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STATE OF THE INDUSTRY 2018

RESILIENCE THROUGH CHALLENGE

Sustaining Australia



CEO'S FOREWORD

This is the Tenth 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.

From nappy manufacturers in Western Sydney, to cheese processors in Northern Victoria, to bakers in Perth, to sugar millers in central Queensland, this diverse, highly efficient and competitive sector delivers the essentials of life for all Australians at the highest possible standards.

The industry's complex and efficient supply chains take products from paddock to plate and make solutions that enhance health, hygiene and well-being for all Australians every day.

Simply put, this \$131 billion sector is a necessity for Australia's social fabric and economic future.

The data in this year's State of the Industry report reflect a resilient sector that is maintaining its significance to the Australian economy in an environment of substantial head winds and relentless cost pressures.

The sector is vital to Australia's manufacturing future and now represents 36 percent of all Australian manufacturing turnover; it is vital to Australia's regional communities, through direct employment and supply chains; and it is vital to Australia's export earnings, with approximately 25 percent of turnover now derived from overseas markets.

The sector continues to be the major source of Australia's manufacturing jobs, employing approximately 324,450 Australians, which is almost 40 percent of all manufacturing jobs. The food and beverage manufacturing sector is the biggest source of these jobs with approximately 244,220 workers, of which approximately 42 percent work in rural and regional areas. Although employment declined slightly by 1.4 percent in 2016-17, the report highlights the sector's resilience and stability, with only a 0.3 percent decline in employment in ten years compared to a 2.1 per cent decline for overall manufacturing employment.

This year's report reflects the broader ramifications of a difficult trading environment. The small two percent decline in turnover highlights 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 intensify with the prolonged East Coast drought, which will have considerable flow-on effects for food processors with likely commodity price increases. This is in addition to ever increasing energy prices, which have doubled and in some cases tripled.

To maintain the sector's crucial contribution to communities and the economy, it is important that companies invest for the future. The fall of approximately ten percent in capital expenditure in food and beverage manufacturing is of concern and is now at the second lowest level in ten years. When there is a reluctance to re-invest regularly to keep pace with technology and its associated productivity improvements, a vicious circle occurs where re-investment lags and returns inch lower over time, therefore capital is even less likely to be attracted.

As long term trends indicate, the Australian food and grocery manufacturing sector will continue to be a vital piece of Australia's economic jigsaw. However, as we look to the post-mining investment period, and as traditional manufacturing sectors without globally competitive positions continue to move offshore to low cost economies, we need to be smarter about unlocking the potential of food, and grocery manufacturing if we still want to make things in this country. That means making the most of our natural competitiveness that arises from being able to source quality agricultural inputs and processing them to the global best safety and quality standards.

To maintain and grow our contribution, we need a step change in investment, which requires consideration of carefully focused investment allowances or incentives within the tax system for a period that will provide an ongoing boost to activity, exports and jobs. A regulatory system that remains open to foreign investment will also play a key role in attracting the capital investment required to maintain the sector's importance as Australia's largest manufacturing sector.

We also need fair retail supplier relationships that appropriately reward and incentivise innovation and risk. An enhanced Food and Grocery Code of Conduct will provide greater certainty and clarity about dealings in the industry without adding unnecessary complexity or cost.

Finally, we need to maintain the cooperation of government and industry to commit to reforms that will boost competitiveness and help reduce costs. High costs are at the heart of the competitiveness problem for Australian food and grocery producers and on global comparisons we have among the highest labour, utility, transport and regulatory costs of any developed nation.

This is a great sector, which drives the life blood of so many communities across Australia. This report shows promising signs that it will remain resilient to the threats of the current challenging environment, however it needs appropriate policy settings to help unlock its significant potential to be a real driver growth and jobs for this country.



The \$131.3 billion food and grocery processing sector provides the essentials of life by taking the fresh produce from Australian farmers and turning it into the food and groceries Australians use every day.

The Australian Food and Grocery Council (AFGC) represents this vital industry – one that creates jobs and income for Australia, supports our farmers and regional communities and produces the highest quality products for consumers here and overseas.

Our vision is to create a thriving, sustainable and trusted food and grocery supply industry with a strong manufacturing base. We work to continuously improve the framework for fairer retailer-supplier relationships and ease regulatory burden.

We promote sound public policy, champion initiatives that increase productivity and profitable growth, and help protect the safety and security of the consumer product supply through a commitment to scientific and supply chain excellence and industry best practice.

Since 1995, the AFGC has made substantial progress in advancing the industry's agenda with retailers, government, regulators and other key stakeholders. Our current focus lies in the following areas:

Enhancing access to multiple, competitive and fair markets by improving the supplier-retailer relationship through the Food and Grocery Code of Conduct, and increasing access to new markets through exports, new retail and online.

Encouraging government and stakeholders to recognise the industry's contribution to jobs, the economy, health and lifestyle of communities and care for the environment.

Enhancing the industry's global competitiveness by improving the cost-competitiveness of the Australian economy, shaping better regulatory environments and developing industry-led solutions to improve efficiency.

Visit **www.afgc.org.au**



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 market 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.

Visit: **www.ey.com/AU/en/Industries/Consumer-Products/EY-consumer-products-agribusiness**.

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



1. OVERVIEW

This AFGC State of the Industry report is the tenth in the series. It provides an overview of the state of the sector over the 2016-17 year, with discussion of broader industry trends, and is supported by an extensive data set. This report describes the broader food and beverage, grocery manufacturing and fresh produce sectors, as well as the important contribution these collectively make to the Australian economy.^{1,2}

1.1 KEY FINDINGS

The Australian Food and Grocery (AFG) sector experienced challenging conditions through 2016-17. The AFG sector however, has remained resilient in the face of this environment ending the year with total sector turnover of \$131.3 billion and with relatively stable sector employment of 324,450 people. Concern remains however, regarding declines in real Industry Value Added ("IVA")³, productivity and capital investment in the sector.

In real terms, AFG turnover declined by 2.0 percent in 2016-17,⁴ with some offsetting value growth recorded in some industries.⁵ Looking at a more granular level, we see that Food and Beverage manufacturing as well as Grocery turnover fell by 2.5 percent and 6.3 percent respectively. This is evidence of the continued challenges faced by the Food and Grocery sub-sectors associated with retail price deflation and significant cost pressures in some areas. Meanwhile, Fresh Produce bucked this movement and experienced growth of 8.8 percent. Overall, the sector's IVA declined by 4.9 percent to \$32.9 billion.

The long term employment trend for the AFG sector is generally steady, with employment fluctuating between 315,000 and 335,000 over the last decade. While total employment fell by 1.4 percent (4,750 jobs) in 2016-17 it has remained stable as a share of manufacturing employment at 39.1 percent as a result of continued declines in total manufacturing employment. In line with this slight decline in AFG employment, the number of AFG businesses fell by 0.8 percent to around 36,086. This has largely been driven by a decline in the number of fresh produce businesses, which fell from 21,204 to 20,758.

To return to positive turnover growth, the AFG sector needs to continue to innovate and enhance productivity. With the sector's IVA declining at a faster pace than the decline in employment, sector productivity eased in 2016-17 to \$101,445 per person employed, a 3.5 percent fall. This is just below the private sector average of \$104,276 and significantly below the manufacturing average of \$119,842.

Related to this, there are challenges to maintain and increase capital expenditure for the sector. While new technologies are helping to open up new ways of adding value and reducing costs, many businesses are hesitant to invest given tough trading conditions and falling competitiveness. This is reflected in the net capital expenditure figures which have dropped to just below \$3 billion; a 10.3 percent decline from 2015-16, and a figure that was last seen in 2014-15. The sector is not alone though. Recent years have seen an overall decline in business investment across the Australian economy.⁶

At a time of heightened competitive pressure domestically, the AFG sector continues to have a strong export focus, with around a quarter of production exported, with total exports increasing by 1.9 percent in 2016-17. This growth follows the pattern of strong historical export growth, as seen through a 38.9 percent export increase between 2010-11 and 2016-17. Recent developments in Free Trade Agreements (FTAs) are likely to open up new opportunities for the AFG sector. Further, exchange rate movements can also aid in making Australian products more competitive on world markets. A depreciating Australian Dollar may assist export dominant AFG sub-sectors, such as Food and Beverage Product manufacturing and Fresh Produce which maintain a trade surplus, but may conversely impact the Grocery sub-sector which runs a significant trade deficit.

Australia's manufacturing sector as a whole has been under pressure as major economic structural changes have occurred - and consolidated - in recent years. This transformation is not new. The economy has been, and continues to evolve from one centred on the production of primary products to an urbanised economy producing services.⁷ The AFG sector is not immune from these trends but has to date appeared to cope better in dealing with the challenges as evidenced by the relatively better turnover and employment results compared to manufacturing as a whole.

The test will be whether the AFG sector can continue to innovate and enhance its competitiveness and continue to deliver value for its customers.



1.2 SUMMARY OF ECONOMIC INDICATORS

The following key data points have been identified when collating this year's data and examining the performance of the sector.

Table 1: Summary of key results

Variable	2015-2016		2016-2017		Growth	
	Nominal	Real	Nominal	Real	Nominal	Real
Turnover (\$ billion)	\$131.9	\$134.0	\$131.3	\$131.3	-0.4%	-2.0%
IVA (\$ billion)	\$34.1	\$34.6	\$32.9	\$32.9	-3.4%	-4.9%
Employment*	329,200	n/a	324,450	n/a	-1.4%	n/a
Businesses	36,366	n/a	36,086	n/a	-0.8%	n/a
Productivity (per person employed)	\$103,458	\$105,125	\$101,445	\$101,445	-1.9%	-3.5%
Net Capital Expenditure**	\$3.2	\$3.2	\$2.9	\$2.9	-8.9%	-10.3%
Imports	\$35.1	\$35.7	\$35.2	\$35.2	0.3%	-1.3%
Exports	\$32.4	\$32.9	\$33.5	\$33.5	3.6%	1.9%

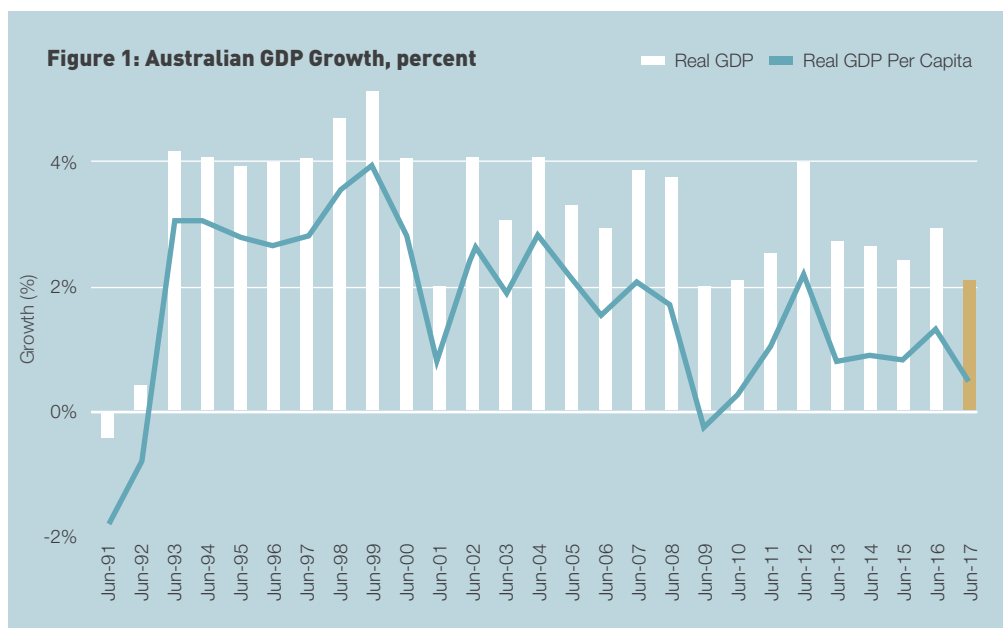
* This is total number of employees, head count basis, and does not include seasonal employees.

** This data is only concerning the food and beverage manufacturing sub-sector as data is not available for the grocery and fresh produce sub-sectors. The figures also represent net capital expenditure of which is equal to gross capital expenditure less the disposal of assets. Rounding has occurred.

1.3 OVERVIEW OF BROADER ECONOMIC CONDITIONS AFFECTING THE SECTOR

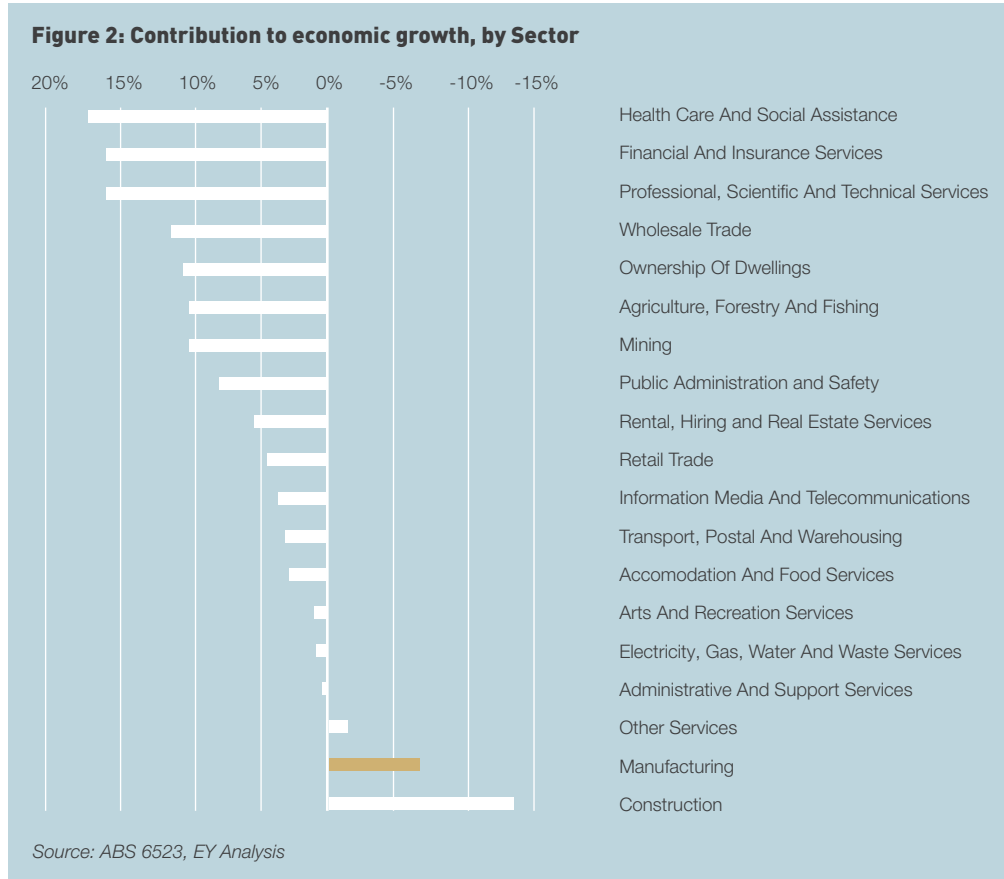
Economic growth has softened ...

Since the early 1990s, Australia's economy has gone through a period of uninterrupted growth. The 2016-17 year saw a continuation of this growth albeit at a subdued rate with the economy growing at 2 percent in real terms. This is the lowest rate since the global financial crisis (GFC) and reflects a combination of intensifying competitive pressures and a lack of household income growth amongst other factors.



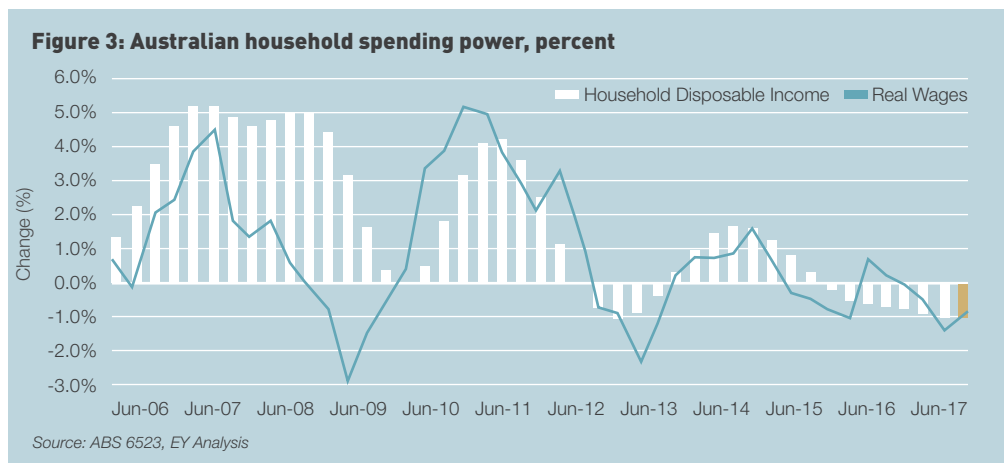
... with Manufacturing contributing less

For the manufacturing sector as a whole, IVA fell by 3.6 percent in the 2016-17 year. This fall in IVA has contributed to the manufacturing sector's overall weakening in terms of its importance to the Australian economy with a decline in its contribution to Australia's total economic growth. This decline has meant that the manufacturing sector overall ranked second lowest in 2016-17 in terms of sector contributions to Australia's economic growth.



Real wages and disposable incomes have fallen ...

Despite low levels of inflation nationally, softness in wage growth has resulted in little or no growth in real wages - which is typically a proxy for household spending power. Reflecting this, real household disposable incomes (and expenditure) on a per capita basis have experienced no growth in recent years and, as illustrated in Figure 3 below, household disposable income has in fact experienced negative growth since mid-2015 and throughout 2016-17.

