

Extended Abstract

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Paper/Poster Title	<u>Product Entry and Exit and Taste Changes across Income Groups: Evidence from the UK Ready Meals Sector</u>
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Abstract prepared for presentation at the 98th Annual Conference of The Agricultural Economics Society will be held at The University of Edinburgh, UK, 18th - 20th March 2024.

Abstract	<i>200 words max</i>
<p>Using the Feenstra measure (Feenstra, (1994) and Broda and Weinstein (2010)), we empirically derive the elasticities of substitution for ready meals to derive CES price indices from which we can then derive the impact the net entry/exit of product varieties. Our focus on the UK ready meals sector and detailing the non-homotheticity of household responses provides more granular insights into what aspects of product entry and exit drives the changes in CES price indices. These differences reflect entry and exit of private labels and branded varieties and the introduction of healthy products that may have a differential impact across income groups, characteristics that the ready meal category exemplifies. Finally, following Redding and Weinstein (2020), we also derive changes in taste patterns and how they vary across income groups.</p>	
Keywords	Product Entry/Exit; Taste Changes; Price Indices
JEL Code	E31; D12; L66.
Introduction	<i>100 – 250 words</i>
<p>Appropriately measuring price changes for households across the income spectrum constitutes an important empirical challenge and which has considerable policy significance in addressing the measurement and consequences of inflation. In this context, a long-standing challenge in economics has been to measure the impact of the changing composition of goods and services available to consumers, whether this process is a consequence of globalisation (see, for example, Feenstra (1994) and Broda and Weinstein (2006)), or through product innovation (see, for example, Jaravel (2019)). In doing so, this line of research has also highlighted inadequacies in conventionally used price indices such as such the Harmonised Index of Consumer prices (HICP) in the EU and its counterparts in the UK and the US (Consumer Prices Index) that are calculated by national and international statistical authorities. Specifically, the concern is that product entry and exit and underlying changes in tastes has a significant impact on the ‘true’ level of prices and that properly constructed price indices can vary across income groups, all of which remain largely unaddressed in commonly used measures of economy-wide inflation.</p>	
Methodology	<i>100 – 250 words</i>
<p>Addressing the challenges associated with constructing price indices that allow for product entry and exit and taste changes requires detailed data on consumer purchases at the household level, detailing the varieties that are purchased, encompassing households across the income spectrum and covering a considerable period including coverage of cost-of-living crises periods. In this paper, we address these challenges using Kantar data covering 30,000 UK</p>	

households between 2013 and 2022. We focus on product entry and exit of varieties and taste changes for the UK ready meals sector and account for non-homotheticity by deriving price indices across income quartiles. The ready meals sector accounts for a considerable and increasing proportion of household expenditure on food products and which, over time, is characterised by many varieties entering and exiting consumer shopping baskets. It is also a food group where price indices will be characterised by changes in tastes over time.

Results

100 – 250 words

Our empirical work indicates the following:

- the entry of new products dominates the exit of product varieties though the ratio of entry and exit varies over time particularly in crises periods.
- covering purchases of ready meals across all UK households in the data, the elasticity of substitution indicates that the price level reported by the ONS for ready meals significantly over-estimates the ‘true’ price index due to its failure to account for product entry and exit.
- applying the Feenstra method to derive the elasticities of substitution across income groups indicates that the measures of the elasticities of substitution show considerable dispersion and therefore that the true price measures differ across income groups. Specifically, the elasticities of substitution are lower for relatively low-income households indicating that the net entry of product varieties is more significant for low-income households.
- We also highlight the differences in taste changes across income groups and how these changes also impact on the deviation between CES derived price indices and price indices commonly reported

Discussion and Conclusion

100 – 250 words

In broad terms, our results are significant from two perspectives. First, they highlight that the impact of product entry and exit as well as taste changes can vary across income groups and, with the focus on ready meals, highlight the different characteristics of product innovation (i.e. private and branded goods and the introduction of healthy products) that underpin the distribution of the potential benefits across income groups. Second, the results provide the basis for addressing a more comprehensive analysis covering all food product groups to derive theoretically consistent price index measures for food inflation across crises periods and how they vary across households both by income and geography.