

# The Foodservice Equipment & Supplies Market: 2017 *FER* Forecast Update

By Robin Ashton, Publisher

*Foodservice Equipment Reports*

Jan. 9-11, 2017

Annual California Utilities Forecast Tour

San Ramon and San Diego, Calif.

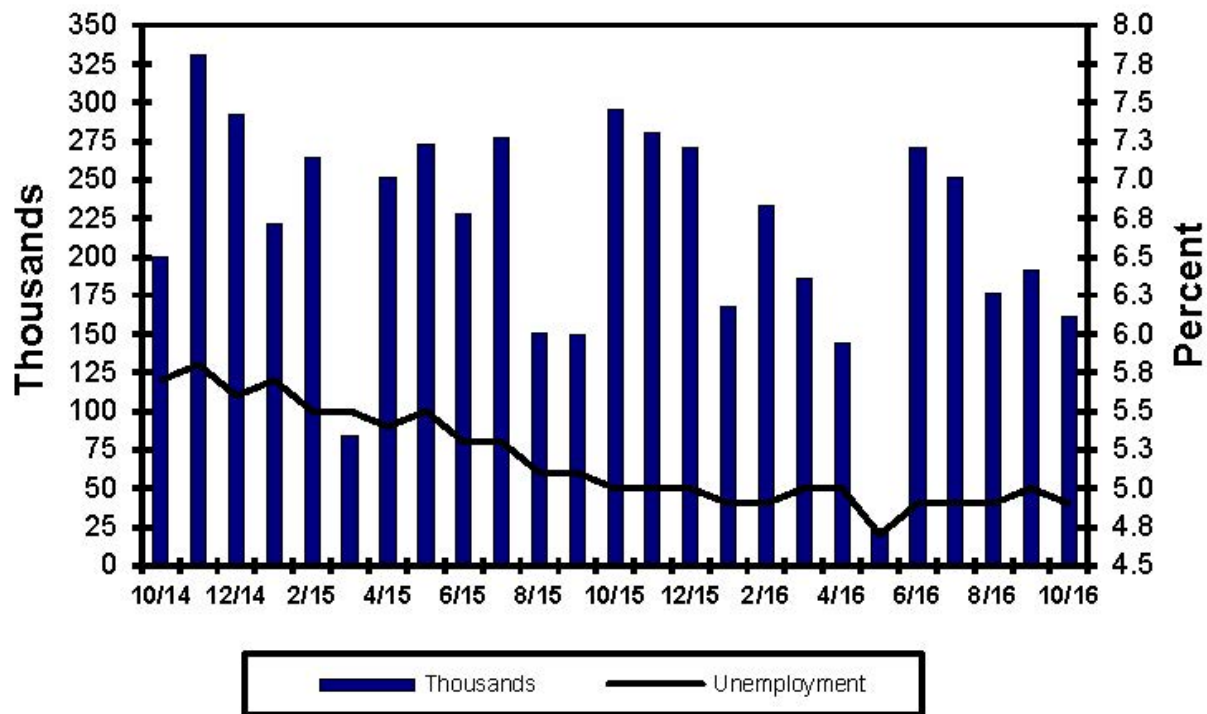


# Macroeconomic Factors Remain Quite Positive For Foodservice

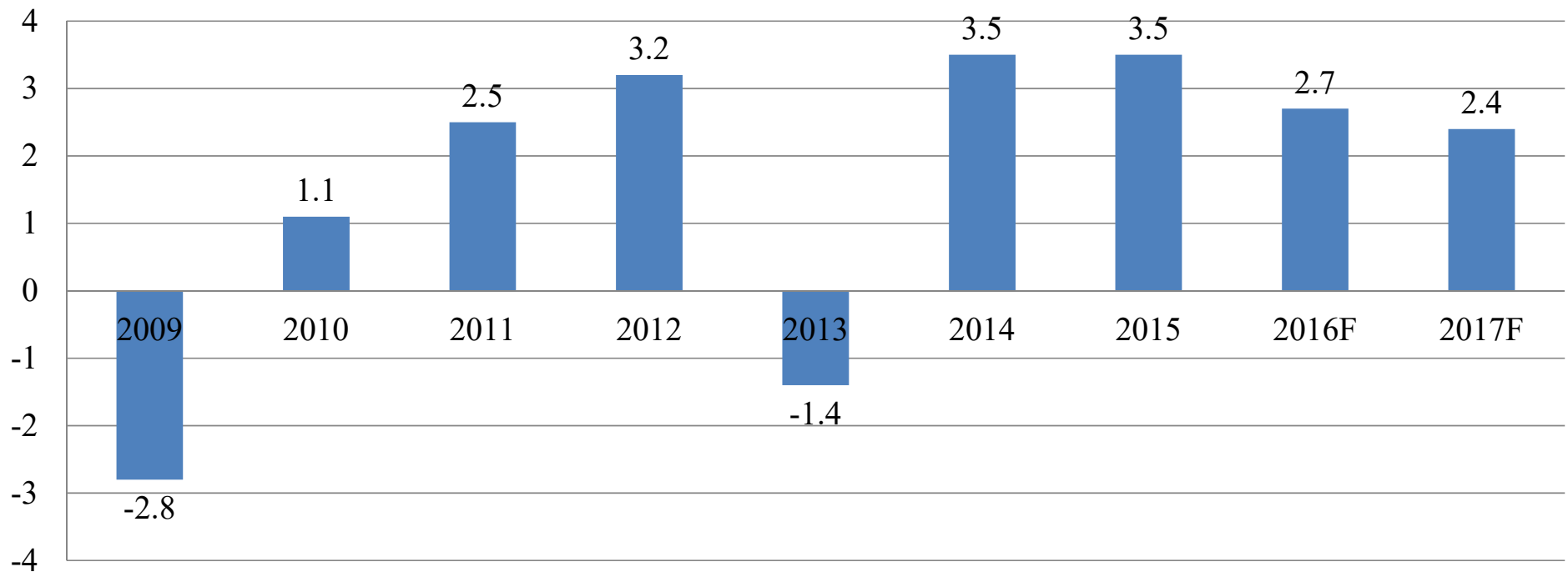
- The key general economic indicators that drive foodservice remain positive, and except for gas prices, have improved since the election.
- Employment growth, while it trended lower than in 2015, remains strong. Average growth is expected to slow in 2017, but moderately.
- Wage trends are finally moving higher after long stagnant period.
- Disposable income and consumer spending growth slowing but only slightly and remain quite positive.
- Consumer confidence has soared since election to levels not seen since 2004.
- At-home food prices continue to fall as menu prices continue to rise, hurting restaurant sales and traffic, especially at chains.
- Gasoline prices are expect to rise thanks to OPEC deal; could hurt foodservice.

# Non-Farm Payroll Employment 2014-16

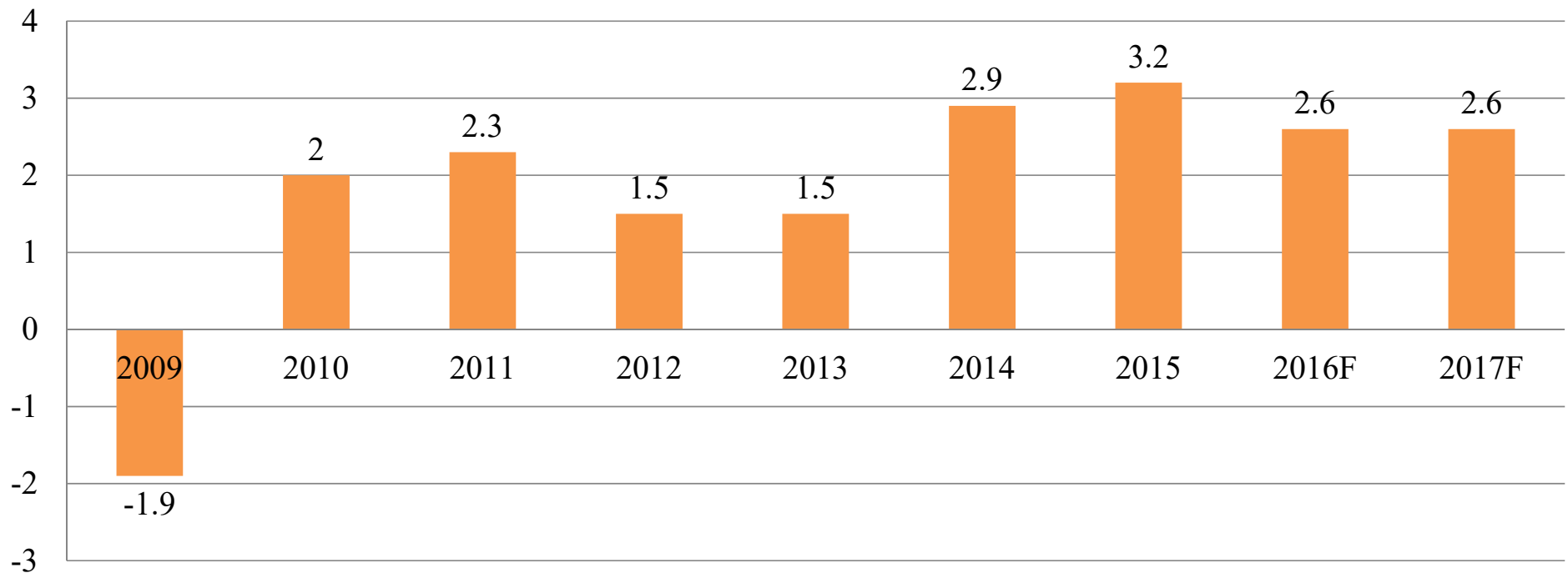
## Unemployment Rate & Nonfarm Payrolls



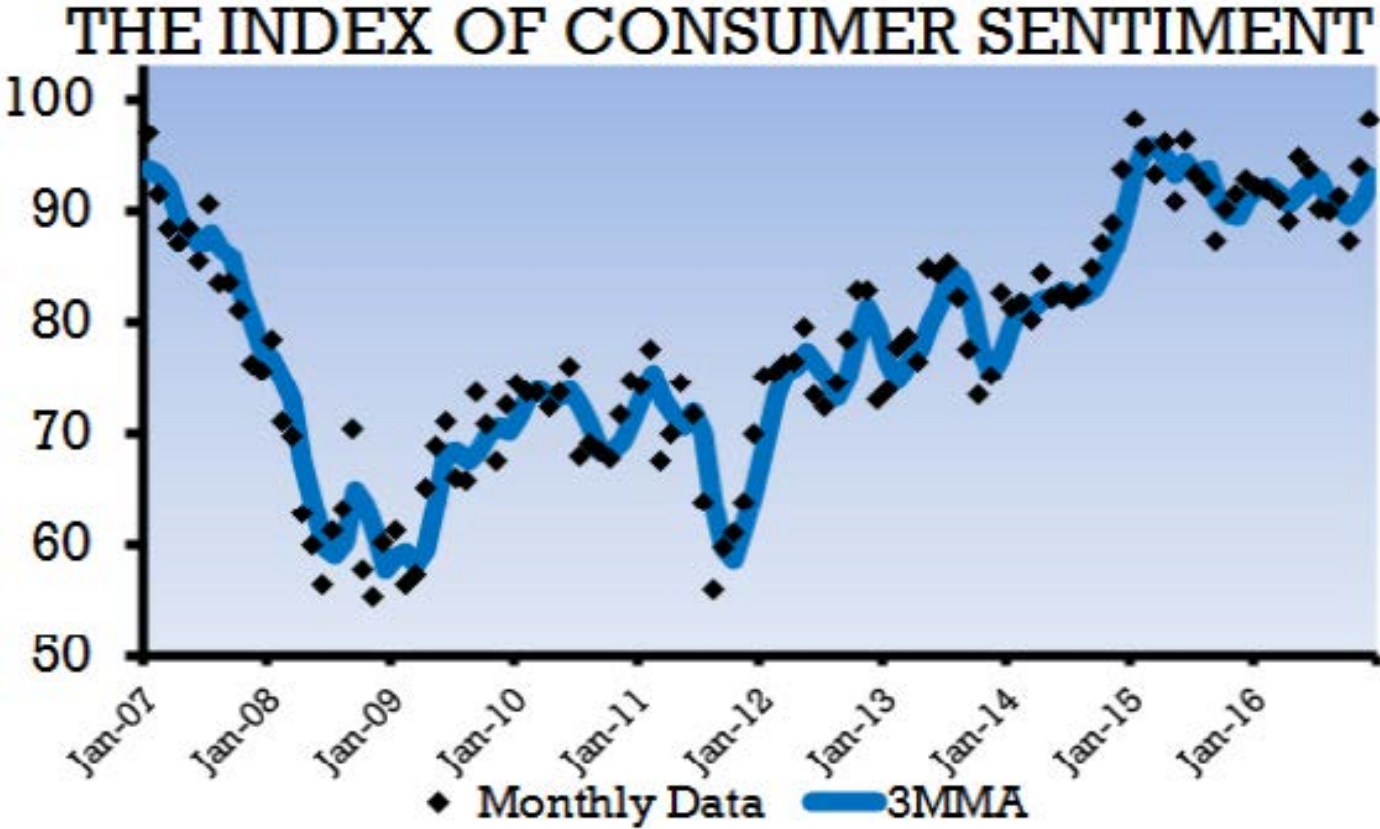
# Real Disposable Personal Income 2009-2017



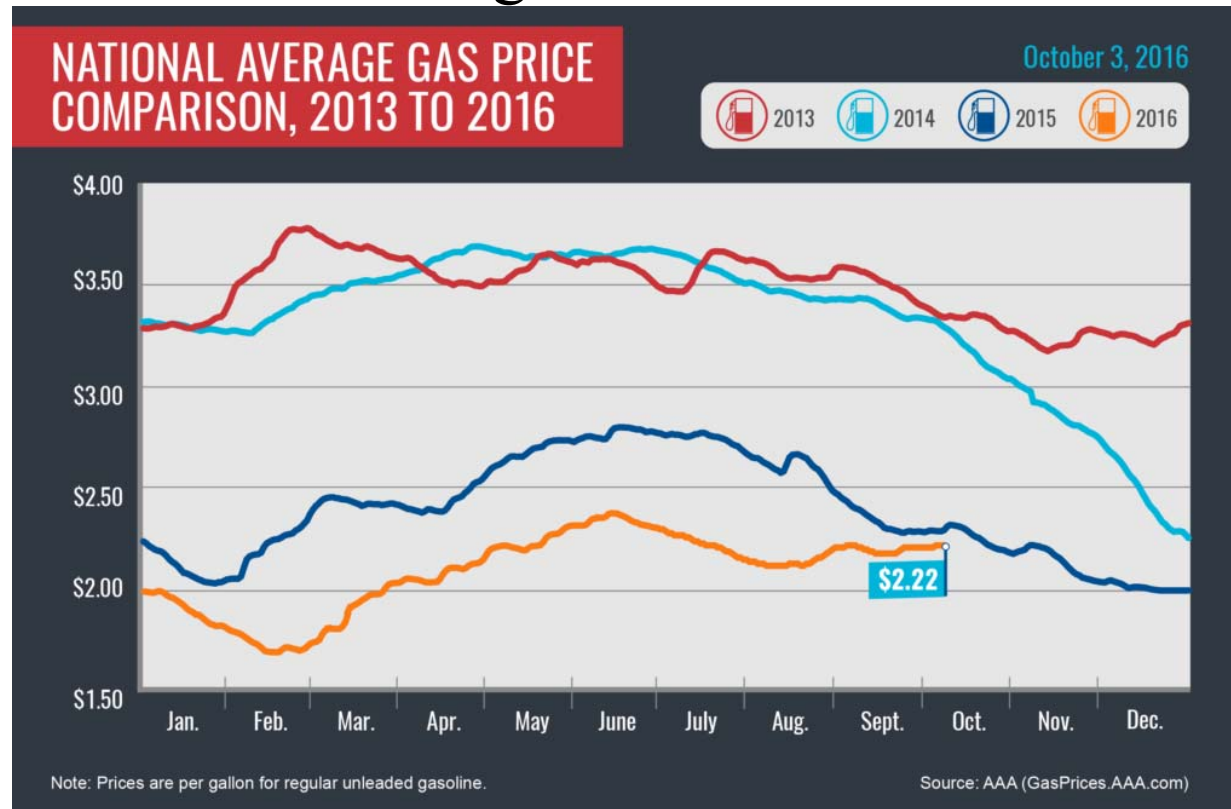
# Real Personal Consumption Spending 2009-2017



