

What is the end game?

- Dr. Walter Kemmsies
- June 14, 2023

Focus Points – A lot of Mixed Messages



Short term:

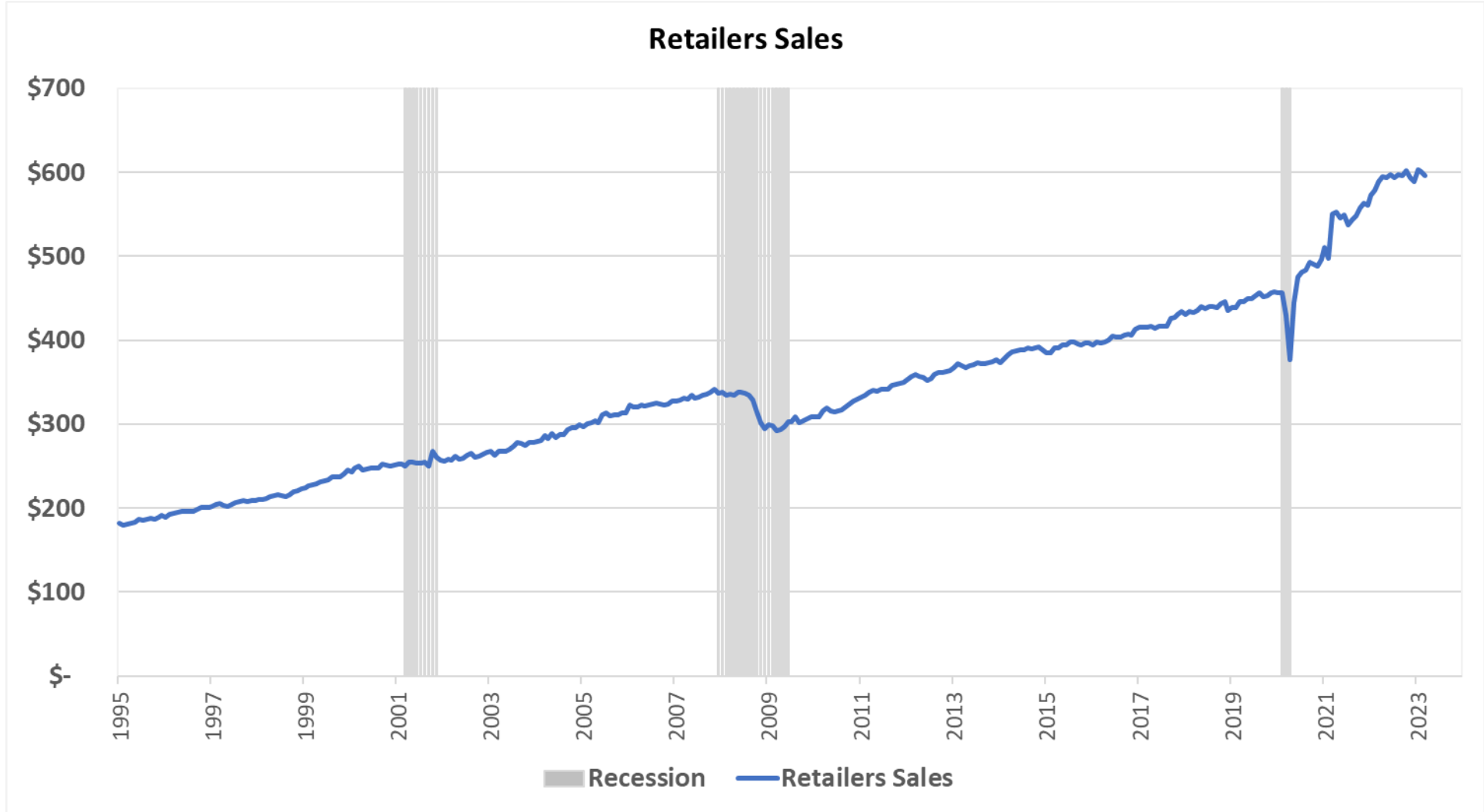
- **We are in 2 industry recessions (Retail Goods and Freight Movement) and not in a general economic recession... yet**
- **Whether or not a recession occurs mostly depends on the Federal Reserve**