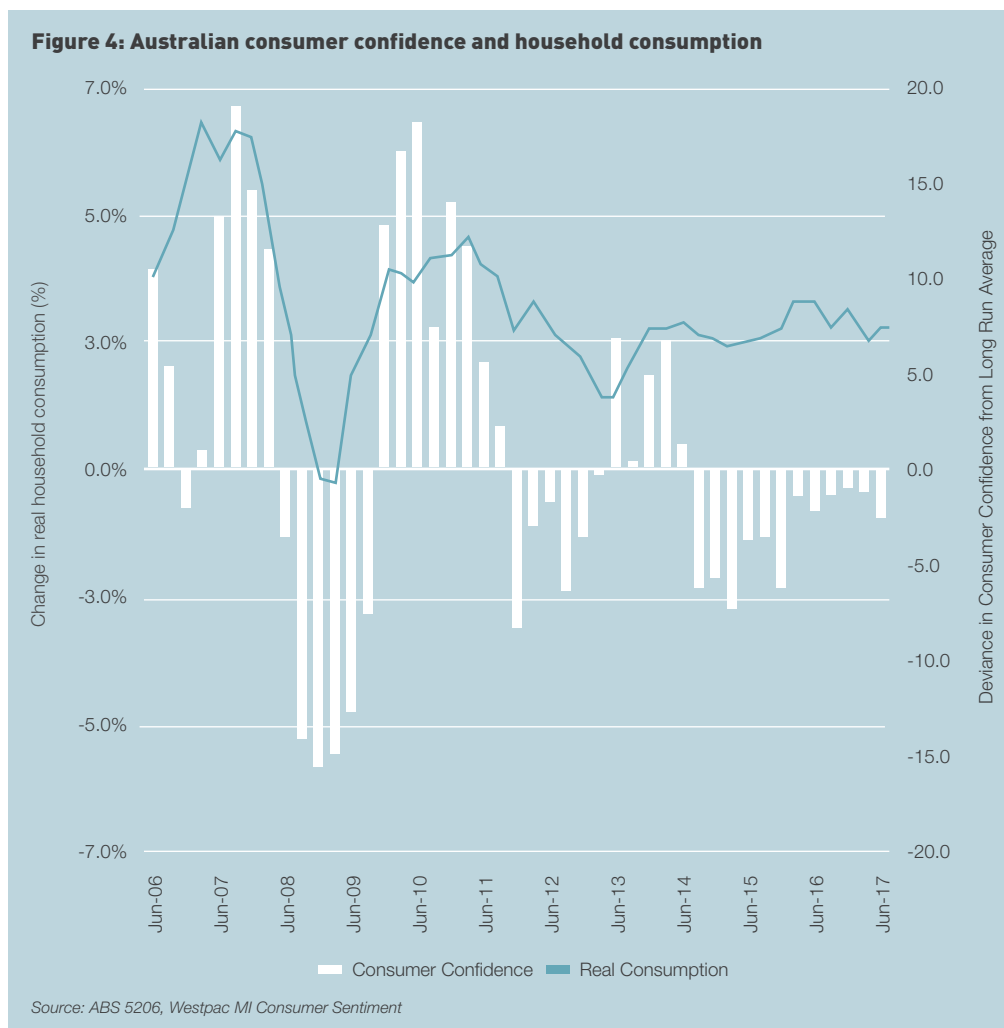


... resulting in flat lined, though positive consumption, and negative though improving consumer confidence

This continuation of weak growth in wages and sluggish growth in household disposable incomes meant that consumers remained cautious in their spending behaviour. Coupled with rising prices of so-called administered items (such as electricity, health expenses and child care) many households are experiencing cost of living pressures. Ultimately, persisting high debt levels, weak income levels, and other related pressures and perceptions are impacting household behaviour and has resulted in suppressed consumer spending.⁸

This is reflected in the data where for the 2016-17 year household consumption grew by just over 2.5 percent – well below the twenty year average of 3.5 percent. Consumer spending on food similarly recorded below average growth in the year, but only just, recording year on year growth of 2.53 percent compared to the 20 year average of 2.65 percent. This demonstrates a degree of resilience and reflects that consumers, regardless of economic state, are likely to continue to spend on food.

Looking over the last decade, generally, changes in net household consumption expenditure are in-line with movements in consumer confidence. Thus changes in confidence can be seen as a proxy for household willingness to consume and thus ultimately, a proxy for AFG business confidence. The higher a household's willingness to consume typically means a greater demand for AFG products and thus the more confidence AFG businesses can hold with regards to growing output. Since mid-2014 however, data indicates that consumption has continued to remain positive while confidence remains below its long run average.



Indicators are positive for the future ... and for the AFG sector

While spending on a per capita basis has been softer, continuing strong population growth, relative to other OECD countries, is helping to support headline market growth outcomes. In 2016-17 Australia's population increased by 1.7 percent or just over 400,000 people. A strong net overseas migration result (with 262,000 net arrivals) was a contributing factor. Australia's growing population and relative wealth to other countries in the region is one factor behind the arrival in Australia of international retailers.

Going forward, developments in consumer confidence will have an important influence on household spending. A sustained period of above average confidence is needed to support stronger spending growth. Continuing strong job creation and forthcoming personal income tax cuts should be supportive of sentiment – although recent political developments and some uncertainties with the global economy will work against that.

While the 2016-17 financial year was a difficult one, the Australian economy has recovered through 2017-18 to record growth of near 3 percent.⁹ Encouragingly, the growth has been broad-based with consumer spending solid. The Reserve Bank of Australia (RBA) released its 2018 September Report where recent economic data results have shown an overall increase in consumer sentiment since mid-2017 (albeit with some volatility).¹⁰

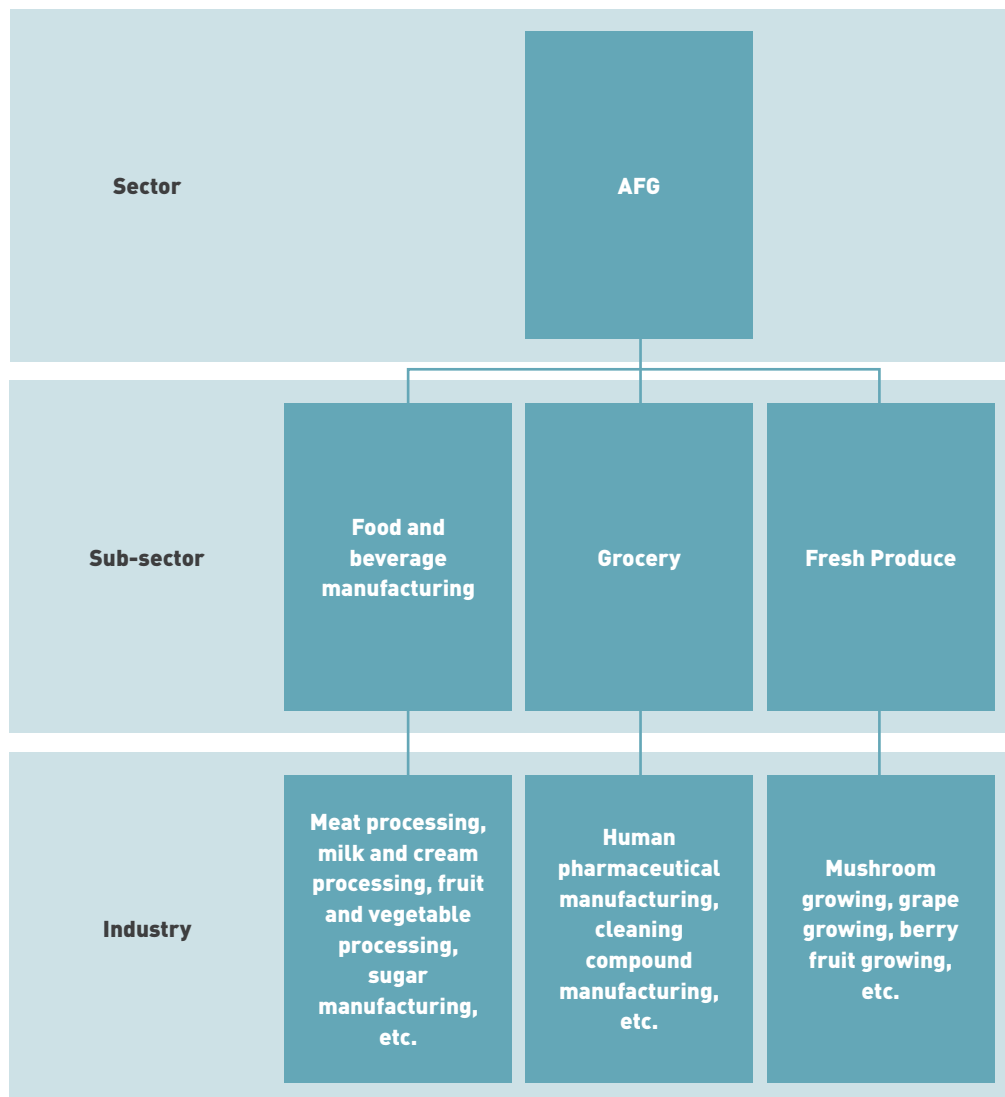
Critical to the outlook, however, will be the pace at which wages growth occurs and inflation recovers and moves towards more normal historical average levels to further enhance consumer confidence and spending. Continued improvement in consumer confidence, competitiveness and the containment of costs will likely bolster the AFG sectors results and ultimately, AFG business confidence.



1.4 KEY NOTES

Prior iterations of this report have reported values in real terms where nominal values for turnover, IVA, productivity and trade had been deflated into real 2013-14 dollars. Subsequent to the release of the last report the Australian Bureau of Statistics (ABS) has rebased some of its national accounts to be based on 2015-16 dollars. Consequently this report uses this as the opportunity to rebase the 'deflator year' to 2016-17. Accordingly, this report presents all fiscal information in 2016-17 dollars, providing nominal values in the appendix of this report.

When reading this report, readers should note that the terms sector, sub-sector and industry have been defined and used in a specific manner as outlined in the diagram below.



Lastly, the AFG sector is a constructed sector whereby related food and grocery industries have been identified and deemed to be appropriate to be included in the definition of the AFG sector (refer Appendix C for further detail). This characteristic should be considered throughout the Report where the AFG sector has been compared to other Private sectors or "Divisions" (such as Manufacturing, Retail Trade etc.) as a portion of these are larger groupings that encompass a broader set or number of industries.

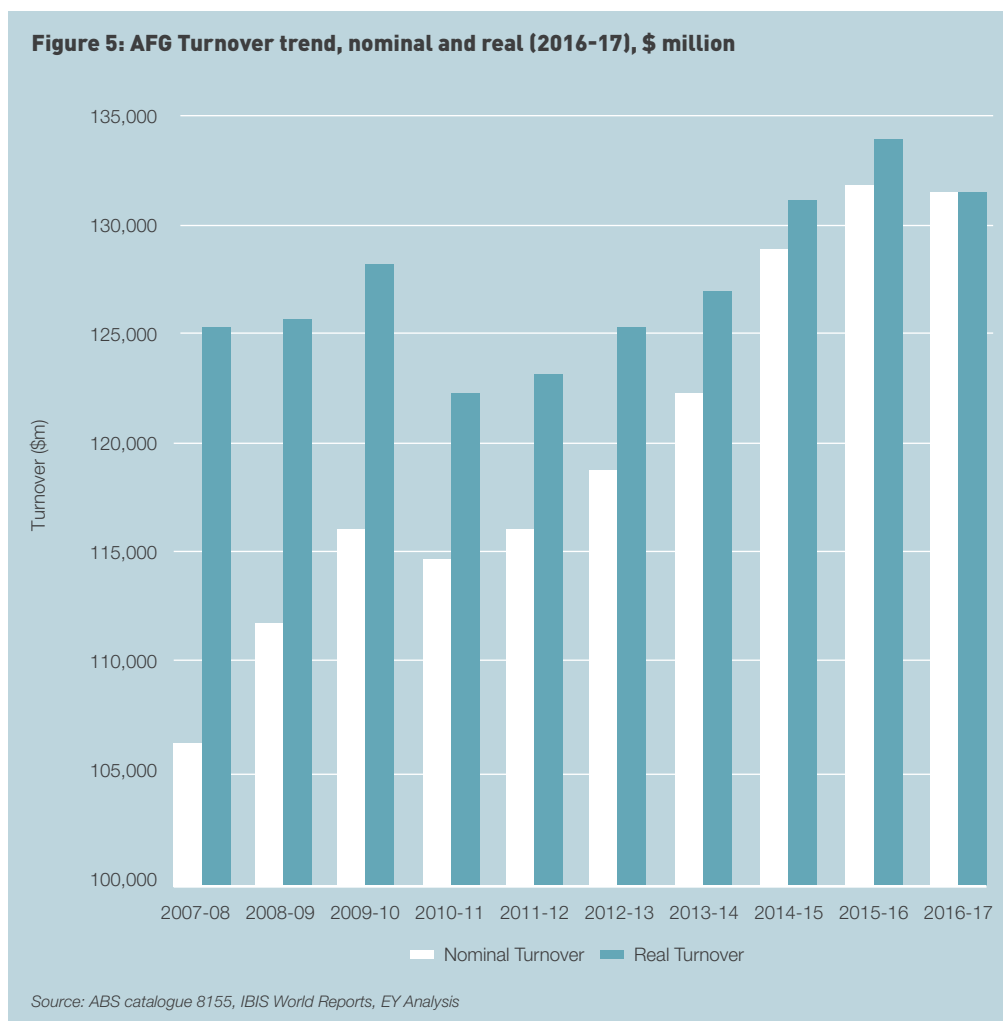


2. AFG TURNOVER AND INDUSTRY VALUE ADD

In 2016-17, the combined turnover of the sector was \$131.3 billion; a real decline of 2.0 percent. However, outside of 2015-16, turnover remains at its peak and has demonstrated continued strength since the global financial crisis, further evidenced by its increase to a 36 percent share of manufacturing turnover (up from 35.4 percent). Additionally, in 2016-17, the combined sector IVA for the food and beverage, grocery and fresh produce sub-sectors was approximately \$32.9 billion; down 4.9 percent in real terms, maintaining its 33 percent share of manufacturing IVA.

2.1 AFG SECTOR AND SUB-SECTOR TURNOVER

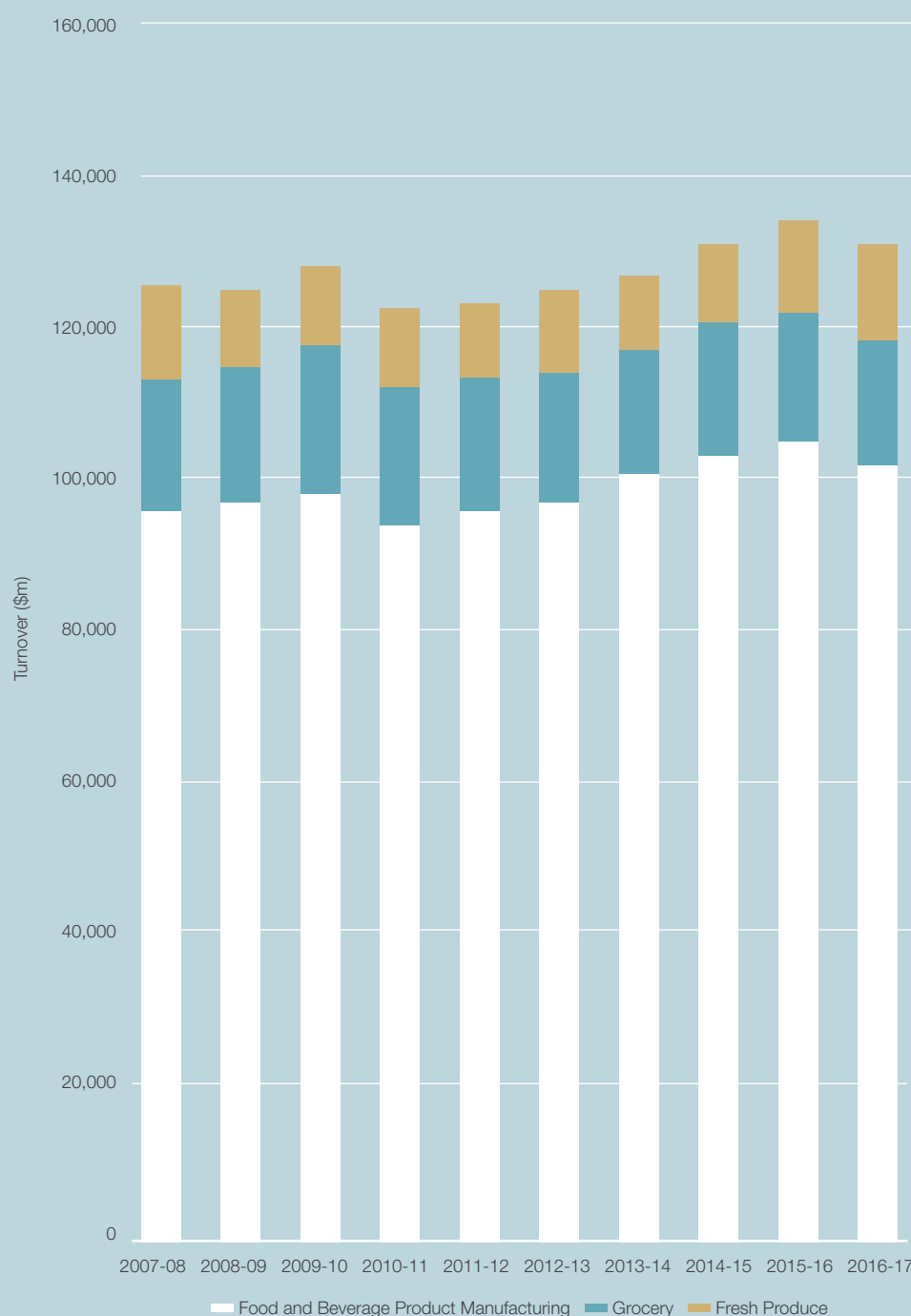
Australian Food and Grocery (AFG) turnover continues to remain resilient despite challenging conditions within the manufacturing sector, experiencing a real decline of \$2.7 billion from its peak of \$134.0 billion in 2015-16, a 2.0 percent decline. This is a relatively small deviation from its continued historical year on year growth, which has averaged 1.3 percent real growth over the past 5 years.



AFG's constituent sub-sectors each experienced varying results over 2016-17 with the largest sub-sector, Food Product manufacturing, turning over \$86.3 billion in revenue, a 1.7 percent decline from the prior year. Beverage Product manufacturing¹¹ follows as the second largest sub-sector registering \$15.8 billion in turnover, a 5.9 percent decline from the prior year. The Grocery sector also saw a decline with turnover recorded at \$16.1 billion, a 6.3 percent fall from the prior year.

