

Early View 2017

CPG Off to a Slow Start, but What's Next?

Executive Summary

- January and February are typically softer months for CPG and edibles, but 2017 is showing sharper-than-normal declines.
- March posted improvement but not recovery.
- Department-level trends were mixed, with beverage and liquor being most sheltered from declines and frozen and refrigerated feeling the brunt of the slide.
- Perimeter sales are being negatively impacted by weak performance in meat and produce.
- The stumble is impacting all regions, but California has been slower to recover than other areas.
- Declines are being driven by a number of complex and interwoven factors, which are negatively impacting trips and basket size.
- Soft trends are evidenced across consumer segments, but some groups have been more harshly impacted than others.

Consumers entered 2017 facing a set of complex and intertwined market dynamics, which set off uncertainty and resultant conservative CPG behaviors.

- Economic Shifts
- Delays in Tax Refunds
- Irregular Weather Patterns
- Food Pricing
- Complex and Evolving Marketplace

Unemployment fell in 2016 and retail sales climbed.
 Meanwhile GDP slipped and inflation ticked up.

ECONOMIC SHIFTS

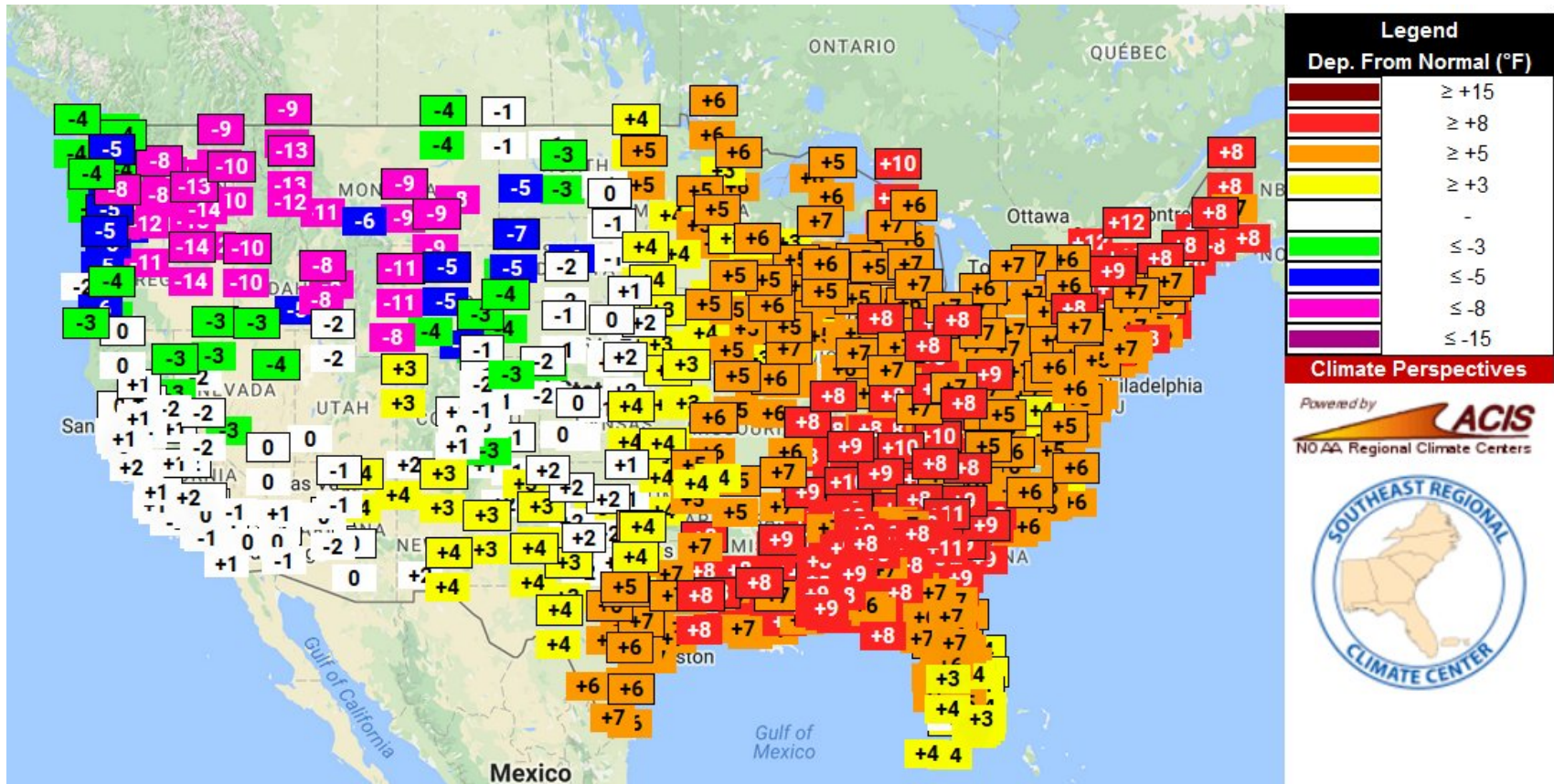
Economic Measure	2008	2009	2010	2011	2012	2013	2014	2015	2016
GDP (% chg)	1.7%	-2.0%	3.8%	3.7%	4.1%	3.3%	4.2%	3.7%	3.0%
Unemployment (% SA)	5.8%	9.3%	9.6%	8.9%	8.1%	7.4%	6.2%	5.3%	4.9%
Consumer Price Inflation (% Chg)	3.8%	-0.3%	1.6%	3.1%	2.1%	1.5%	1.6%	0.1%	1.3%
Retail Sales (% Chg)	-1.3%	-7.2%	5.4%	7.3%	4.9%	3.8%	4.1%	2.3%	3.0%
Residential Permits, Total (Mil)	3.6	2.3	2.4	2.5	3.3	3.9	4.2	4.7	4.7

Source: Moody's

Weather patterns have been erratic, impacting shopper budgets and economic performance.

WEATHER PATTERNS

Relative Temperature vs. YA



The at-home food sector experienced volatile prices, with some major categories—such as eggs and meats—seeing prices drop precipitously.

**Quarterly Inflation Rate Vs. Prior Year
2016 - 2017**

www.foodinstitute.com

(Source Food Institute Analysis of BLS data)

	2016				2017
	Q1	Q2	Q3	Q4	Q1
All Items	1.1%	1.0%	1.1%	1.8%	2.5%
Food at Home	-0.4%	-0.8%	-1.9%	-2.2%	-1.5%
Cereal and Cereal Products	-0.6%	-1.5%	-1.0%	-1.7%	-1.5%
Dairy	-2.8%	-2.1%	-2.7%	-1.6%	0.0%
Eggs	4.5%	-13.0%	-34.8%	-34.2%	-21.6%
Fats/Oils	-0.3%	0.1%	-0.2%	-2.0%	-0.9%
Fruits and Vegetables	3.1%	1.5%	0.3%	-1.6%	-3.8%
Meats	-4.6%	-3.6%	-4.7%	-4.9%	-3.0%
Nonalcoholic Beverages	0.2%	0.0%	-0.7%	-1.0%	-0.2%
Sugars/Sweets	-0.1%	0.2%	-0.7%	-0.8%	-0.4%

Source: Food Institute; Bureau of Labor Statistics

Competition with alternative food sources is mixed and evolving.

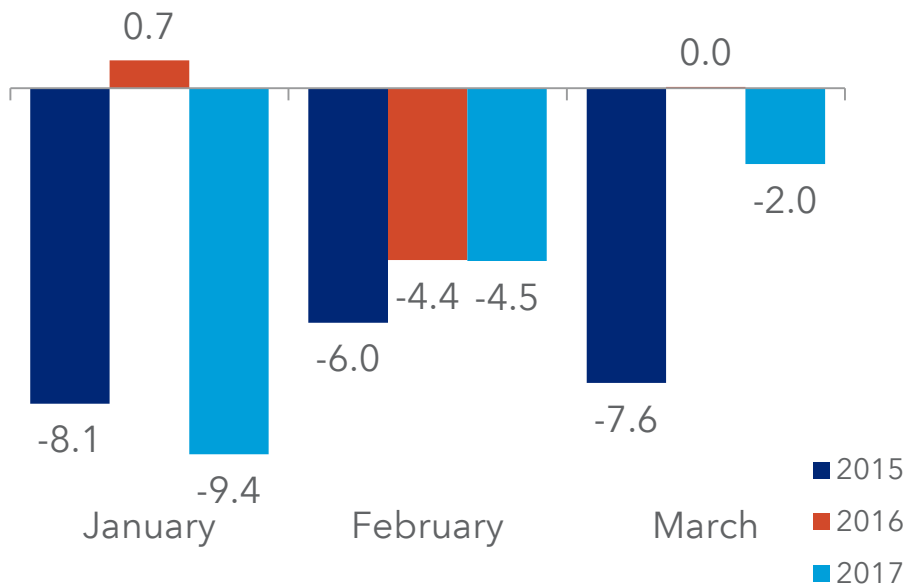
- Food dollars are nearly evenly split between **at-home and away-from-home** occasions
 - Out-of-home eating has been stagnant for several years
 - QSR visits are expected to increase 1% in 2017 (flat 2016)
 - Full-service visits are expected to decline 2%
 - Net: restaurant traffic predicted to be flat

- U.S. **meal kit delivery** market (~ \$1.5 billion in 2016) will grow sharply, with some projections estimating as much as \$5 billion market within five years

Source: NPD; Packaged Facts.

While CPGs rely heavily on merchandising to move product, lift from merchandising efforts is on the decline.

Change in Lift from Merchandising, Any Tactic Edible



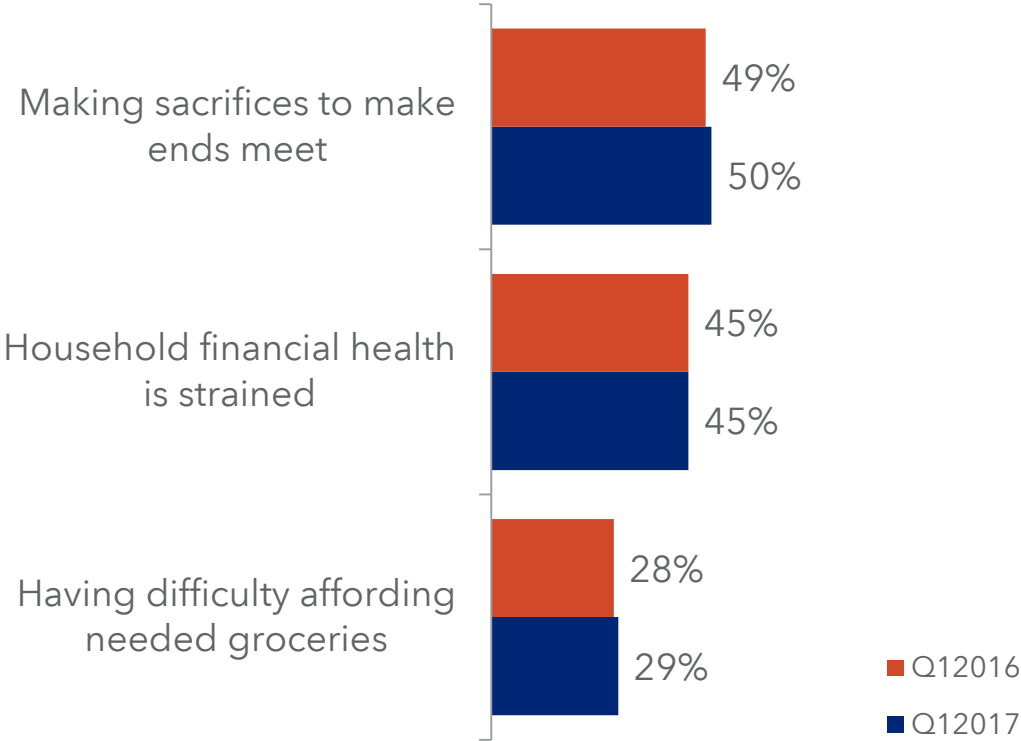
Department-level trends vary...

- Refrigerated is lagging
- Frozen is generally outperforming
- Beverage, general food and liquor are on par

Source: IRI Market Advantage™, 4 weeks ended 3/19/2017, 2/19/2017, 1/22/2017 and same periods prior two years; MULOC.

Many consumers continue to struggle financially.

