

RESTAURANT OUTLOOK SURVEY

Reference Period: Second Quarter 2018



**Restaurants
Canada**

The voice of foodservice | La voix des services alimentaires

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Highlights

Four in 10 respondents reported higher same-store sales in Q2 2018. This is the highest share since Q1 2017.

Half of respondents feel optimistic about the next 12 months, with 43% of foodservice operators expecting higher sales in 2019.

Labour shortages are the second-biggest issue impacting operators.

Operators plan to raise menu prices by an average of 3.8% over the next 12 months.

Six in 10 operators expect tariffs to have a negative impact on their businesses.

Eight in 10 operators will increase their focus on social media marketing over the next 12 months.

After a rocky start to the year, the restaurant industry bounced back in the second quarter of 2018. Four in 10 respondents reported higher same-store sales in Q2 2018 over Q2 2017. This is a solid improvement over Q1 2018 when 30% of foodservice operators reported higher sales.

The share of operators who reported lower sales fell to 28% in Q2 2018 – a sharp reversal from Q1 2018 when 38% of operators reported lower sales.

The improvement in foodservice spending was fueled by healthy economic activity in most provinces, rising household income and a job market that created 215,000 jobs in the past 12 months.

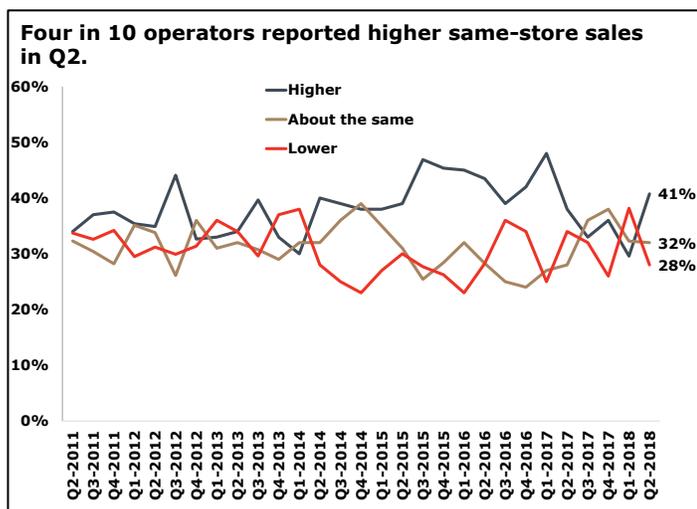
Nearly half (48%) of quick-service restaurant operators reported higher same-store sales in Q2. This is up from 29% in Q1.

Table-service restaurants also improved, with 39% of

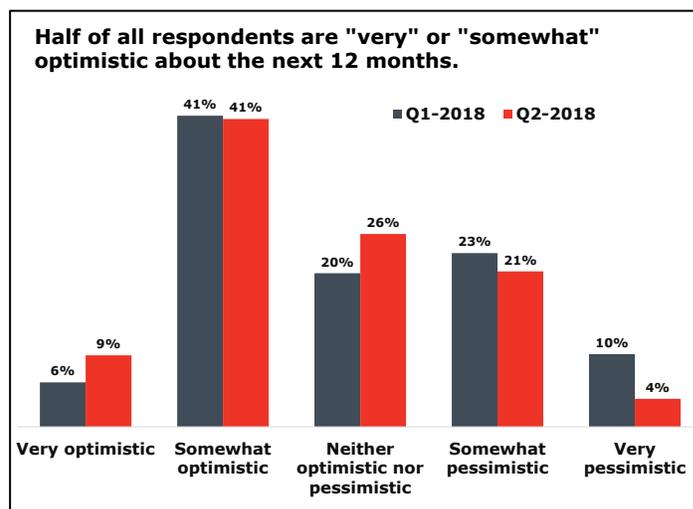
respondents posting higher same-store sales. This is a reversal from Q1 when 39% of table-service respondents reported lower sales.

“All other foodservice” – which includes accommodation, institutions and drinking places – rebounded in Q2. More than four in 10 of these respondents saw higher sales compared to just 24% in Q1.

Although topline sales trends are positive, this remains a challenging business climate for many restaurants. According to Statistics Canada, foodservice sales in Newfoundland and Labrador declined in the first five months of 2018. The Prairie provinces also struggled as Alberta, Saskatchewan and Manitoba posted modest sales growth. Although foodservice spending in Ontario increased by 5.8%, this was due to higher menu prices. Adjusted for menu inflation, real sales dipped 0.7% in the first five months of 2018.



