Economic Data Snapshot | Summer 2021
Covering the Lodging, Restaurant and Foodservice, and Resort and Campground Sectors

HOSPITALITY ECONOMIC RECOVERY MOVING FORWARD IN MINNESOTA

Workforce, Debt and Inflation Pose Challenges to Pace of Recovery along with Delta

Economic conditions for Minnesota's hospitality industry are improving, according to the joint survey conducted by Hospitality Minnesota, the Minneapolis Federal Reserve Bank and Explore Minnesota Tourism between August 16-25, 2021. However, workforce challenges, inflation, COVID-related debt, and uneven conditions across sectors pose concerns for the pace and depth of recovery for our interdependent industry.

Highlights and Key Takeaways

- 74% of hospitality operators indicate their financial health is now positive or growing (up from 50% in March, before our work on the Roadmap to Recovery led to full re-opening).
- Resort & Campground sector rebound has been extraordinarily strong:
    - 96% say financial health is positive or growing and 82% say solvency is not a concern;
    - 85% indicate 2021 summer revenues were *higher* than pre-pandemic rates; and
    - 59% expect higher fall/shoulder season revenue than pre-pandemic numbers.
- Hotels report positive financial health at double the March rate; project the longest recovery:
    - 60% report financial health as growing/positive (double the March rate);
    - 68% don't expect "normal" business conditions till the 2nd half of 2022 or later; and
    - 37% saw stronger summer revenues than pre-pandemic conditions, though only 22% expect that trend to continue this fall.
- Foodservice operators report growing financial health, but major solvency concerns remain:
    - 74% report growing/positive financial health (up from 42% in March);
    - 56% are still threatened by bankruptcy in 6-12 months, relatively unchanged from May;
    - 42% saw higher summer revenues than pre-pandemic conditions, as 46% saw lower revenue; and
    - 46% expect lower than normal revenues this fall, with29% predicting higher revenue.
- Debt due to COVID-19 conditions is a significant issue facing foodservice and hotel operators:
    - 62% of foodservice businesses took on debt over the past 18 months due to COVID with a projected average loan value of $540,000 for a total of $3.3B statewide in restaurant debt; and
    - 66% of hotels took on debt over the past 18 months due to COVID with a projected average loan of $1.15M for a total of $755M statewide in hotel debt.

- Industrywide, labor availability has not improved since May, with 81% of hospitality operators overall describing labor availability as "tight," even more so for 96% of hotels and 91% of foodservice respondents.
- Inflation is also an industrywide challenge with 39% of all hospitality operators indicating wholesale prices increased more than 5% last year, with only 19% indicating they raised customer prices at that same rate.

Read on to look at the following more closely:

- Workforce Shortage Industrywide
- Significant Debt Load on Hotels and Foodservice Businesses
- Inflation: Wholesale Increases Outpacing Consumer Pricing
- Delta Concerns Impacting Weaker Fall Projections?
- Future Economic Projections: Financial Health, Solvency and Return to Normal

Workforce Shortage Industrywide

While 75% of hospitality operators indicate they are currently hiring, workforce shortage continues to be one of the biggest challenges facing the industry. 81% of operators report labor availability as "tight," with 63% indicating it is "*very* tight". Unfortunately, the situation has *not* improved over the summer.

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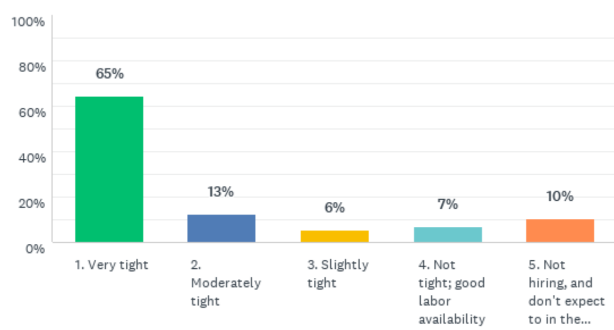
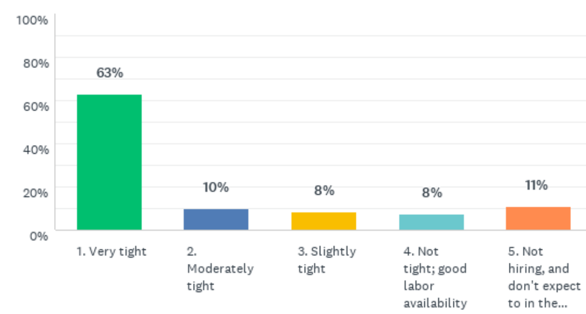


