

# The Food Retail Industry Economic Impact Study

Methodology and Documentation  
Prepared for:



The Food Marketing Institute

By



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## **Executive Summary:**

The 2017 Food Retail Industry Economic Impact Study estimates the economic contributions made by the retail grocery industry to the U.S. economy in 2017. John Dunham & Associates conducted this research, which was funded by the Food Marketing Institute (FMI). This work used standard econometric models first developed by the U.S. Forest Service, and now maintained by IMPLAN Group LLC. Data came from industry sources, government publications and Infogroup.

The study measures the number of jobs in the retail grocery industry; the wages paid to employees, the value added and total output. In addition, it measures the economic impact of the suppliers that support the grocery retail industry, as well as those industries supported by the induced spending of direct and supplier industries.

Industries are linked to each other when one industry buys from another to produce its own products. Each industry in turn makes purchases from a different mix of other industries, and so on. Employees in all industries extend the economic impact when they spend their earnings. Thus, economic activity started by the retail grocery industry generates output (and jobs) in hundreds of other industries, often in states far removed from the original economic activity. The impact of supplier firms, and the “Induced Impact” of the re-spending by employees of industry and supplier firms, is calculated using an input/output model of the United States. The study calculates the impact on a national basis, by state, by Congressional District, and by State Legislative Districts.

The study also estimates taxes paid by the industry and its employees. Federal taxes include industry-specific excise and sales taxes, business and personal income taxes, FICA, and unemployment insurance. State and local tax systems vary widely. Direct retail taxes include state and local sales taxes, license fees, and applicable gross receipt taxes. Retailers pay real estate and personal property taxes, business income taxes, and other business levies that vary in each state and municipality. All entities engaged in business activity generated by the industry pay similar taxes.

The retail grocery industry is a dynamic part of the U.S. economy, accounting for about \$899.25 billion in output or about 5.02 percent of GDP. It employs approximately 7.85 million Americans who earned wages and benefits of about \$334.88 billion.

Members of the industry and their employees paid \$153.67 billion in federal, state and local taxes. This does not include state and local sales taxes or excise taxes that may apply for specific retail services.

## **Summary Results**

The retail grocery industry (as defined in this study) includes supermarkets and grocery stores, meat markets, seafood markets, fruit and vegetable markets, baked goods stores, pharmacies and drug stores, warehouse clubs and supercenters, department stores, and discount department stores. All of the merchandise sold at supermarkets and grocery stores, as well as all merchandise sold at the specialty food stores, is assumed to meet the definition of groceries. To

determine the sales attributable to groceries at the remaining store types (pharmacies, warehouse clubs, department stores, and discount department stores), a grocery “market basket” was constructed; The percentage of store sales that coming from these “market basket” goods determined the portion of the store supported by retail grocery sales.<sup>1</sup> For instance, in New York, 70.7 percent of sales at warehouse club stores were of “market basket” items, so 70.7 percent of jobs in warehouse clubs in New York would be counted as retail grocery jobs. The retail grocery industry reaches into all corners of the United States, employing 4.84 million and generating \$167.74 billion in wages. Retail grocery businesses directly generate \$363.20 billion in economic activity nationally.

**Table 1 – Economic Contribution of the Retail Grocery Industry**

	Direct	Indirect	Induced	Total
Jobs	4,844,397	1,070,347	1,936,688	7,851,432
Wages	\$167,736,840,500	\$64,020,602,800	\$103,123,274,100	\$334,880,717,400
Economic Impact	\$363,196,974,500	\$202,029,261,400	\$334,018,972,300	\$899,245,208,200
State and Local Taxes				\$71,788,443,400
Federal Taxes				\$81,882,291,700

Other firms are related to the retail grocery industry as suppliers. These firms produce and sell a broad range of items and including trucks, shelving, bags, and all of the merchandise needed to maintain retail grocery businesses. In addition, supplier firms provide a broad range of services, including personnel services, financial services, advertising services, consulting services or transportation services. Finally, a number of people are employed in government enterprises responsible for the regulation of the moving and storage industry. All told, we estimate that the industry is responsible for 1.07 million supplier jobs. These firms generate about \$202.03 billion in economic activity.<sup>2</sup>

