

Food Away From Home Monthly Industry Brief

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Industry Brief -- The Traffic Trends Issue

In this issue we take a fresh look at restaurant **traffic** – patrons through the door. This is a rare insight into foodservice trends. Most reporting services look at restaurant **sales** – but dollars are influenced by inflation, dealing, and changes in menu mix. Traffic gives us a true picture of restaurant trends since the recession began in December 2007. And allows us to project how long it will be until foot traffic recovers to pre-recession levels. The outlook is not bright.

Annualized Patron Traffic – Bottomed In Early 2010

- Annualized total Commercial Restaurant patron traffic has leveled at 59.2 billion visits for the past 4 rolling annual periods. The annual period ending August 2010 is down -3.5% versus the pre-recession benchmark of 61.4 billion annual visits, achieved in the period ending December 2007. (See Table 1)
- Quick Service Restaurants (QSR) and Full Service Restaurants (FSR) patron traffic also bottomed early in 2010, and have held steady since then.
 - QSR annualized traffic stands at 46.1 billion visits in the period ending August 2010, down -2.3% versus the pre-recession benchmark of December 2007.

	Rolling Annual Patron Traffic (Billions)														
	Pre-Recession Benchmark	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10
Total Restaurants	61.4	60.5	60.3	60.1	59.9	59.8	59.6	59.5	59.4	59.3	59.3	59.2	59.2	59.2	59.2
QSR	47.2	46.9	46.8	46.6	46.5	46.4	46.3	46.3	46.2	46.1	46.1	46.1	46.1	46.1	46.1
Full Service	14.1	13.6	13.5	13.5	13.4	13.4	13.3	13.3	13.3	13.2	13.2	13.2	13.1	13.1	13.1

Source: NPD CREST

- FSR annualized traffic has held steady in the 13.1 – 13.2 billion visits range, since March. The annual period ending August 2010 is down -7.1% versus the pre-recession benchmark of December 2007.

It Will Take Years to Return to Pre-Recession Traffic Levels

Table 2

During the 3 years prior to the recession (2005-2007), commercial restaurants had sluggish traffic growth overall. The little growth that was achieved was entirely due to fast food restaurants. By contrast, traffic at full service restaurants was already trending down in the pre-recession years. (See Table 2)

	Avg Annual Traffic Growth Pre-Recession	How long to return to Pre-Recession Traffic Levels
Total Restaurants	1.3%	3 years
QSR	1.8%	18 months
Full Service	-0.5%	7.5 years

- Pre-recession, commercial restaurants were averaging only 1.3% annual traffic growth - barely above the rate of growth in the overall U.S. population. If restaurants were able to return to the 1.3% annual growth levels – it will take 3 years to return to the traffic levels last seen in December 2007. More specifically – it will take until August 2013 to return to annualized visits in the 61.4 billion range – if growth returns to the “go-go” years of 2005-2007.
- QSR is in much better shape given it declined less steeply during the recession, and had been achieving +1.8% annual traffic growth in the mid-2000’s era. If QSR can return to its pre-recession growth rate, it could be back to the 14.1 billion annual visits level in 18 months.
- Surprisingly – FSR traffic had been declining during the pre-recession years of 2005-2007. Even though U.S. population was growing at about +1.0% per year, and the economic was surging – full service restaurant visits declined. Even if we assume that FSR can somehow grow on pace with overall population growth (i.e., +1.0% per year), it will take 7 ½ years for Full Service Restaurants to regain the traffic levels last seen in December 2007.

Historic Comparisons – worst traffic trends since 1980 Recession.

According to analysis by The NPD Group, the restaurant industry posted eight straight quarters of traffic decline – the worst performance since NPD began tracking the industry in 1976. The worst previous period was the 1980 recession, when there were four quarters of traffic declines.

Monthly Traffic Patterns – August Rebounds

- August brought the first month of patron traffic gains to QSR and FSR since November 2008. (see Table 3)
 - Total commercial restaurants (*which includes QSR, FSR and also includes retail sources such as C-stores, snack bars at retailers, recreation and amusement*) were flat versus August a year ago. This is the first month of breakeven performance since late in 2008.
 - QSR’s managed a 0.4% gain in monthly patron traffic in August, the best performance since November 2008.

