FCC Annual Beverage Report 2022

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FARM CREDIT CANADA

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SUMMARY

Beverage manufacturing is a low-margin, high-volume business where minor shifts in demand or production costs can have significant financial implications. The pandemic shifted consumer purchases from foodservice to retail, limiting many businesses' revenue streams with strong margins. In 2021, consumers started to shift their purchases back to the service industry; however, lingering restrictions and higher production costs limited market opportunities.

Beverage manufacturing sales increased 11.3% YoY in 2021 to $14.5B (Table 1). Volumes grew by an estimated 5.9% as consumers drank more at home during the pandemic, and manufacturing selling prices rose 2.8%. Beer, wine and liquor retail sales increased by 2.5%, and their inventories grew. Sales from bars grew 12.7% but remained 42% below 2019 sales. Restaurant sales, which made up 40% of total food and beverage service sales in Canada, grew 23% in 2021 and remained 22% lower than in 2019.

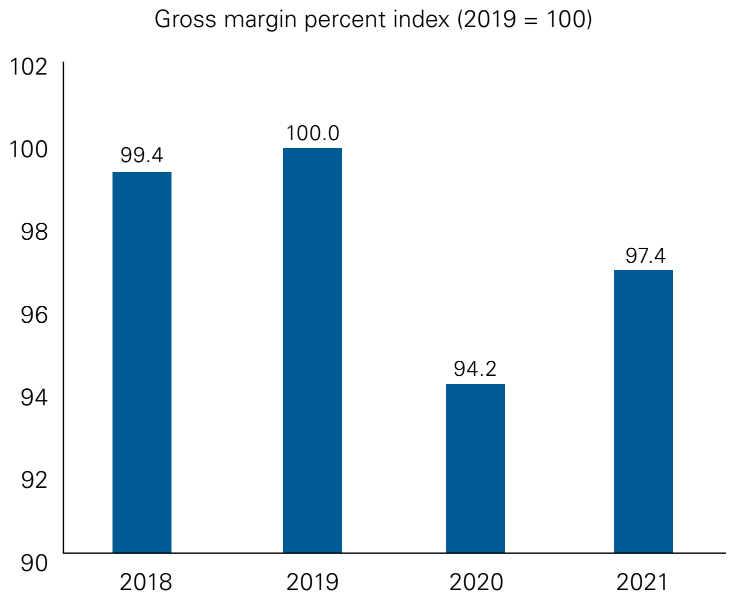
Table 1: Manufacturing sales and exports grew in 2021

All figures in millions $	2021	YoY% change	2020	YoY% change
Beverage manufacturing sales	14,555	11.3	13,080	3.0
Beverage exports	1,458	3.8	1,405	2.1
Beverage imports	6,157	3.6	5,945	1.2
Food trade balance	14,234	64.9	8,631	3.7
Beer, wine and liquor retail sales	26,445	2.5	25,800	6.6
Bar sales	1,554	12.7	1,379	-44.2
Total estimated alcoholic retail-focused sales	27,999	3.0	27,179	1.9

Source: Statistics Canada

Supply limitations impacted the availability of key packaging and raw inputs, driving up costs. Despite growing topline sales, gross margin rates struggled to regain 2019 levels (Figure 1). Strong competition in the alcoholic beverage sector made it difficult to pass on higher costs, which lags beverage inflation behind food inflation. With a greater ability to pass on costs to consumers, non-alcoholic beverage businesses performed better.

Figure 1: 2021 beverage gross margins remained below pre-pandemic levels



Source: Statistics Canada, FCC Economics

Businesses also faced higher costs due to a challenging labour market characterized by a limited pool of workers and a competitive recruitment environment. The job vacancy rate in beverage and tobacco manufacturing was 5.2% in 2021 compared to 4.7% for all industries and 3.0% in 2020 (Table 2).

Table 2: Most economic indicators rebounded in 2021

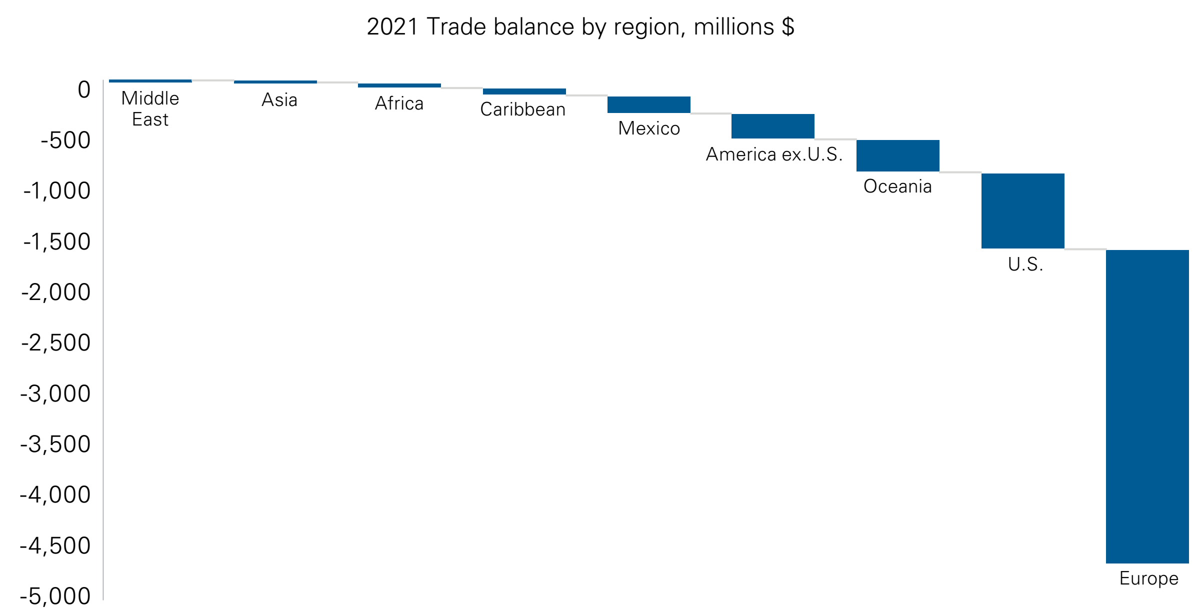
Economic indicators (monthly or quarterly averages)	2021	YoY% change	2020	YoY% change
Beverage manufacturing price index (2020 = 100)	100.8	0.8	100.0	0.2
All-item CPI (2020=100)	103.4	3.4	100.0	0.7
Alcoholic beverages CPI (2020=100)	100.9	0.9	100.0	1.0
Non-alcoholic beverages CPI (2020=100)	104.4	4.4	100.0	2.2
Total employment all industries (thousands)	18,871.8	4.9	18,004.4	-5.1
Beverage manufacturing employment (thousands)	45.8	8.8	42.1	-4.0
Job vacancy rate all industries (%)	4.7	1.4	3.3	0.1
Job vacancy rate beverage and tobacco manufacturing (%)	5.2	73.3	3.0	-21.6
Disposable income ($ billions)	1,438.3	2.9	1,397.7	8.9
Saving rate (%)	10.9	-24.9	14.5	597.6

