The Economy and Animal Welfare

With all of the predictions circulating about the economy and all the different perspectives and agendas in play, it can be tough to shut out the noise and focus on the economic trends and indicators that will help members of the animal welfare industry predict our future donations and adoptions with confidence and plan accordingly. Our next few blogs will look at the economy and its impact on charitable giving and the services offered by animal welfare agencies so you can identify tools to help you clearly see where you stand and reliably forge the path ahead.

When asking ourselves if the economy is getting stronger or weaker and how best to survive an economic downturn or take advantage when the economy is strong, we need to answer three questions.

1. Which basic economic indicators should we be paying attention to?
2. How do fluctuations in the economy affect the nonprofit industry as a whole?
3. Where does the animal welfare industry fit into that picture?

Of course, there are a lot of assumptions and further inquiries underlying each of these questions, and the answers overlap and correlate in many different ways, so we're not going to find one solution that is 100% accurate in all situations. But we can identify a framework from which to work, thus allowing shelter leadership a way to incorporate local variables more easily into their solutions.

If you are an animal welfare professional whose secret super-power is an expert-level understanding of global economics, this article may not be for you. For everyone else, let's get a handle on how the economy impacts us and where to look to understand how it's currently doing. You can hardly exist in the world these days without being confronted by 'economic indicators' on a near-constant basis. From the cost of your groceries, to the price of the gas you used to get them, to the cacophony of opinions blasted through every conceivable medium you encounter along the way, the economy and its impact on every industry is unavoidable. But different industries respond to economic shifts in different ways and at different paces, and the way in which we interact with each industry goes a long way to determining how 'good' or 'bad' the economy feels to each individual person, family or business. Rising interest rates feel pretty great when you earn that rate on your savings account balance, but less so when you pay that rate to your mortgage lender. That's why it's important to identify objective economic indicators and to understand what they mean and how they correlate. In this blog we will look at a few examples of economic indicators often used by experts to determine the economy's overall strength or weakness. The last blog in this series will tell you which indicators would be good for you to follow. They may be one or more of these or quite possibly others all together.

Let's start by looking at the Gross Domestic Product (GDP), the Consumer Price Index (CPI), the rate of inflation and the stock market. GDP is the total value of all goods and services produced and consumed in a country over a given period of time, usually one year. In general, if GDP is increasing, it's usually an indicator that the country's economy is growing; which in turn means people have money to spend and invest and have the confidence to do so. I used GDP in this blog for a reason. It may or may not turn out to be a good number to follow, but it demonstrates the double edged sword we are facing. We must track those facts and figures which correlate to our industry, but if we aren't careful, we could be led astray. The following chart from USA Facts shows the US GDP from the 1940's through 2021. Taking what we just said in account, we would say our economy is very strong because the GDP has rebounded from the little dip in 2020. But now look at chart 2 below.