Q: In the second quarter of 2018, was your total sales volume (on a same-store basis) higher, lower, or about the same as it was in the second quarter of 2017?



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

Looking ahead, the optimism of foodservice operators has not changed significantly since Q1 – although there was a small uptick in the share of “very optimistic” operators. Half of respondents surveyed feel “somewhat” or “very” optimistic about the next 12 months. This was attributed to higher traffic, repeat customer visits and a greater number of tourists. Third-party delivery was also identified as a factor which helped boost sales. In addition to growing revenues, a number of operators improved their bottom line by finding cost efficiencies.

The share of operators feeling pessimistic about the next 12 months declined from 33% in Q1 to 25% in Q2. While this is positive news, operators continue to struggle with higher labour costs and a shortage of qualified workers. There are also growing concerns about international trade negotiations, the possibility of a full-blown trade war and higher interest rates.

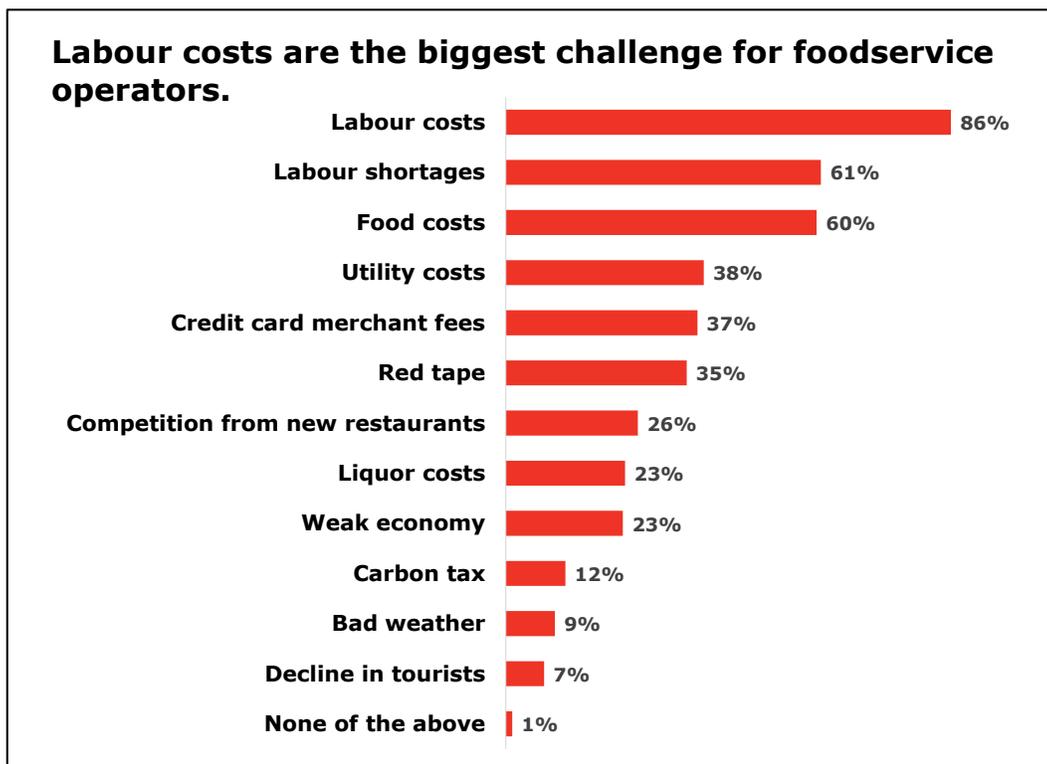
Nearly seven in 10 “all other foodservice” operators feel optimistic about the next 12 months – the highest share of all the segments

surveyed. This compares to 56% of quick-service restaurants and 43% of table-service restaurants.

Factors Impacting Business

While there is general optimism about the next 12 months, the one issue that is top of mind for the vast majority of operators is rising labour costs. With the exception of Nunavut, every part of the country is contending with rising minimum wages in 2018. In Ontario, most operators are struggling to manage the impact of Bill 148 through a combination of raising their menu prices and cutting back on other operating expenses.

For the first time since Restaurants Canada began conducting the Restaurant Outlook Survey in 2011, labour shortages rose to become the second-biggest issue impacting foodservice operators. Increased competition from other industries for staff, changing demographics and a lower unemployment rate are making it difficult for operators to find employees.



