

TIMES & TRENDS

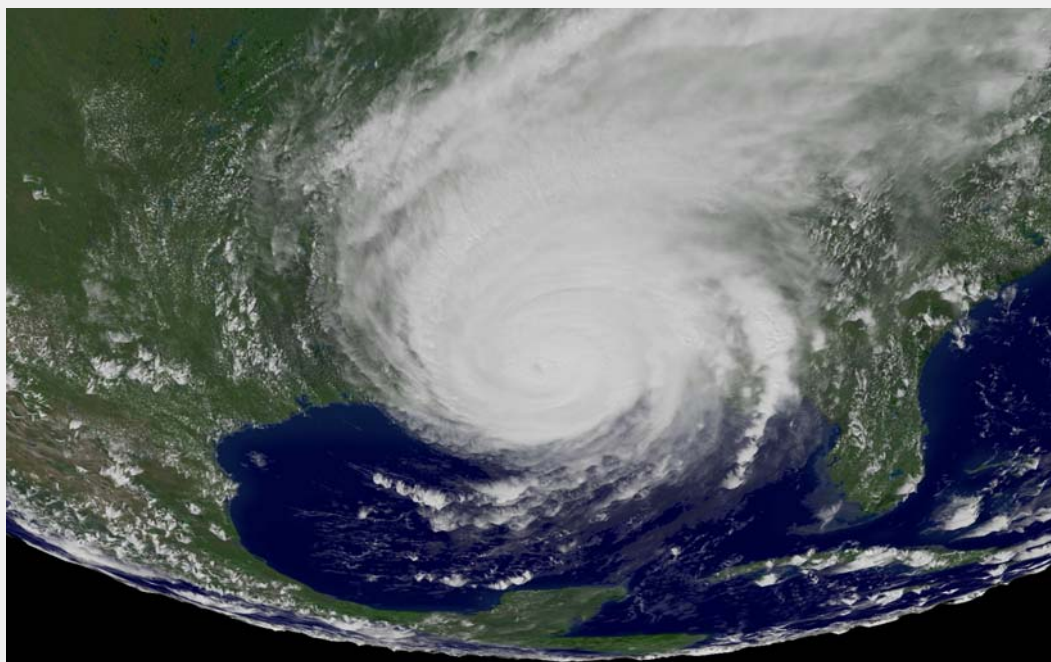
A SNAPSHOT OF TRENDS SHAPING THE CPG INDUSTRY

SEPTEMBER 30, 2005



IMPACT OF HURRICANE KATRINA

TWO WEEKS AFTER
REPORT THREE IN A FOUR-PART SERIES



Source: NESDIS

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EXECUTIVE SUMMARY

- **Total CPG demand remains elevated but is stabilizing.**
Significantly heightened demand for CPG products the week following Hurricane Katrina has lessened somewhat, but dollar sales are still 3% above the pre-hurricane period as Gulf Coast consumers replenish and other consumers rally to help victims with product donations.
- **Hurricane-related food and beverage sales remain strong but shift in focus.**
Demand for shelf-stable foods and beverages skyrocketed in the weeks before and immediately after the hurricane. While growth has slowed slightly among the food categories, shelf-stable beverage category growth is exceptionally strong. Focus has shifted from bottled water to other beverages, and convenient meal solutions are on the rise as consumers settle into both temporary and permanent new housing.
- **Demand for products needed in power outages has diminished.**
Increased consumer need for batteries, flashlights, and candles has diminished; sales of these products are now flat or declining.
- **Urgent demand for basic personal care products has moderated.**
Demand for personal care basics – shampoo, soap and dental products– was only slightly elevated prior to the hurricane but spiked the week after as displaced consumers were left without these basic necessities. Sales growth continues to be above-average but well below the prior week's double-digit increases.
- **Consumers have resumed spending on baby care, frozen foods and healthcare.**
Total U.S. sales across these departments declined in the week prior to Katrina as Gulf Cost consumers focused on immediate priorities and avoided foods requiring refrigeration. Sales bounced back in the week after the hurricane and remain strong as consumers catch up on missed purchases.
- **Anticipated CPG price increases have not materialized (with a few exceptions.)**
Despite concerns that hurricane-related fuel cost increases would be passed on to consumers, total CPG pricing is actually below pre-Hurricane levels. Further, speculation that coffee and sugar retail prices would rise due to production and/or port disruptions has not held true. Chocolate prices, however, have increased significantly.

INTRODUCTION

As Gulf Coast consumers make plans to rebuild their lives following Hurricane Katrina's devastation, consumer packaged goods (CPG) manufacturers and retailers are examining and enhancing disaster plans in an effort to ensure that they are prepared to meet consumer needs during catastrophic events.

This four-part series provides insight into consumer purchase behavior across product categories before and after Hurricane Katrina to provide the CPG industry with strategic guidance in disaster planning efforts.

