

A man and a woman are standing behind a cafe counter. The man, on the right, is holding a tablet and looking at it. The woman, on the left, is looking at the tablet as well. They are both wearing light-colored shirts. The background shows a cafe setting with shelves of jars, coffee-making equipment, and a chalkboard menu. The text 'QUARTERLY FORECAST' is overlaid in large white letters on the left side of the image.

# QUARTERLY FORECAST

Reference Period: Third Quarter 2018



**Restaurants  
Canada**

The voice of foodservice | La voix des services alimentaires

Prepared by:  
**Chris Elliott, Senior Economist**

**July 16, 2018**

# Restaurants Canada Quarterly Forecast

## Highlights

Commercial foodservice sales are forecast to grow by 4.8% in 2018.

However, rising operating costs have led to a sharp increase in menu prices, especially in Ontario. As a result, real sales are expected to moderate to just 0.4% growth, after adjusting for menu inflation.

In 2019, commercial foodservice sales are forecast to moderate to 4.4% growth due to rising interest rates, high household debt and slower disposable income growth.

Canada's economy is forecast to grow at a steady pace of 1.8% over the next two years as gains in investment spending and exports offset a slowdown in consumer spending and a weaker housing market.

There are a number of possible headwinds that could impact this outlook. Ongoing trade battles, or a sustained contraction in the housing market, would erode consumer confidence and put a dent in household spending.

Commercial foodservice sales are forecast to grow by 4.8% to a record \$71.8 billion in 2018. While this would typically represent a healthy increase in revenues, most of the gains are the result of higher menu prices. Factoring out menu inflation, real sales will grow by a tepid 0.4%. This is the weakest increase since 2011.

The big story for 2018 remains the sharp increase in menu prices. In Ontario, menu prices soared by 7.0% as a result of Bill 148. In addition, several other provinces are reporting menu inflation above 3.0%, due to higher operating expenses.

Overall foodservice sales growth in 2018 will be driven by greater spending at full- and quick-service restaurants. British Columbia, Quebec and Ontario will remain pillars of strength, albeit at a slower pace than 2017.

After a sluggish start to the year, caterer revenues are forecast to expand by 4.1% in 2018.

Drinking place sales are forecast to be flat in 2018. This is due to a combination of fewer young people going out to drinking places and a decline in the number of establishments.

In 2019, slower disposable income growth and high household debt will restrain commercial foodservice sales growth to 4.4%. Adjusted for inflation, real sales will grow

by 1.2% — a pace that is on par with population growth.

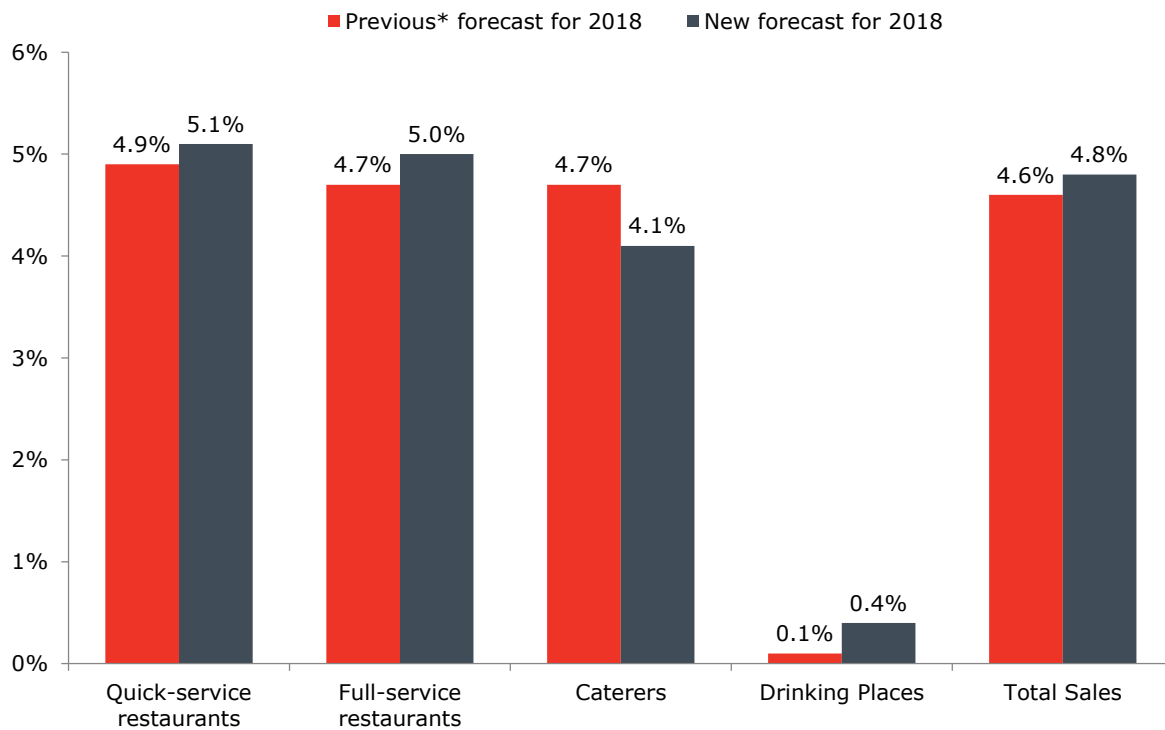
Although foodservice operators are feeling the pinch of rising operating expenses, the near-term outlook for Canada's economy remains favourable. After leading the G7 countries in 2017, Canada's economy will continue to grow by a solid 1.8% in 2018 and 2019. This will support healthy job creation.

