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The Food Marketing System in 1991-92

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***In this report**...Sales growth in the food marketing system has been flat in both 1991 and 1992. Nevertheless, profitability in food manufacturing and retailing rose in 1991 because of continued wage and producer price stability, a weaker dollar, and lower interest rates. Merger and leveraged buyout transactions fell in 1991, but may slightly rise in 1992. Debt levels were reduced in food manufacturing. Aggressive competition for market shares resulted in record new product introductions, intensive couponing, a private label upsurge, and price weakening. The balance of trade deficit in processed foods fell, while new plant and equipment and research and development expenditures reached new highs.*

This report analyzes and assesses yearly developments in the Nation's food marketing system. These developments relate to industry growth, conduct, performance, and structure of the institutions–food processors, wholesalers, retailers, and foodservice firms. *Industry growth* includes changes in sales for each of the four sectors, product mix, and external economic factors affecting the food system. *Conduct* measures firms' competitive behavior, which includes such price and nonprice competition as advertising, promotion, new product introduction, new store formats, price discounting, and menu variety. *Performance* includes profitability, capital expansion, foreign trade and investment, research and development, capacity use, equity market changes, and productivity. *Structure* developments include mergers, acquisitions, divestitures and leveraged buyouts, and changes in number of companies and establishments.

Food Marketing Highlights in 1991 and 1992

Industry Growth and the Economy

- Sales slowed for third consecutive year in 1992.
- Food marketing system's share of disposable personal income remained at about 11.7 percent.
- Wages modestly higher; farm prices stable; interest rates and value of U.S. dollar lower.

Conduct

- Prices weakened in both 1991 and 1992.
- Competition intense for retail shelf space and consumer acceptance.
- Projected 17,000 new grocery products introduced in 1992; private label products made inroads.
- Advertising to consumers remained flat.

Performance

- Profitability from operations remained the same; after-tax profits rose because of lower interest rates and weak dollar.
- Debt levels declined in food processing.
- Owners' equity appreciation outperformed nonfood companies in 1991, but dropped in 1992.
- Trade deficit nearly disappeared in 1991. Trade surplus expected in 1992.

Structure

- Merger activity slowed again in 1991, but some pickup occurred in 1992.
- Leveraged buyout activity fell.

Real Sales Weak

Food marketing system sales reached $749 billion in 1991, including $566 billion in retail food sales and $84 billion in alcoholic beverages. Sales in 1992 will likely reach $776 billion.

The general economy slowed, and the amount of cash people had available to spend on food declined. These factors contributed to the decline in real sales (sales adjusted to reflect price increases) for the food marketing system in 1991. Total sales rose 3 percent in 1991, while a 2.5-percent increase is likely to have occurred in 1992, slightly above the projected food price increase.

General Economy. After reviving in the first quarter of 1992, growth of the economy slowed again in the second quarter. Inflation was modest and interest rates fell in both 1991 and 1992. Total employment fell by 1 million in 1991. The unemployment rate, which was 6.7 percent in May 1991, rose to 7.4 percent in May 1992, as more than 9.5 million Americans were unemployed. Real per capita disposable income declined for the second consecutive year and showed only a slight recovery in early 1992.

Sales. The decline in the general economy was well reflected in the food system's real sales in both 1991 and 1992. The food system's real sales showed a 1-percent decline in 1991, and sales were flat in early 1992. The food marketing system's share of disposable personal income remained at an estimated 11.7 percent in both 1991 and 1992 (fig. 1). Total sales of items purchased at foodstores and foodservice establishments, packaged alcoholic beverages and drinks purchased at eating and drinking places, and nonfood items purchased in retail foodstores reached an estimated $749 billion, 2.5 percent above 1990. Sales will likely reach $776 billion in 1992.

Product Mix. About $310 billion was spent for food in retail foodstores and $257 billion in foodservice establishments in 1991 (fig. 2). The 4-percent increase in retail foodstore sales was about 1 percent greater than the increase in retail prices. Foodservice sales also increased 4 percent. In 1992, food sales in retail foodstores will likely reach $320 billion, while foodservice sales may top $265 billion.

The alcoholic beverage market, accounting for about 11 percent of sales in the food marketing system, continues to reflect lower consumption. Alcoholic beverage sales accounted for $84 billion of food marketing sales in 1991. Nearly $48 billion was in the form of packaged alcoholic beverages, while alcoholic drinks served in restaurants and other institutions amounted to nearly $37 billion. Distilled spirits in 1992 will likely account for about 32 percent of total alcoholic beverage consumption, while beer will likely account for nearly 55 percent. Wine sales will likely capture about 12.5 percent of the alcohol total.

The nonfood component of retail sales amounted to about $98 billion in 1991, and will likely amount to about $102 billion in 1992. Nonfood groceries include tobacco, health and beauty aids, detergents, paper products, gasoline sold in convenience stores, and other grocery items sold through retail foodstores. Nonfood items, such as tobacco products, catering supplies, and nonfood supplies sold through vending services, are grouped into the foodservice category.

Measures of Growth

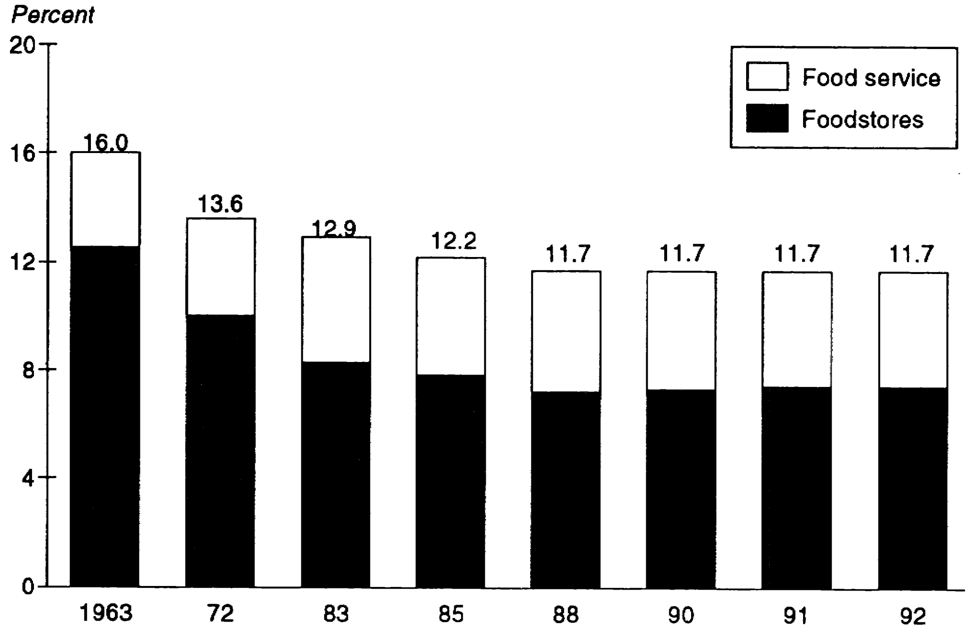
The following indicators are used in this and the following section to measure growth in the food marketing system.

- Sales
- Product mix
- Share of income
- External economic factors
    - Farm prices
    - Wages and other labor costs
    - Advertising costs
    - Interest rates
    - Value of U.S. dollar
    - Adding value to raw farm products

Figure 1

Food marketing system's share of disposable personal income[1]

The food marketing system's share of income was about 11.7 percent in 1991 and is projected to remain the same in 1992.

