

Economic Impact of a Wal-Mart Supercenter on the Economy of Chico and Butte County

Economic Impact of Wage Differentials

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Wal-Mart Supercenter grocery prices are not lower, and as indicated by a number of surveys, may be somewhat higher than those of other discount groceries. Therefore, a Supercenter does not provide price-based economic benefits to local residents. However, since Wal-Mart pays lower wages than do its competitors, Food Maxx and WinCo, the diversion of grocery sales from these existing stores to Wal-Mart will have adverse impacts on local income and spending.

Summary

It is estimated that the addition of grocery sales at the Chico Wal-Mart will reduce labor income in the Butte County grocery industry by over \$2.4 million, with a total reduction in county business sales of just over \$3.1 million. These impacts, based on wage data from a Wal-Mart funded study and the IMPLAN input-output model, include the effect of reduced spending by employees in the grocery sector and the indirect effects generated through lower spending in other businesses, primarily in the retail and services sectors.

In a study completed by the Los Angeles Economic Development Corporation (LAEDC, January 2004), commissioned by Wal-Mart, it was claimed that Supercenters provide significant benefits to the community in the form of lower food prices. Those lower prices, it was argued, allow increased spending in other retail sectors, creating additional jobs and income in the region. It was acknowledged that the lower wages paid by Wal-Mart negatively impact the area economy, but that the positive impact of lower grocery prices was the dominant effect. However, a number of recent surveys indicate that, when compared to other discount groceries, Wal-Mart does not offer any price advantage in the food sales portion of their operation. Therefore, Wal-Mart's lower wages result in lower income and spending in the local economy. .

Methodology

The approach taken in this study is to calculate the change in total wages paid, assuming that grocery sales at a Chico Supercenter will be largely at the expense of sales at FoodMaxx and WinCo. All annual sales data and wage differentials are taken from the LAEDC study, a study commissioned by Wal-Mart. The payroll difference is then entered into the IMPLAN input-output model to estimate the indirect impacts on suppliers and other retail establishments.

Grocery Prices

The LAEDC study claimed that food prices at Wal-Mart Supercenters are 15 to 20 percent lower than at other grocery stores. However, one survey they cited compared prices to those at Ralphs and Albertson's, neither of which is a grocery discounter. A 2000 survey of grocery prices in Las Vegas was also cited. That survey compared prices at Wal-Mart to those at Raleys, Kroeger, Albertsons, and Safeway, again using non-discount grocery stores as a comparison. Using more recent and appropriate price comparisons, it appears that Wal-Mart prices are no lower than at other discount grocers. Wal-Mart's competitive advantage is not in pricing, but rather in convenience. Shoppers are more likely to buy their groceries in a Supercenter if they are already there to make other purchases.

In a survey of food prices in Albuquerque completed in April of this year, Wal-Mart's prices of six items were compared to prices of the same products at Smiths and Albertson's. The comparisons were done on three separate dates. For the most part the results were mixed, with Wal-Mart sometimes having the lowest prices, but not more frequently than for the other stores. For four of the items, Wal-Mart had the lowest prices for less than one-third of the survey dates.

A survey completed in Fort Wayne, Indiana (May 29, 2009) compared prices for Wal-Mart and two other discount grocers. The total cost of the ten items was highest at Wal-Mart.

A March 2008 study in Anderson, California compared prices for eight products and three stores: Wal-Mart, FoodMaxx, and WinCo. WinCo had the lowest price for four of the products and equaled the lowest for two others. Wal-Mart and FoodMaxx each had the lowest price for one product included in the survey and equaled the lowest price for one additional item.

Wages

It is difficult to compare hourly wage rates between stores operated by two different corporations. Wage rates can differ according to years worked, the availability of other non-wage benefits, working conditions, or any number of factors. In the interests of minimizing controversy (by using assumptions consistent with those used in a study supportive of Wal-Mart's position), the wage differential from the LAEDC study is used—a study financed by Wal-Mart. In that study the estimated impact of wage reductions was based on a range of wage differentials of \$2.50 to \$3.50 per hour, with an average workweek of 35.5 hours. The wage gap is their estimate of the benefit-adjusted difference between wages paid in the grocery department at Wal-Mart Superstores and those paid to unionized workers at other grocery stores. The assumed wage differential is equivalent to approximately a 25 percent reduction in employee compensation.

Total Sales and Employment

As of 2004 there were 1386 Supercenters nationwide, with annual grocery sales of \$29.2 billion (LAEDC). Average annual per store sales were \$21 million. Based on the IMPLAN model for Butte County, \$21 million in grocery sales generates 287 full and part-time jobs and \$9.6 million in employee compensation.

A diversion of grocery sales to the new Supercenter will result in the substitution of Wal-Mart jobs for unionized jobs in competing grocery stores. Assuming Wal-Mart pays wages (adjusted for benefits) that are, on average, 25 percent less than union wages, labor income will fall by more than \$2.4 million. Reduced wages will also reduce spending in other sectors of the economy, primarily retail and services, leading to a total impact on business sales of negative \$3.1 million.

Conclusion

The conversion of Chico's Wal-Mart to a Supercenter will add a competitor in the grocery sales field in an area served by FoodMaxx and WinCo. As grocery sales are drawn away from those businesses—businesses that pay significantly higher wages than does Wal-Mart—labor income will be reduced. The estimated \$2.4 million reduction in labor compensation will spill over, negatively impacting other business sales in the county. The total estimated impact is a reduction in business sales of \$3.1 million.