THE REAL ECONOMY

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MIDYEAR UPDATE: ECONOMY ON KNIFE'S EDGE AS INFLATION BITES

IS PRICE GOUGING BEHIND THE RISE IN GAS PRICES?

FUEL OIL PRICES REACHING A TIPPING POINT

INDUSTRY SPOTLIGHT: TRAVEL INDUSTRY, EXPECTING BUSY SUMMER, CASTS WARY EYE ON INFLATION

TREND WATCH: SMALLER FIRMS HIT HARDEST BY SUPPLY CHAIN PROBLEMS, RSM SURVEY FINDS

THE POWER OF BEING UNDERSTOOD
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ABOUT THE **AUTHORS**

Our thought leaders are professionals who strive to help you and your business succeed. Contributors to this issue include:

JOSEPH BRUSUELAS
CHIEF ECONOMIST, RSM US LLP

RYAN McANDREW
SENIOR MANAGER
REAL ESTATE SENIOR ANALYST

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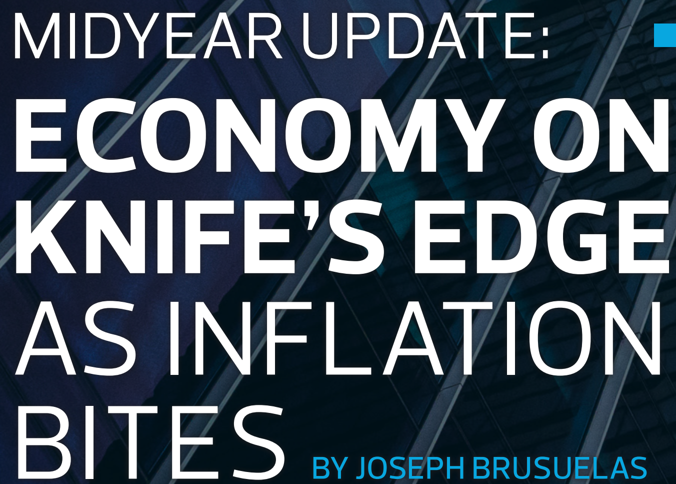


MIDYEAR UPDATE: **ECONOMY ON KNIFE'S EDGE** AS INFLATION BITES

BY JOSEPH BRUSUELAS

GRADUALLY, THEN SUDDENLY: That is how Mike Campbell, a character in Ernest Hemingway's "The Sun Also Rises," answered the question of how he went bankrupt.

It's also an apt way to think about how the United States goes into a recession. While there are always signs of financial stress and diminished economic activity, at the end of business cycles, they are not always easy to discern in trying to forecast the precise month when the economy begins to contract. The American economy does not descend into a recession in a gradual and orderly fashion; it tends to fall off a cliff.

The supply, demand and energy shocks cascading through the American economy are sufficient to cause an end to the business cycle over the next six months. Based on recent economic data, the Federal Reserve's efforts to restore price stability, and the ensuing tightening financial conditions, we think there is a roughly 45% probability of a recession in the next 12 months. That probability essentially implies a coin flip in whether there is a recession or not in the near term.

THE SUPPLY, DEMAND AND ENERGY SHOCKS CASCADING THROUGH THE AMERICAN ECONOMY ARE SUFFICIENT TO CAUSE AN END TO THE BUSINESS CYCLE OVER THE NEXT SIX MONTHS.

45% probability of recession in next 12 months*

	Actual		Projections		
	2020	2021	2022	2023	2024
Real GDP	-3.4%	5.7%	1.5%	1.1%	2.0%
Consumer spending	-3.8%	7.9%	1.7%	1.5%	1.7%
Private investment	-5.5%	9.8%	2.0%	1.7%	3.1%
Industrial production	-0.8%	-7.2%	4.2%	2.3%	2.9%
Consumer price index	1.2%	4.7%	7.8%	3.9%	2.7%
Personal consumption expenditures deflator	1.2%	3.9%	5.5%	2.8%	2.5%
Core PCE	1.4%	3.5%	4.5%	2.9%	2.6%
Unemployment rate	8.1%	5.4%	3.7%	3.9%	4.1%

Source: Bloomberg; RSM US LLP

*YOY% economic indicators and projections as of June 2022

To be clear, the economy is not currently in recession. Roughly $2.5 trillion in excess savings, a robust labor market, and strong, fixed business investment continue to bolster an economy that is growing. But rising retail inventories and soaring domestic costs are impeding the ability of firms and households to sustain that growth. For this reason, we have revised down our forecast for growth for this year to 1.5%, with the risk of a slower pace.

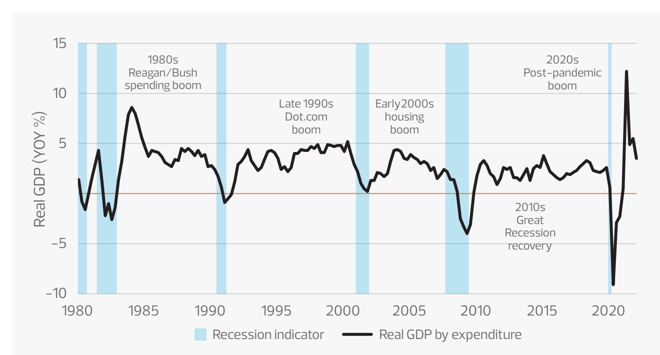
In addition, a potent mix of domestic economic developments and international geopolitical tensions have created the conditions in which one more shock—be it from the oil market or supply chain disruptions—will be sufficient to knock the economy off its current knife's edge into a recession.

