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Share of Food Spending for Eating Out Reaches 47 Percent

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The share of food dollars spent away from home climbed to an all-time high of 47 percent of food expenditures in 1998. Revisions based on the 1997 Economic Census by the Census Bureau of the U.S. Department of Commerce also show that 1998 expenditures for eating out have grown at a faster pace than retail food expenditures.

Food spending in the United States rose 3.6 percent to \$756.2 billion between 1997 and 1998 (table 1). Total expenditures for eating out (food away from home) rose 4.6 percent, to \$354.4 billion in 1998. Retail food expenditures (food at home) increased at a slower pace than 1997's 4.1-percent rise, up 2.8 percent to \$401.8 billion.

Once adjusted for inflation, which was a low 1.6 percent in 1998, total food spending rose 1.4 percent in 1998—food at home was up 0.1 percent and food away from home rose 1.9 percent. The slower real (inflation-adjusted) growth for food at home than for food away from home reflects consumers' prosperity over the last year as

they spent their higher incomes in restaurants, fast food outlets, coffee bars, and other eating places.

During the 1990-91 recession, real spending on food away from home declined 0.4 percent, while spending for food at home rose 1.3 percent. One of the ways people economized during the recession was by eating out less often or by going to less expensive places. The share of total food dollars spent away from home declined from 44.7 percent in 1989 to 44.1 percent in 1991.

With the subsequent economic recovery, spending on food away from home rose faster than spending for food at home. By 1993, spending for food away from home accounted for 46 percent of food expenditures.

Even at-home food expenditures reflect the relative prosperity of the last couple of years. A closer look at the industry shows much of the growth in food at home spending coming from time-pressed consumers picking up fully or partially prepared entrees and side dishes



Credit: USDA

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from their local supermarkets. These Home Meal Replacements (HMR's) or meal solutions are counted as food-at-home expenditures. A July 1999 study by *Takeout Business* indicated that the top 25 supermarket leaders in HMR's boosted their sales of fully or partially prepared foods by 36.2 percent in 1998, increasing HMR's sales to 3.6 percent of total sales for these stores.

Preliminary figures on total food sales (a beginning point for estimating food spending) in August 1999 show spending for food at home up 2.6 percent from the same period in 1998 and away-from-home food spending up 13.4 percent. Food sales exclude donations and food furnished to employees, patients, and inmates—all of which are included in the total food expenditures reported in table 1. Inflation-adjusted food sales from August 1998 to 1999 increased 2.3 percent for food at home, while away-from-home jumped 13.0 percent.

Personal Food Spending Rose 4 Percent

Personal food spending shows another perspective on the trend. It behaves differently from total food spending because it excludes expenditures by governments and

businesses. Personal food expenditures rose 3.6 percent in 1998, while spending on housing, household supplies, fuel, and furniture went up 5.6 percent, and clothing expenditures increased 5.7 percent (table 2). Lower fuel prices in 1998 contributed to an increase of only 2.7

Updated Data Available

Newly revised figures will be available from USDA's Economic Research Service twice a year—spring and fall—through the Internet and the AutoFAX system.

Internet: Updated figures can be found on the Economic Research Service's website at: <http://www.econ.ag.gov/briefing/foodmark/pend/pend.htm>.

AutoFAX: To receive updates by AutoFAX, dial (202) 694-5700 using a telephone connected to a FAX machine, respond to the voice prompts, and order document #11530 (a list of all the available data tables can then be requested).

Please note, some FAX machines

may have a "Hook" or "Manual polling" button or switch that allows the user to respond to the recorded voice prompts. On this type of FAX machine, you may listen to the voice prompts through a speaker and respond on the keypad. It may be necessary to press the start or send button to send the signal to the AutoFAX.

When responding to the voice prompts, please note: When asked for a yes or no response, press 1 for yes and 2 for no. You may interrupt the main menu choices to order the document by pressing 4—the system will then prompt you for the document number.

