

December 2009

## Restaurant Industry Outlook Improved as the Restaurant Performance Index Rose to its Highest Level in Nearly Two Years

Driven by improving sales and traffic levels, the National Restaurant Association's comprehensive index of restaurant activity rose sharply in December. 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 98.7 in December, up 0.9 percent from November and its strongest level since February 2008. Despite the solid improvement, the RPI remained below 100 for the 26<sup>th</sup> consecutive month, which signifies contraction in the index of key industry indicators.

The RPI's strong gain in December was the result of broad-based improvements among several index components. Although restaurant operators continued to report a net decline in same-store sales and customer traffic, the two indicators registered their strongest performances since the summer of 2008.

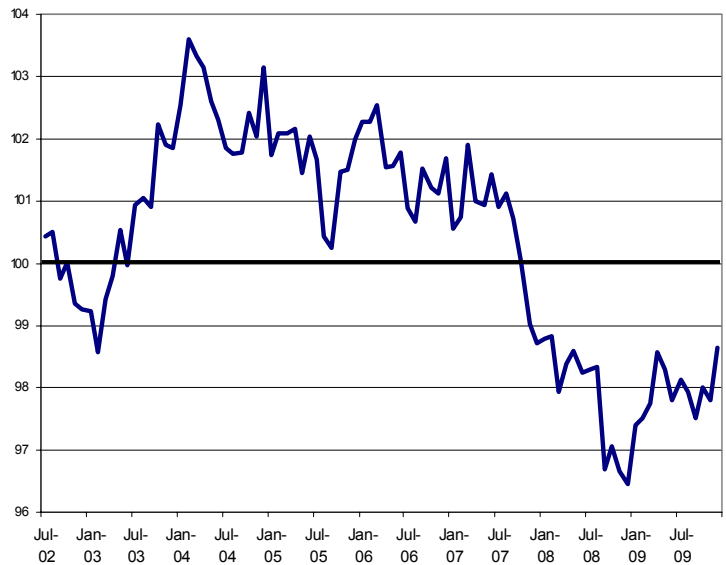
The *Restaurant Performance Index* is based on the responses to the Association's Restaurant Industry Tracking Survey, which is fielded monthly among restaurant operators nationwide. The index consists of two components – the Current Situation Index and the Expectations Index.

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 Jumped 1.4 Percent in December to a Level of 97.3; Remained Below 100 for 28<sup>th</sup> Consecutive Month

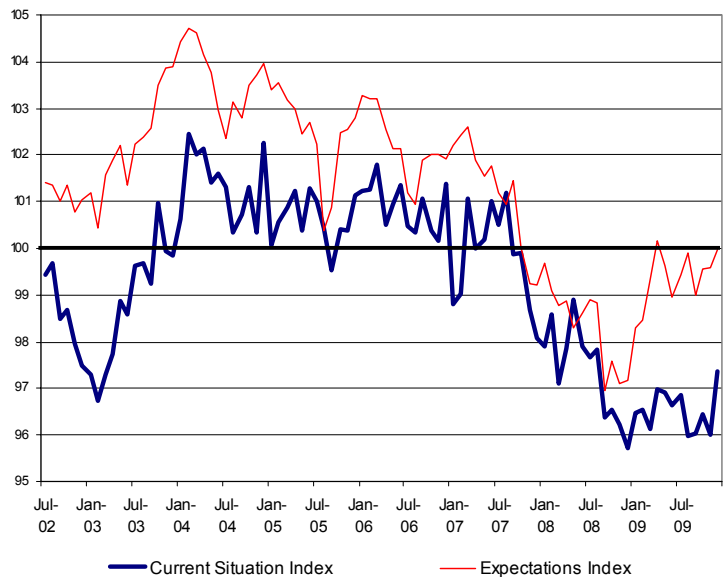
The Current Situation Index, which measures current trends in four industry indicators (same-store sales, traffic, labor and capital expenditures), stood at 97.3 in December – up a strong 1.4 percent from November and its highest level since August 2008. However, December still represented the 28<sup>th</sup> 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 restaurant operators reported negative same-store sales for the 19<sup>th</sup> consecutive month, the overall results improved dramatically in December. Thirty-five percent of restaurant operators reported a same-store sales gain between December 2008 and December 2009, well above the 24 percent of operators who reported higher sales in November. Forty-nine percent of operators reported a same-store sales decline in December, down sharply from 65 percent who reported negative sales in November.

Restaurant operators also reported an improving customer traffic performance in December. Thirty percent of restaurant operators reported an increase in customer traffic between December 2008 and December 2009, up from just 21 percent who reported higher customer traffic in November. Forty-seven percent of operators reported a traffic decline in December, down from 62 percent who reported lower traffic in November.

Although restaurant operators reported stronger sales and traffic results in December, capital spending activity continued to drop off. Thirty-one percent of operators said they made a capital expenditure for equipment, expansion or remodeling during the last three months, down from 33 percent last month and the lowest level on record.