Midyear economic update

The economy during the first half of the year reflected the powerful toll of inflation. Weak external demand, an inventory hangover and an overheating economy contributed to the 1.5% decline in gross domestic product in the first quarter. But the real economy—real, final private demand—remained hot, growing at a 3.7% pace.

Inside the second quarter RSM US Middle Market Business Index, rising prices amid a hot economy were on vivid display. While roughly three-quarters of survey respondents indicated that they were paying higher prices and passing those costs along to customers, revenues and net earnings remained strong, and top-line business sentiment actually improved, from 126.3 to 130.6. Despite rising fuel prices and elevated inflation, this is one reason why we expect 2.5% growth during the current quarter, with risk of a slightly quicker pace of expansion.

Real GDP growth at the end of economic booms/recoveries



Source: U.S. Bureau of Economic Analysis; National Bureau of Economic Research; Bloomberg; RSM US LLP

Another round of supply chain snarls around American ports could result in delays of critical goods and rising prices akin to the disruption in microchips over the past two years.

But there is no question that consumer sentiment has soured, and firms are concerned about the economy as rates increase along the long end of the maturity spectrum and mortgage rates approach 6%.

Rising prices will, in the near term, continue to cause households and firms to reallocate scarce dollars away from discretionary spending and investment in productivity-enhancing capital software, equipment and intellectual property toward basic goods and essential business functions.

Therefore, we now expect a below-trend 1.2% pace of overall growth during the second half of the year with a risk that the economy could slide into recession should oil prices head toward $150 per barrel or another round of supply shocks sends prices higher.

What is a recession?

One popular misconception is that a recession is defined by two consecutive quarters of negative growth. A recession is a significant decline in economic activity that spreads across the economy in depth and diffusion, lasting more than a few months. The depth, diffusion and duration of such a downturn include declines in real personal income excluding transfer payments, employment growth, real personal expenditures, real wholesale-retail sales and industrial production.

The National Bureau of Economic Research is charged with making calls on when the economy has descended into recession. The most recent recession occurred in 2020 for two months—March and April—followed by an uneven recovery and expansion that continues.

Determining the months of peaks and troughs is based on a range of monthly measures in the aggregate real economic activity published by federal agencies.

We expect the economy to continue to grow, albeit at a modest pace, during the final six months of this year and then most likely descend into a recession during the first quarter of next year.

There is still a chance that the economy can avoid recession. Unfortunately, that probability is quite low. The New York Federal Reserve's dynamic stochastic general equilibrium modeling implied that the probability of the economy continuing to grow over the next 10 quarters was roughly 10%. Whereas the chance of it falling into recession over that same time was around 80%.

The body blow given to the domestic economy from inflation's devastating punch tends to support that finding, and the economy could very well fall into recession during the second half of this year. We will explore risks around that probability below.

Risks to the outlook

The major risk to the economic outlook is linked to rising oil and energy prices. The rollercoaster in oil markets has pushed the average price per gallon of regular gasoline to around $5. Along with the 10% increase on a year-ago basis in the cost of food, that surge is the primary reason consumer sentiment has soured.

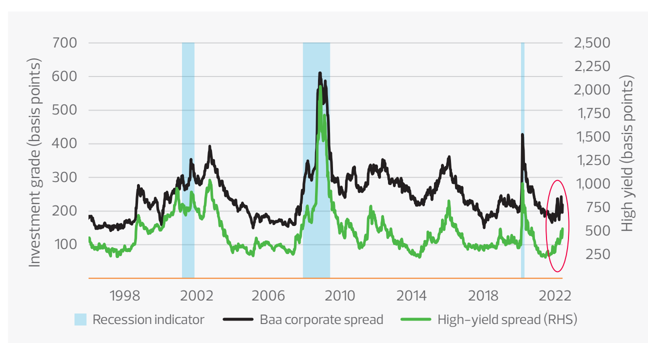
Rising food and fuel costs have already led to a tipping point for U.S. households that is going to dampen consumer activity into the second half of the year. We now anticipate a deceleration in consumer activity to a 1.4% pace in contrast with the 2.9% pace that we think will be the average during the first six months of this year. Any further rise in oil, gasoline and energy prices will create the conditions for a near-term recession.

WE EXPECT A BELOW-TREND 1.2% PACE OF OVERALL GROWTH DURING THE SECOND HALF OF THE YEAR WITH A RISK THAT THE ECONOMY COULD SLIDE INTO RECESSION.

Should the United States and the British militaries be assigned to escort grain shipments out of the Ukrainian city of Odessa to ease what is shaping up to be a global food crisis, that will almost surely send oil prices higher and tip the domestic and global economies into recession this year.

The second major risk is another round of supply chain snarls around American ports that result in delays of critical goods and rising prices akin to the disruption in microchips that sent auto prices higher over the past two years.

U.S. corporate yield spreads during recessions and recoveries*



Source: Bloomberg; RSM US LLP

*Baa investment grade and high-yield/10-year Treasury spreads

Finally, tighter financial conditions and rising rates have caused spreads on corporate bonds to widen. The resulting cost of doing business and refinancing of debt will add to the risk matrix that the economy faces as the corporate sector adjusts to slower demand heading into the final part of the year.

