



**Restaurants
Canada**

The voice of foodservice | La voix des services alimentaires

Minimum Wage and Newfoundland and Labrador's Foodservice Industry

November 2019

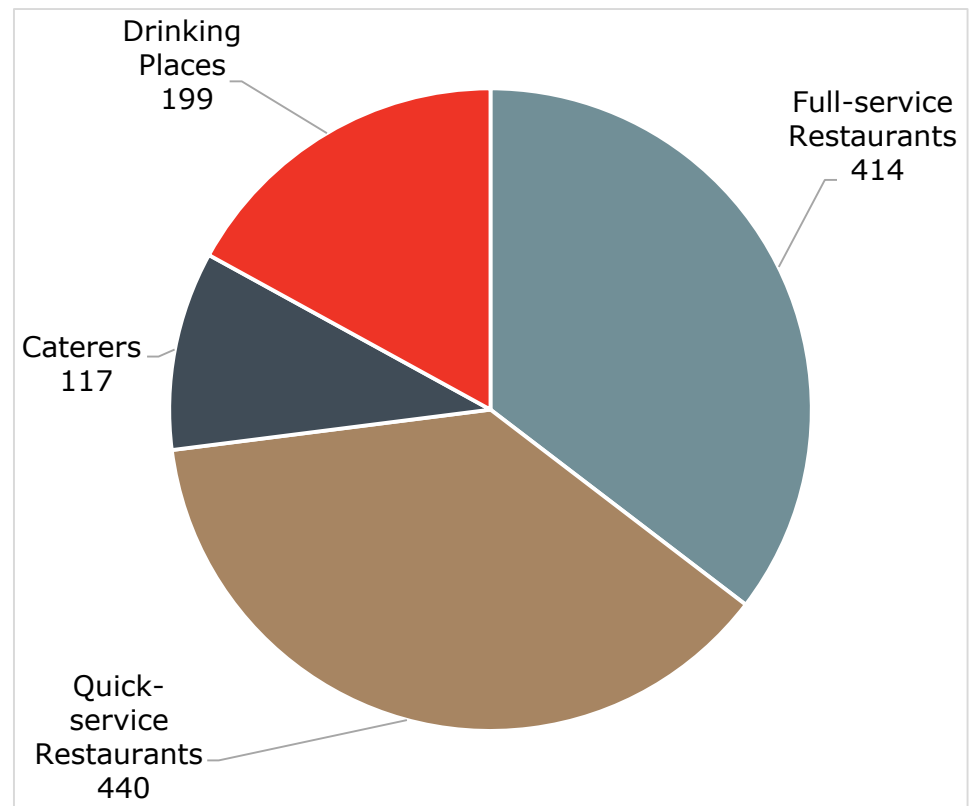
**By Luc Erjavec, Vice President, Atlantic
Canada**

Newfoundland and Labrador's Restaurant Industry

- \$1.1 billion in sales
(Commercial + non-commercial)

