

May 2010

## Industry Outlook Softened in May as the Restaurant Performance Index Fell Below 100

The outlook for the restaurant industry softened in May, as the National Restaurant Association's comprehensive index of restaurant activity fell below 100 for the first time 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 99.7 in May, down 0.7 percent from April's level of 100.4. In addition, the RPI fell below 100 for the first time in three months, which signifies contraction in the index of key industry indicators.

Although the sales and customer traffic indicators softened in May, capital expenditure activity rose to its highest level in nearly two years. This, along with a continued positive outlook for sales and the overall economy, signals that restaurant operators remain optimistic that business conditions will improve in the months ahead.

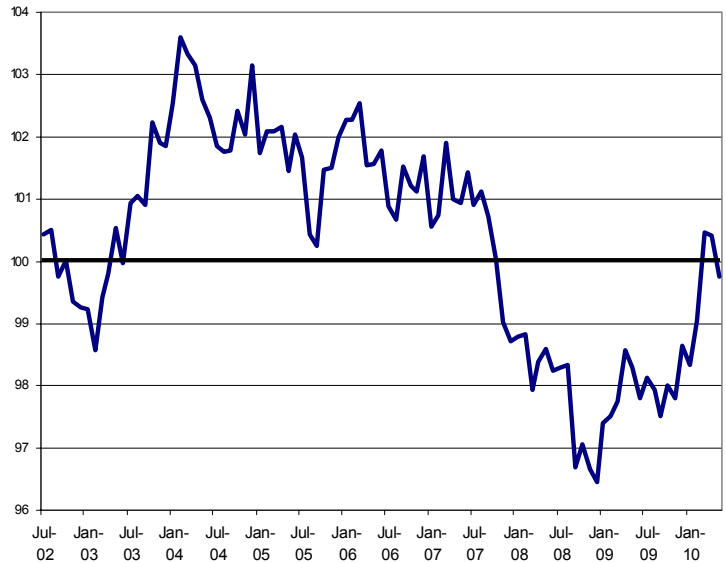
The *Restaurant Performance Index* is based on the responses to the Association's Restaurant Industry Tracking Survey, which is fielded monthly among restaurant operators nationwide. The index consists of two components – the Current Situation Index and the Expectations Index.

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 Declined 0.3 Percent in May to a Level of 98.7

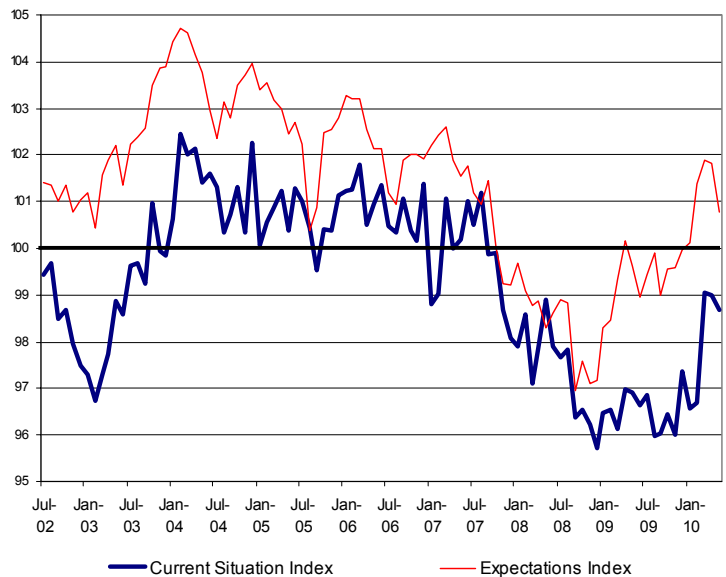
The Current Situation Index, which measures current trends in four industry indicators (same-store sales, traffic, labor and capital expenditures), stood at 98.7 in May – down 0.3 percent from its April level. In addition, the Current Situation Index remained below 100 for the 33<sup>rd</sup> consecutive month, 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

Restaurant operators reported a net decline in same-store sales for the second consecutive month in May. Thirty-five percent of restaurant operators reported a same-store sales gain between May 2009 and May 2010, down from 39 percent of operators who reported higher sales in April. In comparison, 46 percent of operators reported a same-store sales decline in May, up from 41 percent of operators who reported negative sales in April.

Restaurant operators also reported softer customer traffic results in May. Thirty-three percent of restaurant operators reported an increase in customer traffic between May 2009 and May 2010, down from 37 percent who reported higher customer traffic in April. Meanwhile, 43 percent of operators reported a traffic decline in May, up from 39 percent who reported lower traffic in April.

Although sales and traffic results softened in May, restaurant operators reported an uptick in capital spending activity. Forty-five percent of operators said they made a capital expenditure for equipment, expansion or remodeling during the last three months, up from 40 percent last month and the highest level in nearly two years.

