

June 5, 2017

We are not all robots: The Restaurant and Professional Services Represented 55% of the hiring in May

The May non-farm report for me highlights the importance of the restaurant industry and how investors take for granted that entrepreneurs and management teams in this industry carry much of the weight of the economy on their shoulders. How is it that this industry made up an increase of 38,000 jobs out of the 138,000 jobs that were reported. As a Financial Professional providing services to the restaurant industry I take no credit for the increase, but find it personally ironic that these two industries combined made up 55% of the increase in jobs; especially given the competitive challenges that both industries are experiencing. Why is it that these two industries showed the greatest growth in employment in this latest report?



Having just returned from the RBC Consumer Conference it is clear that there is a healthy amount of concern about the competitive nature in the restaurant industry, but I found the strategies about how the industry plans to evolve and expand despite the risks of competitive headwinds encouraging. The common theme across all the individual companies was about how they were going to deliver value to the customer through digital, price and delivery. It is clear that companies without a strategic plan in these areas will not survive. For this reason, I do expect small operators to continue to be weeded out. Unit economics are clearly being challenged by higher costs, but the technology of the future is very cool. It should therefore be no surprise that I found the technology session the most helpful and visionary. It is easy to say that digital and delivery are important, but executing on such a plan involve so much detail.

Why do you care?

You care because the restaurant industry employs over 14.7 million people and is the second largest private employer in the U.S. You care because without innovation, risk and effective execution this industry would not grow again by 4% in 2017. You care because every day when you are greeted by a smiling face across the counter such a person is employed. So many people seem to focus on the industry challenges and not on the fact that this industry is dynamic and growing. According to the National Restaurant Association, the industry represents 4% of U.S. GDP and for every dollar spent at the check out \$2 is spent on other industries. Whether you are an S&P investor, tactical investor or sector investor you care because this industry reflects how the consumer is feeling in the context of demographic trends and broad purchasing power. If 70% of the U.S. economy is consumer driven you have to care!

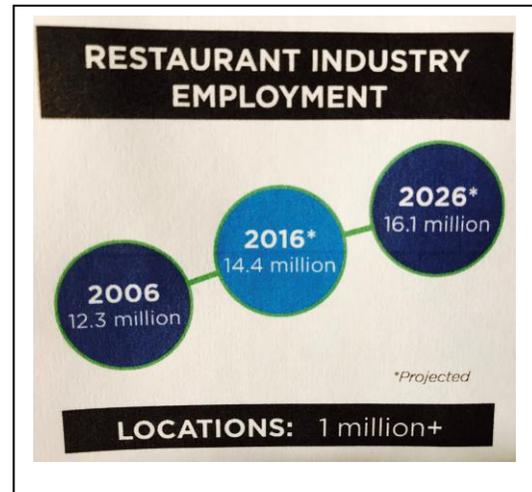
What's next?

In a week, about June 12th, [BlackBox](#) will report Same Store Sales and Traffic for May. As the index owner of the [Restaurant Leaders INDXX Index](#) I am more focused on this data than most readers, but I would argue that the trend in this number is increasingly becoming more important. Afterall, a change in momentum from down

1% would be good for all of us and a continued benign growth in these trends at some point will provide ammo for the skeptics.

Setting the record straight

There is a lot of talk about this industry being in a recession. Funny thing – recessions are defined by employment contraction and or sales declines which according to the National Restaurant Association (NRA) is simply not the case. In 2016, industry revenues increased by 4% and in 2017 they are expected to carry a similar tune. Further data from the NRA forecasts that over 1.6 million jobs will be created by the end of 2027. ⁱ Forecasters can be wrong and arguably not necessarily linear, but the equity markets may be anticipating that the value creation at the store level might be delivering on the right MENU.



As a person providing professional services, the other growth area in the payroll report, I speak to restaurant professionals on a regular basis and while I cannot claim special insight into what will be reported by Black Box next week it is apparent to me that there is optimism in the air. To be clear- this number will only reflect one month. Long term competition for the customer dollar will remain fierce. Everyone wants convenience. Service will remain measured in minutes and sometimes even in seconds. Demographic tastes that admittedly are changing make quality standards incredibly important and challenging. However, the tone at the RBC conference combined with the sector’s strong outperformance simply makes me feel like we have the right ingredients for an industry? Stay tuned!

Disclosures

ⁱ <http://www.restaurant.org/News-Research/Research/Facts-at-a-Glance> and <http://www.restaurant.org/News-Research/Research/Forecast-2017>

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