

Reference Period: Second Quarter 2017

RESTAURANT OUTLOOK SURVEY

WHAT'S NEW!

- Inflation forecasts for the next 12 months
- Healthy menu items

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**Restaurants
Canada**

The voice of foodservice | La voix des services alimentaires

Prepared by
Chris Elliott, Senior Economist

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2017

Highlights

Optimism sank in Q2 due to Ontario’s decision to raise the minimum wage by 32% in 18 months.

While 38% of operators reported higher same-store sales in Q2, 34% posted lower sales due to rainy weather, a new meal tax in Saskatchewan and a weak economy in Alberta.

In this edition of the Restaurant Outlook Survey, operators say that consumers pay more attention to nutritional content of their food compared to a year ago.

Most operators have a vegetarian or vegan option on their menu, and many have low-sodium and low-sugar items.

The threat of a rapid increase in the minimum wage weighed heavily on the minds of Ontario operators in Q2. The government’s plan to raise the minimum wage by 32% in 18 months is forcing restaurants to raise menu prices and lower operating expenses, according to the Q2 results.

It was also a challenging quarter for many in terms of sales. One-third of foodservice operators reported lower same-store sales in Q2 2017 over Q2 2016. Four in 10 operators attributed this decline to bad weather. In Saskatchewan, the expansion of the provincial sales tax to restaurant meals and snacks led to lower foodservice sales. Meanwhile, operators in Alberta continue to struggle due to a weak economy.

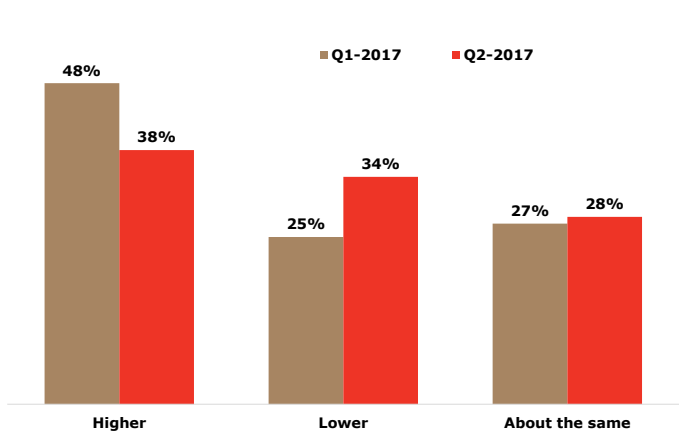
In contrast, 38% of operators posted higher sales in Q2, down from 48% in Q1. Another 28% reported flat sales.

The modest sales performance is not unexpected given the strong gains reported by Statistics Canada in the past five years – combined with a rainy spring in many parts of the country. Operators should see a pick-up in sales in Q3 due to a surge in tourism and the Canada 150 celebrations.

The share of operators that are optimistic about the next 12 months tumbled from 69% in Q1 to 53% in Q2. While the overall economy is showing signs of strength with rising consumer confidence and strong labour market growth, operators identified the Ontario minimum wage increase, rising food costs and higher interest rates as factors that will stifle profitability.

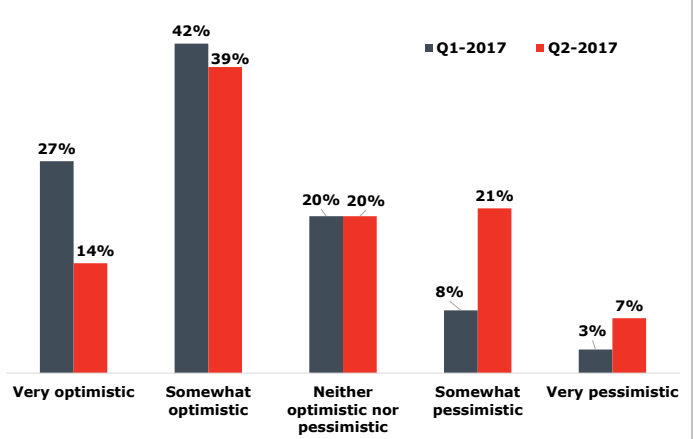
As a result, the share of operators that are pessimistic about the next 12 months jumped to 28% in Q2 from 11% in Q1.

