TRINITY CAPITAL
INVESTMENT BANKING

Restaurant Industry Commentary
&
3rd Quarter 2015 SSS

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Same-Store Sales Discussion and Analysis

During the third quarter of 2015 ("Q3 2015"), the restaurant industry maintained positive momentum and now has 22 consecutive quarters of same-store sales growth. 74.0% of the concepts we cover enjoyed positive same-store sales growth in Q3 2015, with an average year-over-year ("YOY") growth of 2.2% for the restaurant industry, outpacing U.S. GDP growth of 2.0%. That suggests that in this economic climate, the value proposition for many consumers to dine out remains attractive relative to dining in. It is important to recognize, however, that much of the sales gains in the restaurant industry are a result of price increases, as guest counts remain a head-wind for most concepts.

Fine Dining: The fine dining segment saw an average same-store sales increase of 1.9% YOY for Q3 2015. As the chart to the right illustrates, fine dining sales have yet to fully return to pre-recession levels despite 23 consecutive quarters of positive growth. Moreover, the same-store sales increase is lower than aggregate industry price increases during the year.

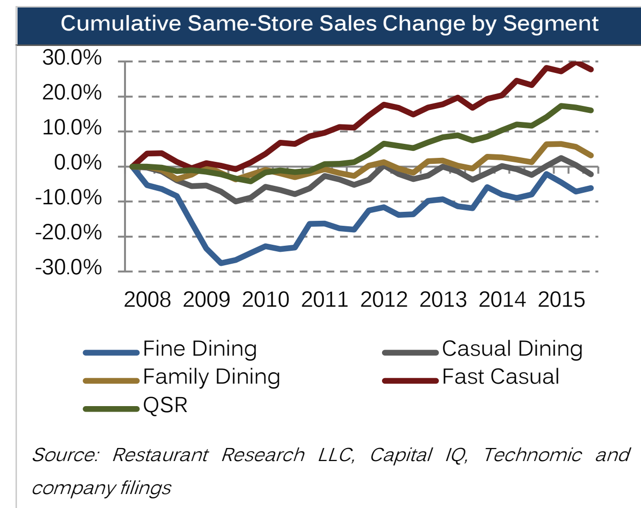
Casual Dining: Average same-store sales growth in the casual dining segment was an anemic 0.2% YOY for Q3 2015. In fact, nearly half of the concepts experienced negative growth for the quarter. According to Knapp-Track, casual dining guest counts were down 1.3%, 0.7% and 0.9% in July, August and September, respectively. That amounts to negative guest counts in 70 of the last 81 months. It is clear that a number of concepts have been increasing menu prices in order to minimize or offset the impact from lower guest counts, but it is difficult to imagine this will be an effective strategy for much longer. With that said, of the 26 concepts we track in the casual dining segment, there are a few concepts that are continuing to outperform, including Dave & Buster's, LongHorn Steakhouse, Red Robin and Texas Roadhouse.

Family Dining: The family dining segment posted an average YOY same-store sales growth of 3.3% for Q3 2015. Denny's and IHOP led the way with remarkable increases of 6.1% and 5.8%, respectively. According to Knapp-Track, family dining guest counts were down 0.9%, 0.7% and 0.7% in July, August and September, respectively.

Fast Casual: While the trend remains positive, same-store sales growth in the fast casual segment appears to be cooling down modestly. In Q3 2015, the average increase was 3.6% YOY (2.2% excluding Shake Shack's 17.1% growth), which is the 24th consecutive quarter, or six years, of positive comps.

QSR: In the QSR segment, 22 of the 24 concepts we track showed positive same-store sales growth during Q3 2015, with the segment up an average of 3.9% YOY. Domino's, Arby's and Starbucks continue to achieve best-in-class results with YOY same-store sales growth in Q3 2015 of 10.5%, 9.6% and 9.0%, respectively.

Cumulative Same-Store Sales Change by Segment



Source: Restaurant Research LLC, Capital IQ, Technomic and company filings

Relative to the fine dining and casual dining patrons, the value conscious consumers are likely to use a larger portion of their savings from lower fuel prices to increase spending in the QSR and fast casual segments. Going forward we anticipate the concepts with relatively lower average check to outperform the restaurant industry overall.

Contributing Editor Michael Collins is an Associate for Trinity Capital.

