Grocery Store Sticker Shock, 'Shrinkflation,' and Virginia's Food, Beverage, and Tobacco Producers

Timothy Aylor, Senior Economist

Consumers across the country have experienced food cost inflation at the grocery store in recent years. Aside from rising prices for some items, others appeared to have gotten smaller or have disappeared from the shelves due to shortages or being discontinued. These are frustrating, but what is often overlooked is that they reflect the challenging conditions for the businesses that produce those goods. They have faced pressure on multiple fronts including climbing material and energy costs, import competition, and rising wages in a tight labor market. What might these trends mean to workers at the Virginia factories that provide us with what we purchase from grocery stores and restaurants?

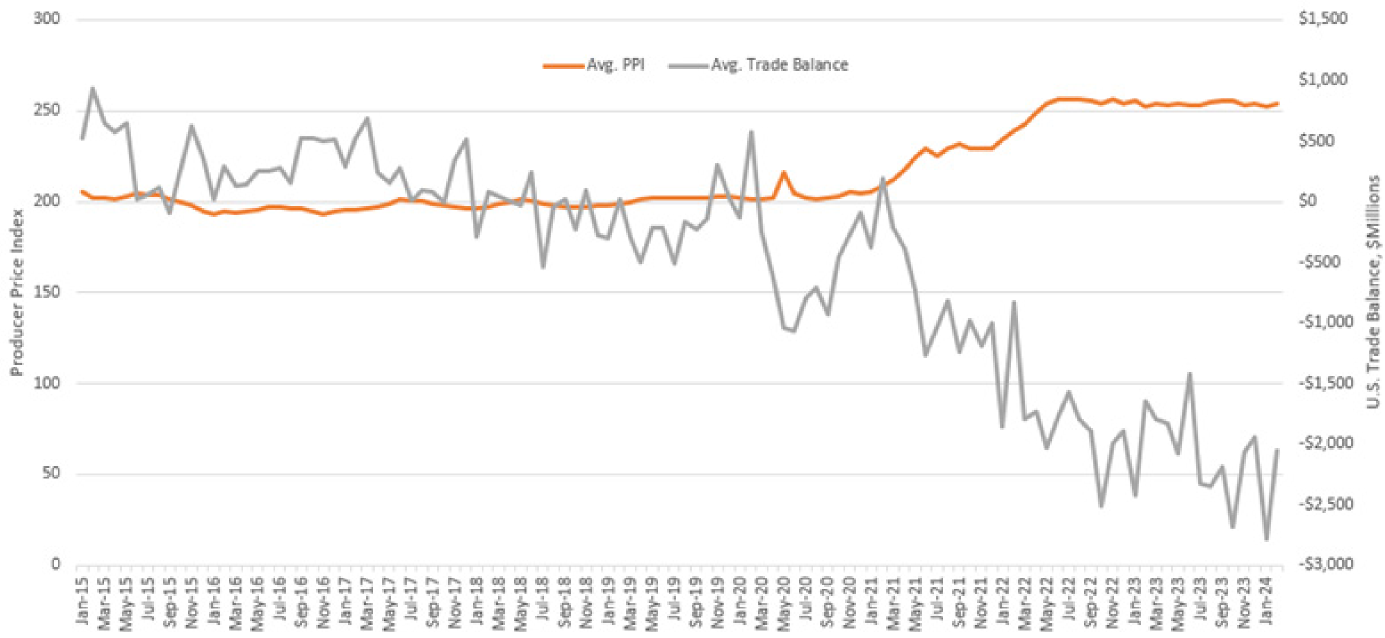
Rising Costs of Production

Food, beverage, and tobacco product producers have experienced rising input costs in recent years, driven by supply chain disruptions, natural and man-made disasters, and geopolitical conflict. The April 2024 release of the BLS Producer Price Index[1] increased by 0.5 percent, the fastest pace since April 2023. Looking back to conditions last year, in the case of grocery items, higher costs to retailers were passed through in the form of consumer inflation. According to the USDA, over a five-year period, 2022 food prices rose by a quarter nationally, rising faster than all other categories except transportation, and was the fastest pace experienced since 1979.[2] The increase was driven by higher prices for the commodities that food manufacturers need for production. In 2022, the production-weighted price of the three most important crops increased by 83 percent, while food prices increased by 10 percent.[3] Other costs to employers have also risen. April's BLS Consumer Price Index[4] indicated that gasoline prices rose 1.1 percent over the month, while electricity prices rose by 5.1 percent over twelve months. Other significant increases included business costs like medical care and vehicle insurance. As these costs were being passed on the form of higher wholesale and retail prices, international competition encroached and the trade surplus in food products entered deficit territory.

