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THE CONSUMER IN TODAY'S ECONOMY

by

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THE CONSUMER IN TODAY'S ECONOMY

The topic for this Congress is "Money, Energy and Consumer Demand; Seeking a Management Strategy. Apparently you consider all three areas in the title for this Congress as manageable problems but they are all in capital letters. Consumer Demand is a vast problem area in economics but who is "this consumer" who is to be managed? In Pogo's words, "We have met the enemy and they are us . . . ." All of us who are supposed to buy and use what is produced and offered on the consumer goods and services markets . . . .

So let me pose a few questions. How many have bought a new home in the last six months? A new automobile? Stepped up your level of living? Increased your consumption of food? Meat? Steak?

Why not?

The answer may be very complicated but a part of it is seemingly that we are no longer in the buying mood that we were in 1979.

We're afraid.

We are afraid our real incomes--income divided by an index of prices--or incomes adjusted for inflation--or what our incomes will buy--our purchasing power has decreased and is going to decrease further. Personal income fell by .2 percent in the first quarter of this year but is falling much faster now while prices continued to rise (by approximately 11 percent in the second quarter of this year, which is less than the 18 percent that they rose in the first quarter). They are expected to continue to rise at about 9-11 percent throughout the rest of 1980. Unemployment rose from less than 6 percent where it had been for some time to 7.8 percent in May and it is still rising. The purchasing power of the average United States family fell by 6.7 percent between January and May of this year. We are in an official and very real recession. An official recession is declared by the National Bureau of Economic Research when there are two periods of declining gross national product (the total annual production of goods and services in our economy valued at retail market prices) and a few other factors are present. We have had only one quarter of falling gross national product but the Bureau has told us we are in a recession. Real GNP has been estimated to be falling at a rate of 8 percent this quarter.

The Conference Board's Index of Consumer Confidence was 85 in October of 1979; 71.5 in March of this year and 53.2 in April, 41.9 in May. Their index of buying plans was 74.6 in May, lower than it has ever been in the 12 year history of the survey. The University of Michigan Survey Research Center's Index of Consumer Sentiment was lower than it has ever been in the approximately 25 years that it has existed in April; it was still lower, 41.9, in May. Their index of buying plans was 74.6 in May, lower than it has ever been in the 12 year history of the survey. The Director of the Gallup Economic Service was quoted in the Wall Street Journal on May 19, 1980 as saying "consumers are losing confidence at an alarming rate that is growing daily" and that loss of confidence "will be hard to turn around." But there is now a glimmer of evidence that a few consumers are regaining confidence as inflation rates decrease. However, many consumers are now worrying more about unemployment, the possibility of zero income from their job, than inflation which only reduces their purchasing power but leaves them with some income. And many are more worried by the possibility of reduced income from their jobs or from their businesses or assets.

So the consumer is retrenching. Housing and automobile sales are far below the level of a year ago—42 and 27 percent below the level of the previous year in May. Retail sales have been declining since January, when the recession officially began (over 7 percent). Consumer credit levels are still declining as the consumer is repaying debt rather than aquiring new debt. Personal bankruptcies are up 25 percent over a year ago. The consumer is now planning and budgeting. As prices increase most consumers try to substitute relatively less expensive for relatively more expensive commodities--chicken for beef, hamburger for steak; and retail prices for food are expected to rise between 7 and 11 percent in 1980. This can only cause a further slackening in demand.

Food is estimated as 18.2 percent of consumer expenditure in the Bureau of Labor Statistics' Market Basket (or Budget) used in compiling the Consumer Price Index for all urban consumers. Expenditures for food at home comprise 69 percent of all food expenditures; food away from home, 31 percent. The latter percentage, incidentally, has been steadily increasing.

Food is a lower proportion of consumers' budgets as income increases. Using CES survey data for 1972-73 it went from 37.3 percent for households with gross incomes under $3,000 per annum to 6 percent for households with gross incomes over $25,000. Corresponding income levels would now be about 50 percent higher.

