

BACK IN BUSINESS?

The road to recovery for Wisconsin's restaurant and bar industry

It is widely known that the COVID-19 pandemic has created unprecedented challenges for restaurants and bars in Wisconsin, but the extent of the damage to those businesses and their employees is less clear. Our analysis of employment and sales tax revenue data shows strong recovery in the sector, thanks in part to support provided through federal relief funds. Yet, employment in the sector remains down by roughly 9%, its recovery in Wisconsin lags that of other industries and the nation, and a surge in new coronavirus cases suggests continued challenges ahead.

Restaurants and bars are among the businesses that have been hardest hit by the pandemic in Wisconsin and nationally. Many closed or scaled back their hours of operation for several months or longer. Most also shifted their focus to carry-out and delivery services and added new safety protocols when indoor dining was limited and customer concerns were especially high. Some of those changes have carried forward at least in part to today, as the pandemic lingers and rising cases of the delta variant have caused public safety concerns to rebound.

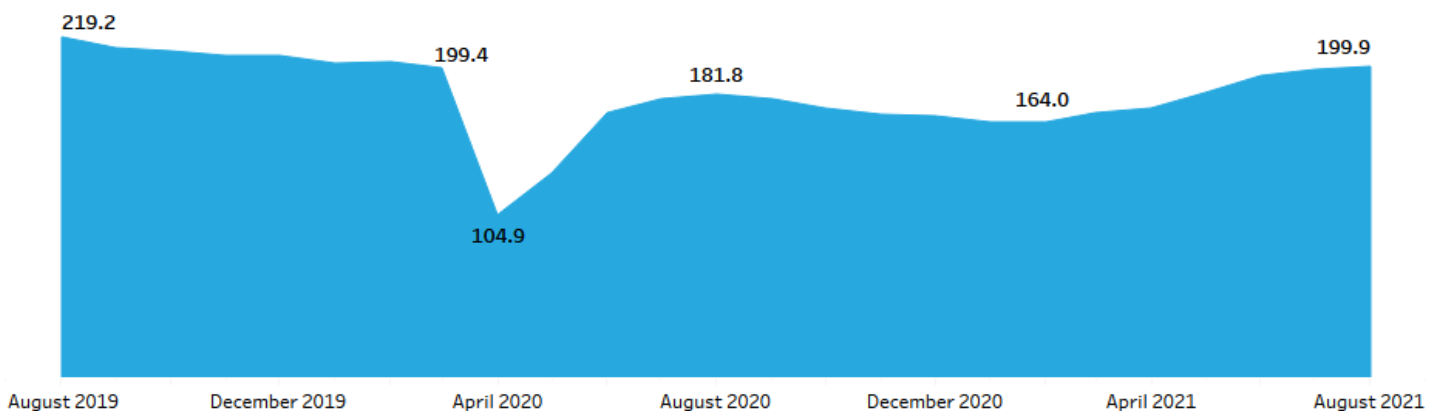
The onset of the pandemic also caused employment to fall sharply across many sectors in April 2020 and to remain deflated for several months or longer, with those employed at restaurants and bars among the most

impacted. State estimates show a staggering 39.1% of workers in the accommodation and food services sector in Wisconsin [filed initial claims for unemployment](#) between March 15 and July 5, 2020, which was the highest among all sectors. (In addition to food services and drinking places, this includes the much smaller accommodation subsector representing hotels and other places that provide lodging.)

Temporary closures and reduced access to these businesses have impacted not only business owners, suppliers, employees, and their families but also the quality of life of Wisconsin residents. Restaurants and bars play a major role in the social lives of Wisconsin communities as places of celebration and daily socializing.

Figure 1: Employment Has Rebounded, But Remains Down

of employees in food services and drinking places in Wisconsin
(in thousands, not seasonally adjusted)



Source: U.S. Bureau of Labor Statistics, Current Employment Statistics. Note: August 2021 figure is preliminary.