Simultaneously, the historically tight labor markets experienced during the pandemic years put upward pressure on Virginia food production wages as most types of food processers increased worker pay significantly over five years. Industry leaders in wage growth included animal processing, bakeries, and animal food.[5] Manufacturer sentiment in the region has reflected these challenges over the past year. The Fifth District Survey of Manufacturing Activity remained subdued in April, according to the most recent survey from the Federal Reserve Bank of Richmond. The composite manufacturing index remained negative, increasing from -11 in March to -7 in April. The current employment sentiment index fell from 0 to -2.

1 U.S. Bureau of Labor Statistics, Producer Price Index for Final Demand. https://www.bls.gov/news.release/ppi.htm.
2 USDA, Economic Research Service using U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index data.
3 USDA, Economic Research Service using USDA, National Agricultural Statistics Service data; and U.S. Department of Labor, Bureau of labor Statistics data.
4 U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items in U.S. City Average, https://www.bls.gov/news.release/cpi.nr0.htm, May 14, 2024.
5 U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages (QCEW), Average Weekly Wage, 3Q19-3Q23.

Figure 1. US. Food Manufacturing and the Pandemic: Rising Production Prices with Import Pressure



Sources: USA Trade Online, Manufacturing Trade Tracker. U.S. Census Bureau (trade data), U.S. Bureau of Labor Statistics (employment and producer price index).

Overview of Virginia Food Manufacturing Employment

There were 1,300 Virginia food, beverage, and tobacco manufacturers in Virginia with 45,000 jobs in the third quarter of 2023.[1] They are an important source of employment in the Commonwealth, but, for the most part, are not as prevalent as nationwide. Some exceptions include beverage, tobacco, and seafood product manufacturing, which are relatively more important to the state's economy. In 2023, most industries in this sector added jobs compared to before the pandemic while animal food, sugar/confectionary, beverages, and bakeries grew staff significantly compared to five years earlier and faster than their industries' growth nationwide. An exception is the industry Other Food Manufacturing, which shrank jobs and average wages over five years and significantly underperformed employment trends nationwide. Examples of products in that industry include, coffee, snack foods, and spices/condiments, and some freshly prepared items like pizza not made in a restaurant.

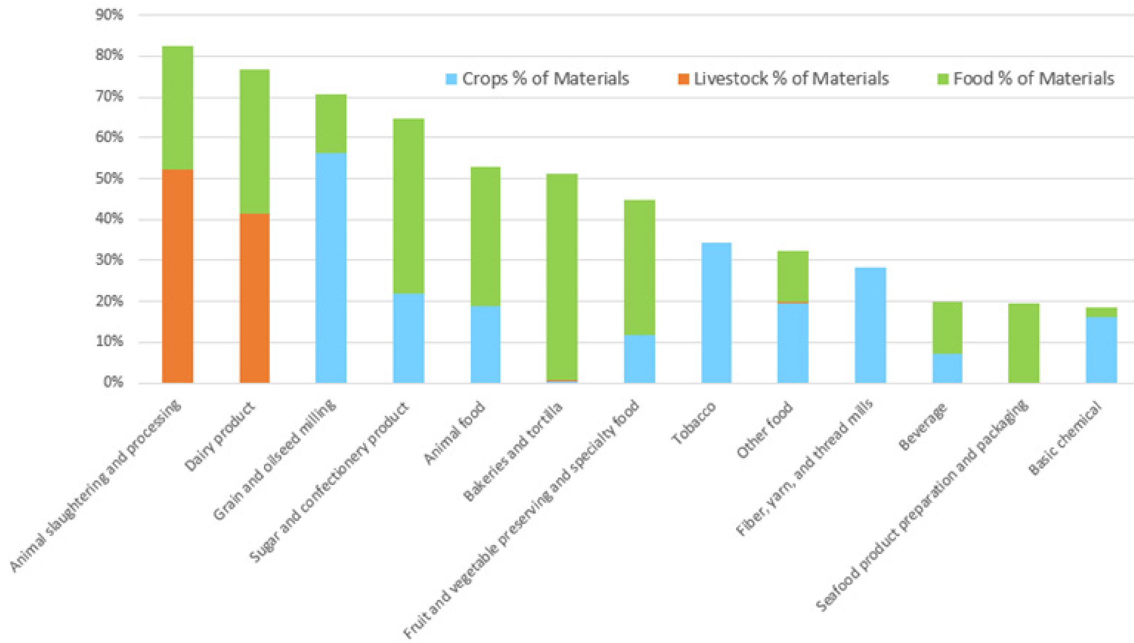
Processing occupations comprise the largest portion of jobs in food manufacturing. Examples include food batchmakers; meat, poultry, and fish cutters and trimmers; and slaughterers and meat packers. Production machinery operation and transportation and material moving occupations also comprise a large portion of jobs. Beverage production occupations are a little different. While occupations like packaging and filling machine operators and tenders are most numerous, food and beverage serving workers also comprise many jobs.[2]

