



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

TWO YEARS INTO PANDEMIC HOSPITALITY INDUSTRY CONTINUES TO FACE CHALLENGES

Over Half of Restaurants and Hotels Project Revenue Won't Return to "Normal" Until 2023

Two years ago, foodservice and other hospitality businesses were shut down as the state grappled with uncertainties around the developing COVID-19 pandemic. Over the last two years, no industry has been hit harder by the economic conditions, including shutdowns and limitations that reduced revenue by an equivalent of up to 249 days. Experts project that Minnesota's hospitality and tourism industry lost over \$15 billion in revenue. At the same time, operators' bills for rent, mortgage, insurance, utilities, taxes, and other costs continued unabated, leaving a many in debt as they work to emerge from the crisis. The situation is made worse by the fact that the industry has 32,000 less workers than pre-pandemic levels.

While the majority of businesses have so far survived economic collapse, data indicates that we face a multi-year economic recovery. According to a new hospitality survey conducted by Hospitality Minnesota, the Federal Reserve Bank of Minneapolis and Explore Minnesota Tourism from February 16-March 1, economic headwinds remain related to lower-than-normal revenue, significant inflation, supply chain challenges and a historic workforce shortage.

Highlights and Key Takeaways from Survey

- Winter Revenue (Q1) 64% of foodservice and 52% of hotels experienced lower winter revenue than normal (compared to 2019). The Resort and Campground sector continued to outperform previous years, as 50% reported *higher* winter revenue than 2019.
- Spring Revenue Projections (Q2) 45% of foodservice and 46% of hotels project lower spring revenue than normal (compared to 2019). Alternatively, 49% of resort and campground operators project higher than normal spring revenue.
- Workforce Shortage Continues 88% of hospitality operators report labor availability as tight.
- Debt 66% of restaurants have taken on debt due to COVID, with an average debt of \$552,659 projecting to \$3.6 billion in statewide restaurant debt. 55% of hotels took on debt, with an average debt of \$723,685 projecting to \$403M statewide. This projects to over \$4B in debt.
- Inflation Deepens 59% of operators reported wholesale purchase prices have jumped more than 5% this year; only 37% are passing on price increases to consumers at similar rates.
- Solvency Stabilizes Further 68% of hospitality businesses now indicate that solvency is not likely to be an issue in the next 12 months (up from 59% in August). Foodservice remains the most vulnerable sector with 46% of operators expressing concern about insolvency in the next 6-12 months or less. 15% are concerned about insolvency before September 2022.



Majority of Foodservice and Hotels Actual and Projected Revenue Down for Q1/Q2 The economic recovery continues to be slowed by underwhelming revenue for many operators:

Q1 2022 REVENUE COMPARED TO 2019

Sector	Lower Winter Revenue than 2019	Higher Winter Revenue than 2019
All Hospitality	48% (28%)	34%
Food Service	64% (44%)	15%
Hotels	52% (34%)	36%
Resorts & Campgrounds	18% (7%)	50%

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

Q2 2022 REVENUE PROJECTION COMPARED TO 2019

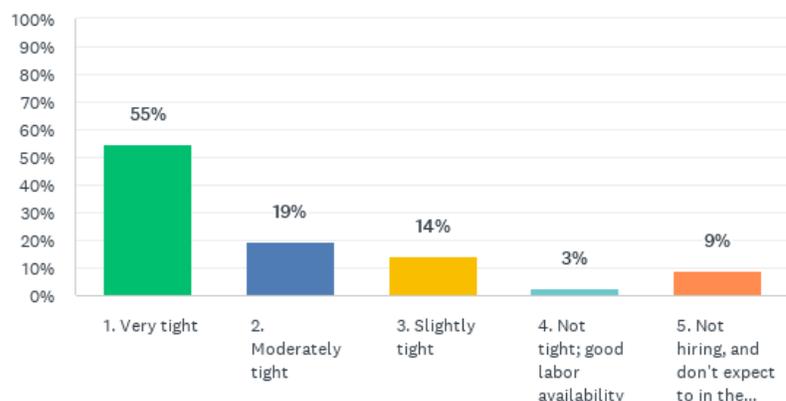
Sector	Lower Winter Revenue than 2019	Higher Winter Revenue than 2019
All Hospitality	34% (15%)	37%
Food Service	45% (24%)	21%
Hotels	46% (22%)	32%
Resorts & Campgrounds	16% (2%)	49%