This relationship illustrates Engel's Law. As income increases the percentage spent on food decreases. Moreover, for lower and middle income consumers increases in other budget components, energy, housing, fixed payments, often mean a lower percentage is spent on food. That has happened. The price of fuel used in households increased 24 percent in 1979. The price of shelter increased 17 percent. Increases in 1980 have continued apace. Installment credit payments have to be made if possessions are not to be lost and installment credit was almost 20 percent of personal disposable income earlier this year. Most households cannot fall back on savings any more without depleting them completely or to what they consider dangerously low levels. Savings reached a low point early this year. The fourth quarter of 1979 percentage of 3.4 percent of personal disposable income was the lowest level of savings we have recorded since we have statistics on that component of our budgets and we have statistics that go back over one hundred years. Savings were still 3.4 percent of personal disposable income in January, but they had moved up to 4.2 percent by April.

Our changing life styles, and we have also been changing our eating patterns, reinforce the trend toward lower food consumption. We are more sedentary so we need less food. More of us who are women are working--over 42 percent of our civilian labor force in 1978 were women. Fifty-five percent of the nation's wives worked in 1977. So, we eat out more and eat more "fast" and prepared food.

The income elasticity, i.e., the percentage increase in quantity purchased as a percentage of the increase in income, for food was estimated, using figures from the 1965 food consumption survey, to be about .3. On the average, for every one percent increase in income, food consumption will increase by about .3 percent (King). The figures are not out from the 1977 survey but the elasticity will probably be lower for food itself but higher for the services we are consuming with the food.

According to the 1977 food consumption survey 32.7 cents out of the household food dollar was spent for meat, poultry and fish in 1965. These are the three main sources of protein in our diet. An estimated 34.3 percent were spent on meat, poultry and fish in 1977, an increase of 5 percent, but poultry went from 3.7 to 4.2 percent--an increase of 13.5 percent; fish from 3.1 to 3.6, an increase of 16 percent. Meat went from 25.9 to 26.5, an increase of 2 percent. The dollar value of meat consumption in the U.S. does increase as incomes increase, but no longer by a high percentage.

The changed eating patterns of today's consumers are characterized by increased consumption of fish and chicken as opposed to beef. Partially this is due to changed notions of a nutritionally beneficial diet. Interest in nutrition declined from 81 percent of those interviewed in 1978 to 72 percent today according to the survey conducted by Woman's Day and the Food Marketing Institute, but all those interviewed said "Americans are more interested in nutrition than they were 2 years ago." Added to this is the increased interest in staying slim and healthy. The cholesterol problem and the DES problem have also affected demand to a still unmeasured extent.

According to Arnold Mitchell, Director of the Values and Lifestyles Program at Stanford Research Institute, we can expect a near-doubling of the groups who are inner-directed and espouse self-expression to where they will comprise about one quarter of the population--more than 47 million--by 1990. This is the group that embraces ecology and advocates social responsibility. Many of them are vegetarians, approximately 7 million currently, according to May's Consumer Reports. Typical items in their diets are alfalfa sprouts, bean curd, and trail mix.

He anticipates a mild decline in the number of outer-directed consumers--the ones motivated by traditional values and following traditional customs. They will decrease from 70 to about 60 percent of the population. The remainder of the population whom Mitchell terms "money restricted" are the poor and near poor. Their proportion will decline. The outer-directed and "money restricted" are larger meat consumers (although the consumption of the poor and near poor is restricted) and though their proportion will decrease, their number, because of a still slowly rising population, will stay about the same.

However, the demographic profile of the United States consumer does not portend well for future levels of food consumption or for that matter, meat or beef consumption over the long-term. Total population in the United States has been growing at the rate of .8 percent a year since 1977. The birth rate is still falling. The 1978 fertility rate (how many births a group of 1,000 women would have by the end of their child bearing years) was 1,795, two-thirds that of 1960. A rate of 2,115 per thousand is required for natural replacement of the population. But, as I indicated, the United States is still many years away from zero population growth because a large portion of women are currently in their child bearing years.