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

As discussed in the Q1 2018 Restaurant Outlook Survey, 51% of foodservice operators are finding it “extremely” or “very” difficult to fill back-of-house positions. One third of operators were finding it challenging to fill manager positions.

Food costs had a negative impact on six in 10 operators – relatively unchanged from Q1 2018. While food prices at grocery stores remain benign, a number of operators are experiencing rising food costs.

Over the remainder of the year, food costs for some products could increase further due to new tariffs. In response to recently announced American tariffs on Canadian-made steel and aluminum, Canada has retaliated with up to \$16.6 billion worth of tariffs on U.S. imports into Canada (such as whiskies, tomato ketchup and other tomato sauces, soya sauce, etc.). As a result, 50% of respondents believe these tariffs will have some degree of negative impact on their businesses. One in 10 expect the tariffs will have a “very” negative impact on their business. Only 2% said there would be no impact.

On a positive note, only 9% of operators said they were impacted by bad weather and just 7% saw a decline in tourists.

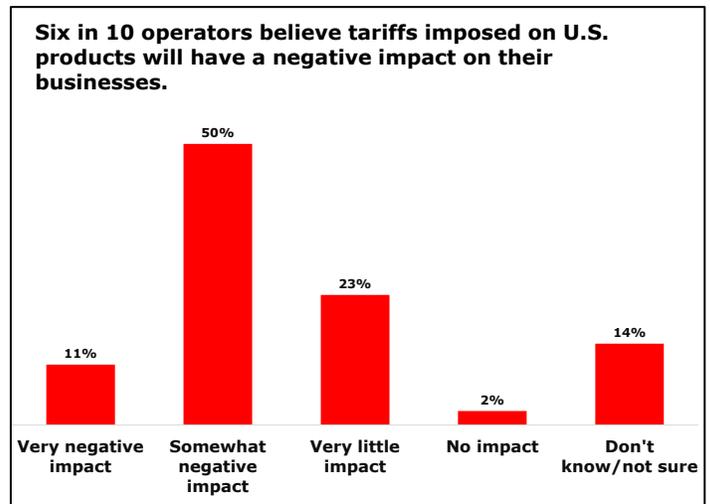
Menu Inflation

In response to higher labour costs and other operating expenses, foodservice operators are planning to raise menu prices by an average of 3.8% over the next 12 months. This is a slight moderation from an average of 4.3% reported in the Q1 2018 Restaurant Outlook Survey.

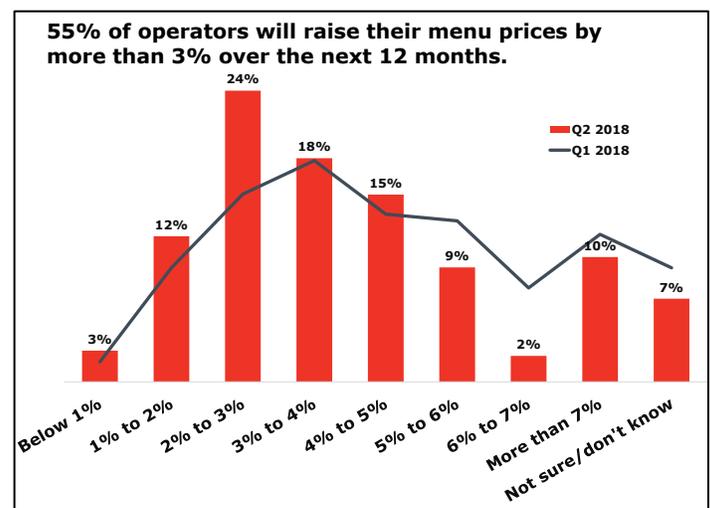
The share of operators that plan to raise their menu prices between 2% and 3% jumped from 15% in Q1 to 24% in Q2.

Nearly 30% of quick-service restaurant operators plan to raise their menu prices by 5% or more over the next 12 months. This compares to 21% of table-service restaurants.

According to Statistics Canada, menu prices in Ontario jumped by 7% in Q2 2018 over Q2 2017. Menu prices also increased by 3% or more in British Columbia, Newfoundland and Labrador, and Alberta and New Brunswick.



Q: In response to American tariffs on Canadian-made steel and aluminum, Canada is imposing up to \$16.6 billion worth of tariffs on U.S. imports into Canada (such as whiskies, tomato ketchup and other tomato sauces, soya sauce, etc.). To what extent, if any, will these tariffs impact your business?