**Expectations Index Fell 1.0 Percent in May to a Level of 100.8**

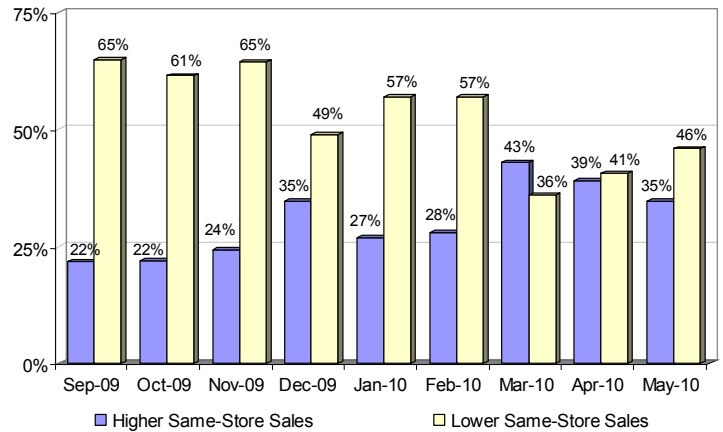
The Expectations Index, which measures restaurant operators' six-month outlook for four industry indicators (same-store sales, employees, capital expenditures and business conditions), stood at 100.8 in May – down 1.0 percent from April's level of 101.8. Despite the decline, the Expectations Index remained above 100 for the fifth consecutive month, which represents expansion in the forward-looking indicators.

Although restaurant operators remain optimistic about sales growth in the months ahead, their optimism slipped somewhat in recent months. Forty-three percent of operators expect to have higher sales in six months (compared to the same period in the previous year), down from 47 percent who reported similarly last month. In comparison, 18 percent of operators expect their sales volume in six months to be lower than it was during the same period in the previous year, up from 12 percent last month.

Restaurant operators are also not as optimistic about the direction of the overall economy. Thirty-three percent of operators said they expect economic conditions to improve in six months, down from 41 percent who reported similarly last month. In comparison, 15 percent of operators said they expect economic conditions to worsen in the next six months, up from 10 percent last month.

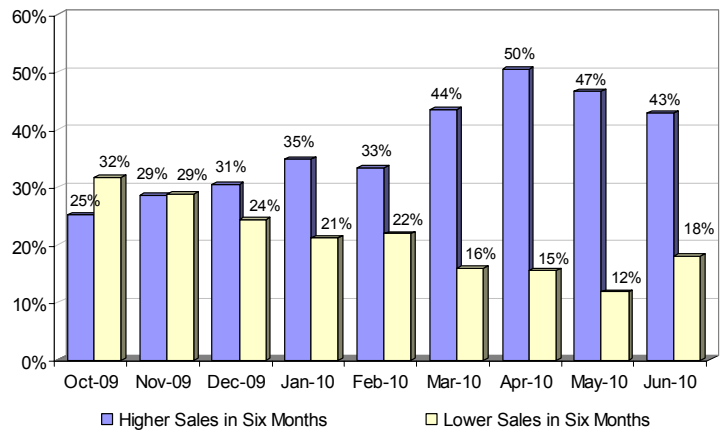
Forty-six percent of restaurant operators plan to make a capital expenditure for equipment, expansion or remodeling in the next six months, similar to the levels reported in the previous three months.

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



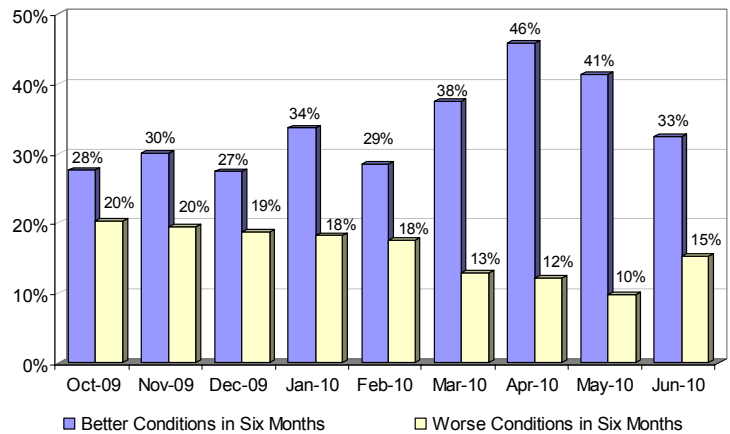
Source: National Restaurant Association, Restaurant Industry Tracking Survey

**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

	January 2010	February 2010	March 2010	April 2010	May 2010	May-10 over Apr-10
<b>Restaurant Performance Index</b>	98.3	99.0	100.5	100.4	99.7	-0.7%
<b>Current Situation Index</b>	96.6	96.7	99.0	99.0	98.7	-0.3%
<i>Current Situation Indicators:</i>						
Same-Store Sales	97.0	97.1	100.7	99.8	98.9	-1.0%
Customer Traffic	97.2	97.0	100.4	99.8	99.0	-0.8%
Labor	95.6	96.7	97.9	98.4	97.8	-0.6%
Capital Expenditures	96.4	96.0	97.2	98.0	99.0	1.0%
<b>Expectations Index</b>	100.1	101.4	101.9	101.8	100.8	-1.0%
<i>Expectations Indicators:</i>						
Same-Store Sales	101.2	102.8	103.5	103.5	102.5	-1.0%
Staffing	99.7	100.6	101.2	101.1	99.9	-1.1%
Capital Expenditures	98.5	99.7	99.5	99.6	99.1	-0.5%
Business Conditions	101.1	102.5	103.4	103.2	101.7	-1.4%

*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).