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RESEARCH

Restaurant Outlook Survey

Q1 2020


11.3.17

Executive Summary

- In the first two weeks of February, nearly half (46%) of respondents reported that their same-store sales were lower compared to the same period in 2019. Although there were only a few confirmed COVID-19 cases in Canada at the time, 24% of respondents said their business was negatively impacted by COVID-19.
- In the first two weeks of March, 93% of respondents said their foodservice operation was negatively impacted by COVID-19.
- With the increase in the number of COVID-19 cases in early March, 78% of foodservice operators surveyed reported lower same-store sales between March 1, 2020 and March 15, 2020 compared to the same period in 2019.
- In the final two weeks of March, 96% of respondents reported lower same-store sales compared to the same period in 2019.
- At the end of March, lower revenues and social distancing measures imposed by governments resulted in 53% of respondents closing down their entire operation temporarily.
- If current conditions persist over the next 30 days, 18% of respondents said their business would close down permanently in less than a month.
- Most of the economic impact from COVID-19 will be felt in Q2, with annualized real GDP in Canada forecast to plummet anywhere between 10% and 25%. By way of comparison, Canada's economy shrank by 8.7% during the trough of the last recession.

Introduction

We are living in unprecedented times. The dramatic increase in COVID-19 cases around the globe, combined with the speed at which governments enacted strict measures to contain the virus, has never been seen on a scale this massive.

All of this is having a dramatic impact on foodservice operators and their employees. Many have shut down by choice, or due to social distancing measures put in place by the government. This special edition of the Restaurant Outlook Survey looks at the impact of COVID-19 on the foodservice industry between early February and the end of March.

What does the future hold? There is no question that Canada's economy is in a recession. There remain a number of unknowns, such as the depth and the duration of the recession, and what programs federal and provincial governments will enact to get the industry back on its feet. Even after this is over, there remains a lot of uncertainty as to whether there will be a V-shaped bounce back in foodservice sales or a slower recovery in foodservice sales in 2020 and into 2021.

February 15, 2020

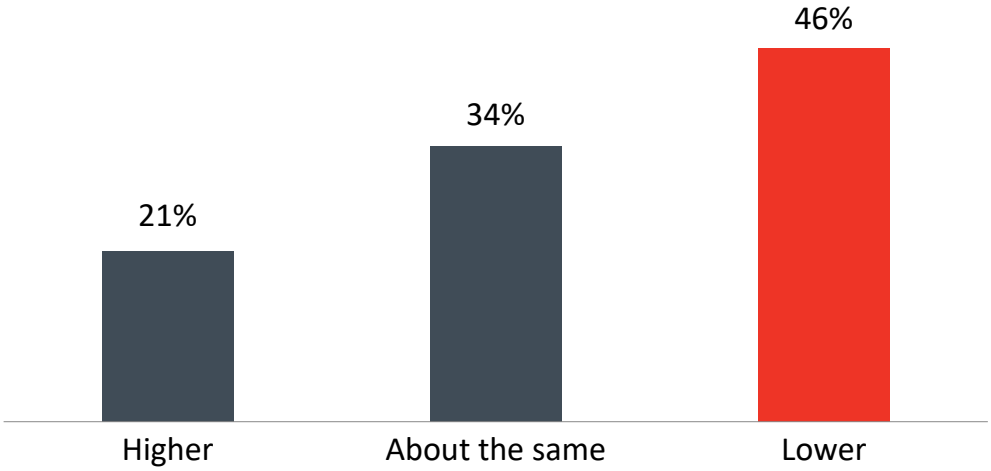
Number of confirmed cases of COVID-19 in Canada: 8

Number of confirmed cases worldwide: 69,197

On February 15, 2020, Restaurants Canada conducted a short survey to assess the current state of the foodservice industry. At the time, there were a number of challenges facing Canada's economy: "snowmageddon" in Newfoundland & Labrador, which shut down St. John's for eight days in January; railway blockades; and a sharp drop in oil prices.

Between February 1, 2020 and February 12th, 2020, nearly half (46%) of respondents reported their same-store sales were lower compared to the same period in 2019. In contrast, a record low of 21% posted higher sales. Finally, 34% responded that their sales were flat compared to 2019. This decline in same-store sales in the first two weeks of February is discouraging given that same-store sales were lower throughout the course of 2019 compared to 2018.

Almost half of foodservice operators reported lower same-store sales in the first two weeks of February.

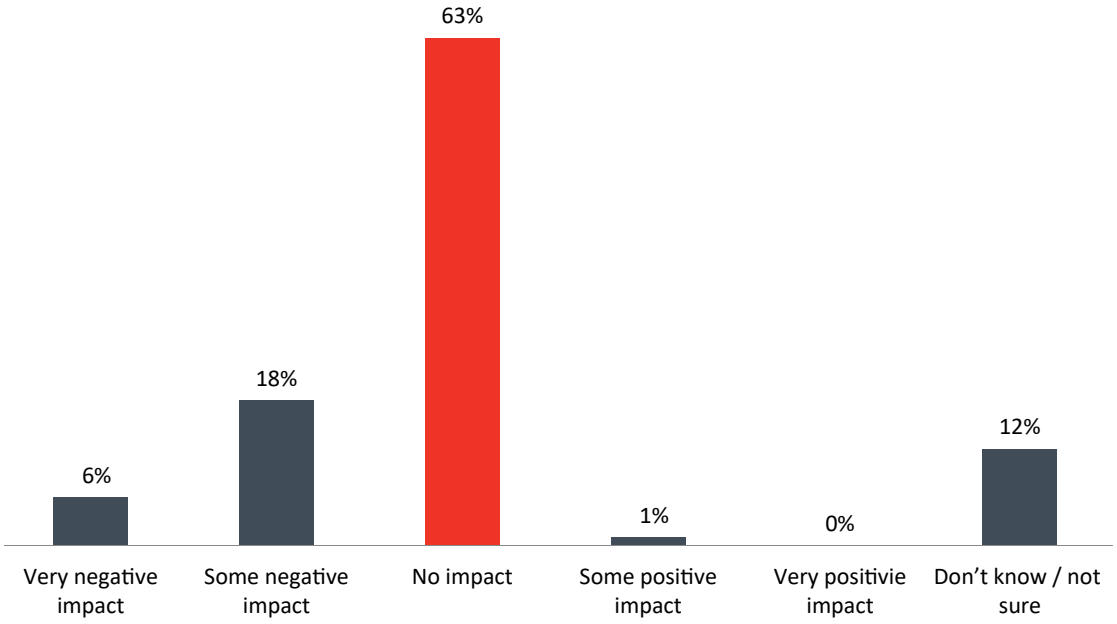


Q: Between February 1, 2020 to February 12th, 2020, was your total sales volume (on a same-store basis), higher, lower, or about the same as it was the same period in 2019?

Most of the decline in same-store sales in early February was due to weather and economic factors. At the time, just 6% of respondents said that their business had been "very negatively impacted" by COVID-19 while another 18% were "somewhat negatively impacted". In fact, 63% felt "no impact".

It was reported in the media, however, that some Asian restaurants were experiencing a 70% to 90% drop in their sales on a year-over-year basis. The impact was not isolated to just Asian cuisine restaurants. Other restaurant concepts were impacted as well if they had a restaurant within a Chinatown area, or saw a decline in the number of tourists.

The majority of foodservice operators did not see an impact from COVID-19 on their business the first two weeks of February.