An economic analysis of the retail grocery industry will also take additional linkages into account. While it is inappropriate to claim that suppliers to the industry’s indirect firms are part of the industry being analyzed,<sup>3</sup> the spending by employees of the industry, and that of indirect firms whose jobs are directly dependent on the retail grocery industry, should be included. This spending - on everything from housing, to food, to education and medical care - makes up what is traditionally called the “induced impact,” or multiplier effect, of the moving and storage industry. For 2016, the induced impact of the industry generates 1.94 million jobs and \$334.02 billion in economic impact, for a multiplier of 0.92.<sup>4</sup>

An important part of an impact analysis is the calculation of the contribution of the industry to the public finances of the country. In the case of the retail grocery industry, the direct taxes paid by firms and their employees provide \$81.88 billion to the Federal Government and \$71.79

<sup>1</sup> The grocery “market basket” included groceries and food items for off-premis consumption, packaged alcohol products, tobacco products, drugs and cosmetics, household cleaning supplies, paper products (such as towels, toilet paper, etc.), foil, kitchenware and home furnishings, pet supplies, baby supplies, stationery and office supplies, greeting cards, magazines and newspapers, ice, batteries, seasonal decorations, and prepared food (deli counter, bakery, etc.).

<sup>2</sup> In 2017, we have relied on zip code based employment data supplied by Infogroup, the leading provider of business and consumer data for the top search engines and leading in-car navigation systems in North America. Infogroup gathers data from a variety of sources, by sourcing, refining, matching, appending, filtering, and delivering the best quality data. Infogroup verifies its data at the rate of almost 100,000 phone calls per day to ensure absolute accuracy.

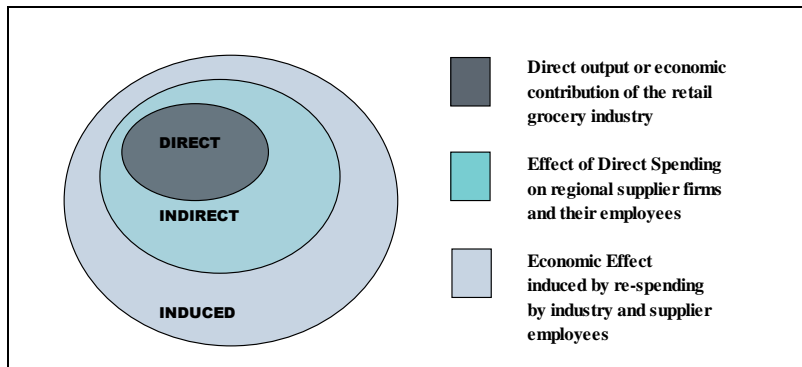
<sup>3</sup> These firms would more appropriately be considered as part of the indirect firm’s industries.

<sup>4</sup> Often economic impact studies present results with very large multipliers – as high as 4 or 5. These studies invariably include the firms supplying the induced industries as part of the induced impact. John Dunham & Associates believes that this is not an appropriate definition of the induced impact and as such limits this calculation only to the effect of spending by direct and indirect employees.

billion to state and local governments. These figures do not include state and local sales and excise taxes that might be incurred.

Table 1 on the prior page presents a summary of the total economic impact of the retail grocery industry in the United States. Summary tables for the United States, individual states, congressional districts, and state legislative districts are included in the Output Model, which is discussed in the following section.

### Economic Impact Modeling – Summary



The Economic Impact Study begins with an accounting of the direct employment in the retail grocery industry. The data comes from a variety of government and private sources. It is sometimes mistakenly thought that initial spending accounts for all of the impact of an economic activity

or a product. For example, at first glance it may appear that consumer expenditures for a product are the sum total of the impact on the local economy. However, a single economic activity leads to a ripple effect wherein other sectors and industries benefit from this initial spending. This inter-industry effect of an economic activity can be assessed using multipliers from regional input-output modeling.

The economic activities of events are linked to other industries in the state and national economies. Activities related to retail grocery services represent the direct effects on the economy. Indirect impacts occur when these activities require purchases of goods and services such as advertising services or merchandising material from local or regional indirect firms. Additional induced impacts occur when workers involved in direct and indirect activities spend their wages. The ratio between induced output and direct output is termed the multiplier.

