

Reference Period: Second Quarter 2016

RESTAURANT OUTLOOK SURVEY



**Restaurants
Canada**

The voice of foodservice | La voix des services alimentaires

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2016

Highlights

As a result of warm weather and an increase in tourists, a solid 43% of foodservice operators reported higher same-store sales in Q2.

The share of respondents with lower same-store sales rose slightly to 28% in Q2.

Three in 10 restaurant operators expect their same-store sales to accelerate over the next six months. This is down from four in 10 operators compared to a year ago.

A record 76% of operators reported higher food costs in the second quarter. Average food costs increased by 4.6% in Q2 compared to Q2 2015.

A majority (59%) of respondents plan to raise menu prices over the next six months.

Despite the economic challenges in Alberta, Saskatchewan and Newfoundland & Labrador, a solid 43% of foodservice operators reported a year-over-year increase in same-store sales in Q2.

Over the past year, an average of 45% of respondents reported higher same-store sales compared to an average of 36% over the previous 17 quarters. British Columbia and Ontario are reporting brisk foodservice sales growth which has propelled overall same-store sales growth in Canada.

Thanks to good weather and an increase in tourists, June was the strongest month in Q2 as 46% of operators posted higher same-store sales.

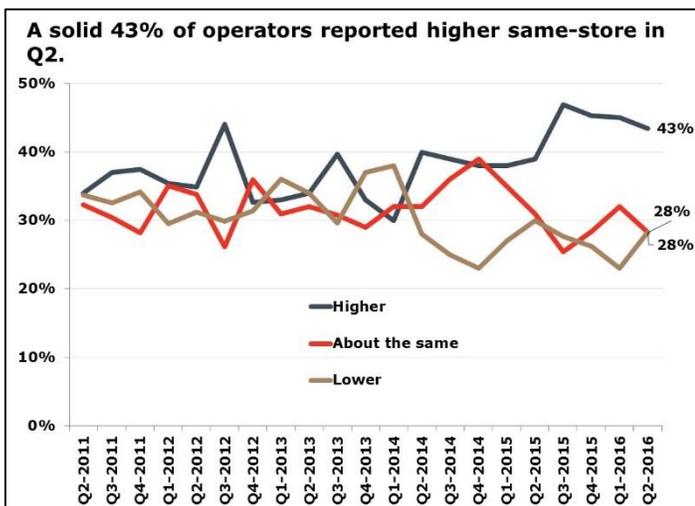
Nevertheless, the share of respondents with lower same-store sales rose slightly from 23% in Q1 to 28% in Q2.

Due to the recession in Alberta, 68% of operators in that province reported a decline in same-store sales in Q2. This compares to 61% in Q1.

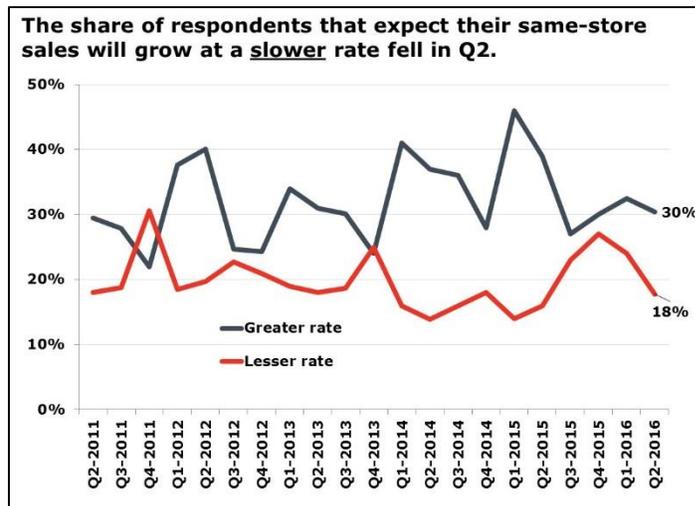
Nationally, nearly half of table-and quick-service restaurants reported higher same-store sales in Q1. For table-service restaurants, this is a sharp improvement over Q1 when 40% of respondents reported higher sales. In Q2, fewer table-service restaurants cited the weak economy as having a negative impact on their business.

