

## Higher Food Prices and Local Food Labels

A weaker U.S. economy and higher food prices, along with new competition from food marketed as “locally grown,” have not yet had a major impact on the organic marketplace, but are emerging issues. Retailers passed on higher commodity and energy costs to consumers in the form of higher retail prices in 2008, but lower commodity/energy costs and weaker world economies will likely pull inflation down in 2009 (Leibtag, 2008). Data on retail prices for organic food products are incomplete because the U.S. Bureau of Labor Statistics does not differentiate between organic and non-organic items in the Consumer Price Index. Recent ERS studies show significant retail price premiums for organic produce and milk—the two top organic food sales categories—compared with their conventional counterparts (see box on organic price premiums).

While overall prices for food have increased since 2007, findings from a new national study by the Hartman Group indicate that the percentage of consumers purchasing organic products has remained stable since 2006 (Hills, 2008). Industry analysts suggest that many organic consumers may not be particularly sensitive to price increases for organic products (*Nutrition Business Journal*, 2008).

Organic food purchasing patterns often stand apart from other types of food purchases. Studies by the Economic Research Service and others do not tie high household income to organic purchases, despite relatively high price premiums for organic products. The Hartman Group characterizes organic consumers not as shoppers arriving at a food market in search of the lowest-priced products, but rather as shoppers who want to accomplish tasks on specific shopping occasions by engaging in a compelling set of experiences: “procuring dinner, relaxation, an afternoon workout snack, indulging one’s child, the monthly stock-up trip, and so forth” (Hartman Group, 2007). While frequent consumers of organic products may not change their organic purchasing habits even with the economic slowdown, infrequent buyers may purchase fewer organic products, and the growth rate for consumers new to organic foods may decline. A nationwide survey of food shoppers in 2007 found that consumers who had purchased organic foods but no longer did so cited its expense as the major reason (Food Marketing Institute and *Prevention*, 2008).

### “Locally Grown” Label: Complement or Competition?

Agricultural production and food transport both impose environmental costs, and organic production and local distribution can lower these costs (Pretty et al., 2005). Although the requirements for the organic label and for local labels target these different aspects of agriculture—the organic label addresses how food is produced and local labels address where it is produced and distributed—they are often described as competing labels in popular literature.

A recent national survey of U.S. consumers who shop at “natural food” stores posed the following question (*Natural Foods Merchandiser*, 2008): “If you were purchasing a particular ingredient for a recipe and you had a choice of

either a local product or a non-local organic one, which would you choose, assuming equivalent price and quality?" In this head-to-head comparison, 35 percent of respondents chose local and 22 percent chose organic (41 percent chose both equally). Other researchers have reported similar findings on consumer preferences for local over organic food (Leopold Center for Sustainable Agriculture and Iowa State University Business Analysis Laboratory, 2003 ), and willingness to pay higher premiums for local (Loureiro and Hine, 2001).

The ERS nationwide survey of U.S. organic handlers found that 24 percent of organic sales in 2004 were made locally—within an hour's drive of the handlers' facilities—30 percent were made regionally, and 39 percent were made nationally. A small proportion of domestic organic sales (7 percent) was exported in 2004 (Dimitri and Oberholtzer, 2008b).

Although most retail chains that initiate local programs usually purchase local products from a multistate region, most consumers consider local products as being produced much closer to home—in their State, within 100 miles of their community (*Natural Foods Merchandiser*, 2008). Consumers may also have other misperceptions, such as the belief that local production is environmentally responsible, even though local labels are not typically associated with production standards. According to recent census of agriculture results, approximately 136,000 farmers reported selling agricultural products directly to consumers, while only about 20,000 farmers reported producing organic products (USDA – NASS, 2009).

Organic and local labels are not necessarily competitive. Many long-time participants in the organic market perceive organic and local agriculture as “two sides of the same coin” (Lipson, 2008). Some organic certifying entities, both State and private, already certify producers and processors to a number of other standards—including food safety standards and international organic standards that incorporate a social justice component. A product might easily carry both an organic label, denoting the ecologically based production system used, and a locally grown logo, denoting the number of miles to deliver the product to the consumer.

As the number of farmers' markets in the United States continues to grow, many market managers report strong unmet demand for organic vendors (Kremen et al., 2004). A variety of local-organic food initiatives are emerging in response to the unmet needs for local and organic products in farmers' markets, supermarkets, and institutional settings. Legislation to support local agriculture has been proposed in a number of States in recent years. For example, Illinois passed legislation in 2007 designed to make Illinois the Midwest leader in local and organic food and fiber production, creating a task force to develop strategies to increase local, organic buying programs for public institutions and supporting farmers in transition to organic production (Illinois General Assembly, 2007). A county in Iowa has enacted policies to rebate 100 percent of real property taxes to farmers who convert to organic production and to support local and organic food purchases in county institutional settings. At the Federal level, USDA's Agricultural Marketing Service administers several grant programs that have helped a number of local-organic initiatives in different parts of the country.