AUGUST2021



The hiring challenge is most acute for hotel and foodservice operators:

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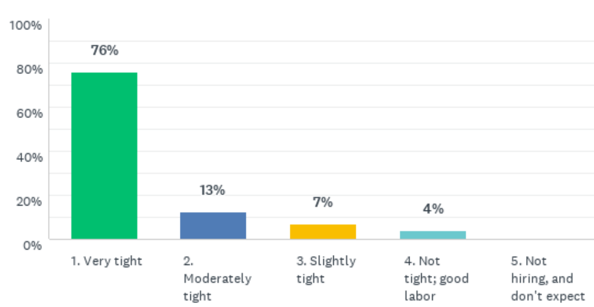
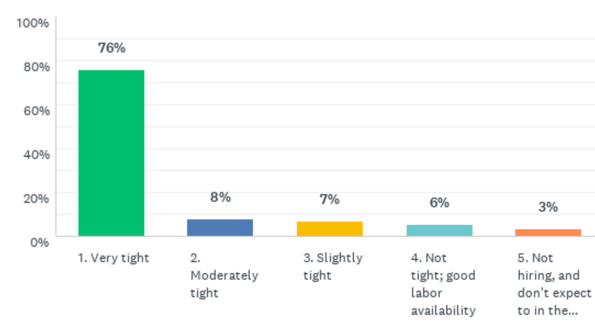


AUGUST2021 (FOODSERVICE)



While Minnesota's hospitality and leisure industry added 7,700 jobs in July (more than half the 15,000 jobs added statewide during this period), our industry is still down nearly 40,000 employees from pre-pandemic numbers with 237,200 workers currently, compared to of 276,700 in February of 2020 (a 14% reduction). For comparison, nationally, hospitality jobs are down 10% since Feb. 2020, and Wisconsin has seen a 16% reduction in workforce.

The industry may see some workers returning to the industry this fall as employees finish other seasonal work and more workers return to the workforce as enhanced unemployment benefits come to an end this week. During the Hospitality Roundtable call last week, Commissioner Grove projected that weekly benefits requests would drop to 85,000 from the current rate of 204,000 by October (the normal volume is 25,000). The volume of returning workers is unlikely to offset the number of workers who left the industry during the 2 extended shutdowns in 2020 or rectify the projected shortfall that existed prior to the pandemic. Industry experts indicated our state needed to add 20-25,000 jobs *before* the pandemic. (Sources: DEED and U.S. BLS)

Having secured a $250,000 grant to expand the ProStart and Hospitality Tourism Management Programs (HTMP) in Minnesota high schools, we intend to sustain, expand and grow these critical workforce development efforts in high schools across Minnesota. ProStart is currently in 83 high schools and HTMP is in 17. *Note: If you or anyone in your organization is interested in mentoring and or assisting teachers and students in your area and helping grow the workforce of the future, please contact cyndi@hospitalitymn.com*

Debt Load on Hotels and Foodservice Businesses due to COVID Significant

Hospitality Minnesota advocated with the Federal Reserve Bank of Minneapolis and Explore Minnesota to include a question on debt. For the first time, the survey included the question "How much, if any, additional debt has your business taken on over the past 18 months due to COVID?" When factoring in both full and partial closures and limitations, some hospitality businesses lost a projected 249 days of revenue over this period, yet bills for rent, mortgage, utilities, insurance, taxes and vendors continued unabated. Because of this, we were interested to know the extent to which debt load may prove a significant obstacle to the pace and depth of recovery.