Same-Store Sales ("SSS") Data

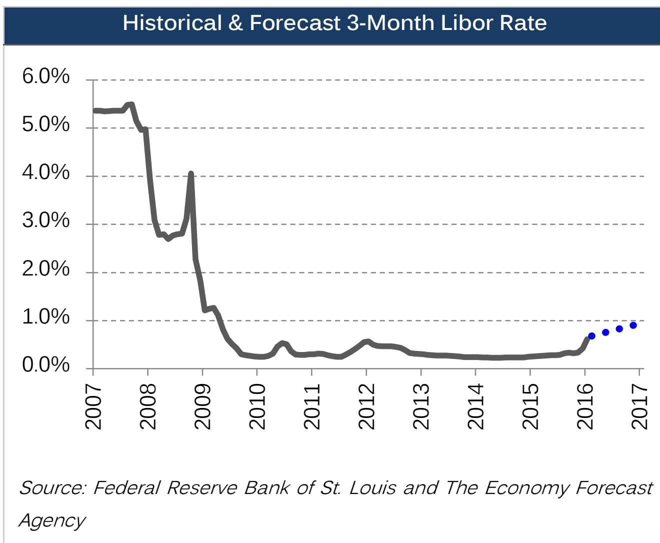
	FY 2012	FY 2013				FY 2014				FY 2015		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Fine Dining												
Fleming's	4.0%	5.4%	2.0%	4.2%	4.9%	1.7%	3.6%	4.8%	3.4%	3.0%	3.2%	(0.6%)
Ruth's Chris	5.4%	6.6%	4.6%	4.2%	5.5%	2.6%	2.8%	4.8%	5.0%	2.8%	4.2%	3.3%
Capital Grille	2.3%	3.0%	4.5%	3.2%	6.7%	0.1%	0.8%	3.9%	5.0%	6.1%	4.4%	7.2%
Del Frisco's	5.9%	1.9%	5.9%	4.4%	5.2%	5.1%	5.2%	8.4%	4.9%	2.3%	1.0%	(1.4%)
Sullivan's	(1.5%)	(4.0%)	(2.7%)	(5.9%)	(0.7%)	(2.1%)	0.9%	0.6%	1.7%	4.8%	(3.0%)	1.2%
Mean	**3.2%**	**2.6%**	**2.9%**	**2.0%**	**4.3%**	**1.5%**	**2.7%**	**4.5%**	**4.0%**	**3.8%**	**2.0%**	**1.9%**
Casual Dining												
Applebee's	0.9%	(1.3%)	1.3%	(0.4%)	(0.3%)	(0.5%)	0.6%	1.7%	2.8%	2.9%	1.0%	(0.5%)
Bahama Breeze	1.9%	(0.3%)	(1.7%)	2.7%	6.2%	0.8%	4.1%	N/A	(0.6%)	3.2%	1.8%	1.8%
BJ's Restaurants	3.0%	(0.4%)	0.0%	(2.2%)	(2.7%)	(2.9%)	(1.7%)	0.3%	1.2%	3.2%	0.5%	2.3%
Bonefish	1.0%	0.5%	0.2%	(2.7%)	0.9%	(1.5%)	0.3%	2.6%	0.7%	0.9%	(4.6%)	(6.1%)
Bravo! Cucina Italiana	1.7%	(1.6%)	(1.6%)	(3.7%)	(1.3%)	(5.5%)	(6.0%)	(6.7%)	(3.9%)	(1.7%)	(2.1%)	(3.1%)
Brick House Tavern + Tap	N/A	N/A	N/A	4.0%	6.6%	10.0%	8.5%	7.5%	5.7%	5.4%	2.8%	(0.7%)
Brio Tuscan Grille	(0.5%)	(3.2%)	(4.0%)	(5.1%)	(1.5%)	(4.4%)	(4.5%)	(5.2%)	(4.2%)	(1.0%)	(1.6%)	(3.8%)
Buffalo Wild Wings	6.7%	1.9%	4.0%	4.3%	4.0%	5.7%	7.0%	5.8%	5.5%	6.5%	3.3%	2.6%
Carrabba's Italian Grill	(0.4%)	(1.7%)	0.3%	0.0%	0.9%	(1.8%)	(1.2%)	(1.2%)	0.3%	1.9%	0.9%	(0.2%)
Cheesecake Factory	1.3%	1.6%	0.9%	1.0%	1.1%	1.2%	1.5%	2.1%	1.4%	4.2%	2.8%	2.2%
Chili's Grill & Bar	1.0%	(1.1%)	(0.6%)	(1.9%)	0.2%	0.5%	2.5%	2.3%	4.2%	2.2%	0.1%	(1.1%)
Chuy's	N/A	N/A	N/A	3.1%	3.0%	4.2%	2.4%	3.0%	3.8%	1.9%	N/A	4.2%
Dave & Buster's	3.7%	1.8%	(0.9%)	(0.9%)	2.4%	0.7%	4.7%	8.7%	10.5%	9.9%	11.0%	8.8%
Famous Dave's	(6.0%)	(1.8%)	3.8%	(2.3%)	(1.1%)	(3.3%)	(2.8%)	(2.3%)	(4.0%)	(4.9%)	(9.2%)	(9.8%)
