

Food & Marketing



Jack Harrison

Marketing Costs for Food Rose Slightly In 1996

U.S. consumers spent \$547 billion on food in 1996 (excluding imports and seafood), \$17 billion more than in 1995. For every dollar spent, 23 cents covered the farm value of food purchases, and the rest was marketing costs. Food marketing costs—as measured by USDA’s marketing bill—includes expenses associated with processing, wholesaling, distributing, and retailing of foods produced by U.S. farmers. It is the difference between the value farmers receive for food commodities and the amount consumers spend on food both at home and away from home.

A sharp 8-percent increase in farm value—reflecting higher prices for pork, eggs, dairy products, and cereal—accounted for a larger-than-usual portion of the increase in consumer food costs. However, with moderate inflation and sluggish growth in consumer food expenditures—about 3 percent—food manufacturers, wholesalers, and retailers absorbed much of the sharp increase in farm prices, substantially slowing the rise in marketing costs in 1996.

The marketing bill rose only about 2 percent to \$424 billion in 1996, following a nearly 4-percent increase in 1995. The rise in food marketing costs in 1996 was lower than the overall 2.9-percent rate of inflation, and substantially below the average annual increase of about 4.5 percent during the last decade.

Labor Costs Have Increased Steadily

Labor costs (wages and salaries, and employee benefits such as group health insurance) comprise 38 percent of total consumer food expenditures, and make up the largest component of the marketing bill. Labor costs grew about 5 percent to more than \$206 billion in 1996, but at a marginally slower pace than the annual average rise during the last 10 years. The slower growth was the result of relatively sluggish sales which dampened demand for additional employees.

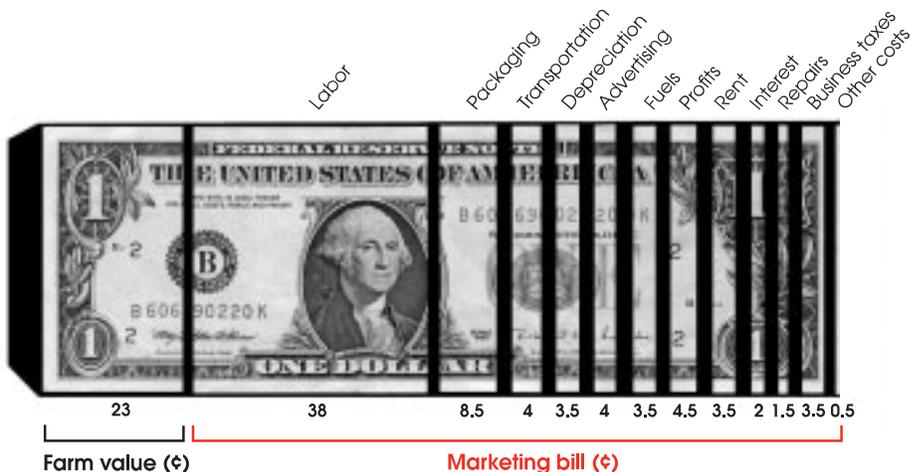
In 1996, 13.5 million people were employed in the food industry sector beyond the farm. Food industry employment increased almost 1.5 percent in 1996, a smaller rate of increase than the nearly 3-percent rise recorded in 1995. Food-service establishments employed the single largest share at 56 percent. About 25 percent of the food-sector work force was employed by food stores, 12 percent by food manufacturing firms, and 7 percent by wholesalers.

Employment in the food manufacturing sector dropped by about 1.5 percent, reflecting higher labor productivity and increased use of labor-saving technology, which continued to dampen hiring rates. For the other three sectors, employment increased, but at a smaller rate than in 1995.

Hourly earnings of food manufacturing and food store employees rose almost 3 percent in 1996, similar to 1995. The relatively stable earnings in these two sectors partially reflect provisions of union contracts negotiated over the last few years. Average hourly earnings of wholesaling employees rose over 2 percent, compared with 2.5 percent in 1995. The average hourly wage for employees in the food-service sector, one of the highest contributors to U.S. job growth in 1996, advanced about 3.5 percent, compared with 2 percent in 1995. This higher rate of growth reflects brisk sales in the away-from-home market over the last decade, when sales increased an average of 5 percent per year.

Wage supplements, about 20 percent of total labor costs, increased because of rising health insurance premiums and pension costs. The rising cost of medical care pushed up health insurance costs. However, the 3.5-percent increase in the Consumer Price Index for medical services in 1996 was considerably smaller than the 6.5-percent average annual

What Does the Consumer's Food Dollar Pay For?



