Pacific Economic Cooperation Council

2007 Pacific Food System Outlook

Canada: Demographics and Urbanization as Drivers of Change in the Agri-Food Value Chain

Brad Gilmour, Margaret Zafiriou, Samuel Bonti-Ankomah and Mai Dang

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Presentation Outline

- Broad Brush Macro Demographics
- Demographically Driven Consumption Trends
- Agri-Food System Responsiveness to Consumer Needs and Wants
- Retail Snapshot, On-going Change in Formats, Competition, Industry Dynamics
- Urbanization Remarks

Canada - Macro Demographic Perspective

about 31.6 million people in 2006

multi-ethnic society

36 % post secondary education

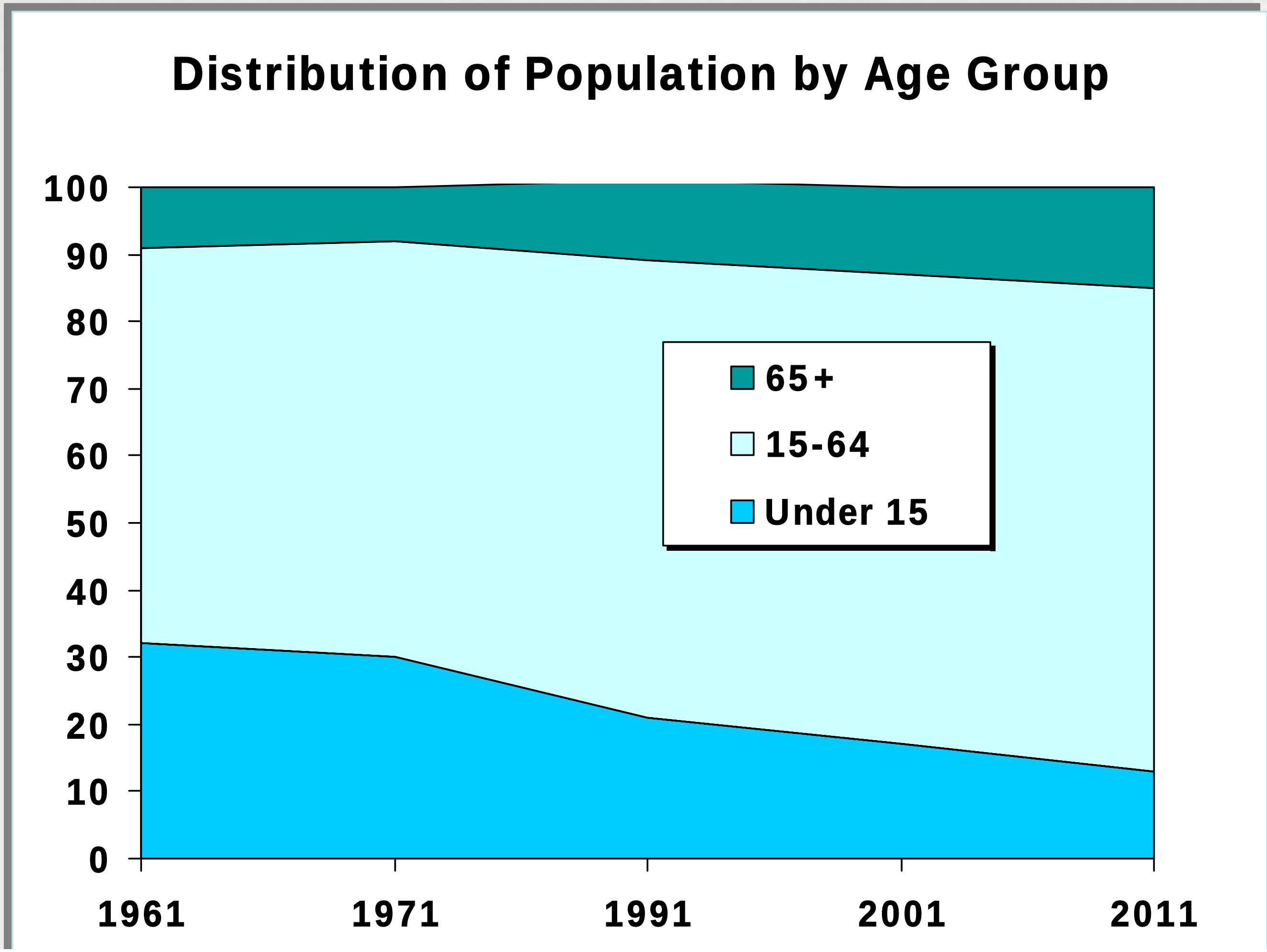
80 % of population lives in large urban centres

