PERSPECTIVE

Commercial Food Service: The Calm after the Storm?

By Joëlle Noreau, Senior Economist

The pandemic crippled the commercial food service sector (box), which was already struggling with labour shortages and other challenges. Some owners hung up their aprons, others diversified their offering and many went into debt. It's been a tough two years to say the least. But changes on the horizon could make life easier for restaurant owners over the next few months. Quebec's workforce is growing, workers are returning to offices and downtowns, inflation is expected to ease, Canada has reopened to foreign tourists, international conferences are back and employers can now recruit more workers from abroad. But it'll take time for the sector to return to its pre-pandemic form.

2020–2021: Lean Times

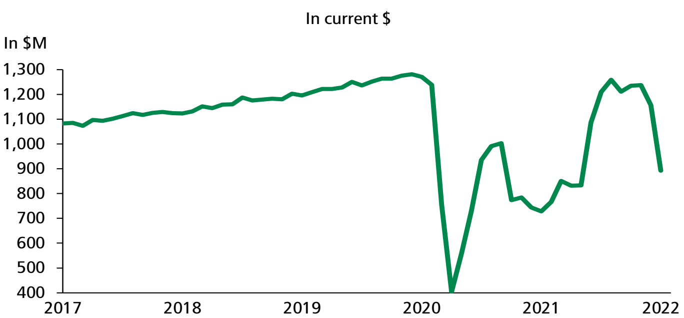
They say a picture is worth a thousand words. Graph 1 speaks for itself. It shows food service sales in current dollars. They're up from their 2020 low, but haven't returned to their February 2020 level. According to estimates by Association Restauration Québec (ARQ), 2020 was a devastating year. Drinking places saw actual sales decline a whopping 58.9%. Actual sales were also down 45.5% for special food services (contractors, caterers and mobile food services) and 40.9% for full-service restaurants (those with dining rooms). Limited-service eating places saw a 15.7% drop in actual sales.

Graph 2 compares commercial food service sales in current dollars with Statistics Canada's dining room capacity limit index for Quebec. You can see the decline in sales during each successive wave of the pandemic and the associated lockdowns starting in January 2020. The closer the index is to 100, the stricter the capacity limits for all diners, regardless of vaccination status.

BOX
Commercial food service

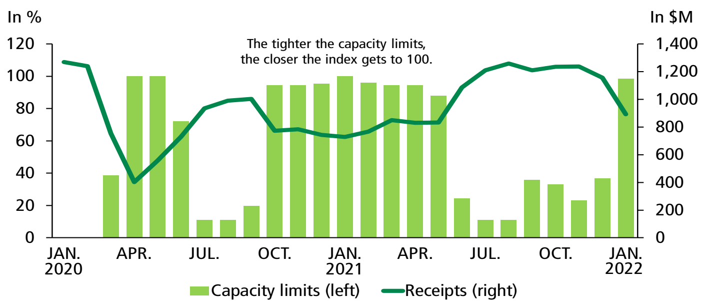
The commercial food service sector includes full-service restaurants, limited-service eating places where customers order at a counter or by phone and pay before eating, bars and drinking places, and special food service providers such as caterers and mobile food services. It doesn't include food service in hotels.

GRAPH 1
Quebec: Sales at food services and drinking places still aren't back to their pre-pandemic levels



Sources: Statistics Canada and Desjardins, Economic Studies

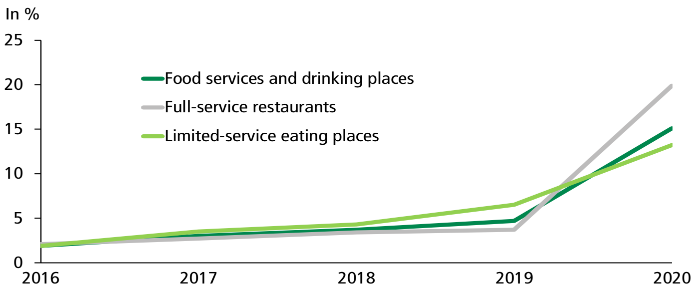
GRAPH 2
Quebec: Commercial food service sales are inversely related to dining room capacity limits



Sources: Statistics Canada and Desjardins, Economic Studies

Statistics Canada has also been tracking online orders as a percentage of total restaurant sales during the pandemic (graph 3). Although these are nationwide figures for entire years, they're indicative of the changes we've seen on both on the supply and demand side of the food service sector. Before the pandemic, online orders accounted for a small but growing share of total restaurant sales. In 2020, they took off. At full-service restaurants, online orders went from 3.7% of sales in 2019 to 19.9% in 2020. They increased at limited-service eating places as well, but not as much, from 6.5% of sales to 13.2%. We'll see how much online orders decline now that public health restrictions are being lifted and more people are eating out.