Chart 1

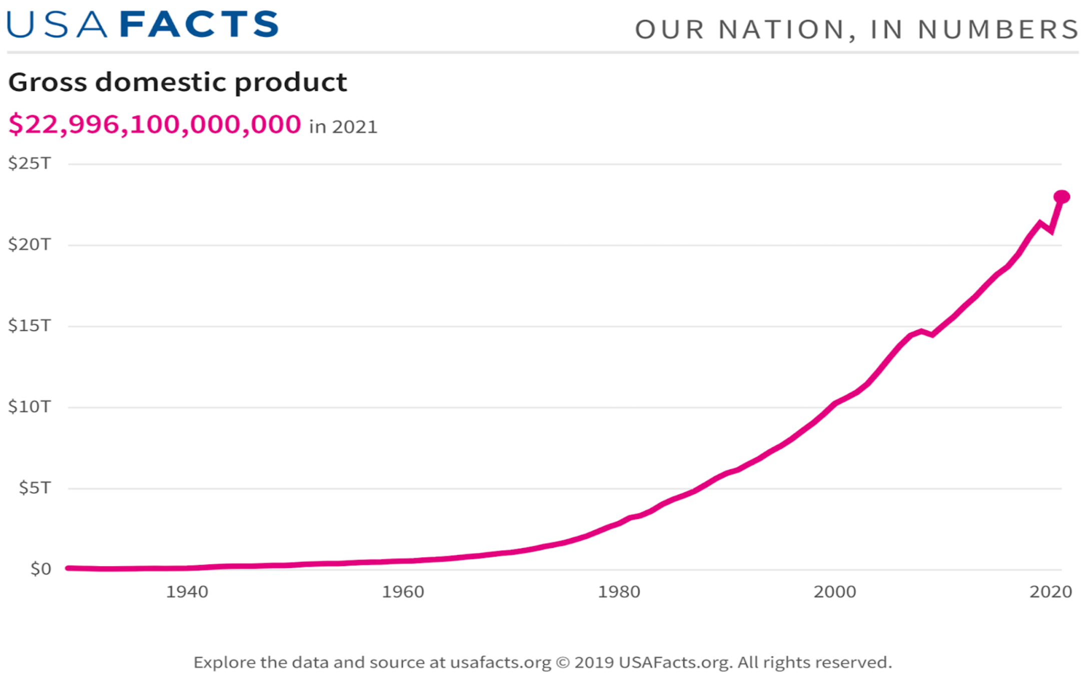
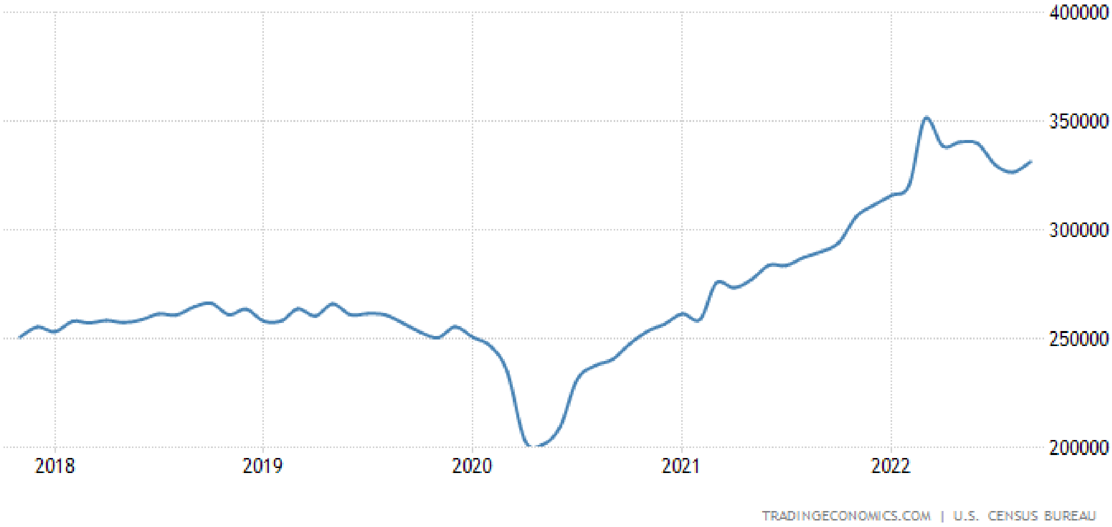