- 1,168 establishments

Number of Commercial Foodservice Establishments



One of Newfoundland and Labrador's Largest Employers

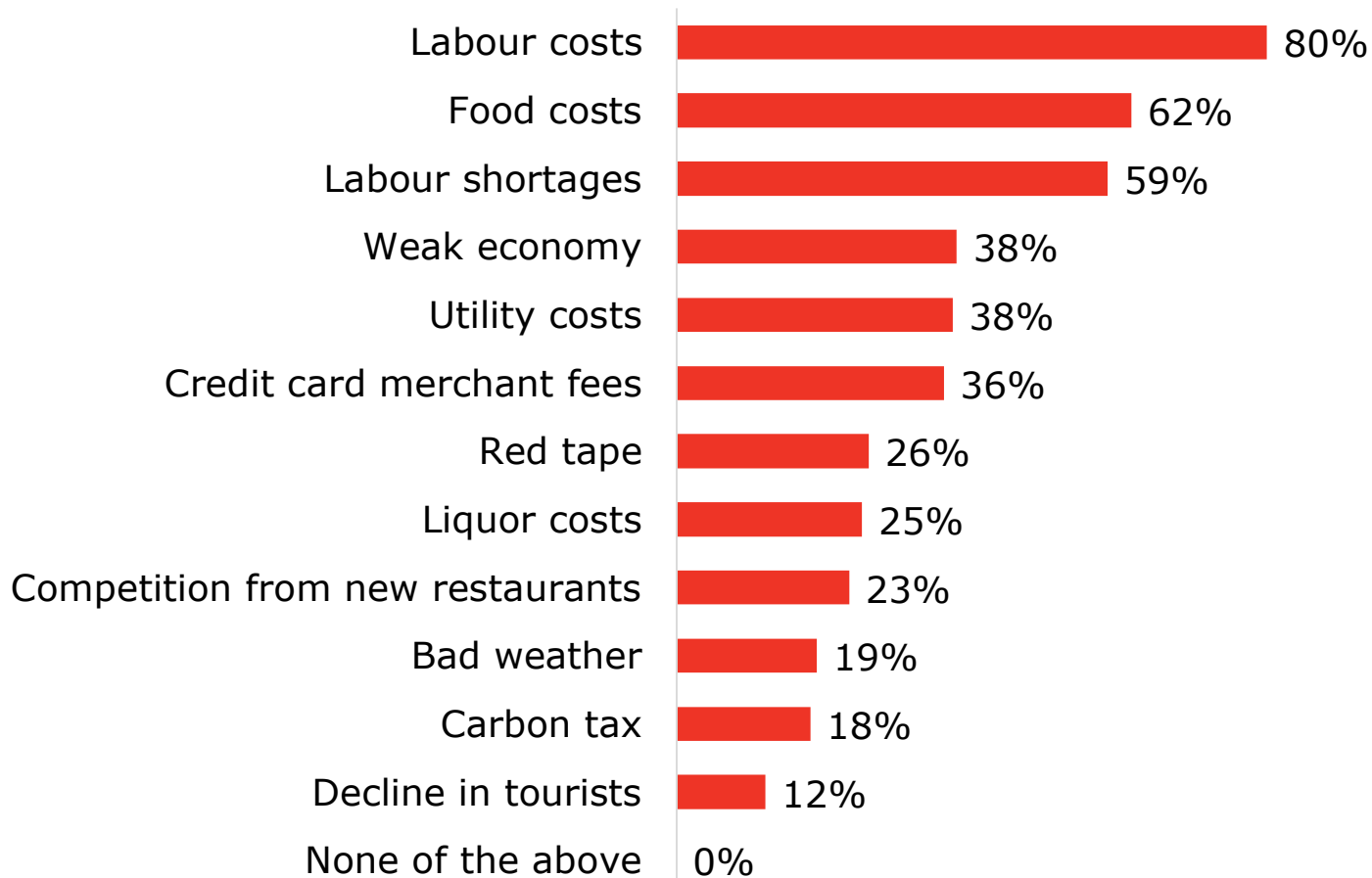
2018 Private Sector Employment by Industry

