



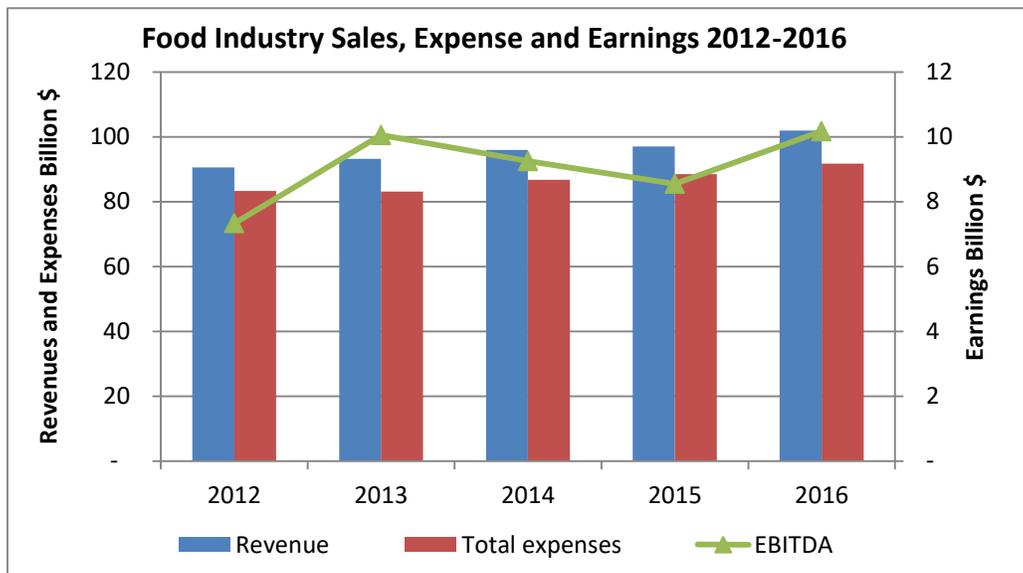
Food Manufacturing, a Positive Story

Kevin Grier, January 2018

The 2016 annual principle statistics for manufacturing was recently released by Statistics Canada. The data set breaks down the sales and financial returns for manufacturing including the food industry and the food subsectors.

Total food industry sales in Canada amounted to \$102 billion in 2016. Sales are likely to break the \$107 billion mark in 2017. Food's share of total manufacturing sales increased from 14.4% to 15.4% over that time frame of 2012-2016.

The data set shows that from 2012 to 2016, the food industry has grown at a compound annual rate of 3% compared to 1% for total manufacturing. Total expenses of food grew by 2% annually. The food industry earnings before taxes, depreciation etc. grew at a compound rate of 9% from 2012 to 2016. The operating margins of the food industry, based on the earnings and revenues increased from 8% in 2012 to 10% in 2016.



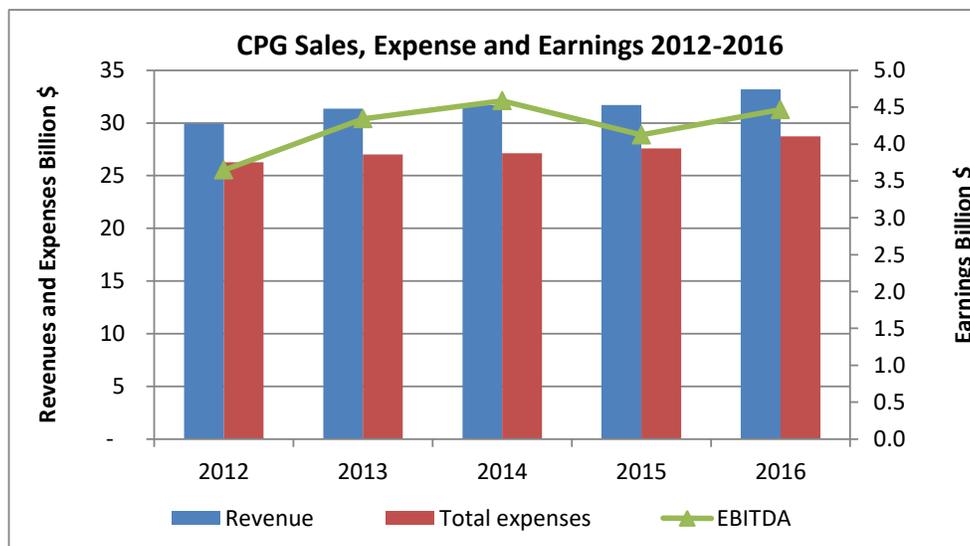
Not a Monolithic Industry

Of course there is no such thing as a monolithic “food industry.” It is comprised of many separate industries, each with their own challenges and opportunities. Food manufacturing is comprised of every food segment from meat through seasonings. The meat industry is the largest sector with a 28% share, while there are a wide variety of smaller industries that Statistics Canada classifies as “Other.” The “Other” category includes seasonings, snack foods, and coffee, among many others. The many separate industries in the “Other” grouping represents 11% of total food manufacturing.

Needless to say, the fortunes and opportunities of each industry vary widely. For example the breakfast cereal manufacturing industry, with its plant closures has shrunk from a \$1.6 billion industry in 2014 to a \$500 million dollar industry in 2016. The sugar and confectionery industry had compound annual growth of -5% as it shrank from a \$4.6 billion industry to a \$3.7 billion industry. The “Other” industries combined have been growing at a compound annual rate of 9% from 2012 to 2016.

One particularly interesting assemblage of separate food industries that I group together is the consumer packaged goods. I define the CPG sectors of the food industry to include all food except meat, seafood, animal feed and dairy. I define CPG as the sector that manufactures the packaged goods for the grocery department at the inside of the store.