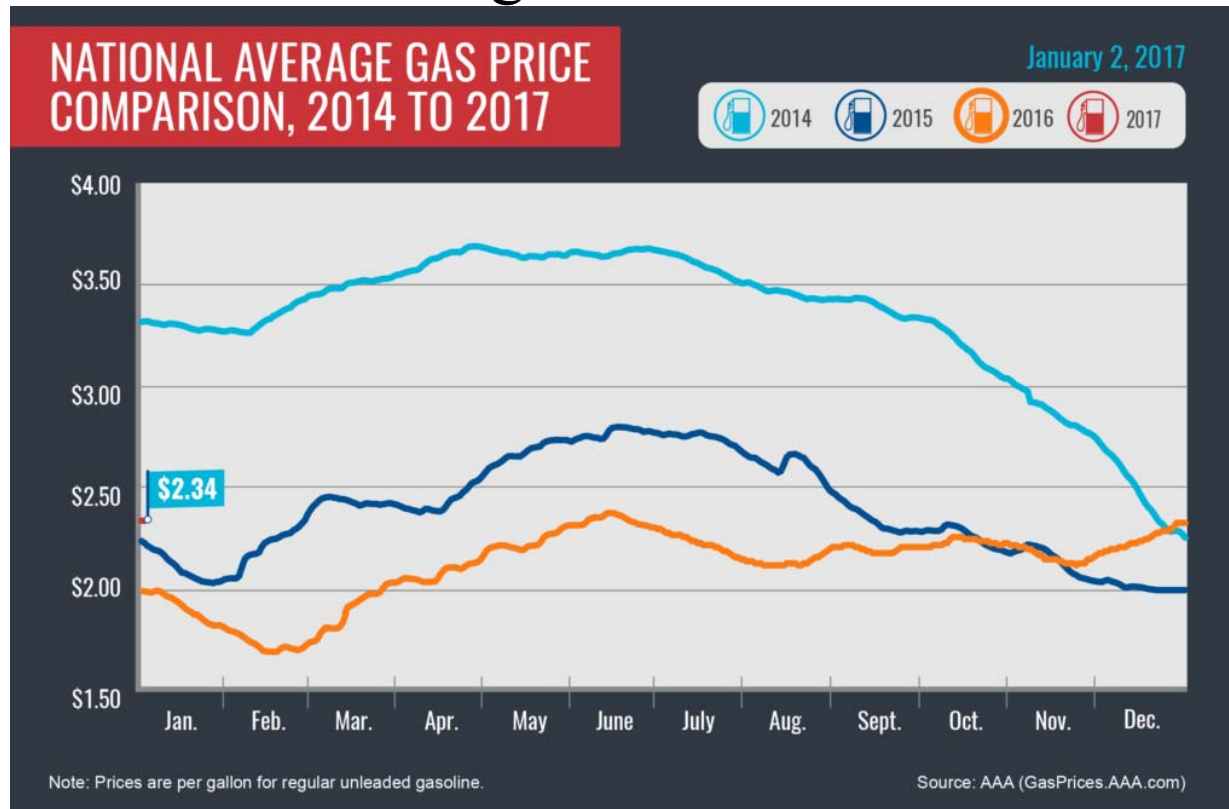
# Consumer Sentiment 2007-December 16



# AAA Retail Gasoline Prices Averages 2013-2016



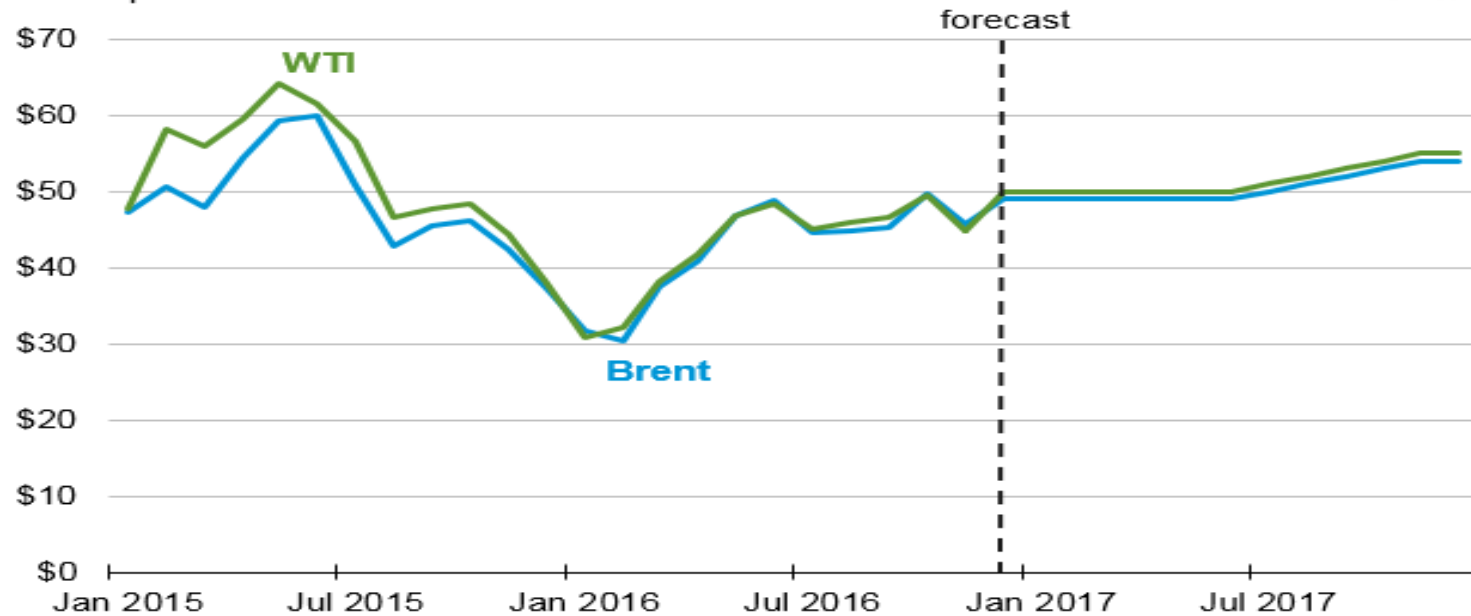
# AAA Retail Gasoline Prices Averages 2014-2017





# EIA Crude Oil Price Trends & Forecasts

Figure 1. WTI and Brent spot crude oil prices  
dollars per barrel



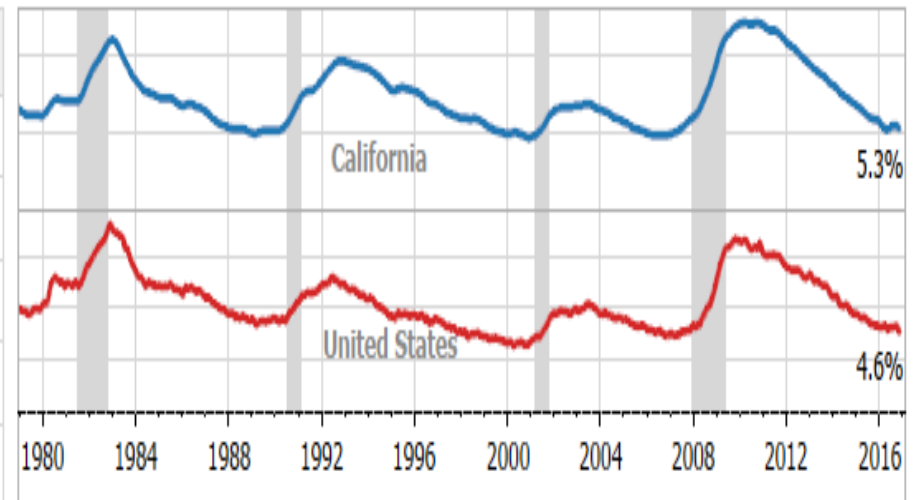
Source: U.S. Energy Information Administration, *Short-Term Energy Outlook*, December 2016.

# Jobs Trends, California

## California Labor Market Indicators

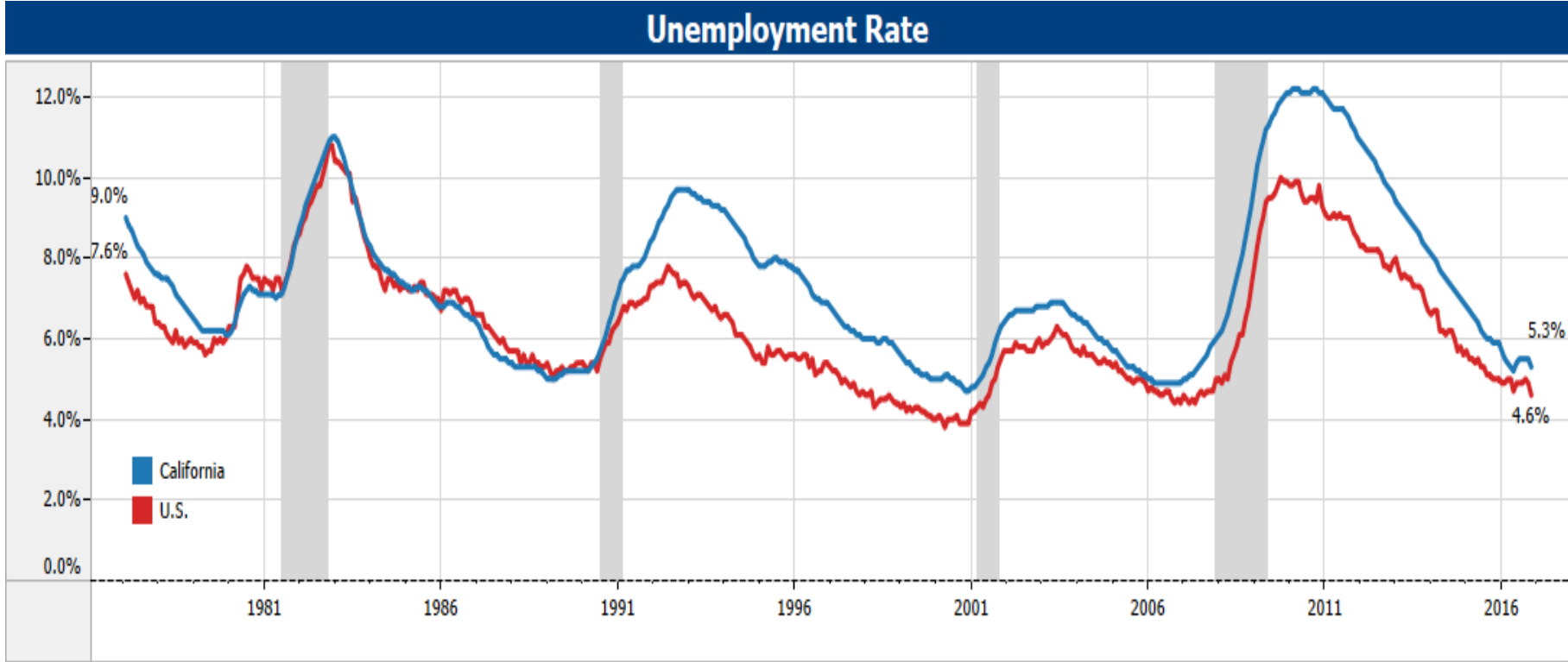
Metrics	October, 2016	November, 2016	Change	
Unemployment Rate	5.5%	5.3%	-0.2	↓
Labor Force	19,439,100	19,454,400	15,300	↑
Employment	18,369,600	18,416,600	47,000	↑
Unemployment	1,069,500	1,037,700	-31,800	↓
Non Farm Jobs	16,590,000	16,603,600	13,600	↑

## Unemployment Rate Trend

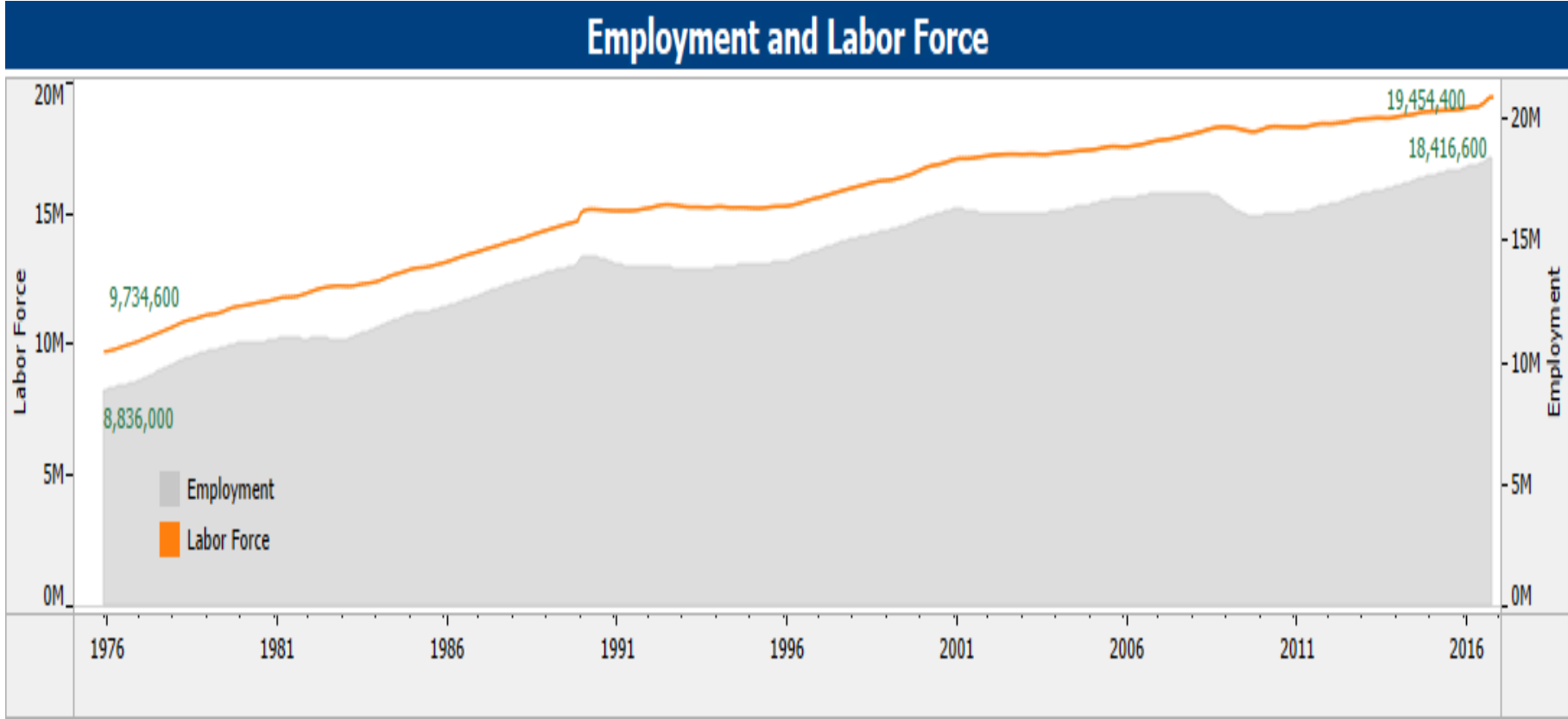


Data Source: EDD Labor Market Information Division:: Note: October 2016 data is revised and November 2016 is preliminary