average household income almost $ CAD 70,000

about 20 % of population is > 60

Canada - Macro Demographic Perspective

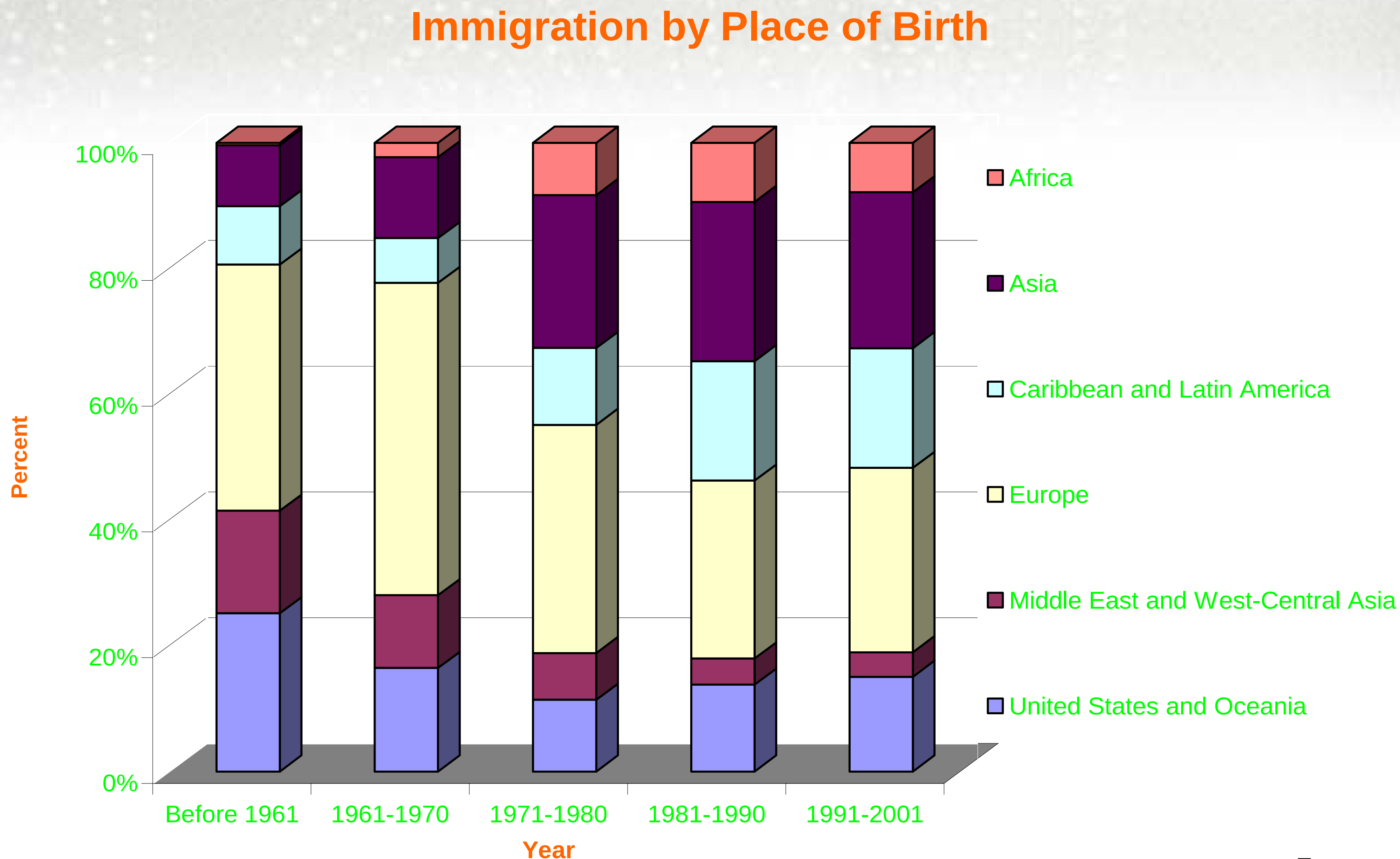
In terms of demographics, the population is aging ...



...and this is expected to continue.

Canada - Macro Demographic Perspective

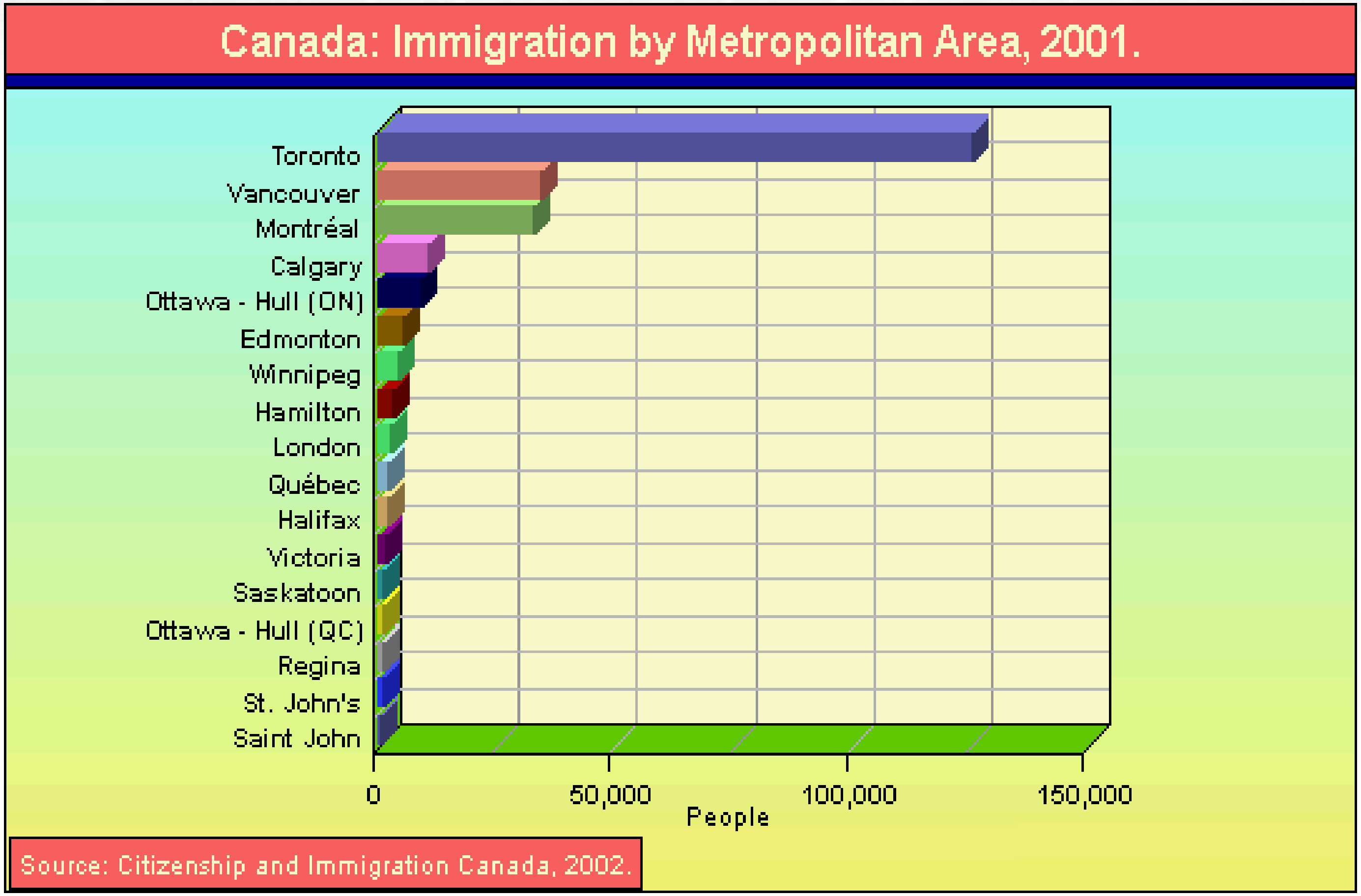
Canada's is a multi-ethnic society . . .



. . . built by indigenous peoples and immigrants.

Canada - Macro Demographic Perspective

Canada's ethnic diversity will continue to increase ...



… particularly in large urban centres

Canada - Macro Demographic Perspective

By 2021, Canada will have ...

A population of 35 - 36 million people

A multi-ethnic society with“visible minority” and multi-racial household making up majority of households.

More and more households of Asian heritage, particularly Chinese.

