



AUSTRALIAN
**FOOD &
GROCERY**
COUNCIL



STATE OF THE INDUSTRY 2017

ESSENTIAL INFORMATION:

FACTS AND FIGURES

Sustaining Australia



Clive Stiff

Chairman

Australian Food and Grocery
Council

CHAIRMAN'S FOREWORD

This is the ninth edition of the Australian Food and Grocery Council's annual State of the Industry series, providing key data on the food and grocery manufacturing sector in order to inform rational and fact based analysis and policy.

The food and grocery manufacturing sector delivers the essentials of life to every Australian every day. From bread and milk to toilet paper and detergents, salads and chocolate bars, these are the products that stock our pantries and the ingredients that go into breakfasts, lunch boxes and dinners.

The food, beverage and fresh produce sectors rely on Australian farmers, transforming their produce into products that families need every day; while the grocery sector makes solutions that enhance consumer health, hygiene and well-being. All sectors deliver these high quality goods via a complex and increasingly efficient supply chain.

The data in this year's State of the Industry report reflects a sector that has increasing significance to the future of Australian manufacturing jobs, growth and investment. This is despite the substantial headwinds that are currently buffeting the \$127.4 billion food and grocery sector.

Employment growth in the sector is strong, with the addition of 7,300 jobs. This is a sector that employs 320,300 people and remains a key driver of regional jobs, employing 40% of staff outside metropolitan areas. The sector represents over 33 per cent of Australian manufacturing jobs and is growing employment at a time when there is a decrease in employment across total manufacturing.

The small decline in turnover reflects the difficulties for companies that are operating in a low growth domestic market where retail prices remain stagnant despite increases in input costs. This squeeze is likely to only increase as a doubling and in some cases tripling of energy costs have occurred since this report's data has been collected.

Rising electricity and gas costs are hampering the competitiveness and profitability of the domestic food and grocery manufacturing industry, with more pain yet to come through not only direct energy costs but also the impact of energy costs on the industry's inputs such as ingredients, packaging and transportation. We have lost our cost advantage and energy is increasingly unaffordable for the trade-exposed sector. This impact will be further exacerbated due to the impact of rising energy prices on households, which impacts family budgets and consumer demand.

There is no doubt that the Australian food and grocery sector will be a vital piece of the economic jigsaw, as we look to the post-mining investment period and traditional manufacturing sectors, such as car manufacturing, move off shore. This report also shows encouraging signs with capital investment reversing the last three years of decline, rising by 4.7 per cent in 2015-16 to a total of \$2.9 billion. However, looking forward, there is a significant risk that increases in energy costs could stall the recent turnaround in capital investment and employment and could lead to a loss of existing jobs and production to lower cost economies.

At first glance, a 15.4 percent decline in the real value of food, beverage and grocery exports is alarming. However this decline appears driven by price factors and cyclical events such as a restocking of cattle herd and the end of the drought in key markets such as the United States. In nominal terms, exports have increased by 3.6 per cent, which is still below recent strong growth trends and where Australia should be, given our trading advantages into key markets of China, Japan and Korea. This is a healthy reminder to redouble efforts to maximise the hard fought gains of free trade agreement and attack the rising costs of manufacturing.

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This year's State of the Industry Report has been restructured to present the most relevant information in a concise manner and includes analysis on the impact of different economic indicators that affect the industry. For this purpose an examination that contrasts specific indicators has been included in the body of the Report. However, recognising the importance of the specific data to the industry, all detailed data that formed part of previous years' reports has been included as an annex to the report, including the detailed methodology. The accompanying Annex can be found at www.afgc.org.au.

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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 industry turnover, industry value-add, international trade, employment and capital investment. 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.

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AFGC

‘Sustaining Australia’

The Australian Food and Grocery Council (AFGC) is Australia's peak national industry association, representing the \$127.4bn food, beverage and grocery manufacturing industry.

As Australia's largest manufacturing sector – accounting for one third of total manufacturing – the food and grocery manufacturing industry is a vital contributor to the wealth and health of our nation. The industry's products are consumed by 24 million Australians every day of the year.

The AFGC's aim is for the Australian food, beverage and grocery manufacturing industry to be world-class, sustainable, socially-responsible and competing profitably, both domestically and internationally. The AFGC represents one of the few manufacturing sectors in Australia that continues to grow and has significant potential for even further growth into the future.

We provide a strong, united voice from industry to government, NGOs, retailers/trading partners, industry groups and the media, as well as promoting the industry, for the benefit of members, across the wider community. The AFGC is respected for advancing scientific policies and research to support industry positions. As part of our advocacy role, we advance best practice policy, promote industry's views, and make submissions to governments on the development of policy and regulation affecting members.

With industry facing many challenges, we help members stay competitive and well-informed on important issues including retailer relations, food regulation, labelling, supply chain and sustainability issues. The AFGC has been proudly representing the interests of Australia's largest manufacturing sector since 1995. We are dedicated to keeping the industry strong, innovative and profitable.

For more information, visit www.afgc.org.au

EY

At EY, we are committed to building a better working world with increased trust and confidence in business, sustainable growth, development of talent in all its forms, and greater collaboration. We want to build a better working world through our own actions and by engaging with like-minded organisations and individuals. This is our purpose — and why we exist as an organisation.

EY's Food, Fibre, Agribusiness and Biosecurity practice

Food companies face a challenging and volatile environment. Issues such as the need to understand changing consumer needs, innovate effectively, and put goods on the shelf at a price that works for producers, manufacturers and consumers continue to arise in today's market. Ongoing commodity price volatility, fluctuating exchange rates and uncertain tax and regulatory environments, particularly in emerging markets, makes decision-making complex. As emerging markets leaders take their place on the global stage and start challenging for share in both developed and developing markets, food manufacturers are focusing more closely than ever on the need to maximise volume to maintain growth.

The Australian food and agribusiness sector is a world leader in the provision of high quality food and fibre using innovative technologies and sustainable natural resource management. There is strong interest from both government and business for the growth of this industry. Whilst the sector's longer-term fundamentals remain strong and the prospect of rapid increases in global demand continues, there are challenges for business and government to navigate along the way.

EY's Food, Fibre, Agribusiness and Biosecurity practice brings together a worldwide team of professionals to help organisations achieve their goals. We are passionate about helping Australia create a vibrant future for the people and businesses involved in the production of food, fibre and agribusiness.

For more information, visit www.ey.com/AU/en/Industries/Consumer-Products/EY-consumer-products-agribusiness

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Summary: the essentials



AUSTRALIAN
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Summary: the essentials¹

This is the ninth annual State of the Industry Report and prior to this series the industry sectors covered by the report had not previously been described collectively by industry or government agencies. Reflecting the membership of the AFGC, the sectors included in this report share a number of common features at product and/or operational levels and consequently also in the business environment in which they operate. This year's State of the Industry Report has been restructured to present the most relevant information in a concise manner. However, recognising the importance of the specific data to the industry, all detailed data that formed part of previous years' reports has been included as an annex to the report, which can be found at www.afgc.org.au.

1.1 The industry

Australia's food and beverage, grocery and fresh produce sectors (together referred to in this report as the 'industry') turnover totalled \$127.4bn in 2015-16, a real decrease of 0.3 per cent year on year, comprising:

- ▶ Food and beverage processing \$104.2bn (a decrease of 0.8 per cent);
- ▶ Grocery (non-food) manufacturing \$16.9bn (a decrease of 1.8 per cent); and
- ▶ Fresh produce \$6.4bn (up 14.7 per cent)².

The industry represents 32.4 per cent of total Australian manufacturing by turnover with value-add³ of approximately \$33.6bn in 2015-16 (a 3.0 per cent increase on the previous year).

Labour productivity in the food, beverage and tobacco product manufacturing sector fell by 2.4 per cent in 2015-16.⁴

There were an estimated 30,748 businesses in the industry in 2016-17:

- ▶ 8,528 businesses in food and beverage processing (up 158 on 2015-16);
- ▶ 1,550 businesses in grocery manufacturing (down 3 on 2015-16); and
- ▶ 20,670 businesses in the fresh produce sector (down 551 on 2015-16).

¹ Note that the most recent full year of data available is used for each subject area through this report, meaning some data is for the 2015-16 financial year and some for the 2016-17 financial year. Also note that all data in this summary section and in the main body of the report is presented in real terms, a summary of the nominal changes is set out in Appendix A of the Annex.

² The total of the three sectors does not equal \$127.4bn due to rounding.

1.2 International trade

In nominal terms, the total value of international trade (imports plus exports) for the industry increased to \$67.9bn in 2016-17; a nominal growth of 1.8 per cent. This can be broken down into total imports valued at \$35.3bn (nominal growth of 0.3 per cent) and total exports valued at \$32.6bn (nominal growth of 3.6 per cent). The trade activity that occurred over 2016-17 resulted in Australia's trade deficit in the industry decreasing to \$2.7bn (compared to \$3.7bn in 2015-16). This was a nominal decrease of 27.7 per cent.

In nominal terms in 2016-17:

- ▶ Exports of food and beverages increased by 1.6 per cent from \$26.0bn to \$26.4bn and fresh produce increased by 3.7 per cent from \$1.5bn to \$1.6bn. Grocery exports increased by 16.1 per cent from \$4.0bn to \$4.6bn.
- ▶ Food and beverage imports declined by 0.3 per cent, while grocery imports grew (a slight increase of 0.4 per cent). Fresh produce imports grew by 10.2 per cent.

However, when considered in real terms, consistent with previous reports (through the application of the export price index to account for changes in prices year-on-year), the total value of international trade (imports plus exports) for the industry in 2016-17 was \$67.9bn, a real decrease of 8.1 per cent. This is comprised of:

- ▶ Exports valued at \$32.6bn (a real decline of 15.4 per cent);
- ▶ Imports valued at \$35.3bn (a real decline of 0.02 per cent); and
- ▶ Trade deficit of \$2.7bn.

Australia is a net exporter of processed food and beverages, and fresh produce, and a net importer of grocery (non-food) manufactured product.

³ Industry value-add is a measure of the contribution of businesses within the sector to gross domestic product.

⁴ The split between beverage and tobacco product manufacturing was not available due to ABS reporting arrangements.

Summary: the essentials (cont.)

When considered in export price index adjusted terms in 2016-17 Australia recorded a trade surplus in processed food and beverage products:

- ▶ Exports of processed food and beverages experienced a real decline of 17.0 per cent, from \$31.8bn to \$26.4bn;
- ▶ Imports of processed food and beverages experienced a real decline of 0.6 per cent to \$16.8bn; and
- ▶ Trade surplus in processed food and beverages decreased by 35.6 per cent to \$9.6bn.

In 2016-17 the fresh produce sector recorded a real decline in exports and a decrease in trade surplus:

- ▶ Exports of fresh produce experienced a real decline of 15.3 per cent, or from \$1.8bn to \$1.6bn;
- ▶ Imports of fresh produce experienced a real increase of 9.9 per cent to \$834.5m; and
- ▶ Trade surplus in fresh produce decreased by 33.1 per cent to \$721.0m.

In 2016-17 the grocery manufacturing sector recorded a real decrease in exports and a trade deficit of \$13.0bn.

- ▶ Grocery exports experienced a real decline of 5.2 per cent, or from \$4.9bn to \$4.6bn;
- ▶ Grocery imports experienced a real increase of 0.1 per cent to \$17.6bn; and
- ▶ The grocery trade deficit increased by 2.1 per cent to \$13.0bn.

1.3 Employment

In 2016-17 the food and grocery sector employed 320,302 people, an increase of 7,317 on the previous year.

- ▶ 234,641 were employed in food and beverage processing;
- ▶ 29,948 were employed in grocery (non-food) manufacturing; and
- ▶ 55,713 were employed in the fresh produce sector.

The industry employed on average 10.4 employees per business. The industry average is driven largely by the fresh produce sector (2.7 employees per business). The food and beverage sector remained the largest employer in the industry (73.3 per cent) but also employed the most employees per business (27.5).

Sector	Employment	Number of businesses	Average number of employees per business
Industry	320,302	30,748	10.4
Food and beverage	234,641	8,528	27.5
Grocery	29,948	1,550	19.3
Fresh produce	55,713	20,670	2.7

1.4 Capital investment

In 2015-16 capital investment in the food, beverage and tobacco¹ manufacturing sector reached \$2.9bn, a growth of 4.7 per cent from the previous year.

- ▶ Food product manufacturing investment increased 12.7 per cent from \$2.2bn to \$2.5bn; and
- ▶ Beverage and tobacco manufacturing investment declined from \$550m to \$409m (25.6 per cent).

¹ Throughout the report there exist cases in which the tobacco industry has been included as part of the food and/or beverage industry/ies due to the unavailability of public data that allows the subtraction of its statics from the food and/or beverage industry/ies. The report is explicit when including the tobacco industry figures.

Summary: the essentials (cont.)

1.5 Overview of the industry during the 2015-16 period

To allow a full year comparison, this section provides a brief overview of all data available for the 2015-16 financial year. It is noted that the change in year means these numbers therefore differ to those outlined elsewhere in the report.

In the 2015-16 financial year turnover decreased by 0.3 per cent. However, the total value of international trade grew by 14.5 per cent (or \$9.3bn), with growth in imports of 14.6 per cent and growth in exports of 14.4 per cent.

The increase in exports was driven by a 49.4 per cent increase in exports of fresh produce and a 31.6 per cent increase in exports of grocery products. Imports grew more evenly across the three sectors, led by a 16.2 per cent increase in grocery products.

In the 2015-16 financial year, employment grew by 0.8 per cent to 312,985 people, led by growth in the fresh produce sector of 3.8 per cent.

Despite the growth in employment and international trade, labour productivity in the food, beverage and tobacco product manufacturing sector declined by 2.4 per cent in the 2015-16 financial year.

At the same time, capital investment increased by 4.7 per cent, with the increase following three consecutive years of decline.



What does this mean? Analysing the data

The data collected throughout this report highlights a number of interesting conclusions about the industry and its potential future. The industry as defined in this report, along with a number of other sectors, forms part of the manufacturing industry.

While the manufacturing industry declined in terms of turnover and investment in 2015-16 (the most recent year of available data for these indicators), the food, beverage and grocery industry has managed to maintain turnover (albeit with a small real decline in the latest year). At the same time, there has been an increase in investment in the industry in the last year. These results manifest an increasing importance of the sector in the manufacturing industry.

Another important indicator analysed is the industry's value added (IVA). IVA is the measure of the contribution of businesses within each sector to overall gross domestic product. While the IVA on an aggregate basis has increased, labour productivity on a per worker basis (IVA per hour of labour worked) has decreased (by 2.4 per cent).

IVA per business can be used to assess the average size and contribution of businesses in each sector. This analysis shows that companies in the food and beverage processing sector have a higher turnover and contribution to value-add (\$12.4m and \$3.1m on average per business, respectively) than those in the grocery sector (\$10.9m and \$3.1m) and fresh produce sector (\$300,000 and \$125,000).

Trade and employment data is available for 2016-17. From an international trade perspective, total trade – imports plus exports – showed a decrease of 8.1 per cent in real terms in 2016-17. However in nominal terms the total trade showed an increase of 1.8 per cent increasing from \$66.6bn in 2015-16 to \$67.9bn in 2016-17. The main factor that explains this difference is a high export price index¹ for the 2016-17 period, with the export inflation factor accounted for an adjustment of circa 22 per cent during the period of 2015-16 to 2016-17. The high indexation factor in the period was primarily a result of a steep increase in the price of mining commodities.

