



ADDENDUM:

## HOW INCREASES IN WORKER COMPENSATION COULD AFFECT LIMITED-SERVICE RESTAURANT PRICES

# About Us

The UC Riverside School of Business Center for Economic Forecasting and Development opened its doors in October 2015 and represents a major economic research initiative in one of California's most vital growth regions. The Center produces a wide variety of research both independently and in collaboration with academic, business, and government partners. Research products include monthly employment analyses, quarterly regional economic forecasts, a quarterly business activity index, a white paper series, and a major regional economic forecast conference, hosted annually. Learn more at [ucreeconomicforecast.org](http://ucreeconomicforecast.org)

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## Authored By:



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# Addendum

The following is an Addendum to a report recently published by the Center for Economic Forecasting and Development entitled How Increases In Worker Compensation Could Affect Limited-Service Restaurant Prices. The report illustrated how a significant hike in labor costs would translate into a significant hike in food prices at affected limited-service restaurants. The findings were based on two separate analyses. The first was empirical, showing how higher labor costs have led to higher prices at the national level. The second analysis compared that estimate to another derived from a more theoretical approach whereby the report authors estimated the labor share of variable costs and, using the mark-up rule (a profit maximization ratio of price to marginal costs), arrived at a similar result. In both cases the labor cost elasticity runs .3 to .35. Given that, a 50% (logarithmic scale) hike in labor costs would lead to roughly a 15% to 16.5% increase in food prices at the affected restaurants. Such a hike in labor costs may appear large but is in line with current estimates of what is known as a 'living wage', which in California run from \$23/hour for a single person to \$46/hour for a family of four.

This report's analysis was performed at a macro level. The purpose of this Addendum is to add a regional California comparison in order to fully anticipate the impact of higher labor costs on California consumers. California is a large state, with 40 million people scattered across a wide variety of regional economies with substantially different costs of living driven by an array of local factors. For example, average rents in the San Francisco Bay Area are 250% higher than average rents in the inland parts of the state (Table 1). Not surprisingly, wages also vary sharply across the state's regions, even within the same industry, reflecting the local cost of living. In 2021, limited-service restaurants in the inland parts of the state paid, on average, \$15 to \$17 per hour, whereas in the San Francisco Bay Area, earnings ran above \$20 per hour with San Francisco itself having the highest rate at \$24 per hour (Table 2).

Despite these enormous differences, state regulators have only imposed state-level minimum wage rules. Today California's minimum wage is \$15 per hour for employers with over 26 employees. What this implies is that the state's minimum wage serves as a true wage floor in less expensive (lower income) communities, and that by pushing earnings above their market-clearing level there is an impact on food prices. But in the expensive, coastal, urban areas of the state the minimum wage is far below what limited-service restaurants must pay hourly just to hire and retain staff. In short, this means if California were to eliminate its statewide minimum wage, both labor earnings and food prices would fall in Fresno, Bakersfield, and Stockton, but would not change at all in San Jose and San Francisco.

This implies that further increases in minimum wage labor compensation, which will be guided by the proposed limited-service restaurant Sector Council (see the full report) will have a greater detrimental impact on food prices in lower income areas of the state than in higher income regions. This is because the proportionate increase in labor costs will be substantially higher, and the pass through to final prices ultimately higher. The net result is that the increase in food prices will be larger in communities that can least afford to carry the burden of higher prices (Graph 2). Proportionally, prices will rise three times as much in lower income communities where poverty and food insecurity issues already exist at much higher rates. Overall, such wage changes would hurt those they intend to help, lower income families, particularly those in rural areas.

