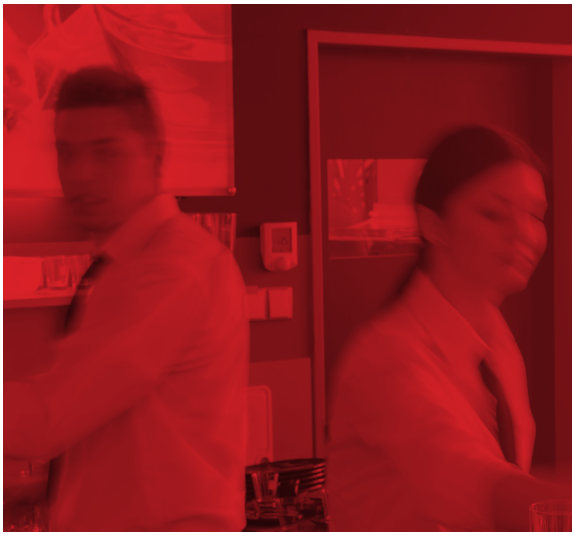

Looming Recession Will Not Stop Restaurant Growth But Could Hurt Workforce

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Although employment growth and consumer confidence are solid, there have been whispers of a looming recession for months. These whispers have turned into bellows with the inversion of the yield curve — the phenomenon where interest rates for long-term bonds fall lower than interest rates for short-term bonds, considered to be a strong predictor of a looming recession.[1] This, coupled with the Administration's incoherent trade war with China, has many worried about a possible recession in 2020. An examination of employment patterns during the last two recessions, including the Great Recession, suggests that many workers in Goods Producing industries could be severely impacted by a recession, potentially leading to millions of jobs lost. However, Service Providing industries, and the restaurant industry in particular, are well situated to weather a mild or even severe recession.

- **While restaurant employment growth slowed, it did not decline during the recession of 2001.**
- **The restaurant industry suffered only mild employment losses and was among the first to fully recover from the Great Recession.**
- **The restaurant industry in Michigan largely led the recovery from the Great Recession.**
- **Full Service Restaurants in One Fair Wage states experienced higher employment growth rates than in subminimum wage states following the 2001 and Great Recessions.**

Recessions are an inevitable downside of the Capitalist business cycle, and they can be mild as was the recession of 2001, or they can be severe as was the Great Recession of 2007.[2] However, recessionary trends are also used as an argument to limit minimum wage increases under the argument that higher mandated wages reduce business' ability to foster employment growth and exit a recession. While the National Restaurant Association and its lobbyists argue to apoplexy that any minimum wage increase will lead to the demise of the industry under any business climate, their alarming arguments make legislators more anxious in the midst or face of a looming recession.

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1 Bauer, M.D. & Mertens, T.A. August 27, 2018. FRBSF Economic Letter: Information in the Yield Curve about Future Recessions. San Francisco, CA: Federal Reserve Board of San Francisco.

2 US Business Cycle Expansions and Contractions. Washington, D.C: the National Bureau of Economic Research.

TABLE 1 Employment Troughs and Recovery by Select Industry Since 2001

Employment levels at start of 2001 Recession, recessionary trough and recovery, Great Recession trough and recovery, and latest employment levels. Recovery here is defined as the point in time when employment rebounded to or above its pre-recession level. Goods producing industries overall, and manufacturing in particular have yet to recover to their 2001 employment levels, although both began to see an uptick in employment in 2012. Service providing industries saw a dip in employment in 2002, with a full recovery by 2004, while the restaurant industry did not see employment loss associated with the 2001 recession. During the Great Recession, the service providing employment trough was in 2009 with a full recovery by 2012. The restaurant industry fully recovered by 2011. Goods producing industries include Natural resources and mining, Construction, and Manufacturing. Service providing industries include Trade, transport, and utilities, Information, Financial activities, Professional and business services, Education and health services, and Leisure and hospitality. The restaurant industry, or Food serving and drinking places, comprises three quarters of Leisure and hospitality. Source: Quarterly Census of Employment and Wages, 2001-2018. Washington, DC: Bureau of Labor Statistics.