In this report, we focus on the economic side of the story by seeking to assess the current state of recovery for Wisconsin's restaurants and bars. Our primary data sources are the U.S. Bureau of Labor Statistics and the state Departments of Revenue and Agriculture, Trade, and Consumer Protection. We also consider state and federal support for restaurants and bars in Wisconsin, including temporary grant programs provided to help them overcome the impacts of COVID-19.

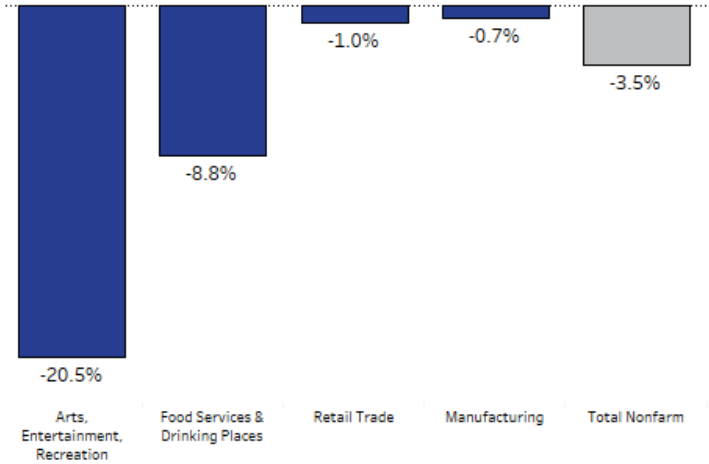
RECOVERY STRONG BUT SLOWER THAN IN OTHER SECTORS

The number of people employed at restaurants and bars in Wisconsin has recovered considerably since nosediving by nearly 50% in April 2020. According to preliminary federal data, however, employment in the "food services and drinking places" subsector was still down by nearly 20,000 (8.8%) in August 2021 compared to the same month in 2019 (see Figure 1). Restaurants and bars comprise the bulk of employment in this subsector, but it also includes other businesses like caterers and food trucks that prepare meals, snacks, and beverages for immediate consumption. In this report, when we refer to "restaurants and bars" we mean the entire subsector.

Job recovery in this subsector has been weaker in Wisconsin than nationally, where employment was down only 6.1% in August 2021 relative to August 2019. It also lags job recovery for other major sectors in Wisconsin and the state's economy overall. Total nonfarm employment in Wisconsin was down by 3.5% in August 2021 relative to August 2019, while the larger

Figure 2: Employment Recovery at Restaurants and Bars Trails Other Sectors

Change in employment in Wisconsin by sector, August 2019 to August 2021



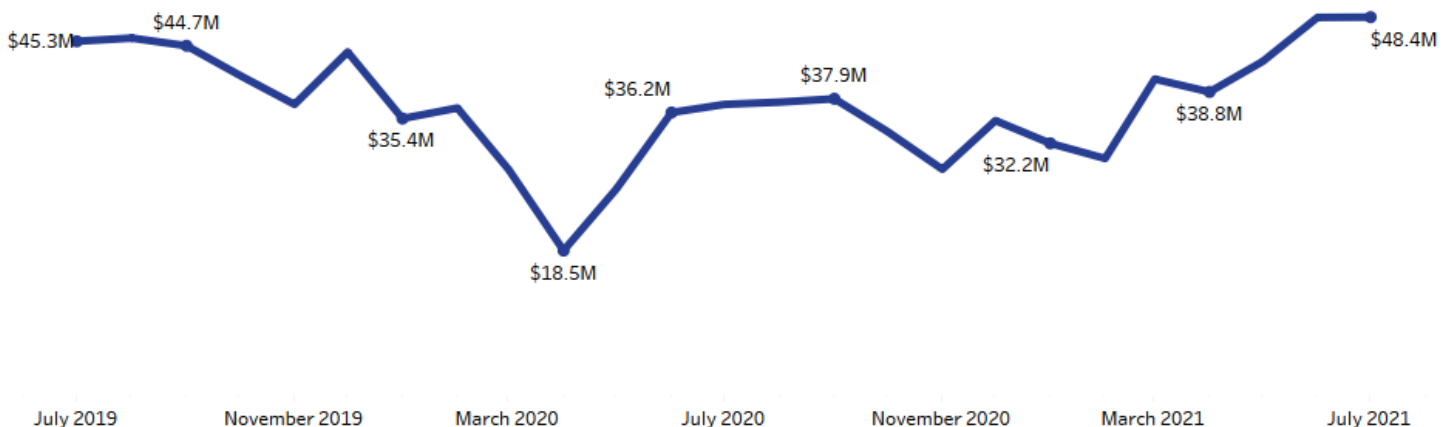
Source: U.S. Bureau of Labor Statistics, Current Employment Statistics.
Note: August 2021 figures are preliminary.