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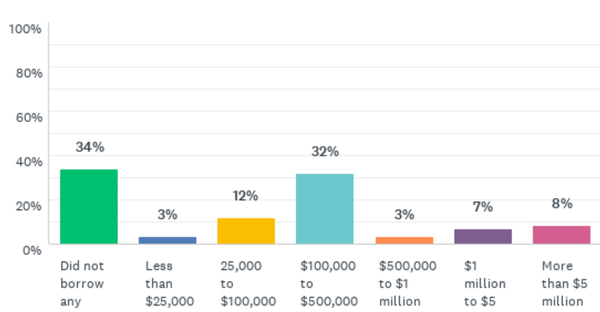

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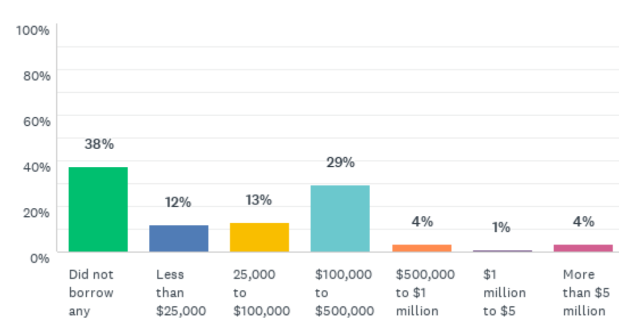


- **66% of hotels took on debt** over the past 18 months due to COVID with a projected **average loan of $1.15M** or $755M statewide in hotel debt
- **62% of foodservice businesses took on debt** over the past 18 months due to COVID with a projected **average loan value of $540,000** or $3.3B statewide in restaurant debt

Federal Relief. To date, there hasn't been a targeted federal or state grant relief program for overnight accommodation operators, as there has been for restaurants. And, while a good program, the Restaurant Revitalization Fund (RRF), has left behind 2,500 MN applicants, seeking ($700M in projected relief, because Congress vastly underfunded it. We continue to work with our partners the American Hotel & Lodging Association and the National Restaurant Association to:

- Fully fund the RRF, so that all applicants get the help they deserve; and
- Expand the Caps and Flexibility on the Emergency Injury Disaster Loan program (terms for this loan program are 3.75% over 30-years)

You can help! Contact your congresspersons to demand they bring RRF up for a vote this month and push U.S. SBA to expand EIDL.

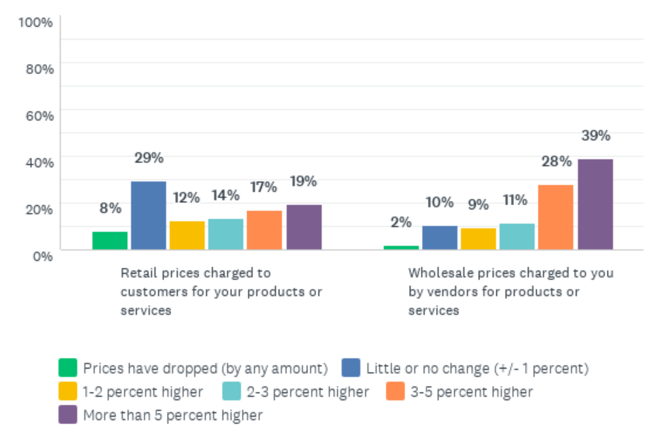
State Relief. At the state level, the application process for Minnesota's $70M small business grant program begins later this month. While the program is smaller than what we advocated for and funds are limited, we encourage members to apply as soon as it opens. Learn more.

We continue to advocate for Governor Walz and the Legislature to direct American Rescue Plan funds for hospitality relief, including the $500M in discretionary funding Walz was given discretion over in the budget and the $1B in additional ARP funding coming in the new year. Minnesota Management and Budget is now accepting public comments on how the state should use ARP money going forward. Look for information in the coming week about how to weigh in.

Inflation: Wholesale Increases Outpacing Consumer Pricing

Inflation is also exerting financial pressure on operators as 39% indicate that wholesale prices have risen by more than 5% this year. While nationally the CPI (Consumer Price Index) rose 5.4% in the last year, only 19% of hospitality respondents indicated they raised consumer prices 5% or more. Across the 3 sectors, the gap between 5%+ wholesale increases and 5%+ consumer prices increases was:

- Foodservice: 56% to 32%
- Hotel: 36% to 24%
- Resort/Campground: 40% to 12%



Delta Concerns Impacting Weaker Fall Projections?

