



Basis Points – October 14, 2021

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Above the Fold

Latest Inflation Reading Shows Continued Price Hikes

September's inflation data revealed a 5.4% annualized jump in the Consumer Price Index (CPI). The monthly rise in prices accelerated 0.4%, which was an increase over August's reading, but cooler than the sharp 0.9% jump in July. Stripping out soaring energy prices and foodstuffs, the core CPI still rose 4% compared to the same month last year. We believe that these high inflation readings are still due to supply chain disruptions, backlogs in production and consumers spending at an abnormally high rate as vaccines continue to feed spending activity. To that point, consumer spending jumped nearly 12% in the first half of the year and is likely to continue throughout the holiday season.

Higher prices for goods and increased wages needed to employ workers are forcing many businesses, large and small, to pass these increased costs back to consumers. Some of these price hikes are here to stay, even when market disruptions moderate. And we can expect prices for our goods and services to rise further as nearly 50% of businesses surveyed by the National Federation of Independent Business said they planned to raise prices in the next quarter.

Equity Markets are obviously unhappy with the data, as higher inflation adds impetus for the Federal Reserve to hike interest rates. Let's not forget that Fed Chair Jerome Powell has made it clear that the committee sees inflation running above 4% in 2021, but moderating closer to its target around 2% in 2022. We do see supply issues improving in the coming months — the question is how broadly and quickly these global logistical kinks are worked out.

Three Things

1. *Ships Stuck Outside LA Might Finally Get Unloaded* – As America struggles with supply issues, the critical Port of Los Angeles will expand its operations to operate 24 hours a day, seven days a week. The agreement, between a cadre of unions and trucking companies, will effectively double the port's capacity and help relieve the massive import bottlenecks we've seen in that area. That said, there's still a shortage of workers and truckers which will need to be addressed to make the move successful.
2. *AirPods Could Be Apple's Latest Medical Device* – The Wall Street Journal reported that Apple is studying the possibility of leveraging its popular AirPods as a health device. The company is reportedly testing the device's ability to act as a hearing aid, act as a constant thermometer and even its effectiveness as a posture monitor and corrector. Hopefully, Apple can also improve AirPods' ability to actually stay in place.
3. *What Caused Southwest to Cancel Thousands of Flights?* – The beloved Dallas-based carrier known for its superior customer service is facing serious public scrutiny. The company's official position is that weather and some air-traffic control issues were the cause, but there are deeper issues. According to insiders and the pilots' union, a massive shortfall in staff (with some not showing up due to vaccine mandates), coupled with some technological meltdowns, triggered the mess. Part of the issue is how Southwest handles its logistics using a "point-to-point" system as opposed to the "hub-and-spoke" model of its competition. If a plane, pilot or other staff don't make it to a destination, it can trigger a cascading effect.

Did You Know?

America's Worst Inflationary Period

Contrary to popular belief, the worst inflation observed in this country was just after its founding. In 1778, America experienced its highest inflation rate of nearly 30%. Since the more objective consumer price index was created in 1913, the greatest rate of price increases occurred in 1917 when the cost of goods and services jumped 19.66%. The late 70s and early 80s also were a high inflation period, with price expansion peaking at 13.5% in 1980.

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