Issues for the Food Industry

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Overview

• Recent Trends in the Food Industry Reflect the Impact of the Recession and Sluggish Recovery
• The Food System’s Role in Public Health Shapes New Policies and Industry Efforts
Recession and the Food Industry

- Prices and Expenditures
- Retailing Structure
- New Products
- Energy Use
Food inflation could be lowest since 1992 in 2010, but signs of higher inflation in 2011.

See: http://www.ers.usda.gov/Briefing/CPIFoodAndExpenditures/
Food Expenditures at Constant Prices, 1990-2009

- Food at home
- Food away

Source: USDA, ERS, calculations using USDA, ERS, Food Expenditure Tables: Table 1; and Bureau of Labor Statistics, Consumer Price Index.
Monthly Year-to-year Change in Food Expenditures

At home  Away from home

Source: USDA, ERS, Food Expenditure Tables: Table 36.
Food Assistance Growing

USDA expenditures for food assistance, FY 1970-2009

- SNAP (formerly Food Stamps)
- All other programs

Billion dollars

Average household real expenditure on food at home, by income quintile

Average household real expenditure on food away from home, by income quintile

Expenditure Shares for Nontraditional Food Stores Continue to Rise

Source: ERS Calculations using Nielsen Homescan Data
The U.S. food system used 2.56 qBtu more energy in 2002 than in 1997.

- Growth in energy use, 1997 to 2002, 2.56
- 1997 energy use, 11.54

Energy use by food processors surpassed wholesale/retail energy use in 2002

Quadrillion Btu

1997  2002

Agriculture  Processing  Packaging  Transportation  Wholesale & retail  Food-service  Households


Summary: Recession Impacts

• Food system pressured by high and volatile input prices and stagnant consumer demand

• Opportunities for research
  – To understand how consumers are making food spending tradeoffs
  – To identify greater efficiencies and enhanced risk management strategies

• All at a time of higher expectations for the system’s role in public health
Obesity and Overweight Direct Costs

- Healthcare costs estimated at $147 Billion in 2008 (CDC)
- Accounts for 9.1% of annual US medical costs (up from 6.5% in 1998)
- About half of these costs are paid by Medicare and Medicaid
- So addressing rising rates of obesity would help to “bend the curve” on medical costs

Source: Finkelstein, 2009, Annual Medical Spending Attributable To Obesity: Payer And Service- Specific Estimates, Health Affairs, 28(5).
Childhood Obesity

- Michelle Obama’s “Let’s Move” campaign
- Four Pillars
  - Physical Activity
  - Healthy Choices
  - Healthier Schools
  - Access to Affordable Healthy Food
- Task force report released May 11, 2010
THE WHITE HOUSE LIVE

Next Up...  
February 09, 2010 12:00 PM EST
The First Lady Unveils Nationwide Campaign to Combat Childhood Obesity
The White House

February 09, 2010 1:30 PM EST
Briefing by Press Secretary Robert Gibbs
The White House

There is a live discussion about this event at Facebook.  
Click here to participate

Not a Facebook member?  
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Information for Healthy Choices

• FDA Nutrition label regulations
  – Revisions to 1994 format
  – Front of Package standards

• Restaurant calorie labels mandated in Affordable Care Act
Front-of-pack examples

- Sara Lee
- Giant
- American Heart Association
- Pepsi
- Hannaford
- Kelloggs
- Mars
- Nabisco
- SuperValu
- NuVal
- U.K. Traffic Light System
<table>
<thead>
<tr>
<th>THE ITEM</th>
<th>THE PRICE</th>
<th>THE CALORIES</th>
<th>THE RATIONALIZATION</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$1.43</td>
<td>300</td>
<td>I’ll just add a few minutes to my workout</td>
</tr>
<tr>
<td></td>
<td>$2.00</td>
<td>272</td>
<td>Will really learn to cook, eat and enjoy kale</td>
</tr>
<tr>
<td></td>
<td>$3.24</td>
<td>610</td>
<td>I can jog this off</td>
</tr>
<tr>
<td></td>
<td>$4.36</td>
<td>1027</td>
<td>Will take this to go, put on my slanket and write my will</td>
</tr>
<tr>
<td></td>
<td>$7.05</td>
<td>340</td>
<td>I am drunk and this is the best frank I have ever eaten</td>
</tr>
<tr>
<td></td>
<td>$2.88</td>
<td>461</td>
<td>... can’t think right now</td>
</tr>
<tr>
<td></td>
<td>$5.49</td>
<td>867</td>
<td>Thing is, I quite like the shape of pears</td>
</tr>
<tr>
<td></td>
<td>99¢</td>
<td>501</td>
<td>Do they make Spanx for men?</td>
</tr>
</tbody>
</table>
Nutrition Label Research

• Package labels
  – Research shows those who use labels tend to have better diets (eg., Kim, Nayga, Capps, JARE, 2000)
  – FOP in UK found to improve comprehension

• Restaurant labels
  – 6% calorie decline at Starbucks and no profit loss (Bollinger et al., NBER, 2010)
  – Combining with menu that makes healthier items easier to order makes a bigger difference in experiments (Loewenstein and Downs, AER, 2009)
Information Influences Supply as Well as Demand

• Motivators for product reformulation
  – Mandatory disclosure: Trans fat example
  – New guidance: Whole grains example
• Healthy Weight Commitment by major food firms to reduce “empty” calories
• National Salt Reduction Initiative
Healthy Schools

• National Academy of Science recommended changes to child nutrition programs:
  – WIC foods change in 2010 to reduce fat, increase F&V, whole grains
  – School lunch nutrition guidelines to be revised next year to emphasize similar changes

• Impacts on costs, diets, institutions all open topics for research
Using Pre-Commitment to Encourage Healthy Choices

Food Access

• Lack of access to healthy food in low income neighborhoods—“food deserts”
• Too much access to unhealthy food (“food swamps”)
• Healthy Food Financing Initiative
  – Will invest $400M in food deserts to increase access
  – Modeled on Philadelphia FFI
National Assessment of Access

• Mandate by 2008 Farm Bill for ERS study of “food deserts”
• ERS looked at low income neighborhoods where households are more than a mile from a supermarket
• About 4% of the US population are at risk of having inadequate access

Some densely populated, low-income St. Louis neighborhoods are more than a mile from a supermarket.
Food Access Research

• Consumers
  – Greater BMI associated with density of nearby fast food outlets (Chen)

• Stores
  – Location decisions relatively understudied
  – Limited format stores making inroads in low access neighborhoods
Summary: Obesity

• New policies will challenge industry to market higher nutritional quality to consumers
• Shaping a “healthier” food environment will be a complex undertaking involving multiple sectors
• Opportunities for research to understand incentives and tradeoffs for consumers and industry
Thank you!

• For more information:

http://www.ers.usda.gov/Briefing/CPIFoodAndExpenditures/

http://www.ers.usda.gov/Briefing/DietQuality/

http://www.ers.usda.gov/Briefing/FoodNutritionAssistance/