# Jobs Trends, California



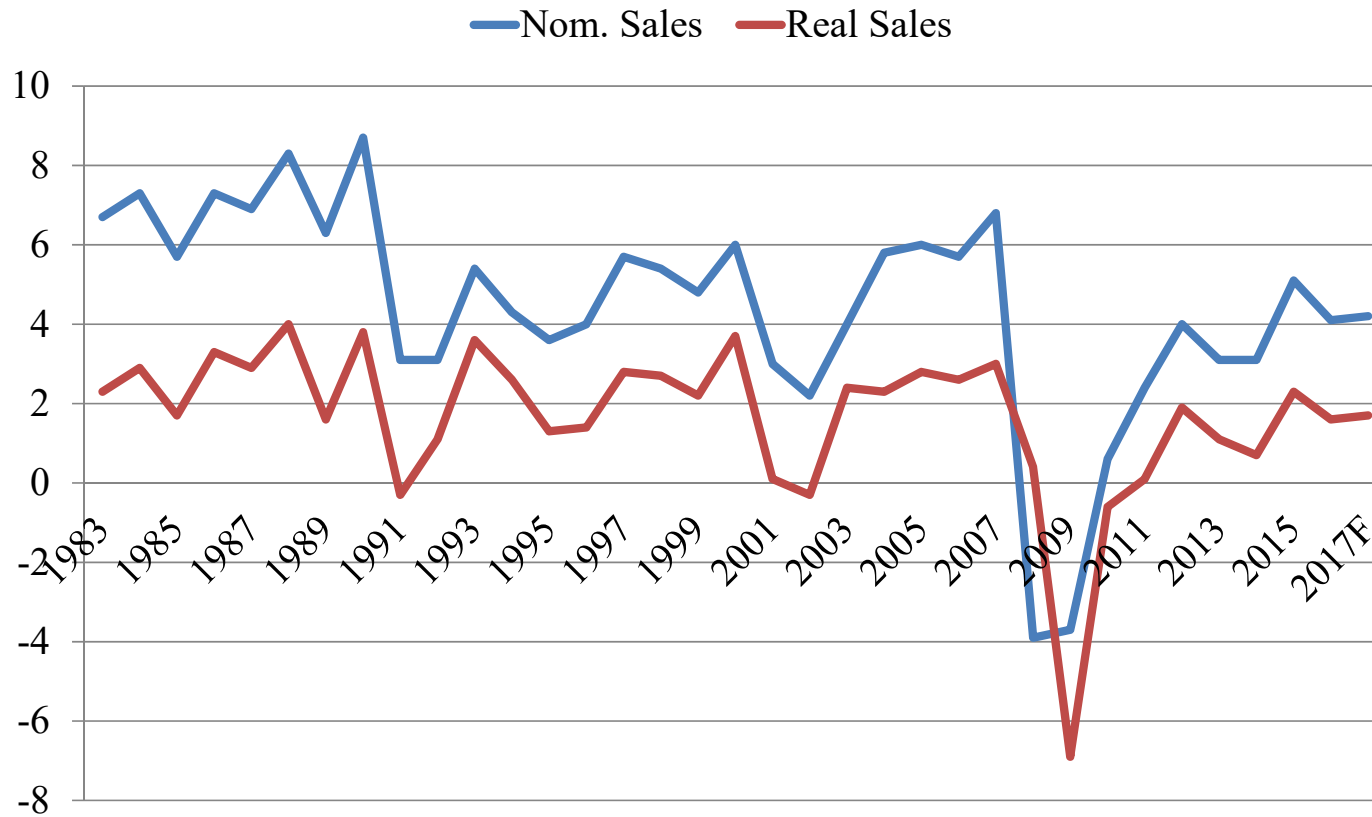
# Jobs Trends, California



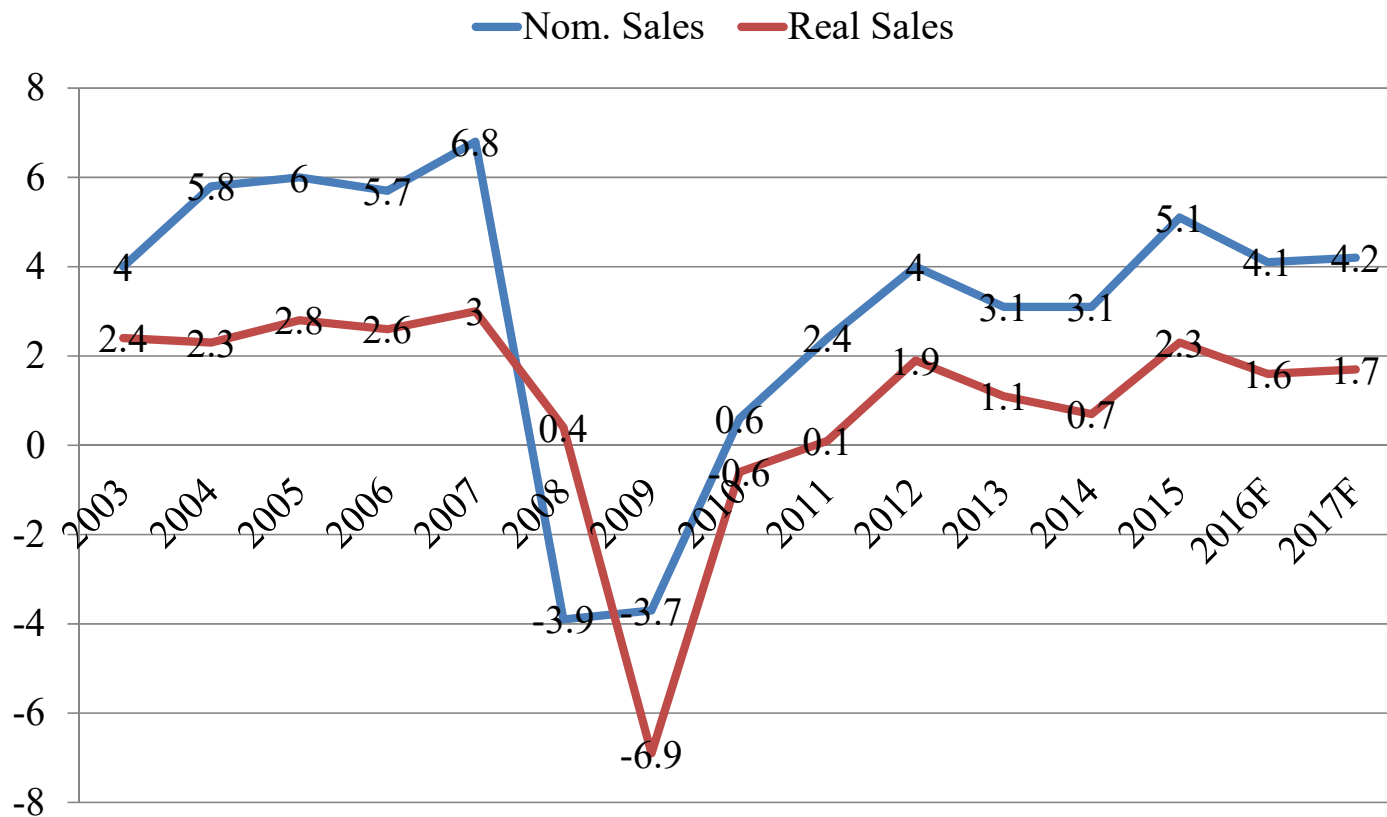
# Foodservice Operator Sales Recent History And Forecasts

- Following the worst downturn in modern foodservice history, recovery was painfully slow for many operators.
- The slow recovery in jobs growth and household debt de-leveraging brought little or no sales and traffic growth until 2014.
- But the surge in jobs and plunging gasoline prices returned the market to moderate sales growth though with little traffic growth.
- That surge ended early in 2016 when chain sales and traffic began to slide, a trend that continued nearly all year. Independents did better.
- In November, Technomic cut its forecast for 2016 and 17 nearly a point.
- Technomic sees 2017 as essentially a mirror year to 2016.

# Technomic Operator Sales Changes

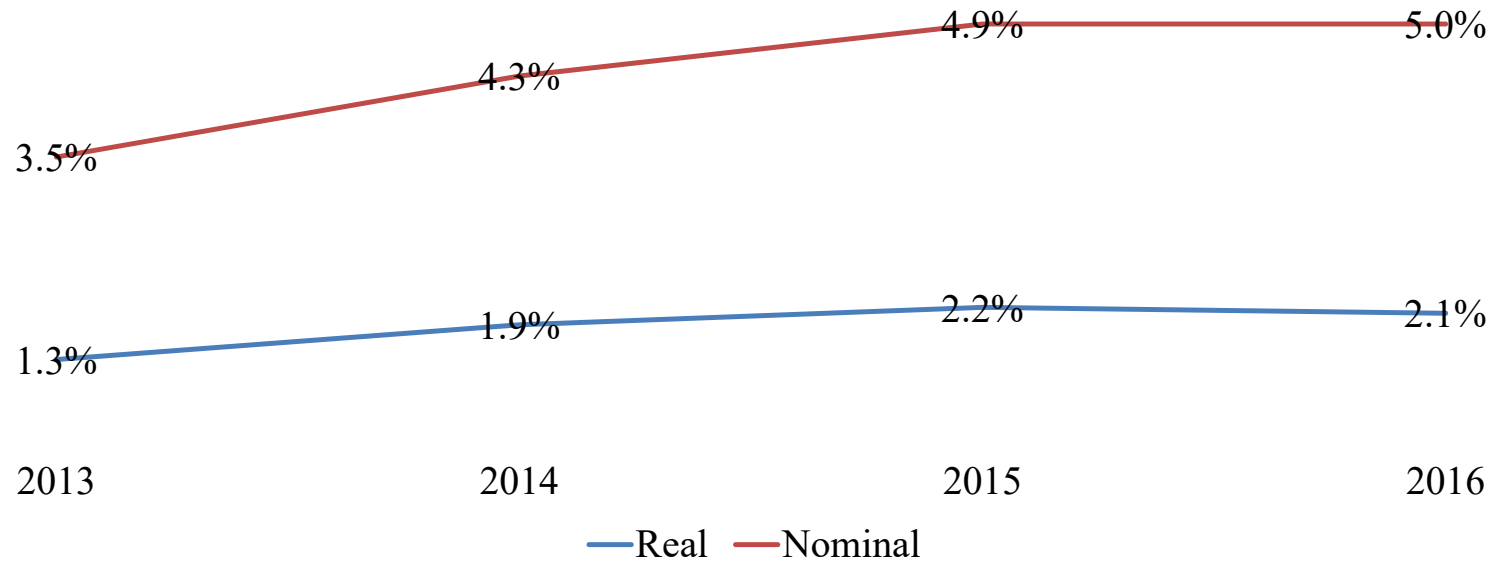


# Technomic Operator Sales Changes



# NRA Operator Sales Changes 2013-2016

## Total Industry Operator Sales Changes



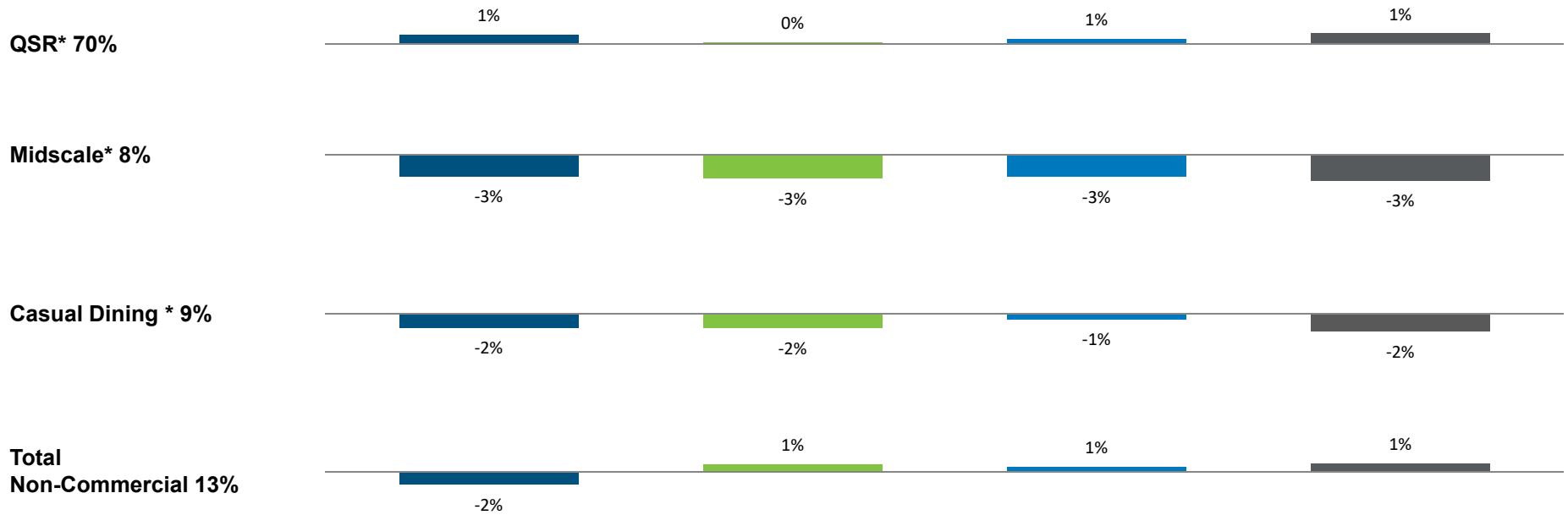


# Only Quick-Service Concepts & Institutional Operators Have Seen Traffic Increase Post-Recession: NPD

Total Foodservice Traffic +1%

Traffic % Change vs. Year Ago

■ YEDec'12    ■ YEDec'13    ■ YEDec'14    ■ YEDec'15



**FOODSERVICE EQUIPMENT**

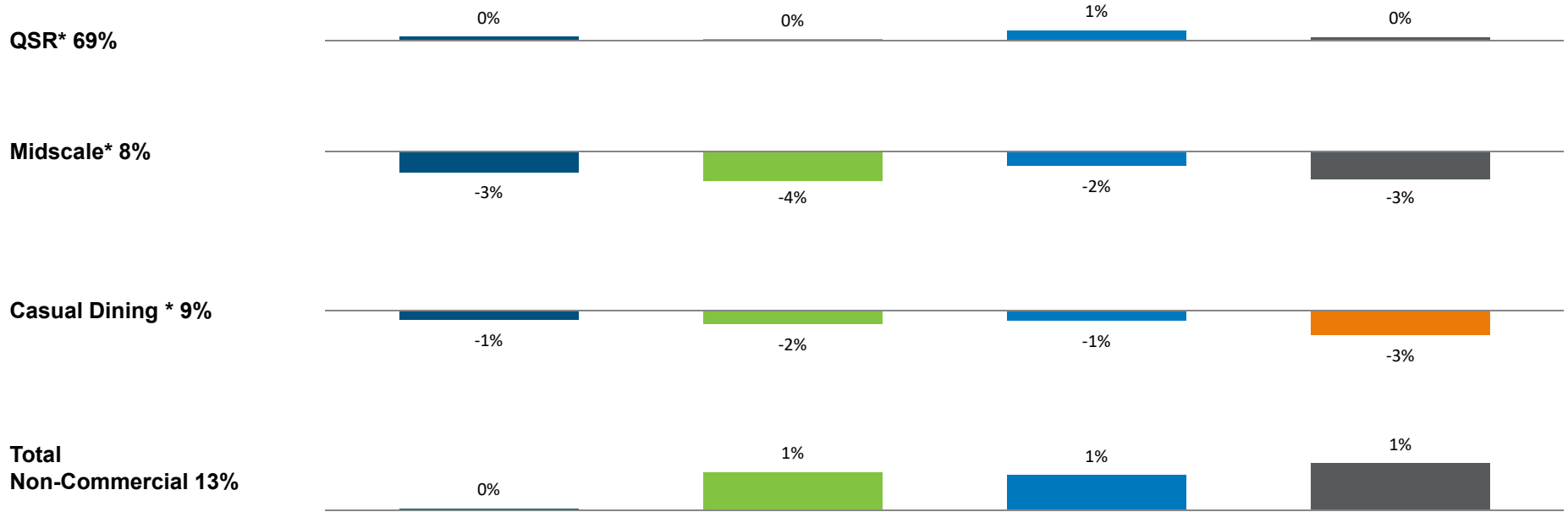
(Share of Total Foodservice); \*Excludes Amusement, Lodging, Casino  
Source: The NPD Group/CREST OnSite®

# Noncommercial Traffic Rises Again; QSR Goes Flat

Total Foodservice Traffic +1%

Traffic % Change vs. Year Ago

■ YE Sep'13    ■ YE Sep'14    ■ YE Sep'15    ■ YE Sep'16

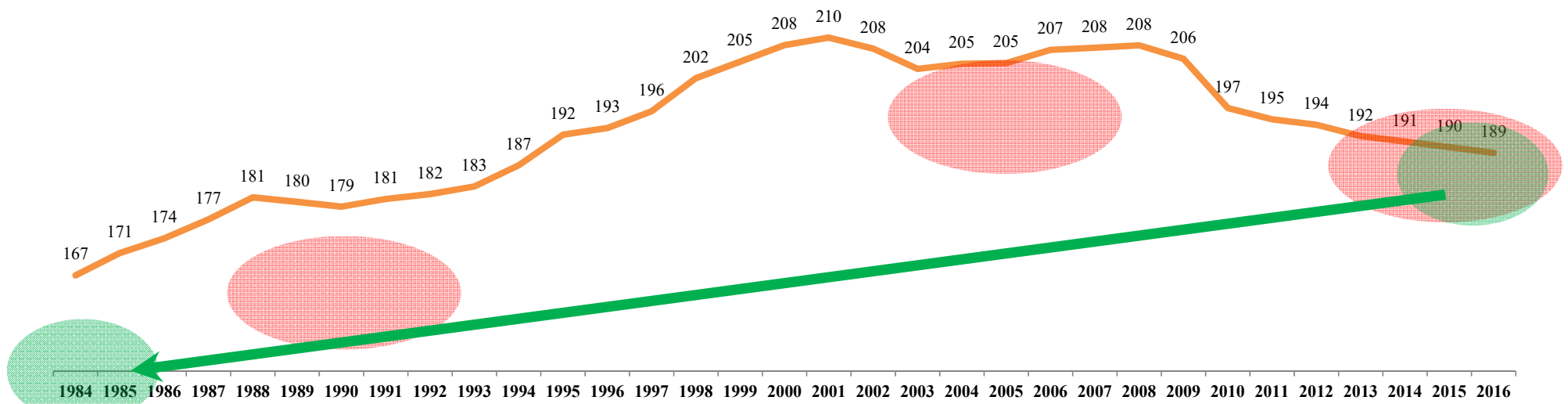


**FOODSERVICE  
EQUIPMENT**

(Share of Total Foodservice); \*Excludes Amusement, Lodging, Casino  
Source: The NPD Group/CREST OnSite®

