challenges ahead by strengthening their balance sheets, investing in processes and equipment to boost productivity, introducing product innovations, and seeking diversification towards non-U.S. markets.

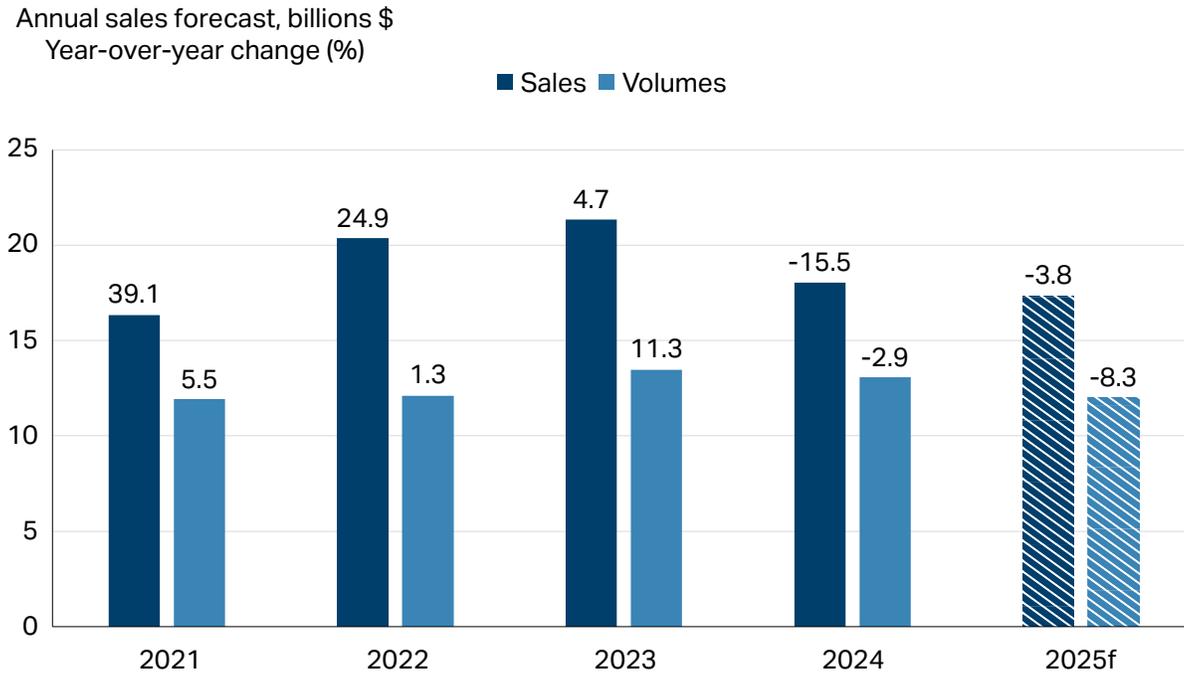
The 2025 FCC Food and Beverage Report provides sales and margins forecasts for each sub-sector.



## Grain and oilseed milling: Profitability softening coming off commodity supercycle

After a strong four years, including two years of double-digit year-over-year growth, lower prices translated to a -15.5% drop in sales in 2024. The sector is heading into another year of declines, with sales projected down -3.8% and volumes (that is, sales adjusted for inflation) down -8.3% (Figure B.1).

**Figure B.1: Lower grain and oilseed milling sales expected in 2025 after strong growth in recent years**

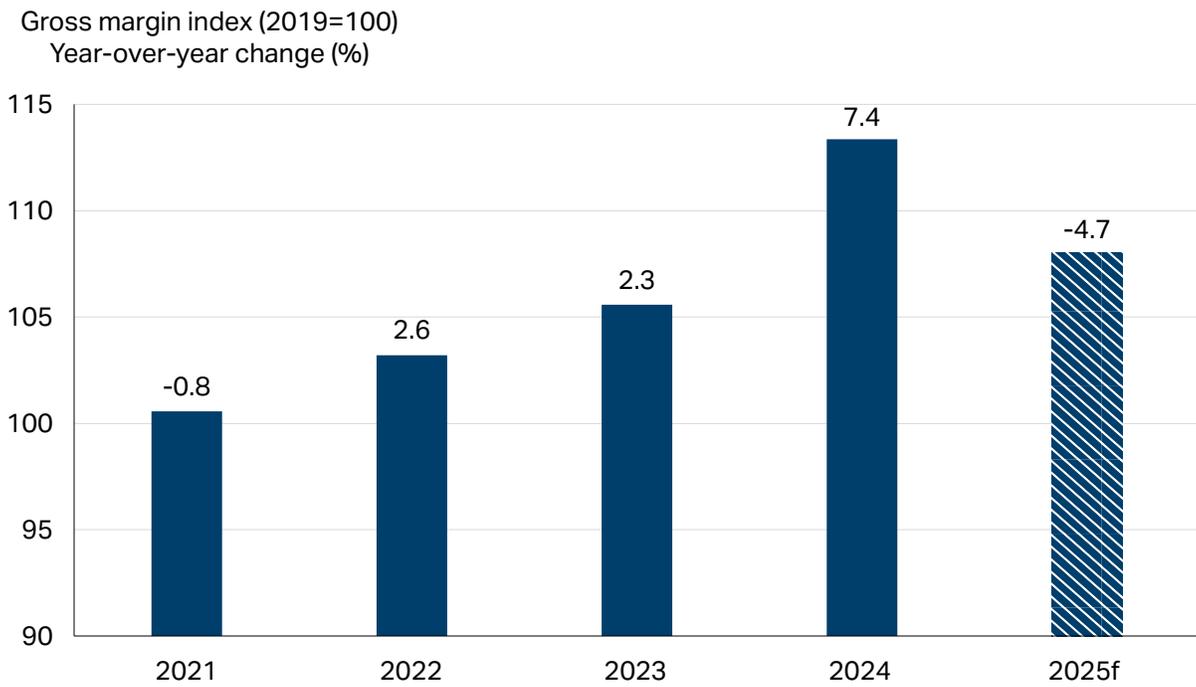


Total sales and volumes (in \$, billions) are on the vertical axis and shown by the height of each bar. The number above each bar is the year-over-year growth as a percent. Volumes are sales deflated by a price index (202001=100).

Source: FCC Economics, Statistics Canada

Despite lower sales in 2024, grain and oilseed milling still registered a large margin increase thanks to lower prices for key inputs like wheat, soybeans and canola. In 2025, we forecast these margins to fall slightly but remain up from 2023 (Figure B.2). Margins could fall further in 2025 if global trade disruptions persist causing weaker demand, particularly for oilseed products.

**Figure B.2: Margins forecasted down in 2025 but remain strong**



Source: FCC Economics, Statistics Canada

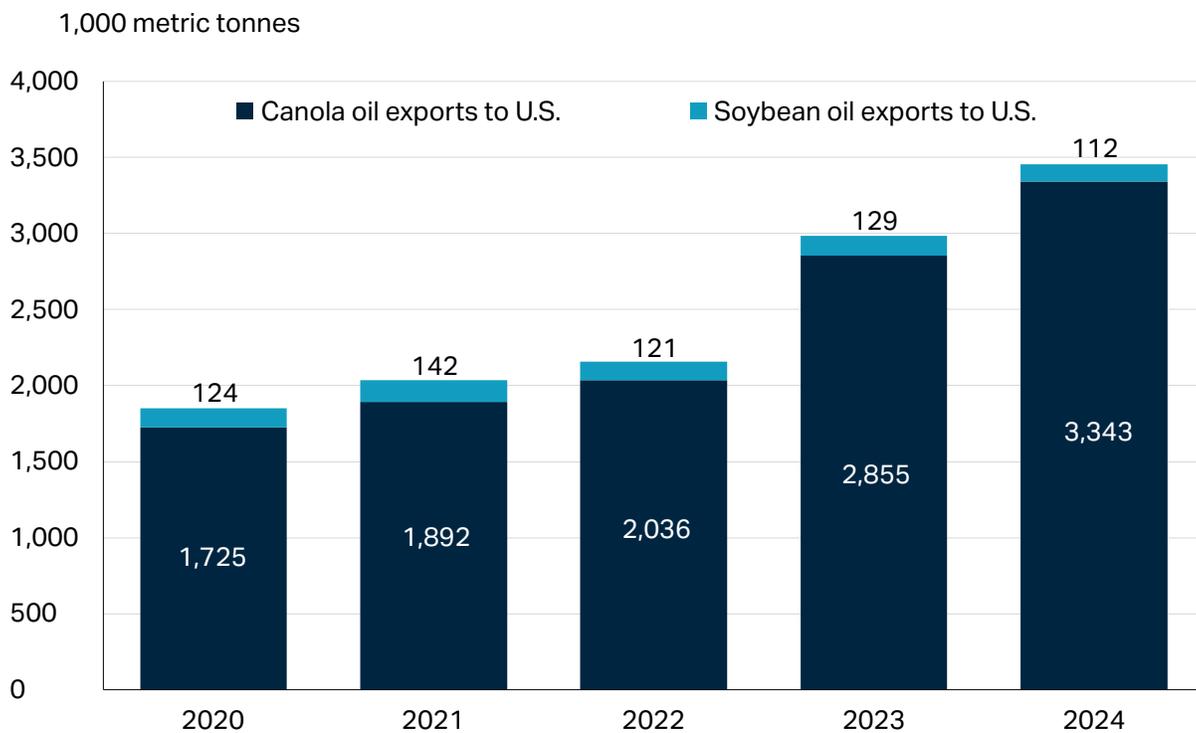


### Market insights: Biofuels demand uncertain in 2025

Biofuels rely on renewable feedstocks including vegetable oils, animal fats or used cooking oil. While the biofuel market in Canada remains relatively small, significant attention has been directed towards the U.S. in recent years. This results from U.S. federal and state policies that have spurred biofuel production through various incentive programs.

U.S. imports of biofuel feedstocks have grown significantly over the past five years and Canada's grain and oilseed milling sector has benefited from that growing demand. Between 2020 and 2024, Canadian canola oil exports to the U.S. increased 94%. A notable increase occurred in 2023 when the U.S. included canola oil as an eligible feedstock into their biofuels tax credit program (Figure B.3). This policy change also led to a significant shift in the use of canola oil in the U.S., with industrial uses now accounting for over half of canola use, compared to just a quarter before the announcement. Canada accounted for 91% of the U.S. canola imports in 2024.

**Figure B.3: Canadian vegetable oils respond to demand for biofuels feedstocks in the U.S.**



Source: Statistics Canada

However, the demand from the U.S. biofuels market in 2025 looks hazier compared to just a few months ago.

For starters, there's uncertainty surrounding fuel eligibility for the Clean Fuel Production Credit (45Z Tax Credit) in the U.S. This program is currently under review by the new U.S. administration, leaving biofuel producers and feedstock suppliers (like Canada) in a difficult position. This lack of clarity contributes to uncertainty, with the construction of two major biofuel production facilities in Canada on hold. As such, demand for soybean and canola oil has suddenly become more difficult to gauge. Those oils are key inputs into U.S. biofuel production and key outputs of the Canadian grain and oilseed milling sector.

Further complicating the situation for 2025 is the U.S. decision to withdraw the eligibility of imported used cooking oils as a feedstock and the potential for trade disruptions for Canadian exports. Without the use of imported used cooking oil, the demand for vegetable oils is likely to increase to fill the gap. However, trade disruptions could make Canadian exports more expensive to U.S. buyers, adding another layer of complexity to the market.

### Other trends to watch

- The grain and oilseed milling industry stands out from other food and beverage manufacturing sectors, doubling productivity in the last 20 years. The sector's ability to maintain strong productivity growth going forward will be key in determining margins.
- Rising consumer demand for alternative flours and grains, gluten free options, and products with specific nutritional benefits will likely continue opening opportunities for manufacturers targeting niche segments.
- While the sector is in a good financial position heading into 2025, approximately 60% of sales head to the U.S., the second largest in the food and beverage manufacturing sector. This means that the grain and oilseed milling sector is more vulnerable to trade disruptions compared to other sectors.