retail and manufacturing sectors had strengthened to within one percentage point of their 2019 figures (see Figure 2). The arts, entertainment, and recreation sector (which includes casinos, museums, theaters, etc.) remains the hardest hit sector overall from an employment perspective (-20.5%).

Preliminary data on state sales tax revenues as reported by businesses on their returns to the state seem to suggest that restaurant and bar sales are recovering at a stronger rate than employment, with July 2021 revenues actually up 6.8% relative to July 2019 (see Figure 3). One factor that could help to explain the

Figure 3: Sales Tax Revenues Return to 2019 Levels

Wisconsin state sales & use tax revenues from food services and drinking places (not adjusted for inflation)



Source: Wisconsin Department of Revenue. Note: Data are preliminary.



faster rebound in restaurant and bar sales is an increase in menu prices, which were [up 5.4% in the Midwest](#) region in July 2021 compared with a year earlier. Wholesale food prices are [up 8.1%](#) nationally compared with a year ago, which is likely one factor driving the increase in menu prices; along with labor costs, this also may be putting pressure on profit margins.

While the recovery of restaurant and bar sales to pre-pandemic levels is a positive trend, the sector's recovery trailed other areas of the economy as of July 2021. In that month, state sales tax revenues were up 12.4% relative to the same month in 2019 (see Figure 4). Tax revenues from retail sales increased by 20.4% during the same period.

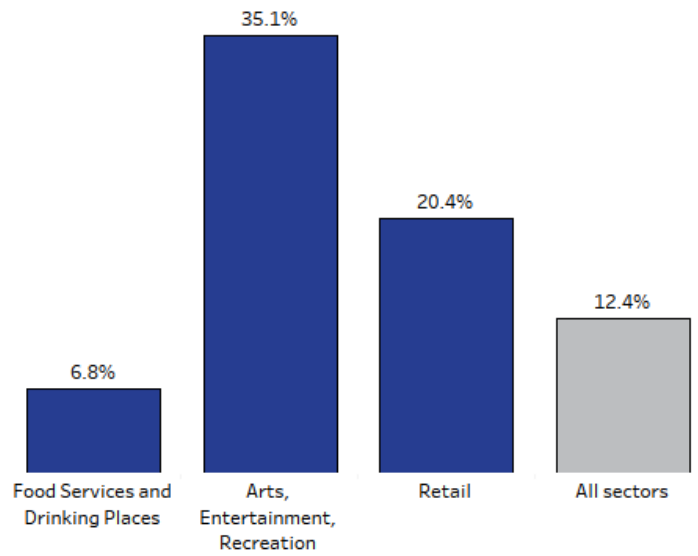
This finding again reflects the continued struggle restaurants and bars face relative to businesses in many other sectors. Customer demand is still somewhat lower than pre-COVID as some individuals choose not to go out to restaurants and bars as often as they did before the pandemic. Restaurant operators also have pointed out that as more people order food for takeout or delivery rather than dining in, they also purchase fewer alcoholic beverages from restaurants, which dampens sales and profits.

