Food processing in Canada / Alberta: Ripe for (more) growth?

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Farm Credit Canada
Advancing the business of agriculture
Canadian food manufacturing shines

Source: Statistics Canada
Canadian food manufacturing shines

Source: Statistics Canada
Canadian food manufacturing shines

GDP index (1997 = 100)

- National
- Manufacturing
- Food & beverage manufacturing

Source: Statistics Canada
Alberta food manufacturing trend positive
Alberta food manufacturing trend positive
Room for more growth?

Source: IHS Global Insight
Today’s agenda

1. Sizing up macro trends that impact agri-food

2. Operating environment for food processors
Macroeconomic headwinds for Canadian agriculture and agri-food sectors...

- Economic growth
- Health of the Canadian consumer
- U.S. priorities
Uneven economic growth in 2017

- 2.1%
- 1.6%
- 7.3%
- 6.5%
So what is driving this moderate growth
$50 is the new $100!

Source: St. Louis Federal Reserve
Canadian household debt ratio record 167.3%

- $1.67 in debt for every dollar of disposable income
- $2.03 trillion in debt
Steady bank rate does **not** mean steady borrowing costs.
Oil steady and rates slightly up implies a loonie at US$0.75 in 2017
Unemployment remains high across Canada
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Source: Statistics Canada
Does the anti-trade sentiment matter?
The United States is important to Canadian Ag

- 54% of agriculture and agri-food exports
- 31% of crop and livestock
- 78% of agriculture implement exports
... and a growing one

Source: Industry Canada
The trade balance issue is with other countries

Source: Industry Canada
U.S. economy improving at a reasonable pace

GDP:
- 2.1% in Q4
- 3.5% in Q3

Unemployment:
- 4.6% March 2017
- 5.1% March 2016

Source: US Bureau of Economic Analysis
Source: US Department of Labor
More Federal Reserve rate hikes likely

“... reducing the size of the balance sheet should be conducted in a passive and predictable manner”
The trade account is not the problem!

It’s the capital account
Chinese households continue to prioritize food as incomes rise, but shift towards premium products.
Should we pursue a bilateral deal with Japan?

Should we revive negotiations with India?

Should we try to gain larger access to China?

Here’s RCEP... TPP on steroids
Trends in food processing
Retail price trends
Retail prices of animal proteins

Source: Statistics Canada

<table>
<thead>
<tr>
<th>Year</th>
<th>Beef</th>
<th>Pork</th>
<th>Chicken</th>
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<tr>
<td>2014</td>
<td>0%</td>
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<td>2015</td>
<td>5%</td>
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<td>2016</td>
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<tr>
<td>2017</td>
<td>15%</td>
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Source: Statistics Canada
Retail prices of bakery, eggs and margarine

Source: Statistics Canada
Prepared fruits, vegetables, processed and frozen food

Source: Statistics Canada

Year-over-year change

CPI  Food  Prepared Fruit  Prepared Vegetables  Pre-cooked / frozen foods  Processed meat

Source: Statistics Canada
Trends in sector profitability
Meat processing margins improved, until recent squeeze

Source: Statistics Canada
Improved profitability in bakery on lower cereal grains

Source: Statistics Canada
Tighter margins on high fresh fruit and vegetable prices

Source: Statistics Canada
Food consumption preferences are more and more segmented
80% believe fresh food is tastier.

37% of shoppers switched to a healthier bread.

22% switch to healthier crackers.

One-third of adults tried a specialty regimen.

8% tried gluten-free.

4 out of 10 Canadians use snacks as a meal replacement.

Nearly half of all eating occasions are alone. Even in multi-person households, 39% of eating occasions are solo.

80% of eating occasions are solo.
My name is Denise Morisson, CEO of Campbell Soup. We have identified four promising platforms:
1. Online food shopping
2. Transformation of snacking food category into food that deliver functional benefits
3. Personalized nutrition with curated food delivered to your doors
4. Locally-sourced ingredients
Good soup!
Food processing sector environment is positive

- Economy
- Investment
- Competitiveness
- X-rate
- Labour unit costs
- Consumption trends