Nationally, concerns about the Delta variant are impacting consumer behavior. This week, the American Hotel and Lodging Association put out a report that 67% of business travelers indicate Delta concerns are changing their travel plans. The National Restaurant Association indicates that 6 in 10 Americans have changed dining habits due to concerns about Delta, with 19% no longer planning to eat out at all. Here in Minnesota, there is a significant gap between the percentage of operators who realized stronger summer revenue (compared to pre-pandemic rates) and expectations for the fall:

	Percent of Operators w/ Higher Summer Revenues than 2019	Percent of Operators Expecting Higher Fall Revenues than 2019
All Hospitality	45%	33%
Food Service	42%	29%
Hotels	27%	22%
Resorts/Campgrounds	85%	53%

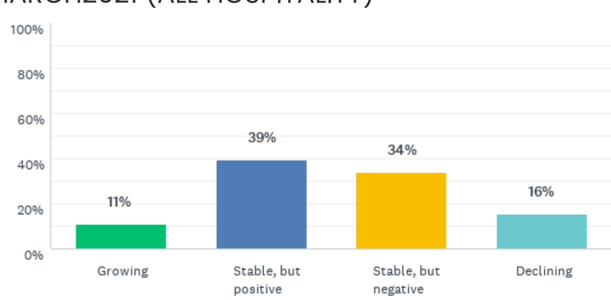
While some of these gaps can be explained by normal seasonal shifts in customer traffic, there is no doubt that uncertainty around the virus is top-of-mind. MN has not seen the same level of transmission as other areas of the country, yet the *gradual* increase here remains concerning. Mayo's tracker indicates MN's case rate rose to 29 cases/100,000 in August. Earlier predictions by the Mayo that MN's rate would reach 37 by the end of August thankfully did not materialize. Their model is now predicting MN will hit the higher rate next week, though it also contemplates the potential for a best-case scenario that the rate will level off and decline by mid-September (and a worse case scenario that the rate could jump to 68 over the same period). The situation remains very fluid.

Future Economic Projections: Financial Health, Solvency, and Return to Normal

As with the uneven impact of the pandemic and initial phases of recovery, the survey indicates mixed results when it comes to the medium-term and long-term economic recovery trends.

The good news is that across all three sectors, **financial health projections** have improved significantly from March:

MARCH2021 (ALL HOSPITALITY)



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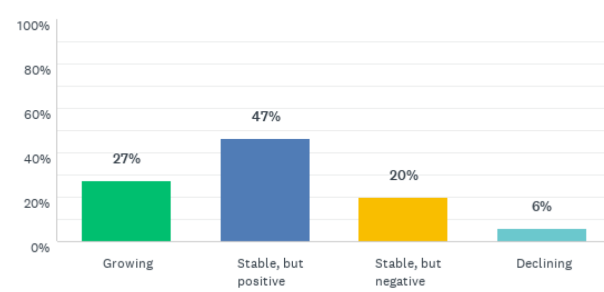

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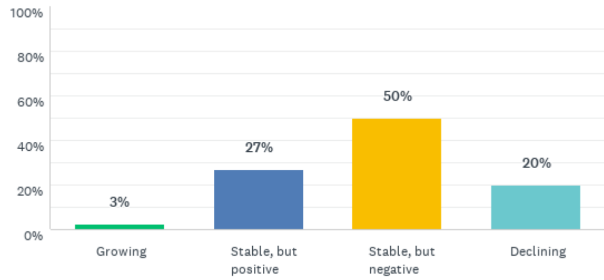

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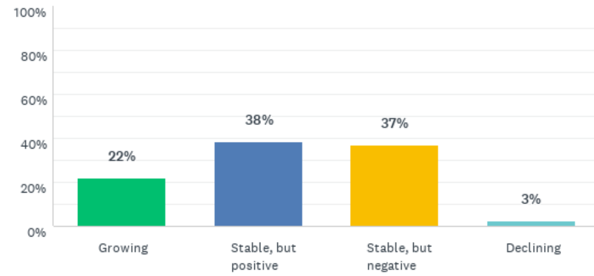
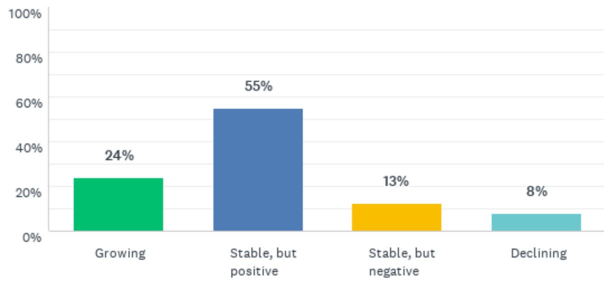