GRAPH 3
Canada: Online orders account for a growing share of total sales



Sources: Statistics Canada and Desjardins, Economic Studies

Impact on Employment

When we look at the food service workforce excluding owners, we see significant gaps in employment. Statistics Canada estimates that on average, there were 240,021 commercial food service workers in 2019. That number fell to 167,296 in 2020 and 183,241 in 2021—just 76.3% of the 2019 figure. In contrast, Quebec's overall economy had regained 98.9% of its 2019 workforce by 2021.

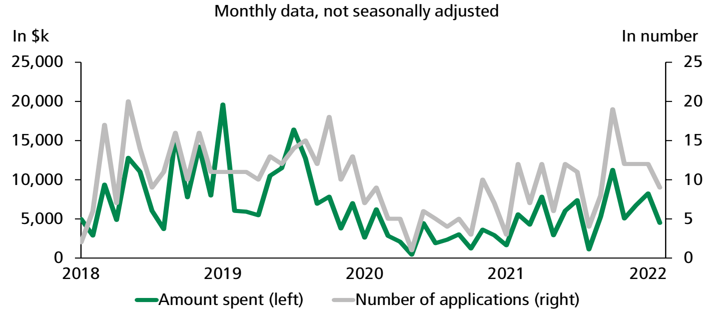
From 2011 to 2019, Quebec's workforce grew by 10.5%, but it soared 20.8% in commercial food service. Between 2015 and 2019 specifically, those figures were 8.5% and 13.5%. That means there was more hiring in commercial food service than in the economy as a whole in the 2010s.

But the sector has a long way to go to get back to those levels. There were 12,100 job vacancies in the fourth quarter of 2019, which is a vacancy rate of 4.7%. In the fourth quarter of 2021, there were 31,240 vacancies, or a vacancy rate of 12.7%. That's a steep hill to climb.

And because many food services and drinking places went out of business, it could take a while for payrolls to return to 2019 levels. According to ARQ data from mid-April of this year, 3,666 Quebec eating and drinking establishments have closed since the pandemic began. That's nearly one in five. This includes 2,428 full-service restaurants, 669 limited-service eating places, 540 special food service providers and 29 bars. Restaurants Canada estimates that closer to 3,800 Quebec eating and drinking establishments have closed their doors. In a statement to the Superintendent of Bankruptcy, it said there were 242 bankruptcies in the sector in 2020 and 200 in 2021. That means many have shut down without declaring bankruptcy. This isn't to downplay the many businesses and livelihoods lost, but it does demonstrate that not all closures end in bankruptcy.

While some restaurant owners have closed for good, others have made upgrades to offer takeout and meet changing public health requirements. As you can see in graph 4, building permit spending plummeted in 2020, but it wasn't zero. Spending on building permits rose in 2021, but it's still nowhere near its 2019 level.

GRAPH 4
Quebec: Building permit applications and spending in the food service sector* declined, especially in 2020



* Commercial food service.
Sources: Statistics Canada and Desjardins, Economic Studies

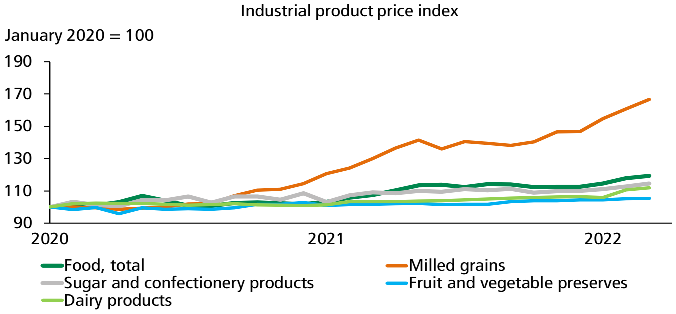
Rising Prices

Like everyone else, restaurant owners are facing higher food prices. Graphs 5 and 6 on page 3 are telling. As you can see in graph 5, it's costing a lot more to manufacture food. Between January 2020 and March 2022, industrial prices for food manufacturers rose 19.3%. The cost to mill grain and oilseed increased the most at 66.7%, while the cost to make bakery products was up 11.8%. The price to make sugar and confectionery products rose 14.6%, meat products 12.9% and dairy products 12.0%. That's quite a spike, especially in just over two years.