This method of analysis allows the impact of local production activities to be quantified in terms of final demand, earnings, and employment in the states and the nation as a whole. Once the direct impact of the industry has been calculated, the input-output methodology discussed below is used to calculate the contribution of the indirect sector and of the re-spending in the economy by employees in the industry and its indirect firms. This induced impact is the most controversial part of economic impact studies and is often quite inflated. In the case of the FMI model, only the most conservative estimate of the induced impact has been used.

### Model Description and Data

This economic impact analysis was developed by JDA based on data provided by the Food Marketing Institute, Infogroup, and Federal and state governments. The analysis utilizes the IMPLAN Group, LLC's model in order to quantify the economic impact of the retail grocery industry on the economy of the United States, as well as individual states, congressional districts, and state legislative districts.<sup>5</sup> The model adopts an accounting framework through which the

relationships between different inputs and outputs across industries and sectors are computed. This model can show the impact of a given economic decision – such as a factory opening or operating a sports facility – on a pre-defined, geographic region. It is based on the national income accounts generated by the US Department of Commerce, Bureau of Economic Analysis (BEA).<sup>6</sup>

Direct employment for the industry is calculated using Infogroup data. A number of industries were identified as those engaged in grocery retail.<sup>7</sup> For certain industries – grocery stores, meat markets, vegetable markets, etc. – all sales are assumed to be grocery sales. However, certain industries – discount department stores, department stores, pharmacies, etc. – sell a much larger mix of goods than those encompassed by our grocery definition. For these stores, the percentage of sales dedicated to grocery items is applied to the total jobs number in order to estimate the number of employees supported through grocery sales.

The IMPLAN Group model is designed to run based on the input of specific direct economic factors. It uses a detailed methodology (see IMPLAN Methodology section) to generate estimates of the other direct impacts, tax impacts and indirect and induced impacts based on these entries. In the case of the FMI model, direct employment in the retail grocery industry is a starting point for the analysis. Direct employment is based on data provided to John Dunham & Associates by Infogroup as of January 2017. Infogroup data are recognized nationally as a premier source of micro industry data. Infogroup is the leading provider of business and consumer data for the top search engines and leading in-car navigation systems in North America. Infogroup gathers data from a variety of sources, by sourcing, refining, matching, appending, filtering, and delivering the best quality data. Infogroup verifies its data at the rate of almost 100,000 phone calls per day to ensure absolute accuracy.

Once the initial direct employment figures have been established, they are entered into a model linked to the IMPLAN database. The IMPLAN data are used to generate estimates of direct wages and output. Wages are derived from data from the U.S. Department of Labor’s ES-202 reports that are used by IMPLAN to provide annual average wage and salary establishment counts, employment counts and payrolls at the county level. Since this data only covers payroll employees, it is modified to add information on independent workers, agricultural employees, construction workers, and certain government employees. Data are then adjusted to account for counties where non-disclosure rules apply. Wage data include not only cash wages, but health and life insurance payments, retirement payments and other non-cash compensation. It includes all income paid to workers by employers.

Total output is the value of production by industry in a given state. It is estimated by IMPLAN from sources similar to those used by the BEA in its RIMS II series. Where no Census or government surveys are available, IMPLAN uses models such as the Bureau of Labor Statistics’ growth model to estimate the missing output.

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<sup>5</sup> The model uses 2014 input/output accounts.

<sup>6</sup> The IMPLAN model is based on a series of national input-output accounts known as RIMS II. These data are developed and maintained by the U.S. Department of Commerce, Bureau of Economic Analysis as a policy and economic decision analysis tool.

<sup>7</sup> The industries identified as participating in grocery retail for this study are Supermarkets and Other Grocery (NAICS 445110), General Line Grocery Merchant Wholesale (424410), Meat Markets (445210), Fish and Seafood Markets (445220), Fruit and Vegetable Markets (445230), Baked Goods Stores (445291), Pharmacies and Drug Stores (446110), Warehouse Clubs and Supercenters (452910), Department Stores (452111), and Discount Department Stores (452112).