MARCH2021 (RESORT/CAMPGROUND)



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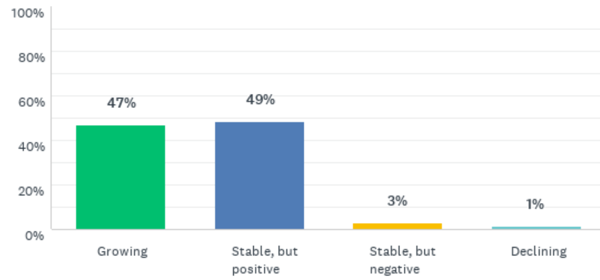

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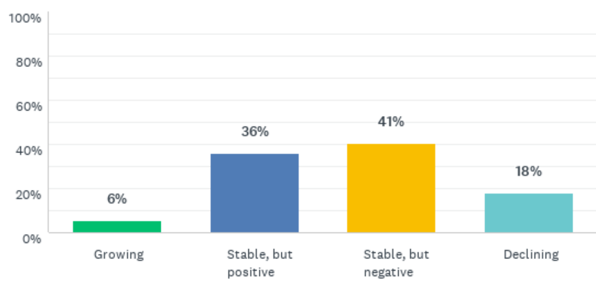

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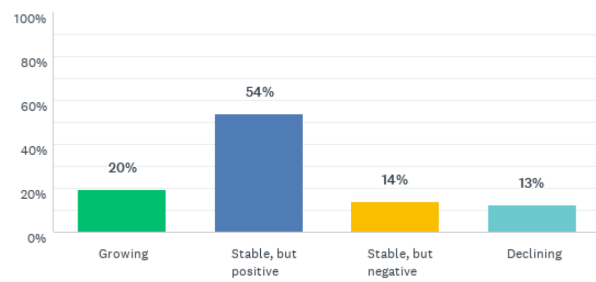

Solvency projections are more mixed, however, with 56% of food service operators still indicating they are in jeopardy of financial collapse in the next 6-12 months. While this is a 21-point increase from March, it is relatively unchanged from the May rate of 58%, which is concerning. Hotels saw the highest rate of improvement from March with a 24-point gain in solvency confidence. Below are the comparisons from March to the present on the question "under the current business conditions, how long could your firm remain solvent?"

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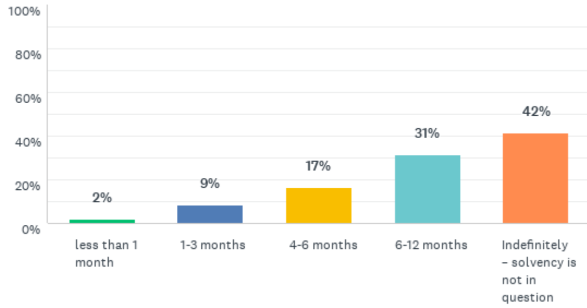

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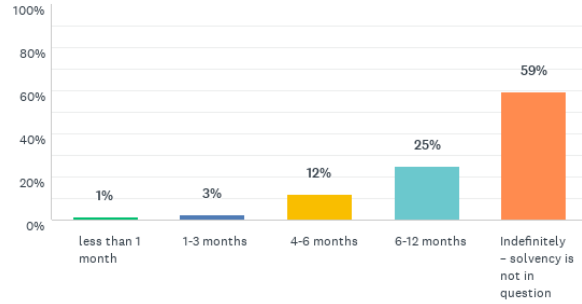

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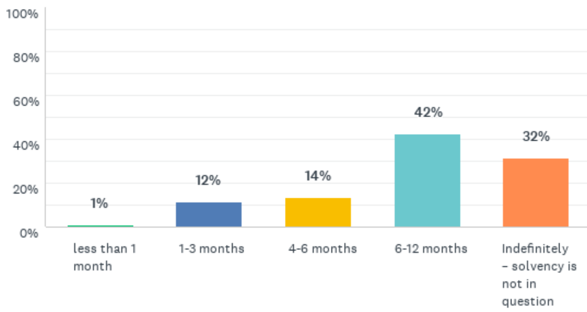

