2015 Agricultural Symposium: Responding to Future Food Demands

- Hosted by the Federal Reserve Bank of KC

BILL LAPP
PRESIDENT, ADVANCED ECONOMIC SOLUTIONS
JULY 14, 2015
Food Expenditures Have Declined Sharply Over Past 60 Years

Country By Country Comparison (2012):

- US 9.8%
- Canada 9.5%
- Germany 11.7%
- France 13.7%
- Japan 13.7%
- Mexico 24.9%
- Vietnam 35.9%
- Nigeria 56.9%

Source: USDA ERS, Euromonitor International
Away-From-Home Dining Spend Now About Equal to At-Home

US Calorie Intake Declining Since 2002

Source: USDA Economic Research Service
## Personal Consumption Expenditures - $ Billion (2022 Forecast)

### Billions of 2005 Dollars

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>% of ttl</th>
<th>2012</th>
<th>% of ttl</th>
<th>2022</th>
<th>% of ttl</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal consumption</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>expenditures</td>
<td>$ 8,018</td>
<td>100.0%</td>
<td>$ 9,603</td>
<td>100.0%</td>
<td>$ 12,380</td>
<td>100.0%</td>
</tr>
<tr>
<td>Durable goods</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Motor vehicles and</td>
<td>$ 928</td>
<td></td>
<td>$ 1,361</td>
<td></td>
<td>$ 1,936</td>
<td></td>
</tr>
<tr>
<td>parts</td>
<td>4.9%</td>
<td></td>
<td>3.9%</td>
<td></td>
<td>4.2%</td>
<td></td>
</tr>
<tr>
<td>Other durable goods</td>
<td>$ 636</td>
<td>6.7%</td>
<td>$ 996</td>
<td>10.4%</td>
<td>$ 1,439</td>
<td>11.6%</td>
</tr>
<tr>
<td>Nondurable goods</td>
<td>$ 1,780</td>
<td></td>
<td>$ 2,095</td>
<td></td>
<td>$ 2,557</td>
<td></td>
</tr>
<tr>
<td>Food</td>
<td>$ 609</td>
<td>7.6%</td>
<td>$ 686</td>
<td>7.1%</td>
<td>$ 766</td>
<td>6.2%</td>
</tr>
<tr>
<td>Gasoline</td>
<td>$ 294</td>
<td>3.7%</td>
<td>$ 269</td>
<td>2.8%</td>
<td>$ 288</td>
<td>2.3%</td>
</tr>
<tr>
<td>Other nondurable</td>
<td>$ 881</td>
<td>11.0%</td>
<td>$ 1,155</td>
<td>12.0%</td>
<td>$ 1,544</td>
<td>12.5%</td>
</tr>
<tr>
<td>goods</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td>$ 5,319</td>
<td></td>
<td>$ 6,177</td>
<td></td>
<td>$ 7,973</td>
<td></td>
</tr>
<tr>
<td>Housing services</td>
<td>$ 1,462</td>
<td>28.2%</td>
<td>$ 1,678</td>
<td>27.2%</td>
<td>$ 2,061</td>
<td>25.9%</td>
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<tr>
<td>Medical services</td>
<td>$ 1,203</td>
<td>23.0%</td>
<td>$ 1,517</td>
<td>24.7%</td>
<td>$ 2,071</td>
<td>26.1%</td>
</tr>
<tr>
<td>Other services</td>
<td>$ 2,654</td>
<td>48.8%</td>
<td>$ 2,981</td>
<td>48.1%</td>
<td>$ 3,834</td>
<td>48.1%</td>
</tr>
</tbody>
</table>

- Total real expenditures forecast to rise 29% between 2012 and 2022
- Real food expenditures forecast to rise 12% between 2012 and 2022

Q: What foods will consumer buy with the additional income?

Source: Bureau of Economic Analysis, Bureau of Labor Statistics
What is impact of people moving to different income quintiles?

Middle Quintile Family in 2008: Spent $5602 on food
- By 2013: $5728 spent on food (+2.2%)
- 10% moved to lowest quintile: Food spend -35%
- 17% moved to second quintile: Food spend -15%
- 42% remained in third quintile: Food spend +2.2%
- 24% moved to fourth quintile: Food spend +37%
- 8% moved to highest quintile: Food spend +99%

Q: What foods will consumer buy with the additional income?
Higher Income leads to higher food expenditures

Comparing the fourth quintile to the second quintile:

- 97% higher away from home food expenditures
- 41% higher beef expenditures
- 55% higher fruit/vegetable expenditures
- 108% higher alcohol expenditures
What are some key drivers of changes in individuals’ food consumption patterns?

- Changes in individuals’ income levels
- Entry of millennials into workforce (born 1981-1997)
- Growing diversity/ethnicity of population
- Health concerns / costs
- Rising demand for transparency
- Governmental skepticism
- Reduced hereditary connection to farming
What are new priorities / trend in food purchased in future

- More dining away from home
- Increased convenience
- Greater transparency (labeling, public relations, website info)
- Wider variety of food options
- Organic
- “Natural”
- Locally grown
- No artificial ingredients
- Health benefits (eg, gluten free)
- GMO-free products?
Headlines worth noting...

- “Specialty gourmet retailers generate $18 B annually, growing 10% annually”
- “Panera issues ‘no-no’ list of 81 ingredients”
- “Papa John’s spending $100 mm to eliminate artificial ingredients”
- “General Mills plans gluten-free Lucky Charms”
- “General Mills buys Annie’s for $820 mm”
- “Hormel paying $775 to buy organic meats maker Applegate Farms”
- “Chick-fil-A committed to removing chicken treated with antibiotics in next 5 years”
- “Tyson urges farmers to improve housing for pregnant pigs”

--- From Millennial Marketing:
- “Millennials want more facts about their food”
- “Millennials believe they consume healthier, more expensive, more natural/organic, less processed food than their parents”
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