38 % post secondary education

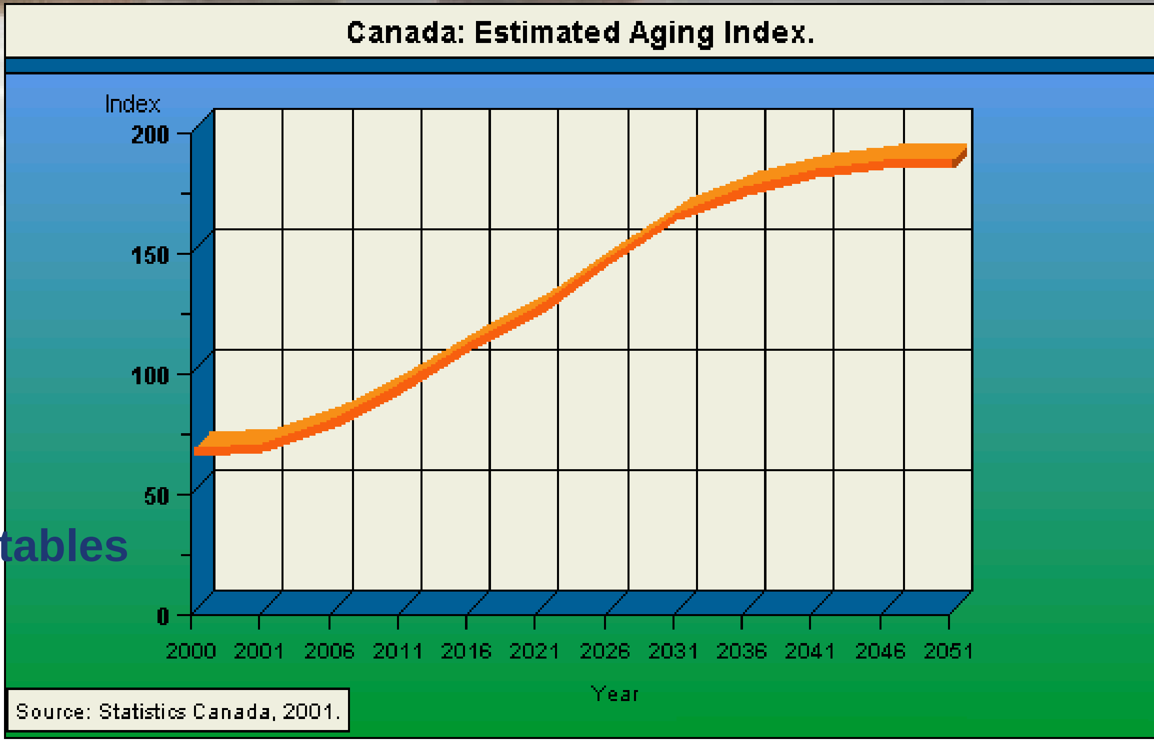
Average household income over $ CAD 75,000

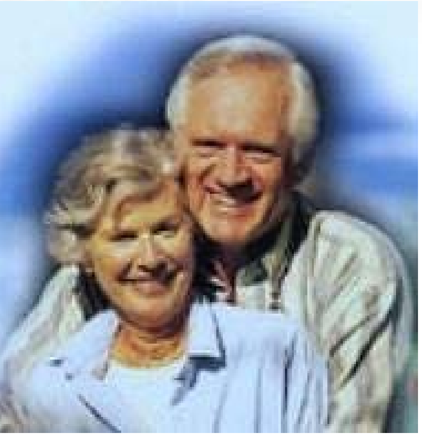
26 % of population over 60, with 1/3 of population over 55

Canada: How generations shape food consumption

- Each generation spends more away from home than the one prior

Canada: How aging shapes food consumption





More Fish

More Fruit

More Vegetables

More Eggs

More neutraceuticals

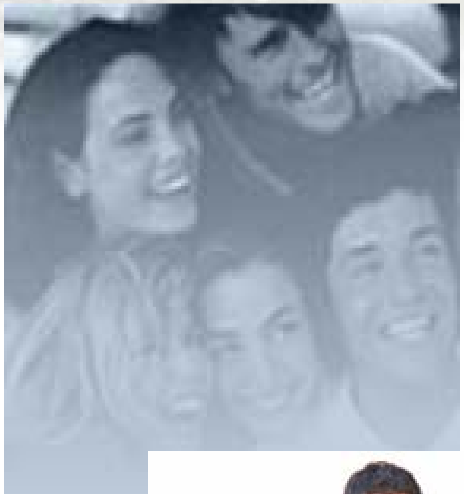
More need for institutional support and services

Less meat consumed, especially red meat

Less starch and fats, especially processed potatoes

Less dairy

Canada: How ethnic diversity shapes food consumption



More Fish

More pulses and lentils

More “ethnic” preparations

More Fruit and Vegetables

More Pork, Poultry

More Eggs

More Rice, Grains

Less potatoes

Less Beef

Less Dairy

Canada: demographics continue to shape food consumption

Per-Capita Historical and Projected Food Consumption Volumes										
	1984	**1989**	**1994**	**1999**	**2003**	**2005**	**2010**	**2015**	**2020**	**% Change***
Red Meat	29.96	28.44	26.59	27.90	25.59	26.10	25.54	24.88	24.64	**-6%**
Poultry and Fish	15.60	17.41	17.70	19.78	20.44	21.68	23.80	25.98	28.13	**36%**
Total Meat	**45.56**	**45.85**	**44.29**	**47.68**	**46.03**	**47.78**	**49.35**	**50.86**	**52.77**	**13%**
Selected Dairy	92.01	91.24	88.28	85.74	84.17	83.30	80.85	80.19	77.38	**-9%**
Fruits	41.15	40.24	43.60	42.51	45.80	44.63	45.36	46.05	46.65	**5%**
Vegetables	81.76	83.45	93.99	93.33	93.18	96.07	97.68	98.51	99.15	**4%**
Cereal Products	49.76	53.63	56.71	64.89	63.89	67.48	68.14	68.98	69.43	**7%**
Pulses and Nuts	6.54	6.68	8.78	8.92	8.51	9.02	8.97	8.84	8.61	**-1%**
Sugars & Syrups	30.98	27.90	31.88	29.00	35.70	33.26	36.14	38.82	41.38	**22%**
Total Fats & Oils	16.29	17.03	18.49	22.17	22.44	23.48	25.31	26.98	28.70	**29%**
Sub-Total (kgs)	**364.05**	**366.02**	**386.02**	**394.24**	**399.72**	**405.02**	**411.80**	**419.23**	**424.07**	**6%**
Eggs (dozens)	14.16	12.70	12.06	12.66	12.97	13.04	13.49	12.82	13.59	**5%**
Vegetable & Fruit Juices (litres)	24.10	22.53	24.57	24.18	25.60	24.98	24.92	24.87	24.82	**-2%**

Notes

Red Meat includes Beef, Pork and Lamb (excludes other specialty meats)

Total Meat includes Red Meat as defined above, Poultry and Fish

Selected Dairy includes Fluid milk, Cheese, Ice Cream and Cream (excluding Butter, Powder Milk, Yogurt, Ice milk and Sherbet)

Other beverages forecast in this study (soft drinks, alcoholic drinks, coffee and tea) are not included in this table, and bottled water consumption was not analyzed or projected.

