

Reference Period: Fourth Quarter 2016

RESTAURANT OUTLOOK SURVEY



**Restaurants
Canada**

The voice of foodservice | La voix des services alimentaires

Prepared by
Chris Elliott, Senior Economist

January
23, 2017

Highlights

The share of foodservice operators that reported higher same-store sales rose from 39% in Q3 42% in Q4 due to healthy consumer spending across most of the country.

Restaurant operators are concerned about a pullback in consumer spending following several years of strong growth. Twenty-six percent of restaurant operators expect their same-store sales to accelerate over the next six months compared to 30% in Q3.

On a year-over-year basis, food costs moderated in Q4.

Nearly six in 10 respondents plan to raise menu prices over the next six months.

Labour costs are the top challenge for the foodservice industry.

The foodservice industry ended the year on a positive note, as an increasing share of foodservice operators reported sales growth in Q4. Overall, 42% of respondents said same-store sales were higher on a year-over-year basis. This compares to 39% in Q3. The gain is due to healthy consumer spending and improved confidence in most provinces.

Although the share of operators with lower sales slipped from 39% in Q3 to 34% in Q4, Alberta continues to struggle. Seven in 10 Alberta operators reported a decline in same-store sales due to the recession.

Nationally, December was the best month in Q4 as 44% of operators reported higher same-store sales. This is even more impressive given that 39% of respondents reported bad weather.

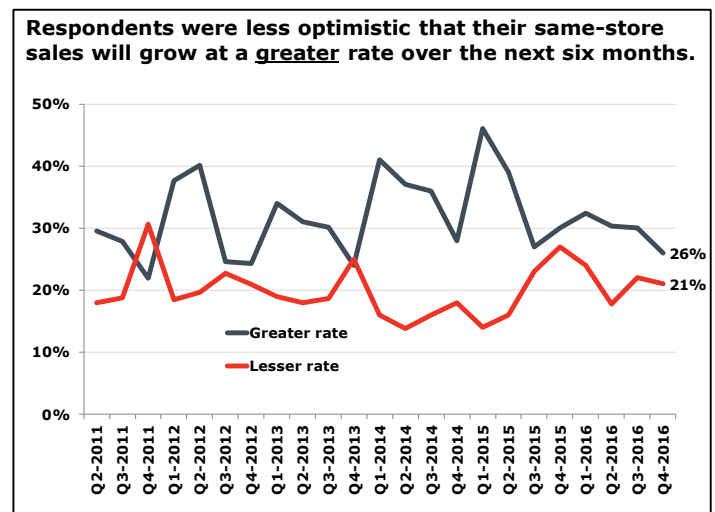
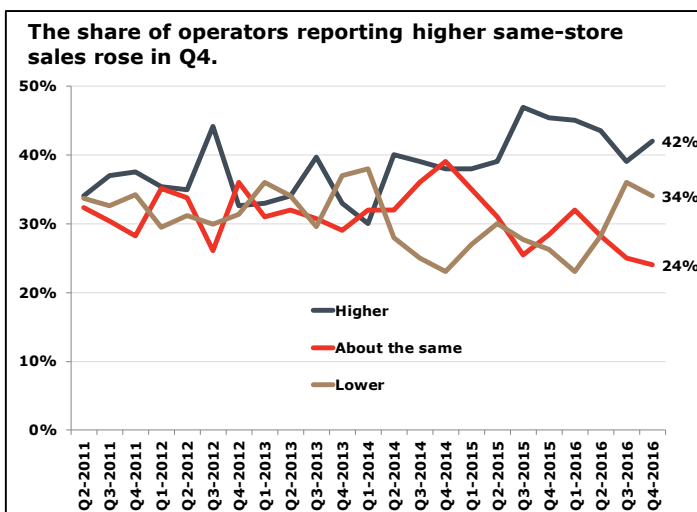
In contrast, 38% of operators in October reported lower same-

store sales. One-third of operators attributed the decline in sales to weak consumer demand.

Similar to the data reported by Statistics Canada, quick-service restaurants posted the strongest results in Q4 as 54% of respondents reported higher same-store sales. This is on par with Q3 when 59% of quick-service restaurants reported an increase in sales.

While 37% of table-service restaurants reported an increase in same-store sales, 32% experienced a drop. Table-service restaurants in Alberta were hardest-hit as same-store sales fell by an average of 12.6%.

