

RESTAURANT OUTLOOK SURVEY

Reference Period: Third Quarter 2018



**Restaurants
Canada**

The voice of foodservice | La voix des services alimentaires

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Highlights

Overall, 36% of respondents reported greater same-store sales in Q3 of 2018 compared to a year ago, while 28% reported lower year-over-year same-store sales.

Six out of 10 respondents are optimistic about the next 12 months, up 10 points from Q2.

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

Eight out of 10 respondents said that environmentally sustainable operations are important to the success of their businesses.

Although the vast majority of foodservice businesses recycle and have implemented energy and water saving equipment, only 49% track food waste and 29% track energy savings.

Canada’s foodservice sector experienced an increase in sales during Q3 of 2018, thanks to healthy economic growth in most parts of the country and an upswing in tourist traffic. Overall, 36% of Restaurant Outlook Survey respondents reported greater same-store sales in Q3 compared to a year ago. This is down slightly from 41% in Q2. Meanwhile, the share of respondents who reported lower year-over-year same-store sales fell to 28%.

While same-store sales rose across most of the country, foodservice businesses continued to struggle in Alberta and Saskatchewan. Only 18% of respondents in those provinces reported higher same-store sales in Q3, while 34% saw lower sales. Two thirds blamed a weak economy for the disappointing sales.

Nationwide, same-store sales growth varied significantly by segment in Q3.

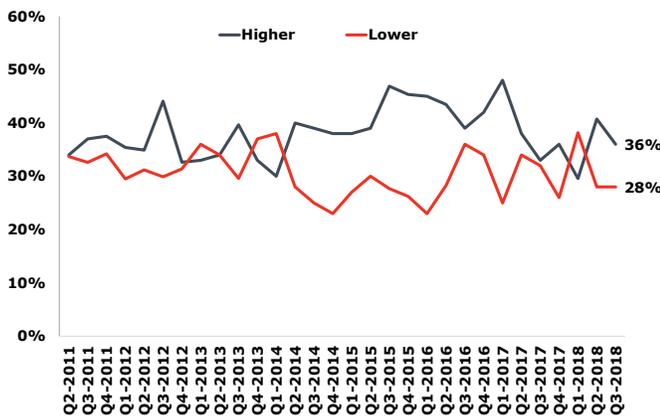
Quick-service restaurants outperformed all segments, with 43% of respondents reporting greater same-store sales and just 14% reporting lower sales.

While 35% of table-service restaurants reported higher same-store sales, a nearly equal share (31%) saw lower sales.

“All other foodservice” — a category of respondents including accommodation, institutions and drinking places — slumped in Q3. One third reported higher same-store sales, down from 42% in Q2, while the share reporting lower sales rose from 26% in Q2 to 31% in Q3.

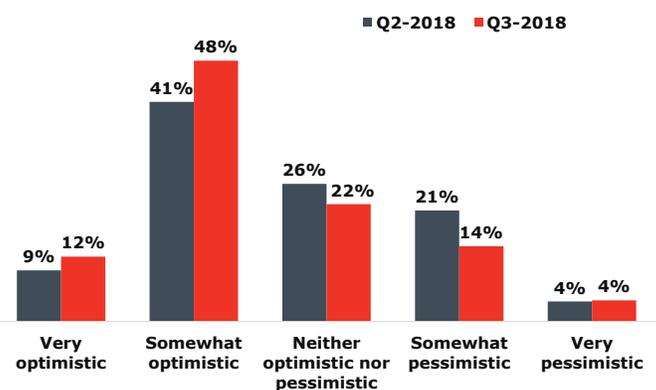
Foodservice spending likely suffered from lower consumer confidence due to tense NAFTA negotiations throughout Q3. Now that the United States, Mexico and Canada have agreed on a new trade deal (the USMCA), the foodservice sector can expect to benefit from more stable economic conditions.

More than one third of operators reported higher same-store sales in Q3.