STAFFING A TOP EMPLOYER CONCERN

Anecdotal evidence suggests that demand for workers at restaurants, bars, and many other businesses has grown sharply over the past several months, and federal data back up those claims. According to the U.S. Bureau of Labor Statistics, the number of job openings in the

Figure 4: Restaurants and Bars Lag Economy Overall on Sales Tax Revenues

Change in state sales tax revenues, July 2019-July 2021



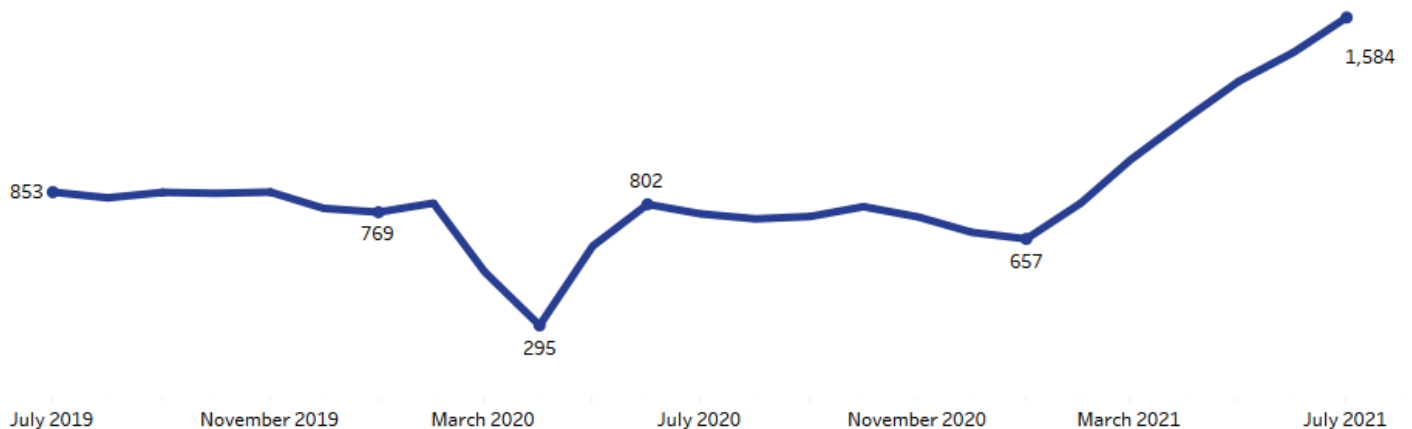
Source: Wisconsin Department of Revenue. Note: Data are preliminary.

accommodation and food services sector was considerably higher nationally in July 2021 than two years prior and more than doubled during the first half of 2021, from less than 700,000 in January to nearly 1.6 million in July (see Figure 5). State level data are not available.

Monthly [surveys](#) conducted by the National Restaurant Association show that staffing is a major concern for a majority of restaurant owners. In fact, in June and July 2021, 75% of restaurant operators identified employee recruitment and retention as their top business

Figure 5: Job Openings Skyrocket in 2021

National job openings in accommodation and food services (in thousands, seasonally adjusted)