The share of operators reporting higher same-store sales fell in Q2 compared to Q1.



Q: In the second quarter of 2017, was your total sales volume (on a same-store basis) higher, lower, or about the same as it was in the second quarter of 2016?

Foodservice operators are feeling less optimistic 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?

Compared to Q1, optimism declined across all segments in Q2. While 74% of quick-service restaurateurs were optimistic about the next 12 months in Q1, this fell to 43% in Q2. The share that are 'very pessimistic' jumped from 3% in Q1 to 18% in Q2, the highest among all segments.

Despite the future challenges, a majority (57%) of table-service restaurateurs are optimistic about the year ahead. This is down from 66% in Q1.

Factors Impacting Business

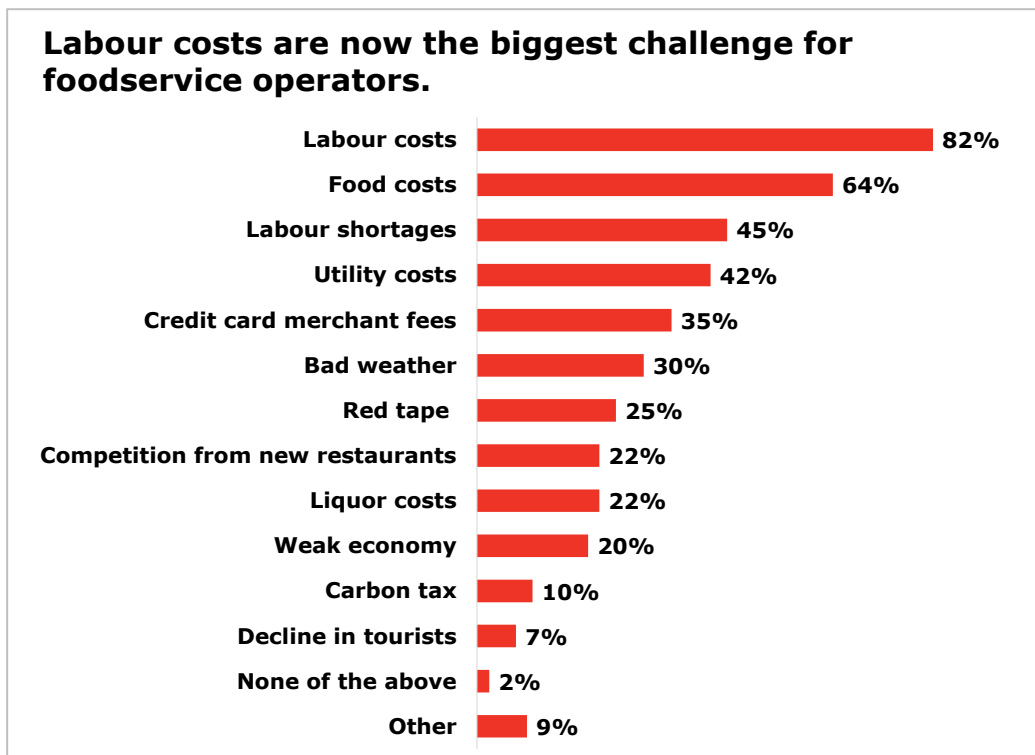
Labour costs are having a negative effect on 82% of foodservice operators. This is up dramatically from 69% in Q1. The planned increase in the minimum wage in Ontario, combined with rising minimum wages in other provinces, is a significant concern for operators. A recent Restaurants Canada survey found that a rapid jump in the minimum wage to \$15 will have a 'very negative impact' on 95% of respondents.

Food costs had a negative impact on 64% of operators in Q2 compared to 79% in Q2 2016. This is due to lower prices for fresh fruits, vegetables and beef on a year-over-year basis. In addition, the recent strength of the Canadian dollar will make imported foods less expensive.

Strong labour market growth in the past 12 month has resulted in labour shortages for half of table-service restaurants and 'all other foodservice'.

Utility costs, such as water, electricity, gas and heating, are having a negative impact on 42% of operators.

There is some positive news. Only 20% of respondents reported that a weak economy had a negative impact on their business. This is the lowest share since Restaurants Canada began the Restaurant Outlook Survey in 2011. This is not surprising since Canada's economy is forecast to grow by a solid 2.8% in 2017 compared to a 1.5% expansion in 2016. Nevertheless, the weak economy remains a significant issue for 70% of operators in Alberta.