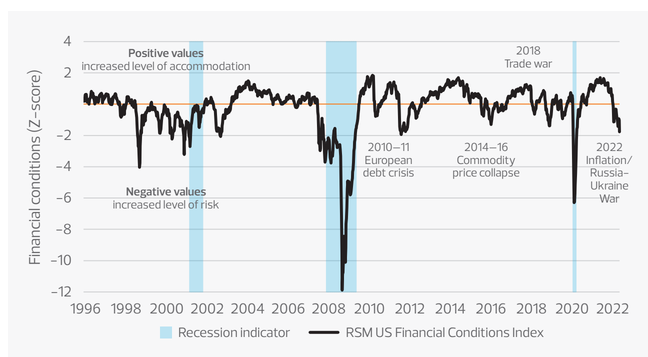
MIDDLE MARKET INSIGHT
Rising prices will, in the near term, continue to cause households and firms to reallocate scarce dollars away from discretionary spending and productivity-enhancing investments.

Federal Reserve policy

Price stability is a precondition for maximum sustainable employment, growth at or above the long-term trend rate of 1.8% and financial conditions that will not upend the economy. Price stability enables the economy to provide a stream of jobs and income growth. Without it, firms and households tend to pull back to avoid a general misallocation of scarce resources. That is why the Fed is engaged in a campaign to restore price stability with an unconditional return to its 2% price target.

We expect the Fed to increase the federal funds rate by 50 basis points at its July and September meetings, although a 75 basis-point increase in July cannot be discounted. We anticipate the central bank will increase the policy rate to a range between 3.25% and 3.5% by the end of the year, up from 1.5% to 1.75%. This likelihood has resulted in our RSM US Financial Conditions Index plunging to 1.7 standard deviations below neutral, which is consistent with an elevated risk of recession.

RSM US Financial Conditions Index



Source: Bloomberg; RSM US LLP calculations

In our estimation, the first possible pause in the Fed's rate hikes will be early next year. It is likely that the Fed will need to increase its policy rate to 4% or above to achieve its objective of a clear and convincing slowing of inflation over a period of months that will probably lead back near its 2% price objective.

In addition, should inflation prove persistent or accelerate, the Fed could very well increase the pace and magnitude of its balance sheet reduction policy. The Fed is currently reducing its balance sheet by $65 billion per month and will accelerate that pace to $95 billion in September. While there is no plan to sell securities into the market, that is not out of the question, either.

That balance sheet reduction will contribute to tighter financial conditions, a slowing economy and rising unemployment that we expect to observe later this year.

Fiscal policy

At this time, we do not expect any major or significant changes in fiscal policy that will either provide a cushion for lower-income cohorts as they adjust to higher prices or increase tax rates that would further cool the economy.

The takeaway

The risk of a recession in the near term is mounting as firms and households adjust to the Fed's price stability campaign. Rising costs of basic goods and doing business are on the margins dampening overall economic activity. The probability of a recession is essentially a coin flip at this point, and the first quarter of next year would appear a likely point when the economy could potentially fall off a cliff. But another oil or supply chain shock this summer could accelerate that timetable.

IS PRICE GOUGING BEHIND THE RISE IN GAS PRICES?

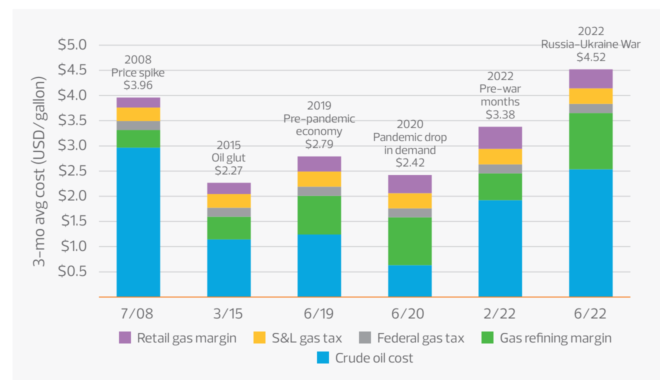
BY JOSEPH BRUSUELAS

RISING ENERGY PRICES have stimulated a fierce debate around inflation and what is behind the surge in gas prices. Are companies taking advantage of a stressful time in the economy and raising prices more than they need to?

Accusations of price gouging and corporate greed now permeate the public discussion and are entering the debate about public policy. So what's going on?

To start, it helps to understand what happens to a barrel of oil as it goes from the well to the consumer. There are many costs added along the way, from refining to retailing to federal, state and local taxes.

Breakdown of the price of gasoline in selected periods



Source: U.S. Department of Energy; RSM US LLP

> THE PRIMARY CAUSE OF HIGHER GAS PRICES CAN BE TRACED TO THE SIGNIFICANT IMPACT OF RUSSIA'S INVASION OF UKRAINE ON GLOBAL ENERGY MARKETS AND OPEC'S CONTINUING INFLUENCE OVER THOSE MARKETS.

Such an analysis shows that the answer is more nuanced than notions of price gouging or corporate greed. Rather, the analysis shows that the primary cause of the price increases can be traced to the significant impact of Russia's invasion of Ukraine on global energy markets and OPEC's continuing influence over those markets.

In the end, the impact of these broad, global market forces far outweighs whatever influence retailers or refiners have on the prices that consumers pay at the pump.

From production to consumption

Consider the three-month average price of a barrel of West Texas Intermediate crude. Through the end of May, it was $106.52.