The first two reports in this series highlighted huge surges in demand across select product categories, including protein-rich shelf-stable foods, beverages, flashlights and batteries as consumers stocked up before the hurricane and sought to meet basic needs in its aftermath. This third report examines sales trends two weeks after Hurricane Katrina hit the Gulf Coast on August 29, 2005.

Given intense speculation regarding the impact that Hurricane Katrina will have on prices due to production and distribution disruptions in products such as sugar, cocoa and coffee as well as higher fuel costs that may be passed on to consumers, this report also provides an in-depth assessment of pricing changes.

As detailed throughout the report, heightened demand for CPG products has continued in the second week after Katrina, albeit at a lower rate than the week immediately following the hurricane. We have seen a slight shift in focus from the most basic necessities, such as water and sources of protein to a broader array of beverages and convenient, easy-to-prepare meals.

Prices in the most heavily impacted markets have risen significantly as demand outstrips supply, but the CPG industry as a whole has not experienced price increases. Even sugar and coffee prices are in line with pre-Hurricane pricing. (Chocolate is the one exception.)

Over the next two weeks, we expect total CPG growth to return to normal levels as hurricane victims settle into a new lifestyle. We will also see an acceleration in the shift from the basics to greater variety and a major focus on convenience.

CPG INDUSTRY IMPACT

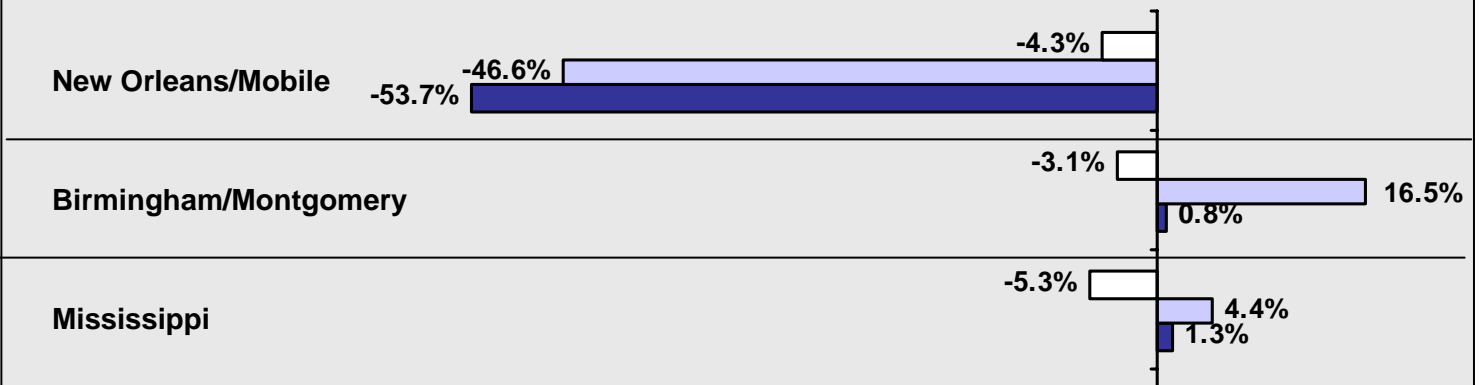
CPG demand remains slightly elevated, but is stabilizing.

Following a 9% increase in total CPG dollar sales within the grocery channel in the week immediately following the hurricane, growth has slowed to 3% (sales across both time periods are slightly inflated due to the impact of labor day). Even within the most heavily impacted markets, such as Birmingham/Montgomery Ala., and Mississippi, sales are near pre-hurricane levels.

New Orleans La. /Mobile Ala. sales continue to be dispersed to other areas with large refugee populations, such as Houston, whose sales continue to outpace the total industry.

Total CPG Grocery Channel Dollar Sales % Change vs Pre-Hurricane Week (Week Ending 8/21/2005)

--AFFECTED MARKETS--



--SURROUNDING AREAS--



Week Before (w/e 8/28)
 Week After (w/e 9/4)
 Two Weeks After (w/e 9/11)

