



Advocating the views of convenience stores, supermarkets, independent grocers, wholesalers and consumer product vendors.

Hearing of the House Majority Policy Committee

The Impact of Inflation on Working People and Their Families

June 14, 2022

Chairman Causer and committee members, thank you for this opportunity to offer our association's perspective on the impact of rising inflation on our members and their customers.

My name is Alex Baloga and I am President and CEO of the Pennsylvania Food Merchants Association. PFMA is a statewide trade association advocating the views of convenience stores, supermarkets, independent grocers, wholesalers and consumer product vendors operating in Pennsylvania. We represent more than 800 corporate members who operate more than 4,000 retail food stores and employ more than 250,000 Pennsylvanians.

As you are probably aware, margins in the food retail industry are notoriously small, with the difference between profit and loss routinely judged by a few percentage points. That makes the importance of stable and predictable costs absolutely paramount to our member businesses. However, grocers, convenience stores and food producers further down the supply chain also understand the vital role they play in local communities, and they take seriously their commitment to provide quality, healthy food options at manageable prices. A head of broccoli that no one can afford benefits neither the customer nor the business.

When market pressures conspire to inflate prices then, a difficult job becomes even harder. The space between a rock and a hard place even smaller. But necessity is the mother of invention and the retail food industry is nothing if not innovative. Our member businesses are focusing strategically on ways to get even smarter about inventory control, streamlining the supply chain, minimizing shrink, and making sure as much food as possible makes it to the kitchen table, one way or another.

As for how we got here, I think the broad causes are clear. The nation and the world has emerged, more or less, from the COVID-19 pandemic, and the recovery has been uneven. Supermarket operating costs have risen significantly due to the pandemic, which obliged investments in things like plexiglass barriers and a rethinking of how high-margin bulk sections, salad and hot food bars are operated. The ripple effects of shipping delays from Asia and other parts of the world continue to make themselves felt, as demand in some categories continues to far outstrip supply. Logistics networks are remaking themselves in real-time, and progress is disruptive.

The war in Ukraine, rightly known as the breadbasket of Europe, is having a uniquely severe impact on global food supplies. Russia and Ukraine account for almost a third of the global wheat export market and three quarters of the global sunflower oil market. Russia is traditionally a huge supplier of fertilizer to global agriculture, including the US. That's driven up the cost of corn, soybean and other vegetable oils, as well as meat products derived from livestock that depend on feed made from those products. The cost of raw materials used for consumer goods packaging, like aluminum, is also on a significant upward trajectory. Domestically, an avian flu outbreak pushed the price of eggs more than 10 percent in April, and culled poultry flocks will take time to rebound.

The labor shortage continues and our member businesses are still struggling to maintain staff levels despite increasing wages and offering sign-on bonuses and other perks. Some members see this as the number one issue driving inflation, and certainly the most significant cost in operating expenses.

Underpinning all of this are fuel and energy prices that make literally everything more expensive. Ingredients. Packaging. Freight. Labor. When the price of fuel goes up, everything else goes up. Margins are crippling and the high costs of simply having fuel in the ground tie up cash in a way that defies other efforts to keep prices low.

The upshot is that it costs a lot more today to get that head of broccoli out of the ground and onto your local supermarket shelf. Grocery prices are up nearly 11 percent from April 2021 to April 2022. According to research by our national partners at the Food Industry Association, that is the highest yearly increase since 1980. If not unprecedented, this is surely far from routine.

So to return to what our member businesses are doing, the list is long and growing. Many are reworking pricing promotions and loyalty rewards, trying to balance to the extent possible price sensitivity against the unavoidable passing on of some higher costs. Members are putting more emphasis on private labels – you might know them as store brands – as a value option amongst national brands. They are investing in technology to add as much predictability as possible to the food supply chain. The days of a department manager going through cases with a notebook or even a laptop are fast being replaced by AI platforms monitoring store transactions and factors like school schedules, holidays and weather in real-time, adjusting orders instantly. The industry is on the verge of an entirely new level of efficiency and responsiveness thanks to machine learning.

What can policymakers do? Our broad answer to that is largely what it always has been – stand back and let us do what we do best. But there are some specific policy measures that would make a difference.

Firstly, pass a reduction in the corporate net income tax rate. Give businesses a little room to breathe. We credit and agree with [research](#) by Sen. Aument showing that lower corporate taxes encourage economic competitiveness and growth, attracting inbound migration and boosting state revenues.

Secondly, do what you can to ease labor pressures. Continue to let the free market determine compensation levels rather than impose an arbitrary minimum wage – one of our members, local to central PA, just increased their starting pay to \$17/hour. Beyond that, work with federal partners to expand and refine guest worker programs, and continue efforts to ensure unemployment insurance is not abused.

Thirdly, support domestic energy solutions and policies that ease the strain on fuel supplies. We understand there are limits to what state government can achieve with regard to the global price of oil, but it is not entirely powerless.

Fourth, change the way SNAP benefits are distributed. We thank Sen. Argall for his longtime work to change the state's SNAP distribution schedule, which is currently an overcomplicated, administrative headache that puts needless stress on food supply chains to the detriment of recipients. Expanding the distribution period for SNAP benefits, and making it uniform across the state rather than county-by-county, will help stores maintain stocks of fresh produce in particular. We strongly urge the passage of SB 571/HB 629.

Finally, and perhaps most importantly, continue to engage with us. To reiterate an earlier point, stability and predictability are worth their weight in gold to our member businesses. Knowing what the road is like up ahead makes all the difference, and keeping an open line of communication between policymakers and industry stakeholders is key.

Again, thank you for allowing PFMA to contribute to this discussion.