Fourth Quarter of 2011

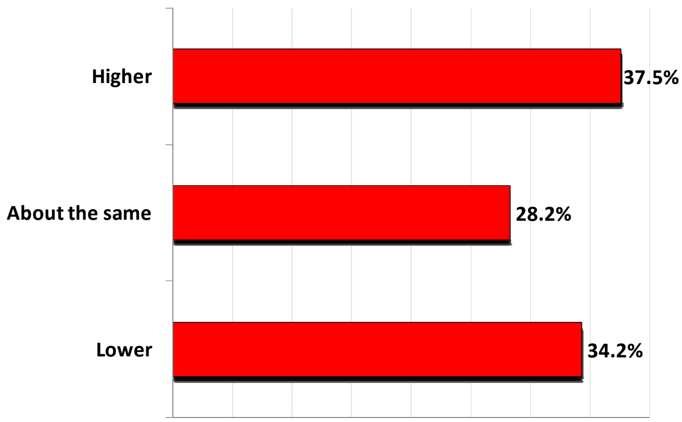
Restaurant Sales

- Weak consumer confidence and a decline in employment led to relatively flat spending at restaurants in Q4. Same-store sales slipped an average of 0.1% on a year-over-year basis in Q4 compared to a 0.6% increase in Q3.

- A 1.2% decline in same-store sales in October pulled down overall growth in Q4. Sales rebounded slightly in November with a 0.4% increase followed by a 0.1% decline in December.

- Overall, 38% of respondents reported a year-over-year same-store sales increase in Q4, while 34% posted lower sales. These results are relatively unchanged from Q3.

Nearly 40% of operators reported higher same-store sales in the fourth quarter of 2011.



Q: In the fourth quarter of 2011, was your total sales volume (on a same-store basis) higher, lower, or about the same versus the same period one year ago?

- The share of restaurant operators that expect their same-store sales to grow at slower rate over the next six months jumped to 31% in Q4 from 19% in Q3.

- In contrast, the share of respondents that expect their sales will grow at a greater rate over the next six months slipped to 22% in Q4 from 28% in Q3.

- This shift in operator sentiment reflects rapidly deteriorating global economic conditions. In the final months of 2011, there was a steady stream of discouraging news about the European debt crisis. This led many economic forecasters to call for weaker GDP growth in Canada in the first half of 2012. In addition, the economy shed more than 54,000 jobs in Q4 and the Conference Board of Canada's consumer confidence index tumbled to its lowest level in two and a half years.

- Thirty-four per cent of table-service restaurant respondents expect their sales to grow at a slower rate over the next six months compared to 20% that expect their sales to grow at a greater rate.

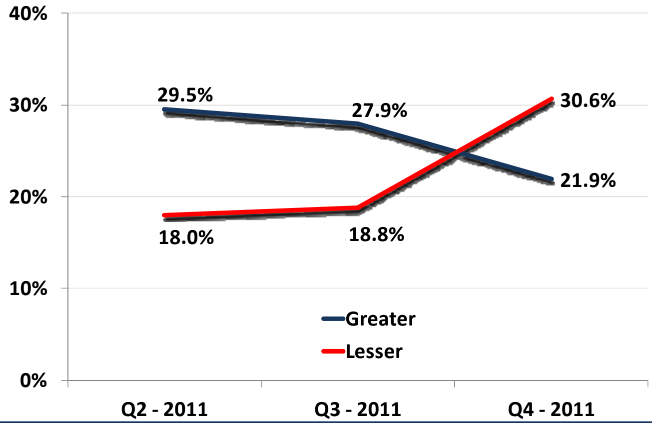
- Quick-service restaurant operators were more optimistic. While 25% of respondents expect same-store sales to grow at a lower rate over the next six months, 33% expect sales to grow at a greater rate.

- The weaker outlook for the next six months may also reflect seasonal trends in the industry. Sales are generally higher in the summer months, but moderate during the winter season.

Prepared by: Chris Elliott, Senior Economist
Date Prepared: January 23, 2012

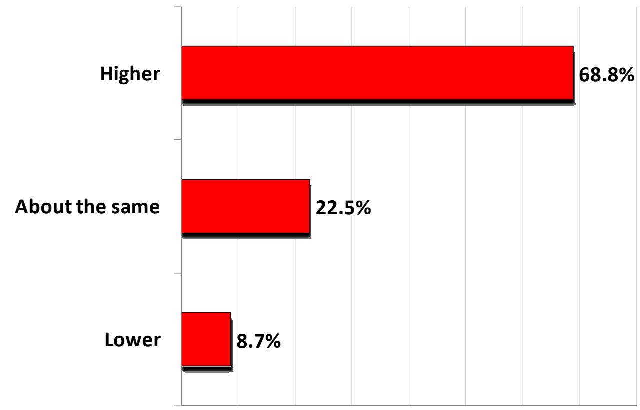
Canadian Restaurant and Foodservices Association

The share of respondents that expect their same-store sales will grow at a *lesser* rate over the next six months jumped in Q4.



