John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday November 10, 2021

The U.S. economy slowed down in the third quarter. After blazing away at a 6.3% rate in the second quarter and a 6.7% rate in the first quarter growth dropped sharply to a 2% rate in the third quarter. You might think that the Federal Reserve would be alarmed and keep the monetary petal to the metal until growth improved. But you would be wrong. Instead, the Fed did the opposite and announced the beginning of tapering. This is not as sharp a tool as raising interest rates. But it does mean less stimulus from Fed bond buying.

Fed officials say they plan on reducing the bond buying by $15 billion a month. However, that number is not locked in stone, the actual amount will likely vary from $10-$12 to $15 billion. In any case, the Fed's bond buying stimulus will likely be gone by summer 2022. Why cut back on the stimulus when the economy has slowed down dramatically? There are several reasons. The first is that inflation spiked up to a 5.4% annual rate in September. The cause is continuing supply side issues. Demand remains strong, but there are shortages of goods. Cars are an example. Dealers have very few cars to sell and with demand strong, they can raise prices. Similar shortages in other goods are having the same inflation result. The Fed still sees inflation as transitory but worries that it will take longer than expected to resolve the supply-side issues.

Another reason for the Fed's announcement is that the slowing is looking temporary. There are signs that growth will be stronger in the final quarter. For example, there were 531,000 new jobs created in October. That was much better than the 450,000 expected. And new jobs in September were revised up to 312,000 from 194,000 originally reported. The unemployment rate fell to 4.6%. This, by the way, is solid evidence that paying people not to work is one of the reasons so many stayed home and economic growth slowed. As the unemployment bonuses expired people went back to work.

A further sign of basic underlying economic strength is that wages are rising. On September 6, Bank of America announced a new minimum wage of $21 an hour. Amazon followed with an announcement that the minimum wage for workers in transportation and packing would be $22.50, "making left-wing activists demand for a federal minimum wage of $15 seem quaint." (Editors of *The Economist* magazine)

There are serious economic disappointments. Private business investment contributed 1.94% to GDP in the third quarter, but all of that was a buildup in private inventories. Investment in everything else besides intellectual property products such as software was stagnant. This is serious because investment is a key element for sustained economic growth. The reason business investment is disappointing is the uncertainty over the White House promise of higher taxes and more regulation. The proposed welfare spending will deter work, while higher taxes will reduce incentives.

"None of this suggests a recession given the inevitable recovery from the pandemic lockdowns. But the tragedy is that the expansion would be so much faster, and so much better for so many more people, if the Biden Administration had done nothing at all. "(*The Wall Street Journal* 10/29)

The reason for this condemnation of the Biden economic policy is that it was 100% oriented toward demand. Consumers have pent up savings, but they can't buy what isn't available. And demand for limited supplies tends to push up prices.

The White House is not alone. The Federal Reserve is dominated by economists who focus on demand. This demand orientation explains why so many economists overestimated growth this year and underestimated inflation.

There is another source of worry for consumers, namely rising prices for natural gas. Restrictions on fossil fuels and climate change policies are causing shortages of natural gas. Natural gas is almost six times as expensive as it was a year ago in Europe. While the U.S. has fared better, natural gas prices here are about double what they were a year ago. You might think that higher natural gas prices will simply mean costlier home heating bills. Think again, high natural gas prices will have an impact far beyond home heating. Natural gas is a key raw material for making fertilizer. And carbon dioxide is a by product which is used to carbonate drinks and keep food fresh.

Rising fertilizer costs will likely encourage farmers to grow soybeans rather than corn, because soy beans require a lot less fertilizer. This will compound the cost pressures on corn. Corn is the prime ingredient in cattle feed. So, rising natural gas prices will mean higher prices for corn, meat and any crop that requires fertilizer.

This look at fertilizer and basic foods show just how inextricably the world is tied to fossil fuels. It also shows that going green is very expensive. I read one estimate of the current costs for climate change policies at $330 trillion. And that is just for the current ideas. Making consumers poorer is therefore counter-productive. We need to increase wealth and invest more heavily in technology to combat climate change.

As the editors of *The Wall Street Journal* wrote: “Nothing in the Administration’s Build Back Better plan is pro-growth. The welfare and entitlement spending will deter work, while the tax increases will reduce incentives.”

Fortunately, corporate profits are not just surviving the political environment, they are growing nicely. Stocks remain our best investment choice.

I will have the next market review and update for you one week from today on Wednesday November 17, 2021

All the best,

John Dessauer