Medium/Long term:

Multiple sustainable simultaneous trends are causing permanent change to the structure of the US and World economies:

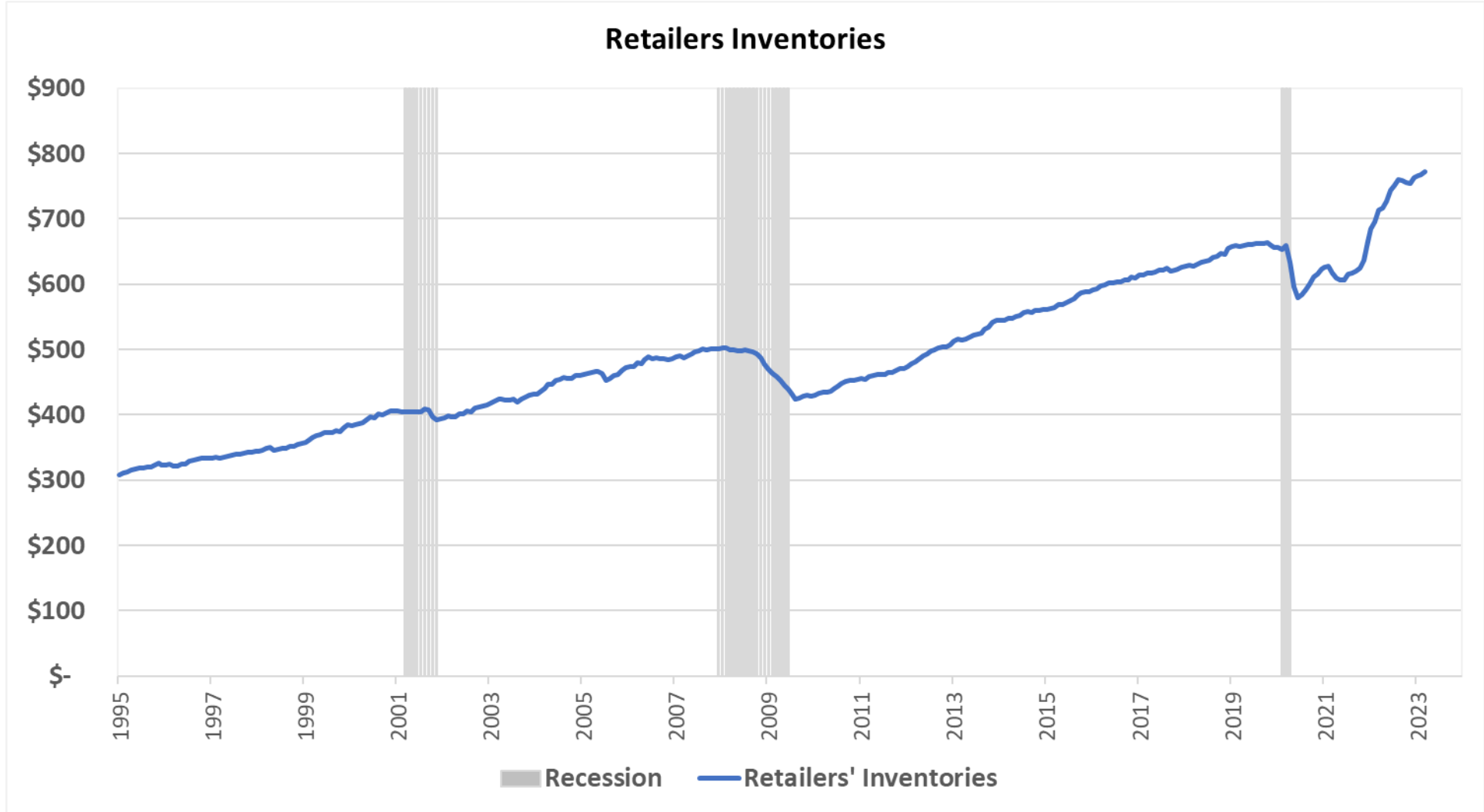
- **US and Global demographic trends – labor shortages**
- **US – China trade set to continue declining**
- **Energy Transition has hardly begun**

