John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday September 21, 2022

As I write we are anchored in a sheltered bay riding out the worst storm to hit this part of Alaska in a decade. The winds have been over 50 mph with gusts to 70 mph. The worst threat is the open sea where waves have reached 45–50 feet. Here in the bay the waves are 8-10 feet. The captain made a good call. We were supposed to be getting off the ship on Saturday in Nome. He got the weather forecast and immediately made the decision to bring the ship here on Friday and stay until Monday morning. By then the wind will have decreased significantly and we will be able to fly to Anchorage and then home to Florida.

Last week after the Labor Department reported that inflation in August had dipped from 8.5% in July to 8.3%. The stock market plunged, the Dow down more than 1,100 points by the end of the day. Not everyone agrees, but in my opinion that was a big overreaction to the inflation news. First of all, the August number is well down from the 9.1% inflation reported in June. That is very good news. In August some prices, such as gasoline, did come down. But other prices, particularly food, went up. That is what scared investors.

Why are food prices still rising and when will they stop rising? Farmers have two basic costs, fertilizer and fuel. Natural gas is needed to make fertilizer and natural gas prices rose sharply in the past several months. In addition, farmers' fuel costs had been rising sharply. Food prices rose in August because farmers were still dealing with the higher costs. It takes time for price changes to work their way through to producers and their customers. Now that fuel and natural gas prices have stopped rising farmers will see their costs stop rising and then what they charge customers will also stop rising. So, in my view, the decline in fuel prices is the necessary predecessor to a decline in food prices. Unless there is another shock that sends oil and fuel prices higher, we can look forward to more declines in the rate of inflation in coming months.

The editors of *The Wall Street Journal*, referring to the coming mid-term elections call it the "The Inflation Election." They have a very good point. Inflation measures upward changes in prices. When prices stop rising the inflation rate comes down. But prices that are now very high stay high. We are not headed for deflation that would bring the now sky-high prices down. Voters are being punished by this inflation and they will continue to be punished even when prices stop rising.

Through 12 months to August electricity prices are up 15.8%, and utility prices, including natural gas, are up a staggering 33%. Over the past year groceries are outpacing overall inflation, rising 13.5%; the fastest pace since March 1979.

In addition to suffering from rising costs for the basics, American workers are suffering as their real, or after inflation, wages decline. Real average hourly earnings decreased 2.8 percent, seasonally adjusted, from August 2021 to August 2022. The change in real average hourly earnings combined with a decrease of 0.6 percent in the average workweek resulted in a 3.4-percent decrease in real average weekly earnings over this period.

Inflation is the number one issue for voters and that is likely to be the case through the November elections because the punishing high prices will stay high at least that long. Democrats who worry about losing their political jobs need to focus on the supply side of the economy. Inflation is caused by an imbalance between supply and demand. When demand is stronger than supply prices rise. Encourage the supply side and inflation will come down. Unfortunately for those running for election, the President and other Democrats have been doing the exact opposite, restricting the supply side with more regulations and threatening higher taxes. At the same time, they have been flooding the economy with federal government cash. They could reverse course. But so far there are few signs of that happening and time is running out.

When Mr. Biden came into office during the first quarter of 2021 the economy was growing at a robust real annual rate of 6.3% and inflation was low. Now inflation rages and GDP has been shrinking for two consecutive quarters. Yet the president seems to be pretending that the disastrous therapy he imposed on the economy will suddenly begin to revive the patient. The so-called Inflation Reduction Act is all about climate change and new spending, it is not about the supply side and stopping the rise in food and fuel.

The polls show that the President's approval ratings are way down, much lower than they should be before major elections. The President is not up for election in November. This means that unhappy voters will have to elect people who oppose his agenda and have a Congress willing to restrain him.

Meanwhile there is the report on the GDP in the third quarter. Economists think the number, while small, will be positive - on the order of +1.3%. If so, then Jerome Powell will be right, we are not in a recession. And a 0.75% rate hike will not tip the economy into a nasty recession.

Since the deep decline stocks have been treading water. I expect that to continue until we get really good news on inflation. When that happens stocks will likely move up sharply.

The internet is good when it is available, but still spotty. I will try to have the next market review and update for you one week from today on Wednesday, September 28, 2022.

All the best,

John Dessauer