2022 Country Market Profile: Canada

Euromonitor reports that a stable macroeconomic environment, low corruption, sound banking system and a skilled, digitally-adept labor force and proximity to the U.S. market are among the key advantages of Canada's business environment. Canada also has solid road, cargo and trade infrastructure, with further investments being planned for the future. Nevertheless, relatively high taxes and costly labor force provide substantial challenges for businesses in the country.

According to Focus Economics the Canadian economy is projected to grow at a more moderate pace in 2022, due to a less favorable base effect, which is to day, financial support from government due to the pandemic. They report that a lower unemployment rate elevated household savings and further progress on the vaccination front should support private spending. Uncertainty surrounding new variants of the virus, potential stop-start restrictions and volatile oil prices cloud the outlook. Focus Economics analyst's project growth of 4.1% in 2022, and in 2023, analysts sees growth easing to 2.9%.

Canada's population is approximately 38 million with a median age of 41. Approximately 90% of Canadians live within 100 miles of the U.S. border. Canada's three largest cities – Toronto, Montreal and Vancouver – are in the provinces of Ontario, Quebec, and British Columbia respectively, accounting for 75% of national economic activity and population. Projections show that the population will grow by 15% over the next 20 years, driven predominantly by net migration.

Approximately 20% of Canada's population is foreign-born. Canada has the highest immigration rate of any major economy; over 450,000 people from 175 countries immigrated to Canada in 2020. The top foreign countries where immigrants are originating from are India, China, Philippines, Nigeria, and the United States. Declining birth rates and an increase in life expectancy will push the median age up from 41 to 45 over the next 20 years (up from 37 years in 2000). One out of 114 Canadians suffer from celiac disease but the demand for gluten free products continues to rise even among those without intolerance to gluten.

The United States-Mexico-Canada agreement (USMCA) entered into force on July 1st, 2020. It 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.

The U.S. and Canada maintain the world's most extensive bilateral trading relationship with nearly US$130 million in food and agricultural products crossing the U.S.-Canada border every day. Canada offers regulatory cooperation, comparable food safety systems, a sophisticated transportation network, and established financial markets. It's geographic proximity, similar consumer preferences, and relatively affluent consumers are among the reasons why Canada continues to offer excellent export opportunities for new-to-export small- and medium-sized U.S. companies.

USDA's Foreign Agricultural Service (FAS) Office of Agricultural Affairs (OAA) in Ottawa reports that Canada was the top export market for U.S. high value consumer oriented exports in 2021, importing US$17.9 billion, with growth of 5% from that of 2020. Unparalleled regulatory cooperation, comparability and trustworthiness in food safety systems, sophisticated transportation logistics and financial markets, geographic proximity, similar consumer preferences, and relatively affluent consumers are among the reasons why Canada continues to offer excellent export opportunities for new-to-export small- and medium-sized U.S. companies

2021 U.S. agricultural exports to Canada totaled US$25 billion, an increase 12% from 2020. Canada has relinquished the top market position to China in 2020, and its #2 position to Mexico in 2021. This is likely temporary since the export growth to Mexico in 2021 was inordinately high. Canada accounts for about 14.1% of total U.S. food and agricultural product exports of US$177 billion. Canada is also the top market for U.S. processed food exports, totaling more than US$14 billion in 2021, growth of 7% and 56% of their agricultural total. Top U.S. processed food exports to Canada in 2021 included:

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

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
- Canada's ethnically diverse population provides opportunities for specialty products. Canadians are exposed to increasingly diverse flavors and cuisines
- Per-capita produce consumption is higher than in the United States. Foodservice operators rely on imported fruits and vegetables year-round
- Retailers are continually looking for innovative and new brands

- Duty-free, tariff-free treatment for over 98% of U.S. products under USMCA
- U.S. food products are generally aligned with Canadian tastes and are familiar to Canadian consumers
- Canadian consumers rate U.S. quality and safety relatively high

Challenges

- Canada's population is smaller than California and more dispersed, making marketing and distribution costs generally higher than in the United States
- Bilingual (English and French) labeling required for retail products
- There is growing competition from other exporting countries offering produce at lower prices, such as Mexico, Peru, South Africa, and others
- Canada's retail sales network is different from that of the U.S. market. Retailers and grocer independents rely on Canadian brokers and distributors to find new products and assist their U.S. principals on pricing, compliance, and logistics.
- Retailers are continually looking to reduce prices, improve product quality, and extend their product range with new items
- Tariff rate quotas apply for supply-managed commodities, dairy, poultry, and eggs
- Established vendors are currently entrenched in the market

Retail Sector Highlights:

