

Reference Period: Q2 2018

QUARTERLY FORECAST



**Restaurants
Canada**

The voice of foodservice | La voix des services alimentaires

Prepared by
Chris Elliott, Senior Economist

April 6,
2018

Restaurants Canada Quarterly Forecast

Highlights

Menu prices in Canada will grow by a greater-than-expected 3.8% in 2018. This is due to a sharp jump in menu inflation in Ontario.

Commercial foodservice sales in Canada are forecast to climb by 4.6% in 2018 to \$71.5 billion. This follows a 5.3% increase in 2017.

Adjusted for menu inflation, real sales are forecast to moderate from 2.7% growth in 2017 to 0.8% in 2018.

The slowdown in foodservice spending reflects a moderation in disposable income and high household debt levels.

In 2019, commercial foodservice sales will grow by an additional 3.9% to \$74.3 billion.

A greater increase in the number of tourists would result in stronger-than-expected growth in foodservice sales in 2018 and 2019.

Unlike past issues of the Quarterly Forecast, the topline story isn't the sales outlook, but the magnitude of menu inflation in 2018. While menu inflation was expected to accelerate in 2018 in response to rising minimum wages, the increase in menu prices is much larger than anticipated.

Menu inflation in Ontario jumped from a benign 1.6% in early 2017 to 4.9% in January 2018 and a whopping 6.6% in February 2018. This increased the national menu inflation rate to 4% in the first quarter of 2018.

Many restaurant operators are passing on higher labour costs to customers rather than make significant adjustments to employment levels. Foodservice employment in Ontario rose slightly in the first two months of 2018, largely due to an increase in units. Meanwhile, average hours worked per foodservice employee posted a modest decline.

The sharp increase in menu prices coincides with a backdrop of a projected slowdown in overall consumer spending. Following several years of robust gains, a moderation in disposable income, slower real GDP gains, slowdown in the housing market and high household debt will restrain annual commercial foodservice sales growth in Canada to 4.6% in 2018. This is on the heels of a solid 5.3% surge in spending in 2017.

The forecast for foodservice sales growth in Canada in 2018 is slightly greater than the previous estimate of 4.2% growth. This is due to higher-than-expected menu inflation.

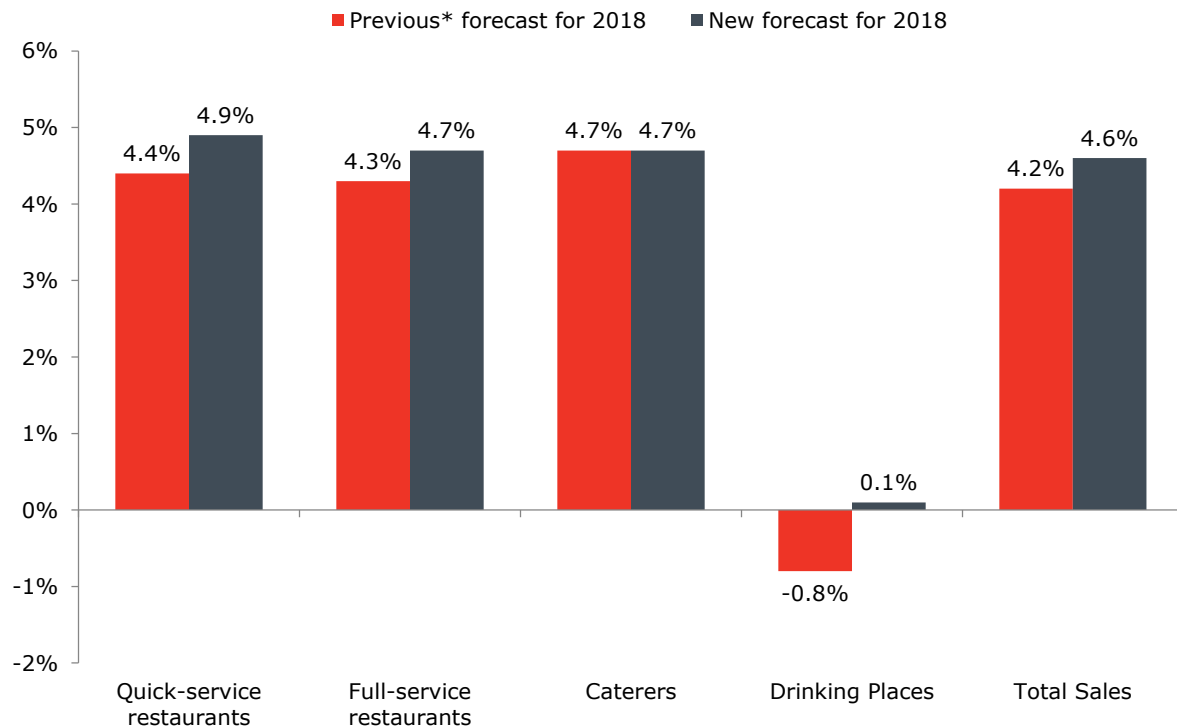
Full- and quick-service restaurant sales are on track to post slower sales growth in 2018 compared to 2017. This reflects weaker economic conditions and an overall slowdown in consumer spending. The Conference Board of Canada, for instance, is forecasting total retail sales will moderate from 6.7% growth in 2017 to 3% growth in 2018 and just 2% in 2019.