Source: Statistics Canada

Beverage manufacturing exports grew by 3.8% in 2021, driven by wine and liquor sales. Export growth came from the U.S., Philippines and Japan. Conversely, beer exports to the U.S. declined by over 6%. Total beverage imports grew by 3.6% in 2021, led by wine from France, Italy and the U.S., and liquor from the U.S. and Mexico. Canada remains a net importer of beverages from all regions, the biggest being Europe (Figure 2). The Canadian dollar has been rallying against the Euro recently, which is making the imported alcohol cheaper.

The total share of domestically manufactured beverages consumed in Canada increased by an estimated 2.6 percentage points to over 67%. Canadian breweries are taking market share from international brewers, now representing nearly 93% of all domestic manufacturing sales. Distilleries, on the other hand, continue to face significant import competition. Domestic liquor represented 26% of domestic sales in 2021 compared to 43% in 2010. In recent years, Canadian distilleries have taken back some market share due to demand for locally distilled beverages.

Figure 2: Canada running a beverage trade deficit with all major trading regions



Source: Industry Canada, FCC Economics

While 2021 was a good year for businesses with high volumes and pricing power, it was difficult for smaller operations and those dependent on tourism. Economic conditions are expected to evolve in 2022. The economy is growing, but rising interest rates could make a difficult environment.

Inflation challenges consumers' ability to spend. Beverage demand often sees little change when wallets are tight, and liquor and wine sales tend to benefit the most from a challenging economic environment. However, we expect to see consumers choosing cheaper options. This behaviour change, elevated wholesale/retail inventory levels and a shift towards lower volume bar/restaurant sales are headwinds for overall revenue growth.

We forecast 2022 sales growth to be negative, but remain above 2020 levels. The lone growth spot is non-alcoholic drinks.

FCC Economics projects beverage manufacturing sales to decrease 1.0% to $14.4B in 2022

However, there are growth opportunities.

- Sales declines are expected to be coming from larger, retail-focused alcoholic businesses.
- Smaller operations could benefit from service industry growth.
- Bar, taproom, wine tasting rooms and restaurant sales are often at higher margin than retail.
- Consumer demand for convenient, small-batch and low-calorie beverages remains strong.

BREWERIES

At a glance

- **Low price inflation and rising input costs are trends to monitor.**
- **Look for data-driven pricing strategies and ways to manage inventory and product mix.**
- **Maintain or grow market share by connecting with Canadian consumers, capitalizing on tourism or desire for niche and "locally produced."**
- **Beer market is competitive but innovations in seltzers, non-alcoholic drinks like barley milk, etc. support growth.**
- **Use targeted marketing to boost brand awareness in key demographics.**

Introduction

Brewery manufacturing sales increased 10.3% in 2021 (Table A.1), led by volume growth in the service industry and demand from retail stores. Price inflation was modest for the year at 0.8%, with the biggest price gain coming from retail stores. During a time of higher input prices, low inflation compressed profitability to decline for a third year. Breweries are also shifting focus to the hard seltzer and non-alcoholic drink market to offset declines in beer.

Barley prices have nearly doubled from 2020 levels. Finished aluminum product prices increased 38% in 2021 and are up a similar amount in early 2022. Paperboard prices rose 11% in 2021 and have increased over 15% YoY to-date in 2022. These increases add up, creating pressure on businesses to adapt by producing higher-margin, sugar-based alcohol beverages or trying to find pricing power with niche beers.

Keep an eye on beer market competition. Since 2015, the number of Canadian breweries has increased by 150%. This growth has made us a beer powerhouse but has substantially increased competition and put pressure on prices. For businesses with a strong balance sheet, this competitive environment and higher interest rates could present merger and acquisition opportunities. Finding the right audience for your product is also key for growth in a competitive environment.

Despite challenges, the industry is robust and is the alcoholic beverage of choice among Canadians. Assuming costs do not continue to escalate, 2023 should see margin improvements. Beer is a purely Canadian industry - nearly 93% of all beer consumed in Canada is made in Canada. We have an appetite for locally-produced beer, with strong beers and low-caloric light beers seeing record growth at the expense of mass-produced regular (4-5%) beers.

According to Statistics Canada, the average Canadian 18 years and older consumed 3.9 bottles of beer per week in 2020-21, compared to 4.0 bottles in 2019-20. For coolers, it grew from 0.3 to 0.5.