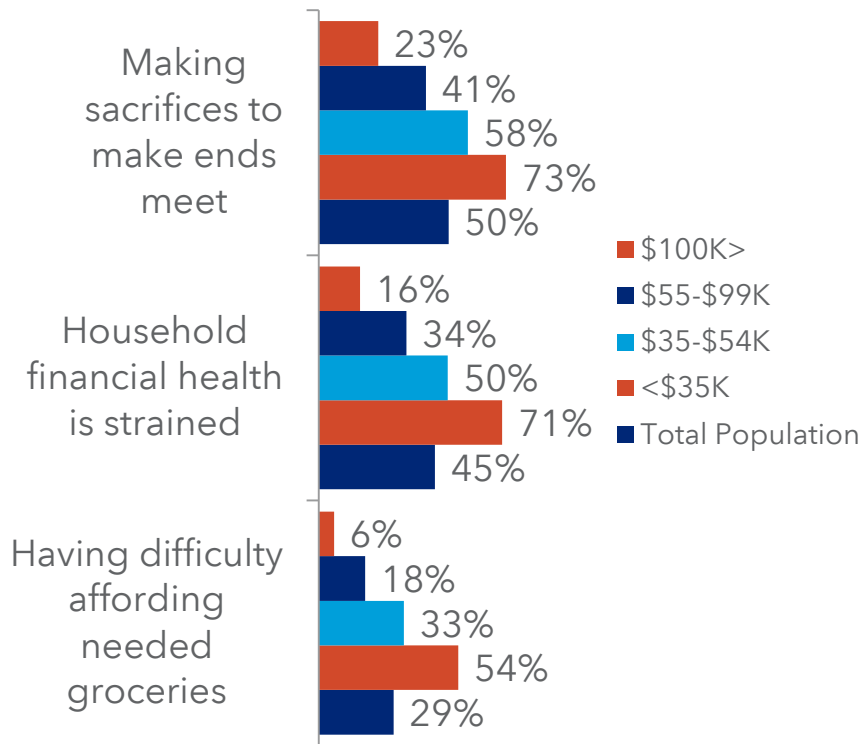
Consumer Financial Health Total Population



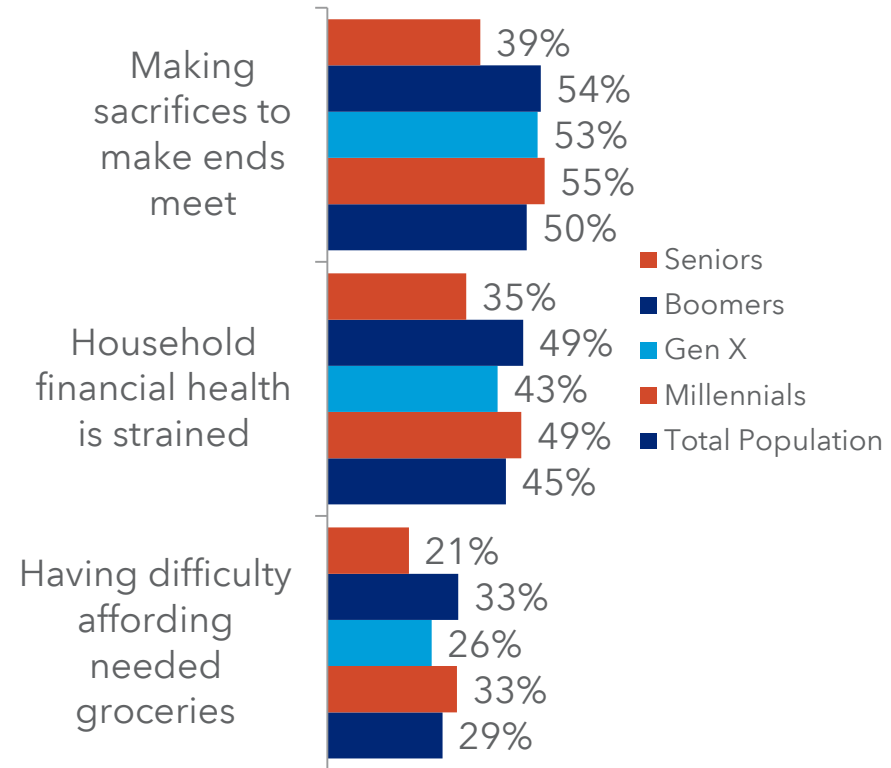
Source: Consumer Connect™, Q1 2017

Lower-income and younger shoppers are among the hardest hit.

Consumer Financial Health by Income

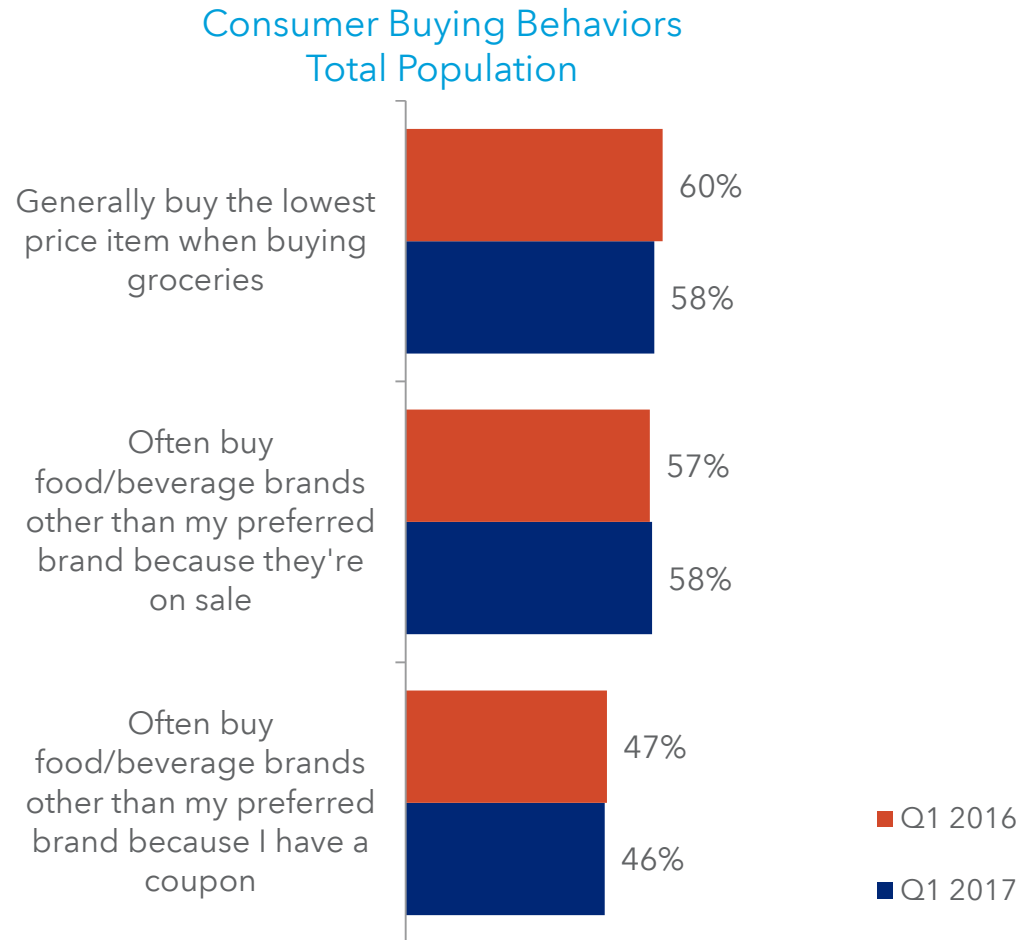


Consumer Financial Health by Generation



Source: Consumer Connect™, Q1 2017

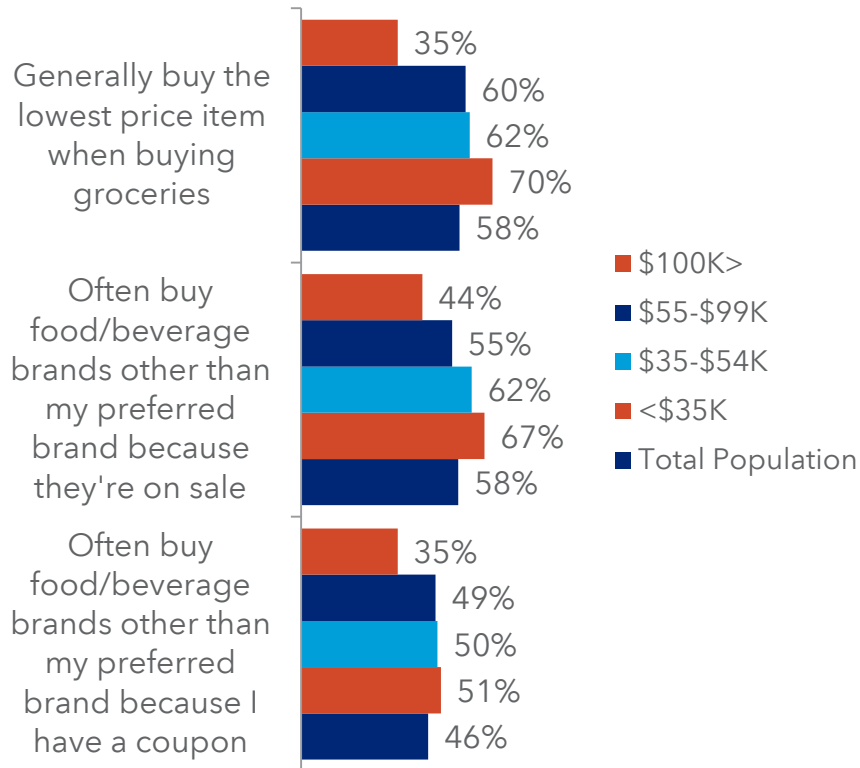
This is encouraging avid deal-seeking behavior and shifts in brand loyalty.



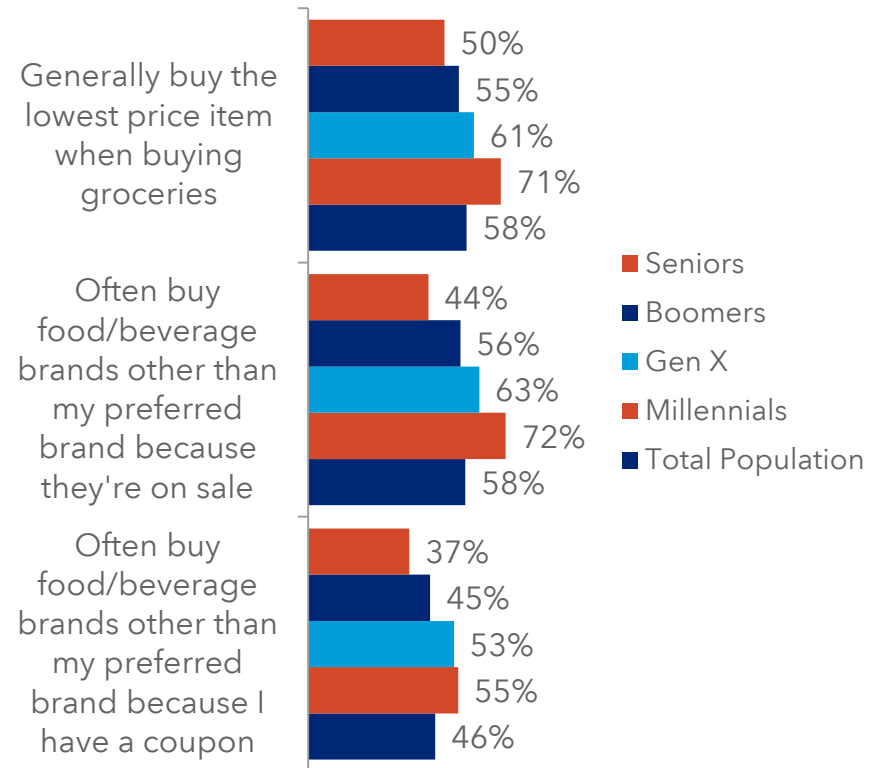
Source: Consumer Connect™, Q1 2017 & Q1 2016

Trade-offs are most prevalent among younger and less wealthy shoppers, least prevalent across seniors and the wealthiest households.

