Shaken and stirred: inflation, wage hikes and tight wallets are sinking restaurants and bars

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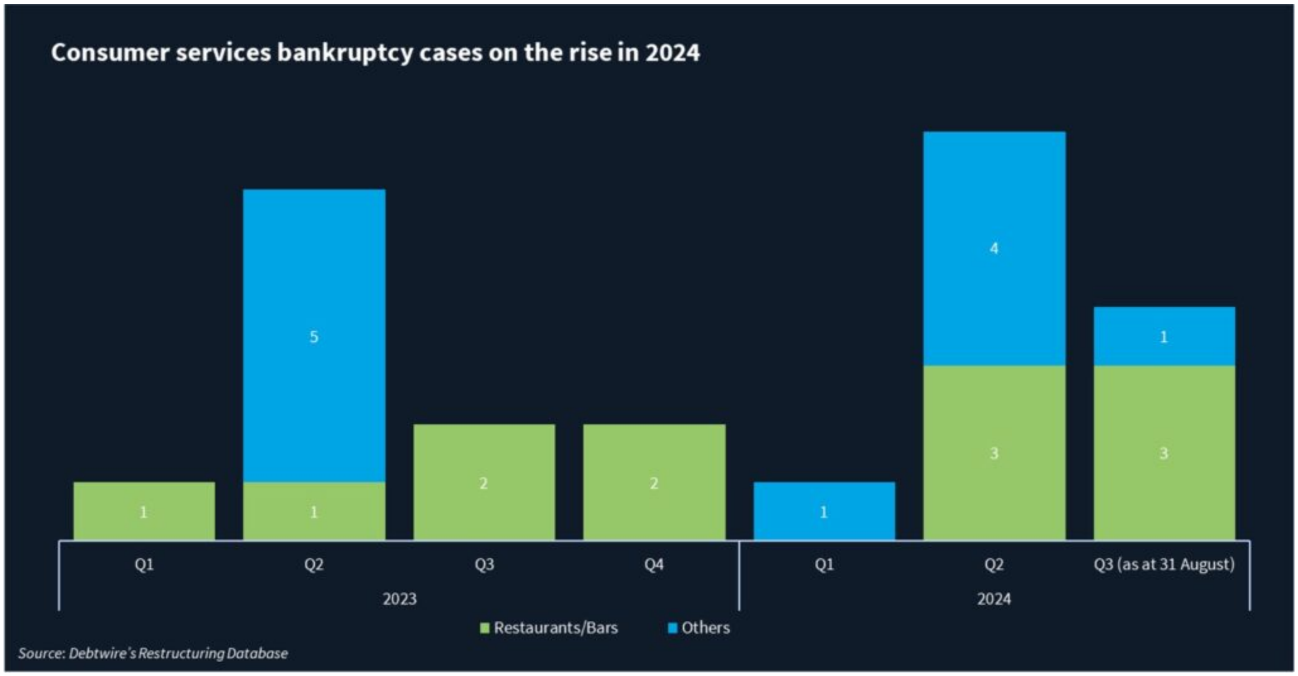

The consumer services sector has seen a significant uptick in Chapter 11 bankruptcies in recent months, driven largely by filings from restaurants and bar companies. A dozen Chapter 11 cases have been filed in the consumer services sector in 2024 year to date (YTD), with 11 of these occurring in the past six months. Note that half of these bankruptcies involve businesses tied to restaurants and bars.

The second most active sector for Chapter 11 bankruptcies has been consumer services, which accounts for 10% of all cases in 2024 YTD. It is surpassed only by the healthcare sector, leading the way with 22% of all Chapter 11 bankruptcy filings, according to *Debtwire*'s restructuring database, which covers bankruptcy cases with funded debt of USD 10m or more.

Consumer spending patterns have shifted significantly in the post-pandemic environment. As inflation and interest rates have soared, many consumers have cut back on eating out, opting instead for home-cooked meals or less expensive dining options. These changes in behavior have manifest in reduced revenue for restaurants, especially those relying on dine-in customers.

Two restaurant chains to file for bankruptcy this year have pinpointed rising wages as a key reason for their insolvency: Tex-Mex group Tijuana Flats and coastal Mexican cuisine specialist Rubio Restaurants. The companies also blamed soaring food and utility costs, as well as shifts in post-pandemic consumer spending habits, alongside challenges arising from the inflationary environment. Casual dining seafood chain Red Lobster, a company with over 64 million customers annually, blamed macroeconomic factors heavily affecting its performance in recent years before filing for bankruptcy in May.

Other debtors in the restaurant industry to file for bankruptcy this year include Buca di Beppo, WOB Holdings LLC, and One Table Restaurant Brands LLC.

Current macroeconomic factors, coupled with the surge in restaurant-based bankruptcies in the past two quarters, suggest more restaurants could go under as 2024 draws to a close.

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