



Technomic Take: Macroeconomic Impacts to Canadian Foodservice Industry

By Technomic Inc.

Since Technomic's last forecast, there have been two overriding changes at the macro level that will impact Canada's foodservice industry. Although these have been incorporated into our updated forecasts, the possibility of a long-term drag on growth from these shifts appears to be high.

Slowdown in Population Growth

Canada's population has grown significantly over the last few years, but forecasters expect this growth to slow or even reverse in 2025. The Immigration Levels Plan sets targets for immigration, and the most recent plans show a reduction in permanent and temporary resident target levels. As a result, overall population will show slower growth in 2025 and for the next several years. Additionally, the foodservice industry may face labour challenges at the operator level and throughout the entire food supply chain.

Potential Tariff Impact

The U.S. has imposed 25% tariffs on all nonenergy goods from Canada and a 10% tariff on energy goods. These tariffs will create significant costs for areas of the economy that have high exposure and reliance on exports

to the U.S. and could create downstream challenges around supply chain, inflation and broader economic growth. Restaurants already challenged by a high-cost environment may see increases in a wide variety of input products and will be forced to either pass on these costs in the form of higher menu prices or be impacted by tighter margins.

In response, Canada retaliated with 25% tariffs on goods from the U.S., particularly in strategically important consumer areas like food and beverage. There has been a recent surge in demand for "Made in Canada" or "Product of Canada" goods. Nonetheless, consumers have grown much more pessimistic about the economy, and overall consumer confidence recently dropped to an eight-month low.

Revised 2025 Forecast

With these key issues looming, Technomic has revised its outlook for 2025. Our previous forecast from August 2024 indicated that growth expectations for the industry were 5.3% in consumer spending, which equated to 2.0% in real (deflated) growth. Given the current situation, our outlook has softened to less than 1% real growth in foodservice this year.

GLOSSARY

Limited-Service Restaurants (LSR): Establishments where patrons generally order or select items and pay before eating. Food and drink may be consumed on-premise, taken out or delivered to customers' locations. This segment consists of quick-service and fast-casual restaurants.

- **Quick-Service Restaurants (QSR):** Traditional fast-food restaurants, generally with per-person menu pricing of \$14 or less
- **Fast-Casual Restaurants (FC):** Establishments with a limited-service or self-service format, with per-person menu pricing typically around \$14 or higher. Food is prepared to order and made with fresh (or perceived as fresh) ingredients. Restaurants offer innovative food suited to sophisticated tastes, and upscale or highly developed interior design. Alcohol may be served

Full-Service Restaurants (FSR): Establishments with a relatively broad menu along with table and/or booth service and a waitstaff. These establishments offer meals and snacks for immediate consumption primarily on-premise; some may also offer takeout service. This segment is composed of midscale, casual-dining and fine-dining restaurants

- **Midscale Restaurants (MSR):** Full service; mid menu pricing, around \$18 or less per-person. Many do not sell alcohol or are limited to beer and/or wine. Breakfast orientation often defines this segment

- **Casual-Dining Restaurants (CDR):** Full-service restaurants with per-diner menu pricing at \$20 or more. A full bar is common. This subsegment includes contemporary CDRs and upscale CDRs
- **Upscale Casual-Dining Restaurants (Upscale CDRs):** Full-service restaurants with a chic decor that resembles a fine-dining setting. These establishments have extensive beverage programs that often incorporate mixologists, sommeliers and craft brewers. Per-person menu pricing is typically between \$40-\$80. Upscale CDRs typically offer well-planned and expertly executed lunch and dinner menus, and some also provide gourmet breakfast and brunch menus
- **Traditional Casual-Dining Restaurants (Traditional CDRs):** Full-service restaurants with a casual, relaxed atmosphere and lesser emphasis on service and bar offerings compared to upscale CDRs. Menu pricing is generally between \$20-\$40 per person. Much of the focus is on lunch and dinner, with some concepts also serving breakfast or a weekend brunch
- **Fine Dining (FD):** Full-service restaurants with per-person pricing generally above \$80 and an emphasis on dinner. Establishments usually offer an extensive alcohol program. Also known as white-tablecloth restaurants

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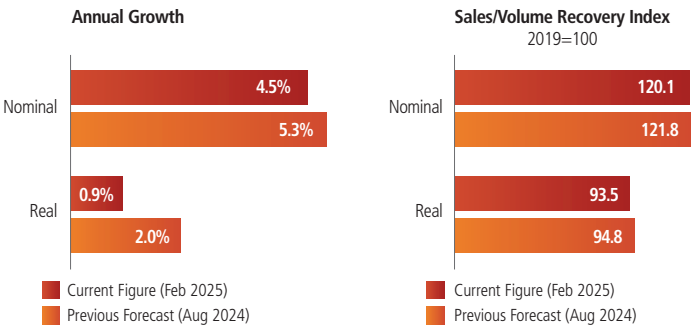


Revised 2025 Forecast

Our view for the remainder of 2025 is that the year will end with consumer spending growth of 4.5% (a reduction of 0.8 points from that initial forecast referenced above). Real growth will be under 1%, a reduction of 1.1 pts from our August 2024 expectation.