The model also includes information on income received by the Federal, state and local governments, and produces estimates for the following taxes at the Federal level: Corporate income; payroll, personal income, estate and gift, and excise taxes, customs duties; and fines, fees, etc. State and local tax revenues include estimates of: Corporate profits, property, sales, severance, estate and gift and personal income taxes; licenses and fees and certain payroll taxes.

While IMPLAN is used to calculate the state level impacts, Infogroup data provide the basis for Legislative district level estimates. Publicly available data at the county and Legislative district level is limited by disclosure restrictions, especially for smaller sectors of the economy. Our model therefore uses actual physical location data provided by Infogroup in order to allocate jobs – and the resulting economic activity – by physical address or when that is not available, zip code. For zips entirely contained in a single congressional district, jobs are allocated based on the percentage of total sector jobs in each zip. For zips that are broken by congressional districts, allocations are based on the percentage of total jobs physically located in each segment of the zip. Physical locations are based on either actual address of the facility, or the zip code of the facility, with facilities placed randomly throughout the zip code area. All ingredient supplier and indirect jobs are allocated based on the percentage of a state’s employment in that sector in each of the districts. Again, these percentages are based on Infogroup data.

## **IMPLAN Methodology<sup>8</sup>**

Francoise Quesnay one of the fathers of modern economics, first developed the analytical concept of inter-industry relationships in 1758. The concept was actualized into input-output analysis by Wassily Leontief during the Second World War, an accomplishment for which he received the 1973 Nobel Prize in Economics.

Input-Output analysis is an econometric technique used to examine the relationships within an economy. It captures all monetary market transactions for consumption in a given period and for a specific geography. The IMPLAN model uses data from many different sources – as published government data series, unpublished data, sets of relationships, ratios, or as estimates. The Minnesota IMPLAN group gathers this data, converts it into a consistent format, and estimates the missing components.

There are three different levels of data generally available in the United States: Federal, state and county. Most of the detailed data are available at the county level, but there are many issues with disclosure – especially in the case of smaller industries. IMPLAN overcomes these disclosure problems by combining a large number of datasets and by estimating those variables that are not found from any of them. The data is then converted into national input-output matrices (Use, Make, By-products, Absorption and Market Shares) as well as national tables for deflators, regional purchase coefficients and margins.

The IMPLAN Make matrix represents the production of commodities by industry. The Bureau of Economic Analysis (BEA) Benchmark I/O Study of the US Make Table forms the bases of the IMPLAN model. The Benchmark Make Table is updated to current year prices, and rearranged into the IMPLAN sector format. The IMPLAN Use matrix is based on estimates of final demand, value-added by sector and total industry and commodity output data as provided by government

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<sup>8</sup> This section is paraphrased from IMPLAN Professional: Users Guide, Analysis Guide, Data Guide, Version 2.0, MIG, Inc., June 2000.

statistics or estimated by IMPLAN. The BEA Benchmark Use Table is then bridged to the IMPLAN sectors. Once the re-sectoring is complete, the Use Tables can be updated based on the other data and model calculations of interstate and international trade.

In the IMPLAN model, as with any input-output framework, all expenditures are in terms of producer prices. This allocates all expenditures to the industries that produce goods and services. As a result, all data not received in producer prices is converted using margins which are derived from the BEA Input-Output model. Margins represent the difference between producer and consumer prices. As such, the margins for any good add to one.

Deflators, which account for relative price changes during different time periods, are derived from the Bureau of Labor Statistics (BLS) Growth Model. The 224 sector BLS model is mapped to the 536 sectors of the IMPLAN model. Where data are missing, deflators from BEA's Survey of Current Businesses are used.

Finally, the Regional Purchase Coefficients (RPCs) – essential to the IMPLAN model – must be derived. IMPLAN is derived from a national model, which represents the “average” condition for a particular industry. Since national production functions do not necessarily represent particular regional differences, adjustments need to be made. Regional trade flows are estimated based on the Multi-Regional Input-Output Accounts, a cross-sectional database with consistent cross interstate trade flows developed in 1977. These data are updated and bridged to the 536 sector IMPLAN model.

Once the databases and matrices are created, they go through an extensive validation process. IMPLAN builds separate state and county models and evaluates them, checking to ensure that no ratios are outside of recognized bounds. The final datasets and matrices are not released before extensive testing takes place.