Country Market Profile: Canada

Euromonitor reports that Canada's economy experienced a sharp contraction in 2020, due to the COVID-19 crisis and an oil price shock. The Gross Domestic Product (GDP) declined by 5.3% in 2020. The economy is anticipated to witness strong recovery over the 2021-2022 periods, driven by the widespread COVID-19 vaccine rollout and supportive macroeconomic policy actions. The 2021 GDP forecast is for growth of 6.2%. Nevertheless, heightened global uncertainty, weak trade, subdued productivity growth, a slow labor market recovery, and high public debt pose risks to long-term economic development.

- The economy is projected to reach pre-pandemic levels by the end of 2022 and expand at an average annual real rate of 1.8% over 2021-2024.
- In 2020, the annual inflation rate in Canada fell below the central bank's 1%–3% target range, but is forecast to rise gradually over the medium term and settle at around 2% by 2023.
- Canada's exports and imports are expected to remain subdued over the medium term, due to the coronavirus' economic aftershock and global trade policy uncertainty.
- The country's foreign investments were severely affected in 2020, but are set to recover gradually over the medium term, supported by business-friendly regulations, a well-educated workforce, and well-developed infrastructure.
- Public debt surged from 88.4% in 2019 to 113% of GDP in 2020 and is anticipated to remain at record-high levels over the medium term.

Canada's population is growing at a decelerating pace, reaching 37.6 million in 2020 (CIA World Factbook Est.). The country's median age is also rising. It was 41.8 years in 2020 – up from 36.8 years in 2000. Immigration accounts for more than 50% of Canada's population gains and will be responsible for virtually all growth in the labor force in the future. Approximately 20% of Canada's population is foreign-born and roughly two-thirds of the foreign-born live in Canada's three largest metropolitan areas – Toronto, Montreal and Vancouver. Canada has the highest immigration rate of any major economy. As birth rates decline, Canada is also experiencing a moderate-to-rapid ageing process. In 2030, 22.9% of total population will be over 65 years of age compared with 17.8% in 2018.

The United States-Mexico-Canada agreement (USMCA) entered into force on July 1st, 2020. It has reduced uncertainty over trade with the U.S. Canada's recent trade agreement with the European Union (EU), the Comprehensive Economic and Trade Agreement (CETA), is an attempt to reorient more of its trade away from the U.S. and towards Europe. It eliminated 99% of tariffs on both sides and has boosted bilateral trade by about 20%.

In March 2018 Canada was one of the 11 countries to sign the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) which replaced the abandoned Trans-Pacific Partnership. Canada has signed a number of Free Trade

Agreements (FTAs) with countries in Europe, Latin America and the Middle East. A free-trade agreement with India is nearing finalization.

USDA's Foreign Agricultural Service (FAS) Office of Agricultural Affairs (OAA) in Ottawa hereinafter referred to as "Post" reports that approximately 90% of Canada's nearly 38 million consumers live within 100 miles of the U.S. border. For new-to-market and new-to-export firms, Canada offers stable financial markets and a sophisticated logistics network that supports US$130 million worth of daily two-way trade in food and agricultural products. Canada's food and alcoholic beverage retail sales in 2020 reached US$109 billion – a record 10% increase from the previous year. Despite a relatively strong U.S. dollar and a mature market, opportunities U.S. food and beverage food sales have remained strong in Canada.

2020 U.S. agricultural exports to Canada totaled US$22.2 billion, an increase 2% from 2019. Canada has relinquished the top market position to China in 2020. Canada accounts for about 14.8% of total U.S. food and agricultural product exports of US$149.7 billion. Canada remains the top market for U.S. exports of consumer-oriented products. U.S. exports of these products to Canada reached a total of US$17 billion in 2020, also growth of 2%. This also accounted for 76.5% of total U.S. food and agricultural product exports to Canada. Canada is also the top market for U.S. processed food exports, totaling more than US$13.1 billion in 2020, growth of 1%. Top U.S. processed food exports to Canada in 2020 included:

- Food Preparations & Ingredients
- Snack Foods
- Non-Alcoholic Beverages
- Chocolate & Confectionery
- Dog & Cat Food
- Pasta & Processed Cereals
- Prepared/Preserved Meats
- Condiments & Sauces, Jams & Jellies

Post reports there are country specific advantages and challenges for U.S. food exporters in the Canadian market.

Advantages

- Canadian consumers enjoy high disposable income, coupled with growing interests in premium, high-quality products, and global cuisine.
- Geographic proximity reducing transportation costs.
- U.S. food products are generally aligned with Canadian tastes and are familiar to Canadian consumers.
- Canada's ethnically diverse population provides opportunities for specialty products. Canadians are exposed to increasingly diverse flavors and cuisines
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- Strong demand for natural, organic, gourmet, specialty food products.
- Duty-free, duty free treatment for over 98% of U.S. products under USMCA (entered into force July 1, 2020).
- Foodservice operators rely on imported fruits and vegetables year-round.
- Well-established financial institutions and trading relationships.

