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The Food Marketing System in 1990

Anthony E. Gallo

In this report... *Retail sales of the U.S. food marketing system fell in 1990, after adjustments for price increases. But, profitability from food manufacturing and retailing operations (excluding interest expense) continued to sharply increase, reflecting wage and producer price stability and operations streamlining. Mergers and leveraged buyouts fell sharply in 1990 from the phenomenal levels of recent years in both volume and value. New product introductions, consumer advertising expenditures, and retail promotions, including some rental fees for shelf space for new products, reached record highs. The system's performance continued its spectacular strength of recent years. This strength was reflected in increased globalization, higher levels of new plant and equipment expenditures, and outstanding performance for common stock owners.*

This report analyzes and assesses yearly developments in the industry growth, conduct, performance, and structure of the institutions—food processors, wholesalers, retailers, and foodservice firms—that comprise the Nation's food marketing system. "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.

What Happened in the Food Marketing System in 1990?

Industry Growth and the Economy

- Sales slowed because of recession.
- Food marketing system's share of income fell for 11th consecutive year.
- Wages higher; farm prices up; interest rate, value of U.S. dollar lower.

Structure

- Merger activity slowed again.
- Some leveraged buyout companies resold common stock, thus going public again.

Conduct

- Competition for retail shelf space and consumer acceptance intense.
- 13,000 new grocery products introduced; rental fees for shelf space more apparent.
- Advertising to consumers reached $12 billion.

Performance

- Profitability from operations up sharply; net profits still lowered by high interest expense.
- System one of Nation's most leveraged, but debt levels went up only slightly.
- Owners' equity appreciation outperformed nonfood companies.

Real Sales Declined

Food marketing system sales grew slowly in 1990 to $731 billion, as economic growth declined. Real sales, which are sales adjusted to reflect price increases, fell, however. The food marketing system's share of income fell for the 11th consecutive year.

Economic conditions on the demand side were not favorable to the U.S. food marketing system in 1990. The general economy slowed considerably, and the amount of cash that people had available to spend on food declined. These factors contributed to the decline in real sales for the food marketing system. Total sales rose 5.5 percent in 1990, with sales slowing considerably during the latter part of the year.

General Economy. Following 7 years of uninterrupted expansion, real growth in the economy slowed significantly in 1990 as the economy slipped into recession in the second half of the year. Slow growth in the early part of the year and extreme weakness at the end of the year pulled real growth for 1990 down to 0.9 percent from 2.5 percent in 1989 and 4.5 percent in 1988. While total employment continued to rise from 1988 to the middle of 1990, the manufacturing sector began to lose jobs in early 1989. By the middle of 1990, total employment also began to fall; the declines continued through the end of the year. The unemployment rate, which was 5.2 percent in January, rose to 6 percent in December as more than a million Americans became unemployed. Real per capita disposable income declined for the first time since 1982. Only the population growth of 2.5 million people was favorable to the demand for the food marketing system's products.

Sales. The decline in the general economy was well reflected in the food system's real sales growth. In 1990, the food system's retail sales, adjusted for price and population increases, showed a 0.5 percent decline. The food marketing system's share of disposable personal income declined for the 11th consecutive year to 13.8 percent (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 $731 billion, 5.5 percent above 1989 but less than the 5.8-percent increase in retail food prices (fig. 2).

Product Mix. About $286 billion was spent in retail foodstores and $251 billion in foodservice establishments. Retail food sales rose 5.1 percent, far short of the 6.4-percent increase in retail prices. Foodservice sales rose 6.9 percent. The increase was partially offset by a 4.7-percent increase in retail prices for a 2.2-percent increase.

The alcoholic beverage market, which accounts for about 11 percent of sales in the food marketing system, continues to reflect lower consumption. Alcoholic beverage sales accounted for $80 billion of food marketing sales in 1990. Over $45 billion was in the form of packaged alcoholic beverages, while alcoholic drinks served in restaurants and other institutions likely amounted to nearly $35 billion. Distilled spirits in 1990 likely accounted for about 32 percent of total alcoholic beverage consumption, while beer will likely account for nearly 56 percent. Wine sales appear to have fallen to about 12.4 percent of the total.

The nonfood component of retail sales likely amounted to about $114 billion. 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.

