

NATIONAL
RESTAURANT
ASSOCIATION



STATE OF THE RESTAURANT INDUSTRY



MID-YEAR UPDATE • AUGUST 2021



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ABOUT THIS UPDATE

The 2021 State of the Restaurant Industry Mid-Year Update reports key industry indicators and trends as of June/July and is based on the National Restaurant Association's annual State of the Restaurant Industry Report, which published in January. It incorporates analysis of the latest economic data and extensive surveys of restaurant operators and consumers.

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HIGHLIGHTS

- Food and beverage sales in the restaurant and foodservice industry are projected to total **\$789B in 2021, up 19.7% from 2020.**
- In the **first half of '21, restaurant sales were bolstered** by rising vaccination numbers, healthy household balance sheets and consumers' pent-up desire to socialize and dine out.
- In total during the first seven months of 2021, **eating and drinking places added a net 1.3M jobs.** That brought the sector within 1M jobs of returning to its pre-pandemic employment level of 12.3M.
- In June and July 2021, 75% of operators said **recruiting and retaining** employees was the top challenge facing their business.
- Wholesale food costs are increasing** at their fastest rate in 7 years.
- Hourly earnings are rising** at a pace more than double that of the overall private sector.
- As of the end of June, **11 states and Puerto Rico** still impose capacity limits on restaurants, ranging from 50% to 80%.



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INTRODUCTION

2021 is a year of transition. Despite gains in restaurant sales in recent months, many restaurant operators took on significant debt during the past 18 months and are still working their way back to even.

The industry continued rebuilding the workforce as growing consumer demand drove the need for employees. Despite steady gains, 3 in 4 restaurant operators say recruiting and retaining employees is the top challenge facing their business.

Operators add the inability to recruit adequate staff limits their ability to expand business, despite high demand in the first half of the year. Many have had to reduce operating hours and/or increase the work hours for current team members. Tightly managing procurement and labor costs is paramount to preserving already tight margins.

Entirely different business models for the industry are evolving. In many cases, the physical footprint is smaller with less space allotted for dining rooms; some models are all-off-premises; others are delivery-fulfillment only with no public access. These developments are a natural evolutionary step accelerated by the pandemic restrictions of the last year and a half.

The industry will continue to maintain a greater emphasis on off-premises business, with digital transactions, enhanced takeout and delivery services, and the continued rise of ghost kitchens.

For industry recovery, there's no substitute for national employment growth. When people are employed, there's less time for home-meal prep and more disposable income to spend at restaurants. National employment is still down 5.7M jobs, so the industry still has a way to go. Its recovery remains closely tied to much-needed revitalization funds and consistent government policies on masking, vaccinations, and occupancy levels.





JOBS THROUGH JULY

HELP WANTED DESPITE GAINS

July marked the 7th consecutive month of staffing growth, translating to a net increase of 1.3M jobs in the first 7 months of 2021.

Despite the steady gains, eating and drinking places* are still nearly 1M jobs (8%) below pre-pandemic employment levels.

Between April '20 and June '21, the fullservice segment was 626K jobs (11%) below pre-pandemic employment levels. Staffing levels in the limited-service segment are down 175K jobs (4%).

Job openings in the hospitality sector soared to record levels in the first half of '21.

The restaurants-and-accommodations sector** had more than 1.4M openings on the last business day of June, according to Job Openings and Labor Turnover data from the Bureau of Labor Statistics.