While the USA and China remain Australia's main trading partners, other countries including India, Malaysia and the Netherlands are increasing their trade activity with Australia. However, the industry remains relatively protected from external economic events given domestic consumption levels. On average 69.8 per cent of the total sector turnover is consumed domestically while the remainder is exported. That said, the fresh produce sector is dependent on the export market as 76.8 per cent of locally produced goods are consumed overseas.

The industry employs a significant proportion of Australians, above other high profile sectors such as the mining industry, utilities and the information media and telecommunications industry.

NSW and Victoria employ the largest number of people working in the sector (a combined 56.7 per cent) and 39 per cent of all employed persons in the industry worked in non-metropolitan areas in the period of 2016-17. However, while the food and beverage sector increased employment, the grocery sector and the fresh produce sector showed slight declines (a increase of 3.5 per cent in the food and beverage sector and decrease of 1.2 per cent and 0.4 per cent in the grocery sector and fresh produce sector, respectively, for the period of 2016-17).

Food and beverage sector

The food and beverage sector's turnover, which represents 81.8 per cent of industry sales and over 30 per cent manufacturing sales, decreased 0.8 per cent in real terms in 2015-16. This sector has therefore been the major driver of industry performance.

At the same time, the sector's industry value-add increased. This occurred despite a decrease in investment in real terms over the last 3 years to 2014-15.

Investment recovered in 2015-16 which may have a positive impact on turnover, value-add and productivity in years to come.

¹ The export price index measures changes in prices of exports of merchandise from Australia. The index is used to adjust figures to real terms i.e. adjust for changes in prices. High indexation in 2015-16 increased the real value of exports significantly resulting in a decline in value in 2016-17.

What does this mean? Analysing the data (cont.)

The sector's trade surplus (in real terms) declined in 2016-17, driven primarily by lower exports and flat imports. Exports to all major trading partners (China, the US and Japan) have declined in real terms (noting the impact of the export price index).

Grocery sector

The grocery sector's turnover, which represents approximately 13.2 per cent of industry sales, decreased 1.8 per cent in 2015-16.

The grocery sector's exports (which are approximately 26 per cent of imports) declined by 5.2 per cent in 2016-17, with a strong increase in exports to China and the US offset by declines in most of the other top export markets. Meanwhile, imports remain relatively flat, with a mix of small increases and decreases in the top import markets.

Fresh produce sector

The fresh produce sector's turnover (5.0 per cent of industry sales) increased by 14.7 per cent in 2015-16 driven primarily by vegetable and nut sales. This increase has resulted from increased health awareness, strong output volumes and high exports in 2015-16 underpinned by quality reputation and counter-seasonal harvesting volumes.¹

The sector's exports (which are about two times greater than imports) declined 15.3 per cent, with a drop in exports to most major countries excluding China in 2016-17 (again noting the impact of the export price index). Meanwhile, imports remain relatively flat, with increased imports in fresh products from New Zealand.

Outlook

The Australian economy is forecast to continue to grow at a relatively subdued pace over the next few years on the back of a slowdown in residential construction and weak consumer spending.² Soft local demand is expected to put pressure on industry performance.³ China is expected to shift to a more balanced growth, while the AUD exchange rate will remain vulnerable to commodity price movements,⁴ potentially impacting the attractiveness of global trade of Australian products.

Industry sub-sectors such as soft drinks and alcoholic beverages are expected to continue experiencing low turnover growth (on a nominal basis) due to a variety of factors including lower consumption per capita (beer), highly competitive export global markets (wine) and increased growth in private labels (soft drinks).⁵

However the industry continues to present significant opportunities to outperform total household spending growth, in particular in the food segment, as consumers move towards healthier lifestyles and increase spending on premium quality products. Continued growth in some sub-segments (particularly in fresh produce) is anticipated to be underpinned by export demand (beef), free trade agreements with Japan, China and Korea (dairy), rising consumer awareness (poultry and high protein products)⁶ and higher disposable incomes (fruit and vegetables).⁷

In addition, new international retail companies have announced their expected entry to the Australian market.⁸ Their presence has the potential to disrupt the way in which businesses in the industry operate and present opportunities for improving efficiency and competitiveness. In particular, it is expected that companies in the mass grocery retail sector in Australia will need to adjust their strategies to reflect this competition.

1 IBISWorld, Fruit and Vegetable Wholesaling; Under Cover Vegetable Growing.

2 Oxford Economics, Country Economic Forecast Australia.

3 BMI Research, Australia Food & Drink Report Q4 2017.

4 Oxford Economics, Country Economic Forecast Australia.

5 BMI Research, Australia Food & Drink Report Q4 2017.

6 IBISWorld, Meat Processing; Poultry Processing; Butter and Dairy Product Manufacturing.

7 In particular in relation to under cover fruits and vegetables, which are cultivated under controlled environments and typically attract higher prices. IBISWorld, Fruit and Vegetable Wholesaling; Under Cover Vegetable Growing.

8 Including Amazon and Kaufland.

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Overview

This AFGC State of the Industry report is the ninth in the series. It consists of an extensive set of historical and updated data which collectively describes the broader food and beverage, grocery manufacturing and fresh produce sectors, as well as the important contribution it makes to the Australian economy.¹ Throughout this report, together the food and beverage, grocery and fresh produce sectors are classified as the 'industry'.

Summary of economic indicators

Indicator	2014-15 (+/- % change on previous year)	2015-16 (+/- % change on previous year)	2016-17 (+/- % change on previous year)
Turnover	\$127.8bn (3.8%)	\$127.4bn (-0.3%)	Not Available
Industry Value-Add	\$32.6bn (0.7%)	\$33.6bn (3.0%)	Not Available
Labour Productivity (\$ Industry Value-Add per hour worked)	61 (-4.3%)	59 (-2.4%)	Not Available
Capital Investment (food and beverage)	\$2.8bn (-14.0%)	\$2.9bn (4.7%)	Not Available
Employment	310,488 (1.7%)	312,985 (0.8%)	320,302 (2.3%)
Export	\$33.7bn (9.8%)	\$38.5bn (14.4%)	\$32.6bn (-15.4%)

The Australian story

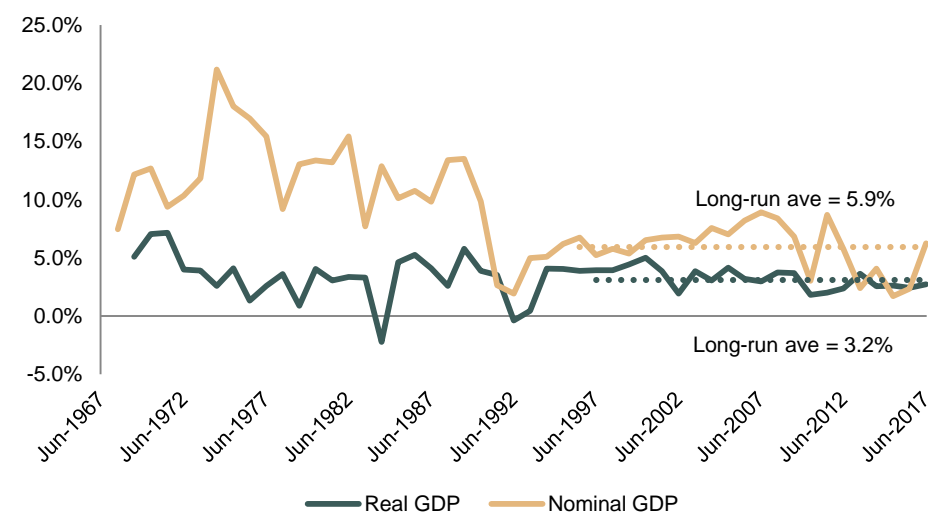
The Australian economy has experienced an average annual growth rate in GDP of 3.2 per cent since the 1991 recession. In 2016-17, GDP had a real growth rate of 1.9 per cent down from 2.7 per cent for 2015-16.

Increasing pressure on Australia's economic wellbeing is being show through:

- ▶ Household savings, both in absolute terms and as a proportion of disposable income, have declined significantly over the five years to June 2017 (-47.2 and -72.5 per cent respectively)²

- ▶ Low homeownership growth - annualised at 1.1 per cent over the past five years, compared to long-run annual growth of 6.5 per cent
- ▶ Average household debt (adjusted for inflation) expanded 5 per cent per year from 2004 through 2016
- ▶ Property debt increased at an annualised 5.5 per cent over the same period³

Real and nominal gross domestic product growth (1967-2017) (%)



Source: Based on ABS, catalogue number 5204.

1. All views expressed within this Report are those of the AFGC and other named authors. The AFGC acknowledges the assistance of EY in compiling and analysing the statistical data contained within this Report.

2. ABS Cat. No. 5206.006.

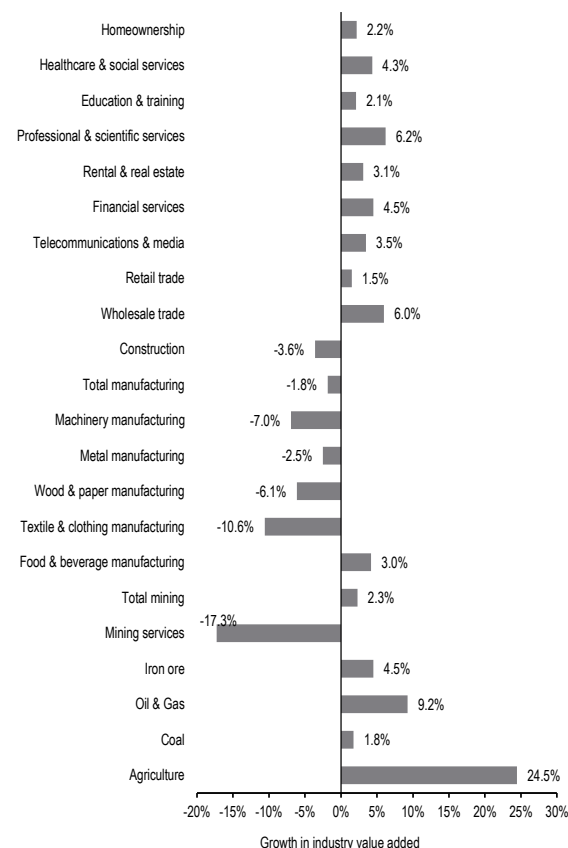
3. ABS Cat. No. 6523.0.

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Overview

Economic value added by selected industries, 2016-17



Source: ABS Cat. No. 5206.006

The Australian story continued

The Australian economy has continued to transition towards a stronger services base. Measured by gross value-added, key growth sectors in 2016-17 included:

- Agriculture (24.5 per cent);
- Oil and Gas (9.2 per cent);
- Professional services (6.2 per cent);
- Financial services (4.5 per cent); and
- Healthcare services (4.3 per cent).¹

Manufacturing and construction sectors, which remain amongst the largest employers, experienced mixed years:

- Value added by all manufacturing declined moderately (-1.8 per cent) influenced by significant declines in textile and clothing (-10.6 per cent), machinery and equipment (-7.0 per cent), and wood and paper manufacturing (-6.1 per cent).
- Value added by the construction sector contracted 3.6 per cent.

Notably, value added by the mining sector increased by 2.3 per cent, despite a significant contraction in industry investment (-29.5 per cent in 2015-16 and -28.1 per cent in 2016-17). These improvements were somewhat offset by a steep contraction in mining services (-17.3 per cent).

Resources exports and the residential property market are expected to be continuing drivers of growth in the near term, with non-mining business investment slowly increasing in response to improved business sentiment and optimism about the future state of the economy. Inflation is expected to move back into the Reserve Bank's target band of 2-3 per cent in 2018, spurred by sharp increases in retail electricity prices.²

Australia's terms of trade improved in 2016-17, with a trade surplus (value of exports exceeding value of imports) being recorded in seven out of twelve months, including for three consecutive months from May 2017. This run – Australia's longest since the peak of the commodities boom in 2011 – has been supported by increased volumes and values of coal and iron ore exports.³

1. ABS Cat. No. 5206.006.
 2. Minutes of the Monetary Policy Meeting of the Reserve Bank Board, 1 August 2017.
 3. ABS Cat. No. 5368.0.

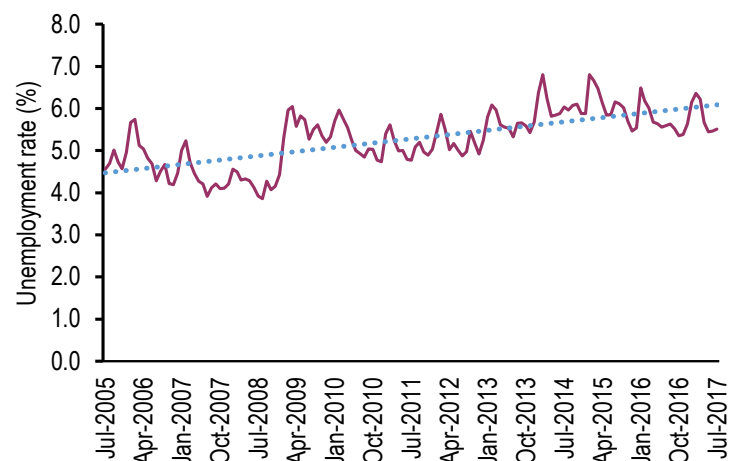
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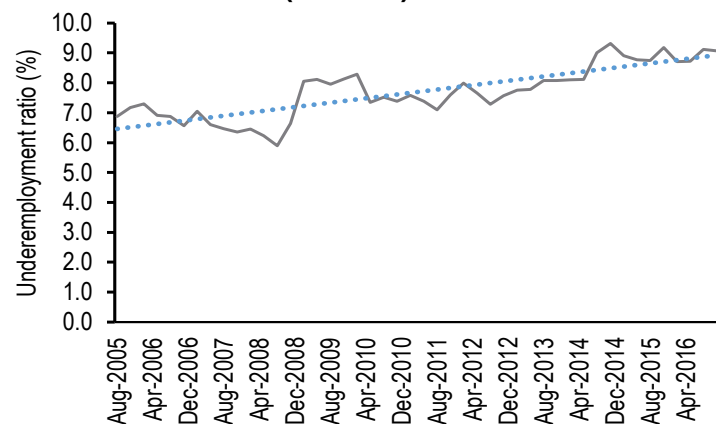
Overview

Australian unemployment rate (2005-2017)



Source: ABS Cat. No. 6202.001

Underemployed persons as percentage of workforce (2006-16)



Source: ABS Cat. No. 6202, table 22.

The Australian story continued

Trends in Australia's employment market are evolving as short term employment (the 'gig' economy) continues to grow and traditional employment structures become less common.

