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The Food Industry Center
UNIVERSITY OF MINNESOTA

TFIC

NEWSLETTER

<http://foodindustrycenter.umn.edu>

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Food Prices in Perspective

By Jean Kinsey

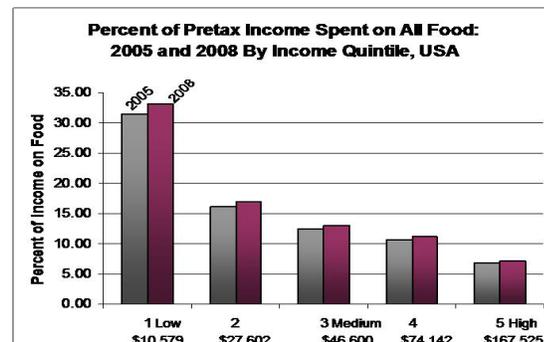
We have all read the headlines and the subtexts:

- Food Prices up 9.5% over the two years of 2007-08 in the U.S.
- The World Bank estimates that world food prices have risen 83% in the past three years.
- Rising food costs threaten to cancel strides made towards ending hunger in the world.
- The era of cheap food is over.
- Rising prices are bringing more land into production at the expense of the environment.

We have all heard the reasons:

- The rising demand for diets with more meat and poultry in emerging nations (mainly China and India).
- Rising populations, stable production of rice, and prices rising over 140% in the last few months has led to shortages of rice in South East Asian countries and bans on exports of rice from some countries.
- Producing biofuel (ethanol, biodiesel) from grains (corn, soybeans) is taking up to one fifth of the U.S. corn crop, raising further the prices of all grains.
- Government stockpiles of basic food commodities are thought not to be necessary in the face of "just-in-time," global distribution systems and have been allowed to diminish in recent years.
- Oil price increases are pushing up the cost of energy, transportation, packaging and eventually food.

Much of the media attention has focused on the hunger and starvation in the poorest of countries. As prices of staple foods (rice) have doubled over the past two years, many consumers go hungry. With more than one billion people still living on less than \$1 a day (the benchmark for absolute poverty) and another 1.5 billion living on between \$1 and \$2 a day, this type of food price inflation is a disaster. For example, the *Economist* (4/19/2008, p. 33) reported that Afghans who spent about 10% of their income on food in 2006, are now spending half their income for food.



Calculated from U.S. Dept. Labor, BLS, <http://www.bls.gov/cex/2006/share/quintile.pdf>

What about people in the United States? What is the impact on households and food consumption here? We also spend an average of 10% of our pre-tax income on food, including food eaten in restaurants. On average, we spend only about 6% of our pre-tax income on food eaten at home. This means that in 2008, the average household with an income of about \$63,996 spends \$320 per month on food in a grocery store and another \$213 on food eaten away from home, for a total of about \$46 more than they spent per month in 2005. That is the average household. What about the 39.3 million people (13% of the population) who live below the poverty line in the U.S.? How do rising food prices affect the budgets of families (of 4) earning less than \$20,000 per year? In contrast, how do rising food prices affect consumers whose income is in the top quintile with average earnings of more than \$167,000 per year? The chart above illustrates the dramatic difference in the percent of pre-tax income it takes to purchase food at various income levels in the United States. The dollar numbers at the bottom of the chart represent the average pre-tax income in each of the income quintiles in 2008.

Continued on page 3...

Upcoming Events

Future Food Scarcities? Global Causes, Local Consequences Symposium
Thursday, October 23, 2008
McNamara Alumni Center
University of Minnesota, Minneapolis



Director's Column

The spring semester at TFIC has been filled with special events and opportunities. I would like to take this opportunity to highlight some of them.

Our students had opportunities to participate in two national conventions as interns. At the **National Grocers Association Convention** this February in Las Vegas, *Alise Jennissen, Kelly Colbert, and Casey Duhaime* introduced speakers, worked on the show floor, and wrote an article about one of the vendors for a trade magazine. One of the students commented afterwards that now she was sure this was an industry in which she wanted to pursue her career. At this same meeting, I was part of a plenary session panel questioning food manufacturers about their efforts on "*Sustainability: A Natural for the Community-Focused Retailer.*" The efforts to be "green" are burgeoning in the industry and you will find some of them in the "Did You Know" column on the back page. In addition, a coalition of faculty from 13 Universities with food related curriculums and research programs met under the leadership of *Dennis Degeneffe*, TFIC Research Fellow. His leadership of this group has prompted joint research projects and executive educational initiatives.

Three more students, Amy Tran, Nancy Nelson, and Heather Taterka, interned at the annual **Food Marketing Institute Convention** this May. A special thanks to *Jon Seltzer* who served as the student advisor and accompanied the students to both of these national conventions.

