



STATE OF THE INDUSTRY REPORT

2019

 AUSTRALIAN FOOD & GROCERY COUNCIL

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CEO FOREWORD

Australia's food and grocery manufacturing sector is both broad and responsive, vulnerable and resilient. Its future relies on business confidence built from solid economic conditions and a political environment that provides stability.

This is the Australian Food and Grocery Council's (AFGC) eleventh annual industry snapshot report, *State of the Industry 2019*. Highly respected for its in-depth analysis of the sector's key performance indicators, the report demonstrates and reinforces the value and contribution of the \$122.1 billion* Australian food and grocery manufacturing sector.

This report provides key data to highlight the sector's performance and inform the development of policies that are needed to ensure the sector has a strong future in Australia.

Jobs are central to the success of the Australian economy and the food and grocery manufacturing sector is Australia's largest manufacturing sector, representing 32 per cent of all manufacturing jobs. The sector is also one of the biggest employers in the country, providing more than 273,300 jobs, of which 39.3 per cent – just over 107,000 – are in regional and rural communities.

The sector is at the heart of regional Australia. Communities rely on it through direct employment and the trickle-down effect this has in boosting and sustaining local economies. And this filters right along the supply chain through the sector's sourcing of not only agricultural inputs but also other goods and services used in food and grocery production. A better understanding of the sector and its benefits must be fostered to help ensure it can continue to prosper in the regions.

The sector is represented right across Australia, with New South Wales, Victoria and Queensland hosting major hubs for food and grocery manufacturing. Together they constitute 85.3 per cent of sector turnover and 79.9 per cent of sector employment.

While the sector has a strong presence, it is not growing to the extent it should. This is the result of significant challenges on the domestic front, both in terms of input cost pressures and a deflationary retail market, which are putting pressure on profit margins and impacting willingness to invest. While capital investment was \$3 billion in 2017-18, this was a negative 3.5 per cent compound annual growth rate (CAGR) over the previous five years.

The lack of investment is particularly concerning, given the need for innovation, increased automation and modernisation in order for the sector to stay competitive and remain strong in Australia. To this end, the AFGC continues to advocate for mechanisms to provide companies with the confidence to invest.

While domestic growth has been small, major jumps have been made in export trade, with a 7.6 per cent year-on-year increase to \$34.4 billion. This has been spurred on by increased access through free trade agreements, a favourable exchange rate and the great reputation of Australia's food and grocery products.

China is now Australia's key export market and in 2017-18 exports increased by 45.3 per cent YOY and 36.2 per cent three-year CAGR to a value of \$7.1 billion.

For this trend to continue, Australia needs trade and investment policies conducive to improving the competitiveness of Australian food and grocery manufacturers. Such measures will help ensure a growing export market and from that new jobs and investment domestically.

To this end, the AFGC has welcomed the Federal Government's export deregulation agenda and its beneficial impact on reducing the red tape and costs associated with exporting.

Beyond 2017-18, the sector will work to strengthen trade, improve sustainability and create a fair playing field for Australian food and grocery manufacturers. Central to this are retail-supplier relationships that incentivise innovation and risk. This would benefit all Australians.

The future of Australian food and grocery manufacturing can be bright. This is a diverse sector that sustains Australia, providing jobs and economic benefits. Australians are proud of our products and want to see the sector thrive.

But pressures on the sector are real and can hamper growth and provide uncertainty. The right policy settings must be in place for growth. And advocating for positive change is at the heart of the AFGC's mission.



Tanya Barden
CEO, AFGC

* The 2019 report does not include fresh produce in the numbers, a change from previous years.

1. INDUSTRY SNAPSHOT

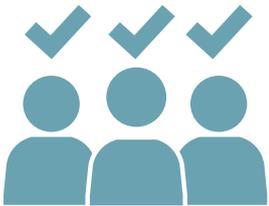
FOOD AND GROCERY MANUFACTURING STATE OF INDUSTRY 2017-18



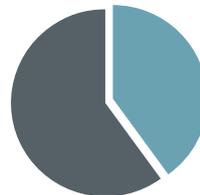
\$122.1bn
Total turnover
(+1.1% 5yr CAGR)



32%
AFG turnover
as % of manufacturing



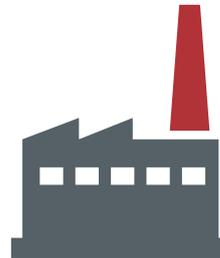
273,301
Employment¹
(0.4% 5 yr CAGR)



39.3%
Regional employment
as percentage of total sector
employment



\$2.9bn
Capital expenditure
(-3.5% 5yr CAGR)



15,325
Businesses
(+1.6% 5yr CAGR)

\$34.4bn
Exports
(+6.7% 5yr CAGR)



\$33.4bn
Imports
(+4.7% 5yr CAGR)

Distinct from previous reports, the figures on this page exclude the fresh food sector and are based on 2017-18 ABS data. Percent change calculated as 5 year CAGR (real).

1. This is total number of employees, head count basis and does not include seasonal employees.
2. Gross fixed capital formation for food, beverage and tobacco manufacturing sector taken as indicator of capital investment.

2. EXECUTIVE SUMMARY

After falling turnover in 2016–17, the Australian Food and Grocery (AFG)¹ sector recovered in 2017–18 recording 4.5 per cent year on year (YOY) real growth in turnover, to a level of \$122.1 billion. However, looking at the longer term trend, the sector's turnover remained virtually stagnant, with a five-year compound annual growth rate (CAGR) of only 1.1 per cent.

Food product manufacturing continued to be the largest sub-sector, with a turnover of \$90.1 billion, of which the main production was in meat processing, cheese and other dairy manufacturing, and human pharmaceutical and medicinal products.

While deflation in the domestic retail market continues to be challenging for the sector, export markets offer the opportunity for growth, with AFG sector exports increasing by 7.6 per cent YOY in 2017–18 and 6.7 per cent on a five-year CAGR basis, to a record \$34.4 billion. This was primarily led by 45.3 per cent YOY increase in exports to China, as businesses continued to leverage opportunities unlocked by the China-Australia Free Trade Agreement (CHaFTA). Exports accounted for 28.2 per cent of AFG turnover with meat processing, wine and alcoholic beverages, and human pharmaceutical and medicinal product manufacturing key contributors to overall trade volumes, coupled with large increases in other food product categories. China was the leading export destination in 2017–18, constituting 20.5 per cent of total exports, followed by the USA and Japan.

Growth in imports was much lower at 3.3 per cent YOY, or 4.7 per cent on a five-year CAGR basis, to a total of \$33.4 billion. This resulted in a net trade surplus of just under \$1 billion for the AFG sector. The USA continued to be the leading exporter to Australia, followed by New Zealand and China.

The sector continued to witness low growth in capital investment with five year CAGR at negative 3.5 per cent (or 0.31 per cent YOY) resulting in \$2.9 billion capital investment. Underlying challenges to attracting capital into the sector continued as many businesses remained hesitant to invest due to difficult domestic trading conditions.

Sector employment was relatively stable in 2017–18, recording an increase of 1.8 per cent YOY. However, reflective of the longer term stagnation in turnover, employment grew by only 0.4 per cent on a five-year CAGR basis.