Ground Zero of Supply Chain Disruptions – US Retailers' Sales



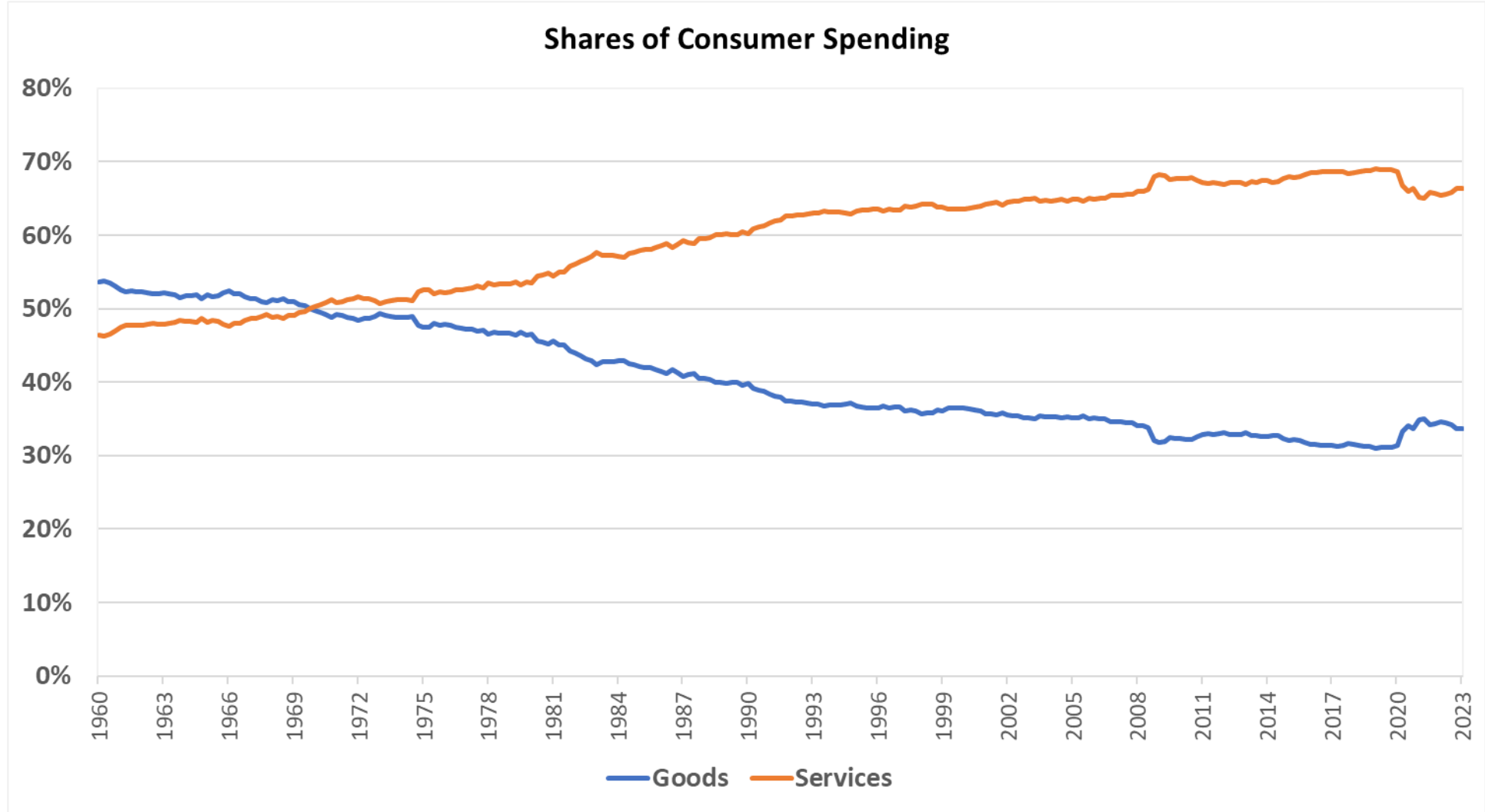
Various fiscal stimuli in addition to consumers doing more from home resulted in an unprecedented surge in Retailers' sales
All supply chains were disrupted, not just containerized goods supply chains