Consumer Buying Behaviors by Income



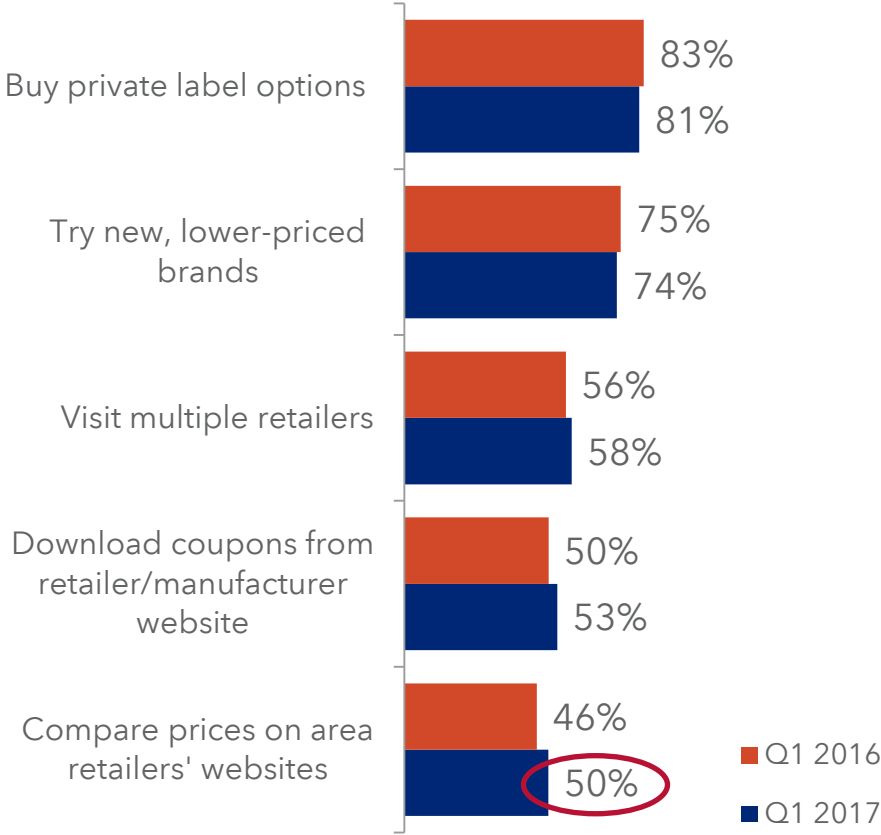
Consumer Buying Behaviors by Generation



Source: Consumer Connect™, Q1 2017

Consumers are embracing a wide variety of money-saving opportunities; online price comparisons are becoming more popular.

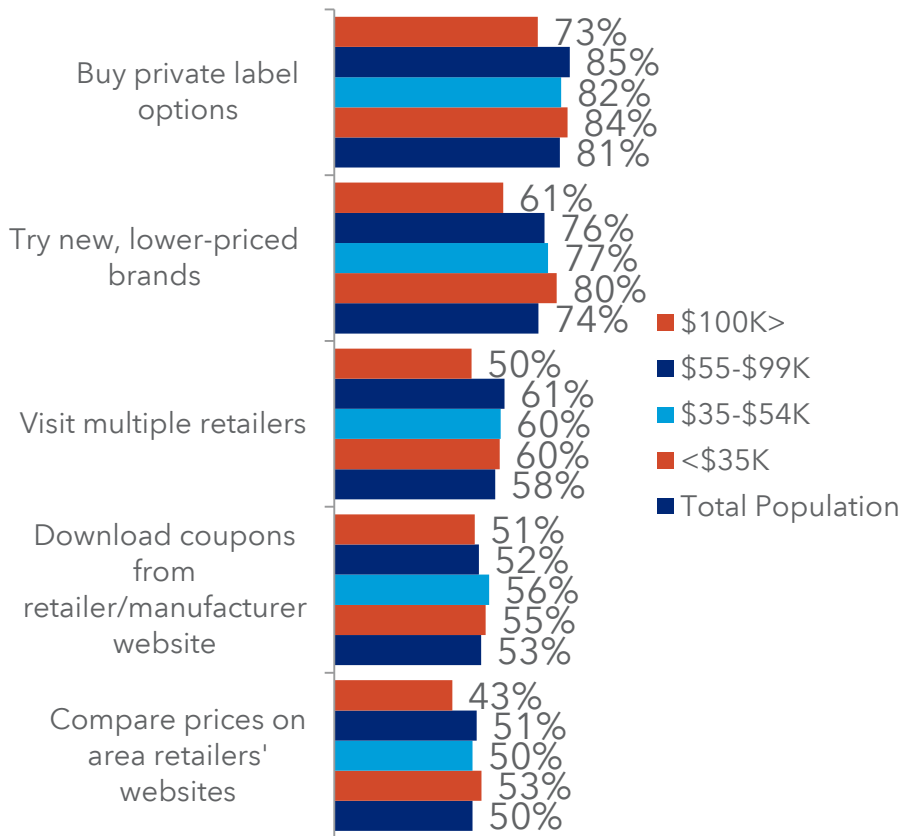
Shopping Journey Money-Saving Preparations
Top 2 Box
Total Population



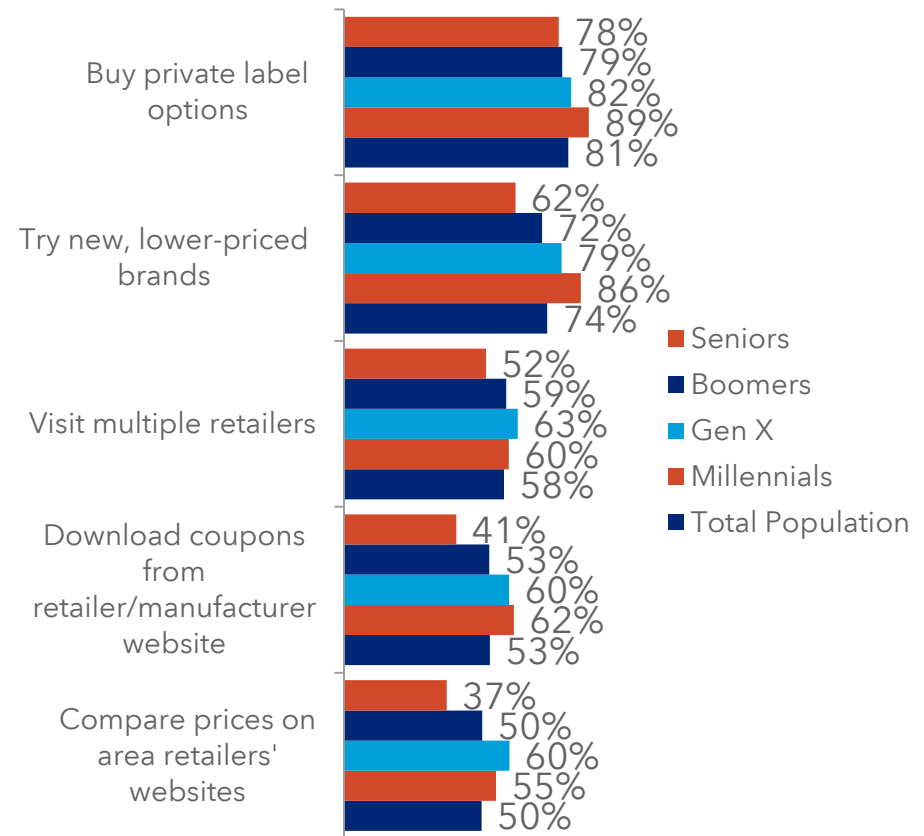
Source: Consumer Connect™, Q1 2017 & Q1 2016

Millennials are most likely to make brand concessions; Gen X consumers are as likely as millennials to seek digital savings opportunities.

Shopping Journey Money-Saving Preparations Top 2 Box by Income



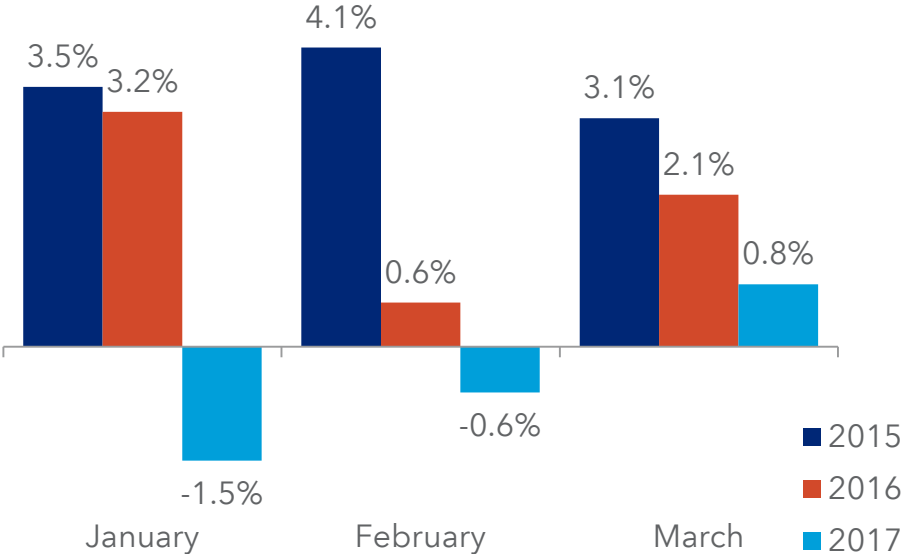
Shopping Journey Money-Saving Preparations Top 2 Box by Generation



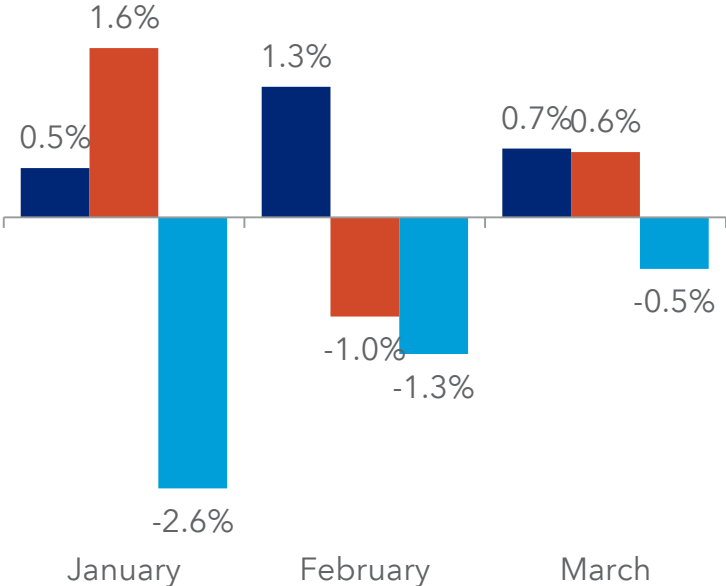
Source: Consumer Connect™, Q1 2017

Conservative behaviors pushed unit sales down precipitously in January of this year, negatively impacting dollar sales trends; subsequent months have seen improvements, but not growth.

Monthly Dollar Sales Change
Total CPG



Monthly Unit Sales Change
Total CPG

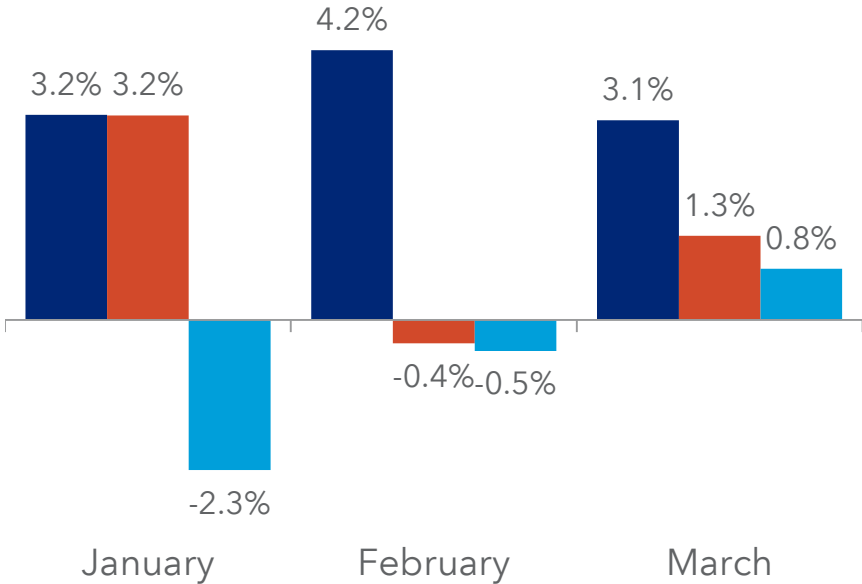


Source: IRI Market Advantage™, 4 weeks ended 3/19/2017, 2/19/2017, 1/22/2017 and same periods prior two years; MULOC.