Then there is the problem of the older population. The percentage of the resident United States population over 65 was 9.2 percent in 1960; 9.9 percent in 1970 and 11 percent of the population in 1978. Their number and that percentage will grow in the 1980's and 1990's. They eat less than all other population groups except small children.

The number of households has increased from 53 million in 1960 to 63.5 million in 1970 and 76 million in 1978. But, in large part, this is because the population per household has declined from 3.38 in 1960 to 3.2 in 1970 and 2.8 in 1978. Two-person households increased from 8.3 percent of total unrelated individual households in 1970 to 9.8 percent in 1978. Single (never married) male persons as a percentage of the population have gone from 18.9 percent in 1970 to 22.5 in 1978; female persons from 13.7 percent to 16.4 percent. Single persons living along and those in two-person households tend to not eat as much as persons in larger households.

One more fact. The urban population was 69.9 percent of the population in 1960, 73.5 percent in 1979 but there is some evidence now that that trend is reversing itself. Rural households eat more than urban households.

So there have been many factors which explain and will continue to explain our change in dietary patterns. What are some of these changes? Well, per capita demand for meat appears to have peaked in 1976 when 155 pounds per person was consumed. By 1979, per capita consumption was 146 pounds per person. Demand for beef also appears to be declining. It had increased from 64 pounds per person in 1960 to 96 pounds per person in 1976. By 1979 it had decreased to 78 pounds per capita. Pork, fish and poultry have enjoyed increases in per capita consumption. Pork increased from 60.3 pounds per capita in 1960 to 65 pounds in 1979; fish from 10.3 in 1960 to 13.7 pounds per capita in 1979; poultry products from 76 in 1960 to 108 pounds per capita in 1979. Within the poultry products category only eggs suffered a sharp decline in demand, from 42 pounds in 1960 to 36 pounds per person in 1979.

Fluid whole milk consumption has declined. Low-fat and non-fat milk consumption has increased. Cheese consumption has increased. Consumption of fresh and canned fruits have declined. Consumption of canned fruit juices has increased. Dietary patterns have increasingly moved away from a meat and potatoes for dinner paradigm and even though steak remains a favorite food for a large part of our adult male population, higher prices in recent years have caused choices of dinner entrees to change.

So what is our conclusion. Food is a normal good. That means it has a positive income elasticity but that elasticity is very low. As real incomes decrease due to inflation and both real and nominal incomes decrease during the recession consumption this year will decrease. If inflation tapers off, and if the recession is dissipated (unlikely until 1981) consumption will move up again, but not rapidly. Consumer confidence will not be restored overnight and lower-priced foods will remain on menus. In addition, the age structure of the population has shifted and is shifting. Parenthetically, the largest bulge in birth rates ever experienced in the United States occurred in 1957-1964. The baby-boom babies are now between 16 and 23. The males among them eat more than any other group in the population except perhaps their younger teen-aged brothers. Males 15-19 eat the most. As a percentage of the population, from 1970 to 1978, the proportion from 18 to 34 years increased from 24 percent to almost 29 percent. The proportion of children under 14 in the population decreased from 26 to 21 percent. There will be fewer teenagers from now on in the United States and later fewer young adults. On an adult equivalent scale where percentages are the proportion of the first adult's food intake computed as though that first adult were a one-person household, a second adult male over 20 years has been estimated to be .89; a teen-aged male 15 to 19, .91. Females 15 to 19, incidentally, are .69 and many of them are on peculiar diets.

So we do not expect an increase in food consumption over the next 20 years. Life styles will contribute to this trend.

On a last depressing note, most of the factors affecting food consumption are not amenable to control but if you want to design a positive marketing strategy, stress nutrition or you might emphasize physical fitness. Joggers get hungry.

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