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

Breweries [31212] quick facts	2021	2021 YoY % change	2020	2020 YoY % change
Sales ($ millions)	7,010	10.3	6,355	4.5
Exports ($ millions)	175	-7.5	189	-3.3
Imports ($ millions)	502	-25.0	669	-11.0
Selling prices (index, 2020 = 100)	100.5	0.5	100.0	-0.5
Retail store prices (index, 2020 = 100)	102.5	2.5	100.0	0.5
Retail served prices (index, 2020 = 100)	100.8	0.8	100.0	1.8

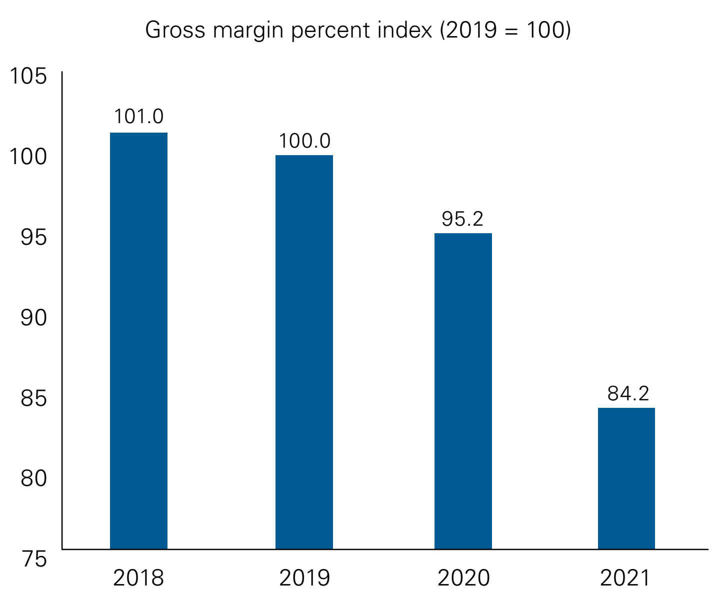
Source: Statistics Canada

Gross margin

Gross margin rate decreased to its lowest point of the past 20 years and fell for a third consecutive year in 2021 (Figure A.1). Margins started relatively strong in the first half of the year before deteriorating in Q4 on higher material costs.

We expect 2022 margins to improve. Increasing service-based draft sales will lessen the blow of packaging costs. Beer sold on-premises and in taprooms and bars is also higher margin than retail/wholesale.

Figure A.1: Gross margins fell for a third year in 2021



Source: Statistics Canada, FCC Economics

Sales forecast

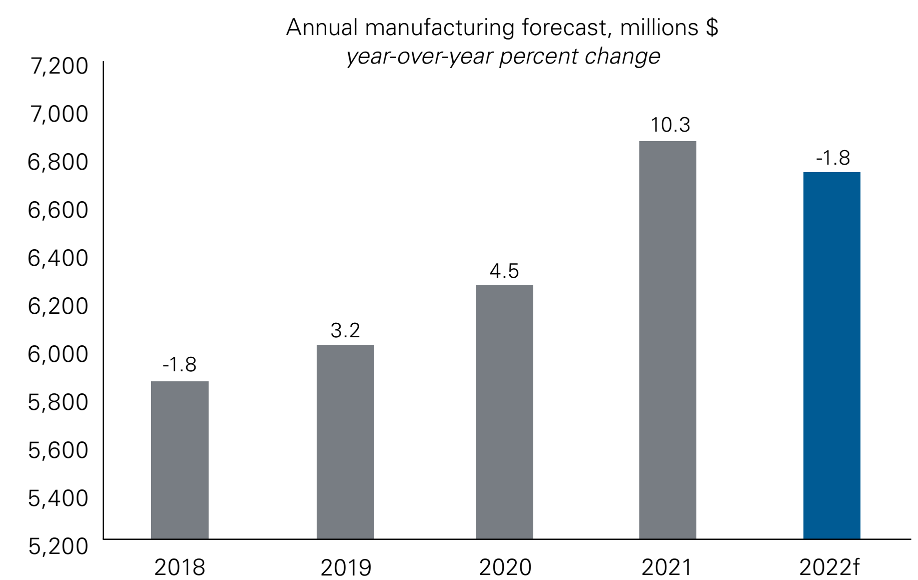
FCC Economics projects brewery manufacturing sales to decline 1.8% in 2022. Sales to date have been healthy with eased restrictions, but we expect them to flatten during the summer YoY, when sales were quite strong in 2021.

Sales are shifting from wholesale/retail to taproom/restaurant, and while usually at higher margin and price, consumers tend to drink less out in public versus in homes.

However, there are opportunities for growth:

- Summer 2022 should be hectic with travel and re-grouping with friends and family - that could benefit local breweries.
- Hard seltzer and non-alcoholic beer market, while not statistically represented in our forecasts is a growing revenue stream.
- Non-alcoholic beverages like barley milk and probiotic seltzers can also potentially provide opportunities by utilizing current supply-chains and production processes.

Figure A.2: Market headwinds are making for a potentially softer year



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

Retail market breakdown

Beer sales at the retail level for the 2020-21 year declined 1.4%, with total litres sold declining 2.3%. Total beer volumes have declined for five consecutive years, and Canadian breweries have since taken market share from internationally produced beers. Their volumes have also declined, just at a smaller rate. Light beer, strong beer and beer coolers all saw sales and volume growth in 2020-21, but the decrease in regular beer sales offset those increases. Overall, the market share of beer compared to wines and liquor fell by 2 percentage points to 36%.

The sales decline was a result of poor performance in B.C., Ontario and Alberta. Atlantic Canada, Manitoba and Saskatchewan recorded gains in sales dollars and volume year-over-year.

Table A.2: Canadian-produced beer continues to grow retail market share*

Beverage (Apr 2020-Mar 2021)	Sales (millions $)	YoY % change	Volume (million litres)	YoY % change	Percent of Canadian product sold ($)	YoY % change	Total beverage market share %	YoY % change
Beer	**9,201**	**-1.4**	**2,122**	**-2.3**	**85.4**	**2.1**	**36.0**	**-2.0**
Regular Beer (4.1% to 5.5%)	7,358	-2.5	1,709	-4.3	83.1	2.5	28.8	-2.0
Light Beer (4% and under)	1,292	3.4	297	4.4	97.2	-0.6	5.1	0.0
Strong Beer (5.6% and over)	540	3.0	114	14.7	87.7	0.8	2.1	0.0
Beer coolers	10	169.1	2	165.9	86.4	31.5	0.0	0.0

Source: Statistics Canada

*Performance does not line up with calendar manufacturing sales due to timing and inventory levels at wholesale and retail stores.