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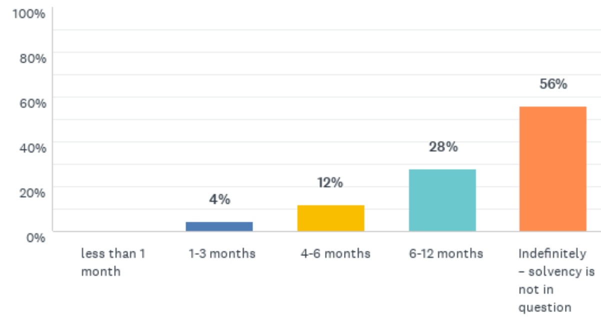
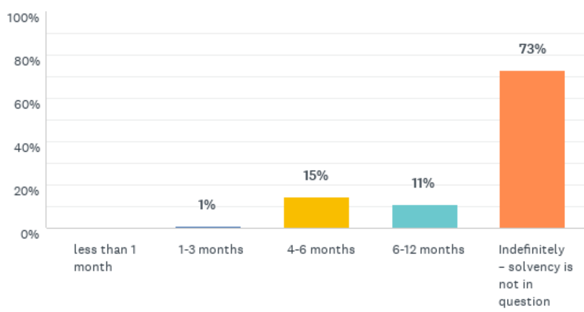


MARCH2021 (RESORT/CAMPGROUND)



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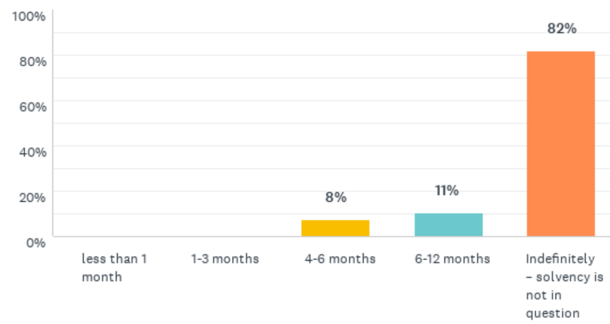

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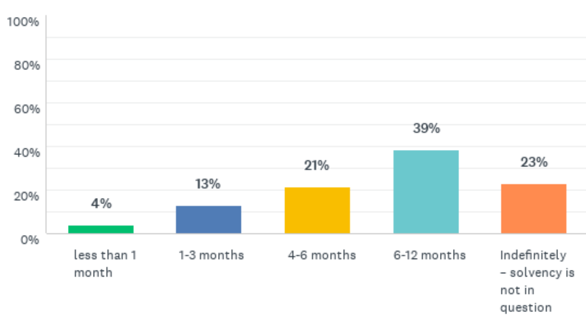

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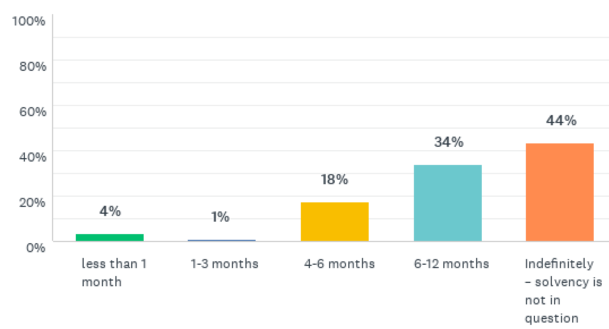

Projections on a "**return to normal**" timeline were also highly mixed. Responses to the question "when do you expect revenues at your firm to return to something close to pre-pandemic levels?" ranged from 68% of Resort/Campground sector respondents indicating conditions have already met or surpassed pre-pandemic levels to 69% of hotels predicting the second half of 2022 or later:

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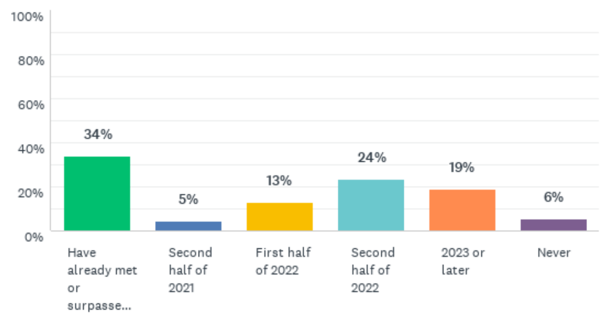

