

EY / AFGC Policy Series No. 3

Importance of the food, beverage and grocery sector to manufacturing in Australia

May 2017

Key Points

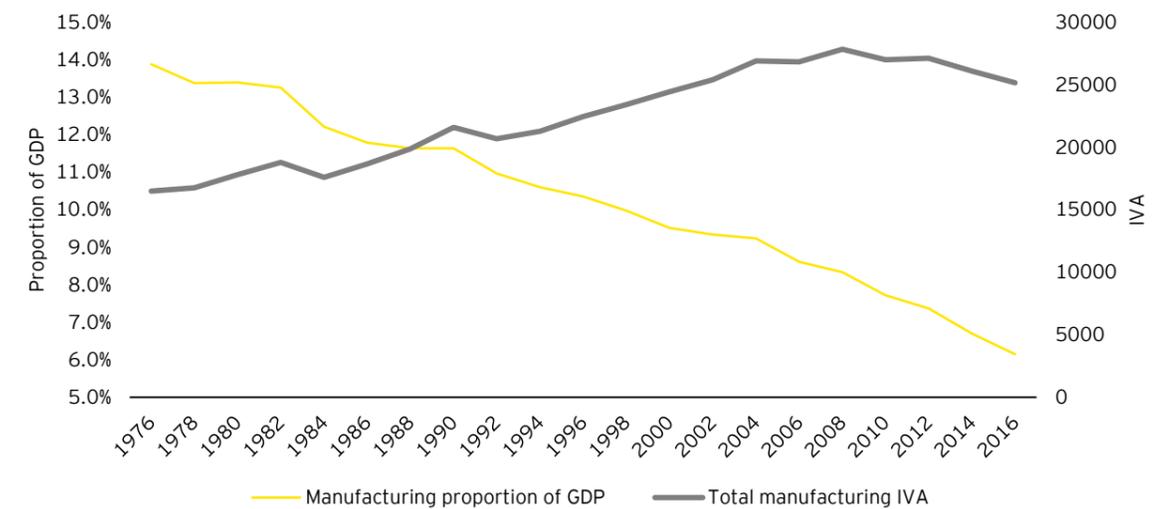
- The food, beverage and grocery subsectors are playing an increasingly important role in manufacturing in Australia with growth in their proportion of total manufacturing and in real value.
- Multiple manufacturing subsectors in Australia have experienced internal and external economic shocks while food, beverage and groceries have been largely resilient to these and has benefited from growth in Asian demand.
- The food, beverage and grocery subsectors are likely to play an increasingly important role in manufacturing in the future.
- The food & beverage subsector receives a limited amount of operational government funding proportional to its economic contribution.

The food product, beverage and grocery subsectors are playing an increasingly important role in Australian manufacturing

Over the last decade, the manufacturing sector has been characterised by falling exports, economic contribution and employment.

While gross domestic product has risen steadily, the manufacturing sector's economic contribution or industry value add (IVA) has increased in value and contracted as a proportion of GDP over a 40 year time (Figure 1). However, this decline is not universally experienced across all areas of manufacturing. This policy paper examines the performance of the food product, beverage and grocery subsectors within this context.

Figure 1: Manufacturing proportion of Gross Domestic Product and total IVA³

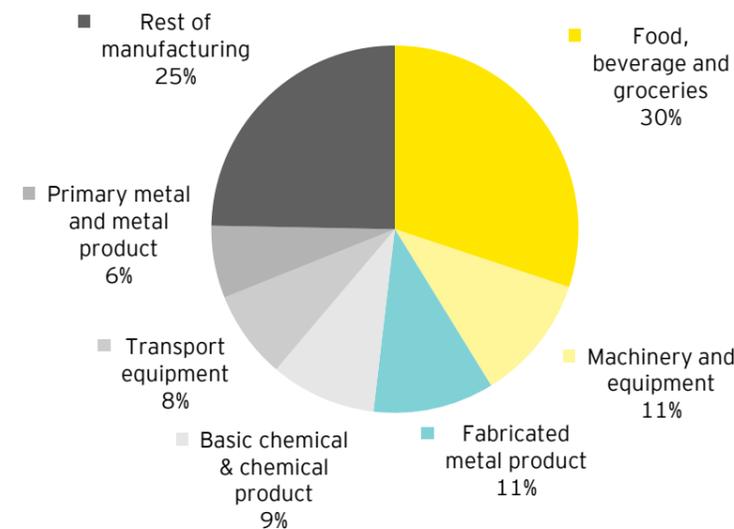


Source: ABS Catalogue number 5206.0

The food, beverage and grocery subsectors represented the largest share (30 per cent) of total industry manufacturing in 2014-15 (Figure 2). The IVA of these sectors of \$29,524m was almost three times higher than the next largest manufacturing subsectors - machinery and equipment and fabricated metal product.