WINERIES

At a glance

- **After a chaotic year of pandemic-induced restrictions, weather events and supply chain disruptions, there is optimism with a return to on-premises sales tied to increased tourism and travel.**
- **Consider continuing a diversified sales approach. E-commerce sales still relevant as it opened doors to a broader market who wants Canadian-made wine.**
- **Controlling prices and managing inventory will be paramount, and resiliency and creativity are keys to success.**

Introduction

Winery manufacturing sales increased 35% in 2021 (Table B.1). Consumers increased wine drinking at home during pandemic lockdowns, and the sale of higher-priced wines did well with elevated savings.

But manufacturing sales don't tell the whole story. Many wineries do not sell into wholesale/retail streams and depend on on-premises sales. This revenue stream was cut off during pandemic restrictions and forced businesses to pursue options focused on bottled sales, often at lower margins. Sales have now been shifting back to on-premises with increased local travel, benefiting smaller wineries.

On the west coast, B.C. wine growers had a difficult growing season. The summer was dry, and the fall brought rain and flooding. Despite this, the industry persevered and continues to have strong growth potential. In Ontario, winemakers dealt with strong rains during harvest which led to some rotting. Across the country, increased acreage helped partially offset yield reductions.

Red wine continues to dominate. However, Canadian-made white wines hold a greater share of its respective market share versus imported wine. Canadian wine product exports grew 20%, although from a small base, representing less than 12% of sales. Imports grew 6.8%, coming from France, Italy and the U.S.

According to Statistics Canada, the average Canadian 18 years and older consumed 2.5 glasses of wine per week in 2020-21, flat compared to 2019-20.

Table B.1: Winery sales grew nearly 31% in 2021

Wineries [31213] quick facts	2021	2021 YoY % change	2020	2020 YoY % change
Sales ($ millions)	2,166	35.0	1,605	24.8
Exports ($ millions)	247	20.0	205	0.5
Imports ($ millions)	3,031	6.8	2,836	1.5
Selling prices (index, 2020 = 100)	100.1	0.1	100.0	0.5
Retail store prices (index, 2020 = 100)	100.4	0.4	100.0	0.7
Retail served prices (index, 2020 = 100)	99.2	-0.8	100.0	0.6

Source: Statistics Canada

*Performance does not line up with calendar manufacturing sales due to timing and inventory levels at wholesale and retail stores.

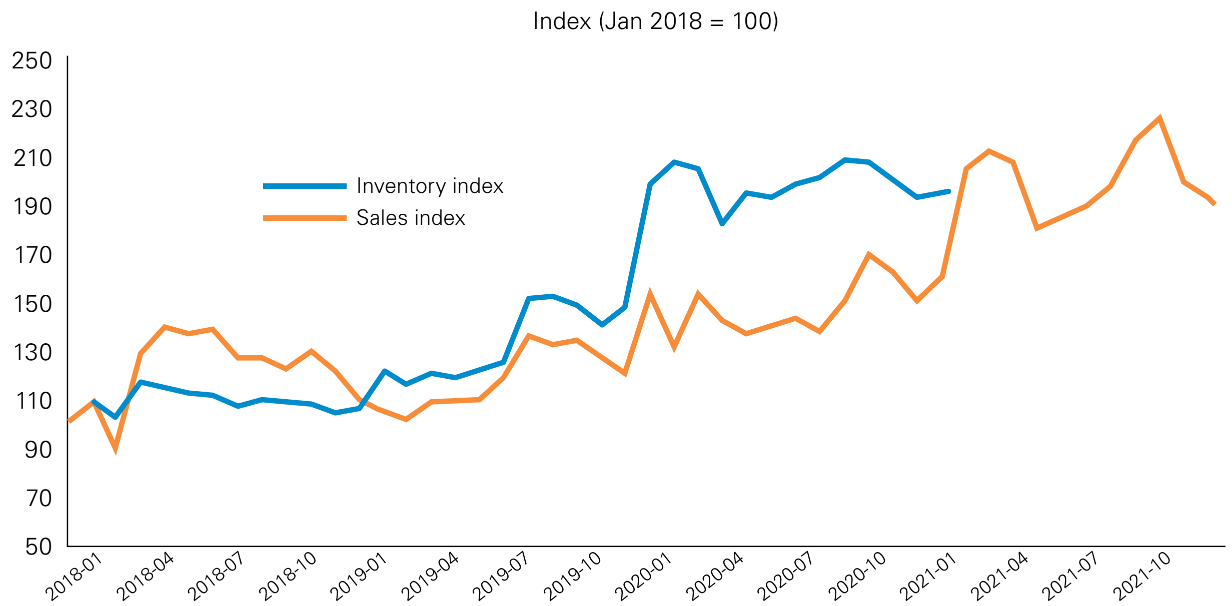
Gross margin

Poor data availability makes it difficult to create accurate gross margins for wineries. From what is available, 2021 margins were pressured from higher grape growing prices and higher packaging costs related to increased bottling. Glass prices were up over 9% in 2021.

Margins will look to improve as wineries welcome guests. On-premises sales tend to be at higher margin. Future margin growth will be dependent on a strong grape crop and controlling cost in the face of strong international and domestic competition.

Inventories have grown steadily since 2018, accompanied by growing Canadian winery sales, as acreage and production grew. Since 2019, inventories have been growing faster than sales (2021 data is limited). High inventories give wineries added insurance against difficult weather, and help them meet spikes in demand. Conversely, high inventory in a competitive environment can be seen as over production and lead to high inventory costs or selling at a discount. The price of wine is a pivotal marketing decision and discounts can be detrimental to a brand.