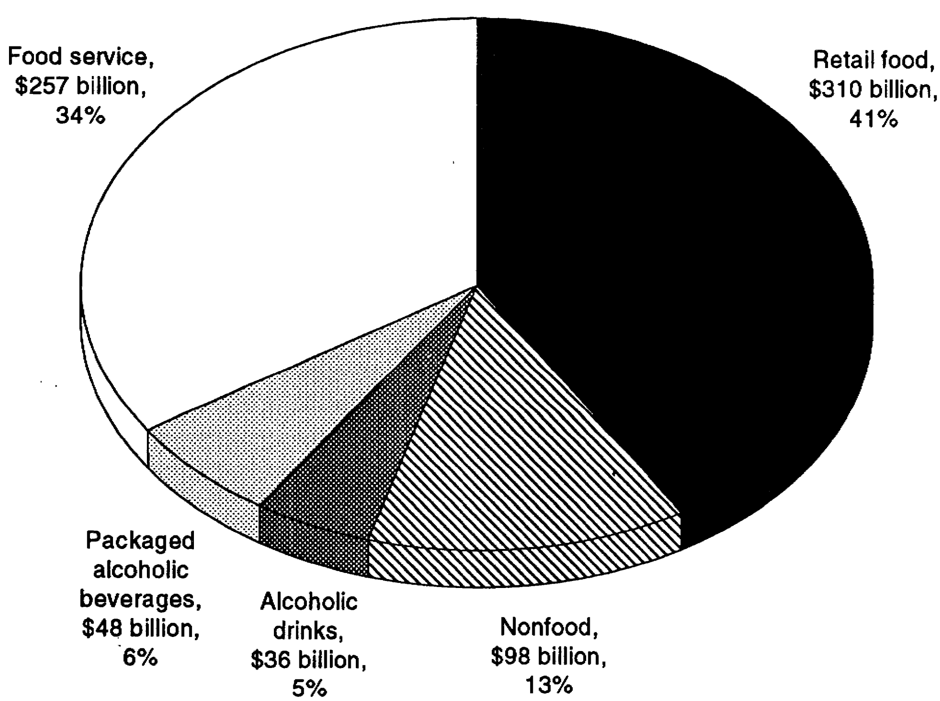


[1] Excludes alcohol and nonfood groceries.

Figure 2

Food marketing sales, 1991

Food marketing sales rose 2.5 percent to $749 billion in 1991, with retail foodstore and foodservice sales accounting for nearly 76 percent of total sales.



Wage and Price Stability Holds Down Costs

Stable wages and prices will hold down costs for the 10th consecutive year in 1992. Wages, producer prices, interest rates, and the value of the U.S. dollar were favorable to the food marketing system in both 1991 and 1992. The food system purchased an estimated $101 billion in U.S. agricultural commodities, $21 billion in foreign agricultural commodities, and $9 billion in seafood products in 1991. The system then added an estimated $520 billion in value to these raw products.

The economic climate was favorable to the food marketing system for the past decade in terms of costs. The food system is labor-intensive and sensitive to farm prices. The system is also highly leveraged and global, as well as advertising-intensive. Consequently, movements in wages and prices, interest rates, and the value of the U.S. dollar affect the performance of the food sector and all were favorable to the food system in both 1991 and 1992.

Prices. The Producer Price Index (PPI) reflected price declines for purchased food and feed inputs for each sector of the food marketing system in 1991 and 1992. The PPI for finished consumer foods, an indicator of changes in prices paid by retailers, wholesalers, and restaurateurs to food manufacturers, averaged 0.2 percent lower in 1991 than in 1990, and the index fell by nearly 2 percent between June 1991 and June 1992 (fig. 3). The PPI for intermediate foods and feeds, an indicator of changes in prices food processors pay one another, fell 2.2 percent in 1991 and continues lower in 1992. The PPI for crude foodstuffs, or prices paid by food manufacturers at 37 major markets, fell 6.7 percent in 1991, and remained stable through mid-1992. The 1991 drop reflected lower farm prices for nearly all major crop and livestock products.

Labor and Other Costs. For the 10th consecutive year, labor costs, which include hourly earnings and fringe benefits, will constitute the major expense item for the food marketing system. The food marketing system had about 12.3 million full- and part-time employees in 1991, slightly below the number for 1990. About 6.6 million workers were employed in food service, and more than 3.2 million were employed in food retailing. About 1.6 million workers were employed in food processing, and nearly 840,000 worked in grocery wholesaling.

Another small drop in total food marketing employment seems likely in 1992. Average hourly earnings in food retailing and food processing increased 3 percent in both 1991 and 1992. Packaging costs were up 4.2 percent in 1991, but have fallen 2.5 percent between mid-1991 and mid-1992. Transportation costs rose 3 percent in 1991, but are running only 1 percent higher in 1992.

Advertising. The food system, the economy's largest advertiser, faced stable advertising costs for both network and spot radio and television in 1991. But, advertising per 1,000 targeted readers for magazines, supplements, and newspapers rose between 4 and 6 percent.

Interest. Lower interest rates in both 1991 and 1992 benefited the food system. The prime interest rate has been 6.5 percent throughout 1992 compared with 8.5 percent in 1991 and 10.0 percent in 1990. Short-term rates also dropped, as reflected in a fall in 3-month Treasury bills, from an average 7.51 percent in 1990 to 5.42 percent in 1991. The rate had fallen to 3.67 percent by June 1992. Long-term corporate bond rates averaged about 8.20 percent in June 1992 compared with 9.01 percent in June 1991.

Value of the U.S. Dollar. The value of the U.S. dollar fell throughout 1992. The trade-weighted value of the U.S. dollar fell from 95.2 to 82.3 between July 1991 and July 1992. This decline favorably affected remittances of overseas profits of American food companies. The lower valued U.S. dollar also made U.S. exports of processed foods more attractive to foreign buyers and imports less attractive to U.S. buyers.

Value Added. The food system purchased about $101 billion in animal and crop products from the U.S. farm sector, about two-thirds of domestic production, USDA's Economic Research Service (ERS) estimated in 1991. An additional $21 billion was spent on imported agricultural products, and $9 billion was spent on seafood. To this base of $131 billion in raw agricultural and fishery products, the food system added an estimated $520 billion in value in 1991 compared with $506 billion in 1990 (fig. 4). Food processors added about $100 billion in 1991, while wholesalers, retailers, and transportation firms added another $150 billion. The contribution of 400,000 separate eating and drinking places to value added topped $77 billion in 1991. The food marketing system will add a projected $535 billion in value in 1992.

Figure 3
Producer Price Index (PPI) for the food marketing system

The PPI reflected lower input prices paid by most sectors of the food marketing system in 1991.