Granite City	4.5%	2.7%	2.5%	0.4%	0.6%	N/A	N/A	0.7%	0.6%	2.7%	2.1%	(3.8%)
Joe's Crab Shack	0.0%	(2.0%)	0.7%	3.3%	1.9%	(6.0%)	(4.7%)	(4.4%)	(4.5%)	(3.8%)	(4.0%)	(6.6%)
Kona Grill	(1.0%)	(2.6%)	2.5%	2.6%	3.5%	6.2%	3.2%	2.7%	3.1%	2.2%	1.0%	1.6%
Logan's Roadhouse	(2.6%)	(1.4%)	(3.9%)	(3.9%)	(5.3%)	(3.2%)	(4.5%)	(2.6%)	0.1%	(4.3%)	(3.8%)	(4.3%)
LongHorn Steakhouse	(0.8%)	(1.6%)	3.5%	3.2%	2.9%	0.3%	2.4%	2.8%	2.6%	5.4%	5.2%	4.4%
Maggiano's	0.6%	0.4%	0.2%	0.6%	0.9%	0.2%	0.9%	0.6%	2.3%	0.1%	(0.1%)	(1.7%)
Olive Garden	(3.2%)	(4.1%)	1.1%	(4.0%)	(0.6%)	(5.4%)	(4.2%)	(1.3%)	2.2%	2.2%	3.4%	2.7%
Outback	5.3%	2.5%	2.8%	(0.3%)	1.1%	0.8%	0.9%	4.8%	6.4%	5.0%	4.0%	0.1%
Red Robin	1.4%	1.4%	3.6%	5.4%	3.7%	5.8%	1.6%	1.4%	4.3%	3.8%	3.6%	3.7%
Ruby Tuesday	0.3%	(2.8%)	(3.1%)	(11.4%)	(7.8%)	(1.9%)	0.4%	1.1%	(1.0%)	(0.3%)	(1.7%)	0.6%
Taco Cabana	6.8%	2.0%	1.1%	1.8%	(2.9%)	0.8%	2.8%	3.5%	6.1%	3.8%	5.6%	4.8%
Texas Roadhouse	4.5%	3.7%	4.7%	2.9%	2.5%	3.0%	3.0%	5.8%	6.8%	8.7%	8.0%	7.0%
Mean	**1.3%**	**(0.3%)**	**0.7%**	**(0.1%)**	**0.7%**	**0.2%**	**0.7%**	**1.3%**	**2.0%**	**2.3%**	**1.2%**	**0.2%**
Family Dining												
Bob Evans	1.6%	0.0%	(0.6%)	(1.9%)	(1.8%)	(4.1%)	(2.0%)	0.0%	3.8%	2.1%	(0.3%)	(3.2%)
Chuck E Cheese	N/A	N/A	N/A	(2.1%)	N/A	N/A	N/A	N/A	(1.4%)	(5.0%)	3.0%	0.7%
Cracker Barrel	3.3%	3.1%	3.1%	2.8%	(0.6%)	(0.7%)	1.3%	3.3%	7.9%	5.2%	3.8%	2.5%
Denny's	1.7%	(0.7%)	0.6%	1.2%	0.9%	1.8%	1.9%	2.4%	4.7%	7.2%	7.3%	6.1%
IHOP	(2.6%)	(0.5%)	1.9%	3.6%	4.5%	3.9%	3.2%	2.4%	6.1%	4.8%	6.2%	5.8%
Luby's	0.2%	(0.1%)	(0.1%)	1.0%	2.4%	1.2%	2.0%	0.4%	0.2%	3.1%	(1.0%)	0.2%
Peter Piper Pizza	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	3.4%	6.8%	5.3%	0.0%
Steak n Shake	3.8%	1.3%	0.3%	4.2%	2.2%	3.0%	3.7%	2.6%	2.9%	6.0%	4.8%	3.0%
Mean	**1.3%**	**0.5%**	**0.9%**	**1.3%**	**1.3%**	**0.9%**	**1.7%**	**1.9%**	**3.5%**	**3.8%**	**3.6%**	**1.9%**

