Restaurant Job Growth Grinds to a Halt as Sales and Traffic Continue to Fall

News for the restaurant industry was more of the same for the first month of the fourth quarter. Although year-over-year same-store sales and traffic growth improved slightly from the previous month, October's results continued to fuel concerns for the restaurant industry as it struggles through its worst year since the end of the recession. This insight comes from data reported by TDn2K™ through The Restaurant Industry Snapshot™, based on weekly sales from nearly 26,000 restaurant units and 130+ brands, representing $65 billion dollars in annual revenue.

Same-store sales growth was -0.9 percent during October, which is the eighth consecutive month of declining sales. Since the beginning of the year, only February had positive sales; that month was aided by favorable weather comparisons.

Chain restaurants continue to struggle to attract guests. Same-store traffic growth was -3.4 percent in October, a small improvement of 0.2 percentage points compared with September's results.

"Since the beginning of 2015, same-store traffic growth has trended down at an increasing rate," said Victor Fernandez, Executive Director of Insights and Knowledge for TDn2K. "Traffic growth year-to-date has been -3.0 percent, a very troubling scenario compared with the -0.8 percent reported for all of 2015."

One area that has seen relative stability in recent months has been the rate at which average guest checks have been increasing which, at 2.5 percent for October, remained virtually unchanged from the average growth rate experienced over the last six months.

"Economic activity is decent and may be accelerating," commented Joel Naroff, President of Naroff Economic Advisors and TDn2K Economist. "The economy expanded in the third quarter by 2.9 percent, the strongest in two years. It is possible fourth quarter growth may exceed that. The October jobs reported provided the first clear indication that the tight labor markets are finally yielding higher wages. With household incomes growing faster, consumer spending should improve. The one caveat is that people are buying big-ticket items using credit and that is draining some spending from goods and services into debt payments. Still, restaurant sales, as measured by the government's retail sales numbers, continue to outperform almost every other segment and there is no reason to think that will change. The election of Donald Trump will likely have little economic impact before next summer, but the probability that the federal minimum wage will be increased has diminished sharply."

Despite restaurant sales growth rates slowing down overall, there are segments that are performing quite well. Quick service continues to be an area of strength. This segment was the best performing during the month, a position it has held for the past eight months. Only two other segments were able to post positive sales growth during October: upscale casual and family dining.

“During 2016, the three segments that are showing positive same-store sales growth so far are quick service, upscale casual and fine dining,” continued Fernandez. “Quick service, upscale casual and family dining represent opposite ends of the spectrum in terms of lowest and highest average guest checks. This suggests that consumers are favoring chain restaurants for inexpensive, convenience-driven and on-the-go dining (the vast majority of quick service sales are take-out). On the other end of the spectrum, higher-end, experience-based dining is also strong for chains. Mid-scale spending is where they are having the most trouble.”

Casual dining and particularly its bar and grill sub-segment continue to face significant headwinds and once again were the worst performing during October.

Regional Sales Results

Restaurant sales growth continues to be stronger in the western part of the country. Since March, California has been the best performing region based on sales growth and, along with the Western* region, was among the three regions that achieved positive sales growth during October. The other region was New England, with its first positive sales growth since May.

The rest of the country experienced negative sales in October. The worst performing regions were Texas, Florida and the Southwest**. Florida was affected by very soft results at the beginning of the month due to the hurricane. But, Texas and the Southwest have been suffering through a major slump since the effects of the energy sector’s downturn reached restaurants at the end of 2015.

The Restaurant Workforce

As restaurant sales growth continues to slow, so does job creation by restaurant companies. According to People Report™, a TDn2K company, chain restaurants added new jobs at a rate of 0.3 percent year-over-year during September. After growing at an average 3.8 percent during the first six months of the year, job creation has slowed considerably and, for the first time in over three years, has increased by less than 1.0 percent during the last two months.

A major concern and a source of rising costs for restaurants continues to be employee turnover. Both hourly employee and management turnover increased during September. Turnover has been trending up since 2010 and, particularly for restaurant managers, has reached levels surpassing anything reported for over ten years. In the current environment of falling restaurant sales, this is especially troubling since TDn2K research has continuously shown a relationship between management turnover and a brand’s sales and traffic results.

Staffing and retention difficulties are expected to continue throughout the rest of the year, adding to the restaurant sales and traffic woes as we close 2016.

*Western Region: Alaska, Arizona, Hawaii, Idaho, Nevada, Oregon and Washington
**Southwest Region: Arkansas, Louisiana, New Mexico and Oklahoma

TDn2K™ (Transforming Data into Knowledge) is the parent company of People Report™, Black Box Intelligence™ and White Box Social Intelligence™. People Report provides service-sector human capital and workforce analytics for its members on a monthly basis. Black Box Intelligence provides weekly financial and market level data for the restaurant industry. White Box Social Intelligence delivers consumer insights and reveals online brand health. TDn2K membership represents 37,000 restaurant units, over 2.1 million employees and $65 billion in sales. They are also the producers of leading restaurant industry events including the Global Best Practices Conference held annually each January in Dallas, Texas.