

Tourism Industry Business Conditions Survey Summary

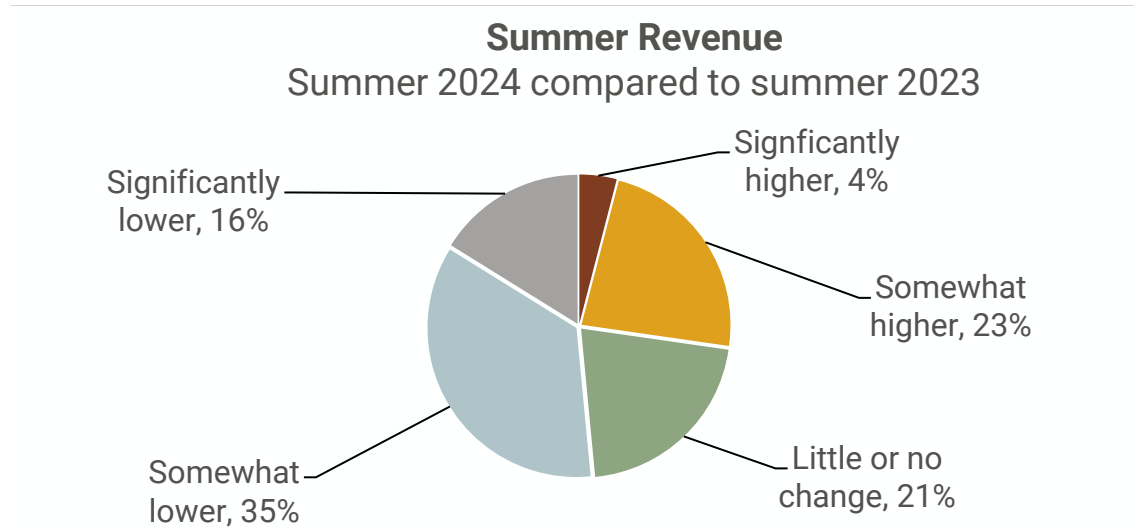
September 2024

Explore Minnesota, the Federal Reserve Bank of Minneapolis, and Hospitality Minnesota partner three times a year to learn about Minnesota tourism and Leisure & Hospitality (L&H) industry trends.

The most recent survey was open from August 19 to 30 and received 266 responses. Survey respondents' L&H businesses are located across the five state tourism regions (Metro, Central, Northeast, Northwest, and Southern Minnesota). By primary activity, overnight accommodations comprise 45% of survey respondents, food or drink establishments comprise 25%, attractions or entertainment companies 18% and industry-allied businesses 12%.

Explore Minnesota's five key findings focus on industry health and align to the conclusion that in summer 2024 visitors traveled and spent less compared to summer 2023. As the pandemic eased, people were excited to travel and spend money. However, visitors' travel budgets and habits have evolved as of this year. Minnesota tourism and L&H businesses are being impacted by various factors, including limited non-essential spending, uncertainty due to weather, and last-minute trip planning and operating challenges driven by inflation and labor pressures.

