

Uncertain Economy Dampens Restaurant Industry Outlook as Restaurant Performance Index Stood Below 100 for 10th Consecutive Month

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Operators continued to report lower sales and traffic levels, Capital spending remains soft

Restaurant industry performance remained soft in August, as the National Restaurant Association's comprehensive index of restaurant activity stood below 100 for the tenth 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 August, up 0.1 percent from its July level.

"The recent lack of change in the Restaurant Performance Index reflects the wait-and-see sentiment in the financial markets and overall economy," said Hudson Riehle, senior vice president of research and information services for the Association. "Restaurant operators reported negative same-store sales for the eighth time in the last 10 months, and their outlook for sales growth in the months ahead remains uncertain."

"The uncertain economy and rising food costs continue to pose a challenging business environment for restaurant operators," Riehle added. "A record 31 percent of restaurant operators said the economy is the number-one challenge facing their business, while 22 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/200808.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 97.8 in August - up 0.2 percent from July and its first gain in three months. Despite the modest improvement, August marked the 12th consecutive month below 100, which signifies contraction in the current situation component.

Restaurant operators continued to report a same-store sales decline in August, though results were an improvement over the previous two months. Thirty-eight percent of restaurant operators reported a same-store sales gain between August 2007 and August 2008, up from 36 percent who reported a sales gain in July. Forty-eight percent of operators reported a same-store sales decline in August, down from 50 percent who reported similarly in July.

In addition to soft sales results, restaurant operators continued to report negative customer traffic levels in August. Twenty-five percent of restaurant operators reported an increase in customer traffic between August 2007 and August 2008, matching the proportion who reported similarly in July. Fifty-five percent of operators reported a traffic decline in August, down slightly from 57 percent who reported negative traffic in July.

Capital spending activity in the restaurant industry remains sluggish by recent historical standards. Forty-one percent of operators said they made a capital expenditure for equipment, expansion or remodeling during the last three months, down from 42 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 98.8 in August - down 0.1 percent from July's level. In addition, August represented the tenth consecutive month in which the Expectations Index stood below 100.

Restaurant operators remain uncertain 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), a level which has remained relatively unchanged for the last 10 months. Thirty-three 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 slightly from 34 percent who reported similarly last month.

Restaurant operators also remain relatively pessimistic about the direction of the economy. Twenty-four percent of operators expect economic conditions to improve in six months, up from 21 percent who reported similarly last month and the highest level in 11 months. However, 33 percent of operators said they expect economic conditions to worsen in six months, up from 29 percent who reported similarly last month.

Restaurant operators' outlook for capital spending activity remains soft. Forty-three percent of restaurant operators plan to make a capital expenditure for equipment, expansion or remodeling in the next six months, unchanged from last month and equal to 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 (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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