Despite this, the AFG sector continued to be a dominant part of the manufacturing sector, constituting 32.5 per cent of total manufacturing employment. With 39.3 per cent of AFG employment based in non-metro areas, the sector was also a powerhouse of regional employment.

Similar to employment, the number of businesses in the AFG sector increased by 1.4 per cent YOY, or 1.6 per cent on a five-year CAGR basis, to 15,325, driven largely by the growth of the business count in the grocery sector.

NSW, Victoria and Queensland continued to be the dominant states, together constituting 85.3 per cent of sector turnover and 79.9 per cent of sector employment.



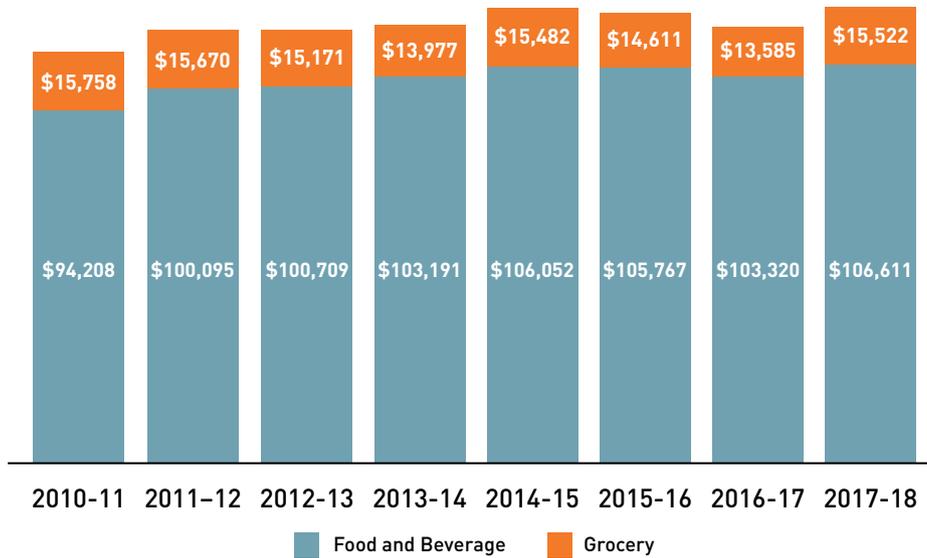
1. Refer to appendix for detailed sector definition.

3. TURNOVER

TREND OVER TIME

Total turnover for the AFG sector was \$122.1 billion in 2017–18, an increase of 4.5 per cent from 2016–17. The long term turnover trend is essentially flat, with a five-year compound annual growth rate (CAGR) of 1.1 per cent.

Figure 1: Turnover (\$ million)

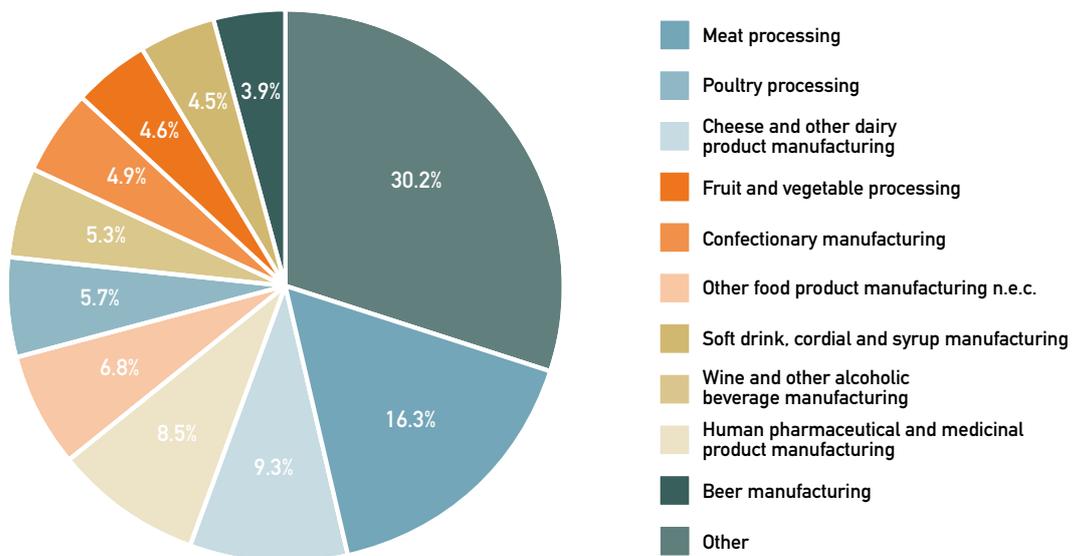


COMPOSITION OF THE SECTOR

Of the subsectors, the food and beverage subsector continued to contribute the largest proportion to the total industry turnover, with \$106.6 billion or 87.3 per cent share. Food product manufacturing alone contributed \$90.1 billion.

The top 10 industries contributed 69.8 per cent of the total sector turnover in 2017–18, in line with a similar share last year. Meat processing was the largest contributor to total AFG turnover accounting for 16.3 per cent share, followed by cheese and other dairy product manufacturing at 9.3 per cent and human pharmaceutical and medicinal products at 8.5 per cent.

Figure 2: Turnover share by industry



1. Refer to methodology for industries in the sector

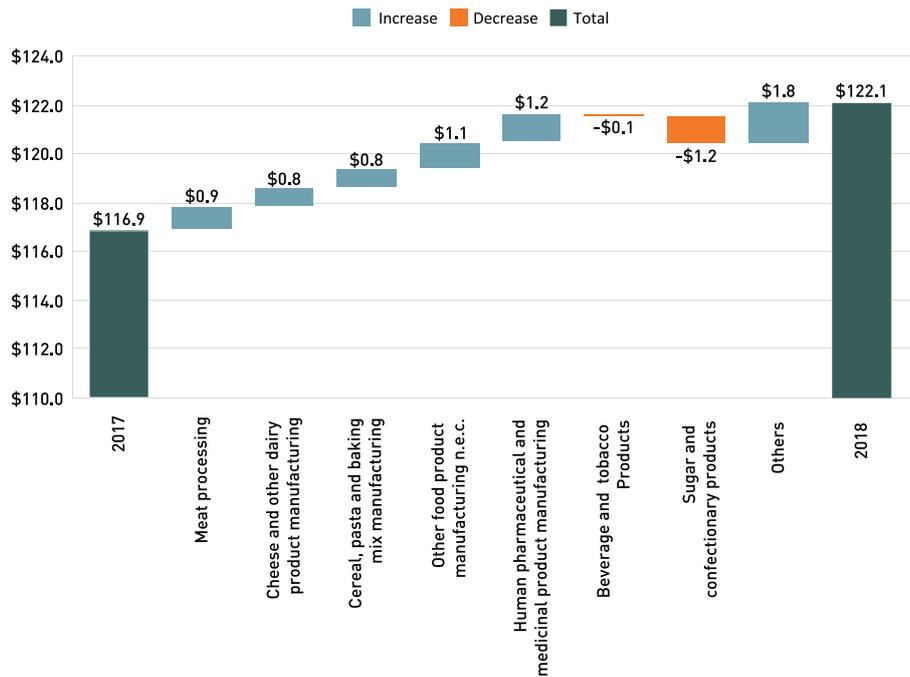
KEY DRIVERS

The key contributing industries all experienced YOY growth in 2017–18.