Given there are 42 gallons in a barrel of oil, that implies a price of $2.53 a gallon. But the average price per gallon of regular unleaded gasoline was $4.26 at the time. The $1.73 spread reflects refiner margins, retailer margins, federal taxes and varying state and local taxes.

Those prices continued to increase early into June as WTI surged to $120.64 a barrel or an implied price of $2.87 a gallon. When the national average gas price reached $4.95 per gallon by June 8, the spread increased to $2.08 a gallon—an outsized increase. And the volatility continued, as WTI prices dropped back to $105 in the last weeks of June.

A big contributor to the surging price of gas is the near-doubling in the cost of refining crude into gasoline. There were shortages at Gulf Coast refineries during the regular spring maintenance period, as well as outages in Europe. And the implementation of European Union sanctions against Russian oil helped push up the cost of crude as well.

All of this affects the cost of goods and services downstream in the economy.

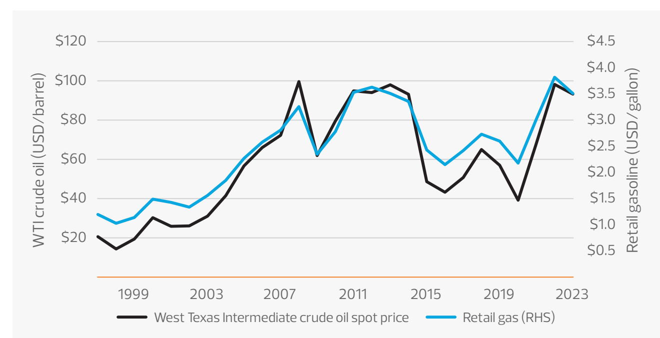
A global market for fossil fuels

The price you pay for a gallon of gasoline at the pump is determined by the global market for crude oil. Using annual data—compiled by the U.S. Department of Energy from 1997 through 2022—we show a near-perfect correlation between the price of crude oil and both the wholesale and retail gasoline prices.

That means that if the supply of crude oil is less than the demand for fossil fuels, then the price of gasoline will rise. If there is a glut of crude, then the price of gasoline will fall accordingly.

And because crude oil is fungible for all practical purposes, the price of crude is arbitraged within a global market. That means that prices for West Texas Intermediate crude oil paid by refiners in Louisiana will depend on the supply of and demand for crude produced in the Middle East, Russia, Venezuela, as well as the Permian Basin.

Crude oil determines the price of gasoline*



Source: U.S. Department of Energy; RSM US LLP

*Year-end values and forecasts

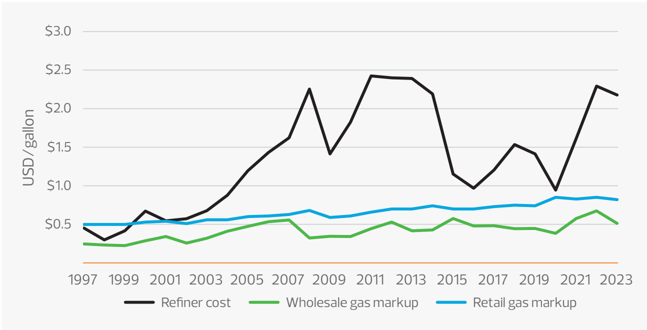
IN RECENT DECADES, IT WAS IN OPEC'S BEST INTEREST TO KEEP FOSSIL FUEL PRICES LOW ENOUGH TO HOLD ON TO MARKET SHARE AND KEEP U.S. CONSUMERS DRIVING INEFFICIENT VEHICLES.

Price markups

The intermediate markups imposed by refiners (which create the wholesale price of gas) and retailers have been increasing over time. That would be expected given the general trend of rising prices in a vibrant economy.

So while the price of crude on the global market has been volatile, the markups by wholesalers and retailers have been subdued by comparison. Wholesale markups increased from 25 cents per gallon to 50 cents per gallon, and retail markups increased from 50 cents to 85 cents over the same 25 years—hardly the stuff of price gouging.

Marking up the cost of gasoline, from the well to the pump



Source: U.S. Department of Energy; RSM US LLP *Year-end values and forecasts

The cost of drilling a new well

With oil prices so high, why haven't U.S. producers responded with significant investments in drilling new wells?

Estimates of the breakeven cost of drilling a new well in the Permian Basin are around $50 a barrel. The implication is that at current prices, producers could conceivably flood the U.S. market with barrels of crude to be refined at U.S. facilities and sold to American consumers. But that argument ignores two important factors.

First is the financial willingness to invest in a century-old industry. The price of WTI has dropped to $40 a barrel twice in the past six years, making investors understandably wary. Who would put money down on the chance those price drops won't occur again?

The second factor is the market-based setting for the supply-side of the pricing equation. Let's start with the lack of excess capacity among the world's producers, most of whom are state actors. With the exceptions of Saudi Arabia and the United Arab Emirates, most producers are already at capacity. And Russian oil is being taken out of the picture, at least for the developed economies in the West.

The Saudis and the Russians are special cases. Keep in mind that the breakeven cost for existing wells in Saudi Arabia is estimated in the range of $25 per barrel or less. But keeping prices for crude above $50 per barrel would attract competition from non-OPEC producers.

In recent decades, it was in OPEC's best interest to keep fossil fuel prices low enough to hold on to market share and keep U.S. consumers driving inefficient vehicles.