# NPD Per Capita Visits: 1984-2016

Annual Commercial Foodservice Meals Per Person In the USA



Source: The NPD Group/Annual Eating Patterns of America

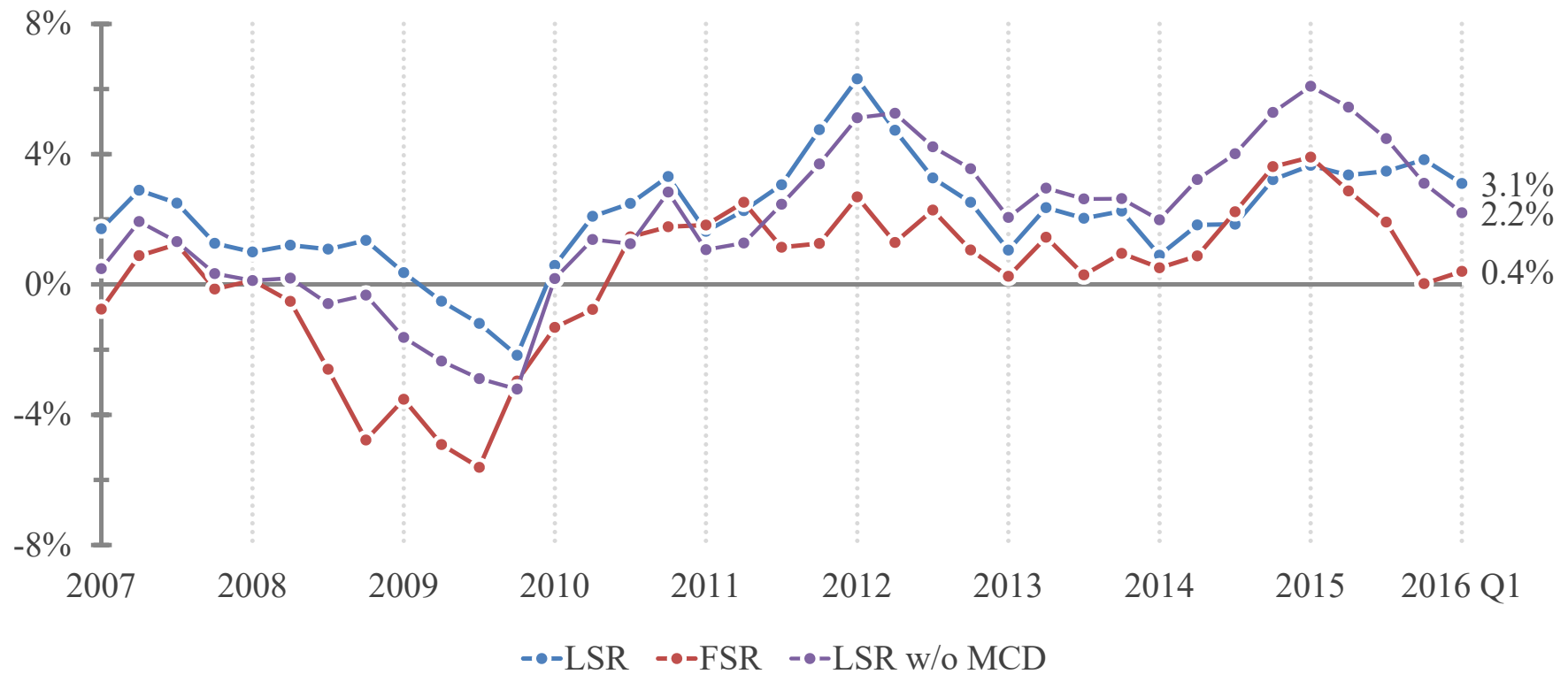
# Current Restaurant Sales & Traffic Trends

- Big chain restaurant same-store sales and traffic have slowed and gone negative since the beginning of 2016. It's usually a leading indicator.
- But the reality is more complicated. NRA's Restaurant Performance Index dipped into contraction territory only twice.
- NPD reported overall traffic flat first half 2016, though it went negative in 3Q.
- While they are dominant, chains are not the entire foodservice market.
- Smaller chains and independents have been outperforming big chains, especially in full service. Delivery services like Grub Hub helping indies.
- Millennials like unique and quirky, Baby Boomers like good service.
- And many think the chains have overbuilt, leading to cannibalization.



# Technomic Chain Same-Store Sales Trends

% Change vs. Prior Year (Q1)

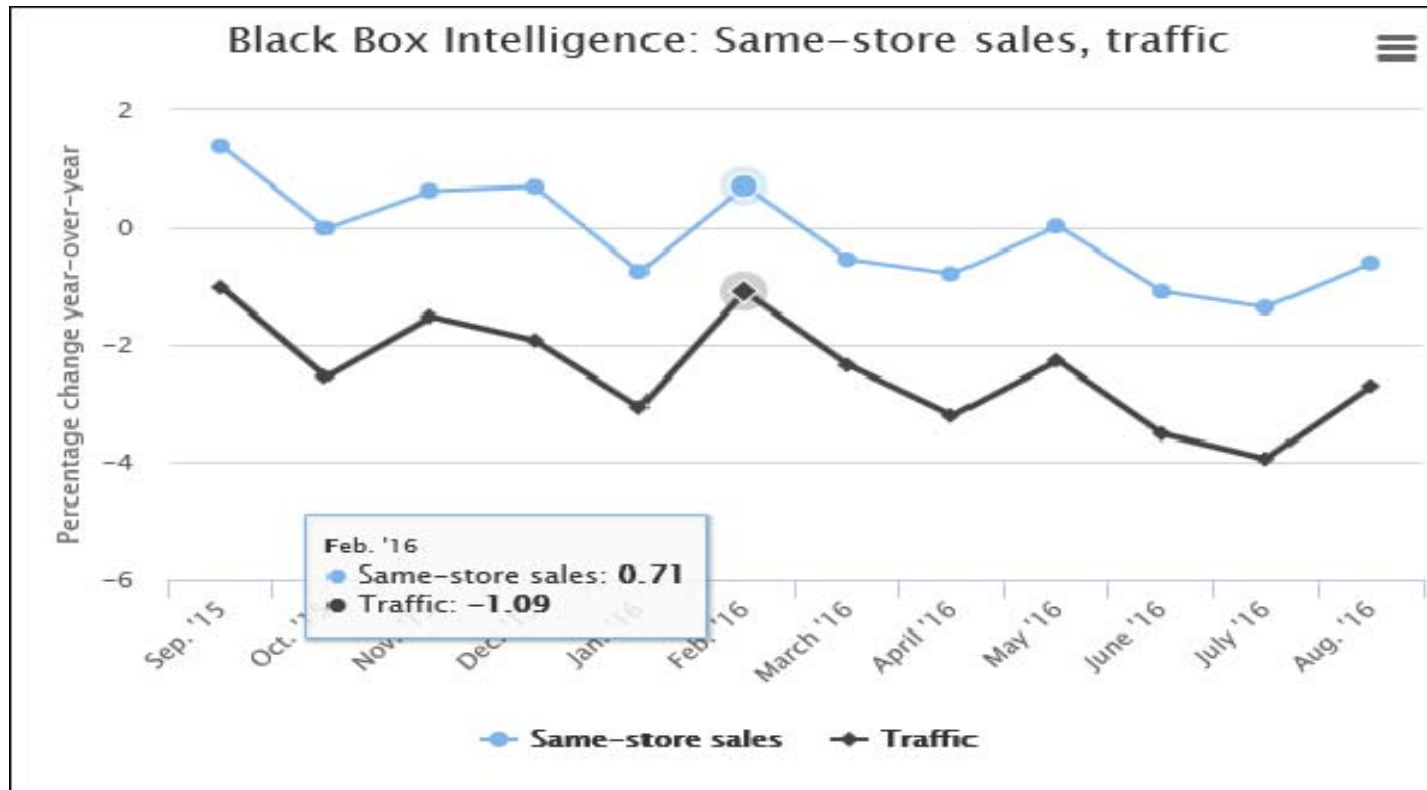


Source: Public Company Reports, Technomic

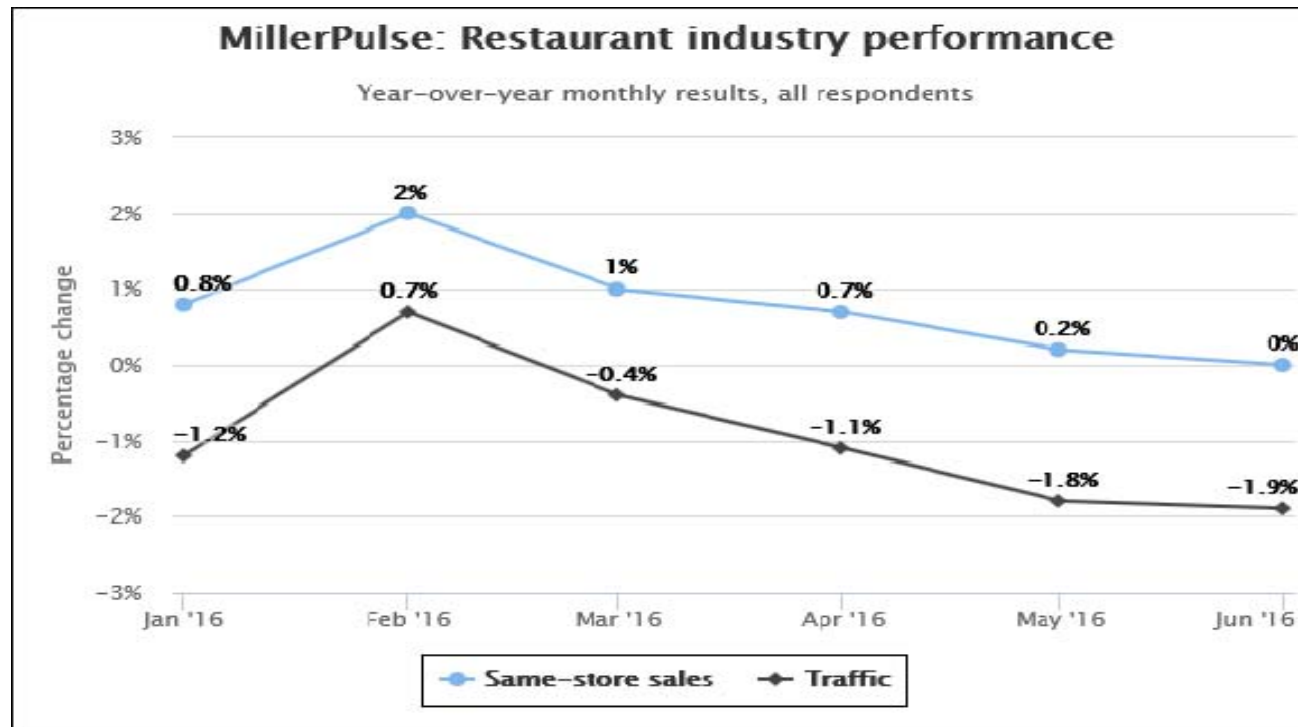
Foodservice Equipment Reports ©2017



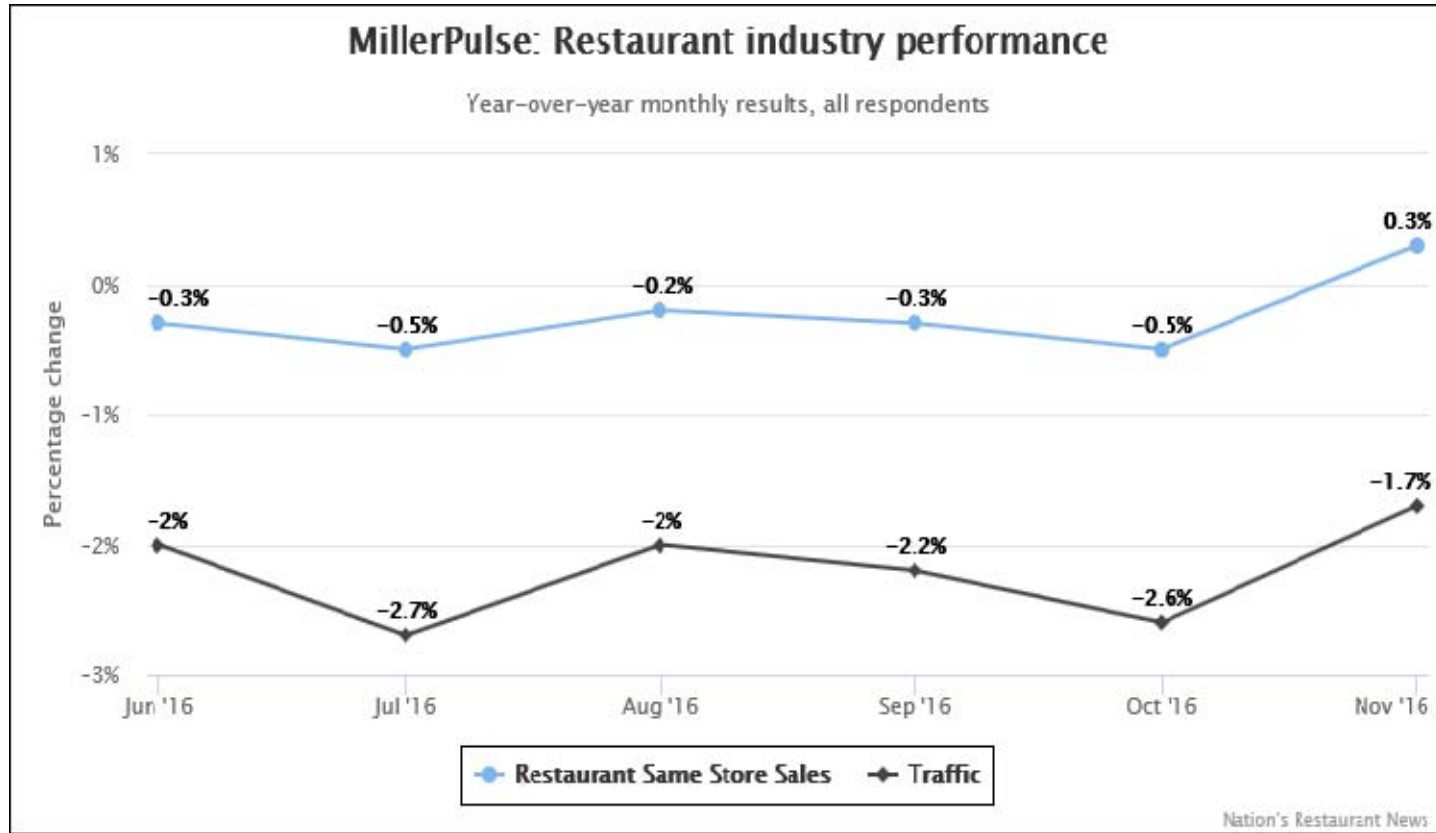
# Black Box Intell. Chain Trends 9/15-8/16



# MillerPulse Chain Trends Jan.-June 2016



# MillerPulse Chain Trends 6/16-11/16

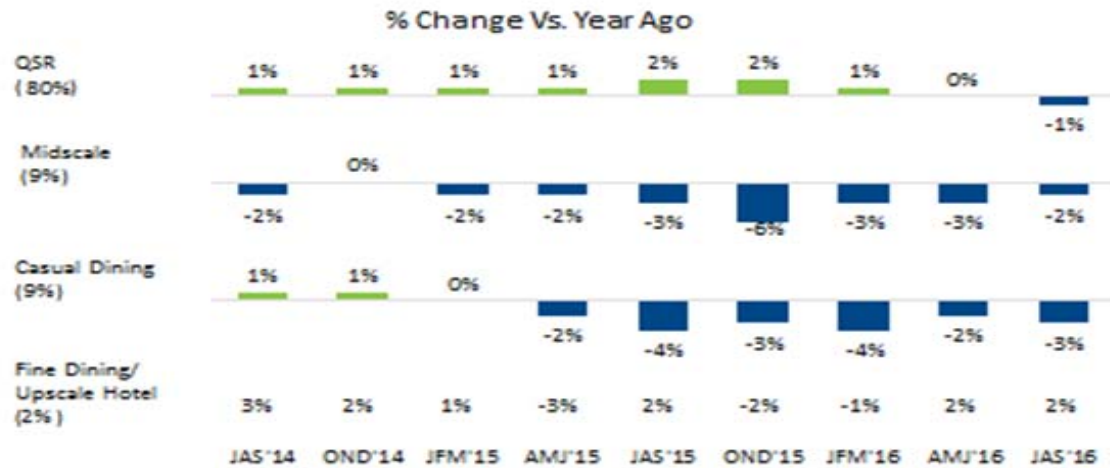




# NPD Traffic Trends 2014-2016

## Segments traffic trends

All major segments contributed to the Industry decline this year.