According to Euromonitor retail sales in the packaged food market should reach US$59.1 billion in 2022. That makes Canada the 11th largest packaged food market in the world. That represented a growth rate of nearly 20% or US$9.8 billion from 2018. They also forecast growth in this category to reach US$71 billion by 2026. This is an increase of US$11.8 billion, and a period growth of another 20% from 2022. High growth categories in the forecast include:

- Ready Meals
- Cheese
- Edible Oils
- Dairy (Ex. Cheese)
- Sweet Spreads
- Ice Cream & Frozen Desserts
- Savory Snacks

FAS Ottawa reports that U.S. exporters are encouraged to look at Canada as a country of five regional markets and develop market entry strategies for each region: Ontario, Quebec, Atlantic Canada, Prairies, and Western Canada. As the market is consolidated in both the retail and the food service sector, new exporters need to familiarize themselves with the major retail banners, operators, and Canadian processors in each regional market to secure long-term success. Nearly 75% of total retail beverage and food sales in 2020 were attributed to five companies: Loblaws, Sobeys, Metro, Walmart, and Costco. More than 7,000 independent retailers across Canada, including convenience stores, ethnic and natural food stores represent an excellent opportunity for new-to-market products to establish a presence in the Canadian market but will also require greater due diligence and oversight.

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 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 new products.

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.

According to Euromonitor the increased competition from hypermarkets and intense price competition from discounters and warehouse clubs diluted retail value sales growth for supermarkets in the last few years. However, growth spiked in 2020, driven by Coronavirus (COVID-19)-induced demand. Consumers stockpiled before stay-at-home restrictions were in place and they also shifted consumption from restaurants to grocery stores during the lockdown period. Moreover, throughout the year, economic uncertainty saw consumers cut back on discretionary spending, while allocating a higher proportion of their total spend towards essential grocery products.

Grocery e-commerce sales also witnessed exponential growth over the year. Both home delivery and curb-side collection benefited from consumers shifting online. This shift has been made easier since large supermarket chains in Canada have effectively focused on building a stronger digital presence and providing a bigger product selection. Supermarkets continued to benefit from COVID-19 restrictions for these reasons during the first half of 2021, but as Canada entered a phase of recovery in the second half of the year, growth rates, especially in e-commerce, have started to show signs of plateauing.

Supermarkets responded to increasing consumer demand for convenience in the form of ready-to-eat meals and online delivery by introducing and/or strengthening these services. This strategy served supermarkets well during the pandemic. Within the arena of ready-to-eat meals, Sobeys continued to benefit from its recent introduction of Easy Meals, while other supermarket operators, such as Metro Inc, adopted similar meal kit concepts to gain more traction with restaurants closed and subsequently subject to ongoing limitations. Metro's purchase of a major stake in the online meal kit service "MissFresh" led to the offer of meal kits in stores, enabling customers to buy individual boxes without committing to a weekly subscription.

The strong price competition from discounters and warehouse clubs, which do not offer consumer foodservice, encouraged many supermarkets like Loblaw's T & T to develop in-store mini-restaurant models to offer healthy and affordable foodservice options. Due to the need to observe social distancing and other best safety practices, in-house dining in supermarkets was either limited or temporarily unavailable. However, as consumers moved back towards pre-COVID-19 norms, they have started to shift their expenditure from everyday grocery essentials to experiences like eating in restaurants, which slowed the growth in sales of supermarkets at the end of 2021.

A stronger digital presence and wider product offer have become key strategies for supermarkets seeking to ward off the online competition from Amazon. Both Loblaw and Sobeys have taken major steps in this direction. Loblaw continued to increase its e-commerce offerings and expand its click and collect online grocery shopping service in different store brands. Meanwhile, Nova Scotia-based Sobeys launched the Voilà by Sobeys online grocery delivery platform in Vaughan, Ontario, in partnership with UK-based e-commerce company Ocado, in June 2020.

Using the Ocado-powered automated warehouse as its customer fulfilment center (CFC), Sobeys rolled-out Voilà by Sobeys across the Greater Toronto Area in subsequent weeks, and then expanded the service to Ottawa and major cities across Quebec via another CFC powered by Ocado's Smart online grocery platform in 2021. Meanwhile, Empire Co Ltd, the holding company for Sobeys, is set to complete the purchase of a majority share of Longo Brothers Fruit Markets Inc. (Longo's) and its Grocery Gateway e-commerce business in 2022.

Euromonitor reports that retail value sales growth slowed in 2021 for supermarkets, following the spike experienced in 2020. This was largely due to strong competition from other channels, including e-commerce, but also the return towards pre-pandemic lifestyles. The retail value (constant 2021 prices) growth rate is projected to slow in the early-to-mid-forecast period, before declining, albeit marginally-to-slightly up to 2026, as total household spending on groceries stabilizes with a return to normality.