Figure B.1: Inventory levels have outpaced sales growth since mid-2019



Source: Statistics Canada, FCC Economics

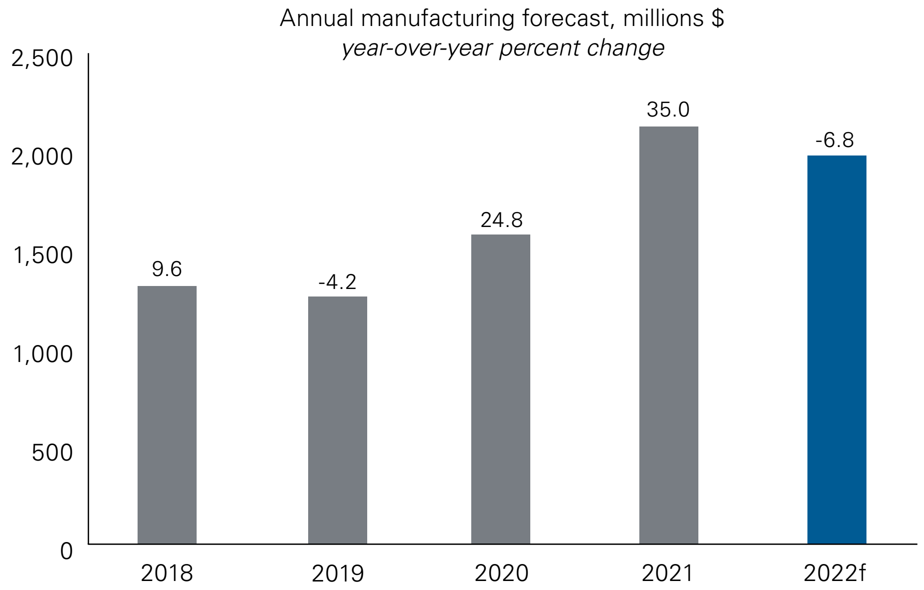
Sales forecast

FCC Economics projects winery sales to decline 6.8% in 2022. 2021 sales were strong and capped a two-year stretch where sales grew 68%. 2022 is forecasted to see sales remain above 2020 levels, but moderate in the face of international competition and elevated wholesale/retail inventory levels.

The Canadian dollar has rallied against the Euro to-date in 2022, which will make the price of imported wines cheaper - the opposite has been true for the U.S. dollar.

Despite the forecasted manufacturing sales declines, wineries will likely welcome higher margin on on-premises, tourism-based sales which could offset off-premises manufacturing sales declines.

Figure B.2: Winery sales are forecasted to moderate after a strong 2021



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

Retail market breakdown

For the retail year of 2020-21, retail wine sales grew 2.4% on volume growth of 2.1%. Growth was led by red, rosé and white wines. Canadian-produced wine continues to grow its market share in Canada, now just north of 33% - however, its share of the total beverage market declined slightly.

Growth in wine sales came from Alberta, Ontario, Quebec and Saskatchewan and saw declines in B.C. and P.E.I. as the latter were impacted by declining tourism sales.

Table B.2: Coolers continued their aggressive growth in 2020-21*

Beverage (Apr 2020-Mar 2021)	Sales (millions $)	YoY % change	Volume (million litres)	YoY % change	Percent of Canadian product sold ($)	YoY % change	Total beverage market share %	YoY % change
Wine	**8,623**	**2.4**	**603**	**2.1**	**33.1**	**1.1**	**33.8**	**-0.6**
Red wines	4,277	2.5	276	1.9	28.1	0.9	16.8	-0.3
White wines	2,662	1.3	203	1.7	41.4	1.1	10.4	-0.3
Sparkling wines	517	2.9	22	-0.3	12.7	0.9	2.0	0.0
Cider	299	1.7	53	0.4	81.9	14.1	1.2	0.0
Rosé wines	296	17.7	21	15.1	28.8	2.0	1.2	0.1
Brandy	260	8.6	6	4.2	8.1	-0.7	1.0	0.0
Other wines	154	-17.9	9	-6.8	47.7	-4.2	0.6	-0.2
Fortified wines	113	3.9	7	0.5	29.6	-2.7	0.4	0.0
Wine coolers	47	20.8	7	16.8	64.6	3.1	0.2	0.0

Source: Statistics Canada

*Performance does not line up with calendar manufacturing sales due to timing and inventory levels at wholesale and retail stores.

DISTILLERIES

At a glance

- While there is a continued need to focus on managing costs, the good news is the robustness of demand.
- Find ways to utilize marketing tactics to push through inventory and expand reach with Canadian consumers.
- Differentiate and make products visible. Consider boosting unique attributes and value proposition like premium quality, convenience or being part of a “local” community to elevate the experience.

Introduction

Sales declined 5.5% in 2021 (Table C.1). Sales grew over 43% in the first quarter before rapidly falling in the second half. Retailers and wholesalers bought a lot of products ahead of the expected reopening of the 2021 economy, only to live through a third and fourth wave of pandemic restrictions. This inventory is now being sold, stalling downstream sales from manufacturers.

This industry is broad, including a wide variety of alcohols, packaging sizes and price points. Smaller packaged and convenient style drinks like coolers performed well, although growth rates in the category are now diminishing. U.S. inventories were reported to have grown to concerning levels at the end of the year, requiring markdowns. Pure spirits like gin, whisky, vodka and rum performed well, benefiting from higher disposable incomes and savings. Higher inflation is a headwind for products at higher price points. Speciality liquors used in cocktails have benefits from the rebound in bar and restaurant sales.

Imports grew over 16% at the expense of domestic sales. Canadians continue to expand their consumption of imported liquor, often being marketed by celebrities, and distributed by companies with strong balance sheets, making it hard for domestic companies to compete.

According to Statistics Canada, the average Canadian 18 years and older consumed 2.5 shots of liquor per week in 2020-21, the same as in 2019-20.