- 16,500 direct jobs
- 7.3% of the province's workforce
- 5,100 youth jobs



Top Issues Impacting Restaurants

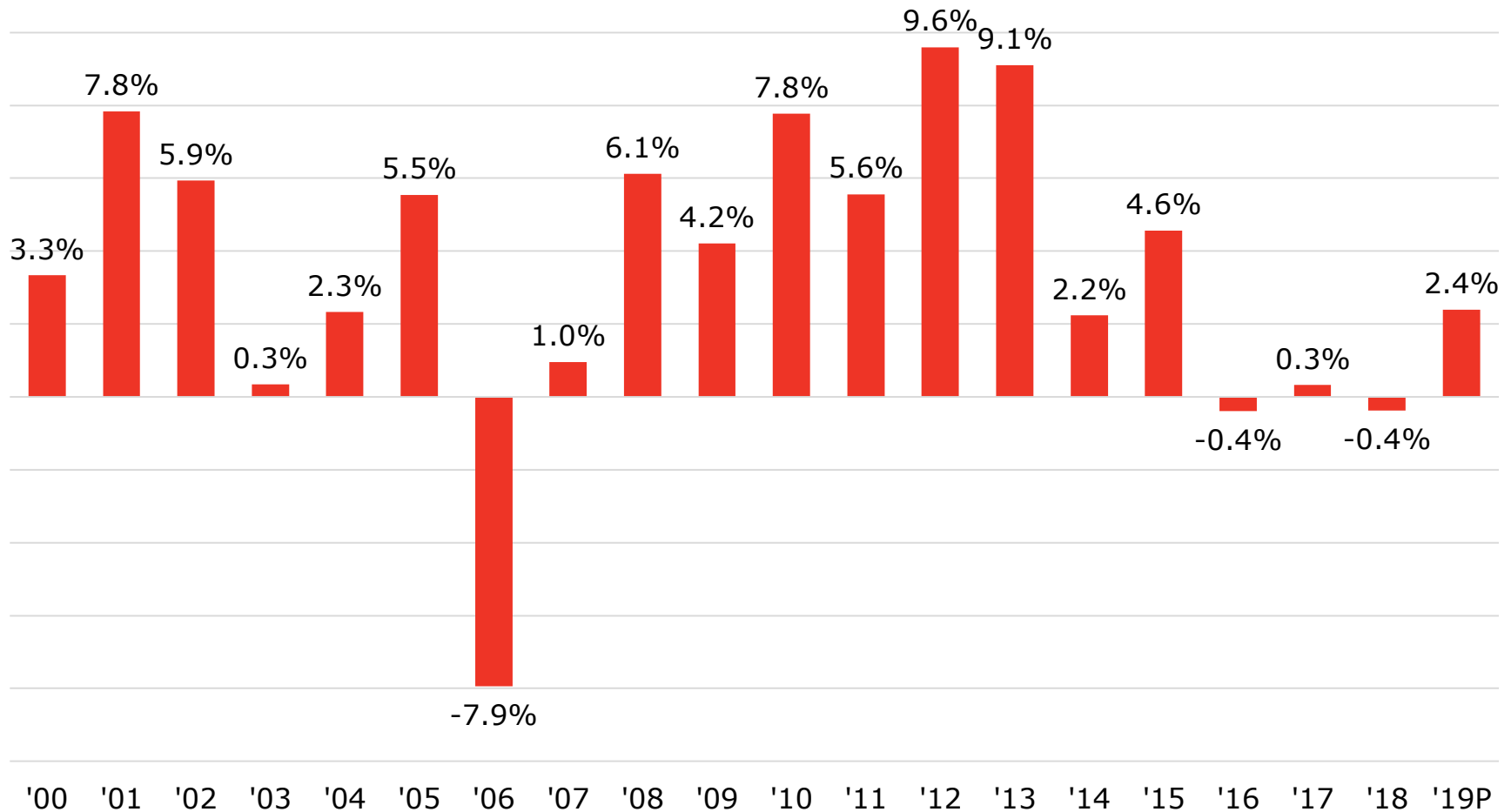
Labour costs remain the biggest issue having a negative impact on foodservice operators.



Q: What factors, if any, are currently having a negative impact on your foodservice business?
(Please select all that apply.)