Packaging is also more expensive. Paper and cardboard prices are up and demand for containers of all kinds is surging as e-commerce booms. Restaurants that offered takeout during the pandemic had to buy these supplies, and as demand for takeout bags and boxes spiked, so did prices.

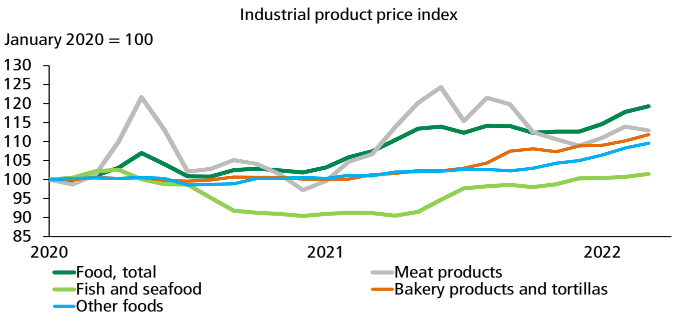
That means restaurant owners have seen their costs go up. It's therefore not surprising that the "food purchased from restaurants" price index has also risen. Restaurant owners can't absorb all these increases and soaring energy prices, which have

GRAPH 5
Canada: Food manufacturers have seen prices soar since January 2020 (1)



Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 6
Canada: Food manufacturers have seen prices soar since January 2020 (2)



Sources: Statistics Canada and Desjardins, Economic Studies

shot up a combined 31.5% for electricity, gasoline and natural gas over the past two years. According to Statistics Canada, the price of food purchased from restaurants in Quebec increased by 11.7% between February 2020 and March 2022.

After the Storm

No one knows for sure if this COVID-induced turmoil is over. It's possible we could see more variants. But at every level of government and across the economy—including the food service sector—, we've learned how to better cope with the pandemic. Thanks to high vaccination rates and the lifting of public health measures, things are slowly returning to normal.

What will business be like for restaurant owners over the next year and a half? It's hard to say exactly because there are so many unknowns. As of this writing, inflation remains stubbornly high and energy prices continue to soar. Food prices are spiking as the war in Ukraine reduces the world's wheat and corn supply and supply chain issues push inflation higher. However, the Canadian and Quebec economies are holding up. In 2021, real GDP and employment returned to pre-pandemic levels.

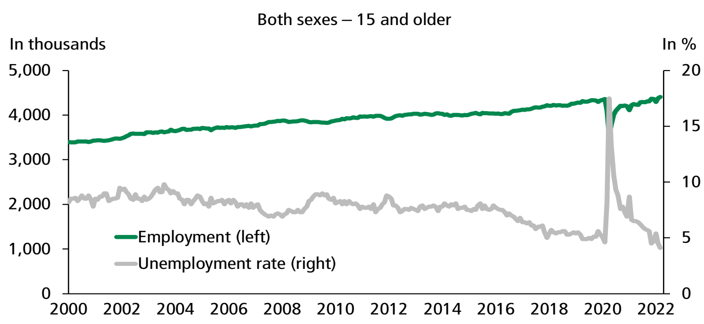
Many economic indicators, especially those driven by global conditions, could fluctuate wildly in the months to come. We expect that rising interest rates just about everywhere will slow demand for goods and services, especially real estate, bringing down inflation. In turn, the consumer price index should gradually come back down to around 3% in 2023.

After last year's big comeback, energy prices should also fall. As economies around the world slow, so too should demand for oil and gas. The war in Ukraine and severed relations with Russia are making things particularly difficult for Europe and will keep upward pressure on prices. However, we don't expect oil and natural gas prices to remain at their spring 2022 levels. This will provide some financial relief to consumers, natural gas customers and restaurant owners.

The end of pandemic relief programs could spell the death knell for some food services and drinking places that relied on government aid to keep the lights on.

And hiring challenges aren't going away any time soon. Quebec's population is aging faster than the Canadian average, making the labour shortage even more acute. According to the latest demographic projections from the Institut de la statistique du Québec, the labour market will be tight until the end of the decade. As you can see in graph 7, Quebec's jobless rate hit a record low in recent months, making hiring even tougher.

