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Fall Board Meeting

October 28th, 2008

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Restaurant Industry 2008 and Beyond

Board Meeting

October 28th, 2008

NATIONAL RESTAURANT ASSOCIATION®

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“In 1927 a small group of Baltimore area restaurateurs met to deal with some of the challenges facing the economy and the Food service Industry. They believed that, once united, they could accomplish more for the Industry and their respective businesses than if each wrestled with the problems alone. These men put up their own money to get the Association started and offered prospective members a “money back” guarantee of satisfaction. A few years later, in 1935, the group was chartered as The Restaurant Association of Maryland whose mission was to Promote, Protect and Improve the restaurant industry in Maryland."

“Restaurant Industry”

All meals/snacks prepared away from home, including all takeout meals and beverages

Restaurant Industry

Commercial Restaurant Services

Non-Commercial Restaurant Services

Military Restaurant Services

Overview

Annual Sales:

US: $558 billion

Maryland: $8.7 Billion Fiscal 2008

Employees:

United States: 13.1 million
Maryland: 170,000

Locations:

United States: 945,000

Maryland: 9,600

2008 Restaurant Industry Sales Gain:

United States: $24 billion

Maryland: $200,000 million

Maryland Restaurant Industry Statistics

	Fiscal 2007	Fiscal 2008
Number of Employees in the Industry:	170,500	174,000
Number of Eating/Drinking Establishments:	9,600	9,532
Food/Beverage Sales:	$8.5 billion	$8.7 billion
Sales Tax Revenue	$425 million	$479 million

***Source:* Maryland Comptroller of the Treasury (Industry codes 108, 111 & 112) & U.S. BLS (NAICS code 722)**

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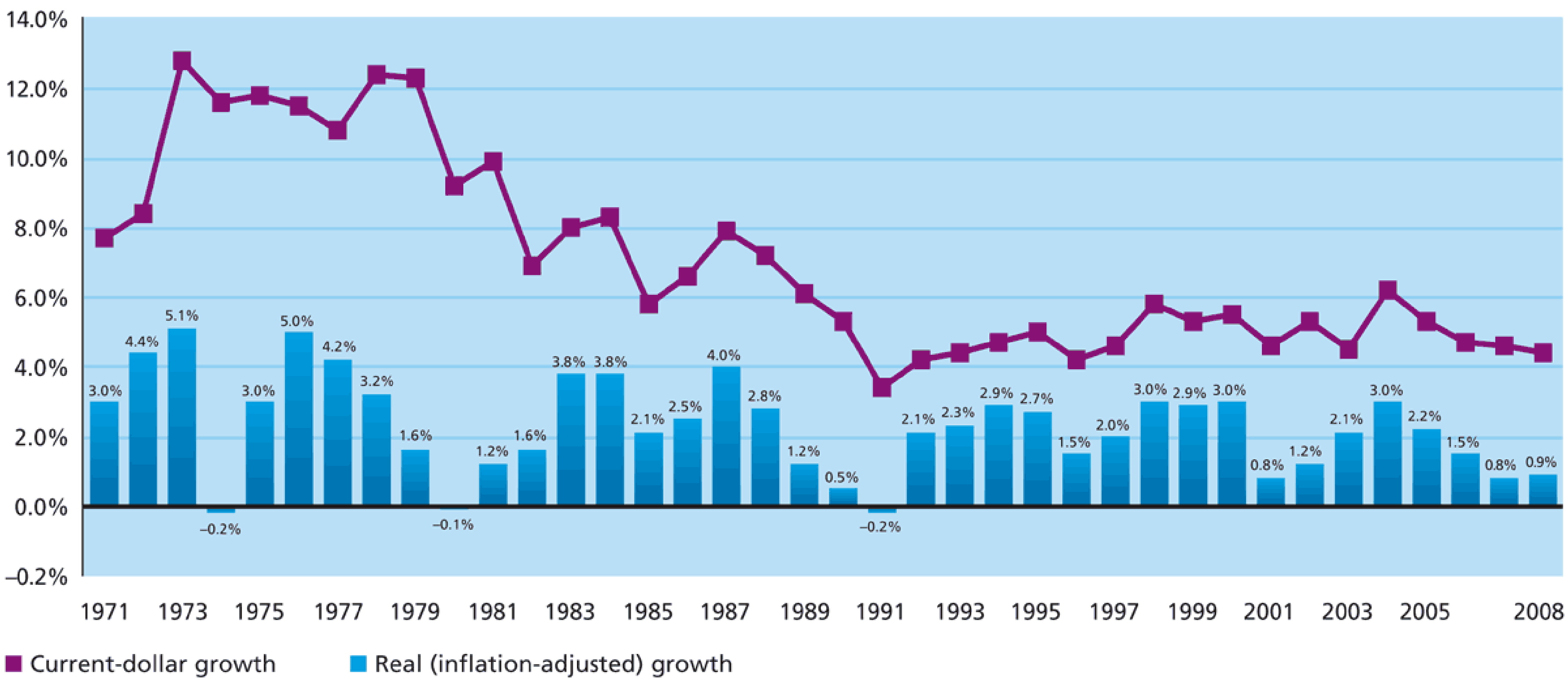
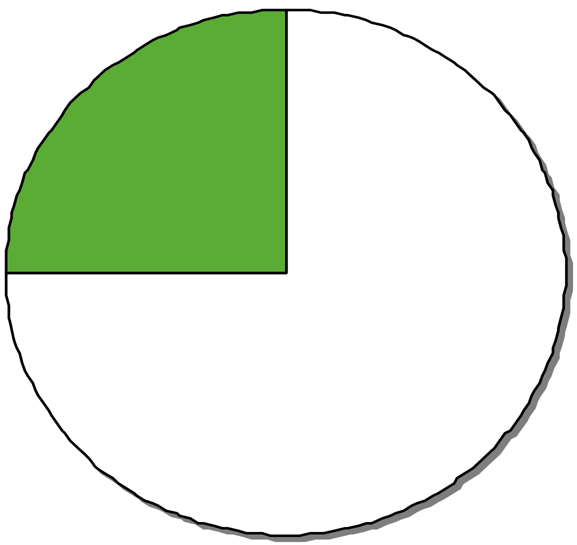
38 Years of Restaurant-Industry Sales 1971-2008

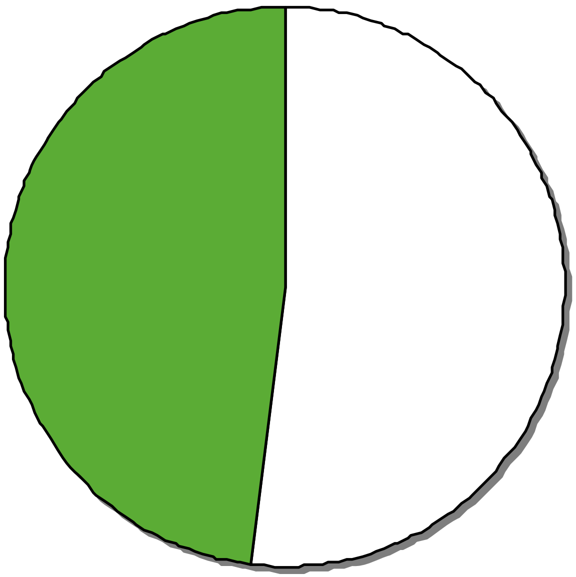


Source: National Restaurant Association

Restaurant Industry's Share of the Food Dollar



1955: **25%**



Present: **48.0%**

Source: National Restaurant Association

The Industry Mosaic

- **Fullservice**
- **Quickservice**
- **Cafeterias and buffets**
- **Caterers**
- **Snack and nonalcoholic beverage bars**
- **Managed services/ contractors at**
  - Industrial plants
  - Hospital/nursing homes
  - Schools and universities
  - Airlines
  - Recreation and sports centers
- **Lodging places**
- **Retail hosts**
  - Book stores
  - Service stations
  - Convenience stores
- **Self-operated restaurant services**
- **Military restaurant services**

Economic Backdrop

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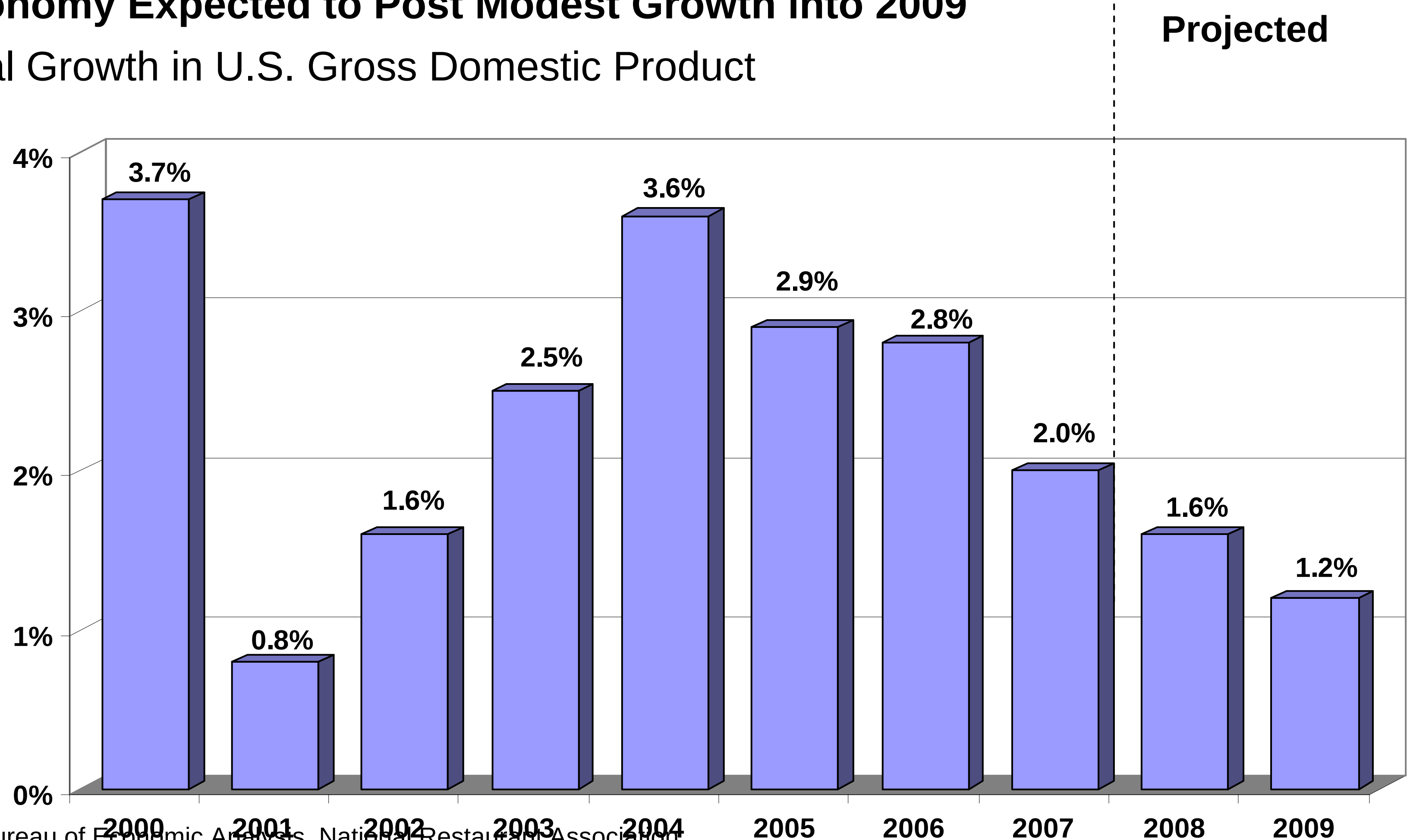
Economy Expected to Post Modest Growth into 2009

Real Growth in U.S. Gross Domestic Product



Source: Bureau of Economic Analysis, National Restaurant Association

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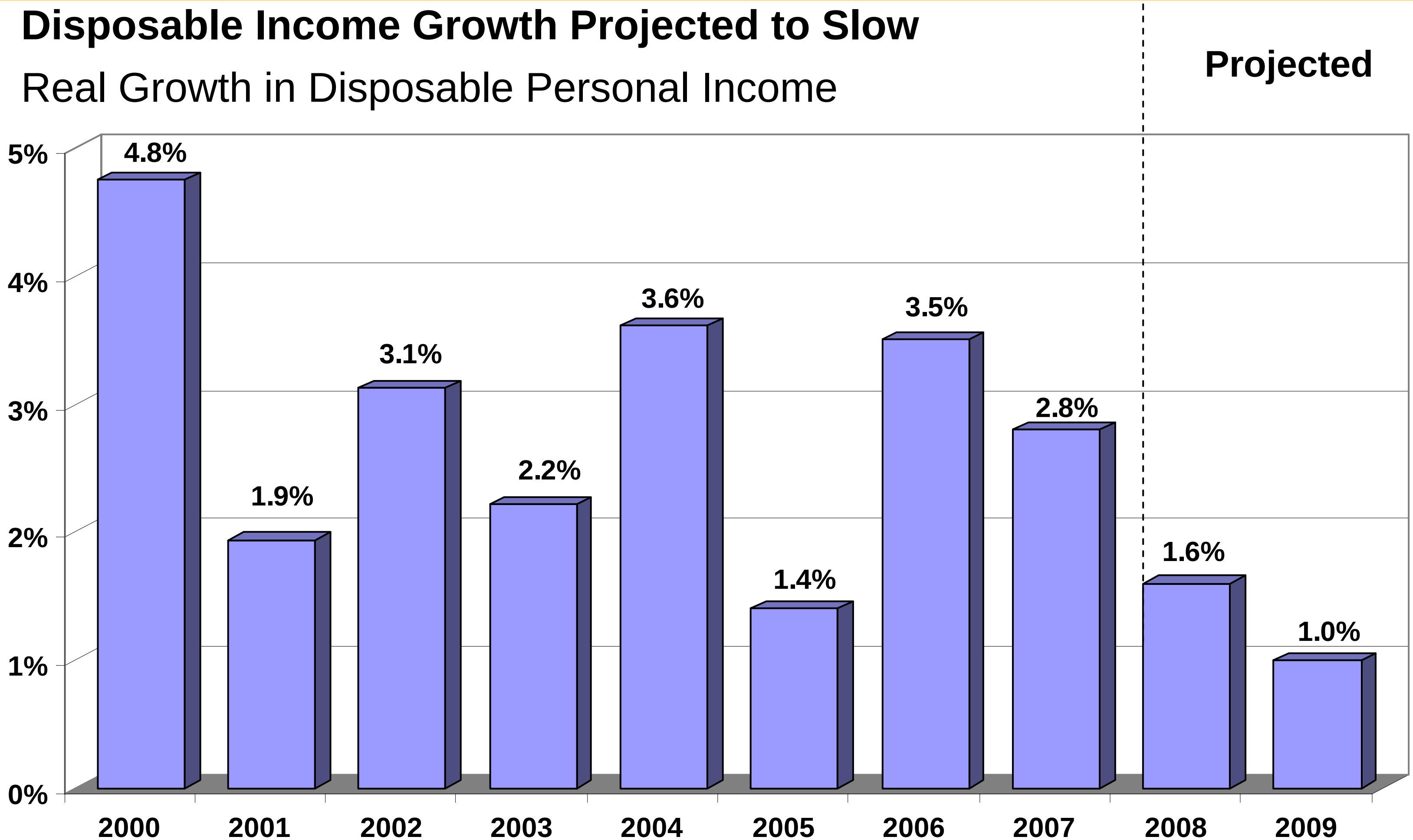
Disposable Income Growth Projected to Slow

Real Growth in Disposable Personal Income



Source: Bureau of Economic Analysis, National Restaurant Association

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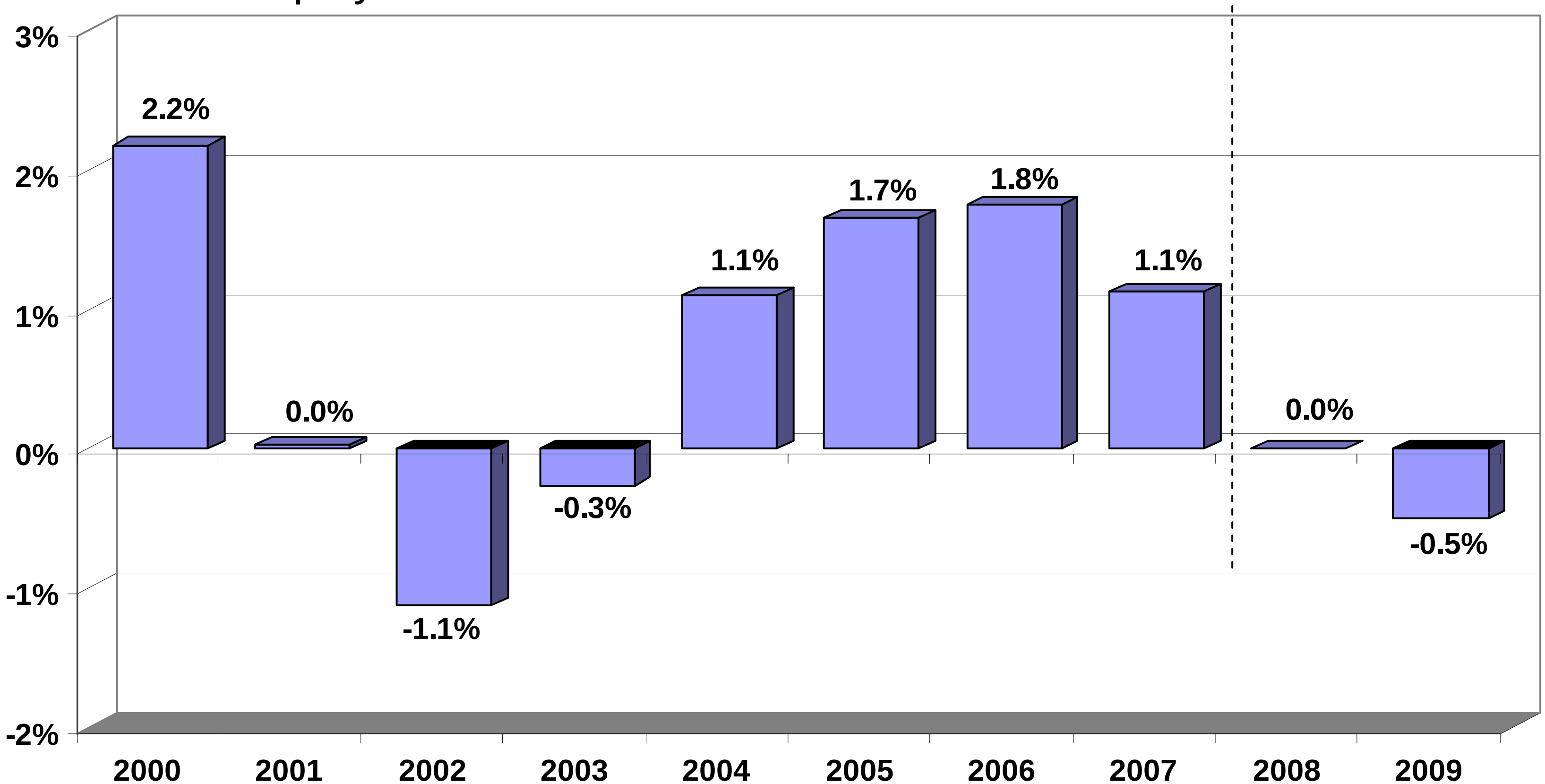
National Job Losses Expected to Continue in 2009