SSS Data (Cont'd)

	FY 2012	FY 2013				FY 2014				FY 2015		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Fast Casual												
Chipotle	3.8%	1.0%	5.5%	6.2%	9.3%	13.4%	17.3%	19.8%	16.1%	10.4%	4.3%	2.6%
Cosi	(3.9%)	(4.5%)	(2.7%)	(3.6%)	(4.6%)	(9.5%)	(4.7%)	(1.9%)	4.2%	4.4%	2.1%	(0.3%)
El Pollo Loco	N/A	N/A	N/A	3.7%	6.5%	7.2%	5.5%	7.9%	7.6%	3.5%	1.3%	0.0%
Fuddrucker's	N/A	N/A	N/A	(0.4%)	(2.3%)	(2.7%)	(3.9%)	(4.6%)	0.2%	2.1%	0.2%	1.7%
Noodles & Company	4.2%	2.2%	4.7%	2.1%	3.9%	(1.6%)	0.2%	1.7%	1.3%	0.9%	0.1%	(0.9%)
Panera Bread	4.9%	3.3%	3.7%	1.3%	1.1%	0.1%	0.1%	1.4%	3.0%	0.7%	1.8%	2.8%
Pie Five	N/A	N/A	N/A	N/A	N/A	4.4%	12.9%	17.0%	16.9%	9.5%	6.7%	1.5%
Potbelly	N/A	N/A	N/A	2.5%	0.7%	(2.2%)	(1.6%)	0.5%	3.7%	5.4%	4.9%	3.7%
Qdoba Mexican Grill	1.0%	(1.5%)	1.3%	2.0%	2.3%	7.0%	7.5%	7.7%	14.0%	8.3%	7.7%	6.6%
Shake Shack	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	7.2%	11.7%	12.9%	17.1%
Zoe's Kitchen	N/A	N/A	N/A	N/A	N/A	5.7%	7.5%	5.9%	7.8%	N/A	5.6%	4.5%
Mean	**2.0%**	**0.1%**	**2.5%**	**1.7%**	**2.1%**	**2.2%**	**4.1%**	**5.5%**	**7.5%**	**5.7%**	**4.3%**	**3.6%**
QSR												
Chicken												
Bojangles	N/A	N/A	N/A	N/A	N/A	N/A	4.2%	5.3%	7.0%	7.9%	4.4%	4.1%
Church's	(1.3%)	(2.0%)	1.8%	1.2%	0.9%	(0.7%)	0.3%	1.7%	3.6%	2.8%	(2.6%)	(4.8%)
KFC	4.0%	4.5%	3.0%	(4.0%)	(5.0%)	(3.0%)	(2.0%)	2.0%	6.0%	7.0%	3.0%	0.0%
Pollo Tropical	8.3%	3.8%	6.4%	6.5%	7.0%	6.3%	6.7%	5.9%	7.7%	6.4%	4.3%	4.2%
Popeye's	6.4%	0.5%	4.3%	5.1%	0.3%	4.3%	3.8%	7.2%	10.7%	7.0%	7.9%	5.6%
Mean	**4.4%**	**1.7%**	**3.9%**	**2.2%**	**0.8%**	**1.7%**	**2.6%**	**4.4%**	**7.0%**	**6.2%**	**3.4%**	**1.8%**
Coffee/Snack												
Baskin Robbins	1.5%	(4.4%)	1.6%	4.2%	2.2%	0.5%	4.2%	5.8%	9.3%	8.0%	3.4%	7.5%
Dunkin Donuts	3.2%	1.7%	4.0%	4.2%	3.5%	1.2%	1.8%	2.0%	1.4%	2.7%	2.9%	1.1%
Jamba Juice	0.6%	1.3%	1.7%	(3.4%)	0.3%	0.6%	2.5%	3.7%	4.9%	5.0%	(5.9%)	6.6%
