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While consumer appetite for dining out is unfazed by inflation, restaurants face real challenges

Article

The trend: Inflation hasn't dulled consumer appetite for dining out.

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- Revenues for hotel, restaurant, and leisure companies listed in the S&P 500 grew 25% year-over-year (YoY), according to FactSet.
- Average transactions per restaurant location on the **Toast** platform rose YoY in 11 out of 12 metropolitan areas in Q4, per Toast. The New York metropolitan area, for example, saw average transactions per restaurant location increase about 10% YoY in Q4.
- Spending at restaurants and bars soared 25.2% YoY in January (and 7.2% month-over-month), according to the US Commerce Department.
- Restaurant industry sales are expected to grow 6.4% YoY this year to $997 billion, per the National Restaurant Association.

After roughly two years of buying goods in lieu of services, the pendulum has swung back in the other direction.

Why restaurant sales are rising: While food prices have soared throughout the past year, prices have risen at a slower rate at restaurants (8.2% YoY in January) than at grocery stores (11.3% YoY in January), per the US Labor Department.

- However, high food prices are eating into restaurants' margins, which is why 92% of operators say the cost of food is a significant issue for their restaurants, per a National Restaurant Association survey included in its State of the Industry report.
- Only 16% of restaurants expect profits to increase this year, with 50% expecting to make less money than they did last year because of soaring expenses, according to the report.

More challenges ahead: The tight labor market, along with an uncertain economic outlook, adds to the challenges facing restaurants.

- The National Restaurant Association expects the food service industry workforce to grow by 500,000 jobs this year, which would bring total employment to 15.5 million. That would surpass prepandemic levels.
- However, that may be easier said than done given that 47% of restaurant operators expect competition for workers to be more intense than last year.
- At the same time, consumers are fickle and increasingly focused on value. Consumer confidence decreased in February for the second straight month, according to the

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Confidence Board. That may be a sign that many will be less willing to splurge on a night out (or even just an **Impossible** burger).

Categories/Activities in Which Adults in Select Countries Are Cutting Back due to Higher Prices, Sep 2022

% of respondents

	UK	Spain	Italy	Germany	France	US	Total
Dining out	60%	59%	59%	63%	49%	55%	57%
Apparel, footwear, and accessories	40%	47%	51%	57%	52%	40%	48%
Entertainment and recreation	48%	40%	32%	45%	43%	36%	41%
Travel	33%	42%	37%	39%	32%	24%	34%
Groceries	38%	23%	24%	41%	22%	37%	31%
Gas	26%	30%	28%	27%	32%	33%	29%
Home decor and furniture	30%	26%	28%	30%	24%	22%	27%
Household goods	30%	24%	25%	28%	16%	24%	25%

Source: First Insight, "The State of Consumer Spending: Inflation's International Impact," Sep 22, 2022

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The big takeaway: Despite the strong top-line numbers, the restaurant industry faces some significant challenges this year.

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