U.S. Total Employment Growth

Projected

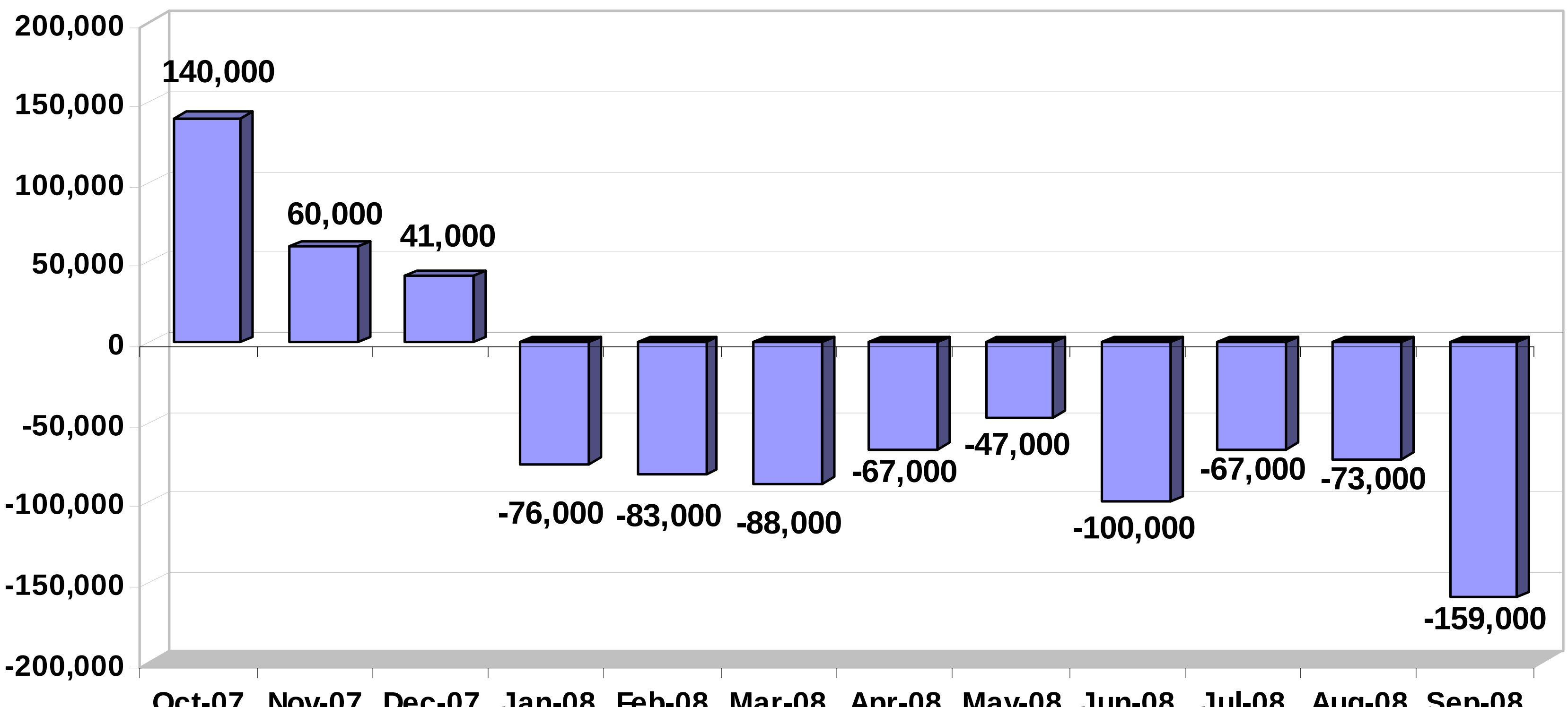


Source: Bureau of Economic Analysis, National Restaurant Association

National Economy Posting Job Losses

U.S. economy shed 760,000 jobs in the last nine months

U.S. Total Job Growth



Source: Bureau of Labor Statistics; figures are seasonally-adjusted

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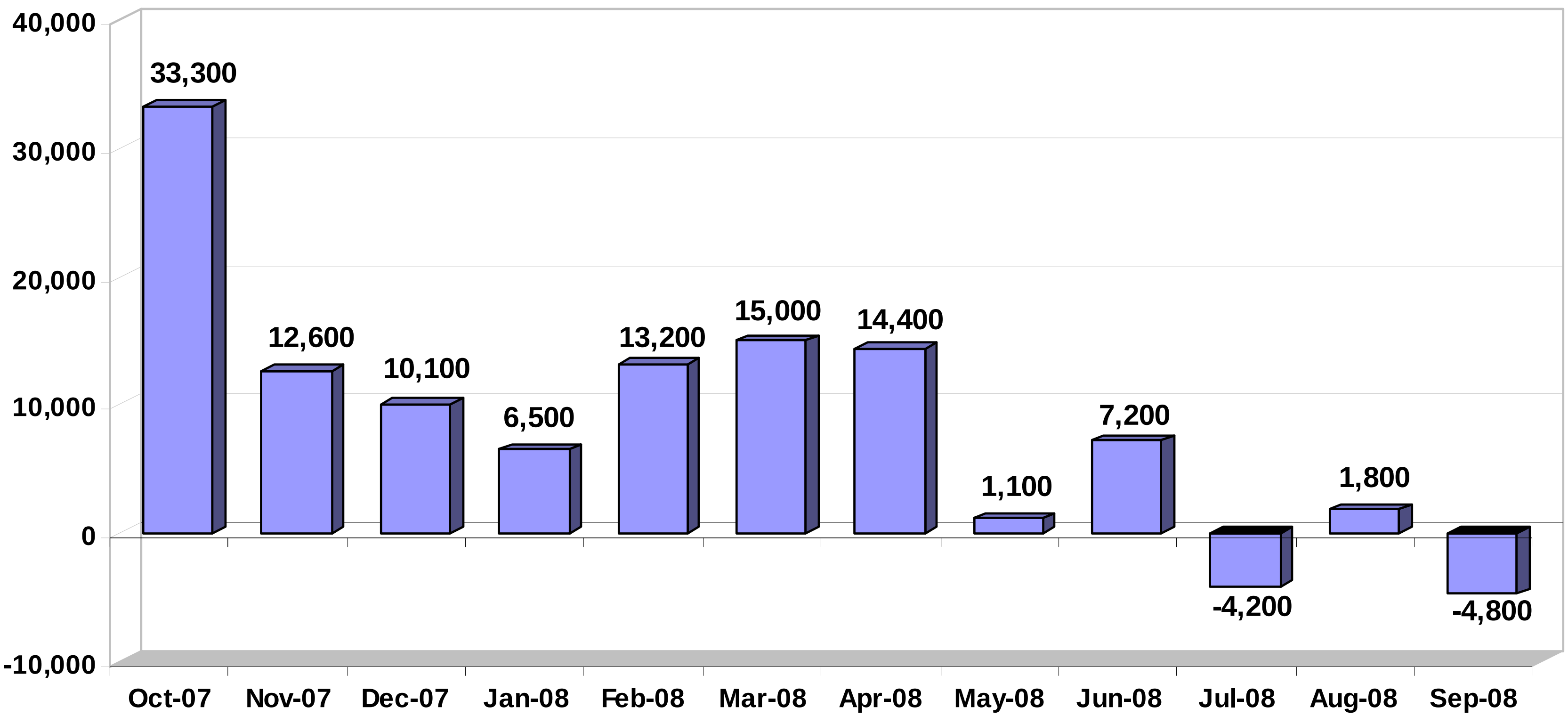
Industry Job Growth Falters

Eating and drinking places lost jobs in two of the last three months

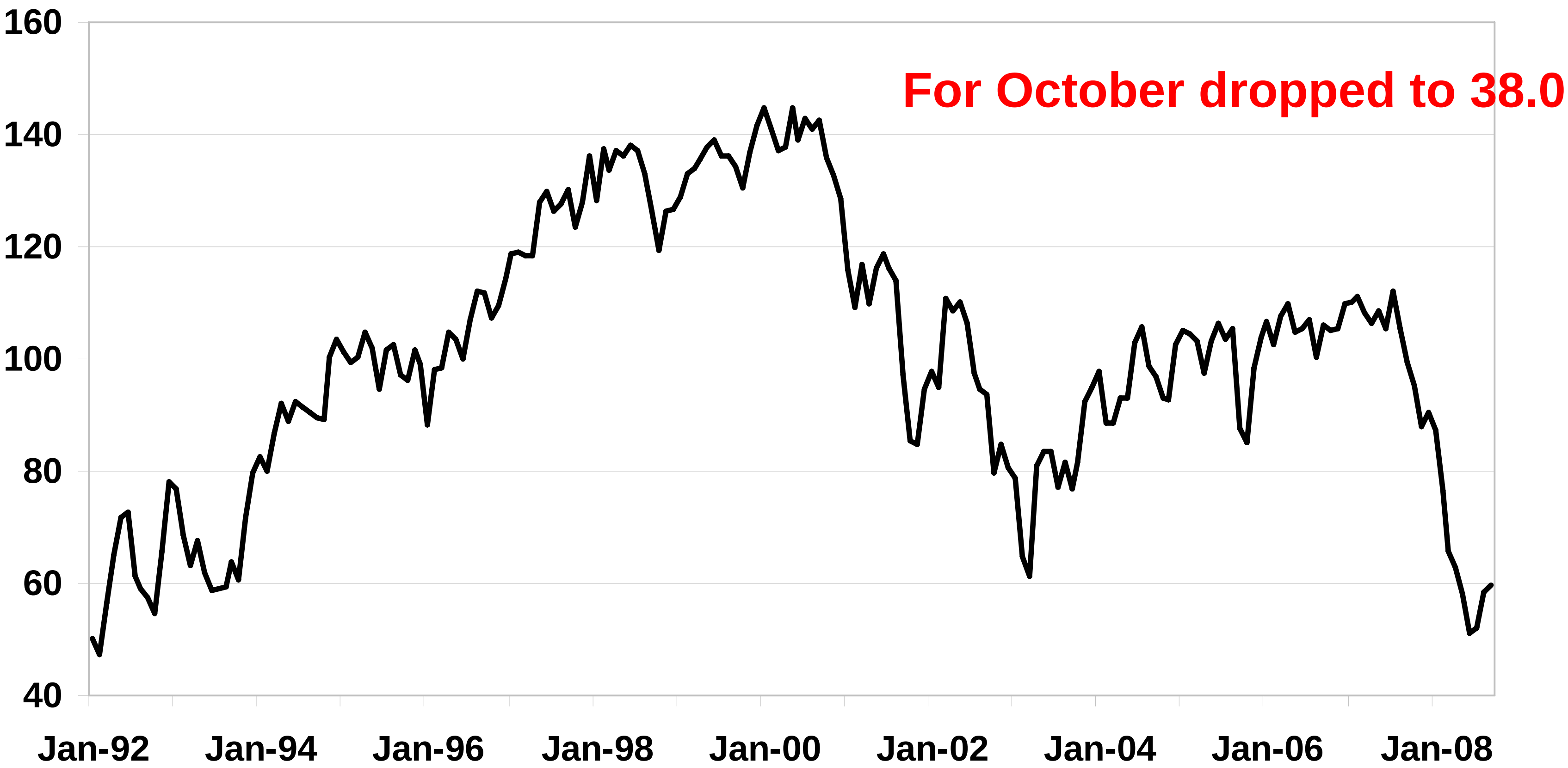
Eating and Drinking Place Job Growth



Source: Bureau of Labor Statistics; figures are seasonally-adjusted

Consumer Confidence Remains at a 15-Year Low

U.S. Consumer Confidence Index



Source: The Conference Board

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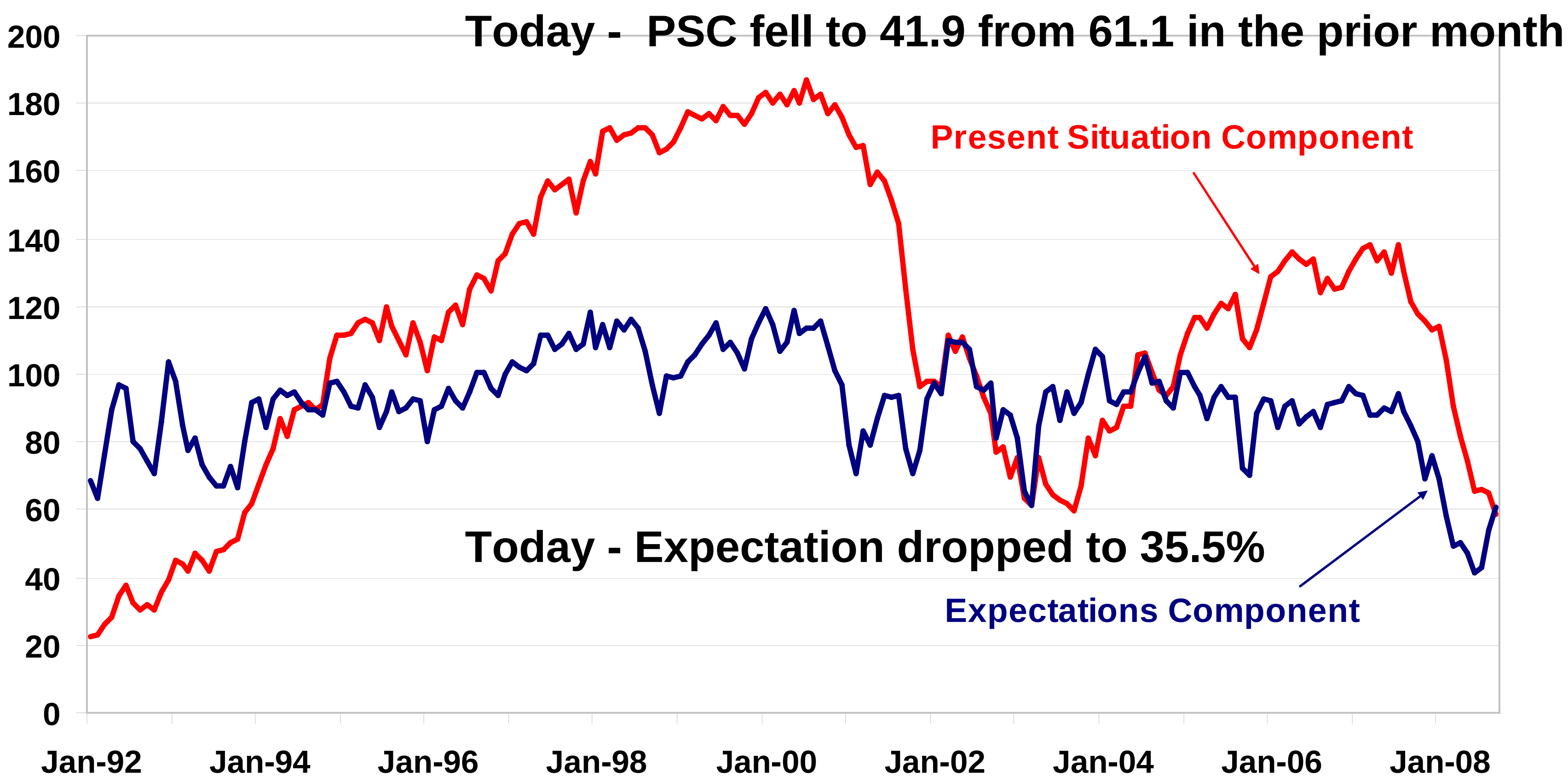
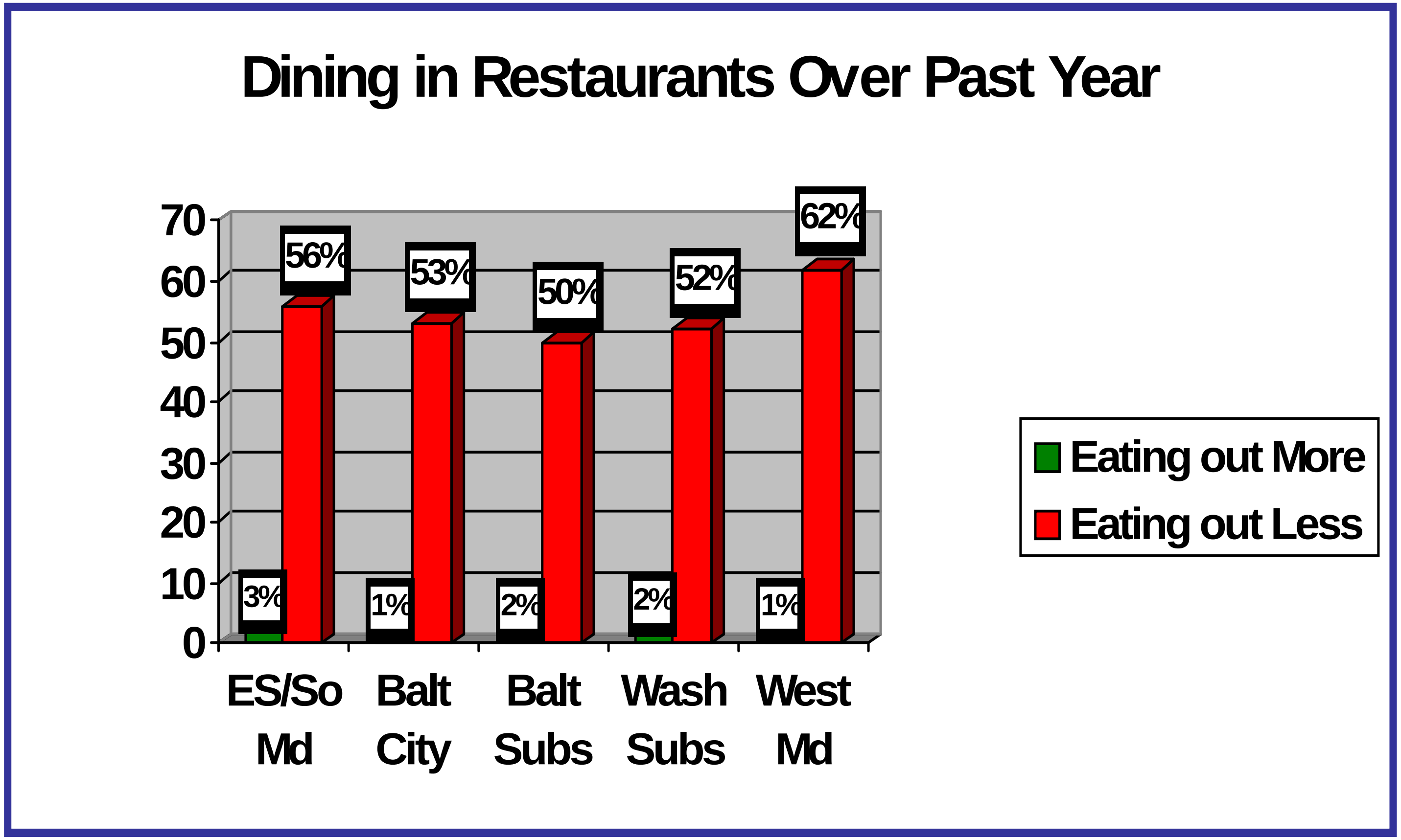
Consumer Expectations Lowest Since 1991