Challenges

- Sophisticated selection of products already available on Canadian store shelves.
- Geographic scale of Canada and costly shipping from East-West / coast-to-coast.
- Bilingual (English and French) labeling, differences in nutrition fact panels and other labeling requirements.
- A stronger U.S. dollar makes competitive pricing challenging, especially in specialty foods.
- Differences in chemical/residue tolerances, as well as food standards, may require special production runs.
- Tariff rate quotas apply for supply-managed commodities, dairy, poultry, and eggs.
- Strong 'buy local' movement across Canada.
- Differences in standard package sizes and units of measurement (metric vs. imperial).
- Retailers and distributors often prefer working through a Canadian broker.

Retail Sector Highlights:

According to Euromonitor retail sales in the packaged food market reached US$48.5 billion in 2020. That ranks Canada the 10th largest foreign market in the world. That also represented a growth rate of nearly 18% or US$7.4 billion from 2016. They also forecast growth in this category to reach over US$56 billion by 2025. This is an increase of US$6 billion, and a period growth of 12% from 2021. High growth categories in the forecast include:

- Pet food
- Savory snacks
- Ice Cream & Frozen Desserts
- Confectionery
- Cheese
- Processed Meat & Seafood
- Ready meals
- Sweet Biscuits, Snack Bars & Fruit Snacks

Post reports that Canada's retail market is mature and consolidated with five major stores that include three traditional grocers and two general merchandisers commanding 75% of the market. Ontario, Quebec and British Columbia represent 74% of Canada's retail market and are the provinces in which most of the convenience, drug, grocery and mass merchandise stores are located.

The three major grocery chains market their products to consumers across the country under the following main banners: Loblaws: Provigo, The Real Canadian Superstore, nofrills, Maxi, Fortinos, Zehrs markets and Shopper's Drug Mart; Sobeys: IGA, Thrifty Foods, Safeway, and FreshCo and Foodland; Metro: Food Basics, Marché Adonis, Super C and Jean Coutu.

By surface area, Canada is the second-largest country, but over 80% of Canadians live in the country's 15 largest cities, making urban centers the nuclei of retail activity. As larger grocery banners focus their efforts on population dense areas, smaller communities are serviced by smaller format retailers as well as independent and specialty retailers. While sophisticated, transportation logistics across such a large can be relatively expensive moving East-West. Product distribution channels routinely flow North-South, reinforcing the importance of imports from U.S. suppliers. The Canadian retail market is highly consolidated, with five major retailers commanding over 75% of grocery sales in 2020.

The Canadian food market displays a dichotomy of demand, one for low priced quality foods and the other for premium and specialty food items. Some premium consumer-packaged food products are sold in Canada at three times the comparable U.S. retail ticketed price. Customarily, U.S. companies selling natural, organic, or specialty foods will create demand and sales among the independents before tackling larger accounts. Proven sales in Canada are important to help persuade category buyers to list an unknown product.

In 2020, Canada's food and beverage retail sales surged by a record 10% from the previous year – reaching US$109 billion, including alcohol sales of US$20 billion – as COVID-19 response measures drove double digit losses in food service. Following consumer stockpiling of essential and bulk commodities early in the pandemic, the number of meals prepared at home remained high throughout the year as food service outlets were reduced to take out or limited dining operations. Unsurprisingly, retail sales outpaced foodservice sales in all areas during 2020.

Moreover, various Canadian banners saw their sales rise during the lockdown by capitalizing on the growing popularity of ready-to-eat meals and meal kits, respectively. Conversely, convenience stores and especially smaller format retailers suffered declines in sales due to a significant reduction in consumer mobility and less frequent shopping trips. Consumers bought more groceries at the larger banners, which offered 'one-stop' shopping. Canadian retailers continue to rely on imported foods to not only fill their shelves but to help introduce new and innovative products.

Canada offers a sophisticated integrated food supply chain with many existing large U.S. food manufacturers. For smaller to medium-sized food companies, there are excellent warehousing and distribution channels to get new products to retail stores. Consumer demand and established distribution channels with U.S. suppliers continue to fuel produce sales growth, with Canadians spending 21% more on fruits and vegetables than U.S. consumers. Additionally, demand for consumer-packaged goods recognized as organic, natural, and with clean ingredients continues to rise.

Unlike in the U.S., a number of retail category buyers from the larger chains rely on food brokers, distributors, and importers to identify new products. More importantly, they also rely on these intermediaries to manage the relationship with U.S. companies and to guide U.S. companies through required compliance steps, the nuances of the Canadian retail market, and development of promotional strategies to help sell the product in Canada.

Best Product Prospects:

Post reports that among the consumer-oriented products exported to Canada in 2020, the top three consumer-oriented agricultural product categories were bakery goods, cereals, & pasta (US$2.2 billion), fresh vegetables (US$1.9 billion), and fresh fruits (US$1.6 billion). Over the next five years, the pet foods category is expected to grow by 13.2% making this category the most opportunistic one for U.S. suppliers.

