Hospitality MINNESOTA
THE LODGING, RESTAURANT, RESORT AND CAMPGROUND ASSOCIATION

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

HOSPITALITY ECONOMIC RECOVERY SLOWS IN Q4

Workforce Shortage, Inflation, Supply Chain and Debt Challenges Persist

After a strong summer performance, the economic recovery for Minnesota's hospitality industry stalled in the last quarter. According to the survey conducted by Hospitality Minnesota, the Federal Reserve Bank of Minneapolis and Explore Minnesota Tourism from November 29-December 8, a significant number of operators experienced lower than normal revenue this fall, and a majority of hotel and foodservice operators are projecting lower than normal revenue this winter. While August gains in solvency and financial health held stable, workforce challenges, inflation, supply chain issues, and debt concerns persist. The uneven nature of the financial trends across hospitality and tourism continues to pose concerns for a fragile economic recovery for our interdependent industry.

Highlights and Key Takeaways:

- Fall Revenue. 58% of hotels and 45% of foodservice operators experienced lower fall revenue than normal (compared to 2019). The Resort and Campground sector again outperformed, as 53% reported *higher* fall revenue than 2019. Evidence of the uneven nature of the recovery is notable with 31% of hotels and 38% of foodservice seeing higher fall revenues than 2019, (outpacing August projections of 22% and 29%, respectively).
- Winter Revenue Projections. 42% of all hospitality operators are projecting winter revenue lower than 2019 next quarter. The problem is more pronounced for hotels and foodservice:
  - 54% of hotels project winter revenue below normal (35% say significantly lower);
  - 52% of foodservice indicate the same (22% say significantly lower); and
  - 10% of resorts/campgrounds expect lower revenue (for many this is "down-season").
- Workforce Shortage. The historic workforce shortage did not improve. 87% of hospitality operators report labor availability as tight (63% saying "very tight").
- Debt. 59% of restaurants have taken on debt due to COVID, with an average debt of $558,334, projecting to $3.3 billion in debt statewide for restaurants. 48% of hotels took on debt, with an average debt of $1.5M projecting to $743M statewide. This projects to over $4B in debt in MN.
- Inflation. 43% of operators reported wholesale purchase prices have jumped more than 5% this year, and another 33% have seen 3-5% increases.
- Supply Chain. 92% of operators describe difficulty in obtaining supplies critical to their business (35% described the difficulty as "significant" or "extreme").
- Financial Health. 77% of operators report their financial health as positive or growing, relatively unchanged from the August report of 74%.

- Solvency. Solvency projections also remained stable with 63% reporting solvency will not be an issue in the next year (up from 59% in August).

Economic Recovery Slows in Q4. The Roadmap to Recovery allowed our industry to fully re-open in May and many experienced robust summer seasons (68% with higher-than-normal revenue). However, consumer concerns about Delta and the shift in seasons dampened the recovery for many, with 58% of hotels and 45% of foodservice operators generating lower-than-normal revenue:

Sector	Lower Fall Revenue than 2019	Higher Fall Revenue than 2019
All Hospitality	39%	43%
Resorts/Campgrounds	18%	53%
Hotels	58%	31%
Food Service	45%	38%

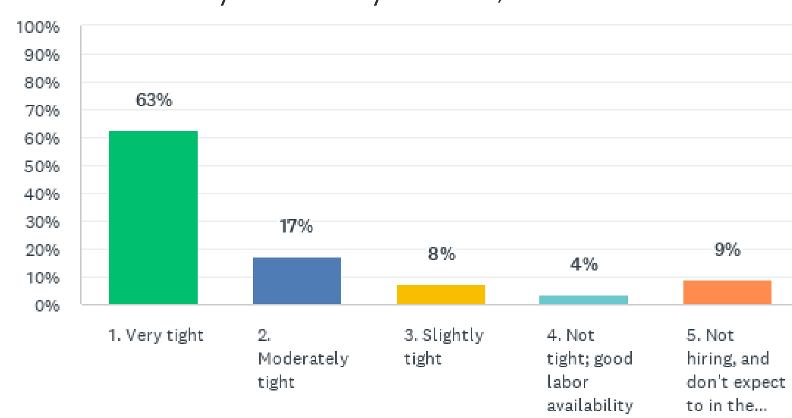
The Resort and Campground sector was again a bright spot as consumers continued to seek experiences outside of densely populated areas. As evidence of the uneven nature of the recovery, 38% of foodservice operators and 31% of hotels experienced higher revenue than fall 2019 (beating August projections of 29% and 22% respectively).

