

Restaurant Performance Index Advanced in May as Industry Same-Store Sales Turned Positive

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Restaurant operators reported positive sales in May, Expectations Index fell to record low

Restaurant industry performance improved in May, as the National Restaurant Association's comprehensive index of restaurant activity rose for the second 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 98.6 in May, up 0.2 percent from April's level.

"The May, increase in the Restaurant Performance Index was driven by a solid gain in the current situation component," said Hudson Riehle, senior vice president of Research and Information Services for the Association. "Each of the four current situation indicators posted improvements in May, led by the first positive same-store sales performance in three months."

"Although restaurant operators reported an improvement in their current performance, their outlook for sales and the economy in the months ahead grew more pessimistic," Riehle added. "Only 12 percent of restaurant operators expect economic conditions to improve in six months, the lowest level in the 6-year history of the Restaurant Performance Index."

The RPI 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/200805.pdf).

The Restaurant Performance Index 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 98.9 in May - up 1.0 percent from April and its second consecutive strong monthly gain. However, May represented the ninth consecutive month below 100, which signifies contraction in the current situation component.

Restaurant operators reported positive same-store sales in May for the first time in three months. Forty-three percent of restaurant operators reported a same-store sales gain between May 2007 and May 2008, up from 35 percent who reported a sales gain in April. Forty-two percent of operators reported a same-store sales decline in May, down from 50 percent who reported similarly in April.

Despite the positive sales results, restaurant operators continued to report negative customer traffic levels in May. Thirty-three percent of restaurant operators reported an increase in customer traffic between May 2007 and May 2008, up from 24 percent who reported similarly in April. Forty-five percent of operators reported a traffic decline in May, down from 55 percent who reported negative traffic in April.

Capital spending activity held relatively steady in recent months. Forty-four percent of operators said they made a capital expenditure for equipment, expansion or remodeling during the last three months, up slightly from 43 percent 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 98.3 in May - down 0.6 percent from April and its lowest level on record. In addition, May represented the seventh consecutive month in which the Expectations Index stood below 100.

Restaurant operators remain pessimistic about sales growth in coming months. Twenty-nine percent of restaurant operators expect to have higher sales in six months (compared to the same period in the previous year), matching the proportion who reported similarly last month. Thirty-seven 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 34 percent who reported similarly last month.

Restaurant operators also grew more pessimistic about the direction of the economy. Just 12 percent of operators expect economic conditions to improve in six months, down from 14 percent who reported similarly last month and the lowest level on record. Forty-five percent of operators said they expect economic conditions to worsen in six months, up from 42 percent who reported similarly last month.

Restaurant operators continue to pull back on plans for future capital spending. Forty-three percent of restaurant operators plan to make a capital expenditure for equipment, expansion or remodeling in the next six months, down from 47 percent who reported similarly last month and the lowest level on record.

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