**TABLE 1: AVERAGE ASKING MONTHLY RENT, CALIFORNIA COUNTIES**

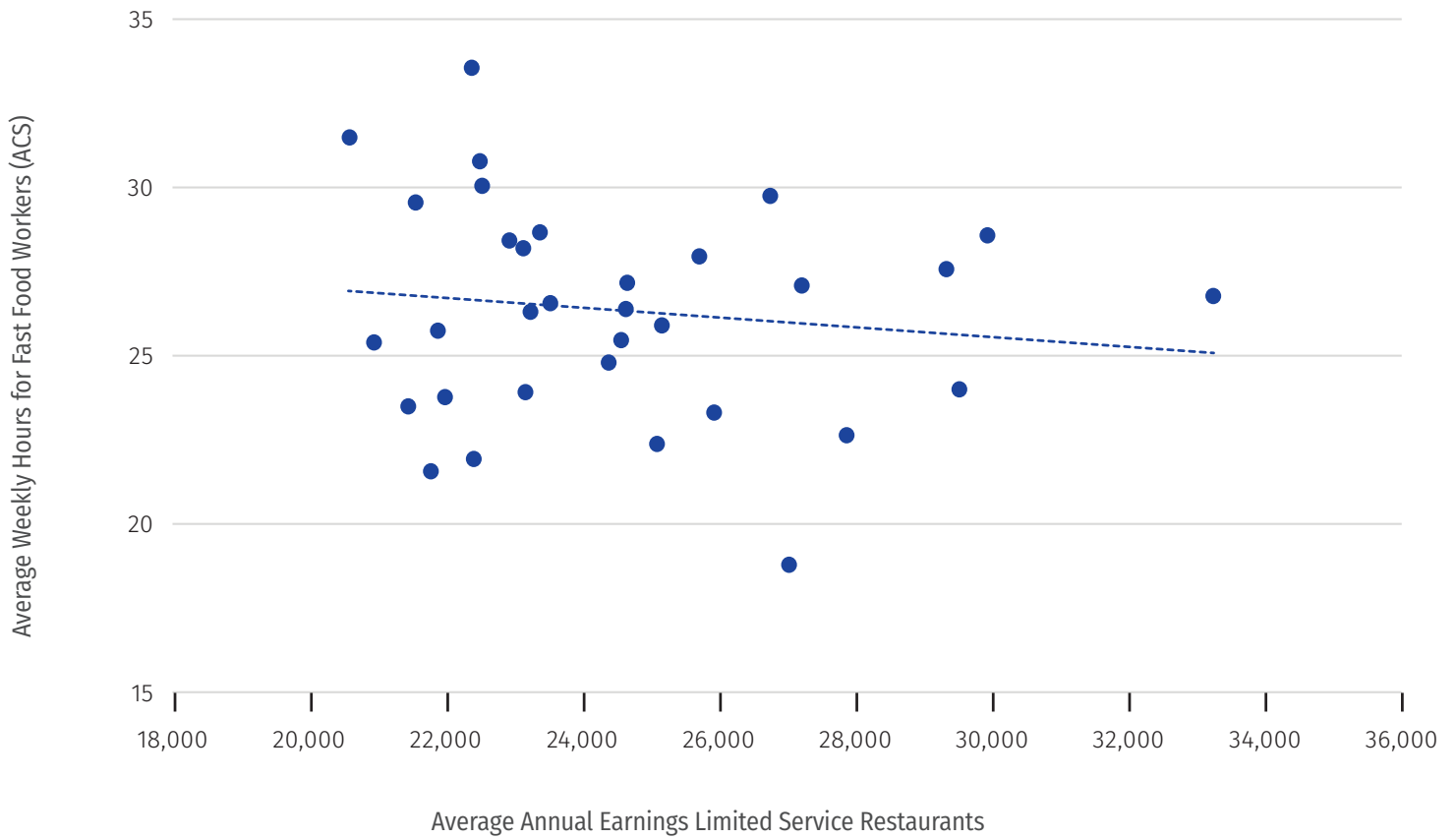
San Francisco	\$3,081	Santa Barbara	\$1,768
Santa Clara	\$2,712	Sacramento	\$1,579
Orange	\$2,335	San Luis Obispo	\$1,515
Los Angeles	\$2,236	San Joaquin	\$1,477
San Diego	\$2,226	Kern	\$1,247
Sonoma	\$1,840	Fresno	\$1,220
Riverside	\$1,807	Tulare	\$1,161

(Source: REIS; Analysis by UCR CEFD)

