November 2024

2024 Canadian Food and Beverage (F&B) Manufacturing Sector Outlook

How recent trends are impacting Canadian food and beverage manufacturers

Industry at a glance

Real F&B sales accounted for
$167.5B
in 2023 (Up 7.7%)

Approximately
8,500 F&B processing businesses
about 92% of them with fewer than 100 employees

Nearly
307,000
workers employed in F&B manufacturing in 2023 (Up 2.0%)

Real F&B exports accounted for
4% of all exports
but fell 1.7% to $116.7B in 2023

Sector overview

Food and beverage (F&B) manufacturers transform inputs into value-added products for food retailers, restaurants and consumers. Despite recent economic headwinds, the long-term outlook is positive, due to strong population growth and rising global demand.

Main industries

- Meat product manufacturing (25.5%) $42.7 billion
- Grain and oilseed milling (12.7%) $21.3 billion
- Dairy product manufacturing (10.9%) $18.2 billion
- Bakeries and tortilla manufacturing (10.6%) $17.8 billion

These four industries accounted for nearly 60% of all F&B manufacturing sales in Canada in 2023.

Regional intensity and exporting

F&B manufacturing takes place across Canada, but Ontario and Quebec account for most of Canada's production, with approximately 60% of sales. Meat product manufacturing is the most significant food industry in Quebec, Ontario, Manitoba and Alberta, while beverage manufacturing is the most important sub-sector in British Columbia. Grain and oilseed milling is the largest food industry in Saskatchewan, while seafood product preparation and packaging is the most significant food industry in New Brunswick, Nova Scotia, and Newfoundland and Labrador.

The United States is Canada's top trading partner, accounting for about 60% of all our agri-food and seafood exports. Canada is the fifth-largest exporter of agri-food and seafood in the world—behind the EU-27 block of countries, the U.S., Brazil and China—and exported to nearly 200 countries in 2022.

Why the sector matters

The F&B manufacturing sector is an important contributor to economic activity and growth in Canada. Recent years have brought significant structural shifts to the industry, some of which have been resolved and others that will persist for years to come. These challenges include labour shortages, changing client tastes and needs, technological gaps, and ongoing climate change effects. F&B producers that adapt to these challenges will be better positioned to succeed in the future.

Over the short term, sales will fall for certain F&B producers, as some Canadian households face disposable income constraints and alter the quantity and quality of F&B products they purchase as a result.

F&B manufacturing is a key part of the Canadian economy. In 2023, this sector accounted for 19.4% of all manufacturing sales in Canada[1] and 1.7% of real gross domestic product (GDP).[2] F&B manufacturers are the largest buyers of agricultural products in Canada[3] and supply approximately 70% of all processed F&B products available in the country. Moreover, the sector employs more than 300,000 people, accounting for nearly 20% of Canada's employment in the manufacturing sector.

This industry holds untapped potential for economic diversification, especially during economic downturns. Given that global population is expected to grow to 10 billion by 2050, F&B manufacturers have significant opportunities to meet an increasing demand for food products.

Key statistics

19.4% of all manufacturing sales in Canada come from the F&B manufacturing sector

1.7% of total real GDP output is contributed by the F&B manufacturing sector

19.6% of all manufacturing employees work in the F&B manufacturing sector

1. "Manufacturers' sales, inventories, orders and inventory to sales ratios, by industry (dollars unless otherwise noted)," Table 16-10-0047-01, Statistics Canada, August 16, 2024.
2. "Gross domestic product (GDP) at basic prices, by industry, monthly, growth rates (x 1,000,000)," Table 36-10-0434-02, Statistics Canada, using March 2024 chained 2017 dollars.
3. "Overview of the food and beverage processing industry," Agriculture and Agri-Food Canada, last updated October 12, 2023.