Manufacturers that are Most Dependent on Farm and Food Products for Production

Establishments in this sector require agricultural and food products for production and have had to absorb sharp increases in prices for farm and processed food inputs. These employers usually produce goods headed for stores and restaurants, but also include clothing makers and chemical factories among others. Each requires a mix of farm output like crops and livestock and processed food products. For example, dairy products (77 percent of materials) require both livestock and processed feed, while bakeries (51 percent of materials) almost exclusively require food products like flour. Basic chemical manufacturing (18 percent of materials) consumes mainly plant-based materials from growers.[3]

1 Source: Bureau of Labor Statistics, Quarterly Census of Employment and Wages (QCEW), 3Q19-3Q23.
2 Source: Bureau of Labor Statistics, Employment Projections, National Employment Matrix.
3 Source: Census Bureau. 2017 Economic Census, Materials Consumed by Industry.

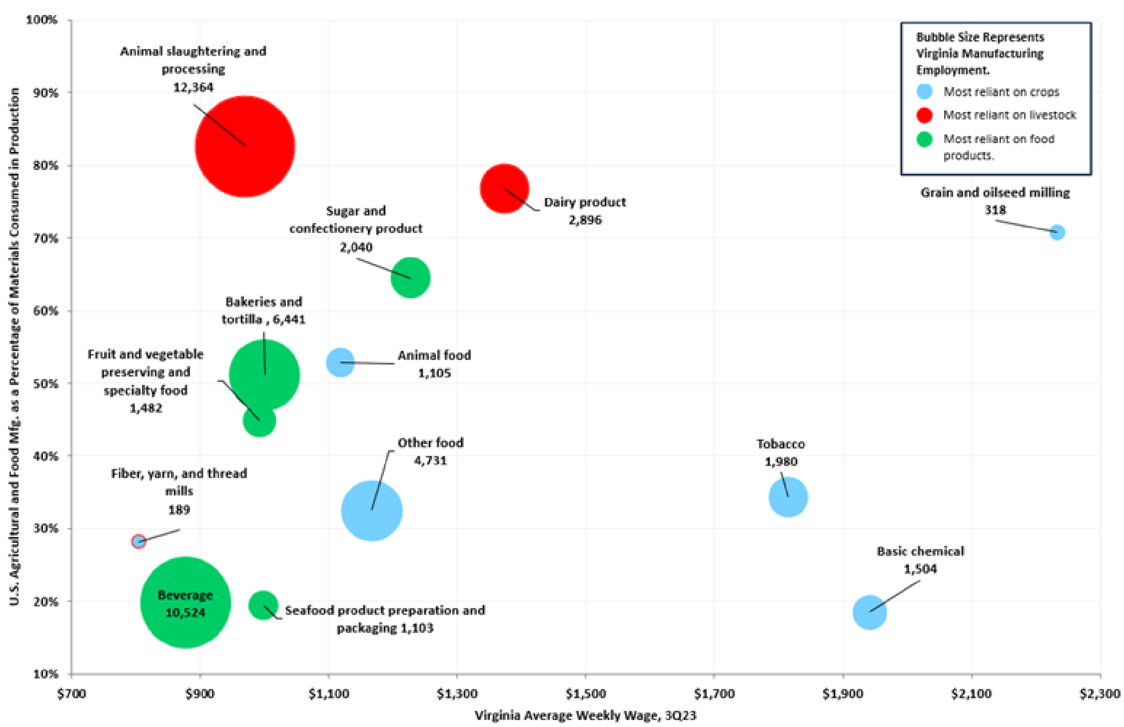
Figure 2. U.S. Factories Most Reliant on Farm and Food Inputs. Agricultural and Food Manufacturing Products as a Percentage of Materials Consumed in Production



Source: Census Bureau. 2017 Economic Census, U.S. Materials Consumed by Industry.

