Upbeat outlook for restaurant sales

An industry group expects revenue in the sector to rise for a fifth straight year.

By Tiffany Hsu

The National Restaurant Assn. says it's confident the industry has just kicked off its fifth straight year of sales growth, despite higher labor costs and an uncertain economy.

Eateries will pull in more than $683.4 billion in revenue in 2014, according to the trade group's projections Thursday. That's a 3.6% nominal increase and a 1.2% real boost year over year.

The top five states for sales growth are Arizona, North Dakota, Texas, Florida and Colorado, according to the association.

The group also said it expects the nation's 990,000 restaurants to employ 13.5 million people this year, making it the second-largest private sector employer in the country, responsible for nearly 10% of the entire U.S. workforce.

The industry enjoyed a 3.3% employment growth rate last year, an upward trend the National Restaurant Assn. said it sees continuing.

But it won't be a smooth road: Food prices remain high and consumers are still wary, according to the group. And restaurants must also contend with the effects of healthcare reform as well as with increasing efforts to boost minimum wage levels.

Full-service restaurants and bars ended 2013 "on a particularly weak note," with foot traffic down 3.3% year over year during the fourth quarter, according to recent data from GuestMetrics.

In the last four weeks of the year, visits slipped nearly 6%, partly because of bitterly cold weather in many parts of the country.

Over the full year, traffic declined 1.9% from 2012. Bars and clubs suffered a 3.8% drop during the year, while casual dining outlets dipped 2.2%. Fine dining establishments fared better, with visits increasing 0.2% in 2013.

Eateries will try to hop on new trends to keep foot traffic and check totals high, experts said.

Technology will be a key factor, according to the National Restaurant Assn. Brands such as Applebee's, which is installing about 100,000 tablets at its tables, and Sonic, which is implementing interactive screens in its stalls, are experimenting with unprecedented connectivity.

Nearly a fifth of consumers told the trade group that technology influences how they choose a full-service restaurant, and even more said it's important in determining which limited-service establishments they patronize.

A separate report this week from NPD Group found that restaurateurs should be careful when promoting new menu items. About 70% of customers told the research group they won't try menu newcomers.

And when patrons do branch out, they are more likely to do it at a casual-dining restaurant than at a quick-service joint. Half of all new menu items ordered are main dishes, according to NPD Group.

Kevin Burke, managing director of Los Angeles investment banking firm Trinity Capital, said he expects fast-casual outlets and new concepts such as "designer" pizza to do well in the new year. He said he expects casual dining outlets to struggle, with larger players using limited-time offers to drown out smaller regional companies.

Beef price increases will be painful in 2014, "unless you are a rancher," Burke said. And major brands will have to update their looks to draw patrons who have an increasingly large roster of choices at which to dine.

"Re-imaging is critical for the larger chains, and those that don't have unit level economics to support it will suffer," he said.

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BUSINESS BRIEFING

EARNINGS

Health insurer's profit surges

UnitedHealth Group's fourth-quarter earnings jumped 15% and topped expectations, as the nation's largest health insurer added millions of customers and booked a sizable gain from a business that doesn't sell insurance.

UnitedHealth earned $1.43 billion, or $1.41 per share, up from $1.24 billion, or $1.20, a year earlier. Revenue climbed 8.2% to $31.12 billion.

Analysts expected, on average, earnings of $1.40 per share on $31.15 billion in revenue, according to FactSet.