Technomic

TECHNOMIC'S TAKE

SKYROCKETING GAS PRICES

What does this mean for restaurants?

By Joe Pawlak, Managing Principal
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Image Source: Shutterstock.com

Starting last spring, prices across the board began to rise as sharp increases in demand for goods and labor intertwined with supply chain disruptions. No particular industry, product or service has been spared by rising costs which have been passed along to consumers. The rate of consumer inflation continued to rise to a 7.9% annual increase in February, the largest jump since 1982, according to the Bureau of Labor Statistics.

Foodservice menu prices have also been skyrocketing in this environment, driven by higher raw material and labor costs. Despite this, consumers have continued to accelerate foodservice spending since the nadir of the pandemic, propelled by pent-up demand and economic recovery. In addition, grocery price proliferation has provided no relief nor reason for consumers to shift to the at-home channel.

Gas prices have been elevated as the pandemic waned, however, until recently, they have not been particularly problematic. Price has ranged from the low- to mid-$3 per gallon over the past 12 months. However, the incursion into Ukraine has precipitated a major spike in oil prices, driving up gas at the pump to much more than $4 per gallon on average nationally, up $1.40 over the same period last year and over 70 cents over the past few weeks alone.*

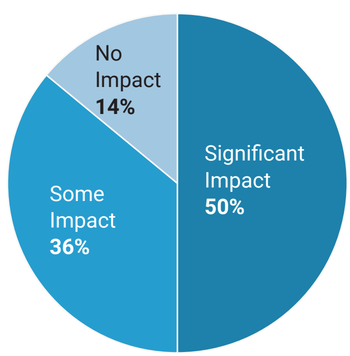
Historical experience has shown that a spike in gas prices, especially those that result in $4-plus per gallon, has an impact on consumer restaurant spending. To understand the current conditions, Technomic conducted an overnight survey on March 10, 2022, with 475 consumers ages 18 and older nationally who drive gas-powered vehicles.

Consumer Pain

Based on our survey, a whopping 86% of consumers say that rising gas prices are having an effect on their spending on other goods and services, and half say that gas prices are having a significant impact.

Impact of Rising Gas Prices

On Spending on Other Goods and Services



Base: 475 consumers who drive gas-powered vehicles
Source: Technomic

The data show that the youngest Americans—18- to 24-year-olds—are most impacted as this group has lower discretionary income. Not surprising, those with an income of $150,000 or more annually are least impacted.

Every 50-cent increase in gas price has a $68 billion impact on consumer spending.

Spending Cuts

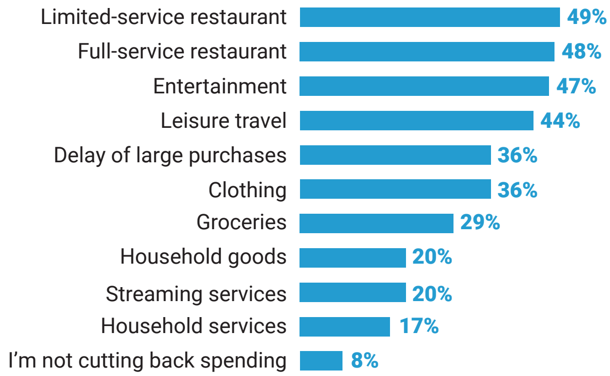
Americans use about 135 billion gallons of gas per year.* As such, every 50-cent increase results in a $68 billion impact on consumer spending. For many consumers, cutting back on driving is a nonstarter. Using cars is a necessity to get to and from work or school, run errands and conduct their normal mandatory activities throughout the day. Therefore, spending cuts are made in other areas to adjust for higher prices.

Restaurants and other leisure activities are the main areas where consumers say they are cutting back due to high gas prices. This is not surprising as these are typical spending areas where consumers indicate that they cut back on when their own financial prospects become tenuous, including periods of recession or other economic uncertainty.

*US Energy Information Administration

Spending Cutback Areas

Multiple mentions accepted



Base: 408 consumers impacted by higher gas prices
Source: Technomic

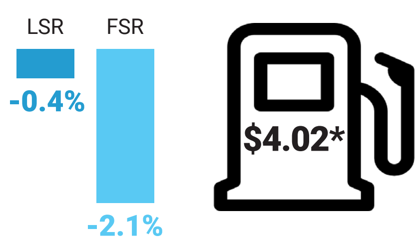
Gas Price Spike Impact

Although an almost equal number of consumers say they will cut back on limited service and full service, history has shown that full service is more affected. The last time when gas prices averaged more than $4 per gallon nationally for an extended period was in May through July 2008.