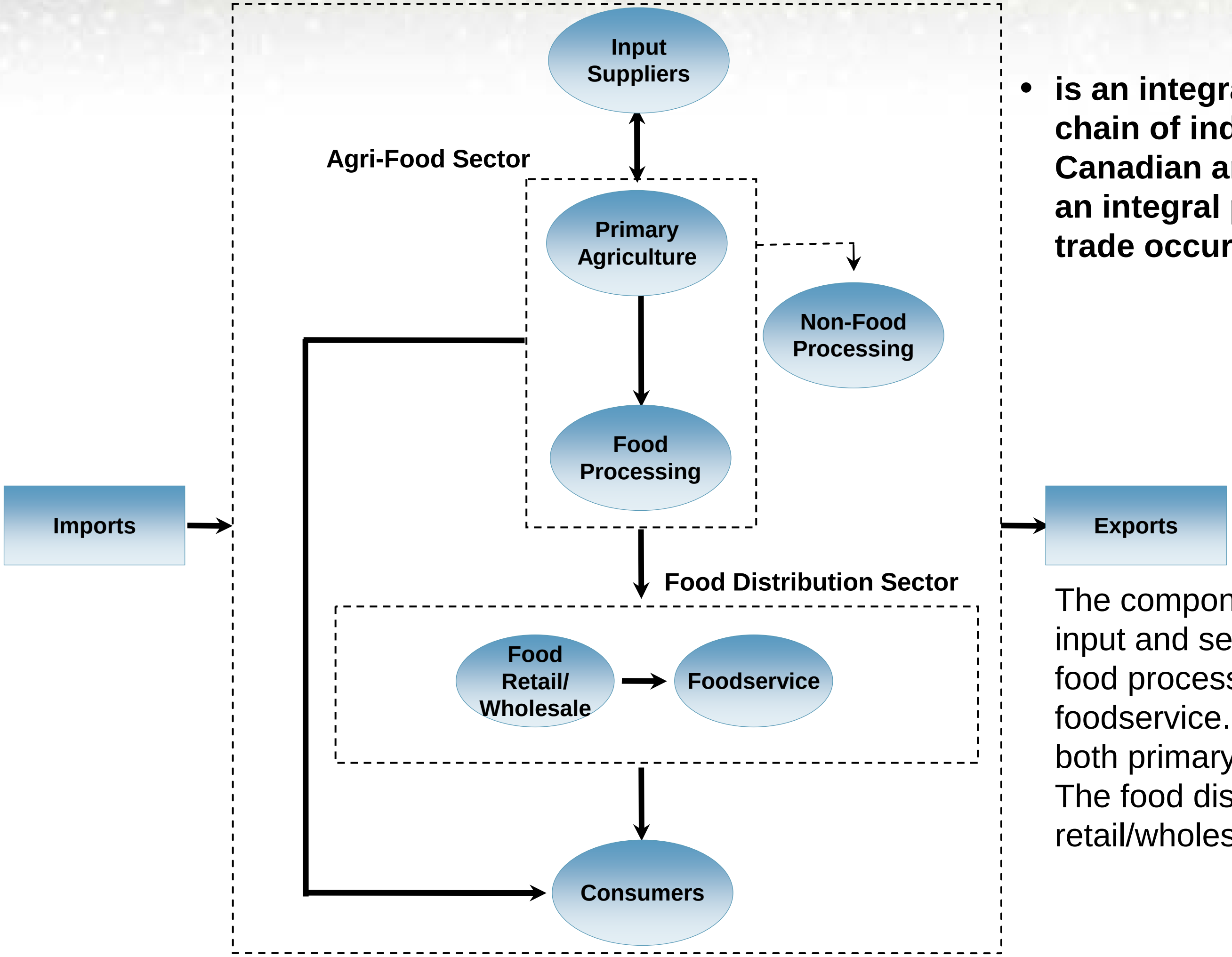
* *The base of the percentage change is the average of three years (2001, 2002 and 2003) Compared to the year 2020*

- Canadians are eating less red meat as time passes, but are consuming more poultry, cereal and fruit products. Consumption of dairy products has been relatively static in recent years (Serekon Management Consulting).

The Canadian agriculture and agri-food system ...

... responds to demographics and consumer demands both at home and abroad.

