

THE QUARTERLY BRIEFING REPORT

Summary of Q2 09 with Forecasts for Q3 and Q4 09

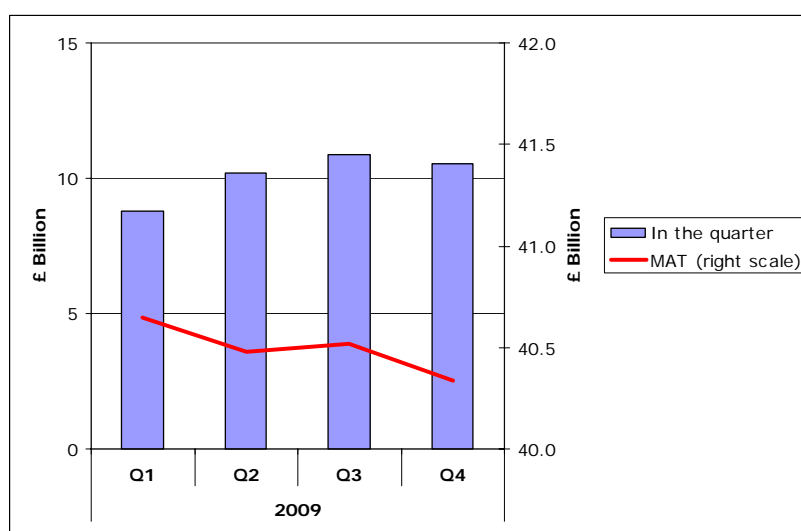
15 June 2009

Quotes of the Quarter

"Backdrop remains difficult" The Restaurant Group; **"Trading is difficult"** Young & Co; **"Trading is subdued"** Mitchells & Butlers; **"Challenging times"** Compass; **"Challenging market"** Gondola; **"Challenging"** Punch Taverns

Horizons say:

Change in Food and Beverage Sales



Q2 09 saw more deterioration in sales – across the eating out market. Discounting drove volumes up but sales and margins suffered.

The outlook is uncertain – wise companies will exercise care.

Source: Horizons

The Quarterly Briefing Report was launched by Horizons in April 2009 to satisfy the widespread need for factual information about what is happening right now and how things will pan out over the short term. With over 30 years experience of delivering highly regarded insight and information, and possessing trend data since 1981, Horizons is ideally placed to help our clients in this way.

In addition to resources such as ONS and the Bank of England, plentiful use has been made of a number of products from Horizons including:

[Quarterly Data](#)
[Menurama](#)
[QuickBite](#)

We ask for your feedback on content and layout of this Quarterly Briefing Report to help us develop it so that it becomes the essential, fully informed basis for your short-term business planning.

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Headlines

- **The decline in the eating out market continued into Quarter 2**
- There has been some stabilisation in the economy – and even some evidence of an upturn. But these green shoots may be a mirage – or at least they may turn out to be followed by a long frost
- The situation up to the end of the year (and beyond) is still very unclear
- The eating out market is susceptible to a downturn caused by worsening economics:
 - The impact of swine flu on consumer demand
 - Rising food costs – not certain but likely
 - More unemployed
 - Increase in the VAT rate – from 1 January 2010
- There are also a number of factors which can depress consumer confidence:
 - Continuing media focus on the poor state of the economy
 - Growing body count from the war in Afghanistan
 - Plus pre-existing concerns: debt, pensions, property prices etc
- There are several positives that can offset these – but wise operators and suppliers will be factoring in a prolonged period of no/slow growth
 - A forecast warmer, drier summer than 2008
 - More Britons likely to take their holidays at home
 - Quantitative easing by the Bank of England may boost lending
 - Sterling is weakening a bit making the UK more attractive for overseas visitors
 - Fears over unemployment may be lower than in previous recessions

Currently, most of the focus is on the commercial sector because that is where all the pressures and pain are being felt. However, we anticipate that the non-commercial sector – especially health care and education – will feature more heavily in future periods as the Government extends deep spending cuts across these sectors in its attempts to balance the nation's books.