As the pandemic continues to evolve consumer shopping behaviors will continue to adapt to it. With COVID-related financial insecurity in the country, normally price conscious Canadian consumers are expected to remain cautious in the near term, driving sales of private label products and tempering the pace of "premiumization" (i.e., consumers upgrading to more premium products). Essential items, including rice, pasta, and bread as well as snack-based products will continue to perform well.

Food Service Sector Highlights:

Post reports that the Canadian foodservice sector grew 3% to nearly US$71 billion in 2019. COVID-19 mitigation measures – including the initial closure of non-essential businesses, restrictions on local and international travel, and reduced capacity, phased business re-openings – have dealt a heavy blow to the Canadian hotel, restaurant, and institutional (HRI) sector, with at least 10% of establishments projected to have closed permanently. The national restaurant industry association predicts losses of ranging as high as 48% in 2020, with commercial foodservice sales down as much as US$30 billion from 2019.

The foodservice industry is divided into two segments: Commercial (restaurants, caterers and drinking establishments) and Non-commercial (hotels, institutional, retail and other foodservice operations). The Commercial segment typically accounts for 80% of total foodservice sales, with quick-service and full-service restaurants constituting the majority of sales.

Restaurateurs and hoteliers have been incorporating healthier menu options in response to growing consumer health-consciousness. This trend was evident across the market but was especially strong in quick-service and full-service restaurants with US$25.8 billion and US$25.5 billion in total sales respectively for 2019. Operators expanded the range of lighter meals and dishes featuring fresh, nutritious ingredients by offering more plant-based protein, vegetarian, and vegan options, including branded meat substitutes such as Beyond Meat and Lightlife. McDonald's, Subway, Harvey's, and Kelsey's were among

the many chains that added items made with plant-based meat substitutes to their menus in 2019.

Best Product Prospects:

Post reports that as part of Canada's growing health consciousness, consumers are increasingly wary about the food and beverages they consume, particularly in terms of the quality of ingredients and the incorporation of unwanted, unnatural, or artificial agents. Moreover, as consumer awareness of the need for sustainably produced and packaged products increases, they are more inclined to seek organic options. These two trends are particularly relevant to a younger demographic with increasing spending power and who are spending more on organic products than the average consumer.

Food Processing Sector Highlights:

Post reports that despite the challenges COVID-19 posed to the Canadian food and beverage processing sector, it remained one of the largest manufacturing sectors, contributing more than US$91 billion in sales in 2020 (up 4% from 2019). Accounting for 20% of total manufacturing sales, the Canadian food and beverage processing sector is mature and stable, offering a steady source of demand for U.S. agricultural raw, semi-raw, and processed ingredients.

Canada's food and beverage processing sector is vital to its economy and ranks as the second largest sector for Canada, accounting for 20% of the country's manufacturing. Canada's Agri-food exports exceeded $51 billion in 2020, making it the fifth-largest exporter of agricultural products in the world, after the European Union, the United States, Brazil and China, respectively. Exports of processed food and beverage products exceeded US$22.5 billion, which accounted for 44% of Canada's exports of agricultural products. The Canadian Government aims to grow agriculture and food exports to US$60 billion by 2025 and continues to support the agribusiness sector through Canadian Agricultural Partnership programs to reach this target.

In 2020, food and beverage processing sales reached US$91.7 billion with food processing accounting for 90% of total sales and beverage processing accounting for the remaining 10%. The leading food manufacturing sectors were meat processing (US$22.9 billion) and dairy product manufacturing (US$13 billion). There are about 7,800 food and beverage processing establishments in Canada: 91% have less than 100 employees, 8% have between 100 and 500 employees, while only about 1% of establishments have more than 500 employees. The industry employs some 290,000 workers.

Canadian food and beverage processors utilize raw, semi-processed, and processed ingredients. Support for the Canadian economy and the strength of Canada's "buy local" movement drives processors to source locally whenever possible. However, Canadian processors continue to rely on a wide range of imported ingredients. For example, commodities such as fresh berries, lettuce and tree nuts have become essential imported ingredients in the food processing industry, and Canada imports about 80% of its fresh fruit and vegetables between November and June. Well-established multinational

manufacturers, such as Saputo Inc., PepsiCo, Inc., Kraft and others, contribute to the cross-border trade between Canada and the United States as they leverage global supply chains to create efficiencies and foster innovation.

Best Prospects:

Post reports that U.S. companies provided 57% of Canada's total imports of consumer-oriented products in 2020. The top three consumer-oriented agricultural categories included prepared and processed foods, fresh and processed vegetables, and fresh and processed fruit. Although, no data exists on the total value of imported inputs/ingredients destined to the Canadian food processing sector, export data indicate that semi-raw products, selected fresh fruits and vegetables, nuts, and other products and processing inputs not readily grown in Canada are in high demand and continue to be largely imported from the United States.