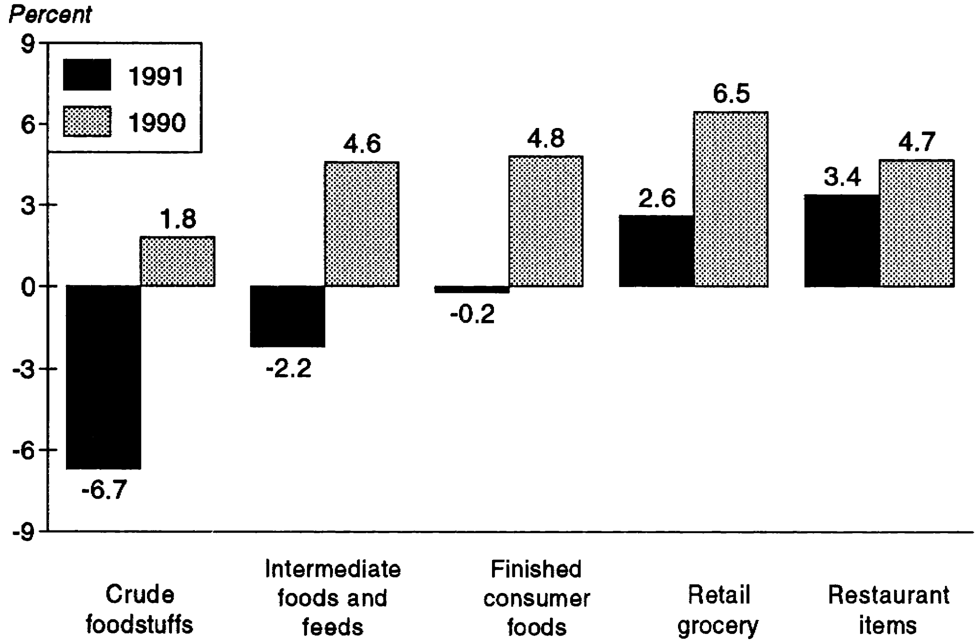
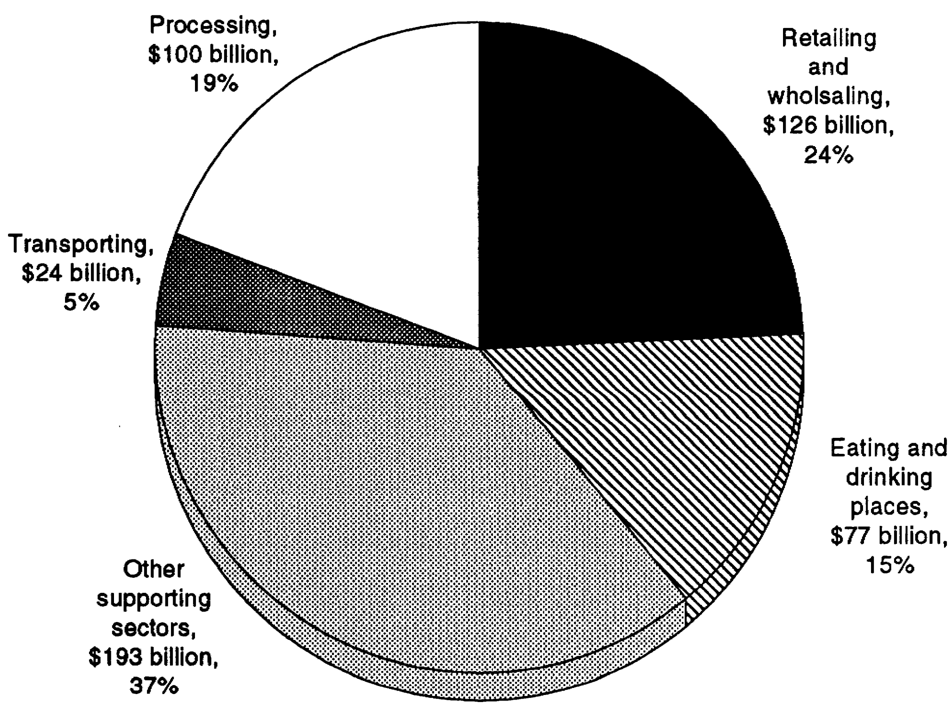


Figure 4
Estimated value added in the food marketing system, 1991

The estimated $520 billion added to raw products in 1991 compares with a preliminary projection of $535 billion in 1992.



Merger Activity Declined in 1991; Some Recovery Likely To Have Occurred in 1992

Merger activity slowed for the third consecutive year in 1991. The value of large recorded mergers declined from $14 billion in 1989 to $9 billion in 1990 and $3 billion in 1991. Numbers of mergers also declined.

New merger and leveraged buyout transactions in the food marketing system dropped in 1991 for the third consecutive year, in both total dollars and numbers. The number of acquisitions (purchase of a company or subsidiary) fell from 415 in 1990 to 365 in 1991 compared with 652 in 1988, according to the Food Institute (table 1). These data include merger activity in such related industries as packaging and supplies. The number of mergers within the food marketing system fell from 350 in 1990 to 291 in 1991 (fig. 5).

The decline in the value of these transactions is even more striking. The value of food marketing mergers and leveraged buyouts that cost more than $100 million fell to $3 billion in 1991 from a high of $61 billion in 1988 (fig. 6).

Some pickup in activity seems likely in 1992. Total mergers in the American economy rose 44 percent in numbers and 33 percent in value between the first half of 1991 and 1992. The purchase of Wetterau, the country's third largest wholesaler, by Super-Value was the only food megamerger in 1992.

Despite lower interest rates, the decline in merger activity is not surprising. The drop in both value and numbers reflects the economic slowdown, which began in 1990 and caused buyers and sellers to be cautious in any restructuring. Foreign interest in the U.S. food marketing system was also down in both 1991 and 1992.

Despite its minimal effects on expenditures, higher debt levels have forced firms to enact major cost-reduction strategies including major staff reductions, greater plant efficiencies, and other savings measures in 1991 and 1992. As a result, profits from operations have risen in both food manufacturing and retailing. These profits have in turn been partly used to pay higher interest expense. It is unclear whether these cost-cutting measures could have been used to maintain lower prices to consumers in the absence of higher interest payments.

Aggregate sales concentration among the top 20 firms appears to have remained unchanged in 1992 in all four sectors.

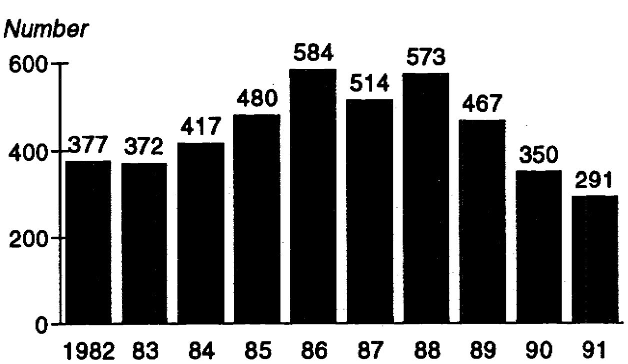
Measures of Structural Development

The following indicators are used to measure structural development in the food marketing system.

- Mergers–The combination of two or more firms into one.
- Acquisitions–The purchase of a business unit or subsidiary.
- Divestitures–The selling of a business unit or subsidiary.
- Leveraged buyouts–The purchase of the common stock of a company through debt-financing, pledging assets of the new company as collateral.

Figure 5
Food marketing mergers [1]

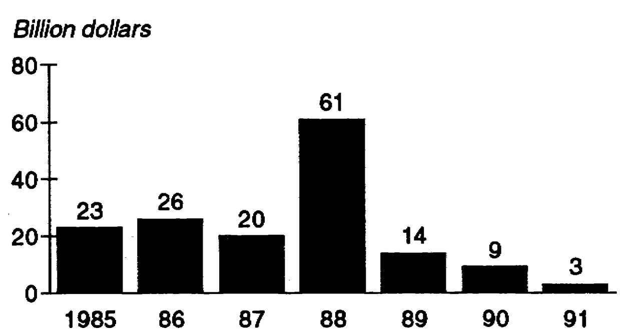
Merger activity slowed for the third consecutive year in 1991.



[1] Excludes some acquisitions by nonfood marketing firms that are included in table 1.

Figure 6
Value of food marketing mergers and leveraged buyouts costing more than $100 million [1]

Merger value has declined by 95 percent in just the past 3 years.



[1] Announced or completed only. Includes only recorded transactions.

Table 1—Food business mergers and acquisitions, 1985-91

The number of mergers and acquisitions declined in 1989, 1990, and 1991.