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

Priorities Over the Next 12 Months

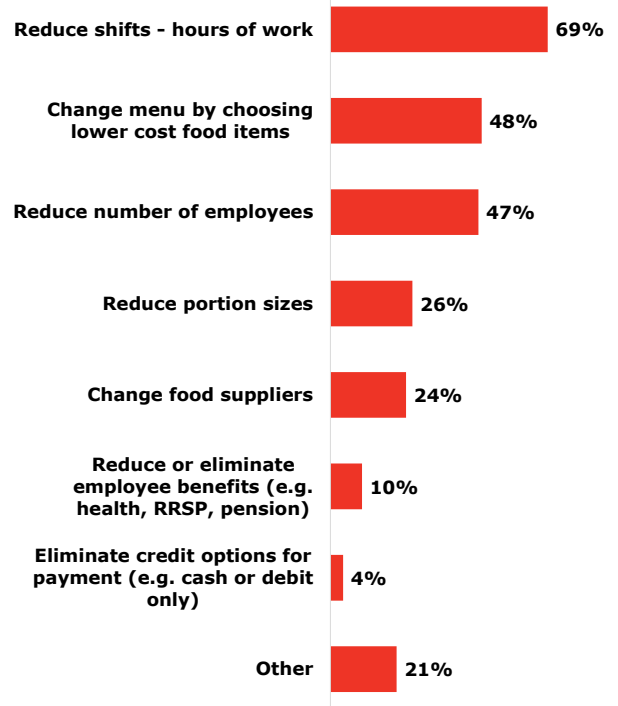
Reducing operating costs and improving guest experience remain the top priorities for foodservice operators over the next 12 months.

Due to higher labour costs, the share of operators that said raising menu prices will be a priority jumped from 34% in Q1 to 54% in Q2. The majority of these respondents had operations in Ontario.

To help boost revenues, six in 10 quick-service operators will do more marketing.

The number one way that operators will look to reduce their operating costs is through staffing levels. Seven in 10 operators plan to reduce shifts in the next 12 months. This is up from 46% in Q1. Nearly half (47%) plan to reduce the number of staff. This is almost double the share in Q1. Operators will also look to change their menu by choosing lower cost food items.

Seven in 10 foodservice operators will lower their operating costs by reducing shifts and hours of work.



Q: In what ways do you plan to reduce your operating costs?

Reducing operating costs is the top priority over next 12 months.



Q: What are your top priorities over the next 12 months?

Menu Inflation

The sharp increase in minimum wage in Ontario will force foodservice operators to raise their menu prices. In fact, 45% plan to raise their menu prices by more than 3% over the next 12 months. This is up from 21% in Q1. Over the past seven years, menu inflation in Canada was held below 3%.

Broken down by segment, 57% of quick-service restaurants plan to raise prices by more than 3%. This compares to 41% of table-service restaurants and 46% of 'all other foodservice'.

Healthy Eating Trends at Restaurants

In this edition of the Restaurant Outlook Survey, Restaurants Canada asked operators to identify what they are hearing from customers regarding healthy menu trends.

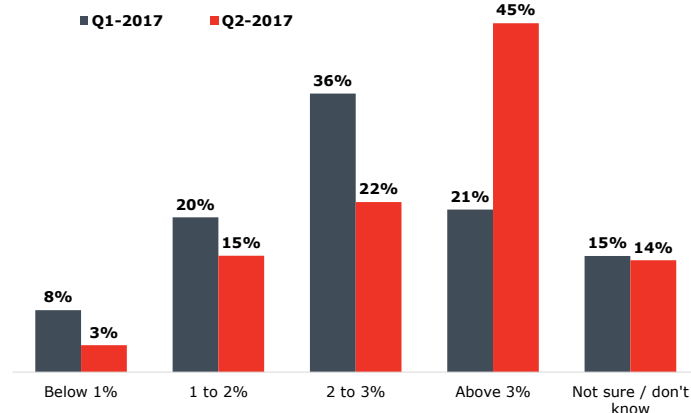
One-quarter of operators say that guests are paying more attention to the nutritional content of their food compared to a year ago. For quick-service restaurants, 44% have seen greater interest in nutritional content compared to 22% at table-service restaurants.