Business investment and an increase in exports will help offset a slowdown in consumer spending and a modest contraction in residential market activity.

Nevertheless, there are a number of risks that could impact this outlook. Tense NAFTA negotiations, combined with the recently announced tariffs could hurt business investment and exports in Canada. This is happening when the current strength of the U.S. economy would otherwise provide a strong boost to the Canadian economy.

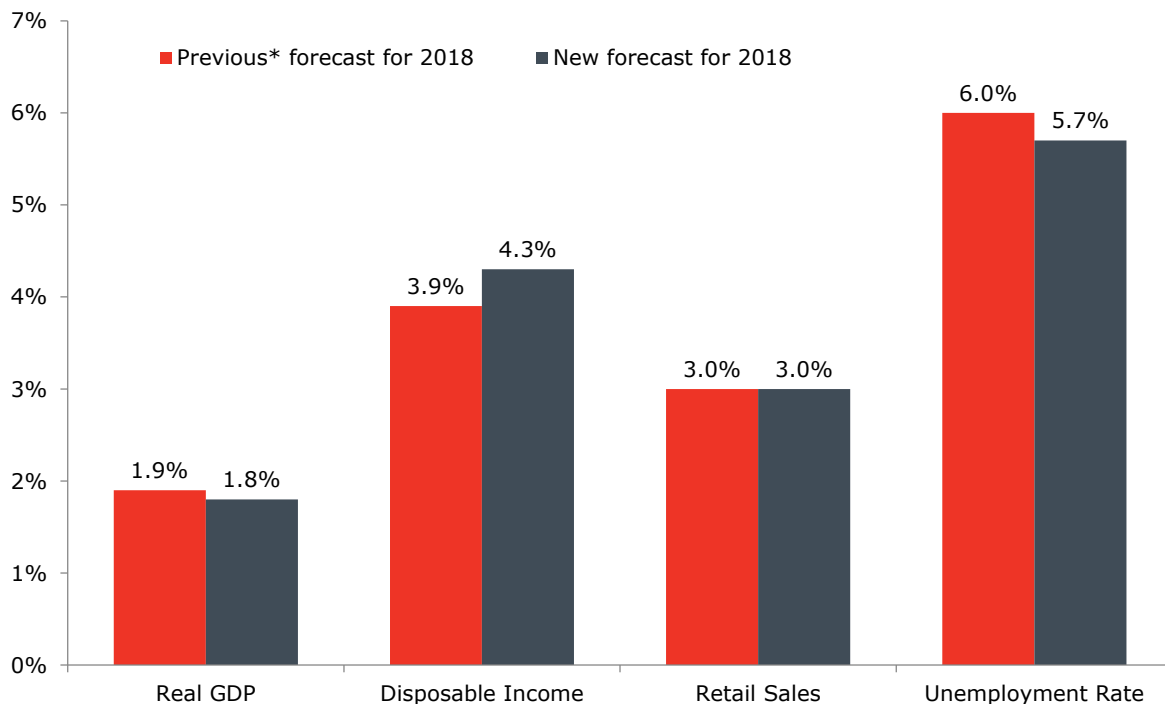
Uncertainty in the housing market remains a notable downside risk. Regulatory changes at the national and provincial level resulted in a sharp decline in resale activity in Q1. This will take some of the wind out of the housing market. Consequently, a significant contraction over the remainder of the year, would have a detrimental effect on consumer confidence and spending.

