

Foodservice Entering Uncharted Territory While Navigating New Challenges

UB Consulting Assesses Restaurant Recovery Following the Shortest Recession on Record

The recovery in foodservice has been hard to predict. Initially, we thought that the sector would take several months, if not years, to recover. Yet, nominal food expenditures for food away from home surpassed those at home in May 2021 for the first time since the pandemic began. When adjusted for inflation, food expenditures for food away from home began hovering around pre-pandemic levels in March 2021. Although it appears that the foodservice sector is now out of the woods, significant structural challenges remain.

Restaurants and bars across the U.S. are struggling with labor shortages, rising food prices, and other logistical issues that are causing overall costs to remain high compared to pre-pandemic levels. As a result, these relatively higher costs are being passed to consumers in the form of higher prices. However, we believe the foodservice sector will likely continue to be supported by consumers who remain eager to spend money in restaurants and bars as disposable income and savings rates remain historically high.

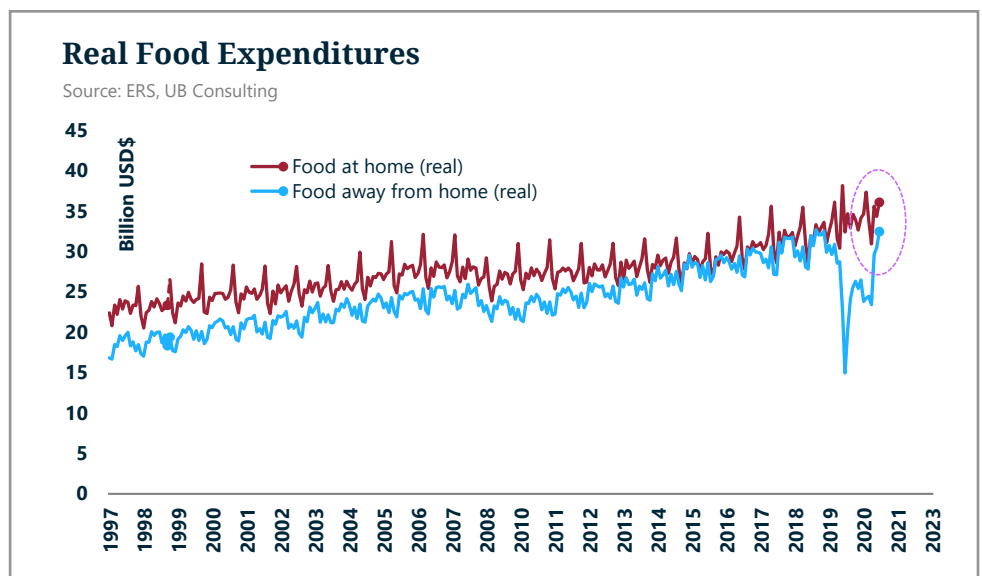


Figure 1. Real Food Expenditures. Source: ERS, USDA, UB Consulting.

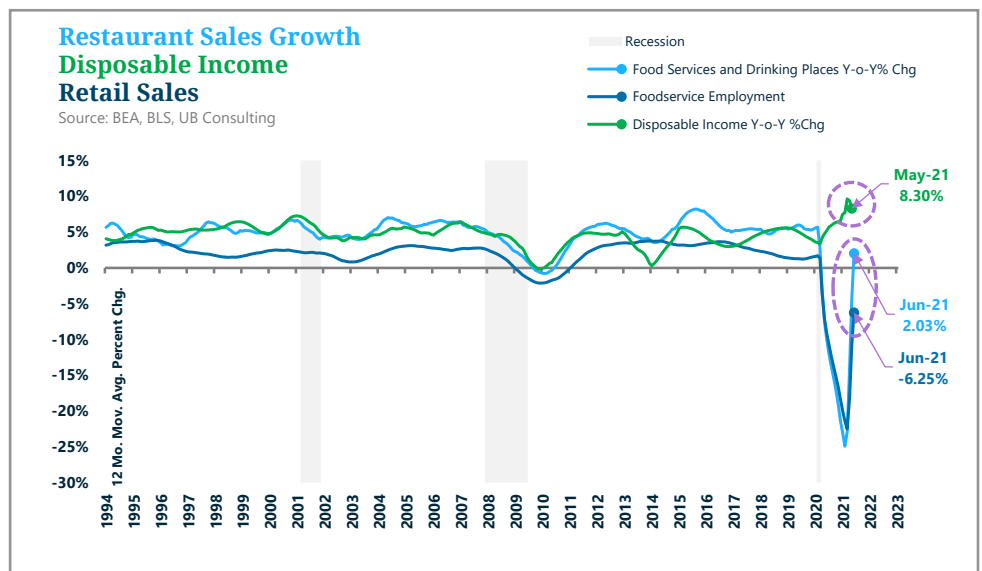


Figure 2. Restaurant sales growth, disposable personal Income, retail sales (grocery stores). 12-month moving average y-o-y percent change. Source: BEA, BLS, UB Consulting.

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In a previous report, we pointed out many of the factors currently affecting the rise in protein prices in the U.S. The reasons vary, sometimes directly affected by fundamental supply and demand imbalances, while others are due to structural changes in consumer preferences, the labor market, or logistical issues. Wholesale upward price acceleration for many protein commodities was notable for many proteins during Q1 into Q2 of 2021, almost in a shock-like manner. While fundamental supply and demand imbalances can undoubtedly explain the direction of this upward price movement, the shock-like factor of a stronger-than-anticipated demand was a primary driver for the magnitude of such movement. Therefore, if we combine an already “pent-up” retail market and a sudden strong buying interest from the foodservice sector simultaneously, one could expect prices to jump rapidly.

