

July 2010

Industry Outlook Remained Uncertain in July as the Restaurant Performance Index Declined for the 4th Consecutive Month

As a result of soft sales and traffic levels and a deteriorating outlook among restaurant operators, the National Restaurant Association's comprehensive index of restaurant activity declined for the fourth consecutive month in July. 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 99.4 in July, down 0.1 percent from June and its fourth consecutive decline. In addition, the RPI stood below 100 for the third consecutive month, which signifies contraction in the index of key industry indicators.

While there were signs in recent months that the short-term outlook may be improving, the latest figures indicate that the restaurant industry's recovery has yet to fully gain traction. Restaurant operators continued to report declines in same-store sales and customer traffic in July, and their previously-optimistic outlook for sales growth and the economy softened in recent months.

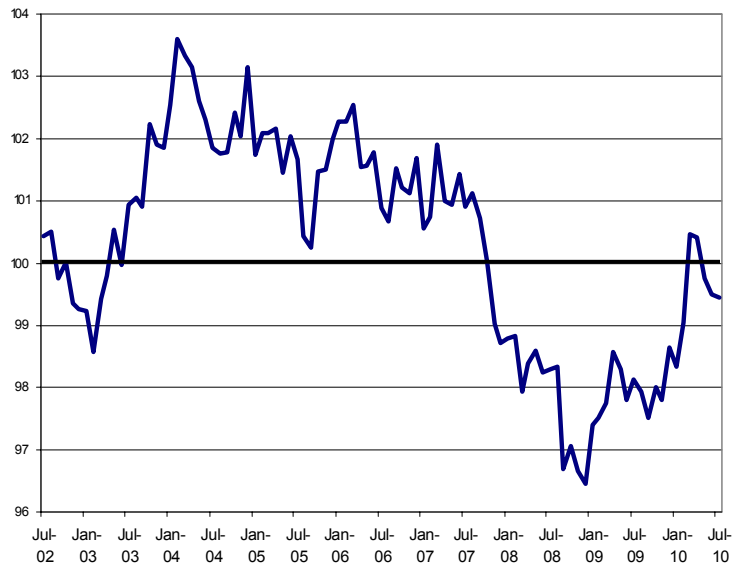
The *Restaurant Performance Index* is based on the responses to the Association's Restaurant Industry Tracking Survey, which is fielded monthly among restaurant operators nationwide.

Current Situation Index Remained Unchanged in July at a Level of 98.8; Expectations Index Fell for the Fourth 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 July – unchanged from its June level. In addition, the Current Situation Index remained below 100 for the 35th consecutive month, which signifies contraction in the current situation indicators.

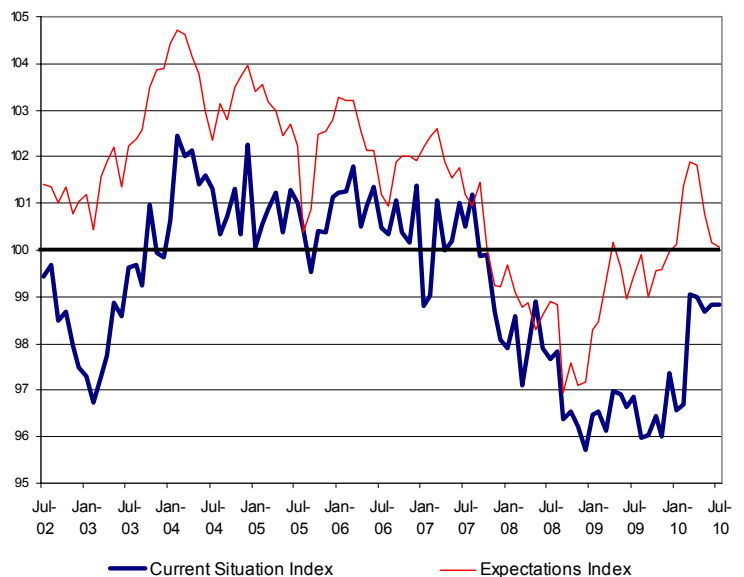
The Expectations Index, which measures restaurant operators' six-month outlook for four industry indicators (same-store sales, employees, capital expenditures and business conditions), stood at 100.0 in July – down 0.1 percent from June and its lowest level since December 2009. In addition, the Expectations Index declined for the fourth consecutive month after reaching a three-year high in March.

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 and Customer Traffic Levels Remained Negative in July

Restaurant operators reported negative same-store sales for the fourth consecutive month in July, with the overall results similar to the June performance. Thirty-nine percent of restaurant operators reported a same-store sales gain between July 2009 and July 2010, matching the proportion of operators who reported higher sales in June. Meanwhile, 44 percent of operators reported a same-store sales decline in July, compared to 43 percent of operators who reported negative sales in June.

Restaurant operators also reported a net decline in customer traffic levels in July. Thirty-five percent of restaurant operators reported an increase in customer traffic between July 2009 and July 2010, up slightly from 33 percent of operators who reported higher customer traffic in June. Forty-six percent of operators reported a traffic decline in July, up from 43 percent who reported lower traffic in June.

With sales and traffic levels remaining soft, restaurant operators reported relatively steady capital spending levels in recent months. Forty-five percent of operators said they made a capital expenditure for equipment, expansion or remodeling during the last three months, up slightly from 43 percent who reported similarly last month.

