Economic Data Snapshot | Spring 2022
Covering the Lodging, Restaurant and Foodservice, and Resort and Campground Sectors

HOSPITALITY BUSINESS REVENUE PROJECTIONS STRENGTHEN GOING INTO SUMMER

Major challenges around workforce shortage and inflation deepen

New revenue projections for hospitality businesses are the strongest we've seen during the pandemic era as summer approaches. This good news comes almost exactly one year after winning the ability to re-open at full capacity through our work on the Roadmap to Recovery. Still, significant challenges around workforce shortage and inflation have become more intense, offsetting recovery gains. According to the most recent survey conducted by Hospitality Minnesota, the Federal Reserve Bank of Minneapolis and Explore Minnesota Tourism from May 9-17, 70% or more of operators in *all three sectors* are projecting revenue to meet or surpass pre-pandemic levels over the next three months for the first time since the start of the pandemic. At the same time, 76% of operators are reporting that inflation has driven their costs for goods and services 5-10% higher or more over the last year (up from 59% in March). In addition, 88% of operators describe labor availability as "tight" with 64% indicating "very tight" (up from 55% in March). The industry remains down 25,000 workers from pre-pandemic levels.

Quick Links to Resources Referenced in the Snapshot:

- **Roadmap to Recovery**
- **MN DEED Jobs Numbers**
- **AP Article**
- **BusinessWire Survey**
- **AHLA Survey**
- **Hospitality Minnesota Education Foundation**

Highlights and Key Takeaways from Survey:

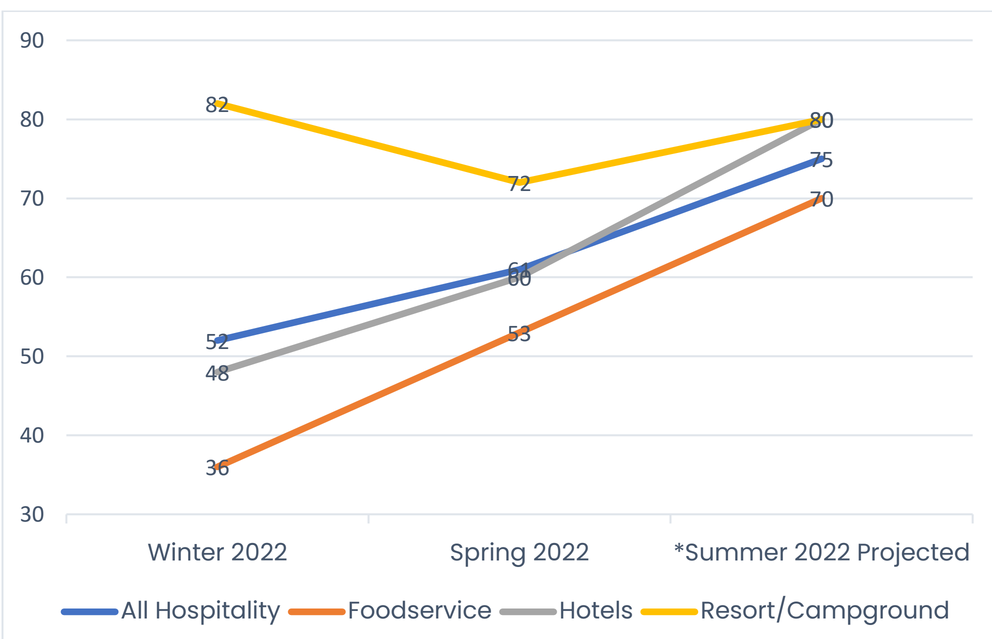
- Summer Revenue Projections For the first time in the pandemic era, 70% or more of operators in each sector project summer revenue will meet or surpass pre-pandemic levels:
  - 80% of resorts and campgrounds
  - 80% of hotels/motels
  - 70% of foodservice
  - 75% of all hospitality businesses
- Spring Revenue (Q2) Summer revenue projections are double digit or more improvements for each sector's actual revenue this spring. By sector, the percentage of operators indicating their spring revenue met or surpassed pre-pandemic levels is:

    - 72% of resorts and campgrounds
    - 61% of hotels/motels
    - 53% of foodservice
    - 60% of all hospitality businesses
- Workforce Shortage Continues 88% of hospitality operators report labor availability as tight, which is unchanged from March; however, 64% indicate "very tight," a troubling 9-point increase.
- Inflation Challenges Deepen. 76% of operators report inflation has driven their costs for goods and services 5-10% higher or more over the last year (up from 59% in March). The problem is most pronounced for the food service sector where 90% indicate 5-10% increases or more.

