The Leisure and Hospitality Industry: Short-Term Growth, Long-Term Challenges

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INTRODUCTION

The leisure and hospitality industry is an important barometer of our broader economic recovery, particularly among low-wage workers, and has been disproportionately affected by COVID-19 and related shutdowns of economic activity. After industry employment fell by 48 percent between February and April 2020, leisure and hospitality still has the largest remaining gap between current employment and pre-pandemic employment, a total difference of 1.53 million workers, representing nearly three quarters of the total worker shortfall.[1]

Leisure and hospitality businesses that require in-person work were particularly sensitive to pandemic related policies, such as vaccine mandates and capacity limits. Related economic shutdowns forced thousands of these businesses to permanently close. Those that remain open have found that workers are returning slowly which in part could be due to the effects of enhanced and extended unemployment benefits and stimulus payments. In order to shed further light on these patterns, this issue brief documents the characteristics of workers in the leisure and hospitality industry, how these workers were affected by the COVID-19 pandemic, and their future outlook.

LABOR FORCE MAKEUP

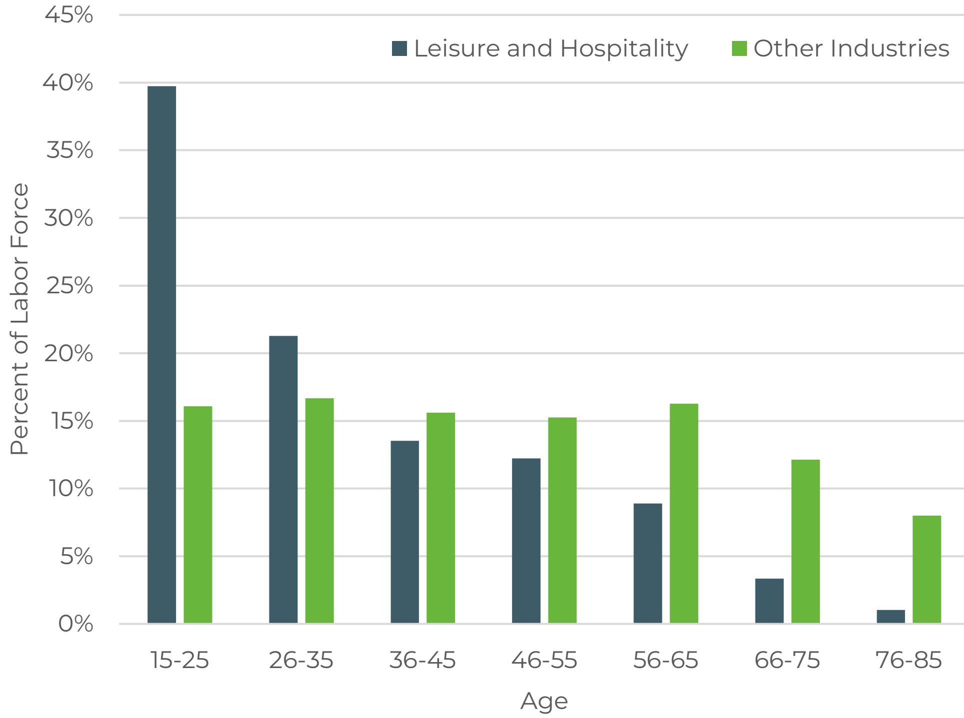
Workers in leisure and hospitality are typically younger, on the lower end of the wage distribution, and more likely to be Hispanic compared to other industries. These demographic groups are already more vulnerable than others to major economic shocks and tend to experience higher rates of long-term unemployment given their lower educational attainment relative to the rest of the labor force.

Age

One of the unique features of the leisure and hospitality industry is its high concentration of young workers. As shown in Figure 1, before the pandemic-related shutdowns uprooted the industry, over 60 percent of the workers in the industry were under the age of 35, compared to just over 30 percent of workers in other industries.

[1] "Average Hourly Earnings of All Employees, Leisure and Hospitality [CES7000000003]", U.S. Bureau of Labor Statistics, retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CES7000000003.