A two-pronged approach

If anything, the recent surge in gas prices reinforces the need for a two-pronged approach to domestic energy policy.

- **Don't ignore fossil fuels:** First, investment in the production of fossil fuels like natural gas, as well as oil, to bridge the long transition to renewable sources of energy will need to increase in the near term. Domestic refining capacity needs to expand as well.
- **Promote renewable energy:** Second, the transition toward the development of alternative sources of energy needs to accelerate. As long as prices remain high, the incentive to invest in alternative energy sources will only increase. That is one reason why accusations of price gouging in the energy market ring hollow.

Here's another way to think of it: If an excessive concentration of power exists inside the energy industry, prices would have increased to these levels long ago. Moreover, prices at these levels will create the conditions for a broader increase in the supply of alternative energy sources, which will bring down demand over the medium to long term.

MIDDLE MARKET INSIGHT

The recent surge in gas prices has reinforced the need for a two-pronged approach to domestic energy policy: maintain supplies of fossil fuels, and promote renewable energy.

Price competition is a precondition for a functioning market and an increase in choices to supply energy, whether the source is oil, natural gas, nuclear, electricity, solar, wind or geothermal. Let that competition begin.

Given geopolitical tensions in Eastern Europe, Asia and the Middle East, a rational energy policy that fosters alternative sources makes every bit of sense.

The takeaway

The U.S. economy, in nominal terms, generates $24.3 trillion annually. Energy is required to sustain the general level of welfare across the economy. We can walk and chew gum at the same time. Increasing the production of fossil fuels and accelerating the transition toward renewables are not mutually exclusive goals. Widening the supply of fuels that support the economy is both necessary and wise.

FUEL OIL PRICES **REACHING A TIPPING POINT**

BY JOSEPH BRUSUELAS

AMERICAN HOUSEHOLDS are consuming less gasoline compared to this time last year as fuel costs continue their relentless rise.

Now, with the traditional summer driving season underway, these costs have reached a tipping point, forcing many households to reduce their spending on necessities and threatening to slow the overall pace of consumption.

Any further increase in oil and gasoline costs from current elevated levels will result in a major pivot that will send the economy uncomfortably close toward recession in the near term.

And there is little relief in sight as another round of increases in oil and energy prices linked to geopolitical tensions looms.

U.S. consumption of gasoline*

Source: U.S. Energy Information Administration; RSM US LLP calculations

*Proxied by supplies of finished gasoline

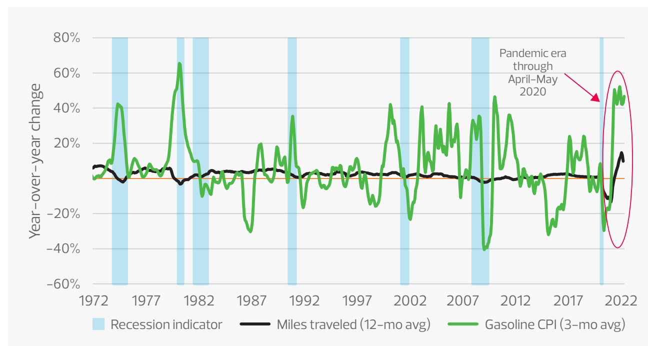
ANY FURTHER INCREASE IN OIL AND GASOLINE COSTS FROM CURRENT ELEVATED LEVELS WILL RESULT IN A MAJOR PIVOT THAT WILL SEND THE ECONOMY UNCOMFORTABLY CLOSE TOWARD RECESSION IN THE NEAR TERM.

This downtrend in consumption began when the price of crude oil firmly entered the public consciousness this year. Crude moved above $100 per barrel in early March and then embarked on a series of higher highs and higher lows. By the middle of June, the cost of driving had increased by 50% in less than six months, with price increases approaching growth rates of the 1970s–80s oil crises.

There are several reasons for the sustained increase. First and foremost, consumer demand surged beginning last summer when vaccines made it safer for Americans to venture out.

But it took a while for crude production to restart following a decadelong period where investors took a more cautious approach to finance new production. Then came the Russian invasion of Ukraine, and oil prices exploded higher.

Growth rates of gasoline prices and vehicle miles traveled



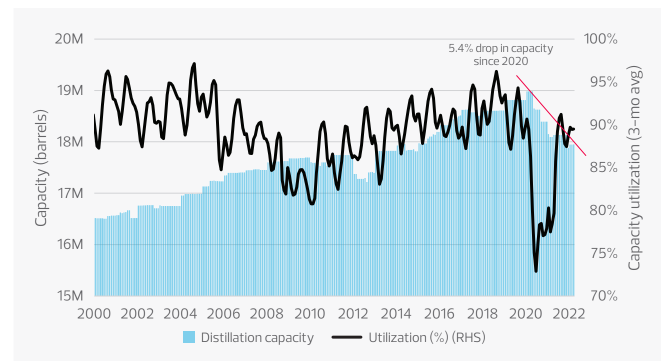
Source: U.S. Federal Housing Administration; National Bureau of Economic Research; Bloomberg; RSM US LLP

MIDDLE MARKET INSIGHT

The most significant damage to the economy and household balance sheets might well come from the increase in diesel prices.

It is also important to note that it wasn't just extraction that was in decline. Refineries reached a peak in their capacity in early 2020 before dropping by 5.4% this past March.

