Economic Outlook For the Food Service Sector

Bill Lapp
Advanced Economic Solutions

February 2018
Rapid Growth in Food Service Sales

Food Service – Drinking Places: Annual Sales, 2007-2017F

- Annual retail sales at food service and drinking place establishments are estimated at $676 B in 2017, a gain of 2.7% from a year ago
- Over the past 10 years, sales have risen by 52%, an annual rate of 4.3%

Source: Census Bureau, Advanced Economic Solutions
Strong Job Growth in the Restaurant Sector

Food Service – Drinking Places: Number Employed (000)

- Employment at food service and drinking establishments has risen by 23% since 2010, from 9.5 mm to just under 11.7 mm in 2017.

- The gain in the number employed has risen at a rate of 3.0% annually since 2010.

Source: Census Bureau, Advanced Economic Solutions
Rising Share of Income Devoted to Food Service

Food Service - Drinking Places Sales as a % of Disp. Income

- During 2017, consumers spent 4.7% of their disposable income on food, up from 4.1-4.2% during 2007-12

Source: Census Bureau, Advanced Economic Solutions
Annual sales at food service and drinking place per establishment reached $1 mm in 2015 for the first time, and totaled $1.06 mm during 2017.

Over the past 10 years, sales per establishment have risen by 35%, an annual rate of 3.0%.

Source: Census Bureau, Advanced Economic Solutions
NRA Index Shows Favorable Environment

*Restaurant Performance Index: Continued Expansion*

![Restaurant Performance Index graph](chart.png)

Values Greater than 100 = Expansion; Values Less than 100 = Contraction

Source: National Restaurant Association
What Are The Restaurant Industry Headwinds?

Sales Gains Driven by Higher Menu Prices

• Same-store sales (SSS) continue to grow
  • Nov-17 – Jan-18 SSS were up 0.2% (vs. YA)

• But traffic is flat to lower
  • Nov-17 – Jan-18 traffic was off 2.2% (vs. YA)

• SST being achieved by higher average check
  • Nov-17 – Jan-18 rose by more than 2% (vs. YA)

Source: TDN2k, Advanced Economic Solutions
What Are The Restaurant Industry Headwinds?

Uncompetitive Pricing vs. At-Home Dining?

Jan 2018 vs. Jan 2013:

- Consumer price index for food away from home has gained 13.3%
- Consumer price index for food at home has gained just 2.4%
- “Gap” of nearly 9% in food price indices
What Are The Restaurant Industry Headwinds?

*Increased Cost of Labor*

![Graph showing Employment Cost Index - % Chg Yr Ago Total (green) vs. Accomodations/Food Service (blue)]
What Are The Restaurant Industry Headwinds?

Increases in the Minimum Wage

Minimum Wage by State - 2015

[Map showing minimum wages by state]
Too Many Dining Options?
Food Service – Drinking Places: Number of Establishments

- There has been a sizable increase in the number of food service and drinking establishments over the past decade
- Census data through 2015 indicate steady growth
- AES analysis suggests that the number of establishments may been flat in 2016 and 2017
- Note: this does not include establishments such as grocery stores, convenience stores, etc.

Source: Census Bureau, Advanced Economic Solutions
Is the Restaurant Industry “Over-built”?  
Food Service – Drinking Places: # People per Establishment

- Food service and drinking establishments have generally become more abundant since 2007
- During 2015, there was an establishment for every 510 people in the U.S. – compared to a 540:1 ratio in 2009
- This implies that on a per capita basis, consumers have around 5% more restaurants to choose from today than they did in 2007

Source: Census Bureau, Advanced Economic Solutions

February 2018
Advanced Economic Solutions 12
What Are The Restaurant Industry Headwinds?

*Figuring Out What The Consumer Wants*

**Food Attributes**
- Locally grown?
- Sustainable grown/sourced?
- “Natural”?
- Organic”
- Non-GMO?

**Experience Attributes**
- Time saving?
- “Comfort” food
- Unique experience
- Prepared & delivered?
- Endorsed by “foodies”?
Commodity Prices Matter!

- Food costs equal 25-35% of the price of a restaurant meal
  - Depending upon the concept
- Restaurants have little ability to pass on increased food costs
  - Costs directly impact the bottom line of an operator
- Corn prices are critical
  - Corn is the largest crop produced in the US, impacting wheat, vegoil, etc.
  - Corn is the primary feed used to produce beef, pork, poultry, dairy

*Successful restaurant concepts utilize risk management tools, where possible, to manage costs and maximize profits*