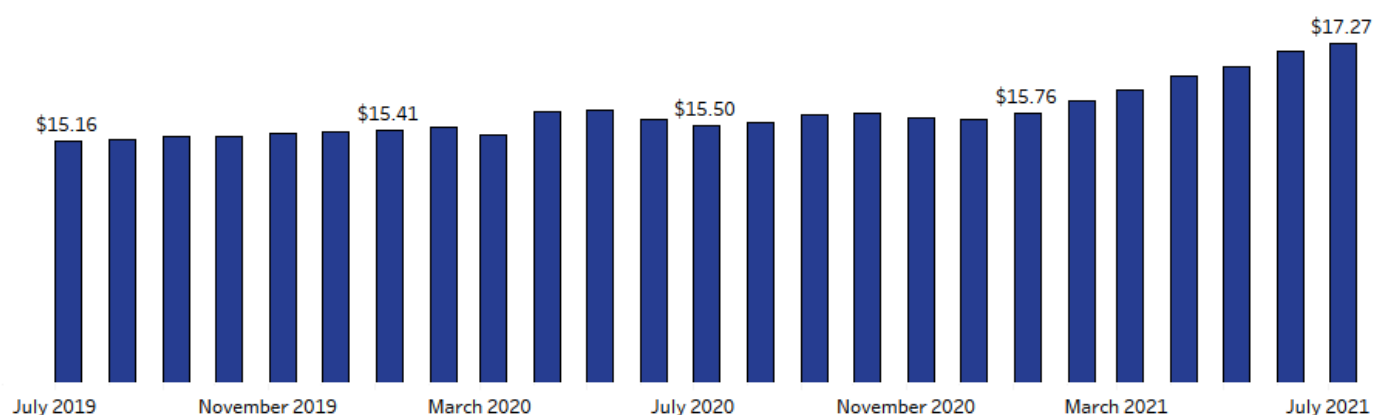


Source: U.S. Bureau of Labor Statistics, Job Openings and Labor Turnover Survey. Note: July 2021 figure is preliminary.



Figure 6: Wages Rising Faster in 2021

Average hourly earnings of all employees of food services and drinking places in the U.S. (tips excluded, seasonally adjusted)



Source: U.S. Bureau of Labor Statistics, Current Employment Statistics. Note: July 2021 figure is preliminary.

challenge – the highest share to do so in 20 years of surveys.

Federal data also show that the wages of restaurant and bar employees have started to increase nationally (state level data are not available), which may be at least partially due to the heightened demand for workers. After increasing by just 34 cents per hour (2.2%) from July 2019 to July 2020, the average hourly earnings of restaurant and bar employees nationally rose by \$1.77 (11.4%) to \$17.27 between July 2020 and July 2021, with most of that increase occurring since January (see Figure 6). This boost in wages outpaced the 4.1% growth that occurred across all sectors during the same period.

A number of factors have been widely cited as possible reasons for the staffing challenges faced by employers in general. Some contend that the temporary \$300 per week boost in pandemic unemployment benefits provided by the federal government has discouraged people from working. Those benefits phased out on September 4, but there is much debate about whether their end will lead to a large or rapid increase in new hires. Some economists [have found](#) that states that ended the temporary jobless benefits early (in June) saw only a slight increase in employment rates as of August.

Child care is another major factor that has hampered the state's workforce throughout the pandemic. When schools and businesses closed in 2020, large numbers of child care providers similarly shut down or reduced slots. As businesses returned to in-person operations,

many workers were left without child care options as providers were slower to reopen. This challenge could be easing as the number of child care centers in Wisconsin had [rebounded to slightly above pre-pandemic levels](#) as of June 2021 (and many children have returned to in-person instruction at schools).

For restaurants and bars, a number of additional factors are often cited as contributing to current worker shortages. Those include low wages, lack of benefits, undesirable work conditions (unpredictable hours, the stress of demanding customers, etc.), and fear of exposure to COVID-19 at work. These factors may be driving some workers to pursue education or employment opportunities in other fields.

SOME BUSINESSES LOST PERMANENTLY

While no data source is currently available that could show precisely how many restaurants and bars in Wisconsin did not survive the pandemic, limited data from the state's Department of Agriculture, Trade, and Consumer Protection (DATCP) suggests that hundreds more restaurants closed in Wisconsin than opened in 2020.

According to DATCP, 418 state-licensed restaurants and other retail food establishments that serve meals closed in 2020, while 218 opened. In contrast, the same database shows new restaurant openings outpaced closures in 2019 and have again in 2021 through August – another positive indicator of the sector's recovery.



DATCP only tracks state-licensed businesses, which account for approximately one-third of licensed retail food establishments in Wisconsin. The other two-thirds are tracked by roughly 60 county and municipal public health departments whose jurisdictions notably include all of the state's largest urban areas. There may be differences in the trends between restaurants in more urbanized areas that are locally licensed and those in the rest of Wisconsin that are licensed by the state. Still, the net loss of state-licensed restaurants in 2020 speaks to the challenges facing the industry as a whole in Wisconsin.

