

Reference Period: Second Quarter 2015

RESTAURANT OUTLOOK SURVEY



**Restaurants
Canada**

The voice of foodservice | La voix des services alimentaires

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Highlights

Nearly four in 10 operators reported higher same-store sales in Q2 while 30% reported lower sales.

Looking ahead, 39% of operators expect their sales to accelerate over the next six months. This is down from 46% in Q1.

Higher prices for meat and vegetables led to a 3.9% jump in food costs for the average operator.

A majority (56%) of respondents plan to raise their menu prices over the next six months.

While food and labour costs remain the top challenges facing operators, the share of operators reporting a skilled labour shortage jumped in Q2.

Canada's economy likely slipped into a recession in Q2. Despite the economic uncertainty, consumers were resilient as 39% of foodservice respondents reported a year-over-year increase in their same-store sales. This is a slight increase from 38% in Q1.

April and May were both strong months for the restaurant industry as 42% of operators posted higher same-store sales. Bad weather in June, however, led to lower sales for 40% of operators.

Overall, three in 10 operators reported lower same-store sales in Q2. This is up slightly from 27% in Q1.

Another three in 10 operators reporting flat same-store sales in Q2.

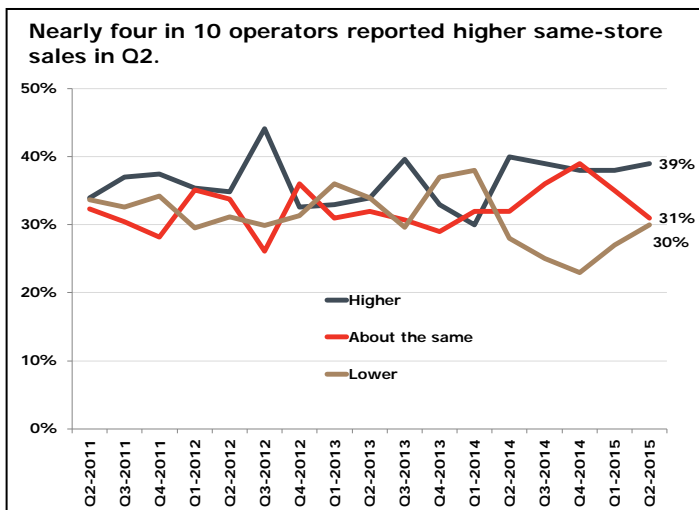
Quick-service restaurants led the industry as 50% of respondents reported higher same-store sales in Q2. This is an increase from 44% in Q1.

In contrast, just 33% of table-service restaurants posted higher same-store sales in Q2. Nevertheless, the share of respondents that reported lower sales dropped from 37% in Q1 to 31%.

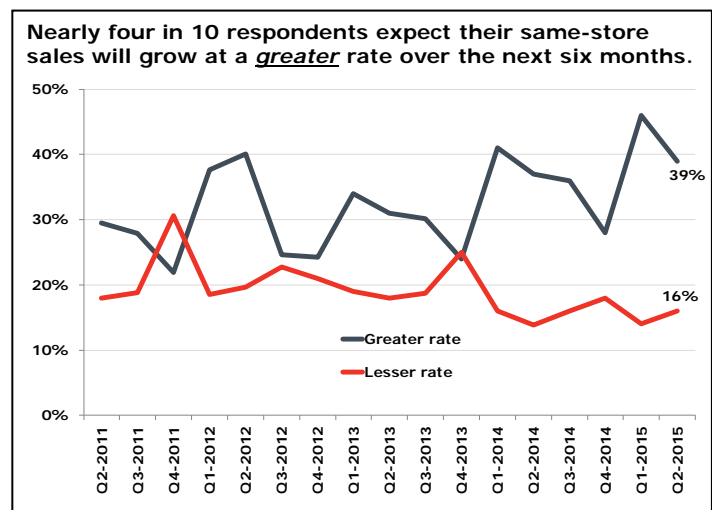
Forty-five percent of 'all other foodservice,' which includes accommodation, caterers and drinking places, saw same-store sales increase.

Looking ahead, the share of respondents that expect their sales will accelerate over the next six months slipped from 46% in Q1 to 39% in Q2. This drop in optimism corresponds to a similar decline in consumer sentiment. The Conference Board of Canada's consumer confidence index slipped from 103.9 points in Q1 to 99.1 in Q2.

Still, the share of respondents that expect same-store sales to decelerate remains near an all time low at 16%.



Q: In the second quarter of 2015, was your total sales volume (on a same-store basis) higher, lower, or about the same versus the same period one year ago?



Q: Over the next six months, do you expect your total sales volume (on a same-store basis) will grow at a greater, lesser, or about the same rate as the previous six months?

In another positive sign, the outlook for Alberta improved in Q2. The share of respondents in Alberta that believe their sales will decelerate over the next six months fell from 38% in Q1 to 28% in Q2. According to data from Statistics Canada, sales fell at table-service restaurants, caterers and drinking places in the first four months of 2015 while quick-service restaurants reported an increase.