In the five years to June 2017:

- ▶ Total number of hours worked increased by 5.9 per cent;
- ▶ Total employment increased by 7.5 per cent;¹
- ▶ The participation rate has remained steady around 65 per cent; and
- ▶ The total labour force has grown at an annualised 1.6 per cent.²

Unemployment is expected to continue to decline towards 5.0 per cent. However, the emerging prevalence of part-time work is reflected in an underemployment rate that has remained around 9.0 per cent since mid-2014.³

The ABS's *Household Expenditure Survey 2015-16*, conducted every six years and released in September 2017, presents insights into household consumption patterns. Mortgage principal repayments experienced the largest increase in average weekly expenditure (6.9 per cent). Other notable increases in spending included:

- ▶ Education (6.2 per cent);
- ▶ Electricity (3.9 per cent); and
- ▶ Healthcare (3.9 per cent).

Alcohol and clothing were the only items to see an annualised decrease in average expenditure over the period, each contracting by 0.2 per cent.

The proportion of expenditure allocated to each item was largely unchanged between surveys, with only housing costs (1.5 per cent increase) changing more than 1.0 per cent. Housing costs (19.6 per cent), food (16.6 per cent), transport (14.5 per cent) and recreation (12.1 per cent) received the largest allocations, accounting for nearly two-thirds (62.8 per cent) of total goods and services expenditure.⁶

1. ABS Cat. No. 5202.001.

2. ABS Cat. No. 6202.001.

3. ABS Household Expenditure Survey, Australia: Summary of Results, 2015-16.

2

Industry Turnover



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2 Industry Turnover

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Sector Overview

- ▶ Total turnover was \$127.4bn in 2015-16
 - ▶ This represented a decrease of 0.3 per cent following a 3.8 per cent increase in 2014-15
- ▶ The food, grocery, beverage and tobacco sector comprises 32.4 per cent of total manufacturing industries turnover
- ▶ There were 30,748 enterprises in the industry in 2016-17

Composition of industry's turnover (\$2015-16)¹ (million)



Source: Based on ABS, catalogue number 8221.0, 8159.0, 8155.0, 7503.0 and IBIS Report C1212, C1213

Food and beverage sector

- ▶ \$104.2bn turnover in 2015-16, a decrease of 0.8 per cent
- ▶ Represents 81.8 per cent of the sector
- ▶ Turnover increased in 4 of 12 sub-sectors, namely
 - ▶ Oil and fat manufacturing, other food product manufacturing, soft drink, cordial and syrup manufacturing and wine & other alcoholic beverages
- ▶ 8,528 enterprises, an increase of 1.9 per cent in 2016-17

Fresh produce sector

- ▶ \$6.4bn turnover in 2015-16, an increase of 14.7 per cent
- ▶ Contribution of 5.0 per cent of the sector
- ▶ Turnover increased in 7 of 8 sub-sectors
- ▶ 20,670 enterprises, a decline of 2.6 per cent in 2016-17

Grocery sector²

- ▶ \$16.9bn turnover in 2015-16, decrease of 1.8 per cent
- ▶ Represents 13.2 per cent of the sector
- ▶ Turnover increased in 3 of 5 sub-sectors, being
 - ▶ Cleaning compound, cosmetic and toiletry preparation and polymer film and sheet packaging material manufacturing
- ▶ 1,550 enterprises, a decline of 0.2 per cent in 2016-17

Insight

- ▶ Despite a slight decrease in turnover, the industry continues to be the largest manufacturing industry in the Australian economy by a considerable margin

¹ As outlined in the Report Annex, Appendix B, caution should be applied when comparing data before and after the 2006 ANZSIC code changes. Please consider this for all subsequent figures and tables within this report.

² The grocery sector is comprised of a number of classes that fall within the pulp paper and converted paper product sector, the basic chemical and chemical product sector or the polymer product and rubber product sector that all fit within the manufacturing industry.

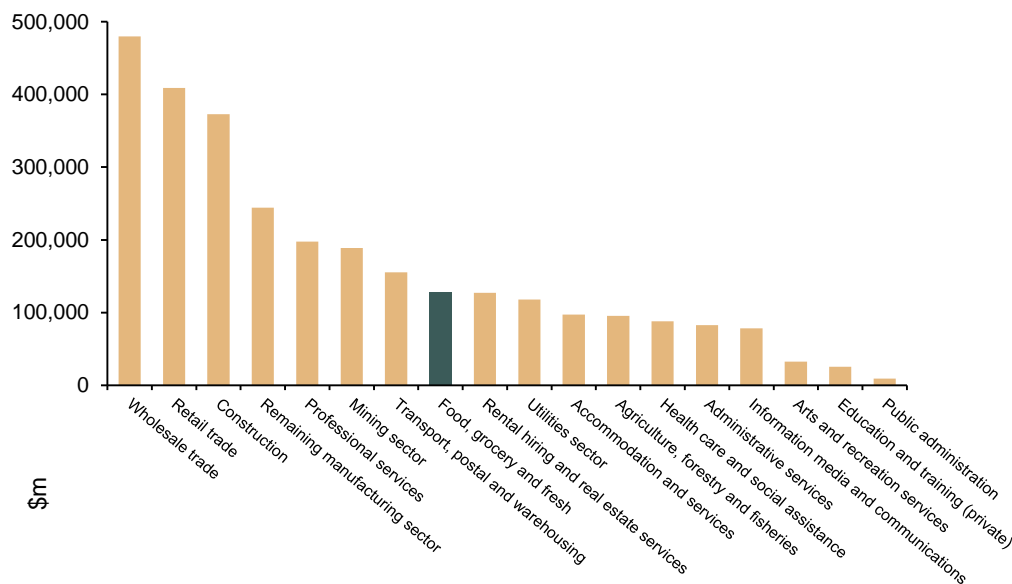
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Comparison to other industries and other manufacturing sub-sectors

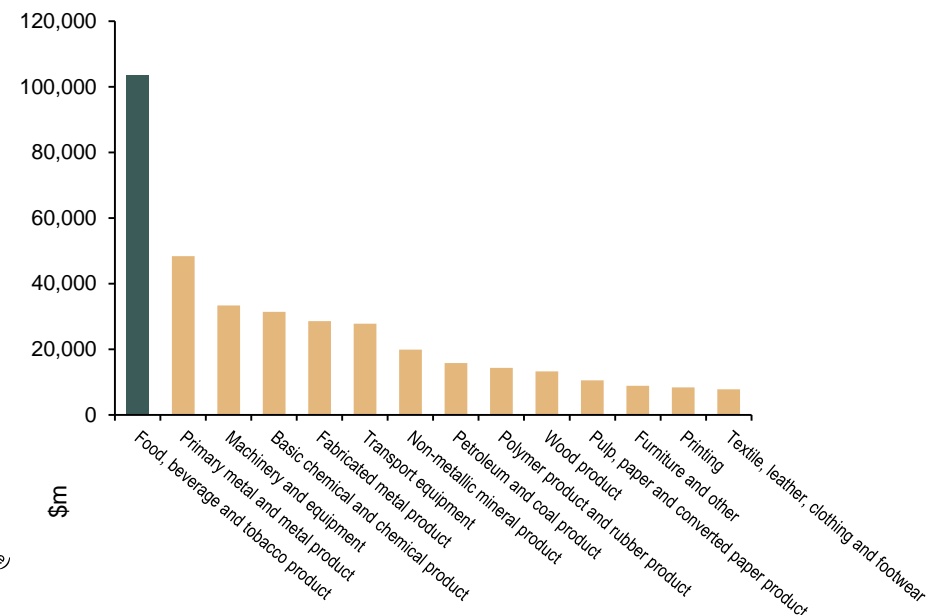
- ▶ While the industry is not a defined industry itself (i.e. its sectors are categorised by the ABS as falling within the agriculture and manufacturing industries), it is comparable to a host of other industries in terms of the size of its turnover, indicating its importance to the Australian economy
- ▶ Its turnover is larger than accommodation and services, agriculture, fisheries and forestry, administrative services, arts and recreation services and a number of other sectors
- ▶ The food, beverage and tobacco sector is a key as part of Australia's manufacturing industry with a share of 27.8 per cent
- ▶ When the grocery sector is included into this analysis¹, the share of the manufacturing industry is 32.4 per cent of Australia's manufacturing sector
- ▶ This makes the food and grocery sector the largest manufacturing industry in the Australian economy

Comparable sectors turnover (\$2015-16) (million)



Source: Based on ABS, catalogue number 8155.0

Manufacturing sector turnover analysis (\$2015-16) (million)



Source: Based on ABS, catalogue number 8155.0
NB: The ABS source data does not separate beverage and tobacco product

¹ The grocery sector is comprised of a number of classes that fall within the pulp paper and converted paper product sector, the basic chemical and chemical product sector or the polymer product and rubber product sector that all fit within the manufacturing industry.

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Number of enterprises (food and beverage, grocery and fresh produce sector)

- ▶ The industry was comprised of 30,748 enterprises during 2016-17, a decrease of 1.3 per cent from 2015-16. Of these, the largest number were in fresh produce (67.2 per cent), followed by food and beverage manufacturing (27.7 per cent) and grocery manufacturing (5.0 per cent)
- ▶ The decrease in the number of enterprises in the industry was driven by a decline in the fresh produce sector, which decreased by 2.6 per cent, or 551 enterprises from the previous year. This resulted from a 6.7 per cent decrease in grape growing enterprises, where there were 424 fewer enterprises than the previous year. However, not all categories within the fresh produce sector experienced a decline in the number of enterprises, for example, the number of vegetable growing enterprises increased by 2.5 per cent or 151 enterprises over the same period

	2012-13	2013-14	2014-15	2015-16	2016-17
Food and grocery sector (number of enterprises)					
Food and beverage manufacturing	8,003	7,874	8,249	8,370	8,528
Grocery manufacturing	1,571	1,524	1,504	1,553	1,550
Fresh produce sector	23,126	22,438	21,610	21,221	20,670
Total	32,700	31,836	31,363	31,144	30,748

Source: Based on Number of Enterprises, IBIS World Reports A0122, A0123, A0130, A0131, A0136, A0172, C1111, C1112, C1113, C1131, C1132, C1133A, C1133B, C1133C, C1140, C1150, C1161, C1162, C1171, C1172, C1173, C1181, C1182, C1120, C1192, C1191, C1199, C1211A, C1211B, C1211C, C1212, C1214, C1524, C1841, C1851, C1852, C1911

3

Industry value-add



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Industry value-add

\$33.6bn

Industry value-add (IVA) is the measure of the contribution of businesses within each sector to overall gross domestic product. The IVA for an industry is measured by looking at the total value of goods and services produced then deducting the costs of goods and services used in production.¹

Sector Overview

- ▶ Industry value-add increased 3.0 per cent in 2015-16
 - ▶ The food and beverage and fresh produce sectors experienced growth in IVA
- ▶ The industry makes up 30.9 per cent of IVA in the manufacturing sector
- ▶ Labour productivity decreased by 2.4 per cent

Food and beverage sector

- ▶ \$26.1bn IVA 2015-16, an increase of 3.6 per cent
- ▶ This sector accounted for 77.7 per cent of the industry's total value-add
- ▶ IVA increased in 7 of 12 sub-sectors
 - ▶ Dairy product, sugar and confectionary, bakery product, other food product, soft drink, cordial and syrup, beer and wine and other alcoholic beverage manufacturing

Fresh produce sector

- ▶ IVA was \$2.7bn in 2015-16
- ▶ This was a growth of 4.7 per cent, or \$120.3m
- ▶ This sector accounted for 7.9 per cent of the industry's total value-add
- ▶ IVA grew in all asset classes except egg farming

Grocery sector

- ▶ \$4.9bn IVA in 2015-16, decreasing 0.6 per cent
- ▶ This sector accounted for 14.4 per cent of the industry's total value-add
- ▶ IVA grew in 3 of 5 asset classes
 - ▶ Cleaning compound, cosmetic and toiletry preparation, polymer film and sheet packaging material manufacturing

Insight

- ▶ Industry value add, which comprises of industry turnover less costs used in the production process (which includes profit wages and depreciation), has increased in recent years

¹ ABS Cat. No. 1370.

3 Industry value-add

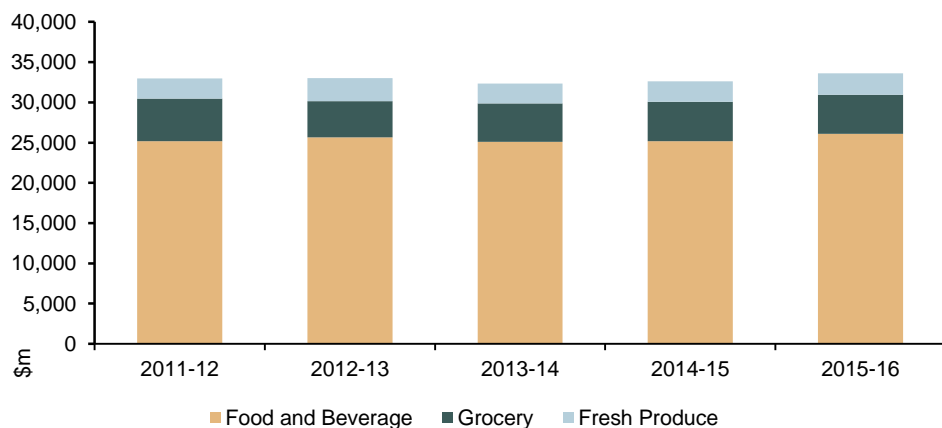
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Industry value-add

- ▶ Industry IVA was approximately \$33.6bn, an increase of 3.0 per cent from 2014-15
 - ▶ IVA has increased over the past three years, increasing on average by 1.7 per cent
- ▶ For every dollar in turnover, 25.6 cents (or approximately one quarter) was in IVA or was contributing to growing Australia's GDP

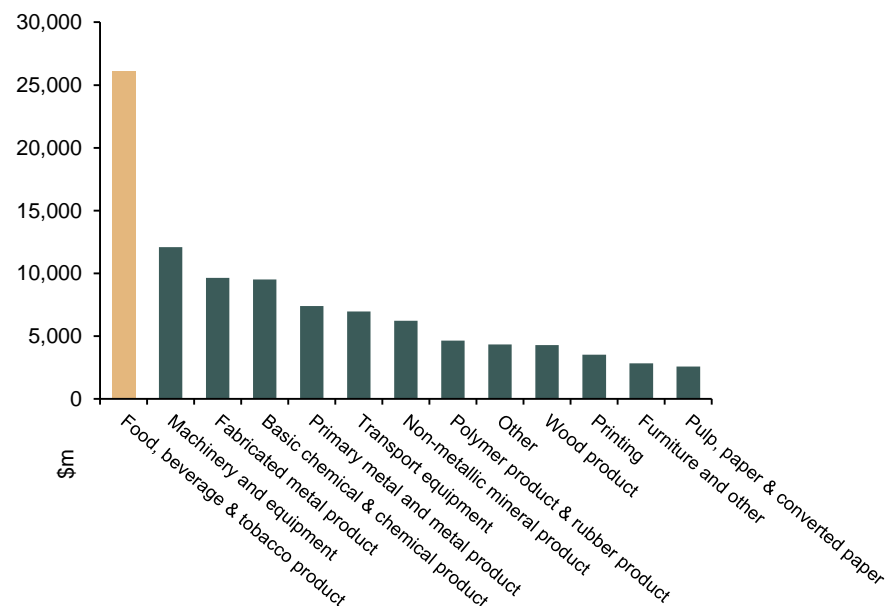
- ▶ The food product, beverage and tobacco sector is a key sector of the manufacturing industry, with a share of 26.1 per cent of IVA
- ▶ When the grocery sector¹ is included, the industry increases its share to 30.9 per cent
 - ▶ This is more than any other product in the manufacturing sector

Composition of the industry's value-add (\$2015-16) (million)



Source: Based on ABS, catalogue numbers 8155.0, 8221.0 and 8155.0 as well as IBISWorld Industry reports A0122, A0123, A0130, A0131, A0139, A0173

Manufacturing sector IVA analysis (\$2015-16)² (million)



Source: Based on ABS, catalogue number 8155.0

¹ The grocery sector is comprised of classes that fall within the pulp paper and converted paper product sector, the basic chemical and chemical product sector or the polymer product and rubber sector that all fit within the manufacturing industry.