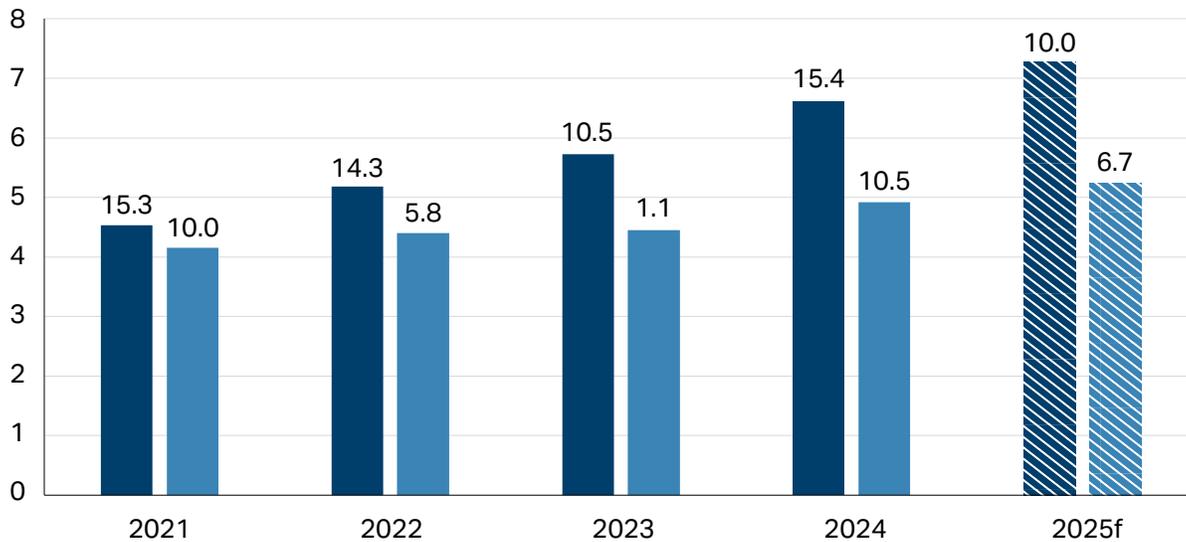
## Sugar and confectionery products: High reliance on exports to the U.S. clouds 2025 outlook

Strong prices helped drive the sector to double-digit sales growth between 2021 and 2024. Prices will drive sales again in 2025, forecasted up 10.0%, while volumes (that is, sales adjusted for inflation) are predicted to increase 6.7% (Figure C.1).

**Figure C.1: Sales trending upwards for sugar and confectionery product manufacturing**

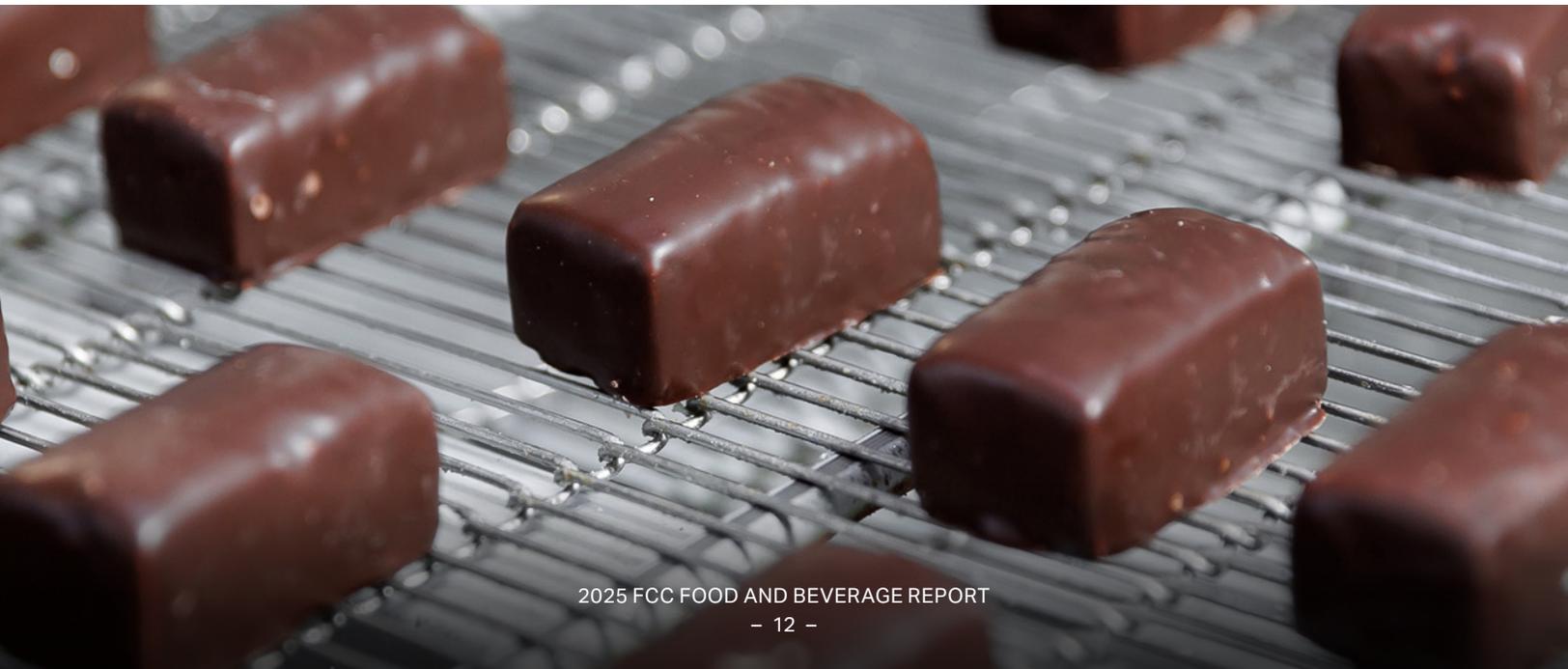
Annual sales forecast, billions \$  
Year-over-year change (%)

■ Sales ■ Volumes



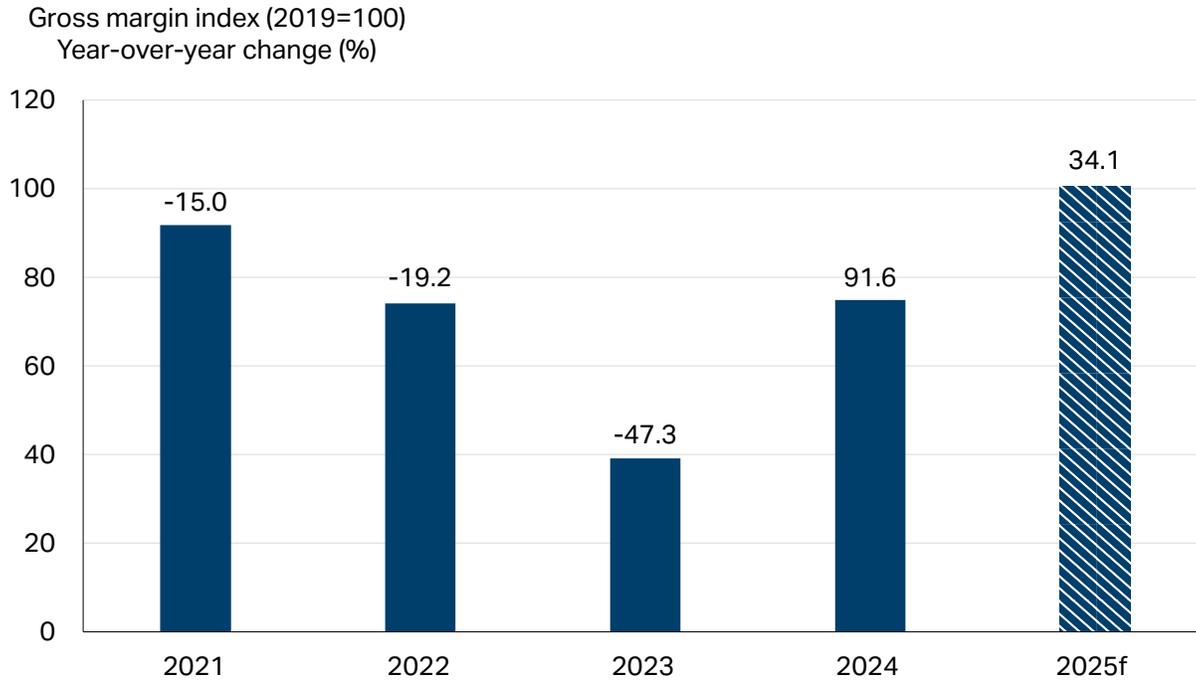
Total sales and volumes (in \$, billions) are on the vertical axis and shown by the height of each bar. The number above each bar is the year-over-year growth as a percent. Volumes are sales deflated by a price index (202001 = 100).

Source: FCC Economics, Statistics Canada



While manufacturers' expenses increased in 2024, revenues increased faster, boosting margins. In 2025, we expect strong revenue growth again, boosting margins further. (Figure C.2).

**Figure C.2: Higher margins for sugar and confectionery products reflective of strong sales projections**



Source: FCC Economics, Statistics Canada



[The 2024 Food and Beverage Report](#) highlighted the rise in sugar and cocoa prices due to poor weather, which damaged crops and reduced global supply. While some relief in sugar prices helped manufacturers in 2024, cocoa prices remained very high throughout the year. At this point, the market is showing little signs of relief for 2025. If cocoa prices stay high and trade disruptions persist, margins will be squeezed further in the sector.

### Market insights: Eyes on the American market

Approximately 80% of sugar and confectionery product manufacturing sales are destined for the U.S. As the primary market for the sector, businesses carefully watch trends in the American market, and no doubt U.S. trade policies are top of mind for 2025.

However, there are key differences for sugar and confectionery product manufacturing. In Canada, most refined sugar is used as an intermediate good in further manufacturing, and export markets account for less than 10% of sales. According to Statistics Canada, about two thirds of the total value of refined sugar ends up in food and beverage manufacturing, primarily sugar and confectionery, bakery and tortilla, and other food<sup>1</sup> (Table C.1). There is evidence that sugar manufacturers are feeling optimistic about the growth in these markets. Canada's top three sugar manufacturers are expanding their capacity to refine more sugar in the coming years to meet the increasing demand. This positive outlook aligns with FCC Economics forecasts for the food and beverage manufacturing sector in 2025 (Table C.1).

**Table C.1: Refined sugar is an important ingredient for food and beverage manufacturing**

Sector	Refined sugar use by industry (%)	FCC Economics change in sales estimates 2024-25 (%)
Sugar and confectionery products	25.6	10.0
Bakery and tortilla products	13.7	-3.9
Other food	12.4	0.8
<b>Total food and beverage manufacturing</b>	<b>66.1</b>	<b>0.6</b>

Source: Statistics Canada, FCC Economics

<sup>1</sup> Other food manufacturing includes businesses that manufacturing snack food, coffee and tea, flavouring syrup and concentrate, and seasoning and dressings.

With most sugar manufacturing sales in Canada destined for further processing, the impacts from trade disruptions will likely be felt indirectly. According to the Canadian Sugar Institute, about 45% of Canadian refined sugar is exported as an ingredient in food products. If the demand for Canadian food and beverage manufacturing slows down in the U.S., it could reduce the need for sugar from Canadian manufacturers.

On the other hand, confectionery manufacturing relies heavily on export markets, with over 90% of sales coming from exports. This means the confectionery sector will face more direct impacts from trade disruptions. These direct impacts could include declining sales and exports, increased expenses, and reduced margins.

Average annual export growth to non-U.S. destinations increased faster than growth in exports to the U.S. over the last five years (that is, 13.3% to other countries versus 12.5% to the U.S.), which shows there might be opportunities to diversify markets. That said, challenges related to logistics and production will have to be overcome if exporters are to exploit those opportunities fully.