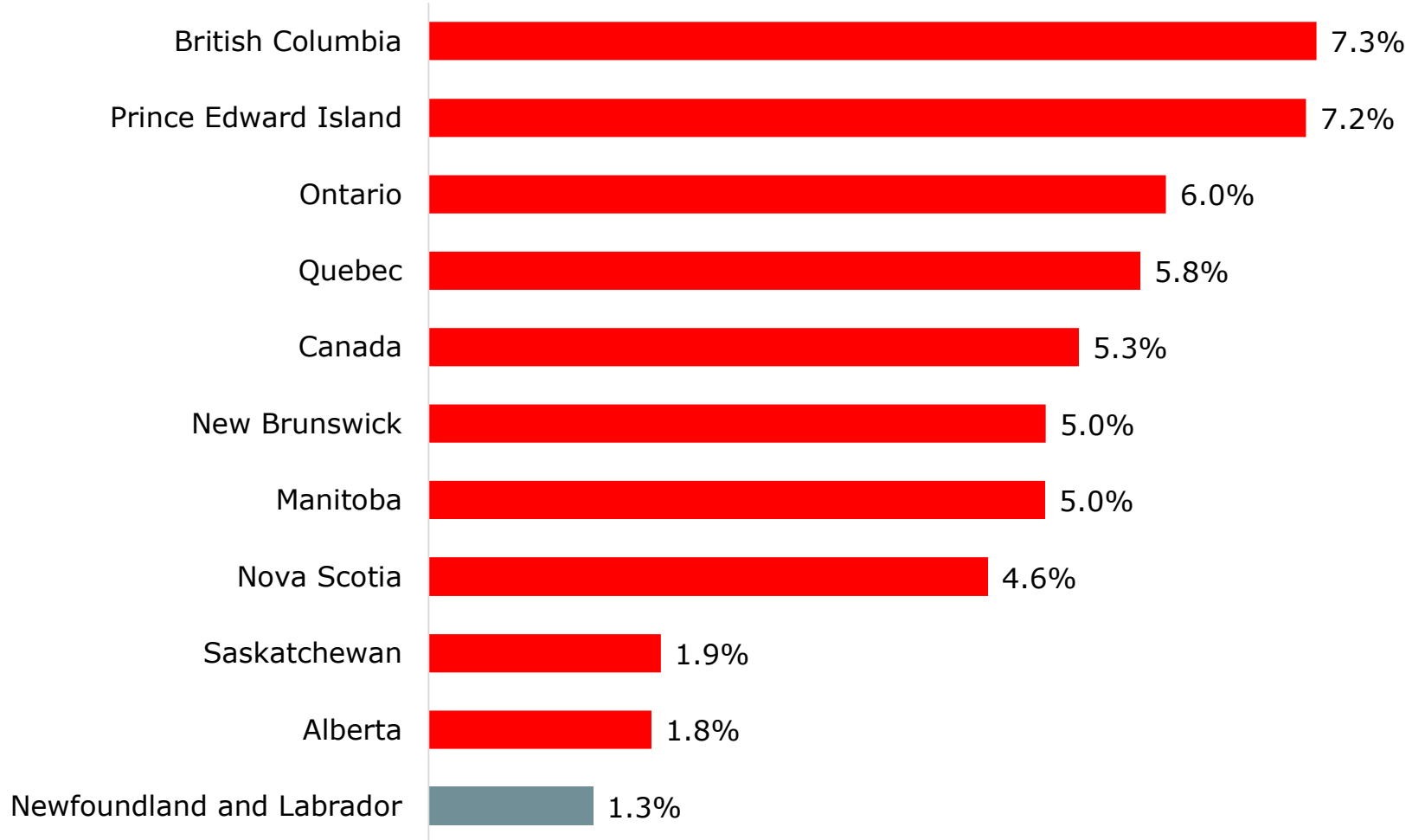
Total Sales Newfoundland and Labrador

(year-over-year nominal change)



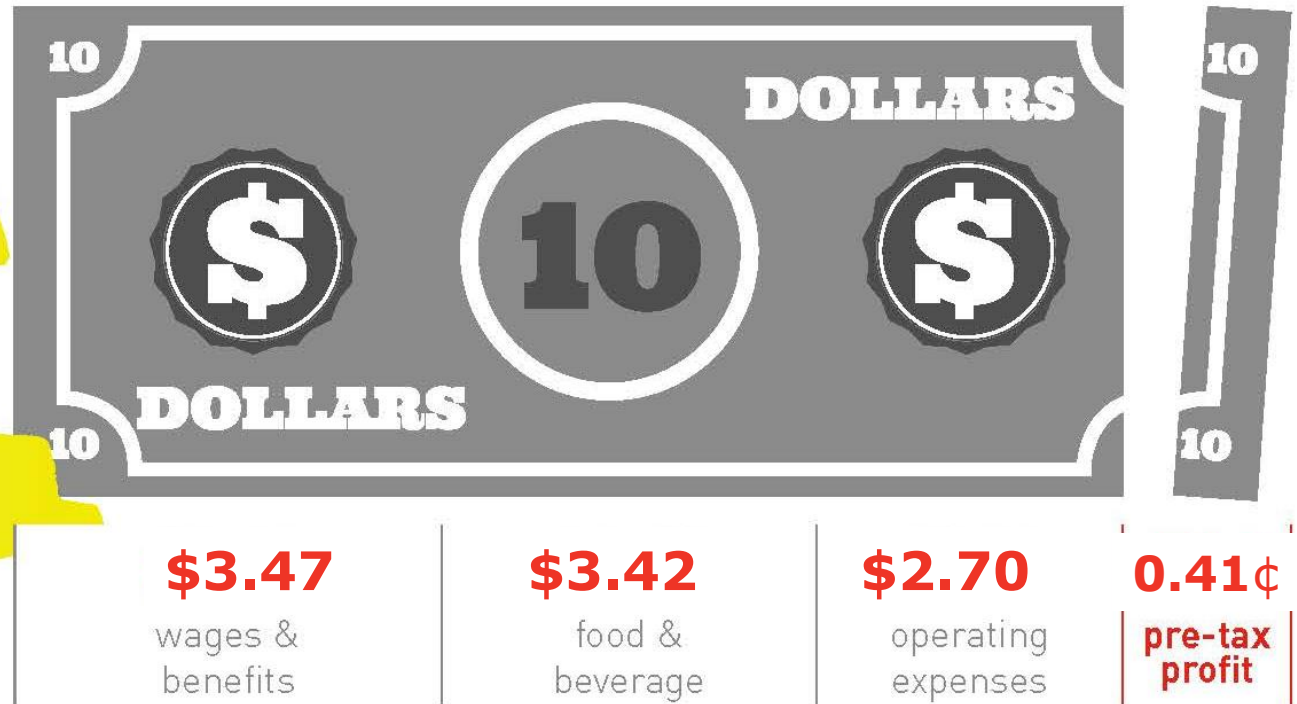
NL has underperformed from 2015 to 2019 in the foodservice industry

