

Restaurant Industry Performance Remained Soft as Restaurant Performance Index Was Unchanged in July

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Operators reported lower sales and traffic levels, Economy and food costs are the top concerns

Restaurant industry performance remained sluggish in July, as the National Restaurant Association's comprehensive index of restaurant activity stood below 100 for the ninth 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 98.3 in July, unchanged from its June level.

"The lack of change in July's Restaurant Performance Index was the result of an off-setting decline in the current situation component and gain in the expectations component," said Hudson Riehle, senior vice president of research and information services for the Association. "Restaurant operators reported negative same-store sales for the seventh time in the last nine months, with customer traffic levels also remaining below year-ago levels."

"For the sixth consecutive month, the sluggish economy topped the list of challenges reported by restaurant operators," Riehle added. "Twenty-five percent of restaurant operators said the economy is the number-one challenge facing their business, while 23 percent identified food costs as their top challenge."

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/200807.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 97.7 in July -- down 0.2 percent from June and its second consecutive monthly decline. July also marked the 11th consecutive month below 100, which signifies contraction in the current situation component.

Restaurant operators reported a same-store sales decline in July, though results were somewhat better than June. Thirty-six percent of restaurant operators reported a same-store sales gain between July 2007 and July 2008, up from 32 percent who reported a sales gain in June. Fifty percent of operators reported a same-store sales decline in July, down from 53 percent who reported similarly in June.

In addition to sluggish sales results, restaurant operators continued to report negative customer traffic levels in July. Twenty-five percent of restaurant operators reported an increase in customer traffic between July 2007 and July 2008, up from 21 percent who reported similarly in June. Fifty-seven percent of operators reported a traffic decline in July, down slightly from 58 percent who reported negative traffic in June.

Restaurant operators also reported a drop-off in capital spending activity. Forty-two percent of operators said they made a capital expenditure for equipment, expansion or remodeling during the last three months, down from 49 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 98.9 in July -- up 0.3 percent from June and its second consecutive monthly gain. However, July represented the ninth consecutive month in which the Expectations Index stood below 100.

Restaurant operators remain uncertain 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 in each of the previous four months. 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, down from 38 percent who reported similarly last month.

Restaurant operators also remain relatively pessimistic about the direction of the economy, though their sentiment was greatly improved from recent months. Twenty-one percent of operators expect economic conditions to improve in six months, up from 15 percent who reported similarly last month and the highest level in six months. Twenty-nine percent of operators said they expect economic conditions to worsen in six months, down sharply from 43 percent who reported similarly last month.

Restaurant operators' outlook for capital spending activity softened somewhat. 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 matching the lowest level on record.

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 (<http://www.restaurant.org/trendmapper>), the Association's subscription-based Web site that provides detailed analysis of restaurant industry trends.

The National Restaurant Association, founded in 1919, is the leading business association for the restaurant industry, which is comprised of 945,000 restaurant and foodservice outlets and a work force of 13.1 million employees -- making it the cornerstone of the economy, career and employment opportunities and community involvement. Along with the National Restaurant Association Educational Foundation, the Association works to represent, educate and promote the rapidly growing industry.

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