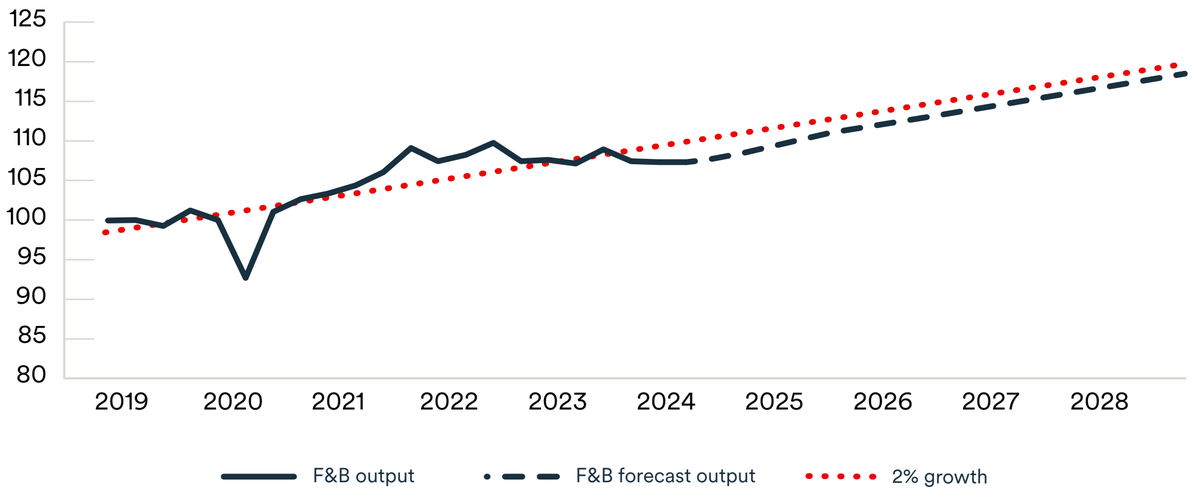
How is the sector expected to perform in the near future?

After recovering by 9.2% in the two-year period of 2021–22, F&B manufacturing output in Canada slipped by 0.4% in 2023. We predict that real F&B manufacturing output will be flat in 2024, as consumer demand remains tepid due to the prolonged impact of high interest rates on disposable incomes and household spending.

2.5% growth forecasted for 2025

In 2025, the industry is expected to recover, growing 2.5%, as the Canadian economy returns to its potential growth rate following expected interest rate cuts and a resurgence in investment in the Canadian economy. In the following years, we forecast output in the F&B manufacturing sector to increase by roughly 2% per year.

Figure 1: F&B output, quarterly, Canada, index, Q1 2020 = 100



Source: BDC Economics.

Beverage manufacturing

Beverage manufacturing sales are expected to decline by 6.0% in 2024, with volumes falling by a comparable amount[4]. This will be the third consecutive year of declining volumes in this subsector. Alcoholic beverage sales and volumes are expected to decrease, while soft drink sales will increase. Margins will remain challenging for the third straight year, mostly due to rising wages.

Labour needs

While labour needs have come down from their pandemic highs, labour challenges will persist for Canada's F&B manufacturing industry. From 2023 to 2030, the industry will need more than 92,500 new hires, mainly to replace workers who are retiring. Beverage manufacturing will lead demand for workers with growth of 16%. The average age of F&B manufacturing workers is 43, with a retirement age of 66.[5]

Consumer prices

The 2024 *Canadian Food Price Report*[6] predicts continued inflation in F&B products due to economic and climate factors, with prices expected to rise by 2.5% to 4.5% in 2024. Bakery, meat and vegetable categories are forecast to post the most significant increases.

4. 2024 FCC Food and Beverage Report
5. Labourer - Food And Beverage Processing in Canada
6. Dalhousie Univeristy's Agri-Food Analytics Lab

7 important trends in the sector

The following seven trends are likely to have a strong impact on Canada's F&B manufacturing sector over the next decade.

1. Weaker consumer spending
2. Evolving consumer preferences
3. Persistent labour shortages
4. Declining productivity
5. Altered water access due to climate change
6. Regulatory compliance
7. Export markets diversification

The next section looks at these trends in more detail and outlines some best practices that F&B manufacturers can use to meet these challenges.

Weaker consumer spending

The challenge

Inflation, restrictive monetary policy and a weaker economy have strained Canadian households' budgets. Consumers are paying more for essentials such as food, housing and transport, all while managing higher debt loads.

Statistics Canada's 2023 data shows that spending on F&B products rose 7.5% year over year. One major driver of the increase was food-price inflation. Prices rose by 7.8% in 2023,[7] a significant gain considering that food prices had already risen by 9.8% in 2022. The rapid rise in prices was due to several factors, including geopolitical conflicts (such as the Russia–Ukraine war) and climate events, which affected crop yields.