Once adjusted for menu inflation, real foodservice sales in Canada will increase by a tepid 0.8% in 2018 following a vibrant 2.7% pace in 2017.

Looking ahead, foodservice sales in 2019 will be weighed down by a combination of slower disposable income growth and as high household debt take the wind out of discretionary spending.

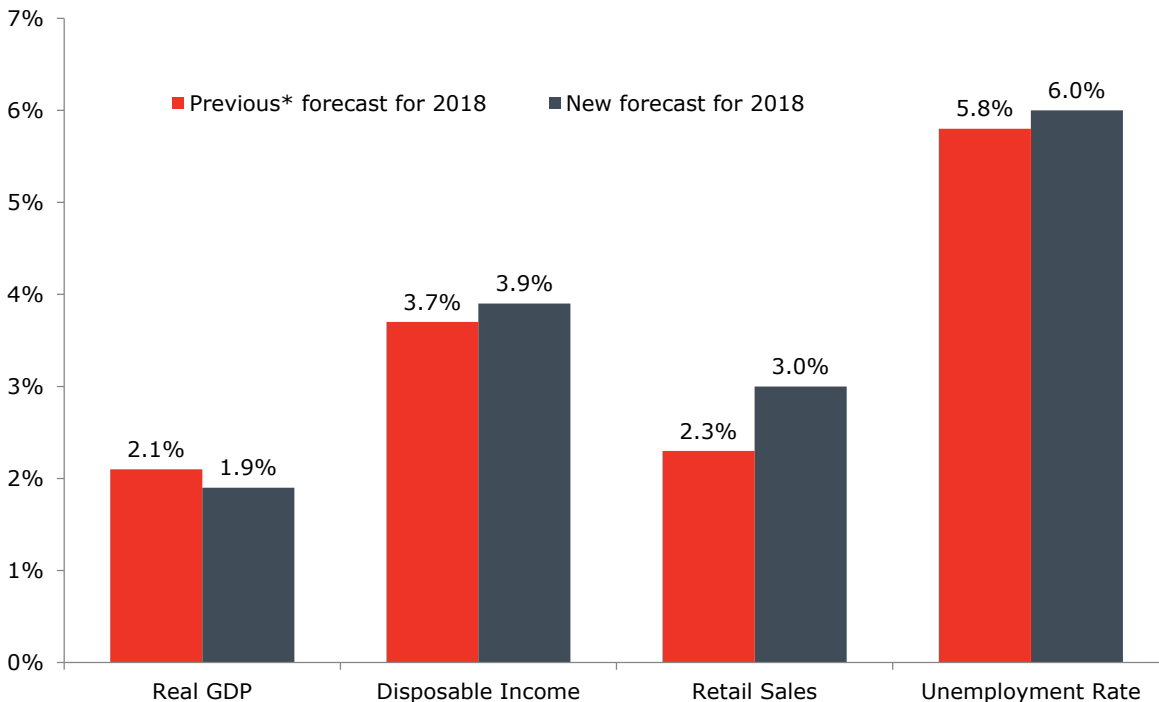
A stronger-than-expected influx in international travelers may lead to stronger foodservice sales over the forecast horizon. In contrast, however, uncertainty in the housing market or NAFTA may suppress consumer confidence and lead to weaker foodservice sales growth.