### Other trends to watch

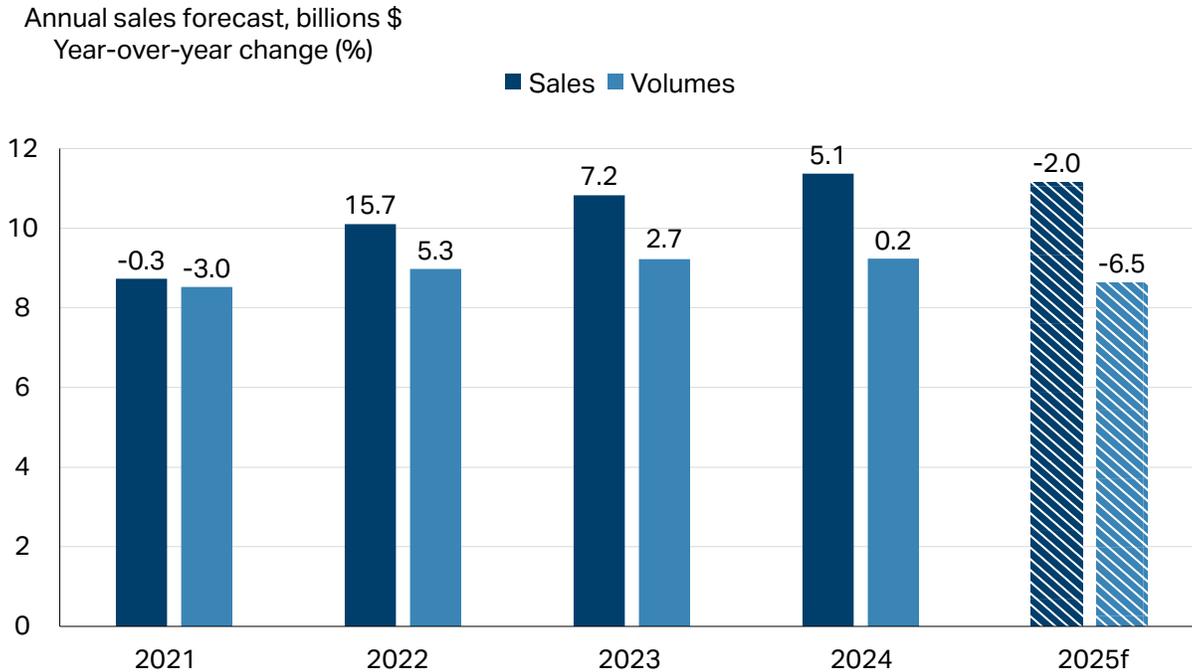
- The sugar and confectionery product manufacturing sector topped other food manufacturing sectors in innovation practices. According to Statistics Canada, almost 80% of businesses introduced at least one innovation (that is, product, process, marketing or organizational) between 2021 and 2023. For example, with soaring cocoa prices, companies are looking to innovate, such as with cocoa-free chocolate and lab-grown cocoa, to blend into confectionery recipes in the coming years.
- [Health-conscious consumers](#) seek reduced/no sugar food and drink options. The challenge for the sector is managing the cost and taste of products with lower sugar while navigating the rising use of alternative sugars.
- Strained budgets and a focus on health drive consumers to be more selective in their confectionery purchases, favouring quality over quantity.



## Fruit and vegetable preserving and specialty foods: Falling sales pressure already tight margins

Fruit and vegetable preserving and specialty food manufacturers, whose products are typically more affordable than fresh foods (for example, canned and frozen), tend to do well when times are tough. Strained household budgets coupled with high food inflation, high interest rates and uncertain times have helped boost sales over the last three years. However, with both inflation and interest rates falling, sales are forecasted to fall -2.0% (Figure D.1), while volumes (that is, sales adjusted for inflation) are expected to fall -6.5%, which aligns with volume sales in 2018 and 2019.

**Figure D.1: Fruit and vegetable preserving and specialty food sales to decline in 2025**



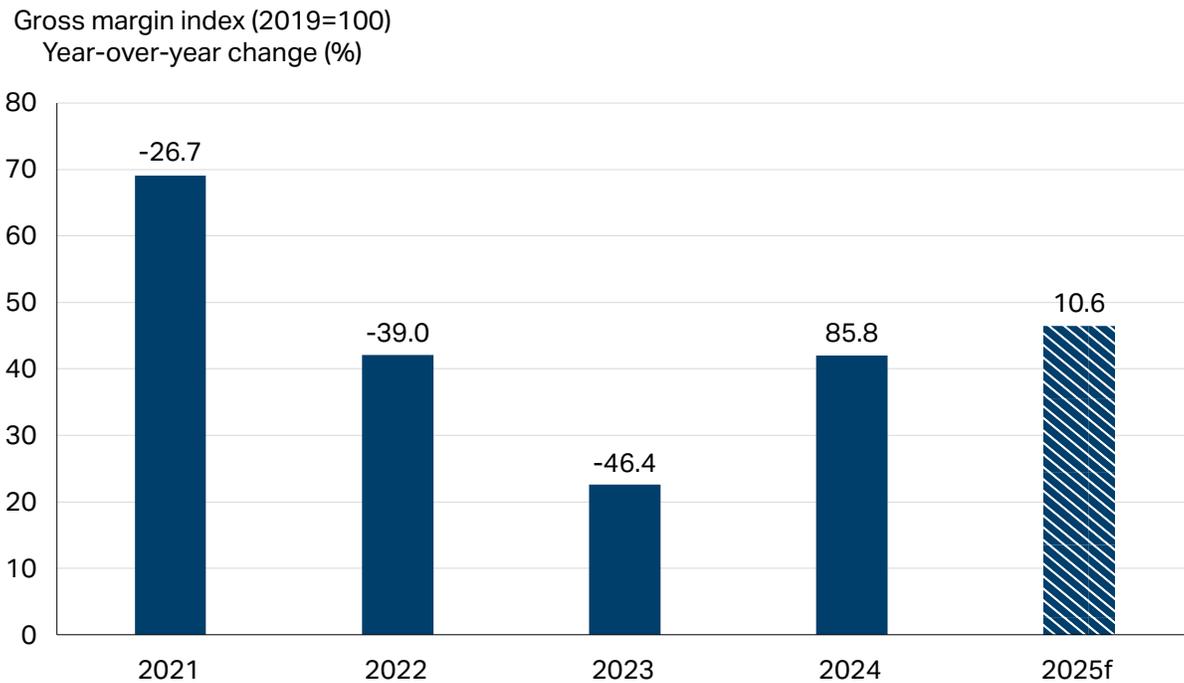
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Source: FCC Economics, Statistics Canada

While lower sales and higher labour costs add pressures to margins, raw material costs are expected to ease, giving a small boost to margins in 2025 (Figure D.2).



**Figure D.2: Fruit and vegetable preserving and specialty food margins see some relief in 2025**



Source: Statistics Canada, FCC Economics

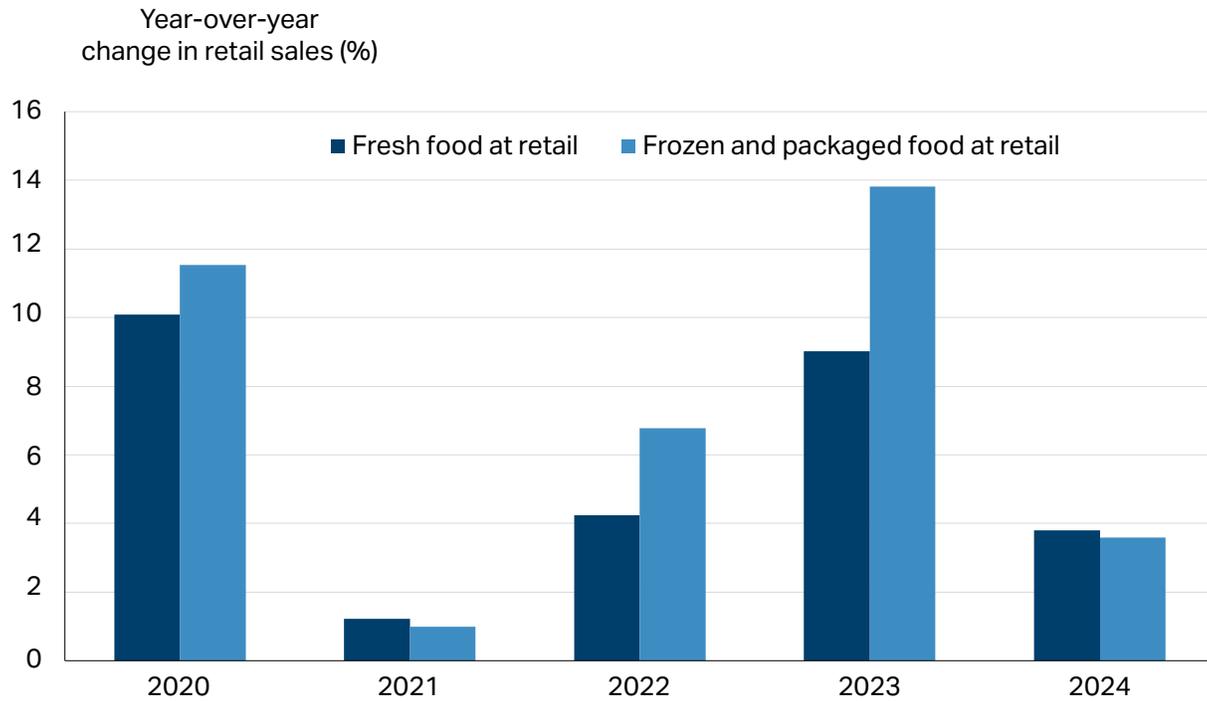
Aside from the above-mentioned short-term challenges, the industry also must grapple with structural issues that continue to weigh on the bottom line. Fruit and vegetable preserving and specialty food manufacturing was the only food manufacturing sector to record negative productivity growth between 2003 and 2023. Productivity has declined because businesses are usually labour intensive, small or medium-sized, or producing a wider variety of products. Established brands with strong recognition and loyalty among consumers continue to thrive and implement labour-saving technologies, while many small and medium-sized enterprises still rely on labour-intensive manufacturing processes.



### Market insights: Keeping consumers interested in frozen and canned products

Frozen and canned products came into the spotlight in recent years as consumers looked for ways to save money during uncertainty, rising prices and high interest rates. Retail sales of frozen and packaged food rose faster than fresh in three of the last five years. On average, frozen and packaged food increased 7.3% per year compared to an increase of 5.7% for fresh food (Figure D.3).

**Figure D.3: Frozen and packaged food sales at retail rising faster than fresh in three of the last five years**



Source: Statistics Canada



As inflation slowed and interest rates eased into 2024, fresh food sales increased faster than frozen and packaged. The challenge for 2025 is for manufacturers to maintain consumer interest.

The two main categories of the fruit and vegetable preserving and specialty food manufacturing sector are frozen food and fruit and vegetable canning, pickling, and drying. The sector's opportunity is in its diverse offerings. Focusing on what consumers demand across the entire food and beverage space marks a perfect starting point for manufacturers. Following up by introducing innovative products can help the sector stay relevant. Here are a few trends shaping consumer demand for food products going into 2025:

- 1. Convenience.** Households continue to be strapped for time and frozen food offers a solution. Marketing frozen foods as a pairing with fresh ingredients, as a quick snack or a full meal appeals to a range of consumers for convenient and flexible meal preparation solutions.
- 2. Food waste.** With a growing awareness of reducing food waste to align with sustainability interests or cost savings, canned and frozen products can extend shelf life and maintain quality longer than fresh.
- 3. High-low pairing.** While focused on their budgets, consumers still enjoy restaurant-quality meals and luxury items. Frozen meals that deliver premium, restaurant quality options or jellies and preserves that can add a touch of luxury without breaking the bank are an option to keep consumers interested.
- 4. Health.** Consumers are interested in food that helps meet their health goals such as managing weight, healthy aging and fitness. Focusing on creating products high in protein or fiber and low in sugar and sodium could appeal to some consumers.

#### Other trends to watch

- Competition from imports continues to rise. In 2024, 55% of the domestic supply of fruit and vegetable preserving and specialty food came from imported sources, up from 47% in 2014.
- Canned and frozen foods rely on packaging to preserve products, many of which are imported from the U.S. and may face increased costs due to trade disruptions.
- The fruit and vegetable preserving and specialty food manufacturing sector is especially vulnerable to trade disruptions as almost half of their sales come from the U.S. market, and profit margins have been thin in recent years. It would be difficult for the sector to pass on extra costs and/or manage through lower revenues.

