

July 2009

Restaurant Industry Outlook Improved in July as the Restaurant Performance Index Posted First Gain in Three Months

The outlook for the restaurant industry improved somewhat in July, as the National Restaurant Association's comprehensive index of restaurant activity registered its first gain in three months. 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 98.1 in July, up 0.3 percent from its June level. However, the RPI still remained below 100 for the 21st consecutive month, which signifies contraction in the index of key industry indicators.

Although restaurant operators continue to report soft same-store sales and customer traffic levels, they are more optimistic about improving conditions in the months ahead. Restaurant operators reported a positive six-month economic outlook, and the proportion expecting higher sales rose to its highest level in three months.

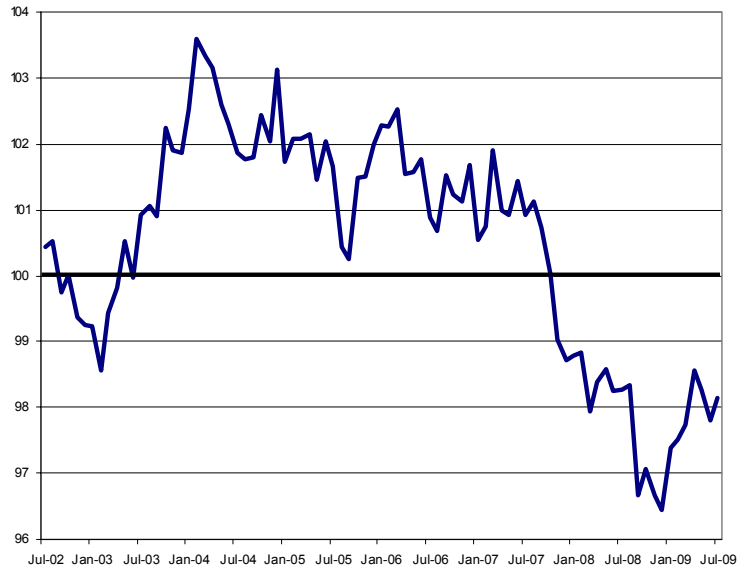
The *Restaurant Performance Index* is based on the responses to the Association's Restaurant Industry Tracking Survey, which is fielded monthly among restaurant operators nationwide. The index consists of two components – the Current Situation Index and the Expectations Index.

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 below 100 represent a period of contraction for key industry indicators. The distance from 100 signifies the magnitude of the expansion or contraction.

Current Situation Index Gained 0.2 Percent in July to a Level of 96.8; 23rd Consecutive Month Below 100

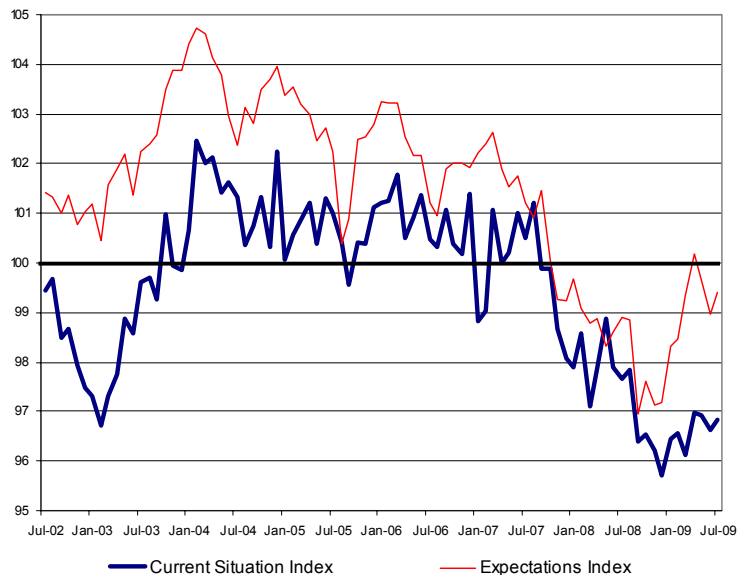
The Current Situation Index, which measures current trends in four industry indicators (same-store sales, traffic, labor and capital expenditures), stood at 96.8 in July – up 0.2 percent from June and its first improvement in three months. However, July still represented the 23rd consecutive month below 100, which signifies contraction in the current situation indicators.