Q: Over the next six months, do you expect your total sales volume (on a same-store basis) will grow at a greater, lesser, or about the same rate as the previous six months?

Seven out of 10 respondents saw higher average food costs in the fourth quarter of 2011.



Q: In the fourth quarter, were your average food costs higher, lower or about the same as the fourth quarter of 2010?

Food Costs and Menu Prices

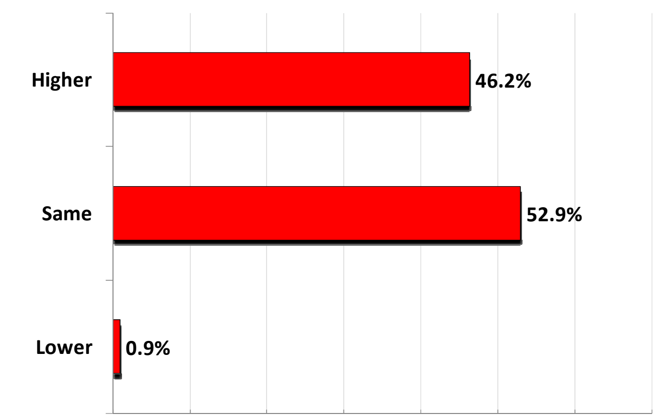
- Food prices continued to moderate in the fourth quarter. The average operator saw a 3.7% increase in food costs in Q4 compared to a year earlier. This is down from 4.1% in Q3 and 4.7% in Q2.

- Nearly 70% of respondents reported higher food costs in Q4. While 77% of respondents reported higher food costs in October, this number had fallen to 63% by December.

- The Restaurant Outlook Survey results are generally consistent with the moderation in global food commodity prices. The United Nation Food and Agriculture Organization's food price index slipped by 6.4% in Q4 compared to Q3, and is flat on a year-over-year basis.

- In Q4, 53% of respondents said they will keep menu prices about the same over the next six months while 46% expect to raise their menu prices. These results are a reversal of the results in Q3 when 52% responded they would likely raise their menu prices and 46% said they would keep their menu prices about the same.

A majority of operators (53%) plan to keep menu prices about the same over the next six months.



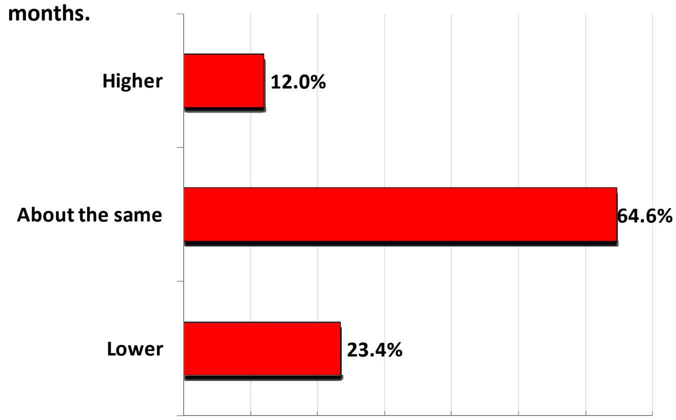
Q: Over the next six months, do you expect your menu prices to be higher, lower, or the same as the previous six months?

- There was no significant difference between table-service restaurants and quick-service restaurants, or chains and independents in the share of operators that expect to raise their menu prices over the next six months.

Employment

- Despite the weak economic outlook for early 2012, 65% of respondents said they will keep their employment levels about the same over the next six months – up from 60% in Q3.
- Nevertheless, the share of respondents planning to add to their payrolls declined to just 12% in Q4 compared to 22% in Q2.
- Economic uncertainty and rising labour costs may lead some operators to cut staff. Twenty-three per cent of respondents expect to reduce their level of employment in the next six months.

Three-quarters of restaurant operators plan to keep their employment level about the same or higher over the next six months.