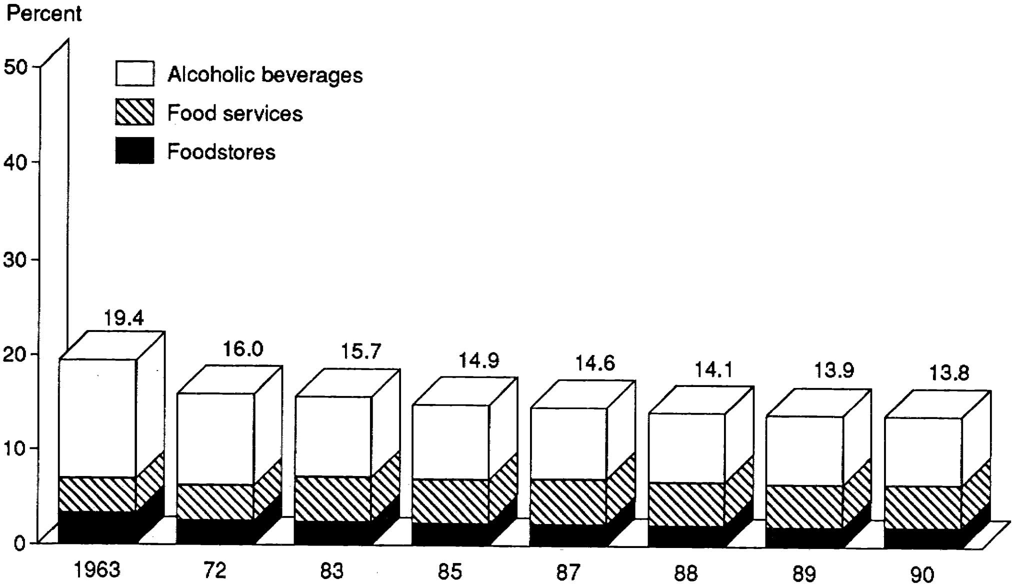
Measures of Growth

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, selected years 1/

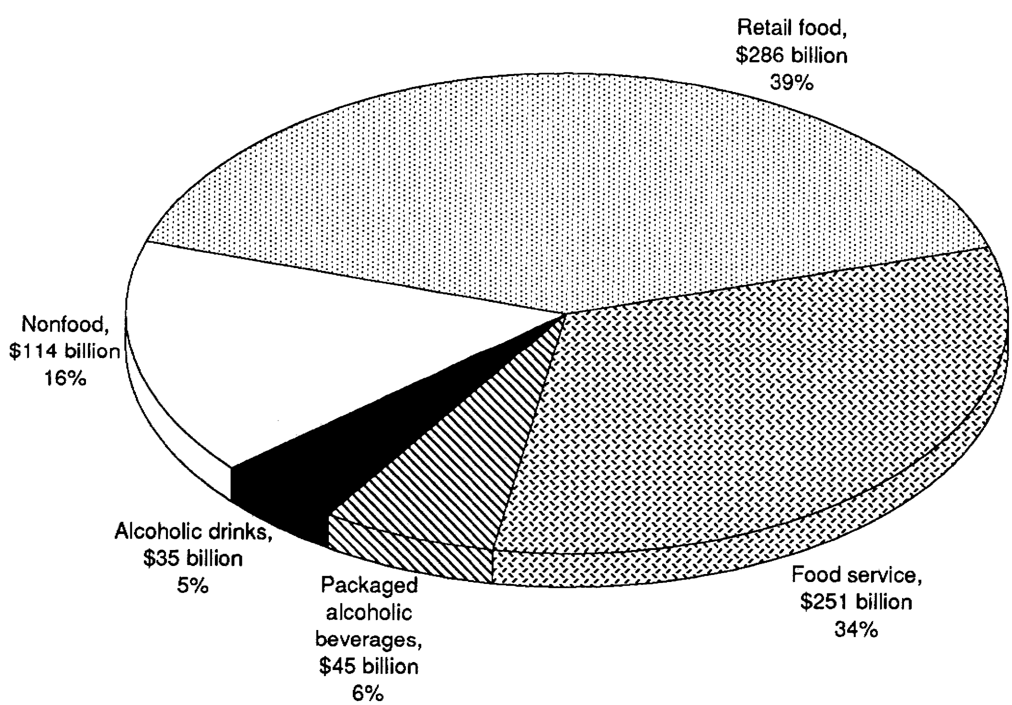
Share of income fell for the 11th consecutive year in 1990.



1/ Excludes nonfood grocery and nongrocery items sold through the food marketing system, which in 1990, amounted to 2.8 percent of income.

Figure 2
Food marketing sales, 1990

Food marketing sales rose 5.5 percent to $731 billion.



Economic Climate Favorable to Costs

Wages, producer prices, interest rates, and the value of the U.S. dollar were favorable to the food marketing system. The food system purchased an estimated $108 billion in U.S. agricultural commodities, $21 billion in foreign agricultural commodities, and $9 billion in seafood products. The system then added an estimated $505 billion in value to these raw products.

The economic climate was favorable to the food marketing system for the eighth consecutive year 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 1990.

Prices. Price stability for purchased food and feed inputs for each channel in the food marketing system is reflected by the Producer Price Index (PPI). The PPI for finished consumer foods, an indicator of changes in prices paid by retailers, wholesalers, and restaurateurs to food manufacturers, rose only 4.8 percent in 1990 compared with 5.4 percent in 1989 (fig. 3). The PPI for intermediate foods and feeds, an indicator of changes in prices food processors pay one another, increased 4.6 percent compared with 6.3 percent in 1989. The PPI for crude foodstuffs, or prices paid by food manufacturers at 37 major markets, rose 1.8 percent compared with 4.7 percent in 1989. The 1990 index reflected a sharp drop in grain, oilseed, and poultry prices. Partially offsetting this decline were higher prices for red meats.

Labor Costs. For the eighth consecutive year, labor costs, which include hourly earnings and fringe benefits, constituted the major expense item for the food marketing system. In 1990, the food marketing system had about 12.4 million full- and part-time employees. Over 6.5 million workers were employed in food service and more than 3.3 million were employed in food retailing. About 1.6 million were employed in food processing, and nearly 850,000 worked in grocery wholesaling. Average hourly earnings in food retailing and food processing increased 3 percent. In food retailing, wage concessions, benefit reductions, and lump-sum payments in lieu of wage hikes were sometimes negotiated, continuing a decade-old trend. Wages in eating and drinking places averaged 4.7 percent higher, at $4.94 per hour.

Advertising. The food system, the economy's largest advertiser, faced increased advertising costs for evening network television, network radio, magazines, and newspapers. Increases ranged from about 8 percent for nighttime network television to 2 percent for business publications. The cost per targeted television increase rose sharply due to lower viewership.

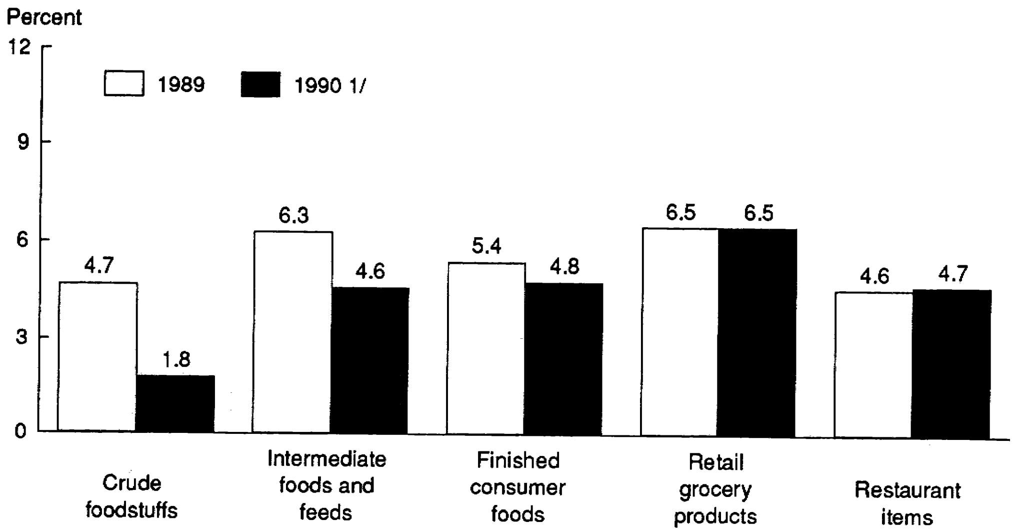
Interest. Lower interest rates in 1990 benefited the food system in 1990. The prime interest rate averaged 10 percent compared with 10.7 percent in 1989. Short-term rates also dropped, as reflected in a fall in 3-month Treasury bills from 8.12 percent in 1989 to 7.51 percent in 1990. Long-term corporate bond rates averaged about 9.3 percent, the same as in 1989.