- Meat processing (4.8 per cent);
- Cheese and other dairy (7.1 per cent);
- Human pharmaceutical and medicinal products manufacturing (13.1 per cent); and
- Other food product manufacturing (16.3 per cent).

As shown in section five, this was in part due to a significant increase in exports to China as businesses capitalised on the opportunities unlocked by the China-Australia Free Trade Agreement (CHaFTA).

Figure 3: Key Drivers by Industry (\$ billion)





BY STATE

NSW, Victoria and Queensland accounted for 85.3 per cent of the AFG turnover in 2017–18. The AFG sector's turnover in NSW recorded the highest five-year CAGR growth of 2.7 per cent (or 7.0 per cent YOY), followed by 1.5 per cent (or 2.4 YOY) growth in Victoria. Queensland and South Australia's five-year CAGR were lower, at 0.4 per cent and negative 2.6 per cent respectively.

Figure 4: Share of turnover

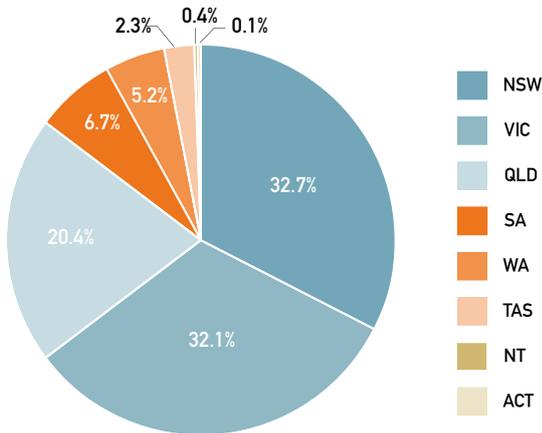


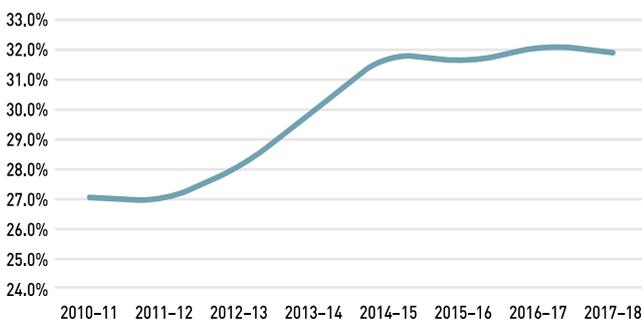
Figure 5: Value and Growth 5 year CAGR (\$ million)



COMPARISON TO MANUFACTURING AND OTHER INDUSTRIES

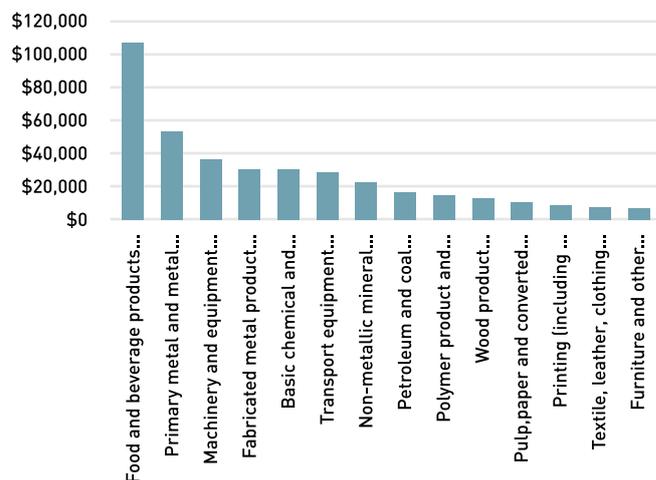
The AFG remains Australia's largest manufacturing sector, comprising 32 per cent of total manufacturing turnover.

Figure 6: AFG share of manufacturing



Food and beverage product manufacturing is the largest single subsector within manufacturing accounting for 27.9 per cent of the total manufacturing turnover.

Figure 7: Manufacturing turnover, 2017-18 (\$ million)

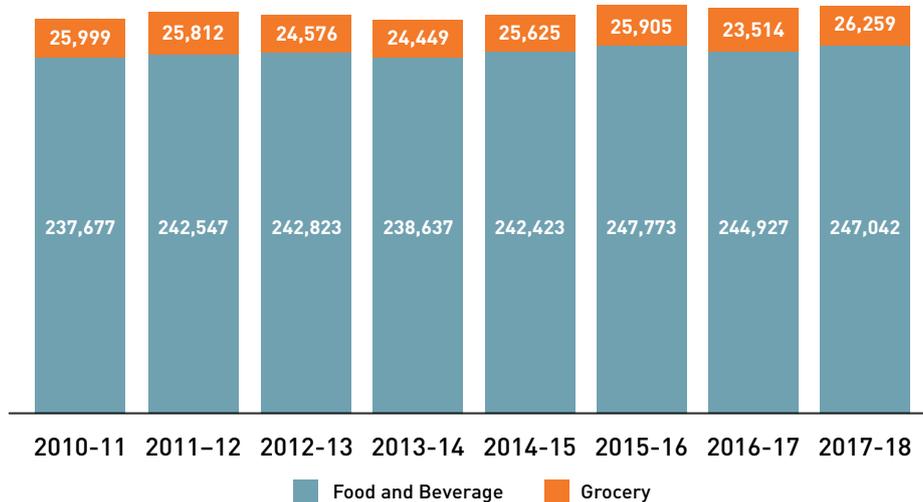


4. EMPLOYMENT AND BUSINESSES

TREND OVER TIME

Total employment for the sector was 273,301 in 2017–18, an increase of 4,860 people or 1.8 per cent from 2016–17. The long term employment trend for the sector is relatively flat with a five-year CAGR of 0.4 per cent.