However, a potentially higher unemployment rate and concerns over the economic outlook brought on by COVID-19 are likely to benefit supermarkets in the shorter term, leading to a rising demand for private label and more spending on essential products available in supermarkets. Supermarkets are also expected to continue to see a growing share of online grocery, albeit at a slower rate, given the fast increments witnessed during the pandemic. Nonetheless, more consumers are open to online ordering, home delivery and curb-side pick up as convenient ways of grocery shopping.

Sobeys is well placed to maintain its strong leadership of supermarkets in the forecast period. In 2021, the player held slightly more than one half of retail value sales in the channel. Strong digital engagement is a critical component of its marketing strategy, as evinced by the expansion of new lunched services like Voilà. Voilà represents Sobeys's first effort to offer its own online grocery delivery service, enabling customers to shop online at Voila.ca or use the Voilà mobile app to shop for thousands of grocery products (including fresh fruit and vegetables) at comparable prices to those found in its stores.

Voilà also provides products from Sobeys's Farm Boy chain and Well.ca, a health-and-wellness e-commerce website. Once an order is received, robots assemble the items efficiently and safely, with minimal product handling, after which Voilà personnel deliver the orders directly to the customer's home within as little as a one-hour timeframe. With convenience and health and safety likely to remain key concerns, at least in the short term, strong digital engagement and services are set to maintain the dynamism of Sobeys's offer.

Supermarkets continue to face intense competition from other grocery channels like hypermarkets and discounter, which offer attractive value propositions like one-stop shopping or discounts and special deals or promotions. In this light, a more comprehensive range of grocery offerings and improved shopping experience, online and offline, is crucial for supermarkets to maintain their strong footprint in grocery retailing.

Convenience stores benefited a lot from being considered essential retailers in 2020 and 2021; therefore, these grocery outlets did not face reduced hours or closures related to the measures introduced to cope with the Coronavirus (COVID-19) pandemic in Canada. Consumers sheltering at home during lockdowns, and home seclusion in general, including for reasons of remote working and distance learning, continued to pile up treats and snacks. The robustness of demand helped convenience stores to keep afloat during the pandemic.

Lifestyle changes, on the other hand, acted as a barrier to growth in convenience stores. Many consumers working or studying from home, as well as consumers in general home seclusion mode, started to order their required grocery products via e-commerce, which resulted in much lower traffic in physical convenience stores. Overall, mobility data suggests that major convenience store consumers like office employees and college students did not have to go outside as much as they used to. Therefore, unplanned or on-the-go visits to convenience stores continued to be significantly reduced during 2021, as in 2020, despite a relaxation of pandemic restrictions and return to the workplace and school classroom and socialization outside the home. Many companies continued to employ work-from-home polices, while many consumers remained more home-centered than in the pre-pandemic period due to economic and residual health concerns regarding COVID-19.

Convenience stores players in Canada tried to strengthen their retailing shares by increasing their focus on private label and developing multichannel strategies to broaden their reach and sales avenues. Some convenience stores focused on private label offerings to provide more competitive prices, which appealed to consumers in a tough economic climate in the wake of COVID-19, and a more consistent brand message. Larger players also aimed to take advantage of their extensive outlet networks. Led by Alimentation Couche-Tard Inc, large chained convenience stores started to direct consumers to their gourmet food offerings (a similar model is already quite well developed in the US and Asia Pacific).

Convenience stores are likely to see a soft recovery over the next few years due to weaker demand and channel blurring, despite retail value sales receiving a boost as pre-pandemic traffic patterns continue to normalize. However, the proximity and convenience of other retail channels, such as supermarkets and drugstores, will allow consumers to shop for packaged goods in different retail formats, which can be expected to take a toll on convenience store sales as the forecast period progresses. In this light, retail value sales are predicted to fall moderately, as the number of outlets and selling space are set to see slow, but steady decreases through the forecast period. In current value terms, higher inflation is set to exert upward pressure on unit prices and see positive, if small, increases, at least in the short term.

Best Product Prospects:

FAS Ottawa reports that among the consumer-oriented products exported to Canada in 2021, 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$1.7 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).

Food Service Sector Highlights:

Euromonitor reports that the road to recovery started for consumer foodservice in Canada in 2021 but sales across all segments had a mixed performance. From the standpoint of its performance in 2021, full-service restaurants is expected to rebound slower than the other types of foodservice considering the large operational cost involved in handling a chain of restaurants, along with supply chain and labor shortages.

During the pandemic, many restaurant workers have been laid off, either temporarily or permanently. COVID-19 has exposed the uncertainty revolving around the foodservice and hospitality industry. Many restaurant workers have started looking elsewhere and many have made career shifts that are more secure in the long term. However, restaurateurs are increasing wages to bring in good talent and are also offering bonuses such as free meals and drinks during the shifts, along with other benefits.