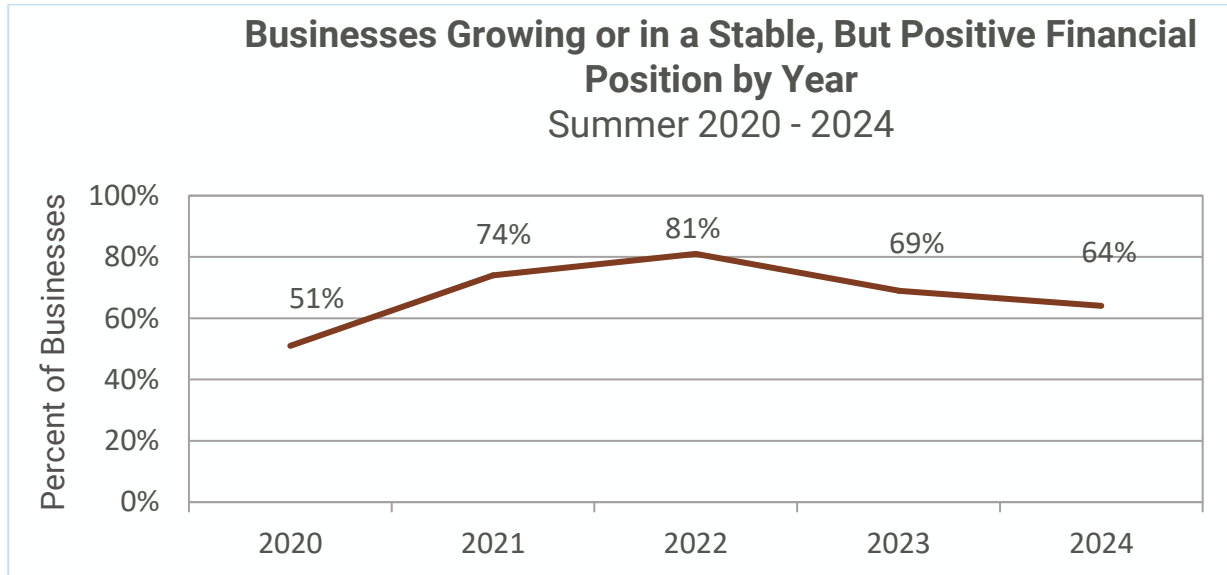
Key Finding 1: Summer 2024 revenue and customer traffic down more than up relative to summer 2023



When comparing summer 2024 revenue and customer traffic to summer 2023, business was more down than up. For 51% revenue was somewhat or significantly lower this summer. For 27%, revenue was higher this summer compared to last. Another 21% of businesses had summer 2024 revenue similar to summer 2023. Summer 2024 customer traffic trends were similar to these revenue trends. This summer, 52% of businesses had lower traffic, 25% had higher traffic and 24% had similar traffic compared to summer 2023

In related survey comments, businesses specifically attributed a decrease in summer 2024 revenue and customer traffic to lower occupancy, drops in beer and wine sales, customers boldly asking for discounts, road construction and decreased merchandise sales. Many (48%) noted that heavy rains, storms and flooding negatively impacted events and business in June and throughout the summer.

Key Finding 2: Fewer businesses in a positive position compared to past three summers



As of summer 2024, 9% of business reported that they are growing, 55% reported a stable, but positive position, 24% reported a stable, but negative position and 12% reported a declining position. For summer 2024 64% of L&H businesses reported that they are in a positive position. This is a decrease from the 69% to 81% of businesses in a positive position in the summers of 2021, 2022 and 2023.

In positive survey comments, a few businesses mentioned that they are pivoting their strategy or adding new revenue streams, such as charging for parking. A southern Minnesota business explained that they feel strongly about the Rochester economy and that 2025 will be strong with the \$5 billion Mayo Clinic expansion.

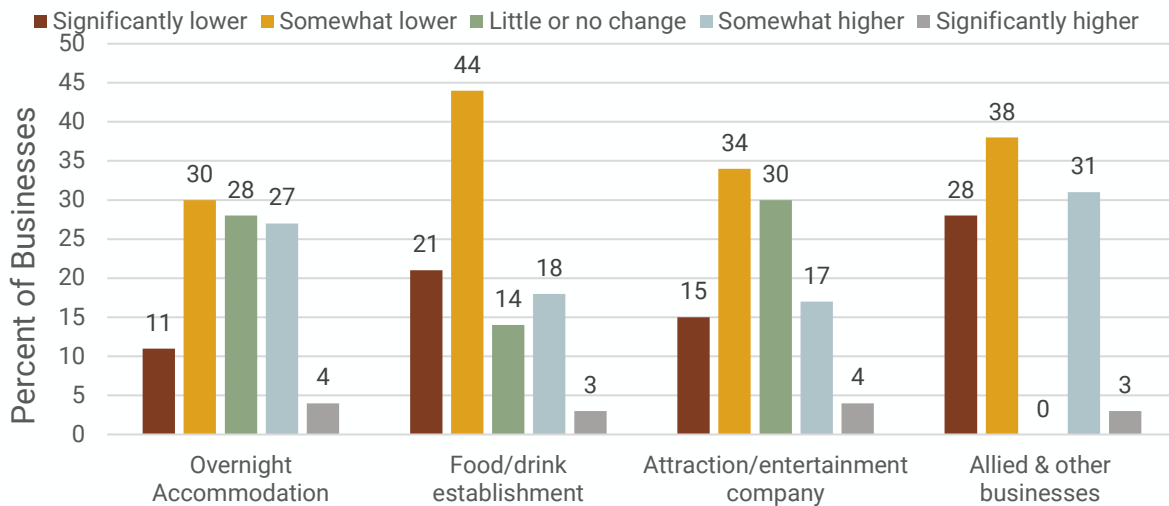
Separately, business were asked about their top two operating capacity and productivity challenges. Similar to past business conditions surveys, price inflation for necessary goods and services was by far the top challenge, with 60% of businesses selecting it.