Figure 2: Annual inflation (%), Canada, 1991 to 2023

Source: Statistics Canada

As a result of this multi-year increase in prices, consumers are becoming more frugal. They are buying discounted items and cheaper brands, buying in bulk, and increasingly shopping at low-cost retailers. These trends are adversely affecting producers' sales and volumes.

- 43% of Canadians were seeking sales and promotions in 2024[8]
- 21% of Canadians looking for deals are choosing generic or store-brand products

Best practices to address the challenge

- Focus on value-for-money products by, for example, offering larger pack sizes, bundle deals or bulk purchase discounts.
- Conducting operational reviews to identify ways to reduce costs (without compromising quality). Optimizing supply chains, reducing waste, improving energy efficiency and maintaining optimal inventory levels are crucial steps.

7. "Consumer Price Index: Annual Review, 2023," Statistics Canada, last modified January 16, 2024.
8. Dalhousie University's Agrifood Lab.

Evolving consumer preferences

The challenge

Significant international immigration into Canada means a growing number of consumers are demanding diverse flavours. Consumers, particularly millennials, are increasingly prioritizing quality and seeking environmentally-friendly options, including eco-friendly packaging. And rising interest in plant-based foods, functional foods, cold beverages and non-alcoholic drinks—driven by health consciousness and generational preferences—are prompting manufacturers to adapt their products.

- Canada's population grew by 3% in 2023, in contrast to average annual population growth of 1.1% from 2008 to 2022[9]
- 6.4 million Canadians are restricting meat in their diet[10]
- 93.7% of Canadians are motivated to reduce single-use plastic food packaging due to its environmental impacts[11]
- "International flavours" have been front and centre in flavour forecasts for several years now,[12] with millennials leading this change due to their adventurous palates

Best practices to address the challenge

- Diversify into different product lines or markets to spread risk and create new revenue streams.
- Adapt product ranges or create new products to reflect evolving consumer preferences.
- Enhance transparency with clean labelling and use eco-friendly packaging materials.

9. "Population estimates on July 1, by age and gender," Table 17-10-0005-01, Statistics Canada, February 21, 2024.
10. "New Dalhousie study finds that 6.4 million Canadians limit the amount of meat they eat, and number will likely grow," news release, Faculty of Management, Dalhousie University, October 30, 2018.
11. "Majority of Canadians actively shopping for food with nonplastic packaging, Dalhousie survey finds," news release, Faculty of Management, Dalhousie University, June 6, 2019.
12. "Canadian diners and chefs are embracing global influences and cuisines," Foodservice and Hospitality, October 6, 2021.

Persistent labour shortages

The challenge

Canada's F&B manufacturing sector is struggling to attract new workers. In the short term, increased economic uncertainty has led to cautious levels of hiring, but more workers will be needed to replace the slew of workers expected to leave the workforce due to retirement.

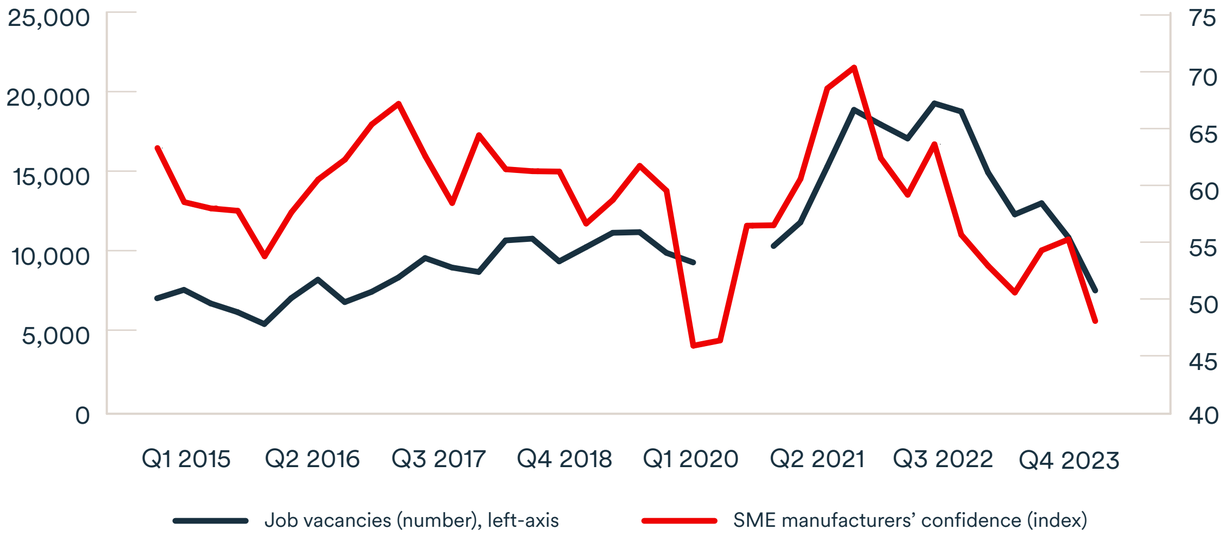
Labour shortages in the F&B manufacturing sector, which accounted for 19.3% of all manufacturing job vacancies in the third quarter of 2023,[13] are being exacerbated by an aging population and retiring baby boomers. By 2030, nearly one in three agricultural jobs are projected to be vacant. These shortages threaten Canada's food production, affordability and security, forcing companies to make tough decisions, such as discontinuing production lines or postponing expansion plans.[14]