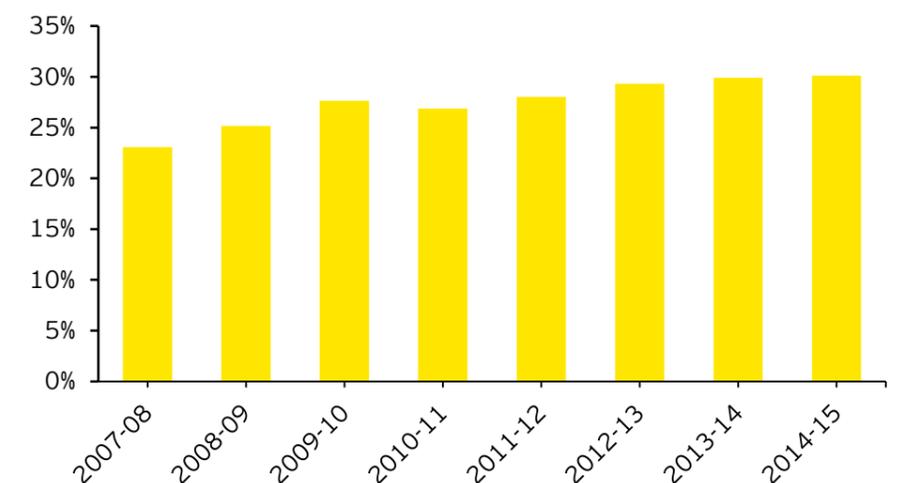
The food, beverage and grocery subsectors market share has grown from 23 per cent of total manufacturing IVA in 2007-08 to 30 per cent in 2014-15 (Figure 3). In other words, as a proportion total manufacturing IVA, the food, beverage and grocery subsectors have grown by 30 per cent in seven years.

Figure 2: IVA proportion of total industry, 2014-2015, selected subsectors



Source: ABS catalogue numbers 8159.0, 8221.0 and 8155.0 as well as IBISWorld Industry reports A0122, A0123, A0130, A0131, A0139, A0173

Figure 3: Food, beverage and grocery subsectors proportion of total industry manufacturing, selected years



Source: ABS catalogue numbers 8159.0, 8221.0 and 8155.0 as well as IBISWorld Industry reports A0122, A0123, A0130, A0131, A0139, A0173

¹ This policy paper excludes Fresh food, as the focus is on manufacturing.

² Groceries contains inputs from fabricated metal and a variety of other manufacturing subsectors. Without groceries, Food and Beverage accounts for 25 per cent of total IVA - still significantly larger than the nearest subsector.

³ Data from Figure 1 is not directly comparable with the rest of the policy paper due to its use of chain volume measures. Chain volume measures are constant price estimates and have been used in this figure as they measure production volumes by removing that part inflated by price increases.

Manufacturing subsector case studies (2014-15)

Manufacturing subsectors are not experiencing universal change

The Australian manufacturing industry has faced a variety of internal and external economic shocks. However, some shocks are subsector specific and have not widely applied across the whole of manufacturing. The following case studies provide contextual background to structural changes experienced in the subsectors and further demonstrate the disparities between manufacturing subsectors.

In contrast to the other subsectors, food, beverage and groceries manufacturing enjoyed both increases to sales and service income and IVA.

In 2014-15, IVA increased 2 per cent to \$29.5 billion and sales and service income increased 5.3 per cent to \$120 billion. Drivers of this growth include the urbanisation and industrialisation of Asia, which has catalysed rising income levels and greater demand for Australian food exports.

Food, beverage and groceries - Snapshot

Sales and Service Income	120,026
Sales and Service growth	5.3%
IVA	29,524
IVA growth	1.9%



Source: ABS catalogue numbers 8159.0, 8221.0 and 8155.0 as well as IBISWorld Industry reports A0122, A0123, A0130, A0131, A0139, A0173
All snapshot statistics are from 2014-15 and in millions

Transport equipment - Snapshot



Sales and Service Income	28,408
Sales and Service growth	-7.7%
IVA	7,595
IVA growth (From 2013/14)	-6.2%

Sales and Service Income in the transport equipment subsector fell 7.7 per cent to \$28.4 billion in 2014-15. IVA also decreased by 6.2 per cent or \$498 million in the transport equipment subsector, more than any other subsector in 2014-15.