The Canadian Agriculture and Agri-Food System

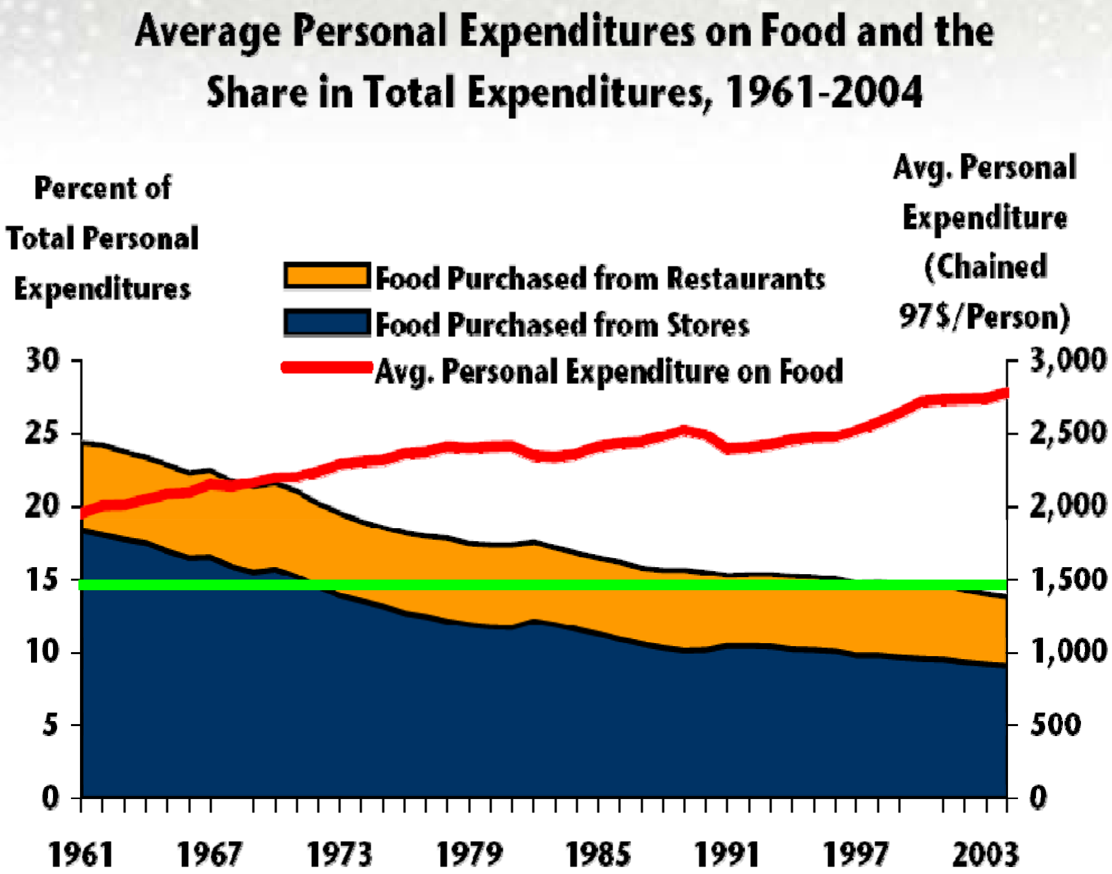


- **is an integrated production and distribution chain of industries that supplies food to both Canadian and international consumers. It is an integral part of the global economy with trade occurring at each stage in the chain.**

The component industries include agricultural input and service suppliers, primary agriculture, food processing, food retail/wholesale and foodservice. The agri-food sector encompasses both primary agriculture and food processing. The food distribution sector is made-up of food retail/wholesale and foodservice.

The Canadian agriculture and agri-food system …

… continues to provide top quality food cost-effectively to consumers.



- Canadians are having to spend less and less of their total personal expenditures on food. In 1961, Canadians allocated 19.1% of their household expenditures to food and non-alcoholic beverages. This percentage has decreased steadily to about 9.2% in 2006.

Canadian per capita expenditures on food products are third lowest in the world when expressed as a percentage of income, after the United States and the United Kingdom.

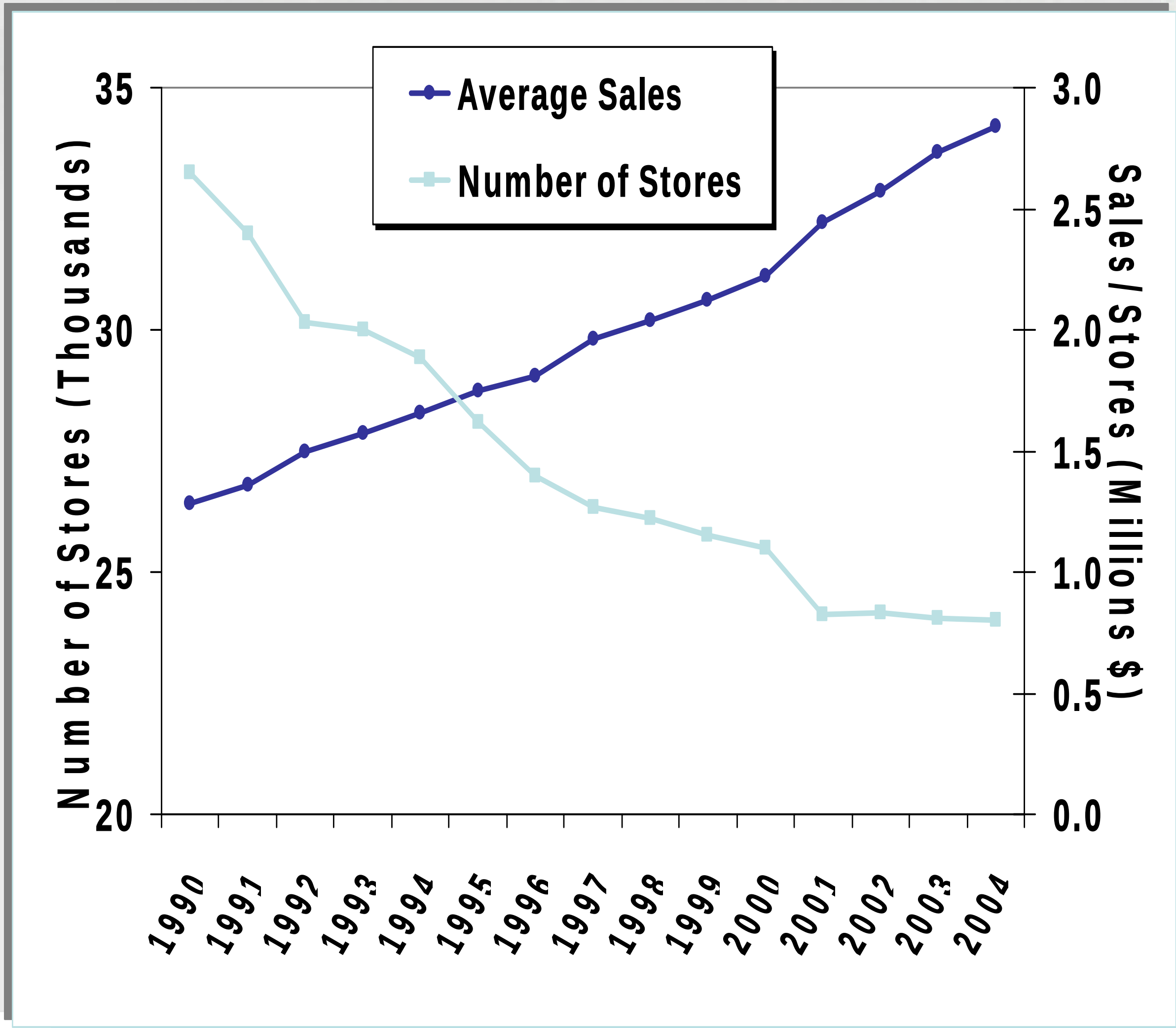
The Canadian Retail Food Industry is …

- a mature but highly responsive, consumer-driven industry.
- increasingly consolidated, yet very competitive with low margins on sales but high margins on equity.