Figure 1: Pre-Pandemic Leisure and Hospitality Workforce by Age



Source: Author's calculations; Current Population Survey American Social and Economic Supplement 2019 and 2020.[2]

Younger workers are more vulnerable to economic shocks given they have fewer marketable skills, less education, and lower levels of saving. Consequently, they are more likely to experience long term unemployment if the leisure and hospitality industry is unable to quickly return to pre-pandemic levels. According to the Pew Research Center, nearly half of all workers ages 16 to 24 were employed in the service sector in 2019. In times of high unemployment, young workers typically have greater difficulty remaining attached to the workforce because they are forced to compete with workers who have more experience and higher educational attainment. In a situation of mass layoffs, younger, less experienced workers are also typically the ones most likely to be let go and we saw this happen at the height of the pandemic. Between February and April of 2020, the unemployment rate among all workers (16+) rose by 11.2 percentage points, while the

[2] Authors calculations utilized 2020 pre-pandemic data.
Sarah Flood, Miriam King, Renae Rodgers, Steven Ruggles, J. Robert Warren and Michael Westberry. Integrated Public Use Microdata Series, Current Population Survey: Version 9.0 [ASEC 2020]. Minneapolis, MN: IPUMS, 2021. https://doi.org/10.18128/D030.V9.0.

unemployment rate for the youngest workers (16-19) increased by 20.9 percentage points.[3]

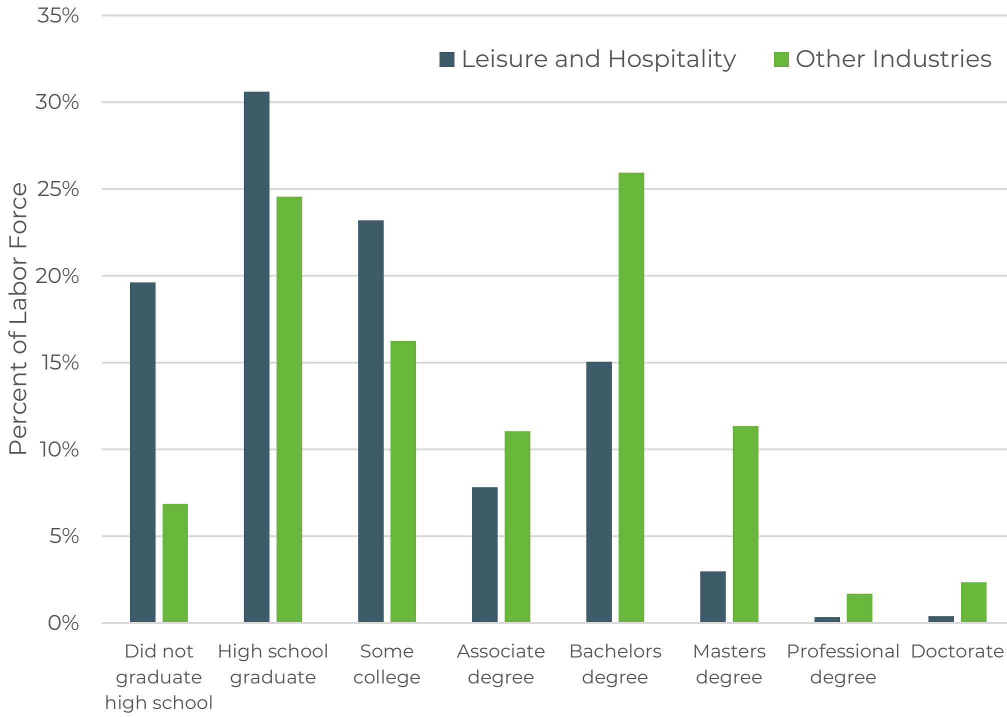
Education

Unsurprisingly, an industry that skews younger is one that has a low concentration of individuals with advanced, let alone terminal, degrees. Just over 13 percent of the industry is under 18, the majority of whom have likely not yet graduated high school, assuming they are on track to do so. Additionally, a quarter of workers in leisure and hospitality are Hispanic or Latino, the demographic that has the lowest educational attainment compared to White, Black, and Asian workers.[4] Almost 20 percent of the leisure and hospitality workforce did not graduate high school and more than half have a high school degree or less. The industry has twice as many workers with high school degrees as those with a bachelor's degree, a ratio that is nearly one-to-one across all other industries.

[3] Stephanie Aaronson and Francisca Alba, "Unemployment Among Young Workers During Covid-19," Brookings Institute, September 19, 2020, https://www.brookings.edu/research/unemployment-among-young-workers-during-covid-19/.

[4] "Labor Force Characteristics by Race and Ethnicity," U.S. Bureau of Labor Statistics, BLS Reports, November 2021, https://www.bls.gov/opub/reports/race-and-ethnicity/2020/home.htm.

