

Country Market Profile: Australia

Euromonitor reports that the Australian economy experienced a recession in 2020. Economic activity collapsed in the second quarter of 2020, as lockdown measures to fight the Coronavirus (COVID-19) pandemic required many businesses to suspend activities and consumers to stay home. However, confinement has been less strict than elsewhere thanks to the relatively mild virus outbreak. Growth of real Gross Domestic Product (GDP) should bounce back to 3.7% in 2021 and will gradually decrease to average around 2.3% per year in 2024-2027.

- Real GDP decreased by 2.5% in 2020 – down from growth of 1.9% in 2019.
- Private final consumption in real terms grew by 1.4% in 2019 and a fall of 6.1% is expected in 2020. Consumption has been affected by the measures introduced to limit the spread of the COVID-19-pandemic.
- Unemployment was 5.2% in 2019 and it will rise to 6.9% in 2020. Temporary wage subsidies – the “JobKeeper” program – are stemming unemployment. Nevertheless, job losses have been considerable, particularly in hospitality and entertainment.
- Assuming COVID-19 is contained, and a vaccine is widely available by mid-2021, conditions appear to be in place for a period of steady economic growth.

Australia has proven to be an appealing and profitable market for U.S. companies for many years. Underpinning Australia's strong economy is its open and transparent trade and investment environment, and strong trade and economic links with emerging economies, particularly in Asia. Australia is the world's 13th largest economy. Australia has one of the highest levels of per capita GDP in the world (US\$49,854) and is ranked sixth for median wealth per adult according to Credit Suisse's 2019 Global Wealth Report. Prior to the onset of COVID-19 the Australian economy recorded 29 years of consecutive economic growth. The Australian economy contracted by 7% during the first half of 2020. A recovery in economic activity is underway across the country but is proceeding at an uneven pace due to continued outbreaks and associated lockdowns in some states. Australia implemented strong restrictions to COVID-19 and has had one of the lowest rates of infections globally.

Australia's population is steadily rising and reached 25.4 million in 2019 (CIA World Factbook Est.), up from 19 million in 2000. The median age in 2019 was 37.3 years – 1.9 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 2019 (15.9% 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. In 2014, Japan and Australia agreed on a trade deal which lowers tariffs on imports of key products. Australia and China expect to reach a Sino-Australian Free Trade Agreement in the near future. The deal will cut tariffs and remove other impediments to Australian exports while relaxing rules on Chinese inward investment. Canberra hopes to negotiate trade agreements with both the U.K. and the EU as soon as possible. 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 hereinafter referred to as "Post" 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 with good value. The value of Australian consumer-oriented food imports totaled US\$10.4 billion in 2020. The U.S. accounted for US\$1.3 billion or 12% of total imports. Most of Australia's imports in these sectors are sourced from New Zealand and the United States is the second largest supplier.

Post 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 labels.
- "Buy Australian" campaign is significant.

- A focus on purchasing fresh local food by many restaurants and cafés provides advantages to local producers and suppliers.

2020 U.S. exports of agricultural products to Australia totaled just over US\$1.3 billion, a mild decline of 2% compared to the prior year. Over US\$1 billion were of the consumer oriented variety or just over 78% of the agricultural total, also with a decline of 7%. Australia also ranks 8th in the world for U.S. exports of processed foods, totaling US\$955.7 million in 2020, which was up 2% from that of 2019. Top U.S. processed food exports to Australia included:

- Food Preparations
- Processed/Prepared Dairy Products
- Alcoholic Beverages
- Dog & Cat Food
- Snack Foods
- Non-Alcoholic Beverages
- Canned, Dried & Frozen Fruit
- Chocolate & Confectionery

Retail Sector Highlights:

According to Euromonitor, retail sales in the packaged food market in Australia reached US\$33.2 billion in 2020. That represents a growth rate of 14.9% or US\$4.3 billion since 2016. By the year 2025 the retail sales in the packaged food market in Australia is expected to reach US\$39.1 billion, a growth rate of 17.5% and US\$5.8 billion. High growth products in the forecast include:

- Baby Food
- Ice Cream & Frozen Desserts
- Ready Meals
- Chocolate Confectionery
- Edible Oils
- Pet Food
- Savory Snacks
- Dairy Products

Post 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 4% in 2019 to US\$115.7 billion. Supermarket and grocery expenditures continue to account for the bulk of food retailing purchases with a share of 69%. The U.S. accounted for US\$1.2 billion (11%) of Australia's total food related imports in 2019. Despite the effects of COVID-19, Australia's economy is expected to recover relatively quickly, and the market remains an excellent opportunity for U.S. exporters.

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. Changing consumer sentiment and shopping preferences have also influenced the industry's trading conditions. Shoppers have shifted their shopping habits over the last decade with some of the key determinants being food safety, location, and good value.

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.

Warehouse clubs made an aggressive expansion in 2011 following the launch of Costco's first store in Melbourne in 2009 and its expansion since to all main cities across Australia. This presents a further challenge to value gains for supermarkets. Costco remains the only warehouse club in the Australian market and offers a variety of U.S. and Australian products.

Convenience stores focus on providing a daily routine stop for consumers, with an emphasis on driving visit frequency through selling freshly prepared hot food and drinks to attract time-pressed customers. The industry only includes businesses that primarily sell convenience store goods and excludes all service (gas) stations and is therefore highly fragmented and diverse, with a significant number of owner-operated enterprises which include stores operating under banner groups and franchise agreements which are usually run as individual businesses.

Best Prospects:

Post reports that organic, healthy, and natural products market in Australia continues to grow rapidly. Although Australia is a large producer of organic raw products, it does not have the manufacturing capacity to satisfy demand for processed organic products. 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:

Post reports that the Australian consumer foodservice industry is valued at US\$44 billion. By far the largest proportion of the Australia's foodservice industry is the consumer foodservice sector, which consists of more than 71,000 outlets. An ageing population is likely to fuel faster growth

in the institutional foodservice sector compared to the commercial foodservice sector. 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.

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.

COVID-19 - The COVID-19 outbreak has significantly affected operators in the HRI sector. 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, except for those offering delivery or takeaway services.

At the same time, the Australian government also implemented a ban on all non-Australian citizens and residents entering the country. International tourists make up a key market for HRI operators. These restrictions have contributed to a sharp downturn in demand. While demand for takeaway services has risen, in the end it is not expected to outweigh the loss of revenue to the HRI sector from people not eating at restaurants. The forecast rise in unemployment and the consequent decline in household discretionary incomes are expected to reduce the number of Australians willing to make discretionary purchases, such as takeaway food.

Food Processing Sector Highlights:

Australia has proven to be an appealing and profitable market for U.S. companies for many years. Apart from an extremely strict quarantine regime, it offers few barriers to entry, a familiar legal and corporate framework, and a sophisticated – yet straightforward business culture. While it is important to understand and appreciate Australia's cultural differences, the long and successful history of U.S. firms in Australia suggests the potential of this market. Australia's food, beverage, and grocery sectors account for over one-third of the country's total manufacturing sector. In 2020 food industry turnover totaled US\$133 billion a rise of 8% over the previous year. The industry is comprised of over 15,800 enterprises.

The 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 those manufacturers supplying these establishments. The most significantly affected food manufacturers were those that depend on local the food-service sector in Victoria (which endured multiple lock downs) or overseas markets. Economic

conditions have now improved following the successful containment of the outbreak in Australia, resulting in stronger sales for some food product manufacturers.

Best Product Prospects:

Post 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 are able to provide ingredients and preparation methods that improve the nutritional profile of products will be strongly positioned to succeed in this market.

The organic, healthy, and natural products market in Australia continues to grow. Although Australia is a large producer of organic raw products; it does not have the manufacturing capacity to satisfy demand for processed organic products. Prospects are excellent for organic and natural ingredients as well as consumer-ready processed foods and beverages.