Although rising protein costs can pose a significant challenge for restaurants and bars in recovery, fortunately, consumers have been eager to go out and spend. The primary problem that many restaurants face is a lack of workers to serve all these returning customers. There are several possible causes for why this is happening. Whether workers are reassessing their careers or seeking higher wages elsewhere, the bottom line is that we might be facing a massive structural change in the labor market. Employment in the foodservice sector is still well below pre-pandemic levels despite sales hovering around levels seen in January and February 2020. But because labor is such a vital component of the foodservice industry, the struggle to attract workers through higher wages will undoubtedly continue to place upward cost pressure on restaurateurs. Though the economy would welcome such wage increases, particularly for workers at the bottom of the income ladder, we will likely continue to see inflationary pressures throughout 2021 and possibly 2022.

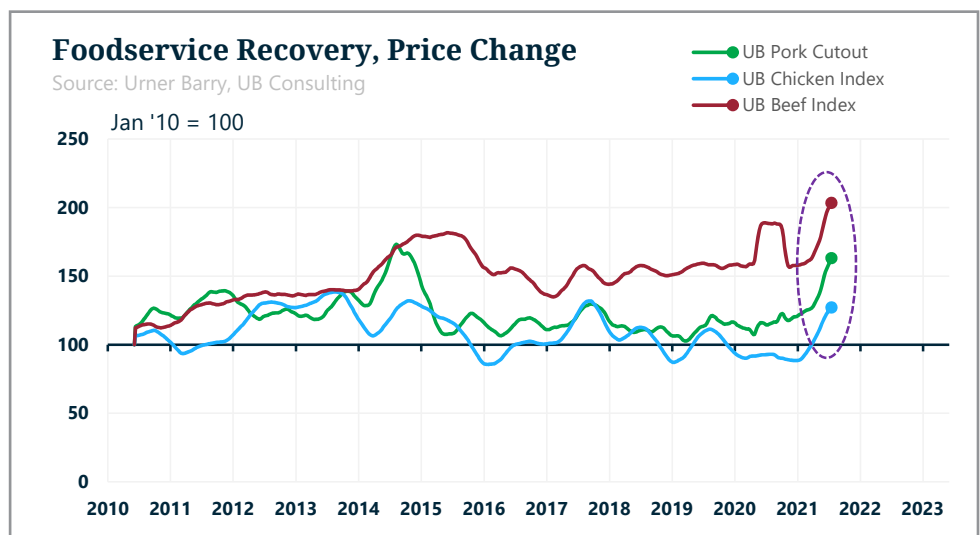


Figure 3. Percent change indexed Jan = 100, 6 month moving average, weekly.
Source: Urner Barry, UB Consulting



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For now, consumers have been able to pay higher prices for animal proteins both at retail and at foodservice. Disposable personal income and saving rates remain historically high, which supports an expanding economy. Further support also comes from the recovery of other hard-hit sectors like travel and entertainment.

But because of the structural changes mentioned above, some pricing behavior and market dynamics will be hard to predict, particularly for the foodservice and retail split. The recession caused by the pandemic was officially the shortest on record, ending in April 2020, and there continues to be an urgency to return to something that resembles pre-pandemic

times for many foodservice operators. However, it looks like the adaptability of what's next will play a more prevalent role for many of these operators than in previous massive consumer shifts. Whether by offering higher wages, increasing automation, or becoming creative to absorb higher food costs, the foodservice sector is now entering partially uncharted territory. Luckily, it will be as the economy expands and with plenty of customers with higher disposable incomes.

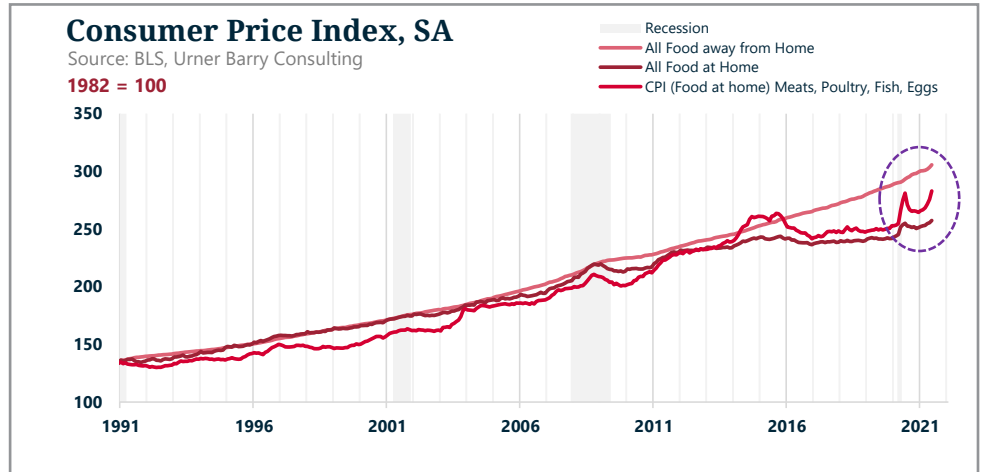


Figure 4. Inflation measurements. Consumer price index (CPI) for three different indexes. Source: BLS, UB Consulting.



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