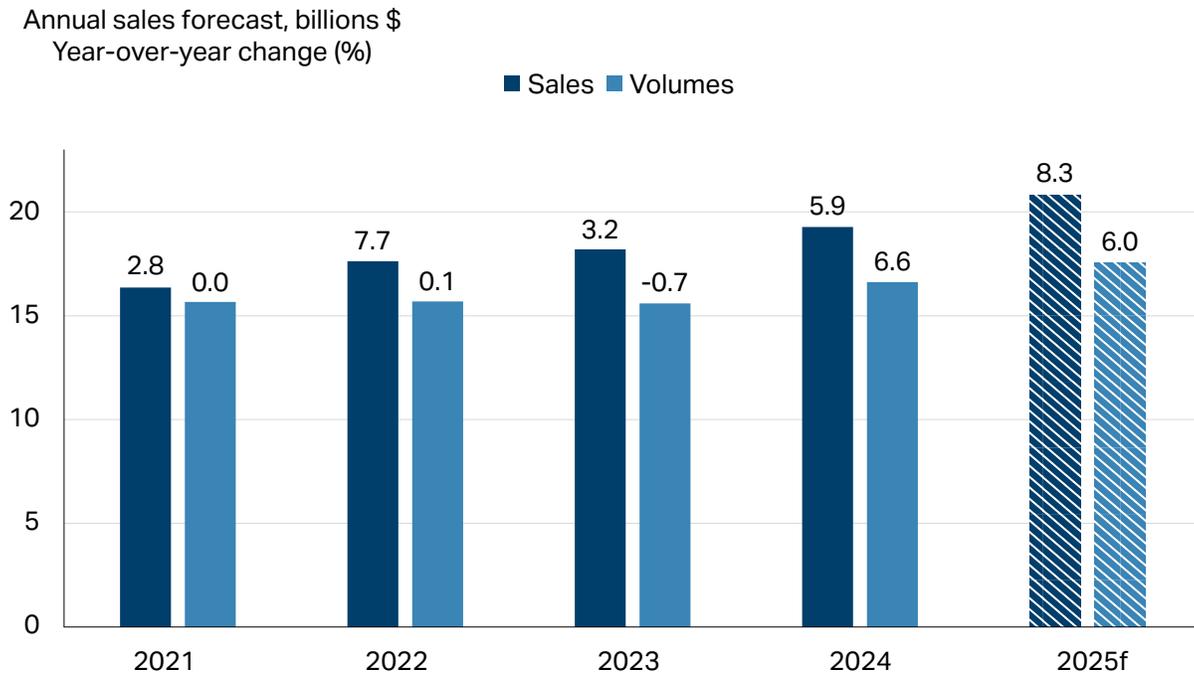


## Dairy product manufacturing: Strong demand supporting profitability

Another strong year for dairy product manufacturing sales is expected for 2025. FCC Economics forecasts an 8.3% increase in sales and a 6.0% increase in volumes (that is, sales adjusted for inflation), even with the prospect of slowing population growth (Figure E.1).

Milk sales from the farm were up in 2024 and are expected to grow again in 2025, supported by already announced quota increases and two incentive days per month until the end of November for Western Canada.

**Figure E.1: Dairy product sales poised for another year of growth**

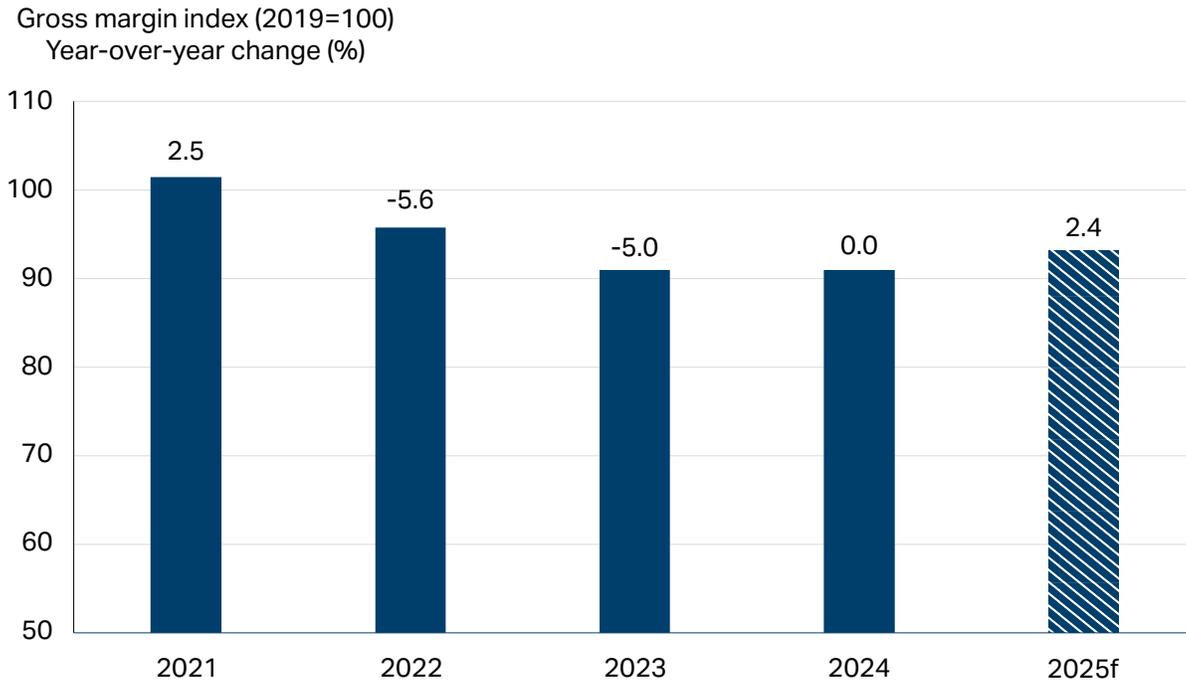


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Source: FCC Economics, Statistics Canada

Gross margins in the dairy product manufacturing sector remained stable over the past decade and are expected to improve in 2025, to the highest level over the past two years, as raw material costs decrease (Figure E.2).

**Figure E.2: Dairy product manufacturing margins to improve in 2025**



Source: FCC Economics, Statistics Canada

While the price farmers receive for their milk is based on production costs, the cost of milk for dairy product manufacturers varies according to the harmonized milk classification system. Dairy processors of milk, cream, yogurt, sour cream, ice cream and cheese will face little change in the price of dairy components in 2025 as the Canadian Dairy Commission decided to leave the farmgate prices of milk essentially unchanged (actual decrease of -0.0237%) this year. On the other hand, processors using dairy products as ingredients for further processing face prices set on the world market, resulting in less stable costs for these processors.



## Market insights: Protein-packed products

The demand for high-protein food and beverages continues to rise, and dairy products, naturally rich in protein, are well positioned to benefit from this trend. According to the International Food Information Council's Food and Health Survey, high-protein diets were the most popular diet in 2024. In the survey, 71% of respondents aimed to include more protein in their diets, up 12% from 2022.

The versatility of dairy products and ingredients allows the industry to focus on marketing the protein content of traditional dairy products like fluid milk, yogurt and cottage cheese, but also provide protein ingredients to other food processing, such as bakery, snack bars and beverages. One example is the uptick in protein-added fluid milk in recent years. After years of declining per capita fluid milk consumption, tapping into consumers' desire for high-protein products is one way to try and reverse this trend. In addition, high-protein products often command a premium price, providing opportunities to manage margins.

## Other trends to watch

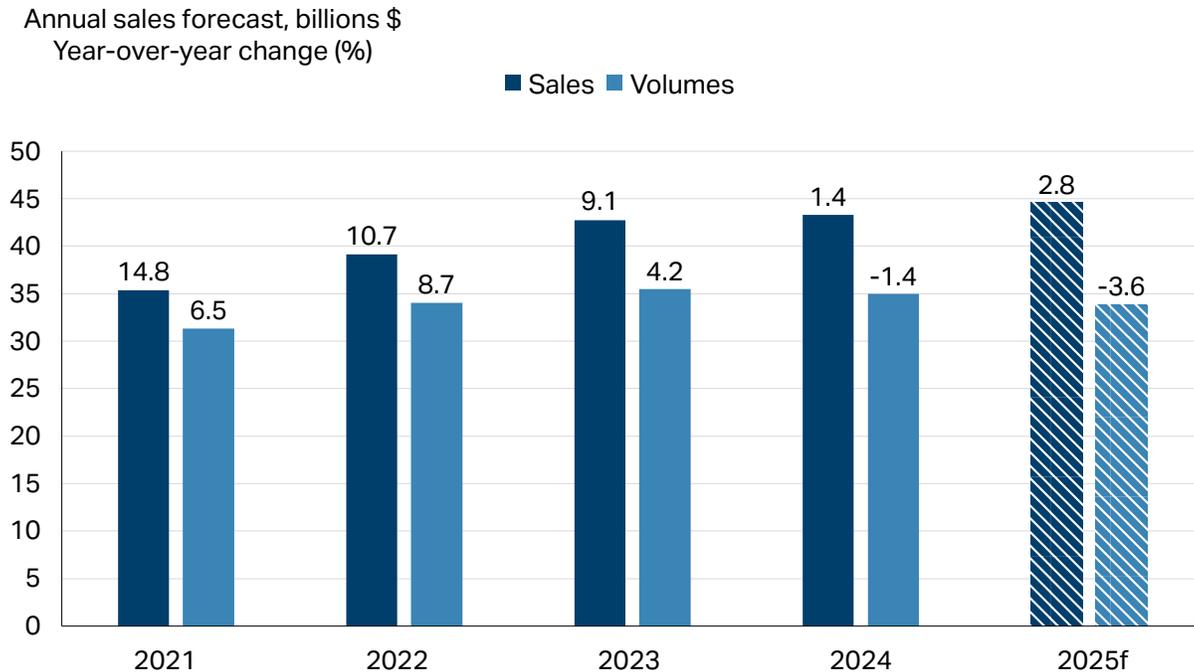
- Trade is not a significant contributor to sales, so the sector is less vulnerable to trade disruption impacts than other sectors. However, the cost of non-dairy raw materials from outside Canada, including packaging, could rise under U.S./Canada trade disruptions, negatively impacting margins.
- Although the review of the Canada-U.S.-Mexico (CUSMA) agreement is not until 2026, discussions around provisions related to the dairy sector could emerge in 2025.
- The dairy industry is already innovating with new product lines focused on protein tailored for those using appetite suppression medications (for example, Ozempic), but watch for more opportunities in the high-protein, low-sugar space in 2025.
- An increasingly diversified population and changing dietary patterns have shifted dairy consumption over the past decade. Per capita consumption of fluid milk has declined, while demand for other processed dairy products is on the rise. According to the Canadian Dairy Commission, consumption across major dairy product categories was up in 2024, with butter (+2.7%) and ice cream (+2.1%) being the highest.
- Stocks of butter trended near their five-year low to start 2024 but were slowly rebuilt in the latter half of the year. December 2024 stocks were the highest levels recorded for that month since 2019. When adjusted for population growth, however, stocks are still relatively tight. If butter inventory continues to build in the first half of 2025, production growth could slow towards the end of the year.



## Meat product manufacturing: Rising prices not likely enough to offset rising input costs

In 2024, the meat product manufacturing sector saw a sales growth of 1.4%, continuing a decade-long trend of consistent year-over-year increases (Figure F.1). However, it was also the first year since 2020 that the industry experienced a decline in volumes (that is, sales adjusted for inflation), dropping by -1.4%. FCC Economics forecasts that prices will continue to drive sales into 2025. Sales are forecast to increase 2.8%, with volumes down -3.6%.

