



## Basis Points – March 5, 2019

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### Above the Fold

- RenMac Research notes that inflation remains a non-issue. The GDP Price Deflator rose just 1.8% annualized in Q42018 and core inflation rose just 1.7%. On a year-over-year basis, core inflation has been below 2.0% since 2012. The lack of inflation in recent years may continue pushing the Fed to adopt a policy to modestly overshoot its target for a reasonable period of time.
- First quarter 2019 GDP growth is tracking fairly soft after fourth quarter 2018 real GDP advanced 2.6%. The government shutdown cut growth by almost 0.5% in Q1. This temporary headwind will turn to a tailwind in the second quarter, as the Congressional Budget Office estimates that the resumption of government funding will lift second quarter 2019 real GDP growth by 1.0%.

### Three Things

- Amazon plans to open new grocery stores that are distinct from its Whole Foods chain. The WSJ notes that Amazon will initially roll out dozens of stores in several major U.S. cities, as the retail giant looks to broaden its reach in the food business. The company plans to open its first grocery store in Los Angeles as early as the end of the year. Amazon has already signed leases for at least two other grocery locations with openings planned for early next year. Amazon is also exploring an acquisition strategy to widen the new supermarket brand by purchasing regional grocery chains with about a dozen stores under operation. Amazon is now in talks to open grocery stores in shopping centers in San Francisco, Seattle, Chicago, Washington, D.C., and Philadelphia. The new chain would offer a different variety of products than what is on the shelves at the more upscale Whole Foods stores.
- If you can cut hair and are mobile, you may want to chase your fortune in the Permian Basin. Due to the energy fracking revolution, the Midland-Odessa job market was the fastest-growing metro area in 2018 of the 300 cities in the U.S. with fewer than 1 million people. Housing, restaurants and basic services are all in high demand and very costly. The WSJ notes that Pete McGarity opened a barbershop in Odessa in 1998 and has ridden boom and bust cycles before. But in 2017, McGarity spent \$25,000 to retrofit a trailer into a mobile barbershop. He drove it to West Texas and parked it in front of the local grocery store, hoping to catch oilmen between shifts. Demand was strong immediately, and there was a line out the door from the shop's opening at 1 p.m. to closing time at midnight. Today McGarity's trailer sits in Pecos, Texas, and is open six days a week with five barbers furiously cutting hair and giving shaves for \$40 each. You can skip the line if you pay \$75 for your cut. Barbers who have joined McGarity's crew are earning between \$130,000 and \$180,000 a year, as they say that oil field workers tip very well. Given the large profits from his one trailer, McGarity is planning to add more mobile rigs to his operations, sending them to far-flung oil towns where the hair is long and the competition is short.
- AT&T announced that long-time head of HBO, Richard Plepler, is leaving the company. Over the last 20 years, Plepler built HBO into the Emmy-winning machine that it is today and wanted to continue to run his own show without corporate oversight and meddling. AT&T had other ideas, however. AT&T's goal is to merge their HBO and Turner units and use that platform as a direct-to-consumer streaming service to rival Netflix, Hulu and Amazon Video. HBO was Time Warner's most valuable property, as it was a singular brand that consumers were willing to pay for. Apple kicked the tires on buying HBO a few years ago, as it had designs on using it as a platform for a new Apple streaming service. After the recent close of the AT&T/Time Warner merger, the question remains whether the phone company guys will be able to maximize the value of their new media assets, or will they destroy a huge cash flow machine in an industry where they have little experience.

### Did You Know

Milk consumption in the U.S. has declined drastically since its peak in the early 1970s. Whole milk consumption has fallen 78% since 1970, and milk sales of all types have fallen 38% over that period. The wide variety of beverage choices in today's market have caused the decline, as has

the medical industry's questioning of the actual health benefits of drinking milk. Industry overproduction and falling demand from export markets have also played a role.

Wisconsin, nicknamed America's Dairyland, has seen its dairy industry fall on hard times, with daily farm bankruptcy filings. The state lost almost 700 dairy farms in 2018. Most were small operations unable to survive losses from falling wholesale milk prices. Current milk prices are the lowest in 50 years, when adjusted for inflation. Wisconsin now has 8,046 dairy herds, down 40% over the last 10 years.

Egg consumption, on the other hand, has seen very different trends. Egg sales rose 6% in 2016, to a 50-year high of 279 eggs eaten per person annually. Egg consumption bottomed in 1992 at 229 per person, as the dietary focus on the negative effects of cholesterol peaked. However, the perception of the health benefits of eating eggs has changed markedly over the last two decades. The U.S. government recently updated its Dietary Guidelines for Americans and made a major change to its language, as it dropped its restriction on dietary cholesterol, a limit that had defined public health messaging for nearly 40 years. The U.S. produced 107 billion eggs in 2017, about 10% of world supply, and production has been increasing 5% a year. China is the largest egg producer in the world, at 529 billion eggs in 2017.

New diet programs have also spurred the increase in egg consumption. The Atkins diet craze 20 years ago, and the more recent Paleo, Keto and Whole30 diets, have focused on the benefits of consuming protein and eliminating sugar, and eggs are seen as a nutrient-dense healthy choice for dietary protein.

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