Present Situation and Expectations Indices



Source: The Conference Board

A look at the dining habits of Marylanders by region:



Source: Gonzales Research & Marketing Strategies October 2008

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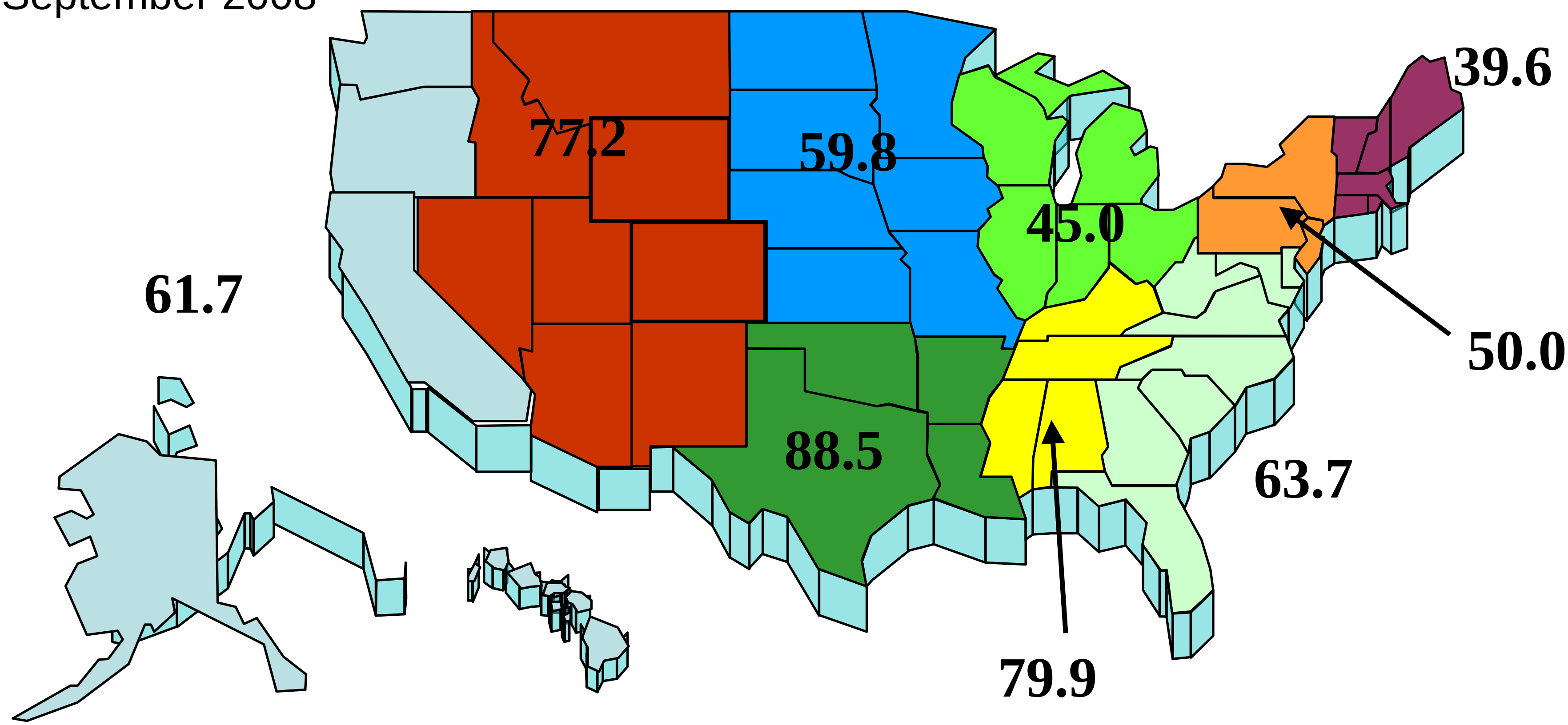
Regional Consumer Confidence

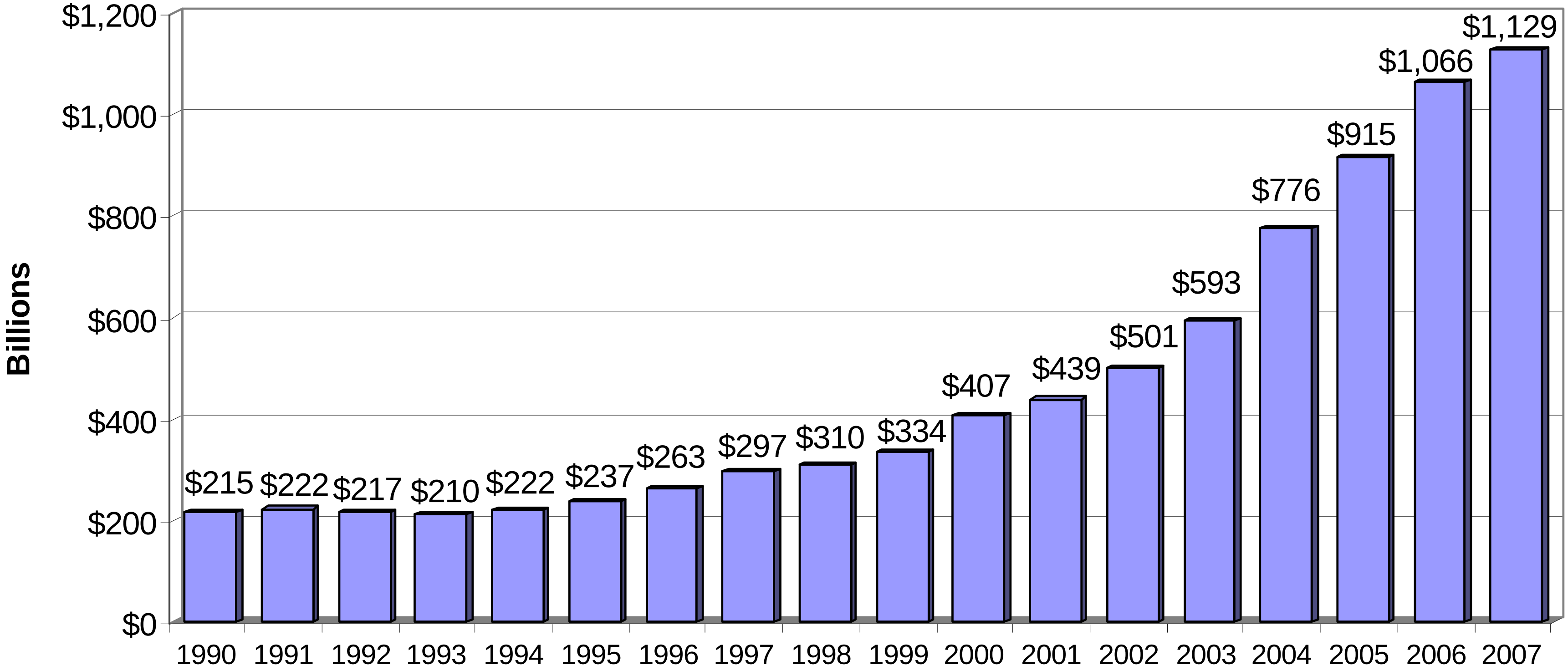
September 2008



Source: The Conference Board

Home Equity Loans

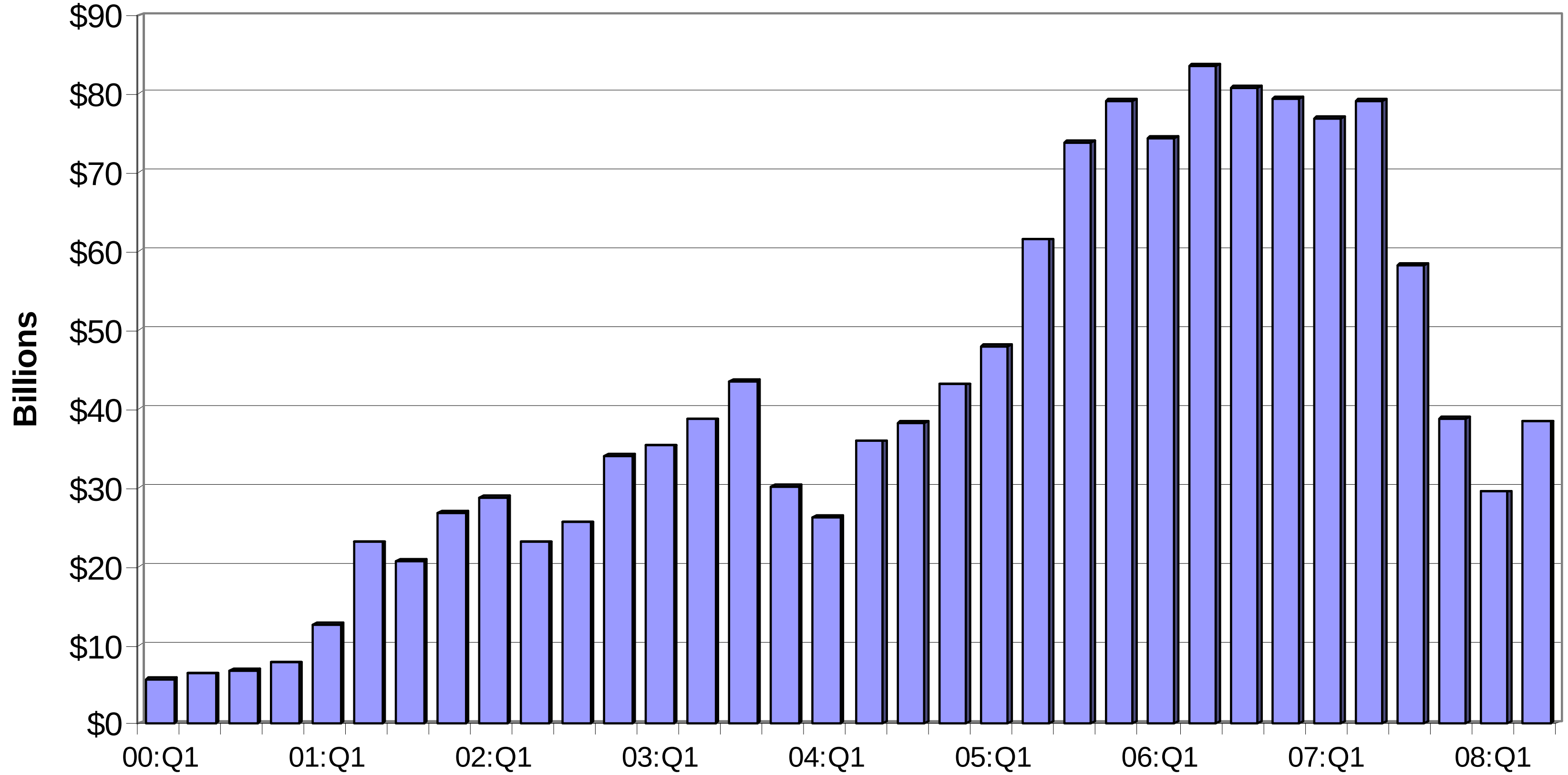
Total amount outstanding at the end of each year



Source: Federal Reserve Bank

Home Equity Cashed Out Through Refinancing Each Quarter

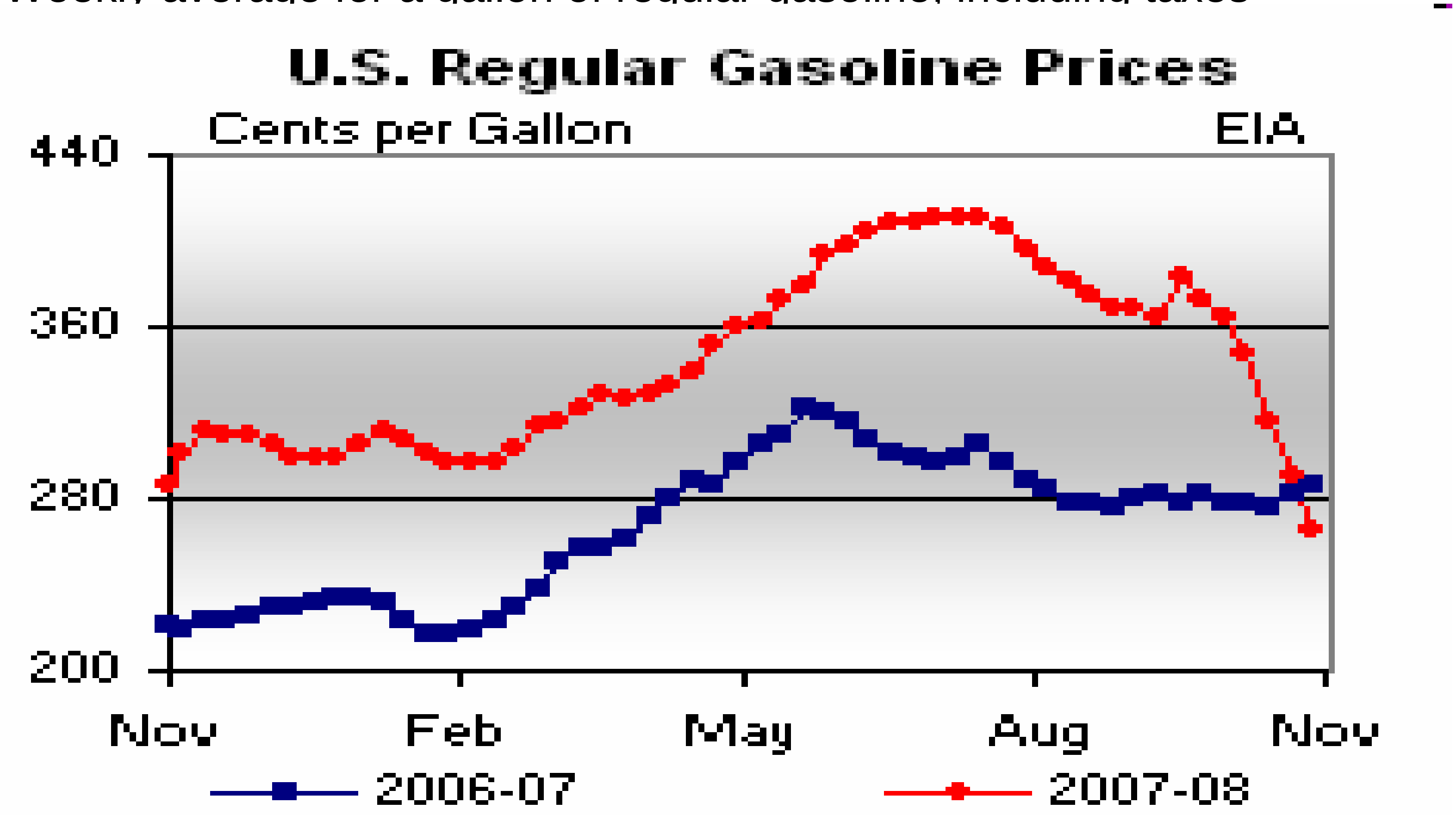
Includes refinancing of prime, first-lien conventional mortgages