Value of the U.S. Dollar. The value of the U.S. dollar fell sharply in 1990. The trade-weighted value of the U.S. dollar fell from 100.5 to 83.0 between the second quarter of 1989 and the last quarter of 1990. 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 $108 billion in animal and crop products from the U.S. farm sector, about two-thirds of domestic production, USDA's Economic Research Service estimates. An additional $21 billion was spent on imported agricultural products, and $9 billion was spent on seafood. To this base of $138 billion in raw agricultural and fishery products, the food system added an estimated $505 billion in value in 1990 compared with $491 billion in 1989 (fig. 4). Food processors added about $94 billion in 1989, while wholesalers, retailers, and transportation firms added another $142 billion. The contribution of 400,000 separate eating and drinking places to value added topped $72 billion in 1990.

Figure 3
Price increases in the food marketing system, 1989 and 1990

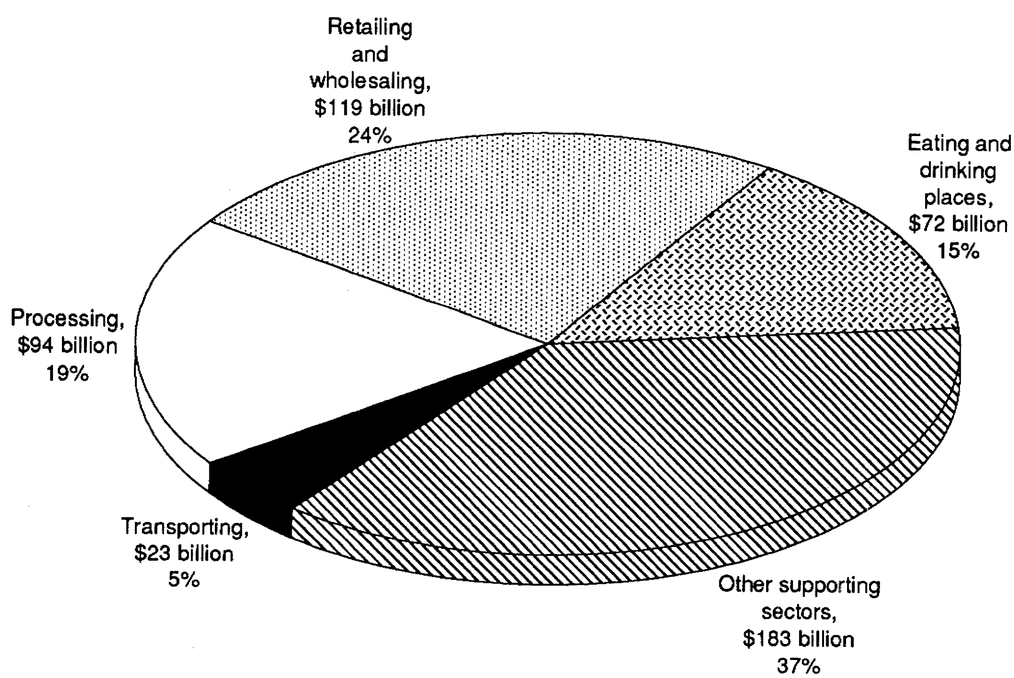
Low farm prices and a minimal rise in wages held down increases in the prices producers paid for food and feed input in 1990.



1/ Preliminary.

Figure 4
Value added in food marketing, 1989

The $491 billion added to raw products in 1989 compares with a preliminary estimate of $505 billion in 1990.



Merger Activity Slowed Again in 1990

Merger activity slowed for the second consecutive year. The value of large recorded mergers declined from $61 billion in 1988 to $14 billion in 1989 and $9 billion in 1990. Numbers of mergers declined sharply, too.

In 1990, new mergers and leveraged buyouts in the food marketing system dropped sharply for the second consecutive year, not only in dollar magnitude but in number as well. The number of acquisitions (purchases of a company or subsidiary) fell from 652 in 1988 to 556 in 1989 and 416 in 1990, 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 573 in 1988 to 467 in 1989 and 350 in 1990 (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 from a high of $61 billion in 1988 to $14 billion in 1989 and $9 billion in 1990 (fig. 6).

Last year's decline in activity is not surprising. The record pace of industry restructuring through the 1980's certainly reduced the number of likely merger and leveraged buyout candidates. More significantly, the high-yield, high-risk ("junk") bond market sharply weakened in 1990, drying up a major source of financing. Financial institutions were reluctant to provide financing, and 1990 was a recession year.

The focus of activity in 1990 was in adjustments made by leveraged and merged firms. To reduce debt, two large food marketing firms which had become private in the late 1980's issued common stock, thus going public again. The impact of the large mega-mergers on the conduct and performance of the food marketing system is still unclear. Between 1982 and 1990, nearly 4,500 mergers, divestitures, and leveraged buyouts took place in the food marketing system. Included among these were some of the largest transactions in U.S. history.

Two results are clear: Aggregate concentration increased in food manufacturing and wholesaling, and debt levels rose sharply in all four sectors during the late 1980's. The impact on capital expenditures, research and development, new product introductions, and advertising appears to be negligible. However, higher debt levels have forced major cost-reduction strategies, including major staff reductions, greater plant efficiencies, and other savings measures. As a result, profits from operations have risen sharply 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. No definitive research results are available to demonstrate whether the effects were positive, neutral, or negative to farmers.

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—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.

Table 1—Food business mergers and acquisitions, 1985-90

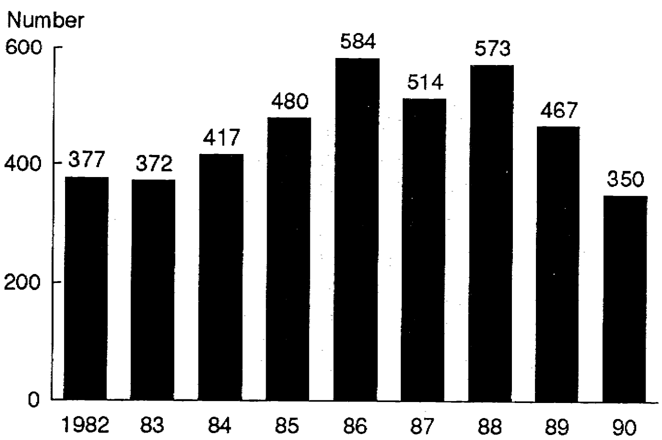
The number of mergers and acquisitions declined in both 1989 and 1990.