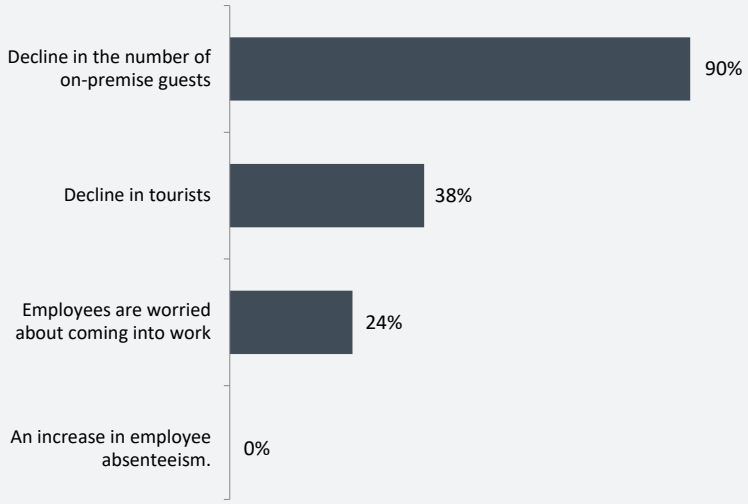
Q: To what extent, if any, has your business been impacted by novel coronavirus (COVID-19) in the first two weeks of February?

Of those foodservice operators that saw their business negatively impacted by COVID-19, the vast majority (90%) saw a decline in the number of on-premise guests. Nearly four in 10 respondents experienced a decline in the number of tourists. As noted by one operator, Chinese tour groups had started to cancel trips to Canada, which would also impact future sales.

Understandably, there was some anxiety among foodservice staff as 24% of respondents said employees were worried about coming into work, but none of the operators surveyed reported an increase in absenteeism because of this.

For those with lower sales in the first two weeks of February, 90% of respondents reported a decline in the number of on-premise guests.

Q: How has your business been impacted by novel coronavirus (COVID-19)? (please select all that apply)

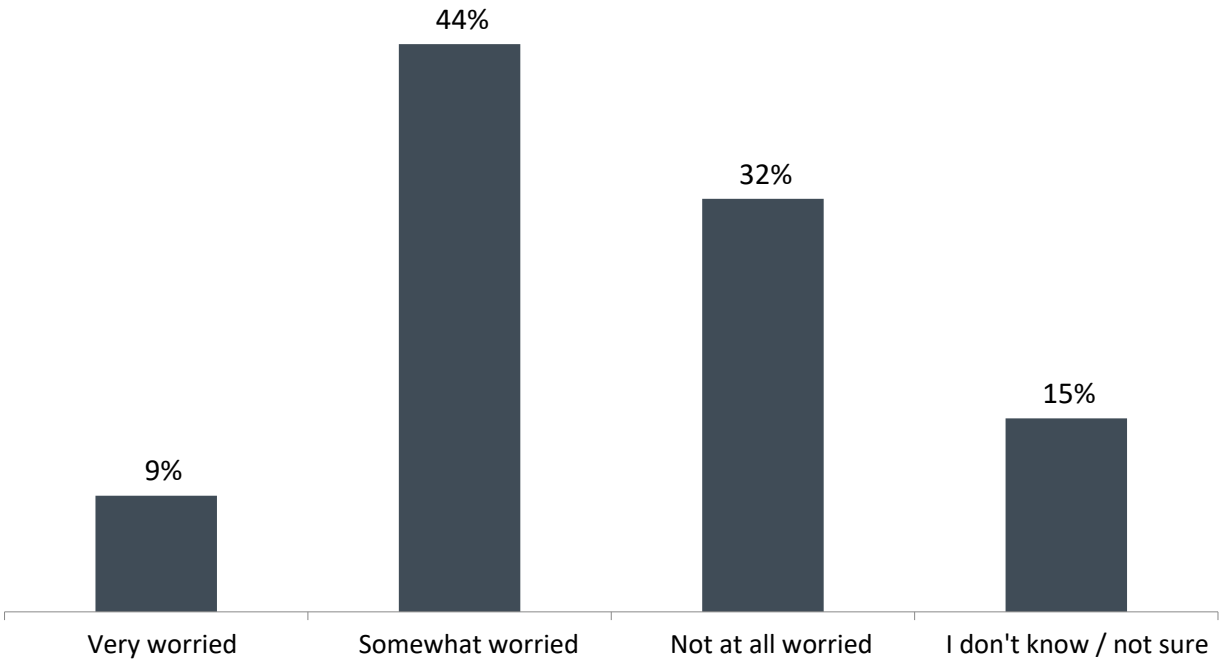


While Canada only had eight cases at the time of this survey, the majority of foodservice operators were already doing a number of things in response to COVID-19, including:

- Maintaining food cleanliness and safety
- Making additional sanitizers available for customers and staff
- Reinforcing handwashing procedures
- Telling employees not to come into work if sick

Although the vast majority of confirmed cases were in Asia at the time of this survey, foodservice operators were concerned that COVID-19 would impact their future sales over the next three months, with 9% responding that they were "very worried".

In mid-February, just over half of foodservice operators were feeling worried about COVID-19 impacting their future sales over the next three months.



Q: How concerned are you about novel coronavirus (COVID-19) impacting your future sales over the next three months?

As one operator stated: "We are monitoring hotel bookings. Employees in all our locations have been asked to monitor any illness symptoms and not come to work if unwell. We have placed hand sanitizer stations throughout the back of house and staff room areas."

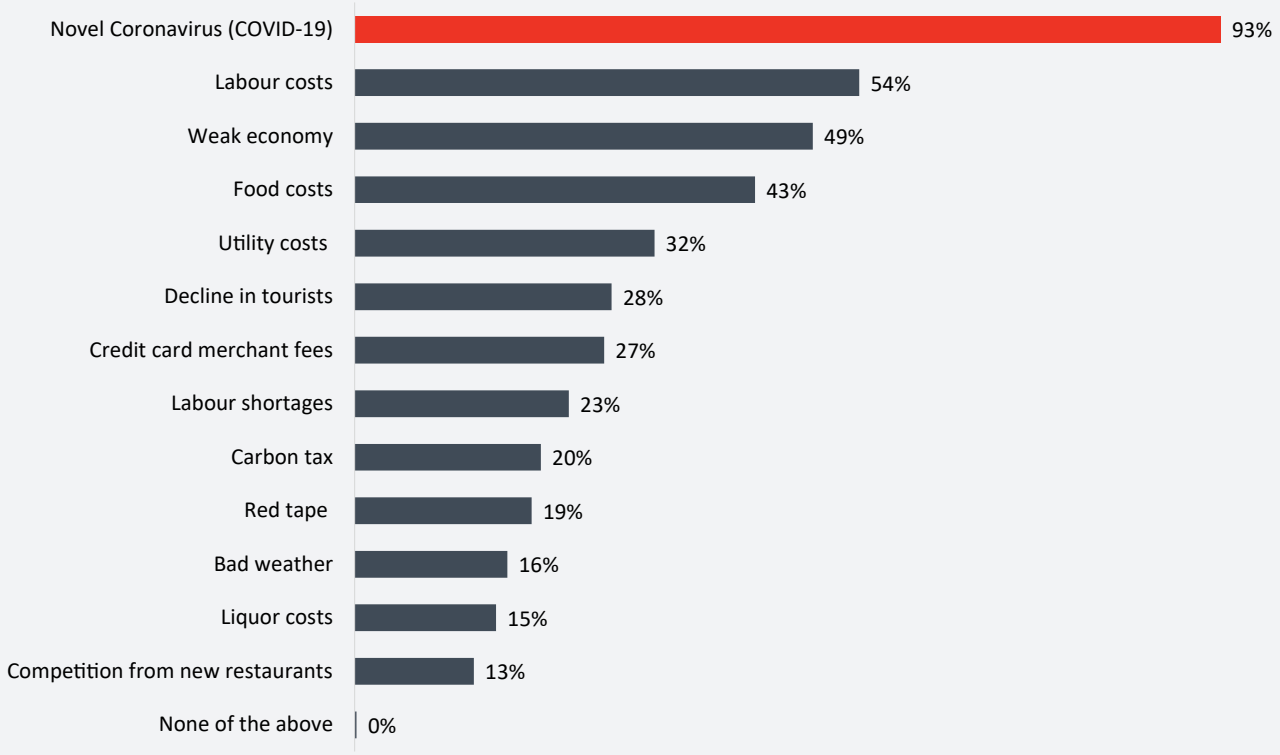
March 16, 2020

Number of confirmed cases of COVID-19 in Canada: 441
Number of confirmed cases worldwide: 182,414

Although there was little impact on the foodservice industry in the first two weeks of February from COVID-19, as the number of confirmed cases steadily increased in Canada, nearly all foodservice operators felt the impact on their business the first half of March.