Table 1
Food Spending Rose 3.6 Percent in 1998

Expenditures	1994	1995	1996	1997	1998	Change, 1997-98
	Billion dollars					Percent
Total food and beverages ¹	728.9	757.0	788.3	826.8	848.6	2.6
Total food (excluding alcohol)	642.9	668.4	695.5	729.6	756.2	3.6
At-home food	347.9	361.6	375.4	390.7	401.8	2.8
Sales	340.8	354.6	368.6	384.0	395.2	2.9
Home production and donations	7.1	7.0	6.8	6.7	6.6	-1.5
Away-from-home food	295.0	306.7	320.1	338.9	354.4	4.6
Sales	268.4	279.4	292.0	309.2	323.6	4.7
Supplied and donated ²	26.6	27.3	28.2	29.7	30.7	3.4
Alcoholic beverages	86.0	88.6	92.7	97.2	92.4	-5.2
Packaged	47.9	48.8	51.1	52.9	44.7	-18.3
Drinks	38.2	39.8	41.6	44.4	47.7	7.4

Notes: Data may not total due to rounding.

¹Includes all food and alcoholic beverages, regardless of who paid for them.

²Includes Government subsidies for school lunch programs.

Source: Data are from USDA's Economic Research Service.

Table 2
Rise in Personal Food Expenditures Lower Than Increase in Disposable Personal Income¹

Component	1997	1998	Change, 1997-98
	<i>Billion dollars</i>		<i>Percent</i>
Disposable personal income	5,795.1	6,027.9	4.0
Total personal consumption expenditures	5,493.7	5,807.9	5.7
Food	640.4	663.3	3.6
At home	387.1	398.3	2.9
Away from home	253.3	265.0	4.6
Alcoholic beverages	86.1	80.5	-7.0
At home	52.9	44.7	-18.3
Away from home	33.2	35.8	7.8
Nonfood	4,712.7	4,992.6	5.9
Housing, household supplies, fuel, furniture	1,428.5	1,508.7	5.6
Transportation, cars, gasoline	647.5	664.9	2.7
Medical care	843.4	888.2	5.3
Clothing and shoes	278.0	293.8	5.7
Other durable goods	132.1	141.9	7.4
Other nondurable goods	403.9	431.6	6.9
Other services	979.3	1,063.5	8.6
Other miscellaneous	54.5	71.5	31.2

Notes: Data may not add due to rounding. Food expenditures in this table are only those paid for by consumers with cash or food stamps. Total personal consumption expenditures is the sum of food, alcoholic beverages, and nonfood items.

¹As of July 1999.

Sources: Food and alcoholic beverage data are from USDA's Economic Research Service. All other data are from the Bureau of Economic Analysis, U.S. Department of Commerce.

percent for personal spending on transportation, cars, and gasoline. Within personal food expenditures, spending for food away from home grew 4.6 percent compared with a 2.9-percent increase in expenditures for food at home. In 1997, personal spending for food away from home grew 3.9 percent and at-home personal food spending grew 3.8 percent.

In 1998, 11.0 percent of household disposable personal income was spent on food, down from 11.5 percent in 1988. Households spent 6.6 percent of their 1998 disposable personal income for food at home and 4.4 percent on food away from home. A decade earlier, Americans were spending 7.2 percent of their disposable personal income for food at home and 4.3 percent for

food away from home. In 1998, Americans spent about 25 percent of disposable personal income on housing (including supplies, fuel, and furniture), 15 percent on medical care, and 11 percent on transportation (including cars and gasoline). ■

Desire for Convenience Drives Marketing Costs

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America's desire for convenience foods—meats cut up, marinated, and ready for the grill; entrees in microwavable packaging; individual juice boxes for bag lunches; and the large portion of our meals prepared by foodservice companies—translated into \$466 billion worth of marketing costs in 1998.

Marketing costs accounted for 80 percent of the \$585 billion consumers spent for domestic farm foods, not including imported foods, in 1998. The remaining 20 percent, or \$119 billion, represents the gross return paid to farmers.

The cost of providing marketing services beyond the farm gate continues to be the most persistent source of rising food expenditures. Once again, the marketing bill outpaced the general inflation rate of 1.6 percent in 1998. The marketing bill grew \$21.2 billion in 1998, an increase of 4.8 percent, following a similar rise in 1997. The farm value for domestic farm foods fell 2.5 percent in 1998, while consumer expenditures for these foods grew by 3.2 percent.

The cost of marketing U.S. farm foods has increased considerably over the years, mainly because of rising costs of labor, transportation, food packaging materials, and other inputs used in marketing, and also because of the growing volume of food and the increase in convenience and services provided with the food. These rising costs have been the principal factor affecting the rise in consumer food expenditures. From 1988 to 1998, consumer expenditures for farm foods rose \$186 billion. Roughly

88 percent of this increase resulted from an increase in the marketing bill.