Food & Marketing

increase over the last 10 years, and helped mitigate 1996 labor cost increases. Similarly, the Employment Cost Index for private industry benefits rose almost 2 percent in 1996, markedly smaller than the nearly 6-percent annual average rise of the last decade.

Packaging Costs Drop

Packaging costs, nearly 9 percent of food expenditures and the second-largest component of marketing costs, dropped 2 percent to nearly \$47 billion, restraining aggregate food marketing costs in 1996. The price of paperboard, which accounts for about 40 percent of food industry packaging costs, plummeted over 7 percent in 1996, following a record 16-percent rise the previous year. In 1995, the paper industry had experienced the most rapid price increase in its history, as the industry was unable to add capacity fast enough to meet demand. In 1996, paperboard prices dropped after customers such as the food industry restocked inventories.

Meanwhile, the price of metal cans dropped 10 percent in the face of excess beverage can capacity as demand increased for competing plastic containers. Despite this increased demand, plastic container prices dropped over 1 percent as producers were unable to raise prices in the face of price reductions for competing packaging products.

Energy costs, comprising 3.5 percent of food expenditures, rose nearly 4 percent last year, despite a 2-percent drop in the price of electricity. Higher energy costs were largely the result of a 4-percent rise

in the price of natural gas and increased volume of marketing services. Electricity accounts for 55 percent of the energy costs incurred in food manufacturing, with natural gas accounting for the remaining 45 percent. Electricity accounts for 85 percent of energy consumed by public eating places and nearly all of the energy used in food stores.

Transportation costs rose 2.5 percent, about the same as in 1995, as a result of higher trucking rates which climbed by more than 2 percent. Railroad rates were only slightly lower.

Advertising expenditures have risen at a slightly faster rate than aggregate marketing costs during the last few years. Advertising expenses, which account for about 4 percent of food expenditures, rose 4 percent to nearly \$21 billion in 1996, slightly faster than in 1995. The food industry uses a mixture of print and broadcast media to promote their products. Food manufacturing accounts for about 55 percent of total food industry advertising expenditures, with food service adding another 25 percent, and food retailing contributing 14 percent to the total.

Business taxes account for 3.5 cents of the American food dollar. They include property, state, unemployment, insurance, and Social Security taxes, but exclude Federal income taxes. Business taxes rose by more than 3.5 percent to \$20 billion in 1996. Interest expenditures, which accounted for only 2 percent of total consumer expenditures, increased nearly 3.5 percent in 1996.

Depreciation, rent, and repairs together totaled \$48 billion in 1996, accounting for almost 8.5 percent of the consumer food dollar. The food-service sector incurred the highest percentage of these costs, at 41 percent of the total, as food-service establishments paid higher property rent than the other food sectors. Food stores made up 27 percent, while processing and wholesaling firms together accounted for the remaining 32 percent.

Food industry profits grew over 5 percent in 1996, considerably less than the 9-percent pace recorded in 1995. Retail food stores accounted for most of last year's profit gain by attracting customers to less expensive generic brands and offering nonfood services such as video rentals. However, profits were moderated in 1996 by a variety of conditions in the other food industry sectors. For example, food processors were constrained from raising prices much because of consumer preference for generic brands, and were further squeezed by higher farm prices. Meanwhile, competition among restaurants, particularly fast-food outlets, has restrained profits among food-service establishments.

Food marketing costs tend to reflect aggregate inflationary trends. Current projections suggest that moderate inflation will continue. Therefore, marketing costs will probably continue to increase at a relatively slow pace into 1998.

*Howard Elitzak (202) 219-1254
helitzak@econ.ag.gov* 



Marketing processed food around the globe

Two-thirds of all international trade in the food and agricultural sector is in processed foods. Exports and imports are a large part of the picture, but U.S. processed food firms reach overseas markets mainly through their affiliates abroad. Strategies for penetrating global markets, and the array of public policies that influence global commerce in processed foods, are examined in a fact-filled report.

Globalization of the Processed Foods Market An Economic Research Service Report

To order a copy, call 1-800-999-6779

Also available on the ERS Home Page

Direct access to the Acrobat PDF file at <http://www.econ.ag.gov/epubs/pdf/aer742/>

For more information on ERS publications, databases, and other products, visit the
ERS Home Page at <http://www.econ.ag.gov/>