Food and Agribusiness Market Update

Industry Specialty Team | August 2024

Matthew Greer | Industry Specialist | Matthew.Greer@Truist.com | 912.381.5389
Nicole Wang | Analyst | Nicole.Wang@Truist.com | 419.280.8008
Riley DeCan | Analyst | Riley.DeCan@Truist.com | 404.790.1799

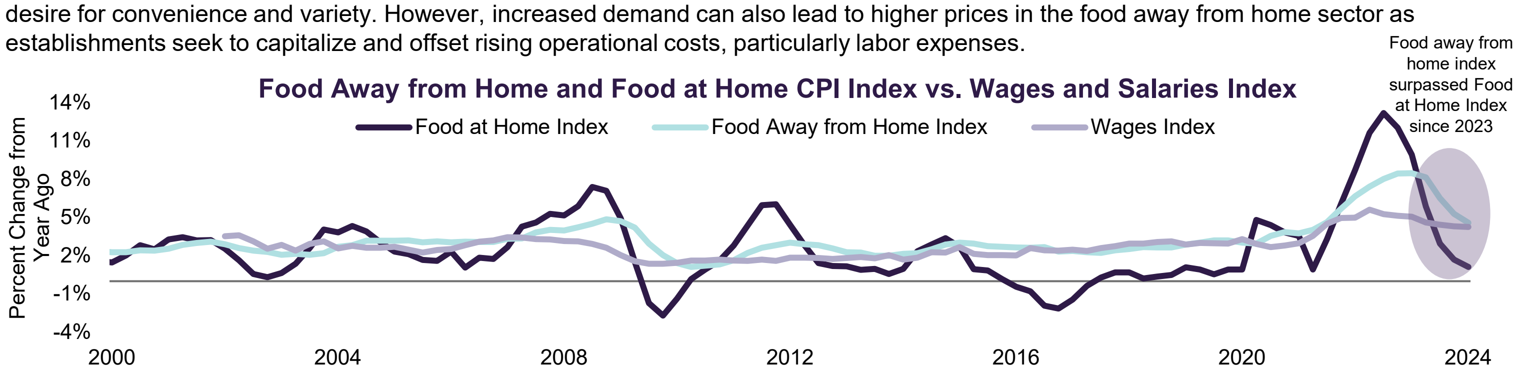
"A nickel ain't worth a dime anymore." – Yogi Berra

Highlights

- Rising labor costs and economic conditions have made dining out relatively more expensive than eating at home, leading more consumers to shift back to preparing meals at home and shopping at grocery stores
- Private label brands have transformed from low-cost alternatives to high-quality competitors, gaining significant market share and widespread consumer acceptance across all income levels
- Quick Service Restaurants (QSRs) are raising prices to offset increasing costs and strengthening strategic supplier relationships to maintain competitive advantages amid economic challenges

The Shifting Dynamic Between Food at Home and Food Away From Home

For decades, there has been a significant fluctuation between the consumption of food at home versus food away from home. During periods of favorable economic conditions and increased consumer spending, there is often a surge in demand for food away from home, as individuals have more disposable income to dine in or order takeout. This benefits restaurants and food delivery services, which cater to the desire for convenience and variety. However, increased demand can also lead to higher prices in the food away from home sector as establishments seek to capitalize and offset rising operational costs, particularly labor expenses.