Investment in technology and finding revenue through omnichannel presence was a key to success in 2021. Restaurants have developed in-house ordering platforms, giving restaurants the necessary tools to implement customer loyalty programmes. Many large chains, especially in limited-service restaurants, have a strong presence in online ordering and offer digital loyalty programmes, attracting new customers. Restaurants are also beginning to take a firmer stance on climate change by giving more plant-based options to customers and marketing the carbon levels of their items and restaurants.

Tim Hortons Inc remained the leading player in Canadian consumer foodservice in 2021. The chained bakery limited-service restaurant benefited in 2021 from its parent company, Restaurant Brands International, launching a new drive-through service with digitized menu boards in the drive-through lanes at select outlets. Restaurant Brands International has announced the use of this technology at more than 10,000 Burger King and Tim Hortons locations throughout Canada and the U.S. by 2022. More than 40,000 digital screens are being installed with this technology and integrated with the restaurant's loyalty program.

Wendy's, in limited-service restaurants, opened its 400th restaurant in Canada on 15 November 2021. The new outlet features the new Wendy's International brand standard for design which includes a smaller footprint with a simple, efficient design that costs less. Wendy's is looking to grow significantly and looking to recruit new franchisees from unexplored regions like Quebec. It is also investing in its mobile app and partnering with Reef to operate 700 delivery kitchens (ghost kitchens) over the next five years across Canada, the US and the UK. It has already established nine Reef delivery kitchen locations to date across Canada.

Euromonitor predicts steady growth for Canadian consumer foodservice over the medium term, driven in part by the demand for healthy and authentic food. An increased number of diabetic patients and obesity issues related to the long lockdowns in Canada have raised health concerns among people. Health-conscious options such as smoothies and vegan-friendly menus will help drive growth in segments such as cafés/bars and limited-service restaurants.

Canadians will also continue to seek authentic food. Canada's growing diversity has led to a thriving food scene in Toronto, Vancouver, Montreal, and other urban centers. The increasingly diverse tastes of Canadians have spread from the big cities into all parts of the country. While "Ethnic Foods" are not an official Directory listing category, the CFA has noticed an increase in membership of quick-service restaurant franchise systems that are serving up flavors from Asia, the Middle East, India and beyond.

Street stall/kiosk operators, especially, are increasingly expanding and diversifying their menus to keep pace with changing consumer tastes. Players have emerged specializing in specific types of food and ethnic cuisine, particularly Asian and Latin American dishes. Moreover, similar to other categories of foodservice, more street stall/kiosk operators are starting to offer healthier foods, including vegetarian and vegan options. Among other consumer foodservice players, strategies to reduce costs and the growing popularity of online ordering will see the greater emergence of ghost kitchens over the forecast period.

Recent consumer polls indicate 89% of Canadians are looking forward to eating out with family and friends. With new COVID-19 measures and certain restrictions lifting for in-person dining, the end of 2021 looks promising. Restaurants Canada expects sales will increase by US$13.5billion in the fourth financial quarter of 2021. In 2022, commercial food service sales are forecasted to grow to US$60 billion, a 22% increase from 2021 levels. Canada remains an important market for most U.S. exporters and in the coming year, sales to Canada are likely to increase and will continue to serve as excellent market for new and innovative products from new-to-market and new-to-export U.S. firms.

Best Product Prospects:

FAS Ottawa 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. In the quest for healthy eating, there is increased demand for more plant-based protein options.

According to Mintel research, 75% of consumers would like to include additional plant-based protein products in their diets. Today's consumers are trending toward reducing the amount of red meat they consume. Restaurateurs are always looking for products that save them time and money and ultimately increase profit margins. As minimum-wages have recently increased across Canada, restaurateurs have become more price-sensitive and will continue to look for lower priced products to meet their needs while maintaining food quality.

Food Processing Sector Highlights:

After transportation, food processing ranks as Canada’s second-largest economic sector. Across Canada, 6,500 food and beverage processing establishments generated $84 billion of total food and beverage manufacturing sales in 2020 including US$9 billion for beverage processing. Canadian food processors continue to rely on imported raw, semi-processed, and processed ingredients to grow their operations, though a strong ‘buy local’ ethos drives Canadian companies to source locally whenever possible. The Canadian government has proposed mandatory front-of-package labelling requirements for foods high in sodium, sugar, and saturated; this policy could be finalized in 2022.

FAS Ottawa 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. Canada’s 2020 Agri-food exports exceeded US$51 billion, making it the fifth-largest global exporter of agricultural products. 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.

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 U.S. as they leverage global supply chains to create efficiencies and foster innovation.

Best Prospects:

FAS Ottawa 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 U.S.