Read on for a more detailed look at the survey data.

Hospitality Businesses Project Stronger Revenue for Summer Months Across the Board. For the first time since the start of the pandemic, 70% or more of operators in all three sectors are projecting their revenues will meet or surpass pre-pandemic levels. If realized, these projections would represent double digit increases from spring *actual* revenue levels at or above pre-pandemic levels.

Percent of Businesses Meeting or Surpassing Pre-pandemic Revenue



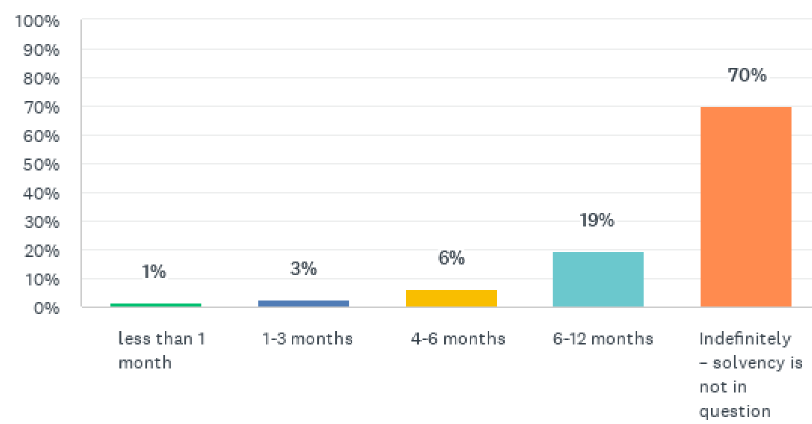
Expectations around the summer projections should be tempered by the fact that both the foodservice and resort and campground sectors underperformed projections in both spring and winter, as well as the ongoing fluidity around inflation and workforce (see below).

Spring Revenue Underperformed Projections for Food Service and Resort and Campgrounds The number of businesses realizing pre-pandemic level revenue or better in spring underperformed projections in both the foodservice and resort and campground sectors, continuing the trend from the previous quarter. Hotels and motels modestly outperformed projections in both quarters, providing a silver lining.

Projected vs. Actual Revenue: Percent of Businesses Meeting or Surpassing Pre-pandemic Levels

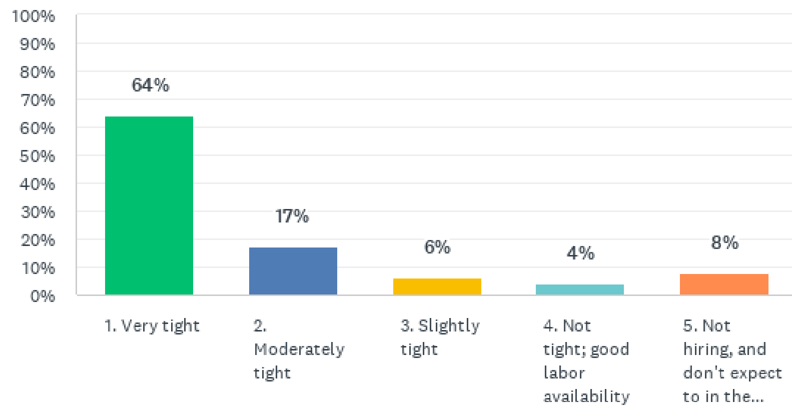
Sector	Spring Projected	Spring Actual	Winter Projected	Winter Actual
All Hospitality	64%	61%	58%	52%
Foodservice	55%	40%	48%	36%
Hotel	54%	60%	46%	48%
Resort & Campground	84%	72%	90%	82%

Solvency Sustainability and Financial Health Continue to Improve 70% of hospitality operators now indicate that they are not concerned about their business' solvency over the next 12 months. This is up from 59% this winter and is a hopeful marker that the industry continues to move beyond the economic *survival* phase characterizing much of the last 2 years, and into a phase of economic *recovery* and *growth*. 78% of hospitality operators report their financial health is currently stable or growing.



Workforce Shortage Challenges Remain at Historic Levels While Minnesota added over 6,000 hospitality and leisure jobs in April, the industry still remains down 25,000 workers from pre-pandemic levels at this time of year. Across the State, there are 54,000 fewer workers in the private workforce than in 2019 (that means that hospitality represents almost *half* of the jobs deficit in the State). 88% of operators currently report labor availability as "tight" (unchanged from the March report).