Category	1985	1986	1987	1988	1989	1990	1991
				Number			
Agricultural cooperatives	11	7	9	5	4	2	4
Bakers	23	19	15	27	19	12	4
Brewers	8	9	6	1	3	1	1
Brokers	24	29	10	11	14	9	8
Confectioners	7	7	6	12	10	2	7
Dairy processors	25	17	22	19	14	16	12
Diversified firms with interests in the food industry	42	57	37	31	4	10	5
Food processing firms	100	116	110	136	107	66	73
Foodservice vendors	26	31	26	31	29	22	31
Meat packers	12	11	9	14	11	11	8
Hotel and lodging companies	10	10	5	1	6	3	2
Nonfood marketers selling through supermarkets	7	3	2	5	7	5	4
Packaging suppliers	29	32	24	27	25	26	15
Poultry processors	12	8	10	7	5	10	3
Primary products companies	12	21	12	18	47	24	47
Restaurant and foodservice concerns	58	72	63	74	57	42	33
Retailers:							
Convenience stores	22	21	17	18	16	15	9
Supermarkets	25	46	34	42	26	15	16
Others	10	25	13	13	9	9	9
Seafood processors	4	8	2	5	4	4	6
Snack food processors	7	5	3	12	6	5	1
Soft drink bottlers	17	26	24	18	12	12	3
Sugar refiners	4	3	3	0	1	0	1
Suppliers to the food industry	21	14	12	9	3	5	0
Unclassified and private investors	69	53	41	30	21	23	24
Wholesalers	42	38	30	29	21	13	10
Foreign acquisitions:							
U.S. firms/subsidiaries	25	25	34	35	59	43	12
Foreign operations of U.S. firms	1	4	12	8	6	5	8
By Canadian firms	5	7	8	14	10	6	9
Total	658	724	599	652	556	415	365

Price and Nonprice Competition Active

Food prices rose minimally in 1991 and 1992, reflecting both keen competition for shares of the food marketing dollar and lower input costs. Advertising expenditures slowed despite the introduction of over 16,000 new grocery products in 1991. Over 17,000 new products are expected to have been introduced in 1992.

The economy's sluggish growth in 1991 and 1992 saw vigorous competition among manufacturers, wholesalers, retailers, and foodservice firms for the consumer dollar and among manufacturers for scarce shelf space in the Nation's grocery stores. The food industries' slow growth affects conduct or how firms compete. Less than 9.3 percent of the Nation's gross national product (GNP) was being generated by the food marketing system during the first half of 1992 compared with 12.0 percent in 1972. And, while the value added by the food system has increased in dollar terms, a much greater portion of this output is supplied by fewer and larger firms. Although food marketing is thus more concentrated, firms in each market sector sought to acquire or maintain market shares through both price and nonprice competition.

The food system increased consumer prices 2.9 percent in 1991 compared with 5.8 percent in both 1989 and 1990. Last year's gain was the smallest in 6 years. Food prices in grocery stores rose 2.6 percent in 1991, while foodservice prices were up 3.4 percent, showing a larger increase than grocery store prices for the first time in 5 years. The food system is expected to have increased prices in the 1-2 percent range for 1992. Meat processors were charging less in mid-1992 than in 1991, but restaurateurs were charging 2 percent more.

Price competition to gain market shares was apparent in both the retail food and fast-food sectors of the foodservice industry in both 1991 and 1992, where major discounts were given to consumers for the third consecutive year. Private label's share of total grocery sales rose in 1990 and 1991, followed by a slight decline in 1992. Consumer coupon redemptions also rose in both 1991 and 1992.

Nonprice competition to differentiate the product in the eyes of the consumer continued strong by the two routes in which the food system has always been the forerunner: new product introduction and advertising.

The Nation's food processors introduced over 16,100 new grocery products in 1991, an increase of nearly 22 percent over 1990 (fig. 7). Another estimated 17,000 new products are expected to have been introduced by yearend 1992. Condiments, at nearly 2,800, comprised over 22 percent of the nearly 12,400 new food products introduced in 1991.

Candy, gum, and snacks accounted for nearly 1,900 new food products, followed by bakery products at over 1,600. Nearly 1,400 beverages, mostly soft drinks, and over 1,100 dairy products, mostly cheese and ice cream, also found their way to the Nation's grocery shelves in 1991. Together, these five product categories accounted for nearly 71 percent of all new food products in 1991. For the 6-year period ending in 1991, over 41,000 products were introduced in these five categories, ranging from nearly 11,000 candy products to 6,500 beverages.

Food marketing firms spent an estimated $11.7 billion in direct consumer advertising in 1991, such as electronic and printed media and coupons, the same as in 1990 (fig. 8). Advertising in electronic and printed media was down for the entire food system from $8.4 billion in 1990 to $8.1 billion in 1991. An increase in coupon redemption offset this decrease.

Competition was also keen in getting products on the shelves of the Nation's grocery stores in both 1991 and 1992. By most industry estimates, food processors spent about $2 on retail promotion for every $1 in direct consumer advertising through trade shows, promotions, discounts and allowances, and other incentives.

Measures of Conduct

The following indicators are used in this section to measure conduct, or competitive behavior, in the food marketing system.

- Price competition
- Nonprice competition
  - Advertising
  - Promotions
  - New product introductions
  - New store formats
  - Menu variety
- Shelf space
- Slotting allowances

Figure 7
New grocery product introductions

New food product introductions rose by more than one-fifth between 1990 and 1991. A projected 17,000 new grocery products will have been introduced in 1992.

