

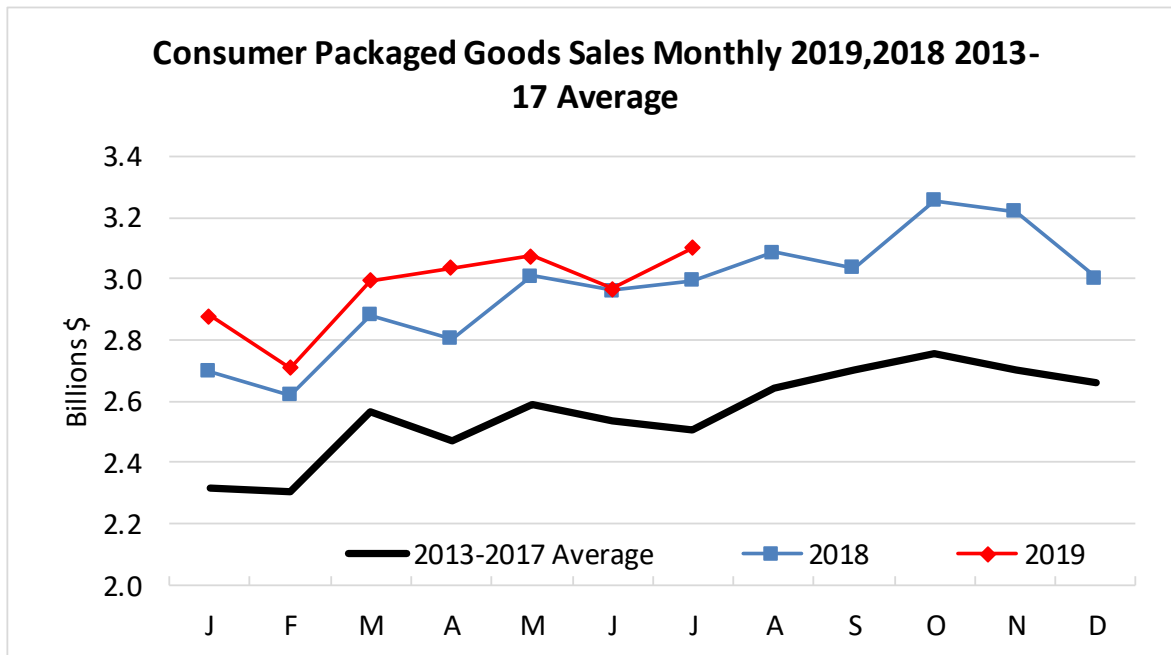


October 2019

CPG Manufacturer Performance

This note examines the performance of Canada's Consumer Packaged Goods (CPG) food manufacturers at the mid-point of 2019. The CPG sector is defined as those that produce packaged or processed food products. The definition here does not include further processed meat products, dairy, seafood or fresh prepared foods. In other words the sector discussed here are the products in the centre of the store grocery aisles.

Food manufacturer sales increased by nearly 2% in July (latest) while the 12-month rolling average increase was 3% year over year. That compares to a 1% decline in total manufacturing in July and a 3% rolling 12-month year over year increase. For Consumer-Packaged Goods (CPG) food manufacturers July sales increased by 3.5% and 4% on a 12-month year over year basis. In other words, the CPG manufacturers have outperformed total food for July and for the past year. The CPG manufacturers in Canada are entering the highest sales period of the year on a solid pace.