In the first two weeks of March, 93% of respondents said their foodservice operation was negatively impacted by COVID-19. This impact was felt across all segments of the foodservice industry, while other concerns such as labour costs and food costs were put on the back burner of top issues. Labour shortage, which was among the top concerns for foodservice operators only a few months ago, plummeted as a concern, now ranking well below other issues, such as utility costs and decline in the number of tourists. A number of operators commented that they had fewer tourists, especially from Asia, and they worried that more tour groups would cancel in the coming months due to COVID-19.

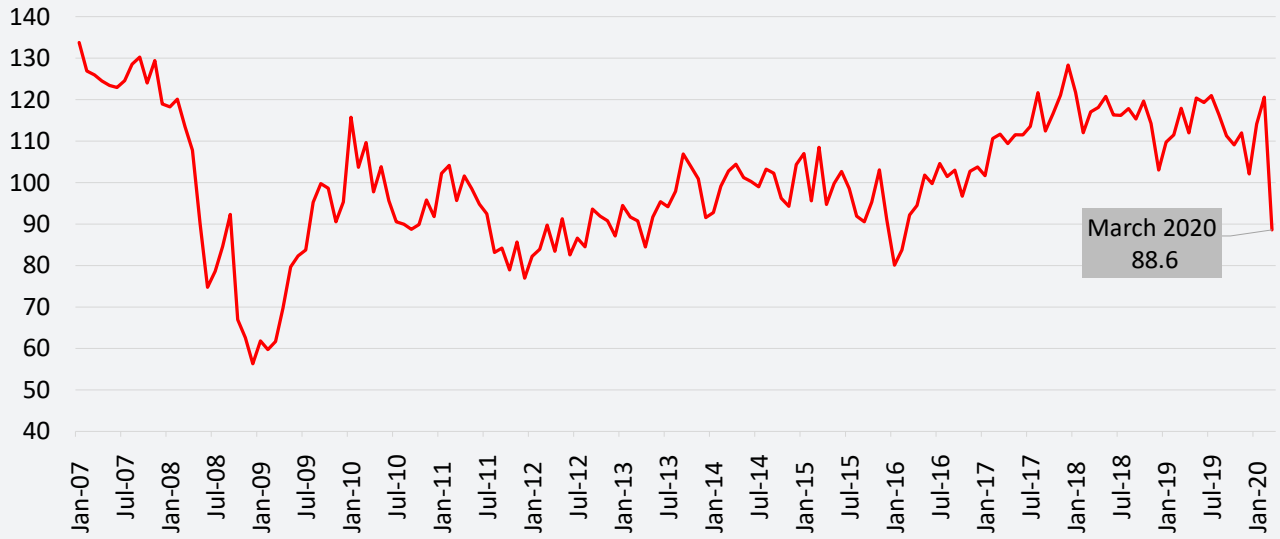
In the first half of March, 93% of respondents said COVID-19 had a negative impact on their business.



Q: What factors, if any, are currently having a negative impact on your foodservice business? (Please select all that apply.)

It's also notable that nearly half of respondents (49%) said weak economic conditions had a negative impact on their business. This is the highest level since Q1 2016 (56%). Canada's economy was already very weak in the fourth quarter of 2019, and this continued into the first quarter due to inclement weather in many parts of the country, railroad blockades and a sharp drop in global oil prices. While these events would restrain economic activity in the first quarter under normal circumstances, the largest impact would be felt by COVID-19. One of the earliest indicators of the impact of COVID-19 on Canadian consumers comes from the Conference Board of Canada's consumer confidence index, which plummeted by a record 32 points in March.

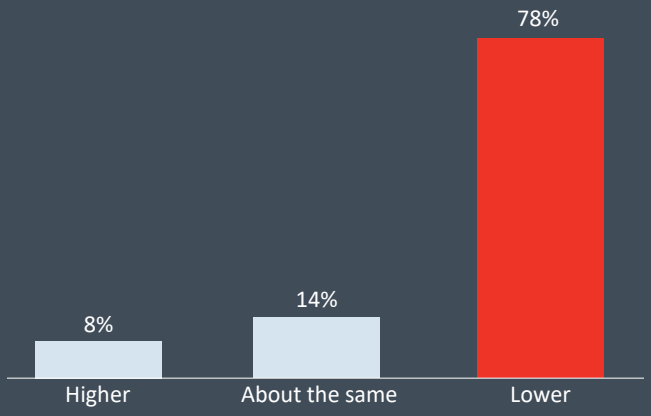
In March 2020, consumer confidence in Canada fell to its lowest since January 2016. (2014 = 100)



Source: Conference Board of Canada

Nearly eight in 10 foodservice operators posted lower same-store sales between March 1, 2020 and March 15, 2020.

With the increase in the number of COVID-19 cases in early March, an overwhelming 78% of foodservice operators surveyed reported lower same-store sales between March 1, 2020 and March 15, 2020 compared to the same period in 2019. In contrast, just 12% of quick-service restaurants and 7% of table-service restaurants reported higher same-store sales.



Q: Between March 1, 2020 to March 15, 2020, was your total sales volume (on a same-store basis), higher, lower, or about the same as it was during the same period in 2019?

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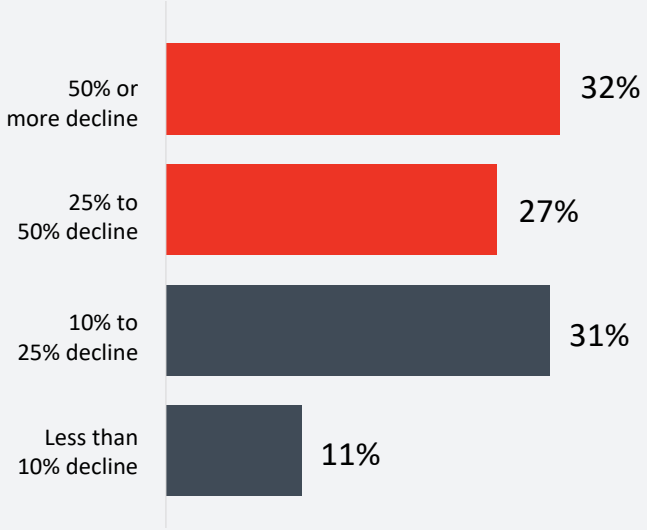
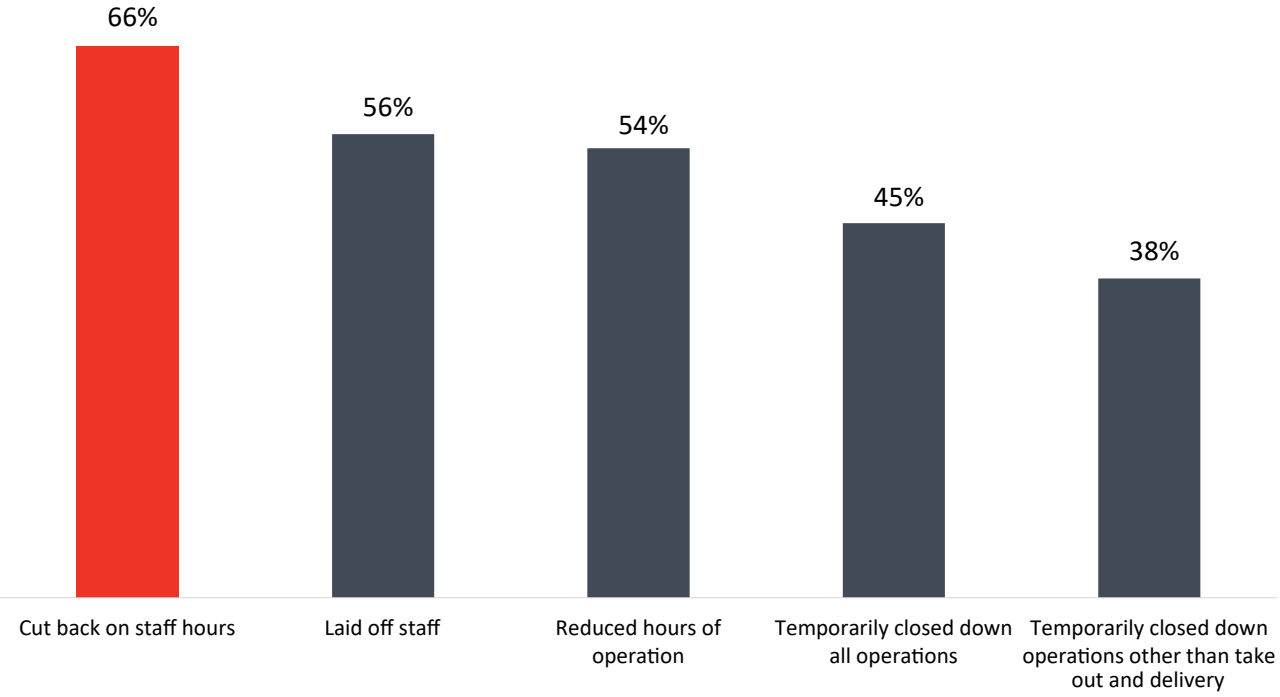
Of those reporting lower same-store sales in the first two weeks of March, a majority reported a decline of 25% or more.