Source: Freddie Mac

Gas Prices Fell From Record High of $4.11

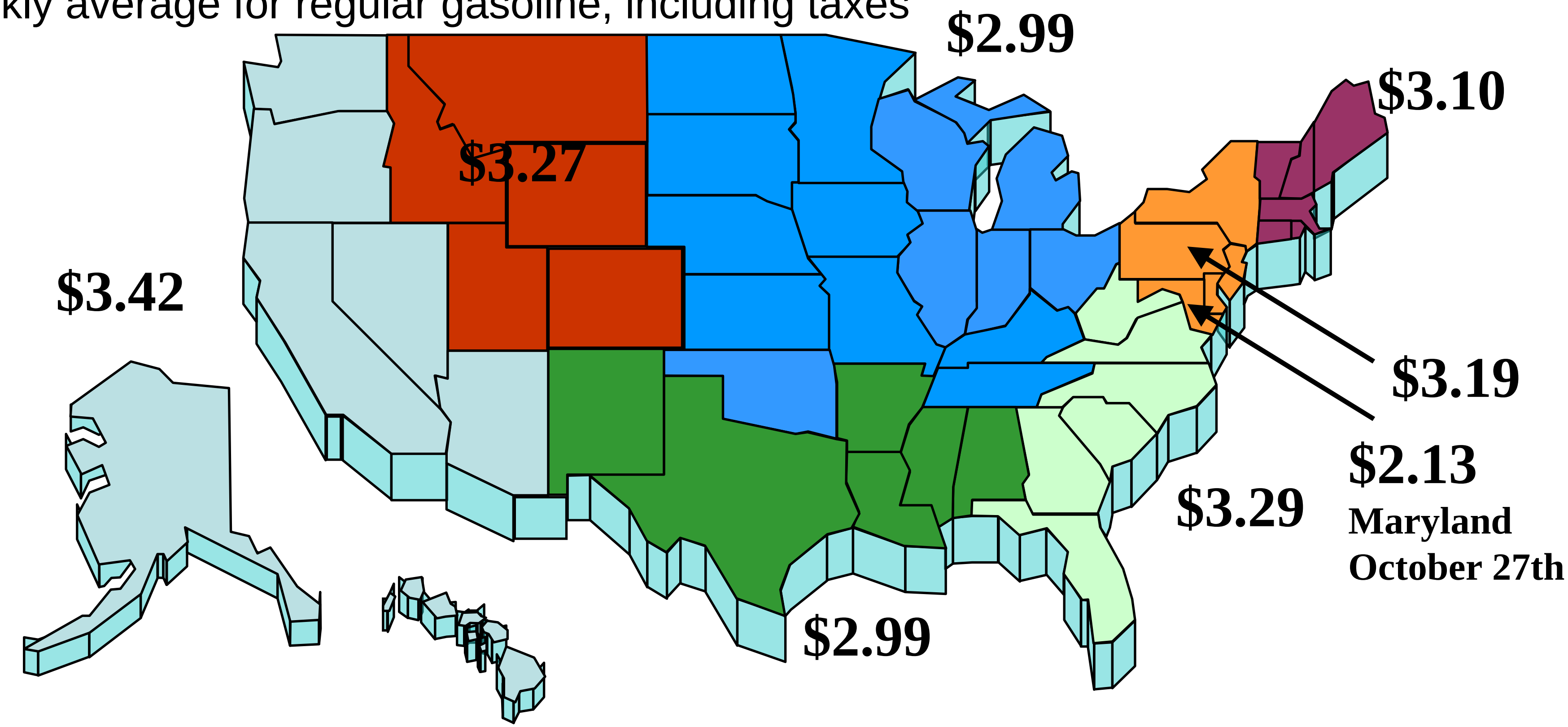
Weekly average for a gallon of regular gasoline, including taxes



Source: Energy Information Administration October 28th, 2008

Regional Average on October 13th

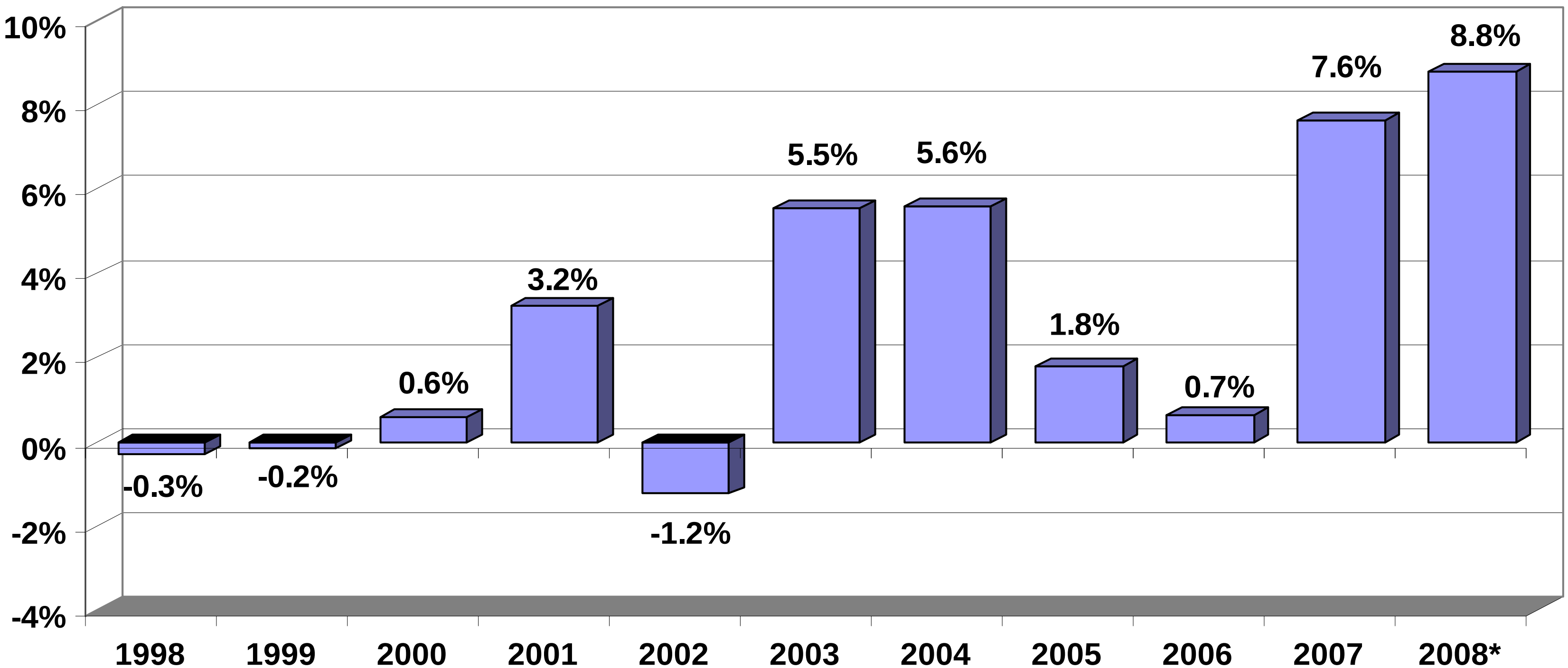
Weekly average for regular gasoline, including taxes



Source: Energy Information Administration

Wholesale Food Prices on Pace for Strongest Gain in 29 Years

2007 was strongest gain in 27 years



Source: Bureau of Labor Statistics, National Restaurant Association

*Year-to-date growth through September

Individual Commodities Posting Stronger Gains

Year-to-date Growth Through September 2008

Milled Rice	63%
Flour	55
Fats and Oils	55
Eggs	34
Cheese	14
Milk	9

Source: Bureau of Labor Statistics, National Restaurant Association

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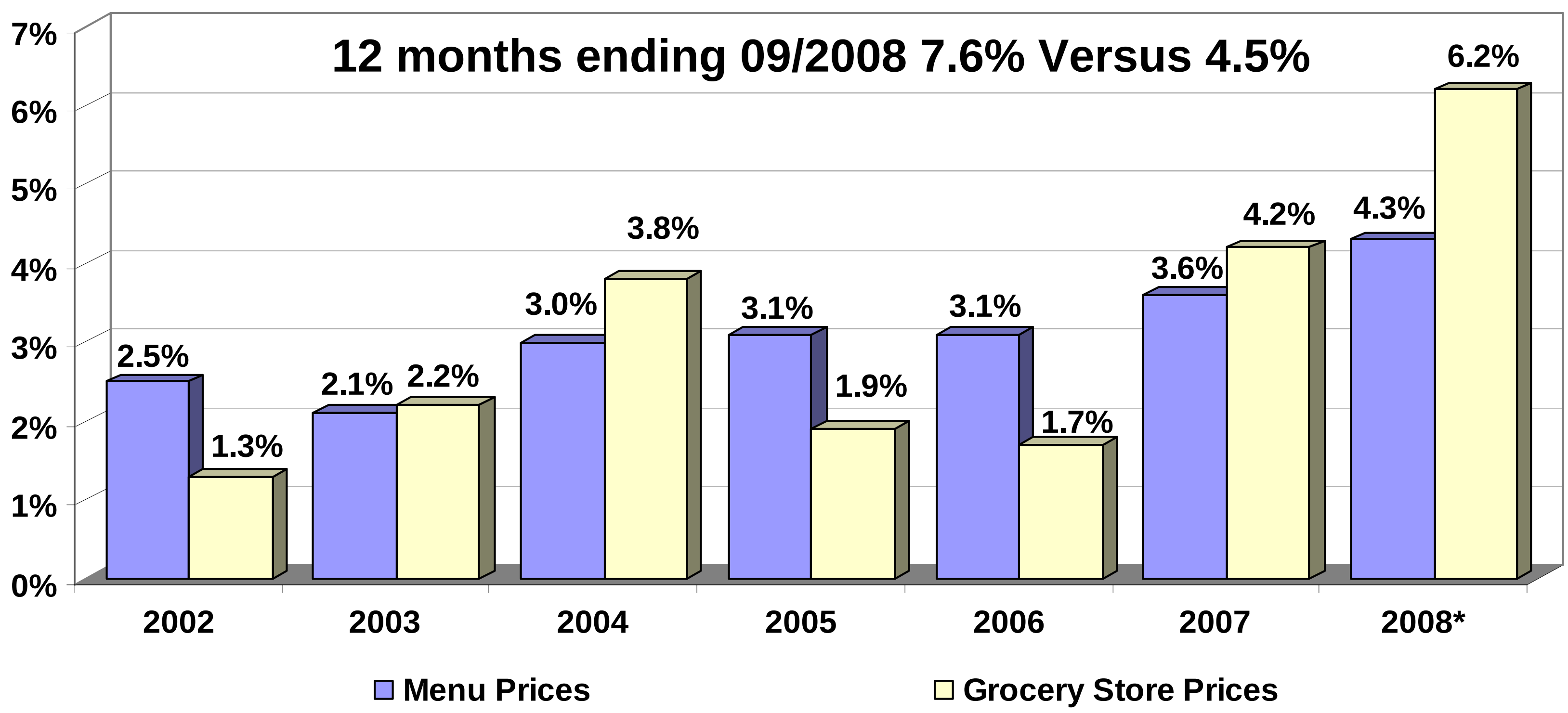
Grocery Store Price Growth Outpacing Menu Prices

Menu prices on pace for strongest growth since a 4.7% gain in 1990

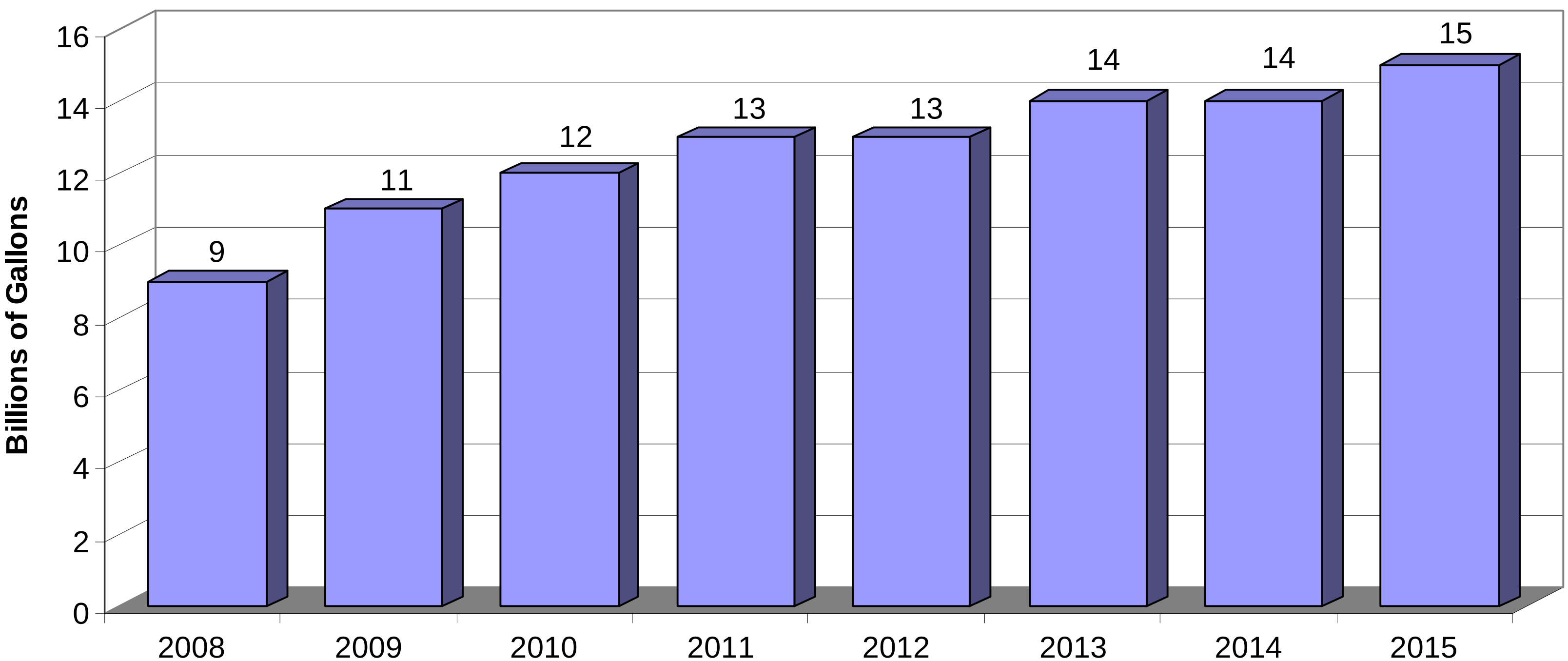


Source: Bureau of Labor Statistics, National Restaurant Association

*Year-to-date growth through September

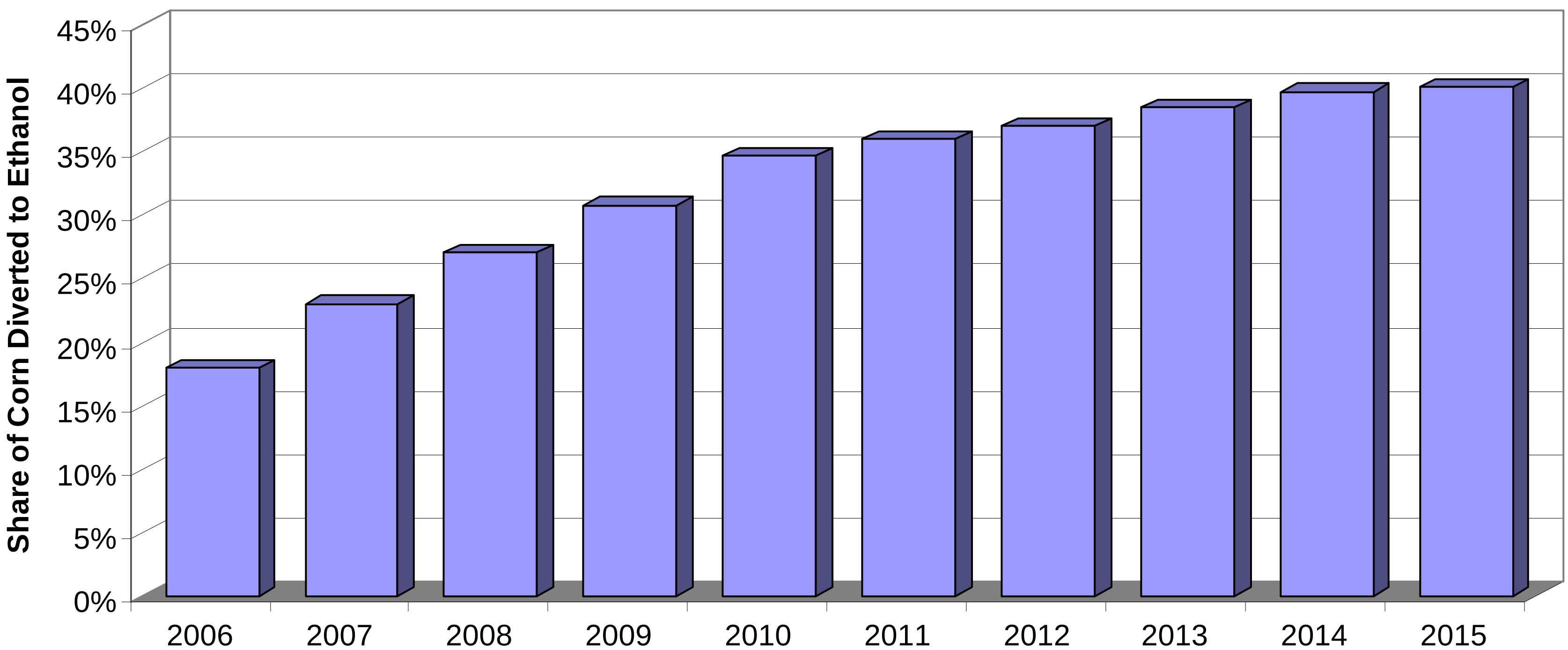
Corn-based Ethanol Requirements Under RFS

