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2014 – A PERFORMANCE REVIEW FOR RESTAURANT FIRMS

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Editor's Note: 2014 – A Performance Review for Restaurant Firms

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2014 – A PERFORMANCE REVIEW FOR RESTAURANT FIRMS

The restaurant industry continues to show a steady growth thus far in 2014. Per the latest report from the National Restaurant Association (NRA), the outlook for the restaurant industry continues to be quite robust this year. Experts predict the industry to grow steadily with improving economic climate, generating more jobs and income. Total annual restaurant industry sales are expected to reach a record high of $683.4 billion in 2014. Such growth constitutes a 3.6% increase over 2013 annual sales.

Table 1 summarizes the current trend of stock returns for key restaurant firms in 2014. The one-year average return (41.11%) of restaurant stocks as of March 5, 2014, surpassed the one-year average return of the S & P 500 index (25.48%) by almost 15.63%. The trend is suggestive of this industry’s continued growth and strong recovery since its pre-2010 slump. The quick service restaurants (QSRs) maintained a healthy performance with their stocks yielding a 48.89% one-year average return. The average one-year return for the family, casual, and full-service restaurants was 38.82%, almost similar to the previous year. Such a trend suggests a significant growth in consumer preference for fine dining spurred by steady recovery in per capita income and the overall economy.

According to latest reports of the NRA, restaurant industry sales are once again projected to reach almost 4% of the U.S. gross domestic product in 2014 (NRA, 2014). With this industry’s job growth outpacing the overall economy in 14 consecutive years since 2000, restaurants are projected to employ 13.5 million people in 2014, or nearly 10% of the U.S. workforce.

Recent changes in the NRA’s Restaurant Performance Index (RPI) support the optimism of NRA experts. RPI is a combination of the current situation index (derived from recent-period restaurant industry indicators, such as same-store sales traffic and labor and capital expenditures) and the expectations index (derived from forward-looking or the six-month outlook for restaurant industry indicators) and is based on the NRA’s monthly survey of U.S. restaurateurs. Table 2 summarizes recent trends in the NRA’s statistical barometer, the RPI for the period January 2009 to January 2014. Figure 1 presents the graph for RPI trends until January 2014.

RPI values above 100 indicate expansion, whereas values below 100 suggest a period of contraction for key restaurant industry indicators. As shown in Figure 1, the RPI values clearly reveal an expansionary trend for restaurant industry indicators continuously for the period March 2013 to January 2014, with peaks during the summer months. Restaurant spending and expansionary RPI trends are often closely related to economic growth and disposable income of consumers. The U.S. GDP grew at an annual rate of 3.2% in the last quarter of 2013, showing the highest consumer spending levels in three years (Rushe, 2014), regardless of the government shut-down threats. Such growth was particularly impressive, because it followed yet another 4.1% gain in the preceding third quarter. The U.S. disposable personal income in current dollars grew steadily in 2013 at 4.0, 4.9, and 1.7 percent, during the second, third, and fourth quarters, respectively (U.S. Department of Commerce, 2014). Given
such steady growth in disposable income accompanying economic recovery, and with the restaurant industry constantly improving with new innovations, mobile and other technology, web-based reimaging and emarketing efforts, experts seem quite optimistic that the performance of this industry should continue to be strong in the coming months.
Atul Sheel
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REFERENCES


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Source: National Restaurant Association.