



**Invited Testimony of Joe Gilliam
President of the Northwest Grocery Association
Before the Idaho Legislative Economic Outlook and Revenue Assessment Committee
January 7, 2011**

The total retail membership of NWGA represents 75 stores and 66 % of the retail sales in the Idaho grocery market. Total retail grocery sales are estimated to be just under \$5 billion per year. The sample data in this document represents 43% of the retail grocery market.

The grocery industry is an economic force in Idaho's economy, and our statistics are an important indicator of consumer trends and confidence. As an industry, sales grew just 2.4% in 2010. This is six-tenths less than in 2009. This is bad news for retailers as payroll costs increased 8%, as the number of employees decreased by 1%.

A majority of consumers continue to look for cheaper prices and more value. At the same time the cost for basic ingredients (sugar, corn, and wheat) is skyrocketing in the world markets as a drought in Russia and floods in India have reduced crops in high population/consumption areas of the world. Expect rising prices on the horizon.

Rising food prices along with the rising cost of labor (health care), with less than 3% growth has created the flattest market in over 30 years. There are no more significant gains to be made from stealing business from restaurants, or attracting thrift seeking customers from other retailers. Prices cannot decrease any further and the consumer has found their niche and staying there. The game now is how to keep them returning to your brand. Package all this together and this has put further downward pressure on profits (net profit should be less than 1% for 2010), and some retailers will post a loss this year.

RE: Economic Forecasting

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

Fair. Sales are up just 2.4% mostly due to food inflation, not more case sales.

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?

2010 = 8669 employees, down 1% compared to 2009 from the sample group. At the same time gross payroll grew 8%. Turnover is less than one-third of the rate three years ago. The same is expected in 2011.

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 are 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 8600 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.

The sample group has a collective \$171 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 \$171 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 \$280 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?

None. There are no new stores planned for 2010 from the sample group.

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. Kroger (Fred Meyer/Smiths) will be consolidating its buying unit to Cincinnati sometime in late 2011. This will mainly affect jobs in Oregon.

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

Fair. The industry predicts little or no gain in profit margin.