Winter Projections: Economic Slowdown. The majority of hotels and foodservice operators are projecting lower-than-normal revenue in Q1 of 2022. Again, the resort and campground sector is reporting more optimistic projections, though for many this is the "down-season":

Sector	Projecting Lower Winter Revenue	Projecting Higher Winter Revenue
All Hospitality	42% (23%)	23%
Resorts/Campgrounds	10% (6%)	26%
Hotels	54% (35%)	19%
Food Service	52% (22%)	20%

**Parentheses indicates those answering: "significantly lower."*

Workforce Shortage Continues. Workforce shortage is the top issue we are hearing about across all sectors. Minnesota's hospitality and leisure industry is currently down 21,706 workers from normal levels (see DEED report). While this is an improvement from August, when we were down 40,000 workers, it still represents more than 8% of the workforce missing. Not surprisingly in this landscape, 87% of hospitality operators report current labor availability as tight. 63% of hospitality operators report labor availability as "very tight." The workforce shortage has dispropor-



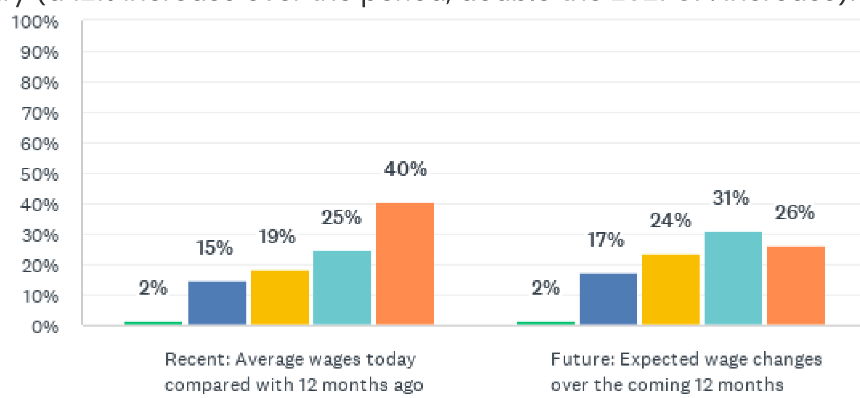
tionately impacted the hospitality industry. The broader economy is down 106,640 jobs from 2019 levels, a 3.5% reduction (compared to the 8% reduction for hospitality). While some workers returned to the workforce this fall, overall Labor Participation has not yet returned to pre-pandemic levels:

Year	Month	Labor Force	Labor Force Participation Rate
2021	November	3,029,630	67.7
2019	November	3,112,333	70.2

Source: DEED Unemployment Statistics

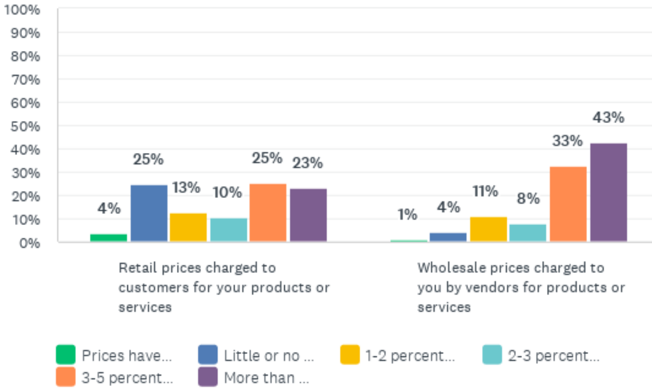
There is national analysis that early retirements may be driving these trends, and commentary on challenges facing single parents attempting to re-enter the workforce. While we are waiting on additional data from DEED regarding "re-employment," anecdotal reports make it clear that many of the "hires" over the last 6-9 months have been younger employees new to the industry, which can easily cost an employer upwards of $1,000-$2,000 to train up.

Wages Rise Dramatically in 2021. The average hourly wage for a hospitality worker is currently $19.30, up from $17.23 in January (a 12% increase over the period, double the 2021 CPI increase). According to the survey, 71% of operators indicate their average wage is currently between $15-30. 81% of operators expect additional wage increases in the next year. 26% anticipate wage growth higher than 5% and another 41% expect wage growth in the 3-5% range.