Figure 8: Employment (jobs)

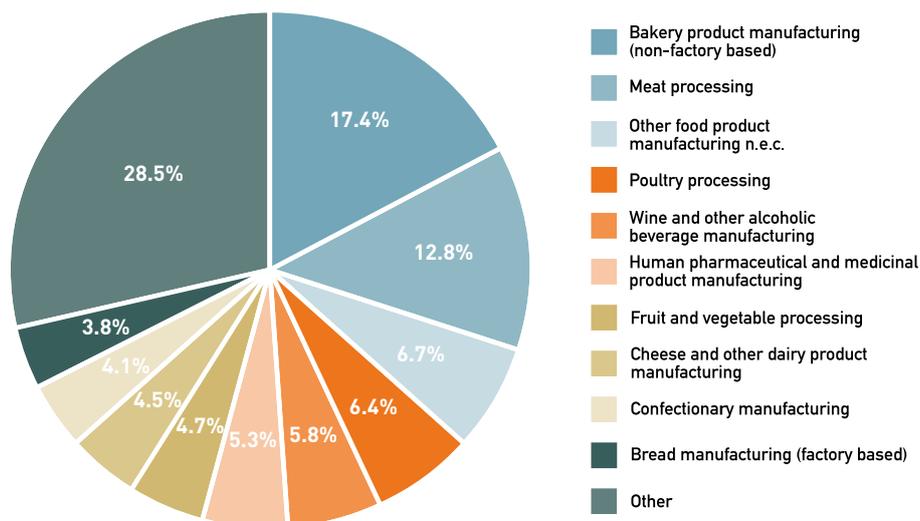


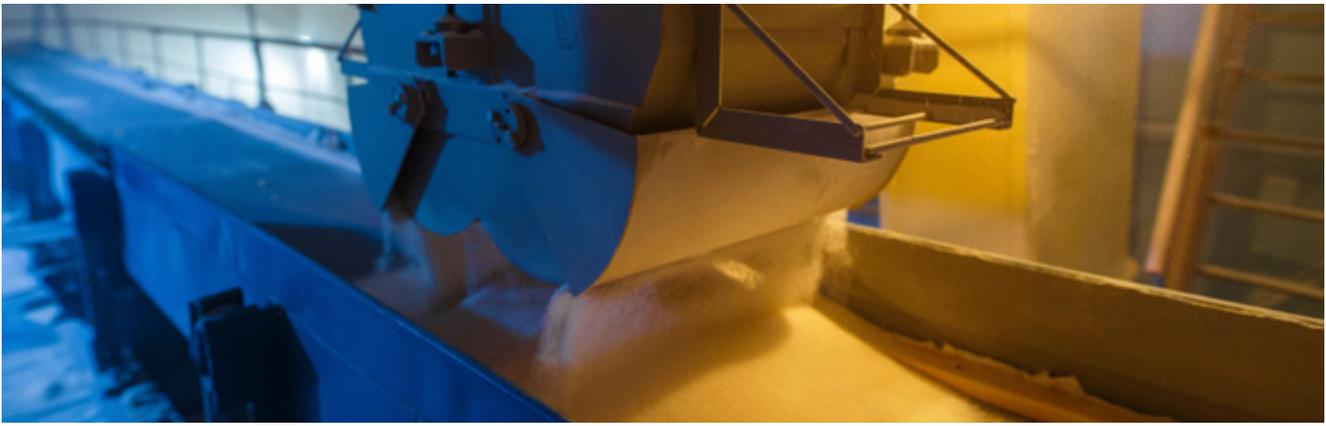
COMPOSITION OF THE SECTOR

The largest contributor to AFG sector employment remains the food and beverage product manufacturing subsector, with employment of 247,042 persons or 90.4 per cent share.

The top ten industries contributed 71.5 per cent of the total employment for the sector, with the largest contribution from the bakery product manufacturing with 47,639 employees. This was followed by meat processing and other food product manufacturing with 34,848 and 18,420 respectively.

Figure 9: Employment share, 2017–18





KEY DRIVERS

Employment in the food and beverage product subsector increased by 2,115, recording a five-year CAGR of 0.3 per cent. Key contributing industries recording YOY growth were:

- Other food product manufacturing: increase of 2,245 persons (13.9 per cent);
- Meat processing: increase of 892 persons (2.6 per cent);
- Sugar manufacturing: increase of 662 persons (14.0 per cent).

Declines in employment were observed in poultry processing (-5.1 per cent), confectionary manufacturing (-7.4 per cent) and wine and another alcoholic beverage manufacturing (-5.2 per cent).

All the industries within the grocery subsector recorded increase in employment resulting in five-year CAGR of 1.3 per cent (or 11.7 per cent YOY increase), which was additional employment of 2,745 persons.

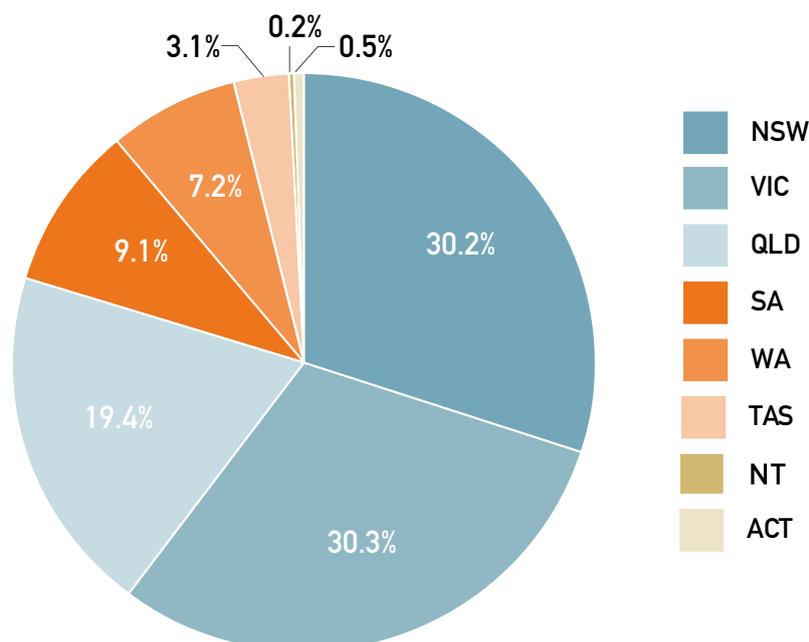
BY STATE

NSW, Victoria and Queensland accounted for 79.9 per cent of total sector employment, with near equal numbers in Victoria (82,727) and NSW (82,522), followed by Queensland at 53,081. Employment in Victoria and NSW also grew at a similar five-year CAGR of about one per cent, whereas Queensland recorded a decline of 0.2 per cent.

The AFG sector is also a major employer in regional Australia, with 39.3 per cent of employment in 2017–18 based in non-metro regions, up 0.3 per cent YOY.

Northern Victorian food and grocery manufacturing is now the eighth largest employer in the state, with 14,221 Victorians employed in the sector.

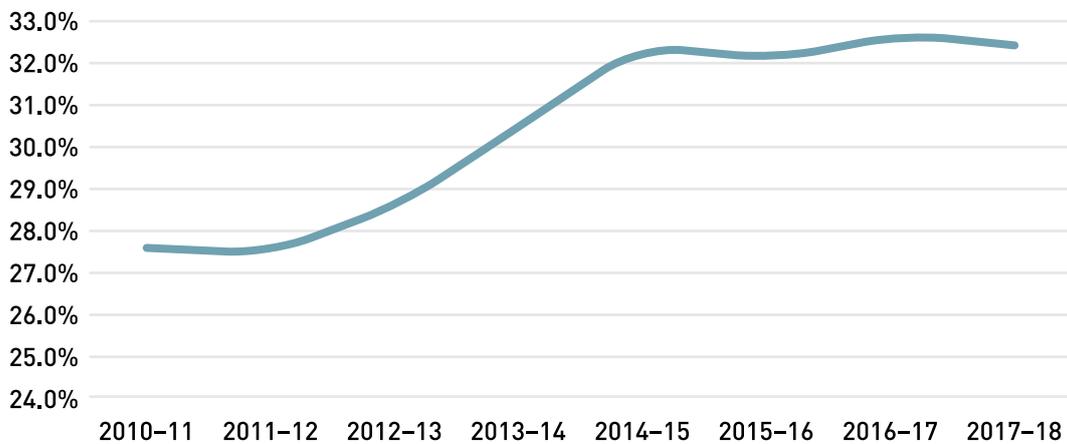
Figure 10: Share of employment



COMPARISON TO MANUFACTURING

AFG employment as a share of manufacturing increased marginally to 32.5 per cent in 2017–18, up 0.1 per cent. This makes the sector the largest employer within manufacturing.