The 'all other foodservice' category, which includes accommodation, caterers and drinking places, posted its strongest results since Q2 2015. Overall, 43% of respondents posted higher same-store sales



Q: In the fourth quarter of 2016, 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?

compared to just 25% in Q3. The majority of accommodation operators saw higher sales while revenues at institutions were flat. In contrast, 73% of drinking places reported lower same-store sales.

Looking ahead over the next six months, 26% of operators expect their sales to accelerate. This is the lowest level since Q4 2013. Nevertheless, the share of operators that expect sales to decelerate slipped to 21% in Q4 from 22% in Q3. The majority (52%) expect their sales to grow at about the same pace.

While the economy is forecast to improve in 2017, uncertainty over the Trump election and concerns about a potential slowdown in consumer spending may be weighing on operator confidence. High consumer debt levels, sluggish real wage growth and a pullback in housing prices may put consumers at the breaking point. Restaurants Canada is forecasting that commercial foodservice sales will moderate to 4.0% growth in 2017 following several years of robust gains.

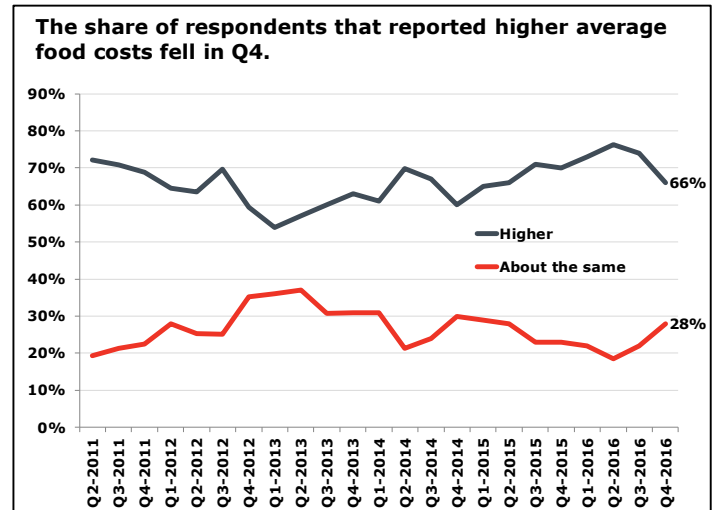
Quick-service restaurants remain the most optimistic as 32% expect their sales to grow at a greater rate over the next six months. Only 14% anticipate slower growth. In contrast, 25% of table-service restaurants believe sales will decelerate versus 21% that feel sales will accelerate.

In Alberta, just 19% of operators expect sales to grow at a greater rate -- up from 6% in Q3.

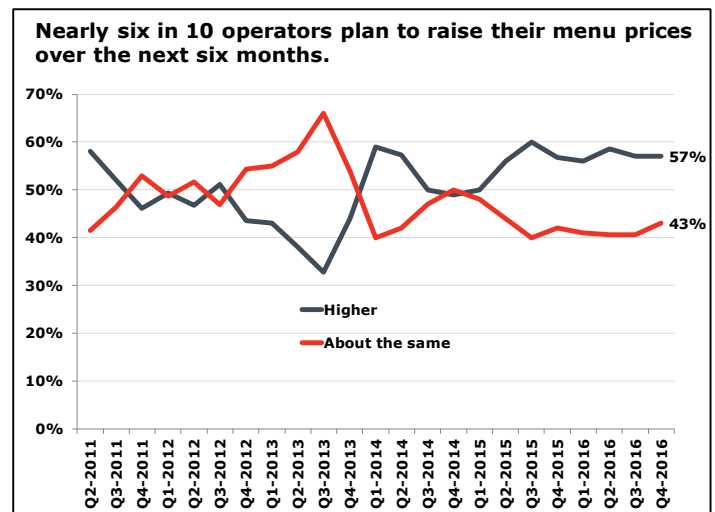
Food Costs and Menu Prices

The share of foodservice operators reporting higher food costs fell from 74% in Q3 to 66% in Q4 due to a moderation in meat and vegetable prices.

The average operator reported a 3.1% increase in their food costs in Q4 compared to 4.4% in Q3.



Q: In the fourth quarter, were your average food costs higher, lower or about the same as the fourth quarter of 2015?