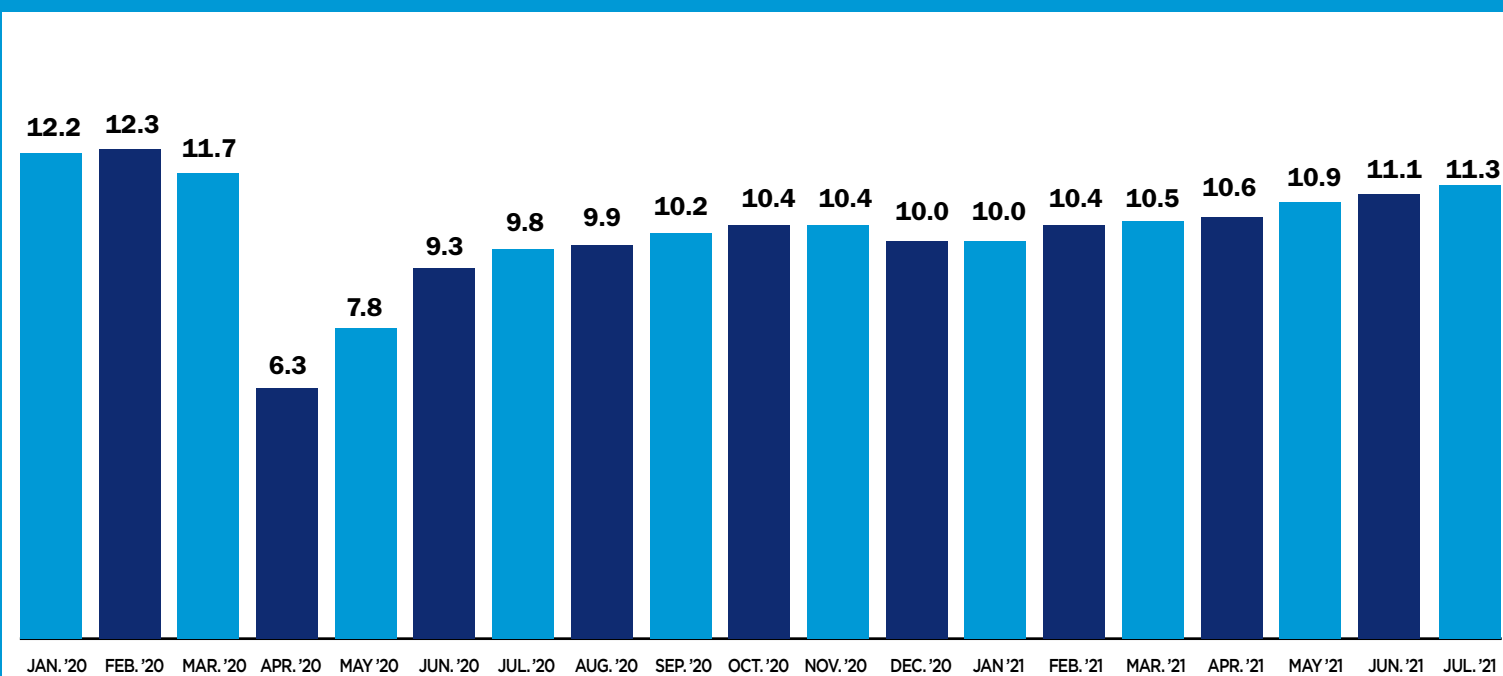
That was more than double January's level, and represented the highest monthly reading since the JOLTS data series began in 2000.

Compared with 10.1M openings in the overall economy in June, competition for talent is fierce.



EATING AND DRINKING PLACES* EMPLOYMENT

(in millions)



Source: BLS, figures are seasonally adjusted

*Eating and drinking places are the primary component of the total restaurant and foodservice industry, which, prior to the pandemic, employed 12M out of the total industry workforce of 15.6M.

**JOLTS figures are for the broadly defined Accommodations and Food Services sector (NAICS 72), because the BLS does not report data for restaurants alone.