The Fresh Produce industry on the other hand has experienced several years of strong growth, with positive growth in four of the past five years averaging 6.6 percent including 8.8 percent into 2016-17 with turnover recorded at \$13.2 billion.

Figure 6: AFG Turnover by sub-sector, real (2016-17), \$ million



2.2 BIGGEST INDUSTRY TURNOVER MOVERS

The recent decline in AFG turnover has been driven by declines within several key industries. The three industries with the largest¹² declines in terms of real growth were:

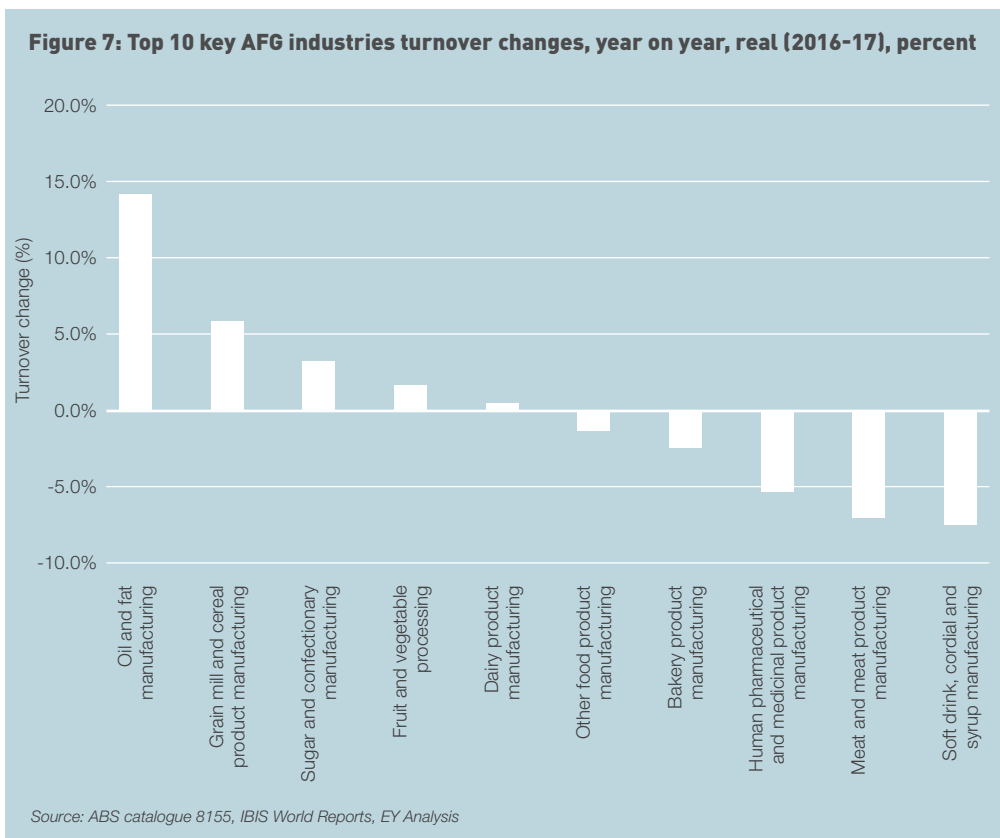
- Soft drink, cordial, and syrup manufacturing at -7.6 percent
- Meat and Meat Product manufacturing at -7.1 percent
- Human pharmaceutical and medicinal product manufacturing at -5.3 percent

Meat and Meat product manufacturing is the most substantial contributor to total AFG turnover accounting for 21.3 percent of total AFG turnover in 2016-17 and thus its decline is a key driver in the overall movement of the sector. This industry has recently faced challenging conditions with herd rebuilding in many parts of the country. This follows the ongoing drought conditions facing New South Wales and Queensland, which hosts roughly 50 percent of the national beef herd, and has not experienced a substantial wet season since 2011-12.¹³ Peak turnover in this sector was recorded at \$30.1 billion in 2015-16 declining to \$27.95 billion during 2016-17. The industry faces further pressures from increased international competition in frozen and chilled beef exports from the United States of America and Brazil.

While AFG as a whole has experienced a slight decline in turnover, several industries have grown. The top three industries experiencing the highest levels of year on year growth were:

- Oil and fat manufacturing turnover growing at 14.1 percent
- Grain Mill and Cereal Product manufacturing turnover growing at 5.8 percent
- Sugar and confectionary manufacturing turnover growing at 3.1 percent

Data indicate that oil and fat manufacturing has experienced the largest growth in terms of turnover. While there may be multiple factors contributing towards this result, one factor is the change in consumer preferences. Research suggests that consumer preferences have moved from oil and fat products perceived as unhealthy,¹⁴ such as vegetable oils, towards 'healthier' premium products such as canola and extra virgin olive oil which often command higher prices.

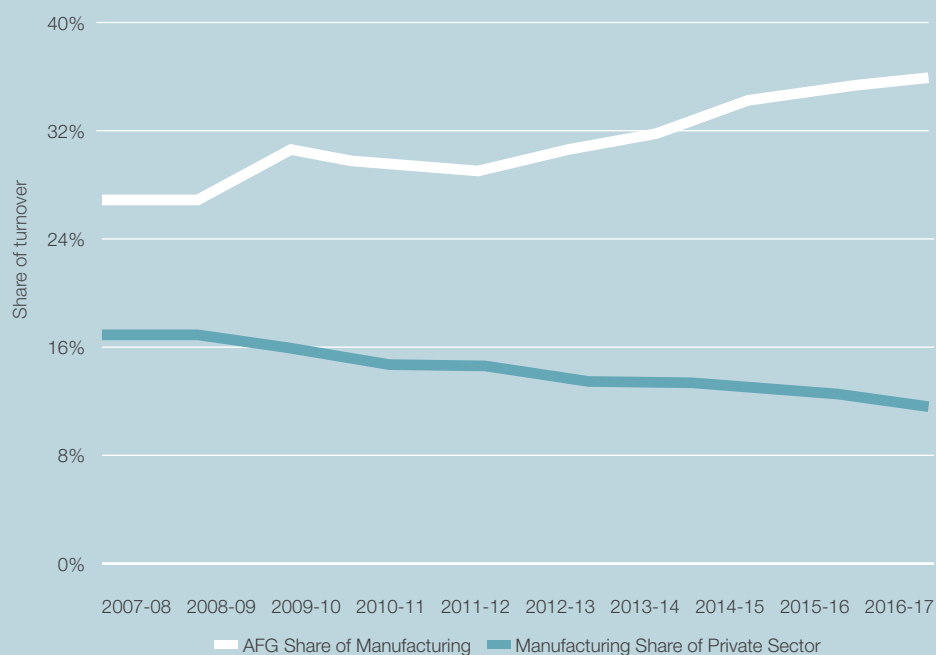




2.3 MANUFACTURING AND SECTOR COMPARISONS

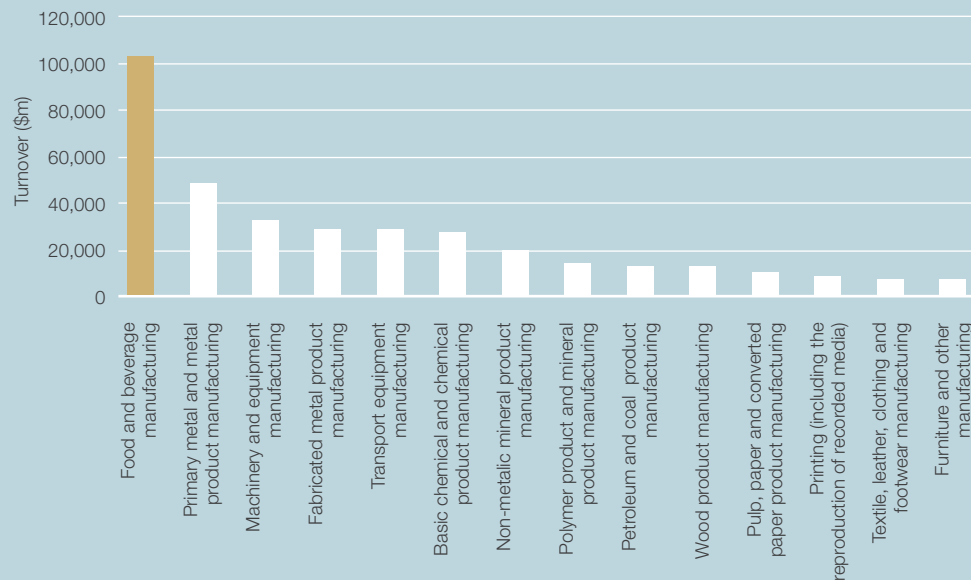
The AFG remains a significant contributor to total manufacturing comprising 36 percent of total manufacturing turnover. The AFG has historically remained resilient and outperformed the manufacturing sector as a whole, with healthy growth between 2012-13 and 2015-16 relative to continued declines in total manufacturing turnover. This resilience has been maintained throughout 2016-17 with AFG turnover experiencing a smaller decline relative to the manufacturing sector, with a 2.0 percent and 3.9 percent decline respectively, and with AFG increasing to its significant 36 percent share of total manufacturing turnover.

Figure 8: Share of turnover, AFG and manufacturing, percent



Food and Beverage Product manufacturing remains a staple component of the manufacturing sector overall. It is the largest single subsector within manufacturing accounting for \$102 billion of manufacturing's \$364 billion in turnover. Further highlighting its growing importance to Australian manufacturing is the fact that the Food and Beverage Product manufacturing's share of total manufacturing turnover has increased, on average, 4.4 percent per year over the past five years.

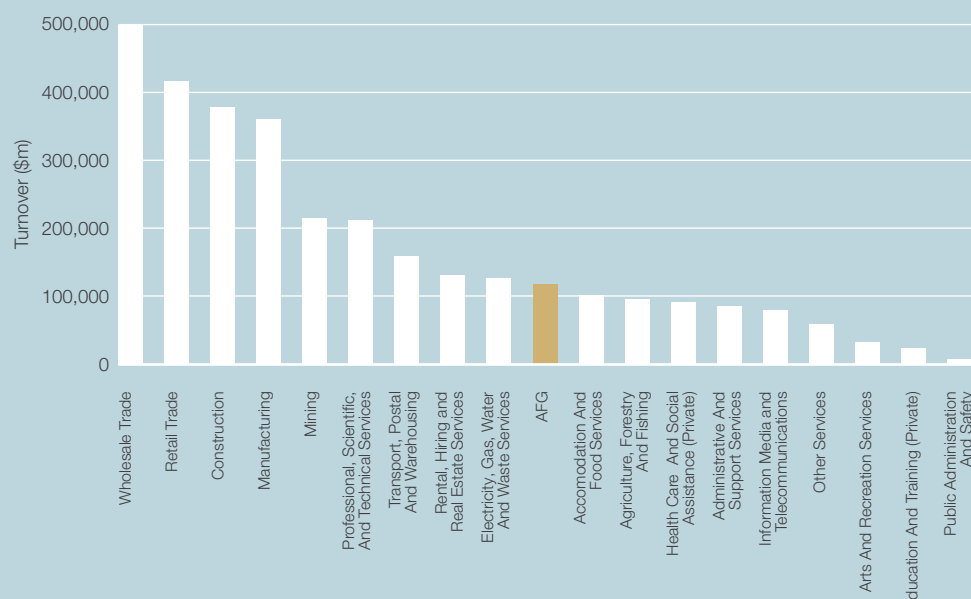
Figure 9: Manufacturing turnover, real (2016-17), \$ million



Source: ABS catalogue 8155, EY Analysis

While Food and Beverage Product manufacturing remains an increasingly important sector within the Manufacturing sector, it also is an important component of the Australian economy overall. Total AFG turnover (inclusive of Fresh Produce and Grocery) ranks tenth when ranked against turnover within all other Private Sector industries in 2016-17. This is evidence of the significance of the AFG sector to the Australian economy and its ability to be considered as a major division or component of the Australian economy.

Figure 10: Private Sector turnover, real (2016-17), \$ million



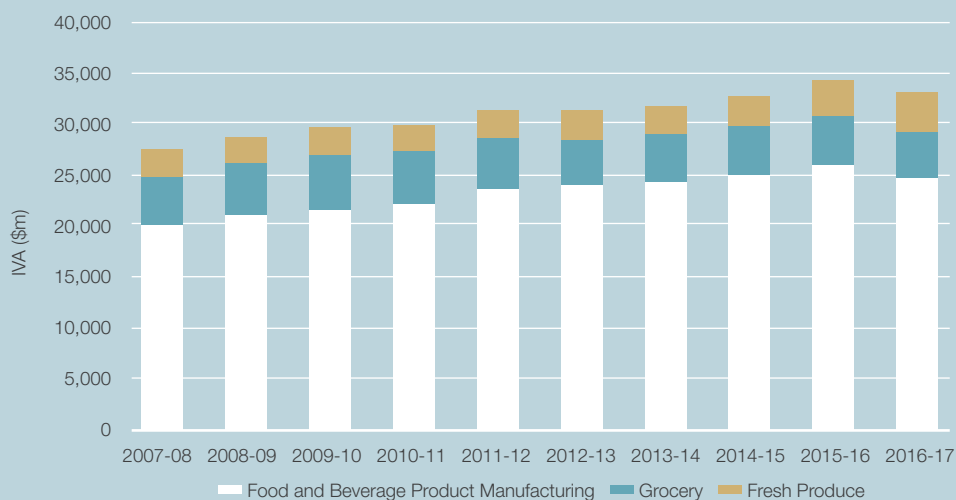
Source: ABS catalogue 8155, IBISWorld Reports, EY Analysis

2.4 AFG SECTOR AND SUB-SECTOR IVA

The AFG sector registered \$32.9 billion in IVA in 2016-17 and has followed a similar trend to sector turnover where it peaked in 2015-16 at \$34.6 billion. AFG IVA is led by the Food and Beverage Product manufacturing sub-sector which recorded \$24.6 billion in IVA (a 6.8 percent decline from the prior year), followed by the Grocery sector at \$4.6 billion (a 4.7 percent decline from prior year) and the Fresh Produce at \$3.7 billion (growth of 9.5 percent from prior year).

As can be seen through AFG IVA in Figure 11, IVA has been relatively stable since 2011-12 with the exception of 2015-16 demonstrating a degree of resilience in the sector. While a majority of IVA was delivered by the food and beverage product manufacturing sub-sector given its share of AFG, it was fresh produce that grew by near 10 percent over the last year.

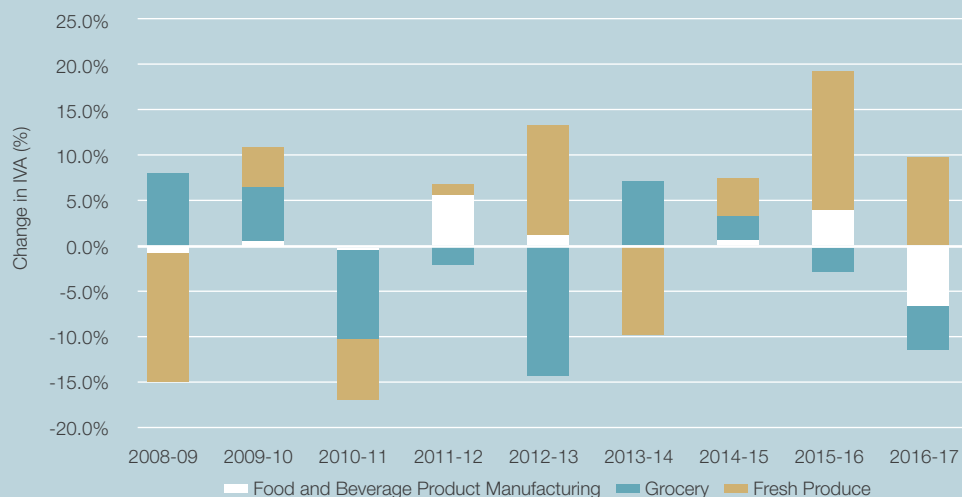
Figure 11: AFG IVA, by sub-sector, real (2016-17) \$ million



Source: ABS catalogue 8155, IBIS World Reports, EY Analysis

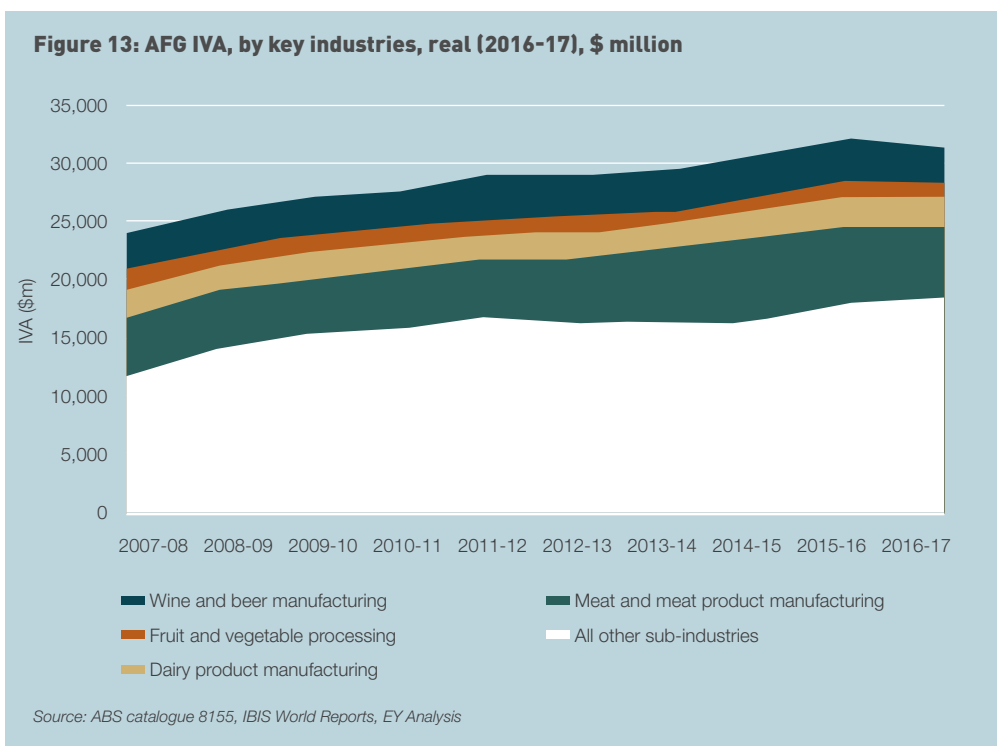
Since the GFC, fresh produce has had positive IVA growth in six out of the last nine years, with constant growth now since 2014-15. This indicates that the fresh produce sector is increasing turnover above and beyond any movements in required labour potentially suggesting the usage of more efficient processes, or ability to generate higher levels of output (i.e. fresh fruit and vegetables) per unit of labour input.

