Ohio Food System Trends and Outlook

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Questions for today

What does the Ohio food system look like?

What are the major consumer trends and how are they relevant to Ohio?

How are concerns about health + values affecting shopping patterns?
What does the Ohio food system look like?
Food and agriculture over time in Ohio

From 2012 to 2017...

- Number of farms in Ohio increased (to 77,805)
- Sales of agricultural products declined (to ~$9.3 billion)

We are incredibly productive in using natural and human resources to produce food and agricultural products
Value added from food and agriculture

Value added is one way to measure the importance of food and agriculture in various parts of Ohio.

What is value added for a sector?

- Sales minus input costs, or the amount of value that’s added by a particular part of the supply chain
- Consistent with the measurement of Gross State Product (GSP)
Value added from agricultural production

Top 5 (% of state)
1. **Union** (farm inputs, equipment, professional services)
2. **Wayne** (farm inputs, equipment, professional services)
3. **Mercer** (farm inputs, equipment, professional services)
4. **Franklin** (farm inputs, equipment, professional services)
5. **Darke** (poultry/egg production)

Source: IMPLAN with help of Ben Brown
Value added from food/ag processing

Top 5 (% of state)
1. Franklin (beverage processing)
2. Hamilton (beverage processing)
3. Butler (beverage processing)
4. Cuyahoga (food processing)
5. Stark (food processing)

Source: IMPLAN with help of Ben Brown
Value added from food wholesale/retail

Top 5 (% of state)
1. Cuyahoga (wholesale)
2. Franklin (wholesale)
3. Hamilton (wholesale)
4. Summit (wholesale)
5. Butler (wholesale)

Source: IMPLAN with help of Ben Brown
What are the major consumer trends and how are they relevant to Ohio?
What do consumers care about?

Price – Can I afford it?
Taste – Do I like it?
Convenience – Can I prepare it quickly and easily?
Health + Wellness – Is it good for me and my family?
Values – Is it produced in a way that aligns with my values?
What do consumers care about?

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Household Food Expenditure Share (1950-2015)

-- Household food expenditures as a share of disposable personal income

Disposable personal income

Source: USDA Economic Research Service
US Consumer Price Index (last 5 years)

- - - - All items minus food/energy
-- -- Food and beverages
----- All items

Source: St. Louis Federal Reserve Bank
# Outlook for Consumer Price Indices in 2020

<table>
<thead>
<tr>
<th>Expected to <em>increase</em></th>
<th>Expected to <em>stay about the same</em></th>
<th>Expected to <em>decrease</em></th>
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</thead>
<tbody>
<tr>
<td>Pork</td>
<td>Beef + veal</td>
<td>Fats + oils</td>
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<tr>
<td>Poultry</td>
<td>Other meats</td>
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<tr>
<td>Eggs</td>
<td>Fresh vegetables</td>
<td></td>
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<tr>
<td>Dairy products</td>
<td>Processed fruits + vegetables</td>
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<tr>
<td>Fresh fruits</td>
<td>Sugar + sweets</td>
<td></td>
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<tr>
<td>Cereals + bakery products</td>
<td>Nonalcoholic beverages</td>
<td></td>
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<tr>
<td></td>
<td>Other foods</td>
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</tr>
</tbody>
</table>
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Values – Is it produced in a way that aligns with my values?
Proteins
Per Capita Availability

• Beef availability has decreased
• Chicken availability has increased
• Not shown: Meat substitutes still small share but growing

Source: USDA Economic Research Service
Dairy Products
Per Capita Availability

• Milk availability has decreased
• Low fat milk has overtaken whole milk
• Yogurt and cheese have grown
• Not shown: Non-dairy milk substitutes still small share of total but seeing strong growth

Source: USDA Economic Research Service
Fresh Vegetables
Per Capita Availability

- Tomato, bell pepper, cucumber and squash all mostly increasing
- Sweet corn plateaued or decreasing
- Not shown: Potato still on top but large decline in availability over time

Source: USDA Economic Research Service
Fresh Fruit
Per Capita Availability

• Apples remain key fruit
• Peaches, nectarines and pears in decline
• Berries on the rise

Source: USDA Economic Research Service
Sweeteners
Per Capita Availability

-- Beet and cane sugar
-- High fructose corn syrup

Source: USDA Economic Research Service
Outlook for Food Demand

Continued focus on health continue, supporting demand for:
- Chicken
- Low-fat milk
- Fresh fruits and vegetables

Things to watch for:
- Lingering concerns about food safety in fresh supply chain
- Continued growth of niche products, despite being small share of whole
  - Meat substitutes + lab-grown meat – big players investing
  - Non-dairy milk substitutes
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Where are consumers buying their food?

Source: USDA Economic Research Service
Trends in online shopping

Grocery delivery – major expansion in last two years
• Amazon Prime Now (1-2 hours) in Columbus, Cincinnati, Cleveland
• Kroger delivering throughout Ohio
• Wal-Mart delivering throughout Central Ohio

Curbside pick-up
• Order your items online and pick up at the store
• Offered by Wal-Mart, Kroger, and others
Outlook

Consumers will continue to focus on price and convenience
  • Grocery stores and superstores will maintain importance
  • Discount stores will increase in importance

Watch for…
  • Rapid growth in grocery delivery and curbside pick-up
  • New models of online shopping
How are concerns about health + values affecting shopping patterns?
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Challenges

Cannot easily perceive health or values attributes
  • Economic term: credence good

Consumers want to acquire food from a source they trust
Growing demand for foods perceived to healthy

Consumers are trying to eat healthier
Growing demand for foods perceived to healthy

Source: Lusk (2019)
Not just health!

