

***The Confectionary Industries in the U.S., Canada, and Mexico:
Trends in Structure, Domestic Production and Use, Trade and Cost Comparisons***
Buzzanell and Associates, Inc.
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Executive Summary

Some U.S. candy manufacturing operations have moved to Canada and to Mexico in recent years; also, some operations have moved from Canada to Mexico. Though some have argued that relative sugar prices were an important factor guiding these location decisions, our detailed analysis of operational costs suggests otherwise. We found huge disparities in wage rates to be the major economic factor and the modest differences in sugar prices among the three countries to be a very minor factor.

Independent site-selection research for manufacturing firms puts labor at 58-74% of overall operational costs. Our focus on candy manufacturers that have moved recently from Pennsylvania to Mexico and from Ontario to Mexico revealed huge wage differences: Candy company average wages in Pennsylvania at \$18.78/hour, in Ontario at \$10.20/hour, and in Mexico at a mere 51 cents/hour. Employer-paid health care costs are also dramatically higher in the U.S. – \$7,680 per worker per year, versus \$1,551 in Canada and just \$258 in Mexico.

Sugar prices, meanwhile, varied modestly from country to country. Recent average (2007-2008) wholesale refined prices in the United States were 28 cents/lb, Canada about 21 cents, and Mexico nearly 31 cents, with discounted sugar available to Mexican *maquiladora* (free trade zone) candy operations at about 23 cents. Current prices are higher in all three countries.

Other operational costs were found to most probably be more important factors than raw material costs.

- Industrial facility lease rates in Pennsylvania were found to be less than in Canada and more than in Mexico, but lease rates in Chicago, where many candy operations remain, are much higher than the other locations studied.
- The tax burden on manufacturing operations in Chicago is much higher than in all the other areas studied, though the employer taxes at the Pennsylvania location were lower than in Canada and Mexico.
- Electricity rates proved to be highest in Mexico and lowest in Canada, where manufacturers benefit from Canadian government subsidization of hydro-electric power.
- Water and sewage costs were the highest, by far, in the U.S.

Relative costs for other agricultural commodity inputs – nonfat dry milk, cocoa, and corn syrup – were found, like sugar, to vary little from country to country.

There are a number of signs that the U.S. candy company flight to other countries has run its course and that the trend of job loss may be reversing itself:

- Many large food corporations are expanding their candy production operations in the U.S.

- After years of decline: the volume of U.S. confectionary production has leveled off and the value rose by 4% in 2008; the number of jobs in the U.S. confectionary industry rose by 12% in 2007 (data for 2008 not yet available).
- After years of increases, the amount of sugar in U.S. imports of sweetened products declined in 2007 and 2008.
- U.S. industrial use of sugar has risen by 11 percent since 2003.
- U.S. exports of chocolate candies have more than doubled in the past decade and non-chocolate candy exports have risen 30%.
- The U.S. confectionary industry remains among the nation's most profitable sectors, with the industry's trade association itself boasting profit margins of 35%.

Operational Costs for Confectionery Industries In North America

		<u>United States</u>	<u>Canada</u>	<u>Mexico</u>
Items	Unit	Middle Atlantic States ^{1/}	Ontario- Quebec	Border with United States
Hourly Wages^{2/}	\$/hr	\$18.78	\$10.20	\$0.51
Commercial Facility Rental^{3/}	\$/sq/ft/yr	\$5.00	\$6.38	\$4.65
Health Care -- Employer cost	\$/yr/worker	\$7,680	\$1,551	\$258
Taxes, Total^{4/}	%	19.10%	36.30%	26.60%
Electricity^{5/}	cents/kWh	6.6	3.0	8.0
Sewage	\$/1,000 gal	\$7.04	\$3.27	\$1.00
Sugar^{6/}	cents/lb	28	21	23

^{1/} Focus on Reading, Pennsylvania; Chicago costs substantially higher -- rentals at \$80/sq/ft; taxes at 42%.

^{2/} Wages only. Workers in all countries receive additional benefits such as health insurance and paid vacations. Government mandated benefits in Mexico increase effective wages to an estimated \$1.08/hour.

^{3/} Includes property taxes, insurance and maintenance fees.

^{4/} Total of federal, state or provincial, and local. Percent of income. Services provided by the government for taxes in Mexico minimal compared with U.S. and Canada.

^{5/} Cents per kilowatt hour. Canada rate low because of government subsidization and investment in hydroelectric power.

^{6/} Average prices of past several years; current prices somewhat higher. Mexico maquiladora (free trade zone) price; Mexican market actual prices much higher, at about 30 cents.

Source: Buzzanell & Associates, Inc.