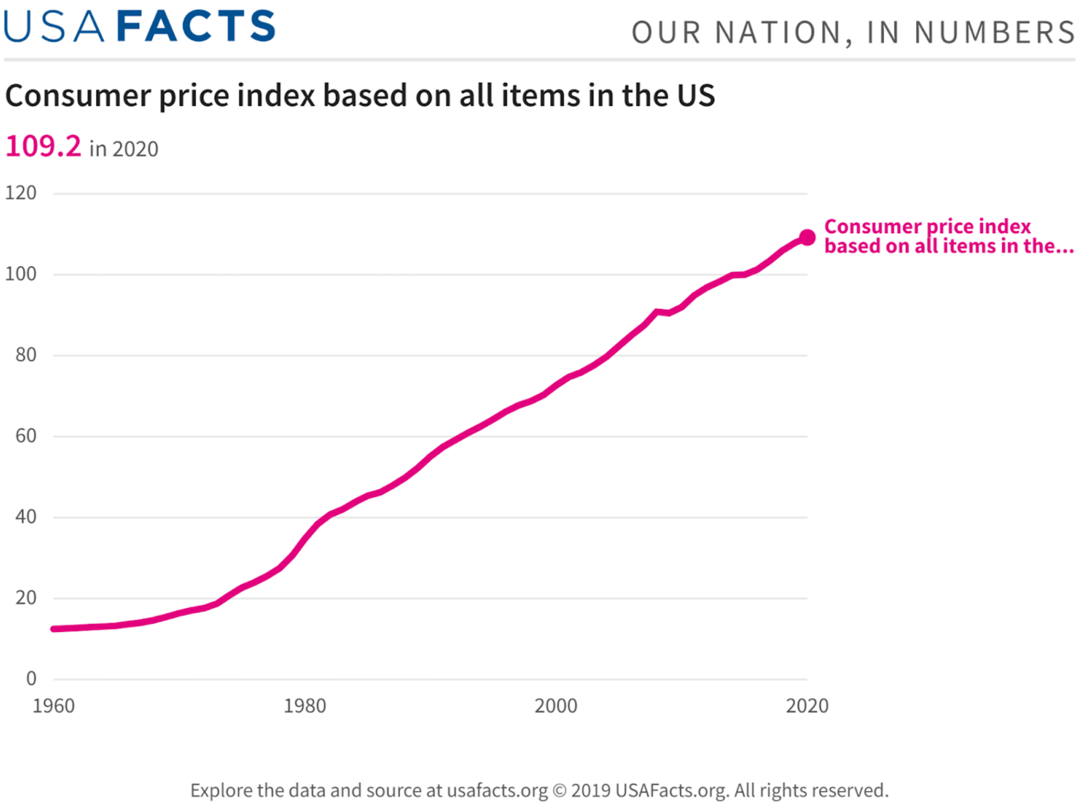
Chart 2

US Imports



In 2021 GDP was high, but we can see in 2020, the US imports, which are a component of GDP, fell through the floor. GDP rose in 2021 and into 2022, but that was really a result of lower imports (due to global supply chain problems) forcing changes to production here at home and the way those numbers factor into the calculation of GDP. So even though GDP is an economic indicator we should pay attention to, it can be misleading without other key pieces of information. Let's take a deep breath. I am not saying we all need to suffer through college Econ again, I'm simply introducing you to an area too often overlooked by our industry. As this series of blogs continues, I will bring this all together. For now, let's look at another common economic indicator.

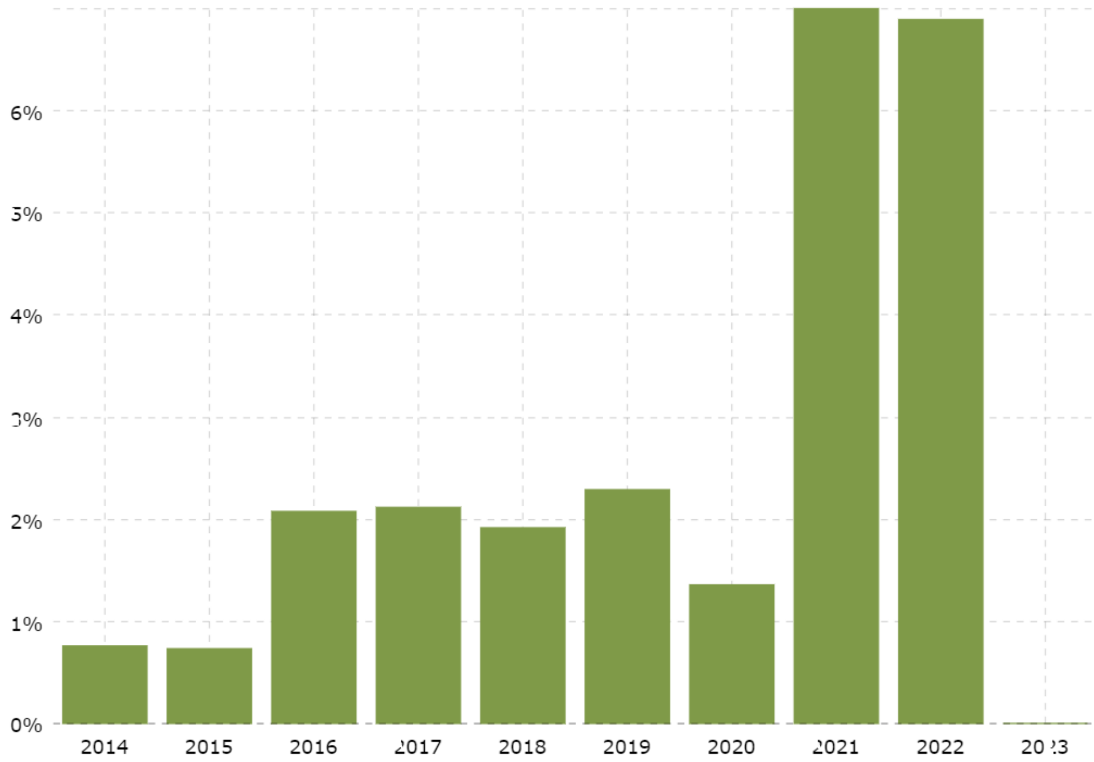
The Consumer Price Index is a measure of the change in monthly prices paid by US customers based on a representative basket of goods and services over time. It's the most widely used indicator of inflation and, as such, is a primary measure of the change in consumers' purchasing power. Increasing CPI typically means rising inflation, which usually results in less money in everyone's budgets for discretionary spending.



