

## Country Market Profile: Australia

Euromonitor reports that Australia has registered economic growth over 2021; however remaining strict pandemic containment measures have had a negative effect on the country's labor market. Furthermore, the tension with the largest trade partner, China, has had a dampening effect on export growth for Australia. Nevertheless, strong energy prices, expanding trade routes and positive outlook for investments into the country pave the way for sustainable growth over the medium term.

- Following real growth of 4% in 2021, Australia's economy is expected to expand by an average annual real rate of 2.3% over the medium term.
- Inflation in Australia is forecast to remain unchanged at 2.7% in 2022
- As Australia's merchandise exports increased by 37% and imports rose by 21.6% during 2021, the country remained a net goods exporter.
- As foreign direct investment (FDI) inflows into Australia decreased over 2020, FDI intensity reached 1.5% of GDP
- Public debt in Australia rose to 61.1% of GDP in 2021 from 57.3% in 2020, pointing to the country's deteriorating fiscal health

Australia's population is steadily rising and reached 25.8 million in 2021 (CIA World Factbook Est.), up from 19.4 million in 2000. The median age in 2021 was 37.5 years – 2.1 years higher than in 2000. It will rise to 38.3 years by 2030. Immigration is an important contributor to population growth. More than a fifth of all Australians were born overseas and over a quarter of those born in Australia have at least one parent who was born overseas. Most of today's immigrants come from Asia. The population of those over 65 years has more than doubled since 1980 and numbered 4 million in 2021 (15.5% of total population). By 2030, the share will be 18.2%.

Australia is an open market with minimal restrictions on imports of goods and services. The process of opening up has increased productivity, stimulated growth, and made the economy more flexible and dynamic. Australia plays an active role in the World Trade Organization (WTO), Asia-Pacific Economic Cooperation (APEC), the Group of 20, (G20), and other trade forums. Australia's free trade agreement (FTA) with China entered into force in 2015, adding to existing FTAs with the Republic of Korea, Japan, Chile, Malaysia, New Zealand, Singapore, Thailand, and the U.S., and a regional FTA with ASEAN and New Zealand.

Australia continues to negotiate bilateral agreements with Indonesia, as well as larger agreements with its Pacific neighbors and the Gulf Cooperation Council countries, and an Asia-wide Regional Comprehensive Economic Partnership that includes the 10 Association of Southeast Asian Nation (ASEAN) countries and China, Japan, Korea, New Zealand, and India. Australia is a member of the new 11-member Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) which was formally created in March 2018. The new agreement excludes the U.S.

USDA's Foreign Agricultural Service (FAS) Office of Agricultural Affairs (OAA) in Canberra reports that Australia is a prosperous and industrialized nation with a stable economy. Underpinning Australia's strong economy is its open and transparent trade and investment environment, and trade and economic links with emerging economies, particularly in Asia. The U.S. - Australia Free Trade Agreement provides some advantages for U.S. products, which are well regarded as high quality and good value. The U.S. accounted for US\$1.2 billion or 12% of Australia's total food related imports in 2020. Despite continued impact on the economy in 2021 due to the COVID-19 Delta strain, Australia's economy has begun to recover, and consumer sentiment has rebounded

FAS Canberra adds that like all vital U.S. agricultural export markets, Australia comes with its own unique opportunities and challenges. Opportunities include:

- U.S. culture well accepted and similar to Australia
- No language barriers
- U.S. products have excellent image and acceptance.
- Northern hemisphere seasonal advantage for fresh foods, e.g. fruit and vegetables.
- The U.S./Australia Free Trade Agreement enables a majority of U.S. products to enter Australia tariff free
- Australian consumers constantly seeking new tastes and cuisines
- Strong dining out culture provides opportunities to supply the consumer foodservice sector with new products

Challenges in the Australian food market include:

