Restaurant Performance Index highest level in more than two years

By Michael Fielding on 7/1/2014

Driven by stronger sales and traffic levels and an increasingly optimistic outlook among restaurant operators, the National Restaurant Association's Restaurant Performance Index (RPI) rose to its highest level in more than two years. The RPI – a monthly composite index that tracks the health of and outlook for the U.S. restaurant industry – stood at 102.1 in May, up 0.4 percent over April and the third consecutive monthly gain and strongest reading since March 2012. In addition, the RPI stood above 100 for the 15th consecutive month, which signifies expansion in the index of key industry indicators.

"Positive sales results fueled the May increase in the RPI, as nearly two-thirds of restaurant operators said their same-store sales rose above year-ago levels," Hudson Riehle, senior vice president of the Research and Knowledge Group for the association, said in a news release. "In addition, restaurant operators are increasingly optimistic about continued sales gains in the months ahead, a sentiment that is also showing up in their capital expenditure plans."

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 below 100 represent a period of contraction for key industry indicators. The Index consists of two components – the Current Situation Index and the Expectations Index.

**Current Situation Index**

The Current Situation Index, which measures current trends in four industry indicators (same-store sales, traffic, labor and capital expenditures), stood at 102.0 in May – up 0.7 percent from April and the third consecutive solid monthly gain. May also represented the third consecutive month that the Current Situation Index stood above 100, which signifies expansion in the current situation indicators.

For the third consecutive month, a majority of restaurant operators reported higher same-store sales. Sixty-five percent of restaurant operators reported a same-store sales gain between May 2013 and May 2014, up from 51 percent in April and the highest proportion since March 2012. Meanwhile, only 19 percent of operators reported a same-store sales decline in May, down from 26 percent who reported similarly in April.

Restaurant operators also reported stronger customer traffic levels in May. Forty-seven percent of restaurant operators reported an increase in customer traffic levels between May 2013 and May 2014, while 29 percent reported a decline. In April, 44 percent of operators said their traffic rose from the previous year, while 30 percent reported a decline.

Along with improving sales and customer traffic levels, restaurant operators continued to report positive capital spending trends. Fifty-three percent of operators said they made a capital expenditure for equipment, expansion or remodeling during the last three months, just below the 56 percent who reported similarly last month.

**Expectations Index**

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 102.2 in May – unchanged from April's level. In addition, May represented the 19th consecutive month in which the Expectations Index stood above 100, which indicates that restaurant operators remain optimistic about business conditions in the months ahead.

Restaurant operators are increasingly optimistic about their sales prospects in the coming months. Fifty percent of restaurant operators expect to have higher sales in six months (compared to the same period in the previous year), up from 46 percent last month and the strongest level in nearly two years. Meanwhile, only 8 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, down from 11 percent last month.

While their sales outlook is generally positive, restaurant operators' view of the economy remains somewhat clouded. Twenty-eight percent of restaurant operators said they expect economic conditions to improve in six months, while 15 percent expect the economy to worsen. The remaining 57 percent expect economic conditions in six months to be about the same as they are now.

For the ninth consecutive month, a majority of restaurant operators are planning for capital expenditures in the coming months. Sixty-two percent of restaurant operators plan to make a capital expenditure for equipment, expansion or remodeling in the next six months, up slightly from 60 percent who reported similarly last month.

The RPI 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 full report and video summary are available online at Restaurant.org/RPI.