Operators responding: "very tight," however, jumped to 64% (up from 55% in March). In the current hyper-competitive job market, average hospitality wages have increased 13% from pre-pandemic levels. 62% of operators project wages to increase by another 3% or more in the next year. Concerns persist about how shortages may limit business optimization and economic activity.



Operators continue to explore enhanced benefit and wellness offerings, employee development programming, shift flexibility and various technology solutions to attempt to address the current crisis. In addition, more operators are engaging federal worker visa programs to solve their workforce needs. 26% of hospitality operators are currently accessing the work visa program, however, two-thirds indicate they experienced difficulty in successfully navigating these complex programs.

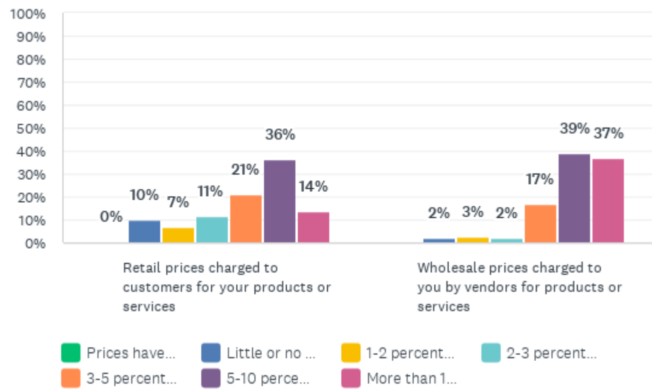
Worsening Inflation Poses Serious Threat to Economic Recovery. 76% of hospitality operators indicate that the prices they pay for goods and services have jumped by 5-10% or more over the last year, up from 59% in March. Remarkably, only 50% indicate that they are currently passing similar price increases onto their customers. This cost-revenue relationship is not sustainable but reflects a concern over what the consumer market will bear. Up until now, consumer spending has remained strong despite high inflation as noted in a recent AP article:

> *"Consumers have been shifting much of their spending away from appliances, electronics and exercise equipment—the kinds of goods many splurged on early in the pandemic while hunkered down at home—to travel, entertainment and other services… For many people the opportunity to travel after two years of restriction is outweighing the financial pressures of higher prices."*

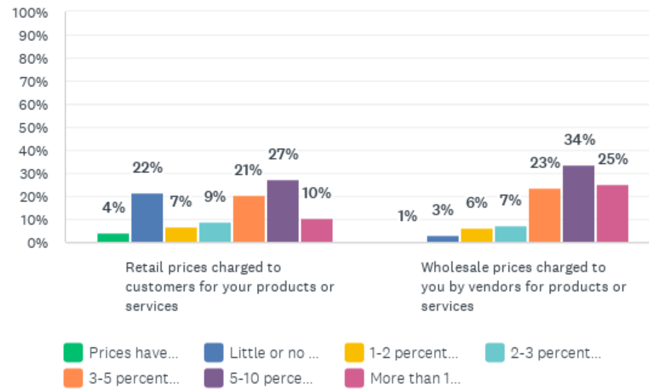
How long this trend continues is a serious open question. A different analysis reported in BusinessWire recently found that 42% of consumers are likely to cut down on dining out and 30% on travelling in response to inflation. The American Hotel and Lodging Association released a survey in May projecting that inflation is now more likely to impact Americans' travel plans than COVID conditions.

Given the totality of the circumstances, further sustained inflation has the potential to offset projected revenue improvements this summer, especially if operators are hit both by rising costs and suppressed consumer demand.

Price Changes in last 12 months (May 2022)



Price Changes in last 12 months (March 2022)



In addition to cost concerns, 90% of operators express some level of difficulty obtaining the goods and services necessary to run their business due to supply chain challenges.

Return to Normal? While the summer revenue projections look strong, the required adaptation and uncertainty of the last 2 years give the industry pause when projecting a more sustained "return to normal." The most recent survey results indicate that nearly half of hotels and foodservice operators report they do not expect sustained revenue levels to return to "normal" (pre-pandemic levels) until 2023, 2024 or later. 36% of resort and campground operators responded similarly, however, 55% indicated they have *already* returned to "normal." As noted above, future conditions related to the economic recovery are closely tied to developments around inflation and workforce. We will continue to drive our leadership in the coming months and advance our work through the Hospitality Minnesota Education Foundation to re-build and grow the workforce pipeline.

Hospitality Minnesota would like to thank all 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 the industry with policymakers, communicates with the media, public, and other key stakeholders, and shares critical insights and actionable intelligence with our members.

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