# Rodney’s Take

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## The Supply Chain, Inflation, Time, and Greed

Last fall, President Biden made a big deal out of his administration’s efforts to strengthen and expand the supply chain. His goal, easing inflation, was laudable, but it seemed like his economic team didn’t provide good advice. Nudging the ports of Los Angeles and Long Beach to run 24/7 is great, as long as every other piece of the supply chain, including suppliers in China, cargo ships, and truckers in the U.S. stand ready to increase their load as well. Clearly, that wasn’t the case.

If Biden really wanted to relieve the supply chain, he could demand that every consumer send back the last $1,400 stimulus check. While that might work, it’s not a serious suggestion. It would cause other points of pain, including a rout in November. He’s best served by allowing the one important variable, time, to run its course.

We know what caused the inflation surge: we showered consumers, businesses, and government entities with cash. A lot of that cash was spent on goods, because the service industry was in hibernation. We asked our supply chain, which was hampered by COVID outbreaks and new safety regulations, to increase productivity by 20%. Fat chance. What shipping company or trucking firm wants to ramp up capital expenditures for what appears to be a passing phenomenon? Who will pay them back when those assets fall idle in the months or years ahead? The most prudent course was to improve variable operations where possible, do the best they could, and let this bulge of spending work its way through the economy.

There are signs that this is already happening.

While the Cass Freight Index, based on inferred rates for shipping across North America, remains at an all-time high, the Drewry World Container Index, which measures the cost of shipping containers to and from various ports around the world, is off by around 7% from the high near the end of 2021. And American Shipper reports that the number of container ships waiting for berth in the ports of Long Beach and Los Angeles has fallen from a high of 110 at the start of the year to 78. Some of this just represents the normal shipping slowdown that occurs after the holiday season, but given the tight supply chain situation over the last 18 months, we'll take any relief we can get.

Time is working for us on the inflation front as well.

Last February, the inflation rate was 1.67%. By June, it had soared to 5.34%, up 3.67%. Since then, it has meandered higher and now stands at 7.5%. Unless something crazy happens, inflation might climb a little higher over the next four months, but it's unlikely to jump by a total of 3.67%. As the measures from 2021 roll off, we will be comparing the current index with higher numbers, which should result in falling annual inflation.

If we can keep our politicians from getting too involved in what they consider to be solutions, including free cash and price controls, then the marketplace will sort out most of these ills. We're not fighting corporate greed, we're dealing with a great dislocation in production along with a dramatic shift in spending. Give it time.

Except in college textbooks.

Deep in the inflation report from the U.S. Bureau of Labor Statistics, you can find that the cost of college textbooks increased 3.2% over the last 12 months. The cost is up 141% since 2001, whereas overall inflation is up just 59%. Many college textbooks aren't even printed, they are delivered electronically, and yet college students get no cost savings from this. Nothing explains this except greed.  If President Biden really wants to help, he could demand more price transparency and competition in the education sector.

Rodney

*Got a question or comment? You can contact us at* info@hsdent.com.