Source: IRI InfoScan®

HIGH-DEMAND CATEGORIES

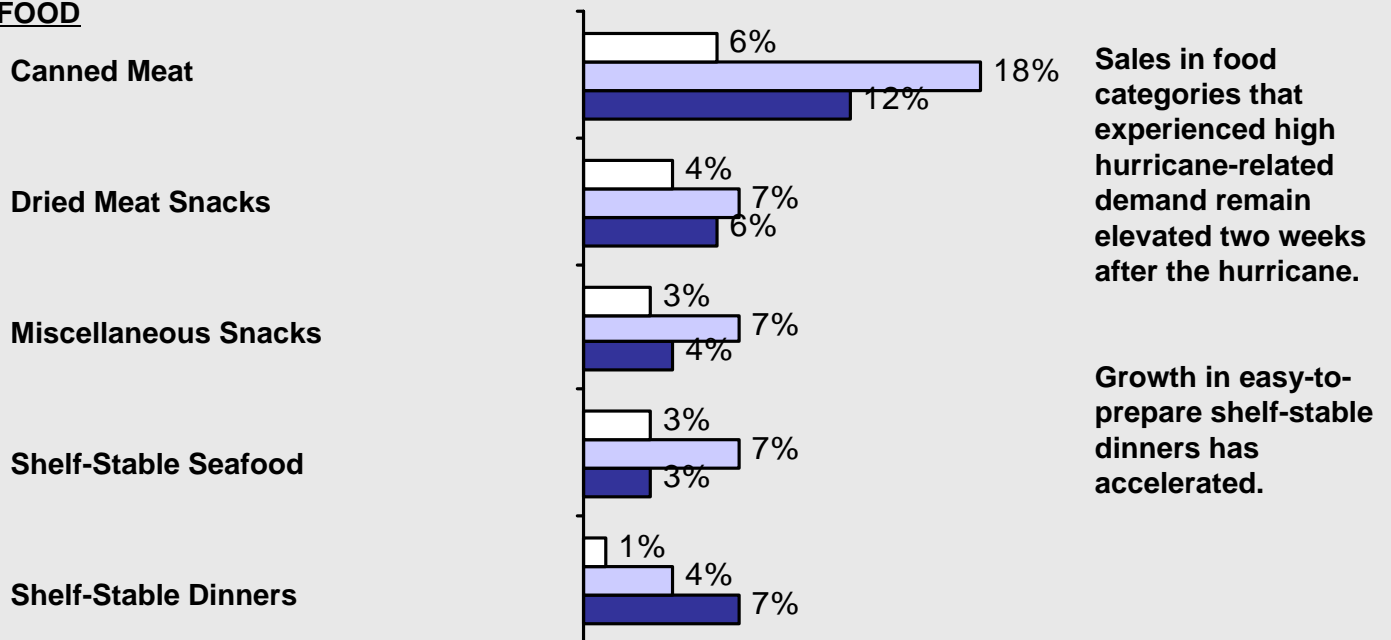
Hurricane-related food and beverage sales remain strong but shift in focus.

High consumer demand for shelf-stable food and beverages has been sustained; however, consumers appear to be shifting focus from basic needs to greater variety. For instance, consumers have increased purchases of beverages other than water and convenient meals.

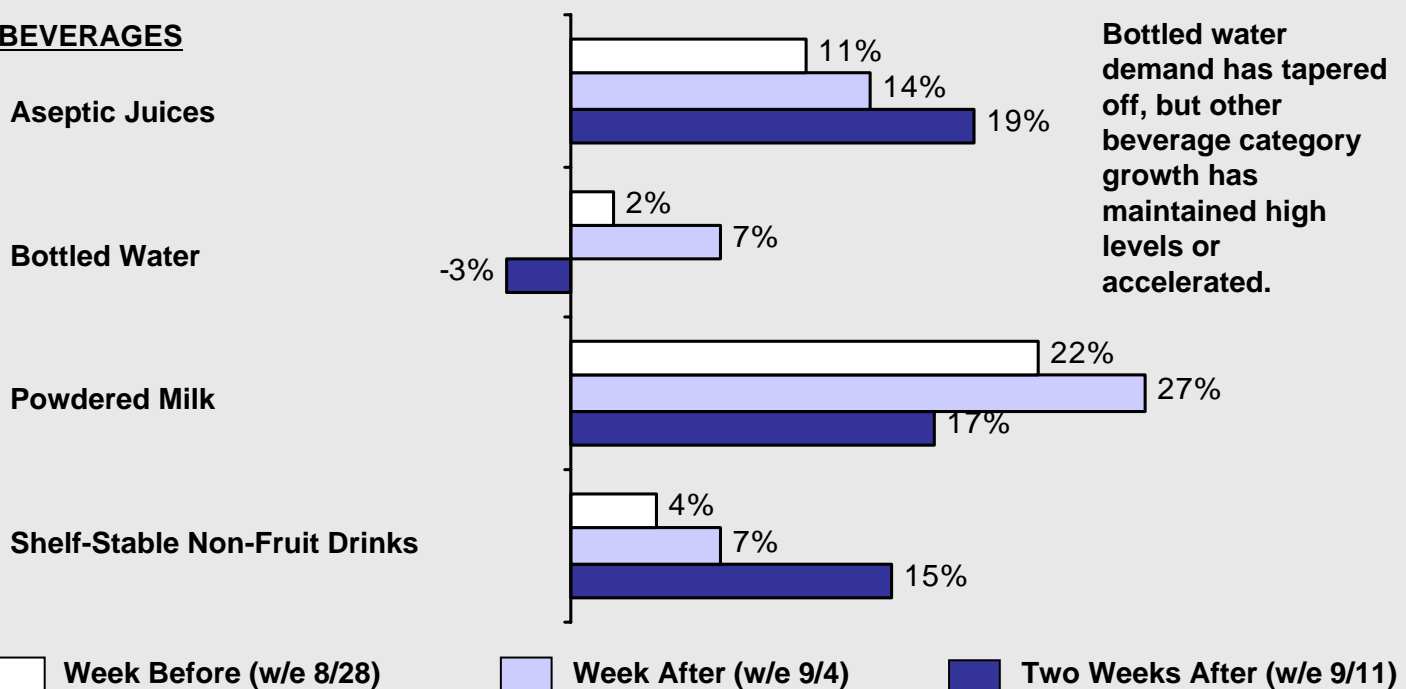
Hurricane Katrina High-Demand Food & Beverage Categories