Every spring, TFIC sponsors the **James P. Houck Lecture**, one of four special lectures in the Minnesota Lectures on Applied Economics and Policy. The Houck Lecture honors the late Applied Economics department head and initial founder of TFIC.

This year's speaker was *Dr. David I. Laibson*, Professor of Economics at Harvard University. Dr. Laibson is famous for his work in the field of behavioral economics and talked on "Temptation, Self-Control, and Public Policy." His inspiring lecture led to many questions and to



Laibson

a better understanding of the new frontier of the economic theory of consumer behavior.

In February, I was privileged to speak on "Sustainable Solutions for the Delivery of Healthy Foods" at a **Symposium sponsored by the College of Food, Agricultural, and Natural Resource Sciences** on the University's St. Paul Campus. This series of symposia are titled "Food Systems and Human Health" and are complimentary to our Center's research.

Last but not least, we held our **TFIC Spring Conference** on March 27th on the University's Minneapolis campus. More than 160 students, faculty, industry, and community leaders participated in a discussion on "Branding Beyond Borders." I would like to extend a special thank you to CHS, General Mills, Nash Finch, and SUPERVALU for sponsoring this event and for sending representatives to talk with the students about career opportunities.

Staff News



Ghosh

Koel Ghosh, Research Associate for The Food Industry Center, has accepted an invitation to be a member of the Early Career Development Committee (ECDC) for the Alfred P. Sloan Industry Studies Program. The Industry Studies Committee, in consultation with the members of the current ECDC, all agreed that Koel's impressive scholarship in, and commitment to, the field of industry studies will bring valuable insight and experience to the work of the ECDC. The ECDC is dedicated to encouraging research by industry studies scholars who are early in their academic careers as well as promoting and sustaining a community among these scholars.



Jore

Lisa Jore, Executive Administrator for The Food Industry Center, completed a Masters of Public Affairs degree with a concentration in Public and Nonprofit Leadership this spring from the Humphrey Institute of Public Affairs at the University of Minnesota. Lisa began her part-time study in 2004 while working for The Food Industry Center. Lisa would like to thank the leadership and staff of TFIC for their support and encouragement in pursuing her goal of obtaining a Masters degree.

University Students Visit Industry Conventions

This year's University of Minnesota students who attended the 2008 National Grocers Association Convention and the 2008 Food Marketing Institute Convention have reported their student intern perspectives on the benefits of participating in and attending these professional food industry events. Alise Jennissen, a senior in Agricultural Industries and Marketing, attended the NGA convention as a student intern and Food Science and Nutrition graduate students Amy Tran and Heather Taterka attended the 2008 FMI convention; their experiences are shared below.

Above all, the students noted the value they received in walking the conventions' floors and meeting and talking to people in the industry. "It was very impressive for me to see the number of industry professionals interested in hearing a group of students speak informally about their opinions" said Tran. Heather Taterka noted "They (industry professionals) seemed generally interested in speaking with us, which made me more confident in a future in the industry." Jennissen noted the beneficial conversation she had as she plans her

career in communications or marketing in the food and agricultural industry - "I was able to network with industry professionals and learn about new products in the grocery business."

Both conventions also helped the students realize the career

opportunities offered by the food industry. "The food industry is constantly innovating in the face of some serious challenges and I find it an exciting industry to enter" said Amy Tran. Heather Taterka said she did not have much experience in the food industry "so walking on the floor, discussing products with industry

professionals was very rewarding and gave me insight to a future career in the food industry." Alise Jennissen described the convention as an excellent opportunity for graduating students because "The grocery industry is one of a kind in that it deals with food safety, advertising, marketing, business, management, entrepreneurship, and the list continues. The opportunities are endless and that is something students may not realize."

The students also acknowledged their opportunities to become further acquainted with the food industry at the retail level. Amy Tran noted "I got to see the breadth and depth of companies who offer their products and services to the food industry, particularly in the retail sector." Alise Jennissen noted "As someone who grew up in production agriculture, it is rewarding to have a closer connection with the retailer and the consumer because they are the ones purchasing our products."



Nelson, Sarah Wangler (Green Giant Fresh), Tran, and Taterka



Jennissen, Duhaime, and Colbert at 2008 NGA Convention

Food Prices in Perspective *(continued from page 1)*

All of the people in the first quintile, and many in the second, are below the poverty level. Those in the lowest quintile spent an average of 31.5% of their income on food in 2005 and 33% in 2008, a 1.63 percentage point increase. This translates into about \$38 per month more for food now than in 2005. At the other end of the chart those in the highest quintile spent an average of 6.8% of their income on food in 2005 and 7.2% in 2008, a 0.4 percentage point increase. For this quintile, the percentage increase translates into about \$126 more per month.

Not only do the "poor" spend a much larger percent of their income on food, rising food prices increase that percentage more than for the rich. With a (pending) economic recession, rising unemployment and millions of households facing impossible mortgage payments, an extra \$38 a month for food could break the budget. This difficulty is demonstrated in the dramatic increase in demand for food at food shelves. Minnesota FoodShare reports an increase of 200 visits per month in some of their 260 locations in 2008.