Krispy Kreme	7.5%	11.4%	10.0%	3.7%	1.6%	3.3%	2.3%	3.7%	3.6%	5.2%	5.5%	3.4%
Starbucks	7.0%	7.0%	9.0%	8.0%	5.0%	6.0%	6.0%	5.0%	5.0%	7.0%	8.0%	9.0%
Tim Horton's	3.2%	(0.5%)	1.4%	3.0%	3.1%	1.9%	5.9%	6.8%	4.1%	8.9%	7.0%	4.3%
Mean	**3.8%**	**2.8%**	**4.6%**	**3.3%**	**2.6%**	**2.3%**	**3.8%**	**4.5%**	**4.7%**	**6.1%**	**3.5%**	**5.3%**
Mexican												
Del Taco	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	7.7%	6.0%	5.6%
Taco Bell	5.0%	6.0%	2.0%	2.0%	1.0%	(1.0%)	2.0%	3.0%	7.0%	6.0%	6.0%	4.0%
Mean	**5.0%**	**6.0%**	**2.0%**	**2.0%**	**1.0%**	**(1.0%)**	**2.0%**	**3.0%**	**7.0%**	**6.9%**	**6.0%**	**4.8%**
Pizza												
Domino's	4.7%	6.2%	6.7%	5.4%	3.7%	4.9%	5.4%	7.7%	11.1%	14.5%	12.8%	10.5%
Papa John's	5.2%	1.6%	3.4%	1.8%	6.6%	9.6%	6.0%	7.4%	4.1%	6.5%	5.5%	3.0%
Papa Murphy's	N/A	N/A	N/A	3.0%	4.0%	3.3%	1.5%	1.5%	N/A	5.6%	4.5%	1.4%
Pizza Hut	(1.0%)	(1.0%)	(2.0%)	(1.0%)	(4.0%)	(5.0%)	(4.0%)	(2.0%)	0.0%	(1.0%)	1.0%	0.0%
Pizza Inn	N/A	N/A	N/A	(3.5%)	(4.1%)	4.4%	N/A	4.6%	6.4%	6.0%	0.2%	(1.1%)
Mean	**3.0%**	**2.3%**	**2.7%**	**1.1%**	**1.2%**	**3.4%**	**2.2%**	**3.8%**	**5.4%**	**6.3%**	**4.8%**	**2.8%**
Sandwich												
Arby's	N/A	N/A	N/A	N/A	N/A	N/A	6.3%	10.4%	4.9%	9.7%	7.6%	9.6%
Burger King	3.7%	(3.0%)	(0.5%)	(0.3%)	0.2%	0.1%	0.4%	3.6%	4.2%	6.9%	7.9%	5.2%
Jack in the Box	1.9%	0.1%	0.1%	(1.4%)	1.9%	0.7%	2.4%	3.1%	4.4%	8.9%	7.3%	6.2%
McDonald's	0.3%	(1.2%)	1.0%	0.7%	(1.4%)	(1.7%)	(1.5%)	(3.3%)	(1.7%)	(2.6%)	(2.0%)	0.9%
Sonic Drive-In	3.0%	1.3%	0.1%	5.9%	2.2%	1.4%	5.3%	3.5%	8.5%	11.5%	6.1%	4.9%
Wendy's	(0.5%)	0.7%	0.3%	3.1%	2.9%	0.7%	3.2%	0.8%	1.7%	3.2%	2.2%	3.1%
Mean	**1.7%**	**(0.4%)**	**0.2%**	**1.6%**	**1.2%**	**0.2%**	**2.7%**	**3.0%**	**3.7%**	**6.3%**	**4.9%**	**5.0%**
Mean Total QSR	**3.3%**	**1.8%**	**2.9%**	**2.1%**	**1.5%**	**1.8%**	**2.9%**	**3.9%**	**5.2%**	**6.3%**	**4.3%**	**3.9%**