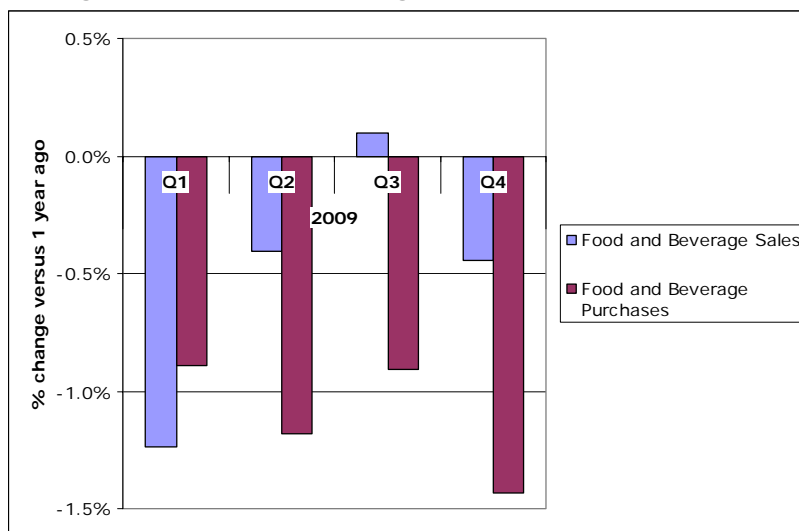
Performance in Q2 09

- After a very poor start to the year, the eating out sector continued its downward path in the second quarter.
- But operators and their suppliers have both started to learn to cope with the new market conditions.
- They have taken action and continue to do so in terms of marketing activity (such as launching and modifying value deals) and prices (including modifying both buying and selling prices).

April

- Comparisons with last year's figures were flattered by the presence of Easter this month

Changes in Food & Beverage Sales and Purchases



Source: Horizons

- Easter, with its sunny weather, was probably better than many had hoped. Easter aside, the month was down on 2008
- It was the best Easter for at least ten years at the Tower of London, Hampton Court, Chester Zoo and others. Regional factors were also at work with London and holiday locations, notably the West Country, doing quite well
- Swine flu appeared on the scene at the end of April

May

- The Minimum wage was increased by a smaller amount than anticipated 7p per hour to £5.80 – for under 21s the figure was £4.83, up 6p
- Comparisons with May 2008 are unflattering because, compared with last year, consumers had less money to spend because: the early May Bank Holiday was closer to Easter; the Whit Holiday came before pay-day.

June

- Changeable weather: cold in the first week; floods in Yorkshire and Derbyshire in the second week; warm in week 3
- Towards the end of the month signs that swine flu may be on the increase – and numbers of deaths are highlighted by the Press
- London was hit by Tube strikes in mid June

Consumers and the wider UK economy

Is poverty on the march?

In April, the number of UK millionaires was just over 240,000 – half the number of two years ago. 78,000 people in the UK had at least £18 million to invest – down 24% on 2008.

We do not report in detail on issues that are well covered elsewhere except those that have an above average impact on the eating out market – or which are of major general significance

The Budget was announced (later than usual) in April:

- It raised duty rates on alcohol above inflation causing potential pricing problems for the pub sector specifically in its on-going battle with supermarkets
- Government capital expenditure will fall by half over the next 5 years - from £44 billion in 2009 to £22 billion. This will pose ongoing challenges for feeding in the education and health care sectors amongst other
- Overall government expenditure will rise by only 0.7% in 2010 compared with a previously announced 1.2% growth which was anyway a historically low figure

The economy

Negative

- In Q1 4,961 businesses went into liquidation – 56% up on a year ago. A further 1,783 businesses went into some form of administration or receivership. 312 businesses from the hospitality and leisure sectors failed in the first quarter of the year (manufacturing and retail had over 700 corporate failures during the period)
- Record numbers of insolvencies (in England and Wales) in Q1 2009 – up 19% at 774; bankruptcies were also at their highest ever 19,062 – up 23% on a year previously
- Houses prices fell to 2004 levels in April although there were subsequent signs that they are stabilising
- At the start of the quarter, mortgage rates had come down substantially giving those with variable rate mortgages (with the 30-55 age group particularly affected), more spending power
- Mortgage lending was 52% lower in March than a year earlier but at least in had grown by 16% in the month
- The UK services sector grew in April for the first time since summer 2008
- Services generally, which includes eating out as well as a wide array of other activities, continued to shrink. Service turnover fell in April.
- Firms - large and small - report that new credit has become even harder to get, but at least the situation doesn't seem to be getting worse.

Positive

- Business optimism started to improve in June – credit conditions may be easing for a significant number of companies but excessive debt still remains in the system. Businesses recognise that emergence from the recession is likely to be slow