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

Six out of 10 respondents are "very" or "somewhat" 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?

Foodservice operators were already feeling more positively about the future in Q3 than Q2. Six out of 10 respondents said they are “very optimistic” or “somewhat optimistic” about the next 12 months. This is up from 50% in Q2. Nationwide, optimism levels are now the highest they have been since before Bill 148 was announced in Ontario.

Those who reported feeling optimistic cited a number of factors, including strong economic conditions and changes to their own operations (such as renovations, adopting new technologies, reducing staff and cutting menu items). With the economy currently operating at full capacity and the unemployment rate still low across most of the country, foodservice operators have good reason to expect sales growth.

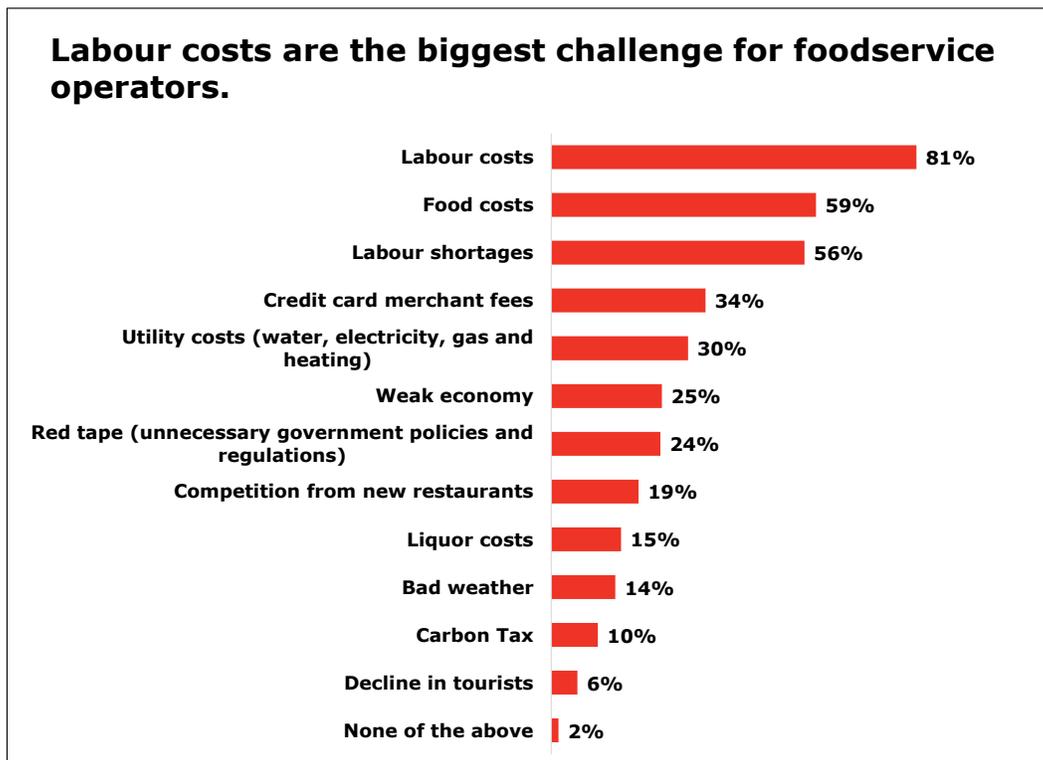
Yet for some, rising operating costs and a degree of economic uncertainty continue to cause concern. In Alberta and Saskatchewan, only 39% of respondents said they feel optimistic about the next 12 months, while 37% said they have a pessimistic outlook.

Factors Impacting Business

Labour costs remain the top challenge for eight out of 10 operators in Canada. Some relief is being felt in Ontario, where the government will hold the minimum wage at \$14 per hour until 2020 and repeal planned scheduling provisions, which would have severely restricted the ability of foodservice operators to adjust staffing levels in response to unpredictable circumstances.