Figure 12: AFG IVA, by sub-sector, growth, percent



Source: ABS catalogue 8155, IBIS World Reports, EY Analysis

Industries across the AFG sector have experienced varying levels of IVA and IVA growth. Meat and meat product manufacturing, dairy product manufacturing, wine and beer manufacturing, and dairy product manufacturing remain key contributors to the sector's IVA.



2.5 MANUFACTURING COMPARISON

Similar to other components, Australian Food and Grocery is a significant contributor to the IVA of the Manufacturing sector where in 2016-17, it accounted for 33.1 percent of total Manufacturing IVA. This share of Manufacturing IVA has steadily increased each year, growing from 25.7 percent in 2007-08 meaning that over the last decade, it has grown its contribution to Manufacturing IVA from one quarter to one third.

Driving this increase in relative contribution to Manufacturing IVA has been a gradual decline in Manufacturing IVA levels. Manufacturing IVA fell by 3.6 percent in 2016-17, following a 10 year average decline of 2.6 percent in real terms, further emphasising the relative strength and importance of AFG industries.



3. AFG EMPLOYMENT, BUSINESSES AND PRODUCTIVITY

The food and beverage, grocery and fresh produce sectors employed 324,450 people throughout Australia in 2016-17 (down 4,750 people compared to the previous year), maintaining a 39 percent share of total manufacturing employment. Coinciding with this slight decline in employment was a commensurate decline of 280 businesses, a decline of 0.8 percent. In addition, real productivity fell by 3.5 percent to \$101,445 per AFG Employee.

The long term employment trend for the AFG sector is relatively steady having fluctuated between 315,000 and 335,000 in the past 10 years, and has averaged -0.3 percent growth over the period. Over the last year, employment experienced a 1.4 percent decline from a five year peak of 329,200 persons in 2015-16 to 324,450 in 2016-17.¹⁵

The largest contributor to employment within AFG remains the Food and Beverage Product manufacturing sector, employing 244,222 persons (down 1.1 percent), and equal to 75 percent of the total AFG sector. The Fresh Produce Sector then follows with 51,878 persons (1.3 percent growth) and then the Grocery Sector with 28,350 (down 8.6 percent) persons employed. Interestingly, when overlaying employee numbers with number of businesses, both Food and Beverage manufacturing and Grocery businesses tend to employ more workers per business while Fresh Produce businesses tend to be smaller at the micro and/or small business level (see below table).

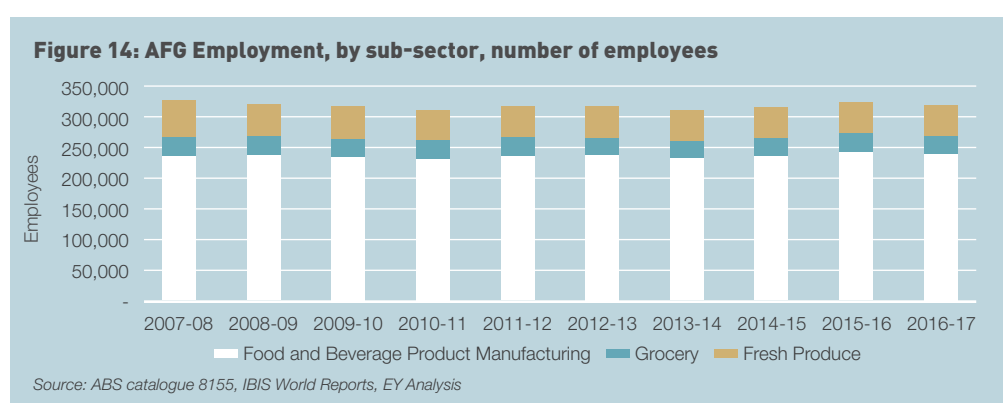
Table 2: AFG employment and business numbers, by sub-sector, 2016-17

	Number of Employees	Number of Businesses	Average Number of Employees Per Business
Food and Beverage Manufacturing	244,222	13,634	18
Grocery	28,350	1,694	17
Fresh produce	51,878	20,758	2
AFG Industry	324,450	36,086	9

3.1 AFG SECTOR AND SUB-SECTOR EMPLOYMENT

While manufacturing employment levels have undergone continued declines, AFG employment has been relatively resilient over the last 10 years with an average 0.3 percent decline in AFG employment per year. This is considerably smaller relative to the manufacturing sector's 10 year average decline of 2.1 percent. This resilience and stability in AFG industries is further reinforced by the sector's small, positive, average annual growth of 0.1 percent when the past five years of data is isolated. A significant contributor to employment resilience in AFG is the Food and Beverage Product manufacturing sector, which has maintained a relatively stable level of employment despite reductions in net AFG employment growth.

The changes in year on year AFG employment level can be linked to the decline experienced in the Fresh Produce sub-sector in the aftermath of the GFC. Positively however, this specific sub-sector has returned to stability in recent years and has experienced positive annual growth for the past three years.

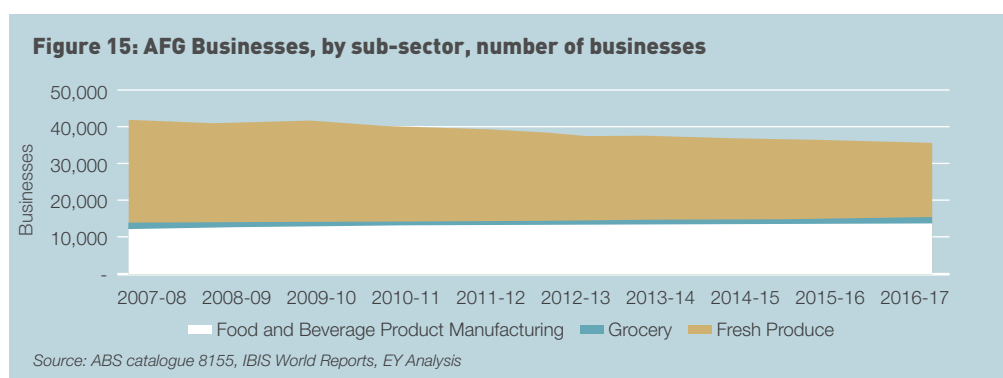


3.2 AFG SECTOR AND SUB-SECTOR BUSINESSES

In contrast to employment, the number of businesses in AFG industries has been in steady decline over the past 10 years, declining from a 10 year peak of 41,929 in 2007-08 to 36,086 in 2016-17. Positively though, the rate of this decline has been gradually lessening.

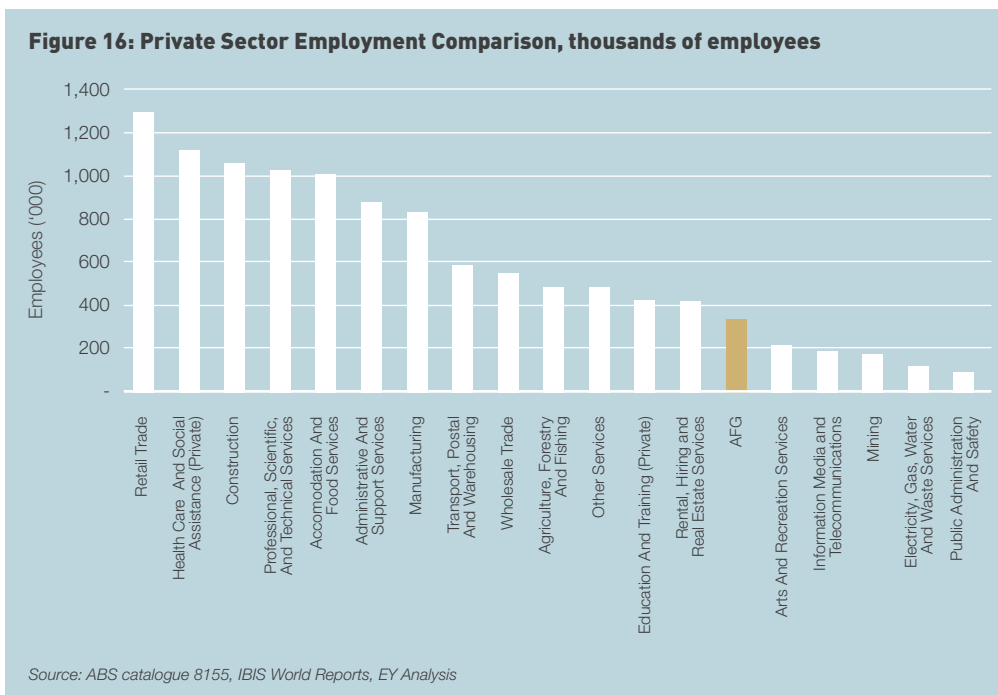
Consistent with every year over the last decade, the majority of AFG businesses operated in the Fresh Produce sector in 2016-17 with 58 percent of all AFG businesses trading in fresh produce. Specifically, there were a total of 20,758 Fresh Produce businesses in 2016-17. This figure is a decline of 2.1 percent from the prior year meaning the Fresh Produce sector has continued its trajectory of a falling number of operating businesses which started in 2009-10.

The number of Food and Beverage Product manufacturing businesses has however been gradually increasing, at an average of 1.2 percent annually, increasing from 12,272 to 13,634 over the past 10 years

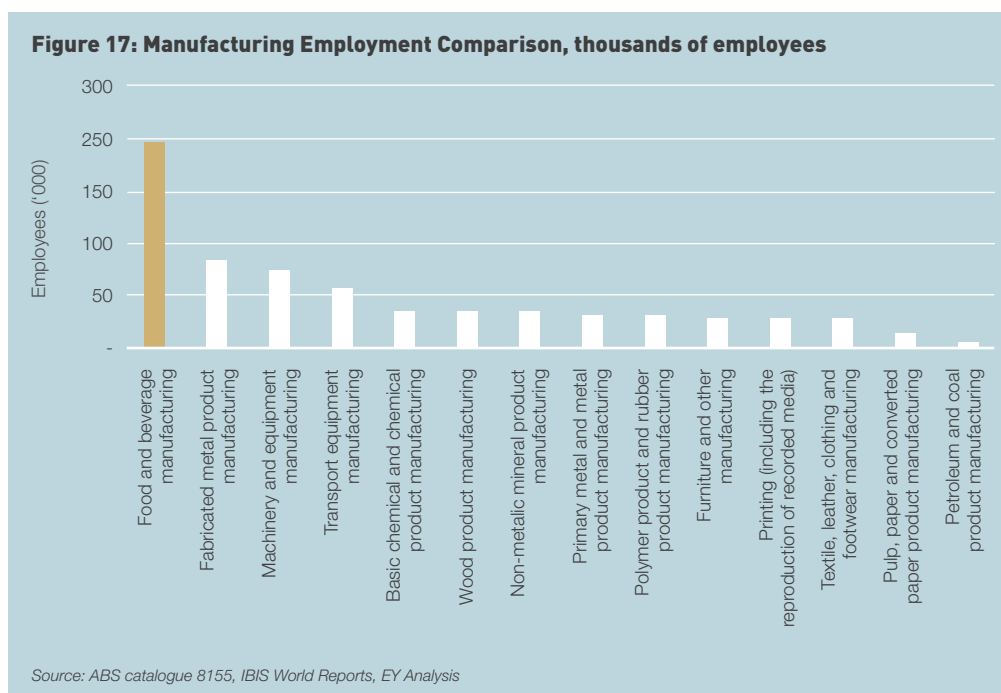


3.3 MANUFACTURING AND SECTOR COMPARISONS

When comparing AFG employment levels with other sectors across the economy, it can be seen that the AFG sector remains an important employer of Australian workers. The sector is similar in terms of employment levels with other sectors such as education and training and rental, hiring and real estate services. The sector also outweighs other Australian industries such as arts and recreation services, mining, and utilities services demonstrating its importance to the Australian workforce.



The Food and Beverage manufacturing sector is a key pillar of employment in the manufacturing sector. The below graph clearly shows the dominance of this sector, with more than double the employment level of fabricated metal product manufacturing; the second highest manufacturing employer.



3.4 AFG SECTOR PRODUCTIVITY

The Productivity metrics discussed in this section, and throughout the report, are calculated as proxies for labour productivity, and do not directly account for the capital intensity of each industry. Specifically, productivity has been measured via the relationship between IVA and employment, with IVA per person employed becoming the proxy for industry productivity, illustrating the value added by each employee. It is important to note that IVA can be impacted by movements in prices, along with sticky labour markets. Thus short term movements in industry productivity figures are in some instances, less insightful than long term industry trends and accordingly, short term changes should be considered in this context.

Productivity,¹⁶ being a function of IVA and employment, has followed the changes in IVA and employment, with the result being that productivity has declined for Food and Beverage manufacturing over the last year.¹⁷ Overall, AFG productivity has fallen by 3.5 percent in real terms over 2016-17 with a result of \$101,445 per employee.

Table 3: AFG productivity per employee, real (2016-17), dollars

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Productivity per employee (\$)	97,472	99,423	101,330	100,483	102,382	101,978	104,033	103,917	105,125	101,445

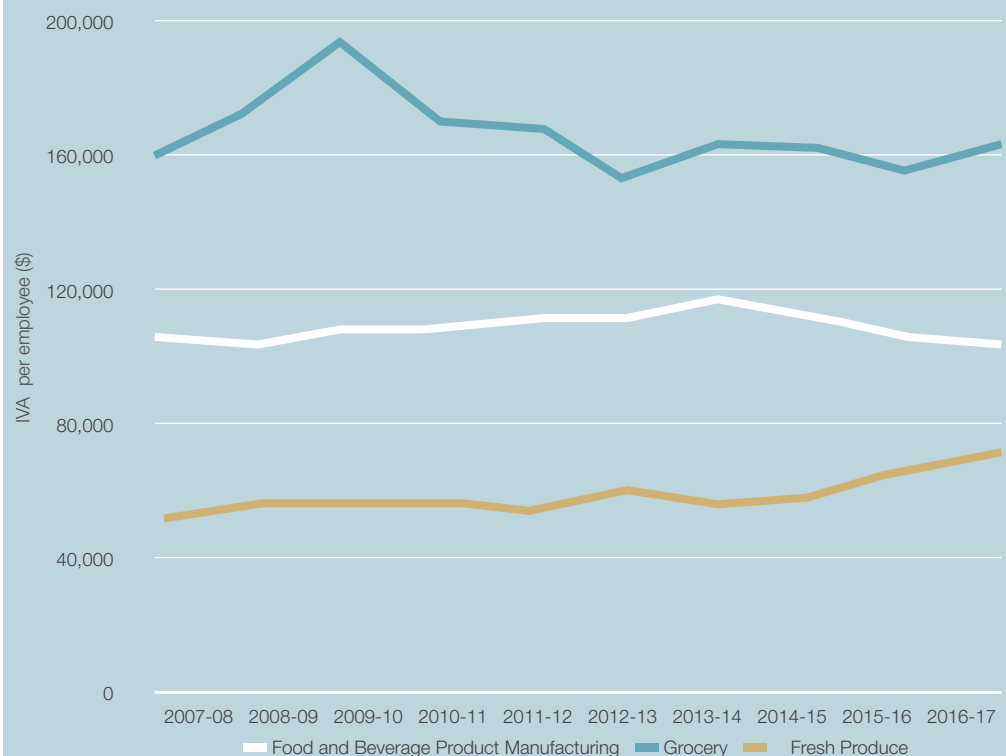


3.5 AFG SUB-SECTOR AND INDUSTRY PRODUCTIVITY

Productivity for the Food Product manufacturing sector during 2016-17 was \$92,504 in IVA per person employed, a 1.8 percent decline. Productivity in Beverage Product manufacturing was \$172,687 a 12.8 percent decline. This has led to a combined Food and Beverage Product manufacturing productivity of \$102,218, a 4.4 percent decline on the prior year's figures. The Grocery sector recorded productivity per employee of \$162,434, a 4.3 percent increase, and the Fresh Produce sector at \$70,573 a 8.1 percent increase from 2015-16.

Declines in recent net AFG productivity are, in large, the result of the Food and Beverage Product manufacturing sub-sector, the largest AFG sub-sector accounting for around 75 percent of IVA and employment. Specifically, its 1.1 percent decline in employment during 2016-17 has been insufficient to balance the 6.8 percent decline in industry IVA resulting in overall declines in productivity. Meanwhile, both Grocery and Fresh Produce sub-sectors experienced increases in productivity in 2016-17 with Grocery seeing levels above \$160,000 per employee; a significant value.

Figure 18: AFG productivity, by sub-sector, IVA per employee, dollars



Source: ABS catalogue 8155, IBIS World Reports, EY Analysis

Productivity changes within AFG industries have been mixed, but generally negative. Nine of the twelve Food and Beverage Product manufacturing industries experienced a decline in real productivity year on year. The industries experiencing the most significant decline include Meat and Meat Product manufacturing (9.5 percent), Oil and Fat manufacturing (12.0 percent), Seafood processing (19.0 percent), Beer manufacturing (22.1 percent), Wine & Other Alcoholic Beverage manufacturing (16.8 percent), and Other Product Manufacturing (13.5 percent).

Industries experiencing significant gains in productivity include: Sugar and Confectionary Manufacturing (4.8 percent), Grain Mill and Cereal Product manufacturing (4.5 percent), Bakery Product manufacturing (4.0 percent) which has returned to positive productivity growth after 3 years of consecutive decline between 2012-13 and 2014-15, Human Pharmaceutical and Medicinal Product manufacturing (8.1 percent), Cleaning Compound manufacturing (9.9 percent) and Polymer Film and Sheet Packaging Material manufacturing (13.8 percent).