In contrast, 'all other foodservice,' (which includes accommodation, caterers and drinking places) stumbled in Q2. While 30% reported higher same-store sales, 35% saw lower sales.

Nearly six in 10 (58%) drinking places recorded lower same-store sales in Q2.



Q: In the second 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?

Looking ahead, the share of foodservice operators expecting their sales to accelerate over the next six months slipped slightly from 32% in Q1 to 30% in Q2. Nevertheless, the share that expects their sales to decelerate fell for the second consecutive quarter to 18% in Q2.

Although foodservice operators in Alberta remain pessimistic, there are some hints of optimism. While 53% of operators expect their sales to decelerate over the next six months, this is down from 61% in Q2. The share of operators that expect their sales to grow at a greater rate rose from 4% in Q1 to 11% in Q2. Alberta's economy is forecast to contract by 3.0% in 2016 following a 3.5% decline in 2015.

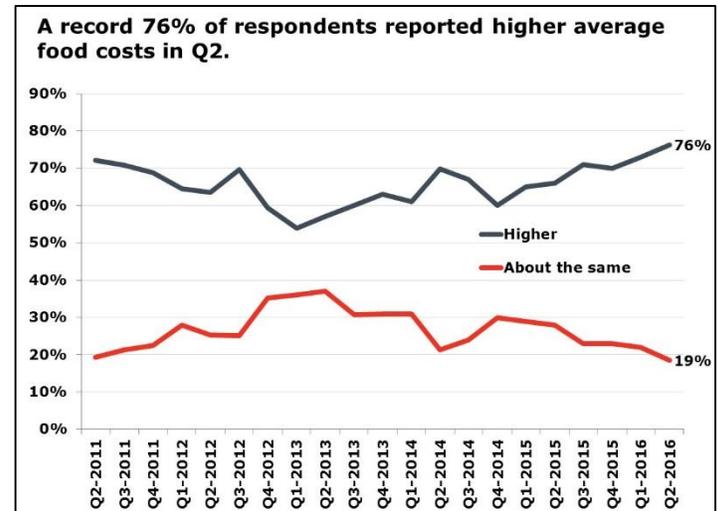
Despite healthy foodservice sales growth in the first half of the year, foodservice operators are less optimistic compared to last year. Even after excluding Alberta, the share of operators that expect sales to grow at a greater rate increases to just 34% versus 39% in Q2 2015.

TD Economics is forecasting modest real GDP growth over the next four quarters. The pace of disposable income growth and job creation will be weaker in 2016 compared to 2015 which may be weighing on the minds of foodservice operators.

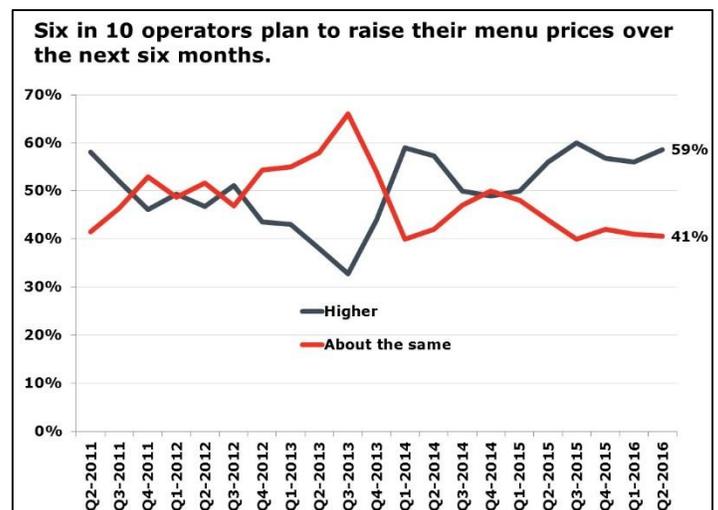
Table-service restaurants are the most optimistic as 34% of respondents expect their sales to accelerate over the next six months. This compares to 27% of quick-service restaurant operators and 25% of 'all other foodservice'.