Billions of Gallons



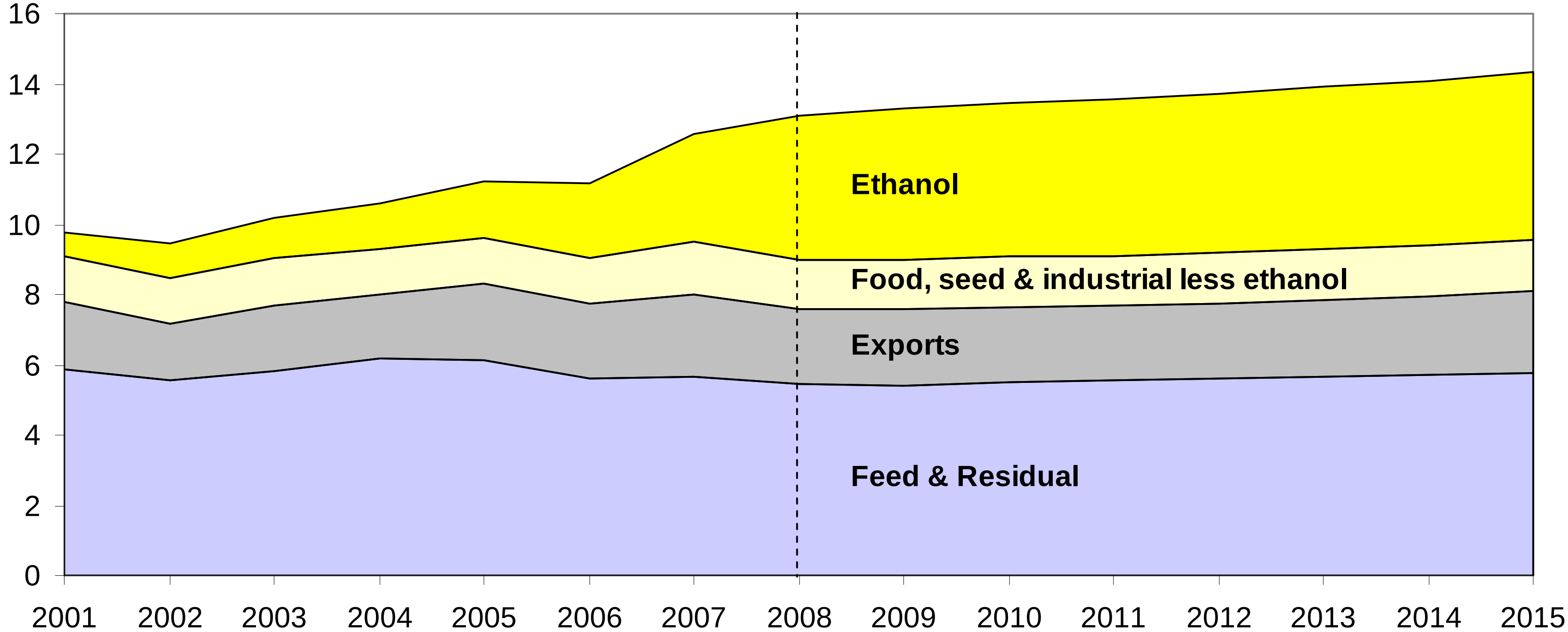
Share of Corn Diverted to Ethanol Production

% of total



U.S. Corn Use – Projected to 2015

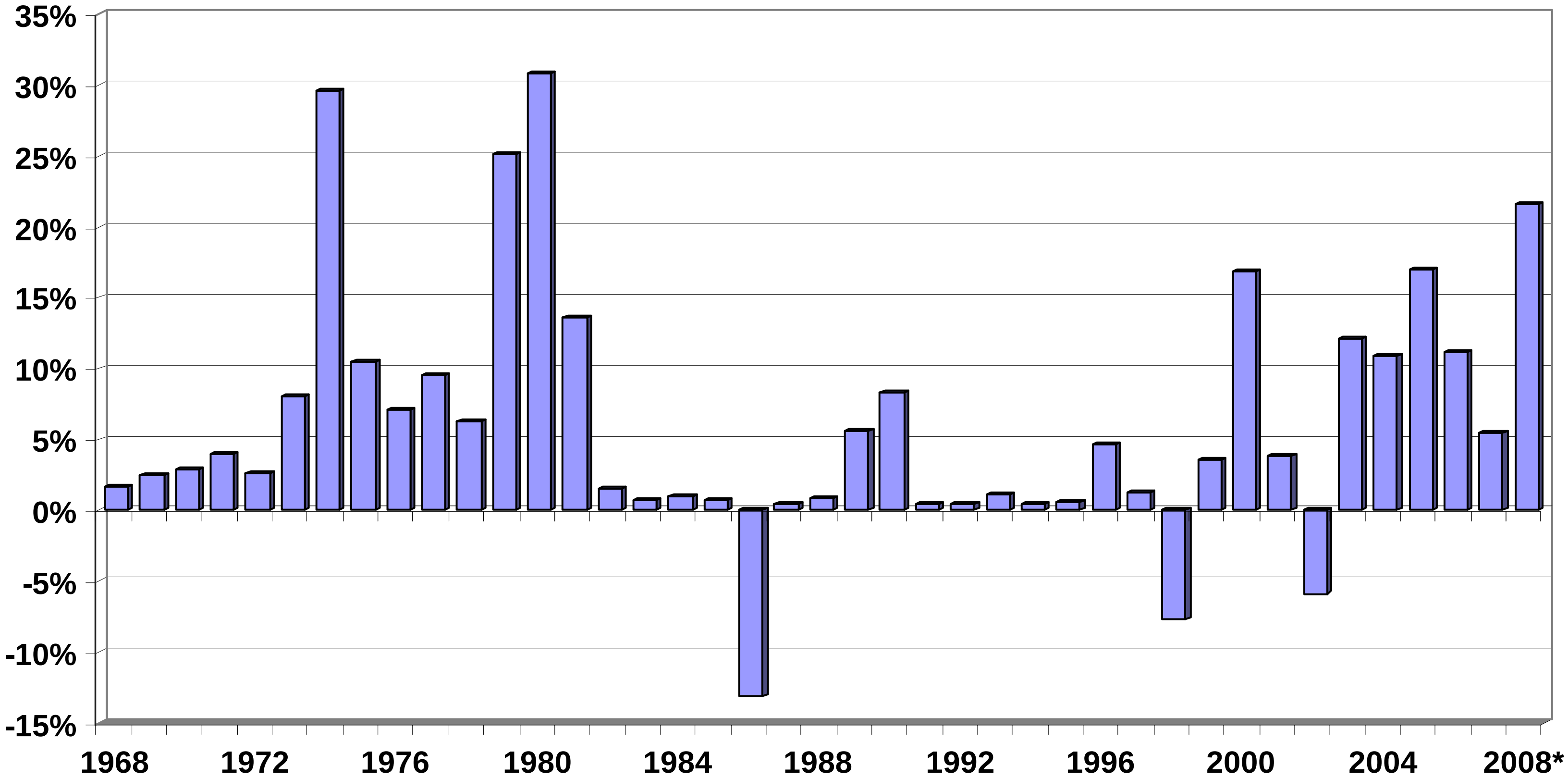
Billions of Bushels



Source: USDA

Energy Prices on Pace for Strongest Gain Since 1980

Consumer Price Index (CPI) for Energy



Source: Bureau of Labor Statistics, National Restaurant Association

*Year-to-date growth through September

Typical Restaurant Operator Reactions

- ↑ menu reengineering
- ↑ cost management
- ↑ productivity
- ↑ targeted marketing efforts
- ↓ expansion

Top Challenge Facing Restaurant Operators

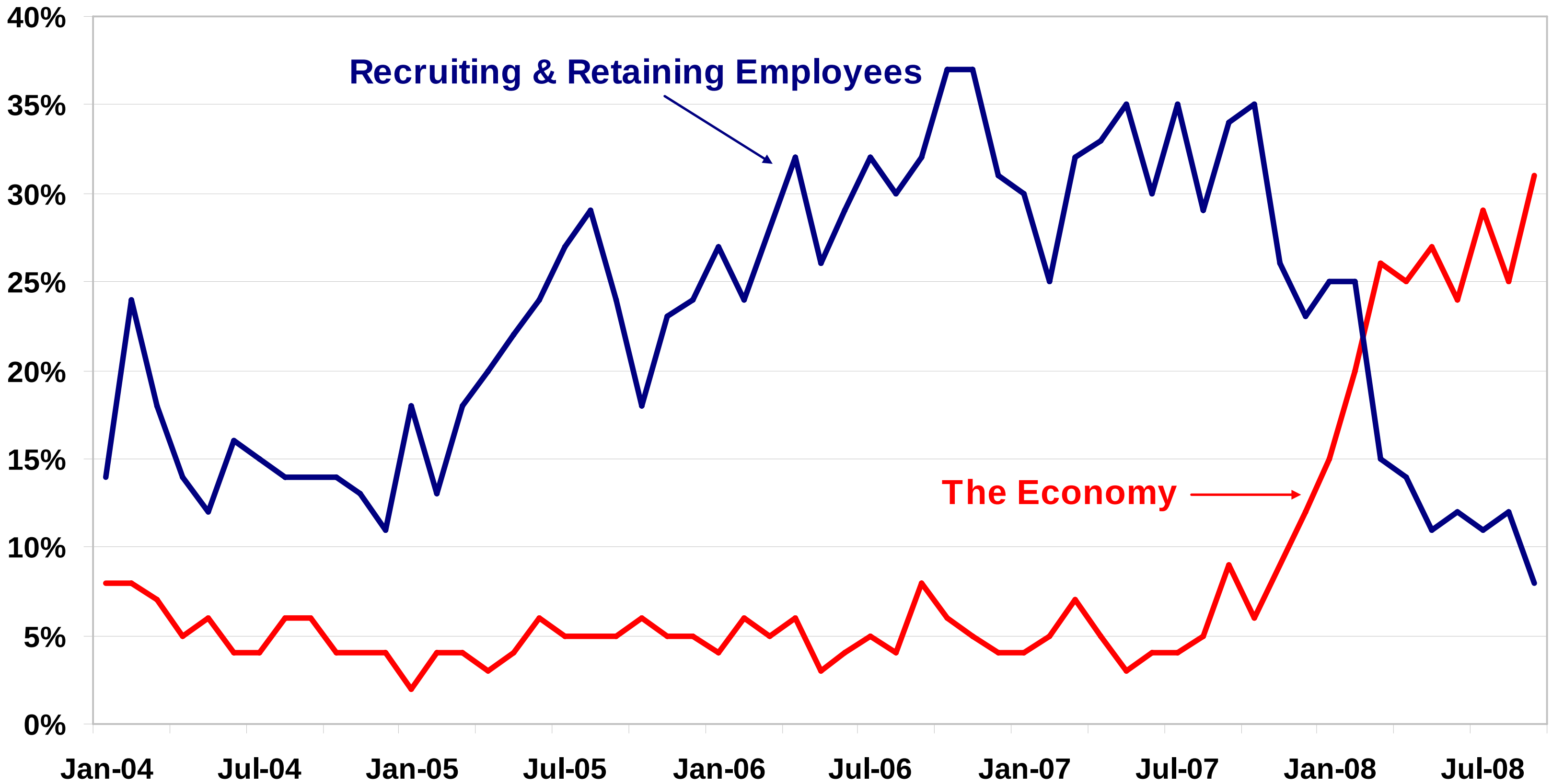
September 2006, September 2007 and September 2008

September 2006		September 2007		September 2008	
R&R Employees	32%	R&R Employees	34%	The Economy	31%
Sales Volume	15	Sales Volume	16	Food Costs	22
Gas/Energy Prices	13	Food Costs	11	Sales Volume	15
The Economy	8	The Economy	9	R&R Employees	8
Competition	6	Competition	7	Gas/Energy Prices	6
Food Costs	5	Gas/Energy Prices	3	Competition	1

Source: National Restaurant Association, Restaurant Industry Tracking Survey

Top Challenges Facing Restaurant Operators

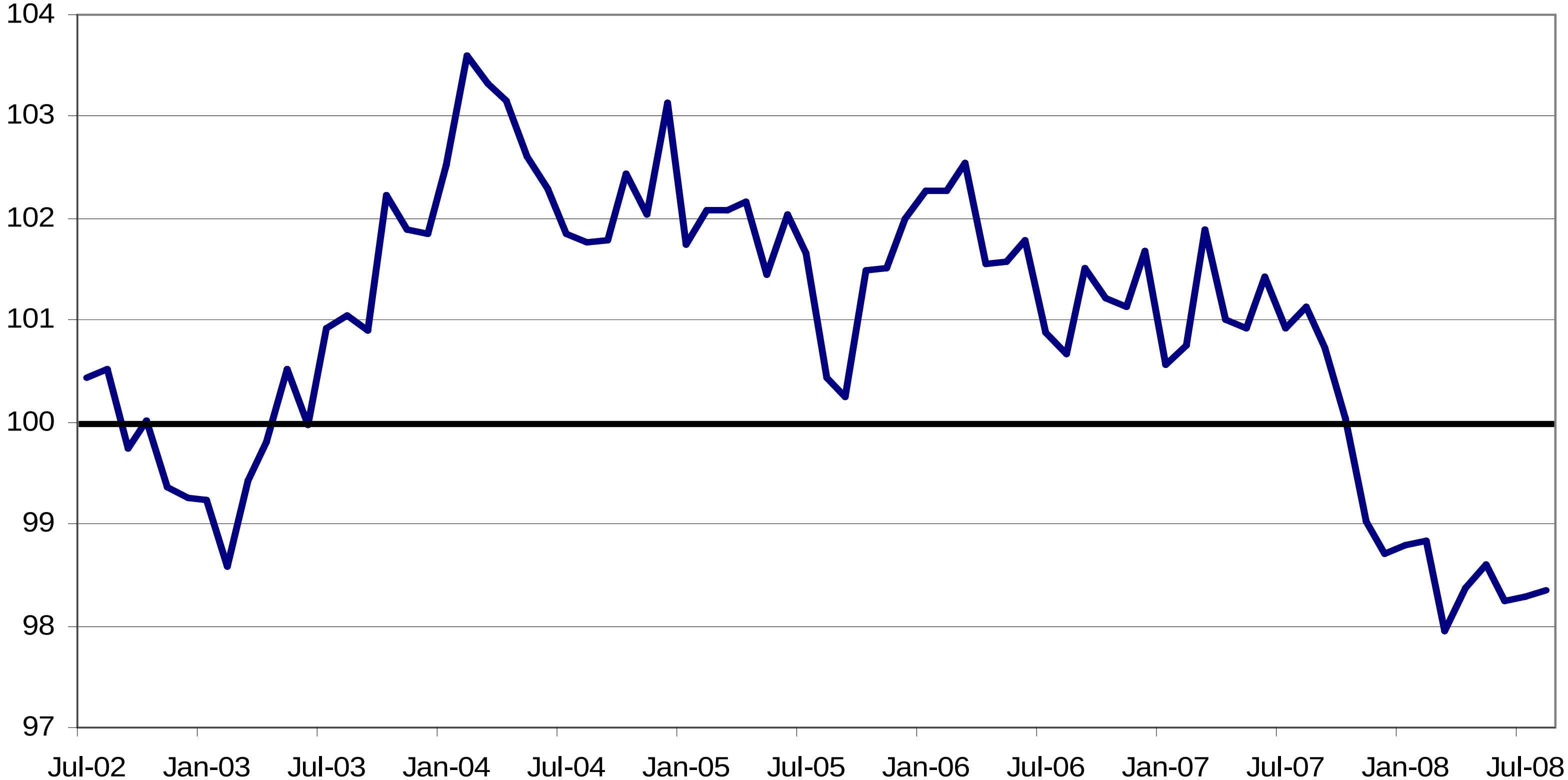
% of Operators Saying “The Economy” vs. “Recruiting/Retaining Employees”



Source: National Restaurant Association, Restaurant Industry Tracking Survey

Restaurant Performance Index Fell Below 100…

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



Source: National Restaurant Association

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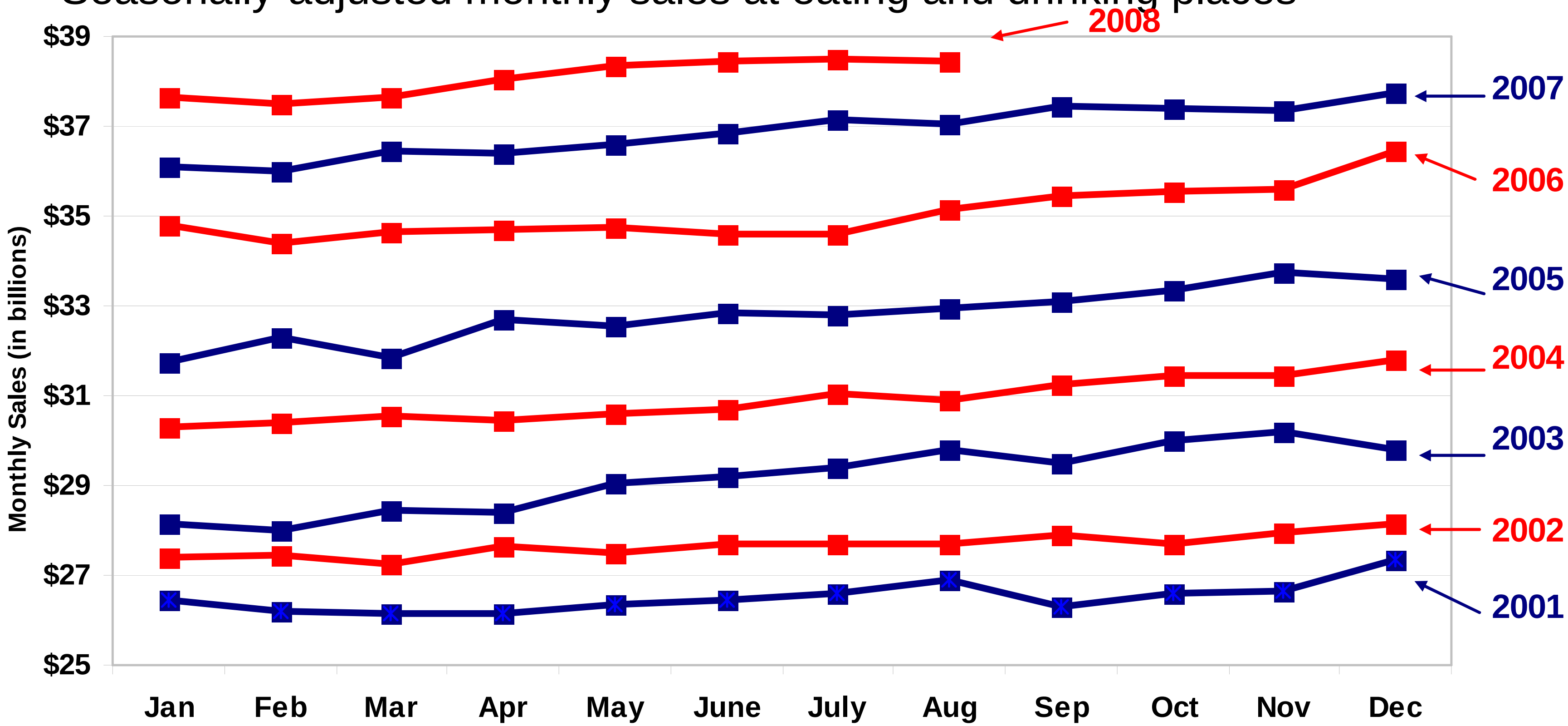
…but Total Sales Remain Above 2007 Levels