Restaurant Performance Index



Source: NRA; Values Greater than 100 = Expansion; Values Less than 100 = Contraction

Current Situation & Expectations Indices



Source: NRA; Values Greater than 100 = Expansion; Values Less than 100 = Contraction

Although same-store sales remained negative in July, restaurant operators reported an improvement from June's soft performance. Twenty-six percent of operators reported a same-store sales gain between July 2008 and July 2009, up from a record-low 22 percent of operators who reported positive sales in June. Fifty-eight percent of operators reported a same-store sales decline in July, down slightly from 61 percent who reported negative sales in June.

In addition to sales declines, operators reported negative customer traffic levels for the 23rd consecutive month in July. Twenty-three percent of operators reported an increase in customer traffic between July 2008 and July 2009, up slightly from 19 percent who reported similarly in June. Fifty-nine percent of operators reported a traffic decline in July, compared to 60 percent reported lower traffic in June.

Capital spending activity among restaurant operators continued at a relatively steady level in recent months. Forty percent of operators said they made a capital expenditure for equipment, expansion or remodeling during the last three months, roughly on par with the reporting of the previous three monthly surveys.

Expectations Index Rose 0.5 Percent to a Level of 99.4 in July

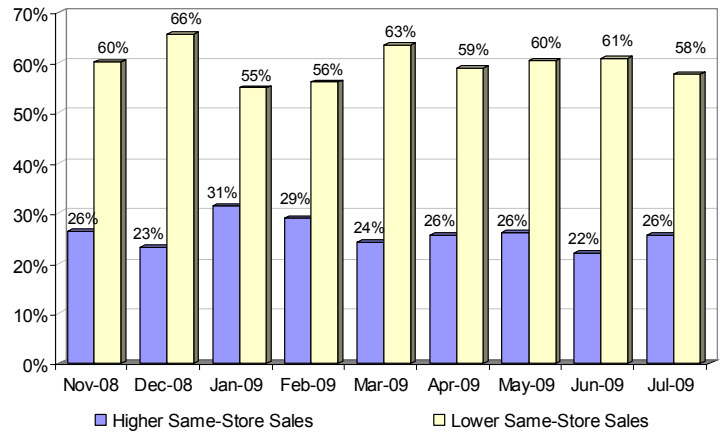
The Expectations Index, which measures restaurant operators' six-month outlook for four industry indicators (same-store sales, employees, capital expenditures and business conditions), stood at 99.4 in July – up 0.5 percent from June and its first gain in three months.

The July uptick in the Expectations Index was the result of an improvement in restaurant operators' outlook for both sales growth and the overall economy in the months ahead. Thirty-one percent of restaurant operators expect to have higher sales in six months (compared to the same period in the previous year), up from just 24 percent who reported similarly last month. In comparison, 33 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, matching the proportion who reported similarly in the previous two months.

Restaurant operators are also more optimistic about the direction of the economy. Thirty-two percent of restaurant operators said they expect economic conditions to improve in six months, up from 24 percent who reported similarly last month. In comparison, 24 percent of operators expect economic conditions to worsen in six months, down from 26 percent who reported similarly last month.

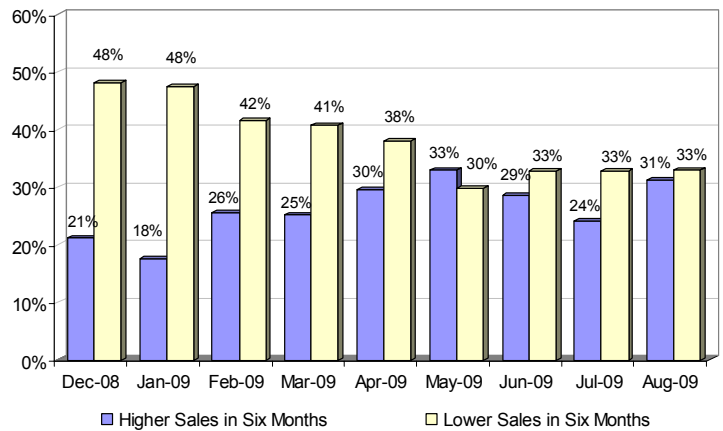
Restaurant operators' plans for capital expenditures held relatively constant this month. Forty-two percent of restaurant operators plan to make a capital expenditure for equipment, expansion or remodeling in the next six months, compared to 44 percent who reported similarly last month.