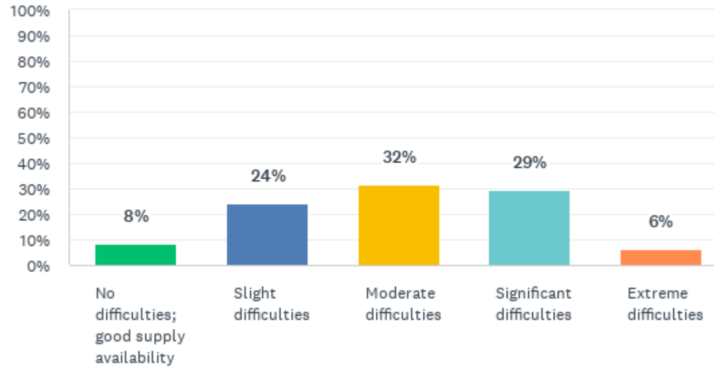


Inflation Remains Problematic. 43% of operators reported wholesale purchase prices have jumped more than 5% this year (up from 39% in August). Another 33% have seen 3-5% increases. However, only 23% are passing along price increases of 5% or higher to customers:

Price Changes in 2021



Supply Chain Difficulty

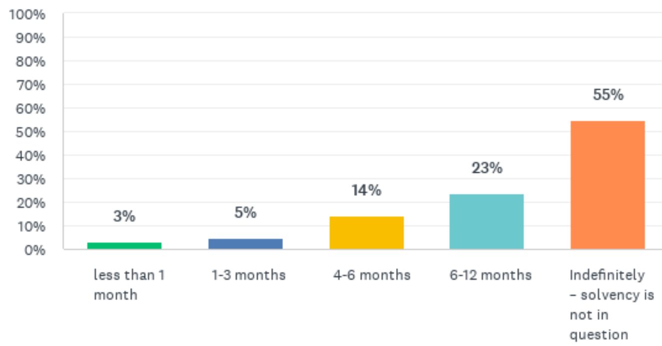


With continued rising wholesale prices and labor costs, the retail price trends evidenced above are not sustainable. While operators are likely leery of raising prices beyond what the market will bear, these disruptions are likely to force adaptation. There have been troubling reports nationally that as many as 45% of small businesses may be taking on additional debt due to inflation. While supply chain issues are problematic across sectors (92% experienced difficulty getting critical supplies), they are most pervasive for hotels and restaurants, as 47% of hotels and 43% of foodservice experienced "significant" or "extreme" difficulty in obtaining the products critical to their operations.

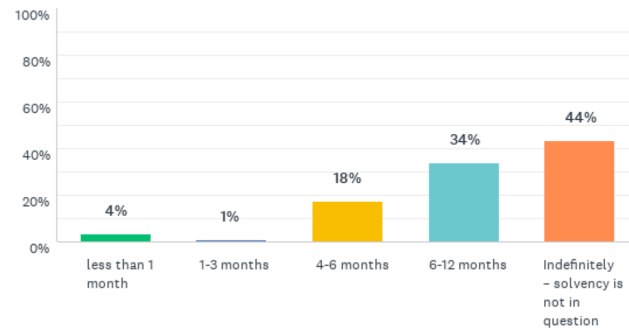
Significant Debt Incurred Due to COVID. Foodservice and hotel operators have taken on a projected $4 billion in debt due to COVID, far surpassing the federal, state and local government relief to date. 59% of restaurants have taken on debt, with an average debt of $558,334, projecting to $3.3 billion in debt statewide. 48% of hotels took on debt, with an average debt of $1.5M projecting to $743M statewide. Significant debt levels make it much more difficult to meet the challenges of attracting workforce and dealing with inflation and supply chain pressures.

Financial Health and Solvency Gains Hold. In August, 74% of operators indicated their financial health was growing or positive, (up from 50% in March). These gains held, with 77% reporting the same in December. Similarly, the number of operators projecting that solvency is not in question in the next 12 months came in at 63% (up from 59% in August and 42% in March). Foodservice saw the strongest gains in this area with 55% now indicating solvency is not in question in the coming year (up from 44% in August).

Foodservice Solvency December

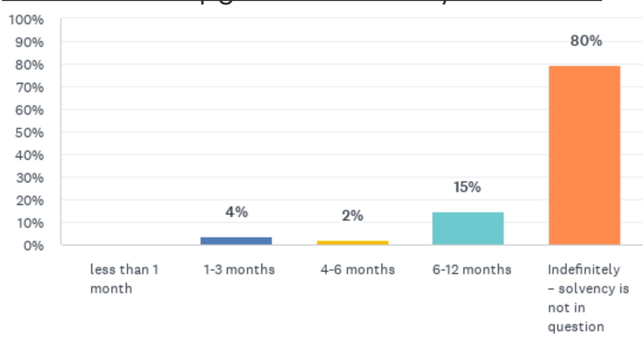


Foodservice Solvency August

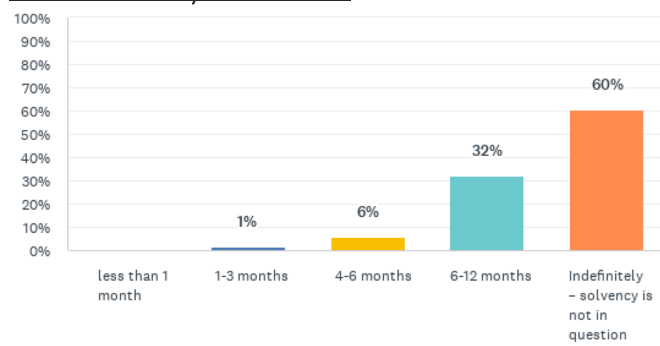


Reports from hotels and resort & campground operators remained relatively stable, with the resort and campground sector continuing to project economic strength:

Resorts & Campgrounds Solvency December

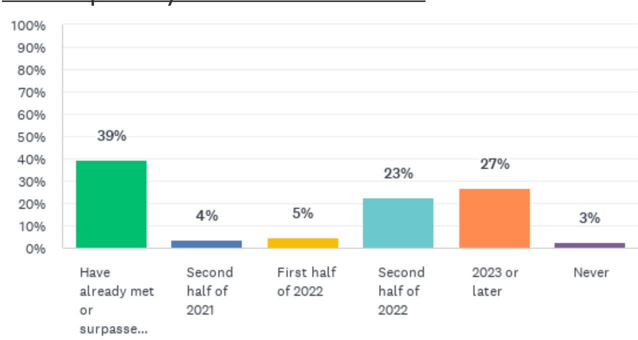


Hotel Solvency December

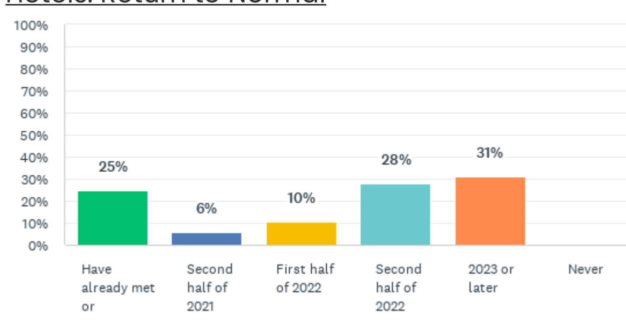


What's Next? While concerns about Delta were pervasive during our August survey (impacting both consumer behavior and operator expectations), today uncertainty around Omicron presents similar fluidity as we await more data. Acknowledging this uncertainty, operators projected the following on when business conditions might "return to normal":

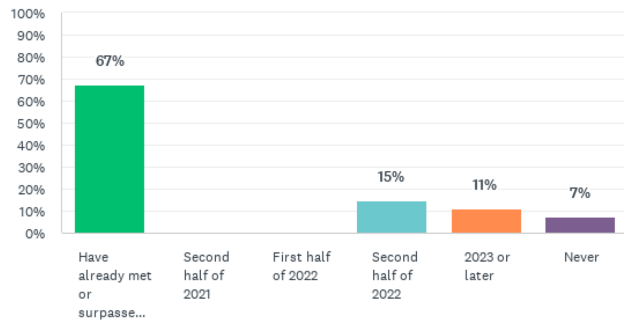
All Hospitality: Return to Normal



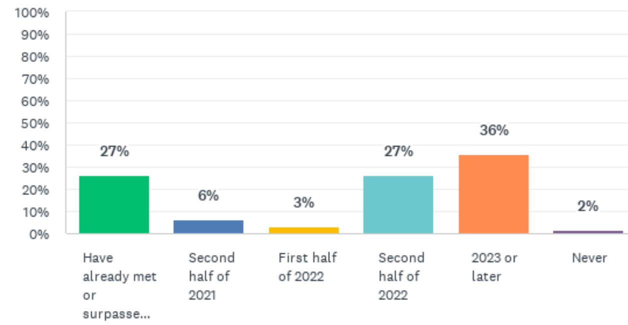
Hotels: Return to Normal



Resorts & Campgrounds: Return to Normal



Foodservice: Return to Normal



While the multi-year economic recovery has been slowed by the events of the last quarter and projects to remain sluggish through Q1 2022, the financial health and solvency data evidence an industry that has survived the brutal conditions of the past 20 months and continues to fight its way back. While the recovery has been uneven to date (as has been the impact of the pandemic), and remains extremely fragile, we will continue to work together to rebuild our interdependent hospitality industry in Minnesota.

Hospitality Minnesota would like to thank all of the operators that participated in the survey, as well as our partners Explore Minnesota Tourism and the Federal Reserve Bank of Minneapolis. This data is a critical part of how Hospitality Minnesota advocates for you with policymakers, communicates with the media, public, and other key stakeholders, and shares critical insights and actionable business intelligence our members can put to use in real time.

For more information, contact:
Ben Wogsland
Executive Vice President
ben@hospitalitymn.com