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

Outlook for 2019

In this edition of the Restaurant Outlook Survey, Restaurants Canada asked operators about their expectations for 2019.

More than four in 10 operators expect their sales to be better in 2019 compared to 2018. In contrast, only 10% of respondents predict their sales will be down from 2018.

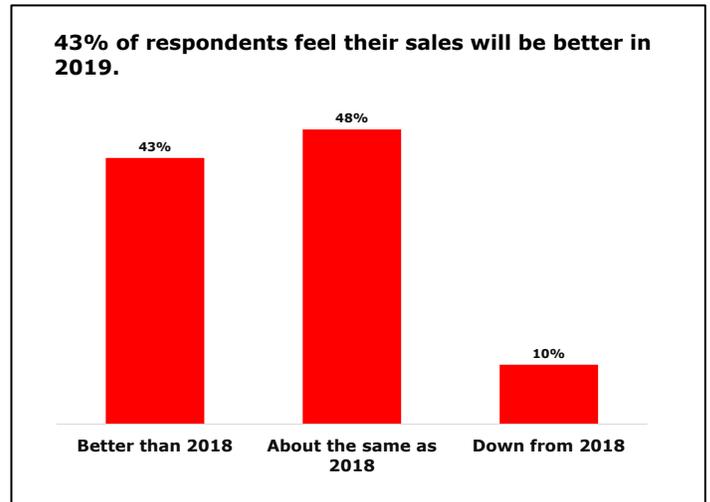
While the majority of quick-service restaurants and “all other foodservice” businesses anticipate better sales in 2019, table-service restaurant operators are feeling more cautious, with 36% of respondents forecasting higher sales. Rising interest rates, high household debt and slower disposable income growth are dampening the near-term outlook for many table-service restaurants. Nevertheless, 54% of table-service restaurants expect sales to be about the same as 2018, while just 10% believe their sales will be lower.

Given the top issues currently having a negative impact on operators, it’s not surprising that most operators believe labour costs and recruiting and retaining employees will be their top challenges in 2019.

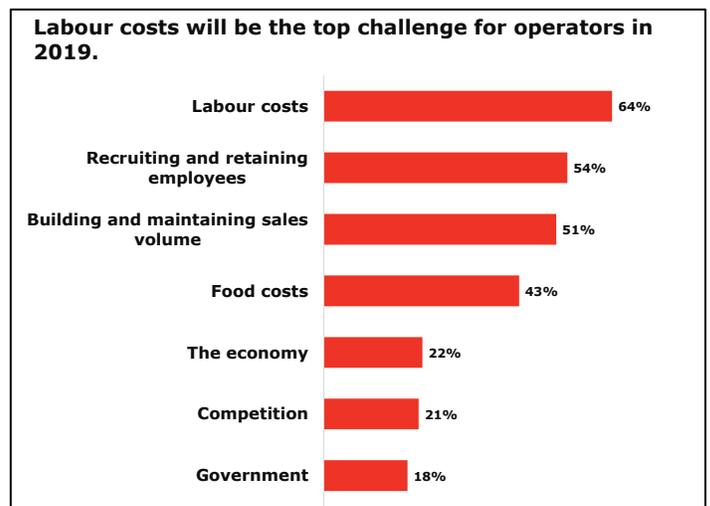
Despite economic uncertainty around tense trade relations, tariffs and rising interest rates, only 22% of respondents believe the economy will be a top challenge for them.

One in four foodservice operators plan to increase their investment in machinery and equipment over the next 12 months, while another 39% will maintain their spending at 2018 levels.

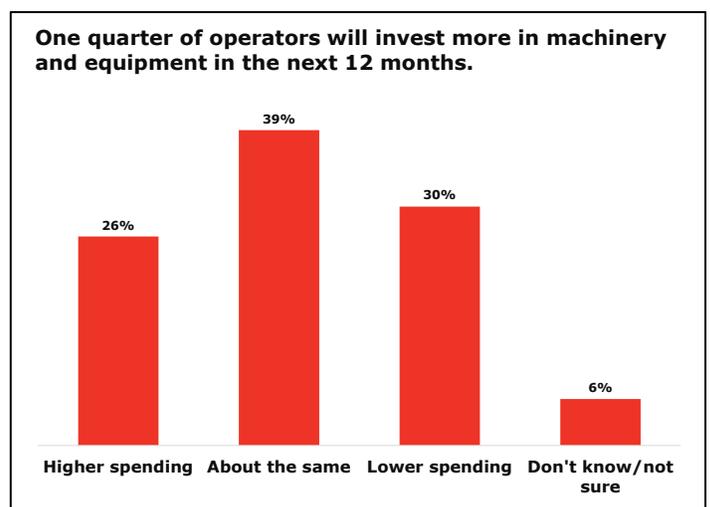
Results varied by segment. While 43% of quick-service restaurants plan to invest more in machinery and equipment, only 20% of table-service restaurants will do the same.