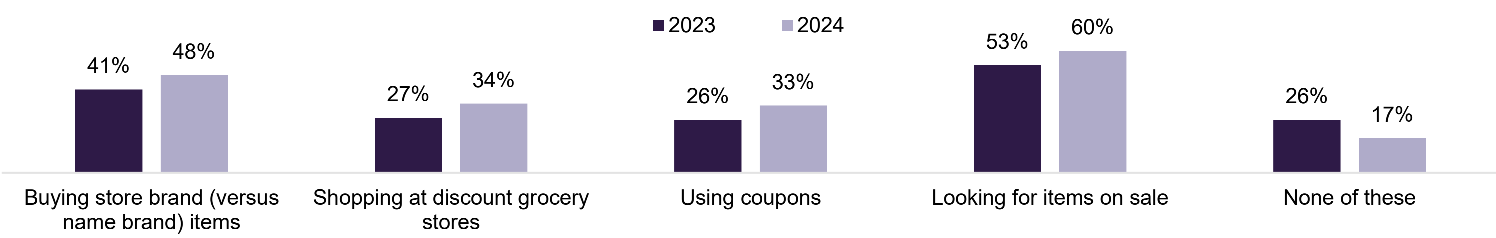


Data as of Q1 2024; Source: Federal Reserve Economic Data

Data indicates a significant rise in food away from home prices since 2019. According to the Bureau of Labor Statistics, the food away from home consumer price index has increased by 18.9% from December 2019 to April 2024, outpacing the 13.5% increase in food at home. The Agriculture Department's 2023 Food Expenditure Series data shows that consumer spending on food away from home surpassed food at home by over $319 billion last year – the largest gap on record. A major factor behind this trend is the spike in labor costs for restaurants. Comparing to the 18% increase from 2014 to 2019, industry wages have risen about 25% since the end of 2019, with frontline worker wages increasing even more as businesses struggle to fill openings. In December 2023, there were 1.7 million unfilled leisure and hospitality jobs, nearly double the pre-pandemic levels. This labor shortage has compelled restaurants to raise wages along with offering benefits like tuition assistance and signing bonuses. Additionally, as of January 1, 2024, 22 states increased their minimum wages. As a result, higher operational costs have led food away from home to become relatively more expensive than eating at home, prompting some consumers to shift back towards preparing meals at home to save money, thereby driving up grocery demand and prices.

As grocery prices increase, consumers are changing their shopping behaviors to find more ways to save money. Based on a recent Civic Science survey, consumers are buying more store brands (private label brands) over name brands in addition to shopping at discount grocery stores, using coupons and purchasing items on sale.

Which of the following things are you doing more than usual when grocery shopping recently? (Select all that apply)



16,523 responses from 03/06/2023 to 3/31/2023; 3644 responses from 04/04/2024 to 04/08/2024
Source: Civic Science

TRUIST

Source: Federal Reserve Economic Data, Finance Buzz, Loyal Guru, Food Institute, Civic Science, Private Label Manufacturers Association, Circana CPG Private Brands Update

Food and Agribusiness Market Update

Industry Specialty Team | August 2024

The Rise of Private Label Brands

Private label brands have undergone a remarkable transformation over the past century, evolving from mere low-cost alternatives to formidable competitors in the world of consumer-packaged goods.

Prior to 1990

- Private labels emerged as basic, low-cost generic alternatives to national brands, focused solely on offering a cheaper option
- Growth was driven by economic conditions like high inflation in the 1970s, which made consumers more price-conscious

1990-2000

- Retailers started investing more in developing branded private labels with better packaging to compete beyond just price
- Organic, natural, and specialty private label lines were added by some retailers to cater to evolving consumer preferences

2000s

- Private labels continued expanding into premium and niche segments like gluten-free
- Branding and marketing efforts increased to position them as "exclusive" retailer brands rather than generics

2010s

- Perception of private labels improved significantly as quality matched or exceeded many national brands
- Variety expanded across multiple price tiers from value to premium in most product categories

2020s

- During high inflation, consumers turned to private labels for savings, but view them as a good value proposition beyond just low prices
- Retailers promoting private labels as trusted consumer brands, not just cheaper alternatives