EMPLOYMENT	2001	RECESSIONARY TROUGH	POST-RECESSION RECOVERY	GREAT RECESSION TROUGH	GREAT RECESSION RECOVERY	CURRENT
YEAR	2001	2003	2005	2010	2014	2018
TOTAL, ALL INDUSTRIES	109,304,802	107,065,553	110,611,016	106,201,232	115,568,686	124,538,688
YEAR	2001	2003		2010		2018
GOODS PRODUCING	24,865,272	22,788,417		18,775,587		21,804,658
YEAR	2001	2002	2005	2010		2018
MANUFACTURING	16,386,001	15,209,192	14,190,394	11,487,496		12,646,288
YEAR	2001	2002	2004	2009	2012	2018
SERVICE PROVIDING	84,439,530	84,022,667	85,641,251	87,404,338	91,166,253	102,734,030
YEAR	2001		2002	2009	2011	2018
FOOD SERVICES AND DRINKING PLACES	8,273,315		8,425,033	9,333,818	9,587,402	11,813,117

Recessions lead to unemployment as businesses contract and shed jobs. The Great Recession coincided with the increase in the federal minimum wage from $5.15 to $7.25. An analysis of employment losses during the Great Recession by the Economic Policy Institute, comparing employment in states that followed the federal minimum wage and states that had a higher minimum wage, found that employment losses were tied to industrial and geographic factors, not to differences in the minimum wage.[3] In other words, if the minimum wage increase led to higher employment losses, states that abide by the federal minimum wage would have felt the strongest employment impact since they were required to raise their minimum wage. However, this was not the case after taking into account regional differences, such as the fact that industries impacted by the recession like construction were more heavily concentrated in the states following the federal minimum wage.

While no industry is recession-proof, the restaurant industry is well-suited to weathering the negative impact of a recession. As shown in Table 1, the restaurant industry as a whole did not experience employment losses during the recession of 2001, and saw employment growth in 2002. In contrast, Service providing industries saw a decline in employment in 2002, and did not recover until 2004. Goods providing industries saw a decline in employment through 2003. Although good-producing industries saw increases in employment after the recession of 2001, they have yet to recover to their pre-recessionary levels. The Great Recession provides further evidence of this trend. The restaurant industry saw its lowest employment level in 2009, at the end of the Great Recession, but had fully recovered past its pre-recessionary employment levels by 2011. Service providing industries saw a full recovery of employment losses by 2012. Goods producing industries, including manufacturing, have yet to see a full recovery to their 2001 employment levels. Overall, private sector employment as a whole did not rebound from its Great Recession employment losses until 2014 driven by the growth of the service sector (see Figures 1 and 2).

3 Zipperer, B. December 6, 2016. Employment fell because of the Great Recession, not the minimum wage: Study claiming the minimum wage harmed low-wage workers fails conventional tests. Washington, DC: Economic Policy Institute.

FIGURE 1

Change in Employment by Major Industry Since 2001 Recession

Setting 2001 as a base year, at the start of the recession, the restaurant industry (Food services and drinking places) was the second highest performing industry, seeing slowed but not negative growth during the recession of 2001 and quickly recovering from the Great Recession. Employment in the restaurant industry grew by 43 percent since 2001. Only Education and health services outperformed the restaurant industry, with employment growth of 52 percent since 2001.

Source: Quarterly Census of Employment and Wages, 2001-2018. Washington, DC: Bureau of Labor Statistics.