² The split between beverage and tobacco manufacturing was not available.

3 Industry value-add

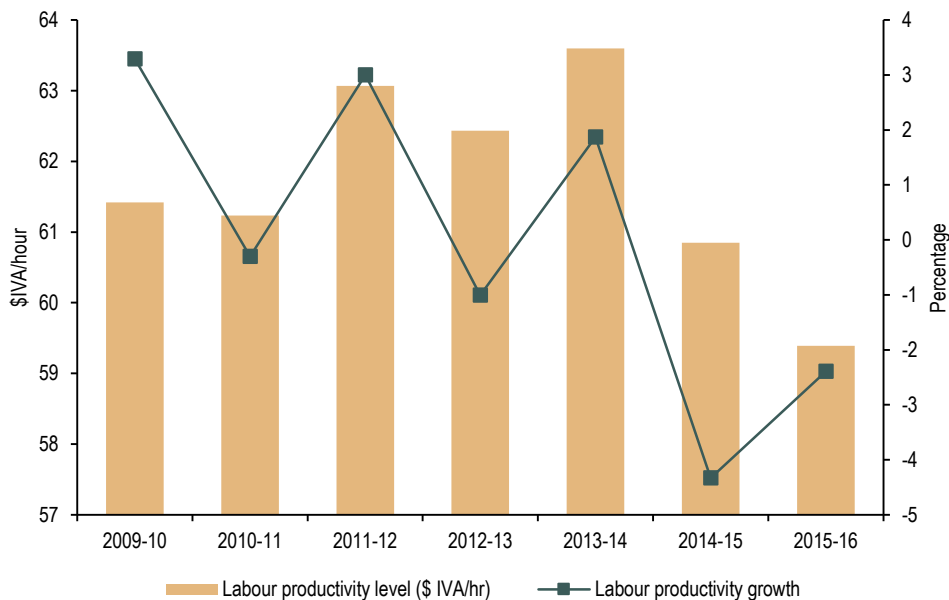
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Labour Productivity

- ▶ Labour productivity measures the level of IVA per hour of labour worked
- ▶ In 2015-16, the food, beverage and tobacco product manufacturing sector experienced a labour productivity decline of 2.4 per cent
 - ▶ This is below the long term Australian industry average growth of 1.0 per cent

- ▶ The labour productivity of the industry has declined for the last two years
- ▶ When compared to the labour productivity of other Australian industries, the food, beverage and tobacco manufacturing sector experienced comparable productivity levels to similar industries, and had a slightly higher productivity level than the manufacturing industry as a whole

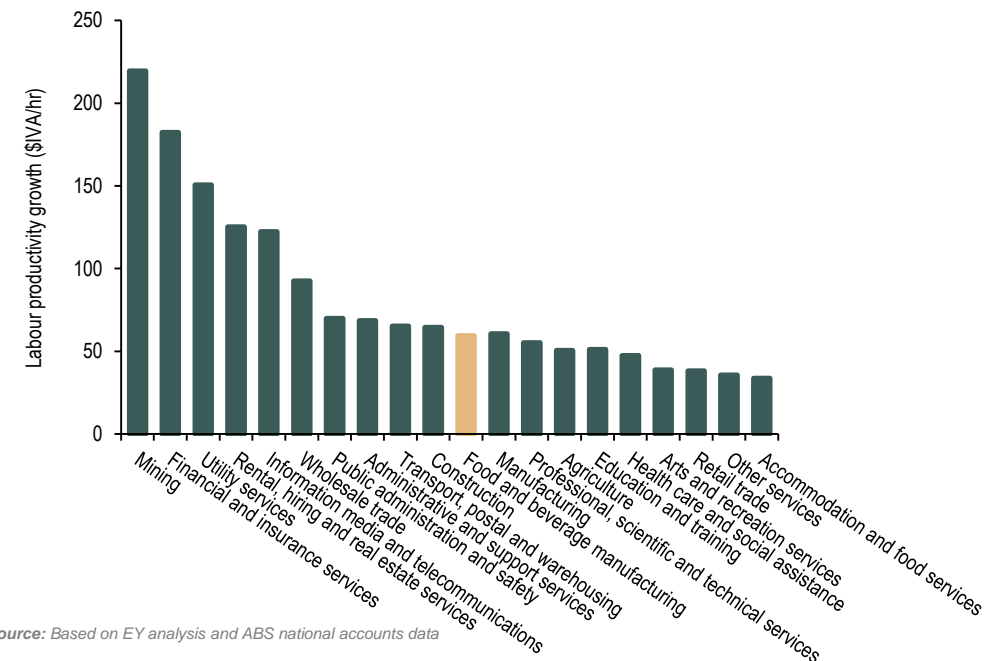
Labour productivity of the food, beverage and tobacco manufacturing sector (\$2015-16)¹



Source: Based on EY analysis and ABS national accounts data

1. An approximate labour productivity value for the food and beverage manufacturing sector has been determined using the food product manufacturing IVA data and a proxy for hours worked by the food product manufacturing sector.

Labour productivity level of Australia's industries (\$2015-16) (\$IVA/hr)



Source: Based on EY analysis and ABS national accounts data

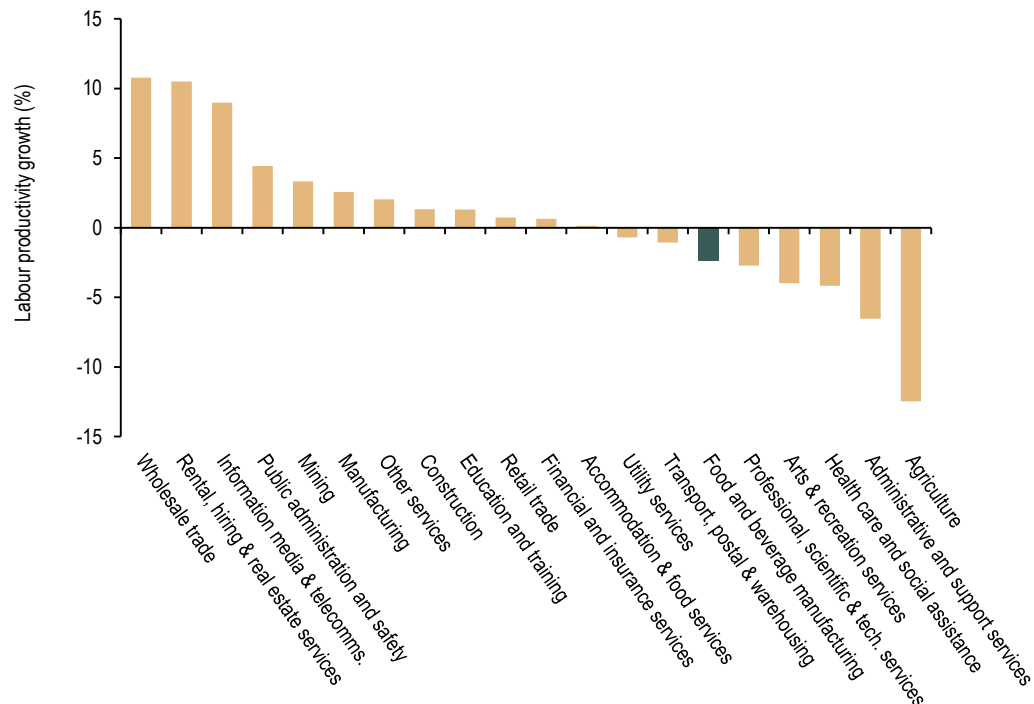
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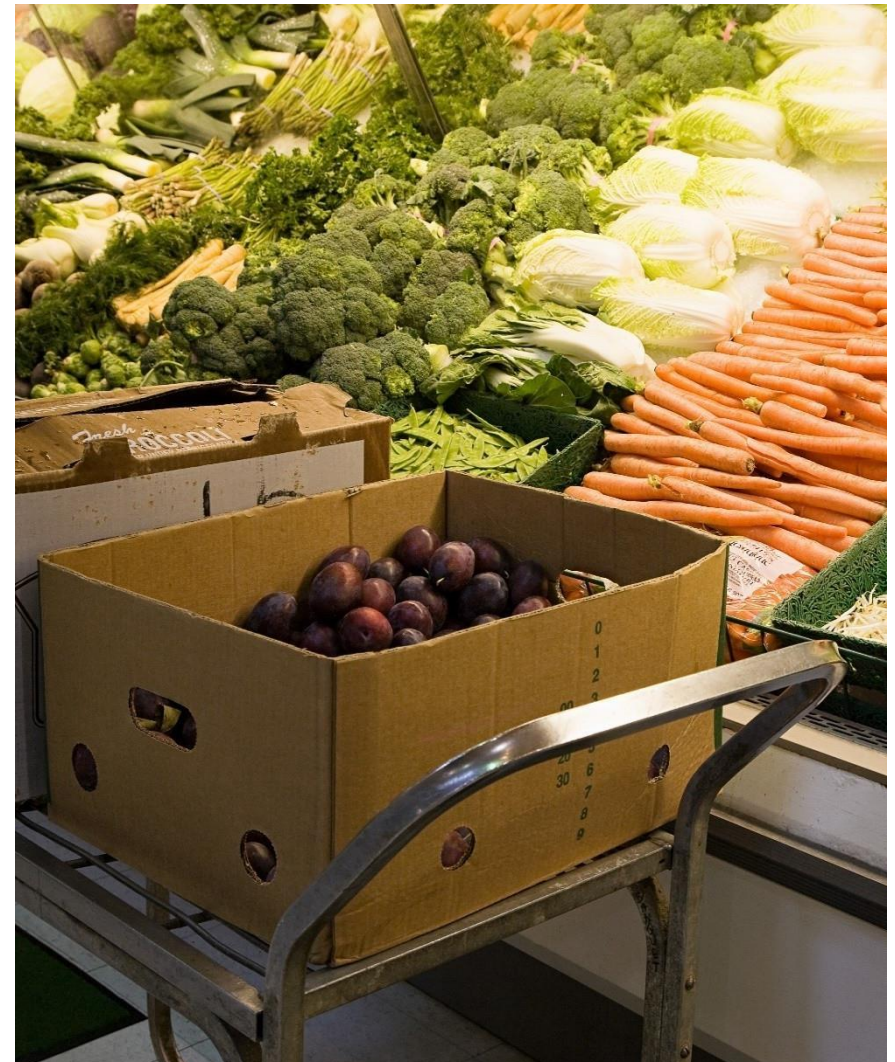
Labour Productivity (cont.)

- ▶ When comparing the yearly change in labour productivity in 2015-16, the food, beverage and tobacco manufacturing sector performed relatively poorly
- ▶ While a relative improvement on last year compared to other industries (where only arts and recreation services experienced a greater decline in productivity growth), there are a number of industries with better performance

Labour productivity growth of Australia's industries (2015-16) (%)



Source: Based on EY analysis and ABS national accounts data



4

International Trade



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Total Industry Trade

\$67.9bn

The industry total trade aggregates the value of imports and exports of the sectors that make up the industry

Sector Overview

- ▶ In 2016-17, industry imports totalled \$35.3bn remaining stable compared to 2015-16
- ▶ In the same period industry exports decreased by 15.4 per cent to \$32.6bn¹
- ▶ Australia's top ten trading partners account for 64.9 per cent of exports and 53.1 per cent of imports
- ▶ The United States was Australia's largest trade partner with total two way trade of \$9.2bn

Total trade

- ▶ The total value of trade in the sector declined (in real terms) by 8.1 per cent
- ▶ In 2016-17 the industry had a trade deficit of \$2.7bn comprised of:
 - ▶ A surplus in food and beverage of \$9.6bn
 - ▶ A deficit in grocery of \$13.0bn
 - ▶ A surplus in fresh produce of \$721m

Imports

- ▶ In 2016-17 industry imports decreased (in real terms) by 0.02 per cent to \$35.3bn due to:
 - ▶ A decrease in food and beverage imports of 0.6 per cent from \$16.9bn to \$16.8bn
 - ▶ A small increase in grocery imports by 0.1 per cent to \$17.6bn
 - ▶ An increase in fresh produce imports by 9.9 per cent from \$759m to \$834m
 - ▶ This was driven by increases in the import of stone fruit (22.9 per cent) and citrus fruit (25.2 per cent)

Exports

- ▶ In 2016-17 industry exports decreased (in real terms) by 15.4 per cent to \$32.6bn due to:
 - ▶ A decrease in food and beverage exports by 17.0 per cent from \$31.8bn to \$26.4bn
 - ▶ A decrease in grocery exports by 5.2 per cent from \$4.9bn to \$4.6bn
 - ▶ A decrease in fresh produce exports by 15.3 per cent from \$1.8bn to \$1.6bn

Insights

- ▶ USA and China remain Australia's main trading partners, however other countries including India, Malaysia and the Netherlands are increasing their trade activity with Australia
- ▶ While in nominal terms exports in the industry continued their growth, the effect of the general export price index (which increased significantly for the current period driven mainly by a steep increase in mining commodity prices) lead to a decline in the real value of exports from 2015-16 to 2016-17

¹ It is noted that a large change in the export price index has driven the decline in exports on a real basis.

