# Wentz Weekly

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## Inflation Expectations Edge Higher

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A sharp rise in the consumer price index sparked increased concerns about higher inflation in the months ahead. The Bureau of Labor Statistics said the consumer price index increased 4.2% in April compared to the same month a year ago and almost 1% more than expected. The annual increase is the largest since 2008 and has a lot to do with the "base effect," an easy comparison from April 2020 during the early days of the pandemic when many consumer prices were flat or falling. However, the larger than expected increase is not completely due to base effects. The index rose 0.8% in April compared to the month prior, four times more than expected and the highest monthly increase since 1981. Price increases are becoming more broad based too. The 'core' index, which excludes the often volatile food and energy (gas) categories, rose 3.0% from a year ago, also higher than expected.

Roughly a third of the monthly increase in the index was due to a 10% increase in the price of a used car, mostly from the chip shortage hindering production of new cars and limiting supply. The cost for meals away from home, i.e. restaurants, rose 3.0% from a year ago. One would expect restaurants to cut prices to attract more demand, but the fact prices are increasing at a pace higher than average indicates restaurants are being forced to pay more for labor due to the worker shortage. The average price of airfare was up 10% in the month, indicating a greater desire to travel for consumers. Price increases are being seen is commodity costs as well, pushing up input costs for producers. The S&P GSCI Index, which tracks 24 exchange traded commodity future contracts, is up 25% year-to-date as lumber, iron ore, steel, copper, and palladium prices all hit all-time highs. The producer price index, representing the price producers pay to make goods, rose 0.6% in April, doubling expectations, and 6.2% higher from a year ago. Fiscal stimulus is having a huge impact, along with federal spending which has surpassed $5 trillion, both meant to combat the pandemic-induced recession. The M2 money supply – cash, deposits, money market securities and other time deposits – is up 26% from a year ago, the largest increase since 1943.

The inflation data immediately sent stocks lower based on concerns the Federal Reserve would move more quickly to raise rates or begin tapering its asset purchases sooner. As a result, bond yields moved higher with the 10-Year Treasury moving back over 1.70% for the first time since early April. The Fed has consistently said it will let inflation run above 2% to achieve an average inflation level of 2%. In addition, Fed Chairman Jerome Powell has consistently said inflation will be 'transitory,' that inflation figures will temporarily rise due to the reopening and due to easier comparisons from a year ago. We believe inflation will continue to rise in the months ahead with more money being circulated due to fiscal spending programs, easy monetary policy, supply chain shortages, and as the economy continues to recovery. We still favor U.S. value stocks, especially those that can easily pass price increases on to consumers.

Economists and traders are not the only ones with increasing inflation expectations, consumers are feeling that way too. According to the New York Fed's Survey of Consumer Expectations, inflation expectations increased to 3.4% for its highest level since 2013. Much of this is due to the substantial increases in home prices, with the median home price change expectation at 5.5%. Thanks to higher input costs, some businesses are beginning to pass along the higher prices to consumers. Kellogg said higher costs for ingredients, labor and shipping are pushing it to raise prices. Procter & Gamble is raising prices on many consumer products, including diapers and hygiene products, to "cover the cots increases." Whirlpool CEO said higher costs through the supply chain are causing higher prices and customers have come to accept it.

Wage pressure could be the next inflationary sign as companies are struggling more and more to find available workers. Job openings grew 24% in April to 8.1 million, according to the Labor Department's Job Openings and Labor Turnover Survey, the highest number ever reflecting the growing issue of more open positions than people willing and able to work. Job openings increased 600,000 in the month with the rate of openings, the available jobs as a share of all filled and unfilled jobs, was 5.3% and also the highest ever. The National Federation of Independent Business said 44% of small business owners reported job openings they could not fill, with business owners now offering higher wages, signing bonuses, and benefits to attract workers. There are still more unemployed Americans, 9.7 million, than there are open jobs. There are many factors for the difference, including childcare concerns, benefits, lack of skill, and more importantly enhanced unemployment benefits. Part of the government's multiple stimulus packages was providing an extra $300 per week in unemployment benefits in effort to replace lost wages for those that lost their jobs from the pandemic. Now many states are ending the enhanced unemployment benefit to address worsening labor shortages. Last week, Ohio, Missouri, and Tennessee joined a handful of states no longer providing the extra $300 per week.

# Company News

- Wynn Resorts announced it will merge its online gambling unit, Wynn Interactive, with SPAC Austerlitz Acquisition Corporation to form an independent company in a $3.2 billion deal. Wynn shareholders will hold approximately 79% of the combined company.
- Disney reported Q1 results that were mixed and said it now has 103.6 million Disney+ subscribers and 159 million subscribers across all platforms (Disney+, ESPN+, Hulu). The stock was lower after results as subscribers fell short of high expectations. The company is still targeting 230 to 260 million global subscribers by 2024.
- After failed attempts to sell its Victoria's Secret brand because it was being offered less than its desired sales price, L Brands announced it will spin off its Victoria's Secret to existing shareholders.

# The Week Ahead

First quarter earnings season continues this week with many retailers scheduled to report results. Notable reports this week include; Walmart, Home Depot, Macy's, and Baidu on Tuesday; JD.com, Lowe's, Target, L Brands, and Cisco on Wednesday; Applied Materials, Kohl's, Ralph Lauren, and Petco on Thursday; and finishing with Deere and Foot Locker on Friday. The highlights on the economic calendar include several manufacturing surveys and housing reports this week. The Empire State Manufacturing Survey index is released Monday, followed by the Philly Fed Manufacturing Index on Thursday. On Tuesday, the Census Bureau reports on new residential construction and permits, and on Friday the National Association of Realtors reports on existing home sales. Outside of that, Thursday we will see the latest numbers on weekly unemployment claims. Ford will host an event this week to reveal its all-electric F-150. Google will hold a three-day conference where they typically announce new services or products. There will also be several sector conferences throughout the week.