Category	1985	1986	1987	1988	1989	1990
				Number		
Agricultural cooperatives	11	7	9	5	4	2
Bakers	23	19	15	27	19	12
Brewers	8	9	6	1	3	1
Brokers	24	29	10	11	14	9
Confectioners	7	7	6	12	10	2
Dairy processors	25	17	22	19	14	16
Diversified firms with interests in the food industry	42	57	37	31	4	10
Food processing firms	100	116	110	136	107	66
Foodservice vendors	26	31	26	31	29	22
Hotel and lodging companies	10	10	5	1	6	3
Nonfood marketers selling through supermarkets	7	3	2	5	7	5
Packaging suppliers	29	32	24	27	25	26
Poultry processors	12	8	10	7	5	10
Primary products companies	12	21	12	18	47	24
Restaurant and foodservice concerns	58	72	63	74	57	42
Retailers:						
Convenience stores	22	21	17	18	16	15
Supermarkets	25	46	34	42	26	15
Others	10	25	13	13	9	9
Seafood processors	4	8	2	5	4	4
Snack food processors	7	5	3	12	6	5
Soft drink bottlers	17	26	24	18	12	12
Sugar refiners	4	3	3	0	1	0
Suppliers to the food industry	21	14	12	9	3	5
Unclassified and private investors	69	53	41	30	21	23
Wholesalers	42	38	30	29	21	13
Foreign acquisitions:						
U.S. firms/subsidiaries	23	23	31	29	55	39
U.S. operations of foreign firms	2	2	3	6	4	4
Foreign operations of U.S. firms	1	4	12	8	6	5
By Canadian firms	5	7	8	14	10	6
Total	658	724	599	652	556	416

Figure 5

Food marketing mergers, 1982-90 1/

Merger activity slowed for the second consecutive year in 1990.

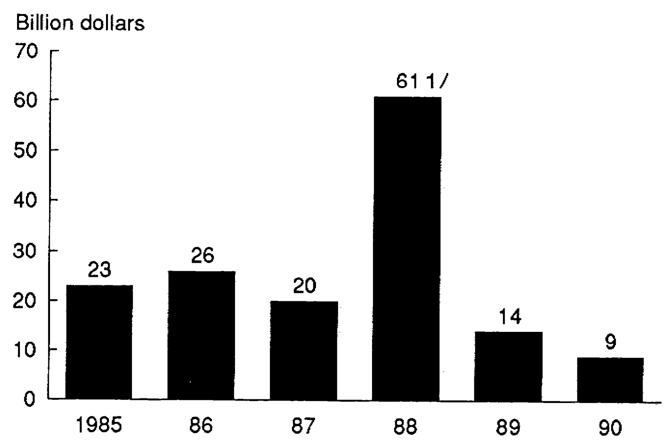


1/ Excludes some acquisitions by nonfood marketing firms that are included in table 1.

Figure 6

Value of food marketing mergers and leveraged buyouts costing more than $100 million, 1985-90

The decline in value was even more drastic than the decline in numbers.



1/ Announced or completed. Includes only recorded transactions.

Price and Nonprice Competition Vigorous in Recession Year

Food prices rose sharply, but price wars were apparent throughout the system. Advertising increased, and over 13,000 new products were introduced. Retailers and wholesalers continued to charge shelf-space fees.

The food industries' slow growth affects conduct or how firms compete. In 1990, less than 9.4 percent of the Nation's gross national product (GNP) was generated by the food marketing system compared with 12 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 has become significantly more concentrated, firms in each market sector sought to acquire or maintain market shares through both price and nonprice competition. The economic slowdown in 1990 saw vigorous competition among manufacturers, wholesalers, retailers, and foodservice firms for both the consumer dollar and among manufacturers for scarce shelf space in the Nation's grocery stores.

The food system increased consumer prices 5.8 percent for the second consecutive year, slightly above the 5.3-percent increase for nonfood items. Food prices in grocery stores rose 6.5 percent in 1990, while foodservice prices were up 4.7 percent, showing a smaller increase than grocery store prices for the fourth consecutive year. Price gains for meats, dairy, and fresh fruit accounted for half the increase in grocery store prices, and reflected higher farm prices.

Price competition to gain market shares was apparent in the fast-food sector of the foodservice industry in 1990, where major discounts were given to consumers for the second consecutive year. These discounts apparently reflect both seller saturation and the slowing economy. Consumer discounts were not lacking in the Nation's grocery stores, where discounts were given on such products as tuna, pasta, soft drinks, and breakfast cereals, all in highly concentrated industries.

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 13,200 new grocery products in 1990, an increase of nearly 10 percent over 1989 (fig. 7). New foods rose 12 percent above those of 1989 to 10,301, while nonfood groceries rose over 2 percent to about 2,900 products. Eleven food categories showed an increase. Candy, condiments, breakfast cereals, beverages, bakery products and dairy products accounted for 70 percent of new product introductions. New grocery products introduced between 1982 and 1990 totaled over 75,000. However, many of these new products were withdrawn from the market after a relatively brief time.

Food marketing firms spent an estimated $11.9 billion in direct consumer advertising, such as electronic and printed media and coupons, about the same as in 1989 (fig. 8). After adjustment for price increases, real advertising appears to be down about 1 percent. A sharp drop in alcoholic beverage advertising accounted for the slow growth. Fast-food restaurants increased advertising by 9 percent to $1.7 billion. Newspaper advertising by retail foodstores was down 1 percent, while the value of coupon redemptions rose 12 percent. The food system's share of total advertising in the American economy continued its long-term slide, falling from 23.6 percent in 1987 to 20.8 in 1990 (fig. 9).

Competition was also keen in getting products on the shelves of the Nation's grocery stores. 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. In addition, slotting allowances (one-time fees charged by retailers and wholesalers to help offset the cost of stocking new items) continued to be a sharply debated issue in 1990.

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 food and grocery product introductions, 1985-90

New food product introductions rose about 12 percent between 1989 and 1990.