**Figure F.1: Sales for meat manufacturing steady on higher prices, volumes drop**

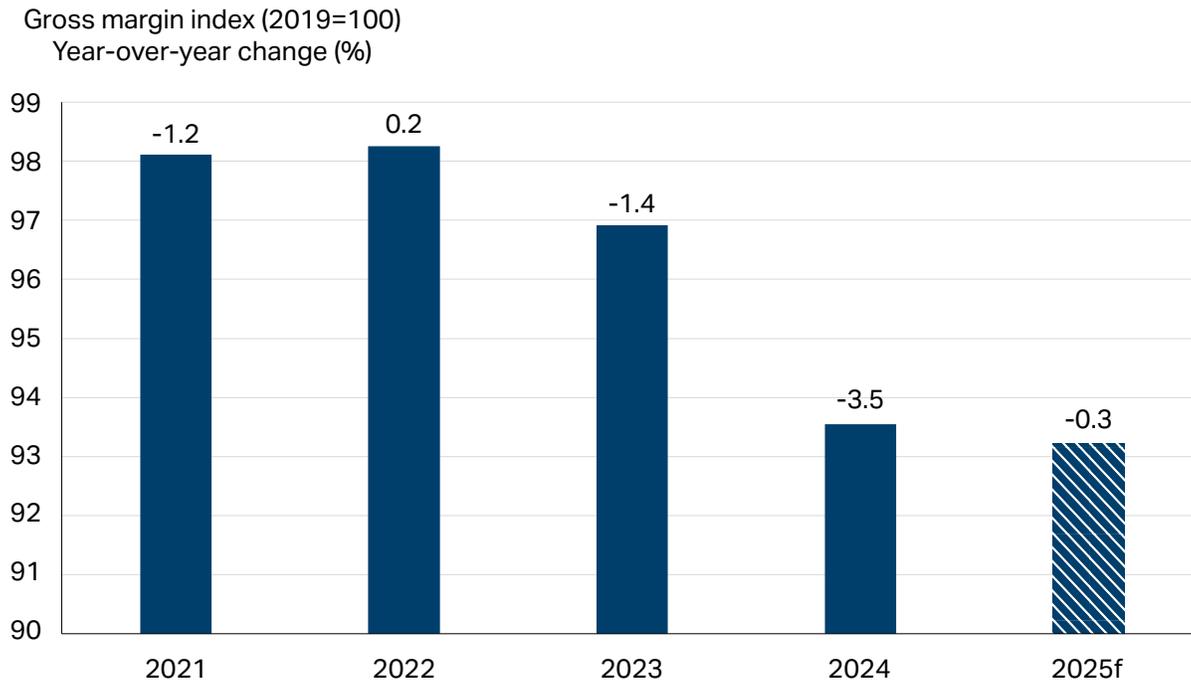


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Source: FCC Economics, Statistics Canada

It's expected that 2025 will be a challenging year for pork and beef manufacturers' margins (Figure F.2). Supplies of cattle will be tight, keeping input prices high for the sector's key input. On the other hand, the hog supply is robust but market demand for pork is uncertain. In addition, domestic demand for all meat is waning, and sales to China and the U.S. will face off against potential trade disruptions, including the looming voluntary country of origin labelling requirements.

**Figure F.2: Meat manufacturing margins to remain steady in 2025**



Source: Statistics Canada, FCC Economics

However, [trade disruptions](#) could lead to a different outcome. The impacts would be twofold, and how margins will turn out at the end of the year will depend on the magnitude of each change. If demand from the U.S. declines for live cattle and hogs, Canada would have an excess supply of animals. In this case, lower prices would prevail, helping manufacturers' raw material costs. On the other hand, lower demand and prices from key export markets such as the U.S. and China would offset this gain to some degree.

Poultry processing faces a mixed outlook for 2025. There's optimism for chicken processors as stocks start to deplete from a high in 2023 and chicken prices stabilize at the farm level. In addition, chicken prices at the grocery store increased more slowly than beef and pork in 2024, helping chicken stay price competitive with consumers. Canadian chicken demand remains strong, but demand for other poultry meats will continue to face headwinds in 2025. Finally, the poultry processing sector will see less impact from any global trade disruptions due to its limited exposure to this market.

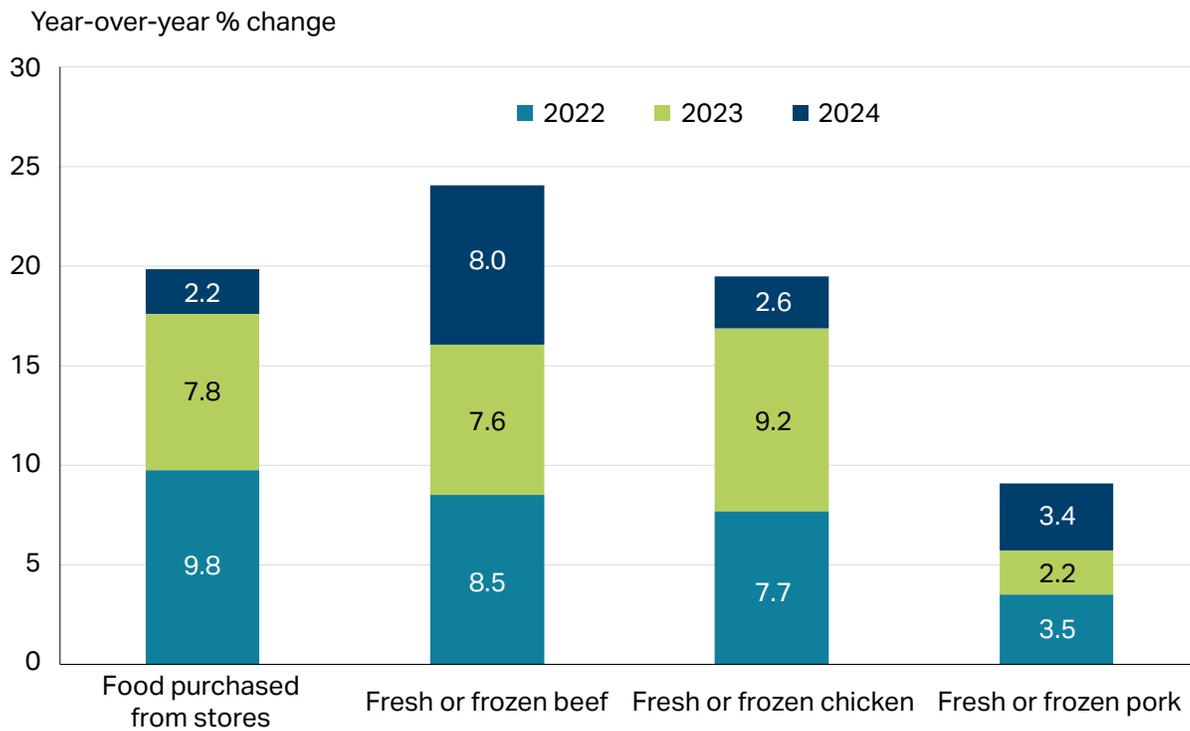


### Market insights: Making the cut at home and abroad

Approximately 70% of meat manufacturing sales are earned in Canada, and price plays a role in what type of meat Canadians are purchasing. Beef prices at the grocery store rose the fastest over the past three years, followed by chicken and pork, and faster than the overall food category (Figure F.3).

The FCC Economics demand index measures both demand, what consumer prefer to buy, and consumption, what consumers actually buy. According to the index, in 2024 consumers demand and consumption of beef, pork and chicken declined compared to 2023.

**Figure F.3: Chicken becomes more price competitive in 2024 as beef and pork prices rise**



Source: Statistics Canada



Even with rising prices, meat remains a staple in the shopping carts of Canadians, representing the largest expenditure category for food products. This is both due to its generally higher prices compared to other categories but also the long-standing desire to include meat in diets.

Exports accounted for the remaining 30% of meat manufacturing sales in 2024 (Figure F.4). The pork sector relies the most on exports compared to other meats. Nearly half of all exports flow to China and the U.S., with the other half going to growing markets such as Japan, Mexico, Philippines and South Korea. The situation in poultry is in stark contrast to beef and pork, relying almost exclusively on domestic markets for sales. In 2025, pork and beef manufacturers should increase focus on the markets outside of the U.S. for export opportunities given the increased likelihood of trade disruptions. Poultry should capitalize on strong appetite among Canadians for chicken and its price competitiveness against beef.

**Figure F.4: Meat manufacturing sales by location**



Source: Statistics Canada, FCC Economics

**Other trends to watch**

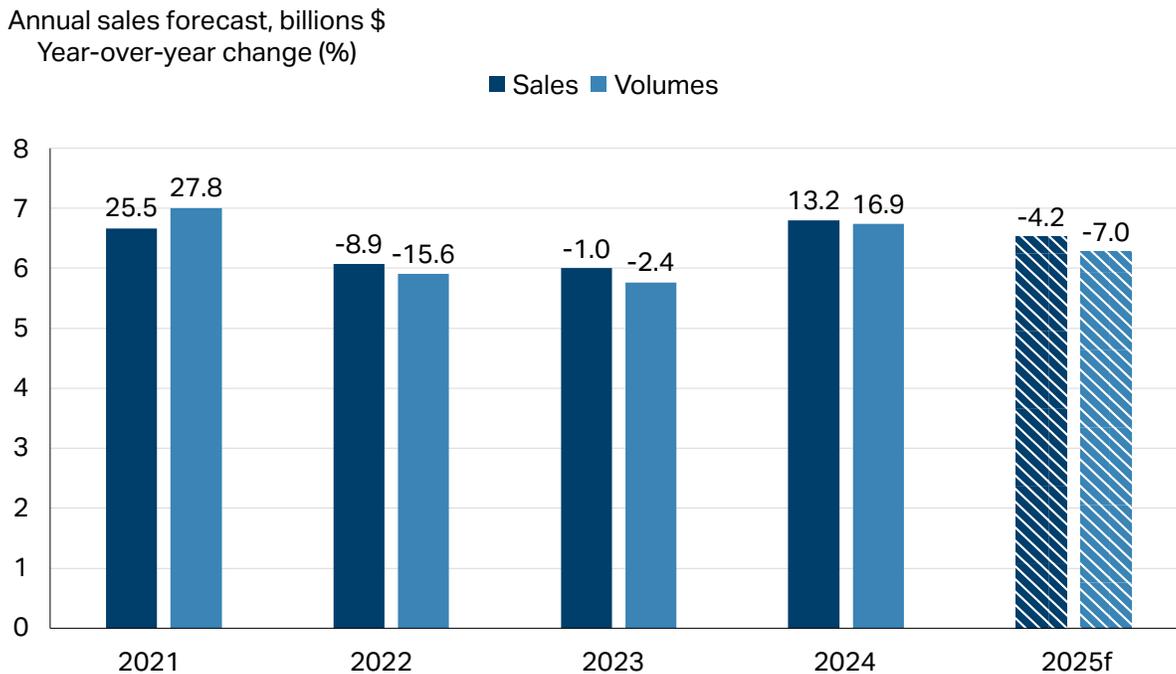
- Plant-based protein products aren't growing as fast as projected in recent years. A segment of consumers regard these products as having an inferior taste, highly processed and costing more. Brands will need to revisit strategies to match products with consumer preferences better.
- The USDA issued their final ruling on voluntary country of origin labelling (vCOOL) for beef and pork products. Starting January 1, 2026, beef and pork must be sourced from cattle and hogs born and raised in the U.S. to be labelled "Product of USA". This could raise the cost of doing business for U.S. buyers and Canadian exporters, resulting in negative profitability impacts for Canadian producers.
- Diseases pose a significant risk across the sector, generating volatility and challenging margins if large-scale outbreaks occur. Avian influenza and African swine fever are top of mind for 2025.
- Strong demand for dairy cattle will continue to pressure available cattle for meat manufacturing.

## Seafood preparation: Challenges with dependency on U.S. market

As anticipated in last year's FCC Food and Beverage Report, seafood preparation sales rebounded in 2024. Sales increased 13.2% while volumes (that is, sales adjusted for inflation) jumped 16.9%. After this rebound, sales and volumes are forecast to fall in 2025 but not wipe out all the gains from 2024 (Figure G.1).