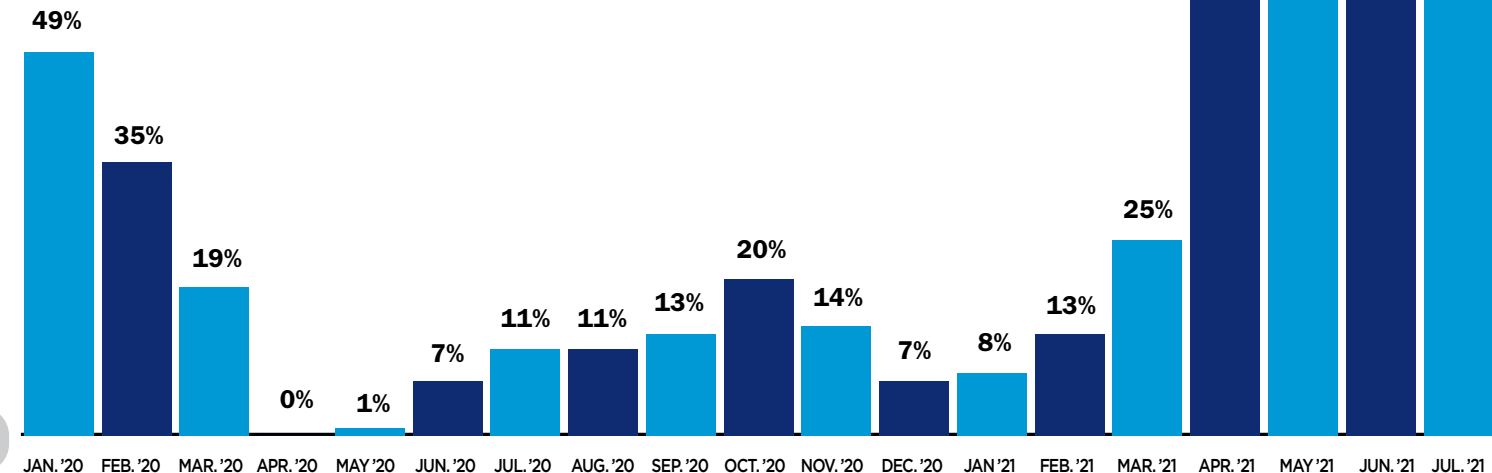
RECRUITING & RETENTION

Restaurant operators confirm labor challenges intensified in the first half of the year. Fully 75% reported recruiting and retaining employees was the top challenge facing their business. In January '21, that

number was 8%. The June/July number represents its highest level in nearly 20 years of the Association's monthly tracking survey.

HIRING TALENT TOP CHALLENGE

% of operators that said recruiting & retaining employees is their top challenge



Source: National Restaurant Association Industry Tracking Survey



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NATIONAL RESTAURANT ASSOCIATION | STATE OF THE RESTAURANT INDUSTRY | RESTAURANT SALES

RESTAURANT SALES REV UP

SO GOOD TO GET OUT AGAIN

Consumer spending in restaurants trended sharply higher during the first half of 2021, driven by rising vaccination numbers, additional stimulus payments and healthy household balance sheets on the aggregate.

This allowed consumers to continue to order takeout more frequently while also ramping up their

on-premises visits as capacity restrictions lift across the country.

As a result, the 2021 forecast for restaurant sales is updated. Food and beverage sales in the industry are projected to total **\$789B** in 2021, up 19.7% from 2020.

RESTAURANT AND FOODSERVICE INDUSTRY FOOD AND BEVERAGE SALES¹: 2019 TO 2021

	2019 SALES (billions)	2020 SALES (billions)	'19-'20 % CHANGE ²	2021 SALES (billions)	'20-'21 % CHANGE ²	'20-'21 REAL % CHANGE
EATING AND DRINKING PLACES	\$615.9	\$497.6	-19.2%	\$609.0	22.4%	18.4%
FULLSERVICE SEGMENT ³	\$285.0	\$199.5	-30.0%	\$255.0	27.8%	24.2%
LIMITED SERVICE SEGMENT ⁴	\$308.9	\$290.4	-6.0%	\$339.0	16.8%	10.5%
BARS AND TAVERNS ⁵	\$22.0	\$7.7	-65.0%	\$15.0	94.8%	91.3%
ALL OTHER FOODSERVICE ESTABLISHMENTS ⁶	\$248.4	\$161.5	-35.0%	\$180.0	11.5%	8.0%
TOTAL	\$864.3	\$659.0	-23.8%	\$789.0	19.7%	15.7%

Source: National Restaurant Association
Note: Figures do not sum precisely due to rounding

1. Data are given only for establishments with payroll.
2. % change calculations are based on unrounded data and may not match calculations based on data rounded to one decimal point.
3. Includes family dining, casual dining and fine dining fullservice restaurants. Table service is provided, and the order is taken while the patron is seated. Patrons pay after they eat.
4. Includes quickservice restaurants; fast casual restaurants; cafeterias, grill-buffets and buffets; snack and nonalcoholic beverage bars; social caterers. Patrons generally order at a register or select items from a food bar and pay before they eat.
5. Includes bars, taverns, nightclubs, or drinking places primarily engaged in preparing and serving alcoholic beverages for immediate consumption. These establishments may also provide limited food services.
6. Includes the following categories: managed services (also referred to as onsite food-service and food contractors); lodging places; retail-host restaurants (health-and-personal-care-store restaurants, general-merchandise-store restaurants, variety-store restaurants, food-store restaurants and grocery-store restaurants, gasoline-service-station restaurants and miscellaneous retailers); recreation and sports (includes movies, bowling lanes, recreation and sport centers); mobile catering; vending and nonstore retailers (includes sales of hot food, sandwiches, pastries, coffee and other hot beverages); business, educational, governmental or institutional organizations that operate their own restaurant services; military restaurant services (continental U.S. only).