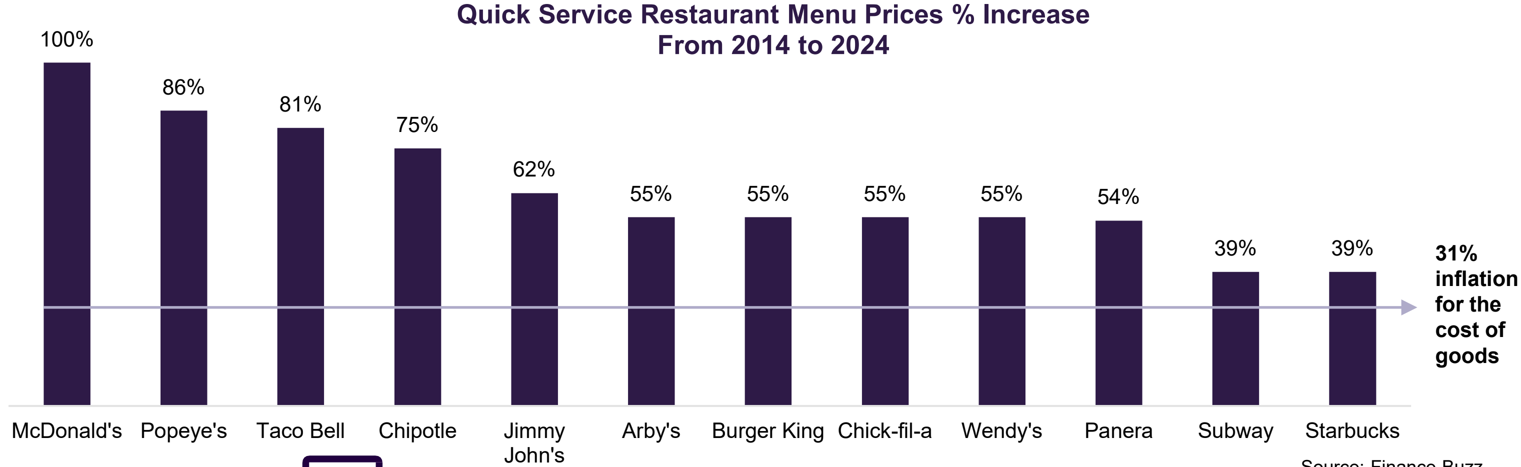
Currently, 95% of consumers purchase private label products at least occasionally, with 46% doing so most of the time. While price remains a driving factor, quality and taste have also become increasingly significant for consumers. Retailers have heavily invested in improving the quality of their private label products to compete with national brands, offering a wide range of options, including premium, organic, and specialized varieties. Costco's Kirkland brand exemplifies this trend, widely regarded by consumers as a premium offering. Walmart's new private label brand, "bettergoods", aims to capture greater market share and establish a new identity tied to quality, complementing their Great Value brand. As a result, private labels have gained acceptance across all income classes while steadily taking market share from national brands, reflecting a broader change in consumer preferences.

Quick Service Restaurants (QSRs) Increase Prices

In the past decade, QSRs have continued to raise menu prices. The chart below illustrates the percentage increase in average menu prices across major quick-service restaurants (QSRs) from 2014 to 2024. On average, menu prices have increased by 60% between 2014 and 2024, ranging from 39% to 100%. According to the Bureau of Labor Statistics, the inflation rate (Consumer Price Index) has risen 31% since 2014, indicating that QSRs have raised prices at nearly double the national rate of inflation. While the cost of everything has been rising, fast food prices have surged even more to offset rising employee wages and ingredient costs.

For consumers, who have traditionally turned to fast food for affordable meals, the rising prices make it increasingly difficult to justify the expense of fast-food meals. In response, QSRs are becoming more creative. They have introduced value menus, emphasized family meal deals and bundled offers, and invested heavily in loyalty programs that reward frequent customers with discounts and special deals.

Quick Service Restaurant Menu Prices % Increase From 2014 to 2024



Source: Finance Buzz

Source: Federal Reserve Economic Data, Finance Buzz, Loyal Guru, Food Institute, Civic Science, Private Label Manufacturers Association, Circana CPG Private Brands Update

Food and Agribusiness Market Update

Industry Specialty Team | August 2024

QSRs Applying Pressure to their Suppliers

In the face of economic challenges such as recessions, high inflation, or crises like the pandemic, major QSRs critically evaluate their relationships with vendors and suppliers. They will prioritize cost reduction through renegotiations, consolidation, and doubling down on strategic supplier partnerships, while maintaining quality control.

What are the Next Steps for QSRs?

- Leverage large scale and purchasing powers to pressure suppliers for lower prices on ingredients, packaging and other supplies
- Concentrate spending with a select group of vendors who can provide competitive advantages:
    - Consolidate supplier base and streamline supply chain by moving towards fewer, larger national/global suppliers to increase purchasing power
    - Value vendors offering value-added services like AI-powered demand forecasting, inventory management solutions, and new product innovation capabilities
- Increase scrutiny on food traceability and quality monitoring by suppliers to avoid any reputation damage from quality issues
- Invest in integrated inventory management systems to improve visibility on stock levels, automate ordering to optimize supply levels

The current landscape is complex. Consumers demand value, while QSRs face rising costs and pressure to maintain profitability. The key to navigating this landscape is finding a balance – offering meals perceived as valuable by consumers while keeping costs in check. Ultimately, the success of QSRs in this inflationary environment will depend on their ability to adapt and evolve. They must be nimble, creative, and willing to think outside the box, partnering with suppliers who are able to deliver more value to consumers.

Source: Federal Reserve Economic Data, Finance Buzz, Loyal Guru, Food Institute, Civic Science, Private Label Manufacturers Association, Circana CPG Private Brands Update