Total U.S. Grocery Channel Unit Sales % Change vs Pre-Hurricane Week (Week Ending 8/21/2005)

FOOD



BEVERAGES

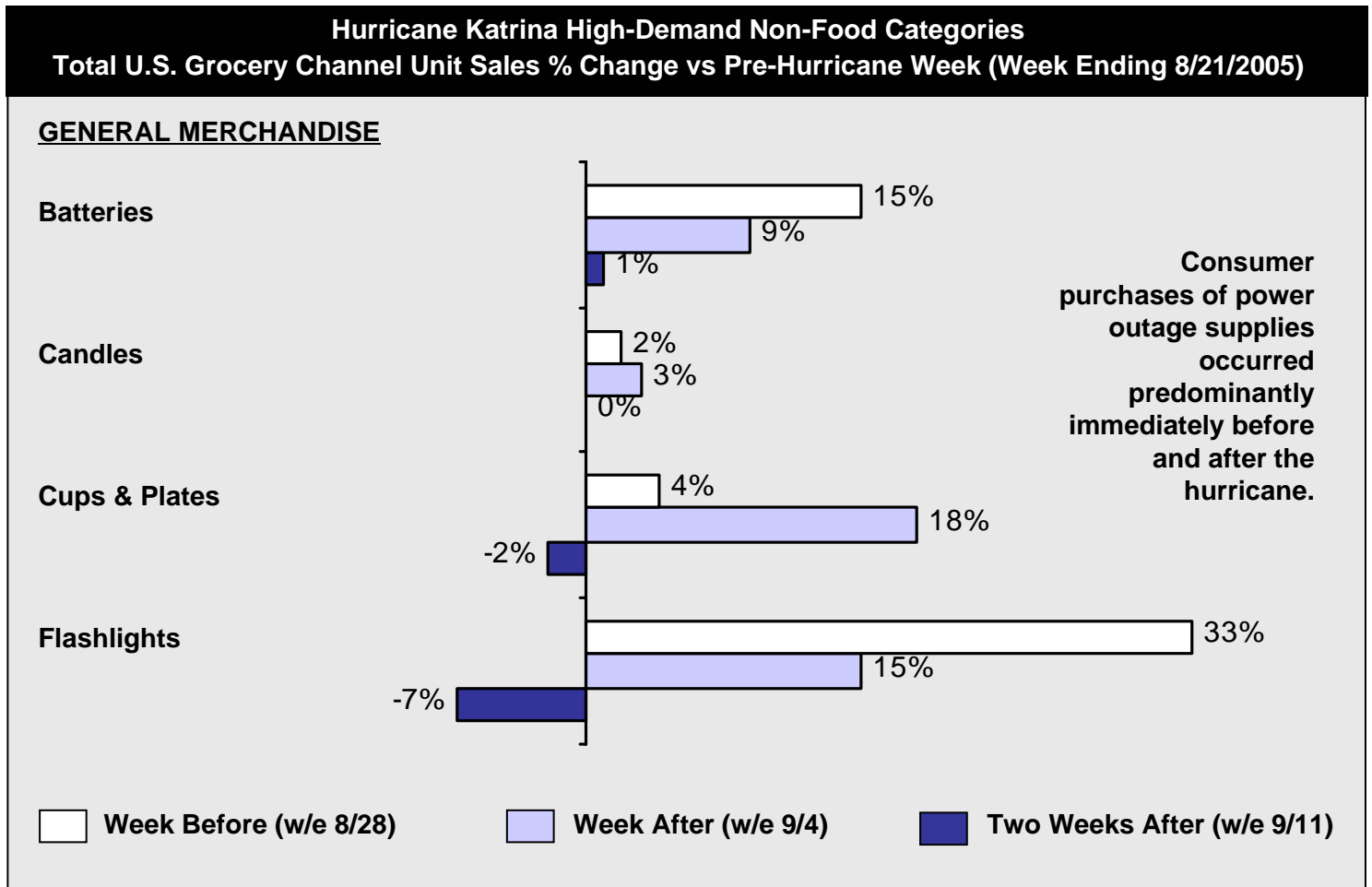


Source: IRI InfoScan®

HIGH-DEMAND CATEGORIES (CONT'D)

Demand for products needed in power outages has diminished.

Consumers purchased an array of products, including flashlights and batteries to help them manage through power outages. Two weeks after the hurricane, however, purchases in these categories have returned to normal levels or declined as consumer attention shifts to food, beverages and personal care.



Urgent demand for basic personal care products has moderated.