Month	Not using restaurants as often as they'd like (%)
JAN. 2020	45%
APR. 2020	83%
JUN. 2020	42%
SEP. 2020	36%
DEC. 2020	33%
MAR. 2021	58%
JUN. 2021	28%

PENT-UP DEMAND IS HIGH FOR ON-PREMISES DINING

% of adults who say they're not using restaurants as often as they'd like

■ Eating on-premises at restaurants
□ Purchasing takeout/delivery from restaurants

Source: National Restaurant Association

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NATIONAL RESTAURANT ASSOCIATION | STATE OF THE RESTAURANT INDUSTRY | TIMELINE

REOPENING TIMELINE

As of the end of June 2021, 39 states and the District of Columbia had reopened to 100% indoor dining capacity; 11 states and Puerto Rico were open at varying capacities ranging from 50% to 80%.

JAN. 2021

FEB. 2021

MAR. 2021

APR. 2021

MAY 2021

JUNE 2021

RESTAURANT CAPACITY



FOCUS ON FOOD COSTS

FOOD, FUEL COST MORE

Wholesale food prices trended sharply higher during the first half of 2021 according to preliminary data from the BLS.

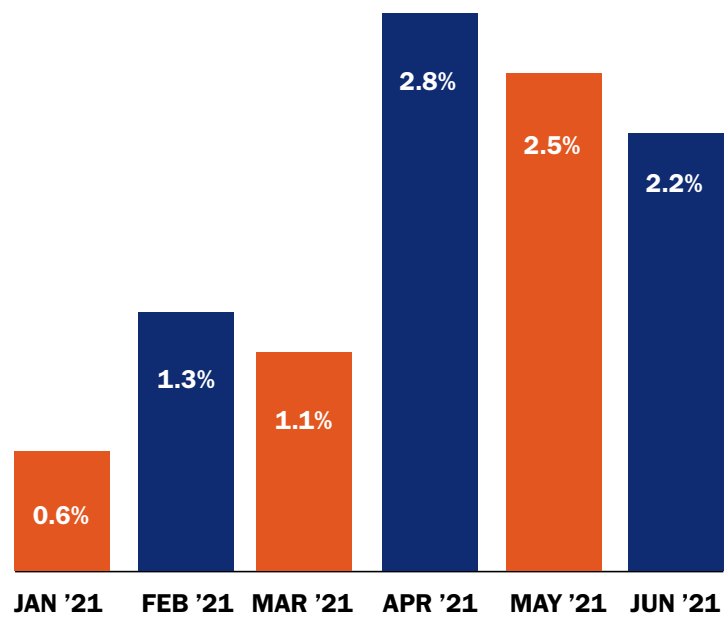
The Producer Price Index for All Foods (the change in average prices paid to domestic producers for their output) is on pace to post its largest annual increase since 2014.

Adding to supply chain pressures: Gas and diesel fuel prices are on pace to hit their highest annual level since 2014.



WHOLESALE FOOD PRICES (PRODUCER PRICE INDEX-ALL FOODS)

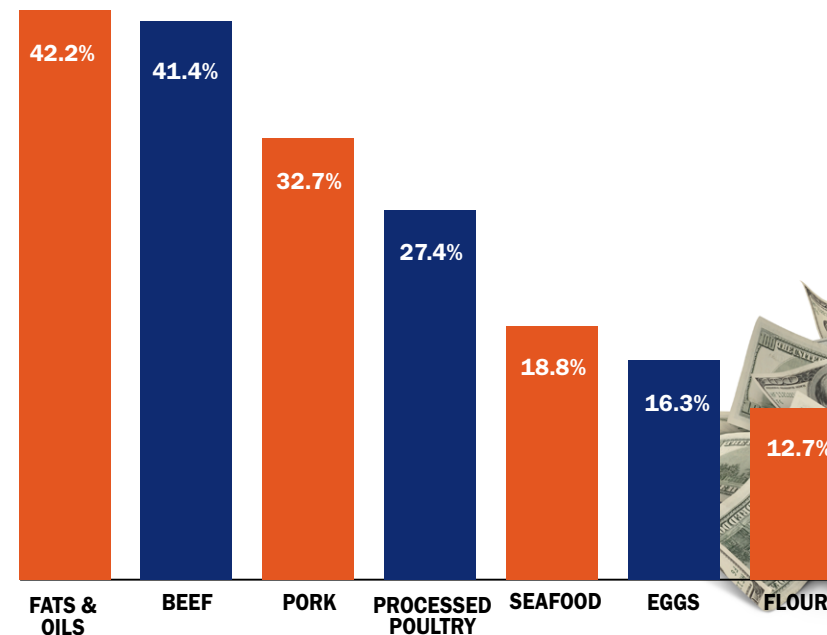
(% change from prior month)



