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2017–2018 Restaurant Industry Performance and the JHFM Index

Restaurant industry sales continued their moderate growth between 2017 and 2018. According to the National Restaurant Association (NRA) reports, restaurant industry revenues are still projected at approximately \$799 billion in 2017 relative to its estimated \$766 billion sales in 2016. Regardless of rising expectations and index trends from the NRA, investors remain cautious about the industry's growth in 2018 amid mixed economic signals.

Table 1 summarizes the trend of stock returns for key restaurant firms until the first quarter of 2018.

At the end of the first quarter in 2018, the 1-year average return of restaurant stocks represented by the JHFM Restaurant Industry Index (14.87%) surpassed the 1-year average return for the S&P 500 Index (12.66%) by almost 2.21%. Over the last year, quick-service restaurants (23.75% annual return) and casual-dining restaurants (14.39% annual return) seem to have performed better than the market (12.66%). Quick-service restaurants show the maximum returns, with Yum Brands (31.28% annual return) contributing most toward this buoyancy. Such a trend suggests a significantly stronger consumer preference for quick service and casual dining during the 2017–2018 period relative to 2016–2017. Full-service restaurants (–4.61% annual returns), on the other hand, yielded significantly less annual returns relative to the market (12.66%), with firms such as Kona Grill and Cheesecake Factory being clear laggards in this group. A stronger consumer preference for more economical quick-service restaurants relative to more upscale full-service dining places and a negative trend in year-to-date, 1-month, and 3-month returns for the JHFM Restaurant Index (–3.97%,

–2.18%, and –4.11%, respectively) suggest growing caution in the market's expectation for restaurant industry stocks.

Current trends in the NRA's Restaurant Performance Index (RPI) support such cautious outlook for restaurant industry performance during 2018. 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 a forward-looking or 6-month outlook for restaurant industry indicators) and is based on the NRA's monthly survey of U.S. restaurateurs. RPI values above 100 indicate expansion, while values below 100 suggest a period of contraction for key restaurant industry indicators. Table 2 summarizes recent trends in the NRA's statistical barometer, the RPI for the January 2009–January 2018 period. Figure 1 presents the graph for RPI trends until January 2018.

RPI values in Figure 1 are suggestive of a stagnating trend for restaurant industry indicators from April 2017 to January 2018, the holiday season of December being the only exception. In January 2018, the performance index dropped 2.0% to 100.9 from a level of 102.9 in December. The current situation index dropped 3.5% to 99.4. This was the fourth time in the last 5 months that the current situation index was below 100, signaling contraction, even though restaurant operators seemed optimistic about business conditions in the future and the expectation index stayed above 100. The increasing gap between the current situation index and the expectations index during the last quarter of 2017 (–1.9% to –3.0%) and the decline in