Average Annual Growth Rate of Nominal Commercial Sales by Province



Profit Margins on Newfoundland and Labrador

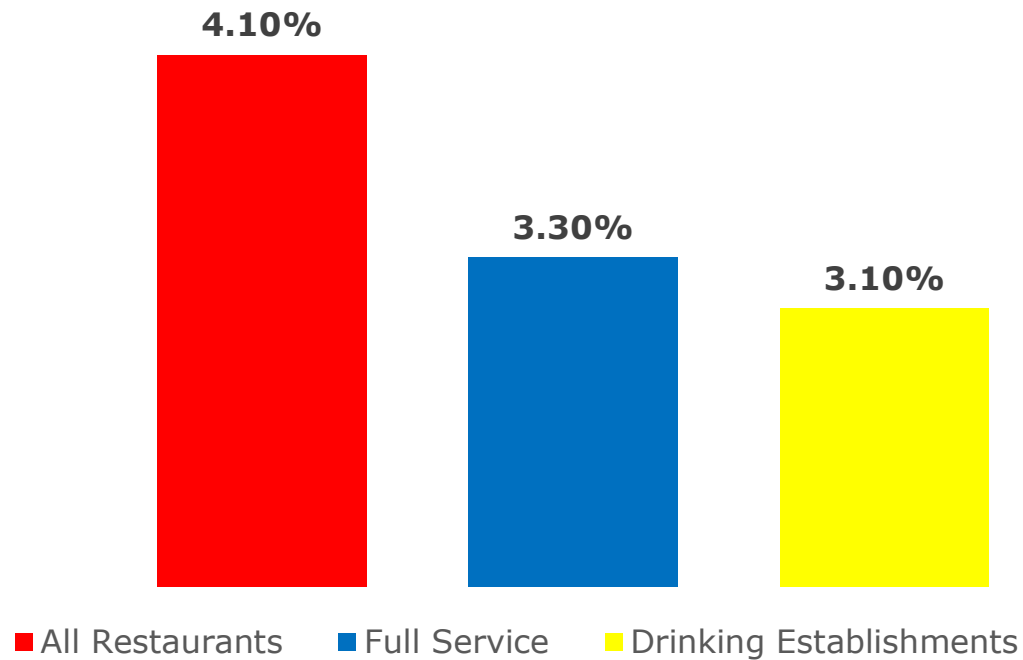
When you spend \$10 at a restaurant, here's where it goes