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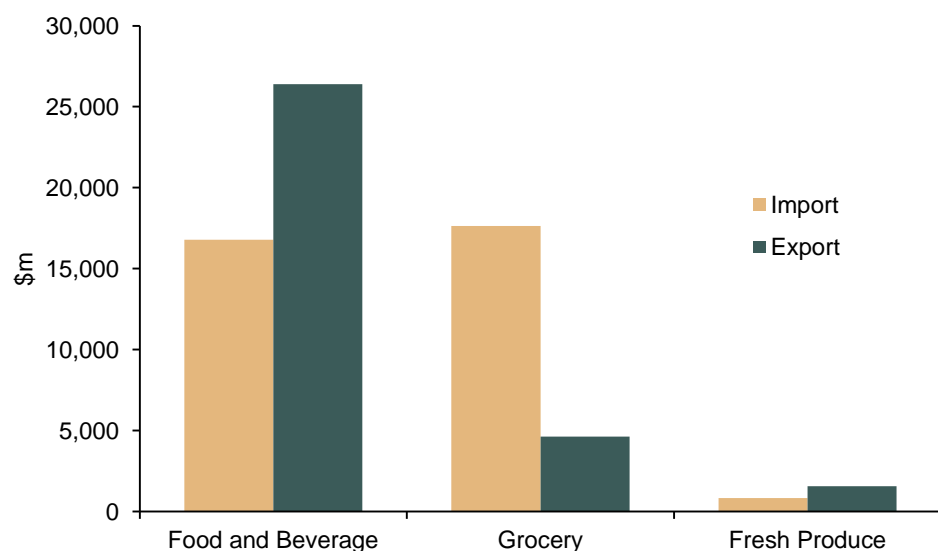
6 Capital Investment

Total Trade

Industry sector imports and exports (\$2016-17) (million)

	Imports	Exports	Total Trade	Deficit/ Surplus
Sub-sector (\$millions)				
Food and Beverage	16,790.4	26,393.1	43,183.5	9,602.8
Grocery	17,643.7	4,632.9	22,276.7	-13,010.8
Fresh Produce	834.5	1,555.5	2,390.0	721.0
Total	35,268.6	32,581.6	67,850.2	- 2,687.1

Industry sector imports and exports (\$2016-17) (million)

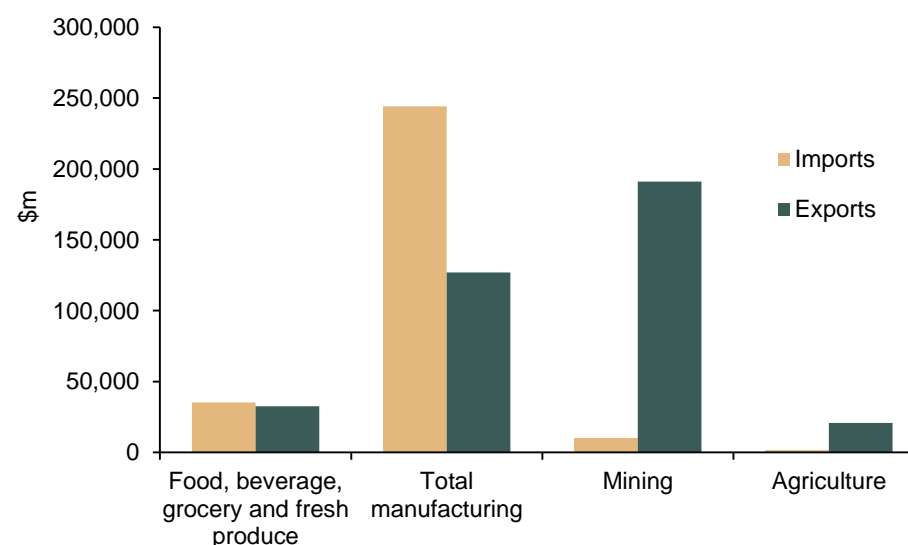


Source: Based on ABS customised report

Sector comparison

- ▶ When compared to total manufacturing, mining or agriculture, the sector has a fairly even balance of imports and exports
- ▶ Total manufacturing characterised by significant imports, while mining and agriculture are export orientated industries
- ▶ Food, beverage and grocery sector represents 17.6 per cent of the manufacturing sector's international trade
- ▶ The industry represents 24.4 per cent of the manufacturing industry's exports and 14.1 per cent of imports

International trade, sector comparison (\$2016-17) (million)



Source: Based on ABS customised report

4 International Trade

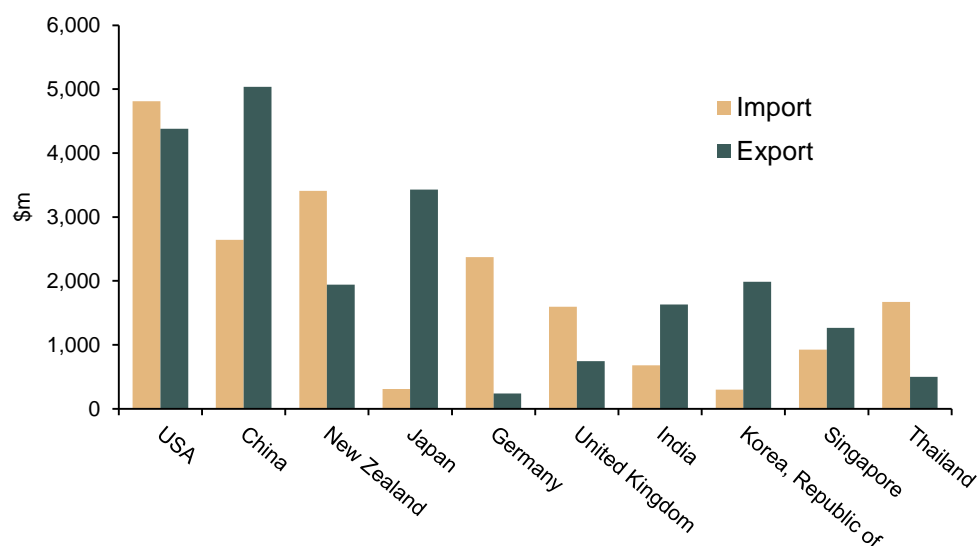
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Top ten trading partners

- ▶ Australia's top six trading partners in 2016-17 were unchanged from the previous year, with the USA remaining Australia's top trading partner
- ▶ India moved from Australia's 13th (2016) largest trading partner to 7th (2017) with France dropping out of the top ten
 - ▶ This was primarily driven by the size of exports, particularly in relation to food and beverages and fresh products
- ▶ Notably, China was Australia's largest export market for the first time in 2016-17

Top ten trading partners for the industry (\$2016-17) (million)



Source: Based on ABS customised report

Top ten trading partners (\$2016-17)

	Rank 2017	Rank 2016	Export	Import
Sub-sector	2017	2016	\$ (million)	\$ (million)
USA	1	1	4,379.7	4,812.4
China	2	2	5,035.4	2,642.4
New Zealand	3	3	1,943.7	3,410.7
Japan	4	4	3,427.7	307.9
Germany	5	5	240.4	2,372.8
United Kingdom	6	6	742.9	1,597.5
India	7	13	1,633.1	680.3
Korea, Republic of	8	7	1,986.1	300.8
Singapore	9	8	1,265.6	924.3
Thailand	10	9	499.3	1,670.3
Total			21,153.8	18,719.5

Source: Based on ABS customised report

Transformed food products

Industry imports and exports can be classified by the degree of transformation the product undergoes prior to consumption. There are three main categories:¹

- ▶ 'Minimally transformed' (such as fresh produce)
- ▶ 'Substantially transformed' (such as meat, dairy products, sugar, beverages and malt)
- ▶ 'Elaborately transformed' (such as biscuits and confectionary)

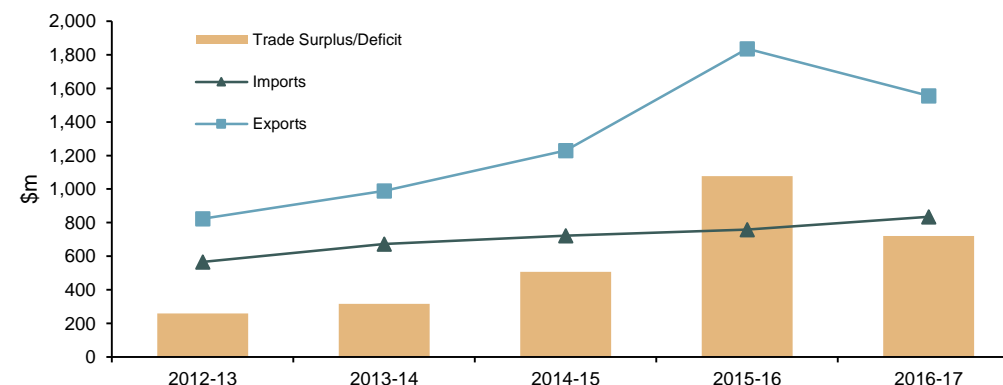
Minimally transformed food products

- ▶ In 2016-17, exports in minimally transformed food products decreased by 15.3 per cent to \$1.6bn
- ▶ Minimally transformed imports increased by 9.9 per cent to \$834.5m
- ▶ This resulted in a decrease of the trade surplus by \$356.0m (33.1 per cent)

Substantially and elaborately transformed food products

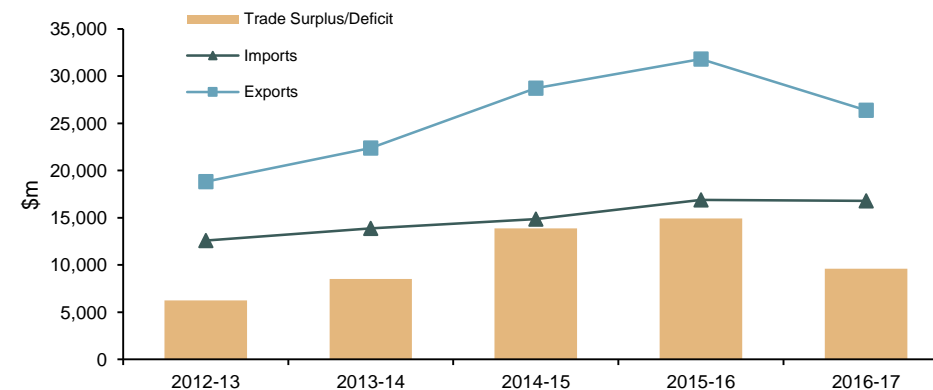
- ▶ Trade in substantially and elaborately transformed food products is at much higher levels than minimally transformed food products
- ▶ In 2016-17 exports in substantially and elaborately transformed food products decreased by 17.0 per cent to \$26.4bn
- ▶ Substantially and elaborately transformed imports decreased by 0.6 per cent to \$16.8bn
- ▶ This resulted in a decrease of the trade surplus by \$5.3bn (35.6 per cent)

Imports and exports of minimally transformed food products (\$2016-17) (million)



Source: Based on ABS customised report

Imports and exports of substantially and elaborately transformed food products (\$2016-17) (million)



Source: Based on ABS customised report

¹ The grocery sector has not been included within this analysis consistent with other and prior analyses.

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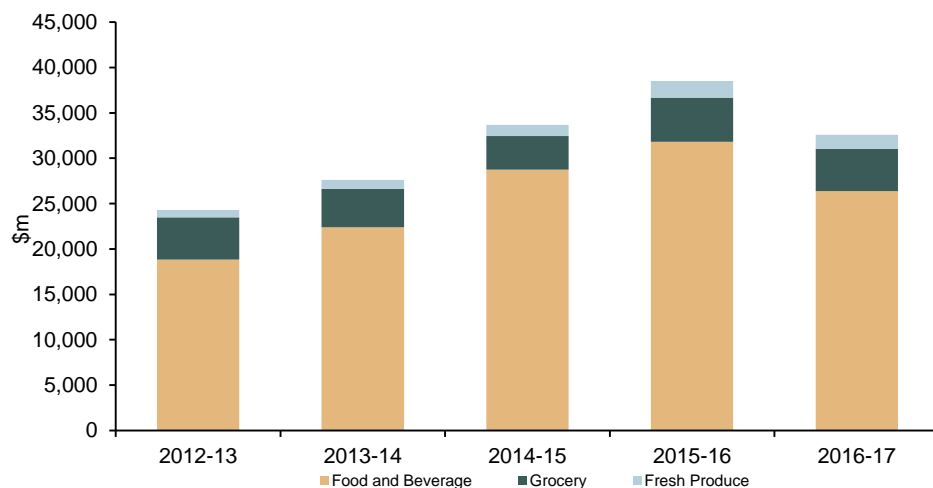
Exports

- ▶ In 2016-17 industry exports decreased by 15.4 per cent to \$32.6bn¹
- ▶ Food and beverage exports decreased by 17.0 per cent from \$31.8bn to \$26.4bn
- ▶ Grocery exports decreased by 5.2 per cent from \$4.9bn to \$4.6bn
- ▶ Fresh produce exports decreased by 15.3 per cent from \$1.8bn to \$1.6bn
- ▶ Australia's top ten export markets accounted for 64.9 per cent of Australia's total industry exports
- ▶ The top ten export markets represented 70.9 per cent of the food and beverage sector, 79.5 per cent of the grocery sector and 79.4 per cent of the fresh produce sector

Understanding the decline in exports

- ▶ If changes in prices from one year to the next are not considered (nominal terms) industry exports continued their growth, growing by 3.6 per cent in 2016-17. This was comprised of:
 - ▶ Nominal growth of 1.6 per cent in food and beverages exports (from \$26.0bn to \$26.4bn)
 - ▶ Nominal growth of 3.7 per cent in fresh produce exports (from \$1.5bn to \$1.6bn)
 - ▶ Nominal growth of 16.1 per cent in grocery exports (from \$4.0bn to \$4.6bn)
- ▶ Consistent with previous versions of this report the data has been adjusted to reflect real terms – that is, taking into account changes in prices. In the case of exports, the data is adjusted using the ABS export price index.
- ▶ The export price index measures changes in prices of all merchandise exports from Australia. From 2015-16 to 2016-17 the ABS export price index moved from 73.9 to 90.5 (approximately 22 per cent). This change was primarily the result of a steep increase in the price of mining commodities.
- ▶ When the export price index is applied to food and grocery industry exports it suggests that the real value of industry exports declined by 15.4 per cent in 2016-17.
- ▶ Therefore, the decline of exports reported in this chapter is somewhat of a construct of the index used to put the data into real terms. The use of the ABS export price index is consistent with State of Industry reports in previous years.

Australia's exports for the industry (\$2016-17) (million)



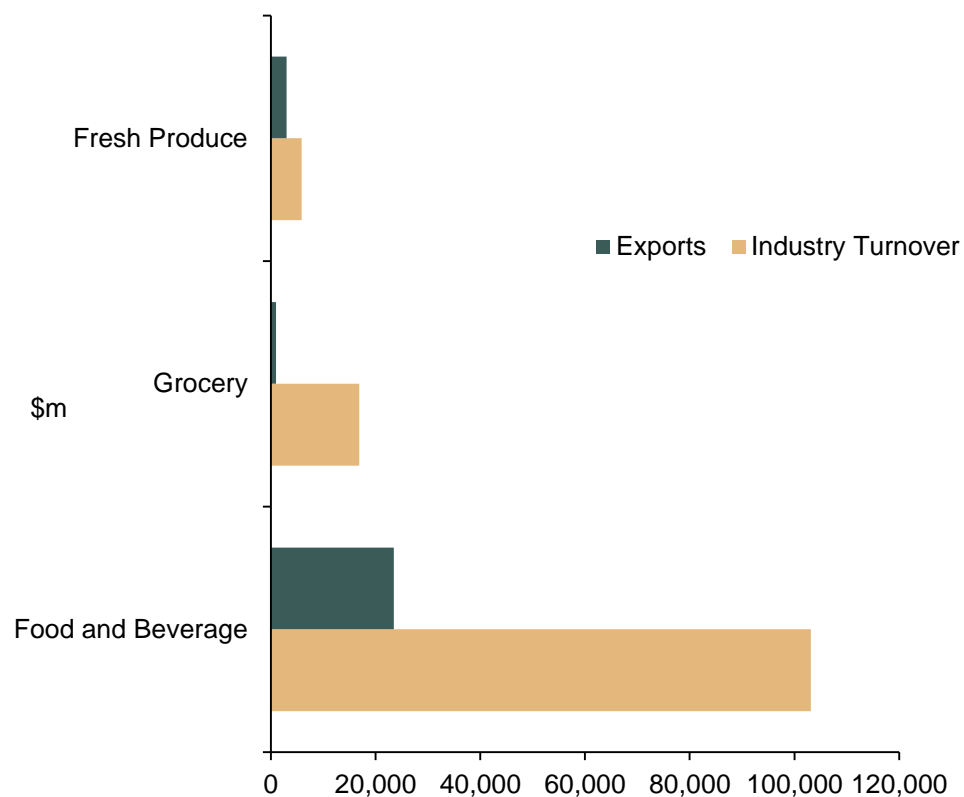
Source: Based on ABS customised report

1. The decrease in exports was driven by the export price index applied to the data to ensure data is compared in real terms year on year. The ABS export price index moved from 73.9 to 90.5.

