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**COMPANIES MENTIONED IN THIS REPORT:**

**CORE COVERAGE**  
(Subscription Required)

COMPANY	TICKER	PAGE
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**QSR**

McDonald's	MCD	6
Burger King	BKC	7
Wendy's	WEN	8
Jack in the Box	JACK	9
Popeye's	PLKI	10
KFC	YUM	11
Del Taco	TACO	12
Taco Bell	YUM	13
Pizza Hut	YUM	14
Domino's	DPZ	15
Papa John's	PZZA	16

**FAST CASUAL**

Chipotle	CMG	17
Starbucks	SBUX	18
Wingstop	WING	19

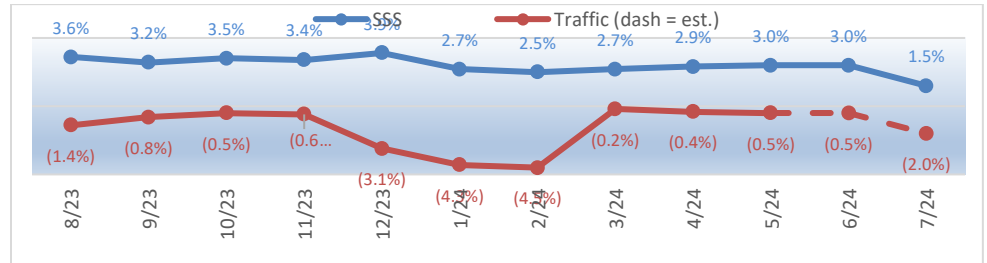
**CASUAL**

Chili's	EAT	20
Chuy's	CHUY	21
Longhorn	DRI	22
Olive Garden	DRI	23
Tx Roadhouse	TXRH	24

\*Charts on pages 6-24 "Mean" Source – Company Filings

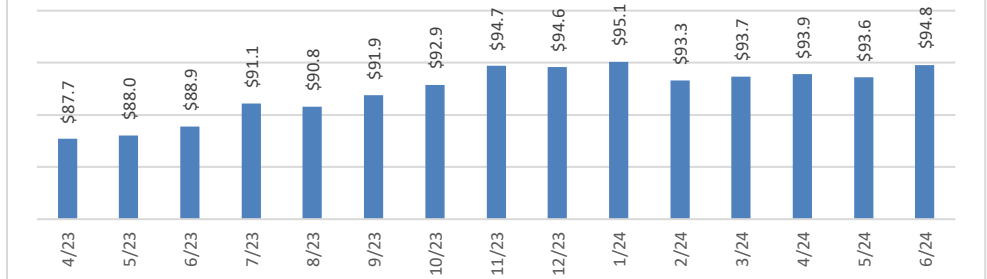
**SALES & TRAFFIC**

**Compass RCR coverage average:**



**National Restaurant Association Sales**

Total All Eating & Drinking Place Sales in the U.S.  
(billions of current dollars)



Total Restaurant Industry sales decreased 0.3% in May.

**Spotlight On Most Noteworthy Developments:**

**Economic News:**

- LEI 101.1 Decrease of 0.2%
- PPI (Inflation Rate) 2.6% Largest increase in over a year
- CPI 3.0% Decline of 0.1%

**Gasoline Prices:**

\$3.52 Up 2¢

**Food Away From Home:**

4.1%

**Food At Home:**

1.1%

**Wholesale Food Prices:**

3.2% Increase

**Federal Reserve News:** Feds to cut rates this year twice – first scheduled for Sept. / GDP 2.8% for QTR-2.

**Current Rate:** 5.25%

**Labor News:**

- Unemployment Rate 4.3%
- JOLTS Report: 8,184,000
- Rest. Ind. Employment: Job growth stalled

**U6 Rate**

7.4%

**Separations:**

3.2%

**RPI:**

98.9 down

**NFIB:**

91.5 a 1 pt incline

**Operator Confidence**

51.0 down

**Consumer Sentiment**

66.4 down 1.8 pts.

