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**Invited Testimony of Joe Gilliam
President of the Northwest Grocery Association
Before the Idaho Legislative Economic Outlook and Revenue Assessment Committee
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The total retail membership of NWGA represents 75 stores and 66 % of the retail sales in the Idaho grocery market. Total sales for grocery retailers is estimated to be just over \$4 billion per year. The data in this document represents 38% of the grocery retail market.

The grocery industry is an economic force in Idaho's economy, but it should also be considered an important indicator of consumer trends, and confidence. In some ways our stats show an inverse reflection of the economy. As an industry, sales grew 3% in 2009. However, this does not indicate strong profits or a strong economy; it represents a shift in the economy due to consumers reacting to the recession and high unemployment.

Our gain comes at the expense of the restaurant and hospitality industry and our profit margins. As the economy has sank, more and more consumers shifted from eating out to eating in. In addition, there has been a shift within the buying habits of consumers. A majority of consumers are buying down looking for cheaper prices and more value.

Higher-end retailers are struggling to mitigate market share loss while discounters are growing. The middle of the market is in a price war fueled by cutting all unnecessary costs. This has put downward pressure on profits (net profit should be a little less than 1% for 2008). At the same time labor costs in general and medical benefits specifically are creating an upward pressure and the industry is feeling the squeeze. More sales have not meant more profits, but we have been able to tread water.

RE: Economic Forecasting

1. What is the current state of your industry? How do sales compare to a year ago?

Fair. Sales are up 3 %. 2009 = Total \$1.5 billion, up \$39.5 million

2. How many people are employed by your industry? How does that compare to a year ago? How does payroll compare to a year ago?

2009 = 5200 employees, up 378 (8%) over 2008. Turnover is less than one-third of the rate three years ago. Payroll grew 8%, equal to job growth, but retailers commented that they have cut hours and some benefits to keep payroll in line with job growth.

3. How much of the state's sales tax and income tax is due to your industry?

Sales tax = 7% Income tax = n/a

4. How does your industry impact other Idaho businesses?

Although many of our members our large format chain stores, we have small Independent grocers as well. For all of us, the owners and employees of Idaho businesses are our customers. In turn, our 5200 employees are their customers. While we may be the anchor tenant of shopping centers, the small businesses that occupy the surrounding footprint create the synergy that allows us to play off each other and offer the consumer competition and choice in the marketplace. We need and thrive from this relationship.

We have a collective \$139 million payroll that is traded in Idaho's economy every year. The last two years in particular we have been a positive force as other employers have had to lay off thousands of workers. This keeps the \$139 million in payroll pumped into the economy when other sectors have hemorrhaged.

In addition, we buy local products and produce. I couldn't get the total numbers in time for this presentation, but the numbers I did receive exceeded \$300 million. Local products include pumpkins, corn, berries, flowers/gardening stock and of course potatoes. We literally buy millions of Idaho potatoes every year and ship them around the country under different brand names (but always identified as an Idaho Potato).

5. Do you know of any companies that are planning on moving operations into or out of Idaho in the next 18 months?

There is only one store planned and one being considered. WinCo added a large Distribution Center in late 2009 just east of Boise.

6. Do you see the consolidation in your industry in the future and if so, do you anticipate impacts on the local economy?

We have been through a great deal of consolidation in our industry over the last 10 years. I think Idaho has seen the biggest impact via the changes at Albertsons and I don't anticipate much more impact due to consolidation over the next 18 months.

7. How is your industry likely to perform over the next 18 months?

Fair.

FEDERAL LEGISLATION

HEALTH CARE: Federally the biggest issue will be the outcome of the healthcare debate. Any plan that increases premium cost will force wage freezes, cuts in other benefits, job layoffs and could force price increases.

INTERCHANGE FEES: Second on the list is the hidden cost of Interchange fees for credit cards transactions. Visa and MasterCard control 80% of the market and due to a loophole in federal law, they are allowed to coordinate the rates they will charge retailers, but retailers are prohibited from negotiating fees or coordinating with other retailers to negotiate the fees. This issue costs consumers tens of billions of dollars per year in extra fees and prices are adjusted to reflect the cost. To put into perspective, when you use your Visa card at grocery check-out, the national banks will make a least 2% profit on the transaction, and the retailer will make less than half of that.

Legislation is pending before the Congress to address the retail issues, but faces a huge battle from the big bank interests.

ESTATE TAX: Lastly I would say the outcome of estate tax (death tax) legislation will have a huge affect on the ability of a small family owned businesses to pass their businesses on to family members. For the small grocer that owns their inventory, the estate value limits are exceeded very quickly. The political rhetoric will center on eliminating the Bush estate tax rates to reduce the deficit, but this is a red herring (just compare the stimulus package numbers). The real agenda is the redistribution of wealth that is the part of the Union agenda in Washington DC.