- Australia has strict quarantine requirements for fresh products, and import permits are required for fresh produce and some products are prohibited
- Australia is a significant producer of a similar variety of agricultural products.
- Australian labeling and advertising laws are different from the U.S. which may require some changes to food label.
- "Buy Australian" campaign is significant
- A focus on purchasing fresh local food by many restaurants and cafés provides advantages to local producers and suppliers

2021 U.S. exports of agricultural products to Australia totaled just over US\$1.4 billion, a decline of 7% compared to the prior year. Over US\$1.1 billion were of the consumer oriented variety or just over 78% of the agricultural total, with a decline of 6%. Australia also ranks 9<sup>th</sup> in the world for U.S. exports of processed foods, totaling US\$919 million in 2021, which was down 4% from that of 2020. Top U.S. processed food exports to Australia included:

- Food Preparations
- Processed/Prepared Dairy Products

- Alcoholic Beverages
- Dog & Cat Food
- Chocolate & Confectionery
- Canned, Dried And Frozen Fruit
- Snack Foods.

#### Retail Sector Highlights:

According to Euromonitor, retail sales in the packaged food market in Australia are expected to reach US\$44.5 billion in 2022. That represents a growth rate of 16.3% or US\$6.2 billion since 2018. By the year 2026 the retail sales in the packaged food market in Australia is expected to reach US\$52.4 billion, a growth rate of 17.7% and US\$7.8 billion from 2022. High growth products in the forecast include:

- Ready meals
- Baby Food
- Ice cream and frozen desserts
- Savory snacks
- Dairy Products (Ex. Cheese)
- Edible oils
- Cheese
- Baked Goods

FAS Canberra reports that health, wellness, and the environment continue to be key purchasing factors for Australian consumers. Portion sizes are increasingly important as consumers want quality over quantity, and they expect packaging to be informative and environmentally responsible. The value of food and liquor retailing in Australia rose by 5% in 2020 to US\$133 billion. Supermarket and grocery expenditures continue to account for the bulk of food retailing purchases with a share of 66%.

The value of Australian consumer oriented (i.e., snack foods, breakfast cereals, meat and poultry, dairy, eggs and products, fresh fruit and vegetables, processed fruit and vegetables, fruit and vegetable juices, nuts, wine, beer, nursery products, pet food, etc.), fish, and seafood imports totaled US\$10.4 billion in 2020. The U.S. accounted for US\$1.2 billion or 11% of Australia's total food related imports. Most of Australia's imports in these sectors are sourced from New Zealand – the U.S. is the second largest supplier.

Consumer aspirations, both personal and social, along with product developments by suppliers and retailers, continue to be important influences on shopping choices. For example – Sustainability: Consumers support products and brands that address concerns for better environmental outcomes. Food producers and retailers have made considerable investments into sustainability platforms. Waste reduction: Consumers desire to reduce household food waste. Integrity of food production systems: Consumers have supported products positioned to resonate with them (such as free-range egg, poultry, and meat products). Healthy eating: The high profile given to obesity has increased the awareness of managing portion sizes.

Woolworths is an Australian-owned company that has been trading since the 1920s. Woolworths is the number one player in the grocery sector with a 37% value share of the market in 2020. Cole's supermarkets are part of Wesfarmers Limited and are the second largest player in the grocery sector with a 28% value share in 2020. ALDI Stores Supermarkets Pty Ltd, the German based international discount food retailer which began trading in Australia in 2001, is the only grocery discounter in Australia and continues to increase its market share (10.5% in 2020). Metcash Trading Limited Australasia ranks fourth in supermarkets in value terms (7% in 2020). Metcash is Australia's largest grocery wholesaler and is a leading marketing and distribution company operating in the food, and other fast-moving consumer goods, categories. There are no hypermarkets in Australia, with no investment made by retailers to develop the channel since a failed attempt by Coles in the 1990s.

The supermarkets industry is one of the most fiercely competitive sectors in Australia with the rapid growth of German-owned ALDI over the past five years significantly altering the industry. Supermarkets and grocery stores continue to maintain most of the retail food market share, at around 66%. The market share of cafés, restaurants and takeaway food outlets is around 21%, reflecting consumers' continued desire for convenience. Other food retailers, such as butchers and bakeries, remain relatively stable with around 5% market share.