To mitigate this problem, the Canadian government has increased immigration quotas, with arrivals averaging over 481,000 per year from 2021 to 2023.[15] The F&B manufacturing industry faces challenges in attracting immigrant workers due to low wages, the seasonal nature of the work, difficult working conditions and a preference among immigrants for urban jobs. The Temporary Foreign Worker Program (TFWP) has been an important labour source for the F&B manufacturing sector, but recent policy changes to the TFWP have made the labour supply from this program more uncertain.

- 63.1% of all F&B manufacturing owners/managers had difficulty finding workers in 2024; among small and medium-sized enterprises (SMEs), this figure rose to 67.3%[16]
- The ratio of F&B to total manufacturing job vacancies has ranged between 19% and 24% since the first quarter of 2015[17]
- Between 2024 and 2030, about 85,000 agricultural workers will retire[18]
- By 2030, more than 100,000 agricultural jobs will be vacant[19]

13. "Job vacancies, payroll employees, job vacancy rate, and average offered hourly wage by industry sub-sector, quarterly, unadjusted for seasonality," Table 14-10-0442-01, Statistics Canada, June 18, 2024.
14. "Canada's food and beverage manufacturing industry sounds alarm over changes to the Temporary Foreign Worker Program," news release, Food and Beverage Canada, May 28, 2024.
15. "Estimates of the components of international migration, by age and gender, annual," Table 17-10-0014-01, Statistics Canada, February 21, 2024.
16. BDC, Investment and Financing Outlook Survey, April 2024.
17. "Job vacancies, payroll employees, job vacancy rate, and average offered hourly wage by industry sub-sector, quarterly, unadjusted for seasonality," Table 14-10-0442-01, Statistics Canada, June 18, 2024.
18. Jennifer Wright, "Canadian agriculture faces a worker shortage and food security crisis," Policy Options, March 6, 2024.
19. *Ibid.*

Figure 3: F&B manufacturing job vacancies and SME manufacturers' confidence Canada, Q1 2015 to Q4 2023



Source: Statistics Canada, CFIB, BDC Economics calculations

Best practices to address the challenge

- Attract and retain talent by cross-training employees, offering flexible scheduling and improving working conditions.
- For existing employees, set up an internal training and development program to equip them with new skills, keep them engaged and motivated, and prepare them to use new and upcoming technologies.
- Embrace automation to increase worker productivity and reduce time spent on lower value-added tasks

Declining productivity

The challenge

Despite rising demand, increased hiring and increased capital investments, the F&B manufacturing sector is hindered by productivity challenges and low technological adoption. That is adversely affecting manufacturers' ability to meet food production needs and raise profitability.

Although this sector accounts for the most hours worked among all Canadian manufacturing sectors, its real labour productivity[20] is 11%[21] below that of the manufacturing sector as a whole and has declined significantly more than that in other sectors of the economy.