As displaced consumers were left without basic personal care necessities in the week following Katrina – including soap, shampoo and dental products, demand for these products increased substantially in affected markets and throughout the U.S. as consumers made product donations to victims.

Growth rates came down in the second week, indicating that the enormous and urgent need had been to a large extent satisfied. Growth rates will likely return to pre-hurricane levels within the third post-hurricane week.

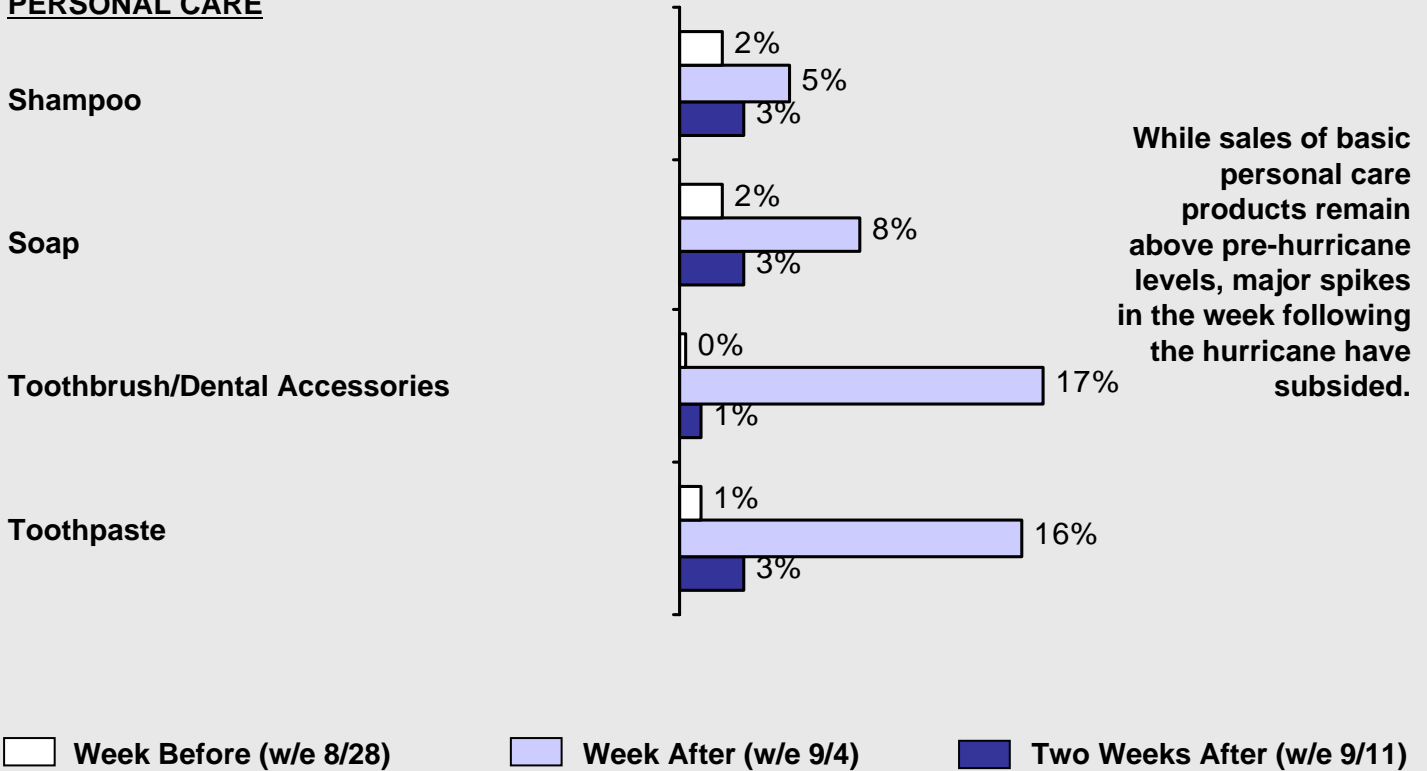
Source: IRI InfoScan®

HIGH-DEMAND CATEGORIES (CONT'D)

Hurricane Katrina High-Demand Non-Food Categories

Total U.S. Grocery Channel Unit Sales % Change vs Pre-Hurricane Week (Week Ending 8/21/2005)

