

Food sector retail sales finished 2016 hinting of a sea-change for the coming year. Grocery store sales growth improved from a 2.8% year-over-year gain in November to a 3.6% gain in December. Meanwhile, foodservice and drinking place sales growth is still better than grocery stores, up 5.1% from a year earlier, but this was a slowdown from the November increase of 5.8%. For the economy as a whole, retail sales were up 4.4% from a year earlier in December, versus a 5.4% gain in November. There have been several times in the last three years when foodservice and drinking place sales growth slowed and grocery store sales growth held steady, but never a month when foodservice and drinking place sales slowed and grocery store sales growth accelerated.

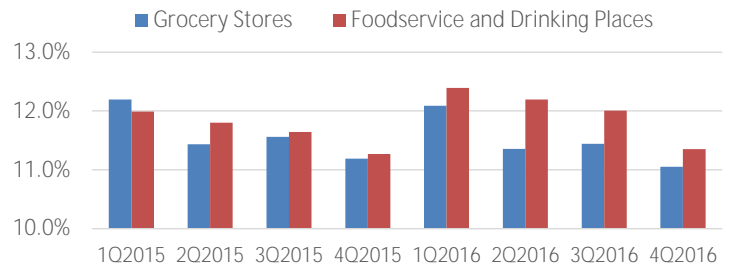
Foodservice and drinking place sales were up 6.0% for 2016 as a whole, with the highest quarterly growth rate coming in the first quarter of the year, a 7.2% gain. The final quarter of 2016 saw this category of retail sales post a 4.7% gain, the smallest year-over-year gain since the first quarter of 2014. The annual gain for foodservice and drinking place sales in 2015 was 8.1% and in 2014 the increase was 6.1%.

Grocery store sales growth for 2016 posted a gain of 2.3% from a year earlier, which compares with annual gains of 4.4% and 2.9% for 2014 and 2015, respectively. The low point for quarterly grocery store sales growth (on a year-over-year basis) was the last quarter of 2015, which conveniently allowed an easier basis of comparison for the just completed quarter.

Prospects for food sector retail sales this quarter are mixed, at best. The basis for comparison to the first quarter of 2016 is going to be challenging. The big jump in foodservice and drinking place sales in early 2016 sets the bar high for year-over-year comparisons. Grocery store sales comparisons don't face the challenge to the same degree, but grocery store sales growth in the first quarter of last year were still the best for any quarter of 2016. At least for the current quarter, it may be difficult for the food sector to post year-over-year sales gains that are even close to half the growth pace of a year ago.

Consumer spending trends in the first quarter of 2015 set an impressive profile for what was to follow during the rest of the year. Even with wages and salaries declining from the last quarter of 2014 to 1Q2015, consumers spent more than they did in the prior quarter. Food sector retail sales got a big portion of the expanded spending, moving from 23.5% of total retail sales in 4Q2015 to 24.5% of total retail sales in 1Q2016. This has been an interesting trend in recent years. From the last quarter of 2014 to the first quarter of 2015, food sector retail sales as a percent of total retail sales moved from 22.1% to 24.2% and from the last quarter of 2013 to the first quarter of

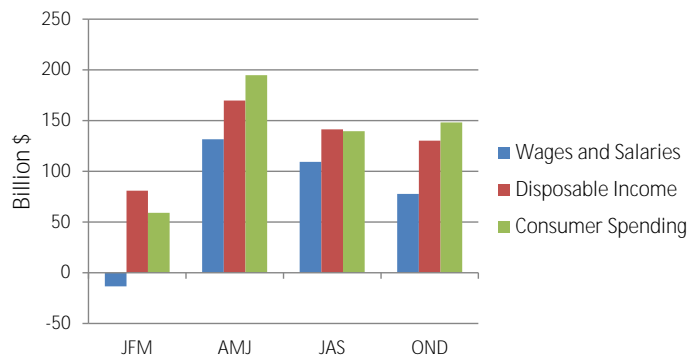
## Food Sector Retail Sales as Percent of All Retail Sales



Src: US Census Bureau

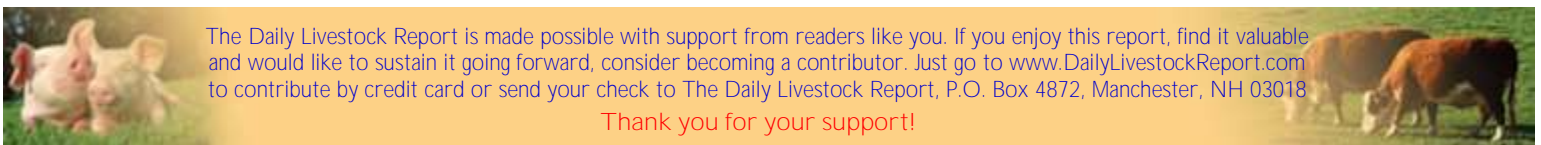
## Changes in US Consumer Situation

2016 Quarter-to-Quarter Change, Annual Adjusted Rate



Source: Department of Commerce, Bureau of Economic Analysis

2014 the share of total retail sales going to the food sector moved from 21.7% to 23.3%. Using this pattern as a template, and food sector sales in 4Q2016 that accounted for 22.4% for total retail sales, a 1% gain in share of total retail sales to 23.4% and extrapolating the December retail sales growth rate of 4.4% into 1Q2017 would result in food sector retail sales for the first quarter of 2017 that decline 0.2% from last year. A 2.1% jump in share of total retail sales gain similar to 2014/2015 results in a food sector retail sales percent of 24.5 and sales growth of 4.5% compared to a year ago. Given the retail sales gains that have been typical in recent years, a 4.5% increase for current quarter food sector retail sales is not that exciting.



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