U.S. crude oil refinery capacity and utilization rate



Source: U.S. Department of Energy; RSM US LLP

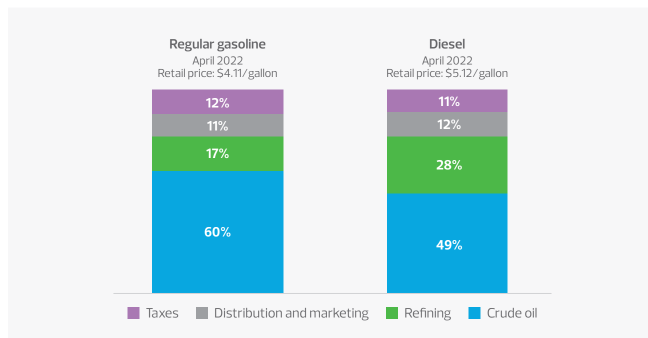
According to the U.S. Energy Information Administration, refinery costs in April comprised 17% of the retail price of gasoline, with the price of crude accounting for 60% of prices at the pump.

With rising extraction and refining costs, there was little outcome other than further increases in prices at the pump.

Diesel prices

Although consumers will be more aware of the increased cost of filling their tanks with gasoline this summer, the most significant damage to the economy and household balance sheets might well come from the increase in diesel prices. That is, consumers can choose not to take a long drive, but they cannot avoid spending more on food and school supplies because of the indirect cost of diesel.

What we pay for in a gallon of:



Source: U.S. Energy Information Administration; *Gasoline and Diesel Fuel Update*

That's because diesel is used to plant and harvest crops and move the food to market. And diesel transports products from Shanghai to Los Angeles to warehouses and shops. So, as long as our reliance on fossil fuels continues, consumers can expect to be stuck with the indirect costs of diesel.

Retail gasoline prices increased by 62% over three years, from $2.79 per gallon in June 2019 to $4.52 in mid-June. Over that same timespan, the retail diesel price increased by 75%, from $3.13 to $5.47. Much of the diesel price increase is because of the 113% jump in refining costs, from $0.75 to $1.59 a gallon.

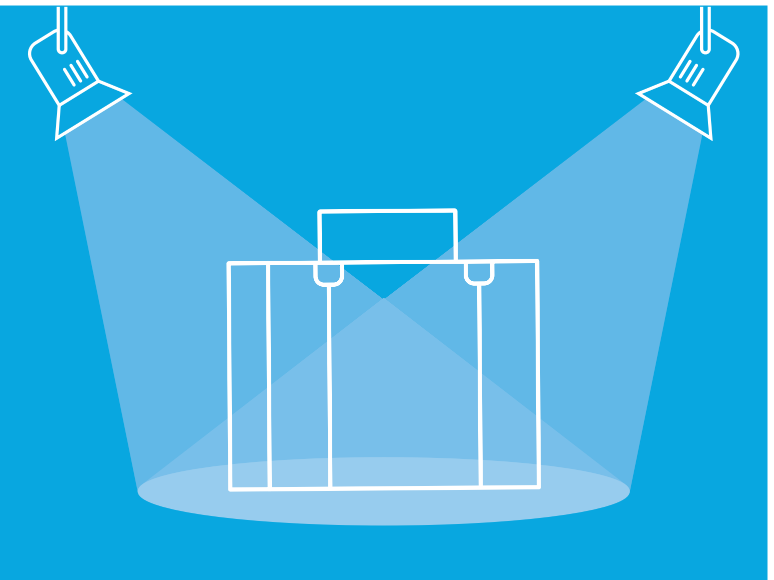
MIDDLE MARKET INSIGHT
While consumers have the capacity to change buying habits in the long term, in the short term, they will have little choice but to spend more on necessities like gasoline,

The takeaway

Fossil fuels will be part of the energy mix into the foreseeable future despite efforts to decarbonize the domestic and global economies. If there is a lesson to be learned from the unwillingness of investors to finance the reopening of wells, it is that there is a role for government, in partnership with the private sector, to finance the expansion of production and refining capacity.

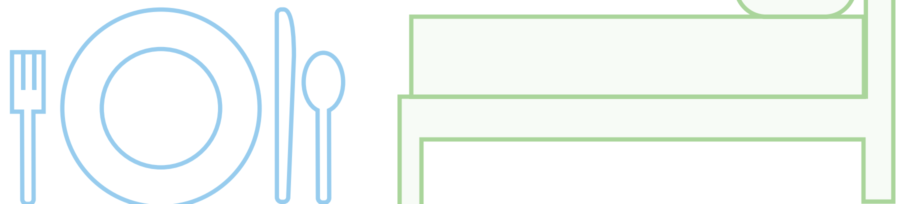
In terms of inflation, demand for energy is relatively inelastic in the short term and we think that fuel prices have reached a tipping point with respect to reallocating consumer choice and dampening overall consumption.

While consumers can change buying habits in the long term—to alternatives like electric vehicles, for example—in the short term, they will have little choice but to spend more on necessities like gasoline, all of which raises the likelihood of a recession. ■



TRAVEL INDUSTRY, EXPECTING BUSY SUMMER, CASTS WARY EYE ON INFLATION

BY RYAN MCANDREW



THIS SUMMER was supposed to be the season of revenge travel. With COVID-19 caseloads easing and consumers flush with savings built up during the pandemic, the travel industry was anticipating a robust season. Consumers were so eager to get out of the house that little could deter them, the thinking went.

