

Country Profile: Canada

Market Overview

Euromonitor International, a market research provider, reports that Canada's economic growth slowed down in 2023, with weaker exports and rising borrowing costs. Inflation surged in 2022, driven by global supply imbalances and eased somewhat in 2023. The Bank of Canada has increased its policy rate, aiming to bring inflation back to the target level. Canada's exports surged in 2022, but diversification is needed to reduce reliance on the natural resources sector. Canada's investment climate faced challenges in 2022 due to economic and geopolitical headwinds.

- Following real growth of 3.4% in 2022, Canada's economy expanded at an annual real gross domestic product (GDP) rate of 1.2% in 2023, and growth is expected to slow to 0.7% in 2024.
- Inflation in Canada is forecast to slow down to 4.0% in 2023 from 6.8% in 2022.
- While Canada's merchandise exports increased by 18.9% and imports rose by 16.9% during 2022, the country remained a net exporter of goods.
- Gross fixed capital formation (GFCF) decreased over 2022, accounting for 23.0% of GDP.
- The public debt-to-GDP ratio in Canada fell to 103% in 2022, standing below the developed countries' average of 112%

Canada's population is growing at a decelerating pace, reaching 38.5 million in 2023 (CIA World Factbook Est.). The country's median age is also rising. It was 42.4 years in 2023, 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 2023, 20.5% of total population was over 65 years of age compared with 18.9% in 2020.

The United States-Mexico-Canada agreement (USMCA) entered into force on July 1, 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 several 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\$186 billion 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. Its 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, hereinafter referred to as FAS Post Ottawa, reports that 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

2023 U.S. agricultural exports to Canada totaled US\$28.1 billion, a decrease of 2% from 2022. Canada relinquished the top market position to China in 2020, and its number two position to Mexico in 2021. Canada accounts for about 16% of total U.S. food and agricultural product exports of US\$174.8 billion. Canada is also by far the top market for U.S. processed food exports, totaling more than US\$16.5 billion in 2023, growth of 2% and nearly 59% of their agricultural total.

Top U.S. processed food exports to Canada in 2023 included:

- Food Preparations & Ingredients – up 3%.
- Snack Foods – up 3%.
- Non-Alcoholic Beverages – up 7%.
- Chocolate & Confectionery - up 7%.
- Dog & Cat Food – up 7%
- Prepared/Preserved Meats – down 4%
- Pasta & Processed Cereals – even

Market Opportunities and Key Issues for U.S. Processed Food Exporters in Canada

Market Opportunities:

- 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 (entered into force July 1, 2020).

- 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.

Key Issues:

- Bilingual (English and French) labeling required for retail products.
- Canada’s population is approximately a tenth of the United States and more dispersed, making marketing and distribution costs generally higher than in the United States
- 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.
- 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 reached US\$62.9 billion in 2023. That makes Canada the 12th largest packaged food market in the world, following Mexico. That represented a growth rate of nearly 29.5% or US\$18.1 billion from 2019. They also forecast growth in this category to reach over US\$77.7 billion by 2028. This is an increase of US\$12.7 billion, and a period growth of 19.6% from 2024. High growth categories in the forecast include:

- Savory Snacks
- Pet Food
- Cheese
- Confectionery
- Dairy (Ex. Cheese)
- Sauces, Dips & Condiments
- Ready Meals

FAS Post Ottawa reports that over 80% of Canadians live in the country’s 15 largest cities, making cities the center of retail activity. As larger grocery banners focus efforts on densely populated areas, smaller rural communities are commonly serviced by independent and specialty retailers. While sophisticated, transportation logistics across such a large country is relatively expensive. Product distribution channels routinely flow north-south, rather than west-east, reinforcing the importance of trade with U.S. suppliers.

In 2022, Canada’s food and alcoholic beverage retail sales reached US\$112 billion, including alcohol sales of US\$21 billion. The 2022 figure is a modest 2% increase over 2021 sales, which is a considerably slower rate of increase relative to the record 11% witnessed in 2020 when inflation was its strongest. As inflation started to weigh on cost of living in the second half of 2022, the food retail market slowed. High food prices

caused by inflation impacted consumer shopping behavior, encouraging consumers to utilize lower-priced channels such as discount retailers and supermarkets.

The Canadian retail market is highly consolidated with five major retailers commanding nearly 75% of grocery retail sales. Canada's three largest grocers—Loblaws, Sobeys, and Metro—collectively reported more than US\$77 billion in sales, recording more than US\$2.7 billion in profits.

Loblaws and Sobeys have stores nationwide while Metro operates only in Canada's two largest provinces: Ontario and Quebec. All three companies have more than 1,000 stores each, including franchised locations. Costco and Walmart are the next largest grocers in Canada. While both companies have different business models and sell more than just food, they compete with Loblaws, Sobeys, and Metro for grocery sales. According to the Canadian Federation of Independent Grocers, about 6,900 independent grocery stores exist in Canada. Independent and Specialty stores differentiate their offerings from the major retailers by focusing on imported and international food.

Canadian retailers continue to rely on imported foods to help introduce new and innovative products, and to supplement products sourced domestically. Many large U.S. food manufacturers have production facilities in both the United States and Canada, while many small- to-medium-sized food suppliers utilize sophisticated warehousing and distribution channels to get new products to the Canadian market.

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:

FAS Post Ottawa reports that as Canadian consumers have been cooking more since the outbreak of COVID-19, owing to lockdowns and public health measures in coping with the pandemic, meal-preparation fatigue, and the desire for something interesting, new, and authentic have been growing. Meal kits, as a category, continued to perform well in 2022.