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

Independent restaurants reported an average 3.6% year-over-year increase in their food costs compared to a 1.9% increase at chains.

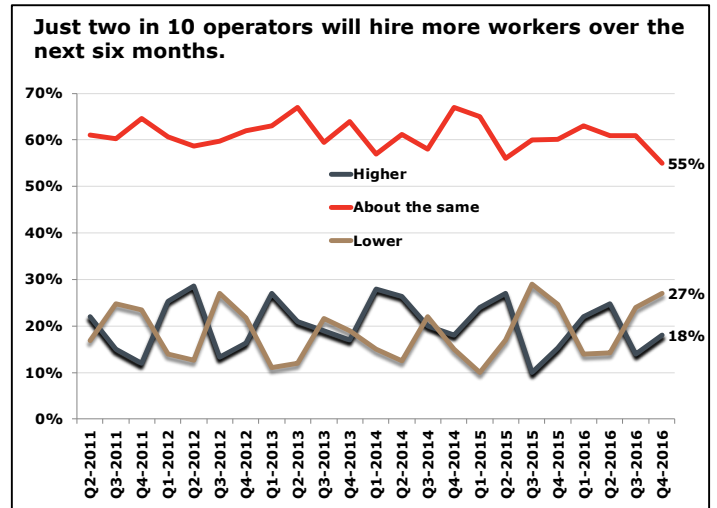
Over the next six months, 64% of quick-service restaurant operators and 61% of quick-service operators plan to raise their menu prices.

Employment

Over the next six months, 18% of respondents expect to add jobs while another 55% will maintain their current employment levels. Compared to Q4 2015, this is a slight improvement as 15% of respondents at that time planned to hire more workers over the next six months.

In Alberta, 58% of respondents expect to cut their staffing levels over the next six months compared to 6% that plan to hire more workers. This reflects the economic climate, but also the sharp increase in the province's minimum wage.

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

Labour costs have become the number one issue affecting foodservice operators. Higher minimum wages in 2016 have raised labour costs for most operators. Eight out of 10 quick-service restaurants said labour costs had a negative impact on their business.

With the moderation in food prices, the share of operators that said rising food costs had a negative impact fell from 71% in Q3 to 59% in Q4.

The weak economy had a negative impact on 43% of restaurant operators in Q4, a figure that is relatively unchanged from Q2 and Q3. In Alberta, the economy impacted 84% of operators compared to 32% in the rest of Canada.

An increasing share of operators reported a shortage of skilled labour, rising to 39% in Q4 compared to 34% in Q3. Table-service operators were particularly hit hard with nearly half of respondents experiencing a labour shortage.

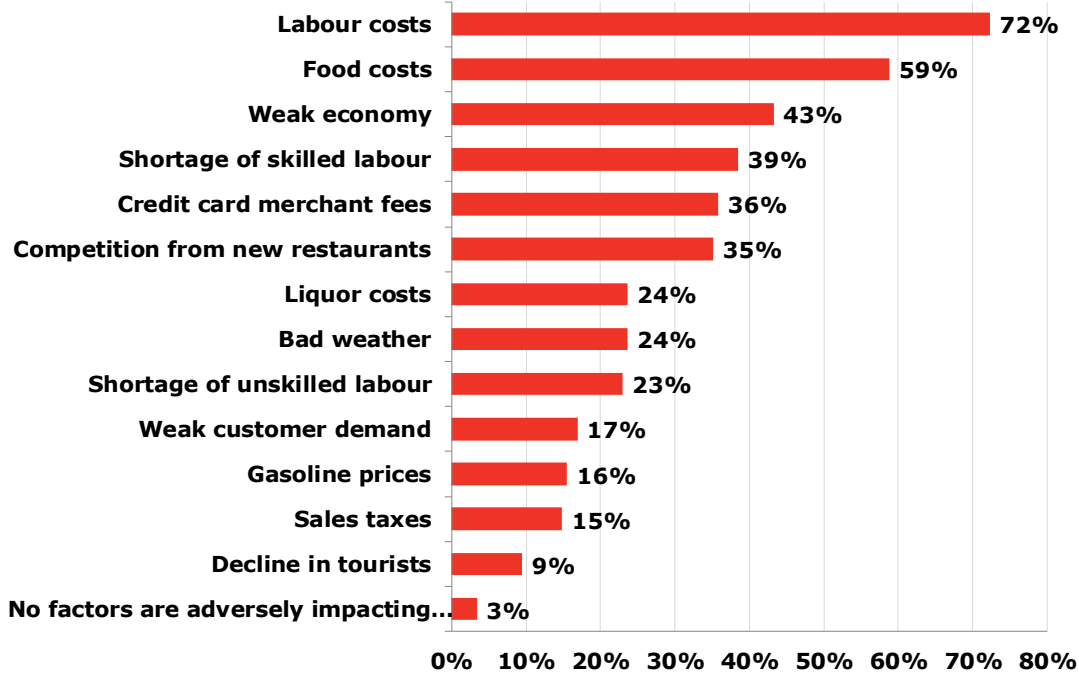
Credit card merchant fees have a negative impact on 46% of table-service restaurants.