Figure 2: Pre-Pandemic Educational Attainment in Leisure and Hospitality



Source: Author's calculations; Current Population Survey: American Social and Economic Supplement 2019 and 2020.[5]

DISPROPORTIONATE IMPACTS OF COVID-19

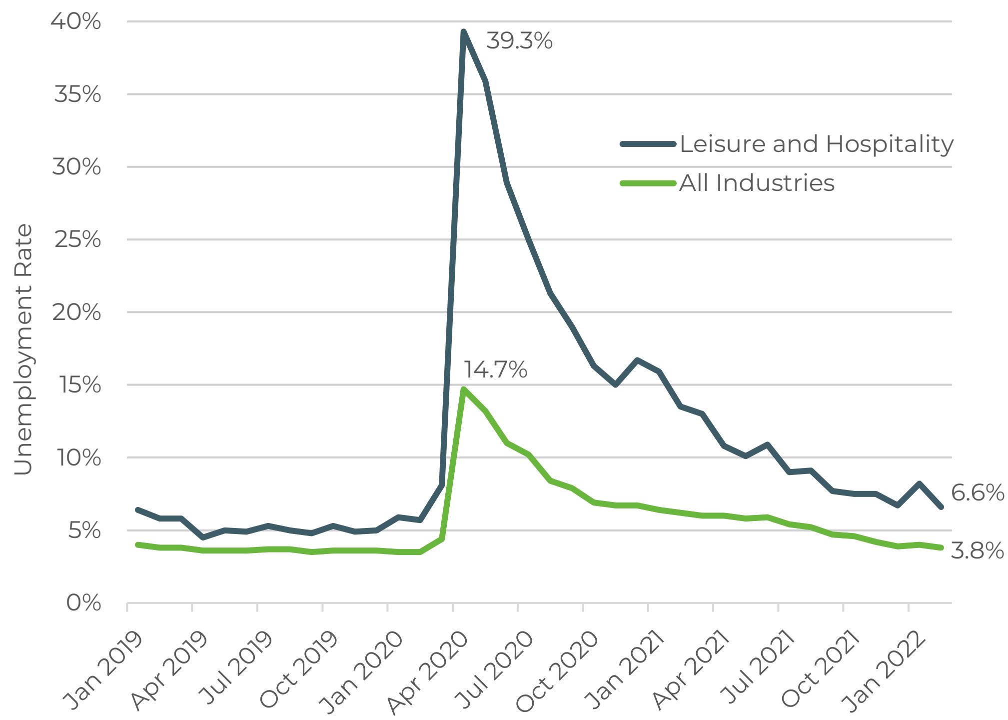
Unemployment

Following a drop in employment as a result of the Great Recession, the leisure and hospitality industry experienced steady growth from 12.9 million workers in 2010 to 16.9 million at the beginning of 2020. The COVID-19 pandemic disrupted over ten years of job growth when in April 2020 employment dropped by nearly 50 percent, reaching employment levels that had not been seen since the 1980s.[6] The unemployment rate rose across all industries, but was more than twice as high in the leisure and hospitality industry, as seen in Figure 3. The leisure and hospitality industry made up 40 percent of all job losses at the height of the pandemic (February 2020 to April 2020). While the

[5] Sarah Flood, Miriam King, Renae Rodgers, Steven Ruggles, J. Robert Warren and Michael Westberry. Integrated Public Use Microdata Series, Current Population Survey: Version 9.0 [ASEC 2020]. Minneapolis, MN: IPUMS, 2021. https://doi.org/10.18128/D030.V9.0.
[6] "All Employees, Leisure and Hospitality [USLAH, CES]," U.S. Bureau of Labor Statistics, https://www.bls.gov/iag/tgs/iag70.htm.

economy-wide unemployment rate has improved, the leisure and hospitality unemployment rate remains nearly double that of all industries (see Figure 3).

Figure 3: Unemployment Rate by Industry, February 2019 through February 2022



Source: Bureau of Labor Statistics.