The average restaurant has a pretax profit of just \$30,229

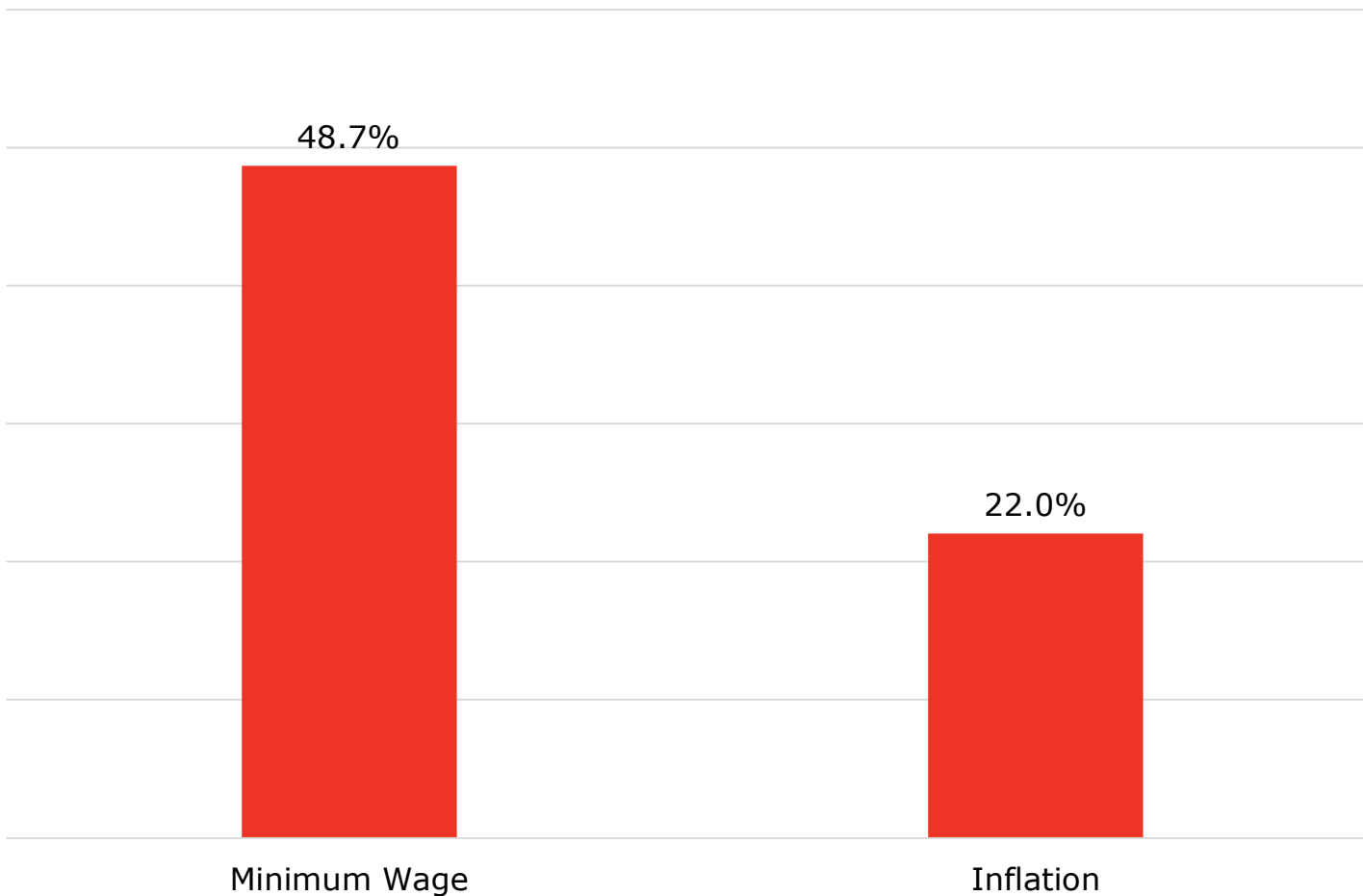
NL Profit Margins are Low – Particularly in Licensed Sector

NL Profit Margin by Sector (2017)



Minimum Wage Increases Outpace Inflation

Newfoundland & Labrador (October 2007 – September 2019)



Results of Rapid Minimum Wage Increases

- **Minimal impact on poverty – blunt anti-poverty tool**
 - Most Newfoundlanders in poverty do not work
 - Vast majority of MW workers are youth and teenagers
 - Vast majority of MW workers work part time

- **Most vulnerable employees are first to lose jobs**
 - 10% wage increase leads to 1-3% employment reduction in low skill employees
 - 10% wage increase leads to a 3-6% decrease in youth employment

- **Restaurant Impacts**
 - Back of house employees, who are most difficult to attract, are not receiving the wages they deserve thereby increasing turnover
 - Higher menu prices for customers
 - Automation
 - Self-serve
 - Pre-prepared food purchased in bulk
 - Employers less willing to take a chance on a marginal employee
 - Less investment returned to business
 - Reduction in operating hours
 - Poor service
 - Closure