Private groups have started local and organic food projects in a few public schools, and a few marketing cooperatives have emerged to market products that are local and organic. One private-sector example is the Appalachian Sustainable Development organic food marketing cooperative in southwest Virginia, which now includes 60 farmers, mostly former tobacco producers, growing and selling certified organic produce to nearly 600 supermarkets in the region (Flaccavento, 2008).

## Organic Price Premiums Vary Across Commodities

Surveys provide valuable information about consumer interest in organic products, while analysis of consumer purchases indicates what people buy and how much they pay. Using data on food purchases from a representative sample of U.S. households across the Nation, ERS researchers have completed several studies on consumer purchases of organic produce and milk. These indicate that organic price premiums at the retail level varied by product and location in the mid-2000s, and generally showed higher premiums for milk than for fruits and vegetables.

- ERS analyzed organic prices for 18 fruits and 19 vegetables using 2005 data on produce purchases (Lin et al., 2008), and found that the organic premium as a percent of the corresponding conventional price was under 30 percent for over two-thirds of the items. Organic premiums for vegetables vary somewhat more than for fruits, and the premium for only one item—blueberries (not shown)—exceeded 100 percent.
- The price for organic milk over conventional milk ranged from 72 percent above the conventional price in Western States to 126 percent above the conventional price in the East, based on ERS analysis of milk purchases in 2004 (Dimitri and Venezia, 2007). The national average price pre-

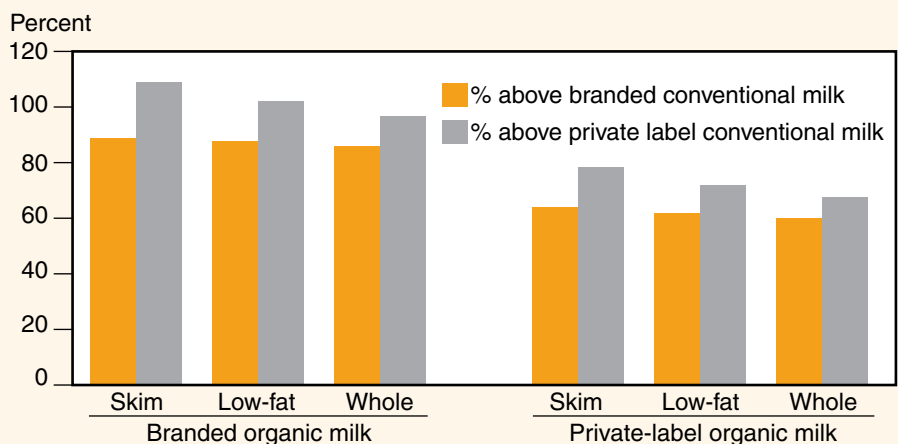
mium for organic milk was 98 percent above the conventional price in 2004.

- Organic milk prices vary by fat content, container size, and branding, based on ERS analysis of milk purchases in 2006 (Smith et al., forthcoming). Organic price premiums for a half-gallon container of milk ranged from 60 percent for private-label organic milk above branded conventional milk, to 109 percent for branded organic milk above private-label conventional milk. Branded organic milk commanded higher premiums than private-label organic milk. In contrast with conventional milk prices,

organic milk prices were estimated to increase as the fat content declined.