**Industry Observations:**

- USA Today's top QSR restaurant chains – Del Taco takes over #1 spot from Chick-fil-A; now #3.
- Pricing has driven sales in the last 2 years but hasn't kept up with inflation, which suggests the industry is saturated again.
- QSR has lost its reputation as a cheap meal.
- QSR Value Wars – a quick review
- Burger King all in on Gamification Apps
- C-Stores see higher loyalty retention than QSR.

➤ **Disclaimer Reminder:** Due to our Compliance Policy, our Channel Checks are limited to maximum 10% of a brand's U.S. store count. Further, we can only provide a range of 2% on our SSS estimates. Please see Page 25 for important disclosures.

## ECONOMIC NEWS:

- **The Latest Leading Economic Index (LEI) reported a decline of 0.2% to 101.1** following a decline of 0.4% previously. Over the first half of 2024 the LEI fell by 1.9%. The 6-month rate of the LEI has trended less negative, switching off the recession signal. This is a good signal but should be reviewed cautiously as overall consumer confidence continues to show a steady decline for 2024.
- **The GDP reported a 2.8% growth for QTR-2.** A much faster pace than Wall Street analysts forecasted. Consumer spending, the main driver of economic growth, rose 2.3%
- **CPI/Inflation Tracking** – Inflation slowed but not by much; posting an increase of 3.0% annually adjusted. The Bureau of Labor Statistics published a new report on CPI in July. This new report breaks down the impact of inflation on various income groups. The conclusions are that the lower income quintile are being impacted the most by inflation. We have provided a sampling of several key items comparing their impact on income of the lowest and the highest income quintile.

	Lowest	Highest
Food Away From Home	4.0%	5.0%
Food At Home	11.7%	7.5%
Rent	14.9%	3.8%
Utilities	6.2%	3.8%
Gasoline	3.3%	2.6%

The average inflation gap is 7.7%. The data clearly shows that the inflation impact on cost of living is taking a greater toll on the lower income group and that gap has widened in the last 4 years. Households in the lowest income quintile allocate larger amounts of their income for rent, gasoline and utilities. Because prices for these items rose faster in 2022. The spending shares associated with them resulted in higher inflation measures in the lower income group. Rent alone rose 25% in 2022/2023 impacting heavily on discretionary purchases. This one factor contributing to the lower income quintile having less to spend on dining out, coupled with rising restaurant prices, it's a better picture of why the lower income consumer has been eating out less.

- **Food Away From Home (restaurant spending) vs Food At Home (grocery store spending)** – For the 16<sup>th</sup> consecutive month restaurant inflation outpaced grocery inflation. As evidenced by the recent CPI report (see notes on CPI) the lower income consumer is spending more of their income on groceries than restaurants over the last 2 years. The risks to restaurants is clear (thus the push from Value/Price Point driven promotions). QSR restaurants are considered a luxury for some consumers.
- **CPI - Wholesale Food Prices** – Wholesale food prices rose higher in June (3.2%); the highest increase since March 2023.
- **Labor News:**
  - **Latest Labor Report** (issued August 2, 2024):
    - Reported unemployment's unexpected surge to 4.3%.
    - Unemployment claims rose 14,000.
    - The economy only added 114,000 jobs.
Wall Street reacted with stocks plunging. S&P fell 3.7%; NASDAQ fell 5%.
  - Restaurants shed 3,100 jobs in June, the second decline in the past 3 months, according to the "Employment Situation" report from the Bureau of Labor Statistics. Overall job growth slowed during the month. Food service places added just 900 new jobs in QTR-2, 2024. The smallest gain since the sector lost 285,000 jobs in the final quarter of 2020. The slowdown in jobs is attributable to slowing sales in restaurants. Overall unemployment rose to 4.1%.
- **Gasoline Prices** – Rose 2 cents per gallon in July; down approximately 30 cents per gallon from a year ago.