Comparing exports and turnover

- ▶ Total food and beverage, grocery and fresh produce exports for 2015-16 were 30.2 per cent of total industry turnover for the same year. During this time:
 - ▶ Food and beverage sector exports represented 30.5 per cent of that sector's turnover (25.0 per cent of total turnover)
 - ▶ Grocery manufacturing exports represented 10.9 per cent of that sector's turnover (1.4 per cent of total turnover)
 - ▶ Fresh produce sector exports represented 76.8 per cent of that sector's turnover (3.8 per cent of total turnover)
- ▶ In total, 69.8 per cent of total industry turnover is earned from sales into the domestic market

Exports versus turnover for each sector (\$2015-16¹) (million)



Source: Based on ABS customised report

1) It is noted that 2015-16 was the most recent data available for comparative purposes.

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Exports

Australia's top ten export markets (\$2016-17) (000s)

Food and Beverage		Grocery		Fresh Produce	
Country	\$'000	Country	\$'000	Country	\$'000
China (excluding SARs and Taiwan)	3,745,445	China (excluding SARs and Taiwan)	990,690	China (ex SARs and Taiwan)	299,268
United States of America	3,467,180	United States of America	884,651	Hong Kong (SAR of China)	183,991
Japan	3,183,285	New Zealand	771,875	Japan	131,146
Korea, Republic of	1,856,471	Hong Kong (SAR of China)	325,585	India	128,048
India	1,472,397	United Kingdom	165,793	Singapore	104,693
Hong Kong (SAR of China)	1,143,242	Germany	119,530	Vietnam	100,339
New Zealand	1,116,707	Japan	113,234	United Arab Emirates	91,264
Singapore	1,058,828	Korea, Republic of	109,394	Indonesia	82,773
Vietnam	921,483	Singapore	102,073	Malaysia	58,623
Indonesia	738,008	Malaysia	100,206	New Zealand	55,091
Total	18,703,045	Total	3,683,032	Total	1,235,237

Source: Based on ABS customised report

Australia's top ten export markets (% change from 2015-16)

Food and Beverage		Grocery		Fresh Produce	
Country	%	Country	%	Country	%
India	53.2	Singapore	-38.5	Vietnam	118.7
United States of America	-36.8	Korea, Republic of	-38.3	Indonesia	-29.5
Vietnam	-23.9	Germany	-33.9	United Arab Emirates	-27.8
New Zealand	-23	United Kingdom	-25	New Zealand	-23.8
Indonesia	-17.5	Japan	-20.7	Malaysia	-22
Korea, Republic of	-17.2	United States of America	20.5	Singapore	-21.5
Hong Kong (SAR of China)	-16.4	New Zealand	-11.8	Hong Kong (SAR of China)	-18.4
Japan	-15.3	China (excluding SARs and Taiwan)	9.6	China (ex SARs and Taiwan)	10.9
Singapore	-11.2	Malaysia	5.3	India	-9.9
China (excluding SARs and Taiwan)	-4.1	Hong Kong (SAR of China)	4.1	Japan	-1.4
Total	-16.8	Total	-3.3	Total	-7.9

Source: Based on ABS customised report

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Exports

Largest \$ change in export value (\$2016-17) (000s)

Industry	2015-16	2016-17	Change
	\$'000	\$'000	\$'000
Meat Processing	15,845,690	11,723,415	-4,122,275
Fruit and Vegetable Processing	3,178,132	3,789,799	611,666
Cheese and Other Dairy Product Manufacturing	2,441,849	1,899,435	-542,414
Grain Mill Product Manufacturing	2,106,008	1,648,406	-457,602
Wine and Other Alcoholic Beverage Manufacturing	2,686,399	2,377,504	-308,895
Seafood Processing	1,238,872	969,380	-269,493
Human Pharmaceutical and Medicinal Product Manufacturing	3,690,682	3,521,524	-169,158
Grape Growing	474,209	391,918	-82,291
Milk and Cream Processing	402,662	328,243	-74,420
Oil and Fat Manufacturing	485,141	414,944	-70,197

Largest % change in export value (\$2016-17) (000s)

Industry	2015-16	2016-17	Change
	\$'000	\$'000	%
Poultry Farming (Eggs)	3,566	5,693	59.7
Apple and Pear Growing	41,867	25,034	-40.2
Kiwifruit Growing	5,084	3,074	-39.5
Stone Fruit Growing	152,275	94,721	-37.8
Berry Fruit Growing	6,481	8,625	33.1
Meat Processing	15,845,690	11,723,415	-26.0
Cheese and Other Dairy Product Manufacturing	2,441,849	1,899,435	-22.2
Seafood Processing	1,238,872	969,380	-21.8
Grain Mill Product Manufacturing	2,106,008	1,648,406	-21.7
Sanitary Paper Product Manufacturing	86,330	68,615	-20.5

Source: Based on ABS customised report

Source: Based on ABS customised report

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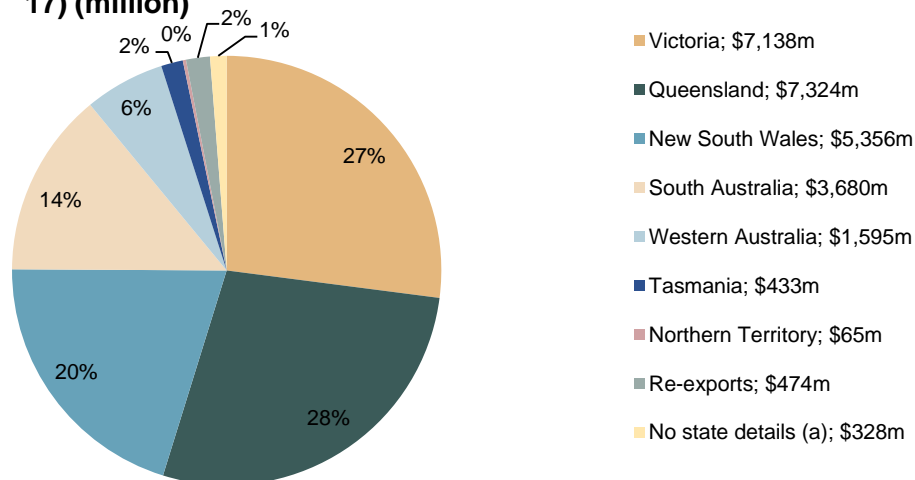
6 Capital Investment

Exports

State of origin of exports

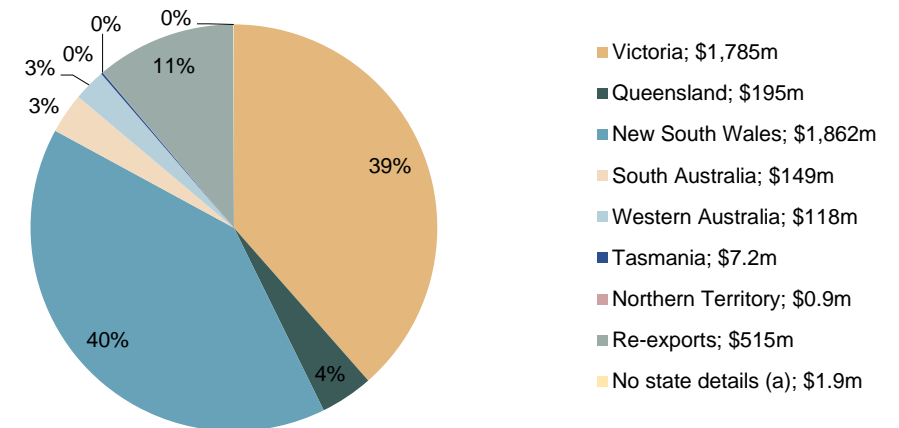
- ▶ Victoria and Queensland are the industry's top two exporting states
- ▶ Queensland is the largest exporter in the food and beverage sector with 28 per cent (\$7.3bn), followed by Victoria 27 per cent (\$7.1bn) and NSW with 20 per cent (\$5.4bn)
- ▶ NSW is the largest exporter of grocery produce with 40 per cent (\$1.9bn) of the industry's total grocery sector export. Victoria exports 39 per cent (\$1.8bn)
- ▶ Victoria is the dominant exporter of fresh produce with 49 per cent (\$763.8m) of the industry's fresh produce exports. Queensland is the second largest exporter of fresh produce with 18 per cent (\$279.0m), followed by NSW 12 per cent (\$188.7m).

Food and beverage sector exports by state of origin (\$2016-17) (million)



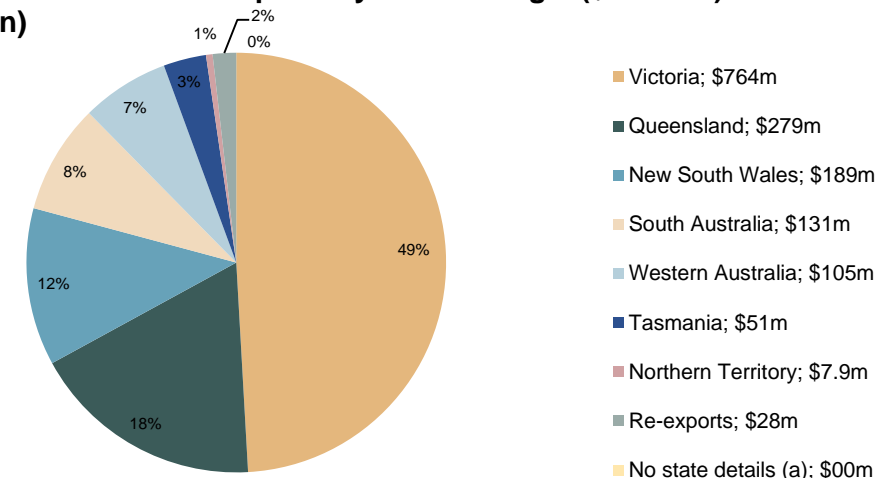
Source: Based on ABS customised report

Grocery sector exports by state of origin (\$2016-17) (million)



Source: Based on ABS customised report

Fresh Produce sector exports by state of origin (\$2016-17) (million)



Source: Based on ABS customised report

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Imports

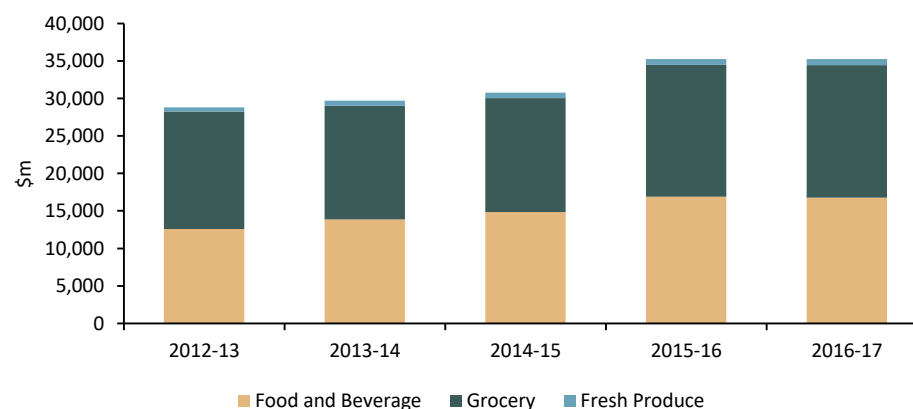
- ▶ The total value of industry imports in 2016-17 was \$35.3bn
- ▶ The food and beverage and grocery sectors accounted for 47.6 per cent and 50.0 per cent respectively of overall imports, whilst the fresh produce sector accounted for only 2.4 per cent of total imports of the industry
- ▶ Fresh produce imports increased by 9.9 per cent (\$759.3m to \$834.5m), driven by increases in the importation of stone fruit (22.9 per cent) and citrus fruit (25.2 per cent)
- ▶ Food and beverage and grocery imports remained relatively stable, with food and beverage imports decreasing by 0.6 per cent year on year, while grocery imports increased by 0.1 per cent

Comparing imports and turnover¹

- ▶ Overall, the value of the industry imports as a proportion of industry turnover increased 2.5 per cent to 27.6 per cent in 2015-16
- ▶ This was driven by the grocery sector whereby the sector's imports, as a proportion of market turnover, was over 104.3 per cent, demonstrating the majority of goods sold by the sector are not manufactured in Australia
 - ▶ The value of imports being greater than turnover could be explained by import statistics including goods which are not on sold and therefore do not contribute to turnover in the short term (such as direct importation by end users) or lags between the importation and sale of products (if they are warehoused or used as inputs in the production process)
- ▶ The food and beverage and fresh produce sectors had import to turnover ratios of 16.2 per cent and 11.9 per cent respectively

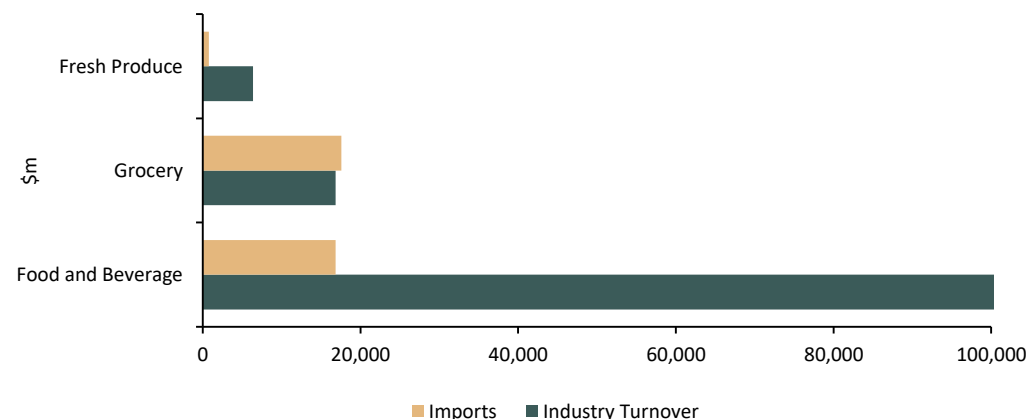
1. Note: This comparison compares 2015-16 imports against 2015-16 turnover, being the latest year of turnover data available.