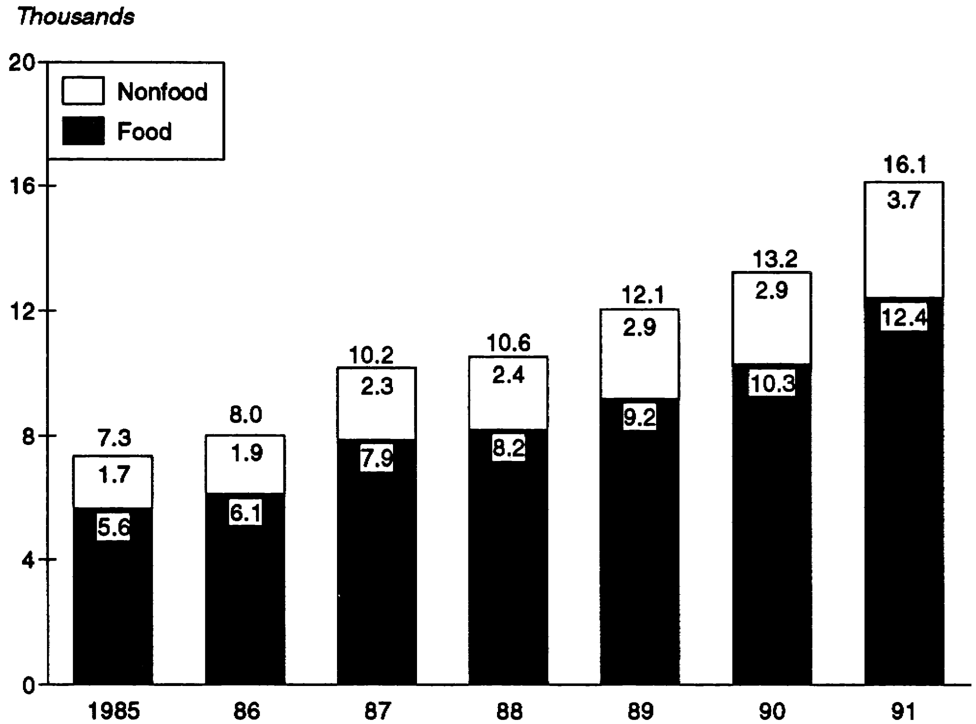
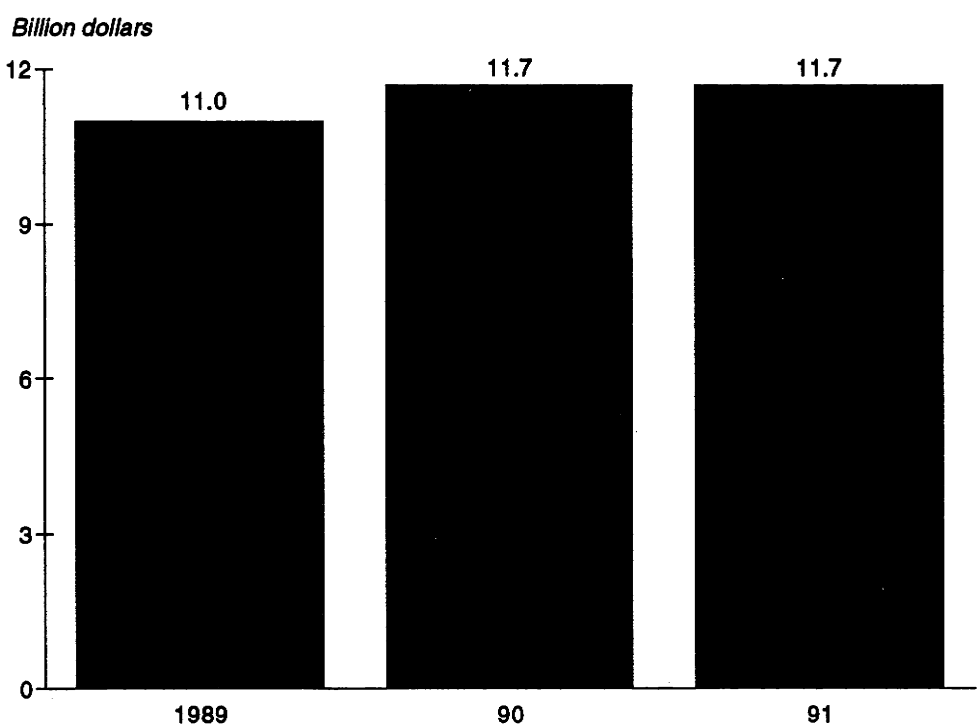


Figure 8
Food-related advertising

Food marketing firms spent $11.7 billion in direct consumer advertising in 1991, unchanged from 1990.



Debt Levels Declined; Profits from Operations Remained Unchanged

Debt of the Nation's food processors fell by $12 billion in 1991, while profits from operations remained unchanged despite slow sales. However, aftertax profits were higher in 1991 than in previous years.

Despite sharply lower interest rates, total liabilities of food processors fell by $12 billion in 1991 to $258 billion. This compares with a $7-billion increase in 1990 and a $70-billion increase in 1989 (fig. 9). The overwhelming portion of the late 1980's growth in liabilities was due to leveraged (indebted) buyouts and mergers. By 1991, merger and leveraged buyout activity had subsided, and debt had been correspondingly reduced in food manufacturing. Total debt remained the same for food retailers at about $55 billion.

Debt. Food remained one of the most leveraged industries in the American economy through mid-1992, but the equity-to-debt ratio of food manufacturers rose from 0.79 in the fourth quarter of 1990 to 0.92 in the first quarter of 1992. This was still considerably below the 1.46 for all manufacturing corporations in 1992.

The equity-to-debt ratio for food retailing rose from 0.30 to 0.40 after falling from 0.56 between 1988 and 1990 (fig. 10). By comparison, the equity-to-debt ratio for all retailers was 0.62 during the fourth quarter of 1991.

Profits. Despite the stagnant economy and a significant slowing in sales volume, both food processors and retailers maintained the same level of profit from operations in 1991. Food and tobacco processors' profits from operations rose from $31 billion in 1989 to $34 billion in 1990 and 1991 (fig. 11). Food retailers' operational profits rose from $5.2 billion in 1989 to $5.9 billion in 1990. Modest labor and ingredient cost increases offset lower volume gains in 1991. The lower value of the U.S. dollar further boosted income from foreign operations. Also many food marketing corporations reduced staffs and other operating costs to pay for increased interest expenses in the late 1980's.

Aftertax profits for processors rose from $16 billion to nearly $20 billion largely due to lower interest expenses because of lower rates and reduced debt. Aftertax profits as a portion of stockholders' equity for food processors rose from 16.2 percent to 17.6 percent between 1990 and 1991 (fig. 12). Food retailers' aftertax income rose from $1.0 billion to $1.6 billion in 1991. Retailers' aftertax profits amounted to 0.7 percent of sales and 14.5 percent of stockholders' equity in income in 1991, both up significantly from 1990. However, aftertax profits among both processors and retailers varied significantly. Discerning a true picture of profits is difficult because such a large portion of food sales are controlled by large diversified food marketing firms.

Measures of Performance

The following indicators are used in this and the following section to measure performance in the food marketing system.

- Debt
  - Stockholders' equity-to-debt ratio
- Profits
  - After-tax profits to sales
  - Return on stockholders' equity
- Expansion, modernization, and production capacity use
  - Capital expenditures
  - Research and development
- Productivity
  - Output per hour
- Investment performance
  - Common stock prices
  - Owners' equity appreciation
- Participation in the global market
  - Foreign trade balance
  - Foreign investment

Figure 9
Total liabilities of food and tobacco processors and food retailers

Debt levels slightly decreased in 1991.

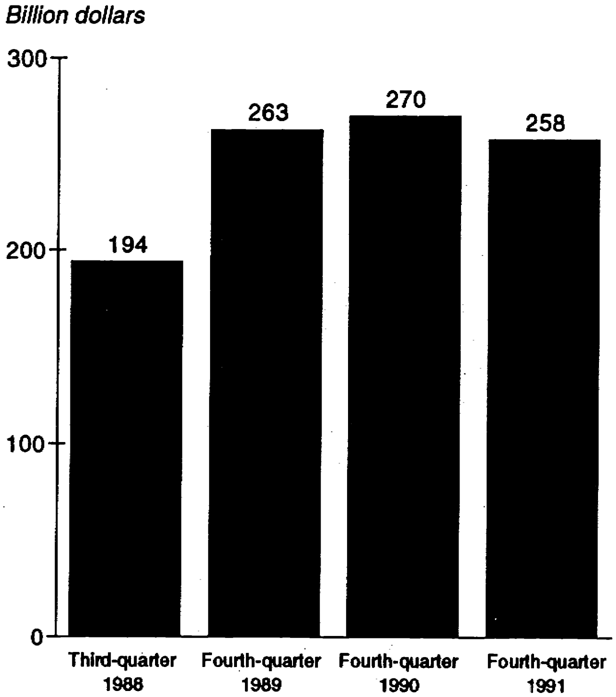


Figure 10
Total stockholders' equity-to-debt ratio

Ratios rose for both retailers and processors in 1991.