In looking at the recovery indices, which benchmark the levels of nominal and real sales back to 2019 levels, overall revenue for the industry for 2025 is expected to be at 120.1 (down slightly from the 121.8 that was forecasted in August 2024). The real index is expected to remain below 94.0 (93.5), indicating that the industry will still be 6.5% smaller on a deflated basis at the end of 2025 than it was in 2019. Both numbers have been revised down from earlier expectations.

2025 Foodservice Industry Forecast
Consumer Spending (Retail Sales)

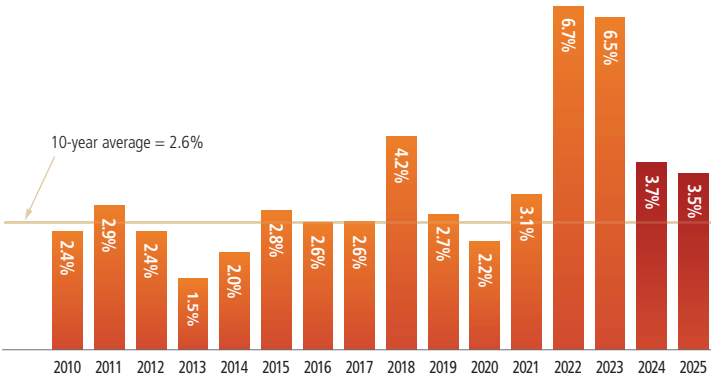


Inflation Remains Elevated vs. Historic Norms

For full-year 2024, Technomic analysis of inflation data shows prices were up 3.7% across foodservice; this is slightly lower than what our previous estimate was in August. Over the past several months, the inflation rate has decelerated for food away from home, and the recent HST/GST tax holiday actually caused the December inflation rate to decline for the first time since Technomic began tracking restaurants.

For 2025, inflation is a bit of a wild card; the early part of the year will still see an impact from the HST/GST tax holiday, but broader macro-conditions will likely cause above-average inflation later in the year. This is one area where the tariff situation may have an impact; Technomic is currently assuming a 3.5% annual inflation rate, which is still well above the current 10-year historic average of 2.6%.

Year-Over-Year Menu Price Inflation Assumptions
Consumer Spending (Retail Sales)

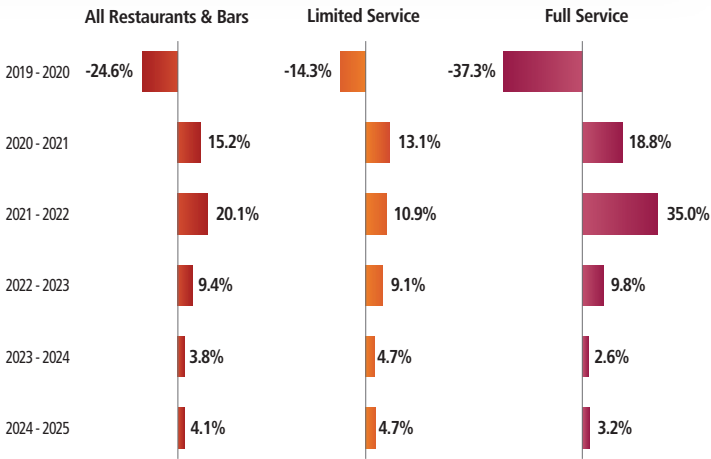


Overall restaurants and bars are expected to grow 4.1% in 2025

Limited-service restaurants continue to grow faster than their full-service counterparts. Higher prices have resulted in some erosion of value positioning among consumers, but with some inflation moderation this segment should continue to grow.

Full-service restaurants are struggling with short- and longer-term issues, with a wider dichotomy between those that are succeeding and those that are being challenged, as consumers are increasingly selective.

Menu pricing has impacted the overall value proposition, as has the strong demand for off-premise dining (which has tended to favour LSR concepts). Overall sales growth was 2.6% in 2024, and that performance should improve slightly to 3.2%. However, it does appear many operators had stronger Q4 results as the HST/GST holiday impacted consumer spending.



Note: Technomic growth estimates as of February 2025; Nominal (dollar) growth figures shown; Some revisions have been made to earlier annual growth forecasts

Source: Technomic