Australia's imports for the industry (\$2016-17) (million)



Source: Based on ABS customised report

Imports versus sector turnover (\$2015-16) (million)



Source: Based on ABS customised report

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Imports

Australia's top import markets

- ▶ In 2016-17, the top ten import markets accounted for a combined 53.1 per cent of Australia's total industry imports
- ▶ The fresh produce and grocery sectors imported 82.9 per cent and 72.1 per cent of goods from the top ten markets respectively suggesting a narrow range of international supply markets
- ▶ The USA, China and New Zealand continue to dominate as the main supplier countries for imports accounting for 36.1 per cent of all imports within the industry
- ▶ The USA contributed 19.9 per cent of all industry imports, providing an overall total of \$4.8bn
- ▶ The USA and New Zealand continued to be Australia's top import suppliers for fresh produce and food and beverage sector
- ▶ The value of New Zealand and Netherland's imports of fresh produce grew by 32.6 per cent and 38.8 per cent respectively



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Imports

Australia's top ten import markets (\$2016-17) (000s)

Food and Beverage		Grocery		Fresh Produce	
Country	\$'000	Country	\$'000	Country	\$'000
New Zealand	2,876,490	United States of America	2,828,032	United States of America	230,136
United States of America	1,754,225	Germany	1,957,814	New Zealand	224,682
Thailand	1,112,004	China (excluding SARs and Taiwan)	1,469,829	China (excluding SARs and Taiwan)	87,632
China (excluding SARs and Taiwan)	1,084,985	Ireland	1,425,176	Turkey	35,953
Singapore	773,678	Switzerland	1,094,921	Mexico	34,994
Italy	756,929	France	994,371	Italy	17,725
France	646,317	United Kingdom	969,495	Thailand	16,023
Malaysia	644,844	Sweden	705,463	Iran	15,302
United Kingdom	624,596	Italy	698,488	Netherlands	14,575
Netherlands	539,196	Belgium	568,892	Peru	14,462
Total	10,813,265	Total	12,712,481	Total	691,484

Source: Based on ABS customised report

Australia's top ten import markets (% change from 2015-16)

Food and Beverage		Grocery		Fresh Produce	
Country	Change (%)	Country	Change (%)	Country	Change (%)
New Zealand	6.2	United States of America	-2.7	United States of America	0.2
United States of America	0.1	Germany	-6.3	New Zealand	32.6
Thailand	-1.1	China (excluding SARs and Taiwan)	-0.1	China (excluding SARs and Taiwan)	-1.9
China (excluding SARs and Taiwan)	-4.4	Ireland	-0.6	Turkey	-4.9
Singapore	-10.8	Switzerland	-7.0	Mexico	15.1
Italy	-0.3	France	1.6	Italy	4.2
France	-6.2	United Kingdom	-0.3	Thailand	-9.3
Malaysia	1.1	Sweden	12.3	Iran	-7.5
United Kingdom	0.5	Italy	13.8	Netherlands	38.8
Netherlands	4.4	Belgium	3.6	Peru	2.7
Total	0.0	Total	-0.8	Total	9.3

Source: Based on ABS customised report

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Imports

Largest \$ change in import value (\$2016-17)

Industry	2015-16	2016-17	Change (\$)
	\$	\$	\$
Other Food Product Manufacturing n.e.c.	2,020,178	1,803,201	-216,976
Cheese and Other Dairy Product Manufacturing	986,577	1,185,075	198,237
Human Pharmaceutical and Medicinal Product Manufacturing	11,834,226	11,986,748	152,522
Seafood Processing	1,721,961	1,824,875	102,914
Confectionery Manufacturing	1,296,534	1,204,390	-92,144
Soft Drink, Cordial and Syrup Manufacturing	1,150,906	1,075,068	-75,838
Cosmetic and Toiletry Preparation Manufacturing	1,948,469	1,882,690	-65,779
Polymer Film and Sheet Packaging Material Manufacturing	2,040,217	1,981,934	-58,283
Biscuit Manufacturing (Factory)	317,354	285,370	-31,983
Other Fruit and Tree Nut Growing	184,374	233,676	49,302

Source: Based on ABS customised report

Largest % change in import value (\$2016-17)

Industry	2015-16	2016-17	Change (%)
	\$	\$	%
Apple and Pear Growing	4,473	6,261	40.0
Other Fruit and Tree Nut Growing	184,374	233,676	26.5
Citrus Fruit Growing	63,456	79,454	25.2
Sugar Manufacturing	99,237	121,757	22.7
Cheese and Other Dairy Product Manufacturing	986,577	1,185,075	20.1
Vegetable Growing (Outdoors)	196,296	222,972	13.6
Poultry Farming (Eggs)	4,358	3,730	-14.4
Other Food Product Manufacturing n.e.c.	2,020,178	1,803,201	-10.7
Berry Fruit Growing	33,045	29,511	-10.7
Stone Fruit Growing	59,776	53,734	-10.1

Source: Based on ABS customised report

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Employment



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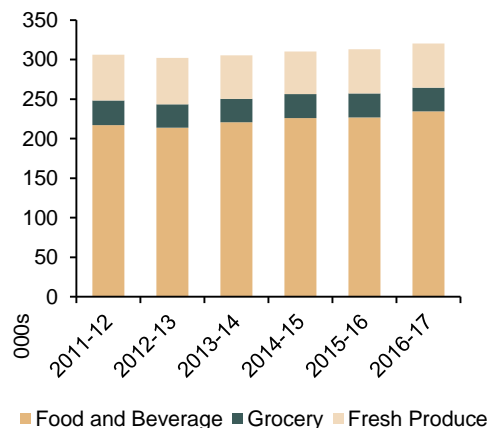


5 Employment

Sector Overview

- ▶ Industry employment was approximately 320,302 in 2016-17¹
 - ▶ This was an increase of 2.3 per cent or 7,317 people from 2015-16
- ▶ NSW had the highest employment by state in the industry with 28.8 per cent, closely followed by Victoria with 27.9 per cent

Employment in each of the industry sectors (2016-17) (000s)



Source: Based on ABS, catalogue number 6291.0, 8155.0 and IBISWorld Reports C1524, C1841, C1851, C1852, C1911, A0122, A0123, A0130, A0131, A0139, A0172.

Food and beverage sector

- ▶ Employment of 234,641 in 2016-17, an increase of 3.5 per cent
- ▶ Food and beverage sector accounts for 73.3 per cent of employment in the industry
- ▶ Employment increased in 5 of 10 sub-sectors:
 - ▶ Meat and meat product, dairy product, grain mill and cereal product, seafood processing and beverage manufacturing

Fresh produce sector

- ▶ 55,713 people were employed in the fresh produce sector in 2016-17, which represents a decrease of 0.4 per cent
- ▶ Fresh produce accounts for 17.4 per cent of employment in the industry
- ▶ Employment increased in 3 of 5 sub-sectors:
 - ▶ Vegetable, apple pear and stone fruit and citrus, banana and other fruit growing

Grocery sector

- ▶ 29,948 people were employed in the grocery sector, a fall of 370 people (1.2 per cent) from the previous year
- ▶ This accounts for 9.3 per cent of the employment in this sector
- ▶ Employment decreased in 4 of 5 sub-sectors:
 - ▶ Sanitary paper product, human pharmaceutical and medicinal product, cleaning compound and polymer film and sheet packaging material manufacturing

Insights

- ▶ The increasing investment in the food and beverage sector in the period 2015-16 (refer to section 6) may have positively impacted the employment in the food and beverage sector in the 2016-17 period
- ▶ The increasing importance of the defined industry within the overall manufacturing industry is illustrated by a net increase in employment in the sector

¹ Employment refers to the number of all persons employed irrespective of whether they are full-time, part-time or casual employees.

5 Employment

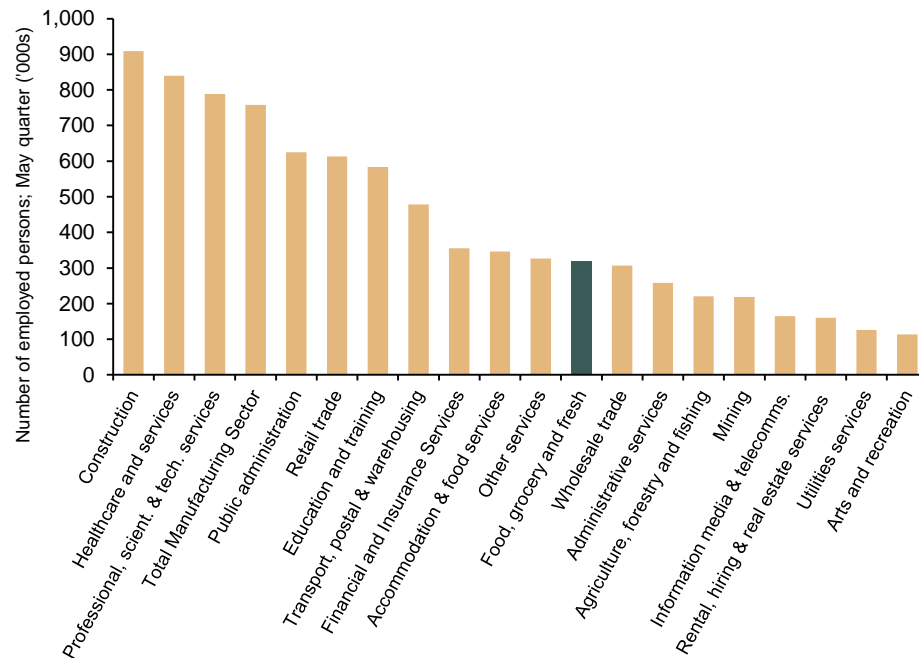
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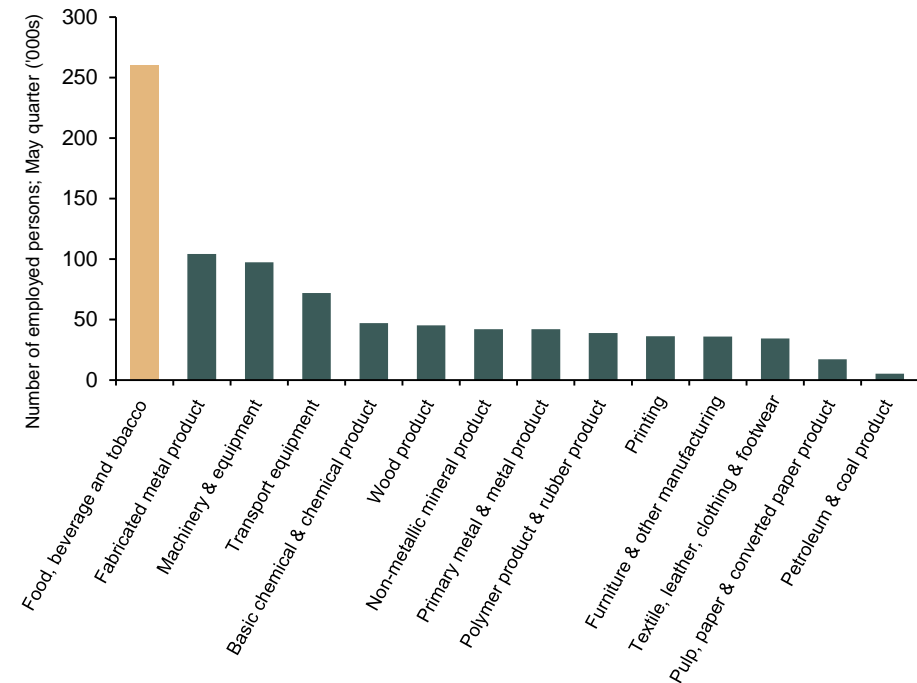
Employment compared to other industries and other manufacturing

- ▶ The industry employs a significant proportion of Australians, employing more than other sectors such as the mining industry, utilities and the information media and telecommunications industry
- ▶ The food product, beverage and tobacco sector is the largest sector of the manufacturing industry, with a share of 29.6 per cent of employment
- ▶ When the grocery sector is included in this analysis, the industry share is 33.0 per cent of manufacturing employment

Employment in Australian industries (Quarterly average, 2016-17) (000s)



Employment in the manufacturing industry (Quarterly average, 2016-17) (000s)



Source: Based on ABS, Catalogue number 6291.0 and IBISWorld Reports C1524, C1841, C1851, C1852, C1911, A0122, A0123, A0130, A0131, A0139, A0172

Source: Based on ABS, Catalogue number 6291.0, 8155.0 and IBISWorld Reports C1524, C1841, C1851, C1852, C1911, A0122, A0123, A0130, A0131, A0139, A0172

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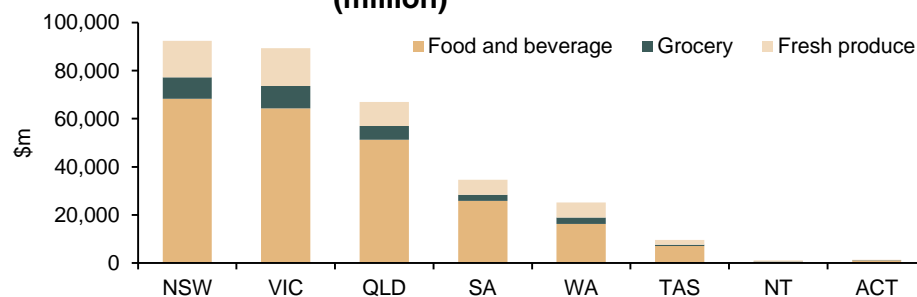
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Location of Employment

State of Employment

- ▶ NSW employed 28.8 per cent of people in the industry (92,333 persons)
- ▶ Victoria followed closely employing 89,361 persons in the sector (27.9 per cent)
- ▶ The proportion of workers within NSW and Victoria has remained steady over the last three years
- ▶ The profile of the allocation of workers among the three sectors that comprise the industry (i.e. the number of workers that work in each sector by state) has remained relatively consistent over the last few years

Employment by State/Territory (2016-17 quarterly average)
(million)



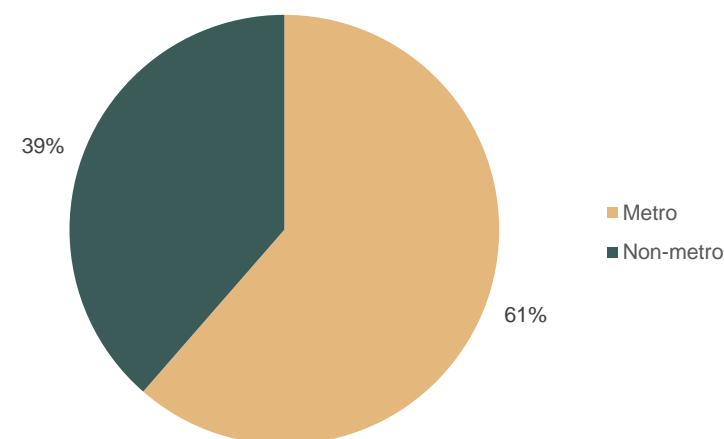
	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Sub-sector (%)								
Food and Beverage	29.1	27.4	21.9	11.0	6.9	3.0	0.2	0.4
Grocery	29.8	31.5	19.2	8.5	8.6	1.6	0.4	0.4
Fresh Produce	27.1	28.2	17.7	11.2	11.2	3.7	0.7	0.2
Total	28.8	27.9	20.9	10.8	7.8	3.0	0.3	0.4

Source: Based on ABS catalogue number 6291.0 (data approximated at three digit ANZSIC06 code level)

Metro v Non-Metro

- ▶ 39 per cent of all employed persons in the industry worked in non-metropolitan areas in 2016-17
- ▶ Most states employed a greater proportion of people in metropolitan areas—all States had a higher metropolitan proportion of employment except Tasmania (with Queensland employing a similar proportion in metro and non-metro areas)
- ▶ Victoria and Western Australia employed the highest proportion of people in the metropolitan area (68.2 and 67.7 per cent respectively) followed by NSW (62.4 per cent)

