

Something to Think About



OAKWORTH
CAPITAL BANK

COMMON CENTS

This morning, the Bureau of Labor Statistics (BLS) announced the US economy created 257K net new payroll jobs during January 2015. That was pretty much in line with expectations, and is a pretty decent absolute number. After all, when you are creating jobs, you are creating paychecks. When you are creating paychecks, you are creating consumers. When you are creating consumers, you are helping to fuel the consumer dependent US economy.

So, 257,000 new payroll jobs? Couple that with a decent increase in weekly earnings, not great but decent, and that is a pretty fair month's work, pun intended. But how much longer can this last? Perhaps a better question should be: just how much longer are Americans going to continue to spend more money at restaurants?

According to the National Restaurant Association, which admittedly might not be the most unbiased source of data, restaurant industry sales will be \$709.2 billion in 2015. They were \$586.7 billion in 2010, and around \$379 billion in 2000. These are nominal dollars, and, as a comparison, that is faster growth than US economy as a whole.

Perhaps not surprisingly, jobs at restaurants and bars have been growing at a much faster rate than jobs in general thus far this century, and it ain't even close. To that end, jobs at 'drinking & drinking establishments' officially increased around 34.4% from the end of 1999 through the end of 2014. Jobs, in general, have grown about 7.5%.

As my wife has said on numerous occasions: "is it any wonder this country is so fat?" That used to be funny until my metabolism starting grinding to a halt at around the same time my hair went from dark brown to salt & pepper to, now, pretty much white.

Now, a lot of apologists have pontificated on this explosion in dining out with comments along the lines of: "With more women working outside the home, American households are more concerned with just getting something on the table, as opposed to how it got there." That is a wonderful rationalization, but, as a percent, fewer working-aged Americans are actively looking for a job than at the end of 1999. As a result, the employment to population ratio of working-aged Americans is lower now than it was in 1984.

So, thanks for the cop-out. I really appreciate it, but there is something else going on here. Want the truth? Restaurants can prepare tastier meals at a lower price than we can at home. The reasons are simple: 1) greater efficiencies, and; 2) greater economies of scale. In essence, your kitchen is competing with a professional kitchen. Who will win out?

With this in mind, I watched a comedian named Jim Gaffigan this past weekend, and he had a really funny bit about McDonald's. As an aside, I don't like many comedians, but I do like this guy, primarily because his jokes are actually funny, as opposed to being a string of obscenities passing as, um, humor. In any event, here are some of the 'observations' he had about the big M, and please forgive the grammar...this was cut & paste:

It's fun telling people you go to McDonald's. They always give me that look like:
Oh! I didn't know I was better than you. No one admits to going to McDonald's.

Inside this issue:

Something to Think About	1-3
Disclaimer	2

**The other night I ate at a real nice family restaurant.
Every table had an argument going.**

George Carlin

Something to Think About Cont.

They sell six billion hamburgers a day. There's only 300 million people in this country. It's like...I am not a calculus teacher, but I think everyone is lying.

Cause we all know better, right? We've all read the articles, seen those documentaries. It's the same message. Look; McDonald's is really bad for you. It's very high in fat and calories, and we don't even know where the meat comes from. and we're like, that's disgusting. I'll have a Big Mac, a large fry, and a two gallon drum of diet coke. Cause there is McDonald's denial, we all embrace it. No one is going in there innocent, or walking into a red and yellow building with a giant M over it, what is this, a library? I'll get some fries while I'm here. Because those McDonald's fries are truly amazing, right?

Has your mother ever made anything as good as a McDonald's fry? Not even close. We lie to ourselves when we eat McDonald's fries. Oh, they are so thin, they couldn't be fattening. You ever eat too many McDonald's fries? Of course not. There is never enough of them. There's always that moment when you're eating McDonald's fries when...really. What just happened? Where did they go? Then you search, scrunching for the fry crumbs. Oh that's just a piece of paper from the straw, but it was touching the fry so...

I'm tired of people acting like they are better than McDonald's. It's like...you may have never set foot in McDonald's, but you have your own McDonald's. Maybe instead of buying a Big Mac, you read Us Weekly. Hey, that's still McDonald's. It's just served up a little different. Maybe your McDonald's is telling yourself that Starbucks Frappuccino is not a milk shake, or maybe you watch Glee.

I just love the societal outrage at McDonald's. McDonald's? There is no nutritional value, there are no vitamins. McDonald's is like, excuse me, we sell Burgers and Fries. We never said, we are a farmers market. Heck, our spokesman is a clown from the 70's. What do you want from us America? But I was raised on McDonald's and I turned out, well maybe that's not the best reasoning. McDonald's has given us so much. We wouldn't know when breakfast ends, if there was no McDonald's. I'd be eating eggs at 5 PM like a moron. Thank you McDonald's.

Hey, I can't take credit for coming up with any of these jokes, but I will take it for passing them along.

Still, it seems there are any number of headlines about thus and so restaurant chain running into hard times. Shoot, even McDonald's isn't above declining same store sales. Then, the Olive Garden has had some recent troubles, as has the Red Lobster. Shoot, let's just say Darden Restaurants has been slugging it out, as have the good people at Yum! Brands here in the US. Oh, these companies are just fine, but the growth has been slowing, even as the amount of money people spend at restaurants has been going through the roof.