Labor Costs Continue To Dominate the Food Marketing Picture

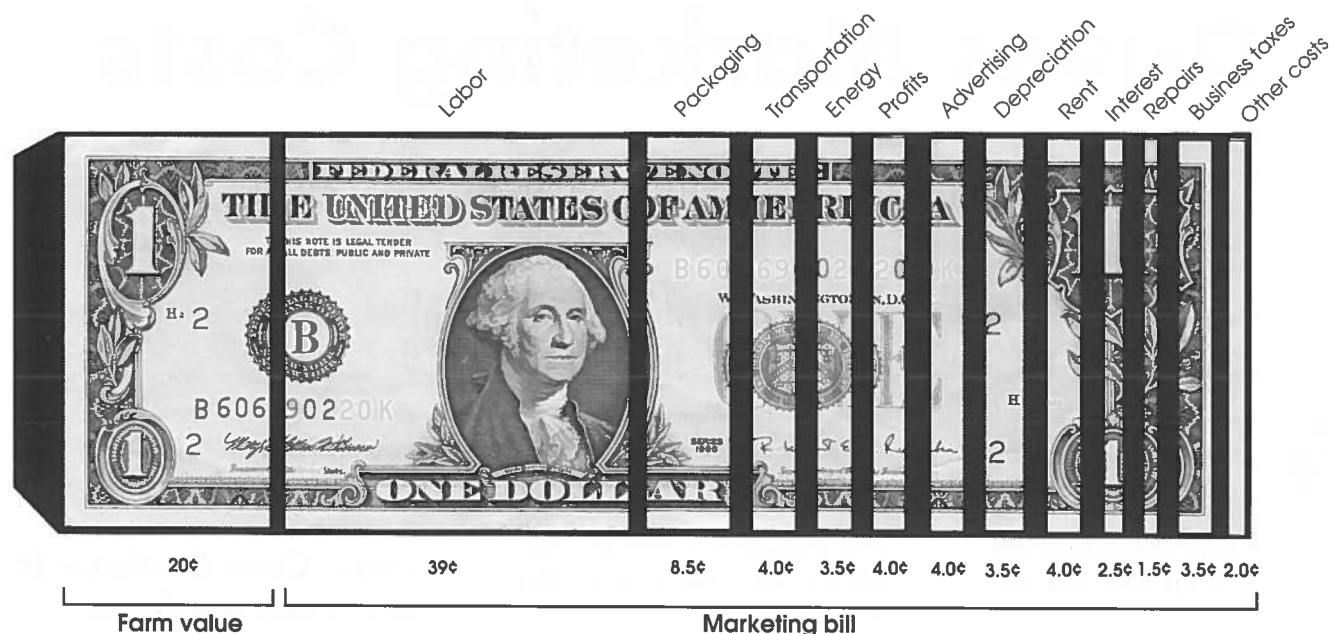
The cost of labor is the biggest part of the total food marketing bill, accounting for nearly half of all marketing costs (fig. 1). Labor used by assemblers, manufacturers, wholesalers, retailers, and eating



Credit: Jack Harrison

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Figure 1
What a Dollar Spent for Food Paid for in 1998



Source: USDA's Economic Research Service.

places cost \$228 billion in 1998, 5.1 percent higher than in 1997 and 65 percent more than in 1988.

The total number of food marketing workers in 1998 was about 13.8 million, up 1 percent from the previous year. The number of foodservice workers grew by 1.5 percent in 1998, while the number of workers in foodstores grew 0.1 percent. Foodstore employment was restrained by sluggish sales, while brisk away-from-home food sales stimulated employment growth in eating places. Employment in wholesaling grew 1.7 percent, while employment in food manufacturing was essentially unchanged. This stable employment in food manufacturing reflected long-term productivity improvements. These trends are consistent with the general pattern of the last few years.

Labor productivity in food manufacturing industries has risen moderately over the years, thereby causing a long-term decline in employment. This trend largely reflects the adoption of various technologies that have reduced industry demand for labor. On the other hand, labor productivity has declined in foodstores, reflecting increased demand for labor-intensive convenience foods prepared by supermarkets. The additional labor required to prepare these foods has raised employee hours relative to output, thereby accounting for the lowered productivity.