Source: BLS, National Restaurant Association

COSTLIER COMMODITIES

Items posting the highest cost increases between June '20 and June '21:



Source: BLS, Producer Price Index for All Foods

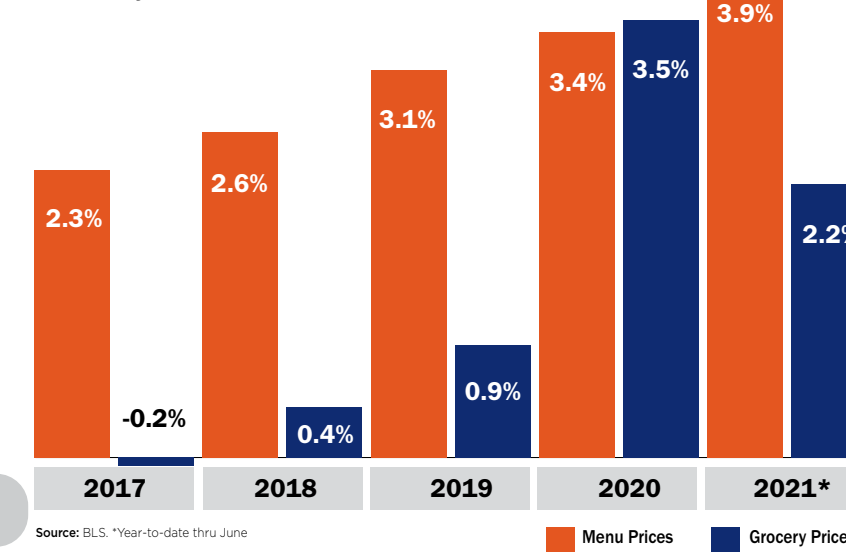


MENU PRICES: TRENDING HIGHER

Consumer prices for food away from home were up 3.9% on a year-to-date basis thru June putting menu prices on pace to register their strongest annual increase since '08. This uptick in menu prices was driven largely by higher input costs—particularly food and labor. Wholesale food costs are increasing at their fastest rate in 7 years, while hourly earnings are rising at a pace more than double that of the overall private sector.

PAYING MORE FOR MEALS

Annual Growth in Consumer Price Index — Food Away from Home vs. Food at Home



Source: BLS. *Year-to-date thru June





TRENDS WITH TRACTION



Looking back on the coronavirus' onset, it didn't take long for restaurant operators to respond to the challenges inherent in the pivot to all off-premises business. The resources they developed and innovations they employed were, in many cases, so effective, they're likely here to stay for the foreseeable future.