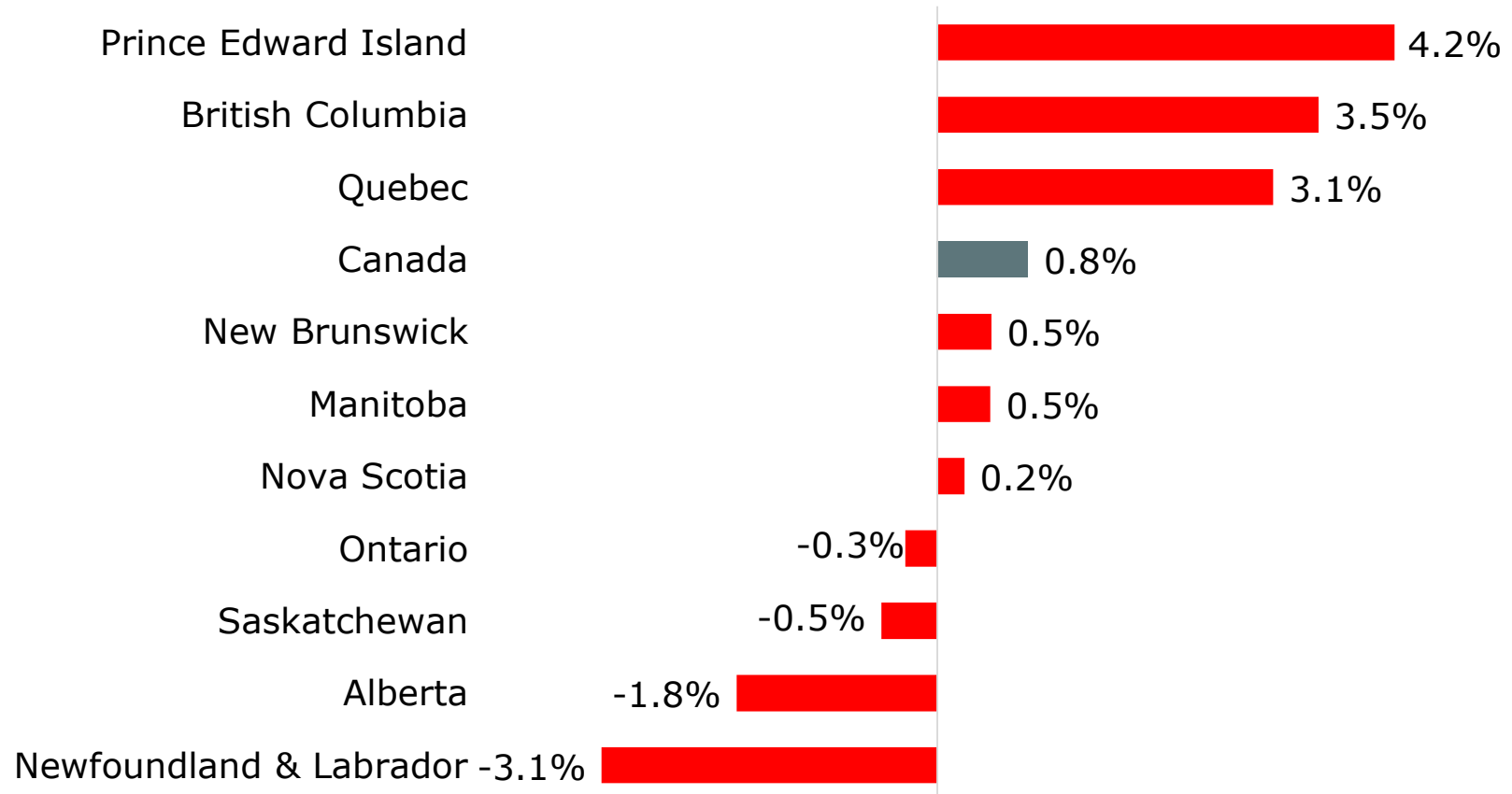
Minimum Wage and the Foodservice Industry

- A 50-cent increase costs the foodservice industry \$10.6 million.
- These increases have a ratcheting effecting on most foodservice wages and would add an additional \$9,500 in annual payroll costs for the average operator.

Wage Increase Experience

Large Minimum Wage Increases in Alberta and Ontario Have Negatively Impacted Restaurant Industry

Real Change in Foodservice Sales
2018 over 2017



Large Minimum Wage Increases in Alberta and Ontario Have Negatively Impacted Restaurant Industry

Menu prices: Menu prices increased relatively to the growth in the minimum wage. Roughly speaking, every 10% increase in the minimum wage corresponds to a 3% increase in menu prices.
Everyone will pay more!