PERSONAL CARE



NEGATIVELY IMPACTED CATEGORIES

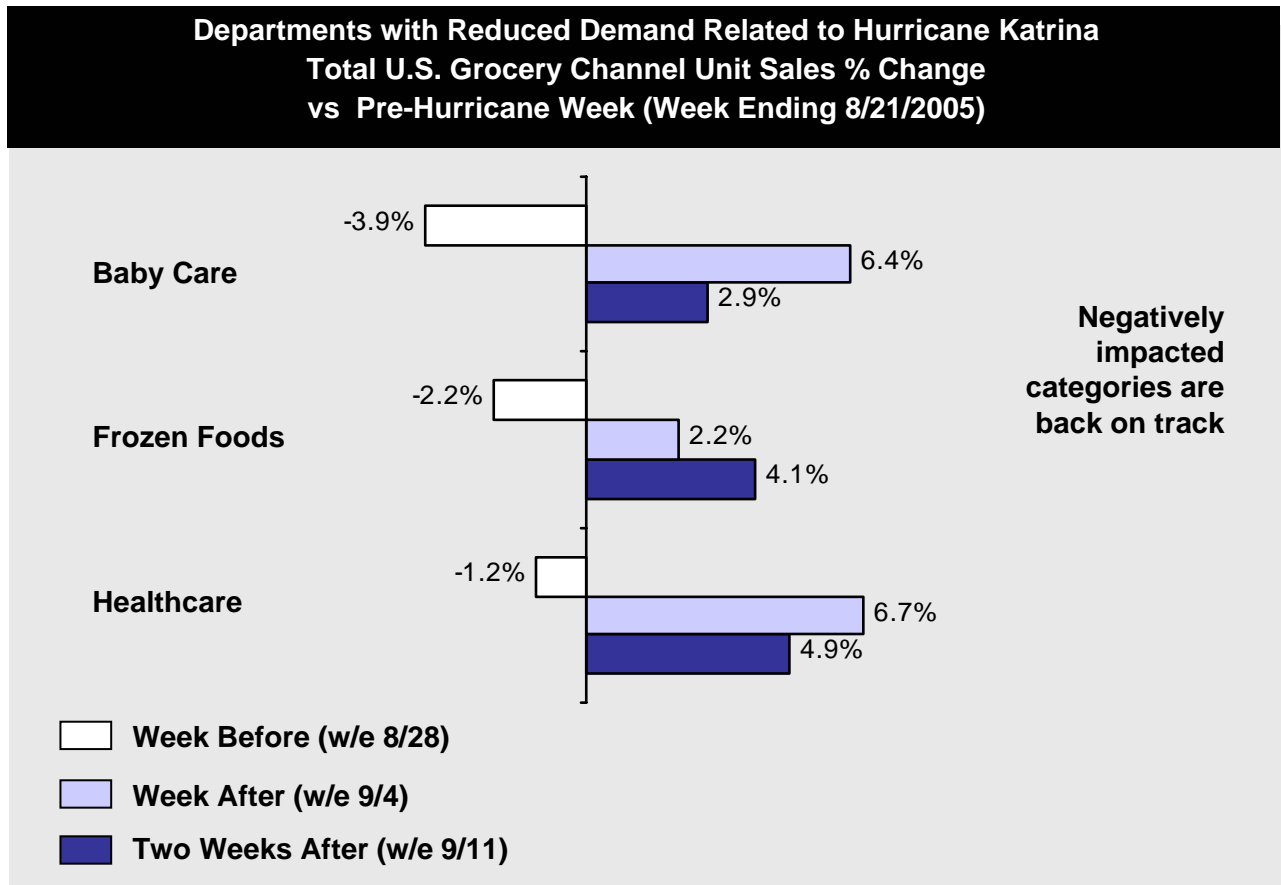
Consumers have resumed purchases of baby care, frozen foods and healthcare.

Focusing on the most basic necessities, Gulf Coast consumers reduced purchases of baby care and healthcare products in the week before the hurricane, resulting in a reduction in total U.S. sales of these products. In addition, apparently planning for lack of access to refrigeration, these consumers also suspended spending on frozen food products—driving down industry sales. (Note: As highlighted in *Impact of Hurricane Katrina: Report One*, select pet care and dairy products also declined in affected regions prior to the hurricane, but total U.S. sales in these departments remained positive.)

Sales across these departments have rebounded -- frozen foods more slowly than the other departments, as consumers have shifted focus and are now catching up on missed purchases.

Source: IRI InfoScan®

NEGATIVELY IMPACTED CATEGORIES (CONT'D)



PRICING IMPACT

Anticipated CPG price increases have not materialized (with a few exceptions.)