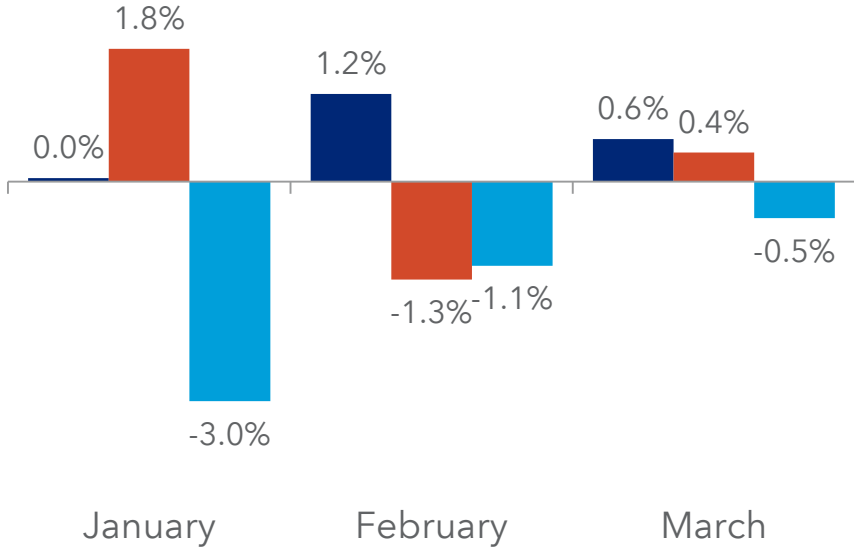


Trends in edibles are similar, but with a more drastic drop in January and a stronger rebound in subsequent months.

Monthly Dollar Sales Change
Total Edible



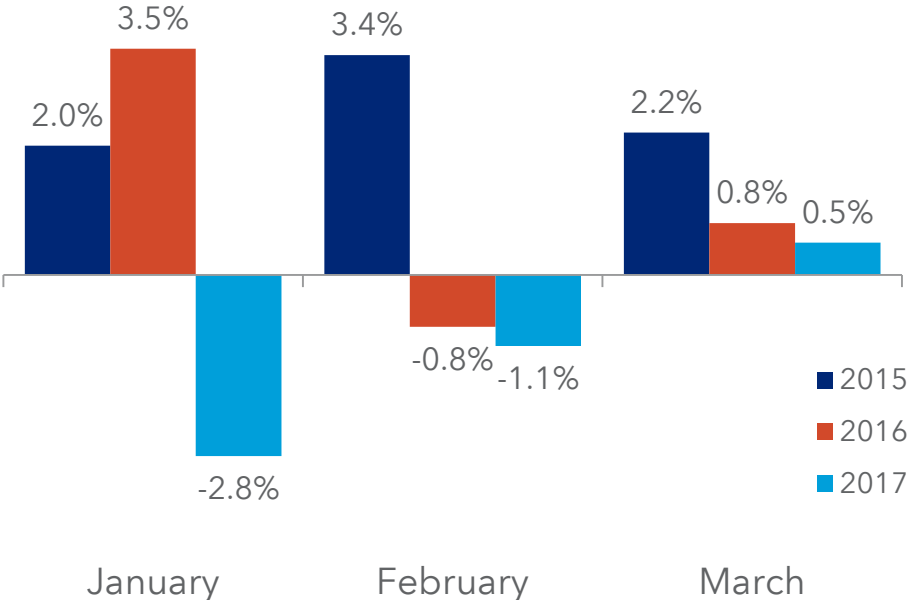
Monthly Unit Sales Change
Total Edible



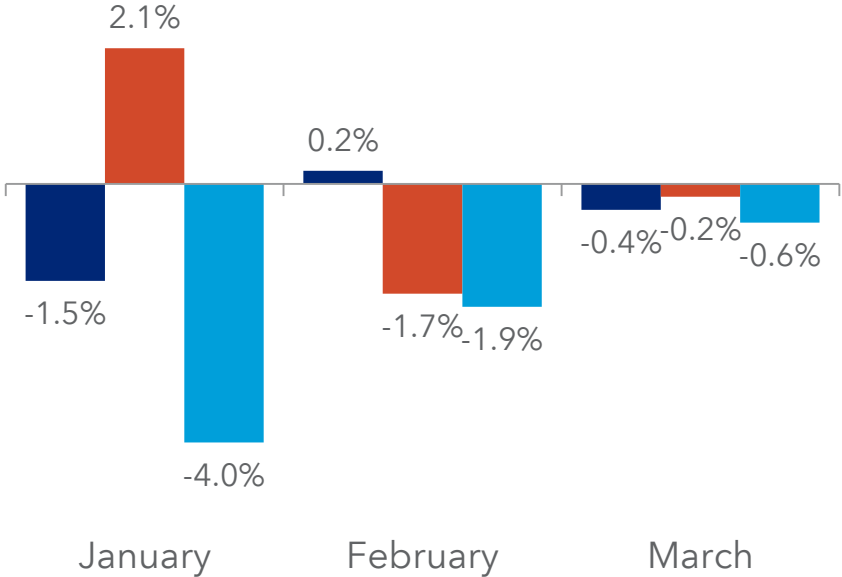
Source: IRI Market Advantage™, 4 weeks ended 3/19/2017, 2/19/2017, 1/22/2017 and same periods prior two years; MULOC.

The grocery channel experienced sharper-than-average declines and a softer rebound versus the industry as a whole.

Monthly Dollar Sales Change
Total CPG



Monthly Unit Sales Change
Total CPG

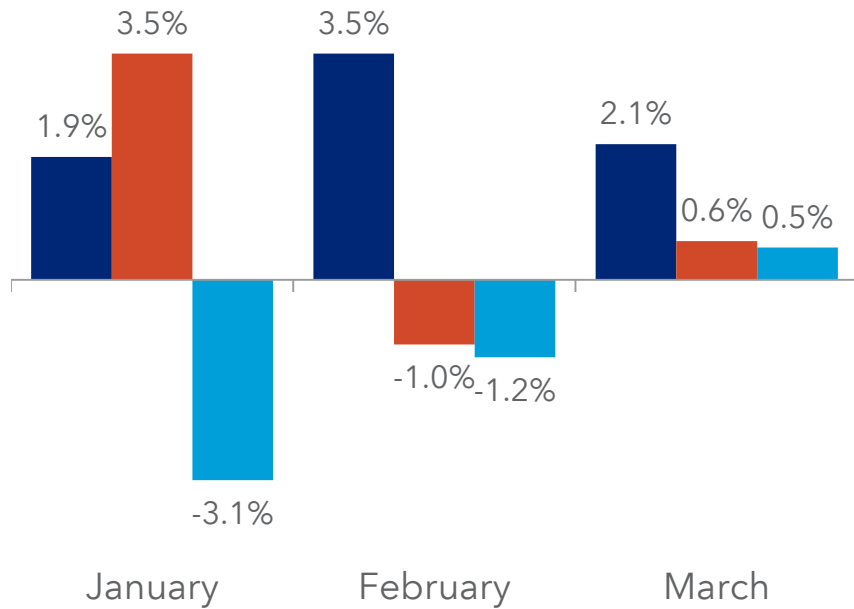


Source: IRI Market Advantage™, 4 weeks ended 3/19/2017, 2/19/2017, 1/22/2017 and same periods prior two years; Food Only.

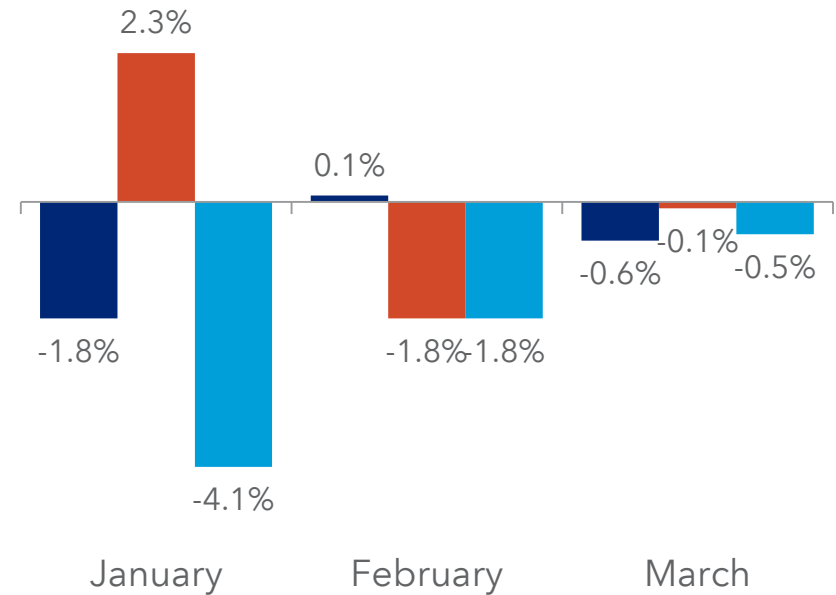


Channel trends are similar within grocery edibles aisles.

Monthly Dollar Sales Change
Total Edible



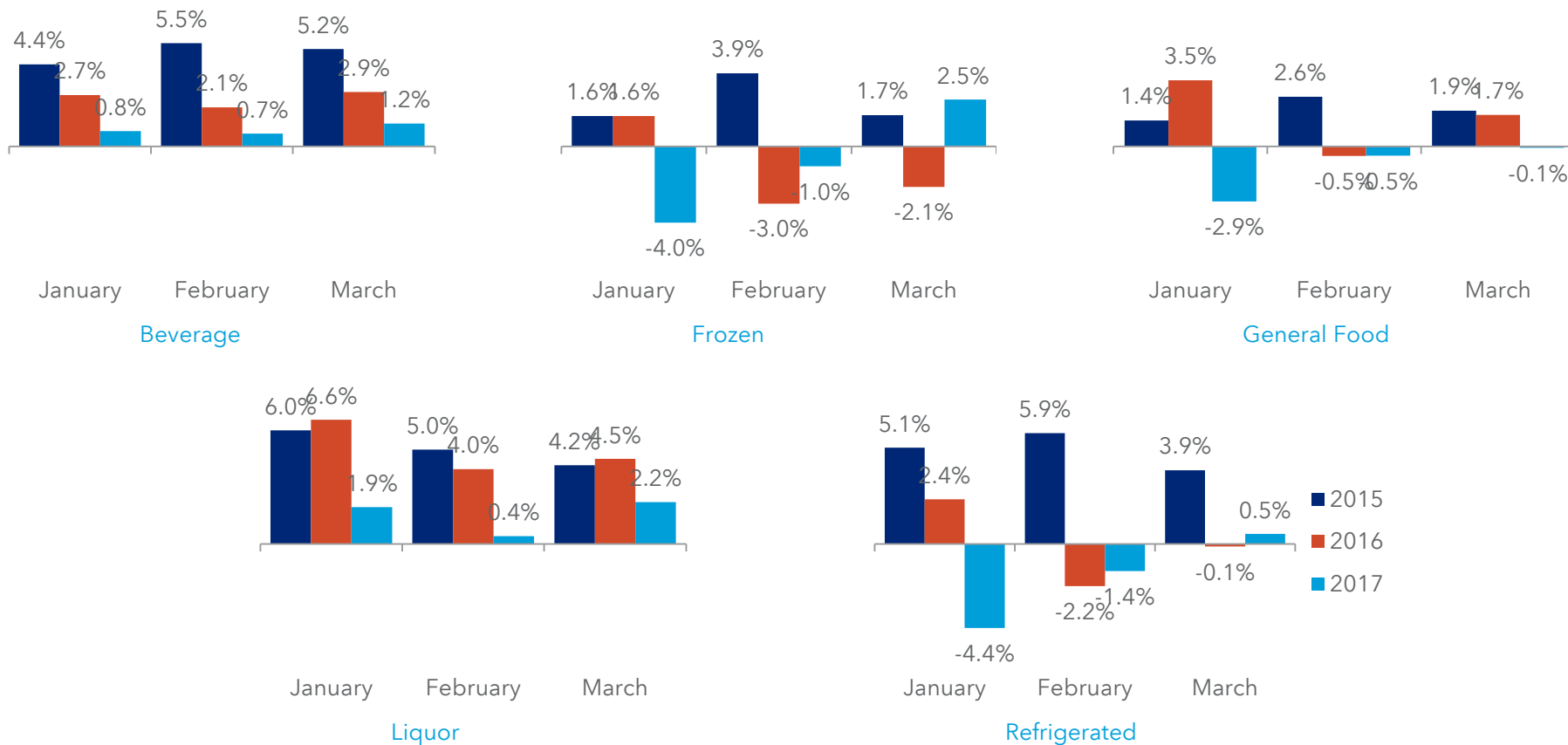
Monthly Unit Sales Change
Total Edible



Source: IRI Market Advantage™, 4 weeks ended 3/19/2017, 2/19/2017, 1/22/2017 and same periods prior two years; Food only.