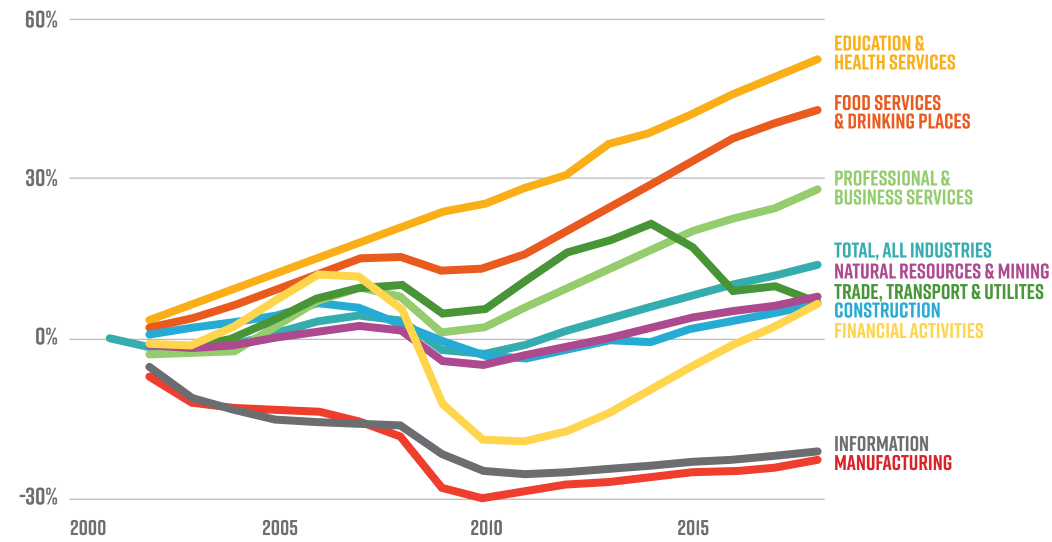


FIGURE 2

Employment Change by Select Industry Since 2001 Recession

Almost 20 percent of the growth in employment in private Service providing industries since 2001 can be attributed to growth in the restaurant industry. Conversely, the decline in employment in Goods producing industries was primarily driven by employment losses in manufacturing. Although the trend in manufacturing employment growth is now positive, it has yet to recover to 2001 employment levels, leading to net negative employment across the entire Goods producing sector.

Source: Quarterly Census of Employment and Wages, 2001-2018. Washington, DC: Bureau of Labor Statistics.

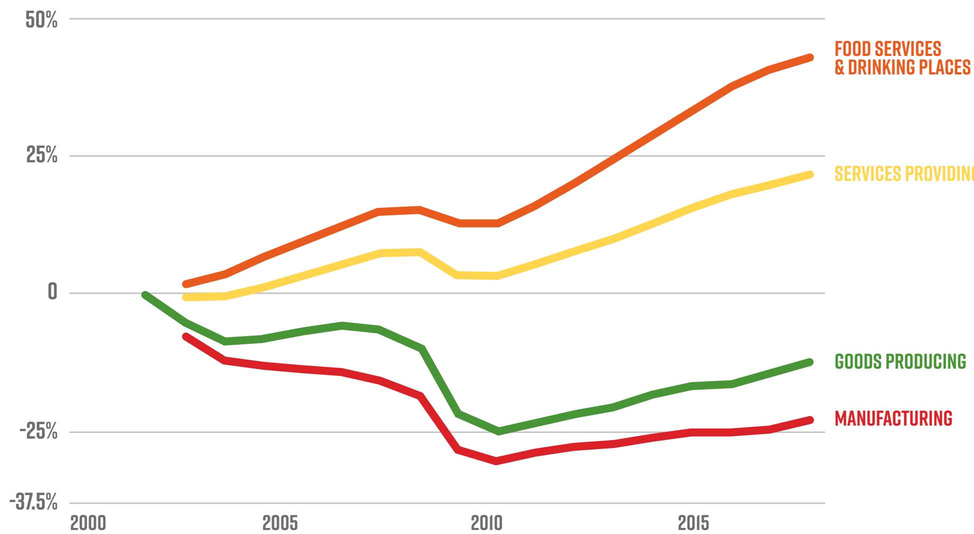


FIGURE 3

Percent Employment Change in Michigan Since 2001 Recession

Almost 25 percent of the growth in employment in private Service providing industries since 2001 can be attributed to growth in Michigan's restaurant industry. Conversely, the decline in employment in Goods producing industries was primarily driven by employment losses in manufacturing. Although the trend in manufacturing employment growth is now positive, it has yet to recover to 2001 employment levels, leading to net negative employment across the entire Goods producing sector.

Source: Quarterly Census of Employment and Wages, 2001-2018. Washington, DC: Bureau of Labor Statistics.