Food manufacturing employees' hourly earnings rose 2.8 percent in 1998, a slightly higher rate of increase than in 1997. Average hourly earnings of foodstore workers rose 4.3 percent, compared with 3.3 percent in 1997. Meanwhile, average hourly earnings of whole-

saling employees rose 3.0 percent, a smaller increase than in 1997. The average hourly earnings of foodservice employees advanced at the fastest pace of any food industry sector for the third consecutive year, rising 4.8 percent. These higher growth rates generally reflect higher wages due to a tight labor supply resulting from robust economic conditions.

Wage supplements comprise about 20 percent of total labor costs. However, the cost of supplements has accelerated at a slower pace in recent years. For instance, medical costs have risen more slowly. The Consumer Price Index for medical services rose just 3.2 percent in 1998, compared with a 5.7-percent annual average increase over the last 10 years. Also, union contracts often require workers to pay a greater portion of their medical bills.

Other Inputs Add to Marketing Costs

A wide variety of other costs comprise the balance of the marketing bill, including packaging, transportation, energy, advertising, business taxes, net interest, depreciation, rent, and repairs (table 1).

Packaging is the second largest component of the marketing bill. At \$50.4 billion, packaging accounted for 8.5 percent of the food dollar. Paperboard boxes and containers are the largest packaging cost and were the primary cause of higher packaging costs in 1998, rising 6.8 percent. This increase was mitigated by declines in other packaging materials. For example, plastics dropped 1.2 percent, while metal cans were 0.6 percent lower.

The energy bill for food marketing costs totaled \$20.7 billion in 1998, accounting for 3.5 percent of retail food expenditures. Natural gas and electricity prices exert the greatest effect on the energy costs of processing and retailing food.

The prices of alternative energy sources, such as oil, have little effect. Energy costs rose in 1998 because of higher natural gas prices and a higher volume of marketing services performed by the food industry.

Intercity truck and rail transportation for farm foods came to \$24.4 billion, 4 percent of retail food expenditures in 1998. Rail freight rates rose about 3 percent, while trucking rates grew roughly 3.5 percent. Labor costs account for 40 percent of trucking expenses, with fuel comprising another 20 percent.

Advertising expenses totaled \$22 billion, 4 percent of food expenditures in 1998. Food manufacturing accounts for about half of total food industry advertising expenditures, with foodservice contributing another 25 percent, and food retailing about 15 percent. A mix of print and broadcast media are used to promote food industry products. In recent years, increases in advertising expenditures have been largest

for foodservice and food retail firms.

Depreciation, rent, and repairs together came to \$53 billion and accounted for 9 percent of the 1998 consumer food dollar. The foodservice sector incurred about 40 percent of these costs, while foodstores made up about a quarter of the total. Manufacturing and wholesaling establishments together accounted for the remaining 35 percent. Thanks to high property rental expenses, foodservice establishments had the highest total depreciation, rent, and repair costs of any food sector.

Net interest accounts for only 2.5 percent of total consumer expenditures, but grew 34 percent during the last decade, rising to \$13 billion in 1998. Most of the increase occurred in the foodstore sector, reflecting higher debt acquired due to merger and acquisition activity, particularly leveraged buyouts. Moreover, net interest grew as the result of loans booked during years of rising interest rates, such as 1995. ■

Table 1

Relative Importance of Labor Costs for Food Expenditures Has Grown Over Time

Component	1980	1985	1990	1995	1998
<i>Billion dollars</i>					
Labor ¹	81.5	115.6	154.0	204.6	227.9
Packaging materials	21.0	26.9	36.5	47.7	50.4
Rail and truck transportation ²	13.0	16.5	19.8	22.9	24.4
Fuels and electricity	9.0	13.1	15.2	18.6	20.7
Pretax corporate profits	9.9	10.4	13.2	19.5	22.2
Advertising	7.3	12.5	17.1	19.8	22.0
Depreciation	7.8	15.4	16.3	18.9	21.2
Net interest	3.4	6.1	13.5	11.6	13.0
Net rent	6.8	9.3	13.9	19.8	22.5
Repairs	3.6	4.8	6.2	7.9	9.0
Business taxes	8.3	11.7	15.7	19.1	20.6
Total marketing bill	182.7	259.0	343.6	415.7	465.8
Farm value	81.7	86.4	106.2	113.8	118.8
Consumer expenditures	264.4	345.4	449.8	529.5	584.6

¹Includes employees' wages/salaries and health and welfare benefits.

²Excludes local hauling charges.

Source: USDA's Economic Research Service.