



Economy Contracted; RPI Hit a Record Low

Economic Commentary – October 31, 2008



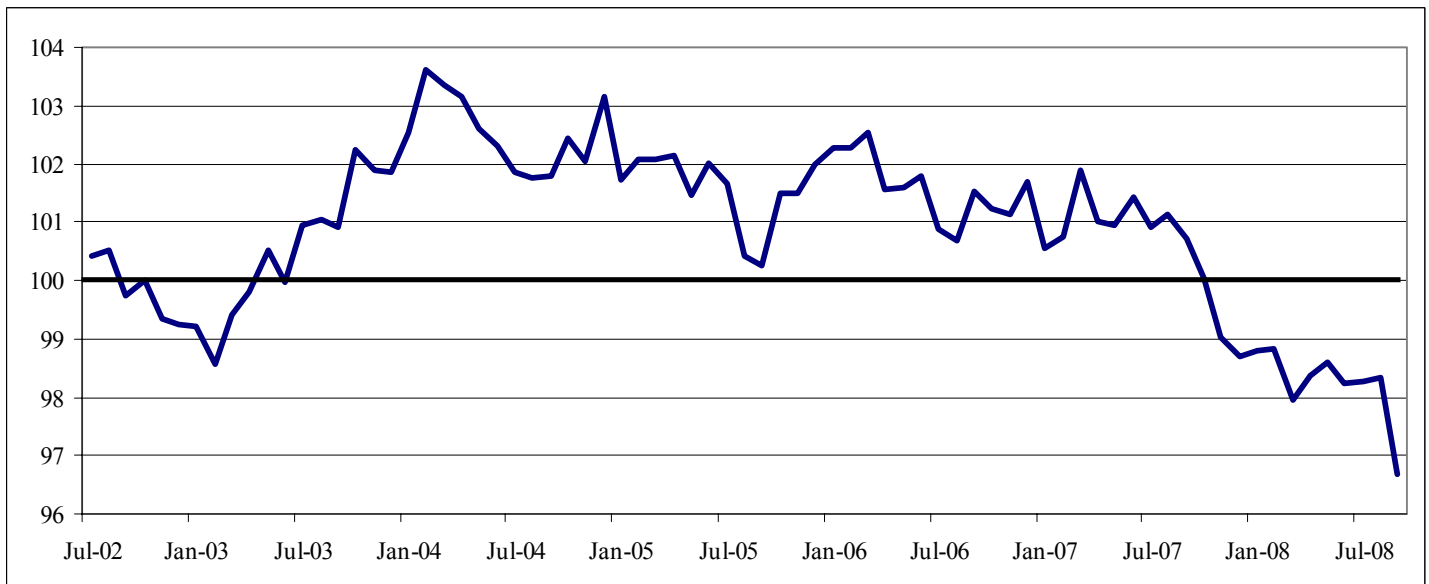
National Economy Contracted in the Third Quarter

- Although the 760,000 jobs lost during the last nine months provided compelling evidence that the economy is in a recession, the third quarter drop in gross domestic product likely sealed the case. Real gross domestic product (GDP) – the value of goods and services produced in the United States – declined at a 0.3 percent annualized rate in the third quarter, the weakest performance since 2001. A second consecutive contraction is expected in the fourth quarter, as the economic recovery is not likely to get on track until well into 2009.
- More troubling for the restaurant industry was the dramatic decline in consumer spending in the third quarter. Total personal consumption expenditures declined at an inflation-adjusted annualized rate of 3.1 percent in the third quarter, the first quarterly decline since 1991 and the sharpest drop since 1980.

Restaurant Performance Index Fell to a Record Low in September

- The dropoff in consumer spending is having a direct impact on the restaurant industry. The National Restaurant Association's Restaurant Performance Index (RPI) – a monthly composite index that tracks the health of and outlook for the U.S. restaurant industry – fell to a new record low in September. September also represented the 11th consecutive month below 100, which signifies contraction in the 8 key indicators.
- The September drop in the RPI was the result of broad-based declines across the index components, with both the Current Situation and Expectations indices falling to record lows. Nearly two out of three restaurant operators reported negative same-store sales and customer traffic levels in September, while 50 percent expect to have lower sales in six months (compared to the same period in the previous year).
- The rapid deterioration in economic conditions is reflected in operator sentiment, with a record 42 percent of restaurant operators saying the economy is currently the top challenge facing their business. Restaurant operators are decidedly pessimistic about the direction of the economy, with 50 percent of operators expecting economic conditions to worsen in the next six months, an all-time high for the RPI.

Restaurant Performance Index



Source: National Restaurant Association; RPI Values Greater than 100 = Expansion; RPI Values Less than 100 = Contraction

For additional analysis, log on to Restaurant TrendMapper at www.restaurant.org/trendmapper