Food Costs and Menu Prices

A record 76% of operators reported higher food costs in Q1. Due to the low Canadian dollar, restaurants paid more for fresh vegetables and fresh fruits. A number of operators also cited higher prices for beef and fish.



Q: In the second quarter, were your average food costs higher, lower or about the same as the second 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 5.3% year-over-year increase in their food costs compared to a 3.3% increase at chains.

Over the next six months, 64% of table-service restaurant operators and 46% of quick-service operators plan to raise their menu prices.

Given rising costs, operators are keeping an eye on over-portioning and waste reduction.

Employment

The share of operators that plan to add jobs over the next six months increased slightly from 22% in Q1 to 25% in Q2. This reflects the need for seasonal workers in the summer months.

In Alberta, however, 37% of respondents expect to reduce their employment levels over the next six months compared to 14% at the national level. On a positive note, 26% of operators in Alberta expect to hire more workers. This is up from 11% in Q1.

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.

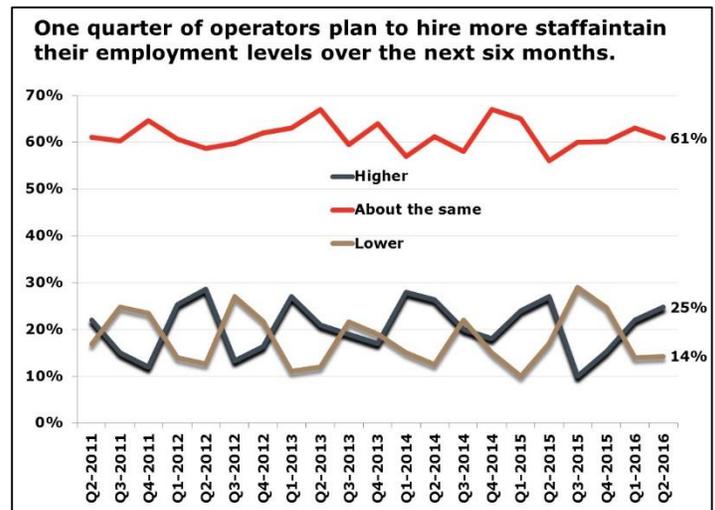
Factors Impacting Business

Due to high prices for vegetables, fruits and proteins, nearly eight in 10 operators said that food costs had a negative impact on their business in Q2. This compares to 66% of respondents in Q2 2015. High food costs had a negative impact on 83% of table-service restaurants and 69% of quick-service restaurants.

Labour costs remain a challenge for the foodservice industry. Seven out of 10 table-service restaurant operators said labour costs had a negative impact on their business. This compares to 58% of quick-service restaurants.

The weak economy had a negative impact on 45% of operators in Q2. This is down from 56% in Q1. Canada's economy likely contracted in Q2 due to the wildfires in Alberta. Nevertheless, consumer spending is expected to grow in Q2 and pick up momentum in the second half of 2016.

The share of operators in Alberta that said the weak economy hurt their business slipped from 89% in Q1 to 79% in Q2.



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?

Four in 10 operators said credit card merchant fees had a negative impact on their business.

One-third of operators said that competition from new restaurants was negatively impacting their business.