More than one-third of foodservice establishments said competition from new restaurants is hurting their business.

Bad weather had a negative impact on 39% of businesses in December compared to just 8% of respondents in October.

With the low Canadian dollar and improved economic growth in the United States, only 9% of operators reported a decline in tourists. The increase in tourism provided a significant boost to foodservice sales in 2016.

Labour costs are the biggest challenge for restaurant operators.



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

About the Restaurant Outlook Survey

The responses for the third quarter are compiled from a monthly e-mail to restaurant operators inviting them to take an online survey. The survey covers the reference periods October, November and December 2016.

In total, 148 completed surveys were submitted for the fourth quarter, representing 3,832 establishments.

Results of the survey are considered accurate within +/- 8.1 percentage points 19 times out of 20. The margin of error will be larger within sub-groupings of the survey.

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

Was your total sales volume (on a same-store basis) higher, lower, or about the same compared to a year ago?

	Fourth Quarter Total	October	November	December
Higher	42%	40%	41%	44%
Lower	34%	38%	34%	31%
About the same	24%	23%	24%	25%
Total	100%	100%	100%	100%

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?

	Fourth Quarter Total	October	November	December
Greater	26%	28%	32%	20%
Lesser	21%	28%	22%	15%
About the same	52%	43%	46%	65%
Total	100%	100%	100%	100%

Were your average food costs, higher, lower or about the same compared to a year ago?

	Fourth Quarter Total	October	November	December
Higher	66%	64%	63%	69%
Lower	6%	9%	5%	4%
About the same	28%	26%	32%	27%
Total	100%	100%	100%	100%

Please specify the year-over-year percentage change in food costs.

	Fourth Quarter Total	October	November	December
Total	3.1%	2.4%	3.6%	3.3%

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

	Fourth Quarter Total	October	November	December
Higher	57%	47%	73%	56%
Lower	0%	0%	0%	0%
About the same	43%	53%	27%	44%
Total	100%	100%	100%	100%

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?

	Fourth Quarter Total	October	November	December
Higher	18%	13%	24%	19%
Lower	27%	38%	29%	15%
About the same	55%	49%	46%	67%
Total	100%	100%	100%	100%

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

	Fourth Quarter Total	October	November	December
Labour costs	72%	75%	78%	65%
Food costs	59%	66%	54%	56%
Weak economy	43%	49%	49%	33%
Shortage of skilled labour	39%	40%	49%	30%
Credit card merchant fees	36%	43%	37%	28%
Competition from new restaurants	35%	28%	37%	41%
Bad weather	24%	8%	24%	39%
Liquor costs	24%	23%	17%	30%
Shortage of unskilled labour	23%	34%	24%	11%
Weak customer demand	17%	28%	10%	11%
Gasoline prices	16%	9%	12%	24%
Sales taxes	15%	15%	10%	19%
Decline in tourists	9%	8%	7%	13%
No factors are adversely impacting my business	3%	0%	2%	7%

Number of responses:

	Fourth Quarter Total	October	November	December
Number of Responses	148	53	41	55
Number of Units	3,832	170	2,103	1,559

Was your total sales volume (on a same-store basis) higher, lower, or about the same compared to a year ago?

	Fourth Quarter Total	Quick-service Restaurants	Table-service Restaurants	All Other Foodservice*
Higher	42%	54%	37%	43%
Lower	34%	36%	32%	38%
About the same	24%	11%	31%	20%
Total	100%	100%	100%	100%

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?