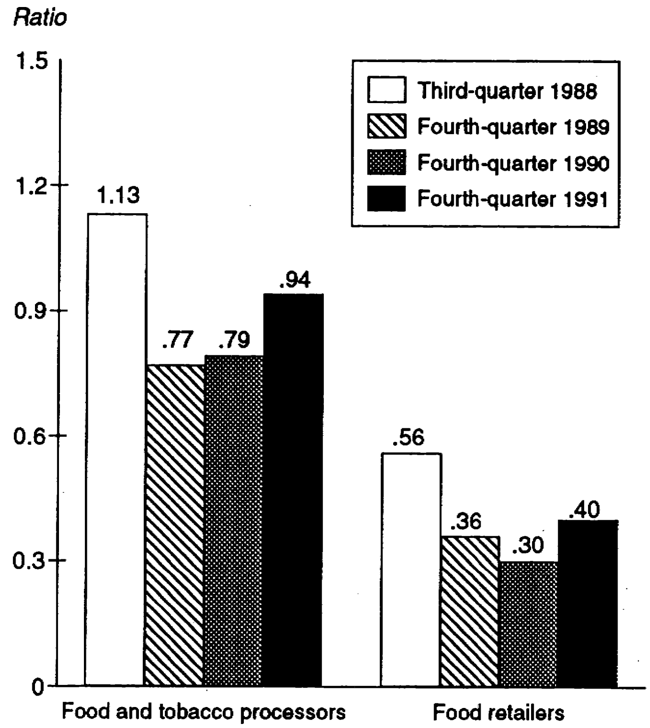


Figure 11
Profits from food manufacturing and retailing operations

Profits from operations were constant for both processors and retailers.

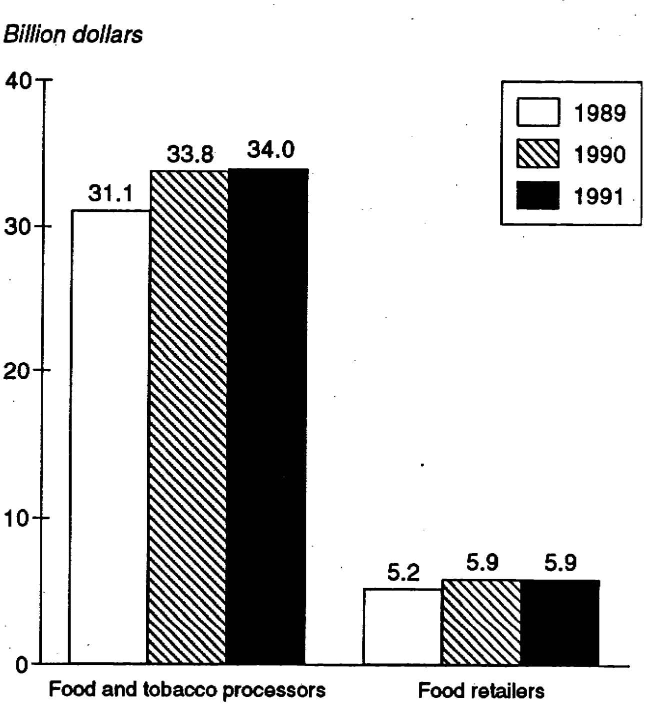
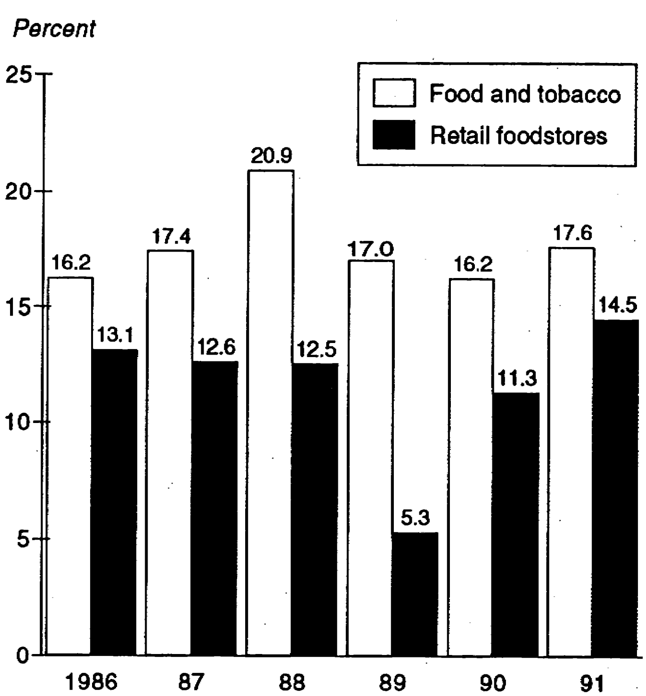


Figure 12
Aftertax profits as a percentage of stockholders' equity

Aftertax ratio rose for both processors and retailers in 1991.



Food Marketing System Performs Well

Capital expenditures in U.S. food processing rose in 1991 and again in 1992 for the fourth consecutive year. The investment performance of owners' equity, as measured by increases in common stock prices, outpaced other sectors of the economy for the ninth consecutive year in 1991, but dropped in mid-1992. Processors paid out 40 percent of income as dividends. Foreign investment and trade continued at high levels; the processed food trade deficit declined.

Capital expenditures, research and development, productivity, owners' equity, and global participation are important performance measures.

***Capital Expenditures*.** Food processors undertook 305 new plant projects in 1991 compared with 456 in 1990 (fig. 13). However, plant and equipment expenditures continued to increase. Total new plant and equipment expenditures for food processing firms, which include nonfood operations, rose from $16.4 billion in 1990 to $17.4 billion in 1991, an increase of 6.5 percent. Food manufacturers will have spent an estimated $18.3 billion on plant and equipment expenditures in 1992 (fig. 14). Between 1984 and 1992, the U.S. food manufacturing industries will have spent $117 billion on new plant and equipment expenditures.

The retail food system continued modernizing and upgrading existing stores, while closing smaller retail outlets. The number of retail grocery stores, which has been falling steadily over the past 50 years, dropped by an estimated 1,000 in 1991. New supermarkets are averaging about 30,000 square feet per store.

***Research and Development*.** R&D within the food marketing sector is largely conducted in the food and tobacco processing industries. Like most other nondurable manufacturing industries, food is not R&D intensive. Food and tobacco processors will likely have spent about $1.5 billion, or about 0.4 percent of sales, on R&D in 1992. Only about 6 percent of this amount will go to basic research. More than 60 percent of all R&D funds will go to processing and new products. However, most R&D in food and tobacco processing is purchased from other sectors, such as food packaging, computer, and machinery firms (much of the technological innovation for food processing comes from these sources). The Economic Research Service estimates this amount to be about $1 billion. The U.S. Department of Agriculture spent an estimated $300 million on developing new products and processes, conducting health and nutrition research, expanding export markets, and improving market efficiency in 1991.

***Productivity*.** Output per employee in 1990, the most recent data available on productivity, declined slightly in food retailing, but rose in food service. This index of labor productivity increased in some food processing industries, such as milk, processed fruits and vegetables, grain mill products, bakery products, beer, and soft drinks. Output per employee declined for meatpacking plants, flour, and sugar.

***Owners' Equity*.** For the ninth consecutive year, owners of the food marketing system, common stockholders, saw their shares outperform other sectors of the economy in 1991. However, by mid-1992, nearly all food stocks had fallen. The indexes for food and beverages rose about 40 percent in 1991, while the index for retailers and wholesalers rose 25 percent in 1991 (fig. 15). The index for restaurants, mostly fast-food chains, rose about 20 percent. By July 1992, both food processing and retailing equities had experienced a drop, most of which reflected a correction to a high stock price relative to earnings.

***Dividends*.** U.S. food firms have had a consistent dividend payout ratio. U.S. food processors paid out an estimated $7.8 billion in dividends in 1991. Nearly 60 percent of aftertax income went to retained earnings, which are used for such projects as new product development, capital expansion, and acquisitions. Food retailers paid nearly $500 million in dividends in 1991.