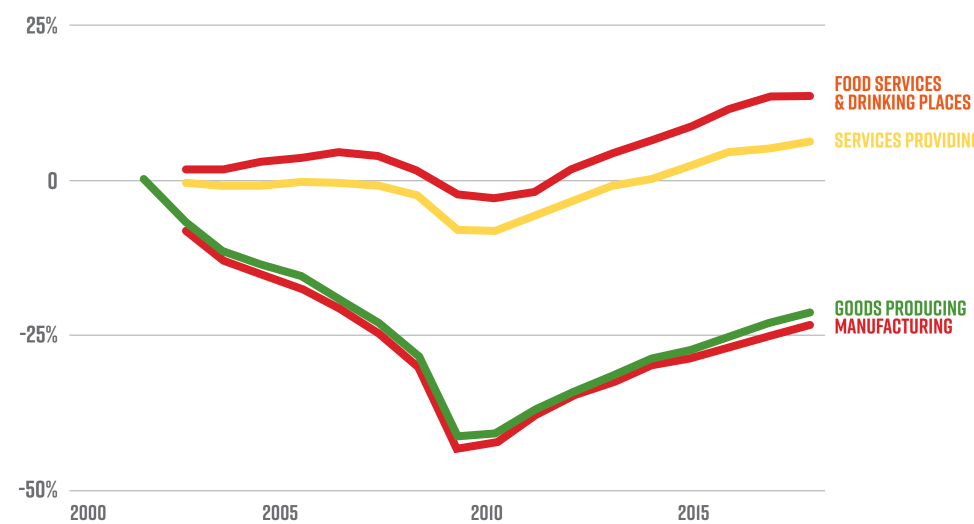
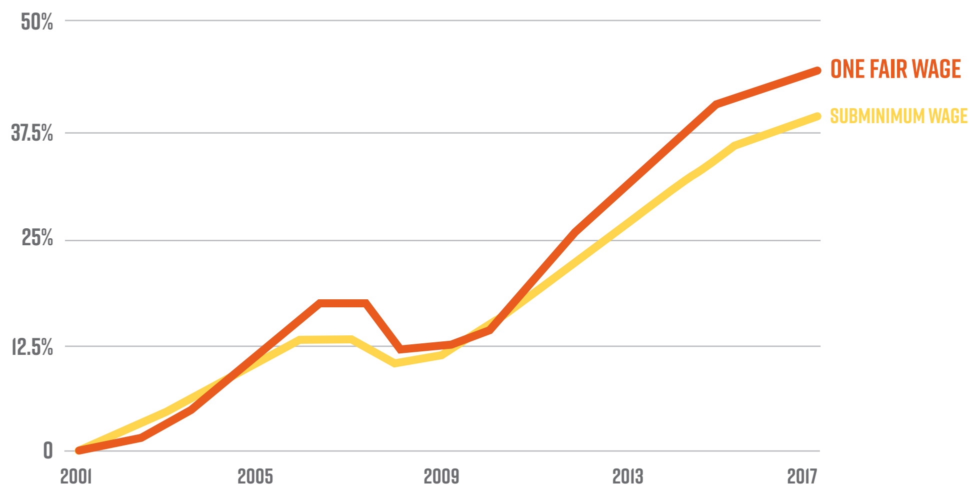


FIGURE 4

Full Service Restaurant Employment Growth Since 2001 Recession in One Fair Wage and Subminimum Wage States

Employment growth since 2001 in full service restaurants in the seven One Fair Wage states (AK, CA, MN, MT, NV, OR, and WA) and the 43 remaining states, plus Washington, D.C., that follow a subminimum wage regime.

Source: Quarterly Census of Employment and Wages, 2001-2018. Washington, DC: Bureau of Labor Statistics.



THE CASE OF MICHIGAN: EMPLOYMENT IN THE RESTAURANT INDUSTRY AND MANUFACTURING

Michigan provides a particularly valuable case study. Michigan was among the states hardest hit by the recession of 2001 and the Great Recession. Manufacturing employment steadily declined from 2001 until the end of the Great Recession in 2009, having lost 43 percent of its 2001 employment levels (see Figure 3). Manufacturing only began to slowly recover in 2010; in 2018, nearly twenty years later, employment levels remain 24 percent lower than their 2001 levels. In contrast, the restaurant industry saw only a slight decline in the rate of growth from the 2001 recession, and a slight decline in restaurant employment at the height of the Great Recession. Throughout this decade, restaurant employment growth outperformed service providing industry growth, driving growth across the entire sector. By 2018, restaurant industry employment was 14 percent higher than in 2001.

The restaurant industry is unique in that in many states a substantial portion of the workforce is paid directly by customers through tips. In the seven One Fair Wage states where employers pay tipped workers a full minimum wage, customer tips are on top of wages. In the remaining 43 states, and the District of Columbia, tips constitute a majority of the wage. If we narrow our focus to full service restaurants, where tipped workers are concentrated, and compare employment growth since the 2001 recession, employment levels in One Fair Wage states are 44 percent higher than in 2001, compared to 40 percent in the sub minimum wage states. As shown in Figure 4, in One Fair Wage states the full service restaurant sector appears slightly more responsive to recessionary pressures, but shows more robust employment growth during the post-recessionary expansion. The long-term trend lines are similar, with higher employment growth in One Fair Wage states.

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RECESSION IS NOT INEVITABLE, BUT RESTAURANTS ARE WELL POSITIONED TO WEATHER DOWNTURN

The inverted yield curve is particularly alarming to economists, but it is not an iron-clad predictor. It is a historical correlation that has regularly presaged a recession. More alarming, perhaps, are the Administration's erratic economic policies. Even a mild recession would lead to millions of job losses, primarily impacting workers in the Goods producing sector of the economy. However, service providing industries, in particular restaurant workers, are well positioned to weather the looming recession. A higher minimum wage, buoyed by One Fair Wage, would help low wage workers who would in turn provide demand to support the broader economy.