To maintain their competitive position, food retailers offer consumers …

- Innovative products
- Increased variety and service
- Exotic items
- Convenience and more prepared foods
- Private labels
- Discount prices
- Loyalty points, and
- Non-food items, from financial services to drugs

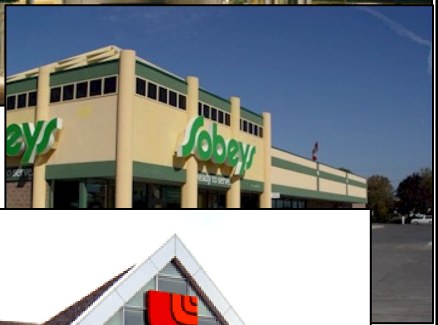
But the retail food sector continues to consolidate ...



- The top 5 retailers now account for about 60 percent of national sales.
- While the number of food stores has stabilized at around 24,000 stores, chain stores have increased their number of branches and franchises. In 2005, Loblaws had 1,072 stores while Sobey’s had around 1,310. Metro Inc, acquired A&P Canada during 2005, vaulting it into the third place position.

...from 33,000 retail stores in 1990 to an estimated 24,000 in 2005.

The relative importance major food retailers is shown by sales*…



	Billion $
Loblaws Companies	27
Sobeys Inc.	12
Metro Inc and A&P	8.9
Canada Safeway	5.3
Wal-Mart	3.3
Co-ops	3.1
Overwaitea	2.6
Costco Food	1.1
Couche-Tard	0.8
Shopper's Drug Mart	0.7

*** Estimated 2005**

Urbanization and the Agri-Food Sector

- Canada’s urban population surpassed its rural population some time between 1921 and 1931.
- At that time, the primary sector -- agriculture and natural resource industries -- was much more important in the Canadian economy and society than it is today; almost 30 percent of the population was engaged in agriculture in 1931. But rural incomes were also somewhat less than urban incomes.
- Since that time, urbanization has been rising steadily, with over 80 % of Canadians now living in larger urban centres. Increased urbanization implies a more specialized, more market based society as householders are no longer “subsistence based” and dependant only on what they can produce on their own land.
- Farmers’ incomes have improved relative to their urban cousins as well. The average income and asset situation for farmers now compares favourably to those of urban dwellers.

Canada’s Rural Communities

- Just 20 % of Canadians (6,000,000) live in rural communities and small towns (< 10,000 people).

- Rural Canadians are older than the Canadian average; approximately 35 % of seniors in Canada live in rural areas and small towns. This has come about partly as a result of the out-migration of younger folk and partly as a result of in-migration of older folk as a life-style choice; reasons and relative importance differ on a community by community basis. One size does not fit all.

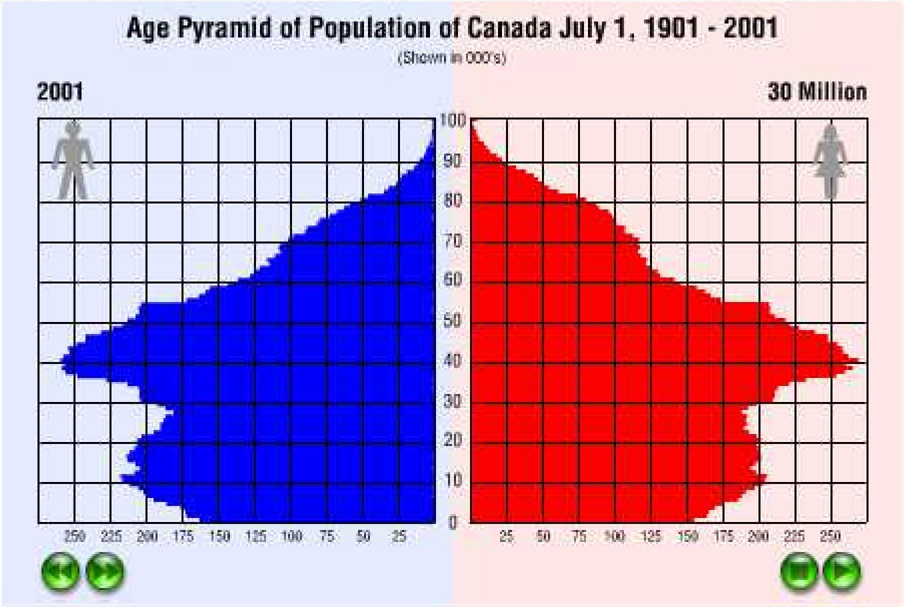
- Farmers make up less than 2% of Canada’s population. They tend to be older than their counterparts in towns. The average Canadian full-time farmer is now in his or her mid-50s.

- There are proportionally more men among rural and small town seniors than among urban seniors. This is particularly the case for the Western provinces.

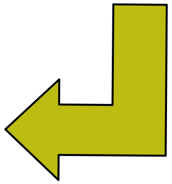
That’s All Folks!

Thank you for your attention and your patience.

Canada - Macro Demographic Perspective



Where we've been



Canada's "Baby Boom" is "louder" than in the U.S., Australia, and New Zealand. At its height, Canadian women were having an average of 4.1 children. The comparable figure is 3.7 for the U.S. and about 3 for Australia and New Zealand. The Baby Boom is also more extended in Canada than in the U.S..


Canada
How demographics shape food consumption

Canada: How generations shape food consumption

- Generation Y

- 18-30 years old today. Just beginning their careers.
- Retain their thirst for adventure, extending "adolescent" consumption habits.
- Eating out a cornerstone, increased takeout dining
- Basic level of cooking skills. Focus on "modular" cooking, prepared components

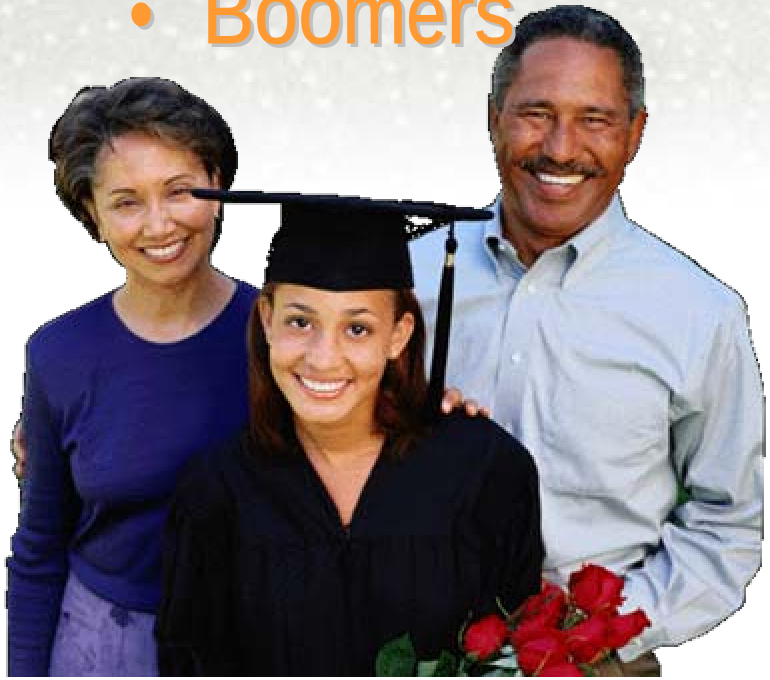
Canada: How generations shape food consumption

- Generation X

- 30-40 years old today. Busy balancing careers and young families
- Income and spending on the rise
- Modest cooking skills, cooking from “scratch” is rare. Time - money trade-offs; convenience is critical. Varied life/work approaches “outsource low-value tasks”.