Employment: Lost jobs - job loss lags inflationary impacts but it is real and generally impacts the least skilled and most vulnerable employees.

Ontario – 2.1% decline or 9400 jobs

Alberta – 4.9% or 7,200 lost jobs

Job loss impact in Newfoundland and Labrador would be harsher due to underperforming economy

Academic Research is Clear

Increasing Minimum Wage does not reduce poverty

Increasing minimum wage negatively impacts youth employment

Morley Gunderson

Sen, Rybczynski and Van De Waal

Burkhauser and Sabia

Finegan

Addison and Blackburn

Neumark and Wachter

Campolieti

Restaurants Canada Recommendations

#1: Timing and setting of Minimum Wage Increases

- Restaurants Canada supports Atlantic approach of April 1st implementation dates.
- Any future increase should be based on objective economic indicator such as Consumer Price Increase (CPI)
 - Incremental, transparent, predictable and depoliticized
- Attempting to link to a poverty measure is not practical
 - Tenuous linkage between minimum wage and poverty
 - Poverty is a family measure, minimum wage is individual
- A cap should be introduced to protect businesses during periods of high inflation or low economic activity periods
- As an offset wage should not be reduced during periods of deflation

#2: Liquor Server Wage

- A Liquor Server Wage is a lower minimum wage for those who serve beverage alcohol.
 - Recognizes the significant income earned from tips
 - Put in place by freezing rate for servers at current rate.
 - No one's wage is rolled back
 - Current difference between general wage and liquor server wage:
 - Quebec - \$2.20
 - Ontario - \$1.80
 - BC - \$1.25
 - AB considering introduction
 - Maine - \$5.00
- Protection can be put in place to ensure nobody earns less than minimum wage.

Canadian Tip Research

- University of Guelph Hospitality and Tourism Management*
 - Estimation of tips from Canadian bars and restaurants is \$4 billion.
 - “To a large degree, tips are a predictable revenue stream associated with restaurant operations.”
 - “Tips do not seem to vary by service quality in restaurants and are largely given because of social norms.”
 - “The average tip percentage left by restaurant patrons has increased to between 15 and 20 percent.”
 - “In the vast majority of cases, for servers receiving gratuities, the actual hourly wage is less than 50% of the hourly compensation and can be as little as 25 to 30%.”
 - “It is relatively clear that increases in wage costs for all workers have constrained growth in wages for non-tipped workers.”
 - We noted earlier that average gratuities are also increasing in which servers have experienced the most significant growth in remuneration in restaurants, often making two to three times more than staff in the kitchen.”

* Mike von Massow and Bruce McAdams(2011) The Tipping Point: Is There a Fair Share?, University of Guelph Sustainable Restaurant Project

Canadian Tip Research

- 2018 Report by payment process Square
 - Average tip in Newfoundland and Labrador - 14.3%
 - Average tip in St. John's - 14.7%

- BMO of Montreal
 - 2007 Mosaik Mastercard survey found that 78% of Canadians tip 15% or more in restaurants

- Government of Ontario
 - After tip sharing, hourly wage accounts for 49% of hourly income for liquor servers.*

*Ministry of Labour(1993), Study of Tipping Practices in Licensed Establishments in Ontario

#3: Introduce a Training Wage

- A lower wage for inexperienced workers
 - Recognize the high cost of training inexperienced workers
 - Same principle as an apprentice wage
 - Youth unemployment rate is higher than the adult rate
 - Put in place by freezing inexperienced workers at current rate
 - No ones wages would be rolled back
 - Currently in place in AB - \$2.00, NS - \$0.50 , ON - \$0.85

#4: Wage increase alternative

- Research clearly indicates that the best way to help the working poor is through the tax system
 - Restaurants Canada recommends increasing the Basic Personal Tax Exemption
 - To lessen impact on government revenues, a progressive approach such as Nova Scotia could be used
- Reducing poverty requires a complex, long-term, multi pronged approach
 - There is not a simple feel good solution such as large increases to the minimum wage

- Having more than one minimum wage is common practice-recognizes the realities of the marketplace.
- Majority of liquor server wages comes from gratuities
- There is a cost to train inexperienced employees
- Seven provinces allow for more than one minimum wage.