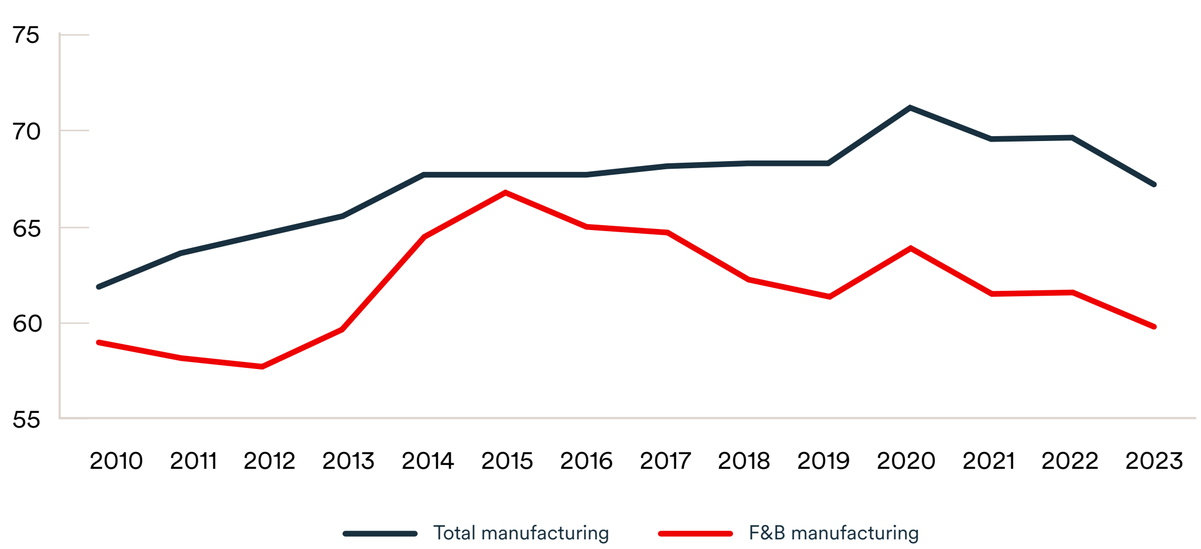
F&B manufacturers must be innovative and embrace technology to stay competitive and seize new business opportunities. Investing in technology can turn risks into advantages.

- In 2023, the F&B manufacturing sector spent $3.1 billion[22] on capital, machinery and equipment, accounting for 15.8% of total manufacturing spending; Statistics Canada predicts the F&B manufacturing sector's capital investments to rise to $3.7 billion in 2024
- Between 2017 and 2023, real labour productivity in the Canadian economy increased by only 1.1%; over the same period, real labour productivity in F&B manufacturing fell by 7.6%, which was much worse than the decline of 1.3% in manufacturing as a whole[23]

Best practices to address the challenge

- Maximize efficiency by evaluating and enhancing current procedures with technology.
- Invest in digital tools such as inventory management systems, production planning software and data analytics tools.
- Provide comprehensive training for effective technology use.
- Consider investments in automation and smart manufacturing that will help improve productivity and quality consistency.

Figure 4: Labour productivity: Total manufacturing vs. F&B manufacturing



20. Real labour productivity is deflated GDP in a given sector divided by number of employees in the sector.
21. "Labour productivity and related measures by business sector industry and by non-commercial activity consistent with the industry accounts," Table 36-10-0480-01, Statistics Canada, May 21, 2024.
22. "Capital and repair expenditures, non-residential tangible assets, by industry and geography (x 1,000,000)," Table 34-10-0035-01, Statistics Canada, February 27, 2024.
23. "Gross domestic product (GDP) at basic prices, by industry, monthly (x 1,000,000)," tables 36-10-0434-01, Statistics Canada, August 30, 2024; and Labour productivity and related measures by business sector industry and by non-commercial activity consistent with the industry accounts. Table 36-10-0480-01, Statistics Canada, May 21, 2024.

Altered water access due to climate change

The challenge

Climate change is affecting infrastructure and crop production. Rising temperatures are altering rainfall patterns, as well as increasing the frequency and intensity of heat waves and droughts. Higher temperatures also affect the length of growing seasons and accelerate crop maturity, which can lower crop yields.[24]

More intense weather events make agricultural yields hard to anticipate, introducing uncertainty into how much certain agricultural inputs could cost F&B manufacturers. As droughts worsen, Canada's food producers may face water scarcity.

As a result of intensifying droughts, Canada's food producers may reconsider the notion of water as an abundant resource. If water becomes commoditized, this will have dramatic impacts on F&B production, as food production accounts for 70% of annual freshwater withdrawals.[25] Moreover, smaller producers could find it harder to compete for production inputs. All of this could lead to higher food prices.

