

## **Economic Importance of Local Food Markets: Evidence from the Literature**

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### **Abstract**

In recent years, the demand for local food by consumers has grown significantly. The Direct-to-consumer marketing of local foods grossed \$4.8 billion in 2008. Many studies have addressed purchases of local food directly from producers in the southeastern region of the United States. Many of these studies show that consumers of local foods are willing to pay premiums for local foods. Data from the 2012 US Census of Agriculture shows that, on average, direct-to-consumer food sales accounted for 5.5% of all farm sales. The goal of this paper is to enhance awareness of the growing demand for local foods. Specific objective is to discuss the contributions of local food markets to the economy. Secondary data from existing research and the Census of Agriculture were used in summarizing information presented in this paper. Evidence from literature reviewed shows that local markets have positive impacts on the local economy.

**Keywords:** local food, food markets, farmers' markets, food banks/stores, rural economies

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## Introduction

Local food systems have developed at varying rates depending on regional differences (Goodwin 2013) with substantial growth in the last few years (Reynolds-Allie et al. 2013). The definition of LGF has varied as indicated in the literature. According to the 2008 Food, Conservation, and Energy Act, “local” includes food produced within 400 miles of its origin (Hand and Martinez 2010). Generally, local foods are foods sourced from nearby producers and farmers. Institutional markets have begun developing their own definition of local foods (Earth Fare 2014). Although interest is increasing and definitions have yet to be standardized, there is still a question of the importance of LGF to local, state, and national economies. Tropp (2013) highlighted data from a US Census of Agriculture, which showed that direct-to-consumer food sales only reflected 5.5% of all farms (on average) and 0.3% of total farm sales between 1978 and 2007. “Edible farm foods for human consumption” increased from \$404 million to \$1.2 billion from 1992 – 2007. This notwithstanding, the demand side of direct-to-consumer food sales is growing rapidly. In addition, the marketing of local foods through direct-to-consumer food sales and intermediary channels grossed \$4.8 billion in 2008. Small farms (with sales less than \$50,000) represented 81% of all local food sales (Low and Vogel 2011). There is growing interest in developing local food systems in the southeastern region. Palma et al (2013) highlighted the fact that the predominant food category sold at farmers markets was fresh fruits and vegetables as indicated in the 2007 Census of Agriculture. Ahearn and Stern (2013) found that size was positively correlated with performance of direct-to-consumer farms in the southeast.

## Local Food Markets

Direct-to-consumer arrangements such as regional farmers’ markets and direct-to-retail-foodservice arrangements such as farm sales to schools), are well-recognized as local food markets. Local food markets account for a small but growing share of total US agricultural sales. The structure of these supply chains can take numerous forms. Approximately 48,371 farmers sold about \$4.8 billion of locally sourced food through intermediated marketing channels. Although fewer than 30% of local food farms reported intermediated sales of local food, they account for almost 80% of all local food sales (Vogel and Low 2015).

## Objectives of Paper

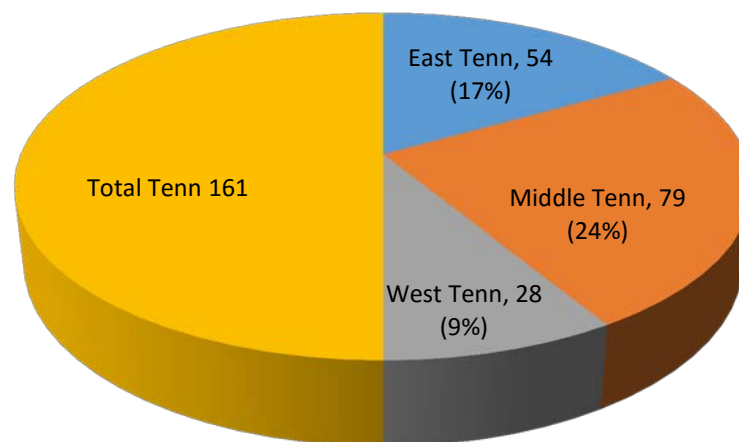
This paper discusses the economic importance of local food markets on the local economy.

## Review of the Literature

As noted in Palma et al. (2013), more than ever before, local food systems are attracting more attention from producers, food retailers and consumers. This peak in interest comes, not only from concerns for food safety, but from interests in consuming domestic products, the increasing demand for local food and lower transportation costs associated with buying local. Perceptions that local foods are of higher quality have also contributed to the expanded interest in local foods (Nonaka and Thiemann 2011). Interest in local foods has generated many regional food hubs. In recent years, the contribution of agriculture to rural employment and income has diminished, forcing them to explore alternative revitalization strategies to remain competitive. One

innovative strategy involves the establishment of local food markets that provide income opportunity for local farmers. From 2011 to 2012 there was a 9.6% increase in the number of farmers markets in the United States. In 2011, the USDA identified 7,175 farmers markets operating throughout the US compared to 7,864 in 2012, according to information provided by farmers' market managers across the country. Farmers markets are an important part of the local food system providing income opportunities for farmers and the community with fresh, healthy and nutritious foods. USDA's support for small and mid-sized farmers help local and regional food systems, and increase consumer access to fresh, healthy food in communities across the country. Through its Food and Nutrition Service (FNS) program, more farmers markets are now equipped with the ability to accept SNAP (Supplemental Nutrition Assistance Program, formerly food stamps), payments for purchases. The program provided \$4 million dollars in available funding to equip farmers' markets with wireless point-of-sale equipment. Currently, over 2,500 farmers markets are using Electronic Benefit Transfer technology.