Indeed, falling IVA and sales and service income within the transport equipment and motor vehicle industry has become a trend persisting for an extended period, beginning with the reduction of subsidies by the Australian government in the 1980s, to the scheduled closure of Holden and Toyota's car manufacturing factories in October 2017.

Source: ABS catalogue number 8155.0
All snapshot statistics are from 2014-15 and in millions

Primary metal and metal product - Snapshot

Sales and Service Income	44,877
Sales and Service growth	-7.8%
IVA	6,248
IVA growth	10.1%



The primary metal and metal product subsector had Sales and Service Income of \$44.8 billion, a decline of 7.8 per cent in 2014-15.

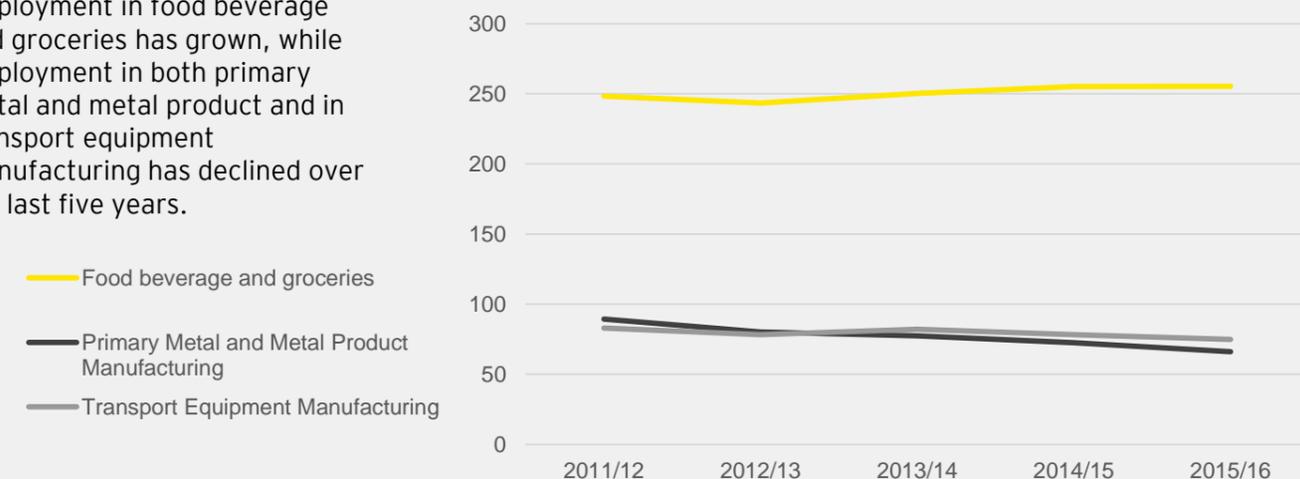
At the same time, it had an IVA gain of \$574 million to \$6.2 billion in 2014-15, representing growth of just over 10 per cent. However, the subsector has contracted to 44 per cent of its 2007-08 IVA of \$14 billion.

Source: ABS catalogue number 8155.0
All snapshot statistics are from 2014-15 and in millions

Employment in the subsectors

As can be seen in Figure 4, employment in food beverage and groceries has grown, while employment in both primary metal and metal product and in transport equipment manufacturing has declined over the last five years.

Figure 4: Employment in the subsectors



Source: ABS catalogue number 6291.0
Note: Average annual employment has been used

Comparison: Operational government funding³ – food and beverage⁴ and transport equipment manufacturing

Recently, government assistance has been under scrutiny in many manufacturing industries including transport equipment, particularly in relation to the production of motor vehicles. With an increasing contribution to manufacturing, the food and beverage subsector receives a limited amount of operational government funding proportional to its economic contribution. This section compares the food and beverage and the transport equipment manufacturing subsectors from a governmental support perspective. The analysis demonstrates that food and beverage provide a strong return for government investment.

IVA Growth

The food and beverage sector's importance has continued to grow to total manufacturing, while the transport equipment manufacturing subsector's contribution has largely declined. This can be seen in Figure 5, which shows the growth in each subsector's proportion of IVA. Between 2008-09 and 2014-15 the average IVA growth as a proportion of total industry manufacturing was 4 per cent for food and beverage (excluding groceries) and -2 per cent for transport and equipment.