Q: Roughly, what was the percentage decrease in your same-store sales between March 1, 2020 and March 15, 2020 compared to the same period in 2019?

In response to this, a majority of respondents said they cut back on staff hours (66%), laid off staff (56%) and/or reduced hours of operation (54%).

In the first two weeks of March, two-thirds of respondents cut back on staff hours in response to COVID-19.

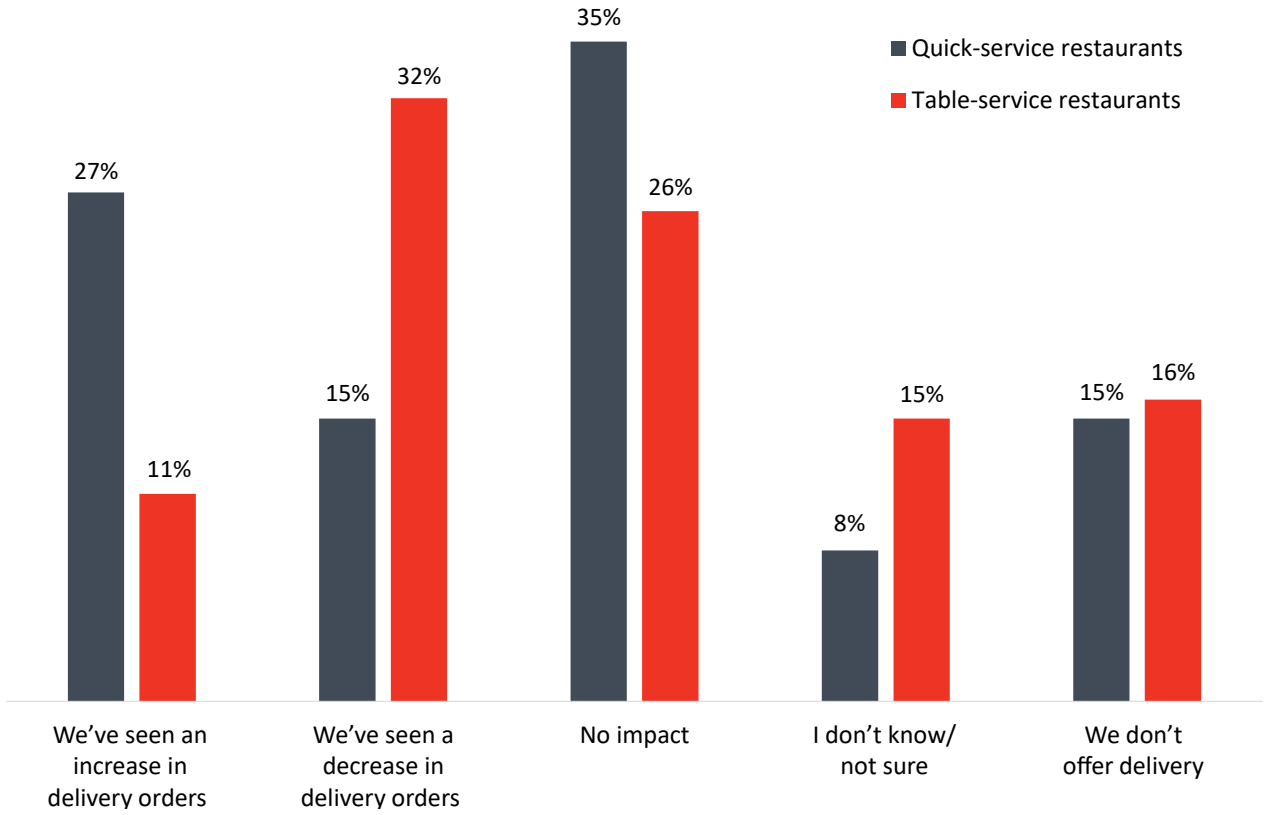


Q: What action has your business taken in response to COVID-19? (please select all that apply)

Overall, 45% of respondents chose to temporarily close down their operation while 38% opted to remain open to focus on takeout and delivery. As most of quick-service restaurant revenues are generated by off-premise, only 34% of quick-service restaurants chose to close down temporarily compared to 46% of table-service restaurants. Nearly half of 'all other foodservice' – which includes foodservice from accommodation, drinking places, institutions (e.g. health care, education) and managed service providers – closed down temporarily.

For those restaurants that remained open to focus on delivery and takeout, results were mixed in terms of how it impacted their delivery revenues. At quick-service restaurants, 27% of respondents experienced an increase in delivery in the first two weeks of March compared to 15% that reported a decrease. In contrast, just 11% of table-service restaurants saw an increase in delivery while a hefty 32% saw fewer deliveries.

A greater share of quick-service restaurant operators reported an increase in delivery orders in the first two weeks of March compared to table-service restaurants.

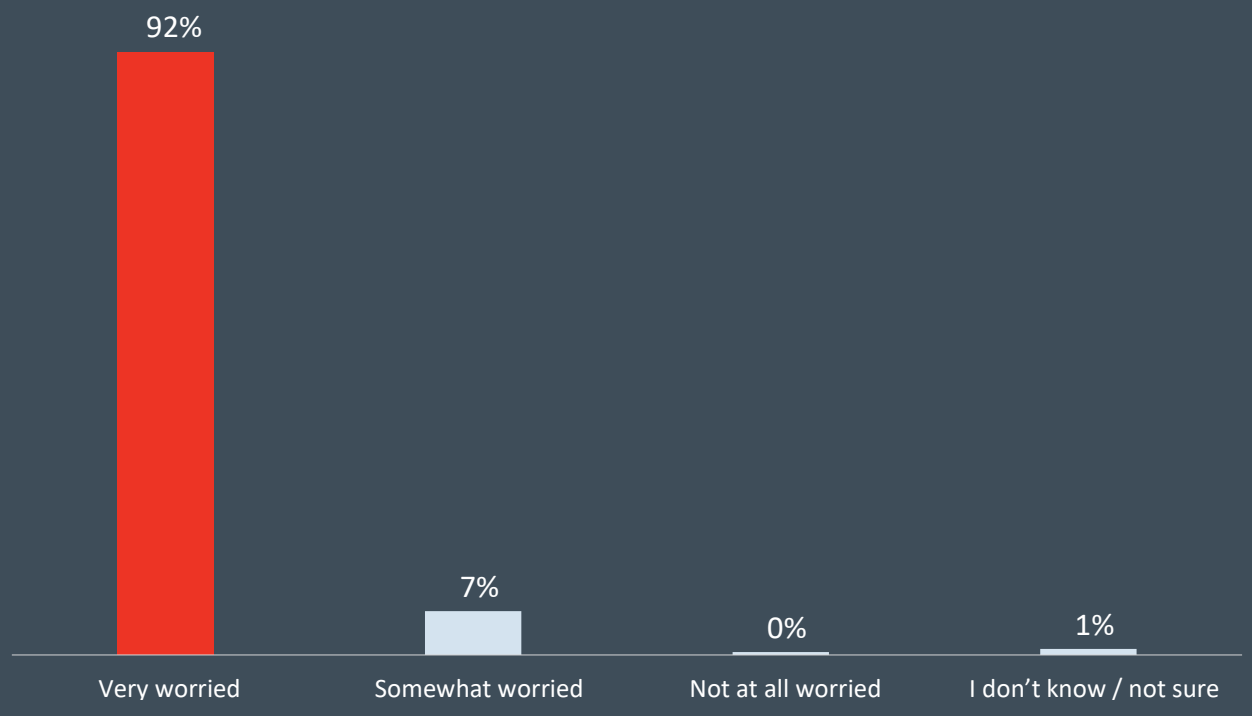


Q: Has there been any impact on your delivery orders due to novel coronavirus (COVID-19)?