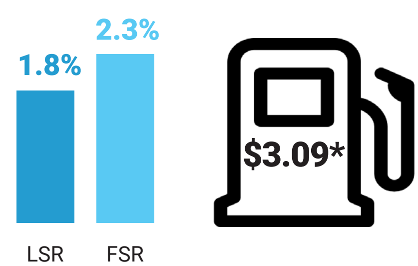
Looking at this period compared to the same period in 2007, there is certainly a drawback in LSR and FSR sales. But the change is more drastic within full-service restaurants compared to limited service, which were down 4.3 points and 2.2 points in 2008 on inflation adjusted bases, respectively.

Real Segment Growth Rate

2008: May-July



2007: May-July



Source: US Energy Information Administration; Bureau of Labor Statistics; Technomic
*Note: Average weekly retail gas price
Fuel icons created by Freepik

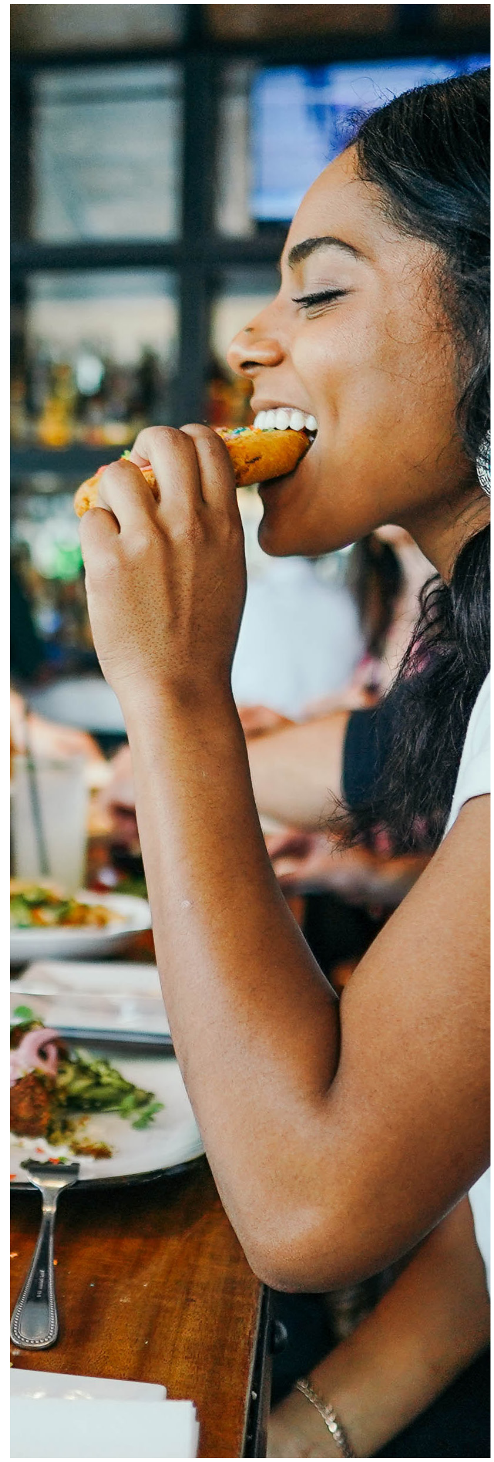


Image courtesy of Alex Haney on Unsplash

Restaurant and other leisure activities are the main areas where consumer say they are cutting back due to high gas prices

Final Words: Technomic's Take

> **When consumers feel financially challenged, they don't typically trade out of foodservice but rather, they trade down.**

Prior events and data support Technomic's view that when consumers feel financially challenged, they don't typically trade out of foodservice but rather, they trade down. Instead of frequenting a higher-end restaurant, a consumer may opt for a less-expensive casual-dining or fast-casual experience. Or, instead of visiting a sit-down casual-dining restaurant, they move to a QSR. This sliding down on the price scale occurs, rather than a wholesale shift to more at-home meals. Consumers also economize when eating out by foregoing extras such as add-on desserts, appetizers and beverages.

Even though costs may be going up and consumers may have fewer dollars in their pockets, they still require the benefits offered by restaurants and other foodservice establishments. Consumers still need convenience, experience, time-savings, relaxation and socialization—all things that restaurants offer. And, despite reports to the contrary, many still don't want or have time to cook.

The current surge in fuel prices could also have a different impact than in the past, however. Consumers have been experiencing high inflation for almost a year, and pump sticker shock could be less dramatic as consumers are accustomed to seeing higher prices across the board.

One thing that the pandemic has taught us is that using restaurants and foodservice is a deep-rooted habit for Americans—and Americans will continue to find ways to enjoy its perks despite any external challenges.

Technomic

Since 1966, we've produced in-depth research focused on the foodservice industry.

We provide insights into consumer, industry and menu trends in the U.S., Canada and 23 countries around the world. Our team of experts helps leaders in the industry make complex business decisions, set strategy and stay ahead of the curve.

Contact us to learn more, **info@technomic.com**