



Wal-Mart CEO Bill Simon expects inflation

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By **Jayne O'Donnell**, USA TODAY

U.S. consumers face "serious" inflation in the months ahead for clothing, food and other products, the head of Wal-Mart's U.S. operations warned Wednesday.

The world's largest retailer is working with suppliers to minimize the effect of cost increases and believes its low-cost business model will position it better than its competitors.

Still, inflation is "going to be serious," Wal-Mart U.S. CEO Bill Simon said during a meeting with USA TODAY's editorial board. "We're seeing cost increases starting to come through at a pretty rapid rate."

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Along with steep increases in raw material costs, John Long, a retail strategist at Kurt Salmon, says labor costs in China and fuel costs for transportation are weighing heavily on retailers. He predicts prices will start increasing at all retailers in June.

"Every single retailer has and is paying more for the items they sell, and retailers will be passing some of these costs along," Long

says. "Except for fuel costs, U.S. consumers haven't seen much in the way of inflation for almost a decade, so a broad-based increase in prices will be unprecedented in recent memory."

Consumer prices — or the consumer price index — rose 0.5% in February, the most since mid-2009, largely because of surging food and gasoline prices. Core inflation, which excludes volatile food and energy costs, rose a more modest 0.2%, though the still exceeded estimates.

The scenario hits Wal-Mart as it is trying to return to the low across-the-board prices it became famous for. Some prices rose as the company paid for costly store renovations.

"We're in a position to use scale to hold prices lower longer ... even in an inflationary environment," Simon says. "We will have the lowest prices in the market."

Major retailers such as Wal-Mart are the best positioned to mitigate some cost increases, Long says. Wal-Mart, for example, could have "access to any factory in any country around



the globe" to mitigate the effect of inflation i
the U.S., Long says.

Still, "it's certainly going to have an impact,"
Long says. "No retailer is going to be able to
wish this new cost reality away. They're not
going to be able to insulate the consumer
100%."