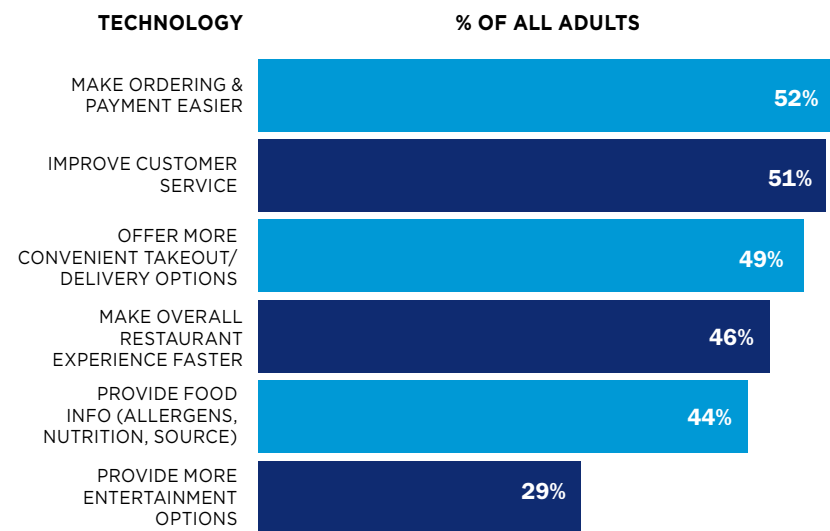
ACCELERATED TECH ADOPTION

The pandemic forced consumers to hone their tech skills to master online ordering, electronic payment, and order pickup when the industry shifted to all off-prem. When it comes to digital engagement, what was nice to have is now necessity—customers expect it.



TECH PLEASE!

Areas in which consumers would like to see restaurants incorporate more technology



Source: National Restaurant Association, Feb. 2021 survey



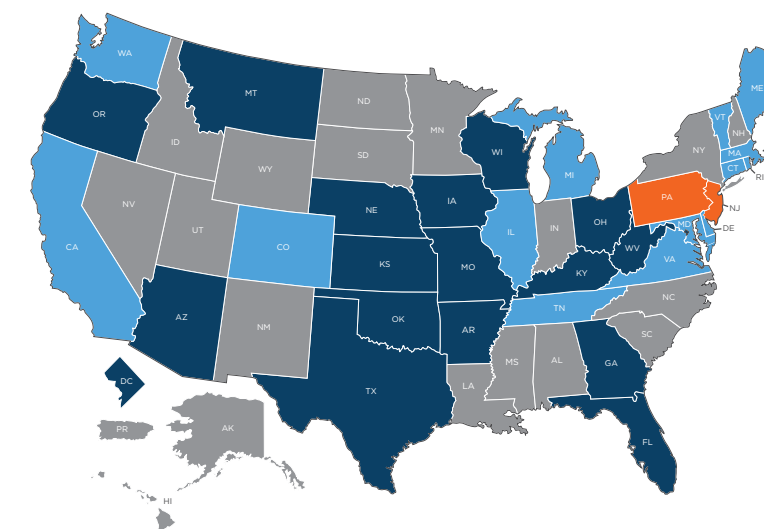
ALCOHOL-TO-GO

Grabbing hold of one of the most effective lifelines during the pandemic shut-down, operators who sold alcohol-to-go (ATG) were able to augment off-premises sales. Most states were quick to allow beer, wine and even liquor to go, but off-prem mixed cocktails were a mixed bag legislatively.

At the high point:

- 39** states allowed cocktails-to-go in some way
- 14** have extended how long they'll be permitted (decision is pending in several states)
- 17** jurisdictions (16 states and D.C.) have made cocktails-to-go permanent

STATES ALLOWING COCKTAILS TO GO



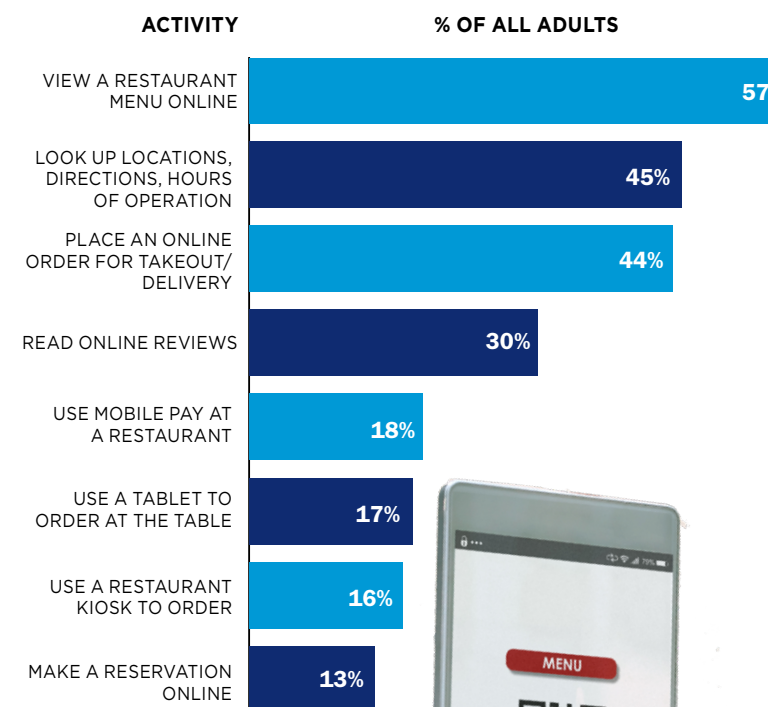
■ Cocktails to go allowed permanently
 ■ Pending legislation to make cocktails to go permanent

