

Restaurant Industry Outlook Softens Amid Moderate Decline in the Restaurant Performance Index

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Expectations Index fell to lowest level on record, Operators are less optimistic about economy

The outlook for the restaurant industry softened in October, as the National Restaurant Association's comprehensive index of restaurant activity fell to its lowest level in more than four years. The Association's Restaurant Performance Index (RPI) - a monthly composite index that tracks the health of and outlook for the U.S. restaurant industry - stood at 100.0 in October, down 0.7 percent from September and its lowest level since June 2003.

"October's decline in the Restaurant Performance Index was due in large part to a dramatic drop in the expectations component of the index," said Hudson Riehle, senior vice president of Research and Information Services for the Association. "Each of the four expectations indicators declined in October, weakening the outlook for the industry in the months ahead. In contrast, the current situation indicators remained relatively steady, with same-store sales registering their eighth consecutive positive performance."

The Restaurant Performance Index is based on the responses to the National Restaurant Association's Restaurant Industry Tracking Survey, which is fielded monthly among restaurant operators nationwide on a variety of indicators including sales, traffic, labor and capital expenditures. The RPI consists of two components - the Current Situation Index and the Expectations Index. (Follow this link to view this month's report: www.restaurant.org/pdfs/research/index/200710.pdf).

The Current Situation Index, which measures current trends in four industry indicators (same-store sales, traffic, labor and capital expenditures), stood at 99.9 in October - unchanged from its September level. However, the index reading below 100 signifies contraction in the current situation indicators.

Despite the decline in the overall Current Situation Index, same-store sales remained positive in October. Forty-four percent of restaurant operators reported a same-store sales gain between October 2006 and October 2007, roughly on par with 45 percent who reported a sales gain in September. Thirty-six percent of operators reported a same-store sales decline in October, down from 39 percent who reported similarly in September.

Restaurant operators reported softer customer traffic levels in October. Thirty-two percent of restaurant operators reported an increase in customer traffic between October 2006 and October 2007, down from 35 percent who reported similarly in September. Forty percent of operators reported a traffic decline in October, while 28 percent said their customer traffic levels were about the same as they were in October 2006.

Restaurant operators reported relatively steady capital expenditure activity in October. Fifty-four percent of operators said they made a capital expenditure for equipment, expansion or remodeling during the last three months, matching the proportion who reported similarly last month.

The Expectations Index, which measures restaurant operators' six-month outlook for four industry indicators (same-store sales, employees, capital expenditures and business conditions), stood at 100.0 in October - down 1.4 percent from September and its lowest level in the five-year history of the RPI.

The catalyst behind the decline in the Expectations Index was a sharp drop in restaurant operators' outlook for the economy. Only 19 percent of operators expect economic conditions to improve in six months, down from 26 percent who reported similarly last month and the lowest level on record. Forty percent of operators said they expect economic conditions to worsen in six months, up sharply from 21 percent who reported similarly last month.

Restaurant operators were also less optimistic about sales growth in their establishments. Thirty-nine percent of restaurant operators expect to have higher sales in six months (compared to the same period in the previous year), down from 47 percent who reported similarly last month. Twenty-five percent of restaurant operators expect their sales volume in six months to be lower than it was during the same period in the previous year, up from 16 percent who reported similarly last month.

Restaurant operators also appear to be scaling back in plans for capital spending. Fifty-five percent of restaurant operators plan to make a capital expenditure for equipment, expansion or remodeling in the next six months, down from 57 percent who reported similarly last month.

While the RPI is consistently released on the last business day of each month, more detailed data and analysis can be found on Restaurant TrendMapper (www.restaurant.org/trendmapper), the Association's subscription-based Web site that provides detailed analysis of restaurant industry trends.

National Restaurant Association's Restaurant Performance Index

Values Greater than 100 = Expansion, Values Less than 100 = Contraction



Source: National Restaurant Association

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