Canada: How generations shape food consumption

- Boomers



- 40-60 years old today. Coming into more time and money, with more opportunities to enjoy themselves.

- Enjoy healthy foods. Still do traditional grocery shopping. Last generation with significant cooking skills. Some enjoy time spent in the kitchen, but also relish opportunities for dining out

Canada: How generations shape food consumption

- Matures

- 60-75 years old today. Traditional grocery shoppers, focussing on value for money.
- Live independently, mostly healthy and fit but are diet conscious.
- Family gatherings are important

Retail food sales continue to grow in Canada...

Source: Statistics Canada

...in total dollar terms...

Canadian per capita expenditures on food products are third lowest in the world when expressed in percentage terms.

Comparison of Per Capita Food Disapppearance in Canada and the U.S. by Commodity

	Canada	U.S.
Beef (kg)	23	29
Pork (kg)	19	23
Chicken (kg)	32	43
Turkey (kg)	4	8
Eggs (number)	188	253
Fluid Milk (litre)	85	82
Cheese (kg)	12	14
Fresh Fruits (kg)	65	55
Fresh Vegetables (kg)	135	122
Wheat Flour (kg)	70	63
Oil & Fats (kg)	32	36
Soft Drinks (litre)	111	176
Coffee (litre)	105	92
Tea (litre)	73	29

Source: Statistics Canada and USDA, Economic Research Service.

- Canadians eat more fruit, vegetables and cereal products than their U.S. counterparts but they consume fewer red meat, poultry, and dairy products. Canadians also drink more coffee and tea but fewer soft drinks.

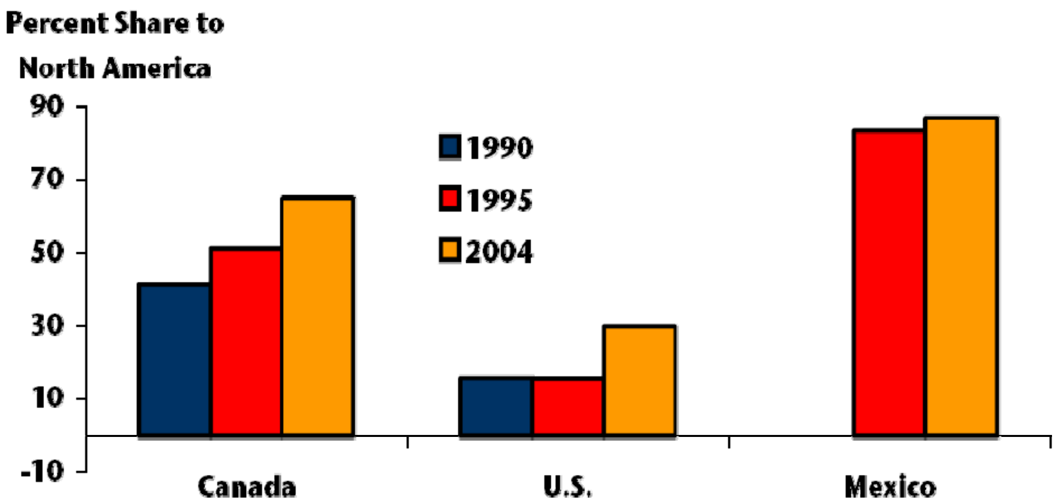
Food is retailed through several channels including…

Couche-Tard

	Percent
Supermarkets (Grocery Stores)	80.1
General Merchandise Stores	9.7
Specialty Food Stores	7.3
Drug Stores	1.4
Gas Station	1.0
Other	0.3

The Canadian agriculture and agri-food system …

The Share of Agriculture and Agri-Food Exports of NAFTA Countries that go to Other Countries in NAFTA, 1990, 1995 and 2004



Source: Statistics Canada, Industry Canada, Global Trade Atlas and AAFC calculations.

Note: 1990 data for Mexico is unavailable.

- The North American market was becoming increasingly integrated until 2001. However, since September 11, 2001, there is some evidence that some markets are de-integrating due increased costs and delays at the border. Time-sensitive products seem to be hardest hit (Conference Board of Canada 2007).

Canadian Infrastructure

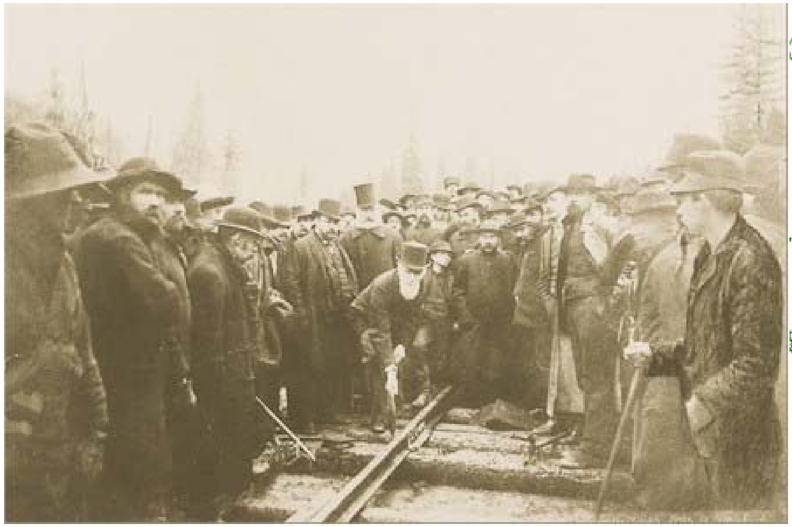
New Initiatives, Challenges and Opportunities