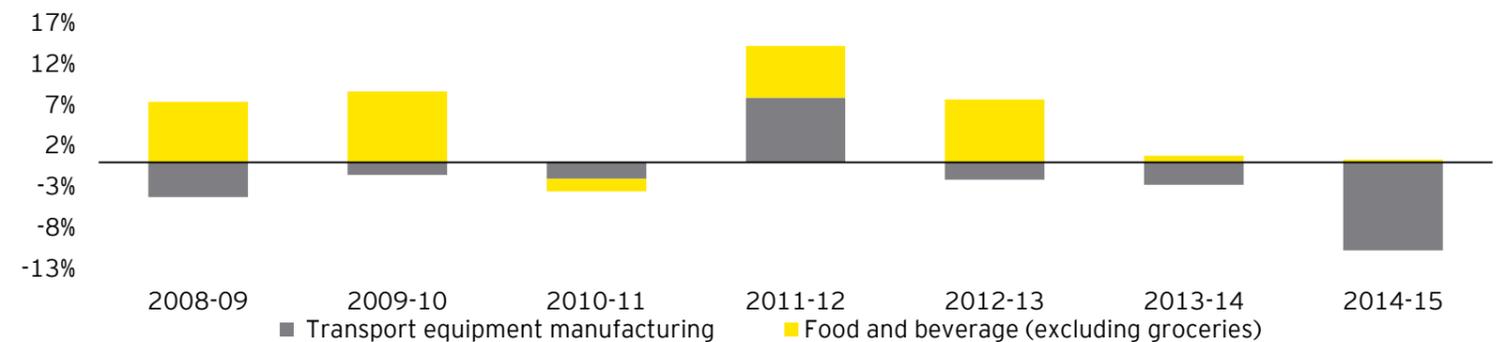
Government Funding

In 2014-15, government funds contributed \$1,194 million to the manufacturing industry, a growth of 25 per cent since 2007-08. Figure 6 shows the proportion of government funds provided to the food and beverage (excluding groceries) and transport equipment manufacturing subsectors. As can be seen, food and beverages receive a small proportion of total government funding for manufacturing operational costs.

Value-added

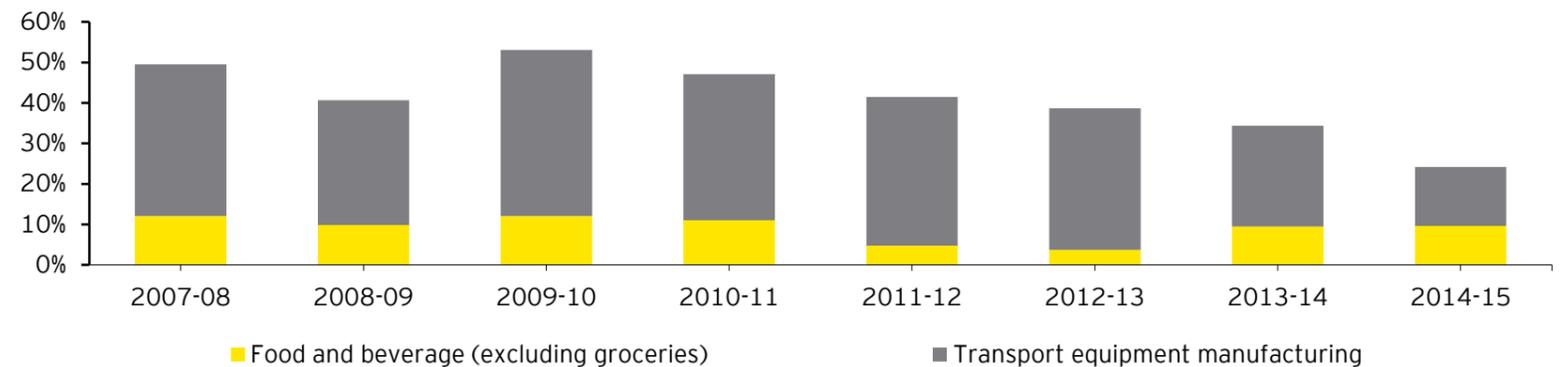
Figure 7 shows that every dollar of operational government funding corresponds to \$215 IVA in food and beverage (excluding Groceries). While in comparison for total manufacturing and transport equipment, one dollar of government operational funding corresponds to \$82 and \$44 IVA respectively (Figure 6).