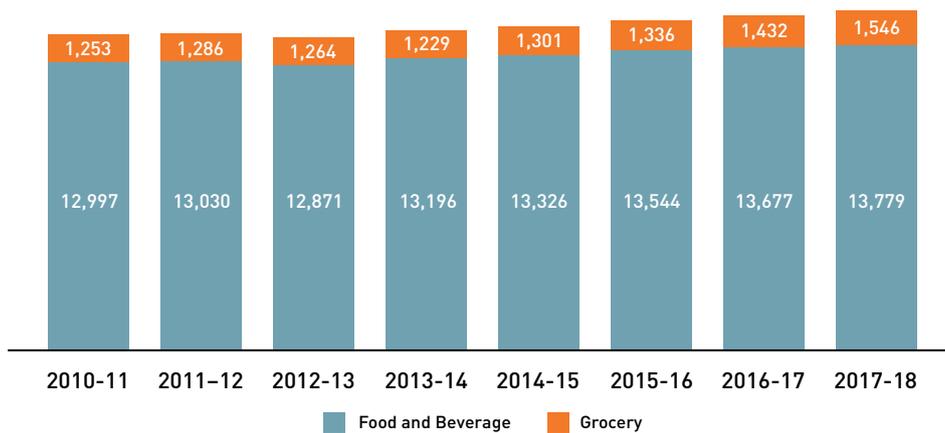
Figure 11: AFG share of manufacturing



BUSINESS COUNTS TREND

In line with employment, the number of businesses increased by a 1.6 per cent five-year CAGR (or 1.4 per cent YOY), to 15,325.

Figure 12: Business counts



The number of businesses in the food and beverage subsector recorded a five-year CAGR of 1.4 per cent, whereas the grocery sector observed growth of 4.1 per cent with 1,546 businesses in 2017-18.

Some of the key industries which contributed to YOY growth in business count were:

- Cosmetic and toiletries preparation (increase of 85 businesses or 14.2 per cent);
- Other food product manufacturing (increase of 55 businesses or 4.4 per cent); and
- Beer manufacturing (increase of 55 businesses or 12.4 per cent).

5. TRADE

TREND OVER TIME TRADE VALUE

The AFG sector recorded a five-year CAGR of 6.7 per cent growth (or 7.6 per cent YOY) in exports in 2017–18, resulting in \$34.4 billion export income. Exports accounted for 28.2 per cent of total industry turnover in 2017–18, up 0.8 per cent from the year before. Imports grew at a lower five-year CAGR of 4.7 per cent (or 3.3 per cent YOY), to a total of \$33.4 billion. As a result, for the first time since 2014–15, the sector recorded a net trade surplus (\$0.97 billion). A strong net trade surplus was recorded for the food and beverage subsector (\$11.6 billion), up 11.4 per cent. The grocery subsector continued to be a net importer, however, the trade deficit for the subsector reduced by 1.6 per cent YOY to \$10.6 billion.

Figure 13: Total trade AFG sector (\$ million)

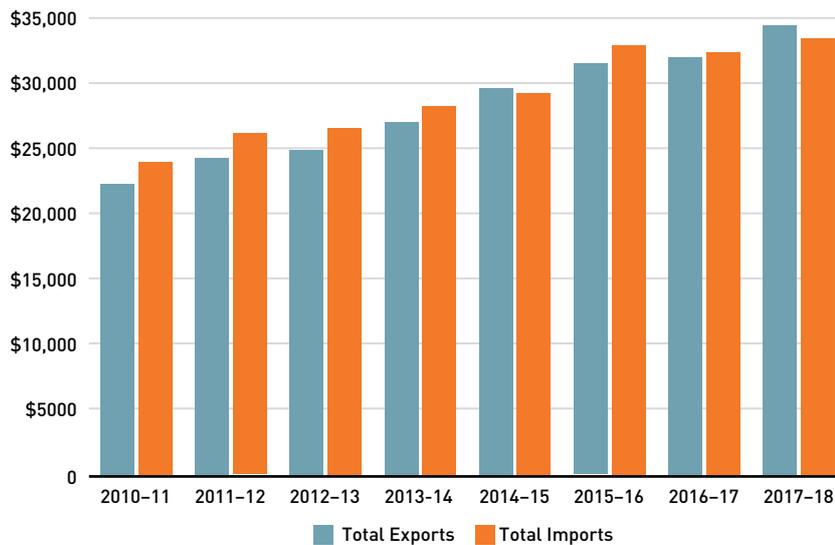


Figure 14: Total trade food and beverage subsector (\$ million)

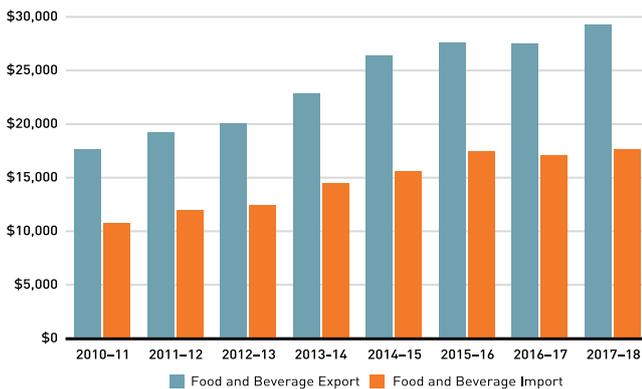
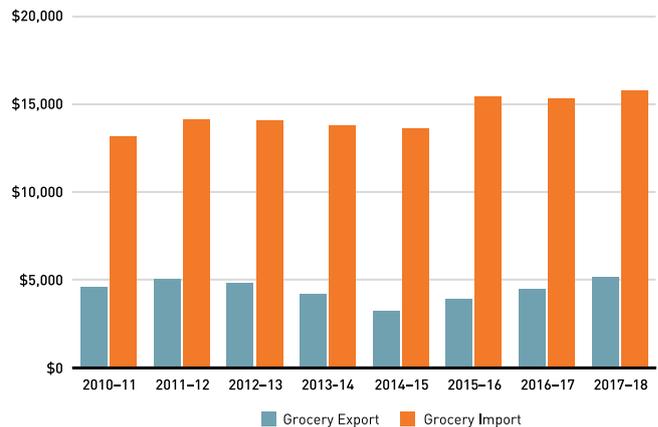


Figure 15: Total trade grocery subsector (\$ million)