Nationally, the share of quick-service restaurants that expect their sales to accelerate over the next six months rose from 48% in Q1 to 55% in Q2. Only 13% anticipate sales will decelerate – the lowest share of any segment.

In contrast, 35% of table-service restaurant operators expect sales to accelerate over the next six months compared to 41% in Q1. Nearly half of respondents expect their growth to remain about the same.

Just 37% of accommodation, bar and institution operators expect sales to accelerate over the next six months. This share is down sharply from 49% in Q1.

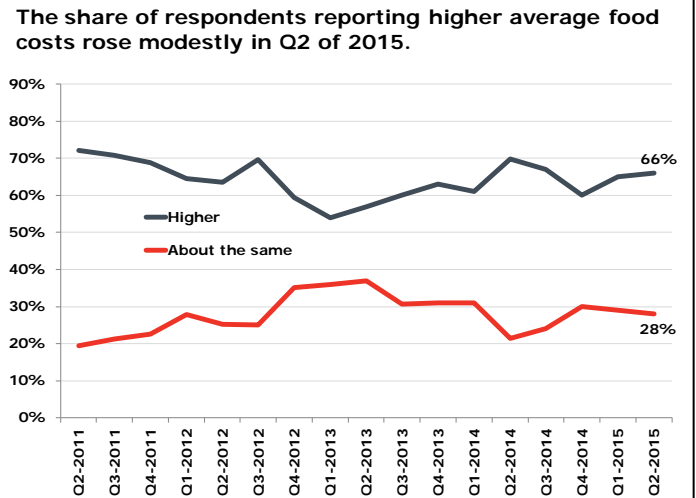
Food Costs and Menu Prices

Two-thirds of operators reported higher food costs in Q2, unchanged from Q1. Another 28% of respondents reported their food costs were about the same.

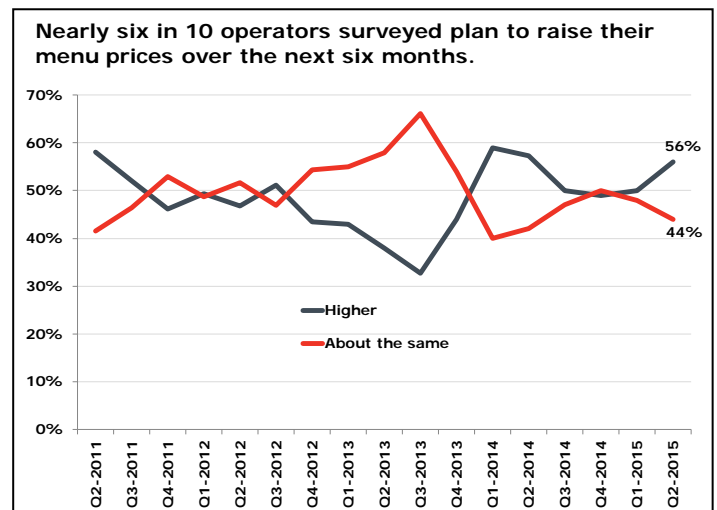
Overall, restaurants reported an average 3.9% year-over-year increase in their food costs in Q2.

According to Statistics Canada, consumers in Q2 paid more at grocery stores for beef (+18.2%), pasta (+10.2%), lettuce (+16.5%) and tomatoes (+8.1%).

Over the next six months, 56% of operators plan to raise their menu prices, while 44% expect to maintain their current menu prices.



Q: In the second quarter, were your average food costs higher, lower or about the same as the second quarter of 2014?



Q: Over the next six months, do you expect your menu prices to be higher, lower, or the same as the previous six months?

Six in 10 quick-service restaurant operators plan to raise their menu prices over the next six months. This is up sharply from 37% in Q1.

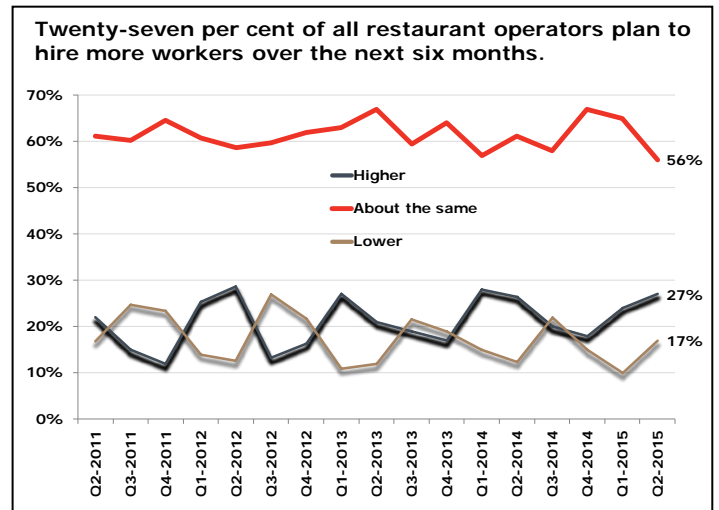
A majority (55%) of table-service restaurants plan to raise their menu prices. This is relatively unchanged from Q1.