Nearly three in 10 operators say their guests are more adventurous than they were a year ago. This is consistent across all segments.

There has been a growing interest among consumers in Canada to experience new flavours and new types of cuisines. Diversifying your menu can help boost traffic, as long as it is authentic to your brand. Putting a Thai curry dish on an Italian menu may not make sense, but adding unusual or unconventional ingredients may add some flare to your menu.

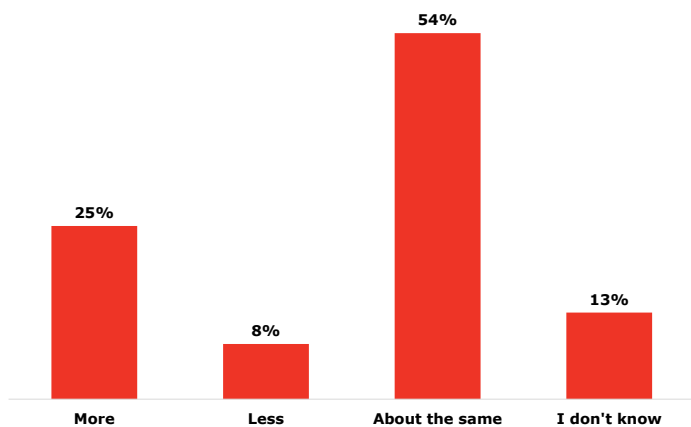
Over the years, foodservice operators have also responded to consumer demand by adding healthy items to their menus.

Nearly half of respondents will raise their menu prices by more than 3% over the next 12 months.



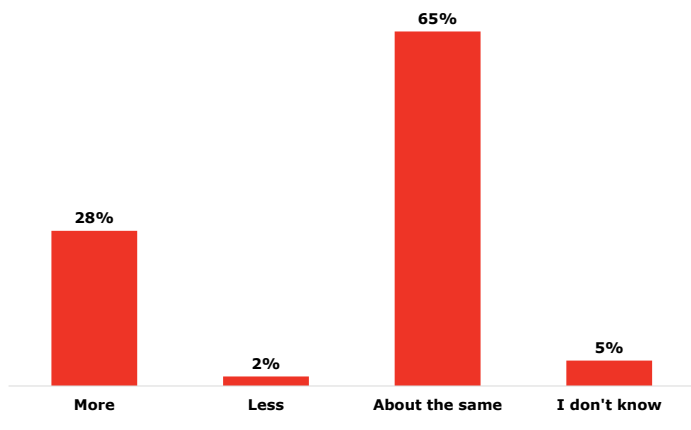
Q: Over the next 12 months, do you expect your menu price increase on a year-over-year basis to be:

One quarter of guests pay more attention to the nutritional content of their food compared to a year ago.



Q: Do your guests pay more attention or less attention to the nutritional content of their food compared to a year ago?

Nearly three in 10 guests are more adventurous with their food choices than they used to be.



Q: Compared to a year ago, are your guests more adventurous or less adventurous with their food choices than they used to be?

One of the most notable food trends over the past decade is a surge in vegetarian diets. More Canadians are looking for vegetarian options for a number of reasons: perceived health benefits; environmental reasons; animal welfare; and religious observance.

As a result, 93% of restaurants surveyed have a vegetarian option on the menu. More than half provide vegan options (i.e. excluding all animal products and by-products). Vegan options can be found on 67% of quick-service restaurant menus and 48% of table-service menus.

These high numbers are not surprising since 8% of Canadians are vegetarian or mostly vegetarian, and another 25% are eating less meat.