**TABLE 2: AVERAGE HOURLY WAGE PAID, CALIFORNIA COUNTIES, 2021 LIMITED-SERVICE RESTAURANTS**

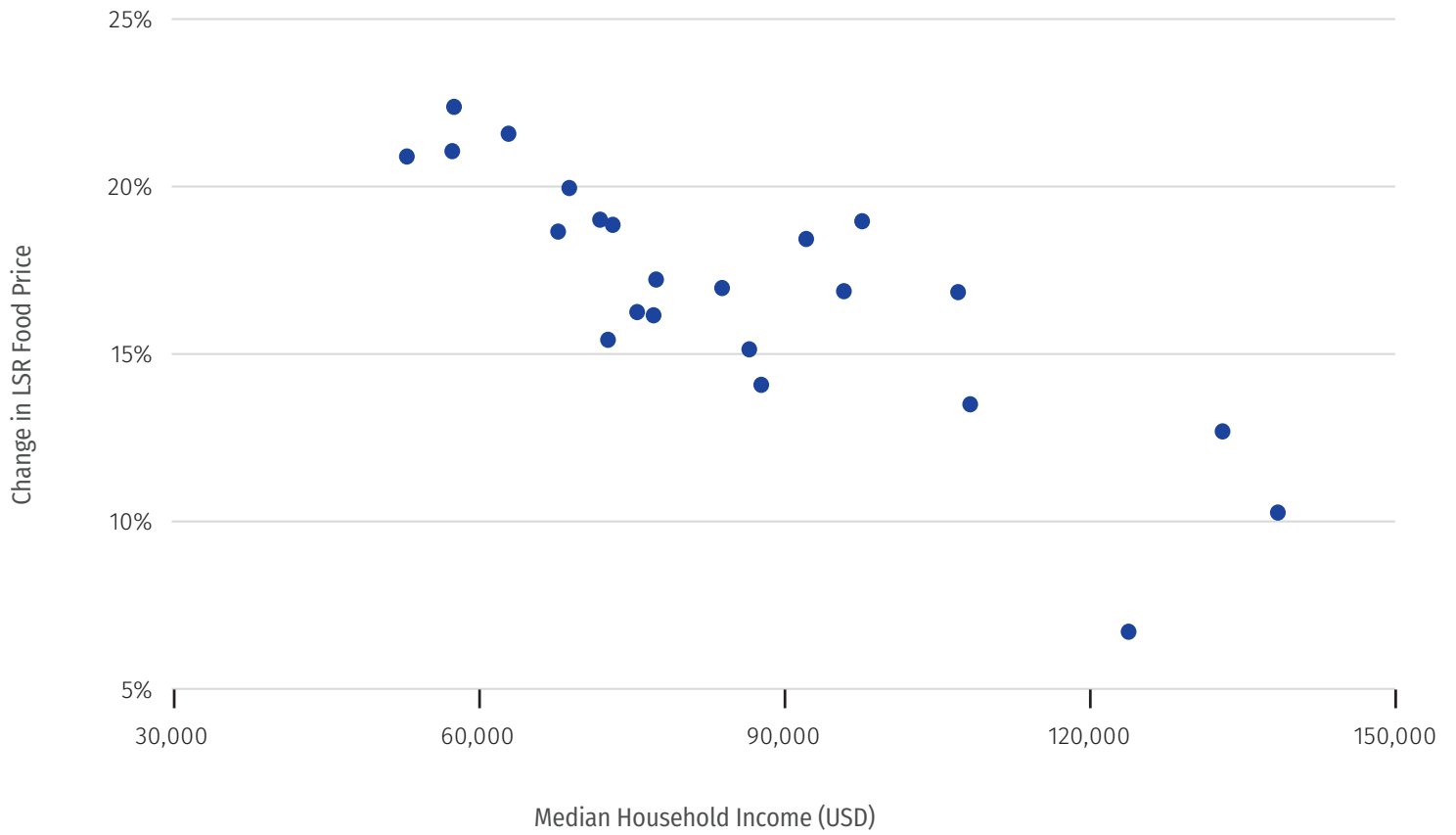
San Francisco	\$24.6	Santa Barbara	\$18.6	Riverside	\$17.2
San Mateo	\$22.2	Orange	\$18.3	Sacramento	\$17.1
Santa Clara	\$20.6	San Diego	\$18.2	San Joaquin	\$16.7
Alameda	\$20.2	Monterey	\$18.1	Kern	\$16.2
Sonoma	\$19.8	Ventura	\$17.4	Fresno	\$16.1
Los Angeles	\$19.0	San Bernardino	\$17.3	Tulare	\$15.5

(Source, QCEW; Analysis by UCR CEFD)



**GRAPH I: AVERAGE WEEKLY HOURS AND AVERAGE ANNUAL EARNINGS FOR LIMITED SERVICE RESTAURANTS, CALIFORNIA COUNTIES**

Source: QCEW; Analysis by UCR Center for Economic Forecasting and Development



**GRAPH 2: MEDIAN HOUSEHOLD INCOME AND IMPACT OF A 50% HIKE IN AVERAGE LABOR COSTS ON RESTAURANT FOOD PRICES, CALIFORNIA COUNTIES**

Source: Analysis by UCR Center for Economic Forecasting and Development

**TABLE 3: MEDIAN HOUSEHOLD INCOME & IMPACT OF A 50% HIKE IN AVERAGE LABOR COSTS ON RESTAURANT FOOD PRICES, CALIFORNIA COUNTIES**

	<b>Median HH income (dollars)</b>	<b>Change in LSR Food Price</b>		<b>Median HH income (dollars)</b>	<b>Change in LSR Food Price</b>
Tulare	57692	22.4%	Orange	95934	16.9%
Stanislaus	63037	21.6%	Contra Costa	107135	16.8%
Fresno	57518	21.1%	Santa Barbara	75653	16.3%
Kern	53067	20.9%	San Luis Obispo	77265	16.2%
San Joaquin	68997	20.0%	Los Angeles	72797	15.4%
Sacramento	72017	19.0%	Solano	86652	15.1%
Placer	97723	19.0%	Sonoma	87828	14.1%
Riverside	73260	18.9%	Alameda	108322	13.5%
San Bernardino	67903	18.7%	Santa Clara	133076	12.7%
Ventura	92236	18.4%	San Mateo	138500	10.3%
Monterey	77514	17.2%	San Francisco	123859	6.7%
San Diego	83985	17.0%			