The CPG component of the food industry had sales of \$33.2 billion in 2016. It is on pace for a 6-7% growth in 2017 to hit \$35.5 billion. The CPG sector represents about one third of the sales of the total food industry, compared to about 28% for meat alone. Compound revenue growth of the CPG sector from 2012 to 2016 was 3%, which is the same as for food overall. Total expenses also grew at the same 2% for the total food industry. Overall CPG earnings grew at a 5% rate compared to 8% for all food.



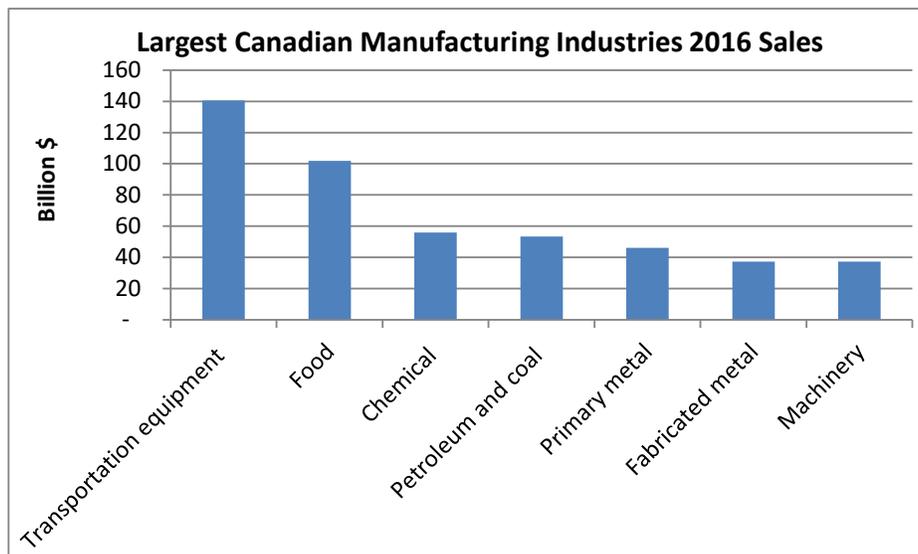
Other statistical points of interest for the food industry is that it paid \$10 billion in salaries and wages in 2016. The salary and wage growth was 2% each year from 2012 to 2016. That is the wage and salary growth was far less than the growth in revenues, let alone the growth in earnings. Of course each sector’s salaries vary by the fortunes of the sector. The animal food manufacturing sector saw salaries and wages grow by 7% a year to settle just below \$600 million in 2016. Of course one of the big reasons that food saw such slow growth in wages and salaries was the collapse of the breakfast cereal sector in

Canada. Plant closures there meant that salaries and wages declined from \$167.2 million in 2012 to just \$47 million in 2016. The fruit and vegetable plant closures at Heinz and Strub's in Ontario over that period also hurt salary performance in the overall food industry.

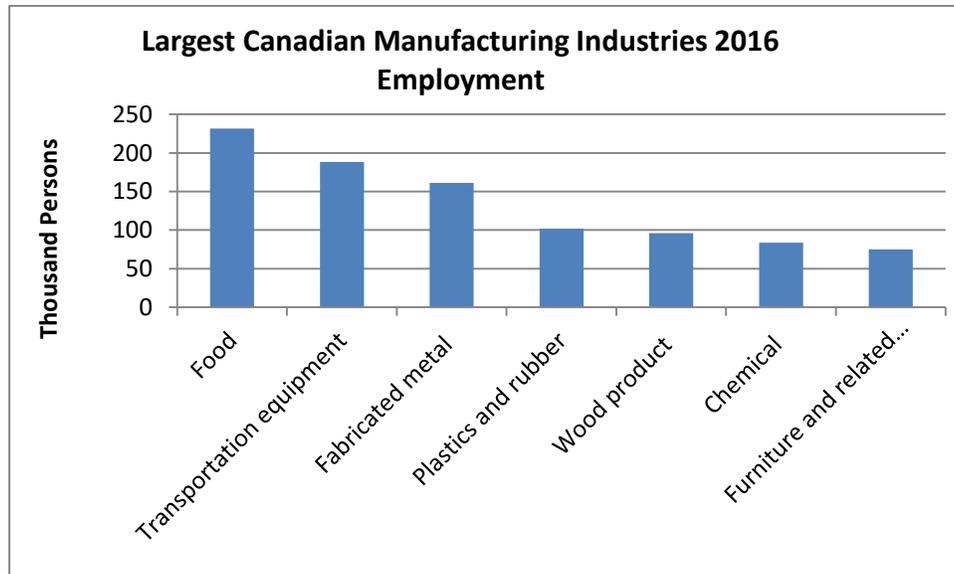
The food manufacturing industry employed 231,400 people in 2016. The food manufacturing industry represents 14% of all manufacturing jobs in Canada. The meat industry employed the most people in 2016 at 61,300 people while bakeries were the second largest employer at 47,000. By contrast the number of people now involved in the shrunken breakfast cereal manufacturing numbered just 800.

Compared to Other Industries

Based on Statistics Canada's definition of industries, the 2016 \$102 billion food manufacturing industry is the second largest manufacturing industry in Canada. The largest is the transport equipment industry at \$140 billion. That transport equipment industry however, includes automobile manufacturing, aerospace, railroad and ship building. Based on all those industries wrapped into one, it would be hard to top it. Motor vehicles contribute \$70 billion or about half to the \$140 billion transport total.



With regard to employment the food industry is number one. The 231,000 people employed is far greater than the 188,000 employed in the dubiously defined transportation equipment sector.



Why it Matters

The food industry has a positive story to tell from a growth, profit and employment perspective. It has an important presence across the country. The jobs and wealth created by the industry should result in leverage with policy makers at the federal and provincial levels.

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