Comparison Between Previous and New Sales Forecast



* Forecast from Restaurants Canada's Q1 Quarterly Forecast, published in January 2018

Comparison Between Previous and New Economic Indicators Forecast



Source: Conference Board of Canada

* Forecast from Restaurants Canada's Q1 Quarterly Forecast, published in January 2018

Commercial Foodservice Sales Forecast

(sales in millions of dollars)

	2017.1	2017.2	2017.3	2017.4	2018.1	2018.2	2018.3	2018.4	2019.1	2019.2	2019.3	2019.4	2017	2018	2019
Quick-service restaur	\$6,760.7	\$7,780.0	\$8,207.6	\$7,780.6	\$7,125.8	\$8,153.5	\$8,609.7	\$8,138.5	\$7,439.3	\$8,479.6	\$8,919.7	\$8,398.9	\$30,528.9	\$32,027.5	\$33,237.5
	5.0%	5.2%	6.0%	6.2%	5.4%	4.8%	4.9%	4.6%	4.4%	4.0%	3.6%	3.2%	5.6%	4.9%	3.8%
Full-service restaura	\$6,624.0	\$7,534.8	\$8,121.2	\$7,623.8	\$6,915.4	\$7,911.5	\$8,519.1	\$7,951.7	\$7,192.1	\$8,259.6	\$8,885.4	\$8,293.6	\$29,903.7	\$31,297.7	\$32,630.7
	5.5%	5.4%	5.8%	7.0%	4.4%	5.0%	4.9%	4.3%	4.0%	4.4%	4.3%	4.3%	5.9%	4.7%	4.3%
Caterers	\$1,232.7	\$1,367.4	\$1,447.1	\$1,479.3	\$1,296.8	\$1,439.9	\$1,506.5	\$1,541.5	\$1,349.9	\$1,496.0	\$1,578.8	\$1,609.3	\$5,526.6	\$5,784.6	\$6,034.0
	0.9%	0.1%	5.6%	4.4%	5.2%	5.3%	4.1%	4.2%	4.1%	3.9%	4.8%	4.4%	2.8%	4.7%	4.3%
Drinking Places	\$555.9	\$613.8	\$630.7	\$613.3	\$557.6	\$615.0	\$632.6	\$612.1	\$554.2	\$609.5	\$625.6	\$603.5	\$2,413.7	\$2,417.3	\$2,392.9
	-1.4%	-1.6%	0.4%	4.1%	0.3%	0.2%	0.3%	-0.2%	-0.6%	-0.9%	-1.1%	-1.4%	0.4%	0.1%	-1.0%
Total Sales	\$15,173.3	\$17,296.0	\$18,406.5	\$17,497.1	\$15,895.6	\$18,119.8	\$19,267.9	\$18,243.7	\$16,535.5	\$18,844.7	\$20,009.5	\$18,905.4	\$68,372.9	\$71,527.0	\$74,295.1
	4.6%	4.6%	5.7%	6.3%	4.8%	4.8%	4.7%	4.3%	4.0%	4.0%	3.8%	3.6%	5.3%	4.6%	3.9%
CPI-FAFH	1.446	1.456	1.466	1.486	1.502	1.512	1.522	1.541	1.549	1.559	1.569	1.589	1.462	1.519	1.567
	2.3%	2.4%	2.6%	3.3%	3.9%	3.9%	3.8%	3.7%	3.1%	3.1%	3.1%	3.1%	2.6%	3.9%	3.1%
Real Sales	\$10,493.3	\$11,881.9	\$12,553.1	\$11,774.6	\$10,580.2	\$11,980.6	\$12,659.4	\$11,839.0	\$10,675.2	\$12,085.2	\$12,751.4	\$11,899.5	\$46,773.1	47,074.1	47,425.7
	2.2%	2.1%	3.0%	2.9%	0.8%	0.8%	0.8%	0.5%	0.9%	0.9%	0.7%	0.5%	2.7%	0.6%	0.7%
Real GDP ²	4.0%	4.4%	1.5%	1.7%	1.7%	1.7%	1.7%	1.9%	1.9%	2.2%	2.3%	2.3%	3.0%	1.9%	2.0%
Pers. Disp. Income	5.3%	5.0%	4.5%	4.4%	5.1%	4.2%	3.4%	2.9%	2.9%	3.0%	3.2%	3.2%	4.8%	3.9%	3.1%
Retail Sales	6.4%	7.2%	7.2%	6.3%	4.0%	3.1%	3.0%	2.0%	2.0%	2.0%	2.1%	2.1%	6.7%	3.0%	2.0%
Unemployment Rate ³	6.6%	6.5%	6.2%	6.0%	6.0%	6.0%	6.0%	6.0%	5.9%	5.9%	5.9%	5.9%	6.3%	6.0%	5.9%
Inflation ³	1.9%	1.3%	1.4%	1.8%	1.8%	2.2%	2.2%	1.9%	1.7%	1.8%	1.9%	2.0%	1.6%	2.0%	1.9%

Source: Restaurants Canada, Statistics Canada and Conference Board of Canada

NOTE: 1. Shaded areas represent forecast periods. All percentage changes are period-over-period. CPI-FAFH refers to the consumer price index for food away from home, also known as menu inflation.

2. Annualized quarter-over-quarter change.

3. Refers to actual value.