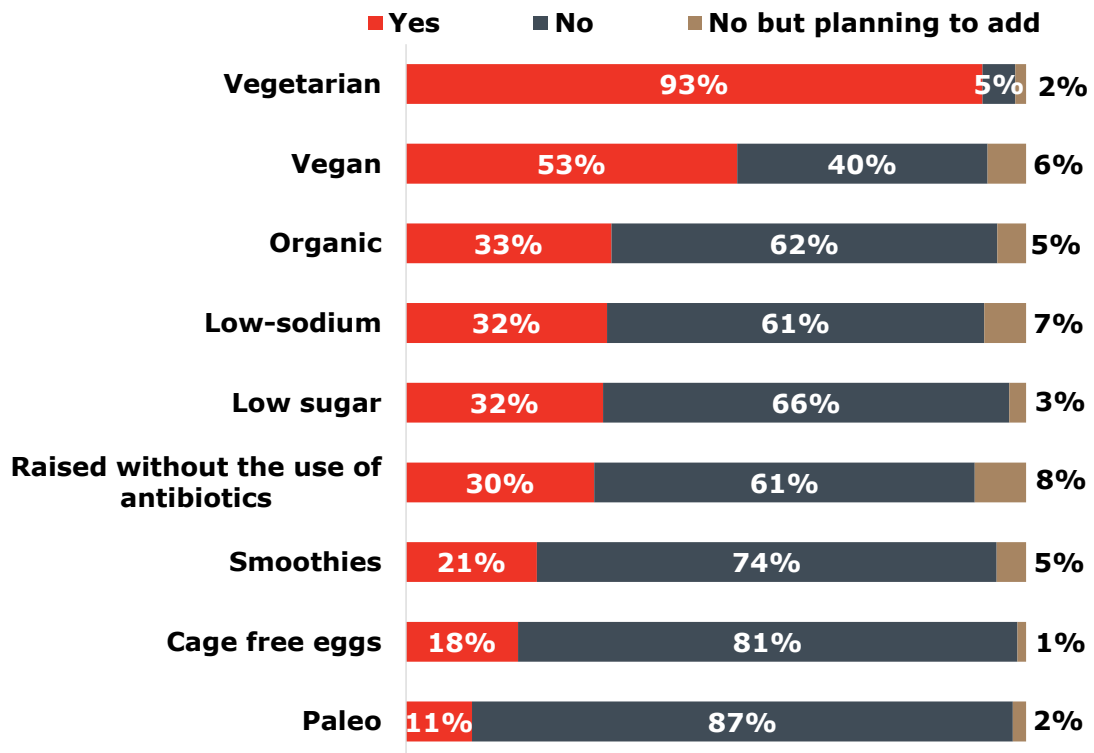
Organic foods can be found on 33% of restaurant menus.

Most adults consume twice the recommended daily intake of sodium, according to Health Canada, but restaurants are adapting their menus to include low-sodium items. Currently 38% of quick-service restaurant respondents provide low-sodium options. This is a trend that is expected to grow across all foodservice segments.

Reducing sugar intake is another area where Canadians say they want to improve their diet. One-third of restaurants surveyed have menu items that are low in sugar. This was a consistent share across all segments.

Three in 10 operators have menu items where animals were raised without the use of antibiotics, and cage-free eggs are on 18% of menus. This reflects a growing interest in animal welfare among consumers and operators.

Nine in 10 operators include a vegetarian dish on their menu.



Q: Do you include the following on your menus?

About the Restaurant Outlook Survey

The results for the second quarter are compiled from responses to an e-mail to restaurant operators inviting them to take an online survey. The survey was conducted in July 2017.

In total, 184 completed surveys were submitted, representing 4,936 establishments.

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.

Contact:
Restaurants Canada
1155 Queen Street West, Toronto, Ontario M6J 1J4
Tel: (416) 923-8416 or 1-800-387-5649
Fax: (416) 923-1450
E-mail: info@restaurantscanada.org
Web Site: www.restaurantscanada.org

Foodservice Industry Insights

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

Visit the Member Portal at www.restaurantscanada.org/members to see them all.

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 2017, was your total sales volume (on a same-store basis) higher, lower, or about the same as it was in the second quarter of 2016?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Higher	38%	37%	43%	32%
Lower	34%	33%	33%	35%
About the same	28%	30%	24%	33%

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	14%	14%	12%	18%
Somewhat optimistic	39%	29%	45%	33%
Neither optimistic nor pessimistic	20%	32%	14%	23%
Somewhat pessimistic	21%	7%	22%	25%
Very pessimistic	7%	18%	7%	2%

