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San Francisco Fed says demand for restaurant meals fell across the West

The Beige Book said higher food costs squeezed operators, leaving some to rely on value promotions

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Demand for restaurant meals fell across the western United States during the October through mid-November reporting period, even as food costs for restaurants increased and menu prices moved higher, according to the Federal Reserve Bank of San

Francisco’s Twelfth District Beige Book released Wednesday, November 25.

For hotels, restaurants and other hospitality businesses, the report points to a difficult mix: softer customer traffic in discretionary dining, higher input costs and limited room to pass those costs on. The Beige Book is a qualitative survey of business contacts in the Twelfth Federal Reserve District, not a national statistical measure, and it reflects conditions reported by companies and organizations rather than a formal count of sales or prices.

The San Francisco Fed said economic activity in the district was little changed overall during the period. Employment was stable on net, wages rose slightly and prices increased moderately. But the report said business costs rose faster than the prices charged for final goods and services. That gap is important for restaurants because the same report also said prices increased for restaurant meals while food supplies for restaurants became more expensive.

The Beige Book did not provide a numerical change for restaurant demand or food costs. Instead, it described broad conditions from interviews and other contacts gathered across the district. In the section on retail trade and services, the report said demand for consumer-facing discretionary services, including entertainment and meals at restaurants, fell overall. At the same time, it noted that some restaurants reported stronger demand when they used value promotions.

That distinction matters for operators. The district-wide message was weaker demand for restaurant meals, but some businesses appear to have held up better by leaning on discounts or lower-price offers. The report did not say how widespread those promotions were or whether they fully offset the effect of softer consumer spending.

The same consumer caution showed up elsewhere in the district survey. Retail sales edged down slightly, and contacts said shoppers were becoming more careful and shifting spending toward value-oriented retailers. Businesses also reported that consumers were trading down to lower-priced options within product categories. Demand for necessities such as groceries remained strong, according to the report, suggesting that discretionary spending faced more pressure than essential purchases.

For restaurant operators, that pattern can create another strain. If households are more focused on value and essential spending, restaurants may have less pricing power at the same time that their costs are rising. The Beige Book said many businesses across the district were reluctant to pass higher costs on to customers because of softer demand, competition and price sensitivity. That broad comment covered several industries, but it is especially relevant to restaurants because the report separately identified both rising meal prices and rising food supply costs.

The report also linked cost pressures to a wider set of inputs. Across the district, contacts said costs rose for imported metals and other items affected by tariffs, petroleum-based products, shipping, fuel, raw materials and food supplies for restaurants. While some of those categories affect restaurants directly through food purchasing, delivery and utility costs, others can raise expenses indirectly through equipment, packaging and maintenance.

Other parts of the hospitality economy were mixed. The Beige Book said tourism conditions varied by location. California continued to show strength, while Hawaii remained weak because of fewer international visitors. Air travel demand was stable. In Nevada, one contact said demand for large events and private gatherings was stable even though the region’s hospitality sector had slowed more broadly. That Nevada example was presented as a business contact’s observation, not as a district-wide measure.

The broader labor picture also suggested a cautious operating environment for hospitality businesses. Most employers in the district kept head counts flat and hired mainly to replace workers who left. Turnover remained low overall. Wages increased slightly, and some companies raised pay for merit or cost-of-living reasons. Businesses in several sectors also reported that higher employee health insurance benefits were lifting total compensation costs. The Beige Book did not single out restaurants on staffing in this reporting period, but those district labor trends indicate limited hiring appetite and continued cost pressure.

Outside hospitality, the district economy showed few strong growth signals that might quickly improve restaurant demand. Manufacturing conditions were mixed, agriculture and resource industries were little changed, commercial real estate was little changed and financial services were stable on net. Residential real estate activity softened somewhat as higher mortgage rates weighed on demand, and community support organizations reported elevated need for help with food, housing and health care while facing less funding. Those conditions can reinforce consumer caution, particularly for discretionary spending such as dining out.

The San Francisco Fed said contacts remained cautious about the economic outlook, although less cautious than in the prior reporting period. For restaurants and other hospitality businesses in the district, the latest Beige Book described an environment in which customers were more selective, some operators relied on promotions to bring people in and rising food costs continued to squeeze margins.