Perceived to be healthier
- Low fat, low calorie, low carb, low sugar, heart healthy
- Natural, organic, plant-based, non-GMO, local

Perceived to be better for environment
- Natural, organic, regenerative, plant-based, non-GMO, local

Perceived to be better for animals
- Certified humane, dolphin safe, plant-based

Perceived to be better for communities
- Local, fair trade, perhaps others
## Organic market

### Total U.S. Organic Sales & Growth, 2009–2018

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<thead>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Growth (%)</strong></td>
<td>4.3%</td>
<td>8.0%</td>
<td>9.5%</td>
<td>11.2%</td>
<td>11.9%</td>
<td>11.1%</td>
<td>11.1%</td>
<td>9.0%</td>
<td>6.4%</td>
<td>5.9%</td>
</tr>
<tr>
<td><strong>% of Total Organic</strong></td>
<td>92.2%</td>
<td>92.1%</td>
<td>92.0%</td>
<td>91.9%</td>
<td>91.9%</td>
<td>91.8%</td>
<td>91.6%</td>
<td>91.7%</td>
<td>91.6%</td>
<td>91.3%</td>
</tr>
<tr>
<td><strong>Organic Non-Food</strong></td>
<td>1,800</td>
<td>1,974</td>
<td>2,195</td>
<td>2,455</td>
<td>2,770</td>
<td>3,152</td>
<td>3,555</td>
<td>3,866</td>
<td>4,151</td>
<td>4,589</td>
</tr>
<tr>
<td><strong>Growth (%)</strong></td>
<td>9.1%</td>
<td>9.7%</td>
<td>11.2%</td>
<td>11.8%</td>
<td>12.8%</td>
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<td>8.4%</td>
<td>8.3%</td>
<td>8.4%</td>
<td>8.7%</td>
</tr>
<tr>
<td><strong>Total Organic</strong></td>
<td>23,065</td>
<td>24,935</td>
<td>27,343</td>
<td>30,420</td>
<td>34,147</td>
<td>38,251</td>
<td>42,561</td>
<td>46,373</td>
<td>49,360</td>
<td>52,451</td>
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Note: Units in millions of USD
Outlook for organic

Organic market will continue to be small but important
  • Continued growth but growth rate may continue to decline

Watch for…
  • Growth of food claims, food labels and certifications that consumers see as substitutes for organic
  • Examples: non-GMO, regenerative, natural
Non-GMO Market

Some firms pre-empting regulation

• ADM and Cargill offer non-GMO starches, sweeteners and other ingredients
• Cheerios, Grape Nuts and other cereals have moved to non-GMO
• Recent evidence suggest price for sugar from sugar beets and sugar from sugar cane diverged when Vermont labeling law went into effect

Sales of Non-GMO Project verified products now $26 billion
Non-GMO Market

New USDA label for GMOs introduced in December 2018
  • Only applies to foods with detectable changes in genetic material
  • Exempts gene-edited foods
  • Exempts milk, meat from livestock fed with GMOs

Gene-edited crops are not regulated
Gene-edited animals used for food are regulated

Overhaul of US biotech regulation not yet final
Outlook for GMOs

Consumer concern about GMOs will not fade anytime soon
  • Companies may remove GMOs voluntarily for some products regardless of regulatory environment to maintain competitive advantage
  • Could strengthen demand for non-GMO inputs

Regulatory environment will remain uncertain in US and elsewhere
  • Regulators working to keep up with scientific advances

Watch for…
  • New USDA biotechnology policies
  • Discussions about how new labels will be implemented in 2020
Direct-to-consumer sales

Direct-to-consumer market cooling from 2007 to 2012
  • Decline in number of farmers selling directly to consumers
  • Decline in revenue per farm from selling directly to consumers

But trend changed from 2012 to 2017
  • Decline in number of farmers selling directly to consumers
  • But, increase in average revenue per farm from selling directly to consumers (from $7,050 to $12,955)
Local and direct sales in Ohio

Sales of $198 million in 2017

• Represents ~2% of Ohio farm sales
• Works out to ~$17 per person in Ohio in 2017
• 40% of sales directly to consumers in Ohio
• 60% to locally-focused intermediaries (retailers, institutions, food hubs)
Outlook

Direct sales will continue to grow but composition will be different

- More purchasing via retailers, institutions, intermediaries
- Less purchasing directly from farmers
- Will likely still pay a premium for local

Watch for…

- Opportunities to partner with large institutional buyers
- Potential saturation of narrow markets due to competition
- Importance of local food decreasing if other sources rebuild trust
Closing thoughts

Processors, retailers and consumers are key stakeholders in the Ohio food system.

Health/wellness and shopping their values top of mind for US and Ohio consumers.

More opportunities in 2020 to reach these consumers.
Thank you!

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