■ Cocktails to go extended
 ■ Cocktails-to-go not allowed*

Source: National Restaurant Association, as of July 2021
*local municipal exceptions may be in place

HOW CONSUMERS USE TECHNOLOGY

% of consumers who did the following in the past year



Source: National Restaurant Association, Feb. 2021 survey



THE ABILITY TO CONTINUE OFFERING ALCOHOLIC BEVERAGES WITH TAKEOUT AND DELIVERY ORDERS COULD BOOST OFF-PREMISES SALES BY 5%-10% FOR A TYPICAL RESTAURANT THAT INVESTED IN SUCH A PROGRAM.

Mike Whatley, VP State Affairs and Grassroots Advocacy, National Restaurant Association



OFF-PREMISES DINING

Early in the pandemic, takeout and delivery became customers' only options for restaurant meals. Today, their use of off-premises options is still high; in fact, it's higher. On-premises restaurant use has improved but remains lower.



Source: National Restaurant Association weekly Consumer Restaurant Frequency Survey

OFF-PREM VS. ON-PREM

% of adults who used restaurants for off-premises and on-premises meal occasions during the previous week

TAKEOUT/DELIVERY	PRE-PANDEMIC MARCH 2020	EARLY AUGUST 2021	% POINT CHANGE
Dinner	58%	60%	+2%
Lunch	37%	43%	+6%
Breakfast	28%	31%	+3%
ON-SITE			
Dinner	60%	48%	-12%
Lunch	39%	28%	-11%
Breakfast	26%	19%	-7%



THE GREAT OUTDOORS

Outdoor dining is a key revenue source for many restaurants during the pandemic. 90% of operators who expanded outdoor seating to a sidewalk, parking lot or street plan to continue if their jurisdiction allows it post pandemic. As virus variants emerge, operators requiring proof of vaccination for indoor dining will likely benefit from having outdoor dining options.

84% of adults say they favor allowing [restaurants to set up tables on sidewalks](#), parking lots or streets permanently.

TABLE IN OR OUT?

% of restaurants that offer on-premises outdoor dining

RESTAURANT SEGMENT	SEPT. 2020	NOV. 2020	FEB. 2021	APR. 2021
All restaurants	67%	49%	40%	57%
Fullservice	74%	52%	42%	61%
Limited-service	60%	46%	37%	53%

Source: National Restaurant Association Operator Survey April 2021
*Limited-service includes quickservice, fast casual and coffee/snack concepts.





A LOOK AHEAD



RISE IN VARIANTS COULD THREATEN RESTAURANT RECOVERY

In the first half of 2021, the restaurant industry passed a few positive signposts on the long road to recovery.

While rising employment and increasing sales are bright spots, they're not in numbers strong enough to reverse the damage done by the coronavirus in the last year and a half.

Now, **coronavirus variants threaten those gains.**

A National Restaurant Association survey of 1,000 adults, Aug. 13-15, reveals:

- 6 in 10 adults **changed their restaurant use** due to the rise in the delta variant
- 1 in 5 adults chose to **sit outdoors** if they did dine at a restaurant
- 37% said they **ordered delivery or takeout** instead of dining in a restaurant
- 9% cancelled restaurant plans and 19% **stopped dining in restaurants** altogether

If asked to wear masks to dine indoors again ...

- 32% of adults surveyed said this mandate would make **them less likely** to dine in a restaurant
- 25% said it would make them **more likely** to
- 43% said it **wouldn't impact** their restaurant use either way

If asked to show proof of vaccination to dine indoors ...

- 32% of adults surveyed said this mandate would make them **less likely** to dine in a restaurant
- 33% said it would make them **more likely** to
- 35% said it **wouldn't impact** their restaurant use either way



The Association will continue **to monitor the effect of COVID-19 on the restaurant industry** in the coming months and plans a full State of the Restaurant Industry Report early in 2022.