Frozen and refrigerated departments experienced the sharpest dollar sales drop in January; all departments except general food posted positive March growth.

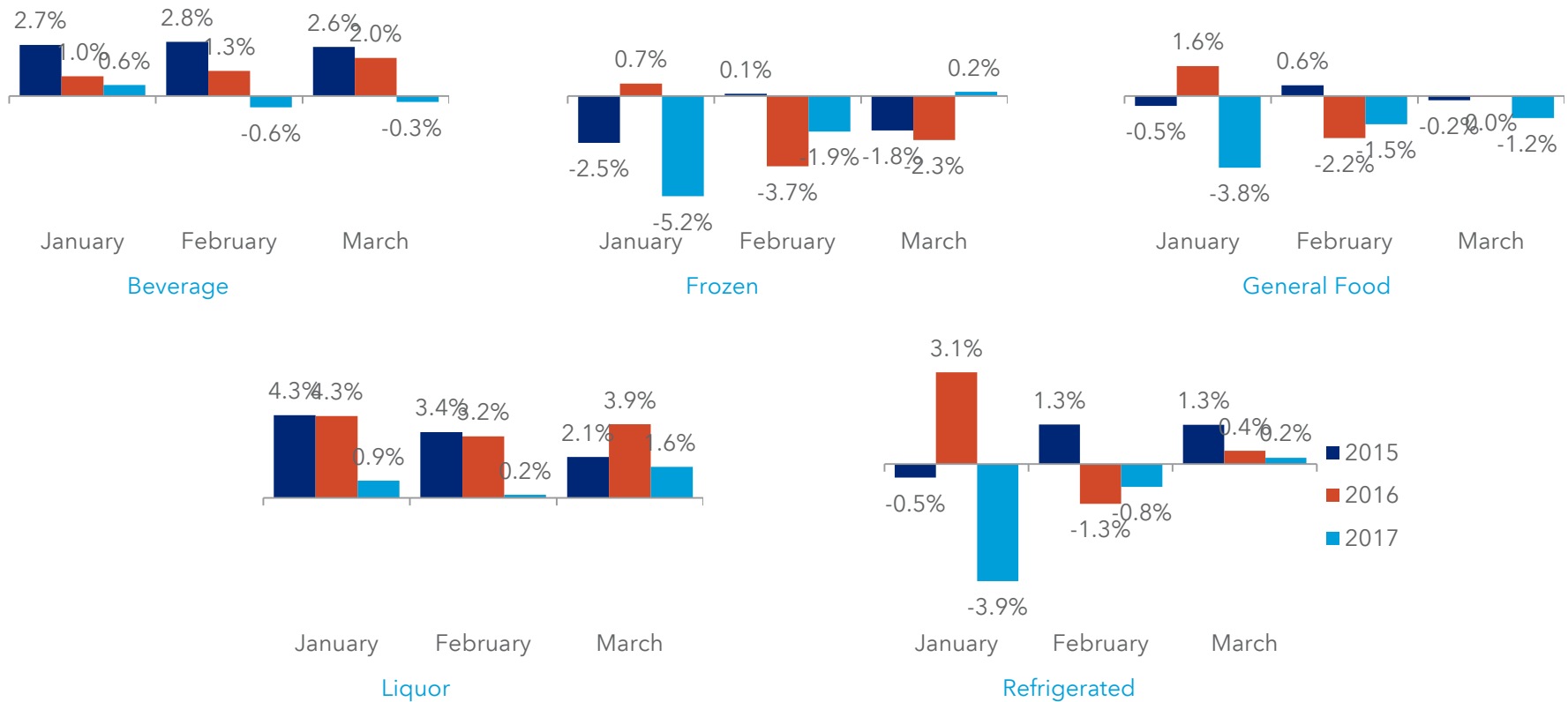
Monthly Dollar Sales Change by Department



Source: IRI Market Advantage™, 4 weeks ended 3/19/2017, 2/19/2017, 1/22/2017 and same periods prior two years; Food only.

Liquor units maintained low-level positive growth throughout Q1, while other departments saw units fall.

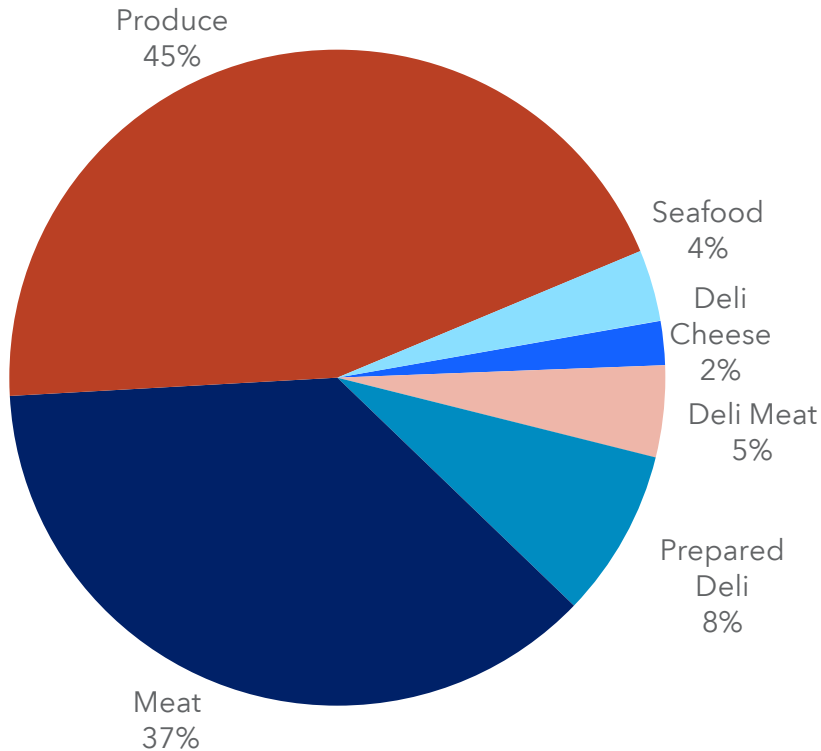
Monthly Unit Sales Change by Department



Source: IRI Market Advantage™, 4 weeks ended 3/19/2017, 2/19/2017, 1/22/2017 and same periods prior two years; Food only.

Perimeter giants produce and meat posted low dollar sales growth in Q1, placing downward pressure on the whole sector.

Perimeter Sales by Department
% of Dollar Sales



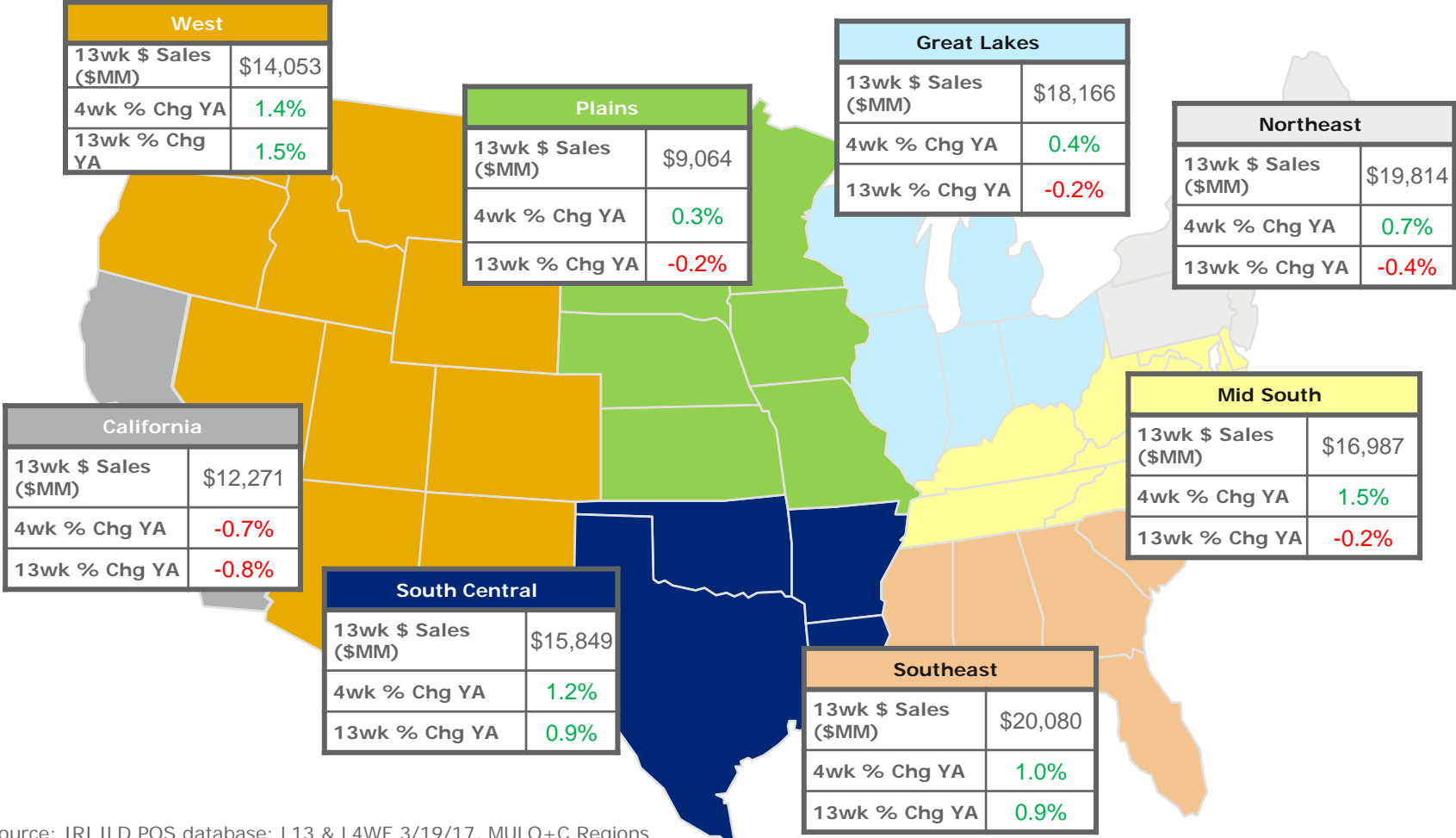
Perimeter Sales Q1 Performance
versus YA, by Department

	Dollar Sales Change vs YA	Pounds Change vs YA
Deli Cheese	2.9%	2.6%
Deli Meat	2.5%	4.6%
Prepared Deli	4.0%	3.3%
Meat	0.4%	3.0%
Produce	1.8%	3.9%
Seafood	0.5%	(6.3%)
Total Perimeter	1.4%	3.5%

Source: IRI FreshLook, Q1 2017 and same period prior year; MULO and Grocery; excludes in-store bakery

Southeast and South Central regions were insulated from early 2017 edibles declines; all regions except California show positive growth in the most recent period.

