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Checking Out
Leisure and Hospitality Industry's Struggle

Luis B. Torres, Paige Silva, and Griffin Carter
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The COVID-19 crisis has had a severe impact on the economy, causing second quarter 2020 gross domestic product (GDP) to plunge 31.4 percent on a seasonally adjusted annualized rate. While the pandemic affected every economic sector, the leisure and hospitality industry was hit especially hard.

Part of the service-providing industries supersector, leisure and hospitality consists of the arts, entertainment, and recreation (AER) and accommodation and food services (AFS) sectors (Table 1). This industry demands a high degree of direct interaction with consumers, making it particularly vulnerable in a pandemic that required social distancing and shelter-in-place measures. Based on the U.S. Bureau of Labor Statistics' American Time Use Survey and Dallas Federal Reserve estimates, around 8.4 percent of leisure and hospitality workers can work from home.

Unsurprisingly, businesses have been forced to lay off workers as consumer spending in this contact-intensive service industry has dramatically fallen, in some cases to zero, making it one of the hardest-hit sectors in terms of jobs lost. At the state level, the industry lost 592,000 jobs in March and April alone, a historically high number. By the end of October, the state had regained about 369,000 of those jobs, bringing cumulative (net) job losses to around 223,000 (see figure). That's still an astonishing number, especially when compared with the previous two national recessions—the 2001 Dot-com crash and 2008-09 Great Recession—when the leisure and hospitality sector actually gained jobs.

The Takeaway

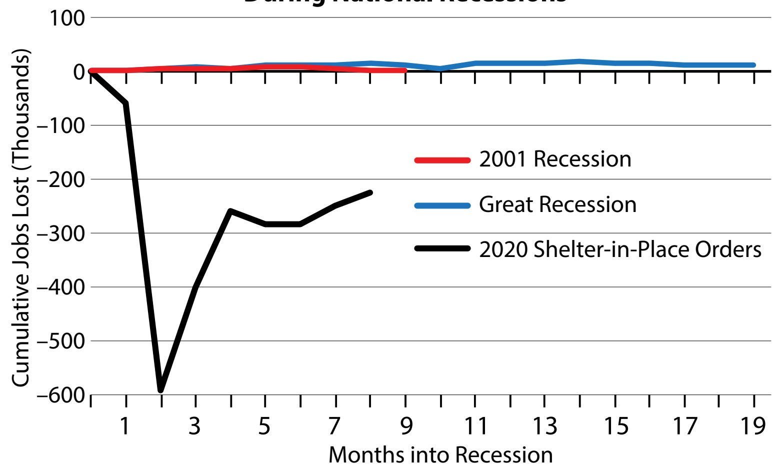
The nature of the leisure and hospitality industry has made it particularly vulnerable in a year of social distancing and stay-at-home orders. Projections show the supersector could suffer a 15.7 percent net job loss in Texas by the end of 2020.

Table 1. Leisure and Hospitality Supersector Components

Arts, entertainment, and recreation (NAICS 71)*	Accommodation and food services (NAICS 72)*
• Performing arts, spectator sports, and related industries (e.g., movie theaters) • Museums, historical sites, and similar • Amusement, gambling, and recreation	• Accommodation (e.g., hotels) • Food services/drinking places

Based on North American Classification System (NAICS) definitions
Source: U.S. Census Bureau

Cumulative Leisure and Hospitality Jobs Lost in Texas During National Recessions



Sources: Bureau of Labor Statistics and authors' calculations

During the ten-year economic expansion before the pandemic, leisure and hospitality jobs represented on average 10.3 percent of total nonfarm jobs but only 3.4 percent of 2019 state GDP. This indicates the supersector is more important for creating jobs than it is for generating output.

Not All Jobs Created Equal

To measure the level of concentration and possible exposure to the downturn in leisure and hospitality, location quotients (LQ) are estimated based on employment for the supersector and both the AER and AFS sectors and their respective subsectors. The LQ compares Texas' share of jobs with the corresponding national share. The United States is used as a benchmark of diversity because it is a mix of all industries in all regions. An LQ greater than one in a given industry represents specialization. It also means there's a higher concentration of workers for that industry in that region than there is in the nation. An LQ equal to one means Texas and the nation are equally specialized in that particular industry.

Employment shares and the number of LQs greater than one show the biggest economic impact on Texas' leisure and hospitality supersector was within the food services and drinking places subsector (Tables 2 and 3). This shows the important role reopening restaurants and bars will play in job recovery.

At the Metropolitan Statistical Area (MSA) level, employment in Austin and especially San Antonio has been impacted to a greater degree by the shutdown and partial reopening of the leisure and hospitality supersector. In addition, the degree of concentration changed at both the state and MSA levels after the pandemic hit the economy. The faster (slower) reopening of the economy by the state and local governments compared with the rest of the country explains the increase (decrease) in specialization.