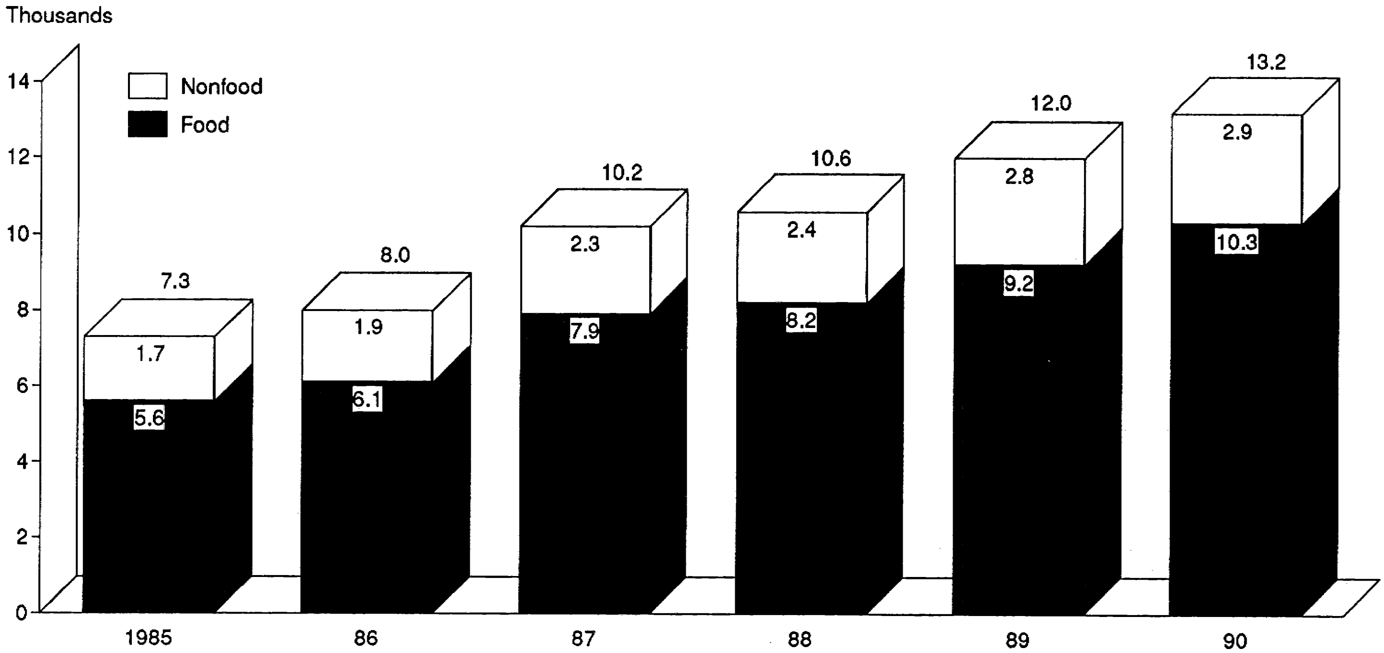


Figure 8
Food-related advertising, 1988-90

Food marketing firms spent $11.9 billion in direct consumer advertising in 1990.

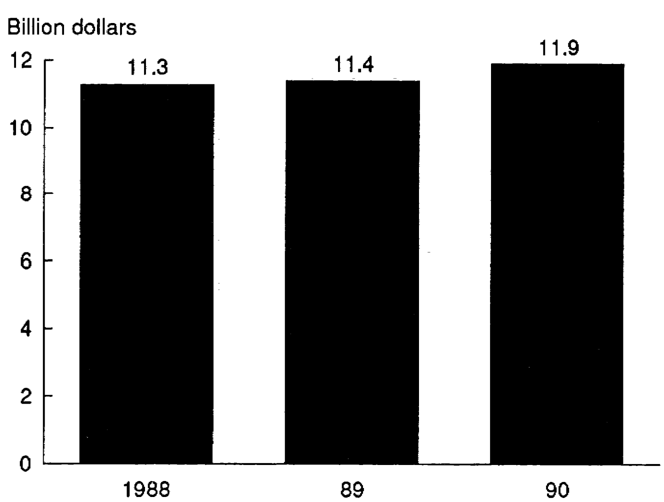
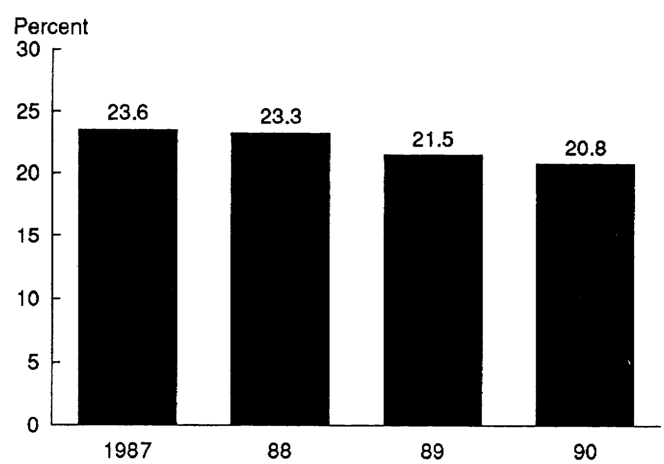


Figure 9
Food marketing system's share of electronic and printed media advertising, 1987-90

The food system's share of total advertising continued its long-term decline in 1990.



Higher Debt Levels Rose Only Slightly; Profits from Operations Higher

Debt of the Nation's food processors and retailers rose $7 billion in 1990 compared with $70 billion in 1989. Profits from operations were sharply higher, but interest expense also rose.

Total liabilities of food processors and retailers rose only $7 billion in 1990 to $270 billion compared with a $70-billion increase in 1989 (fig. 10). Inflation, several successive years of major capital expansion, and normal asset growth accounted for a small portion of the growth in 1989. But, the overwhelming portion of the 1989 growth in liabilities was due to leveraged buyouts and mergers, and at that, several firms accounted for much of the increased debt. In 1990, merger and leveraged buyout activity subsided sharply, and a few large food marketing companies further reduced debt by issuing common stock.

Debt. The equity-to-debt ratio of food manufacturers fell from 1.13 in the third quarter of 1988 to 0.77 in the fourth quarter of 1989 but rose to 0.79 in the fourth quarter of 1990. This was still considerably below the 1.34 for all manufacturing corporations in 1990. The equity-to-debt ratio for food retailing fell from 0.56 to 0.30 between 1988 and 1990 (fig. 11). By comparison, the equity-to-debt ratio for all retailers was 0.61 during the fourth quarter of 1990. Both food manufacturers and retailers began 1991 in highly leveraged industries.

Profits. Despite a significant slowing in sales volume, both food processors and retailers showed a significant increase in profits from operations. Food and tobacco processors' profits from operations rose from $31 billion in 1989 to $34 billion in 1990, a 9.3-percent increase. Food retailers' operational profits rose from $5.2 billion to $5.9 billion between 1989 and 1990, a 13.5-percent increase (fig. 12). These sharp increases reflect modest labor and ingredient cost increases. The lower value of the U.S. dollar further boosted income from foreign operations. But many food marketing corporations also reduced staffs and other operational costs to pay for increased interest expenses resulting from an increase of nearly $80 billion in debt over the past couple of years.