Figure 5: IVA Growth as proportion of total industry manufacturing, Food and Beverage (excluding groceries) vs Transport Manufacturing



Source: ABS catalogue number 8155.0

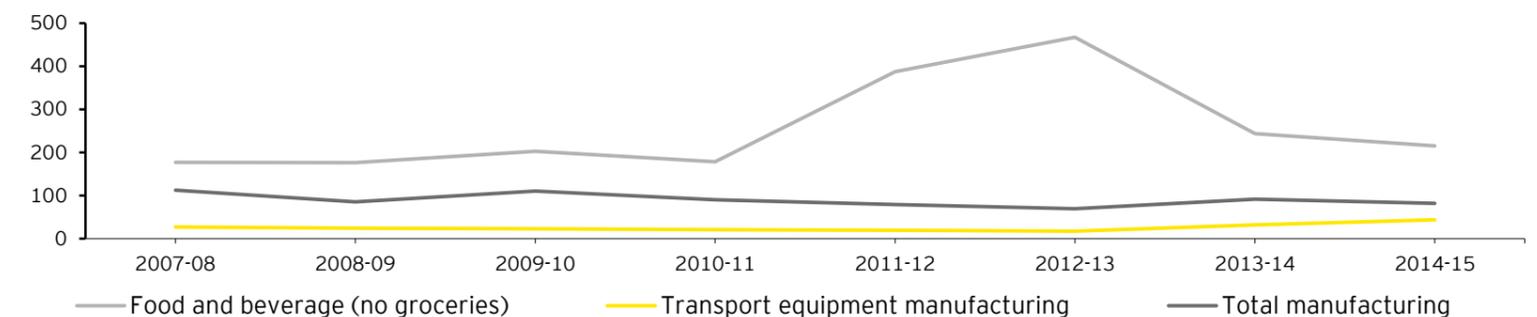
Figure 6: Proportion of government funding for manufacturing operational costs provided to selected subsectors



Source: ABS catalogue number 8155.0

Note: The 2014-15 reduction in proportional funding for transport equipment can be partially attributed to an increase in funding of \$285 million to the Fabricated metal product subsector.

Figure 7: IVA per \$1 government funding on operational costs



Source: ABS catalogue number 8155.0

³ Operational government funding is funding from federal, state and/or local government for operational costs (e.g. wages and salaries, rent, food). This excludes funding from government for specific capital items

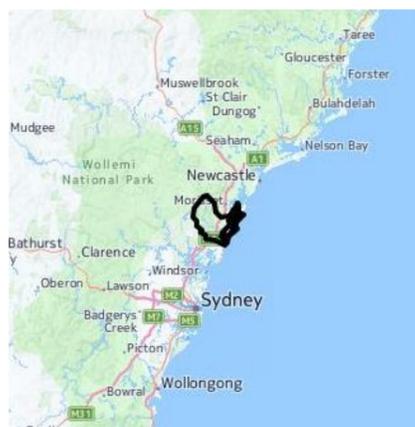
⁴ There is no accessible data for grocery government funding, therefore in this section, data for Food and Beverage only has been used.

Food, beverage and groceries continue to drive Manufacturing Sustainability

The strength of the food, beverage and grocery subsectors is contingent not only on increasing global demand, providing a key driver of jobs growth for regional and outer metro economies. Manufacturers in regional areas have suffered through economic shocks however, as is shown in the below case study of the Wyong Shire, food product manufacturing has rekindled local employment and added significant potential for future growth.