(Share of Traffic JAS'16)  
Source: QREST\*

The NPD Group, Inc. | Proprietary and confidential

7

**FOODSERVICE  
EQUIPMENT**  
*reports*

# NRA Restaurant Performance Index

## November 2016

### Restaurant Performance Index

Values Greater than 100 = Expansion; Values Less than 100 = Contraction



Source: National Restaurant Association

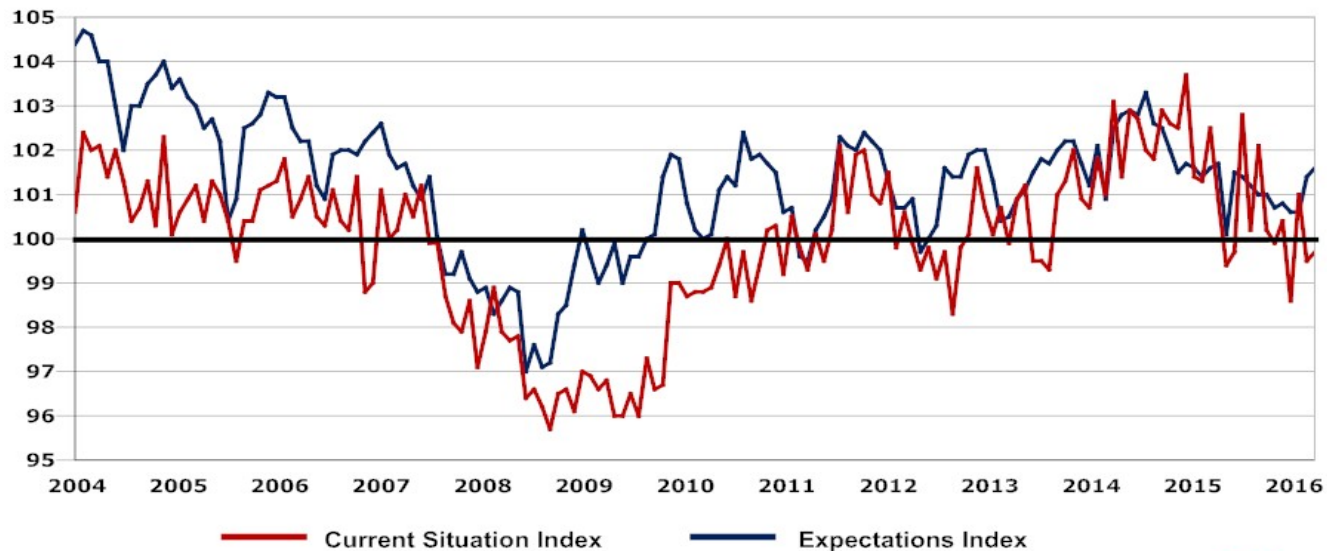


# NRA Restaurant Performance Index

## November 2016

### RPI's Current Situation and Expectations Indices

Values Greater than 100 = Expansion; Values Less than 100 = Contraction



Source: National Restaurant Association



**FOODSERVICE  
EQUIPMENT**  
*reports*

# Cost & Profit Trends

- Operators have taken advantage of falling wholesale food prices for more than two years. Through Nov., average prices were down 4% in 12 months.
- The declines, especially for proteins, have helped them offset rising labor costs, as states and cities continue to raise minimum wages.
- But many operators, especially bigger chains, continue to raise prices.
- Supermarkets and other retailers have responded to the lower wholesales food prices by lowering their prices.
- Through Nov., menu prices were up 2.3% for the 12-month period, grocery store prices down 2.2%.
- It's the biggest gap between retail and foodservice in two decades and is widely cited as one reason for falling restaurant sales and traffic numbers.

# Wholesale Food Price Trends

## Wholesale Food Prices (Producer Price Index - All Foods)

Percent change versus same month in previous year



Source: Bureau of Labor Statistics

**FOODSERVICE  
EQUIPMENT**  
*reports*

# Menu Vs. Grocery Store Price Trends

**Menu Prices, Grocery Store Prices & Overall Consumer Prices**  
Percent change versus same month in previous year



Source: Bureau of Labor Statistics

**FOODSERVICE  
EQUIPMENT**  
*reports*

# Average Hourly Foodservice Wage Trends

## Average Hourly Earnings\* by Industry Segment Non-Supervisory Employees

Industry Segment	Oct. 2016 Wages	Oct-15 to Oct-16	Year to Date	2014 to 2015
Eating & Drinking Places	\$12.09	4.2%	4.2%	3.3%
Fullservice Restaurants	\$13.32	4.4%	4.6%	4.2%
Quickservice Restaurants	\$10.25	5.3%	4.5%	3.4%
Cafeterias/Grill Buffets/Bufets	\$10.27	3.0%	2.8%	3.4%
Snack & Nonalcoholic Beverage Bars	\$11.24	2.7%	2.9%	2.9%
Food Service Contractors	\$13.72	-1.6%	0.5%	0.0%
Caterers & Mobile Food Service	\$14.94	5.1%	3.0%	-4.0%
Bars and Taverns	\$13.24	11.1%	11.9%	3.6%

Source: Bureau of Labor Statistics

\*Figures do not include tips



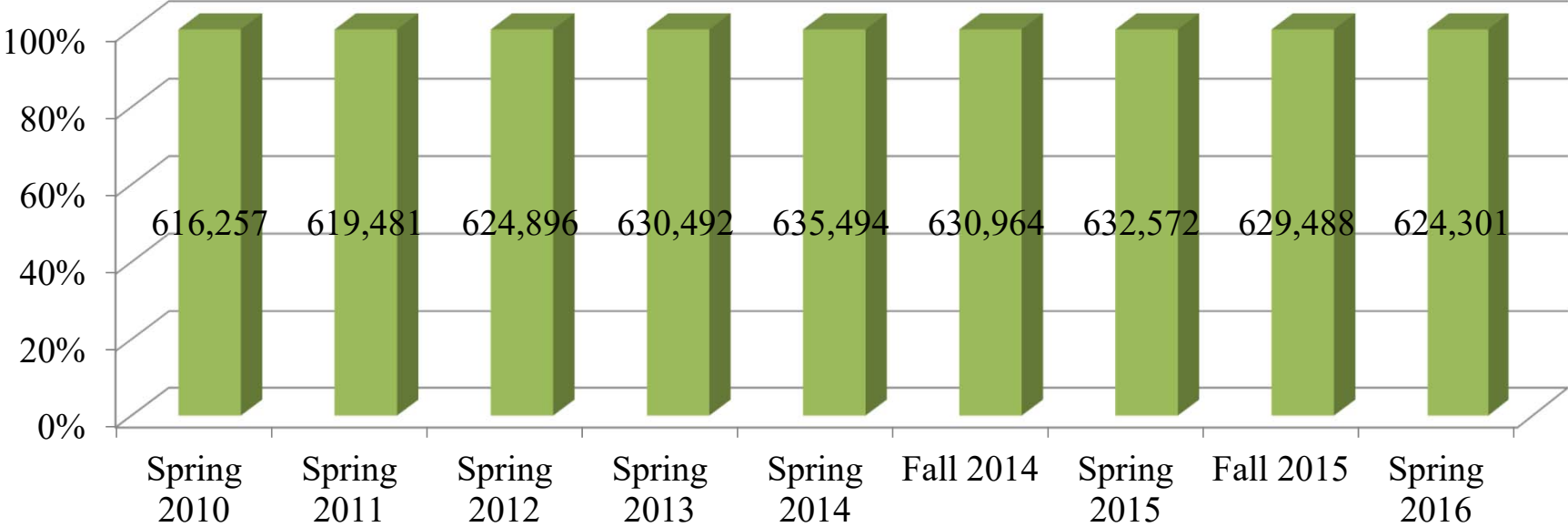
# Restaurant Unit Trends

- The U.S. restaurant market is the most mature and saturated in the world.
- Chains continue to add units, and some say are overbuilding.
- Meanwhile independents have seen net unit declines for several years.
- NPD's ReCount census reports total units have shrunk past two years.
- Technomic Top 500 chains continue to add units as a group.
- But 166 of Top 500 shed net units in 2015, up from 132 in 2014.
- Sliding same-store sales have chains in all segments slowing unit growth.
- California has also seen a drop in net units in the past year.
- Unit trends are positive, however, in L.A. and San Diego.



# Restaurant Unit Trends, NPD ReCount 2010-2016

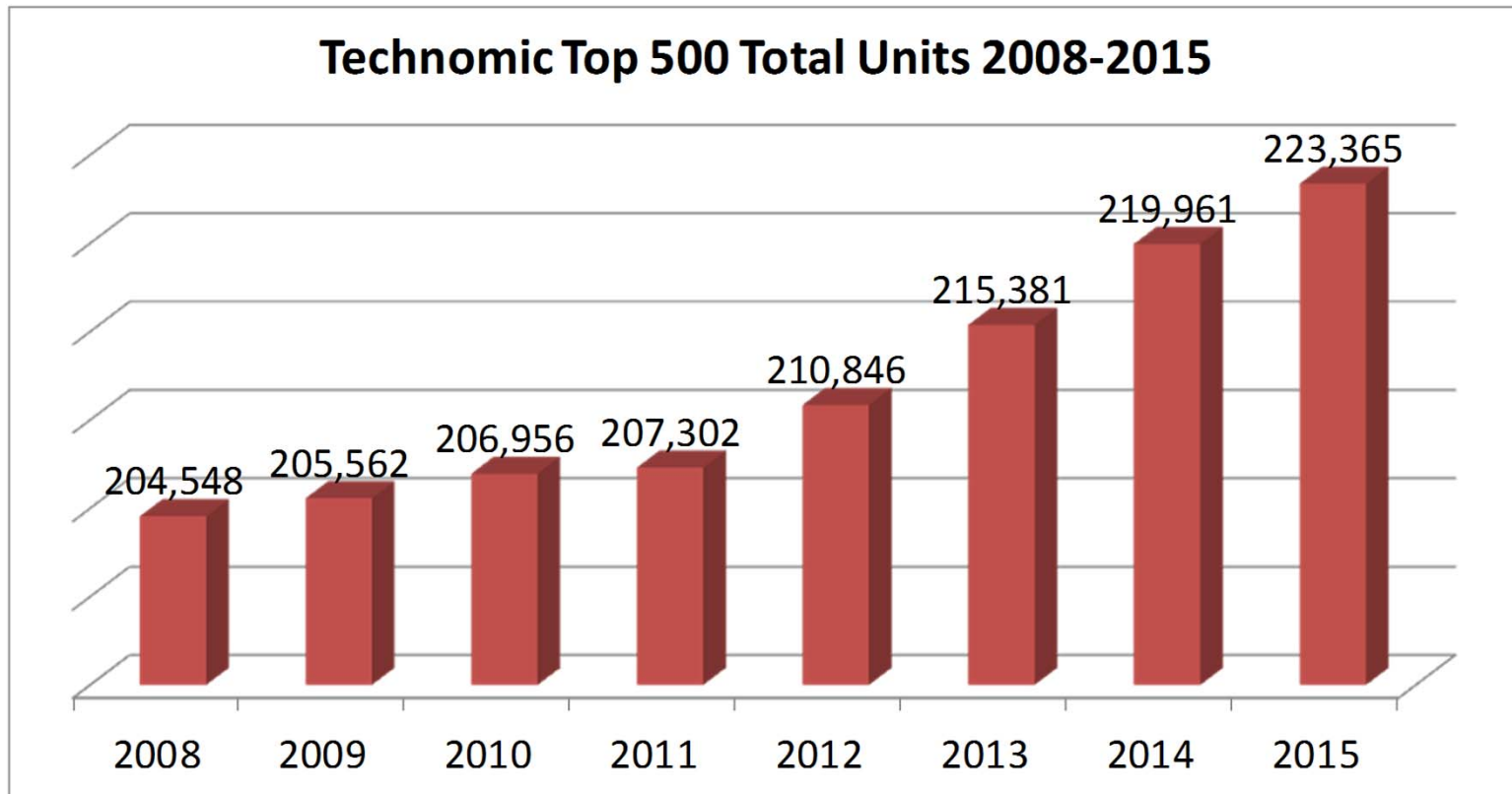
**NPD ReCount Restaurant Units, Revised Totals**



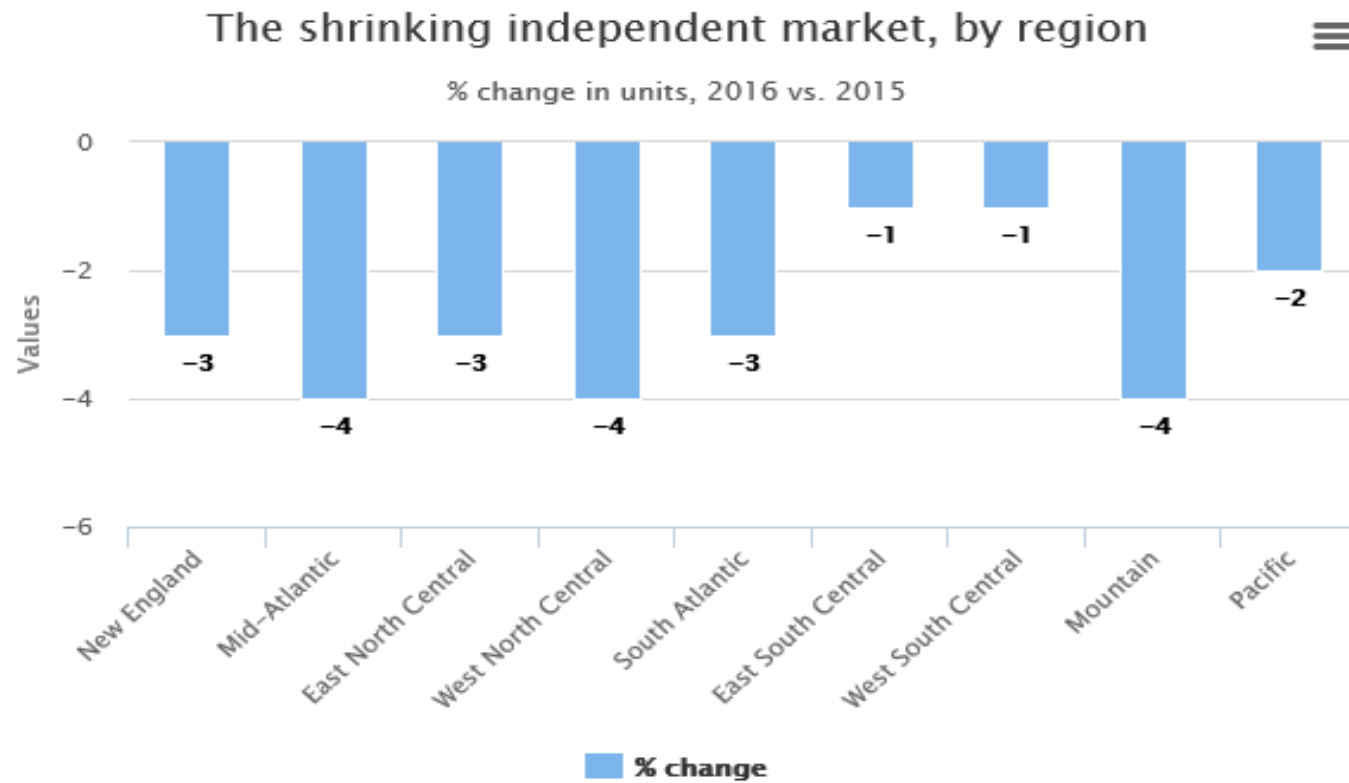
# Restaurant Unit Trends, NPD ReCount 2015-16

Segment	System Type	Spring 2015	Spring 2016	PCYA*
TOTAL RESTAURANTS	ALL	632,572	624,301	-1%
	CHAINS	291,794	292,832	0%
	INDEPENDENTS	340,778	331,469	-3%
*Percent change from a year ago		Source: The NPD Group/ReCount® Spring 2016		

# Operator Unit Trends, Top 500 Chains



# Independent Unit Trends, NPD ReCount 2015-16



# NPD Restaurant Unit Counts, 2015-2016

	Spring 2015	Spring 2016	PCYA
<b>CALIFORNIA TOTAL</b>	79145	78924	-0.3%
<b>FSR</b>	35311	34968	-1.0%
<b>QSR</b>	43834	43956	0.3%

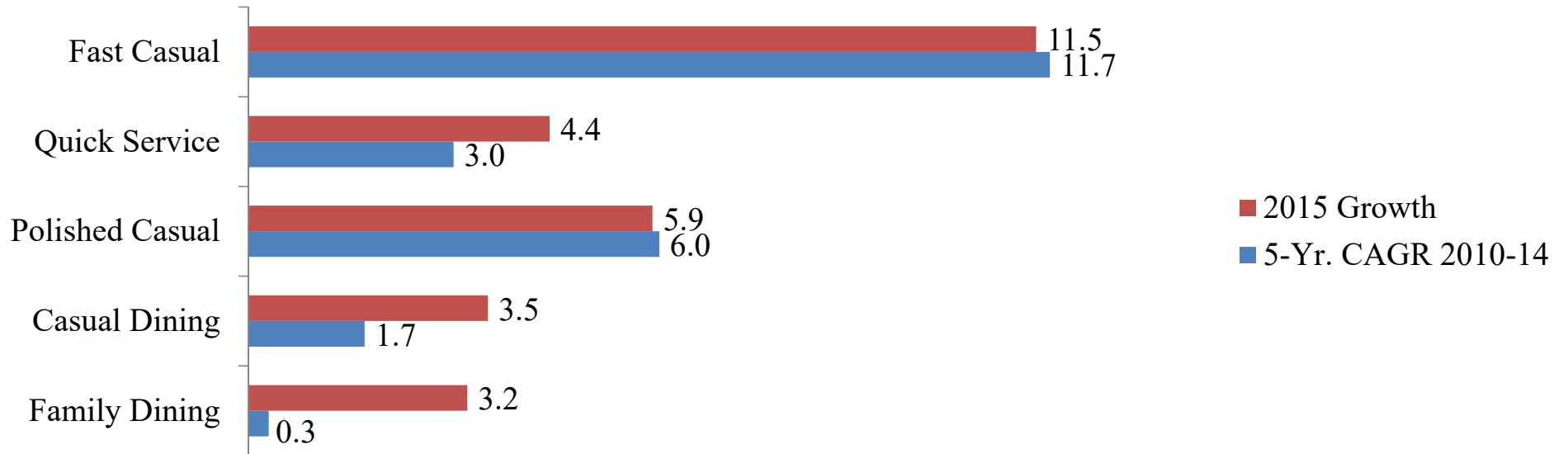
# NPD Restaurant Unit Counts, L.A. & San Diego, 2015-2016