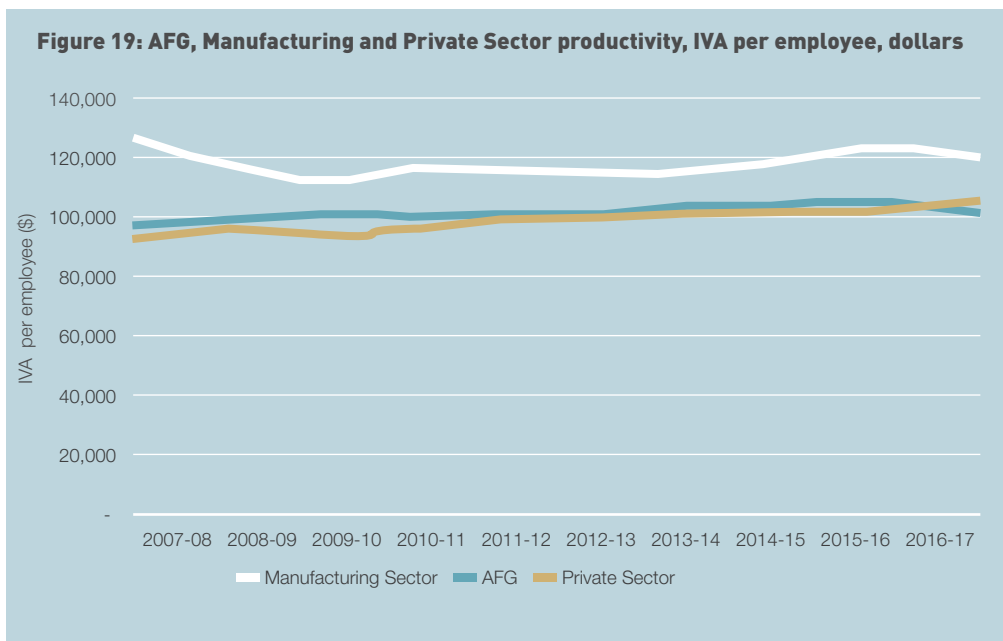
While the specific causes of the above noted productivity movements at the individual business level are unknown, potential drivers could include:

- Change in key inputs (for example, drought conditions and water restrictions has limited the supply of key inputs in some areas for some sectors resulting in the need to source elsewhere or change methods).
- Rising production process automation and the introduction of new technologies (for example, employee numbers have dropped in the Flour and Grain Mill Product manufacturing sub-sector due to increasing automation).¹⁸
- New entries into existing markets may not be able to achieve the economies of scale of existing players, at least in the immediate term (for example, in the Oil and Fat manufacturing subsector).¹⁹
- Investment into strategies where a delay exists before increased output is generated (for example, with herd rebuilding in the meat subsector).²⁰

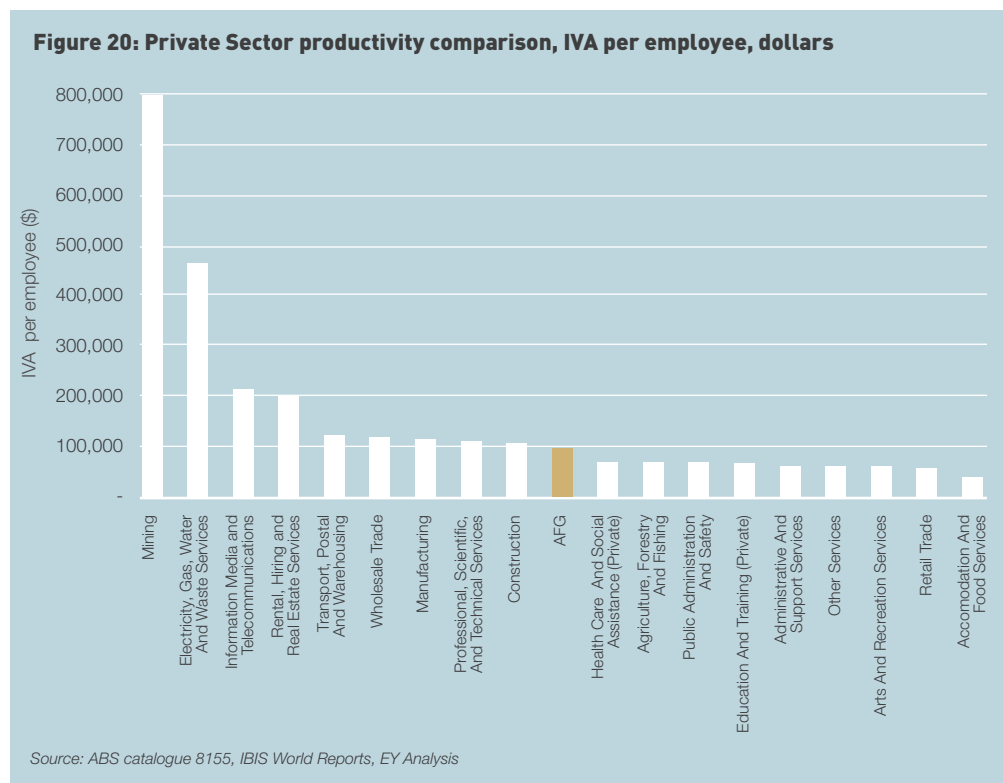


3.6 MANUFACTURING AND SECTOR COMPARISONS

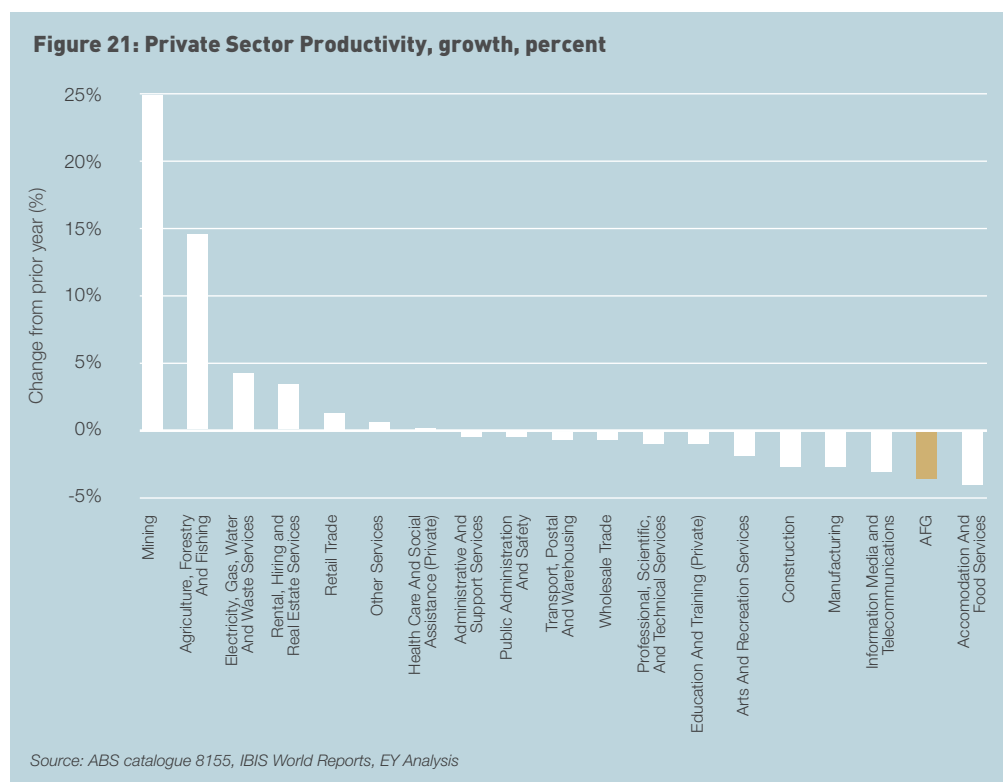
AFG remains a key contributor to the Australian economy where it remains a pillar of the Manufacturing sector and maintains its steady 33 percent share of total Manufacturing IVA. In terms of productivity however, AFG remains at lower levels than the Manufacturing sector as a whole but continues to track similar levels as the Private sector overall.

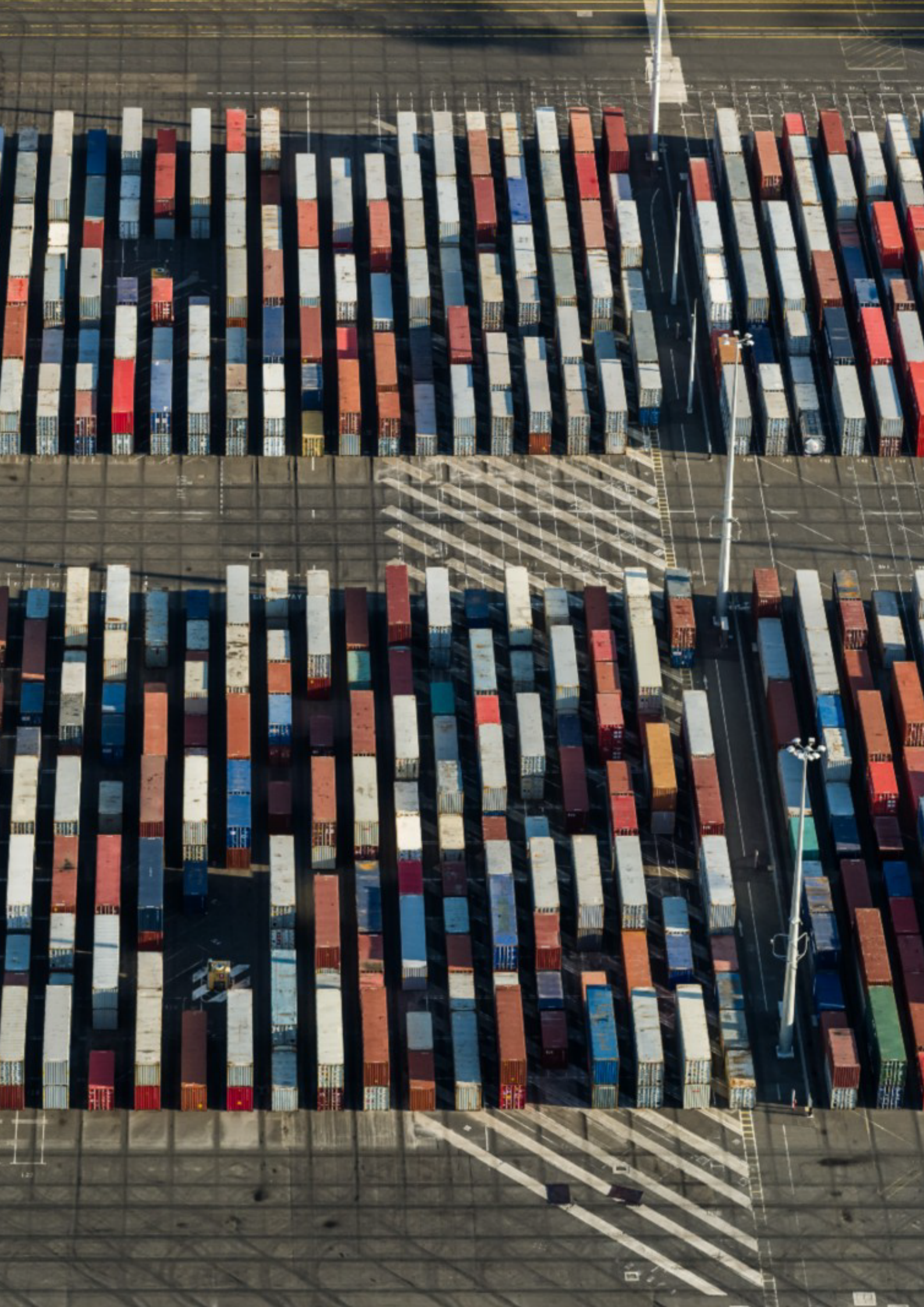


Looking at individual Australian sectors, data indicates that the AFG sector sits roughly midway along the continuum of productivity levels. In 2016-17, the AFG sector had similar levels of productivity (as estimated by IVA per employee) as construction and above levels as experienced in health care and agriculture, forestry and fishing.



However, when examining the yearly change in labour productivity in 2016-17 across Private sectors in Australia, the AFG sector experienced declines that place it in the bottom five industries as measured by change in productivity.





4. AFG TRADE

At a time of heightened competitive pressure domestically, the food and grocery sector continues to have a strong export focus, with around a quarter of output exported, and with total exports up 1.9 percent from 2015-16.

The AFG sector remains a strong exporter, with both the Food and Beverage Product manufacturing and Fresh Produce sectors maintaining a significant trade surplus of \$10.6 billion (up 3.4 percent) and \$721 million (down 4.4 percent) respectively. The Grocery sector however remains a net importer, with a trade deficit of \$13 billion, down 5.8 percent, leading to an overall AFG net trade deficit of \$1.7 billion in 2016-17. This has occurred over a period where the Australian Dollar has steadily depreciated against the US Dollar, making Australian exports (generally) more affordable to the global market.

When comparing Figures 22, 23 and 24 (see below), it is clear that Food and Beverage Product manufacturing and Fresh Produce trade share similar characteristics. Firstly, both exhibit a dominant export focus with exports in all years outweighing imports. Secondly, they share similar export trend lines with a high in 2008-09, followed by a dip with a subsequent continued rise to a peak in 2016-17. Their import trend lines are fairly stable with slight increases year on year.

The grocery sub-sector however, has a significantly different pattern, with imports dominating the trade balance and increasingly becoming import heavy. When considering that the total turnover of the grocery sub-sector is \$16.1 billion, the import figure of \$17.6 billion in 2016-17 becomes even more noteworthy.

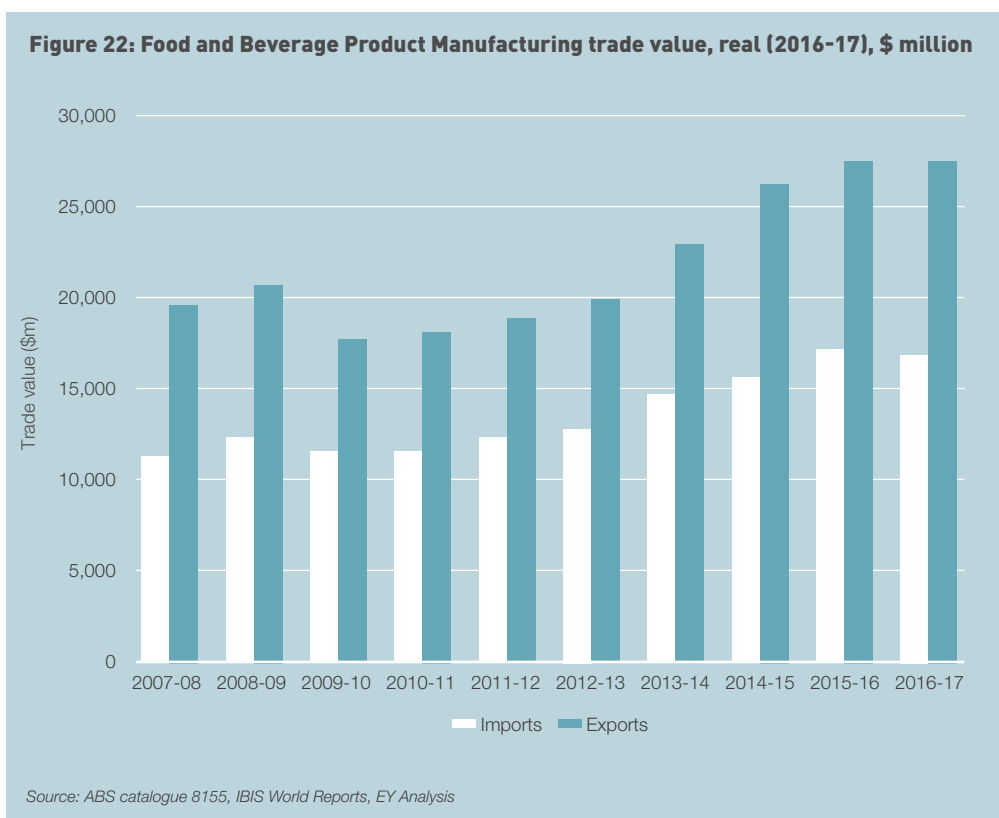
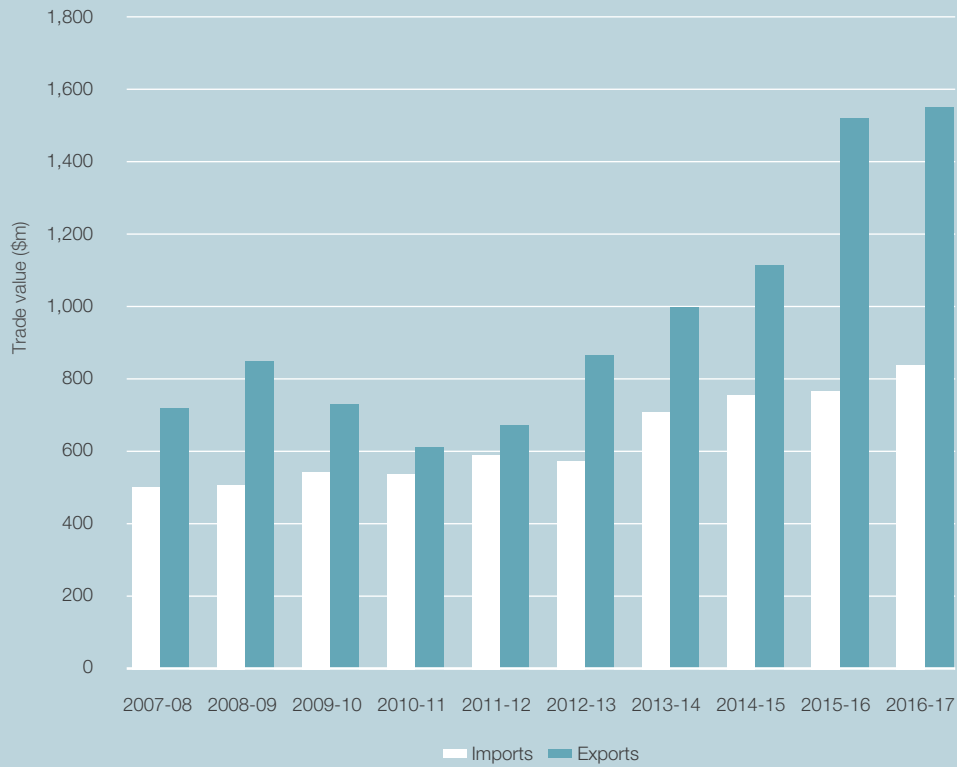
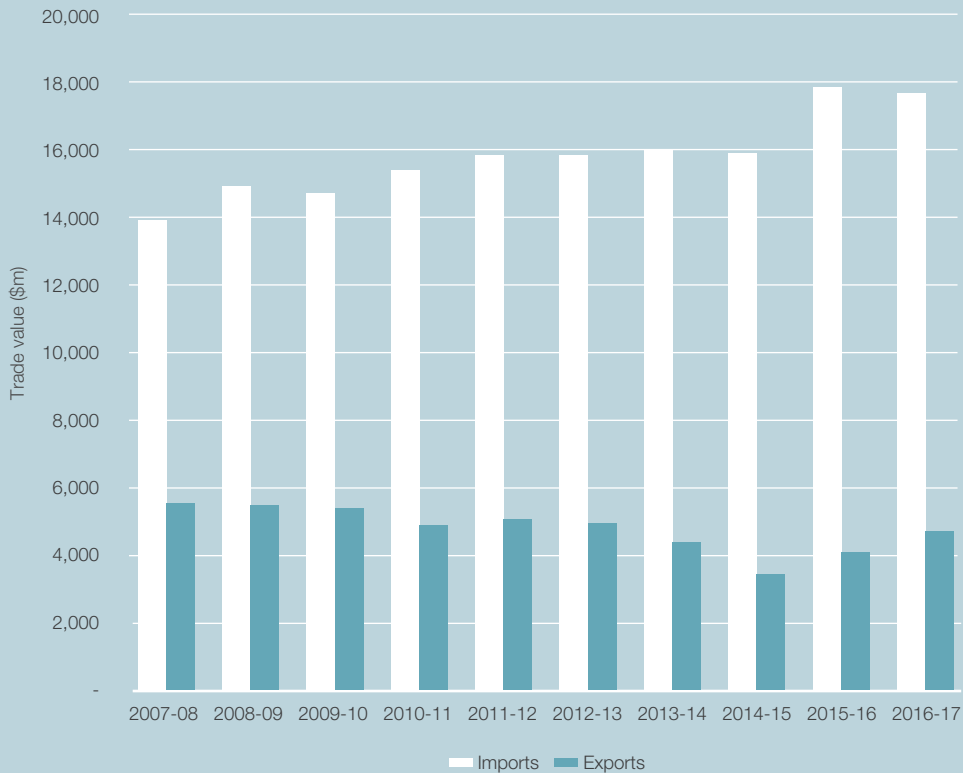