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

Resort Report The Resort and Campground sector has been a bright spot over the last two years. Since winning re-opening in Summer 2020, this sector has outpaced all others, posting higher rates of financial health, solvency and revenue. The current survey indicates that:

- 96% report growing or stable financial health;
- 90% report solvency is not in question in the next 12 months; and
- 49% project higher than normal revenues in Q2

Workforce Shortage is Severe The Hospitality industry is down 32,000 workers from pre-pandemic levels, according to **DEED reports**. This represents 33% of the total jobs deficit for all private employers from January 2020 levels. Based on state data, we project that as many as 86,000 hospitality workers did not return to their hospitality employer after the shutdowns in March-June 2020 and November 2020-January 2021. Given these figures, it is not surprising that 88% of hospitality operators currently describe labor availability as "tight." The market remains highly competitive as the average wage increase grew by double digits.



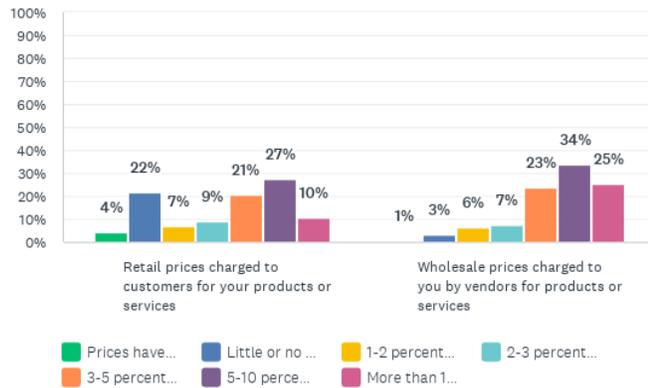
The majority of operators expect wages to continue to grow by 3-5% or more in the next year.



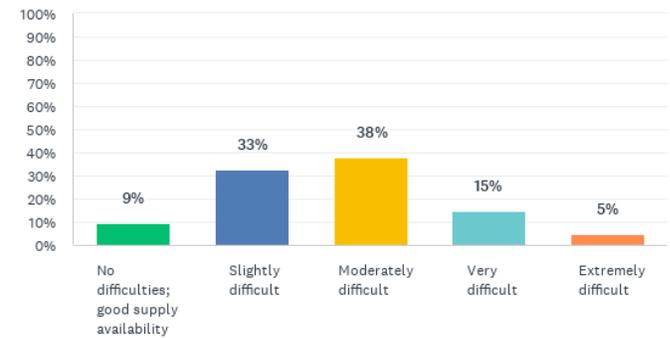
Debt Concerns Persist for Many Foodservice and Hotel Operators Given the sluggish revenue numbers for the majority of these operators, it is not surprising that debt concerns persist. 66% of restaurants have taken on debt due to COVID, with an average debt of \$552,659 projecting to \$3.6 billion in statewide restaurant debt. 55% of hotels took on debt, with an average debt of \$723,685 projecting to \$403M statewide. This projects to over \$4B in debt statewide for these two sectors. Digging out from debt is made more difficult by depressed revenue, workforce shortage, inflation and supply chain challenges.

Inflation and Supply Chain Pose Additional Challenges 59% of hospitality operators reported wholesale purchase prices have jumped more than 5% this year; only 37% are passing on price increases to consumers at similar rates. 91% continue to experience varying levels of difficulty in obtaining critical goods and services to run their business.

