

EY / AFGC Policy Series No. 2

Economic impact of investment in the food and grocery processing sector

June 2016

Key Points

- ▶ The food and grocery processing sector is intricately intertwined with other sectors across the Australian economy
- ▶ An investment in the food and grocery processing sector not only has a direct impact on the sector, but will also induce economic activity in other sectors
- ▶ As an example, a \$10m investment in the food and grocery processing sector is expected to create:
 - \$14.41m in additional output, a multiplier effect of 2.44
 - 15 new direct jobs and 45 new indirect jobs
 - \$1.16m in direct salaries and wages and a \$2.79m increase in indirect wages and salaries
 - \$2.12m in direct value-added and a \$6.07m increase in indirect value-added.

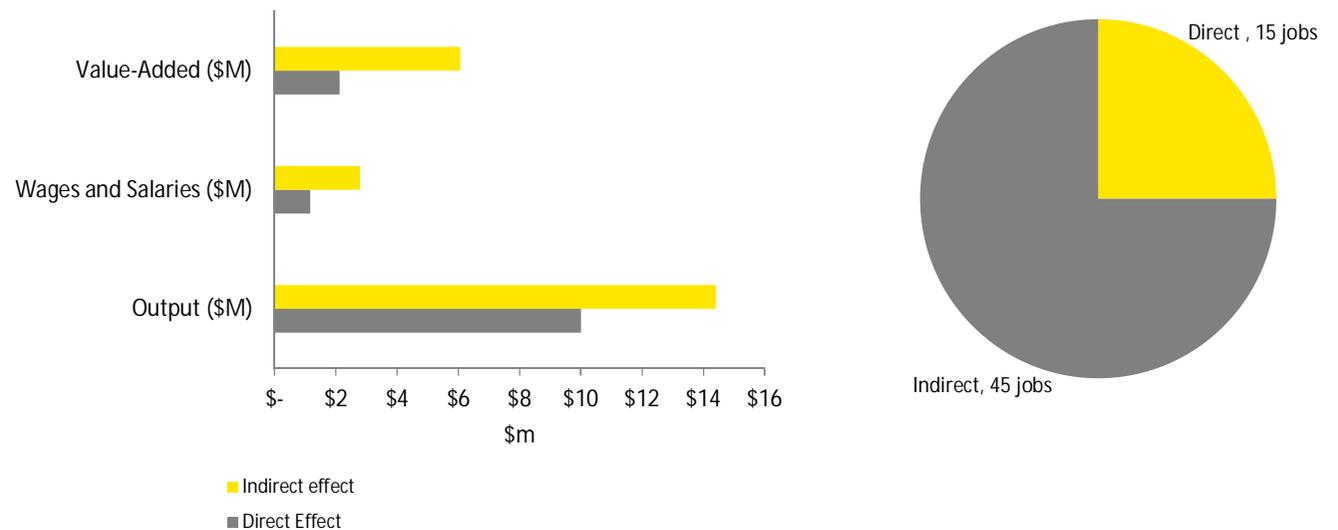
The food and grocery processing sector contributes significantly to the economic and social wellbeing of many communities around Australia. In 2013-14 turnover in the food and grocery processing sector totalled \$118.8bn and in 2014-15 the sector employed 322,900 people nation wide. Many sectors across the economy are indirectly related to the food and grocery sector. This includes suppliers of inputs (feed, chemicals, machinery), transport and distribution, and retail stores.

Investment in the food and grocery sector provides direct and indirect impacts to the Australian economy. While investment in the food and grocery processing sector generally creates direct increases in output, employment and value-add related to the business investing, it also has significant indirect or flow-on benefits across the value-chain. This paper illustrates the importance of investment in the food and grocery processing sector through a hypothetical investment to show the potential impact in the Australian economy.

To demonstrate the impact of investment in the industry we have created a hypothetical example of an investment of \$10m in the food and grocery sector. The economic modelling shows that a \$10m investment in the food and grocery processing sector is expected to create:

1. \$14.41m in additional output, or an investment multiplier of 2.44
2. 15 new direct jobs and 45 new indirect jobs
3. \$1.16m in direct salaries and wages and a \$2.79m increase in indirect wages and salaries
4. \$2.12m in direct value-added and a \$6.07m increase in indirect value-added.