Post-pandemic consumer shopping behaviors continue to adapt and change. With post-COVID-19-related financial insecurity and inflation in the country, 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).

Products with positive sales potential include ready-made meals, prepared salads, and frozen soups: The meal kit category (dinner mixes, prepared salads, and chilled ready meals), products that generally have a shorter shelf life, with added health benefits and clean labels experienced positive sales growth in 2022. Canadian consumers are consistently looking for products that enhance their immunity and digestive health and

prioritize the reduction of red meat consumption. Prepared salads and frozen soups had growth in the packaged products category: 6.3% 4.6% increase, respectively.

Healthy eating and wellness trend on sales of snacks: Vegetable, pulse, and bread chips topped the category in overall growth. Health concerns over obesity and an aging population continue to drive demand for health-related products, including snacks. According to Euromonitor, healthy snacking remained a significant revenue stream for convenience retailers, with shoppers looking for healthy quick on-the-go options. Retailers are addressing the spike in demand with more nutritious food and drink snack options.

Plant-based diets and alternative proteins: Health and environmental consciousness are driving the demand for plant-based products. The trend was exacerbated by the COVID-19 pandemic, where health became the primary concern for most Canadians, more prevalent among Canada's aging population and Gen-Z consumers. Healthy living standards transcend medical health to include food, exercise, mental well-being, and broader lifestyle issues, where food and supplements are no longer distinct.

Foodservice Sector Highlights:

FAS Post Ottawa reports that the foodservice sector rebounded from the restrictions of COVID-19 and grew by double digits in 2022, reaching a total US\$76.6 billion in 2022. Restaurants Canada, an association representing the restaurant sector, forecasts modest growth of 3% in 2023. Despite a relatively strong U.S. dollar and increased global competition, opportunities remain strong for U.S. food and beverage companies.

Canada's foodservice is vital to the country's economy, contributing 4% to the Gross Domestic Product (GDP). The industry is divided into two segments: Commercial (restaurants, caterers, and drinking establishments) and Noncommercial (hotels, institutional and other foodservice operations). The commercial foodservice subsector includes quick-service restaurants, full-service restaurants, caterers, and drinking establishments, representing 82% of total foodservice sales or approximately US\$63 billion. The non-commercial subsector, which includes hotel, hospital, schools, and other related establishments, represents the balance of total foodservice sales in Canada at US\$13.6 billion.

Due to inflationary pressure and other industry challenges (e.g., labor shortages, supply chain challenges), FAS Post Toronto forecasts Canada's total foodservice sector revenue to increase marginally to US\$78 billion in 2023, a modest 2% increase, reflecting a rise in foodservice prices and depressed consumer demand because of increased prices. Despite current challenges, Canada's major cities (e.g., Montreal, Toronto, Vancouver) continue to offer some of the most diverse, innovative, and expansive culinary scenes in North America.

The commercial foodservice sub-sector accounted for US\$62 billion, representing 82% of total foodservice sales in 2022. Quick service restaurants (QSR) represent 46% of the commercial market and continue to be the leading restaurant format in Canada, followed

by the full-service (FSR) /family dining format representing 43% of the restaurant landscape. Close to 80% of QSR sales are driven by national chains, such as Tim Hortons, McDonald's, Starbucks, and other familiar chain entities. The largest increases of 36.6% in sales were observed in FSR units as COVID-19 restrictions were lifted in 2022. Restaurants Canada reported that sales were beginning to stabilize, and at the end of 2023, sales from all commercial foodservice establishments will total US\$66.7 billion.

In 2022, sales in the non-commercial food sector (e.g., hospitals, tourism travel, learning institutions, and other establishments) grew by 37%, reaching US\$13.6 billion. Renewed confidence in travel led to an increase not only domestically travel but also in international visitors, with over 2.2 million tourists traveling to Canada in 2022, consequently boosting accommodation food sales by 102% over 2021 figures.

Producers and exporters from the United States have captured a large share of the Canadian prepared foods market, representing approximately 78% of total imports. This important category consists of products such as processed fruits and vegetables, food preparations, condiments and sauces, beer, wine, and meat products – all essential products to the foodservice industry. Much of the competition for U.S. exporters of consumer-oriented food products is from other U.S. and Canadian food companies already established in the market.

Best Product Prospects:

FAS Post Ottawa reports that Canada's growing sentiment for maintaining a healthy lifestyle has strengthened following COVID-19. Menu choices reflect a continuing concern for living healthy lives. Many young consumers seek sustainably grown menu items that offer clean ingredients. The interest for plant-based proteins has become a standard offering throughout the foodservice channels, including non-commercial entities, such as university cafeterias and hospital foods.

According to Mintel research, 75% of consumers would like to include additional plant-based protein products in their diets. Additionally, select fresh vegetables, like portobello mushrooms have taken center plate being complemented with various garnishes.

Montreal and Toronto are both comprised of many immigrants, establishing the cities as some of the most diverse in the world. Many ethnic restaurants and food outlets cater to the immigrant diaspora. In Toronto, restaurateurs and chefs often fuse ethnic cuisines to create a unique culinary dish, as well as a unique culinary experience.

Food Processing Sector Highlights:

FAS Post Ottawa reports that in 2022, Canadian food and beverage manufacturing sales were US\$120 billion, making this segment the largest manufacturing industry in Canada. There are approximately 8,500 food processing establishments in Canada, employing about 73,100 workers. Ninety-one percent have less than 100 employees, 8% have between 100 and 500 employees, while only about 1% of establishments have more than 500 employees.

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).

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 Post Ottawa reports that U.S. companies provided more than 50% of Canada's total imports of consumer-oriented products in 2023. 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.