



 *Market Minute*

# MCDONALD'S: BURGERS, FRIES AND A GAUGE OF U.S. GROWTH



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Sales trends for the iconic fast-food chain have historically mimicked U.S. economic trends, providing clues about what may be in store.

# KEY TAKEAWAYS

- Consumers drive U.S. gross domestic product (GDP), and their spending habits provide important clues about the health of the economy.
- Sales at fast-food giant McDonald's, which have historically tracked U.S. economic trends, point to weaker consumer spending and slower growth.
- Other consumer metrics also point to a likely economic slowdown, underscoring the importance of quality and diversification in investor portfolios.



# CONSUMERS REIGN OVER U.S. ECONOMY

Consumers are the main drivers of U.S. economic activity.  
In general, as **consumer spending** goes, so goes the U.S. economy.

## U.S. GDP Components, Second Quarter 2024



Consumer spending accounts for nearly **70%** of U.S. GDP.

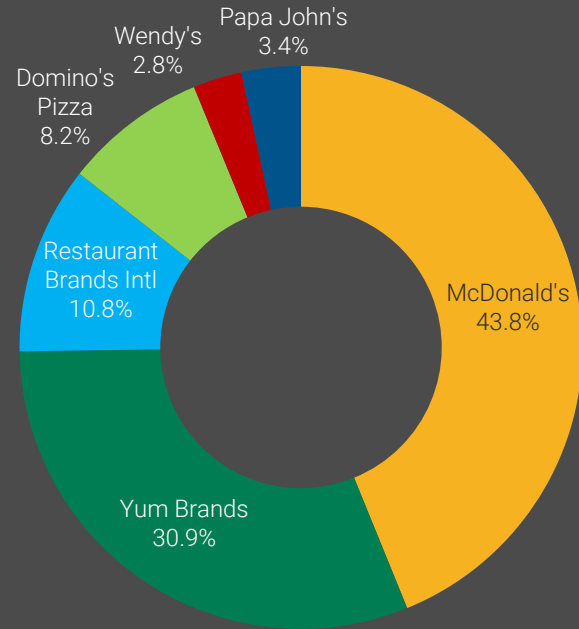
# A STALWART SPENDING INDICATOR

As the U.S. economy's dominant driver, consumers provide many clues about the economy's direction. Their ability and willingness to spend on dining out naturally have a link to economic output.

Given its nationwide presence, we think **McDonald's is a useful bellwether on the state of the U.S. economy:**

- Americans spend approximately 10% of their annual incomes on fast food.<sup>1</sup>
- With more than 13,450 restaurants and sales topping \$53 billion in 2023, McDonald's is the largest fast-food chain in the U.S.<sup>2</sup>
- McDonald's boasted a global fast-food market share of nearly 44% in 2021.<sup>3</sup>

McDonald's Has the Largest Share of the Global Fast-Food Market<sup>2</sup>



<sup>1</sup> Market Data Forecast, "Global Fast Food Market Size, Share Trends & Growth Forecast Report," June 2024.

<sup>2</sup> Nation's Restaurant News, "2024 Top 500: The 50 Biggest Restaurant Chains in America," June 3, 2024.

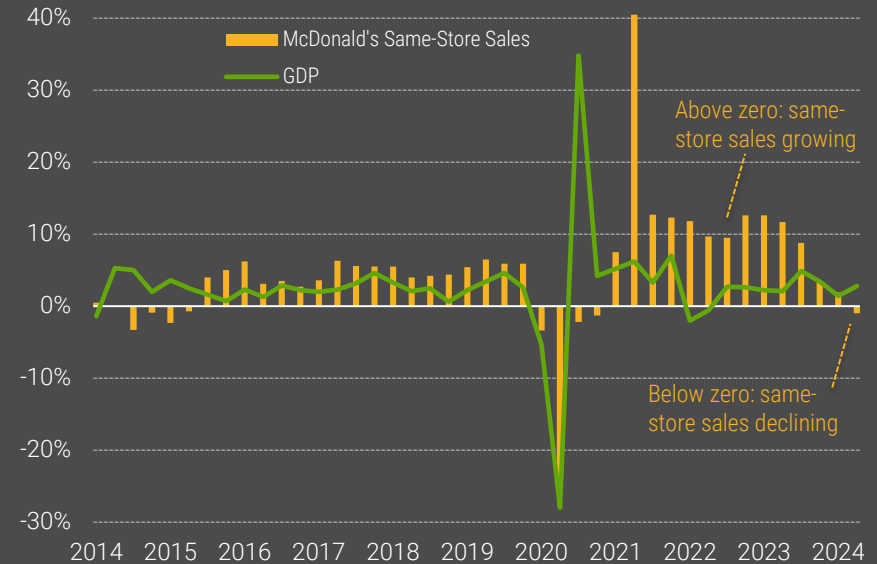
<sup>3</sup> Khaveen Investments, "McDonald's King of Fast Food Is Here to Stay," Seeking Alpha, April 5, 2022.