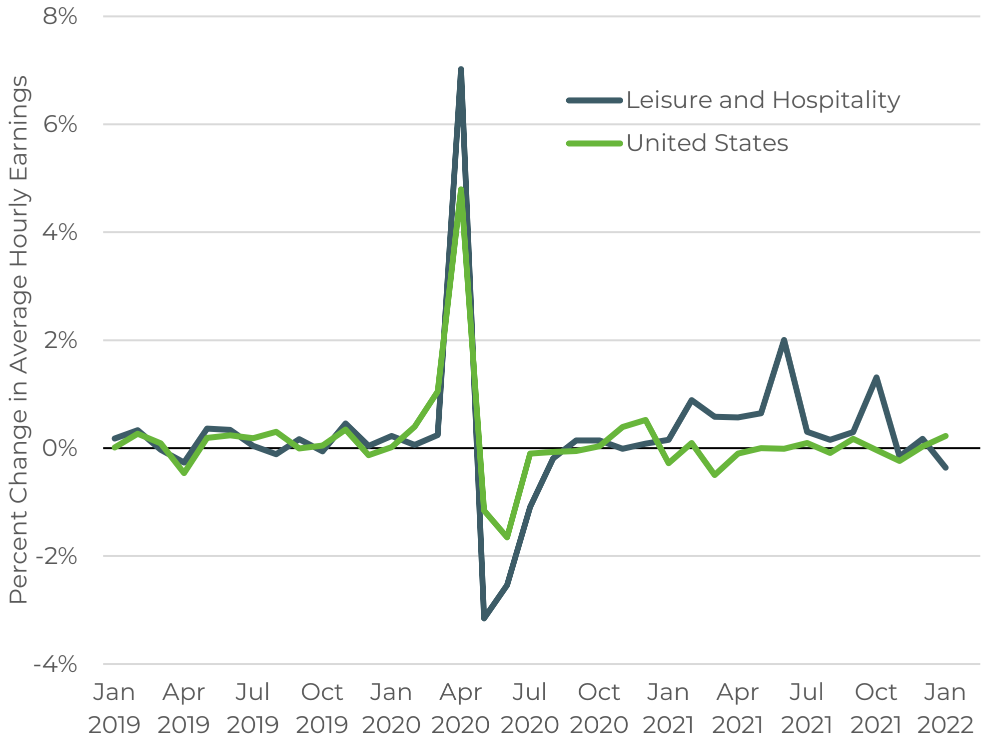
As of February 2022, the construction industry's unemployment rate of 6.7 percent was the only industry with a higher rate than leisure and hospitality's 6.6 percent.[7] Because the leisure and hospitality industry is larger, the total number of unemployed workers is higher than in construction (849,000) and second only to wholesale and retail trade (980,000).[8] The leisure and hospitality industry is still 1.53 million workers short of pre-pandemic levels, representing 72.5 percent of the 2.11 million total worker shortfall across all non-farm industries in February 2022.

[7] Among non-agricultural private wage and salary workers.
Economic News Release, "Table A-14 Unemployed persons by industry and class of worker," U.S. Bureau of Labor Statistics, https://www.bls.gov/news.release/empsit.t14.htm.
[8] Ibid.

Earnings

Early in the pandemic there were likely some workers in the leisure and hospitality industry who saw their earnings rise as a result of either government mandated or voluntary employer-sponsored hazard pay and/or one-time bonuses. However, the rise in wages early in the pandemic likely had more to do with a change in the workers that made up the leisure and hospitality workforce.

Figure 4: Month Over Month Percent Change in Real Average Hourly Earnings, January 2019 through January 2022[9]



Source: Author's calculations using Bureau of Labor Statics data.[10]

Mandated business closures and their associated costs led to layoffs of lower-wage workers within leisure and hospitality, making it appear as though wages were rising when in reality, low wage jobs were being cut. The spike in earnings lines up with the rapid increase in unemployment. Thus, the bulk of the apparent wage increases, at least

[9] Calculated in real dollars.
[10] Authors calculations utilized 2020 pre-pandemic data.
"Average Hourly Earnings of All Employees, Leisure and Hospitality [CES7000000003]," U.S. Bureau of Labor Statistics, retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CES7000000003.

initially, are likely due to an overrepresentation of workers who were already earning more than the typical leisure and hospitality worker. Wage growth through the end 2021 seems to indicate that much of the recent wage gains are not solely attributed to compositional changes, given that returning workers were likely those with lower wages. However, 2022 began with a decrease in wages (both real and nominal).

Role of Government Policies and Slower Recovery

The COVID-19 pandemic marked a period of uncertainty for the leisure and hospitality industry with numerous shutdowns, capacity limits, and enhanced unemployment benefits beyond what many workers in low-wage industries (like leisure and hospitality) would typically make. The Federal Pandemic Unemployment Compensation program, for example, provided individuals collecting regular state unemployment with an additional $600 per week between April and July 2020. Unemployed leisure and hospitality workers could continue collecting unemployment benefits or attempt to go back to a job and make an average of $435 to $452 per week—hundreds of dollars less than they could receive for staying unemployed.[11]

The Federal Government's efforts to address the spread of the virus placed significant responsibility and costs on the leisure and hospitality industry. Ongoing and proposed regulations like requiring proof of vaccination and masking mandates charge leisure and hospitality workers with the unpleasant task of enforcing customer compliance. Added regulations also mean added costs in the form of increased sanitation of public areas, personal protective equipment for staff, and reduced revenues due to capacity reduction. These costs have likely contributed to permanent closures. Between the latter end of 2019 and the middle of 2020, the leisure and hospitality industry saw a reduction of 10,000 establishments.[12]

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[11] $435 a week in earnings is based on authors calculations using average hourly pay ($17.98) and average hours a week (24.2) of leisure and hospitality workers in April 2020 (lower bound) and average hourly pay ($17.44) and average hours a week (25.9) of leisure and hospitality workers in May 2020(upper bound).
"Average Weekly Hours of All Employees, Leisure and Hospitality," [CES7000000002"], U.S. Bureau of Labor Statistics. https://www.bls.gov/ces/.