DMA	Segment	System Type	Spring 2015	Spring 2016	PCYA
SAN DIEGO, CA	QSR	Total	3890	3913	0.6%
DMA	Segment	System Type	Spring 2015	Spring 2016	PCYA
SAN DIEGO, CA	FSR	Total	3047	3071	0.8%
DMA	Segment	System Type	Spring 2015	Spring 2016	PCYA
LOS ANGELES, CA	QSR	Total	20888	21059	0.8%
DMA	Segment	System Type	Spring 2015	Spring 2016	PCYA
LOS ANGELES, CA	FSR	Total	16303	16326	0.1%



# Top 500 Chain Segment Trends

**Sales Growth Rates By Service Type  
Technomic Top 500, 2015**



# Trends & Forecasts “Beyond Restaurants”

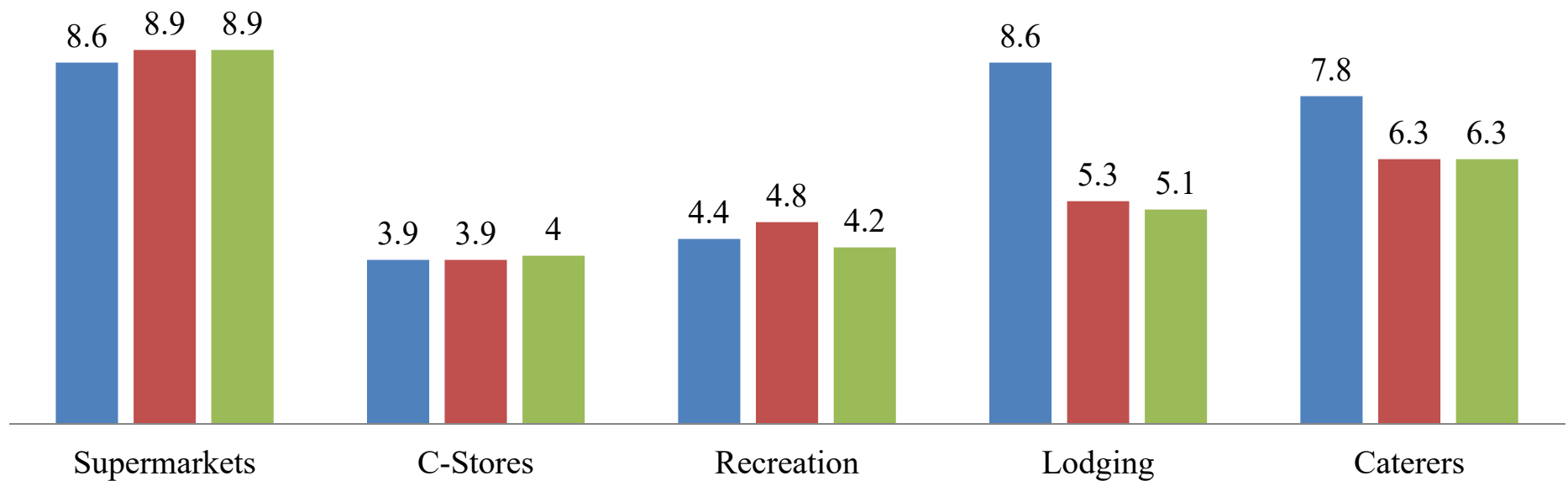
- Many commercial and a few noncommercial non-restaurant segments are posting strong foodservice growth rates.
- More than a third of foodservice E&S is sold to these markets
- Prepared food sales in supermarkets, their “foodservice,” are surging.
- Lodging foodservice has also seen very strong growth rates tied to record and near-record business and leisure travel.
- Nearly all the classic institutional segments are growing with some, such as senior life-care facilities, booming. Demographics is the driver.
- Tax receipt trends that fund publicly funded foodservice have gone negative 2Q/16. California state receipts down 4.5% 2Q.



# Other Commercial Foodservice Segments Outlook

## Nominal Sales Growth Estimates & Forecasts Technomic Inc.

■ 2015 ■ 2016 ■ 2017

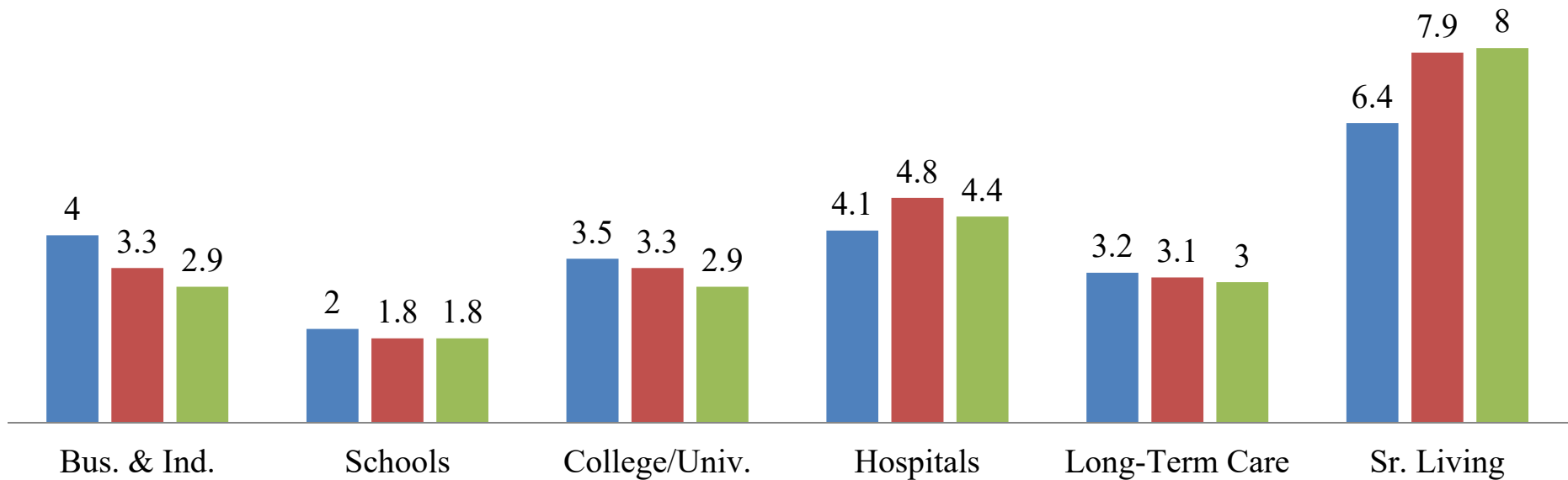


**FOODSERVICE  
EQUIPMENT**  
*reports*

# Noncommercial Foodservice Segments Outlook

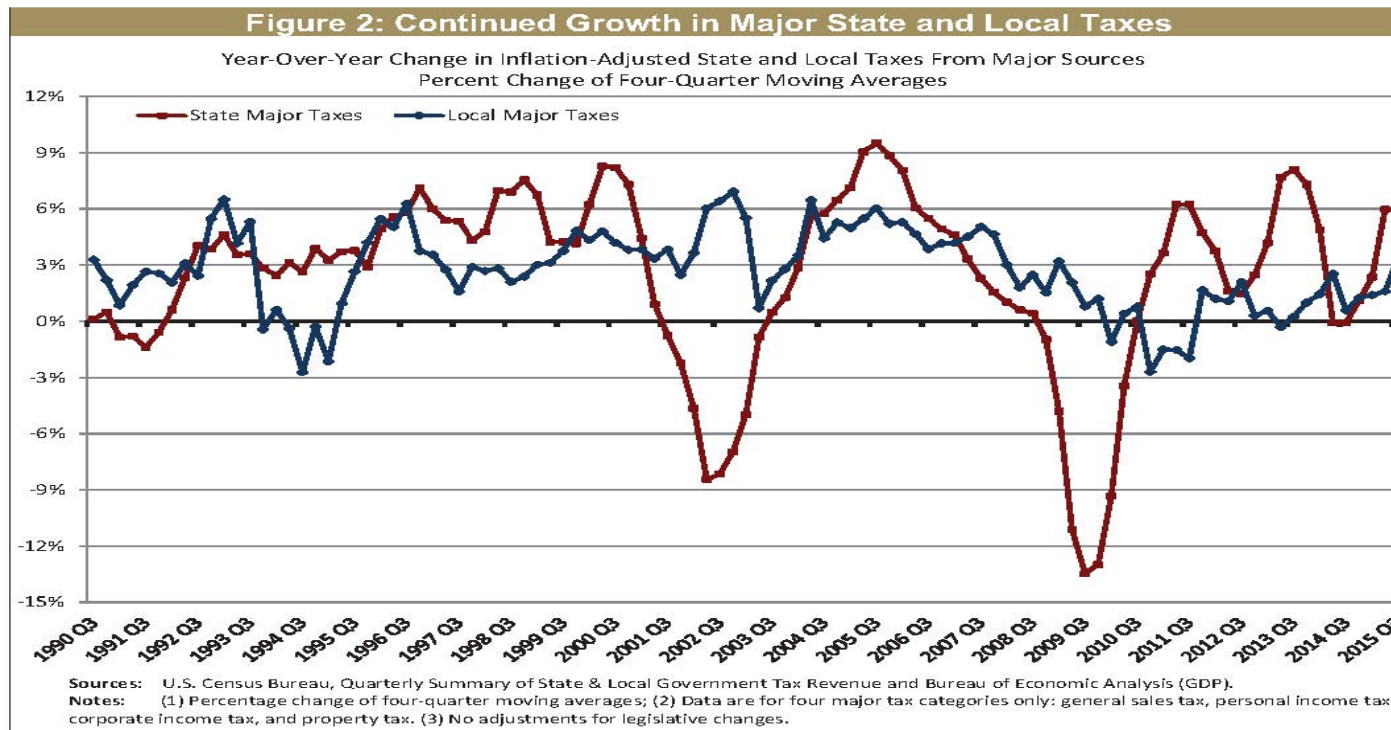
## Nominal “Sales” Growth Estimates & Forecasts Technomic Inc. (Commercial Equivalents)

■ 2015 ■ 2016 ■ 2017



**FOODSERVICE  
EQUIPMENT**  
*reports*

# State & Local Tax Trends, Four-Quarter Moving Average

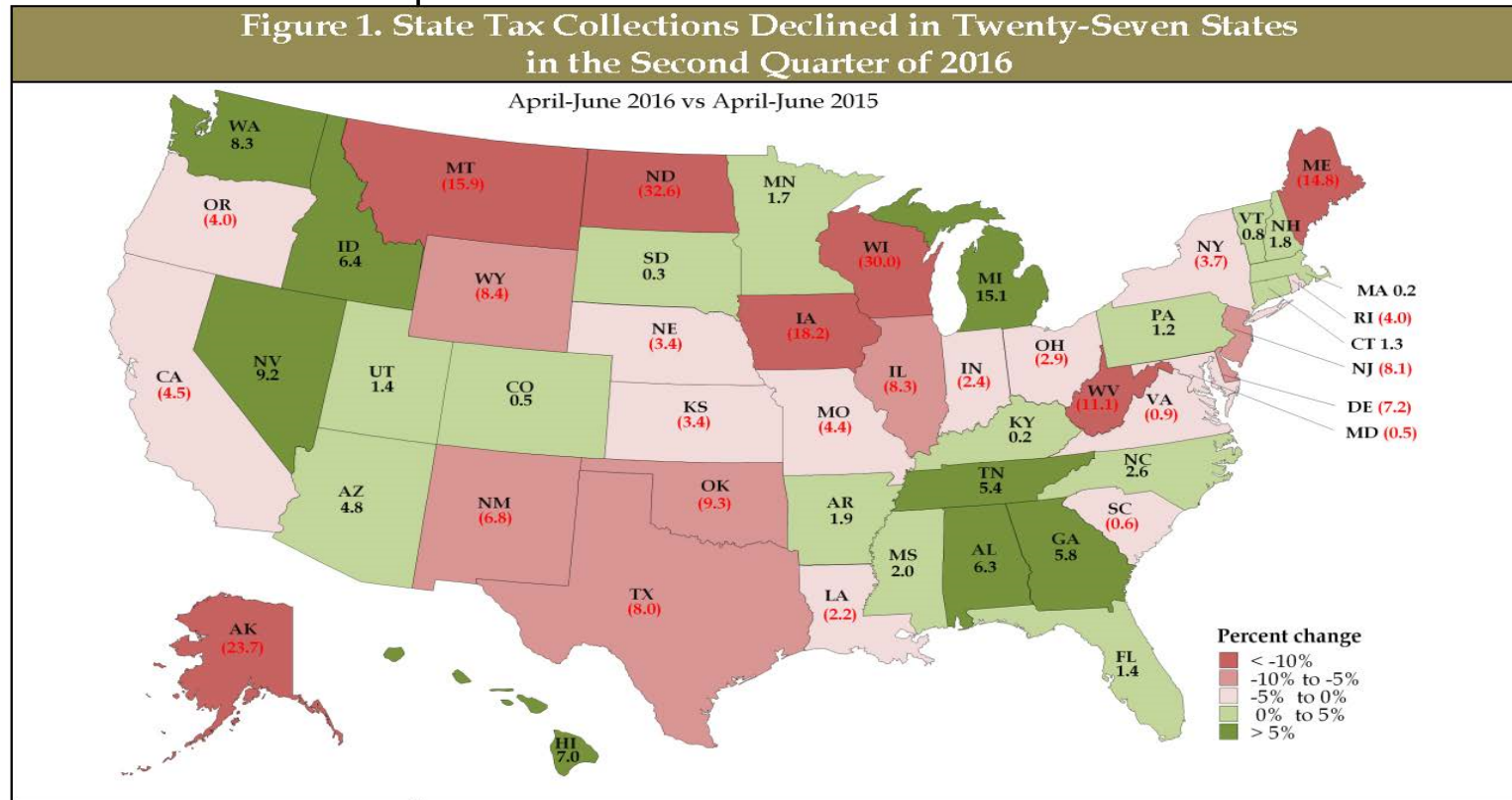


# State & Local Tax Trends, 2Q/16

Table 1. State and Local Government Tax Revenue Growth Year-Over-Year Change					
(Dollar amounts in millions)					
	2015 Q2	2016 Q2	\$ change	% change	Prior 4 quarters <sup>2</sup>
<b>State and Local Government</b>					
<b>Total, major taxes<sup>1</sup></b>	\$339,548	\$337,822	(\$1,725)	-0.5%	5.0%
<b>State Government</b>					
Total state taxes	\$277,053	\$271,264	(\$5,790)	-2.1%	3.7%
Total major taxes	\$214,557	\$209,817	(\$4,740)	-2.2%	4.6%
Sales tax	80,036	80,680	644	0.8%	2.9%
Personal income tax	112,111	108,273	(3,838)	-3.4%	6.9%
Corporate income tax	18,400	16,669	(1,731)	-9.4%	-2.3%
Property tax	4,010	4,195	185	4.6%	5.4%
Total, other state taxes	\$62,497	\$61,447	(\$1,050)	-1.7%	1.0%
<b>Local Government</b>					
Total major taxes	\$124,991	\$128,005	\$3,014	2.4%	5.2%
Sales tax	20,355	20,652	297	1.5%	6.6%
Personal income tax	10,182	9,964	(218)	-2.1%	14.1%
Corporate income tax	3,053	2,169	(884)	-29.0%	4.5%
Property tax	91,401	95,221	3,820	4.2%	4.1%
<b>Source:</b> U.S. Census Bureau (tax revenue).					
<b>Notes:</b> 1. The Census Bureau only reports on major taxes of local government (sales, personal income, corporate income, and property tax). 2. Average of four prior year-over-year percent changes.					



