OUTLOOK

Q1/2022

Surviving and Thriving in 2022

As the pandemic ebbs, restaurants are forging ahead with new plans, as well as retaining Covid-era strategies that are likely to help protect businesses for the long term. Here are five trends we can expect to see in the industry in 2022:

Technology will continue its climb: The pandemic has transformed the foodservice industry into the newest tech industry – and as labor challenges persist, technology will permeate every process at the front and back of house. Driving it forward will be the need to remove friction – from the taking and processing of orders, the management of inventory, the monitoring of equipment, and the delivery of food off-premise. But beyond friction, technology will have an expanding role in elevating hospitality by absorbing reams of data about guest preferences, then connecting the dots to provide each guest with a more streamlined, customized experience.

Outside is still in: Wherever local regulations allow it, restaurants will retain their outdoor dining areas in parking lots and on sidewalks for the long term. Beyond Covid, look for these spaces to become more comfortable, experiential, shielded-from-the-elements extensions of indoor dining rooms.

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Agriculture Update

Farm incomes ride high but production costs loom in 2022

While strong cash flows from corn, soybean and wheat crops, as well as from broilers, cattle and hogs, have pushed U.S. farm income to its highest level in eight years, producers are still expecting to face some headwinds in 2022. That's according to the Purdue University/CME Group Ag Economy Barometer, which is calculated from the results of a survey of 400 agricultural producers each month. At the time of this writing in early December, November had registered as the lowest-ranking month of the year for producer sentiment – 30 percent lower than 2020.

"Farmers are facing sharp rises in production costs coinciding with fluctuating crop and livestock prices, the prospect of changing environmental and tax policy, uncertainty over COVID-19, as well as a host of other issues, all of which are negatively impacting farmer sentiment," said James Mintert, director of Purdue's Center for Commercial Agriculture.

Though net farm income of $116.3 billion in 2021 would nearly double the total of 2016, income could decline sharply in 2022 as pandemic relief expires and production expenditures continue to rise, according to the Food and Agriculture Policy Research Institute think tank in September. Nearly all categories of farm expenses, ranging from fertilizer to machinery to fuel, have shown increases this year, according to the USDA.

In specific commodities, domestic stocks of **wheat** will be bigger than previously forecast as overseas demand for U.S. supplies declines due to improved production outlooks in key export markets including Australia, Russia and Canada, according to the USDA. U.S. wheat ending stocks for the 2021/22 marketing year were set at 598 million bushels, up 15 million from the previous forecast.

In its most recent update, the USDA left its outlook for U.S. **soybean** and **corn** ending stocks unchanged from its prior update at 340 million bushels and 1.493 billion bushels, respectively. The USDA announced new export deals for both commodities – soybeans to China and corn to Mexico.

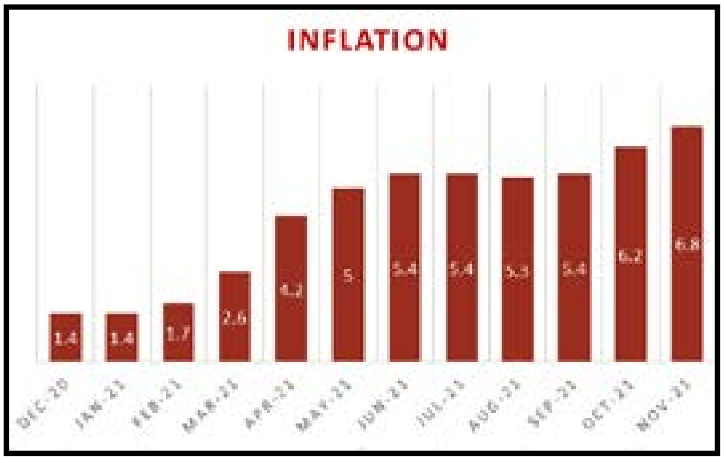
The USDA raised its most recent forecast for total U.S. **beef** production on higher expected slaughter and heavier carcass weights. It also raised its **pork** production forecast slightly as heavier carcass weights offset lower anticipated slaughter toward the end of the year. The hog price forecast is expected to weaken into 2022.