Region Trends for Total Edible

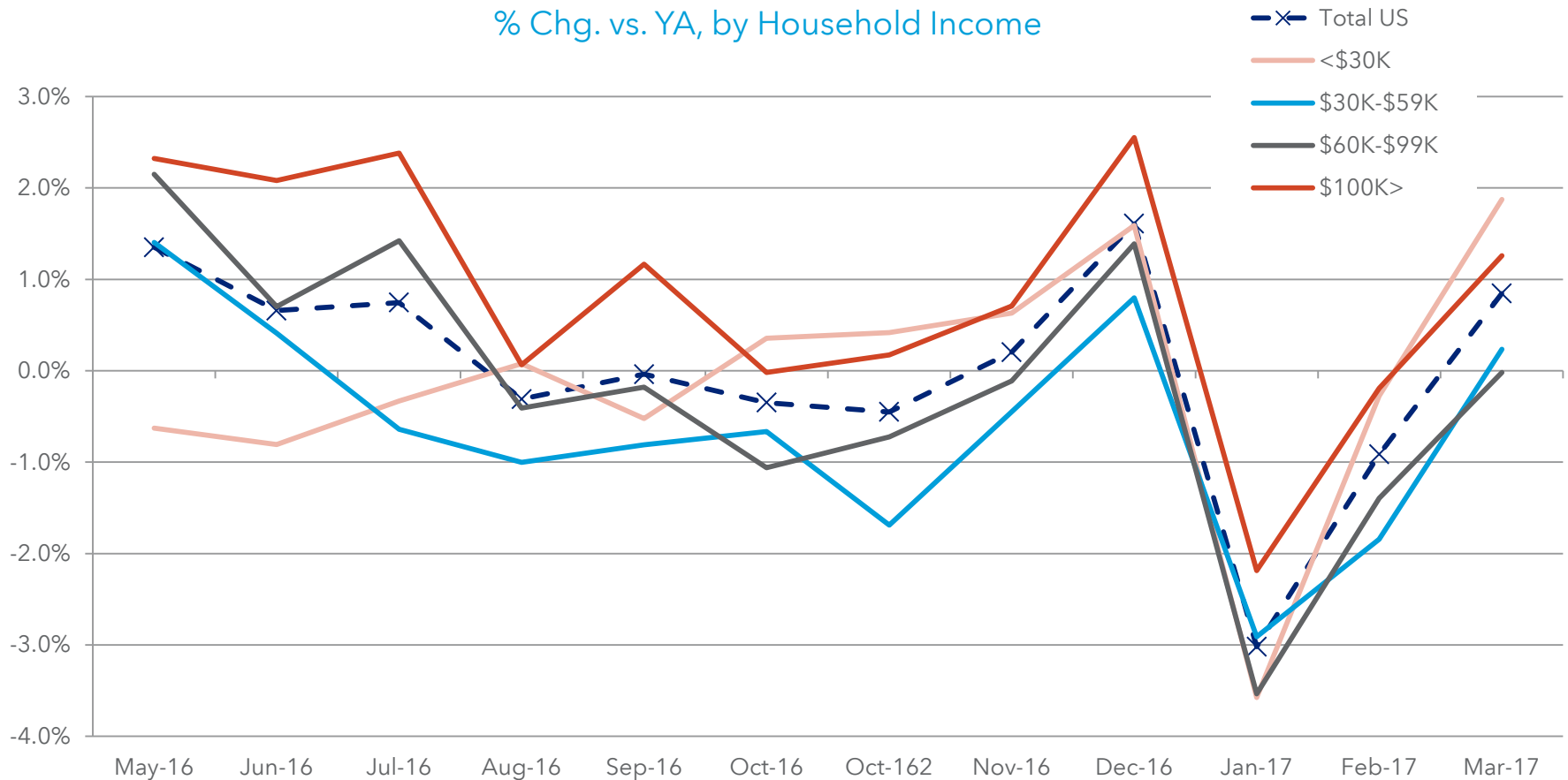


Source: IRI ILD POS database; L13 & L4WE 3/19/17, MULO+C Regions



Edibles declines are mirrored across income segments.

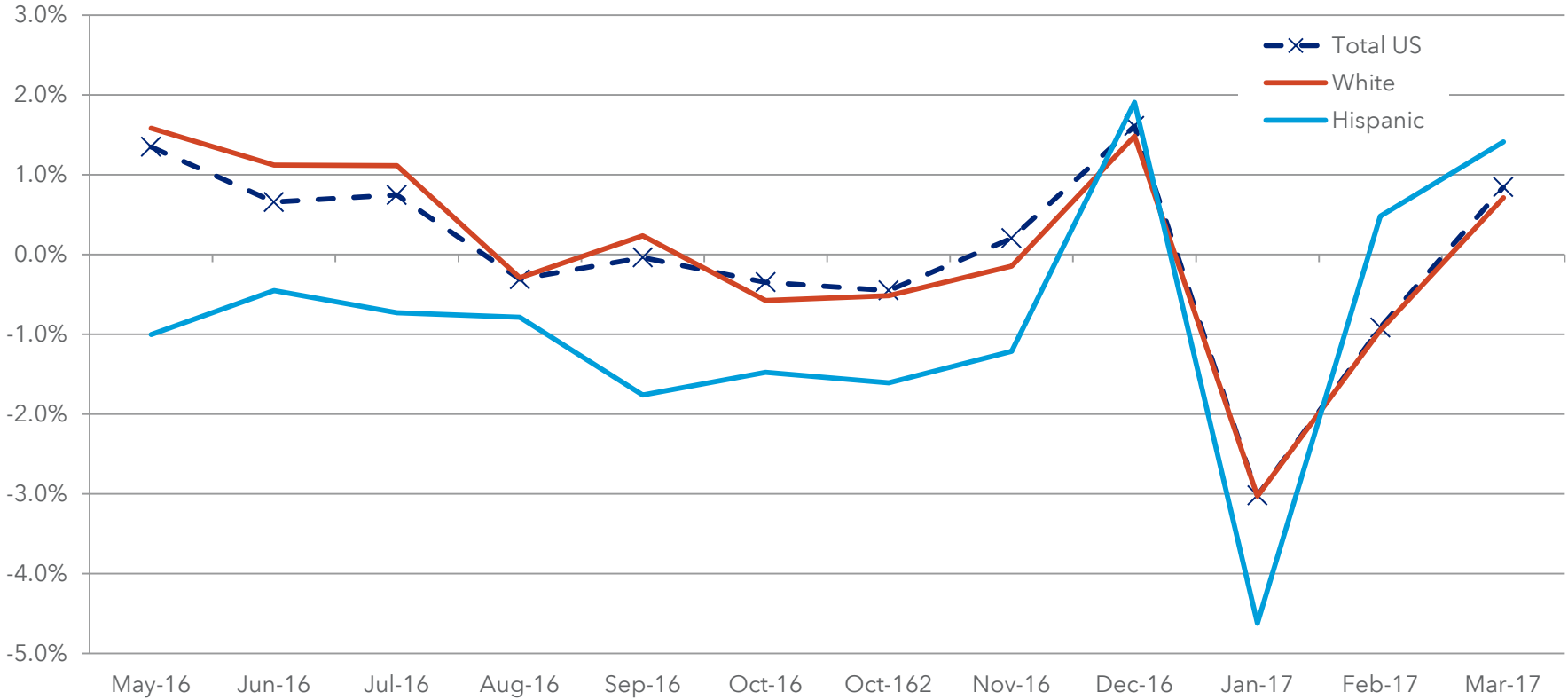
Edible Dollar Sales
% Chg. vs. YA, by Household Income



Source: IRI Consumer Network™, CSIA – Total US – All Outlets; Quad Week Data Ending 3-19-17 and preceding; NBD Aligned to Multi-Outlet

Hispanic shoppers lagged early, but have experienced more-rapid-than-average improvement.

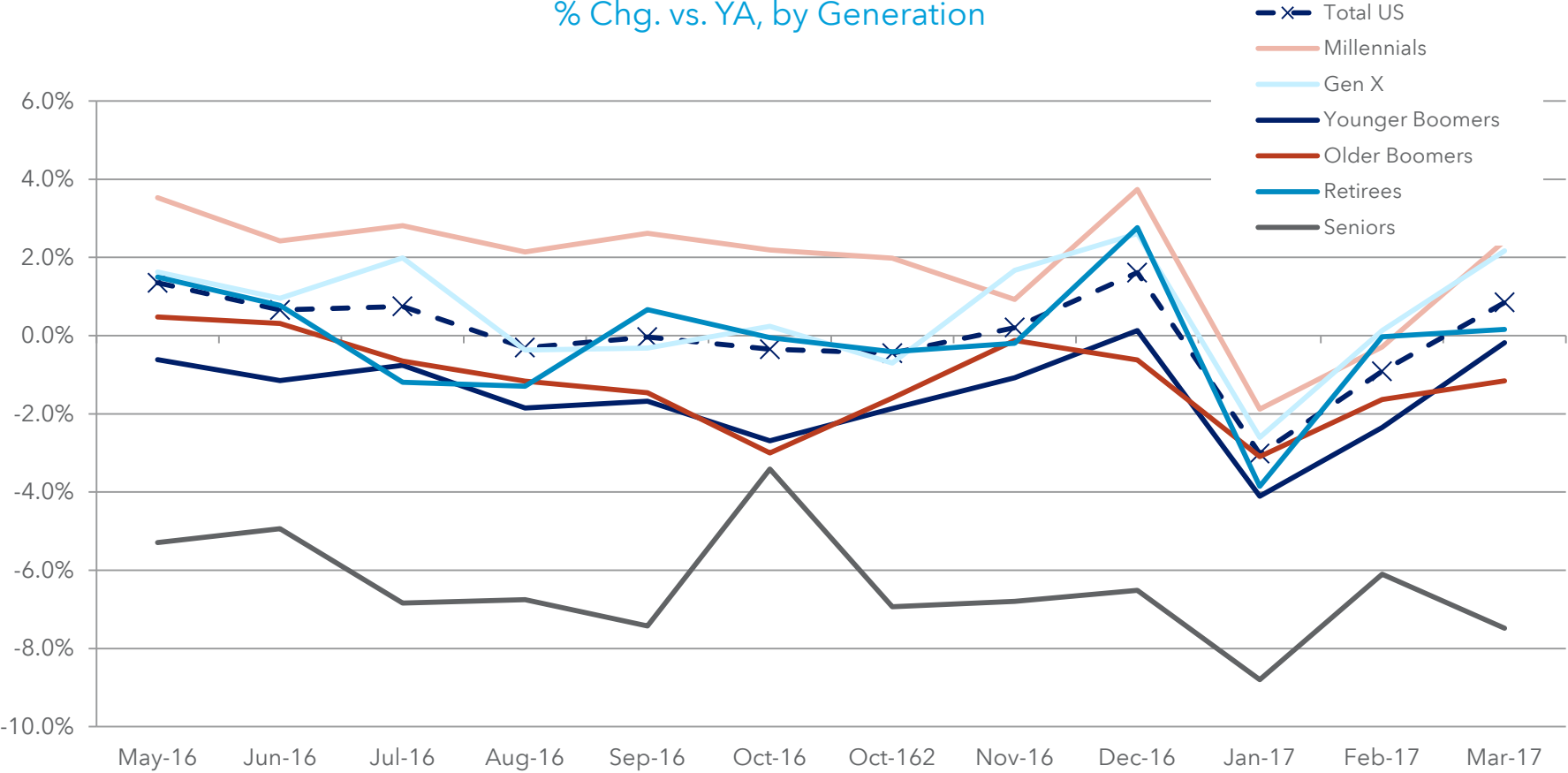
Edible Dollar Sales % Chg. vs. YA, by Ethnicity



Source: IRI Consumer Network™, CSIA – Total US – All Outlets; Quad Week Data Ending 3-19-17 and preceding; NBD Aligned to Multi-Outlet

Q1 edibles sales dipped across generations, but seniors have struggled more than others during the past year.

Edible Dollar Sales
% Chg. vs. YA, by Generation

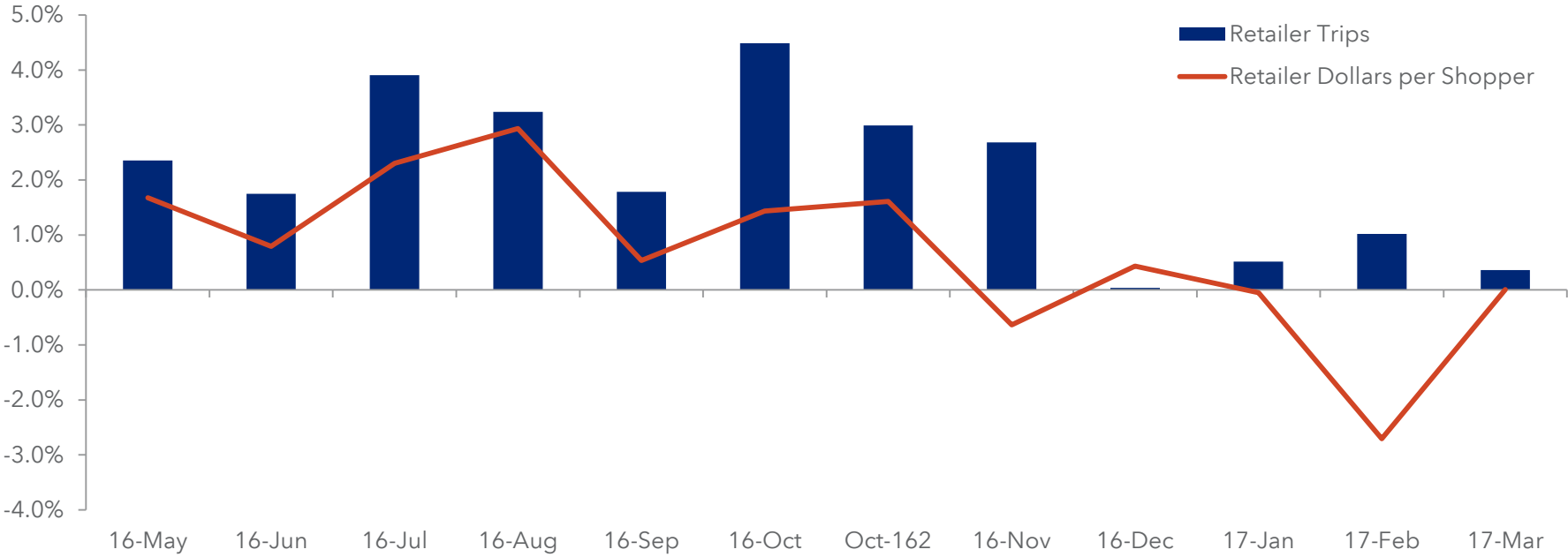


Source: IRI Consumer Network™, CSIA – Total US – All Outlets; Quad Week Data Ending 3-19-17 and preceding; NBD Aligned to Multi-Outlet



Edible sales declines are driven by a combination of a decrease in trips and per-trip spending, but spending dips were more noteworthy.

