Reference Period: Fourth Quarter 2015

RESTAURANT OUTLOOK SURVEY

Restaurants Canada

The voice of foodservice | La voix des services alimentaires

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Highlights

Due to a mild winter and lower gasoline prices, a healthy 45% of operators reported higher same-store sales in Q4. This follows a record share of 47% in Q3.

Although 30% of operators expect their sales growth to accelerate over the next six months, a nearly equal share (27%) expect their sales to decelerate. Operators in Alberta are the most pessimistic about 2016.

Higher prices for fruits, vegetables and meat made rising food costs the top challenge facing operators.

Average food costs rose by 4.2% in Q4 compared to Q4 2014.

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

The share of foodservice operators reporting a year-over-year increase in same-store sales remains near an all-time high at 45% in Q4. Lower gasoline prices and a mild winter across most of the country helped spur consumer spending.

The share of operators that reported lower same-store sales slipped for the second consecutive month to 26% in Q4 from 28% in Q3. The remaining 28% of operators recorded flat same-store sales.

In Alberta, the health of the foodservice industry deteriorated further as 76% of respondents reported lower same-store sales in Q4. A majority of operators posted a drop in sales between 20% and 30%. Only 16% of respondents recorded an increase in sales. A staggering 92% of respondents in Alberta said the weak economy had a negative impact on their business.

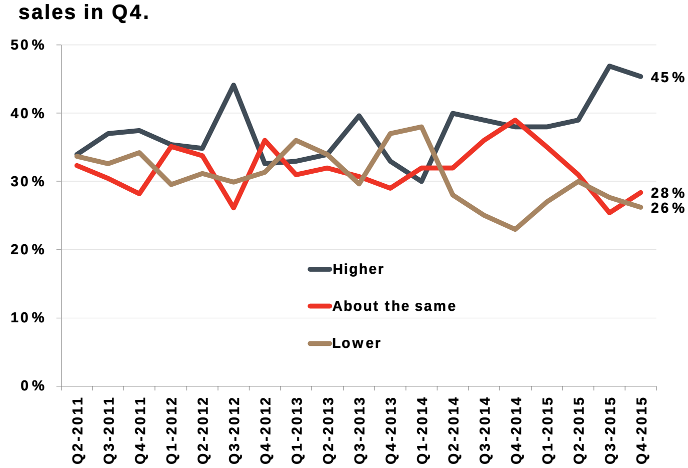
A majority (55%) of table-service restaurants in Canada reported higher same-store sales in Q4. This compares to 26% of respondents that reported lower sales.

Nearly half (47%) of quick-service restaurants posted higher same-store sales in Q4. This is down from 59% in Q3. Meanwhile, the share of respondents that reported lower sales rose to 24% in Q4 compared to 13% in Q3.

'All other foodservice,' which includes accommodation, caterers and drinking places, posted mixed results. Overall, 31% of operators reported an increase in their same-store sales compared to 28% that recorded lower sales.

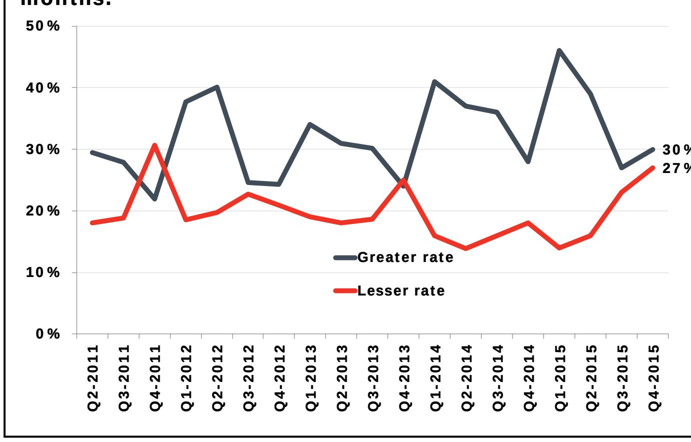
Within this category, drinking places struggled the most as 50% saw a drop in revenue. In contrast, 38% of accommodation and 35% of managed service providers/institutions posted higher same-store sales.

Nearly half of operators reported higher same-store sales in Q4.



Q: In the fourth quarter of 2015, was your total sales volume (on a same-store basis) higher, lower, or about the same versus the same period one year ago?

An increasing share of respondents expect their same-store sales will grow at a <u>lesser</u> rate over the next six months.



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?

Despite ending 2015 on a strong note, foodservice operators are divided about what lies ahead for 2016. While 30% of respondents expect their sales growth to accelerate over the next six months, nearly an equal share (27%) anticipates a slowdown in their growth.

TD Economics is forecasting a pick-up in economic activity with real GDP forecast to grow by 1.7% in 2016 compared to a projected 1.2% in 2015. Nevertheless, employment and disposable income will grow at a slower pace in 2016 due to the decline in commodity prices. Disposable income growth is the most significant factor determining the health of foodservice sales.