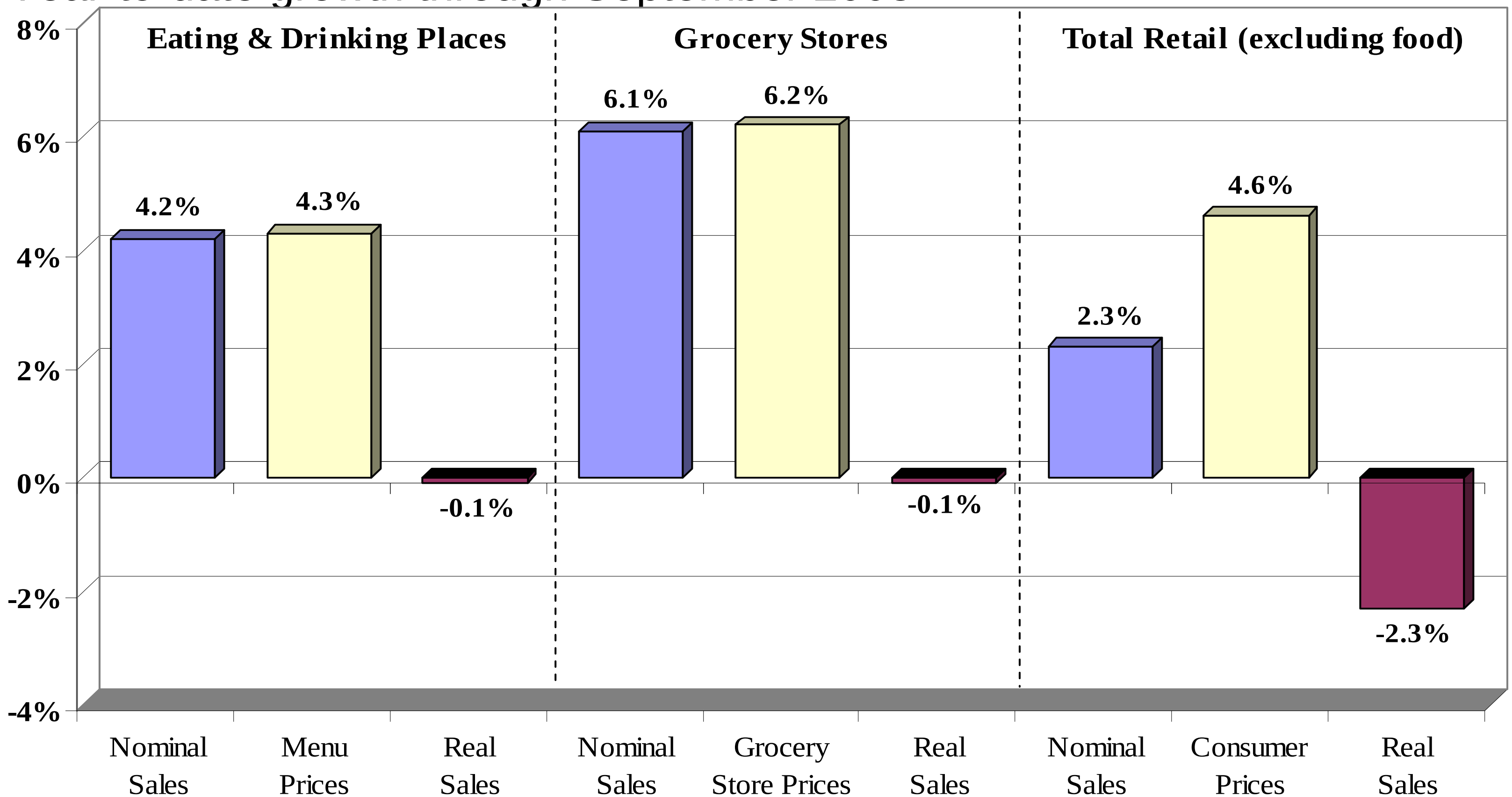
Seasonally-adjusted monthly sales at eating and drinking places



Source: U.S. Census Bureau

Restaurant Industry Outperforming Retail Sector in 2008

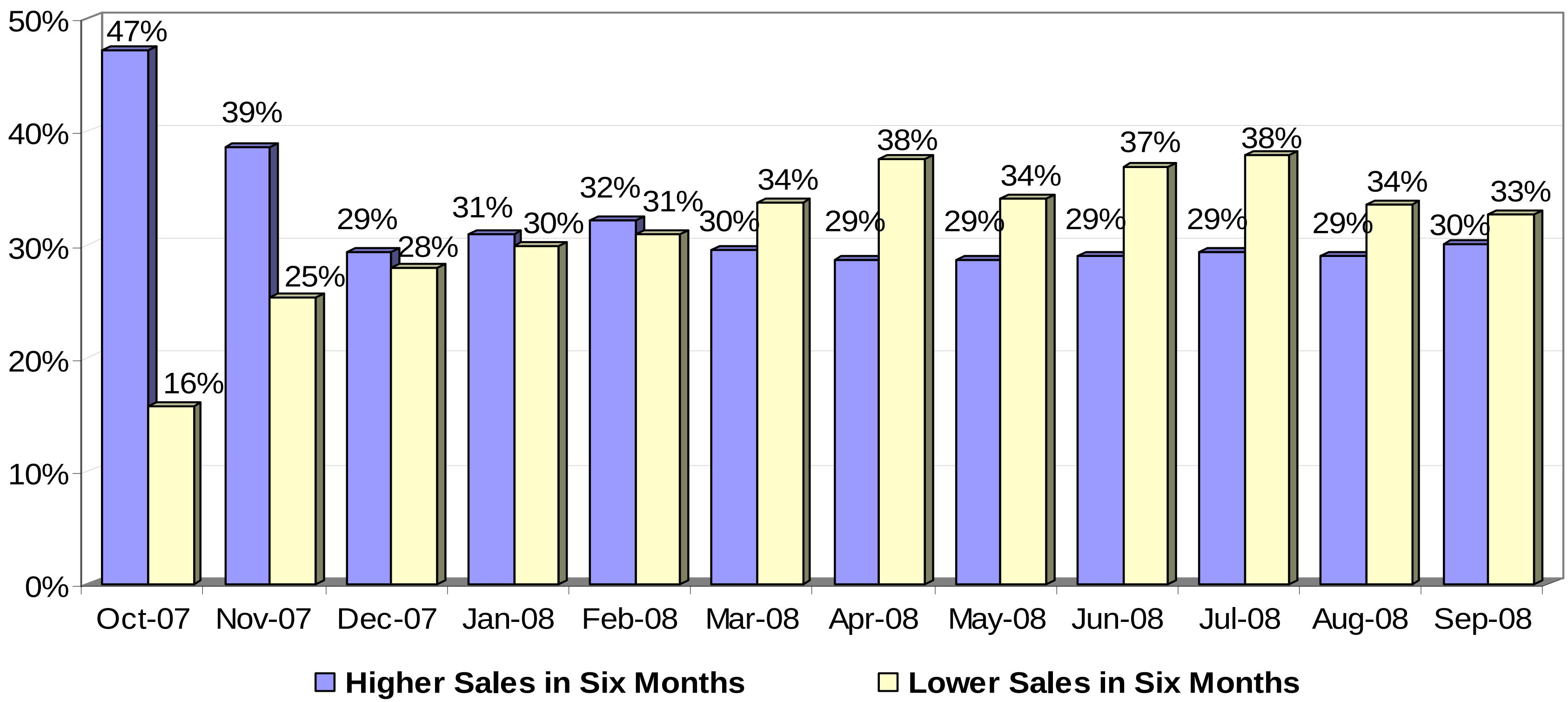
Year-to-date growth through September 2008



Source: U.S. Census Bureau, Bureau of Labor Statistics, National Restaurant Association

Operators Are Uncertain about Sales Growth

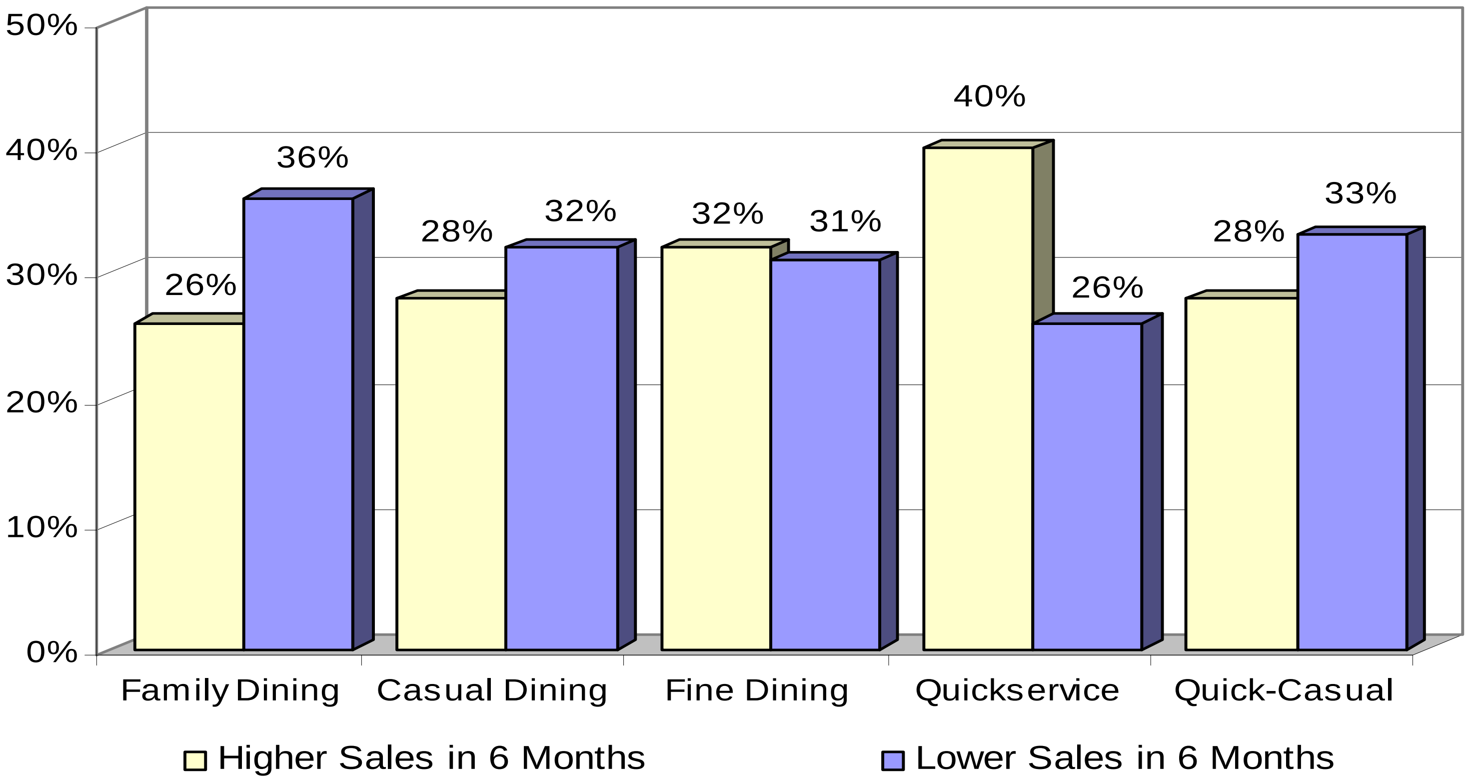
Restaurant operators' outlook for sales volume in six months compared to the same period in the previous year



Source: National Restaurant Association, Restaurant Industry Tracking Survey

Quickservice Operators Are Most Optimistic

Restaurant operators' outlook for sales volume in six months compared to the same period in the previous year



Source: National Restaurant Association, Restaurant Industry Tracking Survey

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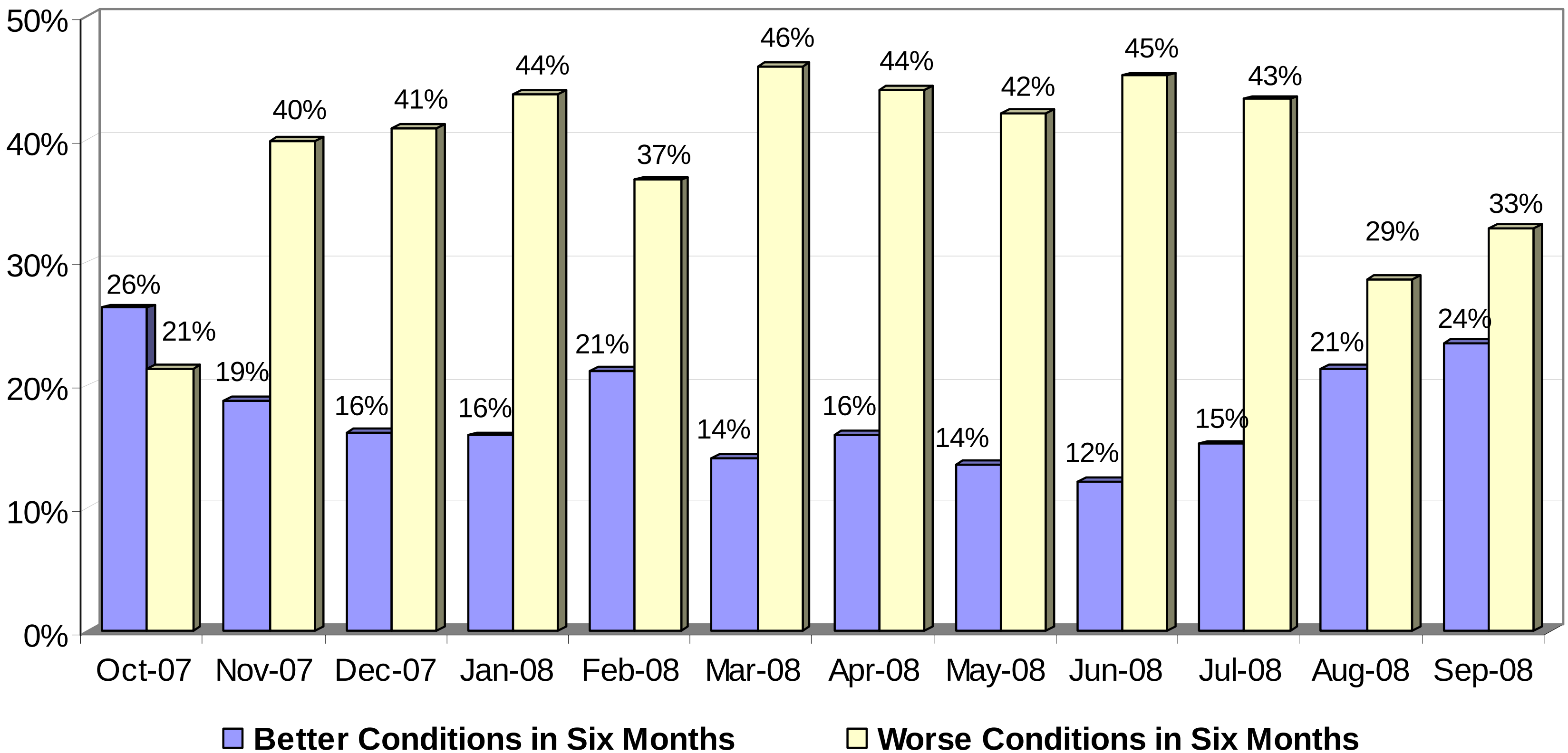
Operators Are Pessimistic about the Economy

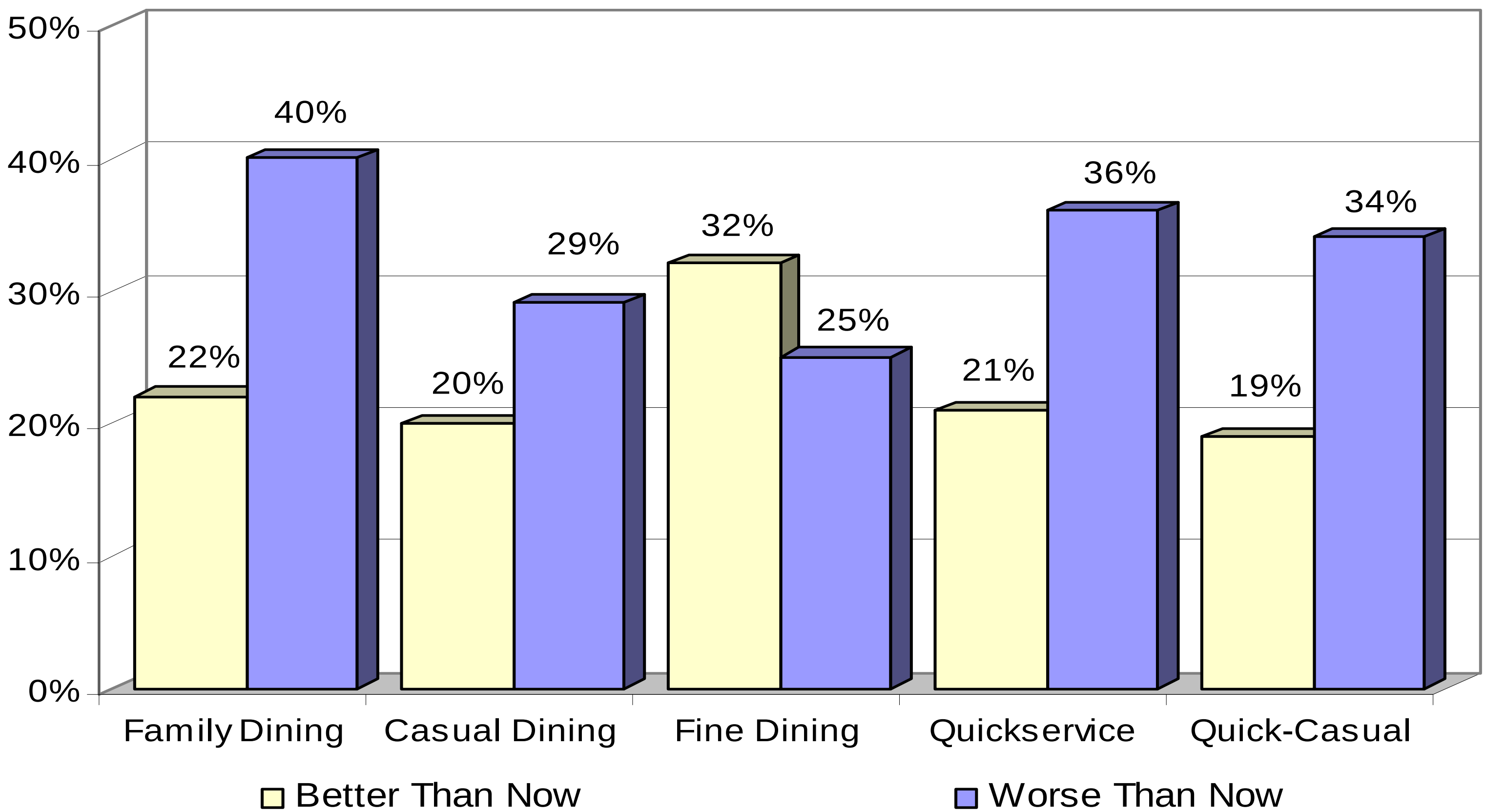
Restaurant operators' outlook for the economy in six months