- In 2022, 31% of global consumers were concerned about water shortages, a figure that rose to 35% in 2023[26]
- If no mitigative actions are taken, global water supplies could fall 40% short of meeting global needs[27] by 2030

Best practices to address the challenge

- Implement water-saving practices in production processes, recycling water, optimizing cleaning procedures, monitoring water usage regularly and sourcing ingredients sustainably from regions with better water availability.

24. Ellen Gray, "Global Climate Change Impact on Crops Expected Within 10 Years, NASA Study Finds," NASA, November 2, 2021.
25. Nourish Food Marketing, 2024 Trend Report.
26. *Ibid.*
27. *Ibid.*

Regulatory compliance

The challenge

Increasingly stringent regulations in Canada's F&B manufacturing industry pose significant challenges for smaller businesses, particularly in achieving and maintaining costly certifications. This regulatory burden often discourages small producers, putting food security at risk as fewer businesses remain active in the sector.

The Canadian F&B manufacturing industry faces increasingly stringent regulations for importing, exporting and food safety, especially when dealing with major brands such as Costco, Sobeys and Walmart, which demand that suppliers meet regulations before the products hit their shelves. These regulations[28] pose significant challenges for smaller clients attempting to enter these markets. The cost of compliance is substantial, as businesses must not only achieve certification but also maintain it annually through a series of audits, which can be financially burdensome. This regulatory landscape makes it difficult for smaller businesses to compete, as they need dedicated resources to manage these ongoing requirements. Consequently, many small businesses become discouraged and exit the sector, posing a risk to food security as fewer producers remain actively engaged in producing food for a growing population.

Although some business owners are put off by the costs and time associated with certification, there is a good commercial incentive to do it. Canadian food businesses with a Safe Food for Canadian Regulations (SFCR) certification will find it easier to meet other industry standards. That, in turn, will allow them to export more products and appear more attractive to retailers.[29]

- More than 80% of consumers surveyed said companies have an important role to play in food safety[30]
- Survey results also showed that 70% of consumers said it is important to know how their food and ingredients are manufactured, prepared and handled[31]

Best practices to address the challenge

- Smaller businesses in Canada's F&B manufacturing industry can navigate stringent regulations by adopting best practices such as regular workforce training, utilizing comprehensive Food Safety Management Systems (FSMS) and advanced traceability technologies, engaging with industry standards organizations to stay updated on the latest trends and procedures, and performing regular internal audits.
- Adopting some of these measures ensure compliance and competitiveness for the manufacturer.

28. "Food safety certification: What's the difference between GMP, HACCP, GFSI and SFCR?" BDC.
29. *Ibid.*
30. "Survey reveals consumer concerns about food safety," Canadian Institute of Food Safety, September 29, 2020.
31. *Ibid.*

Export market diversification

The challenge

Canadian F&B producers must diversify their trade partners. Relying heavily on a few countries, especially the United States, increases risk. Economic or political instability in these countries can severely affect sales and revenues.

Best practices to address the challenge

- Diversify exports beyond a handful of countries to help mitigate risks and achieve more stable, higher revenue streams. This approach fosters innovation and enhances global competitiveness because it requires manufacturers to adapt to diverse consumer preferences.
- Key strategies include doing market research, participating in trade shows, forming local partnerships, utilizing e-commerce platforms and leveraging government programs.

Conclusion

The Canadian F&B manufacturing sector is a vital part of the economy, contributing significantly to manufacturing sales, GDP, and employment. Despite recent economic challenges, the sector's long-term outlook remains positive due to strong population growth and rising global demand.

However, the industry faces several persistent long-term challenges, including labor shortages, evolving consumer preferences, regulatory compliance, and climate change impacts. Addressing these issues through innovation, technological adoption, and strategic market diversification will be crucial for the sector's future success.

In the near term, the sector is expected to experience flat growth due to the prolonged effect of high interest rates and tepid consumer demand. However, a recovery is anticipated in 2025, driven by continued cuts to interest rates and increased investment and consumer confidence.

To remain competitive, F&B manufacturers must focus on enhancing productivity, meeting changing consumer needs, and navigating regulatory complexities. By doing so, they can capitalize on the significant opportunities presented by a growing global population and the increasing demand for diverse and sustainable food products in Canada and abroad.

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