Table C.1: Imports continued their expansion in 2021 at the expense of domestic production

Distilleries [31214] quick facts	2021	2021 YoY % change	2020	2020 YoY % change
Sales ($ millions)	1,271	-5.5	1,345	-7.5
Exports ($ millions)	784	3.8	755	2.1
Imports ($ millions)	1,525	16.4	1,310	2.8
Selling prices (index, 2020 = 100)	101.1	1.1	100.0	1.6
Retail store prices (index, 2020 = 100)	101.1	1.1	100.0	1.2
Retail served prices (index, 2020 = 100)	100.6	0.6	100.0	1.4

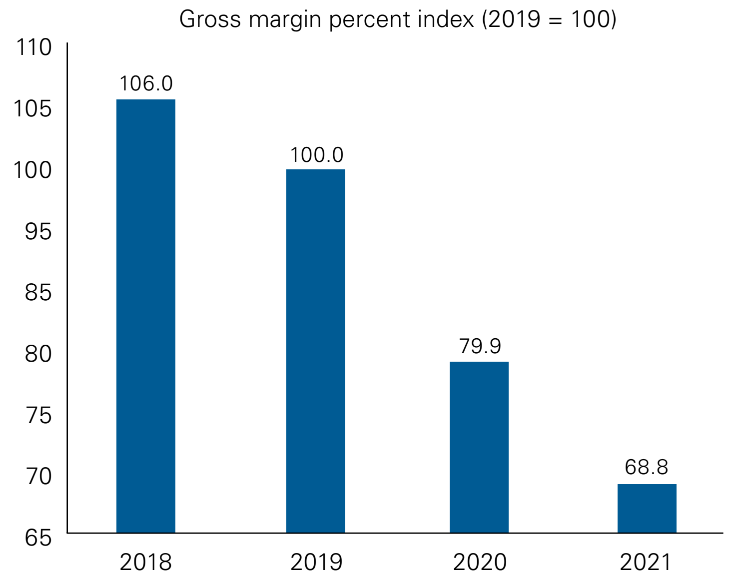
Source: Statistics Canada

Gross margin

The broad scope and continuous innovation within the industry makes it difficult to compare profitability over time. Ten years ago, the focus was primarily on larger bottled product. In 2021, a lot of the growth is coming from convenience and pre-mixed liquors. Margins were compressed in 2021 on a steep increase in material and labour costs.

There is growing competition in the industry. At the end of 2021, there were 325 distilleries in Canada compared to 94 in 2015. Sales growth has mostly come from small-sized businesses, which have struggled to become profitable in the face of larger international companies with aggressive marketing and national reach.

Figure C.1: Distillery margins declined in 2021



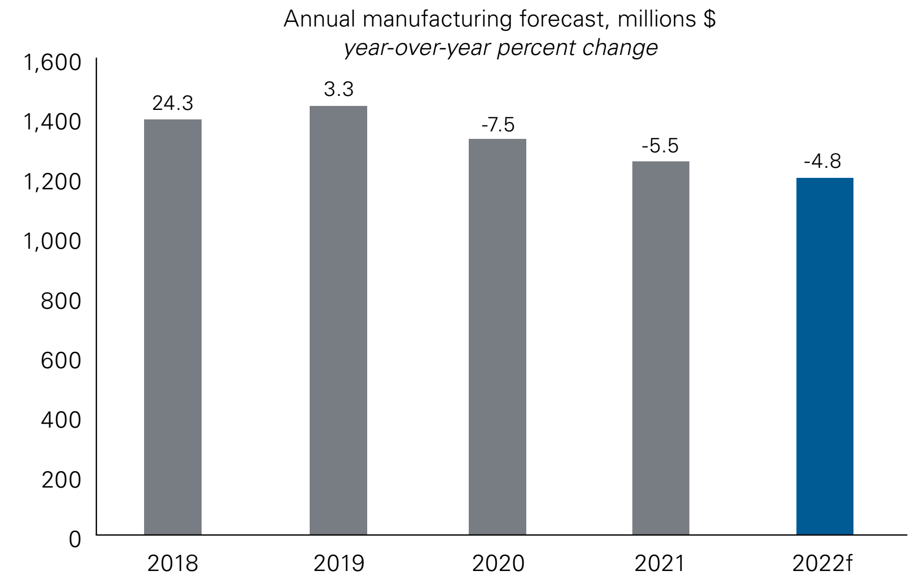
Source: Statistics Canada, FCC Economics

Sales forecast

FCC Economics projects distillery sales to decline 4.8% in 2022. The industry is facing competition from imported products, which is limiting growth. The Canadian dollar has rallied against the Euro to-date in 2022, making imported liquor cheaper - the opposite has been true for the U.S. dollar.

Sales are projected to trend sideways through the summer months and decline in the second half of the year. There is optimism with news that new large-scale distilleries will be opening soon. However, this will not have a material impact until 2023 and beyond, when we are forecasting growth to pick up.

Figure C.2: Declining market share of Canadian companies impacting sales



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

Retail market breakdown

For the retail year of 2020-21 ending in March, liquor retail sales grew 14.3%. Sales growth was led by spirit coolers, whisky and liqueurs. Volumes grew 28.7% as the focus continued to shift to smaller price point, convenient products. We did see inflation in traditional larger packaged spirits, with gin prices inflating 6.2%, whisky 4.5% and brandy 4.2%.