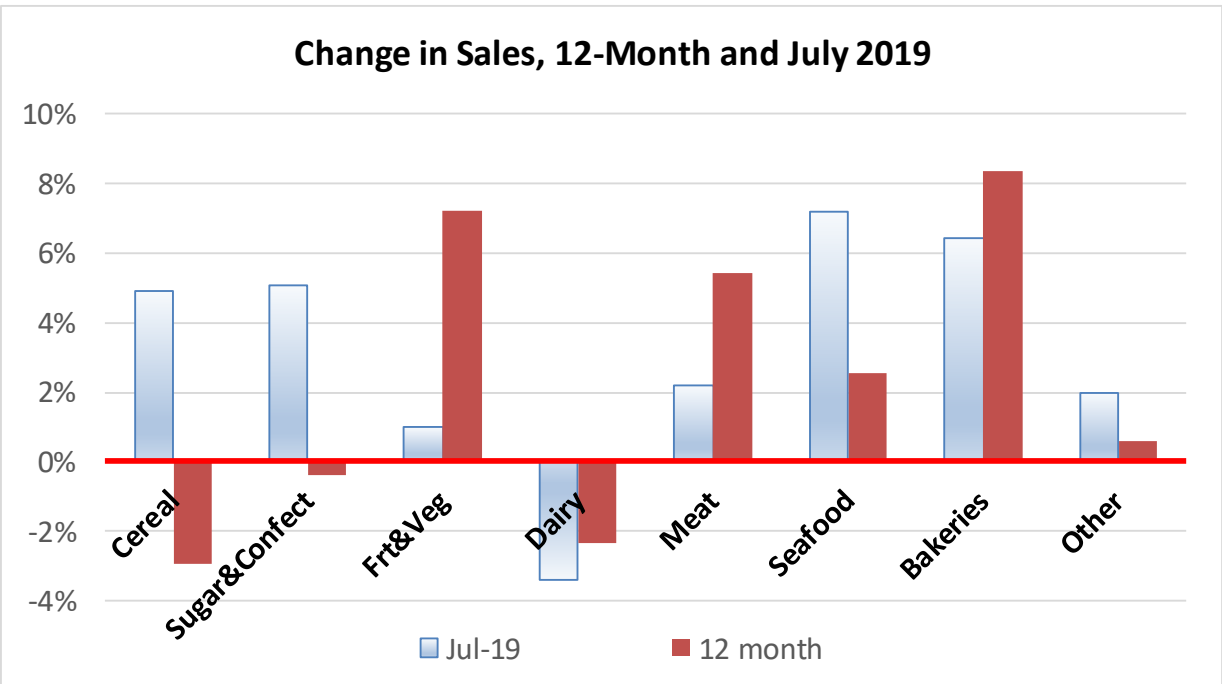
Diverging Sectors

While the CPG sector is outperforming the food industry in general, there is of course, a great variety of sectors within total food and even within CPG. For example, the cereal, sugar and

bakeries sectors have been leading the food and the CPG sectors with above average growth during July (see graph on following page). Seafood, which I do not classify as a CPG sector, also saw above average growth during July.

For the last 12 months, however, there are often diverging directions. For example, cereals have seen a 3% decline in sales growth over the past 12 months. Sugar and confectionery sales have also been stagnating. While dairy is not a CPG, it has seen sales losses over the past year, as well as, in July. In contrast, processed fruit and vegetables, meat and bakeries are standout performers with very strong 12-month sales trends.

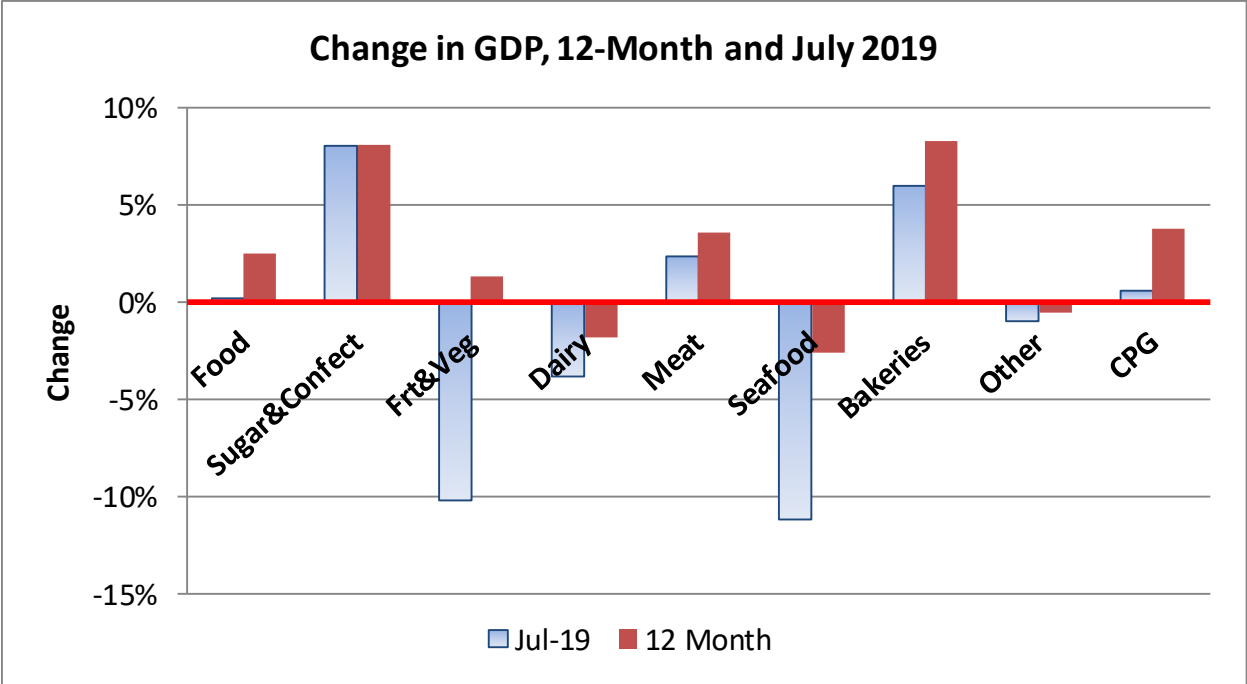
In fact, the bakery and processed fruit and vegetable performances are of note because they run counter to what are perceived to be prevailing consumption trends. Low carb diets and a movement away from processed products suggest that strong sales gains in these areas should not be happening. Instead they are among the most robust sales trends in Canada.



