Bottlenecks, Logjams and Opportunities

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After a couple of reports that inflation is back and the long-term outlook for the stock market is dim, along comes the productivity cavalry to save us again. To begin, the blockage of seaports due to the inability to find a place to unload a zillion containers of goods is crimping economic growth. Government interference in assisting truckers to move containers out of the crowded ports and into the retail world has ignited accusations that such events are contributing to inflation. We are seeing the response to these events; rising costs for food and fuel, housing and other necessities are giving consumers a cause for concern. However, consumers have saved over $3.3 trillion dollars since the pandemic began and can dole out a few more bucks to pay for price increases from businesses that have not been so fortunate during the economic downturn. We expect that we will get more inflation for the balance of 2021 and that oil prices will continue to inch higher. So, what does 2022 look like?

First, large retailers are not sitting on their hands. More than one company has decided to rent cargo ships and unload them at other ports across the country and avoid the logjam at the port of Los Angeles / Long Beach. Second, there are efforts to increase longshoreman working hours to get the containers off the ships and onto the trucks and on the road. At higher freight prices there is the likelihood that more freight will be shipped. Even with the logjams and bottlenecks, consumers continue to spend at an unexpected rate—last month consumer spending popped by 0.7% or at an annual rate of 8.4%. Don't underestimate the consumer's ability to spend with stock prices soaring and home prices rising. We believe that consumers may spend big through yearend and into 2022 but by late in the first quarter of next year the bloom may be off that rose -- just in time for the deliveries of all those containers to retailers who are experiencing a slowdown in demand. What usually happens when there is a surplus of supply and a fall in demand? Prices will weaken, or just stop going up.

Then there is the recent surge in oil prices. The current administration started out the year by putting the kibosh on the Keystone pipeline. Other efforts have surfaced to curtail the production of fossil fuels. Then the price of gasoline took off. California, otherwise known as the green state, is experiencing prices at the pump of more than $5 a gallon and maybe going to $6 in the not-too-distant future. Remember that politicians don't pay those prices, but voters do. As the Wall Street Journal recently reported, President Biden has suddenly become a friend of the "frackers." We have plenty of oil and natural gas and getting oil and gas prices down is just a function of encouraging that production. The price of gasoline will be a good leading indicator of getting domestic production up to a level that will get oil back into the $50 to $65 range. Releasing some of the domestic petroleum reserve would give us a good signal that the government sees the handwriting on the wall. Unfortunately, the greens of Europe did not get the message so when the wind stopped blowing, supply shrank ushering in a very cold winter across the pond even if global "warming" is here to stay.