

Draft for VTE Participants Only

December 2023

North American Neighbors: Expanding Prospects for Small-to-Medium Sized U.S. Food Exporters to Canada



Executive Summary

The United States shipped \$28.7 billion of agricultural products to Canada in 2022. Nearly \$20 billion of those products were classified as consumer-oriented, making Canada the largest export market for U.S. foods¹. Canada ranks as the top export market for 16 of the 24 consumer-oriented categories and 2nd ranked in 4 other categories, solidifying its standing as the most diverse U.S. export market as well. Geographic proximity is significant as Canadian consumers have established trust and affinity for U.S. food products. Canadians have a relatively high disposable income and increasing demand for diverse flavors driven by changing demographics. This combination of factors provides opportunities for imported specialty products and makes Canada an excellent market for new-to-export, small- and medium-sized U.S. companies to grow their businesses.

¹ Other U.S. agricultural exports to Canada included bulk commodities like grains and oilseeds, as well as intermediate products like ethanol and animal feeds.

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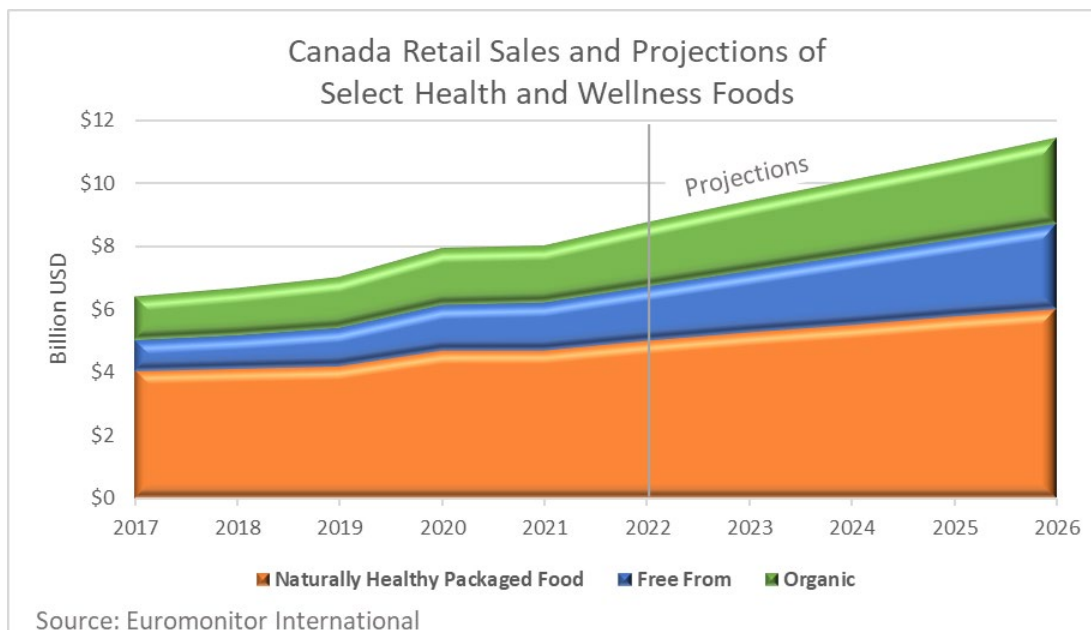
Diverse Export Opportunities for U.S. Foods

Nearly all consumer-oriented categories have seen steady to strong export growth over the last 5 years in Canada. From fresh fruits and vegetables to packaged ready-to-eat meals and snacks, there are opportunities for U.S. exporters. The top consumer-oriented export category to Canada last year was bakery goods, cereals, and pasta with over \$2.7 billion in sales, an increase of 26 percent since 2018. Exports of food preparations, which include soups and other canned or frozen meal preparations, to Canada have grown from just under \$1 billion in 2018 to over \$1.3 billion in 2022, a 34-percent increase. This trend was driven in part by the pandemic as consumers ate more meals at home. Condiment and sauce exports topped \$775 million in 2022, a 13-percent increase over 5 years. Growth in this category has been led by mixed seasoning condiments and sauces, which offset declining exports of ketchup and tomato sauces. Meanwhile, processed vegetable exports (including French fries, pickles, and other canned and frozen vegetables) surpassed \$700 million. Processed fruit exports to Canada increased 21 percent over the previous 5 years to \$590 million. This category is led by mixed fruits and nut snacks valued at over \$100 million in 2022, as well as jams and jellies with exports over \$65 million. Canadian indulgence for sweets in the cold north remains strong, as chocolate and cocoa product exports have grown by 18 percent from \$713 million to \$844 million over the last 5 years. Confectionery exports are also up 15 percent to over \$390 million.

Food Consumption Trends

Canadian diets are trending toward more healthy foods, backed by a relatively high disposable income. Demand for health and wellness foods is increasing across all age groups in Canada. This demand is driven in part by efforts to curb obesity, as well as greater health consciousness because of the pandemic. There is greater demand for naturally healthy whole-grain products and organic specialty foods, as well as reduced-sugar, low-calorie, high-protein snack foods. Part of that dynamic includes a trend of increasing demand for plant-based proteins as consumers shift away from red meat. According to Mintel Research, 75 percent of consumers would like to include additional plant-based protein products in their diets. Sales trends indicate that health and wellness niche food companies are gaining retail market share over major food brands. A portion of the overall increased sales of healthy foods is driven by greater demand for “free from” products (e.g., gluten-free, dairy-free). In addition, Canadian consumers’ purchasing decisions are increasingly based on sustainability and environmental concerns, including the desire to reduce plastic packaging.