Gross Margins

Regarding margin performance, as noted below, each month StatsCan publishes gross domestic product (GDP) by industry which is a rough measure of industry gross margins. The total food industry saw no change in gross margins this July compared to last July. The 12-month year over year food manufacturing increase was a 3% gain. The July CPG saw a gain of 1%, while the 12-month performance was an increase of 4%. Again, as with sales, CPG is outperforming the total food industry on gross margins.

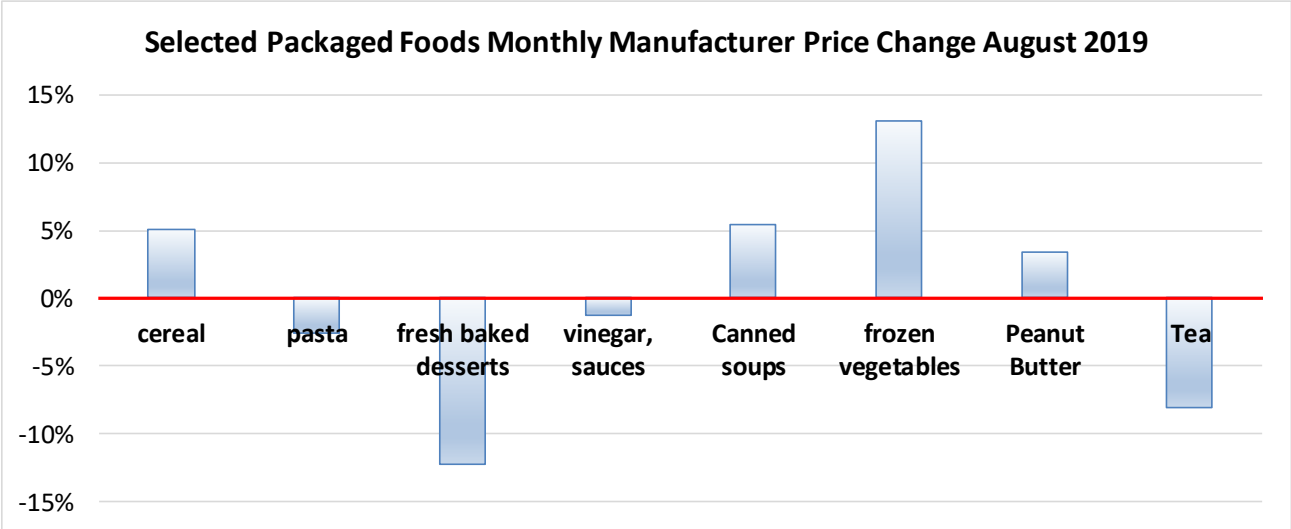
Within the broad food and CPG sectors, the sugar and confectionery industries saw big gains in July GDP and the latest 12 months. Bakeries also saw impressive increases in GDP or gross margin. Seafood and dairy have experienced declines in gross margins over the past 12 months.