Price Changes in Last 12 months



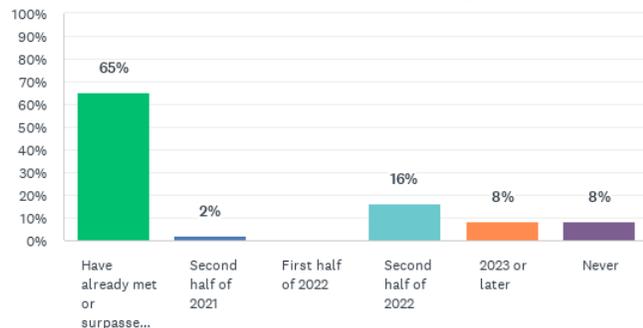
Supply Chain Difficulty



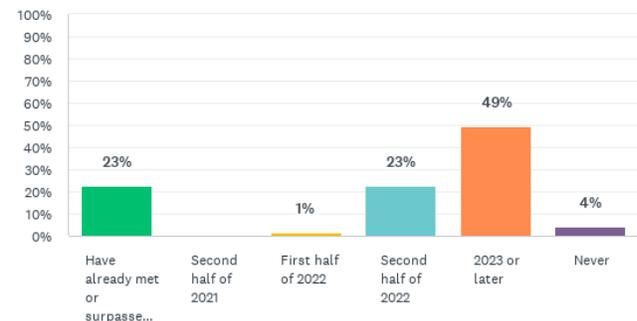
We note that the timing of the survey likely does not account for the full impact of concerns related to supply chain and consumer behavior created by the Russo-Ukrainian conflict.

Return to Normal? Projections for a return to normal vary widely by sector. 65% of resort and campground operators indicate that they have already met or surpassed pre-pandemic level revenues. However, the majority of foodservice operators, and nearly half of hotel operators project that revenue will not return to normal levels until 2023 or later.

Return to Normal | Resorts and Campgrounds

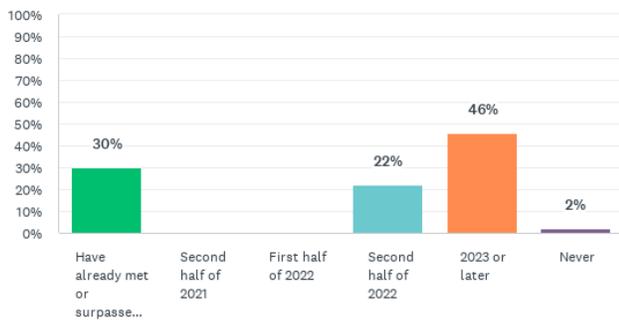


Return to Normal | Restaurant and Foodservice

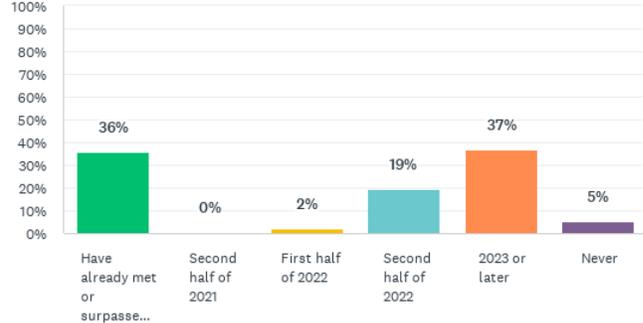




Return to Normal | Lodging



Return to Normal | All Hospitality



What's Next on the Road to Recovery? The Paycheck Protection Program (PPP) and Restaurant Revitalization Fund (RRF) were lifelines for those businesses and workers that could benefit from them, but these funds are exhausted (and in the case of RRF only went to 1/3 of applicants). Inexplicably, recent news out of Washington D.C. indicates Congress will *not* pass additional COVID relief to address the impact of Delta and Omicron on small businesses. This means that small business operators will be left on their own unless state and local government step up to hasten the speed and depth of the economic recovery. With a \$9.25B surplus and an additional \$1 billion in American Rescue Plan funding coming to the state, the legislature is currently considering various legislative actions to address workforce training, direct grant assistance, tax relief and other legislation.

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.

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