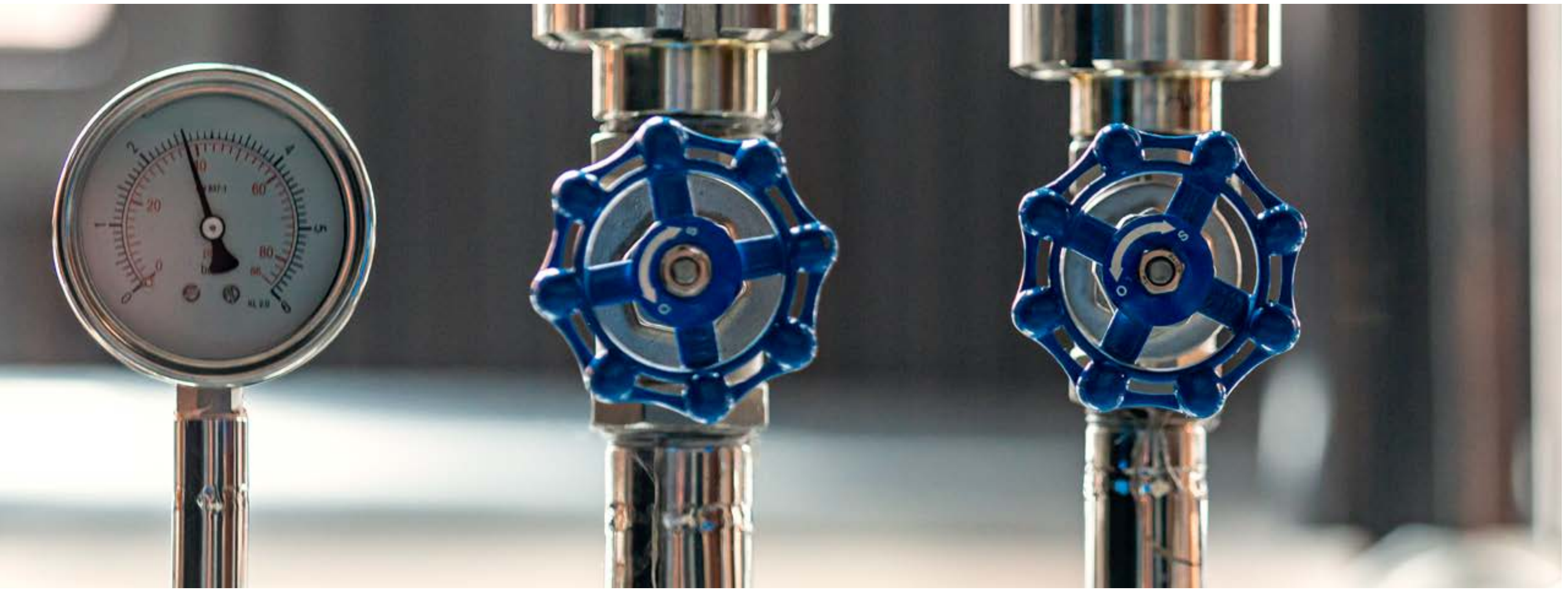
The percent of Canadian spirit sales at the retail level fell to a recorded historical low of 52.3%, while total spirit alcohol market share grew 2.7% as a growing number of imported products took market share. Spirit coolers now make up nearly 6% of the total alcoholic beverage market share.

Table C.2: Coolers continued their aggressive growth in 2020-21*

Beverage (Apr 2020-Mar 2021)	Sales (million $)	YoY % change	Volume (million litres)	YoY % change	Percent of Canadian product sold ($)	YoY % change	Total beverage market share %	YoY % change
Distilled liquor	**7,700**	**14.3**	**454**	**28.7**	**55.1**	**1.3**	**30.2**	**2.7**
Whisky	1,916	6.9	49	2.3	52.3	-1.4	7.5	0.2
Vodka	1,592	6.0	53	6.2	55.2	-1.3	6.2	0.1
Spirit coolers	1,459	52.5	266	51.3	87.5	1.1	5.7	1.8
Rum	967	6.6	30	3.9	58.7	-4.1	3.8	0.1
Liqueurs	944	12.6	29	12.5	28.7	1.6	3.7	0.3
Gin	438	15.6	12	8.9	44.2	5.2	1.7	0.2
Other	370	6.7	14	11.8	12.9	1.2	1.5	0.0
Alcohol (80%+)	15	-0.5	0	-0.7	39.1	-0.6	0.1	0.0

Source: Statistics Canada

*Performance does not line up with calendar manufacturing sales due to timing and inventory levels at wholesale and retail stores.



SOFT DRINK AND ICE MANUFACTURING

At a glance

- Successfully managing higher material costs, inventory and labour costs are keys to margin growth.
- The desire for convenience is fostering opportunity. A return to on-the-go lifestyles fueled by tourism and travel coupled with back to school and a return to the office bode well.
- Look for growth from commercial (quick- and full-service restaurants, drinking places).
- Look for growth in non-commercial foodservice venues (that is, accommodation-type, institutional, entertainment/seasonal venues and convenience stores).

Introduction

Record prices at the end of the year and stronger foodservice demand in North American boosted sales and profitability in 2021. High input costs and supply-chain bottlenecks put pressure on output.

Sales increased 8.8% in 2021 (Table D.1). Gains largely came in Q4, led by higher prices and volumes in the quarter. Demand for convenience, low caloric and caffeinated beverages continue to grow at a double-digit rate and is driving the increase. Inflated costs of packaging materials, wage growth and labour availability have created concern, supporting increased investment in automation. Prices of aluminum and paperboard are up over 30% and 10%, respectively, and are a major expense within the industry.

Near the end of the year, large players in the industry reported away-from-home purchases by consumers surpassed pre-pandemic 2019 levels, while grocery store growth remained robust. The first quarter of 2022 is recording continued growth. Prices continue to rise but so do volumes.

While competition here is less intense than the alcoholic beverage industry, it's ramping up with growth in carbonated water, sports, energy and coffee drinks. Marketing costs are a large expense and are necessary for expansion into new markets for emerging drinks.

