

## Foodservice indicators: A year in review and a look forward

While economists have a natural tendency to dwell on the negative, 2017 was a pretty good year for the Canadian economy and the foodservice industry. The following are Restaurants Canada's top five indicators for 2017, followed by the indicators to watch in 2018.

Why 2017 was an awesome year (in no particular order):

1. **Canada posted the fastest economic growth of the G7 countries.** Preliminary data show Canada's economy grew by 3% in 2017 compared to 2.3% in the U.S. and 1.5% in the U.K. Growth was driven by strong consumer spending and a red hot housing market.
2. **Canada's unemployment rate falls to its lowest level since 1974.** Due to a bustling economy, net employment jumped by 422,500 jobs. Employment increased 13 consecutive months in a row, which drove the unemployment rate down to 5.7% in December. More people working means more money to spend out at restaurants.
3. **Consumer confidence soars.** Rising employment and improved consumer sentiment about the future led to a 17% jump in consumer confidence in 2017. The consumer confidence index is now at its highest level since 2007. As confidence increases, consumers are more likely to spend.
4. **Foodservice sales advance 5.1% in first 10 months of 2017.** After strong gains in 2015 and 2016, consumers' appetite for restaurants continued to expand. Prince Edward Island and British Columbia reported double-digit year-over-year growth, while foodservice spending in Quebec and Ontario are expanding at a vibrant pace.
5. **Happy 150<sup>th</sup> Birthday Canada!** The Canada 150 celebrations led to more travel by Canadians within Canada, and also led to another year of strong growth in international visitors. In fact, international tourist spending on foodservice jumped by nearly 40% since 2012.

If 2017 was the best of times, there are a number of reasons to believe that 2018 will be one of the most challenging years for operators. Here are some indicators we will be keeping a watchful eye on.

1. **Menu inflation to rise (a lot).** Due to rising minimum wages, higher energy prices, rising rent and property taxes, menu inflation is forecast to grow by more than 3% in 2018. In Ontario, menu prices are forecast to climb by 4%, or perhaps higher. This is coming at a time when prices at grocery stores are increasing by less than 1%. Rising operating costs and shrinking profit margins are leaving operators no choice but to raise menu prices. The big question is how much price-sensitive consumers are willing to accept at restaurants.
2. **Household debt is at critical levels.** Household debt represents a staggering 170% of disposable income. A nationwide survey conducted by Ipsos found that more than 30% of Canadians are concerned that rising interest rates could push them close to bankruptcy. All the major Canadian banks are forecasting a slowdown in consumer spending.
3. **Foodservice sales to slow.** Although the macroeconomic indicators will remain solid, high household debt and rising menu prices are forecast to slow real foodservice sales growth to 0.9%. This represents the industry's weakest growth since 2011.
4. **Foodservice employment is precarious.** Sharp increases in the minimum wage will lead operators to reduce worker hours and to layoffs in Ontario. The Canadian Centre for Economic

Analysis estimated that Bill 148 will put 17,000 jobs (or 3.5% of employment) in the foodservice and accommodation industry in Ontario at risk over the next two years.

5. **Foodservice unit expansion to stall.** One of main factors driving foodservice sales growth in recent years is the steady increase in new restaurants by chains and independents. Bill 17 in Alberta, Bill 148 in Ontario, slower foodservice sales growth and razor-thin profit margins will discourage new units from opening and will likely lead to a number of significant closures by restaurants and drinking places that are unable to stay afloat.

To help operators navigate the many changes that will take place in 2018 and find out how to grow revenues and save money, Restaurants Canada hosted a series of industry related webinars. They can be found here.