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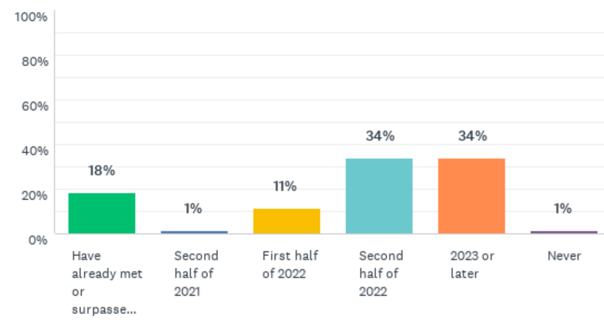

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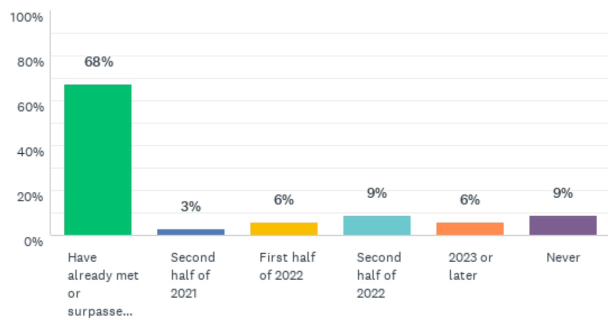

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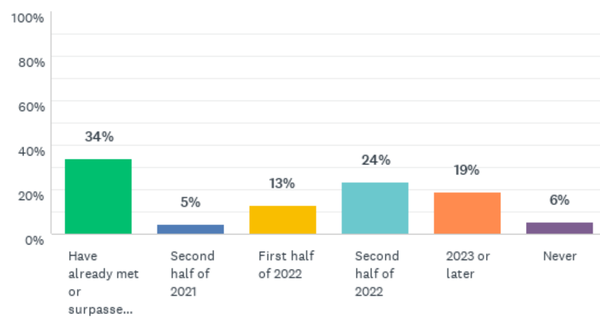

As we have noted publicly for some time, Minnesota's hospitality industry is engaged in a multi-year economic recovery. If we are to achieve the full and robust economic health that our interdependent industry and state tourism & travel economy require, there is hard work ahead. Industry must work together with customers, employees, allies, and government to re-build a thriving hospitality industry in Minnesota.

Hospitality Minnesota would like to thank all of the operators that participated in the survey at what we know is an extremely busy and challenging time. This data is a critical part of how the new Hospitality Minnesota advocates for you with policymakers, communicates with the media, public, and other organizations, and shares critical insights and actionable intelligence with our members in real time.

Additional Observations

The survey results make it clear that just as the impact of the pandemic was uneven, so too will be the recovery. What appears as a "return to normal" may distract colleagues, policymakers, and the public from the true, full impact on the entire hospitality industry and the state's economy. As we move forward, we must keep in mind that:

- Travelers and labor pools are attracted to areas that have a diversity of amenities and businesses; the loss of or lag in restaurants, hotels, performance and event venues may make some communities less desirable as destinations.
- Conversely, the relative boon for resorts and campgrounds may inoculate some communities from significant loss of those businesses that have struggled.
- Consumer behavior is evolving; while there are wider distinctions on where some might and might not go, most are currently willing to spend more than they have previously. It is uncertain how long that will last.
- What looks like "bustling" business in the coming months can mask the truth for many businesses that are trying to catch up and pay off debt, rather than getting ahead.
- While prices have risen for operators, many report anecdotally that they have not yet passed those increases on to consumers and are uncertain of the scale and reaction when they have to raise prices, which will likely impact overall consumer spending.
- The labor crunch will not be solved by the end of enhanced unemployment benefits because many hospitality workers are citing other reasons for not returning, including burn out and lack of child-care. Some experts suggest that it may take up to a decade to return to a full labor force.
- Depending upon the course of COVID and its variants, we could see more businesses become more seasonal, based on consumer confidence with indoor activities and labor availability.

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