Private label in Australia tends to be more prominent in the grocery channel. ALDI's private-label strategy has been so successful in Australia that it has changed the perception that Australians had of the quality of private-label brands. Leading supermarket operators, Coles and Woolworths, are increasing their range of private-label products each year. Growing satisfaction with private label products has resulted in many consumers sticking with those products even during periods of positive consumer sentiment when they would have previously switched back to branded products.

Convenience stores in Australia are facing growing competition from smaller-sized supermarkets. Best exemplified by the Woolworths Metro and Coles Local formats, these smaller outlets are increasingly found in busy inner city locations and densely populated suburban areas. Like convenience stores, they target time pressed consumers who tend to shop more frequently, but buy fewer items at a time. Crucially, however, smaller supermarkets generally offer lower prices, while some also serve as "click and collect" points for online customers.

Euromonitor reports that during the pandemic, the concept of unattended self-service grocery store in shipping-container-size drew a lot of attention. The concept was developed by small, local producers to sell their own products and in 2021 was adapted by long-standing brands Billa and Unimarkt who both opened a handful of such stores. The typical selling space is around 11 sqm with a range of around 200 products. The concept aims to ensure supply in rural areas where it is difficult to run a classic store economically. Under certain conditions it can be run 24/7 which is a major advantage in the face of Austria's very restricted opening hours. Due to the lack of relevant branch networks, existing examples have not yet qualified to be classified as convenience stores and therefore have not been contributing to category sales. However, assuming continuing expansion and more investment by established brands, the concept could potentially reshape the channel in the forecast period and lead to better sales prospect

In spring-2021, Rewe publicly announced the intention to give the control of several its Billa supermarkets to independent, local traders. This idea is nothing new since the Spar, Adeg, and Nah & Frisch brands have been using this model in Austria for decades and is one of the reasons why a portion of Spar outlets are considered convenience stores. The local traders usually have a say in terms of suppliers, product range, and store design. However, more importantly to the owners, they give the stores more regional flavor and credibility within the community. Given the increasing consumer appreciation for local manufacturers and products, this has allowed Spar to significantly outperform Billa in recent years. Rewe's plans for implementing this new business model are still very vague but could potentially lead to the presence of Billa in convenience stores. Such an entry would certainly aid category prospects, similarly to Unimarkt's new franchise concept.

#### Best Prospects:

FAS Canberra that prospects are excellent for organic and natural ingredients as well as consumer-ready processed foods and beverages. Findings from a recent survey show that Australian consumers are adopting a back-to-basics mindset, focusing on simple ingredients and fewer artificial or processed foods. The types of products consumers are demanding include: all natural; no artificial colors; low sugar/sugar free; no artificial flavors; and low fat/fat free. U.S. exporters who are able to incorporate ingredients and preparation methods that improve the nutritional profile of products will be strongly positioned to succeed in this market. It should be noted that although consumers are trying to eat healthier, they have not completely ruled out buying confectionery products.

#### Foodservice Sector Highlights:

The Australian consumer foodservice industry is valued at US\$40.5 billion. By far the largest proportion of the Australia's foodservice industry is the consumer foodservice sector, which consists of almost 63,000 outlets. Australia's commercial foodservice sector is a competitive market and with an ageing population, the institutional foodservice sector (aged care, hospitals, etc.) continues to grow. Most industry operators in the hotel and resort sector derive a significant portion of revenue from the sale of meals and beverages prepared at onsite restaurants. COVID-19 related government restrictions have had a large impact on the hotel, restaurant institutional (HRI) sector over the last two years. As a greater proportion of the Australian population is vaccinated, government restrictions began to ease by the end of 2021.