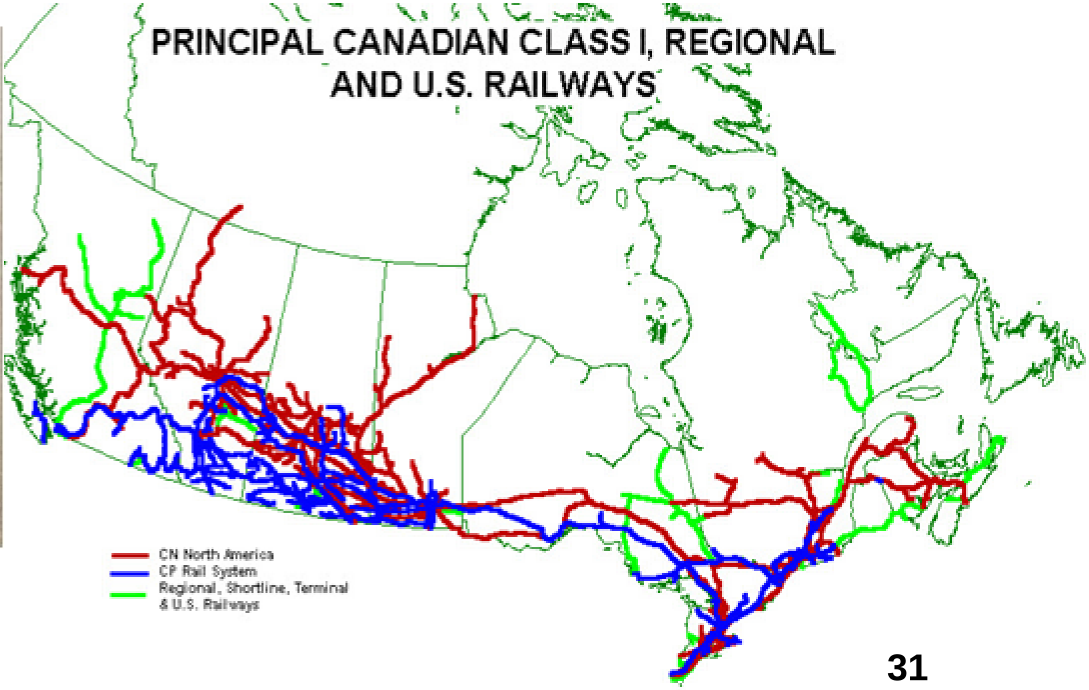
- Gateway to Asia
  - In recent years, private-public partnerships and initiatives involving infrastructure investment, streamlined regulations and institutions, and collaboration across industries and government departments are being undertaken to enable two-way trade and investment with Asia.
- Increased Technical “Due Diligence”, NAFTA “De-integration” / Market Diversification, etc
  - Since 11 September 2001, numerous border measures have been implemented to protect travelers, citizens, and nations’ security. These have costs in terms of both time and money.
  - The US remains Canada’s most important trading partner by far. But a confluence of events like the appreciating Canadian dollar, COOL, bio-security and bio-terrorism precautions, BSE, E. coli in spinach have led to border delays and some back-sliding with regard to NAFTA benefits and deliverables. There is, as a consequence, some concern that Canada has become too dependent on NAFTA markets, and suggestions have been made for Canada to either accelerate “Smart Border”and “Smart Regulation” efforts or further diversify its markets … or both.
- Product Integrity Systems.
  - Consumers are increasingly interested in the nature of the food they eat, how it is produced, and with what inputs. This has given rise to production integrity systems with various objectives and tolerances.e
- Northern Shipping Routes?
  - As the effects of climate change have reduced the polar ice cap, the possibility of trans-Arctic shipments

Canada's Enabling Infrastructure

Canadian railways, waterways, roads and infrastructure have been critical to the creation and evolving character of the country.

Railways are the backbone of Canada's transportation system and play a particularly important role in the transport of bulk commodities and containers. Canada's railways move some 270 million tonnes of freight annually.

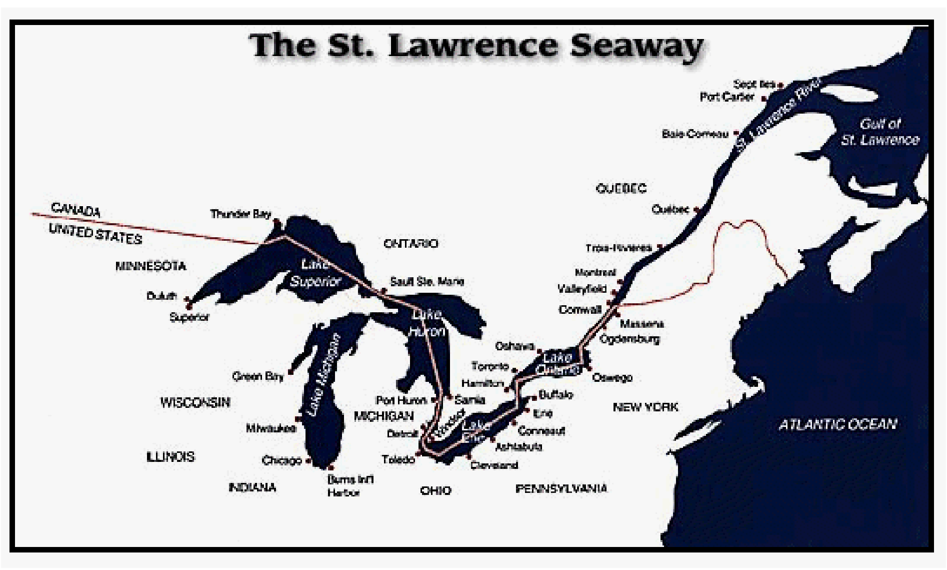




Canada's Enabling Infrastructure

Canada is a maritime nation, with oceans on three sides. Of necessity, trade with countries other than Mexico and the U.S. must take place via Canada's 300 + commercial ports, the most important for the agri-food sector being Vancouver, Montreal, Halifax, Prince Rupert and Churchill.

Canada's main waterway is the St. Lawrence Seaway, an extensive 3000 km system. Agricultural products represent some 40 percent of all seaway trade, including wheat, canola, corn, soybeans, barley, flaxseed, and oats.



Canada’s Enabling Infrastructure

Canada’s road network exceeds 1.4 million kilometres, ranking it 4th in the world. Every year, there are roughly 10 million truck trips across the Canada-U.S. border. Increased vehicular trade has increased pressure on Canada’s road system.

Canadian Infrastructure

"Telecommunications Plus". Canada is a leader in the application of intelligent transportation systems, automatic vehicle identification technology, electronic data interchange, and global positioning technologies. This has helped Canada's agri-food value chain become one of the most efficient and responsive in the world.