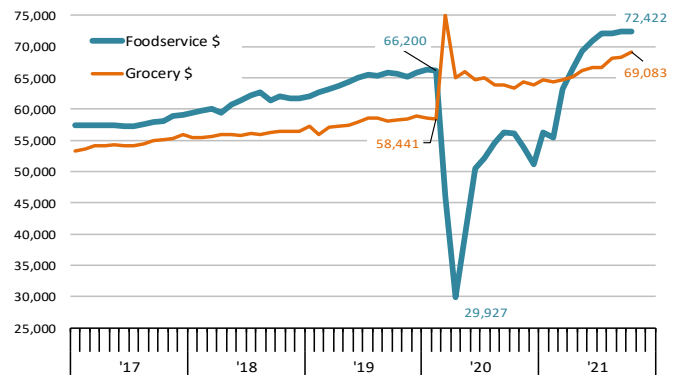


Consumer spending in October was up across most categories but **when it comes to food, there was a clear distinction as spending was sharply higher at grocery stores but flat at foodservice.** Some of this is intuitively obvious. Food demand is relatively inelastic as we all need to get a certain amount of calories to survive. But we have a choice as to how we obtain those calories. After lockdowns were lifted across the country earlier this year, there was a rush of nostalgia, costs be damned. Vacations, sports and entertainment, restaurants spending went through the roof. **Spending at foodservice between February and July increased by \$16.5 billion or 30%, surpassing pre-Pandemic levels (see chart).** What is impressive when we look at foodservice spending is that this took place even as the total number of restaurants is down by as much as 10% compared to pre-Pandemic levels. Consumers were willing, at least for a while, to pay up in order to bring back some normality to their life. In the last three months, however, things appear to have changed. Spending at foodservice in October was almost unchanged from September, and it has increased just \$363 million or 0.5% since July. Food cost inflation at foodservice in October was 0.8% higher than the previous month and it has increased 1.8% since July, suggesting real sales were down during this period. It is no wonder that the mood of restaurant operators has changed dramatically in the last three months. We do not have the Restaurant Performance Index (RPI) results for October yet but, in September, the index declined 1.3 points from August and it was down 2.5 points since July. The RPI index is constructed from a blend of current and future expectations. The biggest decline in September was in the expectations component, which dropped 2.8 points from the prior month. Accelerating inflation, a higher quit rate, and spike in labor costs will likely cause the expectations component to be down even more in October. For restaurant operators the spike in the quit rate has been especially problematic as it tends to have an immediate disruptive impact on operations. According to BLS data, **in September alone 863k people employed in the accommodation and food services industry quit their job, a quit rate of 6.6%.** This was the highest quit rate of all the specific industry segments tracked by BLS and more than double the quit rate overall.

Why does this matter for meat producers and those that work in the meat industry? Food service demand is critical for meat protein as it is often the key food offering on the menu. Restaurant operators are being squeezed by high ingredient costs, high energy costs and high labor costs. They have little choice but continue to raise prices or close shop. The sales data for October suggests that the consumer has started to adjust, spending more dollars at the local supermarket. **Dollar sales at grocery stores in October were \$755 million or 1.1% higher than the previous month, above the rate of inflation for the month.** The shift from eating at a local restaurant to buying food and eating at home is not necessarily positive for meat producers as there is significantly more competition from other food offerings. Retailers tend to have more leverage than food service operators that need to buy against a set menu for the future. Meat prices have been flying high in the last few months but headwinds have picked up and the next six months will be far more challenging.

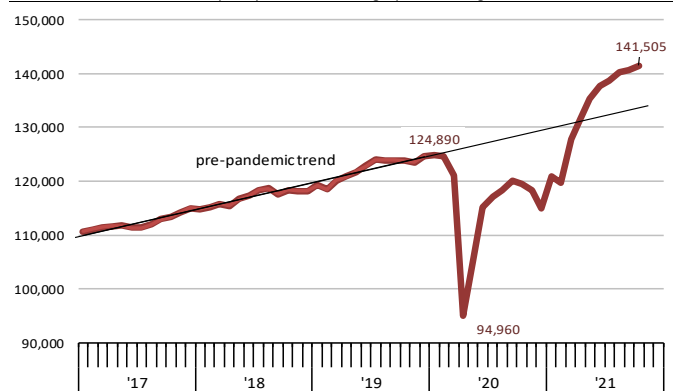
Dollar Sales at Retail and Foodservice. Million Dollars

Source: US Census Bureau. Analysis by Steiner Consulting. Updated through Oct. 2021



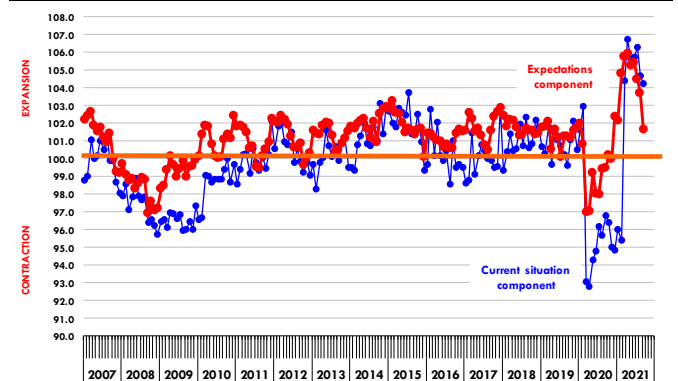
Total Dollar Sales at Retail and Foodservice. Million Dollars

Source: US Census Bureau. Analysis by Steiner Consulting. Updated through Oct. 2021

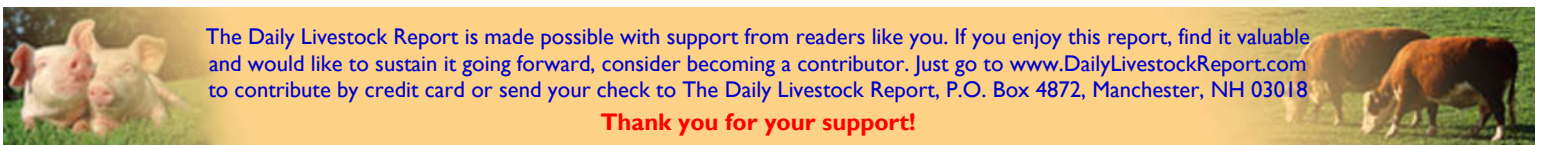


RESTAURANT PERFORMANCE INDEX - CURRENT SITUATION AND EXPECTATIONS

Source: National Restaurant Association. Analysis by Steiner Consulting



Data source: National Restaurant Association



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