Sales depend on the relative price versus other proteins like beef, pork and chicken. In 2024, prices for fish and seafood products declined -1.3%, contrasting sharply with price increases for beef, poultry and pork. A similar trend happened in the U.S., Canada's largest market for sales. Fish and seafood product prices increased 0.9%, which was slower than beef and pork and slightly above poultry. This partly explains last year's rebound in the sector's sales.

**Figure G.1: Lower sales expected in 2025 following one year of growth**

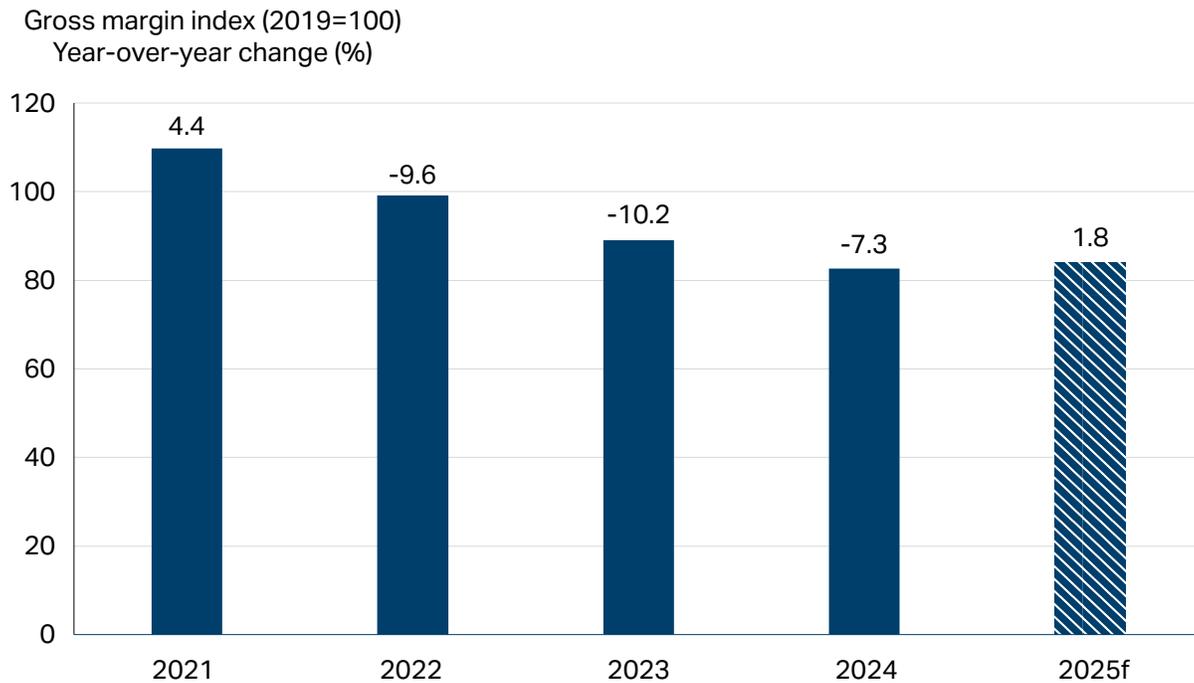


Total sales and volumes (in \$, billions) are on the vertical axis and shown by the height of each bar. The number above each bar is the year-over-year growth as a percent. Volumes are sales deflated by a price index (202001 = 100).

Source: FCC Economics, Statistics Canada

However, the sector faced challenges in 2024 as margins fell for the third year in a row (Figure G.2). Fish, crustaceans, shellfish and other fishery products accounted for three-quarters of raw materials (that is, excluding wages) by value, according to Statistics Canada. This reliance on a few products means margins within the seafood processing sector are heavily tied to prices of fish and seafood. These prices are highly variable, depending on natural conditions in the waters that dictate the supply and quality of fish and seafood products available during harvest. Challenges with both supply and quality in 2024 pushed prices up. Although we anticipate a small margin bump in 2025, prolonged trade disruptions impacting Canadian exports will likely wipe away any positive margins for the sector this year.

**Figure G.2: Seafood preparation margins struggling, trade disruptions will make it worse**



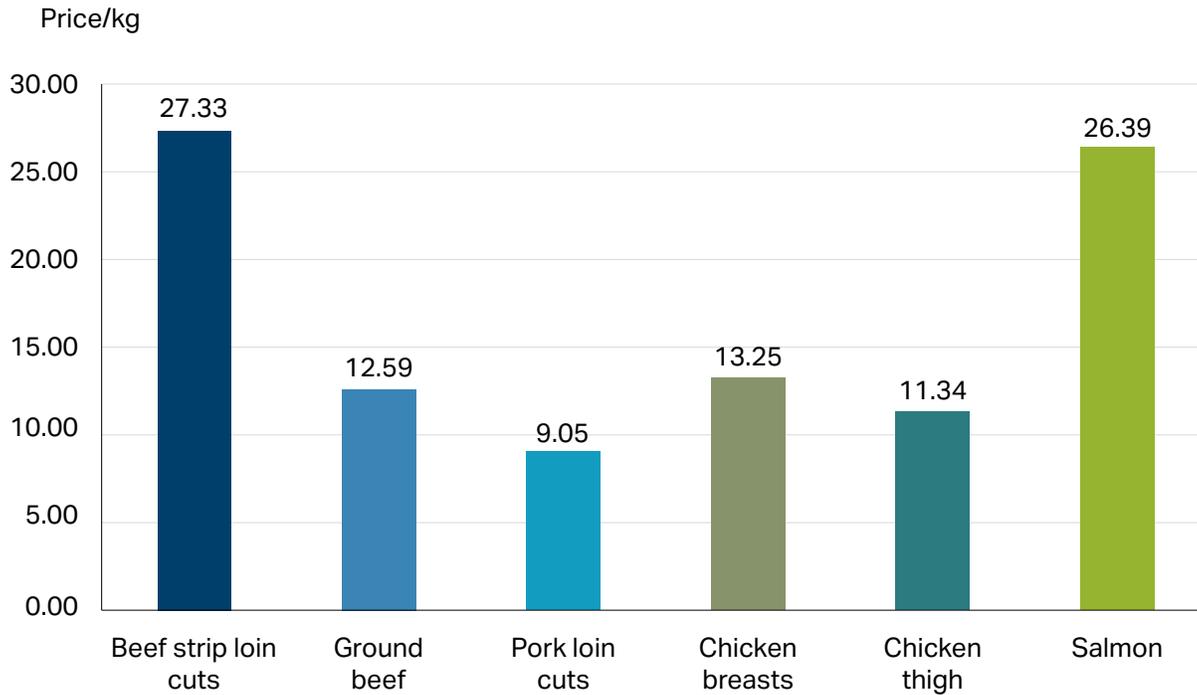
Source: FCC Economics, Statistics Canada

### Market insights: Export markets continue to drive sales

The domestic market makes up a small percentage (about 20%) of seafood preparation business sales as most goes to the global market. Fish and seafood are not staples for most households in Canada. Even though they're a healthy, low-fat protein option, increasing per capita fish and seafood consumption in Canada has always been an uphill battle. Fresh fish and seafood products can be priced higher than other protein sources, which can be an obstacle for consumers, especially when money is tight (Figure G.3).



**Figure G.3: Salmon price per kilogram comparable to strip loin steak, much higher than chicken and pork**



Source: Statistics Canada, FCC calculations

Seafood sales are also cyclical in Canada. Fresh seafood sells best in summer months and around holidays. Frozen seafood is less cyclical, with sales stronger over winter. Sales of canned seafood are less dependent on the season and are more dependent on income.

Instead, the sector relies on exports to drive sales. Fisheries and Oceans Canada forecasts global consumption of seafood products to grow over the next three years, supported by rising incomes worldwide.

In fact, 80% of sales from the sector in 2024 headed out of the country. After two years of declines, exports were up 10% in 2024. The U.S. is the primary market for Canada's seafood products, mainly lobster, crab and salmon. According to NOAA Fisheries, U.S. per capita consumption of fishery products was 19.7 pounds per person in 2022, down slightly from 20.5 in 2021. While inflation pressured consumption of fresh and frozen products in 2022, canned products increased. China ranks second, accounting for 12%.



### Other trends to watch

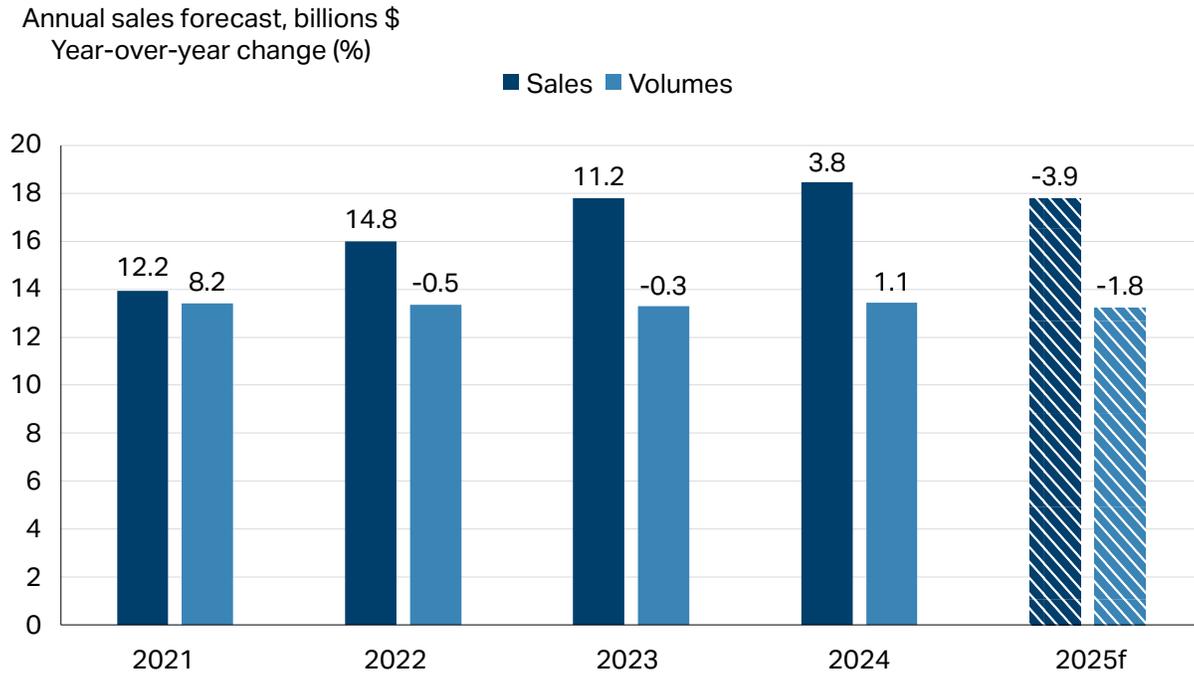
- The Comprehensive Progressive Trans-Pacific Partnership (CPTPP) and the Canada European Trade Agreement (CETA) have expanded Canada's access to numerous markets including Japan, Malaysia, Vietnam, New Zealand and the EU. It will be interesting to see how Canada can use those agreements to diversify markets.
- Canadians demand affordable prepared and packaged seafood products as a lower priced option compared to fresh. However, the sector faces fierce competition from lower priced imports in this category.
- The adoption of technology to process seafood using robotics and [automated processes](#) is helping reduce labour costs, increase product consistency and improve traceability. It's easier for larger businesses to adopt these technologies due to the ability to spread fixed costs over larger production.



## Bakery and tortilla products: Lower commodity prices supporting margins

Over the last three years, sales of bakery and tortilla products were influenced by large price increases, with volumes remaining relatively stable year over year. In 2025, FCC Economics forecasts sales to decline -3.9% and volumes (that is, sales adjusted for inflation) -1.8% (Figure H.1).