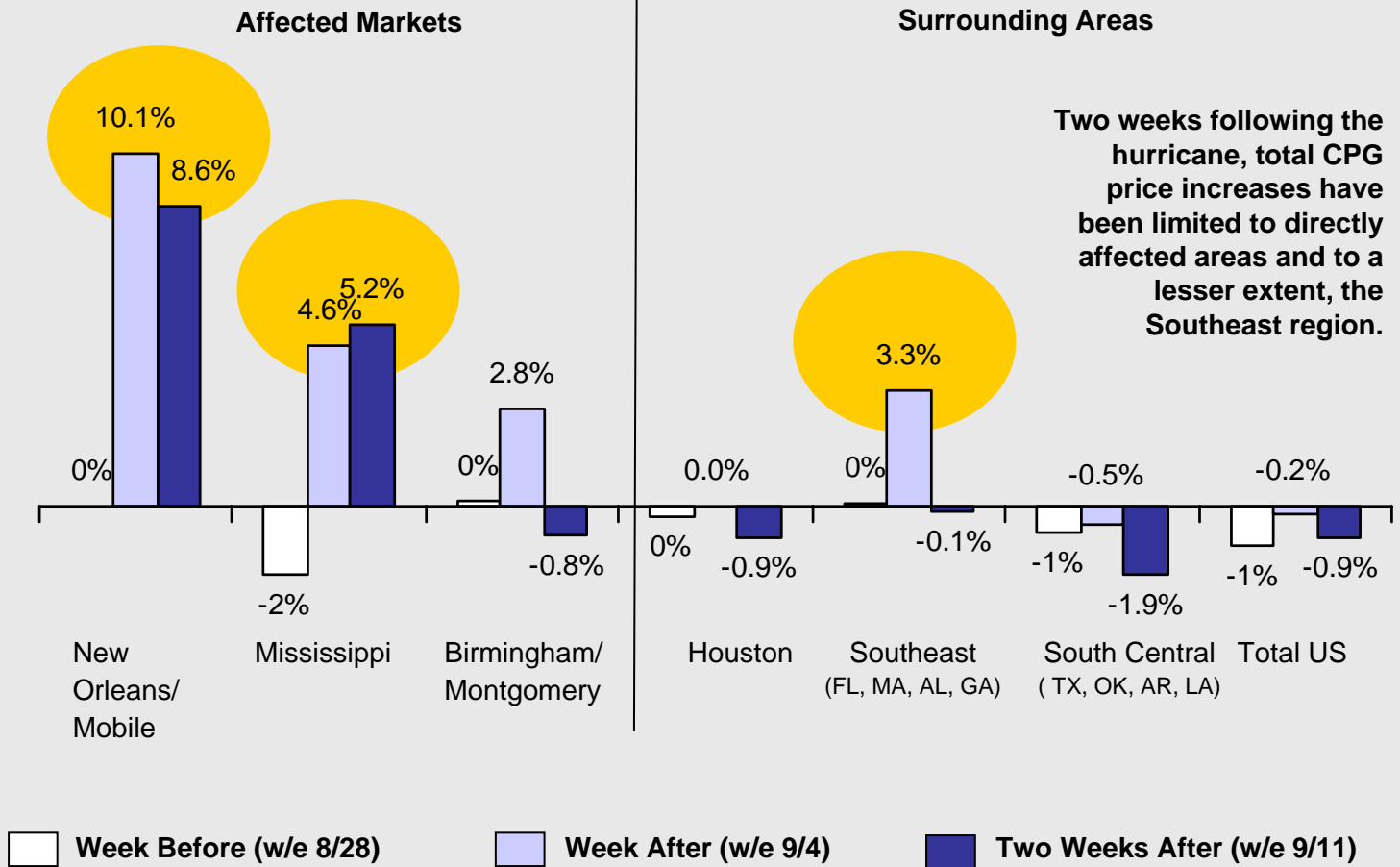
Throughout the CPG industry, there has been a great deal of speculation regarding if and when CPG price increases will take hold as a result of Katrina. Not only did Katrina drive up fuel costs, which may ultimately need to be passed on to consumers, but major Gulf Coast ports and agriculture were devastated, potentially driving up pricing of coffee, sugar and cocoa, among other products.

As illustrated in the following charts, within the two-week period after the hurricane, however, total CPG pricing actually declined. The most heavily impacted markets, including New Orleans and Mississippi have had sustained CPG price increases, as demand in these markets has outstripped supply. These increases have cut across a majority of CPG categories.

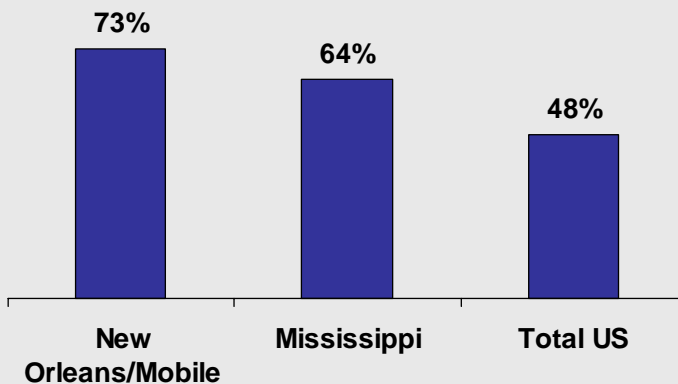
Source: IRI InfoScan®

PRICING IMPACT (CONT'D)

Total CPG Grocery Channel Average Unit Price % Change vs Pre-Hurricane Period (Week End 8/21/2005)



% Total CPG Categories with Average Unit Price Increases – Grocery Channel Two Weeks After Hurricane (Week End 9/11/2005) vs Pre-Hurricane Period (Week End 8/21/2005)