US Imported Container Volume Growth Outlook Impacted by Inventory Glut



Data shown is through March 2023, recent news indicates Retailers have made substantial progress reducing inventories
As of March 2023, there may have been another \$50 to \$80 billion dollars of inventory to get rid off

Consumer Spending Patterns Slowly Reverting to Pre-Covid Patterns

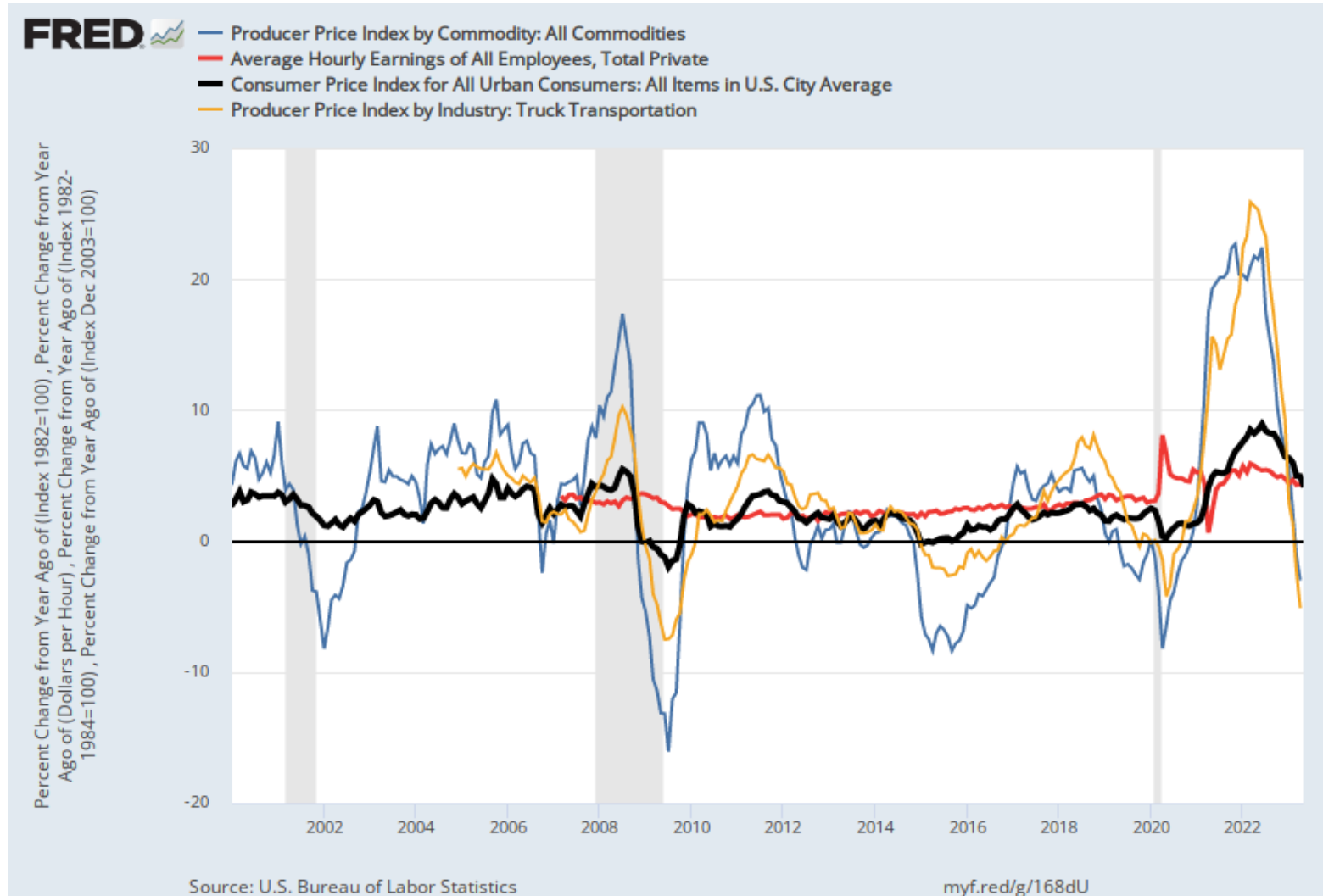


Flat to declining spending on goods is NOT an indicator of recession

Despite retailers laying off thousands of workers, employment continues to grow, due to the services sector recovery