	Fourth Quarter Total	Quick-service Restaurants	Table-service Restaurants	All Other Foodservice*
Greater	26%	32%	21%	33%
Lesser	21%	14%	25%	20%
About the same	52%	54%	54%	48%
Total	100%	100%	100%	100%

Were your average food costs, higher, lower or about the same compared to a year ago?

	Fourth Quarter Total	Quick-service Restaurants	Table-service Restaurants	All Other Foodservice*
Higher	66%	82%	64%	58%
Lower	6%	0%	7%	8%
About the same	28%	18%	28%	35%
Total	100%	100%	100%	100%

Please specify the year-over-year percentage change in food costs.

	Fourth Quarter Total	Quick-service Restaurants	Table-service Restaurants	All Other Foodservice*
Total	3.1%	3.9%	2.7%	3.3%

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

	Fourth Quarter Total	Quick-service Restaurants	Table-service Restaurants	All Other Foodservice*
Higher	57%	64%	61%	45%
Lower	0%	0%	0%	0%
About the same	43%	36%	39%	55%
Total	100%	100%	100%	100%

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?

	Fourth Quarter Total	Quick-service Restaurants	Table-service Restaurants	All Other Foodservice*
Higher	18%	25%	14%	23%
Lower	27%	25%	30%	23%
About the same	55%	50%	56%	55%
Total	100%	100%	100%	100%

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

	Fourth Quarter Total	Quick-service Restaurants	Table-service Restaurants	All Other Foodservice*
Labour costs	72%	79%	71%	70%
Food costs	59%	61%	59%	58%
Weak economy	43%	54%	43%	38%
Shortage of skilled labour	39%	18%	48%	35%
Credit card merchant fees	36%	25%	46%	23%
Competition from new restaurants	35%	25%	43%	28%
Bad weather	24%	29%	25%	18%
Liquor costs	24%	4%	28%	30%
Shortage of unskilled labour	23%	21%	25%	20%
Weak customer demand	17%	4%	23%	15%
Gasoline prices	16%	21%	16%	10%
Sales taxes	15%	21%	16%	8%
Decline in tourists	9%	7%	10%	10%
No factors are adversely impacting my business	3%	0%	3%	8%

Number of responses:

	Fourth Quarter Total	Quick-service Restaurants	Table-service Restaurants	All Other Foodservice*
Number of Responses	148	28	80	40
Number of Units	3,832	3,248	465	119

Was your total sales volume (on a same-store basis) higher, lower, or about the same compared to a year ago?

	Fourth Quarter Total	Chains	Independents
Higher	42%	40%	42%
Lower	34%	36%	34%
About the same	24%	24%	24%
Total	100%	100%	100%

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?

	Fourth Quarter Total	Chains	Independents
Greater	26%	36%	22%
Lesser	21%	12%	25%
About the same	52%	52%	52%
Total	100%	100%	100%

Were your average food costs, higher, lower or about the same compared to a year ago?

	Fourth Quarter Total	Chains	Independents
Higher	66%	69%	64%
Lower	6%	5%	7%
About the same	28%	26%	29%
Total	100%	100%	100%

Please specify the year-over-year percentage change in food costs.

	Fourth Quarter Total	Chains	Independents
Total	3.1%	1.9%	3.6%

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

	Fourth Quarter Total	Chains	Independents
Higher	57%	69%	53%
Lower	0%	0%	0%
About the same	43%	31%	47%
Total	100%	100%	100%

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?

	Fourth Quarter Total	Chains	Independents
Higher	18%	24%	16%
Lower	27%	29%	26%
About the same	55%	48%	58%
Total	100%	100%	100%

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

	Fourth Quarter Total	Chains	Independents
Labour costs	72%	81%	69%
Food costs	59%	64%	57%
Weak economy	43%	52%	40%
Shortage of skilled labour	39%	43%	37%
Credit card merchant fees	36%	36%	36%
Competition from new restaurants	35%	40%	33%
Bad weather	24%	14%	27%
Liquor costs	24%	17%	26%
Shortage of unskilled labour	23%	26%	22%
Weak customer demand	17%	21%	15%
Gasoline prices	16%	12%	17%
Sales taxes	15%	12%	16%
Decline in tourists	9%	2%	12%
No factors are adversely impacting my business	3%	0%	5%

Number of responses:

	Fourth Quarter Total	Chains	Independents
Number of Responses	148	42	106
Number of Units	3,832	3,708	124