Q: Do you expect your sales in 2019 to be better, about the same or down from 2018?



Q: Looking ahead, what do you anticipate will be your top challenge for 2019?



Q: Over the next 12 months, is your firm's investment spending on machinery and equipment expected to be higher, lower or the same as over the past 12 months?

Marketing

In the Q1 2018 Restaurant Outlook Survey, foodservice operators identified “marketing” as their number one focus over the next 12 months. This was ranked higher than staff recruiting/training and menu redesign.

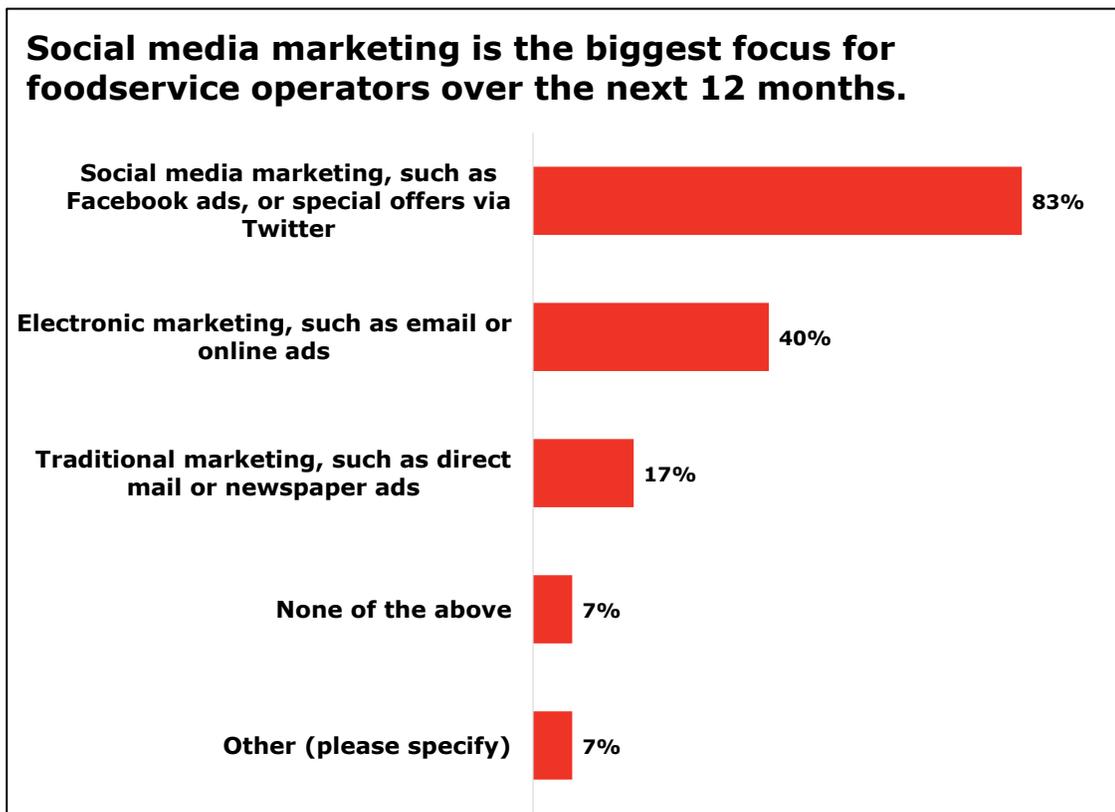
In this edition of the Restaurant Outlook Survey, operators were asked which marketing methods they will devote more resources to over the next 12 months.

Eight in 10 operators said they would boost social media marketing, such as Facebook ads, or special offers via Twitter. For table-service restaurants, this figure jumps to 90%. Studies have shown that social media is a great way to build customer loyalty and to distinguish yourself from the competition.

Four in 10 foodservice operators will focus on electronic marketing, such as e-mail or online ads. For quick-service restaurants and “all other foodservice” businesses, this figure rises to 50%.