**Figure H.1: Bakery and tortilla product sales and volumes expected to decline in 2025**



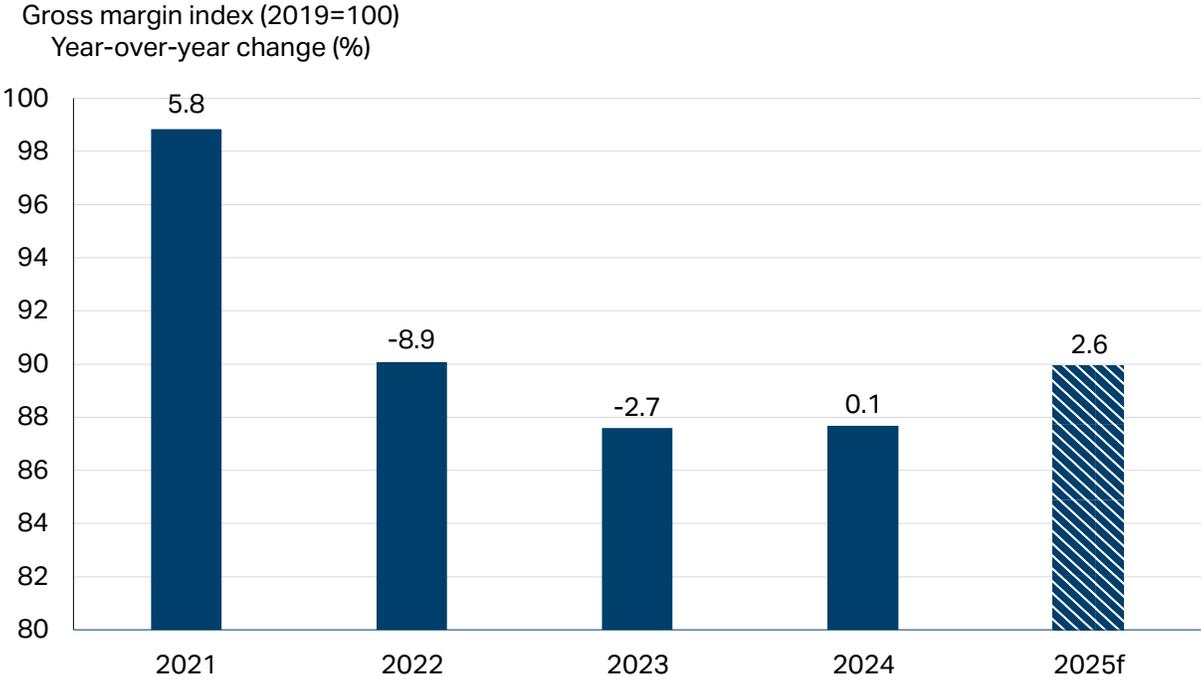
Total sales and volumes (in \$, billions) are on the vertical axis and shown by the height of each bar. The number above each bar is the year-over-year growth as a percent. Volumes are sales deflated by a price index (202001=100).

Source: FCC Economics, Statistics Canada



High grain prices in 2022 and 2023 impacted flour prices, the primary ingredient for the bakery and tortilla product manufacturing sector, pressuring margins down. As grain prices decline from historical highs and progress through the supply chain, margins demonstrate resilience. They improved in 2024 and are forecasted to increase again in 2025 (Figure H.2). However, depending on their recipes, manufacturers will likely still have to contend with higher sugar, egg, oil and cocoa prices this year.

**Figure H.2: Margins to improve again in 2025**



Source: FCC Economics, Statistics Canada



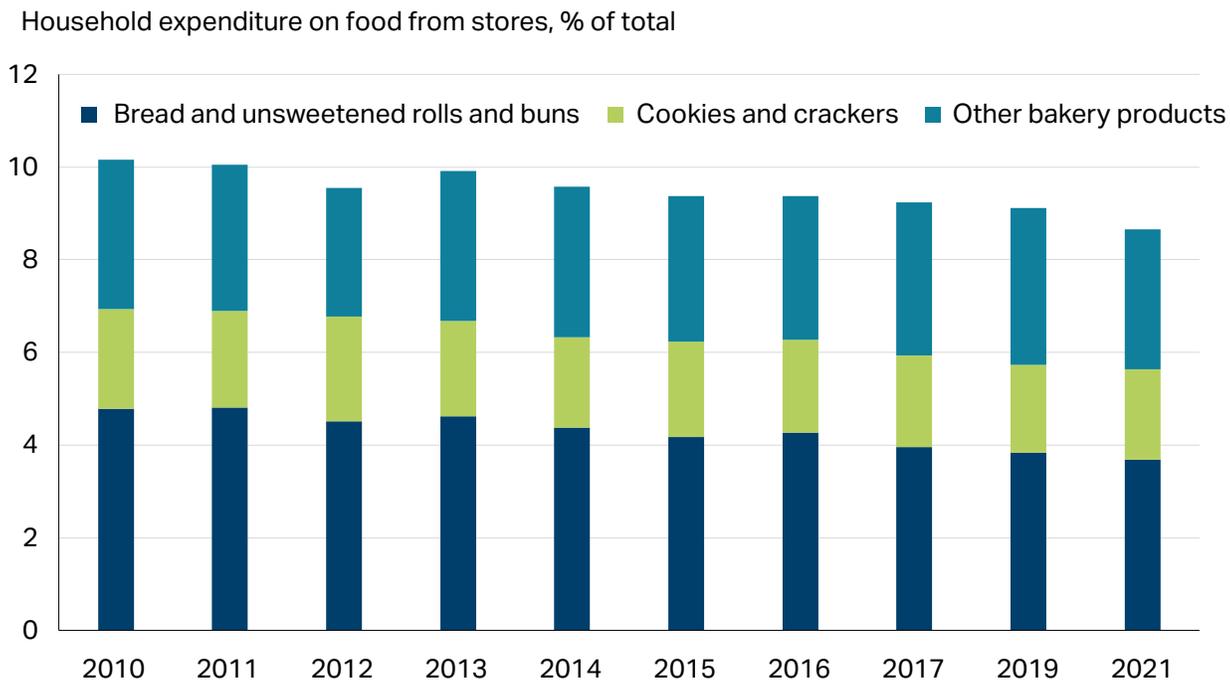
According to Statistics Canada, flour products and margarine/cooking oils are the two largest input categories by value (excluding wages), while sugar is sixth. The cost of many of these top inputs soared over the last five years. Flour and cooking oil prices reached highs in 2022 and sugar in 2024. Cocoa prices also rose to record highs in 2024.

Prices are expected to stay below these highs in 2025; however, this may change depending on the harvest outcomes over the next year. While flour and cocoa prices are likely to be more reliant on short-term weather-related impacts, vegetable oil, margarine and sugar prices are also impacted by the global demand for biofuels. (For more information on biofuels, refer to [Grain and oilseed milling](#)).

### Market insights: The opportunity in novel ingredients

Consumers are not spending as much of their budget on bakery products as they have in the past (Figure H.3). According to the biennial Survey of Household Spending (SHS), in 2021, bakery products made up 8.7% of a household’s average expenditure on food from a store, down from 10.2% in 2010. The decline is partly due to lower inflation in bakery products compared to overall food purchased from stores over this period. However, it’s also impacted by health trends towards low carbohydrate and gluten-free diets that threaten this category’s ongoing importance for consumers. While the 2023 SHS results won’t be released until later this spring, we anticipate the bakery category will show a small price-induced uptick in household expenditures. Between 2021 and 2023, bakery prices increased faster than food purchased from stores. This reversed in 2024 as lower commodity prices for key grain and oilseed inputs worked through to final bakery products.

**Figure H.3: Declining share of household budget spent on bakery products**



Source: Statistics Canada

Whether their motivation is health, budget or tastes, consumers are interested in reading the ingredient list and knowing what's in their food. For the bakery industry the opportunity lies in the ability to use various ingredients to create innovative recipes to meet the needs of consumers.

Incorporating different grains, functional ingredients, and flavours to reinvigorate the traditional bread or bun can create excitement for staple products while meeting consumers' demand for different nutritional properties such as gluten free, high protein or high fiber. Indulgent experiences like cookies or pastries will likely benefit from innovative flavour pairings and aesthetically pleasing displays. Keeping quality over quantity in mind will also be important as consumers try to manage their health and budget while still enjoying indulgences. The good thing for manufacturers is that products using innovative ingredients that stand out from other products typically command a premium price.

### Other trends to watch

- The Canadian market represented over 50% of sales in 2024. However, this share has declined over time, with exports growing by about 13% yearly over the last decade.
- The U.S. is the largest market for Canadian exports of bakery products, accounting for 97%. The increased share of sales destined for international markets and the reliance on the U.S. market increases the sector's vulnerability to trade disruptions.
- A key market for the bakery and tortilla product manufacturing sector is [foodservice](#). According to Statistics Canada, the foodservice sector accounts for approximately 10% of bread, rolls and flatbread use by value. The most recent quarterly report by Restaurants Canada forecasts foodservice sales to grow 3.9% in 2025, led by caterers (+4.3%) and quick-service restaurants (+4.0%).

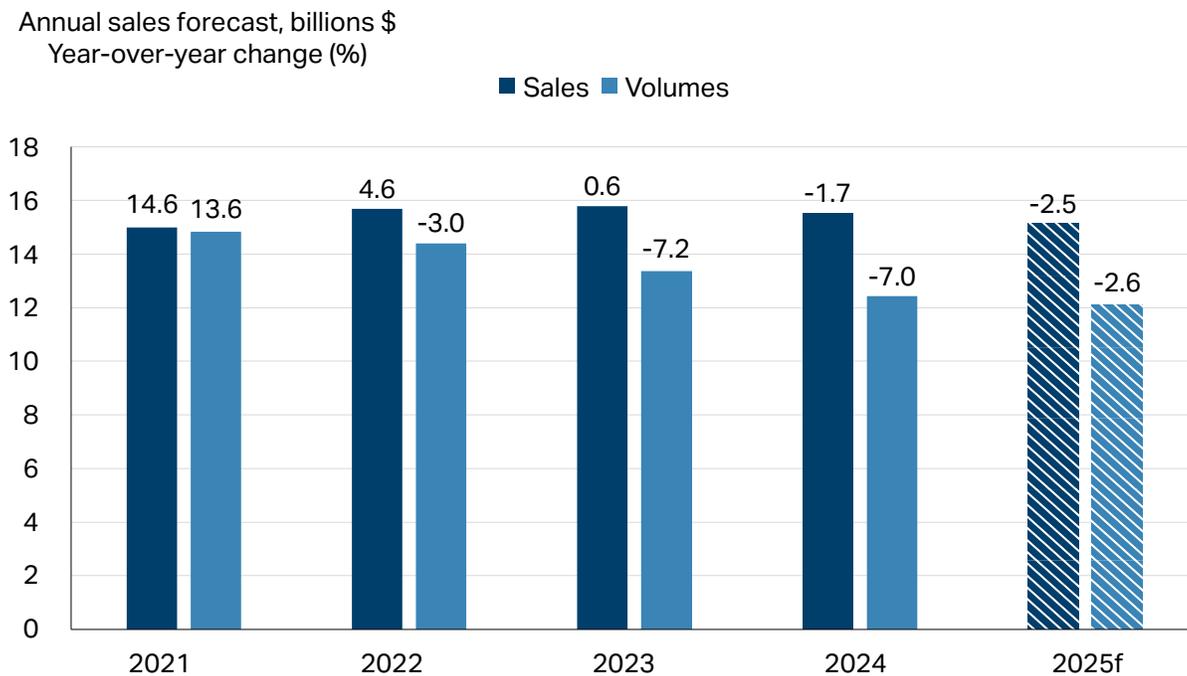


## Beverage manufacturing: Consumers move away from alcohol beverages

Beverage manufacturers faced a challenging year in 2024 as many consumers pulled back on discretionary spending, while substituting away from alcohol in favour of low or non-alcoholic beverages. Growth in soft drink sales in 2024 couldn't overcome the downward pressure from alcoholic beverage sales. Overall sales fell -1.7% while volumes, (that is, sales adjusted for inflation) fell -7.0% (Figure I.1). In fact, volumes sank last year to 2018 levels, wiping away gains during the pandemic.

For 2025, FCC Economics forecasts a further decline in sales of -2.5% and -2.6% in volumes. The anticipated decline is driven by a continued shift away from alcoholic beverages, particularly beer, and a slight slowdown in non-alcoholic beverage sales after four years of strong growth.

