



The Big Wipeout

I shy away from predictions. After all, they're a bit like a**holes...everyone has one, especially when it comes to the markets or economy.

But, recently, I was having a conversation with someone and noted that in the next recession, I “predict” that more than 50% of all restaurants in this country will go bankrupt and **never return**.

Nothing will fill its space either. Lots of empty buildings!

While I do my best to maintain my svelte physique at 50, I grew up enjoying good food. My parents were excellent home cooks, and although middle-class, they never skimped when it came to eating out. On vacation, we ate the very best.

I’ve eaten out more with my Dad in my life than anyone else. Growing up, dinner out with him was a bit like the movie *Goodfellas*. Every Wednesday, we had a reservation at the same table with the same waiter at a local Italian place. Practically every place we frequented in town knew him by name. Service was always excellent and the food even better.

Those days are long gone. Like flying, it's all become a numbers game, lacking a personal touch. As an adult, I have been fortunate to travel the world and experience many cultures through food.

But it's now on a death spiral.

We recently moved from a picturesque but sleepy town with four dining options to the also picturesque suburb of a major U.S. city with *thousands* of dining options. We love to cook; however, our new home was being renovated, so we took the opportunity to try a variety of cuisines and restaurants. More so than we might under normal circumstances.

Prices are exorbitant. Quality has deteriorated. Service is non-existent.

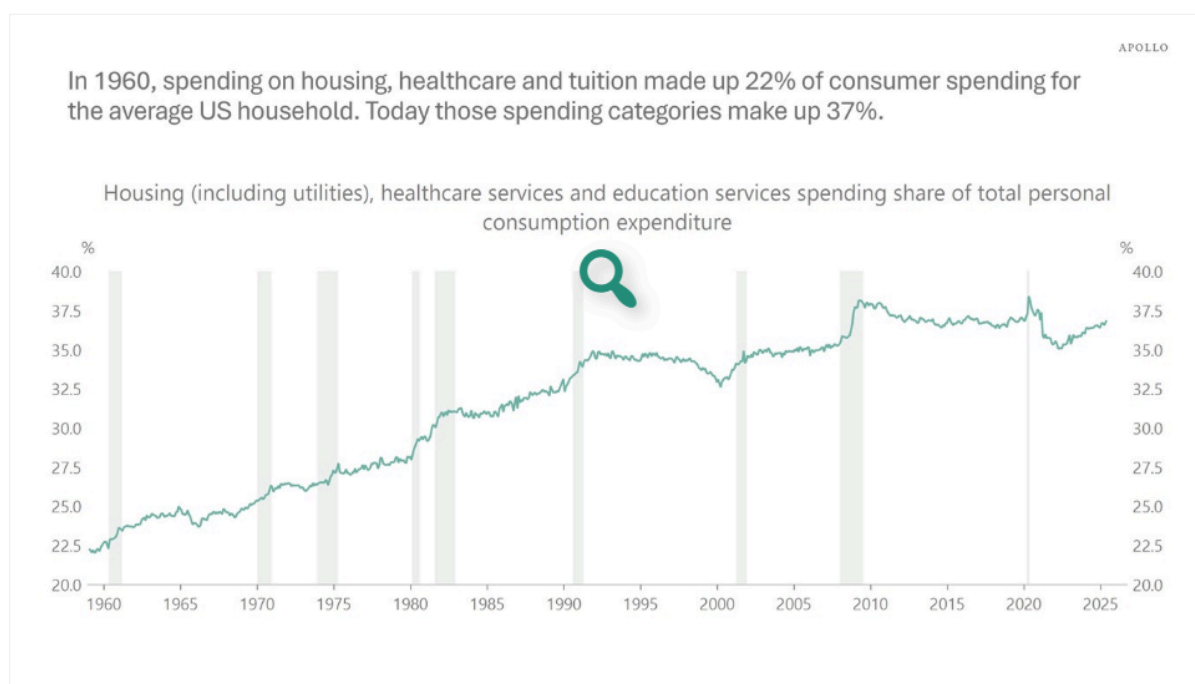
That's how I'd sum up eating out over the last five years since COVID. The trend is down.

There will be no saving grace when the recession grim reaper comes. The cost structure is out of whack, for one thing. Rents are sky high. Insurance premiums are absurd, and the raw material costs provide no value for money.

And, labor. One of the big scams in recent years was California moving franchise labor wages to \$25 an hour, except when the company bakes bread on premises. Now, ask yourself why baking bread on premises makes a difference, whether a laborer should make \$25 an hour or not.

The answer is it doesn't. The scam was that one of the largest donors to Governor Newsom founded Panera Bread. So they literally carved out an exemption for the donor. Money pays in politics!

Most places are toast. I saw a telling statistic this morning that scared the jeebers out of me. In 1960, consumers spent 22% of their income on housing, education, and healthcare. Today, that number is 37.5%.



Sources: US Bureau of Economic Analysis (BEA), Macrobond, Apollo Chief Economist

Expand

The difference in spending alone on basics is the difference between having money even to eat out and, frankly, fund one's financial future. That's all gone, and it's not getting better.

And, here's where it gets awful. There are now *more* private equity funds than McDonald's restaurants *worldwide*. That means there's a *lot* of funny money floating around. And, it's likely being poorly allocated.

Many restaurants are funded by backers as vanity projects. The backer gets to say he owns "a Michelin-starred" restaurant. And, he can take his friends there to show off, eat fancy food, and drink overpriced wine.

But, here's the thing. *Even the top restaurants don't make money*. I recently watched an eight-part series on Apple TV+ (Apple is offering a 50% discount right now, which was a good deal) called *Knife's Edge: Chasing Michelin Stars*.

The people who run these places are literally on a knife-edge. Especially financially. Most of them are in a bind despite charging high prices for their food.

Private credit is also on a knife-edge. So what do you think will get cut first when the money man comes to recoup the debts owed to him? Vanity projects. The restaurants will get dumped first.

I'm using restaurants as an example of how life and quality of life will be different in the next smash. There are implications for many industries.

It's going to be a doozie.

Cost structures are out of whack, and it's built on funny money. That never ends well. And our culture is going to suffer because of it, too.

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