Source: National Restaurant Association, Restaurant Industry Tracking Survey

Operators Are Pessimistic about the Economy

Restaurant operators' outlook for the economy in six months

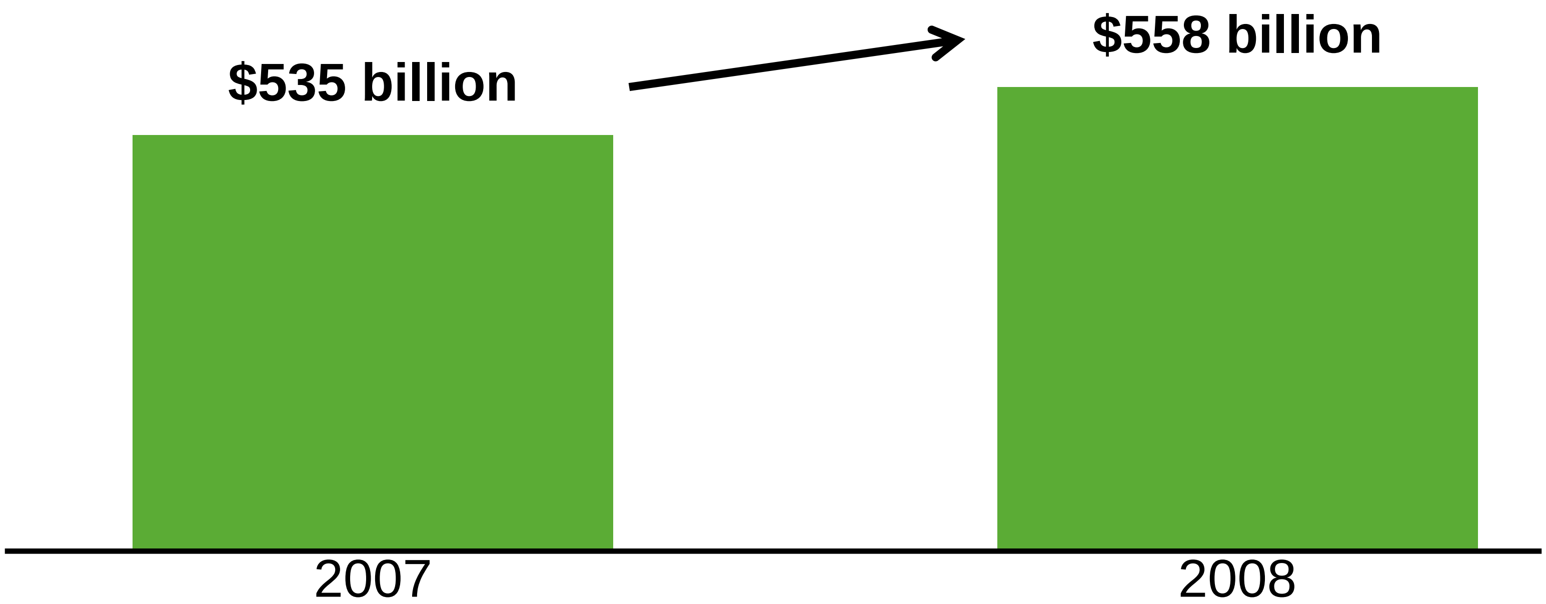


Source: National Restaurant Association, Restaurant Industry Tracking Survey

Industry Segments

Total Restaurant Industry Sales

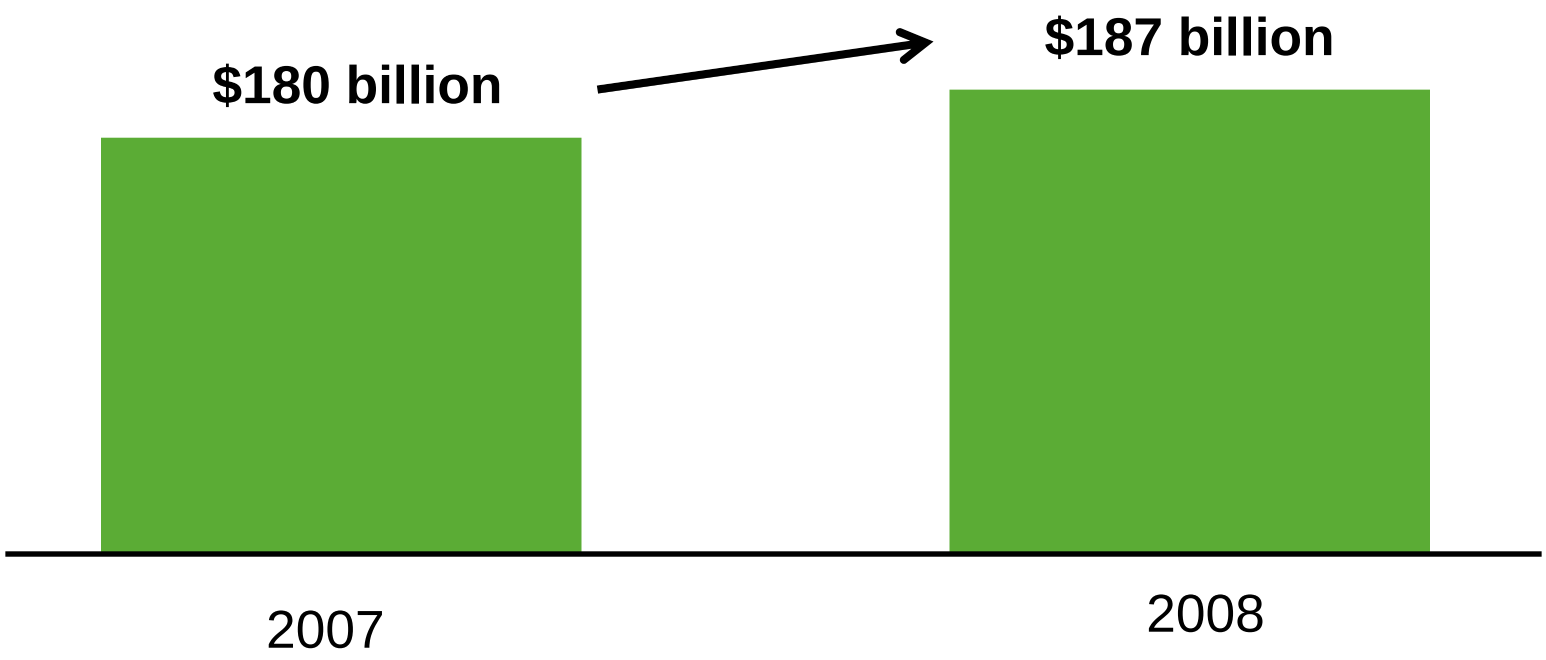
2008 Forecast



Source: National Restaurant Association

Fullservice Restaurant Sales

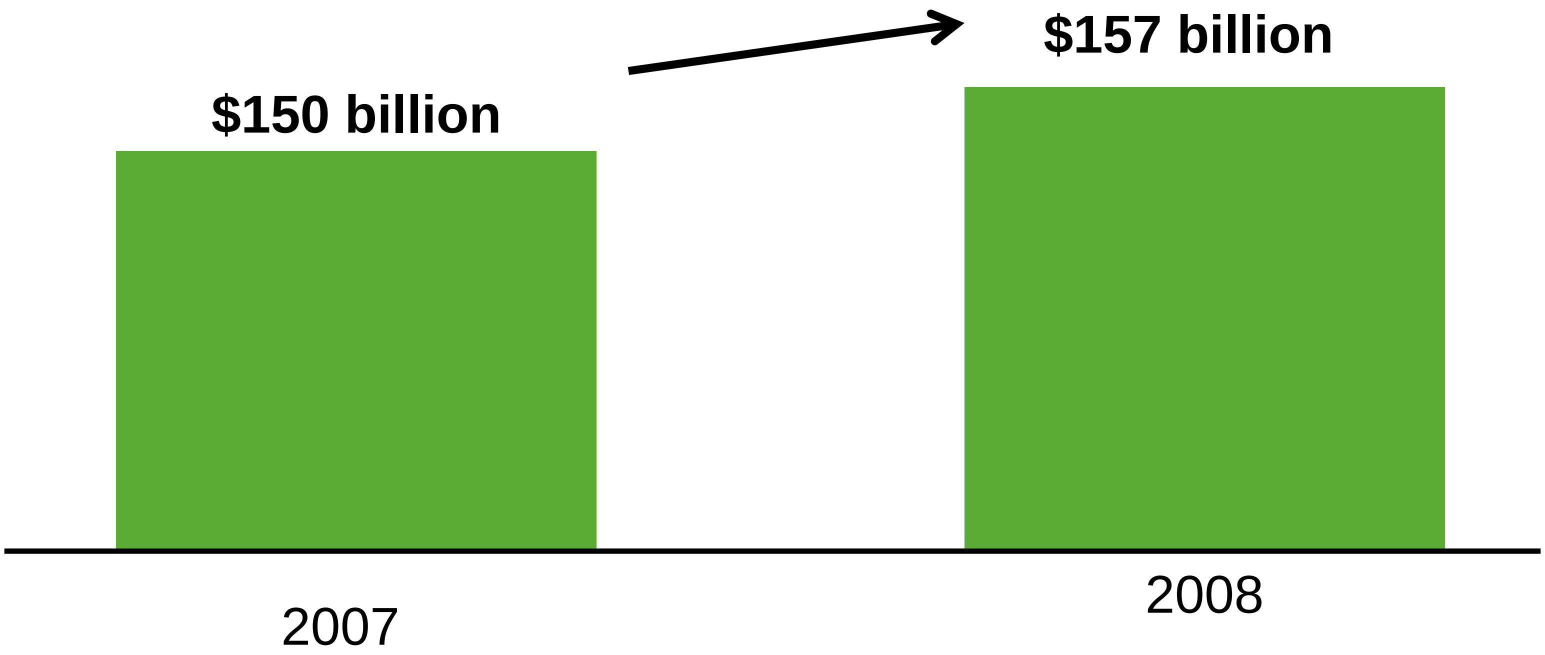
2008 Forecast



Source: National Restaurant Association

Limited-Service Restaurant Sales

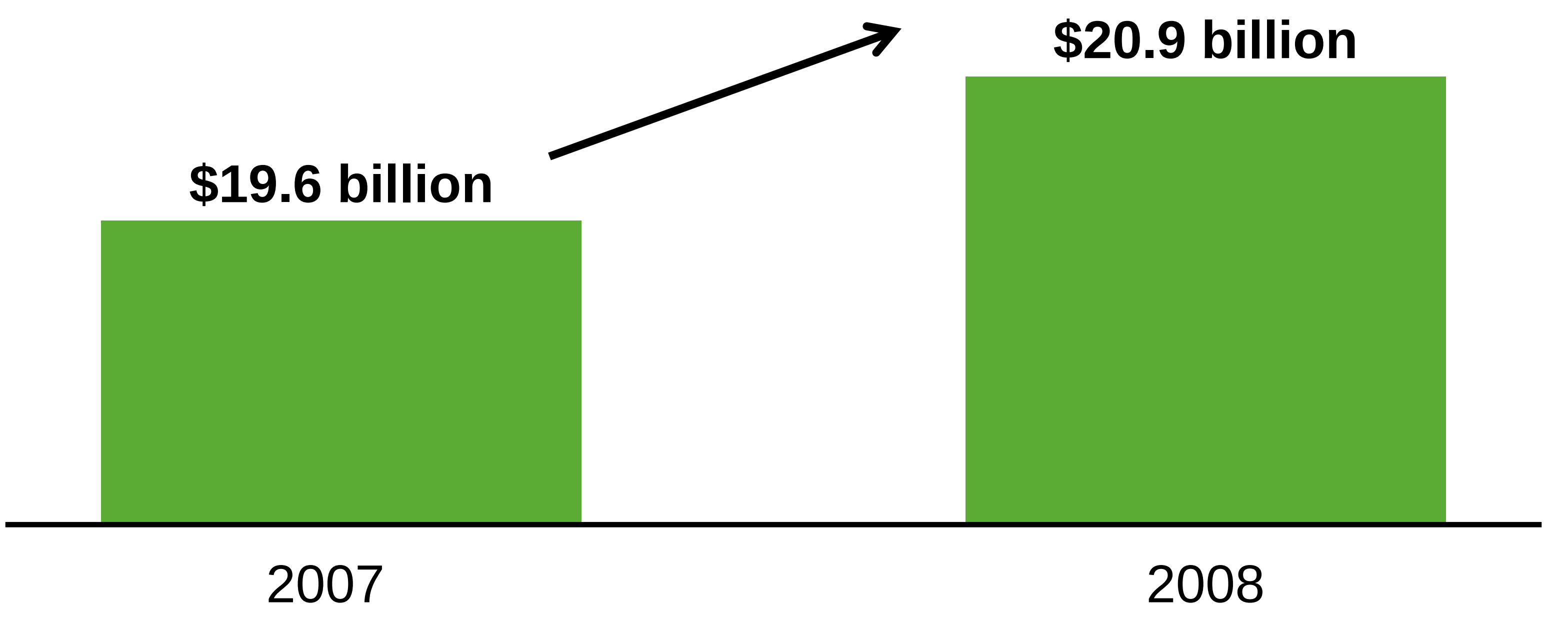
2008 Forecast



Source: National Restaurant Association

Snack and Nonalcoholic Beverage Bar Sales

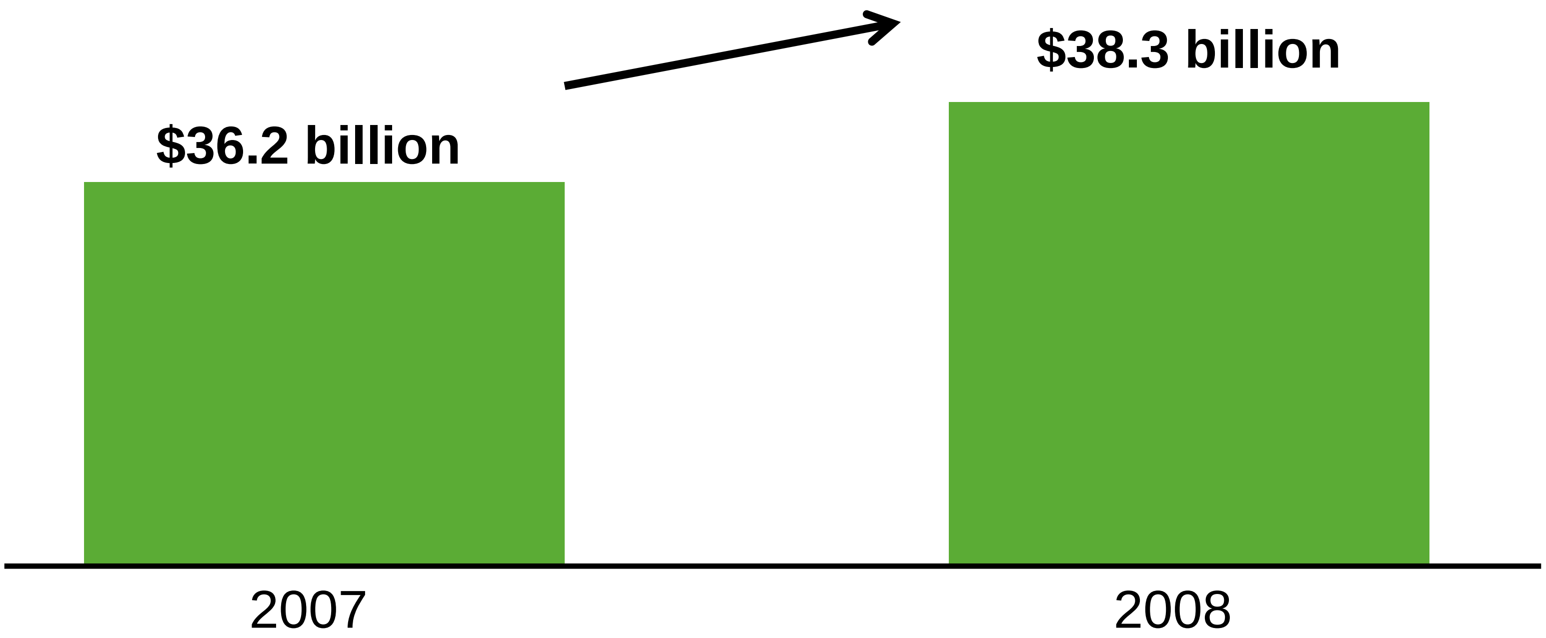
2008 Forecast



Source: National Restaurant Association

Managed Services Sales

2008 Forecast



Source: National Restaurant Association

Segments With Negative Real Sales Growth in 2008

Cafeterias, grill buffets/buffets	**- 4.6%**
Bars and taverns	**- 0.6**
<u>Managed Services</u>	
- Manufacturing/industrial plants	**- 0.3**
- In-transit restaurant services	**- 4.6**