## Comparison Between Previous and New Sales Forecast



\* Forecast from Restaurants Canada's Q2 Quarterly Forecast, published in April 2018

## Comparison Between Previous and New Economic Indicators Forecast



Source: Conference Board of Canada

\* Forecast from Restaurants Canada's Q2 Quarterly Forecast, published in April 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 restaurant	\$6,740.9 4.9%	\$7,761.2 5.1%	\$8,194.3 5.9%	\$7,767.8 6.4%	\$7,110.9 5.5%	\$8,102.7 4.4%	\$8,628.6 5.3%	\$8,163.9 5.1%	\$7,445.1 4.7%	\$8,475.4 4.6%	\$9,008.3 4.4%	\$8,506.8 4.2%	\$30,464.2 5.6%	\$32,006.2 5.1%	\$33,435.6 4.5%
Full-service restaurant	\$6,675.7 6.3%	\$7,637.4 6.6%	\$8,207.9 6.8%	\$7,685.0 8.0%	\$7,065.9 5.8%	\$7,981.1 4.5%	\$8,634.7 5.2%	\$8,023.2 4.4%	\$7,405.1 4.8%	\$8,340.2 4.5%	\$9,066.5 5.0%	\$8,360.1 4.2%	\$30,206.0 6.9%	\$31,704.9 5.0%	\$33,171.9 4.6%
Caterers	\$1,198.0 3.4%	\$1,358.6 4.2%	\$1,413.2 7.2%	\$1,430.7 4.1%	\$1,229.2 2.6%	\$1,433.3 5.5%	\$1,471.1 4.1%	\$1,490.7 4.2%	\$1,277.1 3.9%	\$1,489.2 3.9%	\$1,541.7 4.8%	\$1,556.3 4.4%	\$5,400.5 4.8%	\$5,624.4 4.1%	\$5,864.4 4.3%
Drinking Places	\$558.4 -1.4%	\$626.2 1.0%	\$648.7 3.8%	\$607.2 2.6%	\$557.3 0.2%	\$631.2 0.8%	\$651.9 0.5%	\$607.8 0.1%	\$557.3 0.0%	\$630.6 -0.1%	\$651.3 -0.1%	\$606.6 -0.2%	\$2,438.5 1.6%	\$2,448.2 0.4%	\$2,445.7 -0.1%
Total Sales	\$15,171.1 5.1%	\$17,383.4 5.6%	\$18,464.1 6.3%	\$17,490.7 6.7%	\$15,963.3 5.2%	\$18,148.3 4.4%	\$19,386.4 5.0%	\$18,285.7 4.5%	\$16,684.6 4.5%	\$18,935.4 4.3%	\$20,267.7 4.5%	\$19,029.9 4.1%	\$68,509.2 6.0%	\$71,783.6 4.8%	\$74,917.6 4.4%
CPI-FAFH	1.446 2.3%	1.456 2.4%	1.466 2.6%	1.486 3.3%	1.504 4.0%	1.521 4.5%	1.532 4.5%	1.545 4.0%	1.551 3.1%	1.568 3.1%	1.580 3.1%	1.593 3.1%	1.462 2.6%	1.526 4.4%	1.573 3.1%
Real Sales	\$10,491.7 2.7%	\$11,941.9 3.0%	\$12,592.3 3.6%	\$11,770.3 3.3%	\$10,613.9 1.2%	\$11,930.5 -0.1%	\$12,651.9 0.5%	\$11,832.0 0.5%	\$10,759.9 1.4%	\$12,073.7 1.2%	\$12,829.4 1.4%	\$11,943.4 0.9%	\$46,866.3 3.3%	47,048.9 0.4%	47,626.6 1.2%
Real GDP <sup>2</sup>	4.0%	4.6%	1.7%	1.7%	1.3%	1.9%	1.7%	1.7%	1.9%	1.8%	1.9%	1.9%	3.0%	1.8%	1.8%
Pers. Disp. Income	5.4%	5.1%	4.7%	4.4%	5.2%	4.8%	3.9%	3.6%	3.3%	2.9%	3.0%	3.1%	4.9%	4.3%	3.1%
Retail Sales	6.5%	7.7%	7.2%	7.1%	3.5%	3.1%	3.4%	2.0%	3.1%	3.0%	2.9%	2.9%	7.1%	3.0%	3.0%
Unemployment Rate <sup>3</sup>	6.6%	6.5%	6.2%	6.0%	5.8%	5.7%	5.7%	5.7%	5.7%	5.6%	5.6%	5.6%	6.3%	5.7%	5.6%
Inflation <sup>3</sup>	1.9%	1.3%	1.4%	1.8%	2.1%	2.4%	2.7%	2.4%	2.0%	2.0%	1.8%	1.8%	1.6%	2.4%	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.