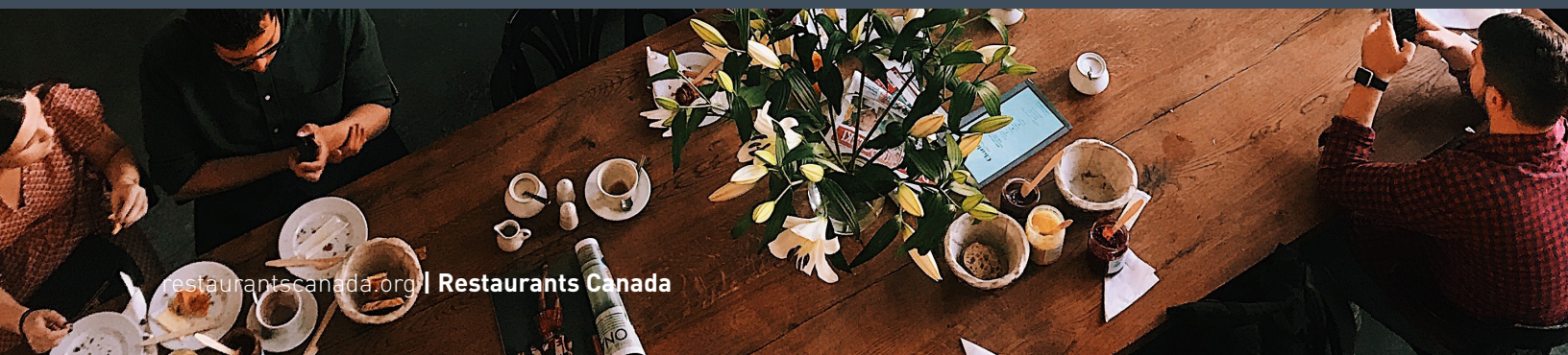
Quick-service restaurants may have benefitted from a lower average check size, or perhaps uncertainty on whether a particular table-service restaurant was still open or temporarily closed. Anecdotally, foodservice operators selling pizza and chicken saw some of the strongest delivery sales.

While the survey was in the field, provincial governments across the country implemented various social distancing measures that included closing down the dine-in portion of their business or reducing the seating capacity of the restaurant. As a result, nearly all those surveyed were worried about their sales over the next three months, with 92% understandably feeling "very worried".

Nine out of 10 operators are very worried about novel coronavirus over the next three months.



Q: How concerned are you about novel coronavirus (COVID-19) impacting your future sales over the next three months?

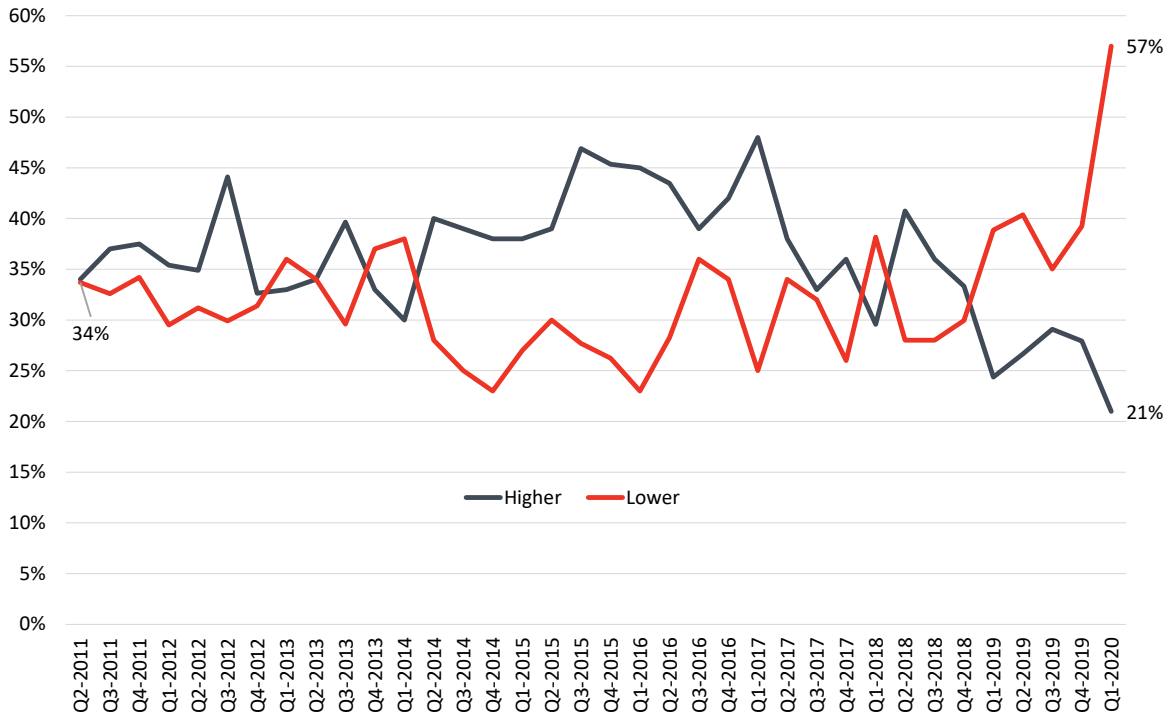


Apart from the numbers, operators shared their concerns and worries. For many operators, they closed their doors, laid off staff and are unsure whether they will be able to reopen again. They are gravely concerned about their staff, paying their bills and losing everything they worked so hard for. From our survey:

> **"We are considering closing, selling off what remaining stock we have through prepared meals, etc. and then waiting to see where we go from here. I fear the worst, for many of us."**
>
> **"All restaurants have been forced to close, but landlords still expect rent, banks still expect loan payments and interest payments. What are we to do?"**
>
> **"We plan to use our restaurant as a way to help elderly customers in our community by delivering soups, etc. free of charge (employing one staff to make soup)."**

Looking back at Q1 overall, a record 57% of respondents reported lower same-store sales since the start of 2020 compared to the same period in 2019. Conversely, only 21% reported higher same-store sales since the start of 2020. Table-service restaurants were particularly impacted as only 19% reported higher same-store sales since the start of 2020 versus 28% of quick-service restaurants that reported an increase.