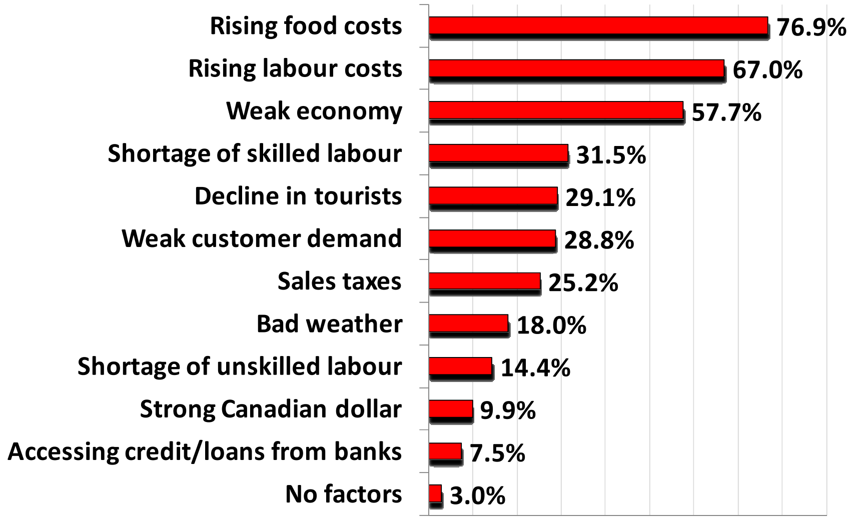


Q: Over the next six months, is your company's level of employment expected to be higher, lower, or about the same as the previous six months?

Factors Impacting Business

- Although global food prices have moderated in recent months, they remain high on a historical basis. As a result, rising food prices remain the number one concern for restaurant operators. Higher food prices are having a negative impact on 82% of table-service restaurants and 67% of quick-service restaurants.
- Two-thirds of operators said that rising labour costs, such as increases in the minimum wage, are negatively impacting their business. Labour costs typically account for 34% of operating revenue.
- Fifty-eight per cent of restaurant operators said the weak economy is having a negative impact on their business – up slightly from 54% in Q3. Sixty-two per cent of table-service restaurants believe they are feeling the effects of the weak economy. Although not impacted as much as table-service restaurants, the share of quick-service restaurants affected by the weak economy jumped to 55% in Q4 compared to 46% in Q3.
- Despite an increase in the unemployment rate in recent months, 32% of operators are struggling to find skilled labour and 14% are having difficulty finding unskilled workers.
- With the busy tourist season over for most operators, the decline in tourists impacted 29% of operators in Q4 compared to 38% in Q3.
- Twenty-five per cent of respondents said sales taxes were negatively impacting their business. This is due to the introduction of the HST in British Columbia and ongoing competition with grocery stores where most food is not taxed.
- Due to a rising unemployment rate and falling consumer confidence, weak customer demand was a concern for 29% of operators in Q4.
- Thirty per cent of table-service restaurants believe that weak consumer demand is having a negative impact on their business compared to 22% of quick-service restaurants.
- Bad weather was less of an issue for most operators in Q4. The share of operators that blamed bad weather dipped to 18% in Q4 from 24% in Q3.
- The share of operators negatively impacted by the strong Canadian dollar (10%) or accessing credit/loans from banks (8%) was relatively unchanged in Q4.

Rising food and labour costs remain the biggest issues having a negative impact on the restaurant industry.



Q: What factors, if any, are currently having a negative impact on your business?

About the Restaurant Outlook Survey

- Future editions will provide an ongoing index of business performance and expectations that will help restaurant owners, suppliers and policy makers in their business planning and analysis. CRFA thanks Interac for sponsoring this important new research project. We encourage restaurant operators to participate in the Restaurant Outlook Survey to ensure results continue to be representative of our industry.

- The responses for the fourth quarter are compiled from a monthly e-mail to restaurant operators inviting them to take an online survey. The survey covers the reference periods, October, November and December 2011.

- In total, 333 completed surveys were submitted for the fourth quarter, representing 7,769 establishments.

- Results of the survey are considered accurate within +/- 5.3 percentage points 19 times out of 20. The margin of error will be larger within sub-groupings of the survey.

Proud sponsor of CRFA's Restaurant Outlook Survey

About CRFA

Since its founding in 1944, CRFA has grown to more than 30,000 members representing every segment of the foodservice industry, including restaurants, bars, clubs, cafeterias, and contract and social caterers. Through advocacy, research, member savings and industry events, we help our members in every Canadian community grow and prosper.

Contact:

Canadian Restaurant and Foodservices Association
316 Bloor Street West, Toronto, Ontario M5S 1W5
Tel: (416) 923-8416 or 1-800-387-5649
Fax: (416) 923-1450
E-mail: info@crfa.ca
Web Site: www.crfa.ca