FEDERAL AND STATE GOVERNMENTS PROVIDE RELIEF

Recognizing the immense challenges facing restaurants, bars, and many other businesses, both the federal and state governments have stepped in to provide assistance in the form of grants and forgivable loans.

The first source of relief came from the federal Paycheck Protection Program (PPP), a forgivable loan program included in the CARES Act that was launched in April 2020. Our analysis of the Small Business Administration's [database](#) found 11,400 loans totaling just over \$935 million went to restaurants and bars in Wisconsin (though notably, some businesses received more than one PPP loan). Businesses with fewer than 500 employees were eligible for PPP loans; in later rounds of the program, businesses had to show they had experienced a [25% or greater loss in revenues](#) during the pandemic to be eligible.

Restaurants and bars received 6.5% of total PPP funds distributed to businesses in Wisconsin, while businesses in that sector account for 8.4% of the state's total private sector employment. Given these figures and the disproportionate impact of the pandemic on restaurants, the amount of PPP funding awarded to those businesses does not seem out of line and may be somewhat less than expected.

The federal Restaurant Revitalization Fund, which was included in the American Rescue Plan Act (ARPA), has provided additional relief to some restaurants. Eligible businesses [could receive funding](#) "equal to their pandemic-related revenue loss up to \$10 million per business and no more than \$5 million per physical location."

Administered by the SBA and launched in May 2021, the Restaurant Revitalization Fund approved [2,095 Wisconsin businesses for grants totaling \\$379 million](#). Those businesses represented only about one-third of the 5,871 Wisconsin businesses that applied for assistance from the program, however, which quickly ran out of funds. A [new bill](#) currently being considered by Congress would provide twice as much funding as the original program (\$60 billion), which would be enough to allow all eligible businesses that applied during the initial round to receive the grants they requested.

The state of Wisconsin also has used federal funding from both CARES and ARPA to provide support to small businesses, including restaurants and bars. In 2020, the [We're All In Grants](#) program administered by the Wisconsin Economic Development Corporation (WEDC) used CARES Act dollars to provide three phases of grants ranging from \$2,500 to \$20,000 to small businesses. Among the \$285 million in grants distributed, just over \$64 million (22.6%) went to restaurants and bars. This relatively high share of total funding reflects the emphasis on restaurants in the third phase of the program (the "[We're All In for Restaurants](#)" grant program), which offered the largest grants of the three phases and was specifically targeted to "food, beverage, and amusement businesses."

Restaurants and bars were also eligible for two other state grant programs, though neither program targeted them specifically and data are not yet available to show how the funds have been distributed. The [Wisconsin Tomorrow Small Business Recovery Grant](#) program administered by the DOR is providing \$420 million in grants to small businesses impacted by the pandemic using federal ARPA funds, while WEDC's [Main Street Bounceback Grants](#) program is using \$50 million in ARPA funds to provide additional grants to small businesses that move into vacant commercial properties.

CONCLUSION

Wisconsin's restaurants and bars and their employees have been among the hardest hit by the COVID-19 pandemic. Our analysis shows that while this sector has shown important signs of recovery, employment is still down by almost 9%. Meanwhile, the sector's recovery in Wisconsin appears somewhat weaker than nationally



and it lags the state's economy overall in the return of both jobs and sales.

The pandemic caused some restaurants and bars in Wisconsin to close permanently, but most have found ways to adapt and survive, thanks in part to the lifeline provided by federal and state grant and forgivable loan programs, which funneled more than \$1 billion in federal funding to restaurants and bars in Wisconsin. Yet, many continue to face challenges, including an increasingly tight labor supply that may be driven in part by workers seeking better employment conditions in other industries.

The return of Wisconsin's restaurants and bars to operations that are closer to the pre-pandemic "normal" has been welcomed by residents throughout the state. While their recovery warrants some cautious optimism, the loss in state-licensed businesses in 2020, current labor shortages, the rise in wholesale food prices, and the recent surge in new coronavirus cases shows that their challenges will likely continue for some time.