Figure 1: Impact of a \$10m investment in the food and grocery processing sector



Source: EY Analysis, REMPLAN

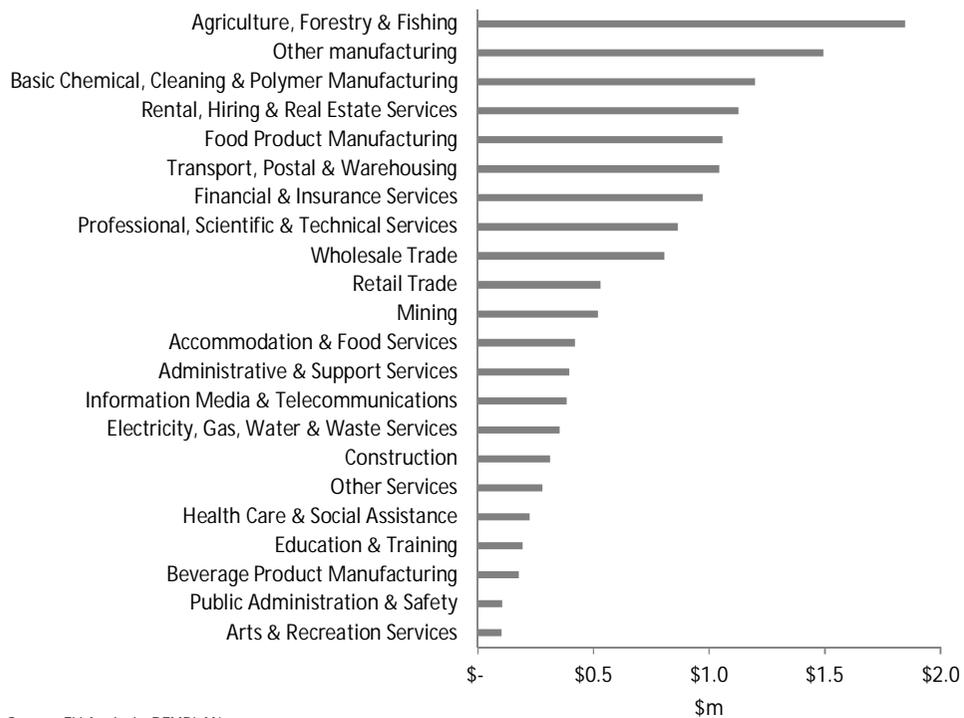
Output

Output represents the gross revenue generated by businesses and organisations in each of the industry sectors.

A direct investment of \$10m in the food and grocery processing sector is expected to have a flow-on industrial effect (in terms of local purchases of goods and services). This indirect effect is expected to result in an increase in output valued at \$14.41m. That is, a multiplier effect of 2.44 per \$1 invested.

In this case the major sector to benefit from an investment is the agriculture, forestry and fishing sector with an expected indirect impact of \$1.845m. Other manufacturing sectors; basic chemical, cleaning & polymer manufacturing; rental, hiring and real estate services; food product manufacturing and the transport, postal and warehousing sectors are all expected to increase their output by more than \$1m from the \$10m investment.

Figure 2: Indirect impact on output of a \$10m investment in the food and grocery processing sector



Source: EY Analysis, REMPLAN

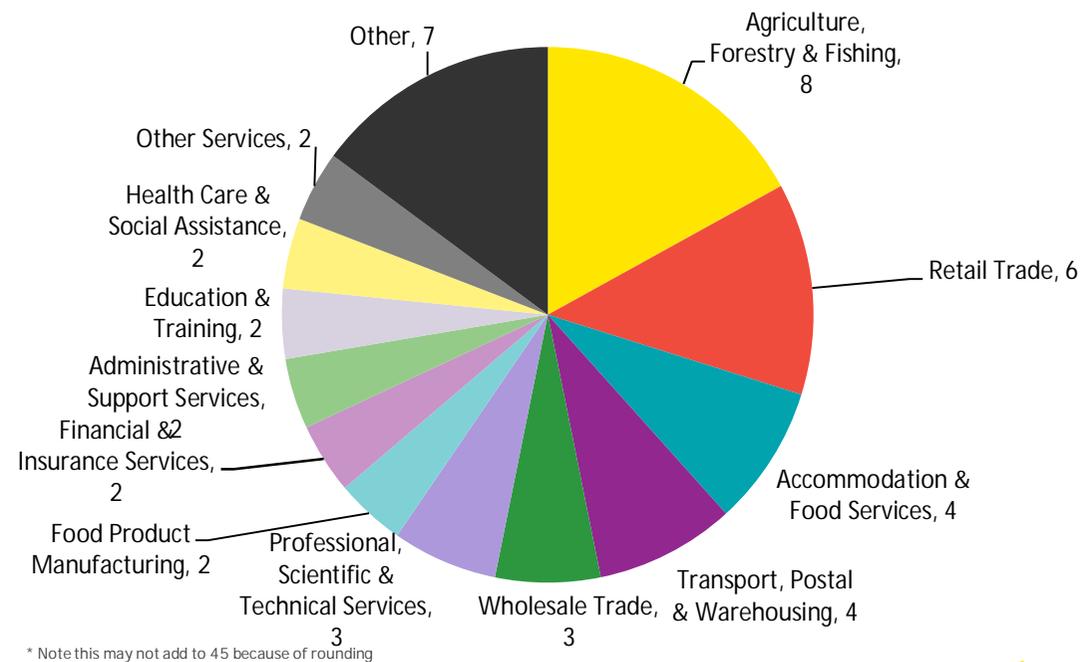
Employment

Employment data corresponds to the total number of full-time, part-time and casual jobs in each sector.