**Expectations Index Rose 0.4 Percent in December to a Level of 100.0**

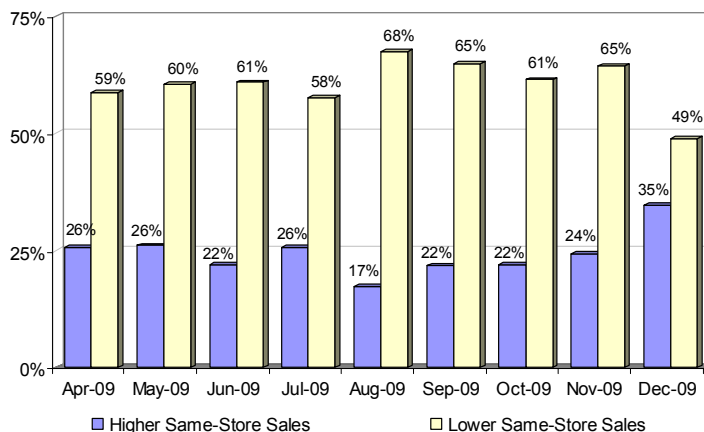
The Expectations Index, which measures restaurant operators' six-month outlook for four industry indicators (same-store sales, employees, capital expenditures and business conditions), stood at 100.0 in December – the first time in eight months that the index reached the 100 level.

Restaurant operators are increasingly optimistic about sales growth in the months ahead. Thirty-five percent of operators expect to have higher sales in six months (compared to the same period in the previous year), up from 31 percent who reported similarly last month and the highest level in more than two years. In comparison, 21 percent of operators expect their sales volume in six months to be lower than it was during the same period in the previous year, down from 24 percent last month.

Restaurant operators are also more optimistic about the direction of the economy in the months ahead. Thirty-four percent of restaurant operators said they expect economic conditions to improve in six months, while 18 percent expect economic conditions to worsen during the next six months. Last month, 27 percent of operators said they expected the economy to improve in six months, while 19 percent expected economic conditions to deteriorate.

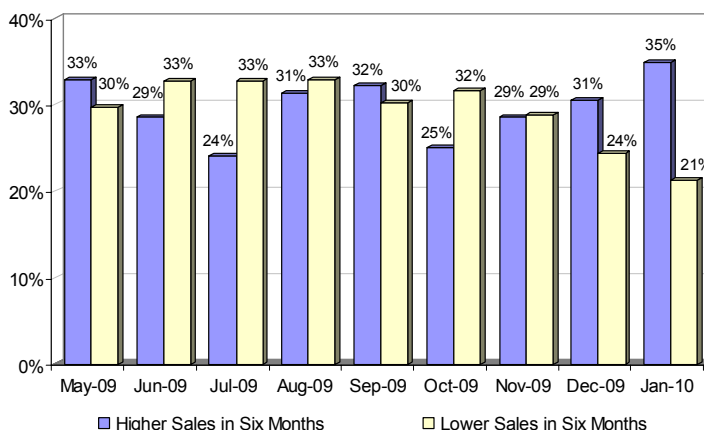
Thirty-nine percent of restaurant operators plan to make a capital expenditure for equipment, expansion or remodeling in the next six months, down from 41 percent who reported similarly last month.

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



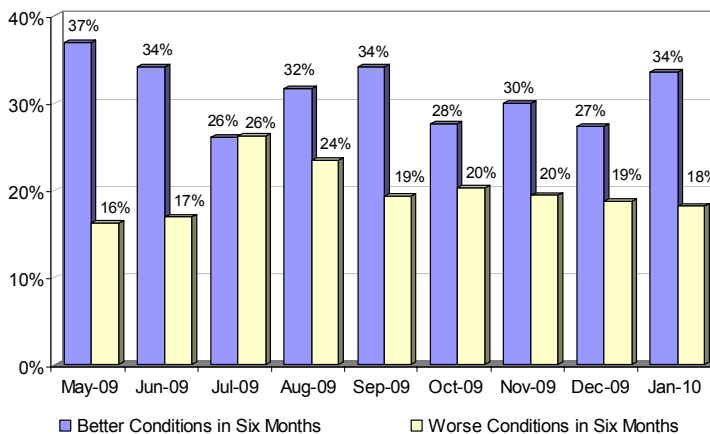
Source: National Restaurant Association, Restaurant Industry Tracking Survey

**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

	August 2009	September 2009	October 2009	November 2009	December 2009	Dec-09 over Nov-09
<b>Restaurant Performance Index</b>	97.9	97.5	98.0	97.8	98.7	0.9%
<b>Current Situation Index</b>	96.0	96.0	96.5	96.0	97.3	1.4%
<i>Current Situation Indicators:</i>						
Same-Store Sales	95.0	95.7	96.1	96.0	98.6	2.7%
Customer Traffic	95.0	95.7	96.1	95.9	98.3	2.5%
Labor	95.7	95.3	95.7	95.5	96.4	0.9%
Capital Expenditures	98.3	97.4	98.0	96.6	96.1	-0.5%
<b>Expectations Index</b>	99.9	99.0	99.6	99.6	100.0	0.4%
<i>Expectations Indicators:</i>						
Same-Store Sales	100.2	99.3	100.0	100.6	101.4	0.7%
Staffing	98.9	98.5	98.8	98.8	99.0	0.3%
Capital Expenditures	99.0	97.4	98.4	98.1	97.9	-0.3%
Business Conditions	101.5	100.7	101.1	100.9	101.5	0.7%

*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](http://www.restaurant.org/trendmapper) (subscription required).