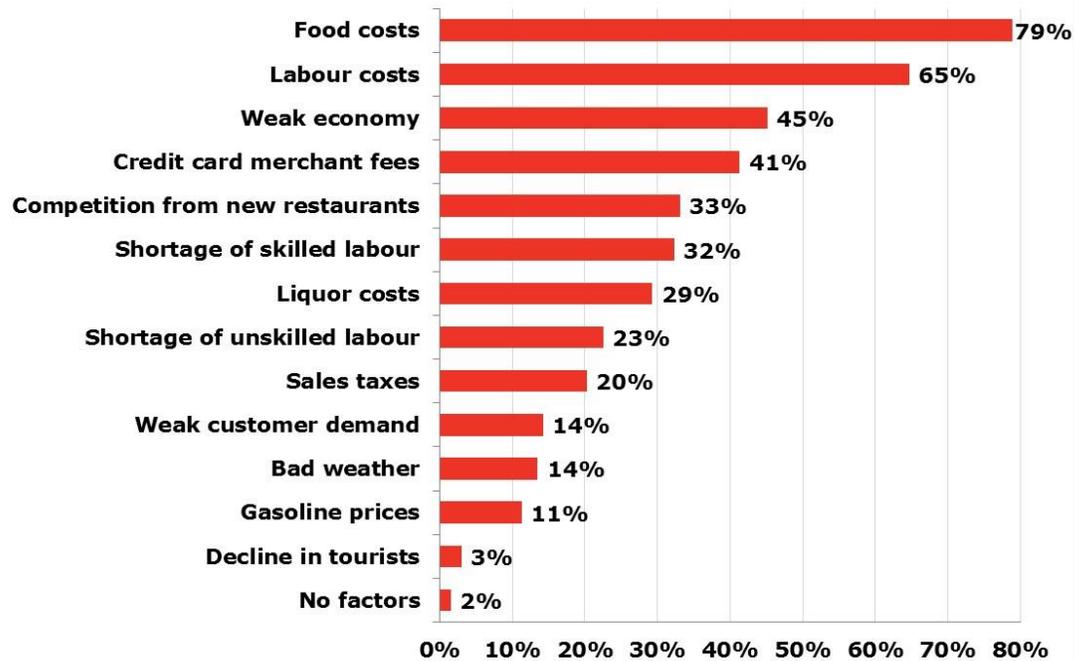
With the recession in Alberta, the share of operators reporting a shortage of skilled labour fell to 32% compared to 42% in Q2 2015.

Liquor costs had a negative impact on 37% of 'all other foodservice' and 35% of table-service restaurants.

The warm spring and summer weather helped foodservice operators in Q2. Only 14% said bad weather had a negative impact on their business compared to 25% of respondents in Q2 2015.

With a weak Canadian dollar, just 3% of respondents reported a decline in tourists. This compares to 16% in Q2 2015.

Food costs is the biggest challenges 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 first quarter are compiled from a monthly e-mail to restaurant operators inviting them to take an online survey. The survey covers the reference periods April, May and June 2016.

In total, 138 completed surveys were submitted for the second quarter, representing 5,238 establishments.

Results of the survey are considered accurate within +/- 8.3 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.

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

	Second Quarter Total	April	May	June
Higher	43%	42%	44%	46%
Lower	28%	26%	30%	30%
About the same	28%	32%	26%	24%
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?

	Second Quarter Total	April	May	June
Greater	30%	42%	33%	13%
Lesser	18%	16%	15%	22%
About the same	52%	42%	52%	65%
Total	100%	100%	100%	100%

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

	Second Quarter Total	April	May	June
Higher	76%	76%	78%	76%
Lower	5%	3%	7%	7%
About the same	19%	21%	15%	17%
Total	100%	100%	100%	100%

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

	Second Quarter Total	April	May	June
Total	4.6%	4.7%	4.3%	4.5%

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

	Second Quarter Total	April	May	June
Higher	59%	63%	60%	52%
Lower	1%	2%	0%	0%
About the same	41%	35%	40%	48%
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?

	Second Quarter Total	April	May	June
Higher	25%	27%	28%	20%
Lower	14%	16%	8%	15%
About the same	61%	56%	64%	65%
Total	100%	100%	100%	100%

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

	Second Quarter Total	April	May	June
Food costs	79%	79%	88%	74%
Labour costs	65%	55%	68%	76%
Weak economy	45%	44%	36%	52%
Credit card merchant fees	41%	34%	28%	59%
Competition from new restaurants	33%	40%	32%	24%
Shortage of skilled labour	32%	34%	24%	35%
Liquor costs	29%	29%	24%	33%
Shortage of unskilled labour	23%	23%	20%	24%
Sales taxes	20%	16%	32%	20%
Weak customer demand	14%	15%	16%	13%
Bad weather	14%	10%	28%	11%
Gasoline prices	11%	13%	12%	9%
Decline in tourists	3%	6%	0%	0%
No factors are adversely impacting my business	2%	0%	0%	4%

Number of responses:

	Second Quarter Total	April	May	June
Number of Responses	138	65	27	46
Number of Units	5,238	1,831	1,156	2,251

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

	Second Quarter Total	Quick-service Restaurants	Table-service Restaurants	All Other Foodservice*
Higher	43%	48%	49%	30%
Lower	28%	33%	23%	35%
About the same	28%	19%	28%	35%
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?

