

Consumer spending continues to shift in favor of services

Article

The trend: Shoppers may be pulling back on discretionary purchases like electronics and furniture, but they're spending enthusiastically on restaurant meals and fitness memberships, underscoring the spending shift from goods to services.

- **Darden Restaurants'** Q3 earnings topped Wall Street estimates for both revenues and earnings per share (EPS); the **Olive Garden** owner said all its brands set sales records during the quarter ended February 26, 2023.
- Membership at gym operators including **Planet Fitness** and **Xponential Fitness** is currently above prepandemic levels as consumers prioritize physical and mental wellbeing.

An affordable luxury: Same-restaurant sales grew by double digits across all Darden's brands, ranging from lower-priced Olive Garden to fine dining destinations like **The Capital Grill**.

- **Overall same-restaurant sales increased by 11.7% year-over-year (YoY)**, with Olive Garden slightly outperforming the other brands with 12.3% YoY growth.
- As a result of the strong quarter, the company raised its outlook for the rest of the fiscal year. Darden now expects total sales of \$10.45 billion to \$10.50 billion, and same-restaurant sales growth ranging from 6.5% to 7.0%.
- While CEO **Rick Cardenas** attributed growth to the company's ability to enhance value by keeping price increases below inflation, Darden's better-than-expected Q3 earnings reflect heightened **demand for dining out** even as inflation erodes spending power.
- **In January, US consumers spent 22.4% more YoY on dining and accommodations, per** the Commerce Department. And restaurant sales are expected to grow 6.4% this year to \$997 billion, the National Restaurant Association estimates.

Getting back into shape: Gym memberships are also proving to be non-negotiable for many as COVID-19 fears subside and interest in wellness and healthy living grows.

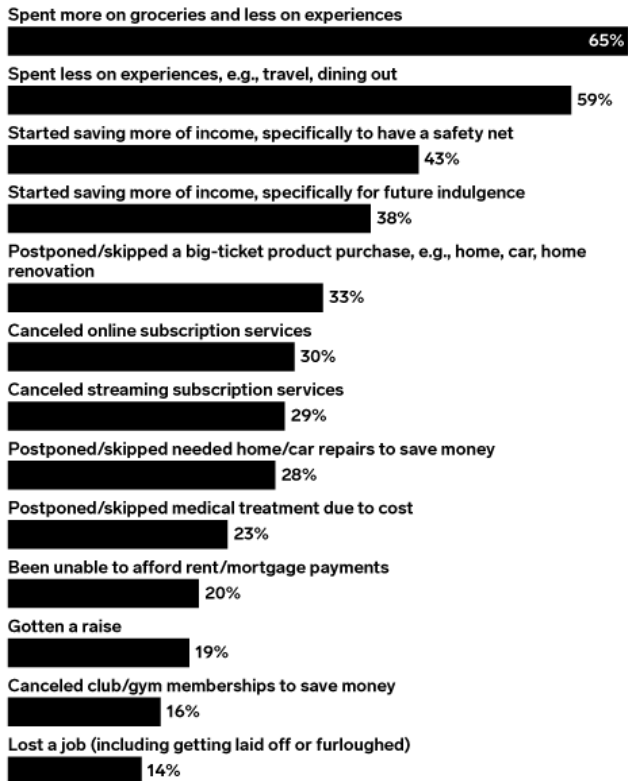
- **Planet Fitness added 400,000 members to its rolls in Q4**, bringing its total membership base to roughly 17 million.
- **Anthony Geisler**, CEO of boutique operator Xponential Fitness, **told** Reuters that the gym has "more members today than we've ever had, paying more than they ever have."
- The renewed interest in gyms has come at the expense of home fitness companies like **Peloton** and **Tonal**—the latter of which could see its valuation fall by 90% as it tries to raise enough cash to stay alive, per The Information.

The big takeaway: Despite being the beneficiaries of pent-up demand now that more people's coronavirus fears have subsided, both restaurants and gyms are relatively easy targets to pull

back on should inflation prove too great a burden on household budgets.

Recent* Changes in Household Spending According to US Adults, Aug 2022

% of respondents



Note: n=1,119 ages 18+; *in the past 6 months
Source: Ipsos, "Coronavirus Consumer Tracker," Aug 5, 2022

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