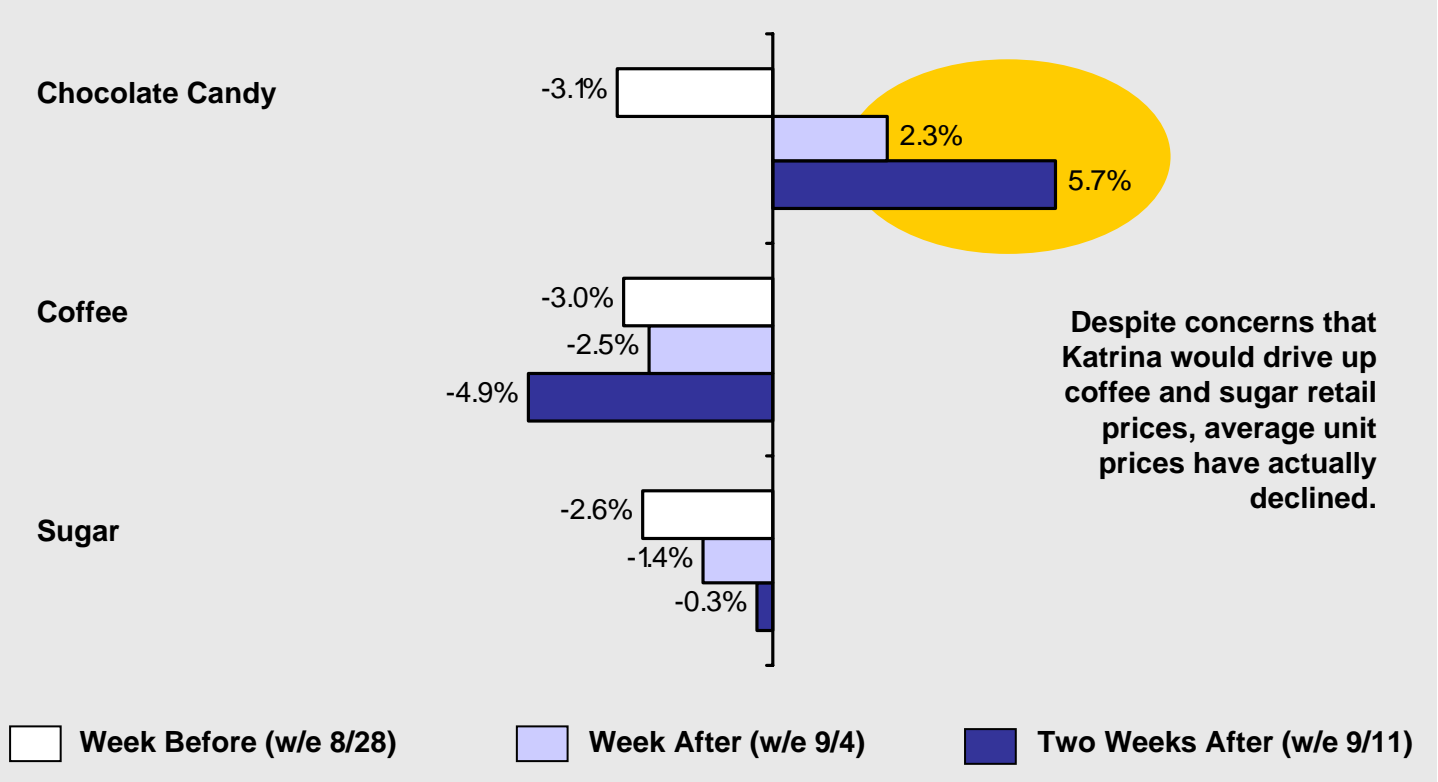
Price increases in markets directly impacted by Hurricane Katrina span across a majority of CPG categories.

PRICING IMPACT (CONT'D)

Contrary to speculation, neither coffee nor sugar retail prices have increased as a result of Katrina. In fact, average pricing has declined. Chocolate candy prices, however, have risen significantly.

Prices will need to be carefully monitored, particularly if fuel costs continue to rise, to determine if manufacturer and retailer cost increases will eventually drive up consumer prices.

Total U.S. Grocery Channel Average Unit Price % Change vs Pre-Hurricane Period (Week End 8/21/2005)



CONCLUSIONS

- During catastrophic events, retailers and manufacturers should anticipate elevated demand in high-risk regions the week prior to the event (assuming a warning of the impending disaster has been provided) among basic food necessities (shelf-stable, high in protein), bottled water and other shelf-stable beverages, as well as power-outage supplies (ie batteries, flashlights, candles.)
- In the one-to-two weeks following the event, increased inventory will be required in the categories mentioned above as well as basic personal care items throughout the country.
- By the second week, when displaced consumers are settled in at least temporary housing, demand for convenient meal solutions will likely increase.
- Elevated CPG demand is not likely to continue beyond three-to-four weeks following an event of this nature.
- Incremental inventory in preparation for such events may help alleviate price increases to consumers in heavily impacted markets.
- While Hurricane Katrina has not yet impacted pricing across the industry at large, the ripple effects may drive price increases in the coming weeks or months and must be closely monitored.

FOR MORE INFORMATION

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