Case Study: Regional Australia - Wyong

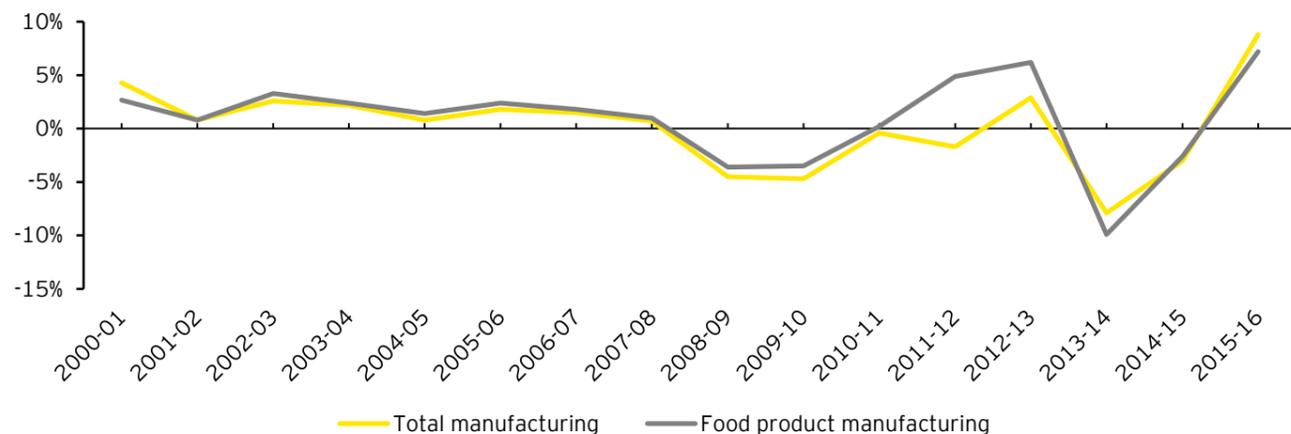
Figure 8: Location of Wyong in NSW



Wyong Shire, on NSW's Central Coast, is an example of a local economy reaping the benefits of food product manufacturing and a model for struggling manufacturing communities in other areas of Australia.

As shown in Figure 9, Total manufacturing growth in Wyong is largely driven by food product manufacturing. In 2015-16, the construction and initial operations of food manufacturing factories in the Wyong Shire catalysed a spike in employment of 7.2 per cent, reversing the negative trend of previous years.

Figure 9: Wyong manufacturing employment growth



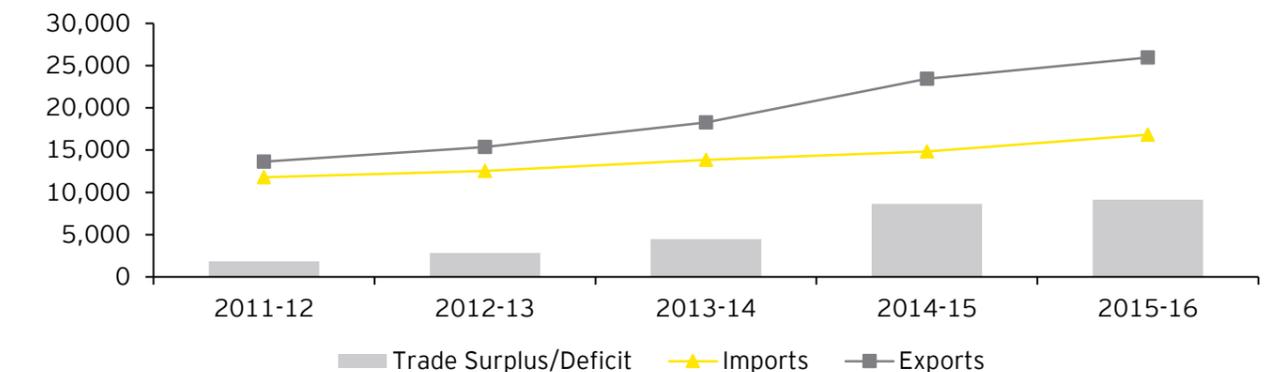
Source: .id, the Population Experts, Economic data on Wyong [online], available at: <http://economy.id.com.au/wyong> [Accessed 27 Apr 2017]

Looking to the future

While the food, beverage and grocery subsectors have expanded, a key consideration is whether this growth will continue. The following examines some potential indicators that this performance will continue:

- **Strong export growth** has been catalysed by a growing middle class in Asia who demand safe and high quality food. For example, the real value of food and beverage exports increased 10.7 per cent to \$26 billion in 2015-16 (Figure 10).
- **Capitalising on potential domestic and international demand:** Both local and international consumers are showing an increased appetite for food and beverage products. In 2015-16, the value of food and beverage traded internationally (total trade) grew by 11.8 per cent, while the value of groceries traded internationally increased by 18.7 per cent. Growth in exports provides opportunities to supply international customers while growth in imports, although increasing competition, may provide an opportunity for Australian products to displace imports.
- **Rebalancing of the manufacturing industry:** Traditional manufacturing subsectors such as petroleum and coal, metal product and transport equipment have experienced decline, generating opportunities for food and grocery providers to create new jobs and growth and this is anticipated to continue.

Figure 10: Imports, Exports and Trade Surplus/Deficit (real) of Food and Beverages (excludes groceries)



Source: ABS catalogue number 8155.0

NOTICE

This report ("Report") has been prepared jointly by the Australian Food and Grocery Council (AFGC) and EY. EY has prepared the analysis in relation to the manufacturing industry. 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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