Labor continues to be a challenge; however, availability is less severe of a problem than it was in recent years. with only 24% citing it as one of their top challenges. Instead, the pressure to increase wages is a trend that is getting somewhat or much worse for 60% of businesses reporting. In this survey 28% cited wage increases as one of their top two operating challenges, making it the second most common issue after inflation.

Other top challenges for 21% to 26% of leisure and hospitality businesses are government regulation and policies, making necessary capital expenditures and higher interest rates.

Key Finding 3: Across business types, June through August 2024 revenue mostly lower year over year compared to summer 2023

Revenue Comparison by Business Type
June - August 2024 compared to 2023



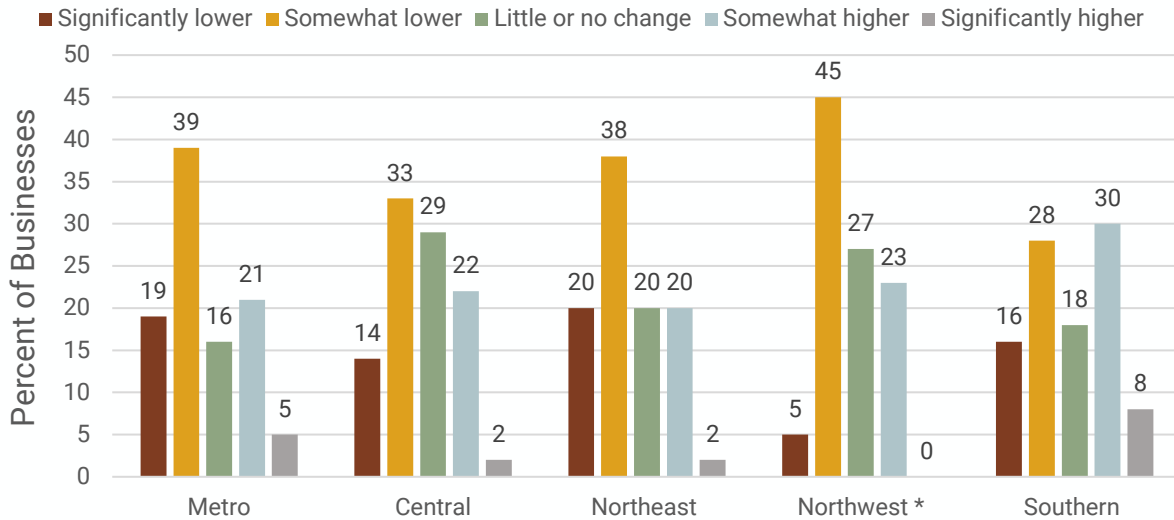
In June to August 2024, compared to the same time period in 2023, revenue was lower for 41% to 66% of accommodations, food and drink establishments, attraction/entertainment companies, and allied businesses. In the food and drink sub-category, 44% of businesses reported somewhat lower revenue, and 21% reported significantly lower business in summer 2024 compared to summer 2023. The largest portion of businesses (34%) reporting higher revenue this summer was in the allied* businesses sub-category.

