John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday July 14, 2021

Cruising is coming back, fast. Demand is strong - cruises are selling out as soon as they are announced. We have booked a cruise around Iceland next month. And while you might think these developments would be in time to save the Alaska tourist economy, you would be wrong. *The Wall Street Journal* calls it "The Cruise Industry Destruction Act." It is an 1886 law called the Passenger Vessel Services Act (PVSA), a close cousin to the Jones Act. The difference is that the Jones Act deals with cargo. The PVSA deals with passengers. It requires cruise vessels transporting people between U.S. ports to be American-flagged, American-built, American-owned and American-crewed. The law should be repealed for several reasons. One reason is that there hasn't been a large cruise ship built in the United States since 1958. But most of all PVSA should be repealed because it benefits Canada rather than Alaska. Tourism is a $3 billion a year industry for Alaska. Many communities along the inside passage in Southeast Alaska are totally dependent on tourism. The Canadian government, for its part, lobbies the U.S. Congress to keep the PVSA in place. President Biden, in an attempt at salvaging the Alaskan tourism industry, has allowed foreign-flagged and foreign-owned cruise ships to transport passengers between Washington and Alaska until the Canadian cruise ship ban expires. This is far too little to save Alaska's tourism. The port of Vancouver in Canada has invested huge amounts in a cruise ship docking area, in hotels, restaurants and transportation. Ports in the U.S. such as Seattle Washington or even San Francisco would need to make similar huge investments to be able to replace Vancouver as the starting point for Alaska cruises. A temporary lifting of PVSA does nothing to encourage such investments. Unfortunately, there is little chance that bills being proposed that would repeal PVSA will survive in Congress. For unknown reasons members of the U.S. Congress are in favor of protecting Canada's cruise port investments and profits rather than making sure businesses in Southeast Alaska survive.

The PVSA is not the only example of U.S. politicians favoring foreign interests ahead of U.S. interests. Gasoline prices are rising - already at a seven year high. The administration is worried that high gasoline prices will undermine support for Biden's climate agenda and spending plans. Republicans point to the killing of the Keystone XL pipeline as the cause. While not entirely correct, that *has* contributed to the rise in gasoline prices. The basic underlying reason for the rise in gas prices is that demand is bouncing back much faster than supplies. Crude oil prices are up 45% so far this year.

The Biden answer is not to back off and allow American producers to keep pumping and benefit from higher crude prices. No, Biden is sticking with his plans for reducing American oil production. But he is imploring the OPEC oil cartel to pump more oil so gasoline prices will stop rising. A dispute between Saudi Arabia and the United Arab Emirates over quotas is blocking agreement on increasing production.

President Biden knows consumers are feeling the pain from rising costs for gas, heating oil and natural gas. And he knows that could undermine his presidency. But reducing U.S. oil production means more pricing leverage for OPEC and Russia. They benefit from Biden's oil production plans while American oil producers and consumers suffer.

Another reason gas prices have been rising is a shortage of drivers for the trucks that carry the gasoline from refineries to gas stations. This is part of a broader labor market issue. In May more than nine million Americans said they wanted jobs and couldn’t find them. At the same time companies said they had 9.3 million job openings and couldn’t fill them. The economy is reopening but labor market data says the process of matching unemployed workers with jobs is slow and complicated. Having labor market difficulty recovering from a recession is not unusual. What is unusual now is that unemployment and job openings are both so elevated at the same time and have been for months.

Another unusual aspect of the current labor market is that wages are rising while the unemployment rate remains elevated. The June 5.9% unemployment rate is well above the 3.5% pre-pandemic rate. The relatively high unemployment rate indicates an excess of labor supply. In theory that should hold wages down. But in the current situation the opposite is happening. Economists call the phenomenon slowing the labor market recovery “mismatch,” a disconnect between the jobs open and the people looking for work. There are several ways in which mismatch is occurring. There is a skills mismatch where jobs require specific skills, such as knowledge of a programming language called Python used in aerospace-engineering. Jobs requiring knowledge of Python and other advanced software skills are advancing at a pace much faster than two years ago. There are also geographic mismatches. The job openings are in a different part of the country than the job seekers. The geographic mismatch can occur even in a single state where the job openings require a long commute, and workers do not like long commutes. Some economists point to high taxes as part of the mismatch. People have been leaving high tax states such as New York and California for low or no tax states like Texas and Florida.

Robert Hall and Marianna Kudlyak at the Federal Reserve Bank of San Francisco studied the past 10 recoveries and concluded that U.S. job recoveries have a common pattern. In normal times, they find, “unemployment rises like a rocket and falls like a feather.”

“The easy stuff has been accomplished.” Mr. Hall said in an interview. The rest of the job recovery, he concluded, is going to take some time.

I will have the next market review and update one week from today on July 21, 2021.

All the best,

John Dessauer