Managing Interest Rate Risk for Restaurant Operators

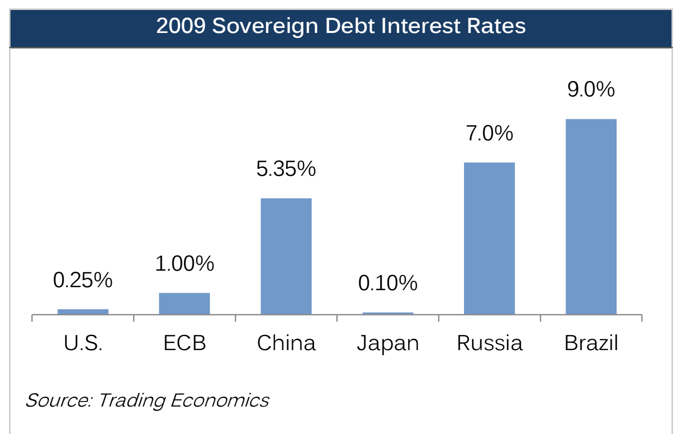
The Federal Reserve recently decided to begin raising interest rates, ostensibly, to cool off an economy with such rapidly growing consumption that the risk of inflation is at hand. The reality is that the Federal Reserve is justifiably concerned about having a weakened policy toolbox to deal with future economic challenges. With federal debt near $20 trillion and off-balance-sheet liabilities triple that, it is hard to conclude that another round of "shovel ready stimulus" funded by printing more money is a prudent financial expenditure. Similarly, bond buying by the Fed, particularly that of Fannie Mae and Freddie Mac, also requires printing more money. While both of those policies may have been somewhat helpful during the Great Recession of 2008, the largest positive impact was probably seven years of essentially zero rate interest rates. The Fed is not able to use that policy tool now because rates are practically zero as it is. Ergo, the Fed wants to manage rates back up to a level that would give them the ability to drop them to zero if another crisis arises.



Source: Federal Reserve Bank of St. Louis and The Economy Forecast Agency

This likely means that there will be a steady stream of very modest interest rate increases over the next two years, which will, according to a consensus of Federal Reserve Board Governors, result in short-term interest rates above 3%. The only thing in the way of this is fear of a full blown recession in the U.S. Given that 90-day LIBOR is currently 61 basis points, this is a fivefold increase. Moreover, it is also important to remember that 90-day LIBOR was 26 basis points one year ago. This means that interest rates are likely to modestly increase for franchise borrowers that have variable rate interest obligations, particularly LIBOR based loans. We do not think this will happen suddenly or dramatically. Nonetheless it is important to determine what can be done to offset this cost.

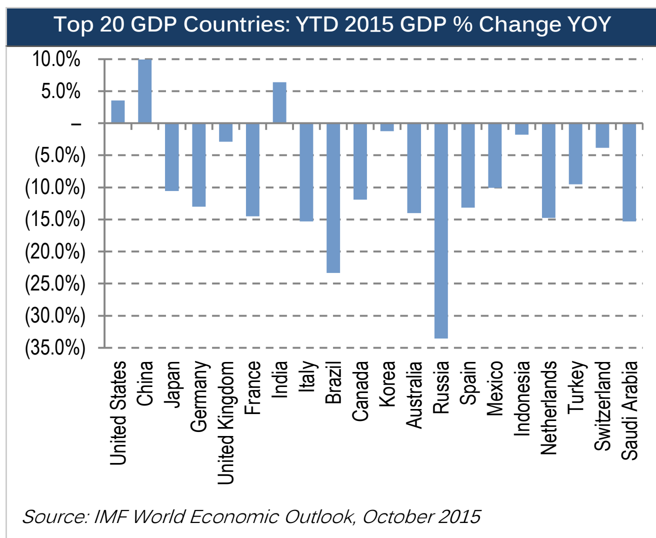
Prior to the Federal Reserve's first interest rate increase in nearly 10 years in December of 2015, interest rate swaps were at an all-time low in terms of cost. This prompted us to encourage many of our clients to explore combinations of interest-rate caps and swaps as a tool to control future interest rate increases. While we do not believe that rates will increase materially in the next few months, we do believe strongly that global geopolitical risk is near crescendo levels. Any of the bad actors around the world and particularly the oil-producing countries have a significant incentive to misbehave in hopes that a regional conflict will produce a spike in the price of oil. Countries such as Iran, Russia and other Middle Eastern oil-producing nations would tremendously benefit from a conflict in the Persian Gulf and the associated oil price increase. We believe that if this happens, oil prices will increase dramatically and that will likely push some non-oil-producing economies over the brink. This would lead to dramatically higher interest rates on the sovereign debt of those economies which will subsequently apply upward pressure on global interest rates.



