Restaurant Performance Index Remains Below 100 for Fourth Consecutive Month in February

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Leap Year bolstered sales, Operators are less optimistic about sales growth and the economy

The outlook for the restaurant industry remained uncertain in February, as the National Restaurant Association's comprehensive index of restaurant activity was unchanged. 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 98.8 in February, its fourth consecutive month below 100, signifying contraction in the index.

"Although restaurant operators reported positive sales for the first time in four months, they were less optimistic about growth in the months ahead," said Hudson Riehle, senior vice president of Research and Information Services for the Association. "Operators' outlook for sales growth and the economy deteriorated sharply, which led to a record-low reading in restaurant operators' outlook and expectations."

"For the first time in 29 months, recruiting and retaining employees was not the top challenge reported by restaurant operators," Riehle added. "Twenty-six percent of operators identified the economy as the number-one challenge facing their business, the highest proportion in the history of the Restaurant Performance Index. Food costs ranked second at 19 percent, while 'building and maintaining sales volume' and 'recruiting and retaining employees' were each identified as the top challenge by 15 percent of operators."

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/200802.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. Customer traffic and same-store sales indicators of the RPI are measured in comparison to the same month the previous year rather than in relation to the previous month.

The Current Situation Index, which measures current trends in four industry indicators (same-store sales, traffic, labor and capital expenditures), stood at 98.6 in February - up 0.7 percent from January and its first gain in six months. Despite the gain, February marked the sixth consecutive month below 100, which signifies contraction in the current situation indicators.

Bolstered by the extra February day as a result of Leap Year, restaurant operators reported positive same-store sales for the first time in four months. Forty-four percent of restaurant operators reported a same-store sales gain between February 2007 and February 2008, up from 36 percent who reported a sales gain in January. Thirty-nine percent of operators reported a same-store sales decline in February, down from 49 percent who reported similarly in January.

Restaurant operators continued to report negative customer traffic levels in February, though the performance was somewhat better than recent months. Thirty-two percent of restaurant operators reported an increase in customer traffic between February 2007 and February 2008, up from 27 percent who reported similarly in January. Forty-six percent of operators reported a traffic decline in February, down from 54 percent who reported similarly in January.

Restaurant operators continued to report a decline in capital spending activity. Forty percent of operators said they made a capital expenditure for equipment, expansion or remodeling during the last three months, down from 41 percent last month and the lowest level in the history of the Restaurant Performance Index.

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 99.1 in February - down 0.6 percent from January and its lowest level on record.

Restaurant operators remain decidedly pessimistic about the direction of the economy. Just 14 percent of operators expect economic conditions to improve in six months, down from 21 percent who reported similarly last month and the lowest level on record. Forty-six percent of operators said they expect economic conditions to worsen in six months, up from 37 percent who reported similarly last month and the highest level on record.

Restaurant operators are also less optimistic about sales growth in coming months. Thirty percent of restaurant operators expect to have higher sales in six months (compared to the same period in the previous year), down from 32 percent who reported similarly last month. Thirty-four 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 31 percent who reported similarly last month.

Roughly one-half of restaurant operators have plans for capital spending in the next six months. Fifty-one percent of restaurant operators plan to make a capital expenditure for equipment, expansion or remodeling in the next six months, up slightly from 50 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.