This chart clearly shows what we have been hearing about inflation being on the rise, and common sense says that if inflation rises, people have less discretionary money to donate or to adopt a new pet. But as with GDP and the other factors we will discuss below, this chart alone doesn't really tell us WHAT WE SHOULD DO about rising inflation, which is the whole point of these blog series.

Next, we will look at inflation itself. I stated earlier how the CPI is used to determine the inflation rate, but it isn't the only figure to pay attention to. An increase in inflation means products and services are more expensive, but it also means people get a higher interest rate on their savings accounts, which in turn encourages people to save their money vs donating it.

Rate of Inflation

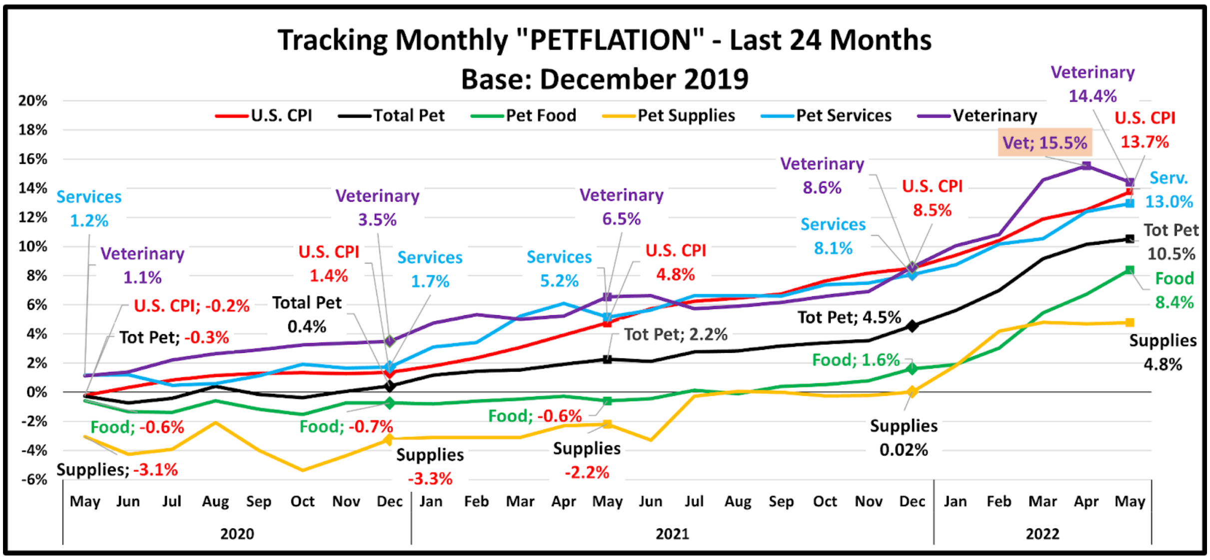


Next, we will look at the stock market, as measured by the S&P 500. Indexes such as the S&P 500 predict corporate earnings. As the S&P 500 goes up, people expect companies to make more money and if the market falls, people think businesses are struggling. Even if your donor base is not heavily invested in the stock market, consumer confidence and people's general perception of how the economy is doing definitely wax and wane along with the primary market indexes. If your donors do have money in the stock market, which many do, then they may be experiencing actual changes to their wealth and budgets as the markets fluctuate.

Finally, we should look at the pet industry itself. What can we learn from knowing the trends in usage and price of goods and services in the pet industry?

According to petfoodindustry.com, "Inflation is also impacting pet products with prices jumping +13% for the category in February 2022, now outpacing total CPG inflation of +10%," Raha Alavi, SVP of retail client services, **NielsenIQ**. said. "Additionally, pet category ingredient costs are being influenced by the rising cost of meat and commodities such as wheat and corn, which jumped +37% and +21% respectively in 2022," she said

The following chart from Petage.com shows what pet parents are up against



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Wow, this blog is not exactly sparking joy! My intention really wasn't to be the bearer of bad news, but to be the bearer of realistic news so that we, as individual agencies and the animal welfare industry as a whole, can be better prepared in the future by regularly watching how the economy is doing AND knowing what to do in response.

The next blog in this series will talk about the state of nonprofit or charitable giving, as it is also very important for the animal welfare industry to understand where we fall in the grand scheme of things. The final blog will tie it all together and provide guidance on what information is most useful, how to interpret it and what to do in response.