Australia's multicultural population is fueling increased demand for an ever-expanding menu of ethnic foods and specialty ingredients while at the same time asking for simpler and healthier choices. Dining out is a way of life for most Australians and it is estimated that more than one-third of Australian households' total food and non-alcoholic beverage budget is spent on eating outside of the home. Australians eat out on average two or three times a week for breakfast, brunch, lunch, or dinner. Australia offers an eclectic mix of cuisines, which are fully embraced into national culture.

Independent limited-service restaurants, full-service restaurants and cafes/bars make up most consumer foodservice establishments in Australia. This differs from other countries such as the

U.S. and the U.K. where franchises and chains dominate. Australian consumers prefer the more eclectic mix of food offerings via independents, a trend borne out of historical immigration mixes, with this type of business less dependent on population or macroeconomic growth.

Consumer preferences are also leading to a rise in the popularity of casual dining, where growth is being experienced by bars/pubs and restaurants in suburban locations. As dining out is so deeply entrenched in Australia's culture, during times of economic downturn consumers trade down rather than stop eating out. As the market becomes increasingly competitive the focus among independents will be on offering menus that are unique while many will also focus on differentiating via ambience and level of service.

Euromonitor reports that although foodservice operators faced challenges throughout 2021 in terms of an uncertain market environment, labor shortage issues and strained revenue sources with lack of international visitors entering the country, meant that businesses pivoted towards offering deliveries and building on their digital capabilities to cater for consumers and diversify their revenue models. Restaurants reduced opening hours and ran leaner operations by simplifying or reducing their menus.

Chained limited-service operators have been able to pivot quickly in comparison to other types of foodservice, enabling them to manage the crisis despite the business challenges due to further outbreaks in 2021. Leading operators such as McDonald's and KFC saw different branches across the country facing overwhelming demand, encouraging them to diversify their offer such as new limited lines including Pizza Doubles by KFC and Cheese Toastie Crust by Domino's Pizza.

The lack of international tourists entering the country significantly impacted the hospitality industry in terms of lower number of customers as well as short supply of immigrant workers who traditionally help fill the labor gap in the foodservice industry. As Australia moves forward in terms of living with COVID-19 with the country moving past strict lockdowns and social distancing measures, international borders are set to reopen in 2022, and therefore consumer foodservice can expect the labor shortage in the market to gradually recover.

#### Best Prospects:

FAS Canberra reports that U.S. food products with the best potential in the Australian HRI sector include Positive nutrition: The drive to make food and beverages healthier continues to gain momentum in Australia. Australian consumers do not want to be told what not to eat and are instead looking for more constructive guidance to assist their food and beverage purchases. This encompasses a movement from food avoidance to positive nutrition and the inclusion of healthy food and ingredients. Healthy indulgence: Australians aren't really interested in strict diet plans, but there is a huge spike in people trying to control their portion sizes. They don't want to cut out certain food groups or flavors, but they are willing to control the amount they eat. Therefore, the quality over quantity mentality is an important consideration for marketers. Claim terms such as "portioned indulgence" or "treat size" convey the message that sensory benefits have not been foregone for the sake of health.

## Food Processing Sector Highlights:

FAS Canberra reports that Australia's food, beverage, and grocery sectors account for approximately one-third of the country's total manufacturing industry. In 2019-20 (latest available data) food manufacturing turnover totaled US\$84 billion. The industry is comprised of over 16,000 enterprises (excluding those in the fresh produce sector).

The initial COVID-19 outbreak significantly affected operators in the Food Product Manufacturing sector although this was relatively short-lived. In March 2020, the Australian Government announced several measures aimed at slowing the spread of COVID-19 in the Australian community including mandating the closure of all food and beverage service operators and requiring some food manufacturers to reduce their workforce capacity. State and territory governments moved relatively quickly after lockdowns to open cafes, restaurants, pubs, and bars which supported manufacturers supplying this subdivision. Economic conditions have now improved, and sales are rising for food product manufacturers that supply the retail market.