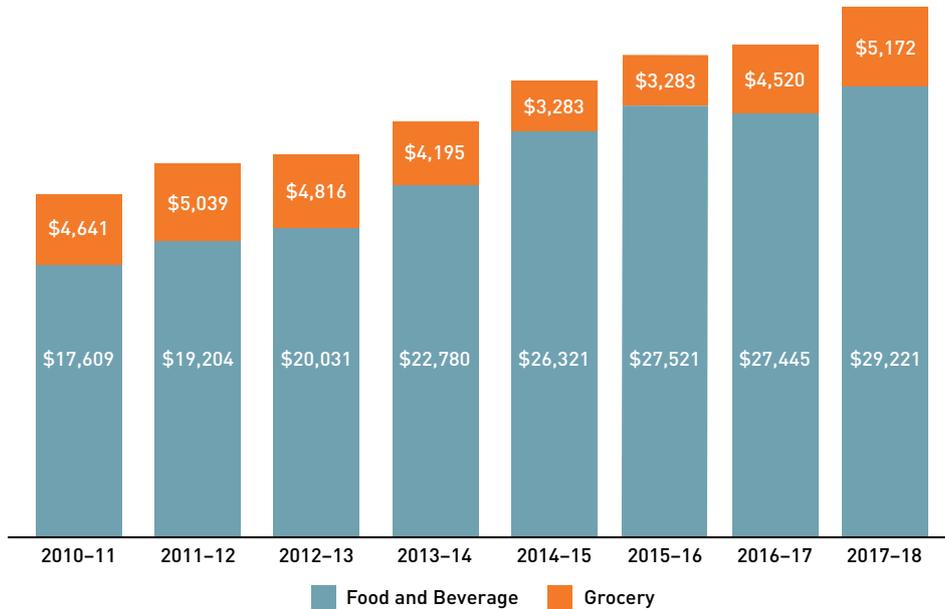


COMPOSITION OF THE SECTOR

EXPORTS:

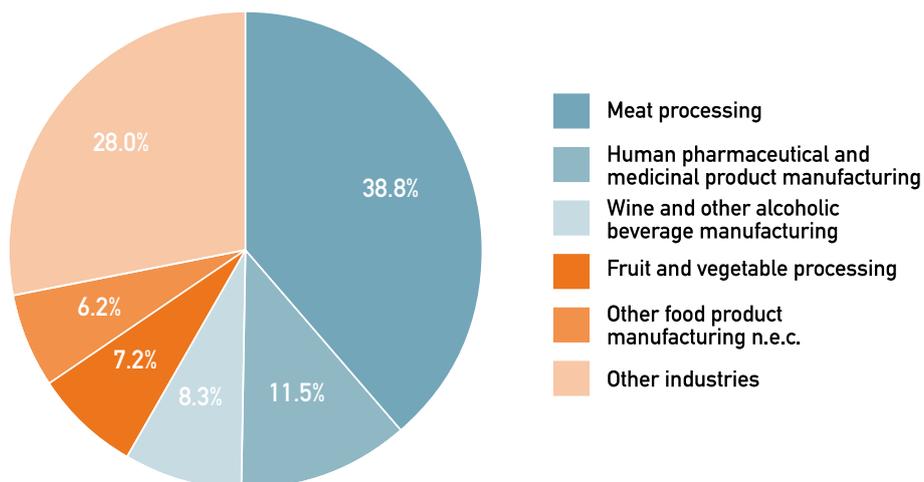
The food and beverage subsector (\$29.2 billion) accounted for 85 per cent of the total AFG sector exports and recorded a growth of \$1.8 billion, or five-year CAGR of 7.8 per cent (6.5 per cent YOY). The grocery subsector (\$5.2 billion) also recorded a significant increase of \$0.65 billion or 14.4 per cent YOY. However, its five-year CAGR was lower at 1.4 per cent.

Figure 16: Exports (\$ million)



The top five industries in the AFG sector make up 72 per cent of the total exports, with meat processing alone contributing 38.8 per cent of the total, followed by human pharmaceutical and medicinal products at 11.5 per cent and wine and alcoholic beverages at 8.3 per cent.

Figure 17: Export share by industry



IMPORTS:

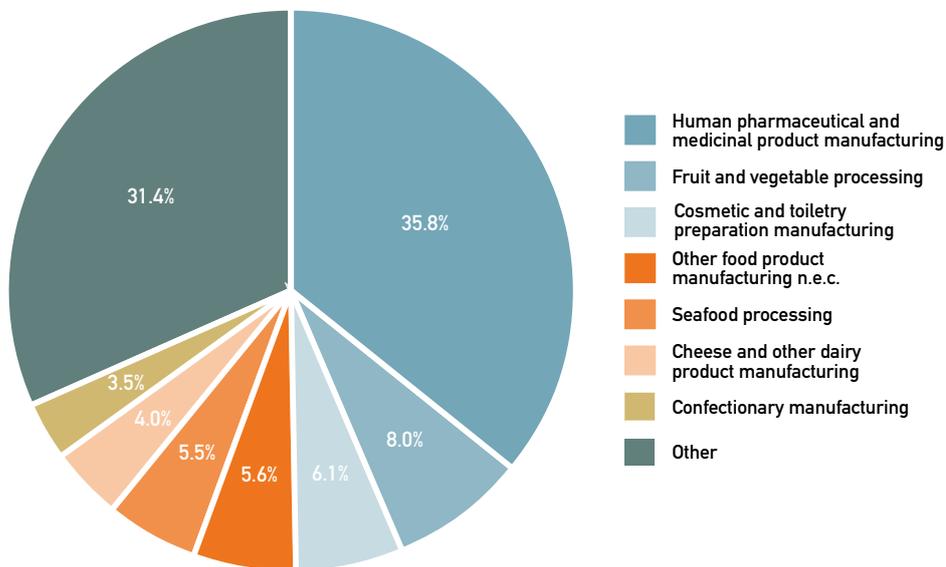
Food and beverage and grocery subsector share of total imports remained stable, with 52.8 per cent share for food and beverage and 47.2 per cent for grocery. However, food and beverage subsector imports have grown at a five-year CAGR of 7.1 per cent compared to a relatively lower growth in grocery of 2.4 per cent.

Figure 18: Imports (\$ million)



The top five industries in the AFG sector make up 61.1 per cent of the total imports, with human pharmaceutical and medicinal products alone contributing 35.8 per cent of the total, followed by fruit and vegetable processing at 8.0 per cent and cosmetic and toiletry preparation manufacturing at 6.1 per cent.