Table 1. 2018 Restaurant Stock Return Trends, Quarter 1

Stock Name	Market Cap (Millions)	YTD %	1-Month	3-Month	1-Year	3-Year	5-Year
QUICK SERVICE RESTAURANTS							
Biglari Holdings Inc	844	-1.54	-3.21	-2.56	-0.57	-1.35	2.76
Carrols Restaurant Group Inc	406	-8.64	-13.95	-10.48	-20.43	10.67	16.24
Domino's Pizza Inc	9,762	20.24	-0.72	17.8	23.99	30.56	35.45
Jack In The Box Inc	2,476	-14.15	-5.61	-15.64	-14.17	-3.69	20.98
McDonald's Corp	123,131	-9.37	-4.34	-9	23.16	18.96	11.68
Sonic Corp	943	-10.19	-4.29	-12.58	8.74	-9.96	17.2
The Wendy's Co	4,038	2.77	-0.03	2.65	26.84	16.23	26.22
Yum Brands Inc	27,160	0.53	2.36	-0.44	31.28	12.21	10.53
JHFM Index—Weighted Average Quick Service Restaurants		-5.81	-2.99	-5.88	23.75	17.86	13.35
QUICK SERVICE SPECIALTY RESTAURANTS							
Chipotle Mexican Grill Inc	9,002	11.51	2.05	9.17	-22.31	-2.31	0.25
Dunkin' Brands Group Inc	4,858	-7.85	-4.15	-8.34	5.92	9.17	11.7
Starbucks Corp	79,149	-1.43	0.3	-1.2	2.79	6.63	15.93
JHFM Index—Weighted Average Quick Service Specialty Restaurants		-0.51	0.24	-0.57	0.52	3.96	14.19
JHFM Index—Average Quick Service and Quick Service Specialty Restaurants		-3.93	-1.84	-3.99	15.50	12.92	13.65
FAMILY DINING RESTAURANTS							
Cracker Barrel Old Country Sto	3,686	-2.61	-4.84	-6.05	3.6	4.45	17.87
Denny's Corp	979	15.03	1.67	13.23	25.45	8.82	21.42
DineEquity Inc	995	-26.87	4.12	-24.89	-35.76	-4.78	8.08
JHFM Index—Weighted Average Family Dining Restaurants		-1.27	-2.14	-6.03	0.46	3.58	16.76
CASUAL DINING RESTAURANTS							
Brinker International Inc	2,107	-12.3	-0.6	-7.63	-6.72	-2.57	11.68
Darden Restaurants Inc	10,408	-11.6	-11.64	-11.95	13.13	12.18	15.52
Red Robin Gourmet Burgers Inc	755	3.37	4.76	5.9	7.96	-12.15	5.09
Texas Roadhouse Inc	3,978	6.3	-2.23	3.36	30.09	15.69	24.42
JHFM Index—Weighted Average Casual Dining Restaurants		-1.73	-7.40	-7.11	14.39	10.12	16.65
FULL SERVICE RESTAURANTS							
BJ's Restaurants Inc	889	19.4	-0.44	19.56	13.46	-5.92	5.91
Cheesecake Factory Inc	2,168	-1.35	-2.04	-3.88	-21.22	0.36	6.65
Kona Grill Inc	19	8.57	-9.31	1.33	-67.8	-58.43	-25.89
Ruth's Hospitality Group Inc	742	11.59	-3.94	10.57	23.7	15.98	21.37
JHFM Index—Weighted Average Full Service Restaurants		1.51	-2.07	4.41	-4.65	1.64	9.18
JHFM Index—Weighted Average Family, Casual and Full Service Restaurants		-1.17	-5.53	-5.23	8.72	7.53	15.60
JHFM Index—Restaurant Industry Weighted Average		-3.97	-2.18	-4.11	14.87	12.42	13.83
S & P 500		-3.92	-2.11	-2.64	12.66	10.44	13

Source: Morningstar Investment Research Center.

Note: Data until March 28, 2018.

capital expenditures, or long-term investments, in the industry are both concerning signals, the latter suggesting lack of commitment on the part of restaurant owners to larger upgrades.

The cautious outlook for the restaurant industry in the coming months seems logical given the recent volatility and mixed signals in the U.S.

financial markets. On the one hand, the near-term scenario looks modest according to data from the U.S. Department of Commerce. Real GDP increased 2.3% in 2017 compared with an increase of 1.5% in 2016. Real DPI increased 1.2% in 2017 compared with an increase of 1.4% in 2016. On the other, a key concern for financial experts is whether the

Table 2. Restaurant Performance Index (RPI) Trend, January 2009–January 2017

Month	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Jan	97.4	98.3	100.2	101.3	100.6	100.7	102.7	100.6	100.1	100.9
Feb	97.5	99	100.7	101.9	99.9	100.5	102.6	102.1	100.7	
Mar	97.7	100.5	101	102.2	100.6	101.4	102.2	100.7	101.8	
Apr	98.6	100.4	100.9	101.6	101	101.7	102.7	101.6	100.3	
May	98.3	99.7	99.9	101.4	101.8	102.1	102.3	100.6	100.9	
Jun	97.8	99.5	100.6	101.4	101.3	101.3	102	100.3	101.0	
July	98.1	99.4	99.7	100.2	100.7	101	102.7	100.6	100.6	
Aug	97.9	99.5	99.4	100.6	100.5	101.9	101.5	99.6	100.2	
Sep	97.5	100.3	100.1	100.4	100.2	101	101.4	100.8	100.7	
Oct	98	100.7	100	99.5	100.9	102.8	102.1	100.5	100.9	
Nov	97.8	99.9	100.6	99.9	101.2	102.1	101.3	100.7	101.1	
Dec	98.7	101	102.2	99.7	100.5	102.9	99.7	100.5	102.9	

Source: National Restaurant Association.



Figure 1. National Restaurant Association's Restaurant Performance Index.

Note: Values greater than 100 = expansion; values less than 100 = contraction.

post-2009 economic expansion, now in its ninth year, is vulnerable because it is getting too old. Adding to this concern are how the Fed will implement its new phase of interest rate hikes without overheating the economy and the not-so-nice long-term U.S. fiscal scenario (current budget deficit 3.5% of GDP relative to 1.1% in 2007; federal debt 77% of GDP in 2017 relative to 35% in 2007). Given such scenario, it will be interesting to see whether the performance of the restaurant industry in 2018 will outpace its recent trend in 2017.

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