Labour shortages also continue to be a struggle for restaurants and other foodservice businesses. The latest available data from Statistics Canada indicates that the industry experienced a shortage of 59,330 workers during Q2 of 2018, which is 6.4% higher than the same period in 2017. Ontario, Quebec and British Columbia reported the worst shortages.

On a more positive note, only 14% of respondents were impacted by bad weather and just 6% reported fewer tourists in Q3.



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

Menu Inflation

As a result of higher operating expenses, foodservice operators are planning to raise menu prices by an average of 3.8% over the next 12 months. This is unchanged from Q2.

The share of respondents who said they will likely raise their menu prices between 4% and 5% jumped from 15% in Q2 to 20% in Q3.

More than half of quick-service restaurants (54%) and table-service restaurants (58%) expect to raise their menu prices by 3% or more over the next 12 months.

In the first nine months of 2018, menu prices in Canada were 4.3% higher than the first nine months of 2017. In Ontario, menu prices jumped 6.6% in response to the increase to the minimum wage and other operating costs.

While menu prices increased sharply, prices at grocery stores rose by only 0.5% in the first nine months of 2018. Given high household debt levels, price-sensitive consumers might begin to prefer a meal from the grocery store over a restaurant. A recent survey by Ipsos found that 90% of Canadians are at least somewhat more likely in the near future to buy a home meal replacement instead of dining out or ordering in.

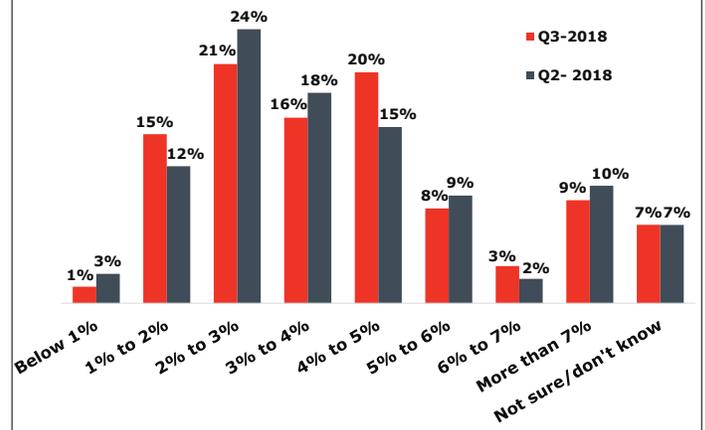
Sustainability in Foodservice

Canada's foodservice sector serves 22 million customers every day. With many of those consumers growing increasingly concerned over the environmental impacts of their dining habits, foodservice operators across the country are likewise becoming more focused on the environmental sustainability of their business operations.

In this edition of the Restaurant Outlook Survey, 82% of respondents reported that environmental sustainability is moderately to very important to the success of their businesses.

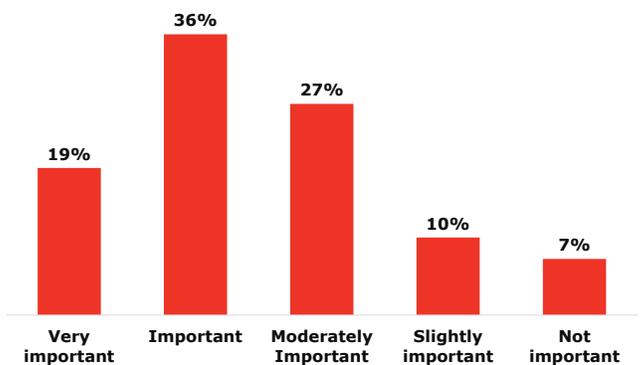
Data from the United States show a similar trend. Half of all U.S. consumers say they consider whether a business recycles, donates leftover food, or makes efforts to reduce food waste as important factors when choosing a restaurant.

63% of operators will raise their menu prices by more than 3% over the next 12 months.