In addition, the Conference Board of Canada's consumer confidence index fell to a two-year low in December as more Canadians are pessimistic about their job security and finances.

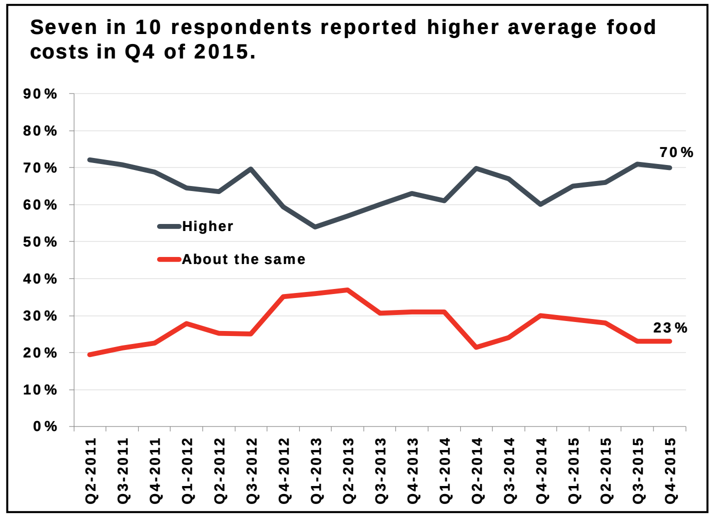
It's not surprising that the outlook for 2016 is weakest in Alberta. The share of respondents in Alberta that expect sales to decelerate over the next six months jumped to 76%. Just 24% expect sales to grow at the same pace as 2015. None of the respondents expects their sales will grow at a faster rate.

The outlook for the first half of 2016 was consistent across most segments. Quick-service restaurants are the most optimistic as 34% of operators expect their sales to accelerate over the next six months. This compares to 29% of table-service restaurant operators and 28% of 'all other foodservice'.

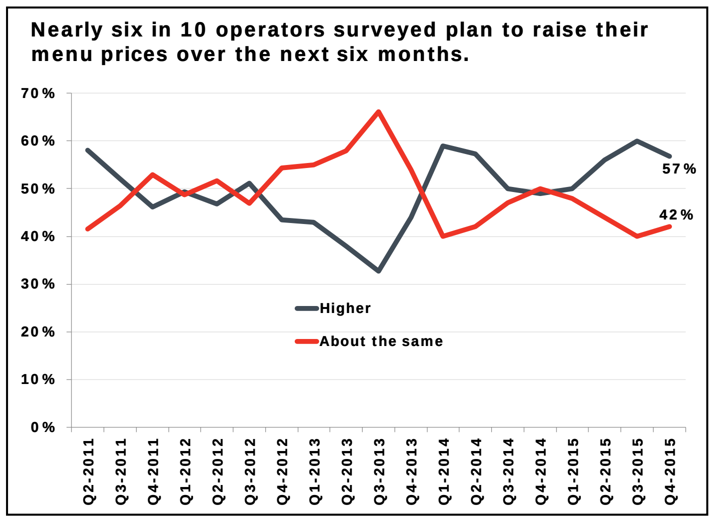
Food Costs and Menu Prices

Seven in 10 operators reported higher food costs in Q4 due to rising prices for beef, chicken, fresh fruits and fresh vegetables.

Restaurants reported an average 4.2% year-over-year increase in their food costs. This is relatively unchanged from Q3.



Q: In the fourth quarter, were your average food costs higher, lower or about the same as the fourth quarter of 2014?



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

Over the next six months, 57% of operators plan to raise their menu prices while 42% expect to keep menu prices about the same. There was little difference between restaurants as 56% of quick-service restaurant operators and 53% of table-service restaurants plan to raise their menu prices.

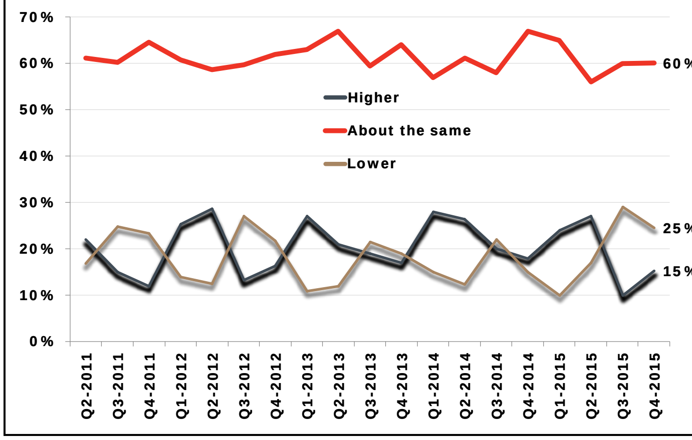
Employment

While foodservice operators are concerned about the outlook for the first half of 2016, 60% of respondents will maintain their current employment levels. The share of operators that plan to increase their employment levels rose slightly from 10% in Q3 to 15% in Q4. This could reflect the need for seasonal workers in the spring and early summer months.