[12] "Quarterly Census on Employment and Wages," U.S. Bureau of Labor Statistics, Number of Establishments in Private Leisure and hospitality for All establishment sizes in U.S. TOTAL, NSA [ENUUS0002051026], https://data.bls.gov/timeseries/ENUUS0002051026?amp%253bdata_tool=XGtable&output_view=data&include_graphs=true.

While this industry has seen some recovery since governments have removed regulations and ended enhanced benefits, it remains among the hardest hit by the pandemic. Rising costs as a result of inflation and supply chain problems threaten to undermine the industry's gains by putting strain on small businesses. For workers, recent data from January and February 2022 indicate that nominal wages are no longer rising. This could be due to composition effects catching up as employers hire back low wage workers or an early signal of something more worrying. Regardless, the inflation situation will continue to erode wages and only get worse in an atmosphere of increased government spending.

Looking Forward

Given the fluctuations in employment created by COVID-cautious workers, government intervention, and shortages in several industries, employers have been increasing nominal wages as a way to retain and attract workers. Wages rose between June 2020 and December 2021 in spite of composition effects that would otherwise lead to falling wages. After a long delay, the employment situation is on the mend in this industry. Nearly a quarter of the recent job gains in the economy overall are due to hiring in leisure and hospitality.[13]

That said, leisure and hospitality employment is still nearly 10 percent below its last peak in February 2020 and is among the industries with the highest unemployment rates (currently 6.6 percent) slightly behind the construction industry (currently 6.7 percent).[14] The 1.53 million worker shortfall in the leisure and hospitality industry accounts for nearly three-quarters of the total worker shortfall in the U.S. Thus, the employment gains experienced over the last two months must be

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[13] "Employment Situation Summary," U.S. Bureau of Labor Statistics, January 2022, https://www.bls.gov/news.release/empsit.nr0.htm.

[14] In addition to leisure and hospitality, industries that are still below pre-pandemic levels (Feb 2020) include education and health services, construction, manufacturing, and mining, quarrying, and oil and gas extraction industry. Major industries defined as construction, education and health services, financial activities, information, leisure and hospitality, mining, quarrying, and oil and gas extraction, other services, professional and business services, and trade transportation and utilities. Diane Swonk, "Employers Hold onto Holiday Hires Through Omicron," February 4, 2022, https://www.grantthornton.com/library/articles/advisory/2022/Economic-Analysis/Real-Time-Analysis/employment-report-020422.aspx.
"Economic News Release: Table A-14 Unemployed persons by industry and class of worker," U.S. Bureau of Labor Statistics, https://www.bls.gov/news.release/empsit.t14.htm.

sustained in order for the industry to fully recover. Meanwhile, surging inflation threatens wage gains and the continued rise in employment.

CONCLUSION

Now that shutdowns, government mandates and work discouraging government programs have largely expired or ended, the leisure and hospitality industry has experienced marked improvements in recent months. The industry was largely resilient through the Delta and Omicron strains that threatened to lead to significant disruptions. Higher wages and employment in the industry will benefit young, low wage workers with low educational attainment who make up a disproportionate share of the industry's workers.[15] However, many businesses within the leisure and hospitality industry are still dealing with the long-term effects of shutdowns and capacity reductions that forced thousands of businesses to permanently close.[16] Future progress on employment and wages in the leisure and hospitality industry will require stopping further government disruption and bringing surging inflation under control.

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[15] "Current Employment Statistics (Establishment Data): Table B-1. Employees on nonfarm payrolls by industry sector and selected industry detail, Seasonally adjusted," U.S. Bureau of Labor Statistics, retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/release/tables?rid=50&eid=4881&od=2020-02-01#.

[16] "Quarterly Census on Employment and Wages, Number of Establishments in Private Leisure and hospitality for All establishment sizes in U.S. TOTAL, NSA [ENUUS0002051026]," U.S. Bureau of Labor Statistics, https://data.bls.gov/timeseries/ENUUS0002051026?amp%253bdata_tool=XGtable&output_view=data&include_graphs=true.