Figure 23: Fresh Produce trade value, real (2016-17), \$ million



Source: ABS catalogue 8155, IBIS World Reports, EY Analysis

Figure 24: Grocery trade value, real (2016-17), \$ million



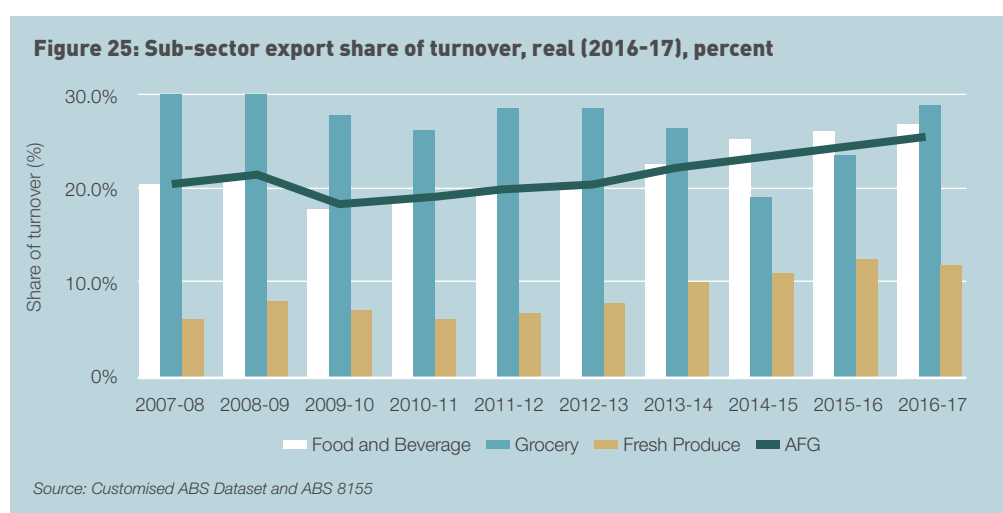
Source: ABS catalogue 8155, IBIS World Reports, EY Analysis

4.1 EXPORT SHARES OF SUB-SECTOR TURNOVER

Exports remain a significant component of sector turnover, accounting for 25.5 percent of total industry turnover in 2016-17. This is an increase in share of 4.0 percent from 2015-16, with AFG exports growing as a share of total AFG turnover at an average rate of 5.1 percent over the past five years. This growth in export importance can be seen in both the:

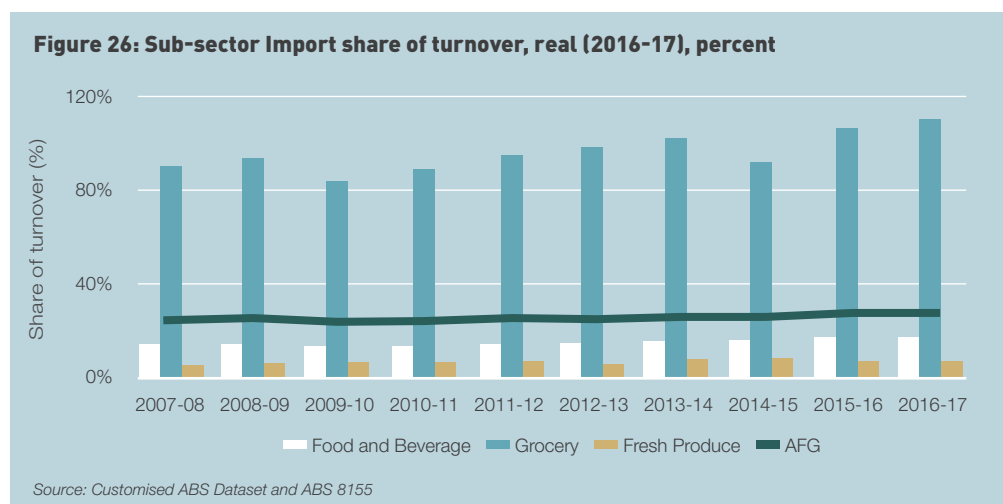
- Food and Beverage Product manufacturing sector, in which 26.8 percent of turnover is derived from exports (up 2.7 percent from 2015-16); and
- Grocery sector which, after declining exports between 2012-13 and 2014-15, has returned to strong growth in both exports and the share of exports of total turnover, increasing from 23.7 percent in 2015-16 to 28.9 percent in 2016-17 (a 21.9 percent increase year on year).

The Fresh Produce sector experienced a net decline in the share of turnover attributed to exports, at 11.8 percent in 2016-17 (a 6.2 percent decline). This decline is not driven by declining export volume but rather because the increase in sector turnover has outpaced export growth at 10.7 percent and 3.7 percent respectively.



4.2 IMPORT SHARES OF SUB-SECTOR TURNOVER

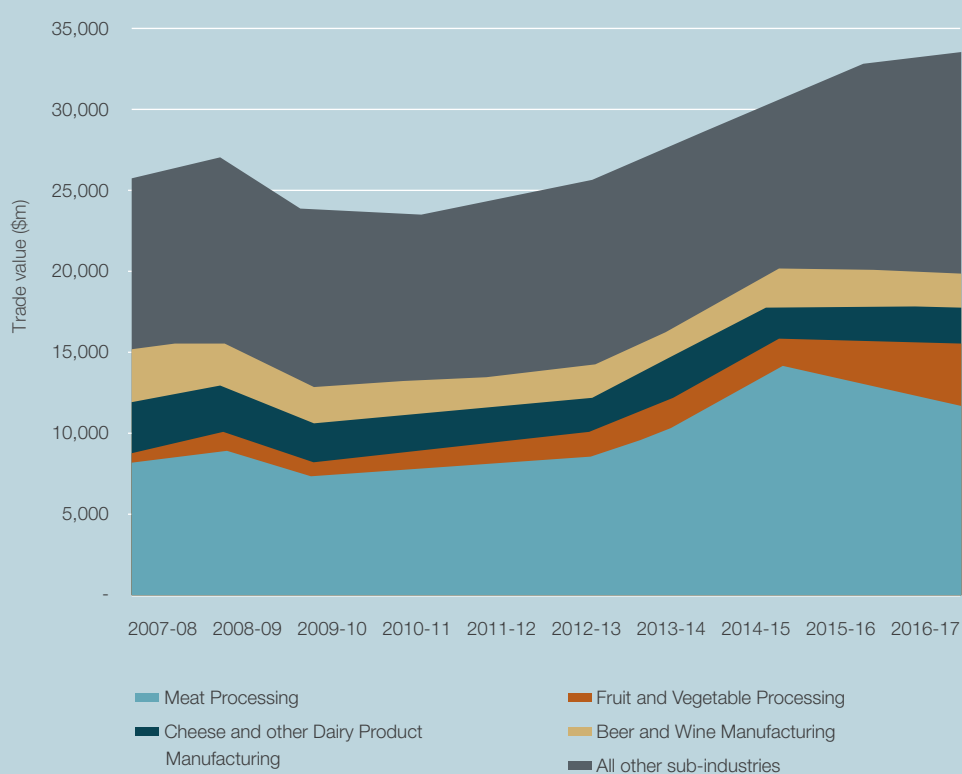
Looking at import figures of the AFG sub-sectors, it can be seen that the Grocery sub-sector is clearly dominant in terms of the level of imports relative to turnover. Further, this import dependence continues to steadily grow while imports as a share of turnover in Food and Beverage manufacturing and Fresh Produce remains relatively flat.



4.3 EXPORT DRIVEN INDUSTRIES

Food and alcoholic beverages remain the core of AFG exports with Meat Processing remaining the sector's most significant export valued at \$11.8 billion in 2016-17. This Meat Processing figure however, represents a 10.7 percent decline from prior year related to the decline in industry turnover resultant from herd rebuilding. Second to Meat Processing exports is Fruit and Vegetable Processing, having recently ascended to second largest export industry, valued at \$3.8 billion having experienced a year of extraordinary export lead growth, increasing industry exports by 43.7 percent from prior year. Wine and Other Alcoholic Beverages follows closely with exports valued at \$2.4 billion having experienced a strong 6.8 percent increase in export volumes.

Figure 27: AFG export value, by major industry, real (2016-17), \$ million



Source: Customised ABS Dataset

Spotlight on fruit and vegetable processing

As previously noted, fruit and vegetable processing has experienced significant growth in 2016-17 with the industry's four largest export destinations being India, Bangladesh, Pakistan and the United Arab Emirates. The majority of these exports are in relation to processed fruit. The strong growth in processed fruit and vegetable exports may be a response to a growing middle class in Asia and the Middle East²¹, coupled with the international perception that Australian processed fruits and vegetable are of high quality.²²



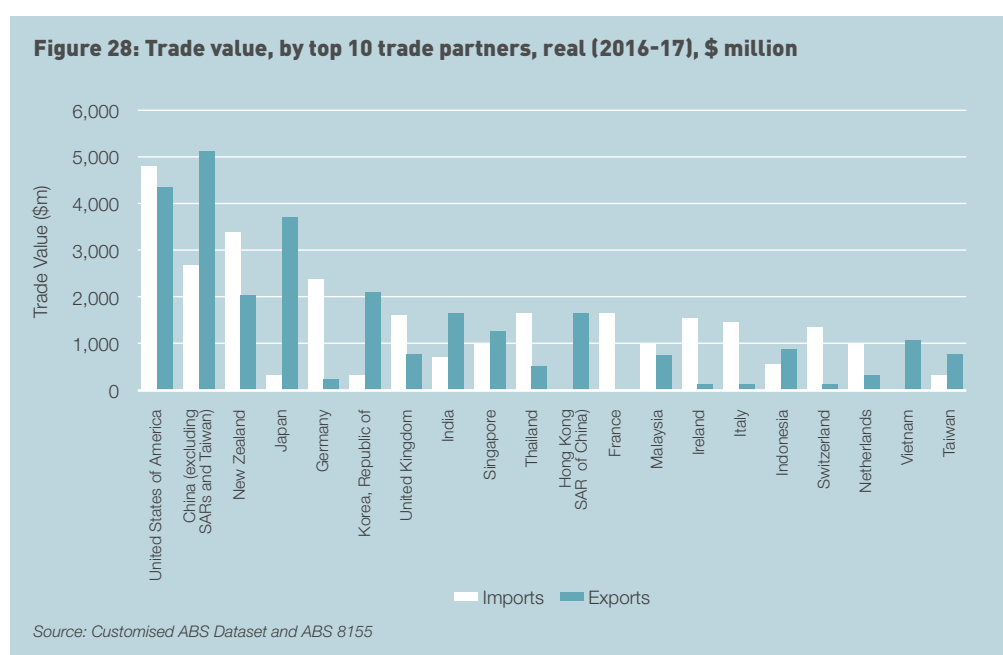
4.4 TRADE RELATIONSHIP

AFG trade relationships has generally been stable throughout the last 10 years. However, recent years has seen the rise of China (exclusive of SAR's and Taiwan) into the top three net trade partner ranking, with a total trade of \$7.7 billion and up 10.1 percent from the prior year. This is second to the United States which has remained AFG's largest trade partner at \$9.2 billion (down 9.4 percent from the prior year), and New Zealand ranking third in total trade at \$5.5 billion, an increase of 2.7 percent.

The rise of China to the second largest trade partner is likely reflective of the changing consumer attitudes and preferences within the Chinese food and grocery market, noting a shift towards fresher foods of higher quality with a stronger safety record. This movement also illustrates the increasing importance of China as a key trading partner to Australia. Consequently, it will be vital for certain sector participants to maintain strong relationships and respond appropriately to any changing global dynamics.

4.5 TRADE POSITIONS

Similar to prior years, the USA, China, New Zealand and Japan remaining key trading partners in terms of the trade of AFG products. While the USA remains fairly balanced in terms of exports and imports, China and Japan are net purchasers of Australian food and grocery products and produce.



The following tables provide key information in terms of export and import markets, year on year changes, and Australia's key trading partners. While the tables contain a host of data, some facts to note include:

- Over the 2016-17 year, meat processing suffered a significant reduction in terms of exports while fruit and vegetable processing near covered this loss with a significant increase in exports in trade volume terms.
- Poultry farming (i.e. eggs) saw the greatest percentage increase in exports.
- Cheese and other Dairy Manufacturing saw the greatest increase in import trade volume while Apple and Pear Growing saw the greatest increase in imports in percentage terms.
- USA is our largest trading partner in terms of import volume while China is our largest trading partner in terms of export volume.

Table 4: Top 10 Export Markets by Trade value, real (2016-17), \$ million

Top Export Markets	2016-17 Exports (\$m)	2015-16 Exports (\$m)	Change (\$m)
Meat Processing	11,723	13,148	(1,424)
Fruit and Vegetable Processing	3,790	2,637	1,153
Human Pharmaceutical and Medicinal Product Manufacturing	3,522	3,062	459
Wine and Other Alcoholic Beverage Manufacturing	2,378	2,229	149
Cheese and Other Dairy Product Manufacturing	1,899	2,026	(127)
Other Food Product Manufacturing n.e.c.	1,863	1,566	297
Grain Mill Product Manufacturing	1,648	1,747	(99)
Seafood Processing	969	1,028	(59)
Prepared Animal and Bird Feed Manufacturing	948	929	19
Cosmetic and Toiletry Preparation Manufacturing	683	566	118

Source: Customised ABS Dataset

Table 5: Top 10 Export Markets by Growth in Trade value, real (2016-17), \$ million

Top 10 Export Markets, Ranked by Growth in Value	2016-17 Exports (\$m)	2015-16 Exports (\$m)	Change (\$m)
Fruit and Vegetable Processing	3,790	2,637	1,153
Human Pharmaceutical and Medicinal Product Manufacturing	3,522	3,062	459
Other Food Product Manufacturing n.e.c.	1,863	1,566	297
Wine and Other Alcoholic Beverage Manufacturing	2,378	2,229	149
Cosmetic and Toiletry Preparation Manufacturing	683	566	118
Sugar Manufacturing	125	89	36
Citrus Fruit Growing	336	303	32
Spirit Manufacturing	248	218	30
Other Fruit and Tree Nut Growing	379	352	27
Prepared Animal and Bird Feed Manufacturing	948	929	19

Source: Customised ABS Dataset

Table 6: Top 10 Export Markets by percentage change in Trade value, real (2016-17), \$ million

Top 10 Export Markets, Ranked by relative change from prior year	2016-17 Exports (\$m)	2015-16 Exports (\$m)	Change (%)
Poultry Farming (Eggs)	6	3	92.4%
Berry Fruit Growing	9	5	60.4%
Fruit and Vegetable Processing	3,790	2,637	43.7%
Sugar Manufacturing	125	89	40.9%
Cosmetic and Toiletry Preparation Manufacturing	683	566	20.8%
Biscuit Manufacturing (Factory based)	106	88	20.1%
Other Food Product Manufacturing n.e.c.	1,863	1,566	18.9%
Beer Manufacturing	37	31	18.3%
Mushroom Growing	10	9	17.4%
Human Pharmaceutical and Medicinal Product Manufacturing	3,522	3,062	15.0%