## INDUSTRY HEADLINES:

### From National Restaurant Association's Latest Restaurant Performance Index:

- The Restaurant Performance Index declined 0.2% in June. The RPI is constructed so that the health of the restaurant industry is measured in relation to a neutral level of 100. Index values above 100 indicate the key industry indicators are in a period of expansion while Index values below 100 represent a period of contraction.

This represents the 7<sup>th</sup> month the Index has been below 100. A deeper dive shows that 46% reported SSS declining for the 6<sup>th</sup> consecutive month, traffic declining for the 15<sup>th</sup> consecutive month. These results coincide with overall Operator confidence at 51%; a decline of 4 pts since the last report.

Restaurant Industry Summary Report // July 2024

While overall restaurant industry sales rose 0.3% in May, those sales are primarily being driven by rising menu prices. Adjusting for inflation in June, restaurant industry sales were actually down a full \$2 billion; below November 2023 peak in inflation adjusted terms.

Wholesale food prices continued to rise in June – average rose 6% between May & June. (3.2% above June 2023). This marks the strongest 12-month increase since March 2023.

CRCR \* BUSINESS ECONOMICS REPORT

		2023							2024					
		JUNE	JULY	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE
OUTPUT & PRICES														
GDP (Qtrly)					3.0		4.9	3.3	3.3			1.6		2.8
CPI		3.0	3.2	3.7	3.7	3.2	3.1	3.4	3.4	3.2	3.5	3.4	3.3	3.0
PPI		0.1	3.6	1.6	0.7	(0.5)	(0.5)	(0.1)	(0.1)	1.6	2.1	2.2	2.2	2.6
Food Away from Home		7.7	7.1	6.5	6.0	5.4	5.3	5.2	5.2	4.5	4.2	4.1	4.0	4.1
Food at Home		4.7	3.2	3.0	2.4	2.1	1.7	1.3	1.3	1.0	1.2	1.1	1.0	1.1
PCE - Consumer Spending		3.0					3.2							
Gasoline		3.66	3.79	3.81	3.45	3.22	3.11	3.03	3.03	3.54	3.69	3.61	3.46	3.52
LEI (Leading Economic Ind)								103.1	103.1	102.8	102.4	101.8	101.2	101.1
LABOR MARKET														
Openngs		9,800	9,600	8,827		9,553	8,700	8,790	8,790	8,863	8,756	8,488	8,488	8,184
Hires		4.0	5.9	3.7		3.7	3.7	3.5	3.5			3.5	N/A	N/A
Turnover		3.8	3.6	3.5		3.5	3.6	3.4	3.4	3.4	3.5	3.3	3.4	3.2
Unemployment Rate		3.6	3.5	3.8	3.8	3.9	3.7	3.7	3.7	3.9	3.8	3.9	4.0	4.3
U6 Rate		7.2	6.7	7.2	7.0	7.2	6.7	7.0	7.0	7.3	7.4	7.4	7.4	7.4
INTEREST RATE														
Fed Rate		5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.25	5.25	5.25	5.25	5.25
Monthly Prime Rate										8.5		8.5		8.5
Monthly Avg Rent (Zillow)										\$2,050		\$1,987		\$2,036
Operator Confidence										89.8	88.5	89.7	56.0	51.0
Consumer Confidence										79.4	77.2	69.1	68.2	66.4
NFIB										89.4	88.5	89.7	90.5	91.5
RPI										99.0	99.2	98.8	99.1	98.9
* Current month or most recent reporting data available														

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Food At Home / Food Away (Restaurants) Comparisons