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

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Labour costs	82%	79%	81%	84%
Food costs	64%	61%	71%	56%
Labour shortages	45%	21%	51%	48%
Utility costs (water, electricity, gas and heating)	42%	50%	48%	30%
Credit card merchant fees	35%	29%	43%	26%
Bad weather	30%	39%	23%	36%
Red tape	25%	18%	28%	23%
Competition from new restaurants	22%	21%	24%	18%
Liquor costs	22%	4%	25%	25%
Weak economy	20%	18%	19%	23%
Carbon tax	10%	4%	13%	10%
Decline in tourists	7%	0%	11%	3%
None of the above	2%	4%	1%	3%
Other (please specify)	9%	7%	12%	7%

What are your top priorities over the next 12 months?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Reduce operating costs	71%	70%	79%	60%
Improve guest experience	55%	48%	63%	45%
Raise menu prices	54%	63%	53%	52%
Improve staff training	52%	56%	53%	48%
Increase marketing	38%	59%	36%	32%
Integrate new technology into my business	35%	33%	35%	37%
Improve inventory management	27%	19%	35%	18%
Improve workplace culture	24%	22%	27%	20%
Add a new profit centre (e.g. add catering, delivery, special events)	24%	26%	23%	23%
Hire more staff	19%	7%	18%	27%
Open a new location	13%	30%	13%	7%
Introduce healthy items to the menu	10%	15%	11%	8%
Close a location	5%	19%	4%	2%
Eliminate a profit centre (e.g. eliminate catering, delivery, special events)	2%	0%	3%	2%
Other (please specify)	10%	7%	7%	15%

In what ways do you plan to reduce your operating costs?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Reduce shifts - hours of work	69%	65%	70%	69%
Change menu by choosing lower cost food items	48%	60%	49%	40%
Reduce number of employees	47%	50%	49%	40%
Reduce portion sizes	26%	25%	24%	29%
Change food suppliers	24%	50%	22%	14%
Reduce or eliminate employee benefits (e.g. health, RRSP, pension)	10%	0%	12%	11%
Eliminate credit options for payment (e.g. cash or debit only)	4%	0%	4%	6%
Other (please specify)	21%	10%	19%	34%

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%	11%	2%	2%
1 to 2%	15%	7%	15%	20%
2 to 3%	22%	14%	26%	18%
Above 3%	45%	57%	41%	46%
Not sure / don't know	14%	11%	16%	14%

Do your guests pay more attention or less attention to the nutritional content of their food compared to a year ago?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
More	25%	39%	22%	24%
Less	8%	11%	5%	12%
About the same	54%	36%	58%	56%
I don't know	13%	14%	15%	8%

Compared to a year ago, are your guests more adventurous or less adventurous with their food choices than they used to be?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
More	28%	29%	30%	26%
Less	2%	0%	0%	6%
About the same	65%	68%	64%	66%
I don't know	5%	4%	6%	2%

Do you include the following on your menus? - Share that responded 'YES'

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Vegetarian	93%	96%	93%	92%
Vegan	53%	67%	48%	55%
Organic	33%	27%	34%	35%
Low-sodium	32%	38%	32%	30%
Low sugar	32%	32%	31%	33%
Raised without the use of antibiotics	30%	28%	33%	28%
Smoothies	21%	30%	18%	23%
Cage free eggs	18%	17%	22%	12%
Paleo	11%	13%	9%	13%

Do you include the following on your menus? - Share that responded 'NO'

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Vegetarian	5%	4%	5%	6%
Vegan	40%	33%	46%	34%
Organic	62%	73%	61%	58%
Low-sodium	61%	63%	63%	56%
Low sugar	66%	68%	68%	60%
Raised without the use of antibiotics	61%	68%	60%	60%
Smoothies	74%	70%	78%	70%
Cage free eggs	81%	83%	77%	85%
Paleo	87%	87%	91%	80%

Do you include the following on your menus? - Share that responded 'NO, BUT I'M PLANNING TO ADD IT TO MY MENU'

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Vegetarian	2%	0%	2%	2%
Vegan	6%	0%	6%	11%
Organic	5%	0%	5%	7%
Low-sodium	7%	0%	5%	14%
Low sugar	3%	0%	1%	7%
Raised without the use of antibiotics	8%	4%	8%	13%
Smoothies	5%	0%	5%	7%
Cage free eggs	1%	0%	1%	2%
Paleo	2%	0%	0%	8%

How many units do you own and/or operate?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Number of Responses	184	28	95	61
Number of Units	4,936	4,329	330	277

* 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.