Edible Trips and Spending
% Chg. vs. YA, Total US

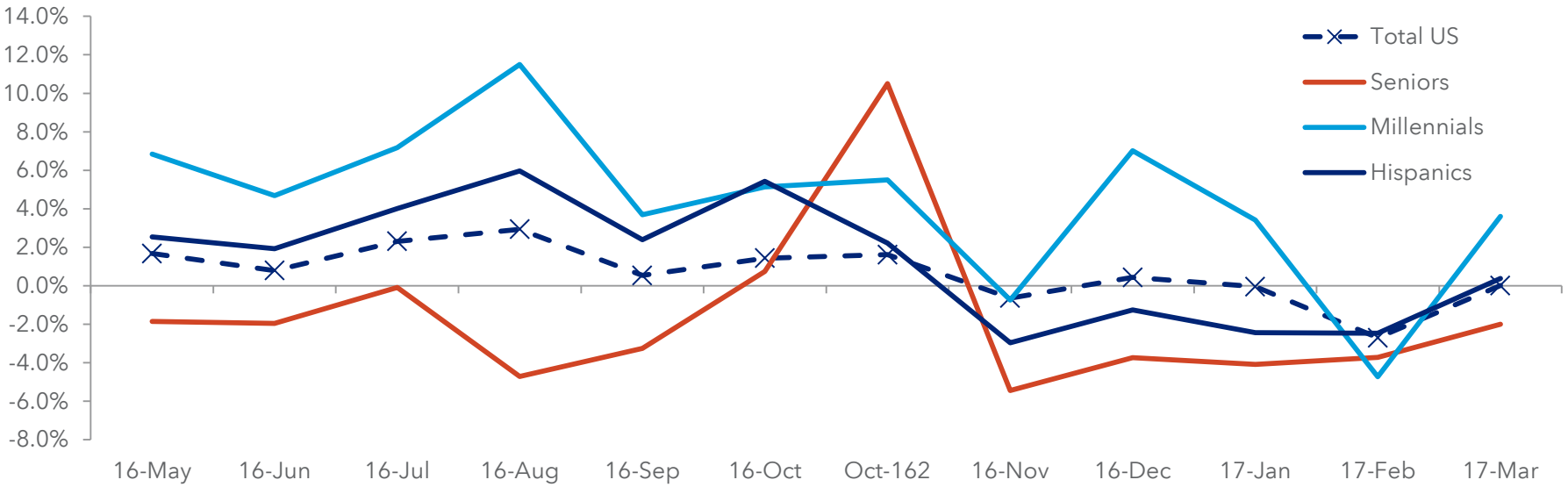


Source: IRI Consumer Network™, CSIA – Total US – All Outlets; Quad Week Data Ending 3-19-17 and preceding; NBD Aligned to Multi-Outlet



Spending declines occurred across key consumer segments; seniors and millennials cut back more sharply than average and their cuts were more prolonged.

Edible Spending
% Chg. vs. YA, Key Consumer Segments



Source: IRI Consumer Network™, CSIA – Total US – All Outlets; Quad Week Data Ending 3-19-17 and preceding; NBD Aligned to Multi-Outlet



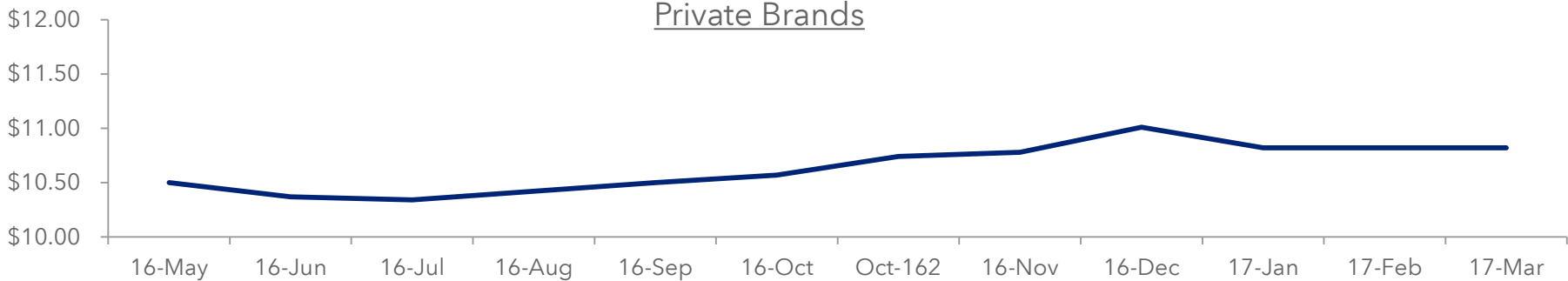
Private brand spending was less impacted by industry softness than national brands.

Edible Spending
Dollars per Trip

National Brands



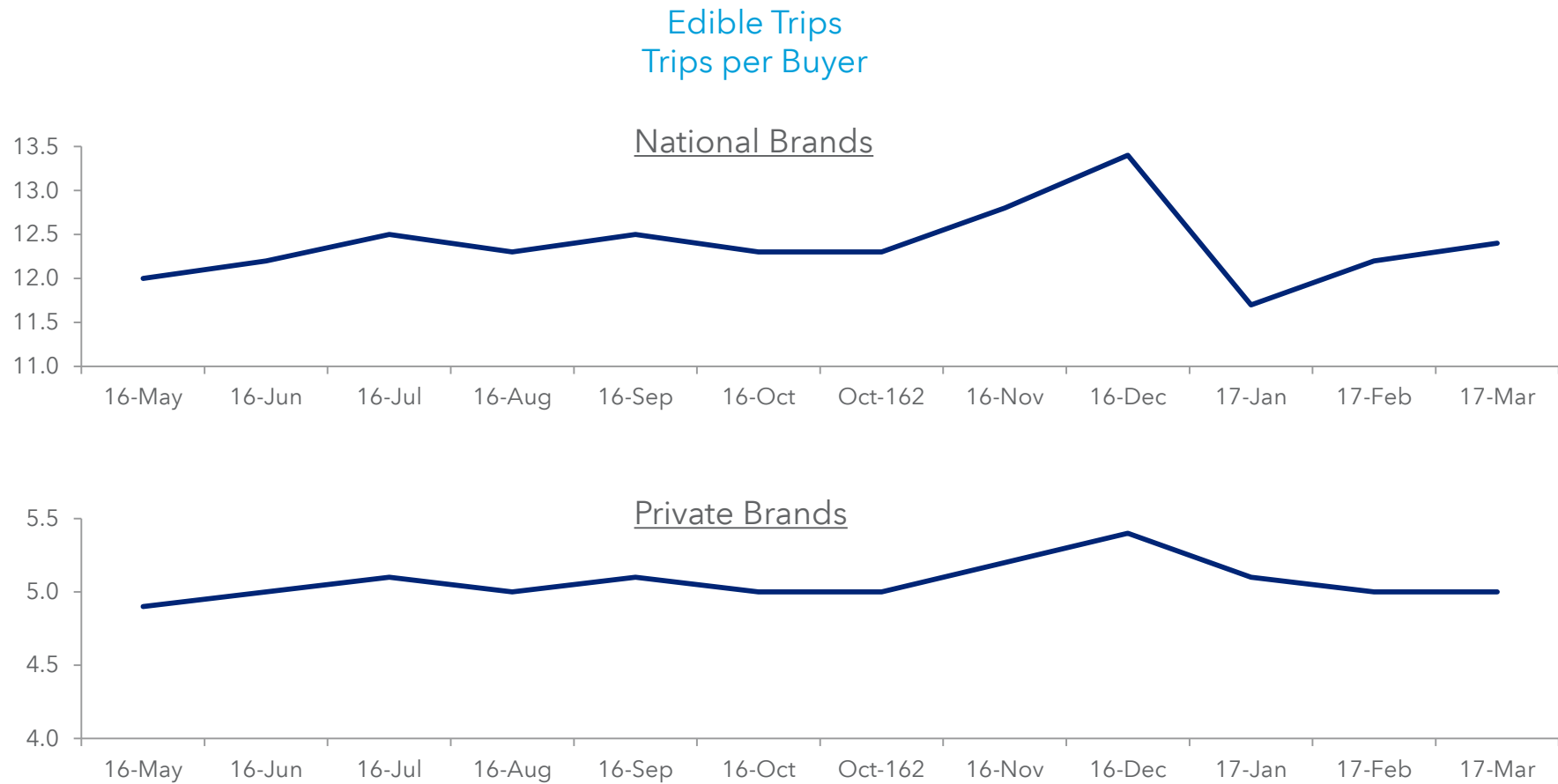
Private Brands



Source: IRI Consumer Network™, CSIA – Total US – All Outlets; Quad Week Data Ending 3-19-17 and preceding; NBD Aligned to Multi-Outlet

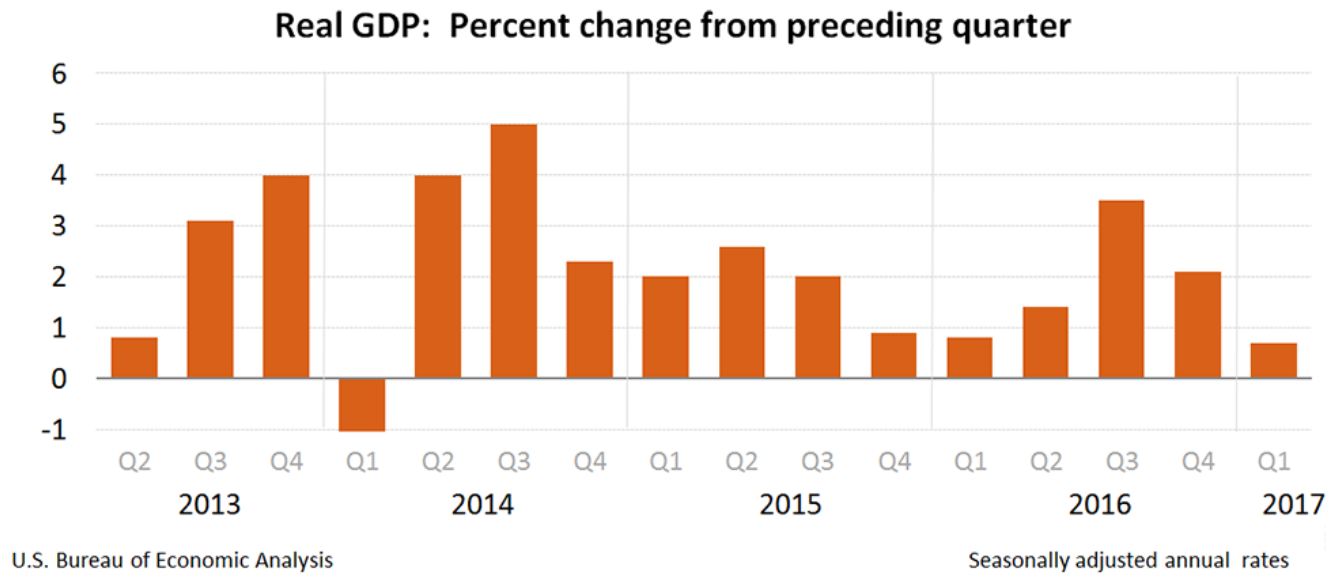


Private brand trips were also less volatile than national brands.