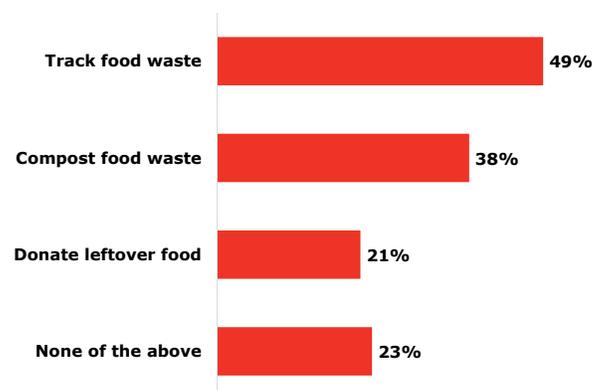
Q: Over the next 12 months, do you expect your menu price increase on a year-over-year basis to be:

55% of all respondents consider environmental sustainability "very important" or "important" to the success of their businesses.



Q: How important is environmental sustainability to the success of your business?

Half of operators surveyed are tracking their food waste.



Q: In managing food waste, does your foodservice operation do the following? (Please, select all that apply)

Food waste

Tracking food waste is essential for controlling food costs, but also for reducing the environmental footprint of a foodservice business.

Half of respondents said they are tracking their food waste and 21% donate leftover food. These results are on par with data from the National Restaurant Association* in the United States.

By segment, 58% of quick-service restaurants, 53% of table-service restaurants and 40% of all other foodservice businesses across Canada track their food waste.

According to the National Restaurant Association, the top reasons why U.S. restaurants don't donate leftover food to charity are concerns about liability and food safety, regulatory constraints and because it's too complicated and time consuming.

Canadian foodservice operators compost more than their U.S. counterparts: 38% of Restaurant Outlook Survey respondents said they compost compared to 14% of respondents to a National Restaurant Association survey.

Recycling

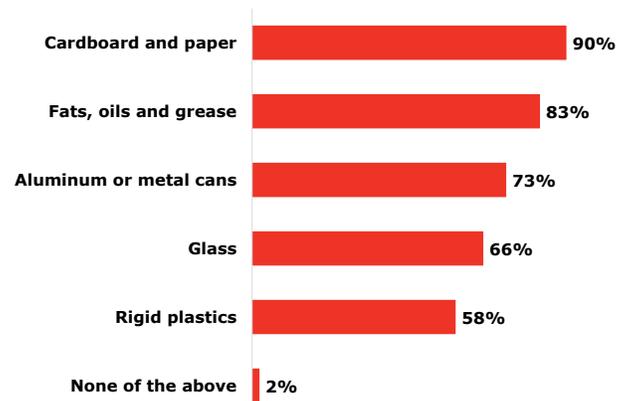
One of the most important ways that restaurants can reduce waste is by recycling.

Nine out of 10 Restaurant Outlook Survey respondents said they recycle cardboard and paper, while 83% said they recycle fats, oils and grease. Just 2% of respondents said their businesses do not recycle.

In contrast, in the United States, 65% recycle cardboard and paper while 64% recycle fats, oils and grease.

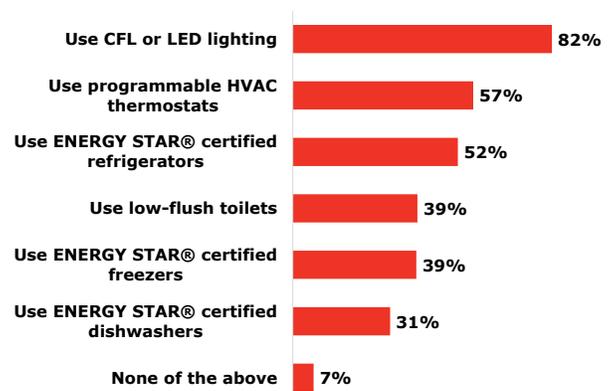
*National Restaurant Association — The State of Restaurant Sustainability, 2018 Edition

Nine out of 10 operators recycle cardboard and paper.