Largely due to higher interest expense and costs associated with restructuring, after-tax profits for processors fell. After-tax profits as a portion of stockholders' equity for food processors fell from 17 percent to 16.2 percent between 1989 and 1990 (fig. 13), due to nearly $20 billion in higher debt-servicing charges. The $3.5-billion nonoperating expense for retail foodstores in 1990 amounted to 60 percent of income from operations of $5.9 billion. Retailers' after-tax profits amounted to 0.5 percent of sales and 11.3 percent of stockholders' equity in income from operations in 1990. However, after-tax 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 10
Total liabilities of food and tobacco processors and retailers, 1988-90

Debt rose sharply to accommodate buyouts and mergers in 1989, but rose only slightly in 1990.

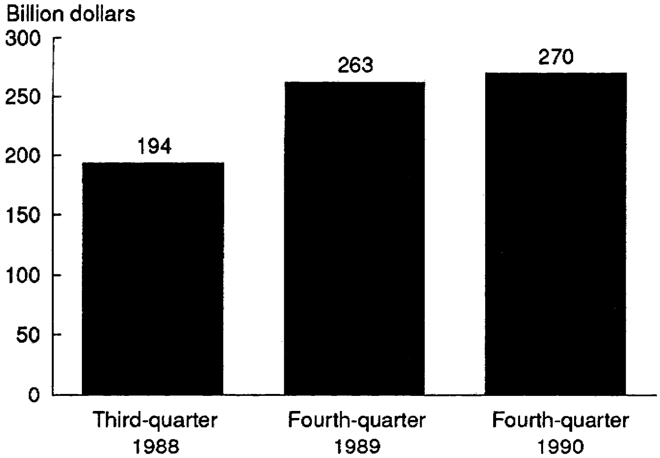


Figure 11
Total stockholders' equity to debt, 1988-90

Ratios stayed about the same in 1990 as in 1989.

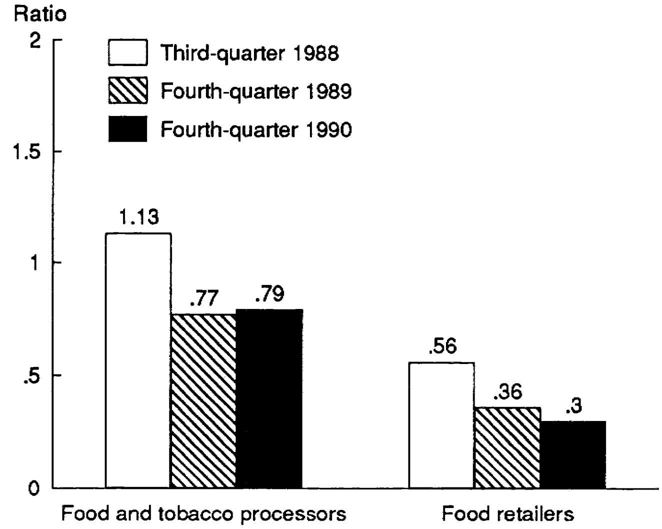


Figure 12
Profits from food manufacturing and retailing operations, 1989 and 1990

Profits from operations rose for both processors and retailers.

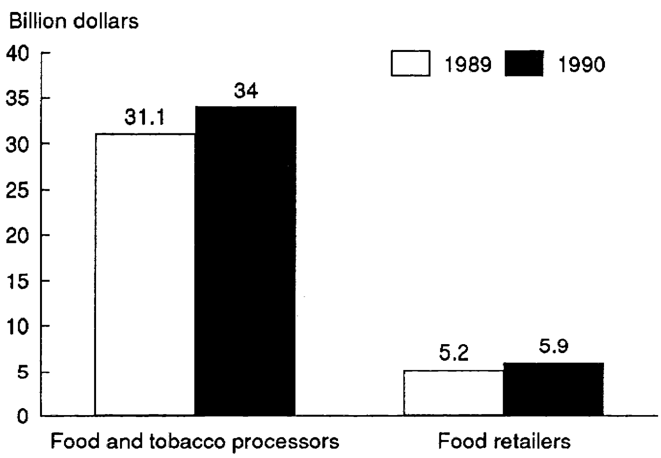
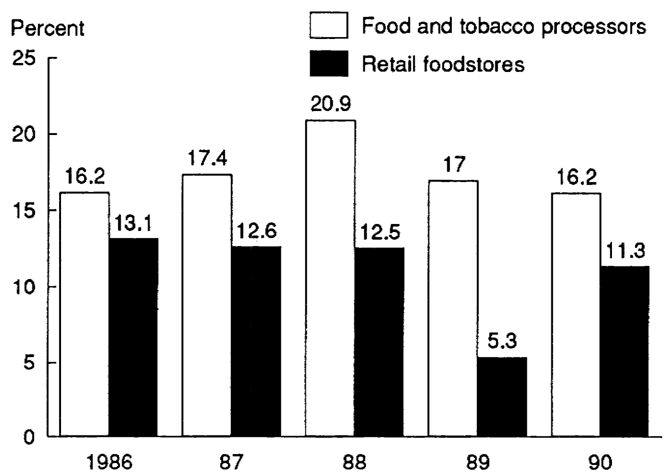


Figure 13
After-tax profits as a percentage of stockholders' equity, 1986-90

After-tax profts as a percentage of stockholders' equity declined in 1990 because of higher interest expense.



Food Marketing System Performed Well in Recession Year

Capital expenditures in U.S. food processing rose sharply in 1990 for the third consecutive year. Productivity increased in most food processing industries in 1990 but declined for foodstores for the third consecutive year. The investment performance of owners' equity outpaced other sectors of the economy for the eighth consecutive year. Processors paid out 38 percent of income as dividends. Global participation continued strongly.

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

Capital Expenditures. Food processors undertook 456 new plant projects in 1990 compared with 390 in 1989 (fig. 14). New construction reached an all-time high of 219 projects. Total new plant and equipment expenditures for food processing firms, which include nonfood operations, rose from $15.9 billion in 1989 to $16.4 billion in 1990, an increase of 3 percent. Since 1984, the U.S. food manufacturing industries have spent $82 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 supermarkets, which has been falling steadily over the past 50 years, dropped by an estimated 1,000 in 1990. New supermarkets continued to increase in size, averaging about 30,000 square feet per store. An estimated 5,000 new worldwide food franchises opened in 1990.