Middle and upper income households in the U.S. spend a smaller percent of income on food. For those in the upper income quintile, spending an extra \$125 per month for food, including food at restaurants, is barely noticeable. Evidence of this fact is found in news articles reporting that the sales of organic foods (generally more expensive) are steady and up-scale restaurants are doing well. Even with a 15% increase in food prices since 2005, upper quintile eating patterns change little; they have ample opportunities to substitute cheaper food in their market basket if prices are a concern. As a result, the impact of rising food prices is distributed unevenly across income groups within the U.S. and across countries around the world. Consequently, rising levels of hunger cannot be good for human welfare or for political stability within and between nations.

(Sources: Bureau of Labor Statistics, Consumer Expenditure Survey, and the CPI Calculator)

Did You Know?

The buzz this year is all about **sustainability** and being “**Green.**” What this means to various parties depends on their primary motivation and exactly what it is one is trying to sustain. For decades, a substantial portion of people have been concerned about sustaining an environment and the precious soil and water of the earth in order to sustain life as we know it. For others, it is about sustaining the viability of a business or a lifestyle. Increasingly, it is about slowing the warming of the atmosphere on earth. This column includes a sample of measures taken or practices instituted that address sustainability.

Beverage companies have **reduced the weight of their plastic bottles** which means that they cost less to make and cost less to ship, saving energy and transportation costs.

Many companies have appointed an executive to be in charge of **reducing carbon emissions** over the next decades.

Cadbury Schweppes vows to reduce their carbon foot print by half by 2020; General Mills aims to reduce their carbon emissions, solid waste and energy use by 15 percent and their water usage by 5% by 2010. Unilever claims to have reduced total carbon dioxide emissions by 25% since 1995. The important point is that the effort has the attention and support of the top executives.

Wal-Mart clearly articulated their commitment to sustainability in their **lighting changes, mandates for less packaging,** and other changes to save energy use and carbon output.

P&G and other detergent manufacturers have produced more **concentrated laundry soap** that works well at low temperatures, saving energy in transportation and in the home as well as lowering packaging weight and waste.

Unilever who buys 12% of the world’s tea crop, has instituted a program to buy only from **sustainable producers**

auditing the processes for validity. Several companies are requiring food inputs from sustainable and/or organic farmers.

Reducing solid waste and landfill is being attacked by **turning waste (now called by-products) into usable products.** An example is Kettle Foods who turns their cooling oil into biodiesel fuel and recycles their waste water through a series of filters. Kettle Foods and others recycle unusable food products into animal feed or compost saving thousands of pounds from going into the waste stream.

LEED: Leadership in Energy and Environmental Design is a set of guidelines issued in 2000 by the nonprofit U.S. Green Building Council. Buildings can be certified as LEED by meeting a variety of standards that help improve the environment. Many new buildings are designed to meet standards including incorporating solar power, bike racks, and water conservation methods.

2008 Spring Conference - *Branding Beyond Borders*

The Food Industry Center hosted its 2008 Spring Conference, “Branding Beyond Borders,” on Thursday, March 27th in the McNamara Alumni Center. The goal of this conference series is to create opportunities for students, faculty, and industry professionals to learn more about the food industry and to provide opportunities for networking and career exploration.

University faculty members presented on three related topics – why consumers in different cultures like different foods (Zeta Vickers); how research on consumers in different countries explains differences

in consumer behavior (Carlos Torelli); and the impact of global brands on food quality and safety standards (Jean Kinsey). The full agenda, with speaker biographies, is posted on the TFIC web site at <http://foodindustrycenter.umn.edu/vd/Events/spring08agenda.pdf>

Over 160 individuals registered to attend the conference, and over half were students from the College of Food, Agricultural, and Natural Resource Sciences, the Carlson School of Management, and other colleges and schools at the University of Minnesota.

This year’s Conference sponsors were CHS, Inc., Cub Foods/SUPERVALU, General Mills, and Nash Finch Co. Each sponsor company staffed an information table in the McNamara Atrium and spoke with students about their companies and job and internship



Spring Conference Speakers: Jean Kinsey, Zeta Vickers, and Carlos Torelli

opportunities. Other companies and organizations that registered included Coborn’s, Hormel Foods, Land O’Lakes, McCormick & Co., Bellisio Foods, the Canadian Consulate, Morey’s Seafood, the MN Dept. of Agriculture, the MN Grocers Association, Schwan Food Company, and C.H. Robinson, among others.

This publication is available in alternative formats upon request. Please contact Lisa Jore at The Food Industry Center, 317 COB 1994 Buford Ave, St. Paul, MN 55108 or 612.625.7019.



Professor Brian Buhr talking to students at 2008 Spring Conference