A \$10m direct investment in the food and grocery processing sector is expected to create 15 direct jobs and 45 indirect jobs in other sectors.

The sectors expected to benefit from these flow-on jobs include agriculture, forestry and fishing (8 jobs); retail trade (6 jobs); accommodation and food services (4 jobs); and transport, postal & warehousing (4 jobs).

Figure 3: Indirect impact on employment of a \$10m investment in the food and grocery processing sector



Source: EY Analysis, REMPLAN

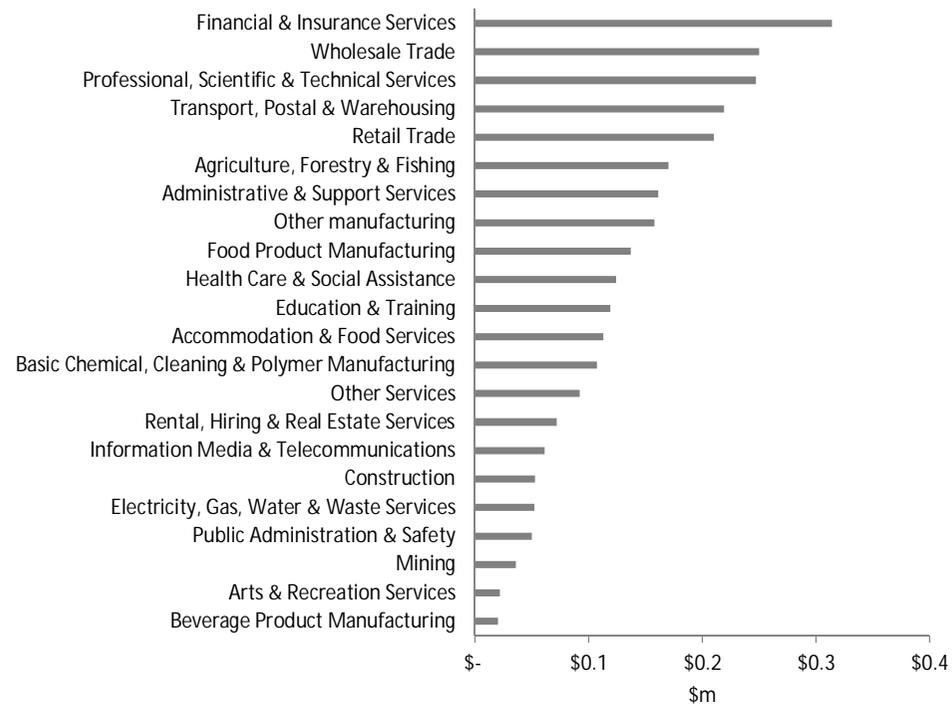
Wages and salaries

Wages and salaries is the payment to employees in each of the industry sectors.

A direct investment in the food and grocery processing sector is expected to have a minor impact on wages and salaries in a number of industries. The financial & insurance services sector is expected to experience the biggest increase of \$0.31m, the wholesale trade and the professional, scientific & technical services sectors are expected to see an increase of \$0.25m each.

The total direct impact on wages and salaries is expected to be \$1.16m, and the indirect impact is expected to be \$2.79m.

Figure 4: Impact on wages and salaries of a \$10m investment in the food and grocery processing sector