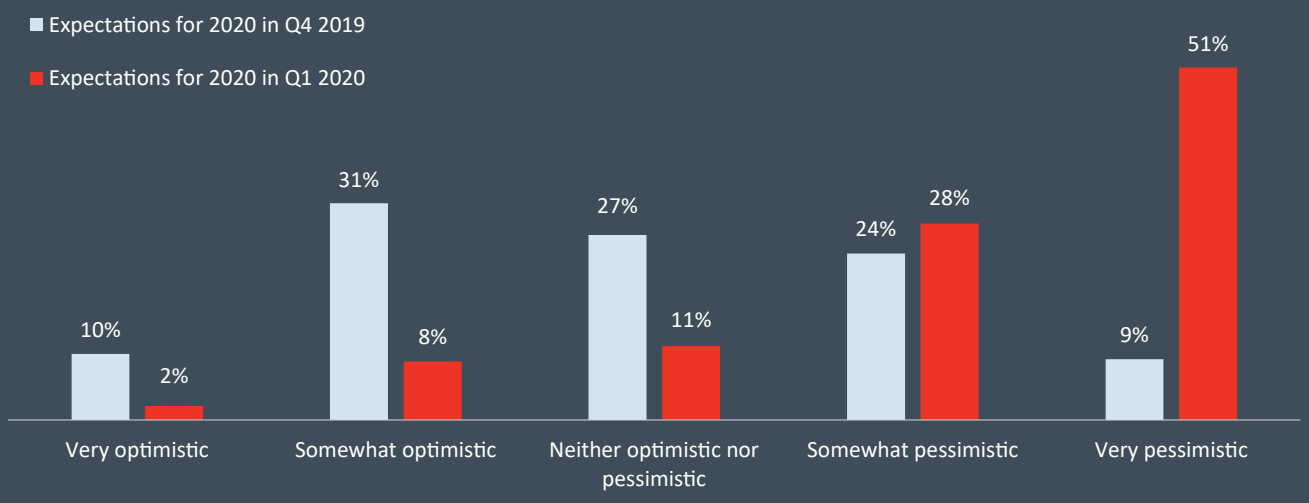
Six out of 10 operators reported lower same-store sales in Q1 2020.



Q: Between January to mid-March 2020, was your total sales volume (on a same-store basis) higher, lower, or about the same as it was in the same period of 2019?

As a result of these challenges, nearly eight in 10 respondents are feeling pessimistic about the next 12 months. This is a sharp reversal from Q4 2019 when 41% of respondents were optimistic about 2020.

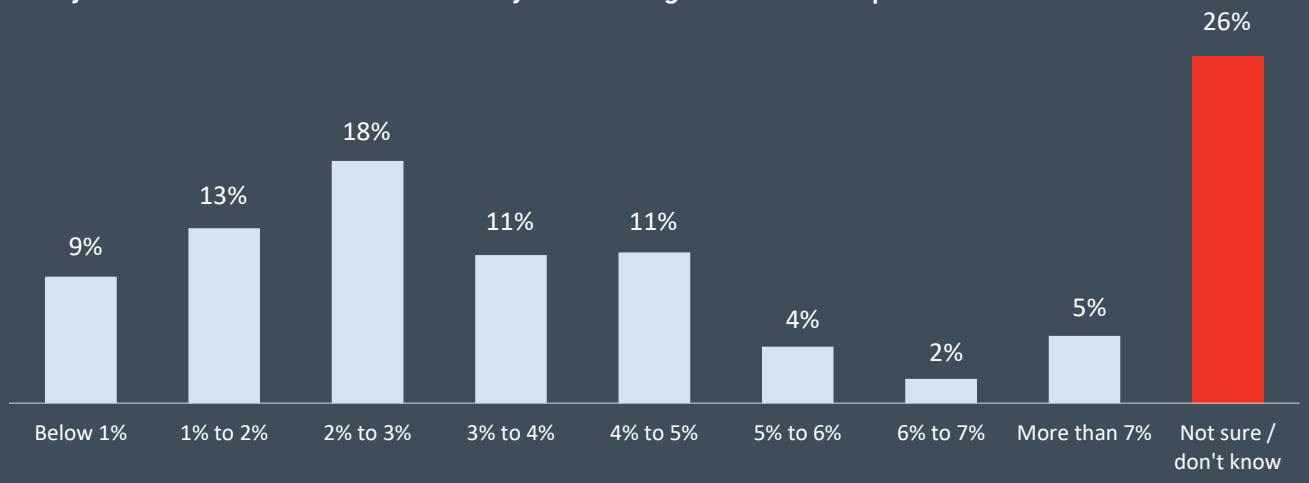
Half of all foodservice operators are "very pessimistic" about the next 12 months.



Q: How optimistic are you about your foodservice operation over the next 12 months compared to the previous 12 months?

Given an uncertain future, 26% of respondents said they are not sure how much they will increase their menu prices over the coming 12 months. In the past, only a small number of respondents have selected this option. For those that will raise their menu prices, they expect to increase it by 3.0% in 2020. This result was consistent across all segments of the foodservice industry.

Menu prices are expected to increase by an average of 3% over the next 12 months, but many remain unsure how much they will change their menu prices.



Q: Over the next 12 months, do you expect your menu price increase on a year-over-year basis to be:

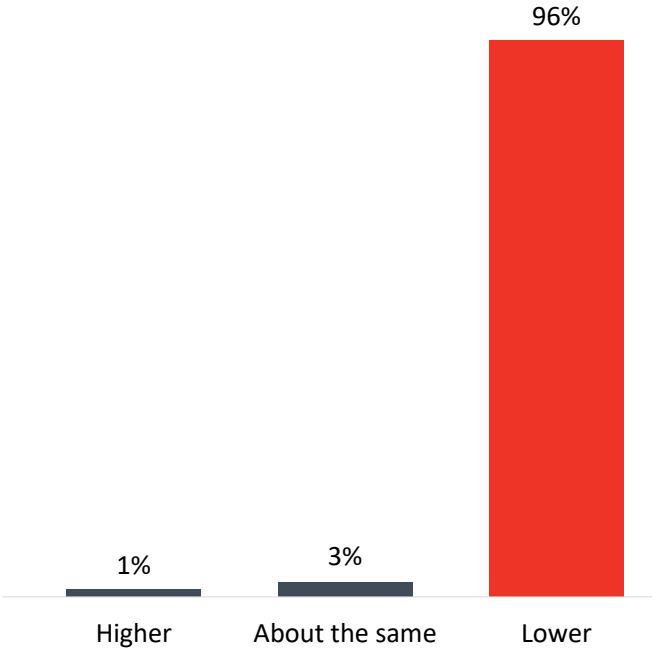
March 24, 2020

Number of confirmed cases of COVID-19 in Canada: 2,792
Number of confirmed cases worldwide: 422,574

In the last two weeks of March, a stunning 96% of respondents recorded lower same-store sales compared to the same two weeks in 2019.

Given the rapidly changing foodservice environment, a third survey was sent to capture the impact of COVID-19 over the course of the last two weeks of March. When asked how their same-store sales performed in the last two weeks of March compared to the same period a year ago, a staggering 96% of respondents reported lower same-store sales.

Overall, sales at table-service restaurants tumbled by an average of 74% while quick-service restaurants saw an average 64% decline in same-store sales. Please note, these figures include operators that have closed and are based on the best estimates of respondents. They are not weighted to reflect the size of the company.



Q: Between March 16, 2020 and March 26, 2020, was your total sales volume (on a same-store basis), higher, lower, or about the same as it was during the same period in 2019?

An estimated 800,000 foodservice workers are currently laid off or not working.

