What to Look for (and Look Out For) in 2018

Rising prosperity, low inflation, good; tight labor market, not so good

The high-flying economy we've been enjoying will continue in 2018 according to most prognosticators. This would indicate a sunny outlook for corporate and campus dining services– low inflation, especially in food cost, and rising prosperity for many, if not all, customers.

Are there any potential shadows to spoil this picture? A few are outside the ability of operators to manage. For example, will the bitcoin/cryptocurrency boom go the way of the 1990s' dot-com bust? Will the government do anything radical to spoil the fun?

Labor Leads Challenges

Within the industry, the challenges appear to focus primarily on labor issues.

"There is no labor crisis," comments columnist Jim Sullivan writing in *Nation's Restaurant News.* "It's a turnover crisis."

With unemployment low and wages having been on the low side, some Clarion clients have experienced a high level of turnover and problems refilling vacant ranks.

The penalty for non-competitive wages has been high. At one company, the use of temporary employees to fill vacant ranks in 2017 was nine times usage in 2016. At another organization, use of temp labor last year tripled over the prior year.

The result of using so many people unfamiliar with the café's operation is a reduction in operational efficiency and possibly service. A café must prepare and serve food; cleanup is optional. Sanitation suffers when a dining service is short-handed.

Minimum Wages Rise

There has been upward pressure on wages not only from the increasing scarcity of qualified applicants but from increased minimum wages rates. Higher minimums have gone into effect, or will become effective later this year, in 18 states after 19 states raised their minimums in 2017, according to the National Conference of State Legislatures *(www.ncsl.org*).

As minimums rise, often by 5% to 10%, the margin between the base rate and formerly "good wages" narrows.

In California, for example, the minimum increased this year by 9.1% to $12.00 from $11.00 and in Washington, DC, the increase is 10.4% to $13.25. The New York City minimum for fast food employees is $13.50, going up to $15.00 by year' end.

The typical 3% annual raise will be overtaken by the minimum for utility and other low-wage positions. Employees will see better opportunities and move on.

Technology Solutions

As wages and benefits costs increase, productivity as measured by dollars or transactions per labor hour decrease. This has been the case for several years, the SHFM 2017 benchmarking survey found. *(See article below.)*

As in other industries, new technologies and automation are the means for reducing labor costs and improving productivity.

An example is the "combi", a computer-controlled oven perform almost all types of cooking. The operator doesn't have to be a cook, just be able to tap the right icon on the computer screen for the task required.

Some operators have stopped taking cash in their cafes, eliminating time-consuming and theft-prone cash handling.

Regs Relief

Two expensive labor regulations that had been scheduled to go into effect have been reversed:

- An increase in the minimum salary level for managers to be considered exempt from overtime pay requirements.
- The National Labor Relations Board ruling that an organization is a joint-employer with its on-site service contractors, equally responsible for illegal actions.

Either or both may be reinstated when the levers of power in Washington change hands.

Food Cost Forecast

Bad news for farmers is good news for food service operators and consumers. The U.S. Dept. of Agriculture's most recent forecast (December 21) of 2018 wholesale prices is low. The actual impact on an individual operation depends on menu mix – what's on the menu and what's sold most and least.

Wholesale beef, pork and poultry prices will decline between 0.5% and 3% this year. Fresh produce prices at the farm level will decline by more – between 4% and 5% for fruits and 7% to 8% for vegetables.

Wholesale wheat flour (-3%-4%), fats and oils (-1%–2%) and dairy products (0%–1%) also are predicted to decline. The only significant increase is in eggs, going up 35%-36%.