THE RECEDING RECESSION:
ARE HAPPY DAYS HERE AGAIN?

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It is a truism that "*Alcohol is recession-proof*." While that may be accurate generally, there is no doubt that the Great Recession (generally perceived by economists and policy makers as beginning in December of 2007, and carrying on for anywhere from two to six years thereafter, depending on which experts are consulted) took a huge toll on the retail tier of the alcohol industry. On-premises retailers were hardest hit, with many long-standing restaurant chains ultimately going bankrupt.

Some would argue that the Great Recession remains with us in too many places across the country. While economic data from especially hard-hit localities may confirm that concern, the national outlook is beginning to reflect a new reality, *i.e.,* that the Great Recession finally is receding.

Turning the Corner: Increased M&A

The evidence for this rosier picture comes from several sources. Consider, for example, the increase in hospitality-related mergers and acquisitions. In the heart of the Great Recession, M&A deals came to a standstill. That cessation was not due to a lack of attractive purchasing opportunities. Restaurant bankruptcies meant that many chains were available for purchase at bargain prices; but nobody was buying. The most commonly offered explanation at the time was that national and even global recessionary fears were keeping investment capital on the sidelines.

The Proof Is In the Data: Increased Unit Sales

While M&A transactions may appear anecdotal, industry wide statistics are as cold and calculable as scientific data. The most recently issued data on restaurant activity and alcohol sales in America corroborate the view that the Great Recession finally is abating.

On-premises sales at eating and drinking establishments in the United States totaled $47.3 billion in July of 2014, the strongest monthly volume on record, according to data recently released the National Restaurant Association. A report issued by the NRA's chief economist, Bruce Grindy,

concludes that steady job growth and improving consumer confidence point toward continued sales gains in the months ahead.

Off premise sales also improved, as yet another demonstration that the Great Recession finally is receding. For example, Goldman Sachs recently published its own economic analysis for the alcohol sector of the economy, reflecting that overall beer industry sales grew 3.4% for the four weeks ended August 2, 2014, an acceleration from the 0.8% growth in the prior period. The bankers' report also noted that beer industry volumes increased 0.8%, the strongest showing in four months. Pricing of +2.5% was in-line with prior trend, albeit modestly below the 52-week trailing average of +2.8%. Wine sales accelerated modestly to +4.2%, driven by 1.4% volume growth and 2.7% price increases.

The Nielsen Company's recently-published consumer data for the beer industry confirm the Goldman Sachs assessment: total beer sales were reported by Nielsen to have increased 3.4% in the four weeks ended August 2, 2014 (versus. +2.5% over the last 12 weeks and +3.1% over the last 52 weeks). Nielsen also reported that beer category volumes were up 0.8% year-over-year (versus. -0.2% over the last 12 weeks) such that price/mix added 2.6 points to dollar sales growth (up 2.7 points over the last 12 weeks), even as promotional activity was reportedly down 0.9 points.

These data tend to support the observable phenomenon of America's growing infatuation with craft beverages. Now that economic fears are lessening, consumers are spending more of their discretionary income of these specially-produced beer, wine and spirits products.

For example, the market research firm Mintel just released data reporting that Americans will purchase and consume more than $20 billion worth of craft and craft-style beer in 2014. Of that total, 84% ($17.2 billion) is projected to be malt beverage products produced by "craft brewers" as defined by the Brewers Association. Based on its economic and statistical analyses, Mintel also is predicting that those sales figures will double in the next five years.

Similar levels of economic activity also are surfacing in other segments of the alcohol beverage industry. Newly reported data indicate that wine and spirits manufacturers also are enjoying increased demand for their products, as spending on alcohol begins to relax and expand not just across America, but globally. For example, exports of Kentucky bourbon and Tennessee whiskey rose in 2013 above $1 billion for the first time. Combined, exports of these spirits grew a projected 5%, from $956.8 million in 2012 to approximately $1 billion last year, according to the Distilled Spirits Council of the United States.

Bourbon and Tennessee whiskey revenue increased even higher in the United States, rising by a projected 10.2% last year, reported DISCUS. The performance of spirits abroad drove overall American distilled-spirits exports above $1.5 billion, reflecting the fourth straight year of record exports for U.S.-crafted spirits.

The recent growth in restaurant sales generally, and alcohol sales in particular, is even more impressive given that it coincides with strong auto sales, which were up a solid 6.4% in the 12 months ending July, 2014. A surge in auto sales sometimes can initially crowd out spending in

restaurants, as consumers pull back to adjust to their additional monthly payment obligations. However, that did not appear to be the case in recent months.

Looking Forward

In the months ahead, experts report that business conditions will continue their positive trajectory. The economy added over 200,000 jobs in each of the last six months (for the first time since 1997), while The Conference Board's *Consumer Confidence Index* rose to its highest level in nearly seven years.

Moreover, according to the National Restaurant Association, restaurant operators across America generally are optimistic that business will improve in the remainder of 2014, and beyond. In the NRA's *July 2014 Tracking Survey*, 44% of restaurant operators reported they expect to have higher sales in six months (compared to the same period in the previous year), while only 10% of restaurant operators expect their sales to decline in six months.

Another confirming source of data is "*The People Report Workforce Index*," produced by Dallas-based People Report. The *Workforce Index*, based on surveys of human resources departments and recruiters in the restaurant industry, measures expected market pressures on restaurant employment. The index has a baseline value of 50, with results over that level indicating increased pressures on five components: employment levels, recruiting difficulty, vacancies, employment expectations and turnover. The current edition of that index reached its highest level for the upcoming third quarter since it was established in 2006. Specifically, the third-quarter 2014 overall index rose to 77.8, from 69.0 in the second quarter. Additionally, vacancies at the management level and turnover rates both increased, suggesting that expansion is creating new hiring opportunities. Likewise, the index's "Employment Levels" component rose to 81.3, from 64.4 in the second quarter, which the survey noted was "representing strong job growth across all segments." Recruiting difficulty also rose to 74.4, from 67.5, which the survey noted as "an increasing challenge at the management level."

These restaurant industry data are consistent with overall national economic productivity and performance data. For example, the national U.S. unemployment rate dropped from 6.7% at the beginning of 2014 to 6.2% at the end of the second quarter. Likewise, the national economy added 736,000 jobs in the second quarter, an increase from 569,000 in the first quarter, and represented the strongest quarterly job growth in more than two years. Of that total, the foodservice industry added 79,900 jobs during the second quarter, rising from 78,700 in the first quarter. According to the *Workforce Index*, 70% of restaurant companies added staff at the hourly level in the second quarter, an increase from 41% in the first quarter, and only 3% reduced staff. At the management level, 53% added staff, while only 5% made reductions.

What does this mean for the alcohol industry's economic future? These current data, along with the increase in M&A activity, the proliferation of craft product sales and the growth in sales and employment vacancies, all suggest that happy days indeed may be here again.