***Global Participation*.** The U.S. food marketing system continued to expand as the world's most global food system. This expansion is measured by the system's foreign trade, foreign investments, and the sales of its foreign subsidiaries. The United States is one of the world's leading importers and exporters of processed foods. The U.S. deficit in processed food trade fell to $700 million, the lowest in 9 years, with about $21 billion in imports nearly offset by more than $20 billion in exports (fig. 16).

However, trade data do not adequately reflect the global presence of U.S. food marketing firms. Many of the world's largest food processing firms aggressively expanded in foreign markets by increasing their investments in foreign plants or expanding licensing arrangements with foreign firms to produce and distribute their branded products. While large U.S. food processors exported on average only 4 percent of their sales, they received 27 percent of their total sales from their plants located in foreign countries. Sales from U.S. food processors' foreign subsidiaries were nearly $75 billion in 1990 (fig. 17). Sales by U.S. subsidiaries of foreign firms reached $45 billion in 1990 (fig. 18). The decline in the value of the U.S. dollar in 1991 and 1992 was favorable to U.S. exports, foreign investment in the United States, and the value of foreign earnings of U.S. firms.

Figure 13
New plant projects

New plant projects fell by one-third in 1991.

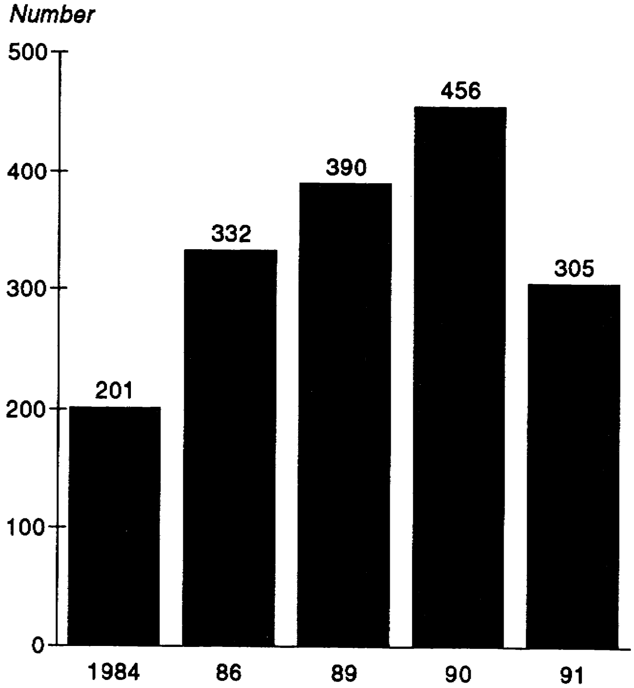
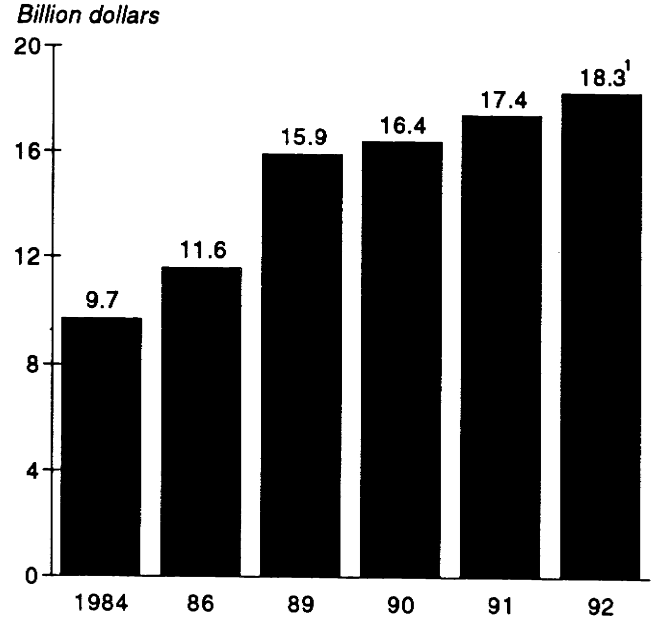


Figure 14
Plant and equipment expenditures

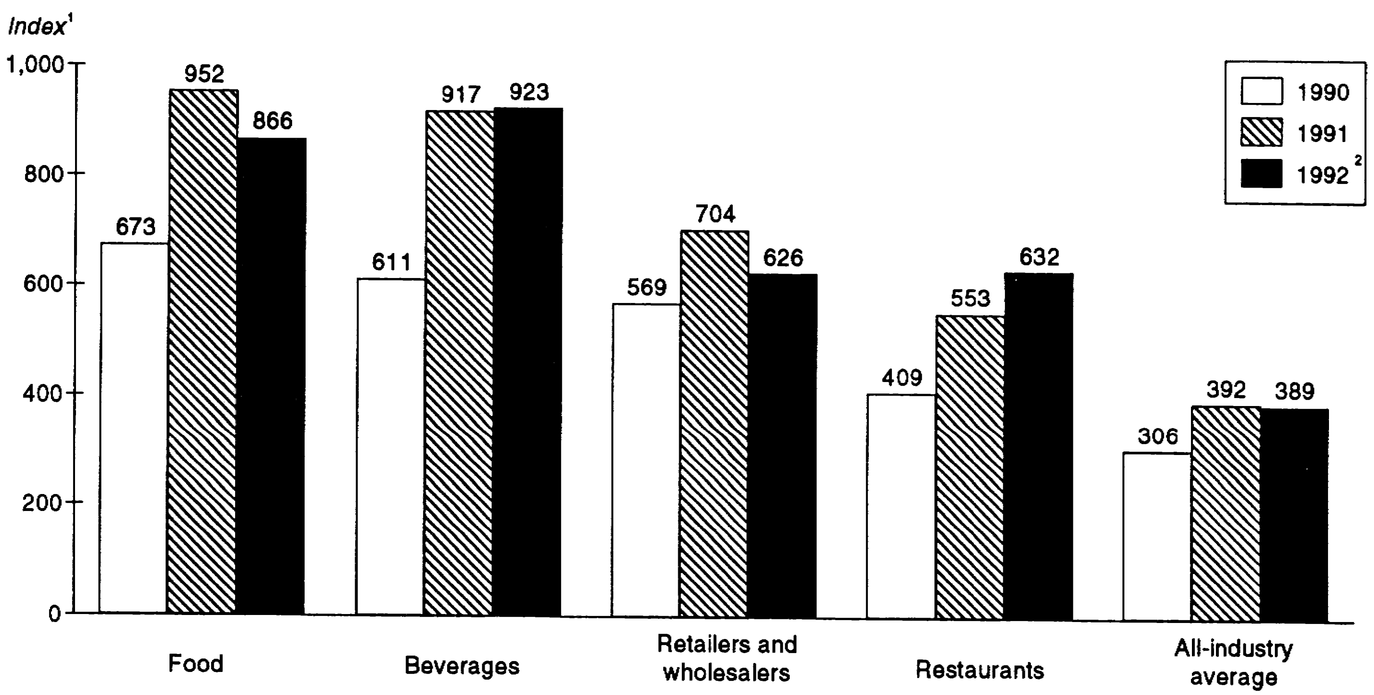
Plant and equipment expenditures rose again, nearly doubling their 1984 rate.



[1] Preliminary.

Figure 15
Dow Jones Equity Market Indexes for the food marketing system

Food and retail and wholesale companies increased in 1991, but dropped in 1992.



[1] June 30, 1982 = 100.
[2] July 20 for 1992.