Restaurant Operators' Reporting of Same-Store Sales versus Same Month in Previous Year



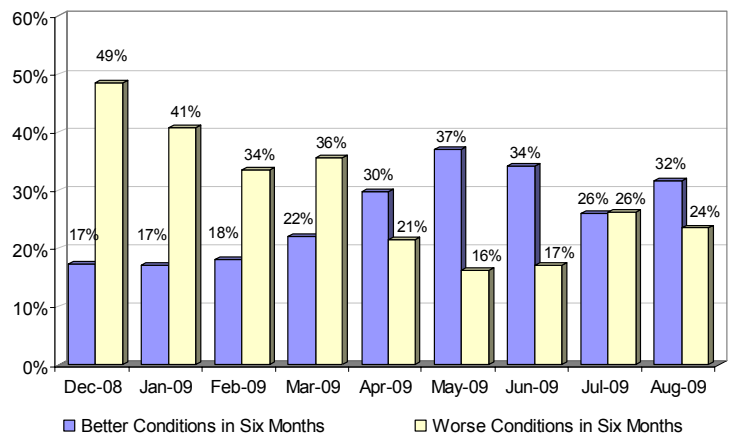
Source: National Restaurant Association, Restaurant Industry Tracking Survey

Restaurant Operators' Outlook for Sales Volume in Six Months versus Same Period in Previous Year



Source: National Restaurant Association, Restaurant Industry Tracking Survey

Restaurant Operators' Outlook for General Economic Conditions in Six Months



Source: National Restaurant Association, Restaurant Industry Tracking Survey

National Restaurant Association Restaurant Industry Performance Index and Its Components

	March 2009	April 2009	May 2009	June 2009	July 2009	July-09 over June-09
Restaurant Performance Index	97.7	98.6	98.3	97.8	98.1	0.3%
Current Situation Index	96.1	97.0	96.9	96.6	96.8	0.2%
<i>Current Situation Indicators:</i>						
Same-Store Sales	96.1	96.7	96.6	96.1	96.8	0.7%
Customer Traffic	95.7	96.3	96.3	96.0	96.4	0.5%
Labor	95.8	96.3	96.8	96.1	96.2	0.2%
Capital Expenditures	97.0	98.5	98.1	98.4	97.9	-0.4%
Expectations Index	99.4	100.2	99.6	99.0	99.4	0.5%
<i>Expectations Indicators:</i>						
Same-Store Sales	99.2	100.3	99.6	99.1	99.8	0.7%
Staffing	98.5	99.1	99.0	98.0	98.7	0.7%
Capital Expenditures	98.9	99.2	98.2	98.7	98.4	-0.4%
Business Conditions	100.8	102.1	101.7	100.0	100.8	0.8%

Note: For each of the Indices and Indicators, a value above 100 signals a period of expansion while a value below 100 signals a period of contraction.

Definitions

The National Restaurant Association's *Restaurant Performance Index* is a statistical barometer that measures the overall health of the U.S. Restaurant Industry. This monthly composite index is based on the responses to the National Restaurant Association's monthly Restaurant Industry Tracking Survey, which is fielded among restaurant operators nationwide on a variety of indicators including sales, traffic, labor and capital expenditures. The *Restaurant Performance Index* is composed of two equally-weighted components: the Current Situation Index and the Expectations Index. For each of the Indices and Indicators, a value above 100 signals a period of expansion while a value below 100 signals a period of contraction.

The Current Situation Index is a composite index based on four 'recent-period' restaurant industry indicators:

Same-Store Sales: Compares same-store sales volume in the reference month versus the same month in the previous year

Customer Traffic: Compares customer traffic in the reference month versus the same month in the previous year

Labor: Compares the number of employees and the average employee hours in the reference month versus the same month in the previous year

Capital Expenditures: Measures capital expenditure activity during the three most recent months

The Expectations Index is a composite index based on four 'forward-looking' restaurant industry indicators:

Same-Store Sales: Restaurant operators' outlook for same-store sales in six months, compared to the same period in the previous year

Staffing: Restaurant operators' expectations for their number of employees in six months, compared to the same period in the previous year

Capital Expenditures: Restaurant operators' capital expenditure plans during the next six months

Business Conditions: Restaurant operators' outlook for general business conditions during the next six months

For a complete analysis of the National Restaurant Association's Restaurant Industry Tracking Survey including data broken out by industry segment, as well as a host of other economic indicators that impact the restaurant industry, log on to *Restaurant TrendMapper* at www.restaurant.org/trendmapper (subscription required).