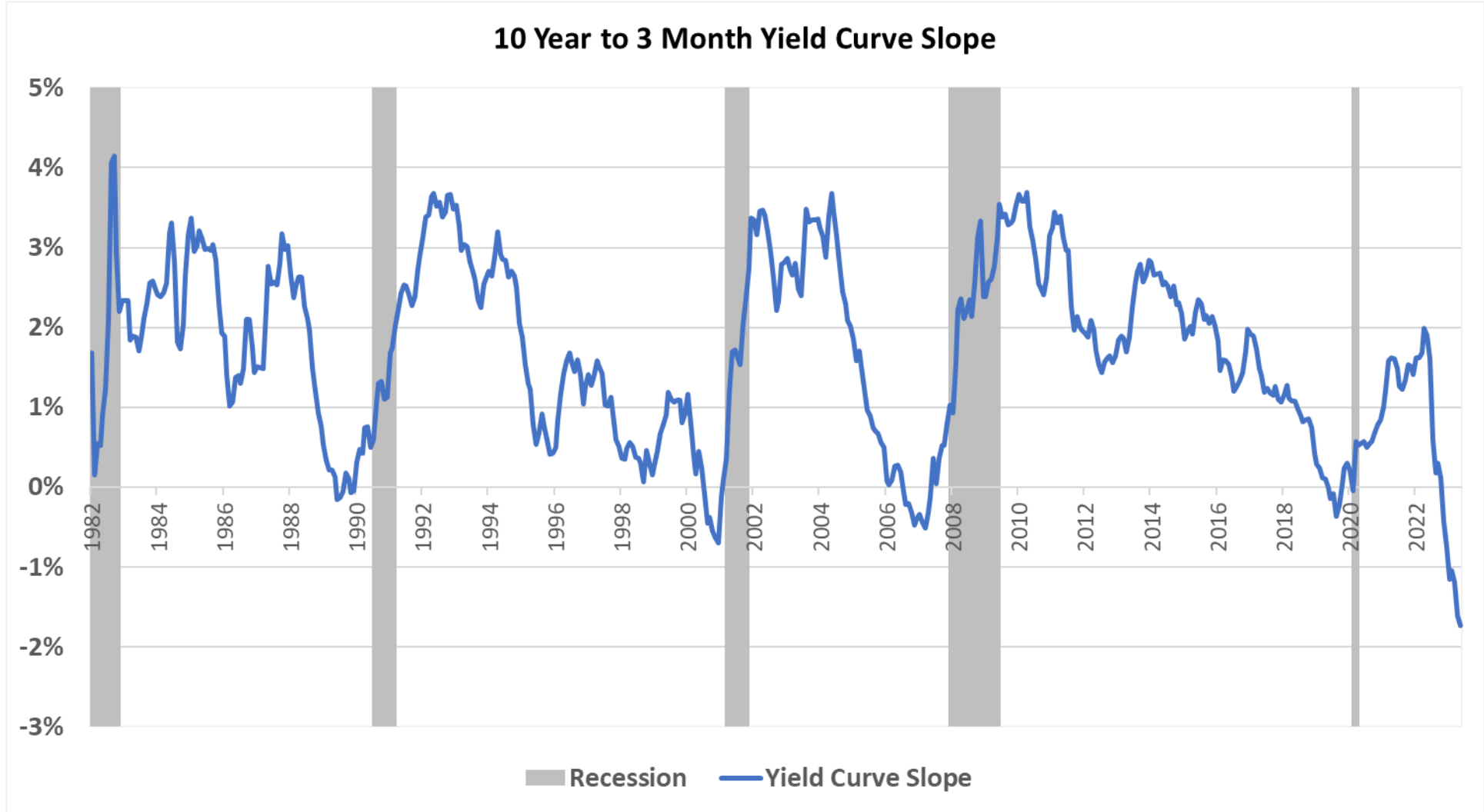
Despite the Fed's actions, inflation was persistent because it shifted from good price inflation to services price inflation