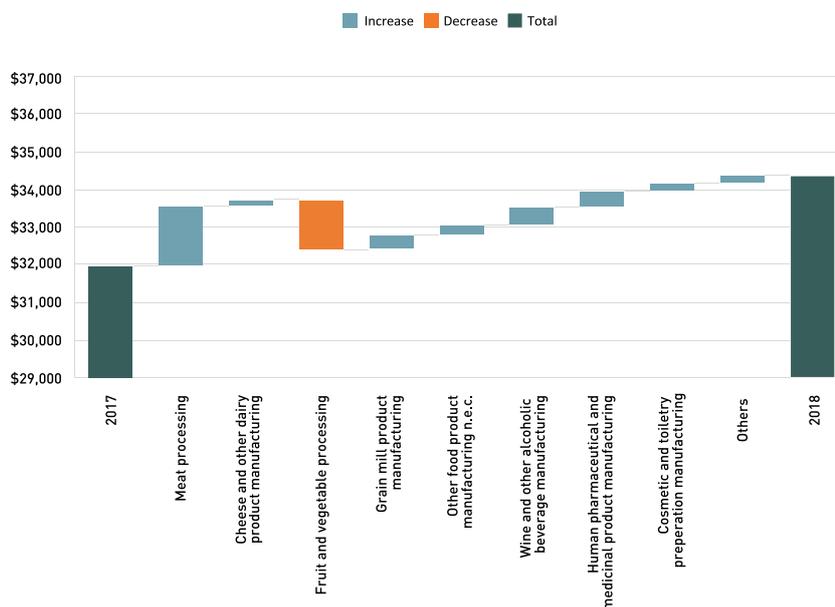
Figure 19: Import share by industry



KEY DRIVERS

EXPORT:

Figure 20: Export key drivers (\$ million)



The AFG sector recorded a \$2.4 billion increase in exports in 2017–18. Exports to China increased by 45.3 per cent YOY, or \$2.2 billion, as businesses took advantage of the opportunities unlocked by ChaFTA.

Meat processing, wine and other alcoholic beverage manufacturing, human pharmaceutical and medicinal product manufacturing were key contributors to growth in exports, offsetting a decrease in exports of fruit and vegetable processing.

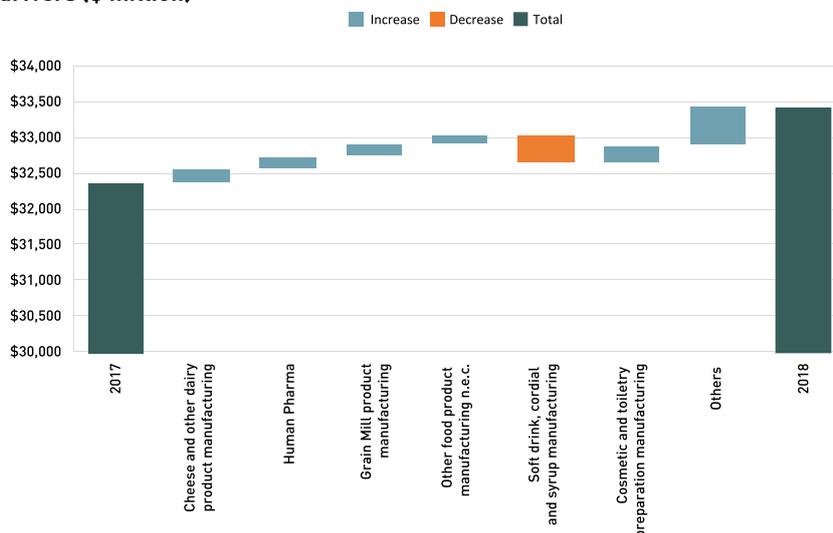
Meat processing exports recovered from the decline experienced in 2016–17 to record 13.7 per cent YOY, or a \$1.6 billion increase in 2017–18. Meat processing industry exports to China increased by 53.2 per cent YOY, whereas exports to Japan and the USA both recorded a YOY increase of 9.8 per cent.

IMPORTS:

Total imports increased by \$1.1 billion in 2017–18 from the previous year. The following industries contributed to the YOY growth in imports:

- Cheese and other dairy product manufacturing (up 18.2 per cent or \$0.21 billion);
- Cosmetic and toiletries industry (up 12.4 per cent or \$0.23 billion);
- Human pharmaceutical and medicinal product manufacturing (up 1.6 per cent or \$0.18 billion).

Figure 21: Import key drivers (\$ million)



TRADE POSITION

EXPORTS:

China was the largest trading partner in 2017–18 with total two-way trade of \$9.63 billion, closely followed by the USA at \$9.60 billion and New Zealand ranking third at \$6.1 billion.

Exports to all of the top ten export destinations increased in 2017–18, except for India which recorded YOY decline of 47.2 per cent. Exports to China increased 45.3 per cent YOY, or \$2.2 billion, followed by 9.3 per cent YOY, or \$0.41 billion increase, in exports to the USA.

China now constitutes 20.5 per cent of total exports, followed by the USA and Japan, at 13.9 per cent and 11.4 per cent respectively. The top ten export markets make up 73 per cent of total AFG sector exports.

Figure 22: AFG sector exports by top ten export markets in 2017–18

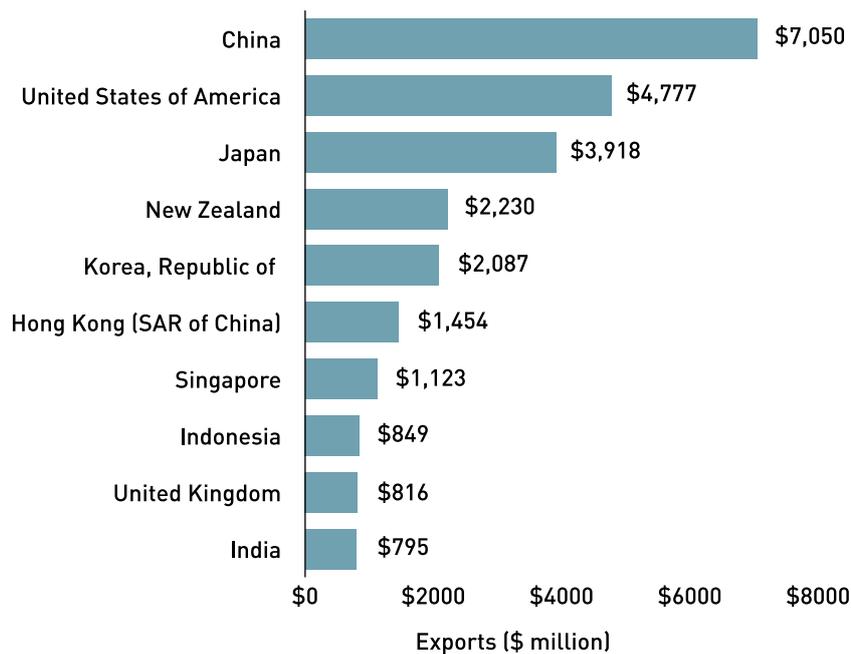
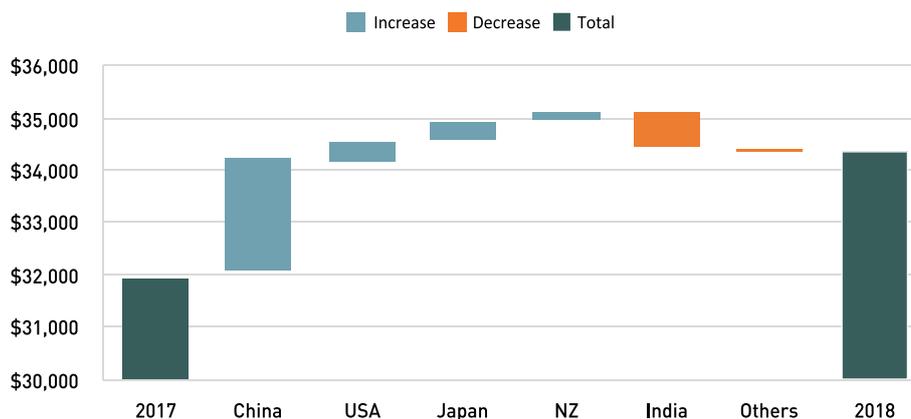


Figure 23: Change in exports by destination (\$ million)



IMPORTS:

The USA continued to be the largest source of imports in 2017–18, with imports increasing 10.1 per cent YOY to \$4.8 billion. New Zealand and China ranked second and third, with imports of \$3.8 billion and \$2.6 billion respectively. The top ten import partners comprise 67.9 per cent of the total AFG sector imports.