In October 2020, the Australian government announced a US\$1.1 billion investment in manufacturing – including food and beverage manufacturing – called the Modern Manufacturing Strategy (MMS). The MMS is designed to assist Australian manufacturers scale-up, become more competitive and resilient, and build scale in the global market. This development offers opportunities for U.S. suppliers of ingredients to increase sales to Australia. Further information on the strategy for food and beverage manufacturing is available on the Department of Industry, Science, Energy and Resources website.

Processed/cured meat products – Increases in prices of fresh meat has meant that price-conscious consumers have turned to processed/cured products as a cheaper alternative. Processed pig meat and pork for further processing has been progressively allowed into Australia since 1990. Imports consist mainly of frozen boneless pork for further processing. The United States and Denmark are the most significant sources of imports. In 2021, imports of pork and pork products from the United States were valued at \$196 million. While that is a drop of 22% from 2020 Australia still ranks as the 8<sup>th</sup> largest U.S. export market for pork and products. Major players in processed and cured meat product processing: Industry Park Pty Ltd, Food Investments Pty Ltd, and Bertocchi Smallgoods Pty Ltd.

Dairy product manufacturing (milk and butter) – Most imports in this sector come from New Zealand, which is the largest source by far, accounting for 70% of all industry imports due to its proximity to Australia and the high quality of its dairy produce. The United States is the second largest supplier, accounting for 6% of imports which consist mainly of whey, butter, and yoghurt/buttermilk/kefir products. Major players in dairy product manufacturing: Saputo Dairy Australia Pty Ltd, Bega Cheese Ltd, Fonterra Co-operative Group Ltd, and Lactalis Australia Pty Ltd.

Cheese manufacturing – Domestic cheese consumption is relatively stagnant. Local consumer preferences have shifted from traditional varieties towards premium and specialty cheese varieties. The total value of imported cheese is \$537 million with the United States supplying

around 20% of those imports. Major players in cheese manufacturing: Bega Cheese Ltd, Saputo Dairy Australia Pty Ltd, and Fonterra Co-operative Group Ltd.

Fruit and vegetable processing – The Australian domestic fruit and vegetable processing industry has struggled with increasing external competition in recent years as supermarkets have been increasingly sourcing processed goods from overseas. The United States has an advantage over some other countries because of their reputation of trusted suppliers of safe, high-quality products – this should be emphasized when approaching this market. The dominance of Australia’s supermarket giants Coles and Woolworths has encouraged growth in cheaper imports to be sold as private-label products. In 2021, imports from the United States were valued at US\$104 million. Major players in fruit and vegetable processing: Simplot Australia (Holdings) Pty Ltd, and Heinz Wattie’s Pty Ltd.

Bakery product manufacturing industry – Per capita bread consumption is falling, but Australians are spending more on higher quality, fresher breads, and baked goods such as sourdough, ciabatta, brioche and baguettes. Rising health consciousness has caused demand for wholemeal, seeded, gluten-free and other breads enriched with added nutrients, which are perceived to be healthier products. Major players in bakery product manufacturing: Bakers Delight Holdings Ltd.

Healthy snack food manufacturing – Consumer concerns regarding health and obesity are growing, with health-conscious consumers shifting away from traditionally high-fat and high-sodium snacks. Supermarkets are expanding their private-label offerings to include healthier and premium snack foods. This provides opportunities for U.S. tree nuts and dried fruits. Aside from the largest operators, the industry also includes several small-scale producers that specialize in niche, lower volume products. This sector is made up of many small-scale manufacturers so there are no major players.

Australia’s imports of food ingredients totaled \$12.4 billion in 2021. The United States is the second largest supplier of these products with imports of US\$1.1 billion, or 9% in 2021.

#### Best Product Prospects:

FAS Canberra reports that the types of products consumers want to see more of are all natural, no artificial colors, low sugar/sugar free, no artificial flavors, and low fat/fat free. U.S. exporters who can provide ingredients and preparation methods that improve the nutritional profile of products will be strongly positioned to succeed in this market. Australians want to eat healthier but need help to make it happen. Consumers want more ‘all natural’ food products on shelves and they would be willing to pay more for foods and beverages that don’t contain unhealthy ingredients.