Proportion of Employment in Metro v Non-Metro areas
(2016-17)



Source: Based on ABS catalogue number 6291.0 (data approximated to the one digit ANZSIC06 code level)

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Capital Investment



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6 Capital Investment

Summary of Capital Investment

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Capital Investment

\$2.9bn

Capital investment is a direct measure of manufacturers' spending or investment on assets such as machinery and equipment and indicates potential future supply



Capital Investment

- ▶ In the food, beverage and tobacco product manufacturing sector, capital investment (a direct measure of manufacturers' spending or investment on assets less revenue from asset sales) was \$2.9bn in 2015-16, increasing 4.7 per cent
- ▶ The increase was driven by the food product manufacturing sector which increased by \$271.4m (12.3 per cent)
- ▶ This was the first increase in capital investment since 2011-12

Manufacturing Sector Investment

- ▶ Capital investment in the manufacturing industry shows a negative compounded annual growth rate (CAGR) of 5.5 per cent from the period of 2010 to 2016, indicating a decline in the manufacturing industry over recent years
- ▶ However the food, beverage and tobacco product sector has shown a positive investment CAGR of 2.7 per cent in nominal terms, in the same period
- ▶ Note CAGR has been used here as it is a better indication of an industry's growth rate over time than a simple average as it does not overestimate growth by taking into account the impact of compounding

Capital Expenditure

- ▶ Capital expenditure (the total expenditure on acquiring both fixed tangible and intangibles assets) increased 13.7 per cent to \$4.0bn after three consecutive years of negative growth
- ▶ Capital expenditure in the food product manufacturing sector increased 10.7 per cent while the beverage and tobacco product manufacturing saw an increase in capital expenditure of 24.8 per cent

Insights

- ▶ The industry is increasing its importance in terms of investment share in the overall manufacturing industry
- ▶ The food, beverage and grocery industry looks to be able to sustain growth at least in the near future, as suggested by positive food, beverage and tobacco 6-year investment CAGR in nominal terms

Capital Investment¹

Key figures

\$2.9bn

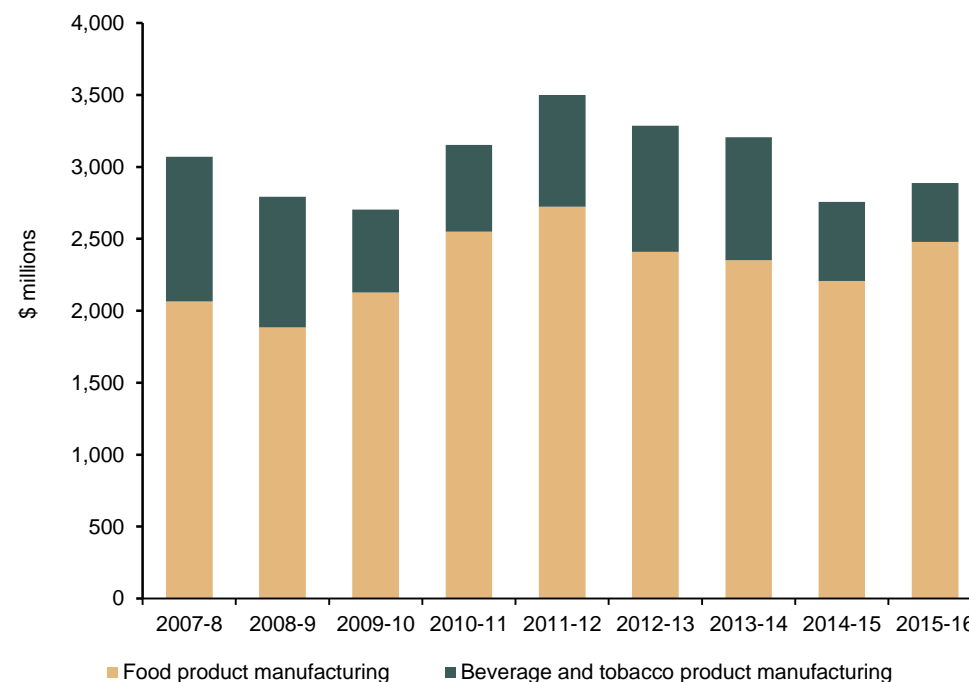
Capital investment in the food, beverage and tobacco product manufacturing sector

4.7%

Growth rate in capital investment

- ▶ While available data does not allow the dissection of investment information for each of the sectors that comprise the industry, the capital investment from the food product manufacturing and the beverage and tobacco product manufacturing sector provides an indication of potential future supply
- ▶ Gross fixed capital formation - called 'capital investment' in this report - is the total level of capital investment over that year on fixed assets (i.e. new and existing assets less those assets that have been disposed of)
- ▶ Capital investment is a direct measure of manufacturers' spending or investment on assets (i.e. machinery and equipment) less receipts from the sale of assets
- ▶ Capital investment was \$2.9bn in 2015-16, increasing 4.7 per cent (or \$130.5m) after three consecutive years of negative growth, indicating a potential increase in supply during the upcoming years.
- ▶ The increase was driven by the food product manufacturing sector which increased by \$271.4m (12.3 per cent,) offsetting a decline in the beverage and tobacco product manufacturing sector of \$140.9m (25.6 per cent)

Capital Investment (based on gross fixed capital formation) (\$2015-16)* (million)



* The split between beverage and tobacco product manufacturing was not available.

Source: Based on ABS catalogue number 8155.0

¹ In this report, capital investment is taken to be gross fixed capital formation. Gross fixed capital formation is measured by the total value of a producer's acquisitions, less disposals, of fixed assets during the reference period, plus certain additions to the value of non-produced assets realised by the productive activity of businesses. It excludes intangible assets.

6 Capital Investment

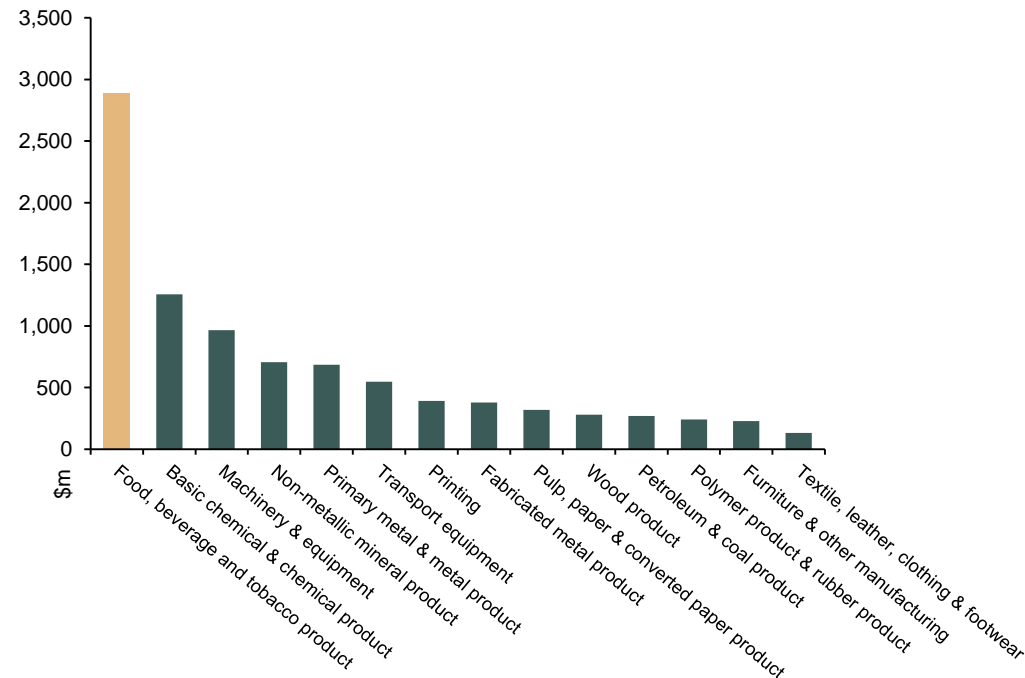
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Capital Investment

- Overall, the food, beverage and tobacco product sector accounted for 31.1 per cent (or \$2.9bn) of total capital investment in the manufacturing industry where total investment was \$9.3bn
- The sector is a core player in the manufacturing industry when it comes to capital investment, with the food and beverage sector being the largest contributor when compared to all other manufacturing sectors

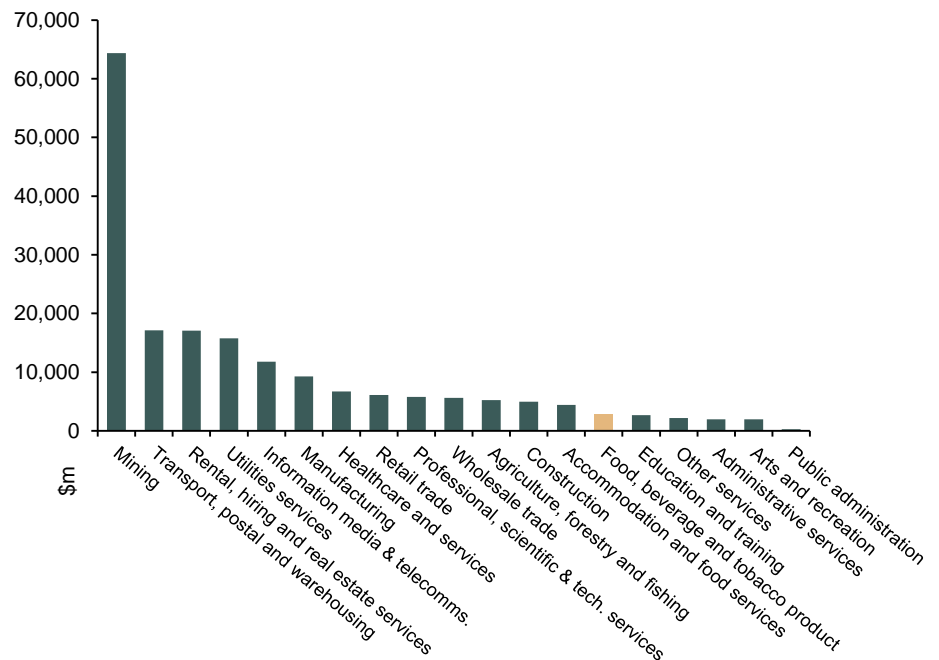
Manufacturing sector capital investment analysis (\$2015-16)¹ (million)



¹ The split between beverage and tobacco product manufacturing was not available.
Source: Based on ABS, catalogue number 8155.0

- The industry's level of investment is similar to or greater than education and training (private); administrative services; arts and recreation and public administration
- The food, beverage and tobacco product sector has increased its share of manufacturing capital investment in recent years moving from 18.9 per cent in 2011 to 31.1 per cent in 2016 which reflects the decline in other manufacturing sectors such as the car industry

Australian industry's capital investment (\$2015-16)² (million)



² The split between beverage and tobacco product manufacturing was not available.

Source: Based on ABS, catalogue number 8155.0

Capital Expenditure

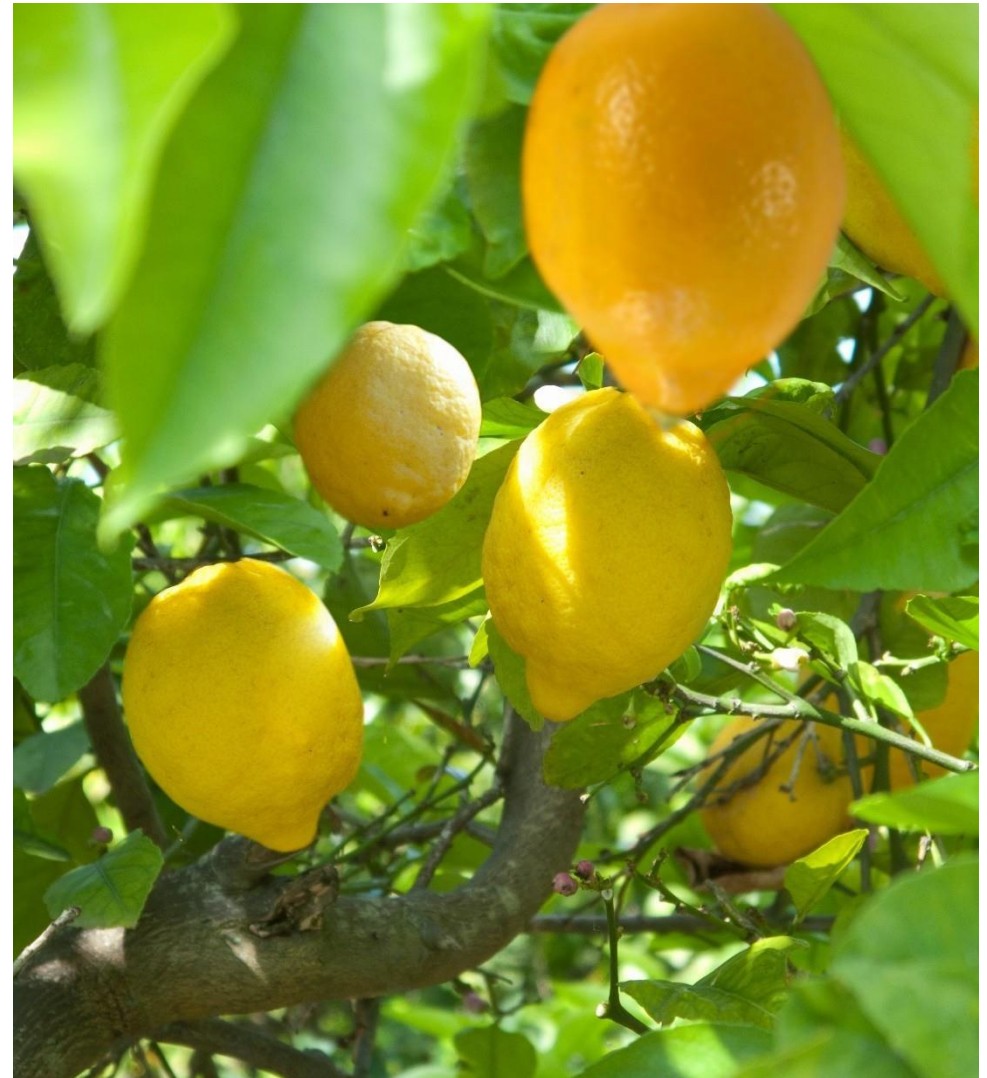
Key figures

\$4.0bn **13.7%**

Capital expenditure in the food, beverage and tobacco product manufacturing sector

Growth rate in capital expenditure

- ▶ Another measure that provides an indication of manufacturer's investment into the sector is capital expenditure, which is the total expenditure on acquiring both fixed tangible and intangibles assets (including land, dwellings, buildings, plant, machinery, equipment, patents and licences)
- ▶ Capital expenditure was just under \$4.0bn in 2015-16, increasing 13.7 per cent (or \$477.4m) after three consecutive years of negative growth
- ▶ In the food product manufacturing sector, capital expenditure grew to just over \$3.0bn (or an increase of 10.7 per cent from 2014-15).
- ▶ The beverage and tobacco product manufacturing saw a increase in capital expenditure by 24.8 per cent to \$935.0m



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