GRAPH 7
Quebec: Record-low unemployment and record-high number of workers



Sources: Statistics Canada and Desjardins, Economic Studies

Average weekly earnings in the food service sector have been rising sharply. According to Statistics Canada, they grew 22.5% at food services and drinking places between 2017 and 2021. That's faster than Quebec's all-industry average of 18.6% during the same period and the 17.9% average in wholesale and retail.

From 2019 to 2021, average hourly earnings grew faster at food services and drinking places (+10.8%) than in the overall economy (+9.7%) and in retail (+7.4%). In 2020 specifically, they rose 4.9%, 3.3% and 2.9% respectively as restaurant owners tried to recruit and retain staff.

In light of the ongoing labour shortage, it was good to see jobs like chef, cook and restaurant manager return to the list of positions eligible for simplified processing under the Temporary Foreign Worker Program (TFWP) in February. Employers who offer low-paying jobs will also be able to hire 30% of their workforce through the TFWP for one year.

While low unemployment makes recruiting food service staff more difficult, Quebec has never had so many workers. And those workers make money and need to eat, too. But it takes employees to meet this demand. That's why some restaurant owners are using technology that lets customers order and pay for their food on their smartphone. Welcome to the 21st century!

Workers and Tourists Return

As workers gradually return to the office, we could see increased demand for food services. According to a Statistics Canada estimate, 30% of employees in Quebec worked from home between April 2020 and June 2021. That figure is believed to be between 41% and 44% in the Outaouais, Montreal and Toronto. These regions could see more employees return to the office than the Quebec average, even with hybrid working arrangements.

As public health measures are gradually lifted and the sixth wave of COVID-19 recedes, we also expect to see tourists return this summer and fall for leisure, business and conferences. Table 1 compares hotel occupancy rates before and after the pandemic (2019 vs. 2021). The tourist hubs of Montreal and Quebec City have the most catching up to do, which also means they stand to make the biggest gains. Table 2 shows the average hotel occupancy rate in Quebec. It fell from 60.8% in 2019 to 41.3% in 2021. Bottom line? We're still not back to normal, so the return of workers and tourists should give the food service sector a boost.

TABLE 1
Hotel occupancy rate – 2019 vs. 2021

	NUMBER		2021 VS. 2019 OCCUPANCY
TOURIST REGIONS	2019	2021	In %
Gaspésie	1,170	1,161	0.99
Bas-Saint-Laurent	1,170	1,114	0.95
Quebec	7,809	4,444	0.57
Charlevoix	969	858	0.89
Chaudière-Appalaches	1,261	1,006	0.80
Mauricie	1,193	979	0.82
Cantons de l'Est	1,605	1,421	0.89
Montérégie	2,547	1,771	0.70
Lanaudière	638	546	0.86
Laurentides	2,768	2,235	0.81
Montreal	15,081	7,606	0.50
Outaouais	1,695	1,080	0.64
Abitibi-Témiscamingue	843	918	1.09
Saguenay–Lac-Saint-Jean	1,306	1,194	0.91
Manicouagan	504	458	0.91
Duplessis	447	497	1.11
Baie-James	193	183	0.95
Laval	1,208	732	0.61
Centre-du-Québec	711	544	0.77
Montreal CMA[1]	18,808	10,154	0.54
CMQ[2]	8,285	4,704	0.57
Province	43,552	29,254	0.67

[1] Census metropolitan area; [2] Communauté métropolitaine de Québec.
Sources: Ministère du Tourisme du Québec and Desjardins, Economic Studies

TABLE 2
Quebec – Tourism and accommodation

	2019	2020	2021
Rooms available (number)	71,923	70,469	71,056
Average occupancy rate (in %)	60.8	32.4	41.3

Sources: Ministère du Tourisme du Québec and Desjardins, Economic Studies

Two Sides of the Same Coin

It hasn't been an easy two years for the food service sector. Lockdowns, closures, capacity limits, leery customers, rising food, energy and packaging prices, labour shortages and wage increases have all taken their toll. Some owners hung up their aprons, others diversified their offering and many went into debt. It's been a tough two years to say the least. But changes on the horizon could make life easier for restaurant owners over the next few months. Quebec's workforce is growing, workers are returning to offices and downtowns, inflation is expected to ease, Canada has reopened to foreign tourists, international conferences are back and employers can now recruit more workers from abroad. But it'll take time for the sector to return to its pre-pandemic form. People still want to sit down and share a meal. And more Quebecers are working today than ever before. They don't have as much time to cook as they did in the early days of the pandemic. And that's where the food service sector comes in.