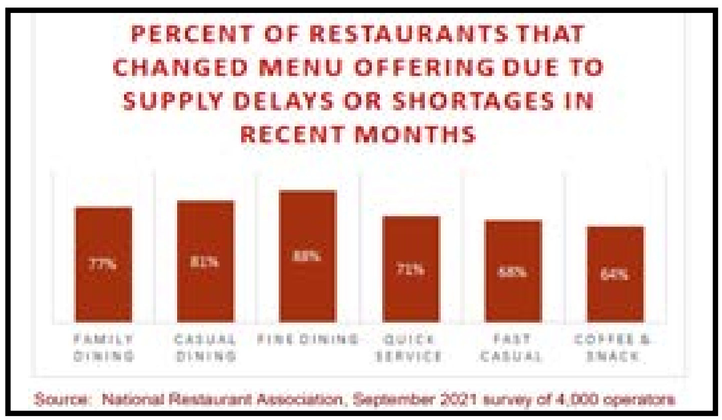
A Confluence of Challenges

Join relief efforts in progress

Surging inflation, supply chain challenges, labor shortages and a new variant of Covid-19 – these times are giving restaurant operators an ongoing test, to put it mildly. In November, annual inflation rose to 6.8 percent, the highest rate since 1982, and Federal Reserve Chairman Jerome Powell hasn't been able to provide reassurance, telling the U.S. Senate Banking Committee in recent weeks that he sees inflation and labor challenges persisting well into 2022.

"The recent rise in COVID-19 cases and the emergence of the omicron variant pose downside risks to employment and economic activity and increased uncertainty for inflation," he said. "Greater concerns about the virus could reduce people's willingness to work in person, which would slow progress in the labor market and intensify supply-chain disruptions."





Restaurant operators are feeling the strain. In a September survey of operators by the National Restaurant Association, 95 percent said their restaurant had experienced supply delays or shortages of key food or beverage items in recent months. Three-quarters of respondents said they had made changes to their menu offerings as a result of delays or shortages. The deliveries that do arrive come at a steep cost: 91 percent of operators said their total food costs (as a percent of sales) are higher than they were prior to the COVID-19 outbreak. A mere 5 percent of operators said their profit margin is higher than it was before the pandemic began.

For its part, the National Restaurant Association is urging Washington to act. In a November letter to President Biden, Sean Kennedy, executive vice president for public affairs at the association, advised taking a number of steps to support the industry. They include addressing workforce challenges through comprehensive immigration reform and expanded employment opportunities, allowing more young people to enter the trucking industry as drivers, and using trade and import capabilities, including removing tariffs on food, beverage and equipment used in the supply chain. If you want to participate in efforts to change restaurant policy in Washington and also access resources pertaining to what's happening at the state and local levels, visit the National Restaurant Association's grassroots advocacy hub at www.restaurantsact.com. There is also an opportunity to join advocacy efforts at the 2022 National Restaurant Association Public Affairs Conference, the industry's largest grassroots lobbying event, which will be held in Washington on April 25-27.

Trends

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Ghost kitchens and virtual brands will reinforce restaurants' safety net: These kitchens help operators tackle the dual challenges of ongoing labor shortages, supply fluctuations and rising food costs by reducing overhead, adapting to menu changes and fluctuations in demand, and making it easier to pool resources with multiple brands. That's why ghost kitchens, which were a $43 billion industry in 2019, are expected to be a $71.4 billion industry by 2027, according to Hospitality Technology.

Labor shortages will force operators to change: About 6.5 percent of restaurant workers have left the industry, which already had a high rate of turnover pre-pandemic. Instead of adopting strategies to lure new employees to roles, more operators will consider efforts to retain the good workers already on staff. That means offering more flexible schedules, redesigning benefit plans, developing more inclusive working environments and reinventing roles to provide opportunities for career development.

It's still time to flex: With consumers' working locations and ability to travel continuing to be in flux, operators will need to shift gears quickly – by adapting menus to the supply available and scaling different order streams up or down based on demand (and the staff on hand to manage it).

Taste Trends on Tap for 2022

One ingredient, multiple experiences: Think roasting or grilling items that are typically served raw to offer new textures, or pickling, jamming or fermenting ingredients to extend their shelf life and create new taste experiences.

Protein 2.0: Look for the expansion of plant-based fish and seafood, bacon, milks and more, as well as more natural proteins like nuts and seeds and the global dishes that feature these items. Operators may also swap out the type of protein expected in a dish – whether due to supply challenges or just to offer something new.

Say it with salt: Look for more salty flavors across the menu, including naturally salty ingredients like purslane or seaweeds, salt-cured meats and fish, and salt-forward sauces, condiments and spice blends, including gomashio and koshos.

Source: Technomic 2022 Forecast