# State Tax Trends, 2Q/16

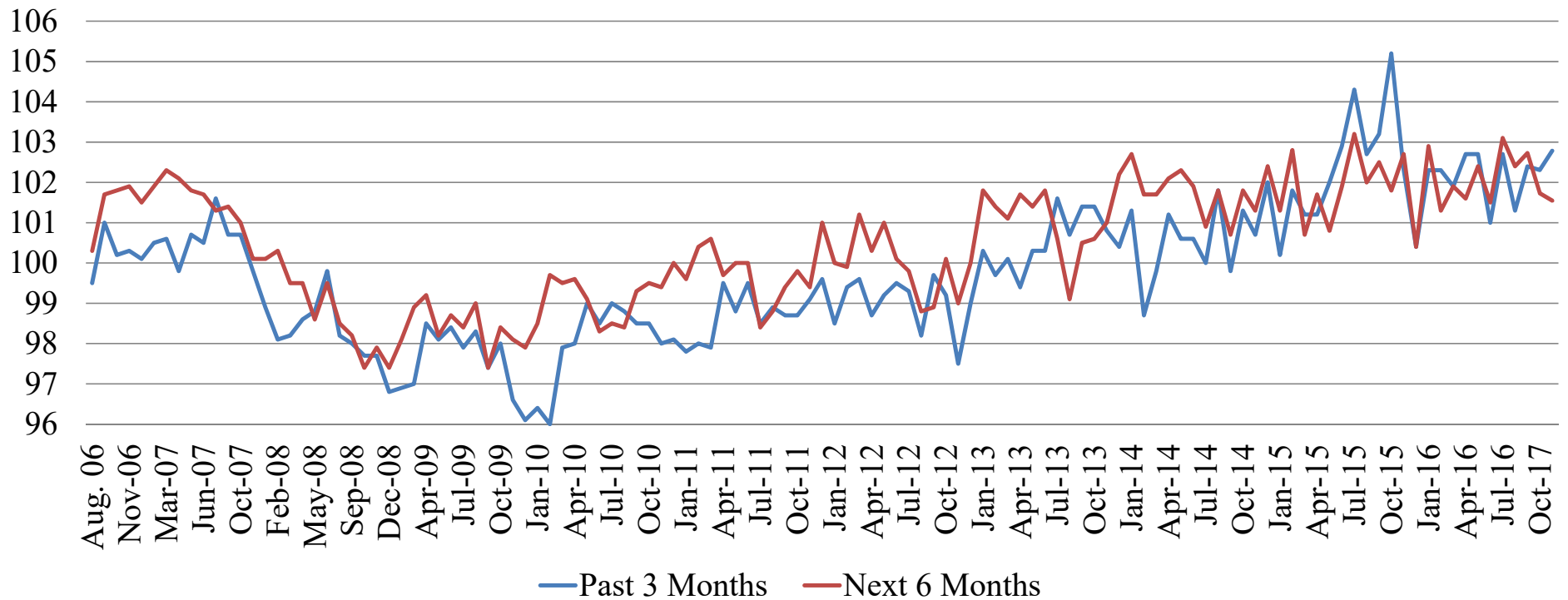


# NRA RPI Capital Spending Trends

- The National Restaurant Association has fielded its Restaurant Performance Index tracking study since 2002.
- The RPI includes, among its eight components, two indicators of restaurant operator capital spending.
- One tracks the percentage of those making a capital purchase during the past three months, the other tracks those planning a buy during the next six months.
- In 2015, those indicators surged to unprecedented levels, especially the indicator tracking those operators that did make a purchase.
- Both indicators, despite some waffling, remained strong throughout 2016, even as chain sales and traffic indicators softened.
- Falling food prices have helped operator cash flow, boosting cap-ex spending.

# NRA Performance Index

## Capital Spending Indicators Thru Nov. 2016



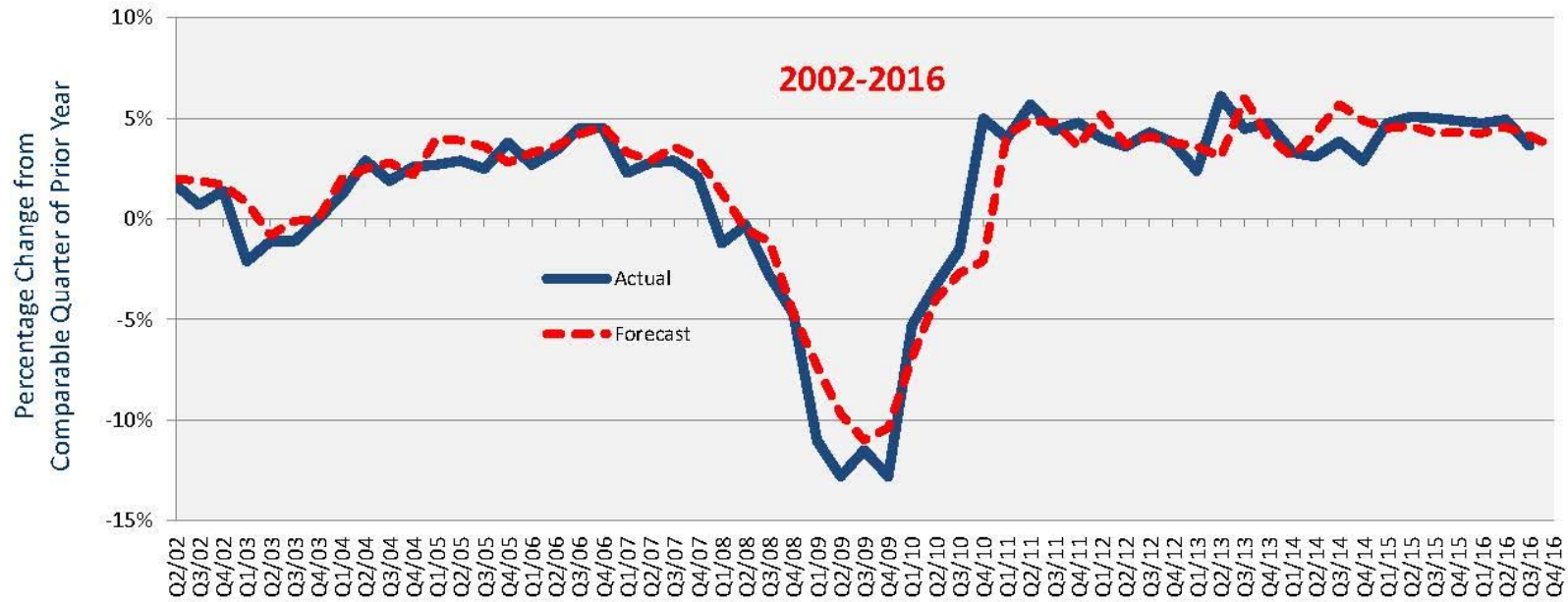
# E&S Market Indicators

- Over the past seven quarters, we have seen bifurcation in the two leading foodservice E&S tracking indicators.
- The MAFSI Business Barometer, based on reports by mfrs.' reps, has tracked consistently at around 5% growth for six quarters.
- Strongest sustained level of sales growth in Barometer's 14-year history.
- Barometer sales growth did slow to 3.6% in 3Q/16.
- Combined sales of the big publicly reporting E&S companies have barely registered any growth for past four quarters.
- Slowing chains sales and currency effects of strong dollar, plus structural issues, are the main reasons.
- Quotation and consultant activity remain very positive, boding well for 2017.



# MAFSI Barometer History

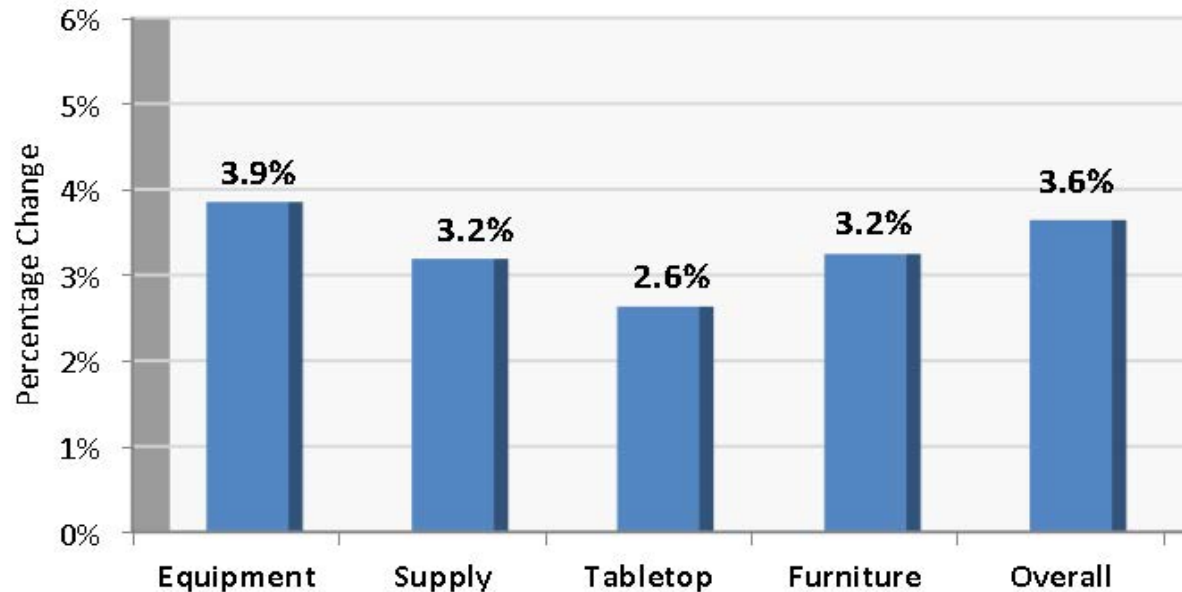
**Overall Commercial Foodservice Sales Per Quarter for North America**  
 Slower Growth Recorded For Q3/16; Activity Starting To Tail Off



# MAFSI Barometer Sales By Product, 3Q/2016

3rd Quarter 2016  
Overall Sales for North America

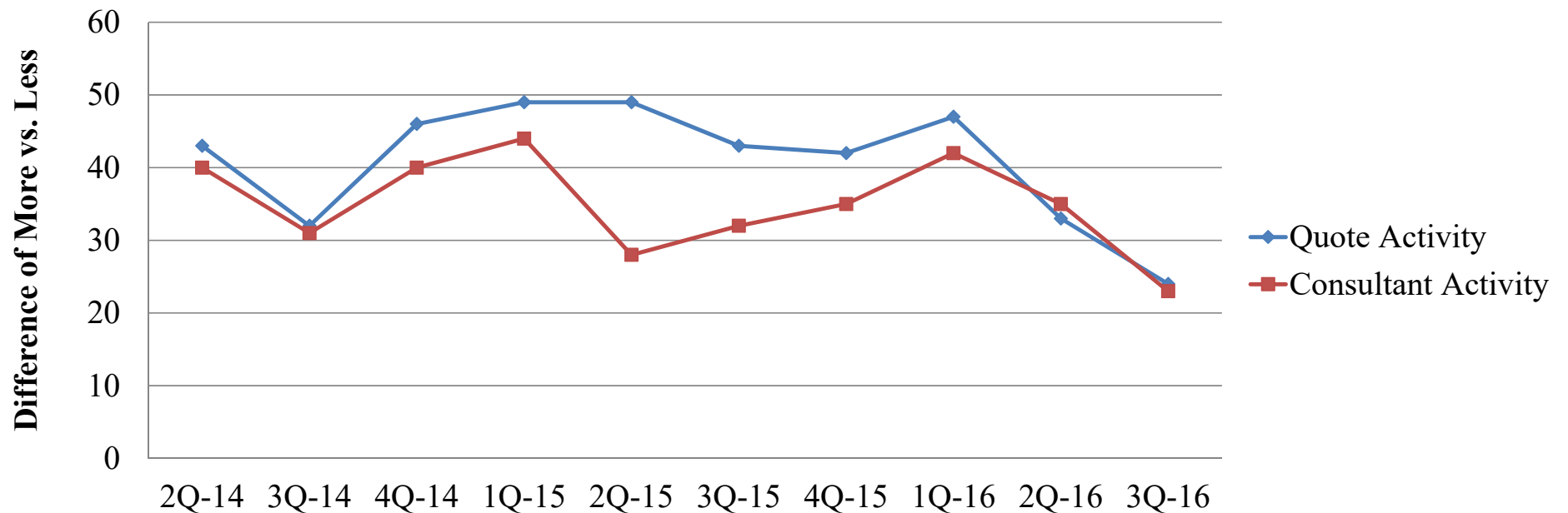
Q3/2016 vs. Q3/2015 (Jul 1 - Sep 30)



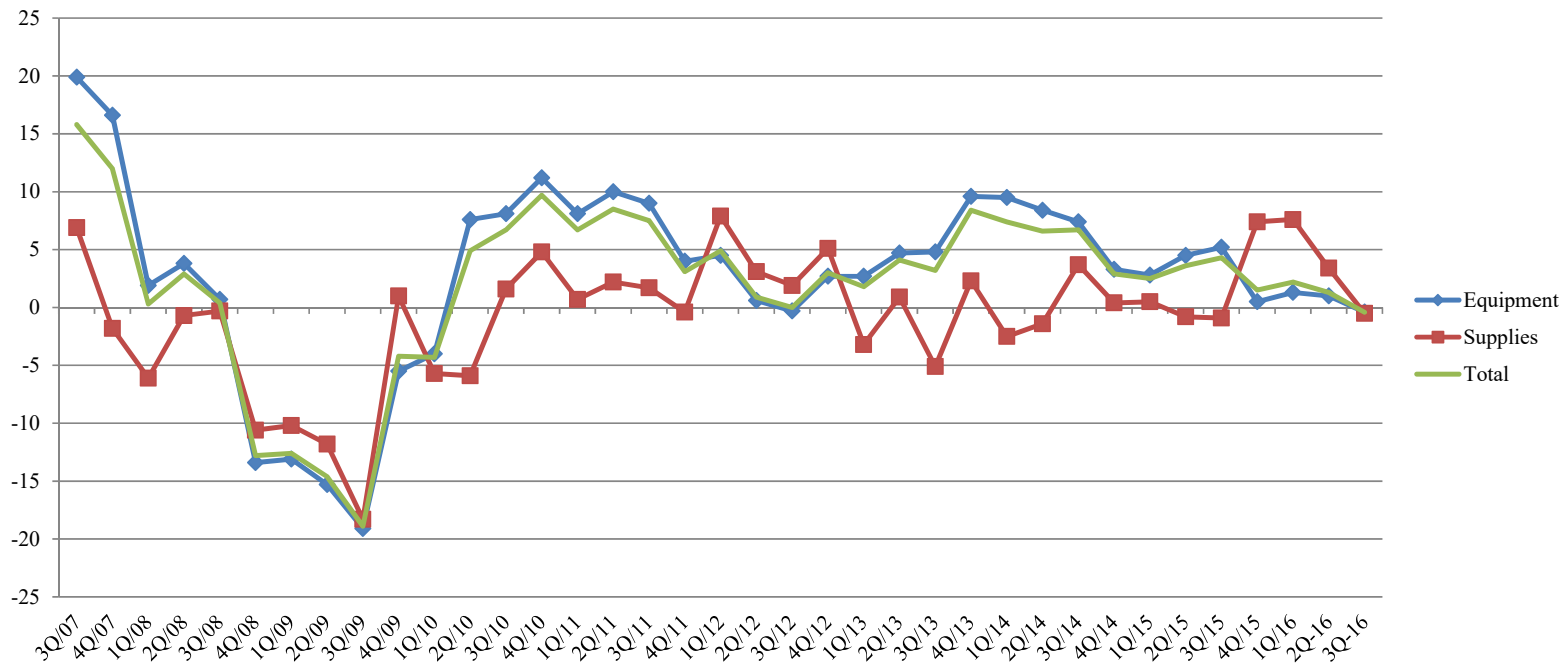
**FOODSERVICE  
EQUIPMENT**  
*reports*

# MAFSI Barometer Quotation and Rep Activity

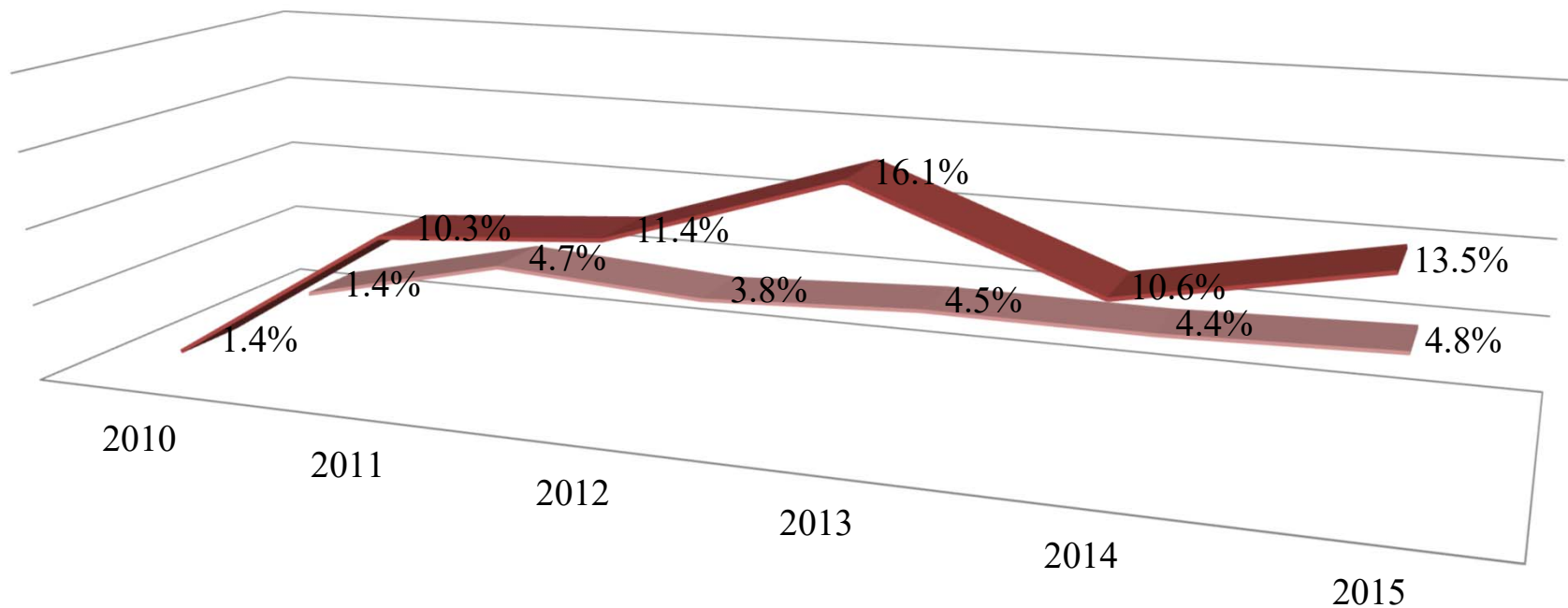
## MAFSI Rep Quotation and Consultant Activity Trends