But that was before a new risk emerged: stubborn, elevated inflation. Even as overall inflation in the United States has surged above 8%, the components of the consumer price index that directly affect travel have risen even more. These include airfares, which are up by 33.3% year over year; gasoline, which has surged by 43.6%; and even food away from home, which has increased by 7.2%. For hoteliers, labor challenges continue to stress the summer travel experience.

MIDDLE MARKET INSIGHT

Hospitality has lost more than 7.5 million jobs since March 2020, of which only 6.9 million jobs have returned, for a net loss of 600,000.

Rising gas prices

It all has left travel industry executives wary, even as they say they still expect a busy season.

"Even with rising inflation in gas prices, we continue to expect strong consumer demand, especially as we enter the busy summer leisure travel season," Patrick Pacious, president and chief executive of Choice Hotels International, said on his first-quarter earnings call.

THIS SUMMER WAS SUPPOSED TO BE THE SEASON OF REVENGE TRAVEL. BUT THAT WAS BEFORE A NEW RISK EMERGED: STUBBORN, ELEVATED INFLATION.

MIDDLE MARKET INSIGHT
Surveys have supported the notion that Americans are determined to get on the road this summer.

He added: "It is worth noting that gas prices historically have had little to no impact on travel. Rather, consumers indicate that rising fuel costs could mean adjusting how they spend their money, such as traveling shorter distances, choosing destinations closer to home or not dining out as often, but they are going to travel."

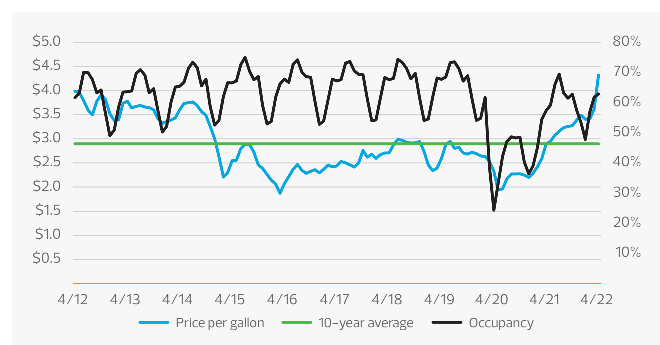
Indeed, surveys have supported the notion that Americans are determined to get on the road this summer. Approximately eight in 10 Americans are scheduling travel plans, according to a recent survey from The Vacationer.

But consumers are aware of rising costs. According to a March poll by Bank of America, 62% of respondents expected to travel more than usual in the next 12 months, but more than 40% of the respondents said higher gas prices would cause them to travel less, while 28% said they could take shorter trips to offset higher costs.

Another survey from Bankrate in March found that 70% said they are changing their summer travel plans because of inflation.

History has shown that there is little correlation between gas prices and performance in hospitality. For instance, the 10-year average for gas prices is just under $3 per gallon, but prices have been volatile from year to year, given the constant changes in the energy sector. Apart from the global COVID-19 pandemic shutdown, hotel occupancy has been stable with its seasonal peaks and valleys.

Hotel demand unfazed by gas prices



Source: BBG/CoStar

Flight cancellations

Airfares continue to climb as travelers get more comfortable with lines at the airports and full flights. Flights in May averaged $360 per round-trip, with domestic airfares trending 10% above 2019 prices, pointing to the direct effect of record jet fuel pricing, increases in total passengers and pressures from rising labor costs, according to a report from Hopper.

Passengers would most likely stomach additional costs to reach their desired destination. But according to data from FlightAware, more than 7,000 flights were canceled during the Memorial Day weekend as airlines continue to deal with an acute shortage of workers, creating additional barriers for the travel season.

Gas and airline price increases are only part of the travel story. Although hotel occupancy has been slowly recovering to 2019 levels, guest rates for all hotel classes have been on a torrid pace, exceeding the highest levels on record.

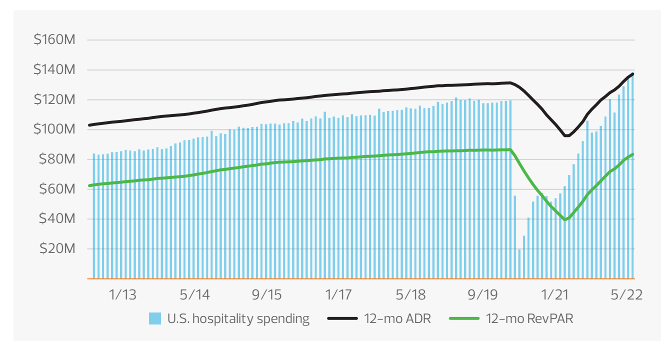
The average daily rate exceeded $144 per night in May compared to $130 per night in February 2020, the last full month of service before the COVID-19 shutdown, according to CoStar/STR data. And if Memorial Day is a precursor to summer travel demand, this could be a banner year for the industry.

MIDDLE MARKET INSIGHT

While higher prices have done little to dampen demand so far, leisure and hospitality companies are scrambling to find the workers to meet this demand.

During Friday and Saturday of Memorial Day weekend, the U.S. hotel industry sold more room nights than in any prior year, according to CoStar/STR data. Memorial Day weekend occupancy also reached a record of 81.4%.