Employment

The share of operators that plan to maintain their employment levels slipped to 56% in Q2. Although 27% of respondents will hire more workers, 17% will decrease their employment levels.

While 37% of chain respondents expect to hire more over the next six months, only 20% of independents will increase their staffing levels.

Historically, the hiring outlook is positive in Q1 and Q2 due to an increase in seasonal workers during the summer months, and turns negative in Q3 and Q4.



Q: Over the next six months, is your company's level of employment expected to be higher, lower, or about the same as the previous six months?

Factors Impacting Business

Food and labour costs are tied as the top issues facing the restaurant industry.

Given the growing demand for workers during the summer months, 42% of respondents reported a shortage of skilled labour. This is up from 32% in Q2 2014. Another 24% of operators said they experienced a shortage of unskilled labour. Despite the economic slowdown in Alberta, labour shortages remain a significant problem for operators in the province.

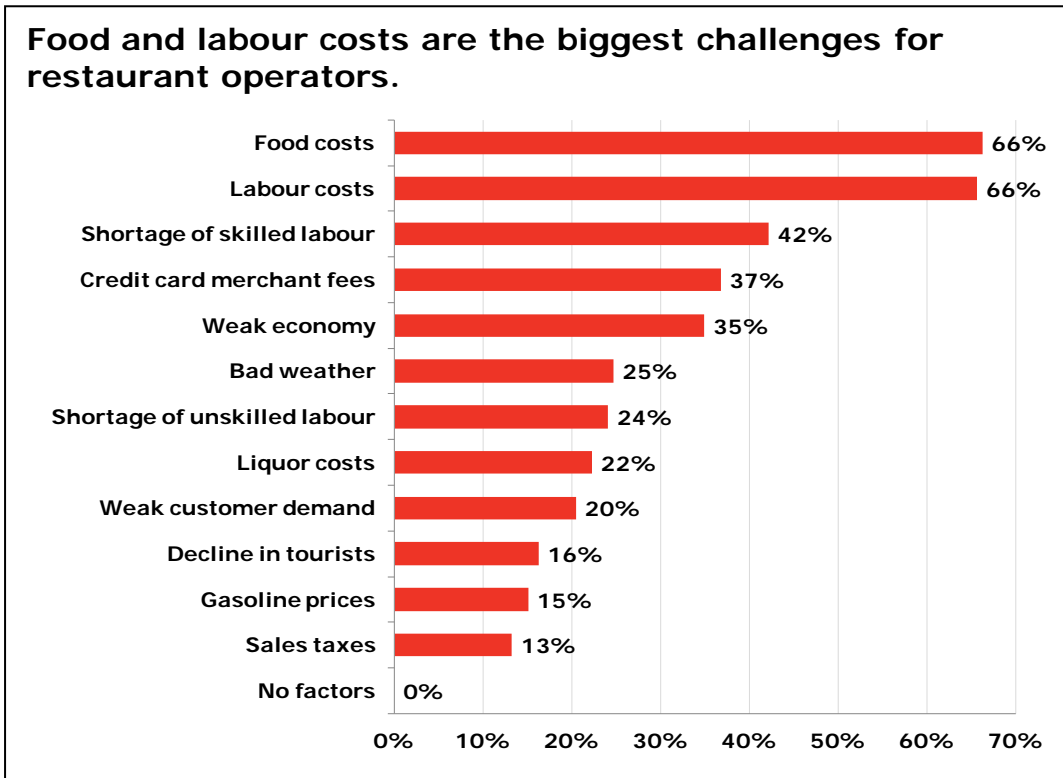
Credit card merchant fees were an issue for 45% of table-service restaurants and 25% of quick-service operators.

The weak economy remains a significant challenge for 35% of respondents. In Alberta, 61% of operators said the weak economy is having a negative impact on their business.

While bad weather was not a significant issue in April and May, 37% of operators in June blamed bad weather for having a negative impact on their business.

Other issues affecting operators include liquor costs (31% of table-service restaurants) and weak customer demand (20% of all respondents).

With the drop in the Canadian dollar, only 16% of respondents reported a decline in tourists.



Q: What factors, if any, are currently having a negative impact on your business?

About the Restaurant Outlook Survey

The responses for the second quarter are compiled from a monthly e-mail to restaurant operators inviting them to take an online survey. The survey covers the reference periods April, May and June 2015.

In total, 166 completed surveys were submitted for the second quarter, representing 7,316 establishments.

Results of the survey are considered accurate within +/- 7.6 percentage points 19 times out of 20. The margin of error will be larger within sub-groupings of the survey.

Future editions will provide an ongoing index of business performance and expectations that will help restaurant owners, suppliers and policy makers in their business planning and analysis. We encourage restaurant operators to participate in the Restaurant Outlook Survey to ensure results continue to be representative of our industry.

About Restaurants Canada

Since its founding in 1944, Restaurants Canada has grown to represent 30,000 businesses in every segment of the foodservice industry, including restaurants, bars, clubs, cafeterias, and contract and social caterers. Through advocacy, research, member savings and industry events, we help our members in every Canadian community grow and prosper.

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