# GOLDEN ARCHES SALES ALIGN WITH GDP

McDonald's quarterly sales have a close relationship with U.S. GDP.

- For more than 10 years, the direction of McDonald's same-store sales has closely tracked U.S. GDP trends.
- In the second quarter of 2024, the company's same-store sales fell for the first time since the fourth quarter of 2020.
- If historical trends persist, McDonald's sales patterns suggest a downward path for U.S. GDP, despite the second quarter's gain.

McDonald's Same-Store Sales and GDP Move on Similar Tracks  
Percent Change from Quarter to Quarter



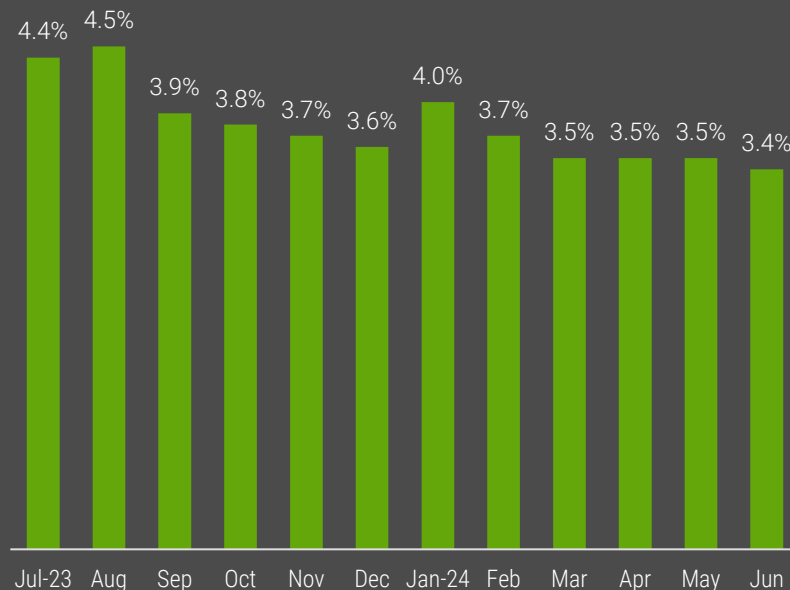
Data from 3/31/2014 – 6/30/2024. Source: FactSet.

# CONSUMER SENTIMENT IS SAGGING

Recent sales figures from McDonald's coincide with our observations about weakening consumer spending and sentiment, including:

- The U.S. personal savings rate declined nearly 23% from July 2023 to June 2024.
- Monthly retail sales stalled in June, while the year-over-year pace declined for the third consecutive month.
- The University of Michigan Consumer Sentiment Index declined for the third straight month in July to its lowest level in eight months.
- Growth in average hourly earnings sank in July to its lowest level in more than three years.
- The unemployment rate rose for the fourth straight month in July to 4.3%, its highest level since October 2021.

Personal Savings Rate Is Declining



# THE BOTTOM LINE

- Consumer sentiment largely drives the health and direction of the U.S. economy. In our view, discretionary expenditures, such as restaurant spending, are particularly revealing.
- The recent decline in quarterly same-store sales at fast-food giant McDonald's suggests the U.S. economy will likely decelerate.
- Other indicators, including unemployment, retail sales and savings patterns, reinforce our view that the economy is likely headed for a slowdown.

## Investment Considerations in a Slowing Economy

- Diversification.
- High-quality stocks from companies with competitive advantages and earnings durability.
- Stocks in defensive sectors (utilities, health care, consumer staples).
- High-quality bonds.
- Duration exposure in fixed-income strategies.

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## GLOSSARY

**Duration:** Duration is an important indicator of potential price volatility and interest rate risk in fixed-income investments. It measures the price sensitivity of a fixed-income investment to changes in interest rates. The longer the duration, the more a fixed-income investment's price will change when interest rates change.

**Gross domestic product (GDP):** A measure of the total economic output in goods and services for an economy.

**University of Michigan Consumer Sentiment Index:** A monthly telephone survey of consumer confidence levels in the U.S. The index measures how consumers feel about the economy, personal finances, business conditions and buying conditions.

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Diversification does not assure a profit, nor does it protect against loss of principal.

Investment return and principal value of security investments will fluctuate. The value at the time of redemption may be more or less than the original cost. Past performance is no guarantee of future results.

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