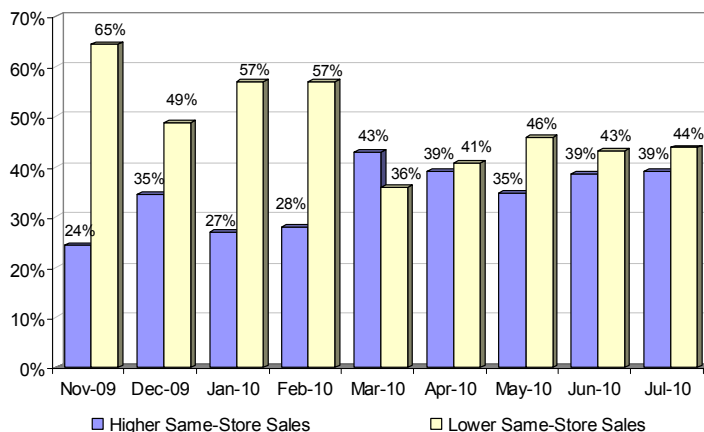
Restaurant Operators are Less Optimistic about Sales Growth and the Economy; Capital Spending Plans Rose Slightly

Restaurant operators have become less optimistic about their prospects for sales growth in recent months. Thirty-eight percent of restaurant operators expect to have higher sales in six months (compared to the same period in the previous year), down from 42 percent last month and the lowest level in six months. In comparison, 20 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, compared to 21 percent who reported similarly last month.

Restaurant operators are also much less bullish about the direction of the overall economy. Twenty-six percent of restaurant operators said they expect economic conditions to improve in six months, down from 28 percent who reported similarly last month and the lowest level in 13 months. In comparison, 21 percent of operators said they expect economic conditions to worsen in the next six months, matching the proportion who reported similarly last month.

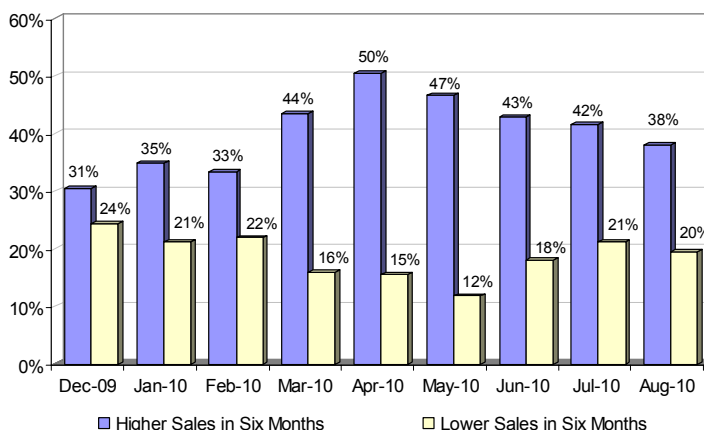
Despite the deteriorating outlook, restaurant operators reported a slight uptick in plans for capital expenditures. Forty-three percent of restaurant operators plan to make a capital expenditure for equipment, expansion or remodeling in the next six months, up slightly from 41 percent who reported similarly last month.

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



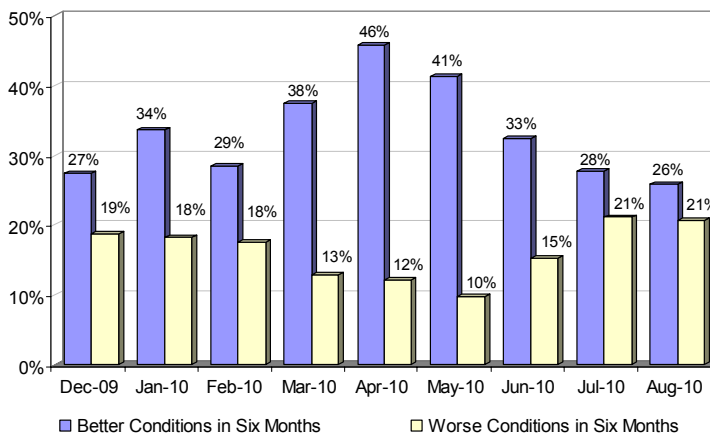
Source: National Restaurant Association, Restaurant Industry Tracking Survey

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

	March 2010	April 2010	May 2010	June 2010	July 2010	Jul-10 over Jun-10
Restaurant Performance Index	100.5	100.4	99.7	99.5	99.4	-0.1%
Current Situation Index	99.0	99.0	98.7	98.8	98.8	0.0%
<i>Current Situation Indicators:</i>						
Same-Store Sales	100.7	99.8	98.9	99.5	99.5	0.0%
Customer Traffic	100.4	99.8	99.0	99.0	98.8	-0.2%
Labor	97.9	98.4	97.8	98.2	98.0	-0.2%
Capital Expenditures	97.2	98.0	99.0	98.5	99.0	0.4%
Expectations Index	101.9	101.8	100.8	100.2	100.0	-0.1%
<i>Expectations Indicators:</i>						
Same-Store Sales	103.5	103.5	102.5	102.1	101.8	-0.2%
Staffing	101.2	101.1	99.9	99.7	99.3	-0.4%
Capital Expenditures	99.5	99.6	99.1	98.3	98.5	0.3%
Business Conditions	103.4	103.2	101.7	100.7	100.5	-0.1%

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 (subscription required).