Daily Livestock Report

Sponsored in part by CME Group

Vol. 16, No. 216 / November 1, 2018

Today, we will look at some highlights from recent U.S. restaurant and macroeconomic data. Those data underpin the demand profile for red meats. Overall, the U.S. economy remains strong, but there are some signs of moderating growth.

The National Restaurant Association released their Restaurant Performance Index (RPI) for September, the full report is available here. That index is based on an industry survey and gauges the economic health and outlook. An index value of 100.0 is neutral, above that level is positive. The overall RPI (including both indexes — current situation and expectations), slipped in September to 101.1 from August's level of 102.0. The month-over-month decline was mostly due to softer same-store sales and reduced customer traffic levels. September's current situation index remained above 100.0 for the eighth consecutive month coming in at 100.6. But, it dropped from the August level of 102.3. The index of expectations declined slightly from the August level and stood at 100.6.

Compared to a year ago, on average, restaurant operators reported that in September both same-store sales and customer traffic had declined. There were mixed opinions regarding the direction of the U.S. economy. Twenty-Four percent look for economic conditions to improve in six months, compared to 26% who reported that view in August. In September, the percentage of operations that think economic conditions will be worse in six months was 23%, which was the highest in two years.

Strong economic growth was reported In the first official guidance (released on October 26th) on U.S. Gross Domestic Product (GDP) in the third quarter by the U.S. Department of Commerce Bureau of Economic Analysis. Real GDP increased at an annual rate of 3.5 percent in the third quarter of 2018. In the second quarter, real GDP grew 4.2 percent. Importantly, the annualized increase in real GDP in the third quarter reflected positive contributions from personal consumption expenditures. Private inventory investment, also increased. The deceleration in the GDP growth rate in the third quarter compared to the second reflected a downturn in exports and some other factors.

Yesterday, the U.S. Department of Labor's Bureau of Labor Statistics, released the quarterly Employment Cost Index (see here), which details changes in labor costs. Some have characterized wage increases as sluggish, given that U.S. unemployment is at the lowest in over four decades and that nationally there are more jobs available that there are unemployed people. During the last quarter (through September), wages and salaries increased by 0.9%, and year-over-year rose by 2.9%. Wage growth this year has been running higher than overall inflation. Of course, the calculus of inflation involves the ability of manufacturers, retailers, restaurants, etc., to pass-through higher costs. Those increasing costs include more than wages, for example, higher costs due to tariffs on steel and aluminum.

Turning to the monthly U.S. Consumer Sentiment survey by the University of Michigan, the most recent release had final results for October. The September index stood at 100.1, October's dipped to 98.6 (see graphic). That was a slight revision down from the preliminary read of 99.0. Still, the October measure of consumer sentiment was the seventh highest since January 2001.