Source: National Restaurant Association

Segments With Negative Real Sales Growth in 2008 (cont'd)

Mobile caterers	**- 0.7%**
Non-Commercial	
- Employee restaurant services	**- 4.0**
- Elementary/secondary schools	**- 0.8**
- Colleges/universities	**- 3.1**

Source: National Restaurant Association

What’s Hot

Hot Items

1 Bite-size desserts

2 Locally grown produce

3 Organic produce

4 Small plates/tapas/mezze

5 Specialty sandwiches

Source: National Restaurant Association; American Culinary Federation, 2007

Operator Survey:

Menu Trends in Quickservice Restaurants

Percent of quickservice operators reporting increase in popularity of the following items

Food		Beverage	
Wraps/pitas/tortillas	64%	Energy drinks	77%
Entrée salads	59%	Espresso/specialty coffees	75%
Chicken sandwiches	59%	Bottled water	58%
Breakfast sandwiches	59%	Iced tea/hot tea	42%

Source: National Restaurant Association, 2007

Better Food Quality

Percent of consumers who say:

Food quality is better in sit-down tableservice restaurants than it was two years ago	76%
Food quality is better in fast food restaurants than it was two years ago	64%

Source: National Restaurant Association, consumer research 2007

What Consumers Think About Restaurants

Percentage of adults who say:

Going to restaurants with family and friends is a better use of leisure time than cooking and cleaning up: **82%**

Source: National Restaurant Association, October 2007 consumer survey

E-mail Notification of Daily Specials

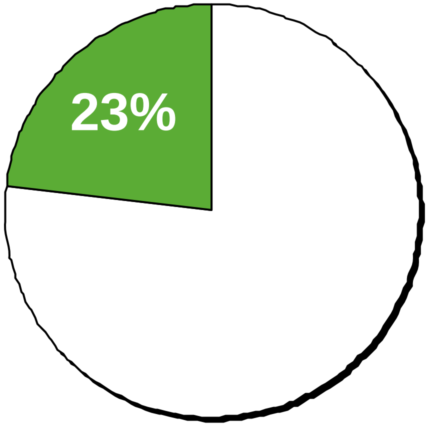
30 percent of adults likely to use if offered by their favorite tableservice restaurant

Source: National Restaurant Association, Consumer Survey, 2007

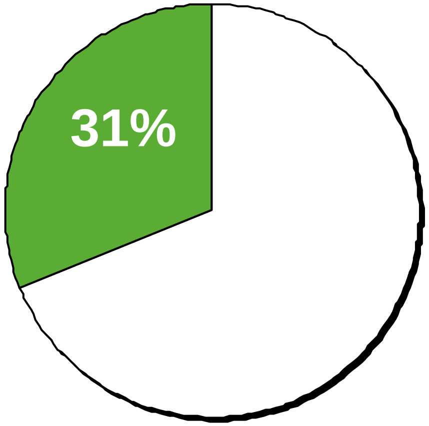
Going Green

Percent of operators, by type of operation, who say they intend to spend a larger proportion of their budget in 2008 to green initiatives

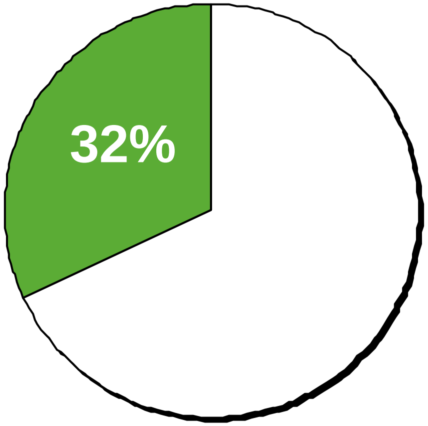
Family dining



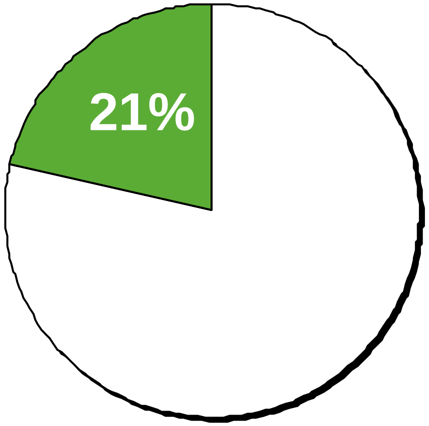
Casual dining



Fine dining



Quickservice

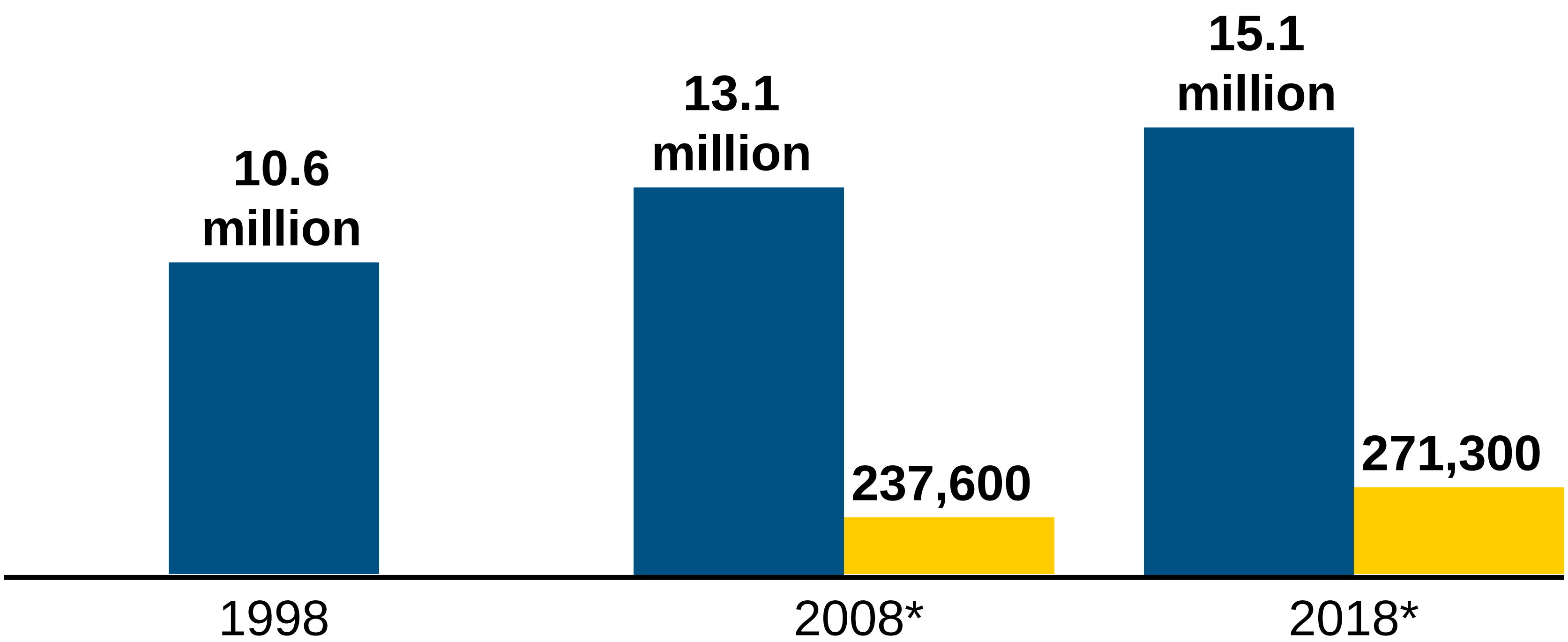


Source: National Restaurant Association, October 2007

Workforce Outlook

Total Restaurant-Industry Employment

Maryland in gold

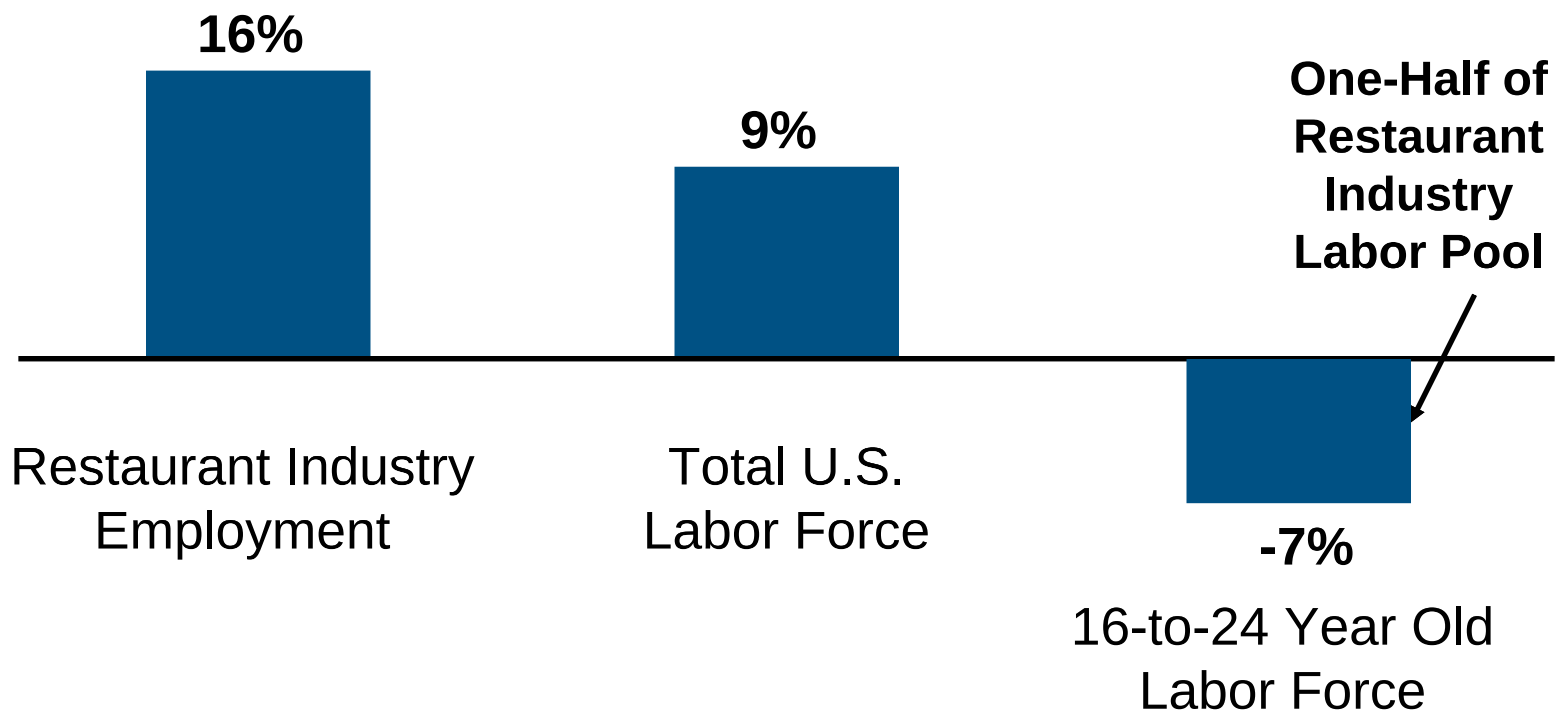


Source: Bureau of Labor Statistics, National Restaurant Association

* Projected

Potential Labor Shortage

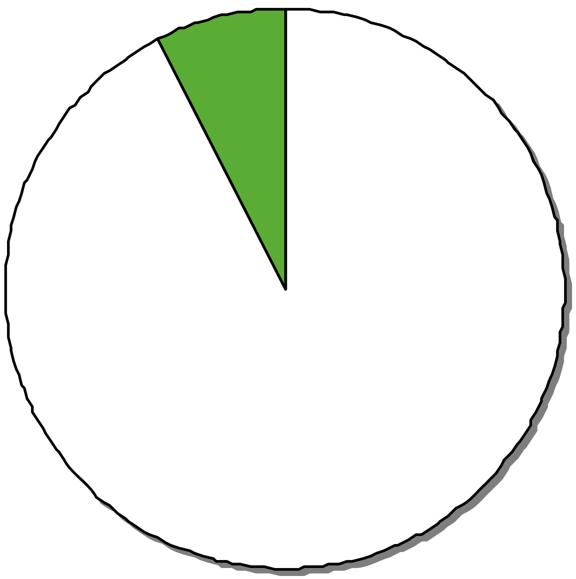
Growth in Key Indicators: 2008–2018



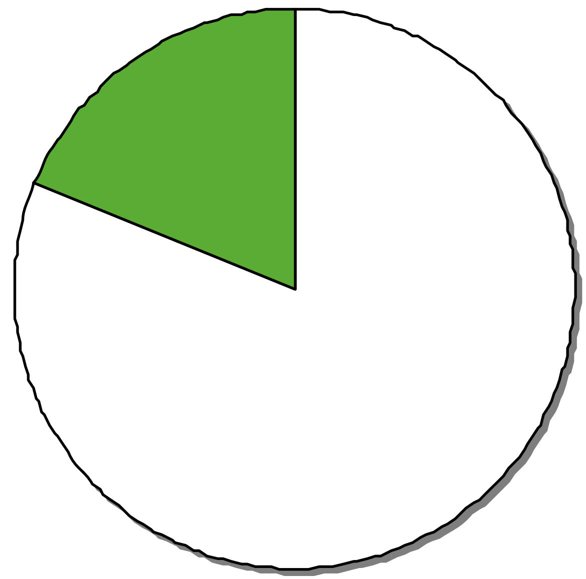
Source: National Restaurant Association projections, based on historical data from the Bureau of Labor Statistics

Foodservice Occupations:

Proportion of Employees that are Hispanic



1983: **6%**



2006: **21%**

Source: National Restaurant Association

Table Top Payment Systems on Rise

Over half of adults (53 percent) would use if offered by their favorite tableservice restaurant

Source: National Restaurant Association Consumer Survey, 2007

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Wrap-Up

Unfulfilled Demand for Restaurant Services Remains High

Over 30 percent of adults are NOT dining on-premises or using take-out as often as would like

Source: National Restaurant Association

Opportunities

- Convenience demand
- Decrease on-site labor needs
- Develop simple cost/benefit analysis
- Energy efficiency and long-term cost savings
- Value emphasis

Opportunities

- Long term health/nutrition trend
- Joint testing/marketing initiatives
- Promotional opportunities—menu, table tents, off-premises, on-line

Growth in Key Indicators

	2007	2008*	2009*
• Gross Domestic Product	2.0%	1.6%	1.2%
• Real Disposable Personal Income	2.8	1.6	1.0
• Total Employment	1.1	0.0	-0.5

Source: National Restaurant Association *projected

Growth in Key Indicators

2008	U.S.	Maryland
Population	+0.9%	+0.62%
Real Disposable Personal Income (DPI)	+1.6%	+2.3%
Construction Employment	-5.1%	-0.9%

Source: National Restaurant Association, 2008

Maryland Economic Forecast

	2008	2009	2010
Employment	0.6%	0.3%	1.2%
Personal Income	4.4%	3.4%	4.9%
Wage & Salary Income	3.8%	3.3%	4.5%

Source: Maryland Board of Revenue Estimates September 2008

2008 and Beyond

- Restaurant-industry sales will reach a record high
- Record levels also for employees and locations
- Weak economic fundamentals
- Energy and food cost challenges will remain
- Menu — small is big, alternative sourcing, ethnic ingredients
- Workforce — higher productivity
- Technology more critical
- **Modest industry growth expected**

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Restaurant Industry 2008 and Beyond

Special Thanks To:

Hudson Riehle

Senior Vice President Research and Information Services

National Restaurant Association

Bruce Grindy

Vice President Research and Information Services

National Restaurant Association

NATIONAL RESTAURANT ASSOCIATION ®

What should/could RAM being doing today to best help the Maryland Restaurant industry?

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Fall Board Meeting

October 28th, 2008

RESTAURANT ASSOCIATION MARYLAND

President's Report

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The Chairman & President

2008/2009 Goals

- Transition Year - Gain the confidence of the membership, sponsors, the Executive Committee, the Board and staff.
- Develop a Strategic Plan

The Search Committee

<u>Critical First Year Deliverables</u>

During his/her first year, it is crucial for the new President to:

- Gain the confidence of the membership, sponsors, the Executive Committee, the Board, RAM's staff and key alliance leaders.
- Become familiar with the public policy agenda of RAM.
- Develop appropriate relationships with government officials, policymakers, and industry leaders.
- Ensure a stabilized work environment and an atmosphere of teamwork and creativity.

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EXPO

Some notes for the following slide:

- Expo Payroll is at 100% and includes taxes and benefits. The department also brings in Allied Dues of $75,500
- Indirect payroll - the marketing department at 60% for the director, 60% for graphic and 30% for the assistant. These percentages are self reported. Not included is additional staff time from RAM & RAMEF
- 2009 is budgeted and if payroll increased by 5%

EXPO

	2006	2007	2008	2009 Budgeted
Income	$528,059	$422,414	$392,223	$495,500
Expenses	$202,824	$258,334	$291,970	$303,400
Sub total	**$325,235**	**$164,080**	**$100,253**	**$192,100**
Direct Payroll		$169,396	$243,334	$255,500
Sub total		**($5,316)**	**($143,081)**	**($63,400)**
Indirect Payroll			$122,197	$104,523
Total	**$0**	**($127,513)**	**($247,604)**	**($63,400)**

EXPO

	2008	2007	2006
Booths Sold	332	401	360
Booths Paid	$392,223	$422,415	$528,059
Exhibitors	217	275	245
Attendance	4,800	11,200	8,000

EXPO

	2009 Per square foot
Restaurant Association of Maryland	**$16.00**
Massachusetts Restaurant Association	$26.50
Ocean City Hotel-Motel Restaurant	$5.75
Colorado Restaurant Association	$14.95
Oregon Restaurant Association	$15.10
Pennsylvania Restaurant Association	$15.00
Texas Restaurant Association	$24.00
National Restaurant Association	$28.50
Michigan Restaurant Association	$14.00