Source: Trading Economics

17 of the G-20 nations are now experiencing negative gross domestic product growth. The three positive G-20 nations are the U.S., China and the U.K., and we do not have faith in the numbers from China. As the global trade picture dims somewhat in 2016, it is likely that the U.S. economy will continue to soften. This may undermine the top line of U.S. restaurant P&Ls. One of the reasons to think about hedging debt is that the top line and commodities are beyond the

control of franchisees, but hedges on interest rate costs are one item that can be managed.



Source: IMF World Economic Outlook, October 2015

Most franchise loan documents require borrowers to hedge approximately 40% to 50% of their interest rate exposure. This means that approximately half of the outstanding debt of many franchisees has no interest rate protection whatsoever. We are suggesting that franchisees examine the other half of their obligations to see if it makes sense to add some interest rate protection to their unprotected debt. Generally, interest-rate swaps are more expensive than interest-rate caps depending upon how aggressive the strike price is. One thing to consider is an out of the money interest-rate cap, which can be as cheap as $1,600 per month per $10 million of debt. An out of the money interest rate cap will not provide dollar-for-dollar protection until you exceed the strike price so there may not be a free lunch in terms of the discount vis-à-vis the cost of an interest-rate swap. Nonetheless both of these tools can be effective interest rate management tools, which should be carefully explored by franchisees with meaningful amounts of debt. Keep in mind that this is by no means an immediate threat, but when it begins to happen, interest rate management tools (caps and swaps) will become decisively more expensive. This means you should be prepared and perhaps wait and see with the ability to act quickly when circumstances dictate.

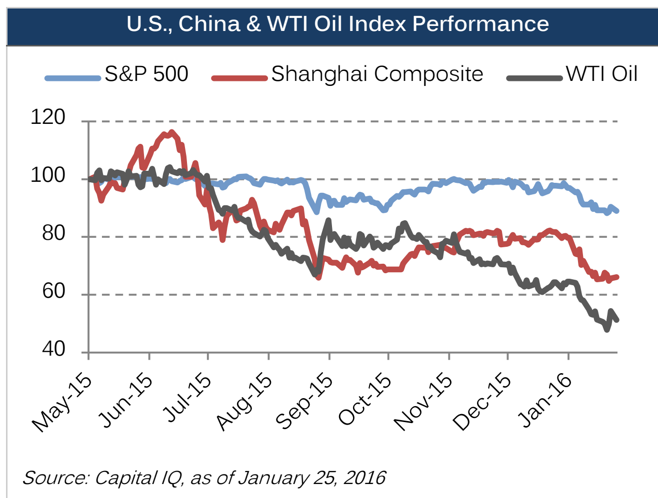
Contributing Editor Kevin Burke is a Managing Director for Trinity Capital.

U.S. Restaurants Need a Soft Landing in China

The U.S. stock market has experienced an abrupt decline in the last month as investors have become increasingly concerned by the unknown extent of China's economic slowdown. As the second largest economy in the world, China plays an undeniably vital role in influencing the financial environment for companies and consumers around the world. If China's GDP growth rate grinds to a halt, it will inevitably lead to negative repercussions for the U.S. economy. However, a slower-growing China may not be such a bad thing for the U.S. economy, and restaurant owners could be among the biggest winners.

The Shanghai Composite Index reached an all-time high in June 2015, and has since pulled back nearly 45%. After almost 25 years of annual GDP growth of no less than 7.0%, growth in the Chinese economy is slowing, and some speculate that government officials in Beijing are sugarcoating data that may actually reveal its economy is contracting. The lack of transparency out of China is always disconcerting to investors, and arguably even more so in a downward trending market.

As the chart below illustrates, since the Chinese stock market started its precipitous decline in June 2015, there has been an additional 50% decline in oil prices (starting from $60, now down to $30 per barrel). Ample oil supplies and building reserves are partially to blame for the receding oil markets, but the quantifiably uncertain demand out of China has undoubtedly exacerbated the outcome. The significant positive correlation between China's stock market and the oil market during this period is further evidence of their direct relationship, and subsequently demonstrates one way China is having an indirect impact on the rest of the world.