	Second Quarter Total	Quick-service Restaurants	Table-service Restaurants	All Other Foodservice*
Greater	30%	27%	34%	25%
Lesser	18%	8%	15%	31%
About the same	52%	65%	51%	44%
Total	100%	100%	100%	100%

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

	Second Quarter Total	Quick-service Restaurants	Table-service Restaurants	All Other Foodservice*
Higher	76%	81%	73%	81%
Lower	5%	8%	4%	6%
About the same	19%	12%	23%	14%
Total	100%	100%	100%	100%

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

	Second Quarter Total	Quick-service Restaurants	Table-service Restaurants	All Other Foodservice*
Total	4.6%	3.7%	4.3%	5.7%

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

	Second Quarter Total	Quick-service Restaurants	Table-service Restaurants	All Other Foodservice*
Higher	59%	46%	64%	57%
Lower	1%	0%	1%	0%
About the same	41%	54%	35%	43%
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?

	Second Quarter Total	Quick-service Restaurants	Table-service Restaurants	All Other Foodservice*
Higher	25%	15%	26%	29%
Lower	14%	19%	11%	17%
About the same	61%	65%	63%	54%
Total	100%	100%	100%	100%

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

	Second Quarter Total	Quick-service Restaurants	Table-service Restaurants	All Other Foodservice*
Food costs	79%	69%	83%	77%
Labour costs	65%	58%	71%	57%
Weak economy	45%	35%	46%	51%
Credit card merchant fees	41%	31%	46%	40%
Competition from new restaurants	33%	15%	40%	31%
Shortage of skilled labour	32%	31%	39%	20%
Liquor costs	29%	4%	35%	37%
Shortage of unskilled labour	23%	31%	25%	11%
Sales taxes	20%	19%	24%	14%
Weak customer demand	14%	4%	11%	29%
Bad weather	14%	12%	15%	11%
Gasoline prices	11%	15%	10%	11%
Decline in tourists	3%	4%	1%	6%
No factors are adversely impacting my business	2%	0%	1%	3%

Number of responses:

	Second Quarter Total	Quick-service Restaurants	Table-service Restaurants	All Other Foodservice*
Number of Responses	138	27	74	37
Number of Units	5,238	2,913	1,054	1,271

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

	Second Quarter Total	Chains	Independents
Higher	43%	50%	40%
Lower	28%	20%	33%
About the same	28%	30%	27%
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?

	Second Quarter Total	Chains	Independents
Greater	30%	34%	28%
Lesser	18%	14%	20%
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?

	Second Quarter Total	Chains	Independents
Higher	76%	78%	75%
Lower	5%	6%	5%
About the same	19%	16%	20%
Total	100%	100%	100%

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

	Second Quarter Total	Chains	Independents
Total	4.6%	3.3%	5.3%

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

	Second Quarter Total	Chains	Independents
Higher	59%	70%	52%
Lower	1%	2%	0%
About the same	41%	28%	48%
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?

	Second Quarter Total	Chains	Independents
Higher	25%	32%	20%
Lower	14%	14%	14%
About the same	61%	54%	65%
Total	100%	100%	100%

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

	Second Quarter Total	Chains	Independents
Food costs	79%	80%	78%
Labour costs	65%	66%	64%
Weak economy	45%	50%	42%
Credit card merchant fees	41%	32%	47%
Competition from new restaurants	33%	48%	24%
Shortage of skilled labour	32%	32%	33%
Liquor costs	29%	22%	34%
Shortage of unskilled labour	23%	28%	19%
Sales taxes	20%	18%	22%
Weak customer demand	14%	14%	14%
Bad weather	14%	12%	14%
Gasoline prices	11%	16%	8%
Decline in tourists	3%	4%	2%
No factors are adversely impacting my business	2%	4%	0%

Number of responses:

	Second Quarter Total	Chains	Independents
Number of Responses	138	50	88
Number of Units	5,238	5,135	103