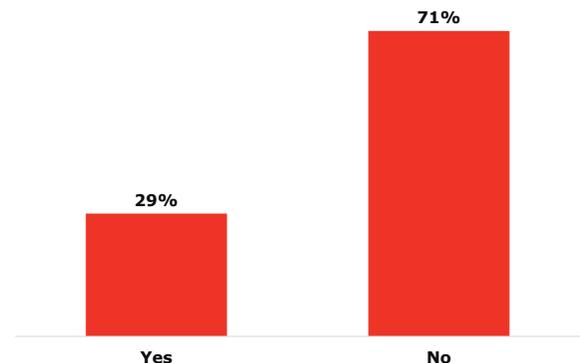
Q: Which of the following does your foodservice establishment currently recycle? (Please select all that apply)

Eight out of 10 operators use CFL or LED lighting to save energy.



Q: Which of the following does your foodservice establishment use to save energy and water? (Please select all that apply)

Just three out of 10 operators currently track their energy savings.



Q: Do you track your energy savings?

Energy and Water

Running a restaurant is highly energy-intensive and rising utility costs are a major challenge for most foodservice businesses. Any way they can cut down on energy and water usage can greatly help their bottom line.

A majority of respondents said they already use CFL or LED lighting and programmable HVAC thermostats to conserve energy.

But only 29% of respondents said they currently track their energy savings — although this varies dramatically by segment. While 40% of “all other foodservice” operators said they track their energy savings, just 18% of quick-service respondents said they do. Manufacturers and suppliers can help foodservice businesses monitor their energy use and find new ways to save.

Barriers to Sustainability

While most restaurants understand the importance of reducing their environmental footprint, seven out of 10 respondents said the biggest barrier to being more environmentally sustainable is the cost of implementation. This was followed by staff training (44%) and product availability (29%). These results were consistent across all segments of the foodservice industry.

The Future of Sustainability

Nine out of 10 respondents reported that they will invest more or the same amount on environmentally sustainable operations over the next three years. Restaurants Canada invites foodservice operators to attend RC Show 2019 from February 24 to 26 at the Enercare Centre in Toronto to learn how innovative products, pioneering people and transformative ideas can help them grow their bottom line in harmony with the planet.

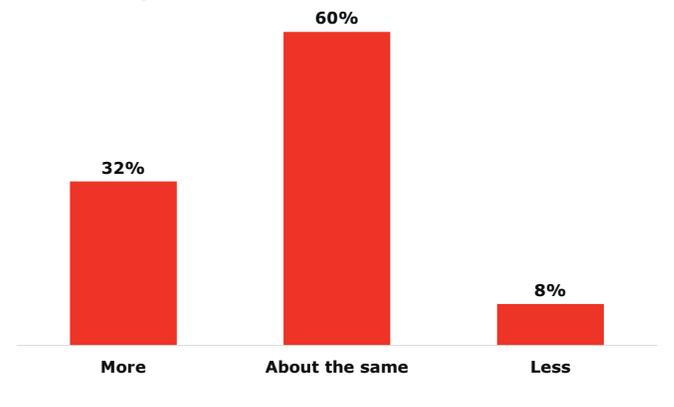
Visit www.rcshow.com to see the full RC Show line-up and register early to save 50% off the on-site registration price.

Cost of implementation is considered the biggest barrier to being more environmentally sustainable.



Q: Which of the following do you consider barriers to being more environmentally sustainable at your foodservice establishment? (Please select all that apply)

One third of operators will invest more in making their operations more environmentally sustainable over the next three years.



Q: Compared to 2018, do you expect your foodservice establishment will invest more, less or about the same over the next three years in making your operations more environmentally sustainable?

About the Restaurant Outlook Survey

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

In total, 307 completed surveys were submitted, representing 4,694 establishments.

Restaurants Canada encourages 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 members of Restaurants Canada.