Animal processing and dairy producers simultaneously were exposed more to agricultural price inflation and faster wage inflation than most in the sector. Virginia dairy product manufacturers (2,896 jobs) are reliant on agricultural commodities, while also paying higher wages. Conversely, beverage producers employ many more (10,524 jobs) but are much less reliant on agricultural and food inputs and pay much lower wages. Wage data also indicates that highly mechanized industries that process bulk commodities like grain milling, basic chemical manufacturing and tobacco pay more, on average. While animal and seafood processors often pay less, their average weekly wage in the third quarter of 2023 rose by around 30 percent over five years. On the other hand, wages in beverage, tobacco, and sugar/confectionary rose by less than ten percent during that period.

Figure 3. Virginia Food, Beverage, and Tobacco Manufacturers Widely Vary in the Wages They Pay and What They Require for Production



Source: Census Bureau, 2017 Economic Census. Materials Consumed by Industry.
Bureau of Labor Statistics, Quarterly Census of Employment and Wages (QCEW), 3Q23.

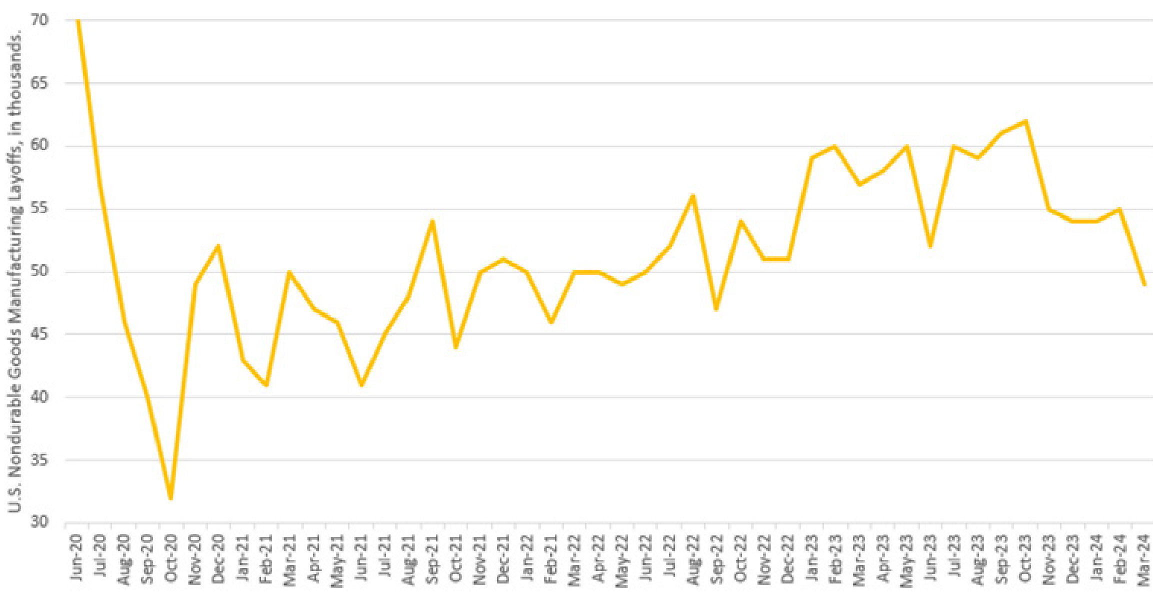
Labor Market Steady During Challenging Conditions

Given challenging trends like rising commodity and labor prices and foreign competition last year, employment conditions in the broader nondurable goods manufacturing sector have been resilient in Virginia. April 2024 payroll job figures indicate steady conditions, little-changed from a year earlier. There were 101,000 non-durable goods manufacturing jobs, essentially unchanged over the year. Among them were 73,300 production workers. Their average weekly hours (40.3), average hourly earnings ($24.68), and weekly earnings ($991.60) were also little changed from a year earlier.

Factory Layoffs Remain at Manageable Levels

Similarly, these pressures on food producers have not yet resulted in mass layoffs like those experienced in the early 2000s or during the 2007-09 Great Recession. U.S. nondurable goods manufacturing saw layoffs drop steeply in the recovery summer of 2020. They have slowly trended higher since then but remained 14 percent lower in March over the year, and a little higher (four percent) than five years earlier. One of Virginia's few recent mass layoffs in food manufacturing was the Tyson Foods* closure in March of last year. That closure affected 612 workers in Virginia as well as workers in four other states. The company cited losses stemming from Avian flu, exploding chicken feed prices, and decreased meat consumption during the Pandemic as contributing to the decision for the closures.

Figure 4. U.S. Nondurable Goods Manufacturing Layoffs



Source: Virginia Works analysis of Bureau of Labor Statistics, Job Openings and Labor Survey (JOLTS), March 2024.