Source: Customised ABS Dataset

Table 7: Top 10 Import Markets by Trade value, real (2016-17), \$ million

Top Import Markets	2016-17 Exports (\$m)	2015-16 Exports (\$m)	Change (\$m)
Human Pharmaceutical and Medicinal Product Manufacturing	11,987	11,990	(3)
Fruit and Vegetable Processing	2,717	2,763	(46)
Polymer Film and Sheet Packaging Material Manufacturing	1,982	2,067	(85)
Cosmetic and Toiletry Preparation Manufacturing	1,883	1,974	(91)
Seafood Processing	1,825	1,745	80
Other Food Product Manufacturing n.e.c.	1,803	2,047	(224)
Oil and Fat Manufacturing	1,212	1,220	(8)
Confectionery Manufacturing	1,204	1,314	(109)
Cheese and Other Dairy Product Manufacturing	1,185	1,000	186
Cleaning Compound Manufacturing	1,108	1,116	(8)

Source: Customised ABS Dataset

Table 8: Top 10 Import Markets by Change in Trade value, real (2016-17), \$ million

Top 10 Import Markets, Ranked by Change in Value	2016-17 Exports (\$m)	2015-16 Exports (\$m)	Change (\$m)
Cheese and Other Dairy Product Manufacturing	1,185	1,000	186
Seafood Processing	1,825	1,745	80
Other Fruit and Tree Nut Growing	233	187	46
Prepared Animal and Bird Feed Manufacturing	607	564	43
Vegetable Growing (Outdoors)	223	199	24
Sugar Manufacturing	122	101	21
Citrus Fruit Growing	79	64	15
Cake and Pastry Manufacturing (Factory based)	480	466	14
Cured Meat and Smallgoods Manufacturing	73	68	4
Apple and Pear Growing	6	5	2

Source: Customised ABS Dataset

Table 9: Top 10 Import Markets by percentage change in Trade value, real (2016-17), \$ million

Top 10 Import Markets, Ranked by relative change from prior year	2016-17 Exports (\$m)	2015-16 Exports (\$m)	Change (%)
Apple and Pear Growing	6	5	38.2%
Other Fruit and Tree Nut Growing	233	187	24.9%
Citrus Fruit Growing	79	64	23.6%
Sugar Manufacturing	122	101	21.1%
Cheese and Other Dairy Product Manufacturing	1,185	1,000	18.6%
Vegetable Growing (Outdoors)	223	199	12.1%
Prepared Animal and Bird Feed Manufacturing	607	564	7.6%
Cured Meat and Smallgoods Manufacturing	73	68	6.3%
Seafood Processing	1,825	1,745	4.6%
Cake and Pastry Manufacturing (Factory based)	480	486	3.0%

Source: Customised ABS Dataset

Table 10: Top 20 Trade Partners, imports and exports, real (2016-17), \$ million

Top 20 Trade Partners	Imports 2016-17 (\$m)	Exports 2016-17 (\$m)
United States of America	4,812	4,387
China (excluding SARs and Taiwan)	2,642	5,142
New Zealand	3,411	2,076
Japan	308	3,684
Germany	2,373	241
Korea, Republic of	301	2,131
United Kingdom	1,597	744
India	680	1,634
Singapore	924	1,272
Thailand	1,670	510
Hong Kong (SAR of China)	69	1,658
France	1,650	72
Malaysia	960	755
Ireland	1,543	74
Italy	1,473	101
Indonesia	568	864
Switzerland	1,309	94
Netherlands	1,031	322
Vietnam	638	1,079
Taiwan	253	741

Source: Customised ABS Dataset





5. CAPITAL EXPENDITURE AND INVESTMENT IN FOOD & BEVERAGE MANUFACTURING

In 2016-17, net capital expenditure in the food and beverage manufacturing sub-sector fell by near 10 percent to return to just under \$3 billion, with a resultant decline in its share of total manufacturing capital expenditure, down from 32.4 percent to 30.3 percent.

Capital expenditure²³ within the Food and Beverage Product manufacturing sub-sector peaked at \$5.4 billion throughout 2008-09 and 2009-10, and has subsequently trended down to reach \$2.9 billion in 2016-17 (a 10.3 percent decline). This is an average annual reduction in net capital expenditure of 5.3 percent over the past five years. Net capital expenditure within the Food and Beverage Product manufacturing sub-sector averaged 2.8 percent of turnover in 2016-17. This can be broken down to 2.7 percent of turnover for Food manufacturing and 3.3 percent of turnover for Beverage manufacturing.

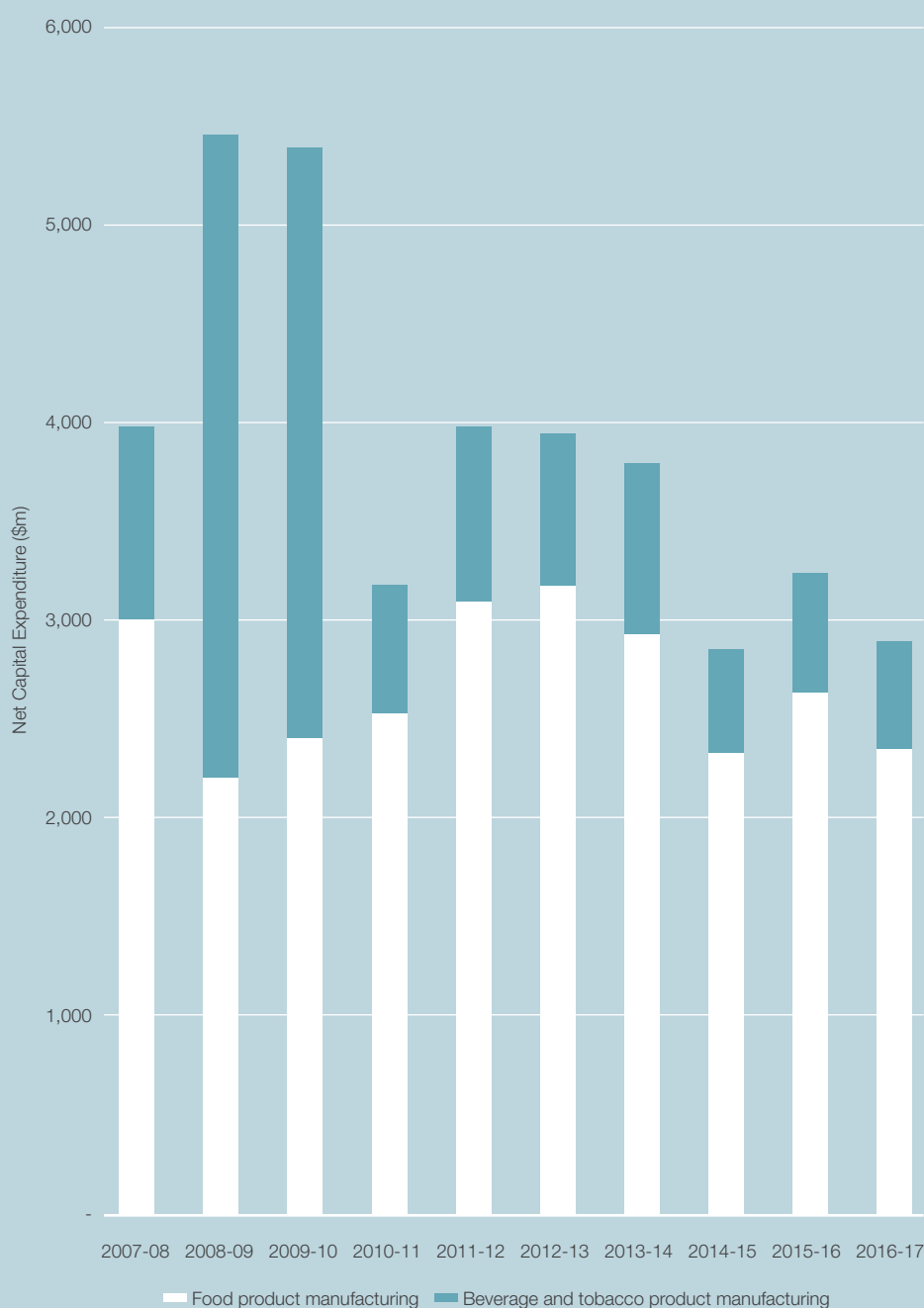
The reporting of net capital expenditure rather than gross capital expenditure is different to prior year's reports of which have stated gross capital expenditure. This year, net capital expenditure has been reported to provide insight into a capital expenditure figure that takes account of the disposal of assets. This has been done to provide a thorough reflection of AFG businesses spend on assets after taking into consideration proceeds generated from the sale of both tangible and intangible assets. For consistency with prior reports, gross capital expenditure figures have been provided in Appendix A. It was found that in 2016-17, gross capital expenditure was \$3.46 billion, a fall of 12.6 percent when compared to 2015-16.

5.1 NET CAPITAL EXPENDITURE

Food and Beverage manufacturing net capital expenditure peaked as a proportion of turnover in 2008-09 and 2009-10. The peak was driven by a significant increase in capital expenditure in the beverage and tobacco product manufacturing sub-sector which lasted for the two years before settling back to more average levels from 2010-11.

Following this peak, the sector has experienced a steady decline into 2016-17 with capital expenditure within the Food Product manufacturing sector contracting 10.8 percent to \$2.4 billion (noting a smaller average annual decline of 4.6 percent). This level has meant that the Food and Beverage sub-sector has driven 30.3 percent of total Manufacturing capital expenditure.

Figure 29: Food and Beverage Net Capital Expenditure, real (2016-17), \$ million



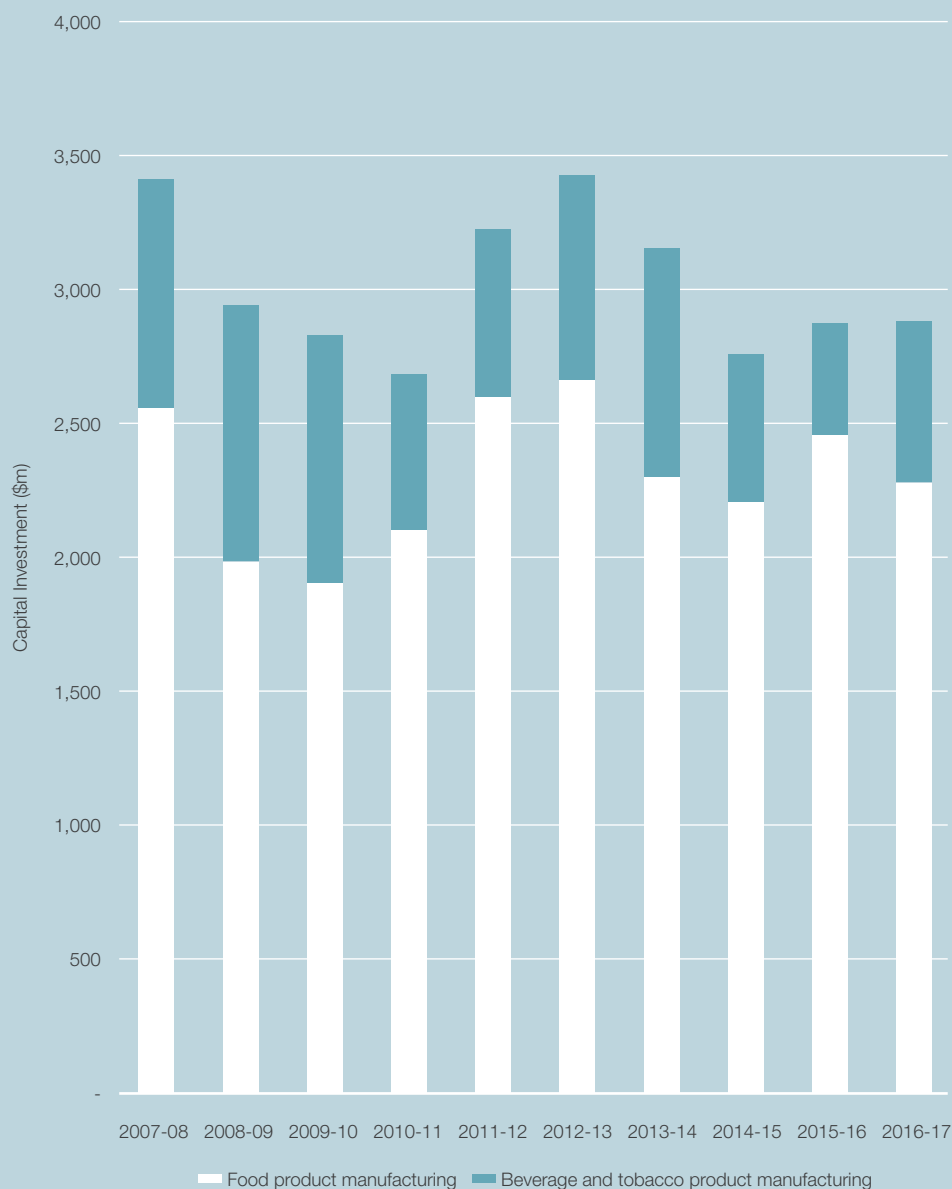
Source: ABS 8155, EY Analysis

5.2 CAPITAL INVESTMENT

Capital investment is a direct measure of manufacturers' spending or investment on assets such as machinery and equipment and indicates potential future supply.²⁴ The long run trend in capital investment follows a similar trend to that seen in capital expenditure, with investment experiencing a five year average annual decline of 1.9 percent. However, contrary to capital expenditure, capital investment for the Food and Beverage product manufacturing sub-sector increased by half a percent to \$2.9 billion during 2016-17.

In line with net capital expenditure, Food Product manufacturing experienced a 7 percent decline in capital investment during 2016-17, down to \$2.3 billion following its 11.3 percent increase in 2015-16. Consequently, the half a percent growth within total Food and Beverage capital investment overall was led by the Beverage and Tobacco product manufacturing sector which underwent a 45.1 percent increase in capital investment. Namely, the sub-sector saw an increase from \$416 million to \$603 million in 2016-17 after several years of significant decline.

Figure 30: Food and Beverage Capital Investment, real (2016-17), \$ million



Source: ABS 8155, EY Analysis



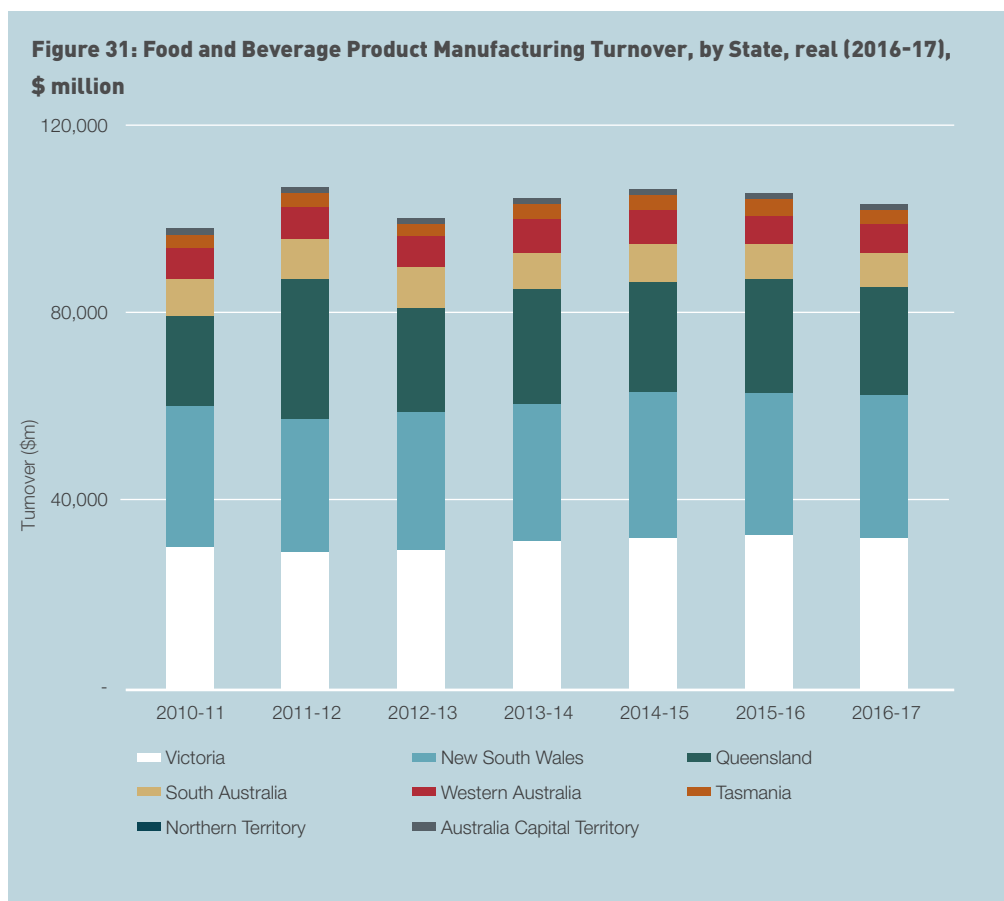
6. STATE AND REGIONAL ANALYSIS

In 2016-17, Victoria overtook New South Wales as having the largest Food and Beverage Product manufacturing sector with both remaining dominant states. Victoria finished the year with turnover of \$33 billion while New South Wales saw total turnover of \$30.1 billion.

6.1 STATE TURNOVER COMPARISON

New South Wales, Victoria and Queensland remain the most important producers of Australian Food and Grocery products, together they account of 84 percent of net AFG turnover and 78 percent of net employment. Victoria remains the largest state, with New South Wales a close second, in terms of total AFG turnover.

Victoria experienced a 2.2 percent decline in revenues in 2016-17, compared to small 0.1 percent growth in New South Wales. This decline in Victorian AFG turnover is largely the result of a 2.8 percent decline in Food Product manufacturing and was partially offset by a 2.6 percent increase in Beverage Product manufacturing. The trend of AFG turnover within New South Wales experienced opposite directional growth, with Food Product manufacturing recoding growth of 1.3 percent, and a decline of 4.8 percent in Beverage Product manufacturing following the prior year result of and 11.5 percent decline. Queensland experienced declines in both of its Food and Beverage product manufacturing industries of 3.6 percent and 9.1 percent respectively.



6.2 MANUFACTURING COMPARISON

Prior sections highlighted the importance of the AFG sector to Manufacturing through comprising around a third of Manufacturing turnover and employment. When examining this detail on a State basis, it can be seen that certain State's Food and Beverage Product manufacturing sub-sectors have an even higher contribution to Manufacturing. The sub-sectors share of total manufacturing turnover remains highest in Tasmania, as outlined in the table below.

