

June 2010

## Industry Outlook Softened in June as the Restaurant Performance Index Declined for the Third Consecutive Month

As a result of a dampened outlook among restaurant operators, the National Restaurant Association's comprehensive index of restaurant activity declined for the third consecutive month in June. 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 99.5 in June, down 0.3 percent from May and the lowest index level since February.

In addition, the RPI stood below 100 for the second consecutive month, which signifies contraction in the index of key industry indicators.

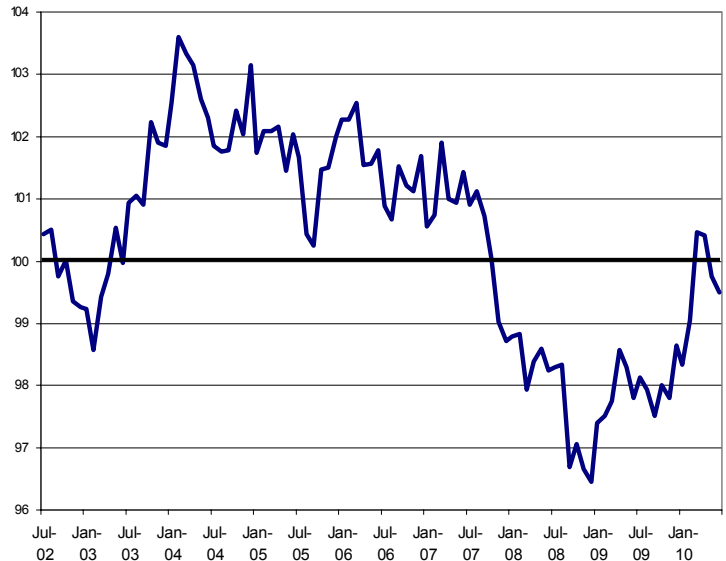
Although the current situation indicators registered a modest improvement in June, each of the four expectations indicators dipped for the second consecutive month. While restaurant operators are generally optimistic that sales and business conditions will improve in the next six months, the strength of their optimism fell to a five-month low.

## Current Situation Index Edged Up 0.1 Percent in June to a Level of 98.8; Expectations Index Fell for the Third Consecutive Month

The Current Situation Index, which measures current trends in four industry indicators (same-store sales, traffic, labor and capital expenditures), stood at 98.8 in June – up 0.1 percent from its May level. However, each of the current situation indicators remained below 100 in June, which signifies contraction in that industry metric. Overall, the Current Situation Index stood below 100 for the 34<sup>th</sup> consecutive month in June.

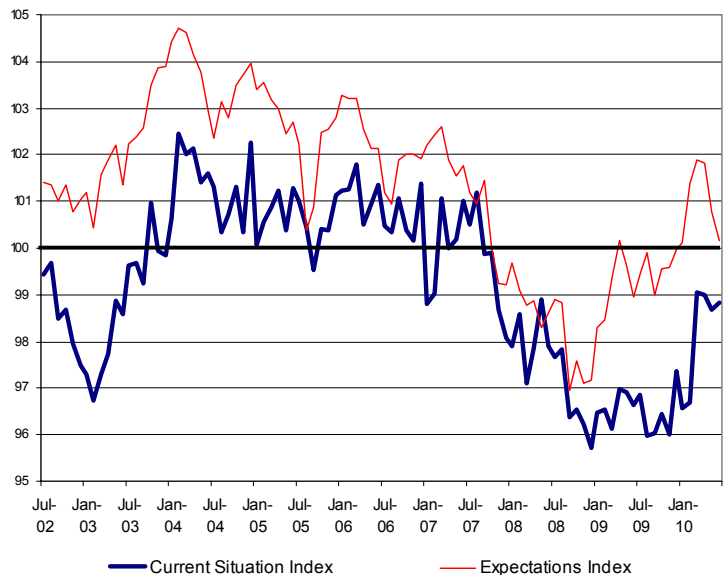
The Expectations Index, which measures restaurant operators' six-month outlook for four industry indicators (same-store sales, employees, capital expenditures and business conditions), stood at 100.2 in June – down 0.6 percent from May and its lowest level in five months. Two expectations indicators stood above 100 in June, while two remained below 100. Despite the recent declines, the Expectations Index remained above 100 for the sixth consecutive month, which represents expansion in the forward-looking 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

**Same-Store Sales Declined for the Third Consecutive Month in June**

Restaurant operators reported a net decline in same-store sales for the third consecutive month in June, though the results were a modest improvement from the May performance. Thirty-nine percent of restaurant operators reported a same-store sales gain between June 2009 and June 2010, up from 35 percent of operators who reported higher sales in May. Meanwhile, 43 percent of operators reported a same-store sales decline in June, down from 46 percent of operators who reported negative sales in May.

Restaurant operators also reported a net decline in customer traffic levels in June. Thirty-three percent of restaurant operators reported an increase in customer traffic between June 2009 and June 2010, matching the proportion who reported higher customer traffic in May. Similarly, 43 percent of operators reported a traffic decline in June, unchanged from the proportion who reported lower traffic in May.

Along with soft sales and traffic results, restaurant operators reported a dip in capital spending activity. Forty-three percent of operators said they made a capital expenditure for equipment, expansion or remodeling during the last three months, down slightly from 45 percent who reported similarly last month.