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Naturally healthy foods include products that improve health and wellbeing beyond the product's pure calorific value (such as high fiber foods, nuts, seeds and trail mixes, honey, whole grain products, fruit and nut bars). Euromonitor International forecasts that retail sales growth of naturally healthy foods will increase significantly over the next 5 years. Canadian demand for organic packaged food is also exceptional. From 2017 to 2021, retail sales increased from US\$938 million to over US\$1.2 billion, a 32-percent increase. Demand for gluten-free food in Canada has grown significantly. Overall, gluten-free food retail sales in Canada were valued at US\$417 million in 2021, up from US\$310 million in 2017, an increase of 35 percent.

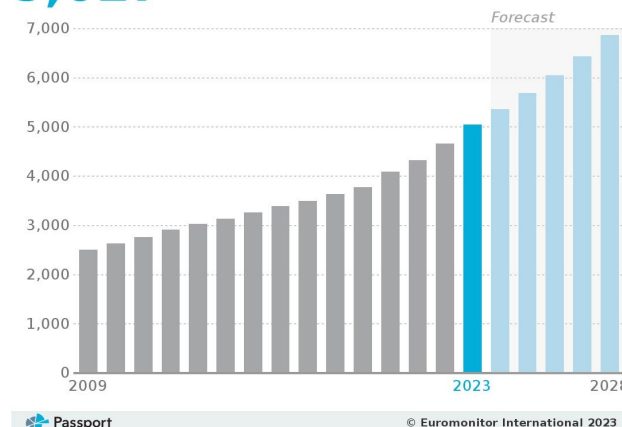
Savory Snacks

Canada's savory snack market has grown steadily in recent years and is projected to continue to grow over the next five years. Though inflationary pressure inhibited sales growth to some extent, this segment of the food market has been resilient. Euromonitor International notes that within the savory snacks market consumers are increasingly seeking healthier options leading to significant growth of items such as nuts, seeds and trail mixes, vegetable, pulse and bread chips, and meat and seafood snacks. It is also noted that

Sales of Savoury Snacks in Canada

Retail Value RSP - USD million - Current - 2009-2028

5,027

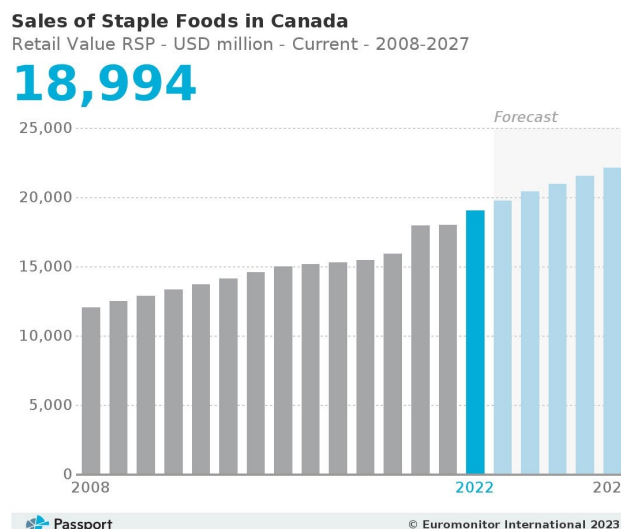


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with the increasing consumption of savory snacks, convenience stores and forecourt retailers are expected to expand their offerings to include more vegetable chips, nuts, and meat snacks beyond popular products such as potato chips, tortilla chips, popcorn, and puffed snacks.

Staple Foods

The pandemic altered sales of staple foods in Canada as a larger portion of the population shifted to working from home. This led to a significant increase in sales of retail staple foods. Coming out of the pandemic, the growth rates of retail staple foods sales slowed as consumers dined out more often. However, consumer trends were shaped by the pandemic and many employers and employees have embraced hybrid working models resulting in more people eating lunch at home. Retail demand for staple foods is also buoyed by population growth driven by increased immigration, which will likely support volume sales growth of staple foods in the long run.



Demographics Trends

The vast majority of Canada's population, approaching 39 million, live within 100 miles of the U.S. border. Consumers are concentrated among a handful of metropolitan areas. Canada's three largest cities – Toronto, Montreal, and Vancouver – are in the provinces of Ontario, Quebec, and British Columbia, respectively and account for 75 percent of national economic activity. Projections show that the population will grow by 15 percent over the next 20 years, driven predominantly by immigration. In 2021, Canada welcomed over 405,000 newcomers from 175 countries - a record in a single year. The Government will continue their effort to grow the economy through immigration, by welcoming 465,000 permanent residents in 2023, with projections to increase to 485,000 in 2024 and 500,000 in 2025. The top foreign countries where immigrants are originating from are India, the Philippines, China, Syria, Nigeria, and the United States. Declining birth rates and an increase in life expectancy will continue to push the median age up, from its current 41.7 years.²

² FAS/Canada Exporter Guide

https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Exporter%20Guide_Ottawa_Canada_CA2022-0038

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Conclusion

In summary, Canadian consumers have a relatively high disposable income and are well positioned to purchase high-quality products. Most Canadians trust U.S. food and agricultural products because the countries have similar food safety standards. Canadian food consumption patterns are becoming healthier and increasingly driven by sustainability goals. A growing population driven by increased immigration is leading to growing demand for diverse flavors and greater access to niche, global cuisines. As a result, retailers and distributors are continually looking for new and innovative brands, which provides opportunities for imported specialty products. These factors combine to make Canada an excellent market for U.S. natural and healthy food companies to grow their business.