**Figure I.1: Beverage manufacturing sales set for declines again in 2025**

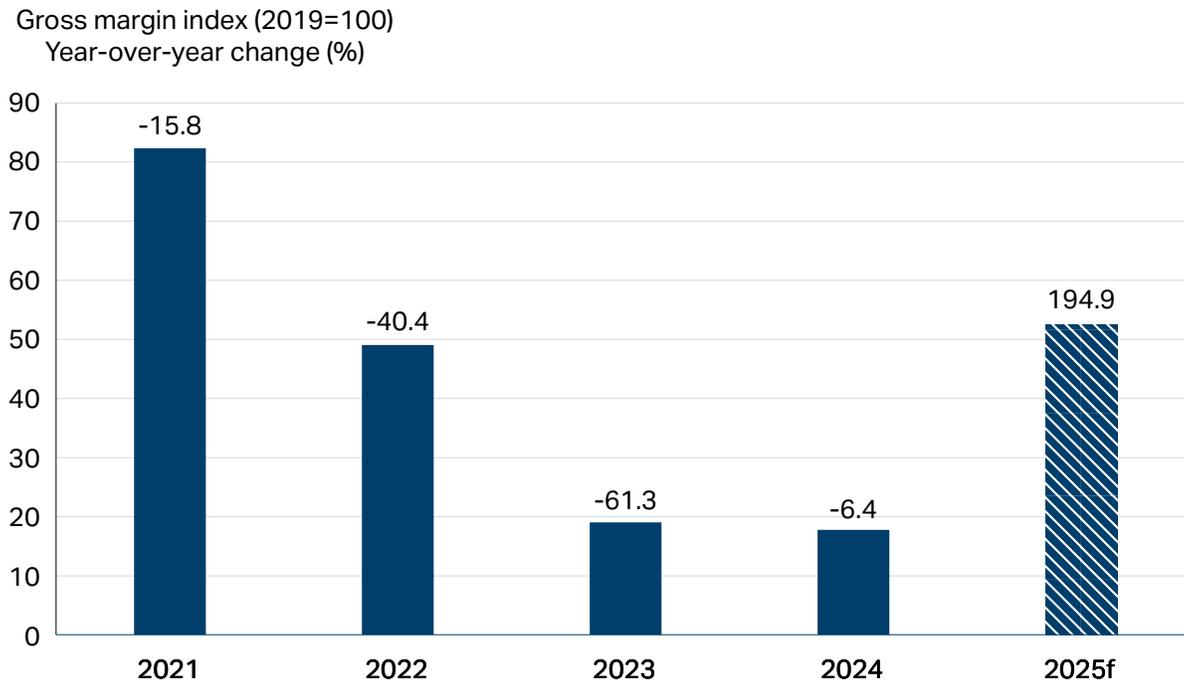


Total sales and volumes (in \$, billions) are on the vertical axis and shown by the height of each bar. The number above each bar is the year-over-year growth as a percent. Volumes are sales deflated by a price index (202001=100).

Source: FCC Economics, Statistics Canada

Amid lower revenues, declining raw material costs should help boost margins in 2025 (Figure I.2).

**Figure I.2: Margins improve on falling raw material costs**



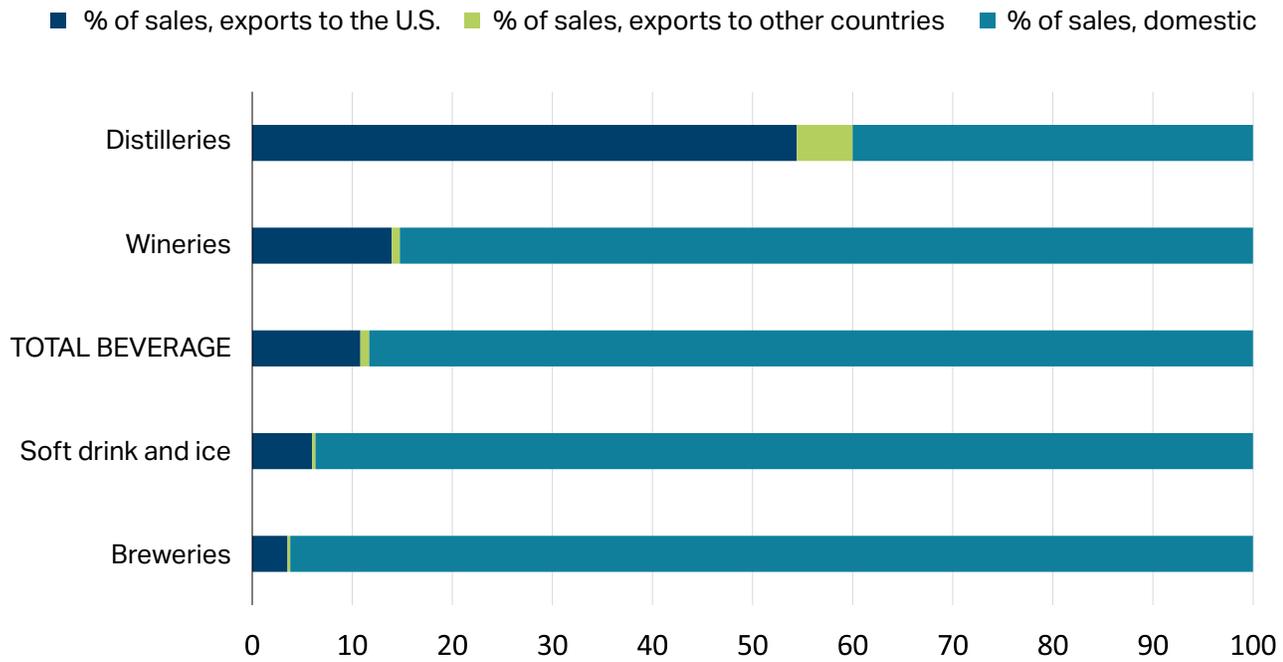
Source: FCC Economics, Statistics Canada

A major downside risk to our forecast, however, is the impact of trade disruptions on beverage exports and packaging imports. Exports to the U.S. market account for about 10% of total beverage sales, a relatively low exposure compared to other food and beverage manufacturing sub-sectors. However, not all beverage producers have similar exposures. Distilleries, for example, are at the highest risk of trade disruptions given that the U.S. accounts for more than half of their sales (Figure I.3).

Beverage manufacturers could also have to contend with higher costs of raw materials imported from the U.S. if trade is disrupted and, accordingly, lower margins. Note that packaging costs (that is, metal containers, paperboard containers, plastic bottles and glass) make up approximately 30% of raw material costs for beverage manufacturers and therefore play a big role in determining margins.



**Figure I.3: Canadian beverage manufacturing trade exposure to the U.S.**



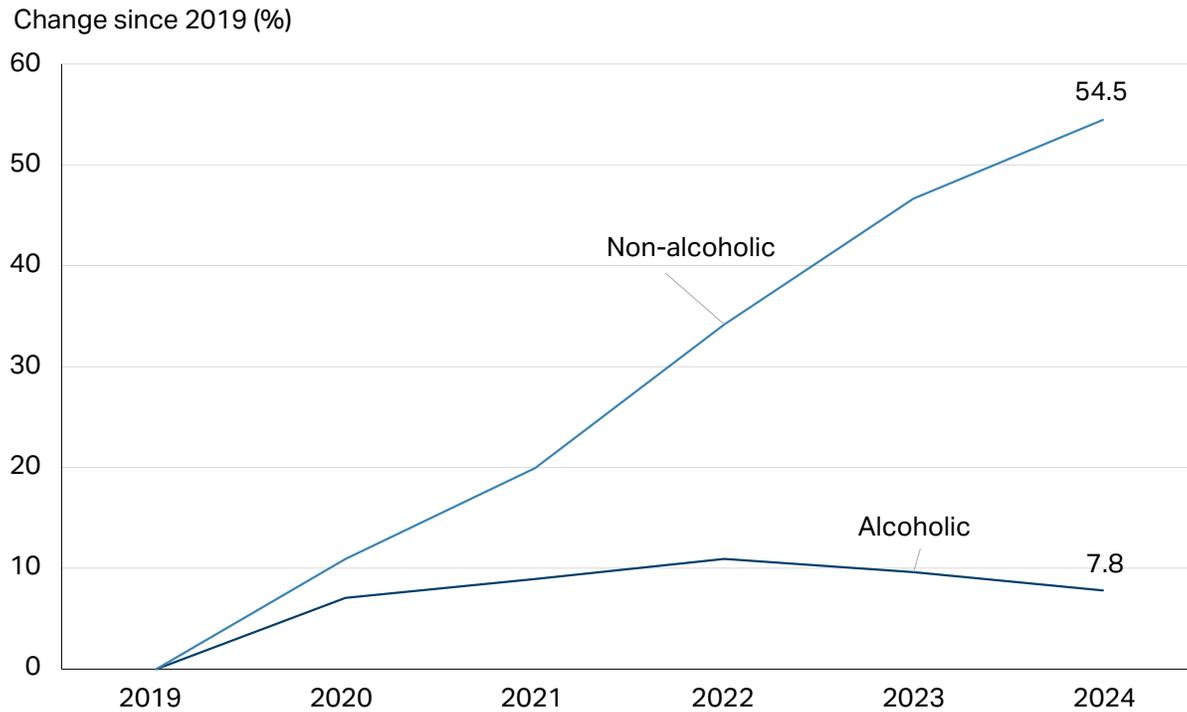
Source: Statistics Canada

### Market insights: Low and non-alcoholic beverages

With recent inflationary pressures impacting household budgets and a growing focus on health and well-being, sales of alcoholic beverages are taking a hit. In contrast, sales of non-alcoholic beverages, which appeal to a wider audience and can be sold in more locations than alcohol, are doing better (Figure I.4).



**Figure I.4: Non-alcoholic beverage retail sales outpacing alcohol**



Source: Statistics Canada

One market to watch closely is energy drinks. The caffeinated beverage industry is evolving beyond coffee and tea, embracing innovative ingredients and flavours. The Survey of Household Spending conducted by Statistics Canada every two years shows that spending on sports and energy drinks increased 50% between 2019 and 2021, outpacing the 19% growth in the broader non-alcoholic beverage category.

The beverage market is experiencing significant shifts as consumers explore options beyond traditional alcoholic beverages. Product offerings are ramping up with innovative cannabis products, energy drinks, sparkling water, sports drinks, and dealcoholized beer, wine, and spirits coming to shelves. By expanding their product lines and tapping into existing production capabilities, manufacturers can stay ahead of the curve and meet the evolving demands of consumers.

## Other trends to watch

- Beer still holds the largest share of alcohol sales, followed by wine, spirits, ciders and coolers. However, ciders, coolers and other alcoholic drinks are gaining ground, thanks to the high demand for canned, small-batch and low-calorie beverages with exciting flavours and ingredients.
- Declining labour productivity is restraining the sector's potential as labour growth outpaces production. The sector is characterized by many small businesses, which may find it challenging to scale up or innovate to improve productivity. It will be important for these businesses to focus on finding solutions to manage efficiency, expand opportunities to scale up and increase innovative practices that complement their business size.
- Selling alcohol in Canada comes with many challenges such as taxation, storage, shipping, labelling and distribution rules that vary from province to province. A focus on barriers to trade between Canadian provinces and territories, especially for alcohol, will come into focus with uncertainty around U.S./Canada trade disruptions.
- The impacts of the severe frost in 2024 that wiped out vines in British Columbia won't be fully realized until the spring. Early estimates show that about 50% of vines on the ground were fatally impacted.
- There are opportunities to service the Canadian wine market with domestic production if regulatory burdens impacting internal trade can be addressed.
- Alcohol sales will be further pressured given the expectations for slower population growth in the short term. Per capita alcohol consumption has steadily declined since 2009, reaching a low of 88.2 litres per person in 2024 down from 107.3 in 2009.
- Ontario's decision to decentralize alcohol sales in the province will make alcohol more accessible to consumers. Yet, it's unclear how much of an impact that will have on sales as alcohol consumption continues to trend downwards. This will also shift the point of purchase for alcoholic beverages.





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