Hospitality on the mend



Source: BBG/CoStar

HOSPITALITY ENTITIES FOCUSING ON PROVIDING GROWTH OPPORTUNITIES, LESS STRUCTURE IN SCHEDULES, COMPANY CULTURE AND UNIQUE BENEFIT PACKAGES WILL HAVE THE BEST CHANCE AT CAPTURING THE LIMITED AVAILABLE TALENT.

Tight labor market

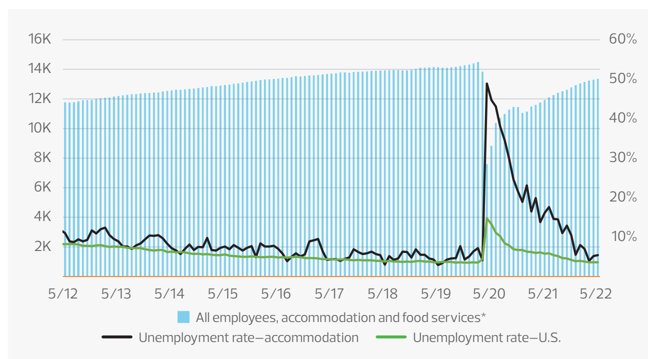
While higher prices have done little to dampen demand so far, leisure and hospitality companies, as well as airlines, are contending with another, more practical challenge: finding the workers to serve this higher demand.

Workers have been in chronic short supply for much of the pandemic. But leisure and hospitality have been hit particularly hard and have had one of the slowest job growth rates since the beginning of the pandemic.

The U.S. economy added 390,000 jobs in May, of which the hospitality sector accounted for 84,000. However, the unemployment rate for hospitality workers ticked up to 5.1% compared to overall unemployment of 3.6%.

Hospitality has lost more than 7.5 million jobs since March 2020, of which only 6.9 million jobs have returned, for a net loss of 600,000 since the beginning of the pandemic. All other major sectors have experienced net job growth since March 2020.

Hospitality employment continues to lag



Source: U.S. Bureau of Labor Statistics

*Seasonally adjusted

In addition, wage growth in hospitality has been the most substantial of all sectors, rising by roughly 20% since the beginning of the pandemic, according to U.S. Bureau of Labor Statistics data.

MIDDLE MARKET INSIGHT

History has shown that there is little correlation between gas prices and performance in hospitality.

Even so, the expected return of hospitality workers, given wage growth and lower savings from government support, has not materialized. Survey data from hospitality workers shows that it is not always about dollars and cents.

Nearly half of the hospitality workers (45%) have become even less satisfied with their jobs since returning from COVID-19 layoffs, according to a report from Harri, in partnership with consulting firm CGA. The workers cited a lack of flexibility, increased workload and pay not matching the job description as the main factors.

Hospitality entities focusing on providing growth opportunities, less structure in schedules, company culture and unique benefit packages will have the best chance at capturing the limited available talent in the hospitality industry.

The takeaway

Until the talent pool has been restored, companies will need to continue leveraging technology, innovation and cross-training existing employees to support operations.

Summer travel demand appears to be in full force even in the face of enduring inflation. The travel industry will continue to reap the benefits of the travel surge and manage the challenges associated with labor pressures. Hospitality companies will need to continue to evaluate customer preferences using data analytics to properly allocate limited labor resources, use technology to assist with labor shortages and maximize opportunities to develop talent within.

SMALLER FIRMS HIT HARDEST BY SUPPLY CHAIN PROBLEMS, RSM SURVEY FINDS

MORE THAN TWO YEARS into the global pandemic, supply chain snarls persist for a large portion of middle market American businesses, with smaller midsize firms bearing a significant amount of the pain, according to proprietary data from RSM US LLP. And companies continue to pivot accordingly.

Nearly half of respondents to the latest RSM US Middle Market Business Index survey—48%—said in April that their organizations had experienced significant negative effects because of unexpected changes or disruptions in supply from an upstream supplier during the previous 12 months. The survey polled middle market executives from April 4 to April 25 on questions specific to supply chains, as well as questions about costs and inflation.

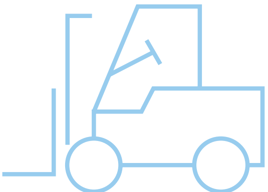
Among the survey's findings:

Smaller firms were hurt the most by problems with upstream suppliers ...

64% of businesses with annual revenue between $10 million and $50 million reported significant negative effects.

36% of businesses with annual revenue between $50 million and $1 billion reported similar effects.

... and those problems were in turn felt by customers downstream ...



68% of smaller firms reported that problems with upstream suppliers had affected downstream customers.

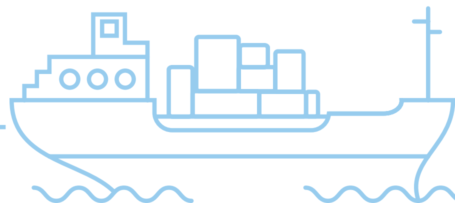
69% of larger firms in the middle market reported such issues.

... but through it all, middle market businesses are staying nimble ...

81% of respondents said they could adapt to changes in demand or supply without sacrificing quality.

This includes **89%** for larger middle market firms and **71%** for smaller firms.

Download the special report.



For more information on RSM, please visit **rsmus.com**.

For media inquiries, please contact Kim Bartok, national public relations director, +1 212 372 1239 or kim.bartok@rsmus.com.

For more information on RSM thought leadership, please contact Deborah Cohen, thought leadership director, +1 312 634 3975 or deborah.cohen@rsmus.com.

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