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. In 1989, food and tobacco processors likely spent about $1.2 billion, or about 0.4 percent of sales, on R&D. Only about 6 percent of this amount went to basic research. More than 60 percent of all R&D funds went 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). ERS estimates this amount to be about $1 billion. USDA spent more than $311 million on developing new products and processes, conducting health and nutrition research, expanding export markets, and improving market efficiency.

Productivity. Output per employee in 1989, the most recent data available on productivity, declined in food service and food retailing. This index of labor productivity increased in some food processing industries, such as those for milk, processed fruits and vegetables, and soft drinks. Output per employee declined for beer and bakery products after years of rapid growth.

Owners' Equity. For the eighth consecutive year, owners of the food marketing system, common stockholders, saw their shares outperforming other sectors of the economy. Whereas the Dow-Jones Equity Market Index for all industries declined 7 percent between year end 1989 and 1990, the indexes for food, beverages, and retailers and wholesalers increased, ranging from 4.5 percent to 16.5 percent (fig. 15). Only restaurants, mostly fast-food chains, experienced a decline largely due to a decline in earnings. Also, the price-earnings ratio, a measure of how investors value the quality of an industry's earnings, was above-average for the third consecutive year. Whereas an all-industry composite averaged 15, the food marketing system averaged 22. The above-average equity performance is not surprising since food marketing, while a slow growth industry, has nevertheless demonstrated stable growth in earnings. While 1990 was a recession year, earnings from operations rose significantly for the Nation's food processors and retailers.

Dividends. U.S. food firms have always had a relatively consistent dividend payout ratio. U.S. food processors paid out an estimated $6.6 billion in dividends in 1990. Nearly 60 percent of income after taxes went to retained earnings which are used for such projects as new product development, capital expansion, and acquisitions. Food retailers paid over $500 million in dividends in 1990.

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 the world's leading importer and exporter of processed food, but continued its trade deficit in 1990 for the eighth consecutive year, with more than $21 billion in imports and nearly $18.6 billion in exports. The deficit in processed food trade remained unchanged at $2.3 billion, the same as in 1989 (fig. 16).

However, trade data per se do not adequately reflect the global presence of U.S. food marketing firms. Many of the world's largest food processing firms expand aggressively 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 export on average only 3 percent of their sales, they receive 26 percent of their total sales from their plants located in foreign countries. Sales from U.S. food processors' foreign subsidiaries were over $60 billion in 1988. This is twice as large as the $30 billion that foreign firms received from their U.S. food processing subsidiaries (tables 2 and 3). However in 1989, the latest data available, nearly $11 billion in foreign investment flowed into the U.S. food marketing system, while about $2 billion flowed from the United States into foreign countries.

The decline in the value of the U.S. dollar in 1990 was favorable to exports, foreign investment into the United States, and the value of foreign earnings of U.S. firms.

New plant projects, selected years

Food processors undertook 456 new plant projects in 1990.

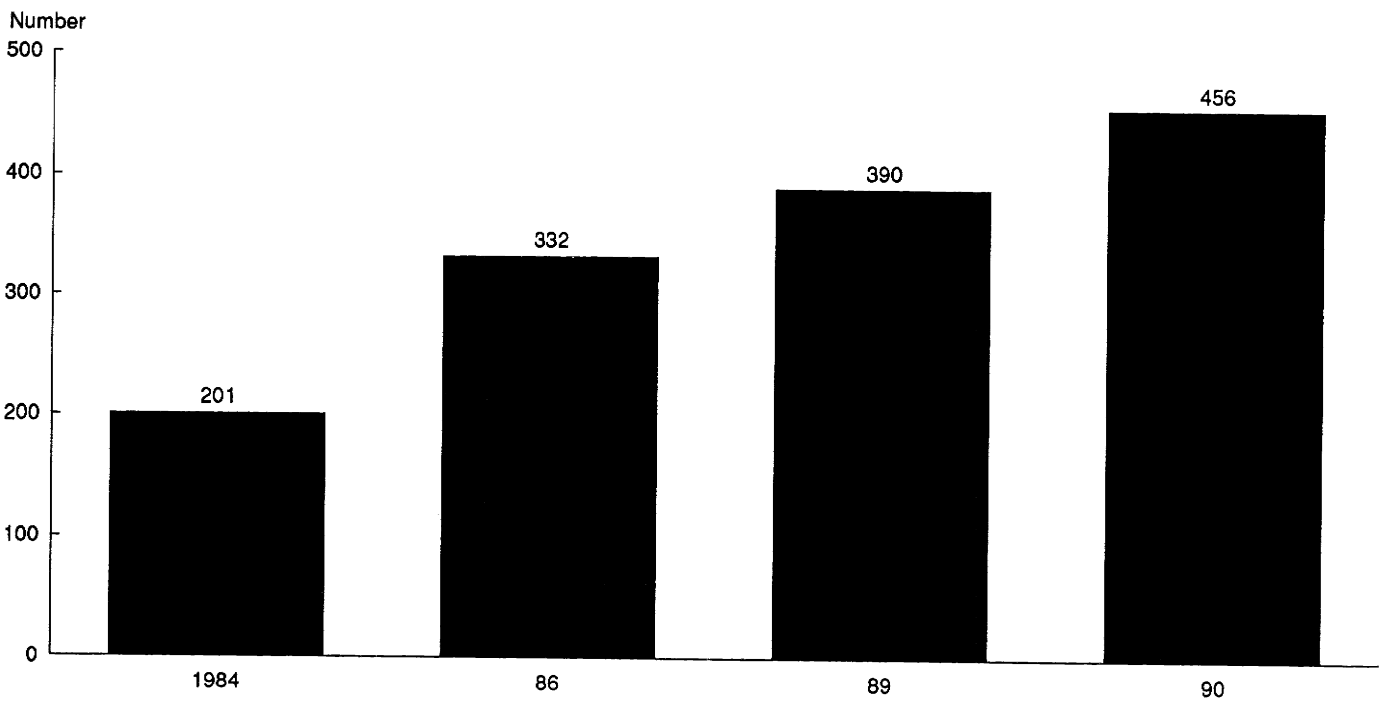
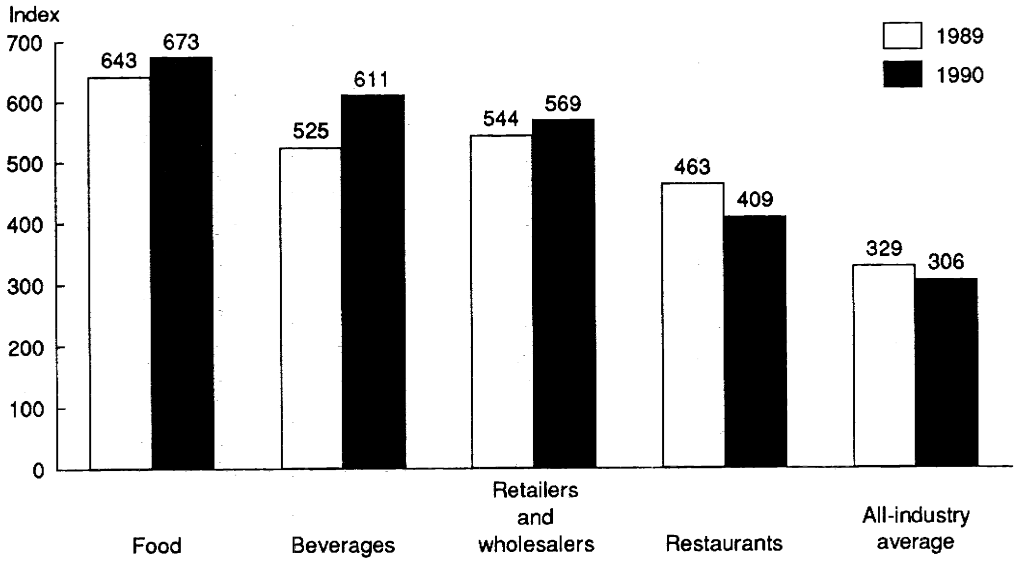


