Basis Points – November 1, 2022

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Above the Fold

Will Cash-Flush Consumers Force the Fed's Hand?

According to the Wall Street Journal, cash-rich consumers could be the reason interest rates stay higher for longer. We believe that hypothesis is correct, but there's more to that reasoning. A decade-plus-long bull market in housing, stocks, bonds and commodities has dramatically increased Americans' average wealth, home equity and excess savings. Compounded by rounds of "helicopter money" dropped into our coffers during the pandemic, most consumers are entering this period of "pre-recession" in a much better economic state than ever before. Let's not forget that the pandemic also drove interest rates to abnormally low levels at a time when modest increases in rates were likely more appropriate. According to Fed economists, U.S. households have amassed and retained roughly $1.7 trillion in excess savings through mid-2021 and most individuals and businesses were able to lock in ultra-low interest rates. This not only reduces carrying costs, but also deters home sales as prices are not only up markedly since before the pandemic, but interest rates are nearly triple where they were at the trough.

By many estimates, America is in the best pre-recession shape in recorded history, which unfortunately dulls the effects of the Fed's ultra-aggressive rate hikes. And while cracks are forming in the housing and labor market, they remain relatively resilient. Put simply, we do believe that historical repercussive rate precedents are going to be hard to cite and a cash and equity flushed consumer base *is* likely to trigger an extended period of high rates. These factors create a very real impetus for the Fed to get increasingly aggressive as it's not getting the same response from the marketplace that history suggests. The Federal Open Market Committee (FOMC) is fully prepared to tilt the economy into recession, but it may be prudent for them to let the effects of damaging rates play out. Regrettably, an over-correction of the FOMC is increasingly likely as they are driven by hard data that can severely lag real-world experiences.

Three Things

What's Going on at Twitter?

Since taking the company private last week, Elon Musk has already begun shaking up internals at Twitter. From locking down code to firing top executives, Mr. Musk has made it very clear that things are going to change in a big way. Sources close to the matter also say that Musk is planning a broad layoff plan that's likely to impact a large number of Twitter's roughly 7,500 employees. Overhead is just one problem for the social media company as it has posted a loss in eight of its last 10 fiscal years, with ads a critical revenue generator. Unfortunately for Elon, several large companies have paused or canceled advertising campaigns on the platform until the situation stabilizes. Twitter also announced it will start charging $20 per month for members who want to remain verified.

Natural Gas Prices Fall … For Now

With our eyes focused heavily on every inflation reading, one key contributor has seen its price slashed by 40% since peaking in August. With summer ending, and air-conditioners throttled back, demand for natural gas has fallen dramatically. The drop in the need for the energy source is also being met with record production here, which is contributing to lower prices. But while the odorless fire-making gas fell below $5.00 last week, it's likely that prices won't remain too low for too long as winter is coming. Cooler temperatures will mean increased demand as consumers and businesses heat their homes and buildings; Russia continued aggression toward Ukraine and limited gas shipments to Europe also add wildcard factors that are likely to keep volatility high.

Ford Offers Cash to Unproductive Workers

As the labor market slowly evolves into a cooling phase, Ford is taking a novel approach to handle white-collar underperformers. On Oct. 1, Ford implemented a program focused on employees with eight or more years of service, who have demonstrated declining performance. Once identified, the employee will be offered the choice of severance or a four- to six-week training and enhancement program. If they choose the latter and fail to improve, they can be terminated … without severance. The company is looking to cut around $3 billion in annual costs by 2026 and employs more than 30,000 people in the U.S. alone.

In the Know

Why UPS and Now Uber Hate Left Turns

It's a little-known fact that UPS trucks almost never make left turns. By favoring the right turns, unless a left turn is absolutely necessary, the shipping giant saves millions of gallons of fuel. The practice started even before the days of GPS and was also intended to save time and add increased safety. According to the U.S. National Highway Traffic Safety Association, more than 61% of accidents that occur while turning or crossing an intersection involve left turns, as opposed to just 3.1% for right turns. And 22% of all crashes involve one vehicle making a left turn. Uber will also start implementing a right-turn policy that will be built into its GPS. Rides may be a little longer, but they are hoping the changes, along with audio and video recording, will reduce crashes and improve its passenger experience and safety.