Table D.1: Sales grew 8.1% in 2021 after seeing a modest decline in 2020

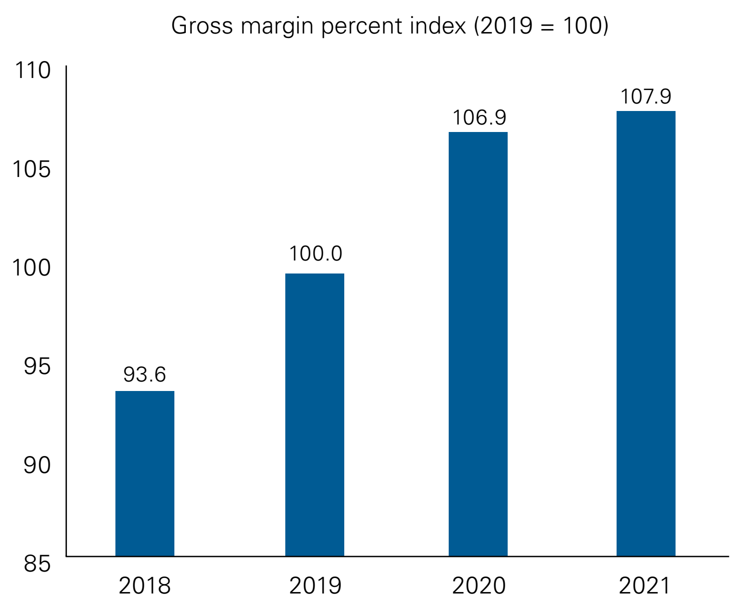
Soft drink and ice [31211] quick facts	2021	2021 YoY % change	2020	2020 YoY % change
Sales ($ millions)	1,108	8.8	3,776	2.7
Exports ($ millions)	252	-1.0	255	7.9
Imports ($ millions)	1,100	-2.6	1,129	7.2
Trade balance ($ millions)	848	-3.0	-874	7.0
Selling prices (index, 2020 = 100)	101.4	1.4	100.0	0.5
Retail store prices (index, 2020 = 100)	101.4	4.4	100.0	2.2

Source: Statistics Canada, FCC Economics

Gross margin

Gross margin rate increased for the fourth consecutive year in 2021. FCC Economics' gross margin index was 107.9 in 2021, up from 106.9 in 2022, although slightly below the past decade's high of 109.2 in 2016 (Figure D.1). The cost of materials saw its biggest jump as a percent of sales since 2008. This increase was offset by inventory value gains and a slight reduction in labour costs as a percent of sales. Successfully passing on higher material costs and selling inventory buildup at full price are imperative for continuing margin growth in 2022. Labour costs have risen in early 2022 and are expected to continue.

Figure D.1: Soft drink gross margins improved in 2021

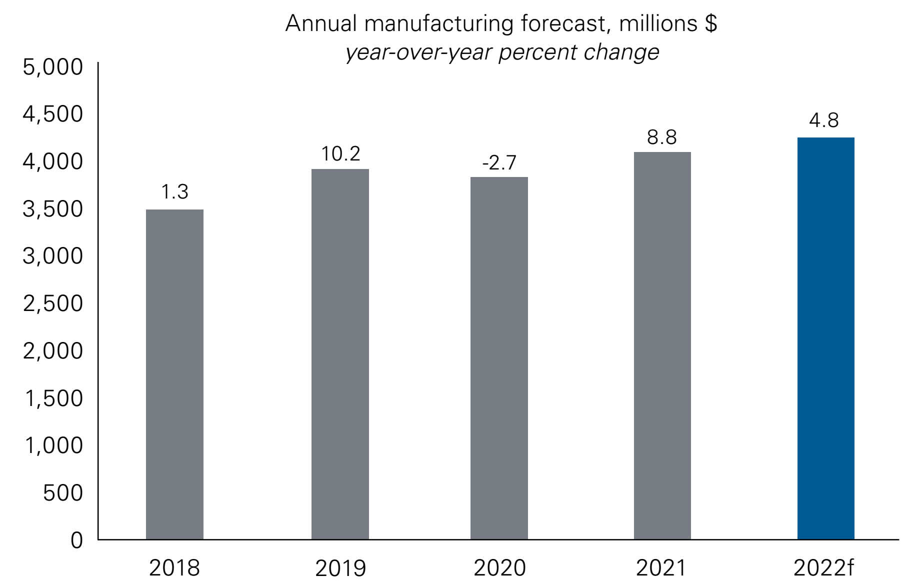


Source: Statistics Canada, FCC Economics

Sales forecast

FCC Economics projects soft drink and ice manufacturing sales to increase 4.8% in 2022 (Figure D.2). Selling price inflation has picked up in 2022, surpassing 7%. Strong prices and fully re-opened restaurants have supported sales year-to-date, and the summer should bring strong sales from convenience purchases from those travelling and leaving the house more often. 2022 results-to-date show inflation has not materially impacted volume. Sales growth is expected to slow in the second half as volume growth diminishes.

Figure D.2: Non-alcoholic beverage sales expected to grow 4.8% in 2022



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

Retail market breakdown

Grocery beverage sales increased 5.3% in 2021 (compared to 11.9% growth in 2020), with volume increasing 1.3%. Weaker growth is the result of consumers shifting purchases away from grocery stores. Grocery inflation outweighed manufacturing price inflation. It appears grocers took additional margin on inelastic convenience drinks to make up for weaker performance in many food categories.

Coffee drinks continued its strong growth in 2021, growing over 67%. This category continues to see an increase in product count and competition. Iced tea sales increased 22% and energy drinks sales growth accelerated from 14% in 2020 to nearly 20% in 2021. Water, led by carbonated flavour varieties, grew 11%.

Sales year-to-date in 2022 show a slowdown in growth in many categories. The shift from grocery stores to foodservice sales is anticipated to continue throughout the year and will hinder grocery growth.

Table D.2: Grocery store beverage 2021 sales performance

Category	YoY annual sales % change	YoY annual units % change	Average annual retail inflation %
Beverages	5.3	1.3	3.9
Coffee drinks	67.4	76.2	-5.0
Iced tea	22.4	13.8	7.6
Energy drinks	19.7	19.1	0.5
Water	11.0	5.8	5.0
Pop	5.2	-2.3	7.7
Alcohol products	1.6	-1.1	2.8
Fruit drinks	1.6	-2.6	4.3

Source: Nielsen, FCC Economics

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