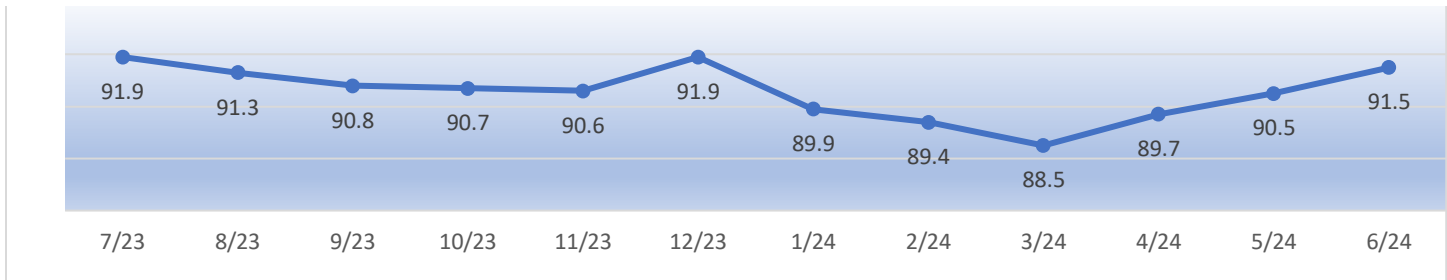
2024	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
HOME	1.2	1.0	1.2	1.1	1.0	1.1						
AWAY	5.1	4.5	4.2	4.1	4.0	4.1						
DIFFERENCE	(3.9)	(3.5)	(3.0)	(3.0)	(3.0)	(3.0)						
2023	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
HOME	11.3	10.2	8.4	7.1	8.3	4.7	3.6	3.0	2.4	2.1	1.7	1.3
AWAY	8.2	8.4	8.8	8.6	5.8	7.7	7.1	6.5	6.0	5.4	5.3	5.2
DIFFERENCE	3.1	1.8	(0.4)	(1.5)	2.5	(3.0)	(3.5)	(3.5)	(3.6)	(3.3)	(3.6)	(3.9)
2022	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
HOME	7.4	8.6	10.0	10.8	11.9	12.2	13.8	13.5	13.0	12.4	12.0	11.8
AWAY	6.4	6.8	6.9	7.2	7.4	7.7	7.6	8.0	8.5	8.6	8.5	8.3
DIFFERENCE	1.0	1.8	3.1	3.6	4.5	4.5	6.2	5.5	4.5	3.8	3.5	3.5

COMMODITIES:

NATIONAL GAS AVERAGE – PER AAA

8/23	9/23	10/23	11/23	12/23	1/24	2/24	3/24	4/24	5/24	6/24	7/24
3.79	3.81	3.45	3.22	3.11	3.03	3.26	3.54	3.69	3.61	3.46	3.52

## SMALL BUSINESS OPTIMISM



## RESTAURANT PERFORMANCE INDEX: (Source: National Restaurant Association)

		11/23	12/23	1/24	2/24	3/24	4/24	5/24	6/24
	<b>RESTAURANT PERFORMANCE INDEX</b>	99.7	100.1	99.8	98.7	99.0	99.2	99.1	98.9
	<b>CURRENT SITUATIONS INDEX:</b>	98.9	102.6	99.8	96.6	98.3	98.2	98.7	98.1
\$	<b>SSS Increase/Decrease</b>	31%/51%	58%/32%	51%/40%	24%/69%	28%/51%	36%/52%	43%/45%	35%/56%
	<b>Capital Spending</b>	50%	40%	50%	49%	44%	43%	48%	47%
	<b>EXPECTATIONS INDEX:</b>	100.4	100.7	99.8	100.8	99.7	100.4	99.6	99.2
\$	<b>Sales Outlook Improvement</b>	29%	45%	30%	29%	28%	40%	30%	28%
	<b>Economy Outlook Improvement</b>	12%	13%	8%	11%	8%	14%	13%	21%