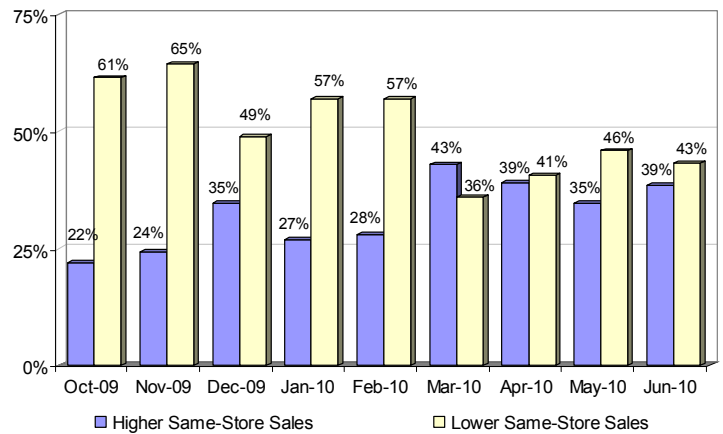
**Restaurant Operators are not as Optimistic about Sales Growth and the Economy; Capital Spending Plans Slipped**

Although restaurant operators are generally optimistic about an improving business environment, their outlook for sales growth dipped in recent months. Forty-two percent of restaurant operators expect to have higher sales in six months (compared to the same period in the previous year), down slightly from 43 percent last month and the lowest level in five months. In comparison, 21 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, up from 18 percent who reported similarly last month.

Restaurant operators are also not as optimistic about the direction of the overall economy. Twenty-eight percent of restaurant operators said they expect economic conditions to improve in six months, down from 33 percent who reported similarly last month and the lowest level in seven months. In comparison, 21 percent of operators said they expect economic conditions to worsen in the next six months, up from just 10 percent two months ago.

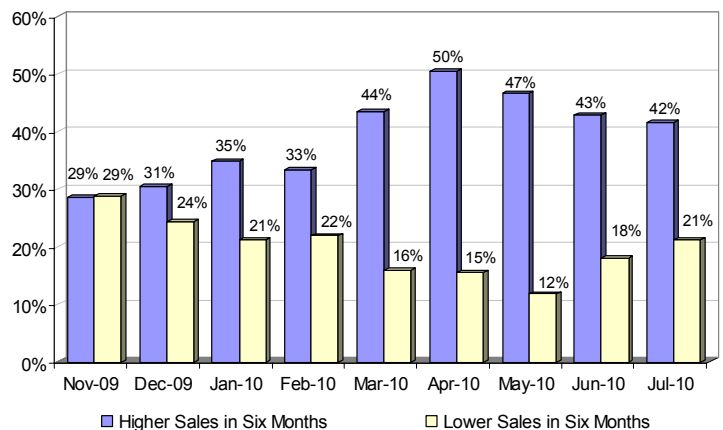
Restaurant operators' plans for capital expenditures fell to a six-month low this month. Forty-one percent of restaurant operators plan to make a capital expenditure for equipment, expansion or remodeling in the next six months, down from 46 percent who reported similarly last month.

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



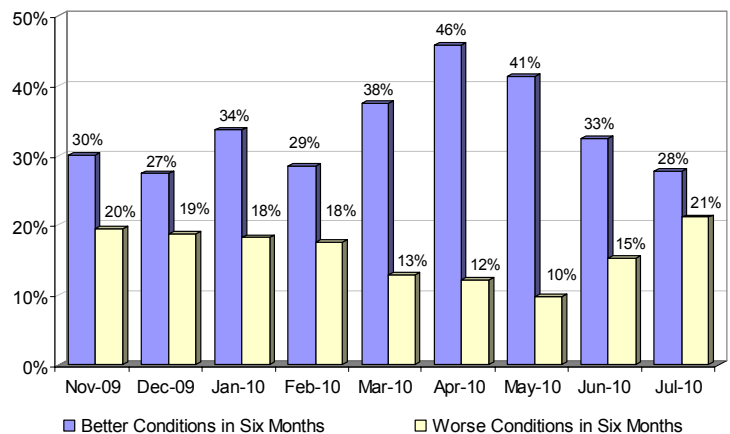
Source: National Restaurant Association, Restaurant Industry Tracking Survey

**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

	February 2010	March 2010	April 2010	May 2010	June 2010	Jun-10 over May-10
<b>Restaurant Performance Index</b>	99.0	100.5	100.4	99.7	99.5	-0.3%
<b>Current Situation Index</b>	96.7	99.0	99.0	98.7	98.8	0.1%
<i>Current Situation Indicators:</i>						
Same-Store Sales	97.1	100.7	99.8	98.9	99.5	0.7%
Customer Traffic	97.0	100.4	99.8	99.0	99.0	0.0%
Labor	96.7	97.9	98.4	97.8	98.2	0.4%
Capital Expenditures	96.0	97.2	98.0	99.0	98.5	-0.5%
<b>Expectations Index</b>	101.4	101.9	101.8	100.8	100.2	-0.6%
<i>Expectations Indicators:</i>						
Same-Store Sales	102.8	103.5	103.5	102.5	102.1	-0.4%
Staffing	100.6	101.2	101.1	99.9	99.7	-0.2%
Capital Expenditures	99.7	99.5	99.6	99.1	98.3	-0.8%
Business Conditions	102.5	103.4	103.2	101.7	100.7	-1.0%

*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 distance from 100 signifies the magnitude of the expansion or 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).