Source: Capital IQ, as of January 25, 2016

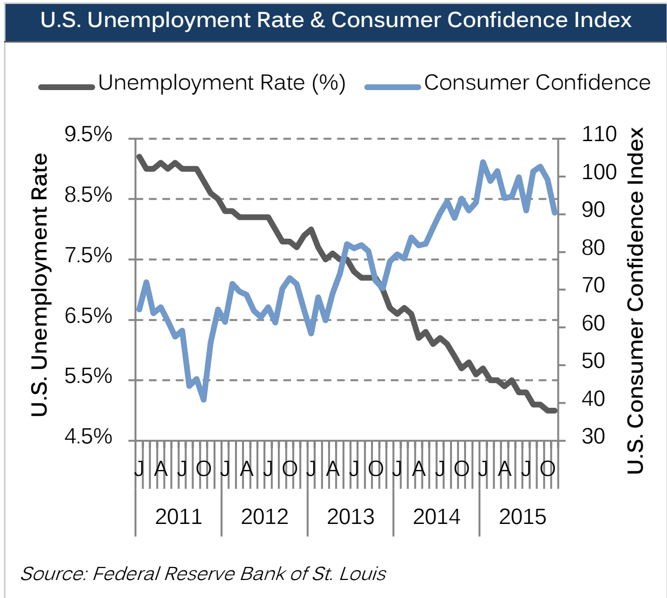
Due to the explosion of debt that helped fuel China's economic expansion, economist fear that loan defaults could trigger a global financial crisis similar to the 2008 Great Recession. Moody's Analytics calculates that every 1% fall in Chinese GDP growth reduces global GDP by 0.5% (a number that includes China, which magnifies the results). That suggests that if the Chinese GDP growth rate falls from 7% to 0%, global GDP would be reduced by 3.5%, which would be a tremendous burden on the global economy. With an already fragile U.S. economy that currently needs all the support it can get, a Chinese GDP growth rate of 0% would surely be an unwelcomed circumstance for U.S. restaurant owners.

In order to prevent unbridled panic and the financial markets from further capitulation, the government officials and regulators in Beijing have set limitations on stock selling, spent more than $500 billion of its foreign currency reserves, lowered interest rates and devalued its currency. In short, this is intended to prop up Chinese asset prices and to stimulate exports, which directly account for roughly 25% of China's GDP, not to mention the impact exports have on employee compensation and the money multiplier effect. Chinese officials are hoping these measures will allow them to guide the economy to a soft landing, and so should U.S. restaurant owners.

The U.S. is relatively more insulated from the economic fluctuations in China compared to China's neighboring countries and commodity producing countries that heavily export to China. U.S. exports to China are about 1% of U.S. GDP, and Chinese direct investment in the U.S. is just a fraction of a percent of total foreign investment. So what does a successful soft landing, say 4% to 6% GDP growth, in China mean for the U.S.?

One major positive is lower commodity prices as a result of weaker Chinese demand. A measured, note not a drastic, decline in fuel prices, transportation costs, crop prices and meat prices means higher gross profit margins for most U.S. businesses, and it certainly does for restaurants. Lower commodity prices can also facilitate increased savings and/or stronger purchasing power for U.S. consumers. Additionally, the U.S. Federal Reserve's increase in interest rates will continue to strengthen the dollar, which will put downward pricing pressure on most dollar denominated commodities, and provide support to U.S. markets as investors look for safe havens for their money. The caveat to this scenario is a drastic and prolonged trough in commodity prices, as that would risk the financial sustainability of commodity producing countries and U.S. companies, subsequently leading to reduced international trade, higher unemployment and lower household income.

U.S. Unemployment Rate & Consumer Confidence Index



Source: Federal Reserve Bank of St. Louis

The collective lynchpin for U.S. restaurant owners is the domestic employment trend, wage growth and consumer confidence. If the Chinese economy experiences a hard landing where it fails to grow in the 4% to 6%+ range, it would likely be detrimental to the U.S. job market and restaurant owners. However, a successfully orchestrated soft landing in China should have little impact on U.S. job growth and consumer confidence, thus resulting in a relatively strong topline and improved gross margins for U.S. restaurant owners. Let's hope Beijing knows what they're doing.

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