

Restaurant Performance Index Declined for the Fourth Consecutive Month in December

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Operators reported negative same-store sales and traffic, Economy is a growing concern

Restaurant industry performance continued to soften in December, as the National Restaurant Association's comprehensive index of restaurant activity declined for the fourth consecutive month. 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 98.7 in December, down 0.3 percent from November and its lowest level since February 2003.

National Restaurant Association's Restaurant Performance Index

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

graph



Source: National Restaurant Association

"The December decline in the Restaurant Performance Index was the result of a second consecutive drop in the current situation indicators," said Hudson Riehle, senior vice president of Research and Information Services for the Association. "In addition to reporting declines in both same-store sales and customer traffic, restaurant operators continued to pull back on capital spending.

"Restaurant operators are also becoming increasingly concerned about the economy," Riehle added. "Fifteen percent of restaurant operators said the economy is the number-one challenge facing their business right now - up from just 4 percent who reported similarly six months ago."

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: <http://www.restaurant.org/pdfs/research/index/200712.pdf>).

The RPI is constructed so that the health of the restaurant industry is measured in relation to a steady-state level of 100. Index values above 100 indicate that key industry indicators are in a period of expansion, while index values under 100 represent a period of contraction for key industry indicators.

The Current Situation Index, which measures current trends in four industry indicators (same-store sales, traffic, labor and capital expenditures), stood at 98.1 in December - down 0.6 percent from November and its lowest level since April 2003. In addition, November marked the fourth consecutive month below 100, which signifies contraction in the current situation indicators.

Restaurant operators reported negative same-store sales for the second consecutive month in December. Thirty-three percent of restaurant operators reported a same-store sales gain between December 2006 and December 2007, down from 40 percent who reported a sales gain in November. Forty-nine percent of operators reported a same-store sales decline in December, up from 44 percent who reported similarly in November.

Restaurant operators also reported deteriorating customer traffic levels in December. Twenty-five percent of restaurant operators reported an increase in customer traffic between December 2006 and December 2007, down slightly from 26 percent who reported similarly in November. Fifty-three percent of operators reported a traffic decline in December, up from 49 percent who reported similarly in November.

Restaurant operators also continued to pull back on capital spending. Forty-five percent of operators said they made a capital expenditure for equipment, expansion or remodeling during the last three months, the lowest level in nearly five years.

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 99.2 in December - unchanged from its November level. December represented the second consecutive Expectations Index reading below 100 - the only two occurrences in the history of the Restaurant Performance Index.

The catalyst behind the weakness in the Expectations Index continues to be a pessimistic outlook for the economy. Only 16 percent of operators expect economic conditions to improve in six months, matching the proportion who reported similarly last month. However, 44 percent of operators said they expect economic conditions to worsen in six months, up from 41 percent who reported similarly last month and the highest level on record.

Restaurant operators are also uncertain about sales growth in coming months. Thirty-one percent of restaurant operators expect to have higher sales in six months (compared to the same period in the previous year), up slightly from 29 percent who reported similarly last month. Thirty 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, compared to 28 percent who reported similarly last month.

Despite the softer outlook for sales and the economy, a small majority of operators are planning for capital spending in the months ahead. Fifty-one percent of restaurant operators plan to make a capital expenditure for equipment, expansion or remodeling in the next six months, matching the proportion who reported similarly last month.

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