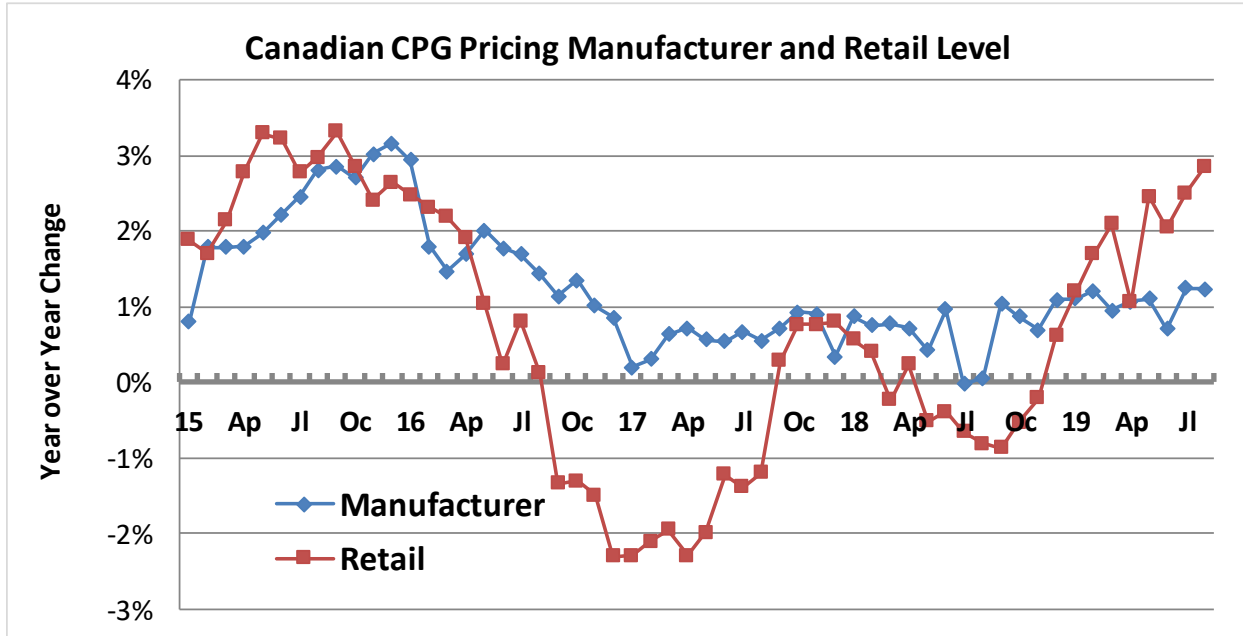
Pricing at the manufacturer level is tabulated through the StatsCan Industrial Product Price Index (IPPI). Again, as noted on the front page of this report, all food at the manufacturer level increased by 4% during August (latest month). The 12-month rolling average increase for all food was nearly 2%. CPG pricing increased by just a 1% in August while the 12-month increase also amounted to just a 1% gain. The message here is that increased manufactured food costs for grocers is occurring on the non-CPG products such as meat. In fact, meat costs increased by 7.5% in August.

Varied Performance within CPG

Within the CPG sector, while the entire array of products increased by 1%, there was a wide divergence in performance. For example, frozen vegetables surged, but tea and fresh baked desserts tanked.



The bottom line is that the manufacturer CPG price increases have been steady with 1% gains over the past several months. At the same time, the retailer has been managing pricing gains from those products. That means that retailers, as noted in the last edition of this report, should be enjoying decent margins on their CPG products.



Why it Matters

The CPG manufacturers are enjoying reasonably good increases in gross margins, strong sales increases and slow, but steady pricing increases. Retailers are seeing good margins on the CPG products. With the weak dollar and higher costs of imported product, the time for Canadian CPG suppliers to generate pricing increases is now.

A version of this article first appeared in the September 2019 edition of the Grocery Trade Report. If you would like a free two-month trial, email kevin@kevingrier.com.

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