In Alberta, however, 64% of respondents expect their employment levels to be lower while just 8% will hire more workers.

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.

Six in 10 operators plan to maintain their employment levels over the next six months.



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

Rising food costs is the number one issue impacting the foodservice industry. In November, consumers paid more for fresh vegetables (+10.9%), fresh fruit (+9.9%), pasta products (+9.0%), beef (+8.1%) and chicken (+6.2%). A weak Canadian dollar in 2016 will continue to put upward pressure on fresh fruit and vegetables.

Labour costs remain the second-largest factor impacting operators as nine out of 10 provinces increased their minimum wage in 2015.

An increasing share (43%) of operators said the weak economy is having a negative impact on their business. This is up from 30% in Q4 2014. Most of this is due to Alberta, where 92% of respondents said the weak economy hurt their business compared to 35% in the rest of Canada.

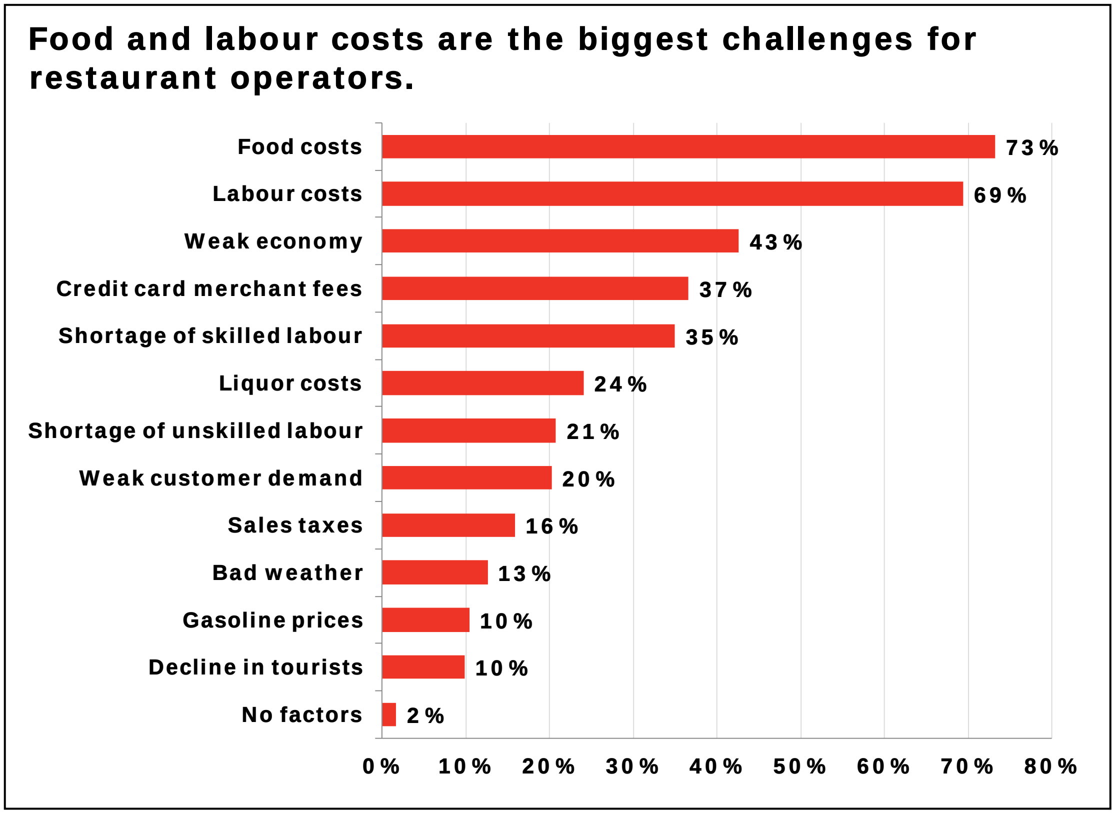
Credit card merchant fees had a negative impact on 37% of operators in Canada, unchanged from Q3.

Given the weak economy in Alberta, the share of operators reporting a shortage of skilled labour fell to 35% in Q4 compared to 45% in Q4 2014. In Alberta, the shortage of skilled labour has fallen to the national average. A shortage of unskilled labour impacted one in five operators in Canada.

Liquor costs are a significant issue for 24% of table-service operators and 83% of drinking places.

On a positive note, the mild winter weather across most of the country helped foodservice operators in Q4. Only 13% of respondents reported that bad weather hurt revenues compared to 24% in Q4 of 2014.

While the low Canadian dollar is raising the cost of imported foods, it is helping tourism. Just 10% of operators said a decline in tourists impacted their sales versus 18% a year ago.



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 2015.

In total, 183 completed surveys were submitted for the second quarter, representing 7,656 establishments.

Results of the survey are considered accurate within +/- 7.2 percentage points 19 times out of 20. The margin of error will be larger within sub-groupings of the survey.

Future editions will provide an ongoing index of business performance and expectations that will help restaurant owners, suppliers and policy makers in their business planning and analysis. 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.

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