Figure 15
Dow Jones Equity Market Indexes for the food marketing system as of yearend 1989 and 1990 1/

Food, beverage, retailers, and wholesaling companies increased, while all Dow Jones companies declined.



1/ June 30, 1982 = 100.

Figure 16
Trade balance in food processing, 1990

The deficit in processed food trade was $2.3 billion. But, processed food, excluding alcohol and seafood, showed a $2.6-billion surplus.

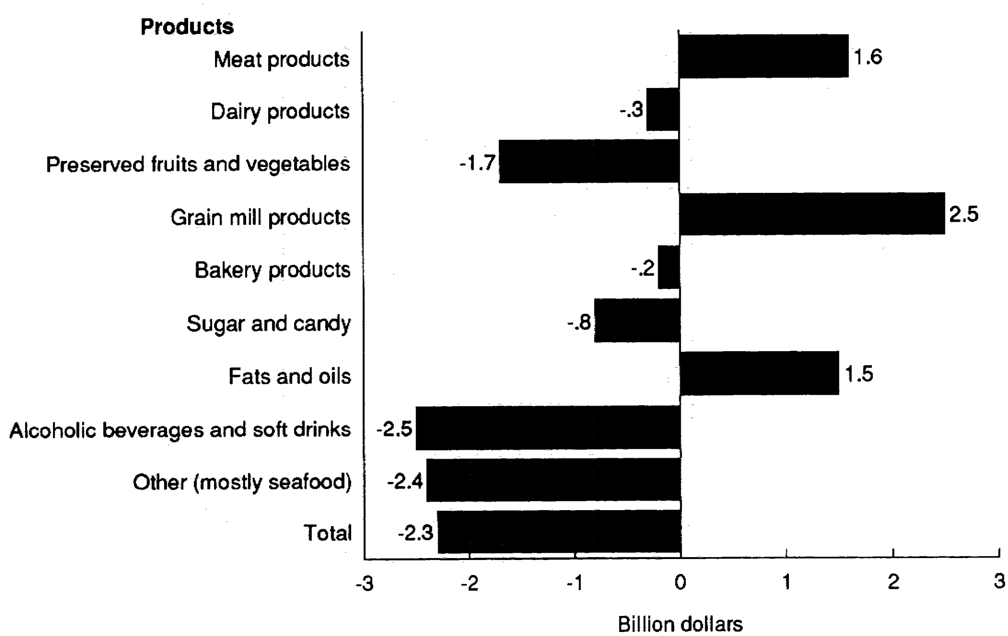


Table 2—U.S. investment abroad in food manufacturing: Value of shipments by U.S.- owned affiliates[1]

Sales of foreign subsidiaries rose more than 50 percent between 1982 and 1988.

Country or region	1982 Sales	1982 Share of total	1987 Sales	1987 Share of total	1988 Sales	1988 Share of total	Percentage change, 1982-88
	Million dollars	*Percent*	*Million dollars*	*Percent*	*Million dollars*	*Percent*	*Percent*
Total, all countries	39,023	100.0	50,049	100.0	60,204	100.0	54.4
Europe	18,974	48.6	29,070	58.1	34,534	57.3	82.0
EC-12	18,327	47.0	27,868	55.6	33,164	55.0	81.0
Canada	5,258	13.5	5,407	10.8	7,518	12.5	43.0
Japan	2,363	6.0	4,442	8.9	4,933	8.2	108.0
Australia	1,447	3.7	1,880	3.8	2,092	3.5	44.6
All other countries	10,981	28.1	9,250	18.5	11,127	18.5	1.3

[1]Numbers may not add due to rounding.

Table 3—Foreign investments in American food manufacturing: Value of shipments by U.S. affiliates of foreign firms[1]

Sales of U.S. subsidiaries of foreign firms more than doubled between 1982 and 1988.

Country or region	1982 Sales	1982 Share of total	1987 Sales	1987 Share of total	1988 Sales	1988 Share of total	Percentage change, 1982-88
	Million dollars	*Percent*	*Million dollars*	*Percent*	*Million dollars*	*Percent*	*Percent*
Total, all countries	14,847	100.0	22,862	100.0	30,053	100.0	102.4
Europe	10,527	70.9	17,967	78.5	22,318	74.2	112.0
EC-12	NA	NA	10,418	45.6	14,841	49.4	NA
Canada	2,218	14.9	3,174	13.8	4,017	13.4	81.1
Japan	564	3.7	612	2.6	1,003	3.3	77.8
Australia	NA	NA	220	1.0	1,478	4.9	NA
All other countries	1,538	10.4	889	3.9	1,237	4.1	-19.5

NA = Not available.
[1]Numbers may not add due to rounding.

Acknowledgments

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Would You Like More Information?

This report summarizes a more detailed report, *Food Marketing Review, 1991*, to be published in the fall 1991. The full report includes detailed data on mergers, sales, concentration, advertising, product industries, profits, productivity, plant and equipment expenditures, equity performance, prices, and international performance measures. It also includes charts and 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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