In 2015, a total of 161 farmers markets were identified in Tennessee with seventy-nine in Middle Tennessee, fifty-four in East and twenty-eight in West Tennessee (Figure 1). This represents a threefold increase from the fifty-five markets previously identified by Bruch et al. 2006. The number of farmer markets tripled from fifty-five markets to 161 markets. Farmers markets allow local farmers to offer consumers everything from food items (fruits, pumpkins, vegetables, agrotourism...agricultural related products to cut-your-own Christmas trees! Producer-to-consumer local food "Pick TN Products" directly connects consumers with local foods and farm experiences (Pickyourown.org – Tennessee 2015). The emergence of local food markets has led to significant growth in local food hubs in the United States. A study conducted by the US Department of Agriculture noted that there were about 240 food hubs in forty states (plus the District of Columbia), in 2012. Local food hub memberships usually consist of small family farmers who supply nutritious and fresh food year-round (Powers 2014). In whatever form or format they are organized, local food hubs allow money that could be spent elsewhere to be spent locally. Farmers are helped and encouraged to act as entrepreneurs and businessmen and women. Money generated and circulated in local economies help strengthen rural areas.



**Figure 1.** Farmers Markets in Tennessee.

## Methodology

Secondary data from existing publications were collected and analyzed to accomplish the objectives of this paper. Descriptive techniques were used for organizing and presenting information.

## Findings

The following section provides a discussion of some existing research in support of the contributions of local food markets to economic development and well-being. When consumers spend money on local foods rather than foods imported from other areas, the money stays within the local area, and their food dollars remain in their local communities. Local food systems can positively impact the local economy by generating economic development through income and employment growth. The expansion of local foods may be a development strategy for rural areas (Ross et al. 1999; Marsden et al. (2000); and marketumbrella.org 1999). Zepeda and Li (2006), Darby et al. (2008), Starr et al. (1999), and Starr et al. (2003) noted how farmers' were able to retain a greater portion of their food dollar by eliminating middlemen through shorter food supply chains. This benefitted the farmers and their communities. Ronnie et al. (2006) acknowledged that local food systems may encourage growth in local labor markets. Expansion in local food systems could impact local economies through import substitution. If consumers purchase food produced within a local area instead of imports from outside the area, sales are more likely to accrue to residents and businesses within the area. This may then generate additional economic impacts as workers and businesses spend additional income on production inputs and other products within the area (Swenson 2009). Existing literature showed that local foods can have positive impacts on local economic activity through localization of processing activities. Swenson (2009) used the Input-Output model to predict that locally produced fruits, vegetables, and meat products would increase output, employment, and labor incomes in Iowa by encouraging the development of direct marketing facilities including slaughtering and processing. Farmers' markets have positive impacts on local economies. Otto and Varner (2005) estimated that each dollar spent at farmers' markets in Iowa generated fifty-eight cents in indirect and induced sales, and that each dollar of personal income earned at farmers' markets generated an additional \$0.47 in indirect and induced income. Each full-time equivalent job created at farmers' markets supported close to one-half of a full-time equivalent job in other sectors of the Iowa economy. Multipliers associated with farmers' markets in Oklahoma have been estimated to be between 1.41 and 1.78 (Henneberry et al. 2009). In an effort to assess the economic impacts of expanding the local food production, the Plan East Tennessee Foodshed Assessment study examined the Knoxville Regional Foodshed System consisting of eleven counties in East Tennessee. The foodshed had 734,000 acres of farmland, at least twenty-two farmers markets selling food from fifty-nine farms. About forty-nine grocery stores, restaurants and manufacturing businesses were using locally sourced foods. Analysis conducted on data collected showed that growing and processing 20% of key food-groups locally would generate \$500 million of additional economic activity, create nearly 5,000 new jobs, and generate \$5.8 million in local and state taxes. The study showed that in 2013 dollars, estimated expenditure for the 20% local food consumption amounted to \$340.0 million for the Knoxville Foodshed study area. Estimated expenditure level was able to support about 3,425 direct jobs with a direct income earned of \$35.0 million. The direct value added impact was \$71.0 million while the

indirect impact on the output of all the local suppliers for the foodshed was \$103.9 million. Labor income impact was found to be \$88.0 million. For value added and indirect business taxes, the total estimated impacts are \$157.0 million and \$5.8 million, respectively. A 20% increase in local food consumption in the foodshed would generate \$5.8 million in state and local taxes and \$11.1 million in federal taxes. For every dollar spent for local food consumption within the study area, an additional \$0.51 in economic activity would be generated throughout the study region. The employment multiplier was 1.49 implying that for every job created from a local food consumption policy, an additional 0.49 jobs are created in other industries throughout the region.

## Conclusions

This paper was an attempt to demonstrate that local markets are essential to the economy through a survey of existing research. The literature shows, these markets contribute significantly to enhancing incomes, employment and overall well-being of local communities. Research suggests they will continue to flourish and play a critical role in future economic development. Further research examining the structure and performance of farmers markets will shed more light on their impact in the context of the rural urban dialogue.

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