Warning Signs Amidst Steady Conditions—Some Labor Market Indicators are Less Positive

Below the surface, however, employment conditions may be weaker than payroll job and layoff figures alone suggest. Over the last three years, employers commonly tried to avoid mass layoffs of workers, regardless of conditions, because of the difficulty in restaffing afterward. Some factories have run on leaner payrolls instead. For example, while U.S. layoffs remained moderate, the number of nondurable manufacturing 'net hires'[1] became negative in the winter 2022 and has largely remained negative since then. In other words, after a period of adding more staff than separations following 2020, fewer workers have been hired than have left over the last year and half.

Also, during the third quarter of 2023, the percent of employment lost from Virginia factory closings as a percentage of manufacturing employment rose to 0.7 percent.[2] It is uncertain how significant this data point is, but the last number higher than that occurred in 2003. North Carolina saw a similar decline in conditions. Nationwide, food manufacturing and beverage and tobacco products saw elevated employment lost from factory closings in 2023.

1 Defined as the difference between JOLTS Hires and Total Separations.
2 Bureau of Labor Statistics, Business Employment Dynamics (BED), not seasonally adjusted quarterly data. 2013-2022 ten-year average compared to 2023 quarterly average.

*Tyson Food Closure: [Rural town braces for Tyson plant closure]

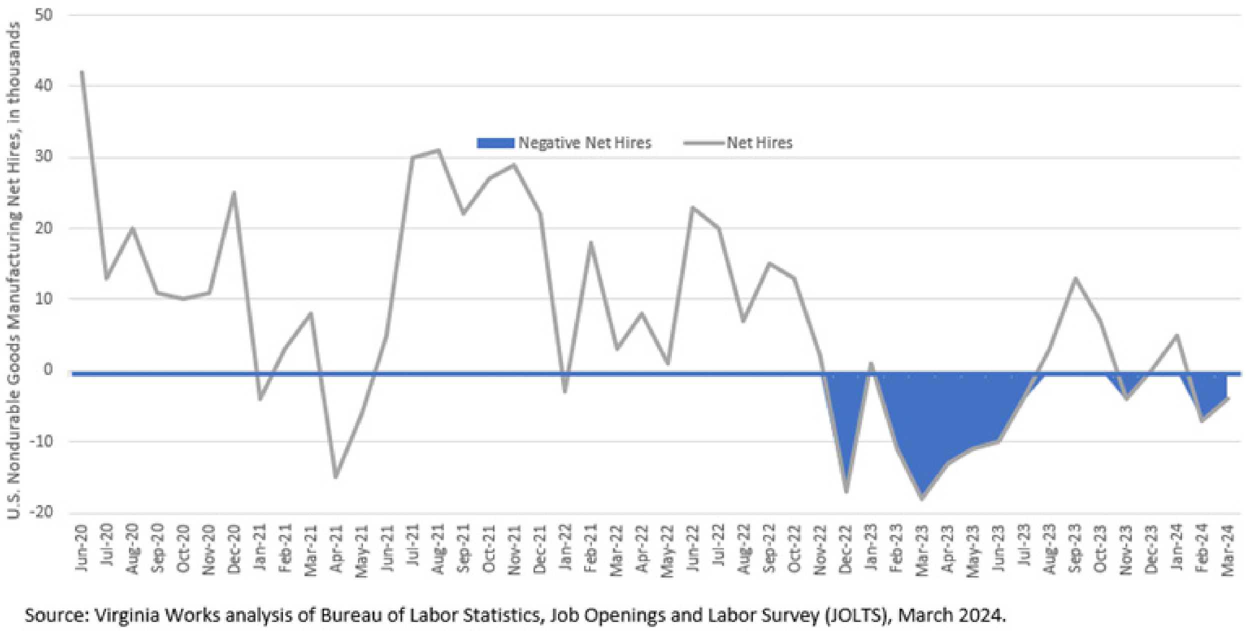


Figure 5. U.S. Nondurable Goods Manufacturing Net Hires, June 2020-March 2024

Conclusion

Thankfully, April's CPI and PPI releases indicate that the worst of food inflation may be behind us. But the 'sticker shock' of encountering the market price for a pound of chicken or the frustration of finding your favorite snack now reduced in size will likely remain an all-to-common occurrence when grocery shopping. But, before putting your favorite items in your shopping cart, reflect on the miracle of the remarkable variety of readily available groceries on the shelves, how they get there, and the day-to-day struggle of Virginia manufacturers to meet payroll and make their businesses work in an atmosphere of rising wages, labor shortages, and increasing costs.