Only 17% will focus on traditional marketing, such as direct mail or newspaper ads.

Given the growing competition in the foodservice marketplace, operators are likely seeing more need than ever to differentiate their brands and raise awareness about their establishments and menus.



Q: Which of the following marketing methods will you devote more resources to over the next 12 months?

About the Restaurant Outlook Survey

The results for the second quarter are compiled from responses to an e-mail to foodservice operators inviting them to take an online survey. The survey was conducted in July 2018.

In total, 243 completed surveys were submitted, representing 9,181 establishments.

We encourage foodservice 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 more than 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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Foodservice Industry Insights

The Restaurant Outlook Survey is one of many research reports available exclusively to Restaurants Canada members.

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Questions? Please contact Member Services at (416) 923-8416 or 1-800-387-5649, extension 8006, or members@restaurantscanada.org with your request.

In the second quarter of 2018, was your total sales volume (on a same-store basis) higher, lower, or about the same as it was in the second quarter of 2017?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Higher	41%	48%	39%	42%
About the same	32%	30%	32%	32%
Lower	28%	23%	30%	26%

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	9%	16%	5%	16%
Somewhat optimistic	41%	40%	38%	52%
Neither optimistic nor pessimistic	26%	26%	26%	20%
Somewhat pessimistic	21%	19%	24%	12%
Very pessimistic	4%	0%	6%	0%

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**
Labour costs	86%	91%	89%	74%
Labour shortages	61%	50%	63%	66%
Food costs	60%	61%	64%	48%
Utility costs	38%	32%	39%	40%
Credit card merchant fees	37%	34%	40%	30%
Red tape	35%	34%	37%	32%
Competition from new restaurants	26%	32%	28%	14%
Liquor costs	23%	7%	31%	14%
Weak economy	23%	14%	28%	12%
Carbon tax	12%	14%	13%	6%
Bad weather	9%	14%	9%	6%
Decline in tourists	7%	5%	10%	2%
None of the above	1%	7%	0%	0%

In response to American tariffs on Canadian-made steel and aluminum, Canada is imposing up to \$16.6 billion worth of tariffs on U.S. imports into Canada (such as whiskies, tomato ketchup and other tomato sauces, soya sauce, etc.). To what extent, if any, will these tariffs impact your business?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Very negative impact	11%	16%	11%	6%
Somewhat negative impact	50%	45%	51%	52%
Very little impact	23%	30%	23%	18%
No impact	2%	5%	1%	2%
Don't know/not sure	14%	5%	14%	22%

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%	3%	2%	2%	4%
1 to 2%	12%	9%	14%	9%
2 to 3%	24%	23%	24%	22%
3% to 4%	18%	12%	20%	22%
4% to 5%	15%	16%	11%	24%
5% to 6%	9%	7%	10%	9%
6% to 7%	2%	5%	1%	2%
More than 7%	10%	16%	9%	7%
Not sure / don't know	7%	9%	8%	0%

Do you expect your sales in 2019 to be better, about the same or down from 2018?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Better	43%	53%	36%	56%
About the same	48%	35%	54%	38%
Down	10%	12%	10%	6%

Looking ahead, what do you anticipate will be your top challenge for 2019?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Labour costs	64%	61%	69%	52%
Recruiting and retaining employees	54%	50%	57%	48%
Building and maintaining sales volume	51%	57%	52%	44%
Food costs	43%	50%	43%	34%
The economy	22%	18%	22%	24%
Competition	21%	41%	17%	14%
Government	18%	20%	18%	18%

Over the next 12 months, is your firm's investment spending on machinery and equipment expected to be higher, lower or the same as over the past 12 months?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Higher spending	26%	43%	20%	26%
Lower spending	30%	16%	32%	36%
About the same	39%	32%	42%	34%
Don't know / not sure	6%	9%	5%	4%

Which of the following marketing methods will you devote more resources to over the next 12 months?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Social media marketing, such as Facebook ads, or special offers via Twitter	83%	74%	90%	72%
Electronic marketing, such as email or online ads	40%	49%	34%	50%
Traditional marketing, such as direct mail or newspaper ads	17%	16%	18%	14%
None of the above	7%	9%	5%	10%
Other (please specify)	7%	37%	11%	32%

How many units do you own and/or operate?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Number of Responses	243	44	148	51
Number of Units	9,181	6,307	2,138	736

* 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.