Figure 24: AFG sector imports by top ten countries of origin in 2017–18

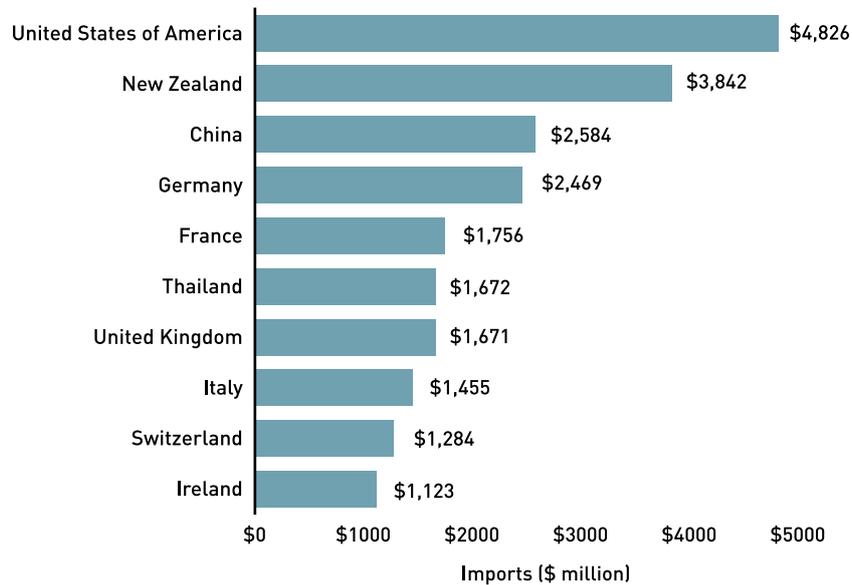
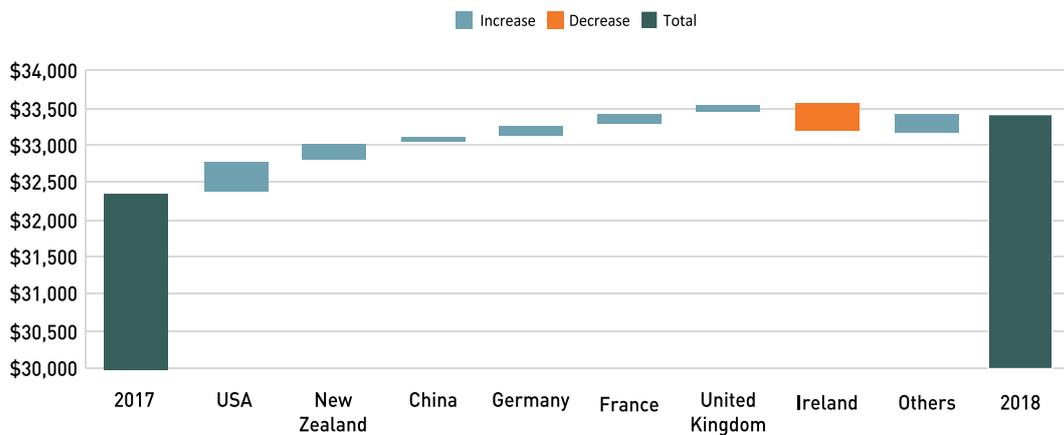


Figure 25: Change in imports by market (\$ million)



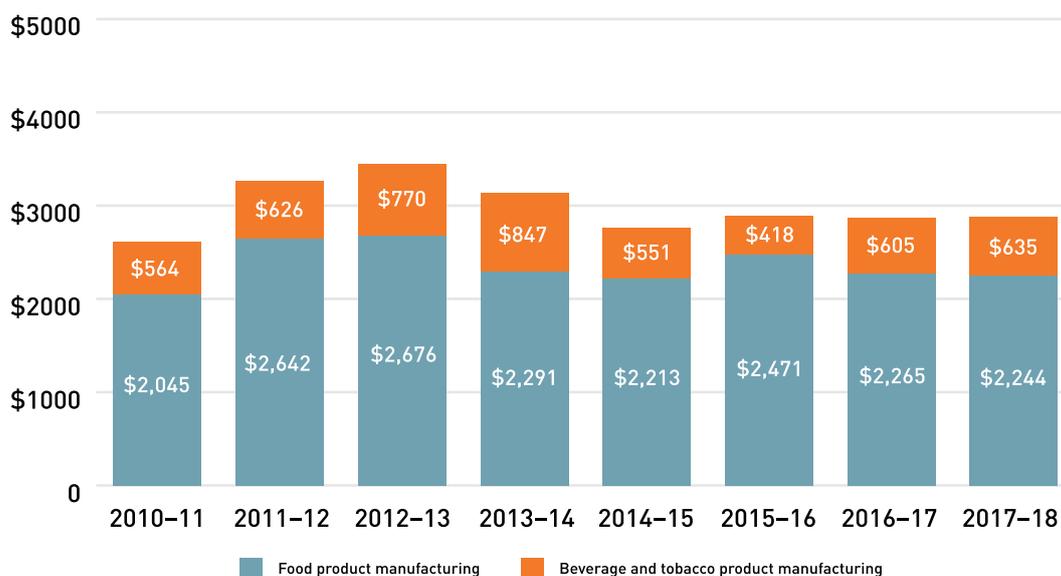
6. CAPITAL INVESTMENT

TREND OVER TIME

Capital investment is a direct measure of manufacturers' spending or investment on assets such as machinery and equipment and indicates potential future supply. The report refers to Gross Fixed Capital Formation as a measure for capital investment.

The food and beverage manufacturing subsector recorded five-year CAGR of negative 3.5 per cent, resulting in capital investment of \$2.9 billion in 2017–18. Food product manufacturing, which constitutes 77.9 per cent of total capital investment for the subsector, declined 3.5 per cent on a five-year CAGR basis, whereas capital investment in beverage and tobacco manufacturing declined by 3.8 per cent on a five-year CAGR basis.

Figure 26: Capital Investment (\$ million)



METHODOLOGY

The Report has been compiled using ABS statistics. Throughout the Report, the food and beverage and grocery sectors are classified as 'the sector' or 'AFG', and all figures in the body of the report are in real terms. The ANZSIC codes were used to help define the sector as much of the data is aggregated under these codes. For detailed definition of the sector and methodology, refer to the link.