

## Fitch: Minimum Wage Hikes to Cause Labor Pains for US Restaurants

Written by Australian Business

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NEW YORK--( [BUSINESS WIRE](#) )--Federal legislation regarding a minimum wage increase is currently off the table, but restaurant operators continue to pay close attention to developments as cities and states pass ordinances requiring higher pay rates, according to Fitch Ratings. A base wage hike would add to existing challenges in the industry, including a drop in customers and higher food costs.

As of Jan. 1, 22 states and the District of Columbia had minimum wages above the \$7.25 per hour federal mandate, according to the U.S. Department of Labor, with new state and city ordinances gaining traction daily as workers continue to protest.

The restaurant industry, where labor represents roughly a third of the cost structure, is already dealing with headwinds that include lower foot traffic and rising food costs (most prominent in dairy and meat). Higher labor costs due to rising minimum wages and health insurance requirements under the 2010 federal Affordable Care Act will pressure already low profit margins, which for operators range in the low-to-mid single digits on a pre-tax basis, translating into price increases and potential job losses. Following the last increase in the federal minimum wage back in 2007, 58% of operators surveyed increased prices while 41% reduced hours, according to the National Restaurant Association.

Approximately a dozen states, including Massachusetts which in June signed into law a phased 38% increase in the hourly minimum wage to \$11 and a 43% increase to \$3.75 in the hourly cash minimum for tipped employees by 2017, have enacted increases through July 3, 2014. In May, the Seattle City Council approved a \$15 minimum wage, the highest in the US, by 2021, with an increase to \$11 beginning next year. The California state senate in May passed legislation that would gradually lift the minimum-wage to \$13 an hour by 2017 and Michigan legislation signed in May provided for an incremental 25% increase to the rate spanning the next four years. Other US municipalities are also considering minimum-wage increases, including Chicago and New York.

A bill that would have increased pay from \$7.25 per hour to \$10.10 per hour and provided for automatic annual increases providing for inflation has been rejected by the Senate, and while a reintroduction of the bill is possible, any near-term push is unlikely.

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com).

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