## OPERATORS SURVEY (Source: NFIB and Compass RCR)

- Current Month Sales (nationally):
  - 35.0% ↓ Increase over last year
  - 56.0% ↑ Decrease over last year
- Current Traffic:
  - 14.0% ↓ Increase over last year
  - 58.0% ↑ Decrease over last year
- Future Outlook for Sales:
  - 28.0% ↓ More optimistic over last year
  - 26.0% ↑ Less optimistic over last year
- Future Outlook for Business Conditions over next 6 months:
  - 21.0% ↑ Expect conditions to improve
  - 37.0% ↓ Expect conditions to worsen
- Capital Spending:
  - 47.0% ↓ Made equipment expenditures
  - 35.0% ↑ Expansion/Remodel
- Margin Impact:
  - 53.0% ↑ Reported F/C Increase (rose 2.2%)
- Menu Prices:
  - 72.0% ↑ Higher than LY
  - 0.0% ↓ Lower than LY
  - Menu prices increased 3.9% over last 12 months
- Staffing Issues:
  - 96.0% ↑ Fully Staffed (Chains/Independents)
  - 4.0% ↓ Understaffed
- Top Concerns – Internal:
  - 85.0% Building & Maintaining Sales
  - 77.0% Sufficient Cash Flow
  - 66.0% Recruit/Retain Quality Staff
- Top Concerns – External:
  - 73.0% Economy
  - 72.0% Inflation
  - 66.0% Upcoming Election

- Highlights from the recent NFIB Survey – Optimism Index rose 1 point in June to 91.5. The highest reading this year. However, this is the 30<sup>th</sup> consecutive month below the 50-year average of 98.
- Labor Market – 37% reported skilled labor job openings down from 42% in May.
- Capital Spending – 52% reported capital outlay, down from 58% in May.
- Sales – Net negative 12% reported higher sales in the last 3 months – up 2 points in May.
- Credit Market – 4% reported not having all their borrowing needs met; up 1 point from May.

## CONSUMER SENTIMENT: (Source: University of Michigan Sentiment Poll)

	9/23	10/23	11/23	12/23	1/24	2/24	3/24	4/24	5/24	6/24	7/24
Consumer Sentiment	68.1	63.8	61.3	79.0	79.0	76.9	79.4	77.2	69.1	68.2	66.4
Current Economy	71.4	70.6	68.3	73.3	81.9	79.4	82.5	79.0	69.6	65.9	62.7
Consumer Expectations	66.0	59.3	56.8	67.4	77.1	75.2	77.4	76.0	68.8	69.6	68.8

### COMMENTARY:

- **Main concerns:** 80% - Inflation  
66% - Poor government  
52% - Illegal immigration } from Gallup Survey
- **Commentary:** Data from the University of Michigan Consumer Sentiment Survey for July shows a downward trajectory in all three categories – sentiment down 1.8 pts, view of current economic conditions down 3.2 pts, and consumer expectations down 0.8 pts. These findings are the lowest since November 2023. Whereas, March 2024 showed a high of 79.4 there has been a steady decline in overall consumer sentiment since.

From Michigan's monthly surveys, the consumer is becoming more guarded with spending as high prices continue to drag down attitudes; particularly in the lower income quintile.

Gallup's July Consumer Confidence Survey findings mirror Michigan's. From Gallup:

- 70% believe the economy is getting worse and intertwined in inflation is the consumers fear of rising prices, wages, taxes and unemployment.

Some other interesting news:

- A survey by Deloitte found 41% of loyal consumers like to get immersed in their favorite brands.
- 46% like to purchase merchandise from the companies to whom they are loyal.

Both of these findings point out excellent opportunities for operators to strengthen and expand their loyalty customer base. It is easier to sell to an existing customer (60-70%) than to sell to a new customer (5-15%).

- C-Stores see higher loyalty retention than QSR according to recent data from Paytronix. At least 80% of C-Store loyalty members return monthly. By comparison, QSR saw an average of 62% of their customers return monthly and for Full Service an average of 58%.

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