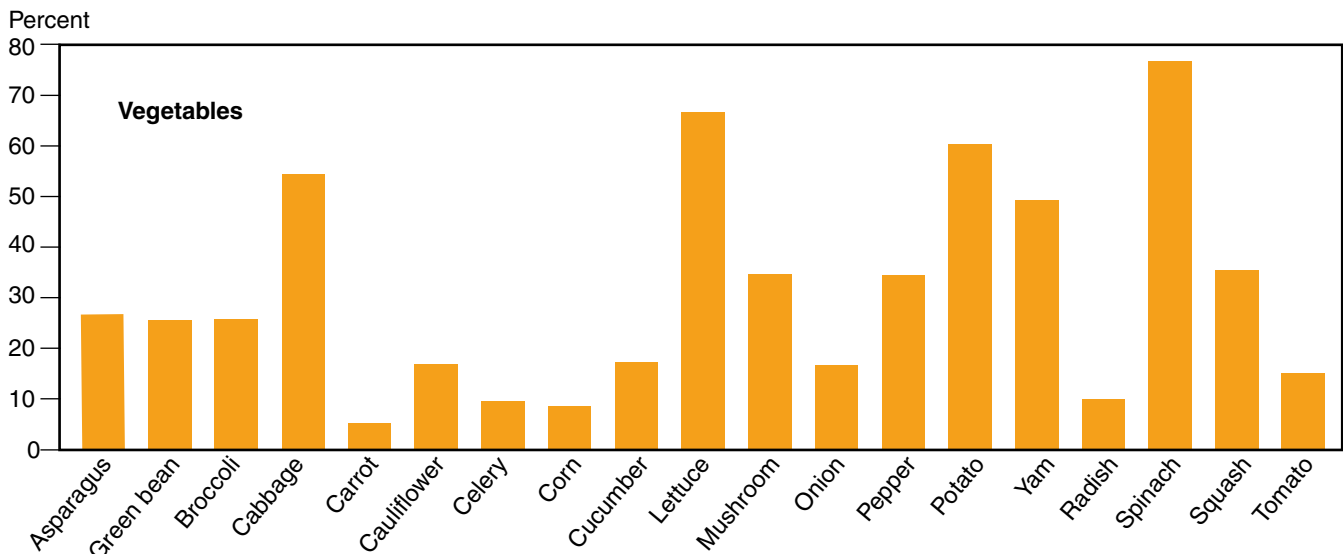
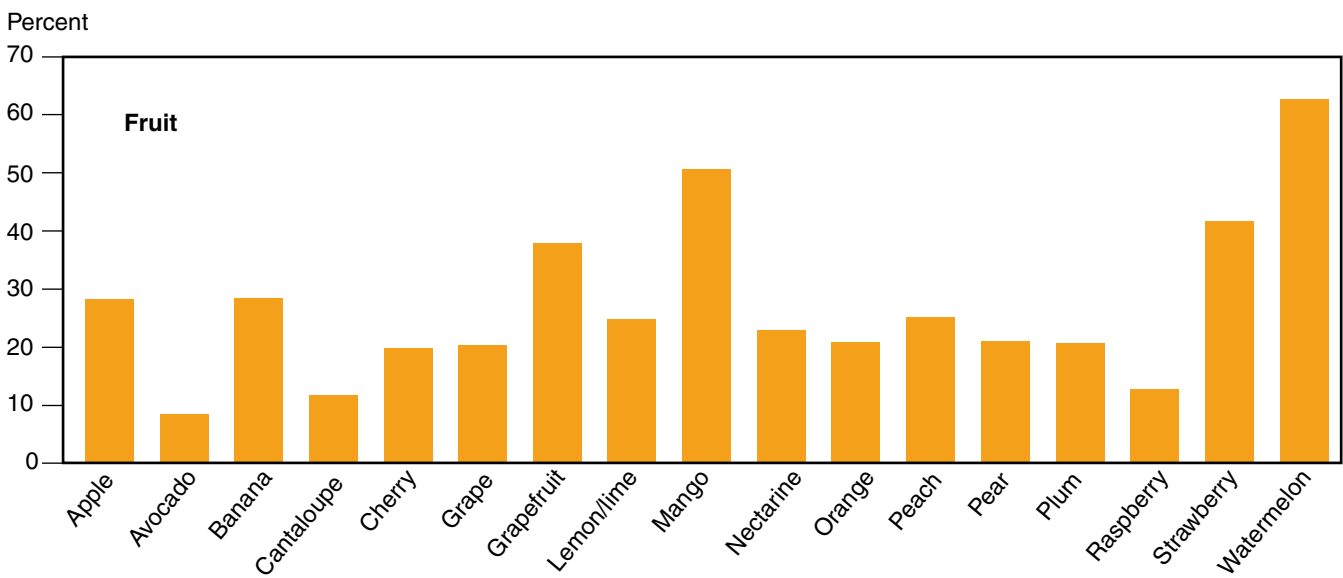
ERS also examined the characteristics of organic produce consumers, using a representative sample of U.S. households, and found that Asians and African-Americans tend to purchase organic produce more often than Whites and Hispanics (Stevens-Garmon et al., 2007). Households residing in the West spent more on organic produce, per capita, than those in other regions. This study did not find any consistent positive association between household income and expenditures on organic produce.

**Price premiums: Half gallon of organic milk, 2006**



Note: Estimated premiums reflect the percent above average half-gallon conventional milk prices within each fat content category for private-label (store brand) and branded categories.  
Source: Nielsen Homescan, 2006.

### Organic price premium as percent of conventional price, 2005



Source: Nielsen Homescan 2005.