

## Restaurant Industry Outlook Softens as the Restaurant Performance Index Declined in March

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RPI stood below 100 for the fifth consecutive month

The outlook for the restaurant industry continued to weaken in March, as the National Restaurant Association's comprehensive index of restaurant activity fell sharply. The Association's Restaurant Performance Index (RPI) - a monthly composite index that tracks the health of and outlook for the U.S. restaurant industry - stood at 97.9 in March, down 0.9 percent from February and its lowest level on record.

"The March decline in the Restaurant Performance Index was the result of broad-based declines in both the current situation and expectations indicators," said Hudson Riehle, senior vice president of Research and Information Services for the Association. "Six out of the eight indicators declined in March, signifying both a slowdown in current industry performance as well as a weakening in the outlook for the industry in the months ahead."

"The soft economy continues to weigh on the minds of restaurant operators," Riehle added. "Twenty-five percent of restaurant operators said the economy is the number-one challenge facing their business, followed by food costs (22 percent), building-and-maintaining sales volume (16 percent) and recruiting-and-retaining employees (14 percent)."

The Restaurant Performance Index is based on the responses to the National Restaurant Association's Restaurant Industry Tracking Survey, which is fielded monthly among restaurant operators nationwide on a variety of indicators including sales, traffic, labor and capital expenditures. The RPI consists of two components - the Current Situation Index and the Expectations Index. (Follow this link to view this month's report: [www.restaurant.org/pdfs/research/index/200803.pdf](http://www.restaurant.org/pdfs/research/index/200803.pdf)).

The RPI is constructed so that the health of the restaurant industry is measured in relation to a steady-state level of 100. Index values above 100 indicate that key industry indicators are in a period of expansion, while index values under 100 represent a period of contraction for key industry indicators.

The Current Situation Index, which measures current trends in four industry indicators (same-store sales, traffic, labor and capital expenditures), stood at 97.1 in March - down 1.5 percent from February and its lowest level in more than five years. In addition, March marked the seventh consecutive month below 100, which signifies contraction in the current situation indicators.

Restaurant operators reported negative same-store sales in March for the fourth time in the last five months. Twenty-eight percent of restaurant operators reported a same-store sales gain between March 2007 and March 2008, down from 44 percent who reported a sales gain in February. Fifty-five percent of operators reported a same-store sales decline in March, up from 39 percent who reported similarly in February.

Restaurant operators also reported weaker customer traffic levels in March. Nineteen percent of restaurant operators reported an increase in customer traffic between March 2007 and March 2008, down from 32 percent who reported similarly in January. Sixty-one percent of operators reported a traffic decline in March, up from 46 percent who reported similarly in February.

Restaurant operators continued to report relatively soft capital spending activity. Forty-one percent of operators said they made a capital expenditure for equipment, expansion or remodeling during the last three months, up slightly from 40 percent who reported similarly last month.

The Expectations Index, which measures restaurant operators' six-month outlook for four industry indicators (same-store sales, employees, capital expenditures and business conditions), stood at 98.8 in March - down 0.3 percent from February and its lowest level on record. In addition, March represented the fifth consecutive month in which the Expectations Index stood below 100.

Restaurant operators are less optimistic about sales growth in coming months. Twenty-nine percent of restaurant operators expect to have higher sales in six months (compared to the same period in the previous year), down from 30 percent who reported similarly last month and the lowest level on record. Thirty-eight percent of restaurant operators expect their sales volume in six months to be lower than it was during the same period in the previous year, up from 34 percent who reported similarly last month and the highest level on record.

Restaurant operators remain pessimistic about the direction of the economy. Sixteen percent of operators expect economic conditions to improve in six months, up slightly from 14 percent who reported similarly last month. Forty-four percent of operators said they expect economic conditions to worsen in six months, compared to 46 percent who reported similarly last month.

Operators' plans for capital expenditures continue to drop off. Forty-eight percent of restaurant operators plan to make a capital expenditure for equipment, expansion or remodeling in the next six months, down from 51 percent who reported similarly last month and the lowest level on record.

While the RPI is consistently released on the last business day of each month, more detailed data and analysis can be found on Restaurant TrendMapper ([www.restaurant.org/trendmapper](http://www.restaurant.org/trendmapper)), the Association's subscription-based Web site that provides detailed analysis of restaurant industry trends.

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