Given the dramatic decline in sales, foodservice operators have responded to the situation in several ways since the beginning of March, including:

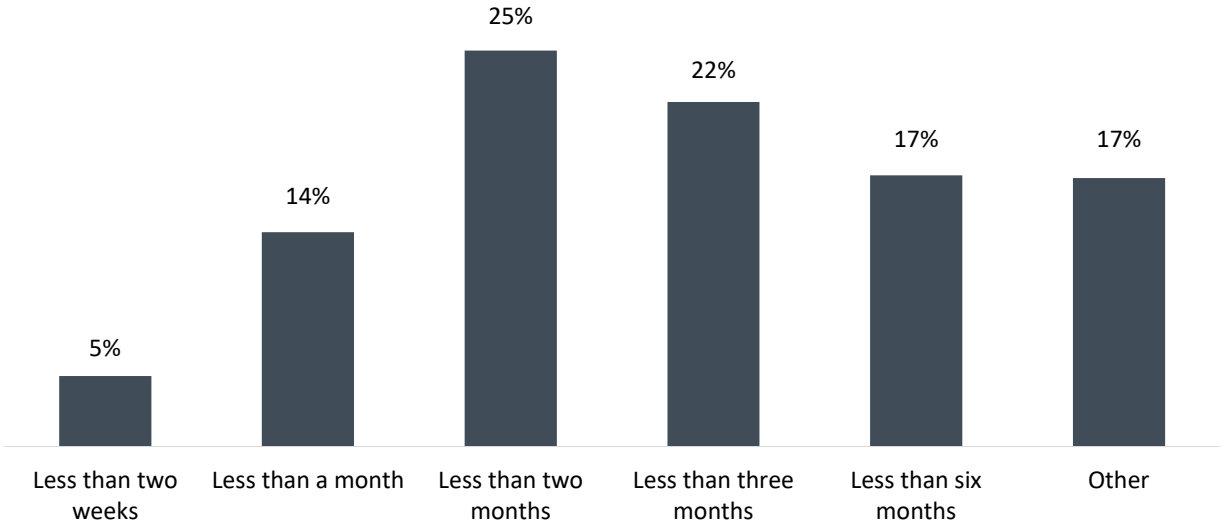
- 80% of foodservice operators laid off staff
- 45% reduced their hours of operations
- 43% cut back on staff hours
- 53% temporarily closed down their business
- 36% temporarily closed down the off-premise portion of their business but are now focusing on takeout and/or delivery
- 9% permanently closed

If the situation continues over the next 30 days:

- 72% said they are extremely likely or very likely to cut back further on staff hours
- 70% said they are extremely likely or very likely to lay off additional employees

With a sharp decline in revenue, foodservice operators still need to pay rent, insurance, business taxes, and other operating expenses. If current conditions persist over the next 30 days, 18% of respondents said their business would close down permanently in less than a month.

Nearly one in five restaurants will close down permanently within 30 days if current conditions continue.



Q: If current conditions continue, how long do you expect your business to survive before you will have to close down permanently?

"We are not able to sustain ourselves with takeout or delivery, we need help if we are going to be able to survive after this. This is all we have. It's our life savings. It's our passion and dreams." – Survey respondent

April 2, 2020

Number of confirmed cases of COVID-19 in Canada: 11,283
Number of confirmed cases worldwide: 1,015,565

Economic Outlook

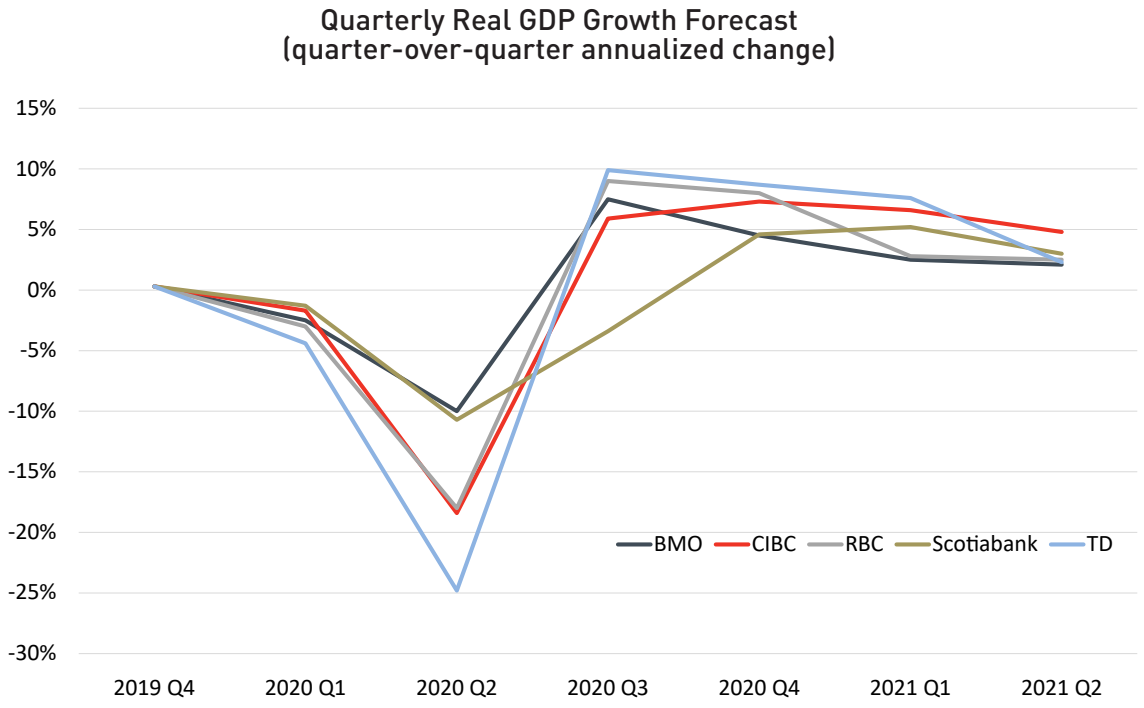
We are in uncharted waters when it comes to economic forecasting. With Canada's economy now in a recession, the duration and the depth of the recession will be determined by how quickly health officials can contain and reduce the number of new cases; as well as the effectiveness of government policy measures to stimulate economic activity and boost business and consumer confidence.

Canada's economy was already on a weak footing in the final quarter of 2019. At that time, Canada's real GDP grew by a paltry 0.4% (annualized), restrained by a 5.1% drop in exports and lower business investment. This represents the slowest pace of economic activity in the past four years.

Given the weak start in January, combined with oil price shocks in February and the effects of COVID-19 in March, the major banks are forecasting that Canada's economy will contract somewhere between 1.3% to 4.4% (annualized) in the first quarter of 2020.

Most of the impact from COVID-19, however, will be felt in the second quarter, with annualized real GDP forecast to plummet between 10% and 25%. By way of comparison, Canada's economy shrank by 8.7% during the trough of the last recession.

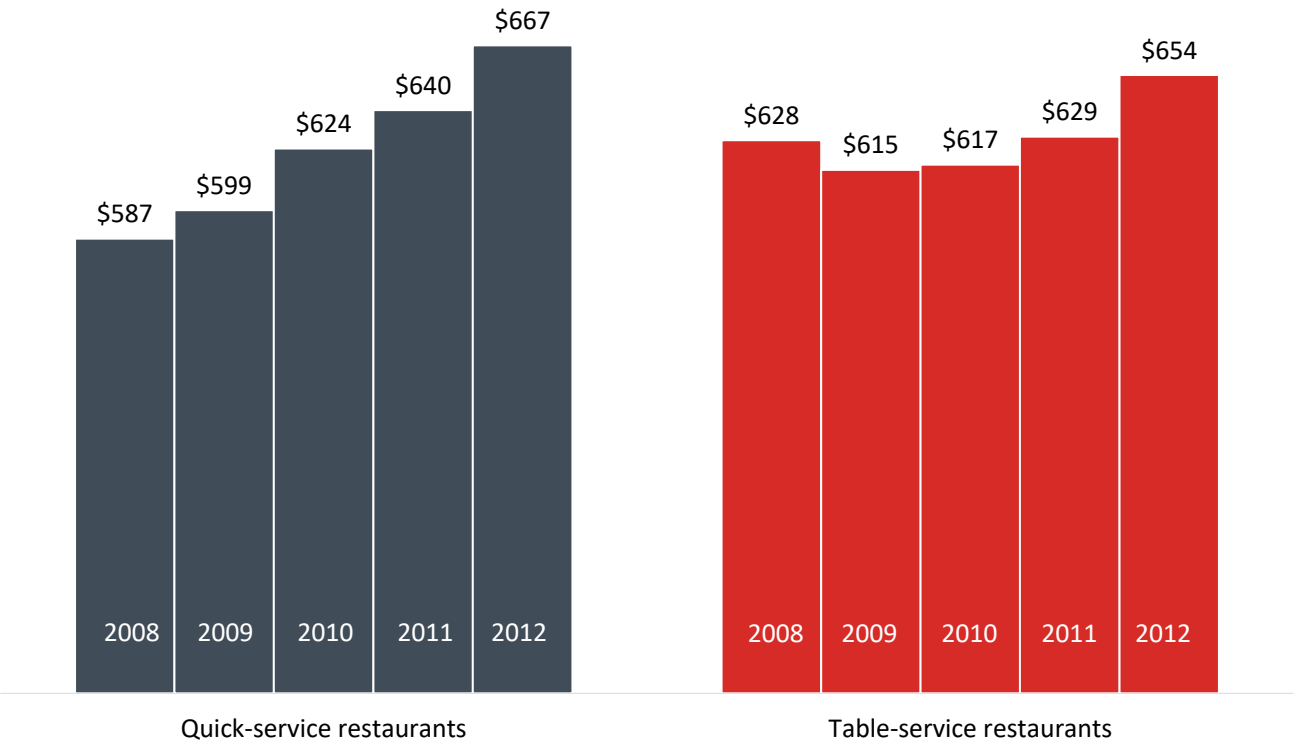
On an annual basis, Canada's economy is forecast to contract between 1.0% and 4.4% in 2020. The economy is expected to rebound in 2021 with real GDP climbing between 2.1% and 4.1%.



