

John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday December 28, 2022

Consumers account for roughly two-thirds of the economy. You would think that politicians would adopt policies in favor of consumers. Over the last year or so they have done the opposite. Defund the police and refusing to prosecute crimes such as shoplifting has burned retailers and consumers. We have already seen pharmacies in some cities close because of large shoplifting losses. People in poorer communities have to travel to find a pharmacy that will fill their prescriptions. The situation has gotten much worse. Brick-and-mortar retailers are reporting record setting shoplifting losses. The “inventory shrink,” as it is called, has risen to 1.4% of sales or \$94.5 billion.

When shoplifting became rampant after defund the police policies, politicians argued that shoplifters were poor folks who needed the merchandise. The dollars involved, \$94.5 billion say that those politicians are either ignorant or just plain wrong. Once and annoyance, shoplifting has become the practice of organized crime. Gangs raid stores and bring the merchandise to warehouses where organized criminals can sell the merchandise on black markets. Some communities are already suffering from closed pharmacies that are now vacant buildings. The national retailers' association predicts that more retailers will have to close brick-and-mortar stores because of the huge losses. Vacant buildings are blight on a community.

Online retailing is growing fast because of the brick-and-mortar shoplifting losses. That is a major plus. Still the loss of brick-and-mortar stores where you can try on

clothes, touch the merchandise and make sure it is what you want, will hurt consumers as well as communities.

Speaking of politics, I have been worried about the shift to the left among U.S. politicians, especially Democrats. Several argue in favor of Socialism, as if that would be better than Capitalism. A recent obituary reminded me that this not new among American politicians. Charlene Mitchell recently passed away at age 92. She was the first black woman to run for President in the United States. She ran in the 1968 election on the communist party. That's right, in the 1960s there were enough very left-leaning Americans to form a communist party and nominate a presidential candidate. Charlene lost and communism gradually fell from favor. Charlene herself remained a dedicated socialist. This story makes it clear that today's left leaning U. S. politicians are nothing new. The pursuit of socialism in the United States is 50 years old and fortunately has consistently failed. The latest spectacular failure is in our neighbor to the south, Venezuela. Some voters may not fully appreciate the economic and human disaster in Venezuela. But our large and growing Spanish speaking population does. They are already becoming outspoken opponents of socialists.

Last week stocks first went up on good news on consumer confidence, then they went down on news that the economy and labor market remain resilient. Ordinarily good news about economic growth and filing for unemployment benefits would send stocks up. That kind of news bodes well for growth in sales and profits. But right now, inflation remains the stock market's greatest worry. The Federal Reserve is determined to drive inflation down and has been raising interest rates to get that done. Economists say the Fed

will have to really soften the economy, maybe drive it to recession to get inflation down. The result was a third down week for stocks. But investor fears may be overblown.

After all the economy is not booming. It is peddling along at just over a 3% rate. That is far below the 6.3% rate when President Biden took office. And the Fed does not have to create a downward spiral in prices to get inflation back down.

Consider housing. Sales of homes have been declining. November marked the 11th straight monthly decline in sales. That does not mean that house prices are collapsing. It simply means that the shift in sales pressure is making it difficult for house prices to keep going up. Given the sales trend, it is likely that house prices will soon stop rising. When that happens the housing inflation rate will be zero. That applies to all prices. Once they stop raising the inflation comes down to zero. So, all the Fed has to do is make it difficult for prices to keep rising. Tightening monetary policy will do just that.

The Biden Administration is not helping. Their \$1.7 trillion spending plan is going in the opposite direction. However, the good news is that it will take a long time before all that money reaches the economy. There are pockets of Covid spending plans that still have not been fully funded.

I liked a headline in the Wall Street Journal about holiday sales. It focused on the economists' expectations as the holidays approached. The expectations went from grim early on, to "not so bad" as the holidays drew near. And, given some recent data it is looking like the actual numbers will be better than "not so bad."

Given that the economy is not booming and that claims for unemployment insurance are rising, I think we will see good inflation news in the near future.

Hold on to your stock positions.

I will have the next market review and update for you one week from today on Wednesday, January 4, 2022.

All the best,

John Dessauer

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