The reason is simple: there are so many more competitors now, and they blur culinary lines, making restaurants, in general, almost fungible. For instance: while my kids prefer Chic-fil-A, Zaxby's will do on Sunday, or even when the line at the former is too long. Me? There is no way I am going to wait any amount of time at, say, El Cazador when La Hacienda has seats aplenty a couple of blocks away. My wife would prefer Surin of Thailand, but will take Shangri-la Chinese food if the weather is bad, because the latter delivers.

Disclosure

This report does not constitute an offer to sell or a solicitation of an offer to buy or sell and securities. The public information contained in this report was obtained from sources and vendors deemed to be reliable, but it is not represented to be complete and its accuracy is not guaranteed.

This report is designed to provide an insightful and entertaining commentary on the investment markets and economy. The opinions expressed reflect the judgment of the author as of the date of publication and are subject to change without notice; they do not represent the official opinions of the author's employer unless clearly expressed within the document.

The opinions expressed within this report are those of John Norris as of the date listed on the first page of the document. They are subject to change without notice, and do not necessarily reflect the views of Oakworth Capital Bank, its directors, shareholders, and employees.

Something to Think About Cont.

So, if you assume the number of restaurants has gone up proportionally with the number of restaurant workers since 2000, the number of restaurants from which we have to choose has grown at a much more rapid rate than the population as a whole. This means there are more options available to us per capita, which means competition in the industry is more fierce than it was.

Hey, when I was a kid, laughingly, McDonald's biggest competition was kind of KFC, or Kentucky Fried Chicken as we knew it back in the day. Sure, there was a Burger King or two in town, but, you know, there weren't a ton of fast food options, let alone fast casual restaurants.

Heck, up until I went to high school, I couldn't have told you of more than 5 Chinese restaurants in town, and can recall only 4: Joy Young, Kao's, Mandarin Inn, and Mr. Loo's. Mexican? Hmm. El Palacio had a couple of locations, and then there was El Chico in the mall. Yep, that is about it. There were no Thai restaurants and no Indian joints. A place named Wanda June's offered up the only Buffalo wings in town, and delivery pizza was still kind of a novelty. Yep, however, there were any number of BBQ joints and meat & three locations (including cafeterias, which were still extremely popular). Finally, and this sounds crazy, the Red Lobster was sort of on the higher end of non-private club eating experiences.

While the good folks at McDonald's might not appreciate it, their competition for tummy isn't just Wendy's, Burger King, Hardee's/Carl's Jr., Jack in the Box, Whataburger, Krystal, White Castle, Five Guys, Dairy Queen, Sonic, In-N-Out Burger, Johnny Rocket's, Red Robin, Fuddrucker's, Five Guys, or even Milo's or Jack's here locally. Nope. It is also competing with Arby's, Zaxby's, KFC, Chic-fil-A, Taco Bell, Long John Silver's, Captain D's, Church's Chicken, Del Taco, A&W, Wienerschnitzel, Subway, Shoney's, and Steak 'n Shake.

You know, that is cutting the list down, way down. I should probably throw in Domino's, Papa John's, Little Caesar's, Manchu Wok, Pizza Hut, Panda Express, Panera Bread, Firehouse Subs, and, whew, I am getting tired of listing these all out. Because I almost forgot the Carraba's, PF Chang's, Chuy's, Red Lobster, Olive Garden, Chipotle, Chili's, Outback Steakhouse, Longhorn Steakhouse, Buffalo Wild Wings, T.G.I. Friday's, Applebee's, Ruby Tuesday, California Pizza Kitchen, and Hooter's (sorry but there around 450 of them) of the world.

Couple these large national and regional chains with the smaller, local ones and the stand alones, and, voila, according to sources, there are around 1 million dining establishments in the country, and growing. The best part? They all mostly do better than I can do for myself, and that is what is known as capitalism.

Try as hard I as I might, I simply can't make a pizza as tasty as my friend Ramon sells for \$5, and this at twice his price if not more. I also can't make wings approaching the flavor and value of my friend Paul's. I can't make Thai noodle or anything resembling Chinese food anywhere near as tasty as even the greasiest of greasy spoon Asian joints. I can't make fajitas worth a darn, and my queso dip is just like my mother's gravy...would you like a slice of it? I have never attempted to make naan, saag, or chili paneer. What would be the point? You can take the Café Du Monde beignet mix and make something about half as good as the real thing.

So, Americans are too busy to cook? Maybe, but Americans have always been busy. Perhaps a better answer to why there are so many restaurants in the United States is: there are too many people who can cook a lot of stuff better than you can, at a fraction of what it would cost to assemble everything yourself, let alone the time needed to prepare whatever it is you want to prepare. Go ahead....make a bagel or two doughnuts. Yep, this is the real reason why there are so many restaurants in our country....specialization. You leave the cooking to the cooks, and the cooks will leave the banking to the bankers, that sort of thing. Believe it or not, that isn't necessarily a bad thing, even if you could argue it isn't too good for the old waistline. That is up to you.

So, in the end, go out and support your local restaurateur or franchisee this weekend. However, make sure to run or walk a few laps around the block before you go back for a second visit. However, I do ask a favor of you: while you are pounding the pavement, ask yourself why there aren't too many restaurants, let alone chains, which specialize in rice cakes, and even good old-fashioned chicken noodle soup.

Psst...because Quaker and Campbell's do a good job with those things already.