Figure 16
Trade balance in food processing, 1991

The deficit in processed food trade fell to $700 million, its lowest level in 9 years.

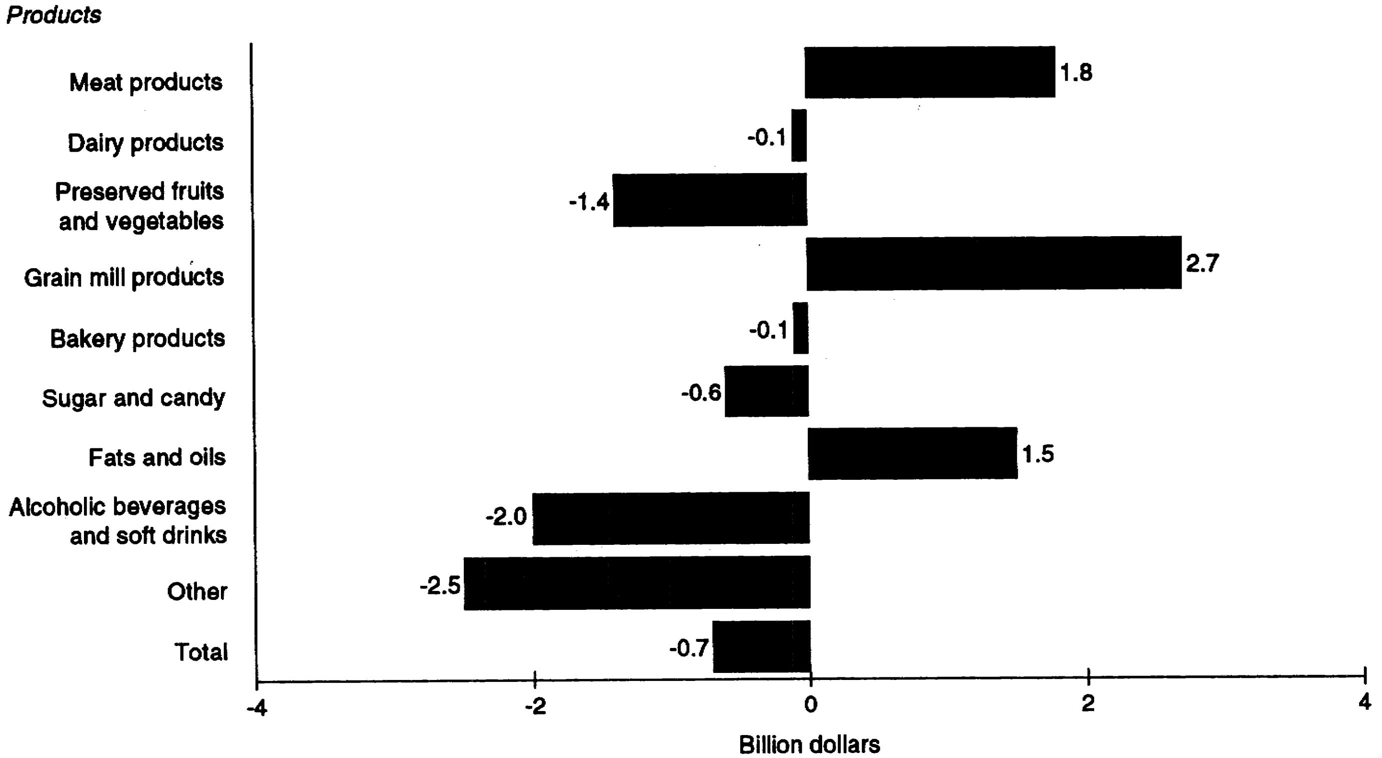


Figure 17
U.S. investment abroad in food processing: Value of shipments by U.S.-owned affiliates

Sales by foreign subsidiaries nearly doubled from 1982 to 1990.

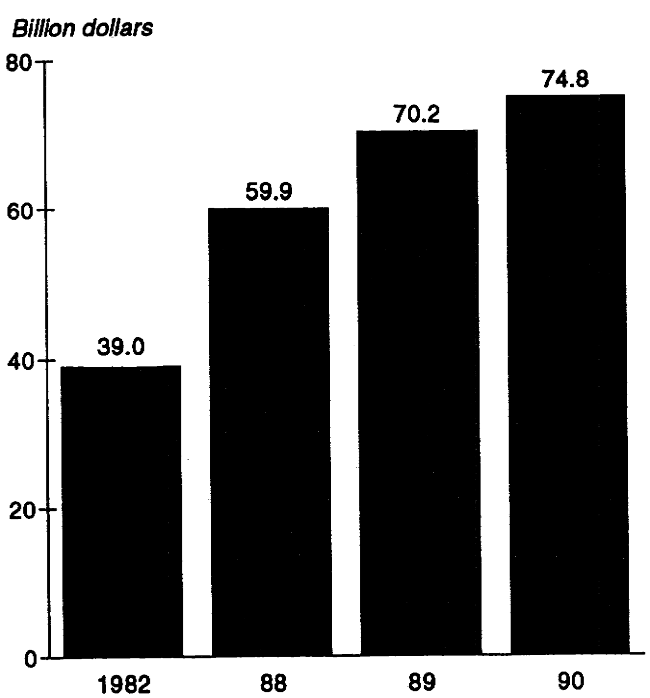
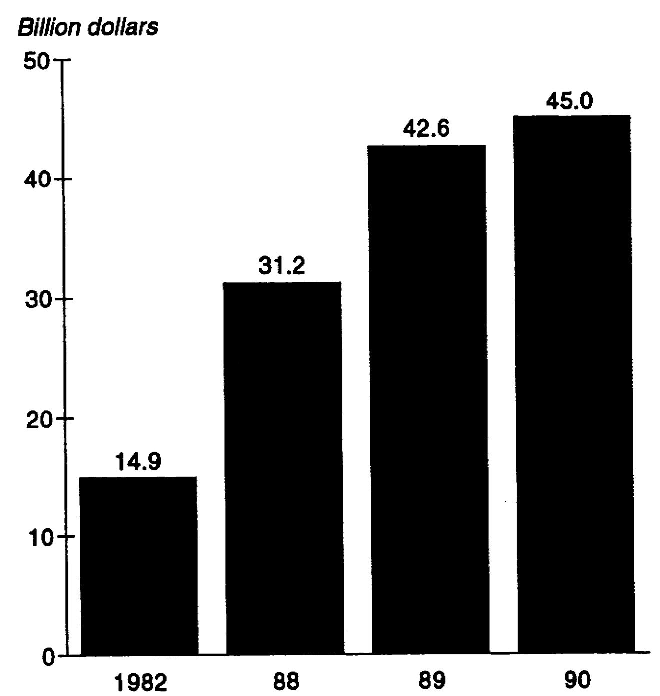


Figure 18
Foreign investment in U.S. food processing: Value of shipments by U.S. affiliates of foreign firms

Sales by U.S. subsidiaries of foreign firms nearly tripled between 1982 and 1990.



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Would You Like More Information?

This report summarizes a more detailed report, *Food Marketing Review, 1992*, to be published in summer 1993. The full report includes detailed data on mergers, sales, concentration, advertising, product industries, profits, productivity, plant and equipment expenditures, equity performance, prices, international performance measures. The report also includes a sizable appendix.

To receive ordering information when the report is issued, send your name and address to the Commodity Economics Division, Economic Research Service, U.S. Department of Agriculture, Room 1112, 1301 New York Avenue, NW., Washington, DC 20005-4788. Call Anthony Gallo at (202) 219-0866 for information.

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