Source: EY Analysis, REMPLAN

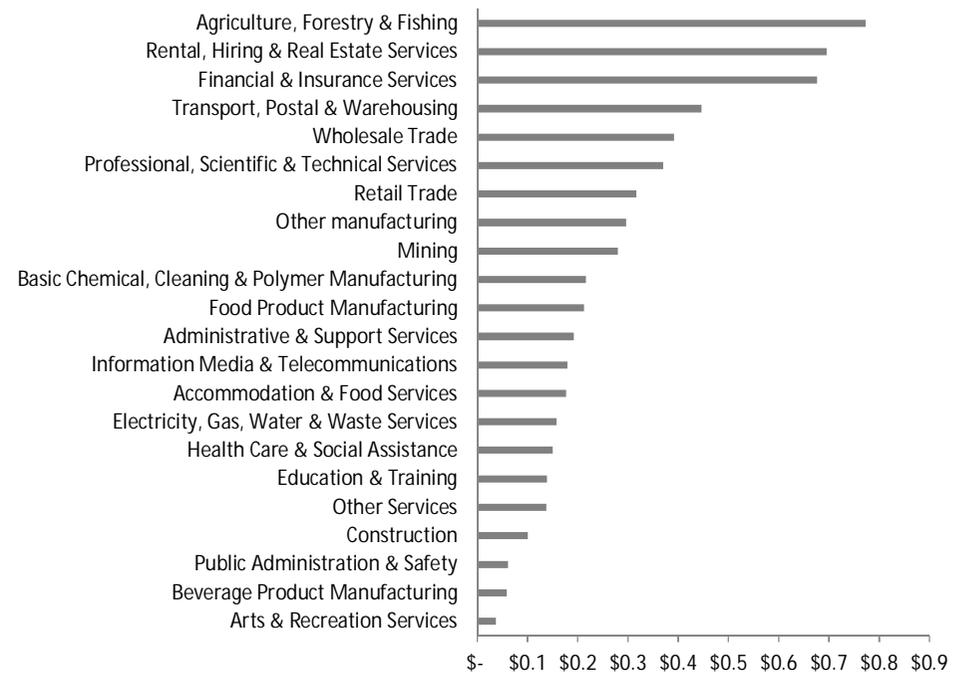
Value-added

Value-added is the marginal economic value that is added by each industry sector.

A direct investment of \$10m in the food and grocery processing sector is expected to have a direct impact of \$2.12m and a flow on impact of \$6.07m on value-added to the Australian economy.

Three industry sectors are expected to benefit above other sectors as a result of the investment. The value-added in the agriculture, forestry and fishing sector is expected to increase by \$0.77m, the rental, hiring & real estate services by \$0.70m and the financial & insurance services sector by \$0.68m as a result of the investment.

Figure 5: Impact on value-added of a \$10m investment in the food and grocery processing sector



Source: EY Analysis, REMPLAN

Methodology

Analysis in this report is based on REMPLAN modelling for the whole of Australia. A direct increase in output of \$10m in the food and grocery processing industry was used to analyse the direct and indirect impacts across Australia. The \$10m was split across industry sectors in the food and grocery processing industry. These sectors are food product manufacturing (\$4.7m); Basic chemical, cleaning and polymer manufacturing (\$4.1m) and beverage product manufacturing (\$1.2m).

The economic shock has been applied to the entire Australian economy and represents a hypothetical situation. Actual investments are generally confined to a particular regional area and are therefore expected to create different magnitudes of outcomes to those shown in this paper.

NOTICE

This report ("Report") has been prepared jointly by the Australian Food and Grocery Council (AFGC) and EY. EY has prepared the analysis in relation to employment and international trade. AFGC has provided insights in relation to each of these topics. The results of EY's analysis, including the assumptions and qualifications made in compiling the Report, are set out in the Report. In conducting its work and preparing the Report, EY has acted in accordance with the instructions of AFGC as set out in its engagement agreement dated 2 April 2015, and, in doing so, has prepared the Report for the benefit of the AFGC, and has considered only the interests of the AFGC. EY has not been engaged to act, and has not acted, as advisor to any other party in relation to this Report. Accordingly, EY makes no representations as to the appropriateness, accuracy or completeness of the Report for any other party's purposes. No reliance may be placed upon the Report or any of its contents by any party other than the AFGC ("Recipient"), for any purpose other than receiving this Report and any Recipient receiving a copy of the Report must make and rely on their own enquiries in relation to the issues to which the Report relates, the contents of the Report and all matters arising from or relating to or in any way connected with the Report or its contents.

This communication provides general information which is current at the time of production. The information contained in this communication does not constitute advice and should not be relied on as such. Professional advice should be sought prior to any action being taken in reliance on any of the information. EY disclaims all responsibility and liability (including, without limitation, for any direct or indirect or consequential costs, loss or damage or loss of profits) arising from anything done or omitted to be done by any party in reliance, whether wholly or partially, on any of the information contained in this Report. Any party that relies on the information in this Report does so at its own risk. EY's liability is limited by a scheme approved under Professional Standards Legislation.

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2016 Ernst & Young, Australia.
All Rights Reserved.

APAC no. AU00002682

This communication provides general information which is current at the time of production. The information contained in this communication does not constitute advice and should not be relied on as such. Professional advice should be sought prior to any action being taken in reliance on any of the information. Ernst & Young disclaims all responsibility and liability (including, without limitation, for any direct or indirect or consequential costs, loss or damage or loss of profits) arising from anything done or omitted to be done by any party in reliance, whether wholly or partially, on any of the information. Any party that relies on the information does so at its own risk. Liability limited by a scheme approved under Professional Standards Legislation.

ey.com/au