Source: IRI Consumer Network™, CSIA – Total US – All Outlets; Quad Week Data Ending 3-19-17 and preceding; NBD Aligned to Multi-Outlet

Q1 economic growth has been volatile in recent years, but hit a three-year low this year.



- Annual rate of 0.7 percent
- Negatively impacted by weak home heating and auto sales

Source: National Public Radio; Moody's

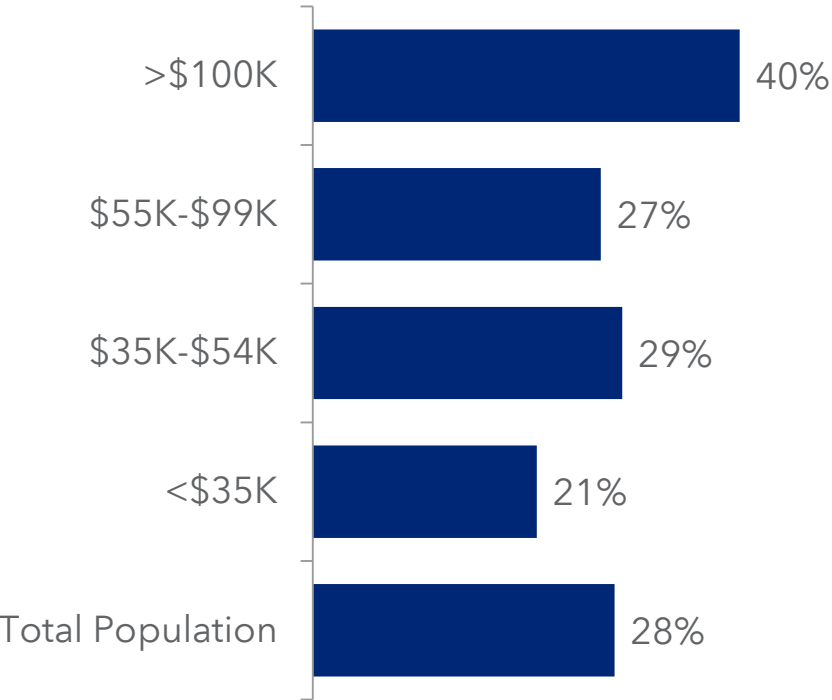
Still, economic expectations for 2017 are reasonable.

Economic Measure	2013	2014	2015	2016	2017P
GDP (% chg)	3.3%	4.2%	3.7%	3.0%	4.3%
Unemployment (% SA)	7.4%	6.2%	5.3%	4.9%	4.6%
Consumer Price Inflation (% Chg)	1.5%	1.6%	0.1%	1.3%	2.7%
Retail Sales (% Chg)	3.8%	4.1%	2.3%	3.0%	5.5%
Residential Permits, Total (Mil)	3.9	4.2	4.7	4.7	5.5

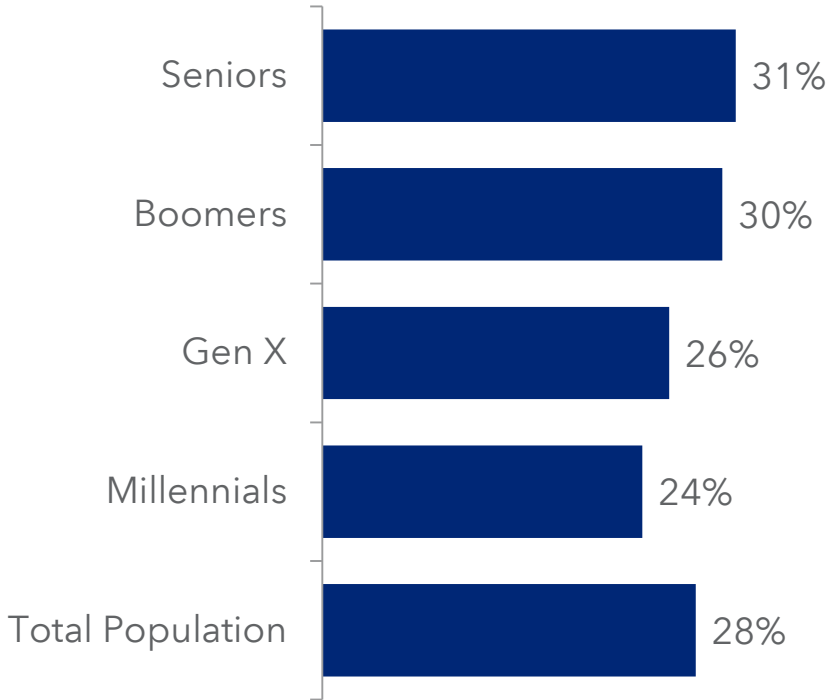
Source: Moody's

CPGs can encourage shoppers to trade up to premium-tier solutions with carefully targeted messaging that highlights smart splurges.

Expect to Purchase More Premium Brands During the Next Six Months, by Income



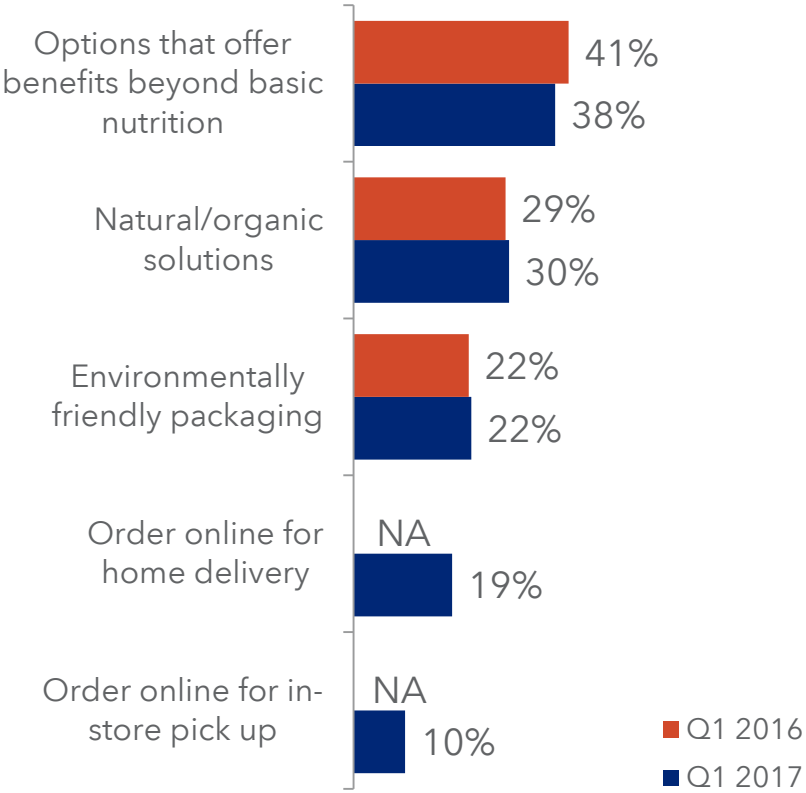
Expect to Purchase More Premium Brands During the Next Six Months, by Generation



Source: Consumer Connect™, Q1 2017 & Q1 2016

CPG marketers will build margin and share with messaging that underscores the value of in-demand bells and whistles.

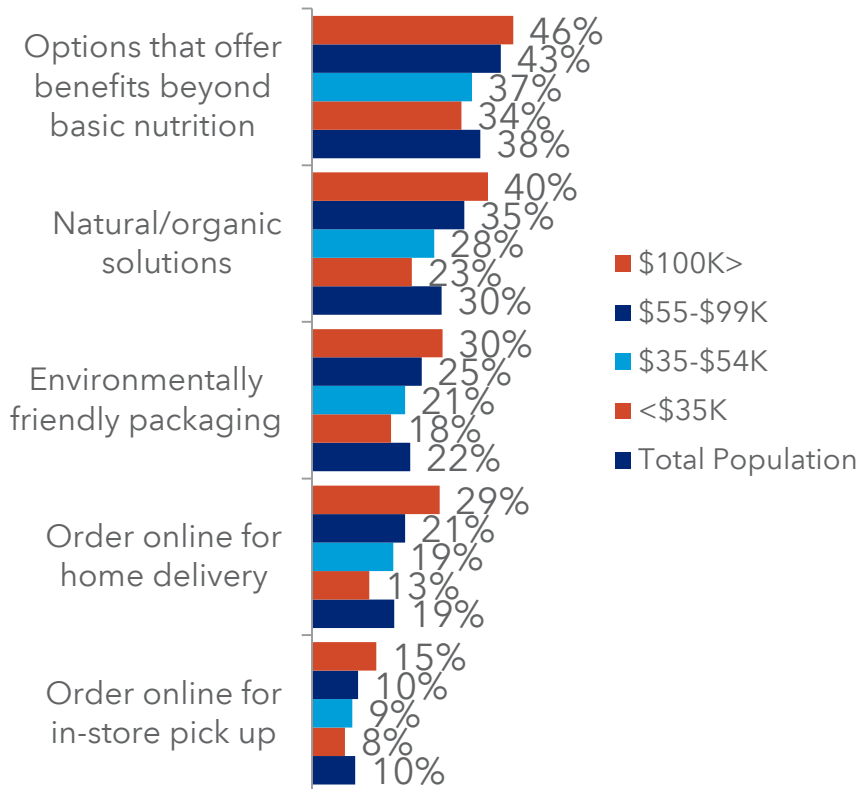
Consumer Willingness to Pay a Premium for...
Total Population



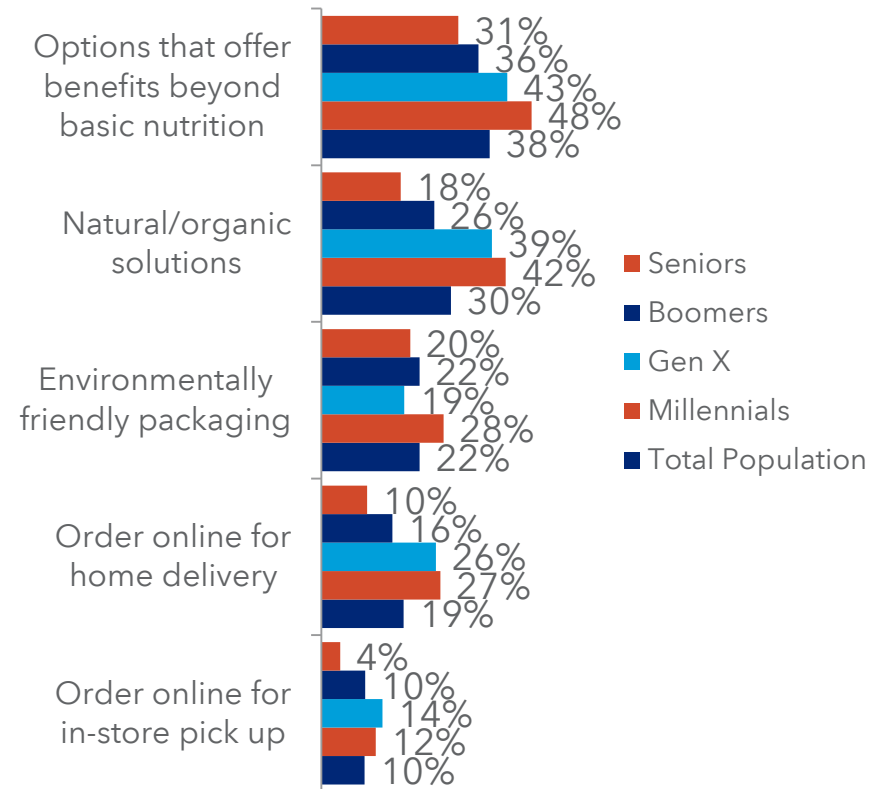
Source: Consumer Connect™, Q1 2017 & Q1 2016

Targeting against high-potential consumers is critical. For instance, millennials will pay more for online ordering with home delivery and wealthier shoppers will pay more for nutrition density and eco-friendliness.

Consumer Willingness to Pay a Premium for...
by Income



Consumer Willingness to Pay a Premium for...
by Generation



Source: Consumer Connect™, Q1 2017