Wage Implications

An analysis by the Dallas Federal Reserve using American Community Survey data suggested that nearly one in five leisure and hospitality workers reported incomes below the federal poverty line in 2017. This supports the

Table 2. Employment Share and Location Quotient for December 2019

		United States	Texas	Austin	Houston	DFW	San Antonio
Leisure/Hospitality		11.0%	10.8% 0.98	12.0% **1.09**	10.5% 0.95	10.5% 0.95	13.0% **1.18**
Arts, Entertainment, and Recreation		1.6%	1.1% 0.70	1.9% **1.19**	1.2% 0.76	1.7% **1.07**	1.8% **1.14**
Accommodation and Food Services		9.1%	9.5% **1.04**	10.6% **1.14**	9.2% **1.01**	8.8% 0.97	11.3% **1.24**
Lei/Hosp Subsectors							
Arts, Entertainment, and Recreation	Performing Arts, Spectator Sports, and Related Industries	0.3%	0.4% **1.26**	0.7% **2.01**	0.4% **1.23**	0.5% **1.54**	0.4% **1.39**
	Museums, Historical Sites, and Similar Institutions	0.1%	0.2% **2.01**	0.3% **2.96**	0.2% **1.78**	0.3% **2.30**	0.2% **1.96**
	Amusement, Gambling, and Recreation Industries	1.2%	0.8% 0.70	0.9% 0.79	0.8% 0.69	0.9% 0.81	1.2% 0.99
Accommodation and Food Services	Accommodation	1.3%	1.0% 0.77	1.2% 0.92	0.9% 0.68	0.9% 0.67	1.5% **1.08**
	Food Services and Drinking Places	7.7%	8.4% **1.09**	8.8% **1.13**	8.3% **1.07**	7.9% **1.03**	9.9% **1.28**

Note: Green boxes denote LQ greater than one, indicating specialization/concentration.
Sources: Bureau of Labor Statistics, JobsEQ, and authors' calculations.

Table 3. Employment Share and Location Quotient for June 2020

		United States	Texas	Austin	Houston	DFW	San Antonio
Leisure/Hospitality		8.7%	9.7% **1.05**	9.8% **1.06**	9.0% 0.97	9.4% **1.03**	12.1% **1.27**
Arts, Entertainment, and Recreation		1.1%	0.9% 0.55	1.8% **1.11**	0.9% 0.54	1.6% 1.00	1.7% **1.08**
Accommodation and Food Services		7.6%	8.9% 0.98	9.9% **1.09**	8.5% 0.94	8.0% 0.88	10.6% **1.17**
Lei/Hosp Subsectors							
Arts, Entertainment, and Recreation	Performing Arts, Spectator Sports, and Related Industries	0.2%	0.4% **2.02**	0.6% **3.21**	0.4% **1.95**	0.5% **2.50**	0.4% **2.22**
	Museums, Historical Sites, and Similar Institutions	0.1%	0.2% **2.49**	0.3% **3.70**	0.2% **2.19**	0.3% **2.86**	0.2% **2.45**
	Amusement, Gambling, and Recreation Industries	0.8%	0.6% 0.77	0.8% **1.04**	0.7% 0.92	0.9% **1.07**	1.1% **1.36**
Accommodation and Food Services	Accommodation	0.9%	0.9% 0.98	1.2% **1.32**	0.8% 0.84	0.9% 0.93	1.4% **1.51**
	Food Services and Drinking Places	6.6%	8.0% **1.03**	7.8% **1.01**	7.8% **1.00**	7.0% 0.91	9.0% **1.17**

Note: Green boxes denote LQ greater than one, indicating specialization/concentration.
Sources: Bureau of Labor Statistics, JobsEQ, and authors' calculations.

assertion the supersector is among the most vulnerable to the pandemic and the state's widening income gap.

In October 2020, leisure and hospitality workers earned an average of $14.67 an hour in Texas compared with $17.12 nationally. That's well below the average $27.11 per hour earned by Texas' other private sector workers.

On average, the state's leisure and hospitality workers earn $412.23 weekly, which comes out to around $21,436 annually. Given these earnings, workers in this sector who have lost their jobs due to the pandemic will struggle financially.

Residential Market Implications

Income constraints make single-family homeownership difficult for leisure and hospitality workers. For example, a 10 percent down payment on a $150,000 home is $15,000, more than half what a leisure and hospitality worker earns annually. Lowering the payment would increase the monthly mortgage. Then, of course, there are closing costs, property taxes, and insurance to consider. For these reasons, only a double-income leisure and hospitality household would likely be able to afford homeownership. Single workers, meanwhile, are more apt to be renters.

Because the majority of leisure and hospitality workers are renters, the apartment market has felt the impact of job layoffs in this supersector. The market benefited from both the federal government's initial bolstering of unemployment insurance and the eviction moratorium. However, as federal unemployment benefits expire and the leisure and hospitality industry stays only partially reopened, the outlook for the apartment market remains an area of concern.

Reopening and Beyond

In September 2020, the Texas Governor allowed restaurants to begin operating at 75 percent capacity and bars at 50 percent in all but 13 of Texas' 254 counties. Further waves of infections could hinder and even reverse the opening of this industry, affecting the path to recovery.

Based on the Dallas Federal Reserve's projected 5.6 percent year-over-year decline in Texas nonfarm employment in 2020, and assuming restaurants and bars continue operating at 75 percent and 50 percent capacity, respectively, leisure and hospitality jobs could fall 15.7 percent to around 1.19 million by the end of December 2020. It will take time for leisure and hospitality to return to its pre-pandemic levels. A full recovery is unlikely until late 2021 at the earliest.

Dr. Torres (ltorres@mays.tamu.edu) is a research economist, Silva (psilva@tamu.edu) a research associate, and Carter a research intern with the Real Estate Center at Texas A&M University.

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