Looking back at the last recession in 2008-09, it took three years for per capita full-service restaurant sales to return back to pre-recession levels. In contrast, per capita quick-service restaurant sales continued to increase (albeit at a slower rate) in 2009 as consumers shifted spending away from full-service restaurants.

A new forecast for foodservice sales for 2020 and 2021 will be released in the coming weeks which will provide a more detailed view by segment at the national level.

Annual per capita foodservice sales at restaurants in Canada (2008 to 2012)



Source: Statistics Canada and Restaurants Canada

Appendix

What factors, if any, are currently having a negative impact on your foodservice business? (please select all that apply)

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Novel Coronavirus (COVID-19)	93%	88%	94%	93%
Labour costs	54%	53%	58%	44%
Weak economy	49%	43%	51%	48%
Food costs	43%	55%	46%	30%
Utility costs (water, electricity, gas and heating)	32%	28%	36%	25%
Decline in tourists	28%	22%	28%	30%
Credit card merchant fees	27%	26%	30%	20%
Labour shortages	23%	21%	23%	24%
Carbon tax	20%	7%	24%	15%
Red tape (unnecessary government policies and regulations)	19%	10%	22%	16%
Bad weather	16%	14%	18%	13%
Liquor costs	15%	2%	21%	7%
Competition from new restaurants	13%	21%	13%	10%
Other (please specify)	7%	9%	7%	7%
None of the above	0%	0%	0%	1%

Since the start of 2020, was your total sales volume (on a same-store basis) higher, lower, or about the same as it was in the same period in 2019?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Higher	21%	28%	19%	23%
About the same	22%	17%	22%	23%
Lower	57%	55%	59%	54%

How optimistic are you about your foodservice operation over the next 12 months compared to the previous 12 months?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Very optimistic	2%	2%	2%	2%
Somewhat optimistic	8%	7%	8%	11%
Neither optimistic nor pessimistic	11%	12%	10%	12%
Somewhat pessimistic	28%	33%	27%	30%
Very pessimistic	51%	47%	54%	45%

Over the next 12 months, do you expect your menu price increase on a year-over-year basis to be:

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Below 1%	9%	10%	10%	7%
1% to 2%	13%	17%	11%	16%
2% to 3%	18%	22%	19%	14%
3% to 4%	11%	9%	12%	10%
4% to 5%	11%	14%	10%	14%
5% to 6%	4%	3%	4%	4%
6% to 7%	2%	2%	2%	2%
More than 7%	5%	5%	5%	5%
Not sure / don't know	26%	17%	27%	27%

Between March 1, 2020 to March 15, 2020, was your total sales volume (on a same-store basis), higher, lower, or about the same as it was during the same period in 2019?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Higher	8%	12%	7%	11%
About the same	14%	19%	14%	12%
Lower	78%	69%	79%	77%

Roughly, what was the percentage decrease in your same-store sales between March 1, 2020 and March 15, 2020 compared to the same period in 2019?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Less than 10% decline	11%	8%	11%	12%
10% to 25% decline	31%	49%	29%	27%
25% to 50% decline	27%	21%	28%	25%
50% or more decline	32%	23%	32%	35%

What action has your business taken in response to COVID-19? (please select all that apply)

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Cut back on staff hours	66%	70%	66%	64%
Laid off staff	56%	41%	59%	55%
Reduced hours of operation	54%	57%	53%	55%
Temporarily closed down all operations	45%	34%	46%	49%
Temporarily closed down operations other than take out and delivery	38%	46%	39%	31%

How concerned are you about novel coronavirus (COVID-19) impacting your future sales over the next three months?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Very worried	92%	84%	95%	87%
Somewhat worried	7%	14%	5%	9%
Not at all worried	0%	0%	0%	2%
I don't know / not sure	1%	2%	0%	2%

How many units do you own and/or operate?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Number of Responses	500	58	320	122
Number of Units	10,478	8,120	1,732	626

Between March 16, 2020 and March 26, 2020, was your total sales volume (on a same-store basis), higher, lower, or about the same as it was during the same period in 2019?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Higher	1%	2%	0%	2%
About the same	3%	5%	2%	3%
Lower	96%	93%	98%	96%

Since the beginning of March, what action has your business taken in response to COVID-19? (please select all that apply)

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Laid off employees	80%	66%	85%	78%
Temporarily closed down all operations	53%	37%	55%	60%
Reduced hours of operation	45%	65%	45%	32%
Cut back on staff hours	43%	59%	41%	38%
Temporarily closed down operations other than take out and/or delivery	36%	49%	38%	20%
Permanently closed	9%	11%	7%	11%

If your operations did not include takeout and/or delivery options before social distancing practices began in response to COVID-19, have you added them to your operations since?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Yes	24%	39%	23%	21%
No	65%	47%	68%	69%
I'm not sure / do not know	10%	14%	10%	10%

If current conditions continue over the next 30 days, how likely are you to do the following?

Lay off additional employees	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Extremely likely	59%	52%	62%	56%
Very likely	11%	14%	10%	13%
Somewhat likely	5%	9%	5%	4%
Not so likely	3%	6%	3%	3%
Not at all likely	9%	7%	9%	10%
Not sure / I don't know	12%	13%	12%	13%

If current conditions continue over the next 30 days, how likely are you to do the following?

Cut back further on staff hours	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Extremely likely	63%	59%	66%	56%
Very likely	9%	10%	8%	11%
Somewhat likely	5%	9%	4%	6%
Not so likely	2%	3%	2%	2%
Not at all likely	9%	7%	9%	10%
Not sure / I don't know	12%	11%	11%	15%

If current conditions continue, how long do you expect your business to survive before you will have to close down permanently?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Less than two weeks	5%	6%	4%	3%
Less than a month	14%	13%	16%	7%
Less than two months	25%	25%	28%	18%
Less than three months	22%	9%	27%	18%
Less than six months	17%	28%	12%	24%
Other	17%	19%	12%	30%

How many units do you own and/or operate?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Number of Responses	677	102	370	205
Number of Units	15,695	13,498	1,592	605

* Includes table-service restaurant and combination table-service restaurant and bar.
** Includes accommodation, drinking places, institutions (e.g. health care, education) and managed service providers.

About the Restaurant Outlook Survey

The results for the first quarter are compiled from responses to an email to foodservice operators inviting them to take an online survey. These surveys were conducted in the middle of February, the middle of March and at the end of March.

Restaurants Canada encourages foodservice operators to participate in the Restaurant Outlook Survey to ensure results continue to be representative of our industry. Contact Chris Elliott at celliott@restaurantscanada.org to participate in the survey.

About Restaurants Canada

Restaurants Canada (previously CRFA) is a growing community of 30,000 foodservice businesses, including restaurants, bars, caterers, institutions, and suppliers. We connect our members from coast to coast through services, research, and advocacy for a strong and vibrant restaurant community. Canada's restaurant industry is a $93 billion industry, directly employs 1.2 million Canadians, is the number one source of first jobs, and serves 22 million customers every day.

Restaurants Canada

The voice of foodservice | La voix des services alimentaires

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