## Public E&S Company Blended Sales, Quarterly % Changes Vs. Year Prior Thru 3Q/16



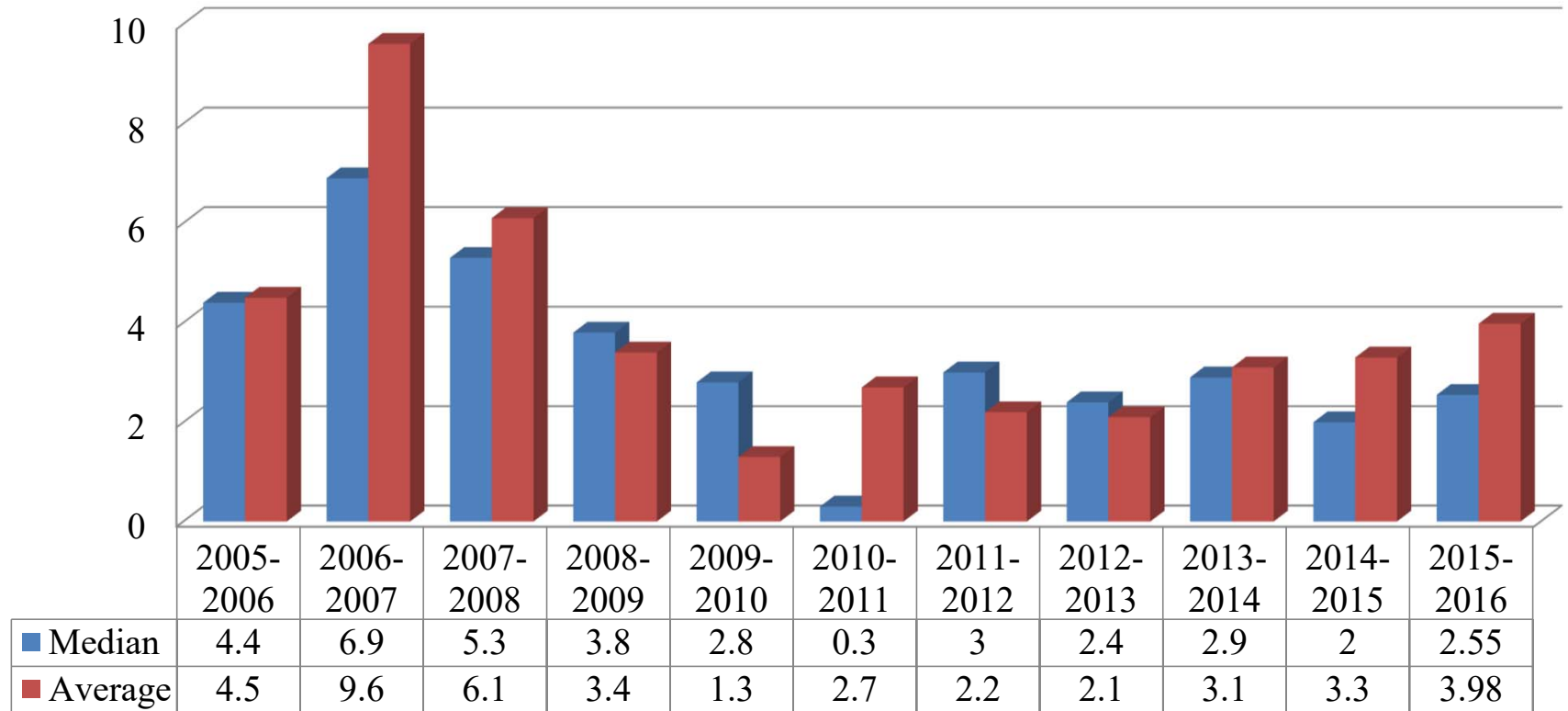
# *FER* Top Dealer Growth Rates Vs. E&S Market 2010-2015



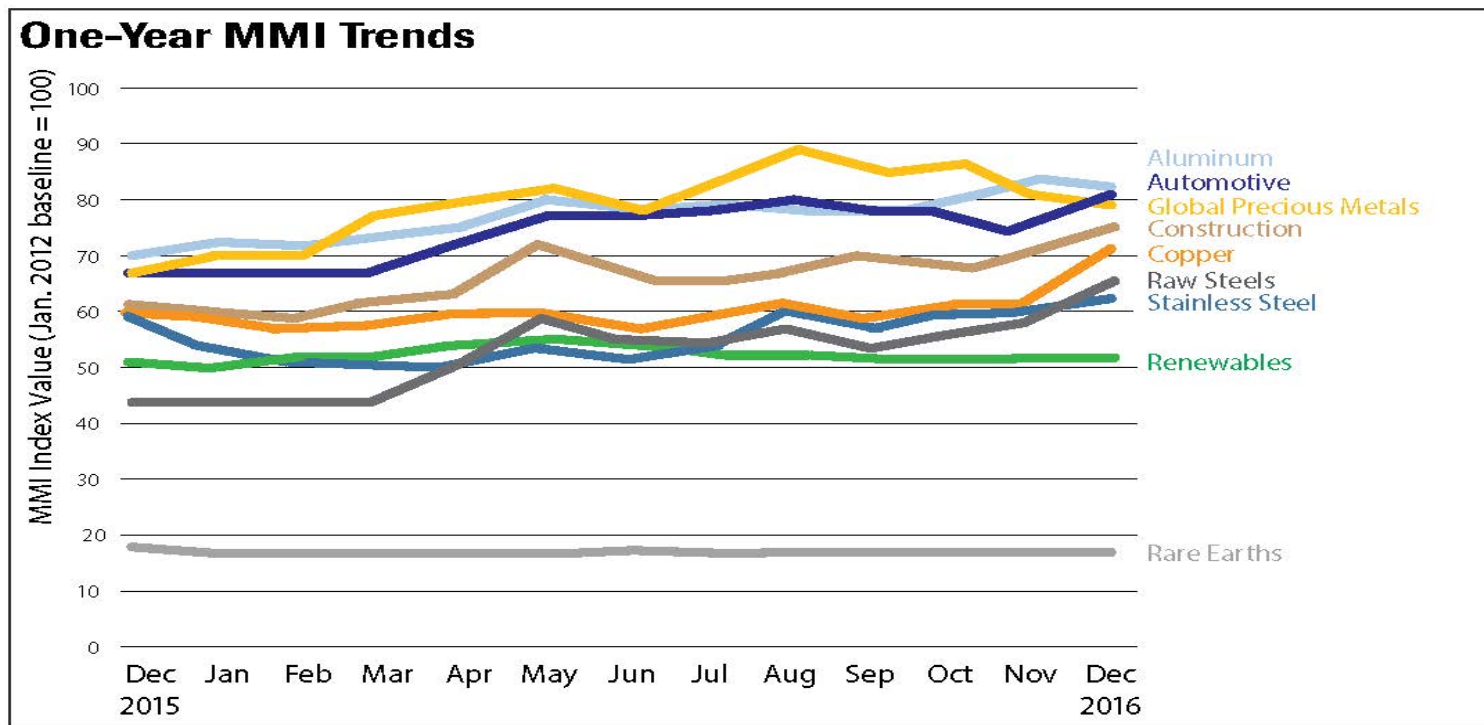
# E&S Manufacturer List Price Trends

- E&S manufacturers raised list prices more aggressively during 12 months ended June 2016 than at any time since 2006 to 2008, reports AutoQuotes Inc.
- The average increase 2015-16 was nearly 4%. Averages have been gradually ramping up over past three years as market strengthened.
- Significantly more mfrs. raised prices in January 16 than in past seven years.
- Median increase was more moderate 2.55%. Shows a continuation of “selective” price increase strategies.
- These increases came before the run-up in materials cost, which continue.
- We expect mfrs. to continue to try to raise prices, especially refrigeration makers dealing with new EPA and DOE energy and refrigerant compliance.

# Yearly E&S List Price Increases, AutoQuotes



# Commodities Price Trends: Metal Miner Index



© MetalMiner™. All rights reserved.

**FOODSERVICE  
EQUIPMENT**  
reports



# The *FER* E&S Market Forecasts

- We estimate 2015 was the peak of the now seven-year E&S market recovery, with nominal sales growth at mfrs.' level of 4.8%, 2.5% real growth.
- While there is some concern about slowing the second half, we forecast 2016 nom. growth of 4.6%, but with higher average price increases, 2.1% real.
- We forecast a moderate slowing in the nominal and real growth rates in 17.
- We lowered nominal growth to 4.1% and anticipate another year of larger than typical prices increases, so have pegged real growth at 1.8% in 17.
- *Blue Chip Economic Indicators* long-range forecast see no recession on horizon through 2020.
- Our long-range E&S market forecasts predict gradual slowing, but no decline.

# *FER* E&S Revised Forecast—2016

Growth	Nom.	Prices Growth	Real
Total Equipment	4.6%	2.5%	2.1%
Total Supplies	4.7	2.5	2.2
Total Industry	4.6	2.5	2.1

Rounding affects totals

# *FER* E&S Revised Forecast—2017

Growth	Nom.	Prices Growth	Real
Total Equipment	4.1%	2.4%	1.7%
Total Supplies	4.5	2.4	2.1
Total Industry	4.1	2.4	1.8

Rounding affects totals

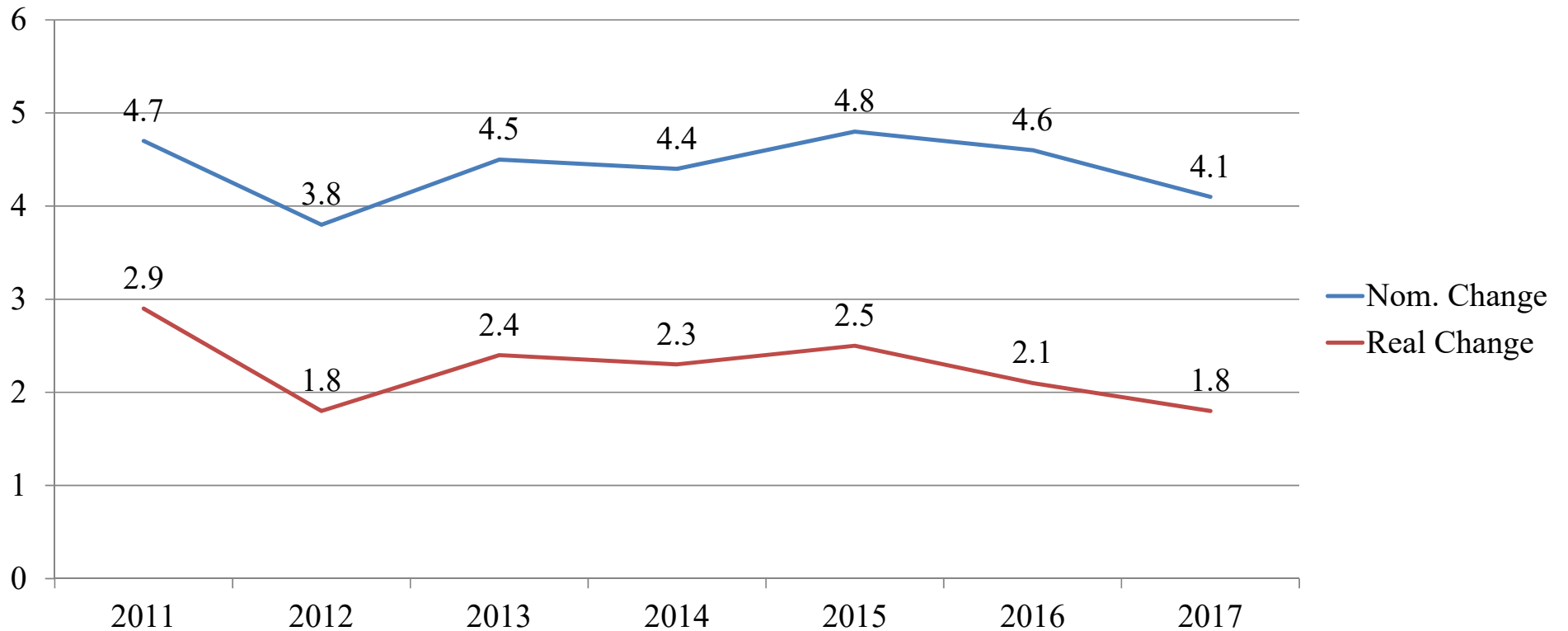
# *FER* E&S Revised Forecast—2017

	Nom. Growth	Prices	Real Growth
Primary Cooking	4.2%	2.4%	1.8%
Refrigeration & Ice	4.1	2.3	1.8
Storage & Handling	3.9	2.3	1.6
Serving Equipment	3.9	2.5	1.4

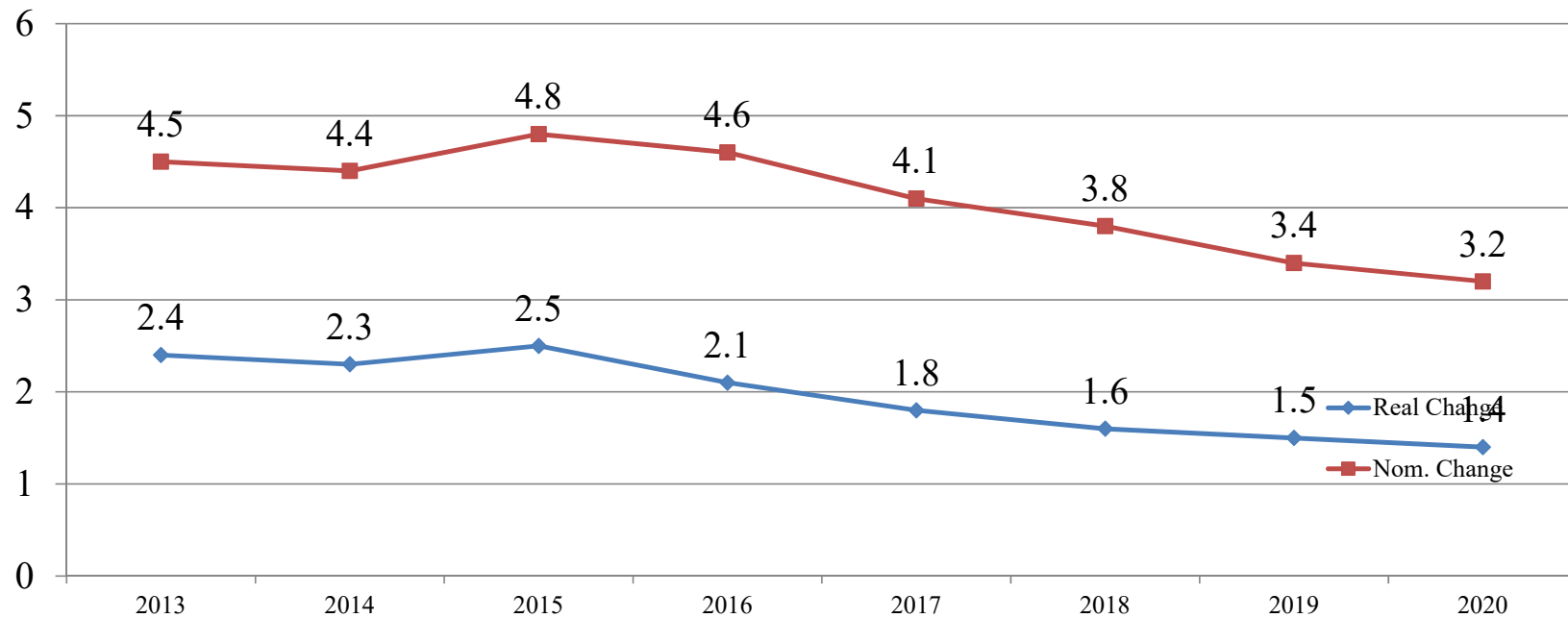
# *FER* E&S Revised Forecast—2017

	Nom. Growth	Prices	Real Growth
Prep Equipment	3.8%	2.4%	1.4%
Warewash & Ventil.	4.3	2.5	1.8
Furn. & Custom Fab.	4.1	2.3	1.8
Smallwares	4.6	2.4	2.2
Tabletop & Serv.	4.4	2.4	2.0

# The *FER* E&S Market Forecast—2011-2017



# *FER* E&S Market Forecasts 2013-2020



Real and nominal percentage changes in E&S market growth 2013-2020. All numbers are *FER* forecasts.

# Thank You!

# Questions?