% Change - Monthly Patron Traffic vs. Year Ago															Table 3
	Avg Annual Growth Pre-Recession	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10
Total Restaurants	1.3%	-4.2%	-3.5%	-4.3%	-3.2%	-2.2%	-3.3%	-2.3%	-2.6%	-1.8%	-0.9%	-1.3%	-0.5%	-0.7%	0.0%
QSR	1.8%	-3.7%	-3.2%	-4.2%	-2.6%	-1.9%	-3.5%	-1.5%	-2.5%	-1.4%	-0.1%	-1.0%	0.1%	-0.2%	0.4%
Full Service	-0.5%	-5.7%	-4.4%	-4.6%	-4.9%	-3.1%	-2.9%	-4.9%	-3.2%	-3.2%	-3.3%	-2.1%	-3.1%	-2.3%	0.8%

Source: NPD CREST

- FSR’s gained a respectable +0.8% in monthly patron traffic in August, the best performance since April 2008.

Consumers Venturing Out

The slight traffic gains in August (against very poor performance in August 2009) are somewhat heartening news for restaurant chains.

The NPD Group cites that 43 top restaurant chains claimed 11 consecutive weeks of same-store-sales growth, for the week ending October 3. In a Wall Street Journal poll, conducted in August 2010, consumers were showing more desire to spend more at restaurants in the coming months.

Consumer Confidence Weak. Unemployment Remains High

Consumer Confidence Index stood at 53.5 in August, remaining in the same bleak range since the Spring of 2010. “Normal” confidence = 100. For the record – confidence dipped in September 2010 to 48.6, and has rebounded slightly to 50.2 in October 2010. This basically flat, bleak pattern is driven by very weak current situation feelings. The slight rises are driven by a bit of optimism in future expectations. Essentially, the economy-weary consumer is saying “it’s bad today, but it has to get better down the road”.

National unemployment in August stood at 9.6%. This level was matched in September 2010 also. Unemployment has been above the 9% level since mid-2009. Underemployment – consumers working part-time instead of full-time, consumers who have given up looking for work – has reached 17.1% in August. Combined, 26.7% of Americans 16-65 are unemployed or underemployed. According to the most recent Gallup Poll (released October 25, 2010), unemployment remains the #1 political issue for Americans as we approach the November mid-term elections.

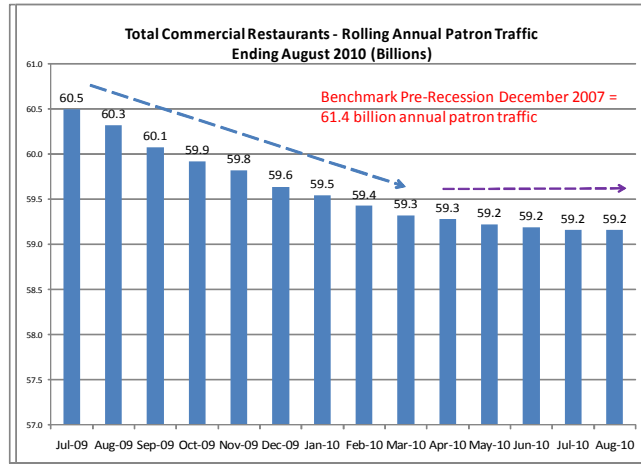
The national consumer mood can best be described as “uncertain”. Consumers have become a bit more exploratory, and a bit more national brand confident in recent months. But overall, are not ready to spend. Instead, they continue to save a bit more and pay off a bit of debt. They are covering essential payments – mortgage, rent, automobile, utilities. And carefully evaluating retail purchases.

Food Away From Home Industry Brief prepared by Commercial and Foodservice Consumer Insights.
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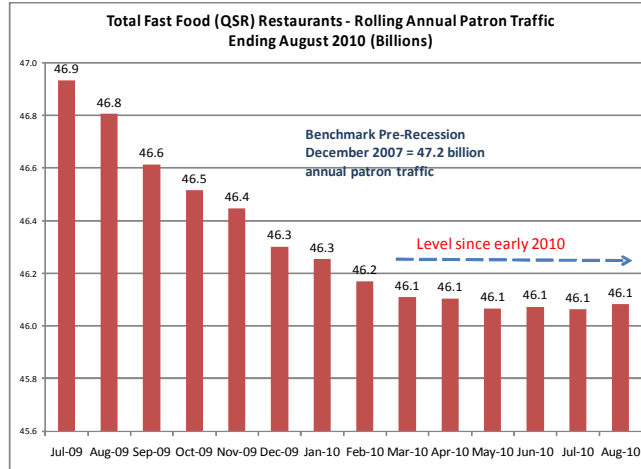
APPENDIX A

RESTAURANT PATRON TRAFFIC TRENDS – THROUGH AUGUST 2010

Total Commercial Restaurants Trends



Quick Service Restaurants Trends



Full Service Restaurants Trends