Visit the Member Portal at 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 third quarter of 2018, was your total sales volume (on a same-store basis) higher, lower, or about the same as it was in the third quarter of 2017?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Higher	36%	43%	35%	33%
About the same	36%	43%	34%	36%
Lower	28%	14%	31%	31%

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	12%	20%	10%	9%
Somewhat optimistic	48%	42%	49%	51%
Neither optimistic nor pessimistic	22%	22%	21%	23%
Somewhat pessimistic	14%	14%	15%	13%
Very pessimistic	4%	2%	5%	4%

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	81%	90%	84%	73%
Food costs	59%	70%	61%	50%
Labour shortages	56%	60%	56%	56%
Credit card merchant fees	34%	30%	37%	32%
Utility costs (water, electricity, gas and heating)	30%	34%	37%	19%
Weak economy	25%	14%	29%	24%
Red tape	24%	20%	27%	21%
Competition from new restaurants	19%	20%	25%	10%
Liquor costs	15%	4%	21%	13%
Bad weather	14%	10%	18%	10%
Carbon Tax	10%	10%	14%	6%
Decline in tourists	6%	2%	6%	8%
None of the above	2%	0%	1%	4%

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%	1%	0%	1%	3%
1 to 2%	15%	18%	12%	18%
2 to 3%	21%	20%	22%	18%
3% to 4%	16%	14%	16%	16%
4% to 5%	20%	24%	18%	22%
5% to 6%	8%	6%	10%	5%
6% to 7%	3%	2%	4%	4%
More than 7%	9%	8%	10%	8%
Not sure / don't know	7%	8%	6%	8%

How important is environmental sustainability to the success of your business?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Very important	19%	18%	18%	23%
Important	36%	24%	38%	42%
Moderately important	27%	30%	27%	25%
Slightly important	10%	10%	12%	7%
Not important	7%	18%	6%	3%

In managing food waste, does your foodservice operation do the following? (Please, select all that apply)

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Track food waste	49%	58%	53%	40%
Donate leftover food	21%	26%	17%	27%
Compost food waste	38%	32%	33%	48%
None of the above	23%	20%	25%	20%

Which of the following does your foodservice establishment currently recycle? (Please select all that apply)

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Cardboard and paper	90%	94%	92%	86%
Fats, oils and grease	83%	60%	92%	80%
Aluminum or metal cans	73%	74%	71%	77%
Rigid plastics	58%	46%	58%	67%
Glass	66%	56%	68%	70%
None of the above	2%	0%	1%	6%

Which of the following does your foodservice establishment use to save energy and water? (Please select all that apply)

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Use CFL or LED lighting	82%	78%	86%	80%
Use programmable HVAC thermostats	57%	52%	58%	59%
Use ENERGY STAR® certified refrigerators	52%	48%	51%	55%
Use low-flush toilets	39%	34%	38%	43%
Use ENERGY STAR® certified freezers	39%	44%	34%	43%
Use ENERGY STAR® certified dishwashers	31%	26%	31%	33%
None of the above	7%	16%	5%	5%

Do you track your energy savings?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Yes	29%	18%	27%	40%
No	71%	82%	73%	60%

Which of the following do you consider barriers to being more environmentally sustainable at your foodservice establishment? (Please select all that apply)

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Cost of implementation	69%	73%	72%	61%
Staff training	44%	43%	43%	44%
Too time consuming	26%	20%	30%	22%
Too complex to implement	27%	33%	28%	23%
Product availability	29%	29%	32%	26%
None of the above	9%	8%	7%	13%

Compared to 2018, do you expect your foodservice establishment will invest more, less or about the same over the next three years in making your operations more environmentally sustainable?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
More	32%	29%	30%	39%
About the same	60%	65%	62%	53%
Less	8%	6%	8%	8%

How many units do you own and/or operate?

	Total Foodservice	Quick-service Restaurants	Table-service Restaurants*	All Other Foodservice**
Number of Responses	307	50	153	104
Number of Units	4,694	3,661	759	274

* 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.