- *Overnight accommodations* - 31% had revenue somewhat or significantly higher, 28% had similar revenue and 41% had somewhat or significantly lower revenue
- *Food/drink establishments* - 21% had revenue somewhat or significantly higher, 14% had similar revenue and 65% had somewhat or significantly lower revenue
- *Attractions and entertainment companies* - 21% had revenue somewhat or significantly higher, 30% had similar revenue and 49% had somewhat or significantly lower revenue
- *Allied businesses* - 34% had revenue somewhat higher and 66% had somewhat or significantly lower revenue

*Allied businesses provide goods and services for the tourism and hospitality industries, and include a range of businesses from paper product and toiletry suppliers to builders and accountants

Key Finding 4: Across Minnesota regions, June through August 2024 revenue mostly lower year over year relative to summer 2023

Revenue Comparison by MN Region
June - August 2024 compared to 2023

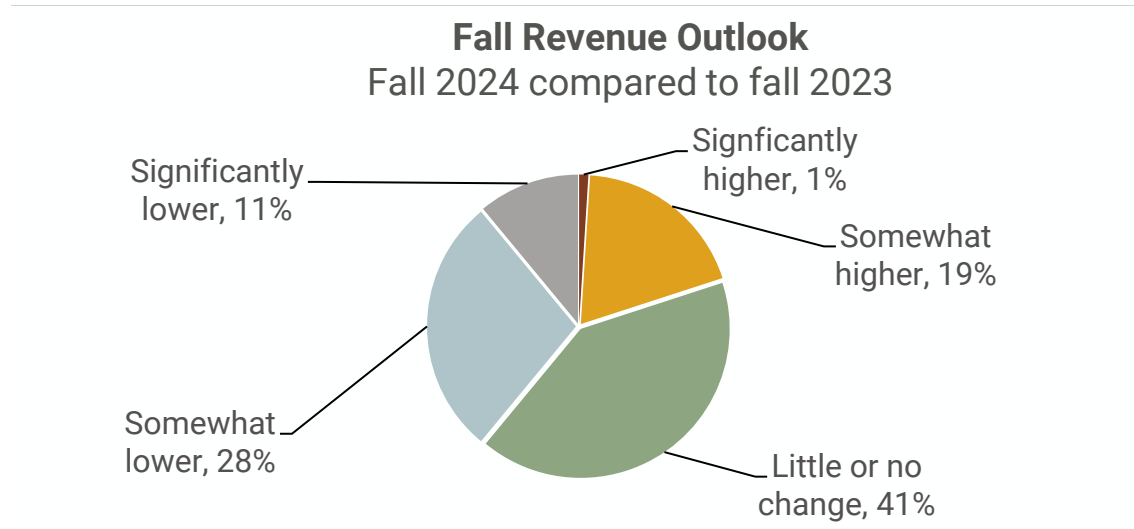


In June to August 2024 compared to the same time period in 2023, revenue was somewhat or significantly lower for 44% to 58% of businesses in the five Minnesota tourism regions. In the Metro 39% of businesses reported significantly lower revenue and 19% reported somewhat lower revenue. The largest portion of businesses (38%) reporting higher revenue in summer 2023 was in the Southern region.

- *Metro* - 26% had revenue somewhat or significantly higher, 16% had similar revenue and 58% had somewhat or significantly lower revenue
- *Central* - 24% had revenue somewhat higher, 29% had similar revenue and 47% had somewhat or significantly lower revenue
- *Northeast* - 22% had revenue somewhat or significantly higher, 20% had similar revenue and 58% had somewhat or significantly lower revenue
- *Northwest* - 23% had revenue somewhat higher, 27% had similar revenue and 50% had somewhat or significantly lower revenue
- *Southern* - 38% had revenue somewhat higher, 18% had similar revenue and 44% had somewhat or significantly lower revenue

*Northwest MN results are directional due to less than 30 survey responses

Key Finding 5: Most expect fall 2024 business activity to be similar to or lower than fall 2023



Looking to fall 2024, the industry expects revenue and customer traffic to be similar to or lower than the last year. For this fall compared to fall 2023, 20% of businesses expect significantly or somewhat higher revenue. Another 41% expect little or no change in fall revenue this year. Additionally, 39% expect significantly or somewhat lower fall 2024 revenue compared to the same time period last year.

Similarly, when asked about their outlook for the next six months 6% of businesses are very optimistic, 28% are somewhat optimistic, 34% are neutral and expect activity similar to last year, 23% are somewhat pessimistic and 10% are very pessimistic.

Forward-looking survey comments were shared by many businesses. While hoping that fall colors will maintain traffic and bookings, some highlighted national election year uncertainty and continued impacts of inflation on visitor spending. Others mentioned the negative impacts of a lack of snow and ice last winter and their anticipation for a better season this year.