Table 11: State shares of Food and Beverage Product Manufacturing Turnover, real (2016-17), \$ million and percent²⁶

State	State Food and Beverage Product Turnover (\$m)	Total State Manufacturing Turnover (\$m)	Share of Total State Manufacturing Turnover (%)	Change in share from prior year (%)
Australian Capital Territory	178	1271	14.0%	(26.7%)
New South Wales	30,132	109,225	27.6%	2.4
Northern Territory	556	3,159	17.6%	128.2% ²⁵
Queensland	23,354	66,460	35.1%	(2.1%)
South Australia	6,828	21,695	31.5%	(0.6%)
Tasmania	2,789	6,494	42.9%	(14.4%)
Victoria	33,072	102,063	32.4%	0.0%
Western Australia	5,961	53,601	11.1%	1.0%

Food and Beverage Product manufacturing shares of total Manufacturing employment follow similar trends as turnover with the highest shares being seen in the same States as listed above albeit with a slight divergence in rankings. The sub-sectors share of total Manufacturing employment remains highest in Tasmania, as outlined in Table 12 below.

Table 12: State shares of Food and Beverage Product Manufacturing Employment, 2016-17, number and percent²⁶

State	State Food and Beverage Product Employment	Total State Manufacturing Employment	Share of Total State Manufacturing Employment (%)	Change in share from prior year (%)
Australian Capital Territory	1307	4,607	28.4%	1.7%
New South Wales	68,360	247,828	27.6%	(1.0%)
Northern Territory	679	3,790	17.9%	(0.9%)
Queensland	50,651	160,257	31.6%	0.8%
South Australia	23,569	65,654	35.9%	(1.4%)
Tasmania	8,591	18,448	46.6%	(2.2%)
Victoria	72,154	243,971	29.6%	(0.3%)
Western Australia	19,676	85,770	22.9%	1.1%

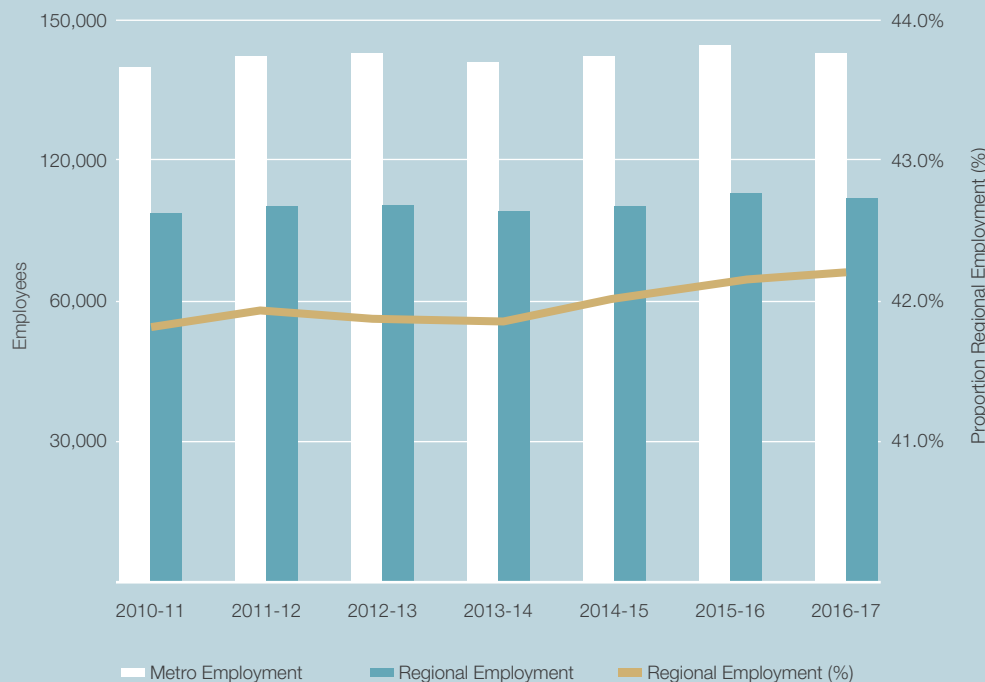
6.3 IMPORTANCE OF AFG EMPLOYMENT TO REGIONAL AREAS

The AFG sector is an important employer in regional areas, with an estimated 42.1 percent of all Food and Beverage Product manufacturing employment occurring in regional areas.²⁷ During 2016-17, the sector supported approximately 141,499 metro employees and 102,723 regional employees.²⁸ Further, this support for regional employment has been growing, with the five year average metro employment growth rate averaging 0.2 percent compared to 0.4 percent for regional employment.

The importance of regional employment in the Food and Beverage Product manufacturing can be seen in Tasmania where regional employment increased from 69.1 percent to 69.9 percent of total employment followed by Queensland with a stable regional employment of 49.4 percent, New South Wales increasing from 43.9 percent to 44.2 percent and Victoria where regional employment has remained relatively steady at 38.3 percent (down from 38.2 percent in the prior year).

The Food and Beverage Product manufacturing sub-sector trend of growing regional employment differs significantly from the national trend of increasingly non-regional employment growth, with 69.5 percent of all employment occurring in metro areas. This trend of increasingly metro based employment is also true for the manufacturing sector as a whole where, for the past 10 years, over 67 percent of all employment has remained in metro areas, with this proportion gradually increasing year on year.

Figure 32: Food and Beverage Product Manufacturing Employment, Regional and Metro, number of employees and percent



Source: ABS 8155, ABS Census Data (2011/2016), EY Analysis

The total number of both AFG sector metro and regional employees has been estimated.²⁹ The derived result indicates that in 2016-17 there were a total of 198,595 metro based AFG employees and 125,855 regional based AFG employees. This equates to 38.8 percent of AFG workers being employed in regional areas.

6.4 STATE EXPORTS

Australian Food and Grocery exports are dominated by Victoria, Queensland and New South Wales which account for 31.0 percent, 24.0 percent and 24.0 percent of total AFG net exports respectively, with each states share of total exports remaining relatively steady over the past five years. Notably, over 50 percent (or \$764 million) of Fresh Produce exports originate in Victoria along with 43 percent (or \$1.79 billion) of Grocery exports, with New South Wales exporting 45 percent (or \$1.9 billion) of Grocery exports, further cementing their positions as AFG export leaders.²⁹

Conversely while New South Wales and Victoria dominate the AFG exports, they each hold a trade deficit being the only states (outside of the ACT) to hold a deficit in Food and Grocery trade, having produced trade deficits of \$12.0 billion, down 7.2 percent, and \$382 million down 27.2 percent respectively. The following figures highlight the origins of the sector's exports and illustrate the changing importance of certain states and territories depending on which sub-sector is being considered.³⁰



Figure 33: AFG export origin, by State, real (2016-17), \$ million

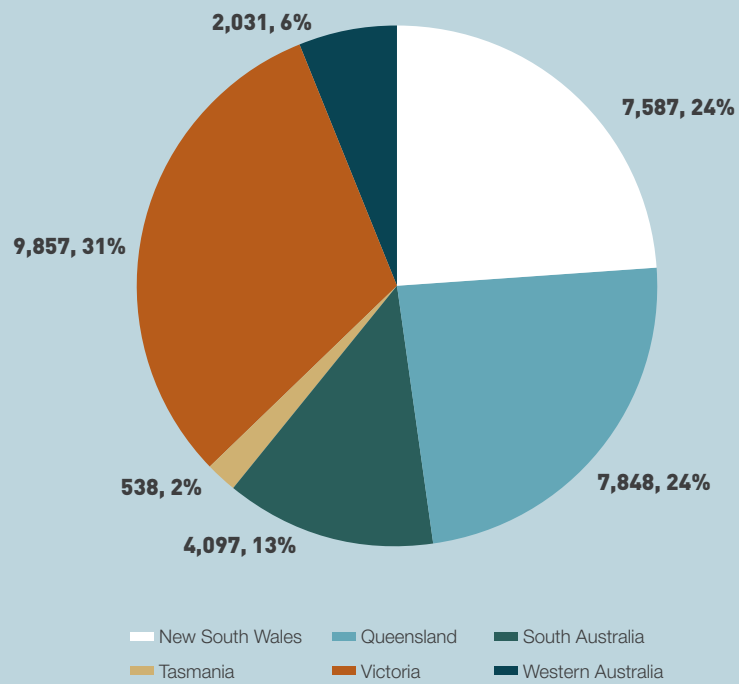


Figure 34: Food and Beverage export origin, by State, real (2016-17) \$ million

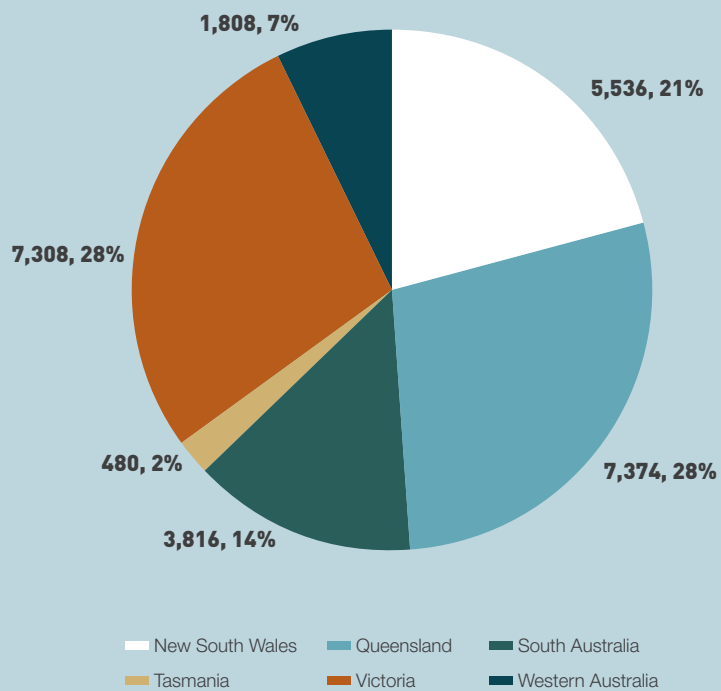


Figure 35: Grocery export origin, by State, real (2016-17), \$ million

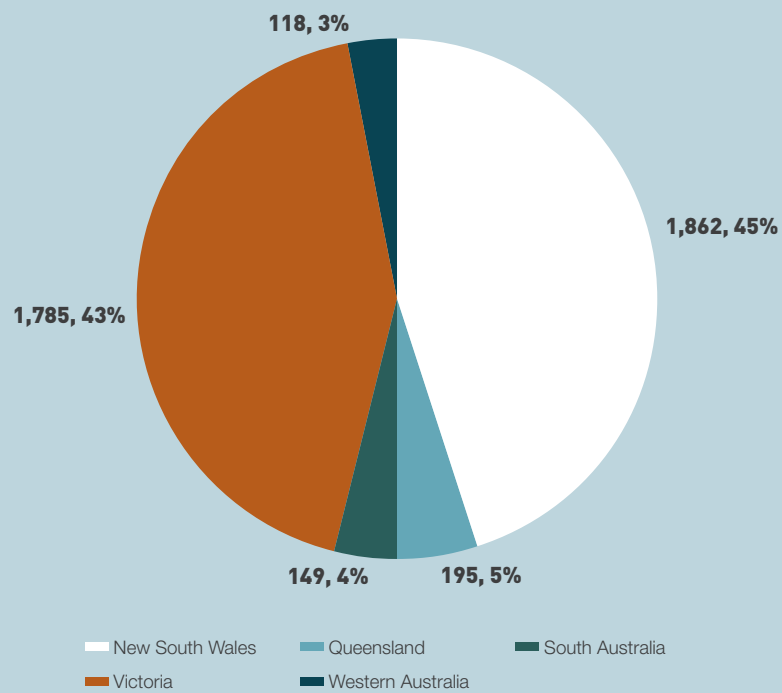
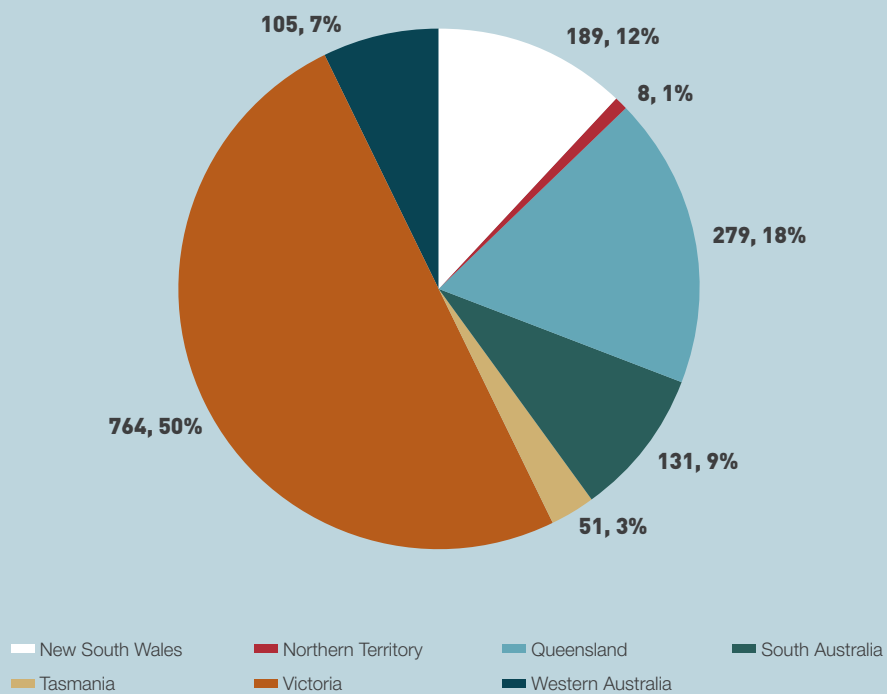


Figure 36: Fresh Produce export origin, by State, real (2016-17), \$ million





**Corrugated
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NOTES

- 1 Throughout this report, the food and beverage, grocery and fresh produce sectors are classified as the 'sector' or 'AFG', and all figures discussed in the body of this report are in real terms.
- 2 Real variables have been calculated by multiplying nominal variables by the relevant financial year deflator, details on the calculation of this deflator are discussed in the section B.1 of the Methodology appendix.
- 3 Industry value added is an economic value defined as the measure of the value of goods and services produced in an area, industry or sector of an economy. In national accounts GVA is output minus intermediate consumption
- 4 Nominally, turnover remained relatively flat in 2016-17 despite continued declines in overall manufacturing turnover.
- 5 The offsetting value growth may be driven by a higher value product mix and/or price growth.
- 6 Office of the Chief Economist (2016) Australian Industry Report 2016. Department of Industry, Innovation and Science. Available at: <https://publications.industry.gov.au/publications/australianindustryreport2016/index.html>
- 7 Reserve Bank of Australia (2010) Structural Change in the Australian Economy.
- 8 Commonwealth Bank of Australia (2018) Australia in 2018: Risks and Issues. Page 5.
- 9 Australian Bureau of Statistics (2018) 5206.0 – Australian national Accounts: National Income, Expenditure and Product. Analysis.
- 10 Reserve Bank of Australia (2018) The Australian Economy and Financial Markets: Chart Pack. Page 6.
- 11 While this figure includes Tobacco manufacturing given the data structure in ABS catalogues, the figure would by and large reflect beverage manufacturing given tobacco manufacturing is near non-existent in Australia. As such, throughout this report, this sub-sector is simply termed "beverage manufacturing".
- 12 Noting that these industries saw the largest falls in turnover growth; not largest declines in turnover levels.
- 13 Meat & Livestock Australia: "Industry Projections 2018, Australian Cattle" (2018)
- 14 IBISWorld: "C1150, Cooking Oil and Margarine Manufacturing, Executive Summary" (2018)
- 15 This iteration of the report has changed the source of employment data from ABS catalogue 6291 to catalogue 8155 for consistency purposes. The result of this is higher employment figures due to the inclusion of working proprietors and partners of unincorporated businesses. Additionally updates to IBISWorld industry data has resulted in updated historical numbers when compared to prior iterations of this report.
- 16 Figures of employment noted are based on ABS catalogue 8155 and related to the last pay period ending in June.

- 17 When considering this year's movement in productivity, it should be noted that the change of the base year for deflating nominal values to 2016-17 has amplified the recent decline in IVA noted in this report. This has resulted in a sharper decline in real productivity in 2016-17.
- 18 IBISWorld: Industry Report C1161: Flour and Grain Mill Product Manufacturing in Australia (2018).
- 19 IBISWorld: "C1150, Cooking Oil and Margarine Manufacturing, Competitive Landscape" (2018)
- 20 Meat & Livestock Australia: "Industry Projections 2018, Australian Cattle" (2018)
- 21 IBISWorld: "C1140 Fruit and Vegetable Processing, Products & Markets" (2018)
- 22 IBISWorld: "C1140 Fruit and Vegetable Processing, Products & Markets" (2018)
- 23 This report refers to net capital expenditure in its analysis of industry capital expenditure. Net capital expenditure is equal to the gross capital expenditure less proceeds received from the disposal of assets.
- 24 Aligned with prior year's reports, 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.
- 25 This significant increase from 2015-16 has been driven by the large increase in Food and Beverage Product manufacturing turnover which rose from \$249 million to \$556 million.
- 26 State turnover and employment totals differ from industry totals due to ABS data redaction and confidentiality of records.
- 27 This has been estimated by utilising locational employment Data from the 2011 & 2016 Census' (obtained through the ABS), estimating the growth between these periods, calculating the regional split in these estimated data points, and applying this to employment data available in ABS Catalogue 8155, to estimate Food and Beverage Employment regional and metro employment.
- 28 Figures adjusted from total ABS Catalogue 8155 figures to account for industry specific employment figures.
- 29 The number of regional and metro Grocery and Fresh Produce employees has been calculated by applying the proportion of regional to metro employment in all manufacturing jobs to the relevant sub-sectors employment levels. This is then added to the previously calculated Food and Beverage Product Manufacturing metro and regional employment to yield the estimate for total AFG metro and regional employment.
- 30 Where a State or Territory accounted for less than 1 percent of exports, it has not been reflected in the figure given its size.

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