Recent Inflation Burst Was Mostly Driven By Supply Side Issues



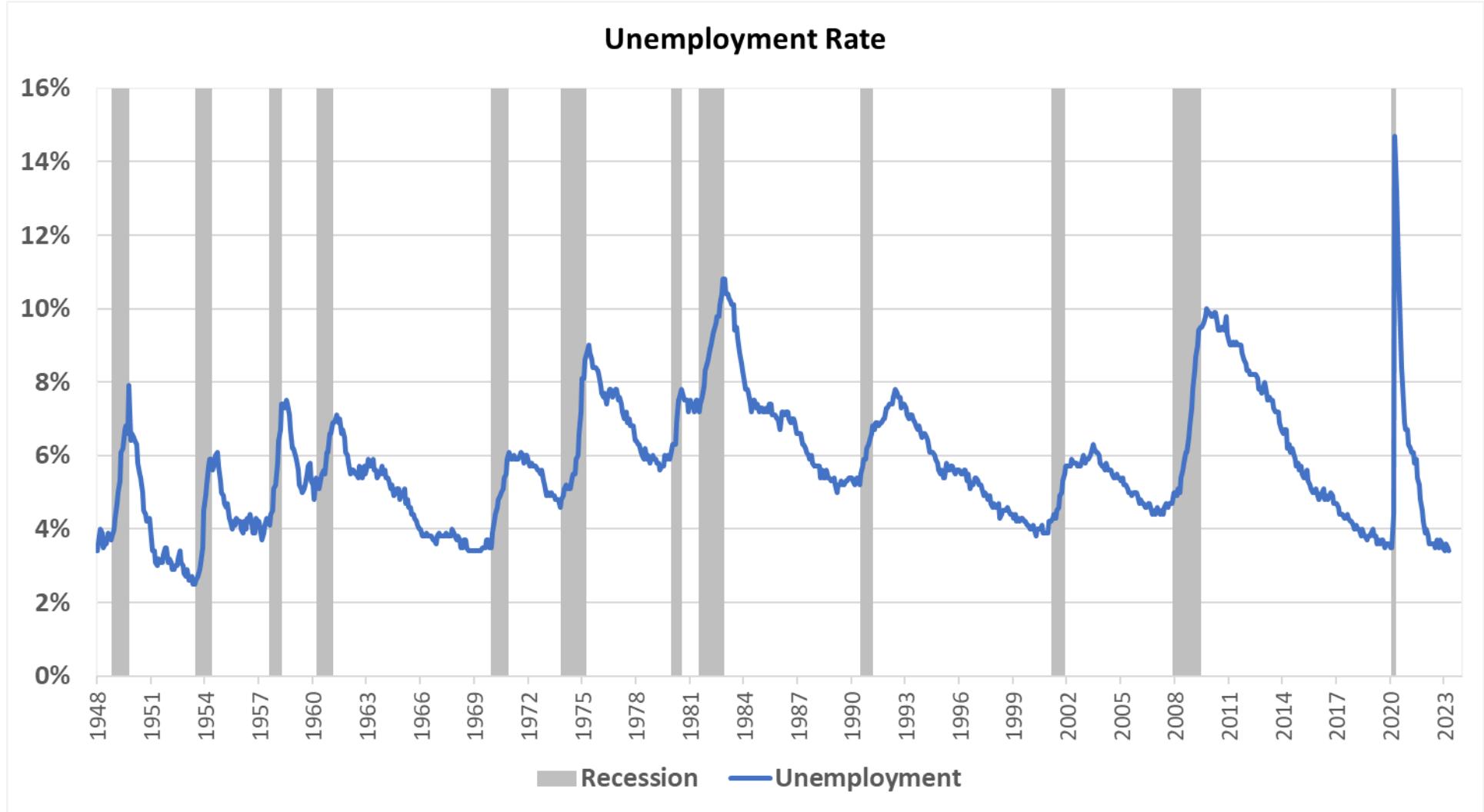
Supply side constraints also cause prices to rise, just like increases in demand can
Blind policy dogma has created significant economic problems/crises in the past

Yield Curve Will “Un-invert” Before a Recession Begins



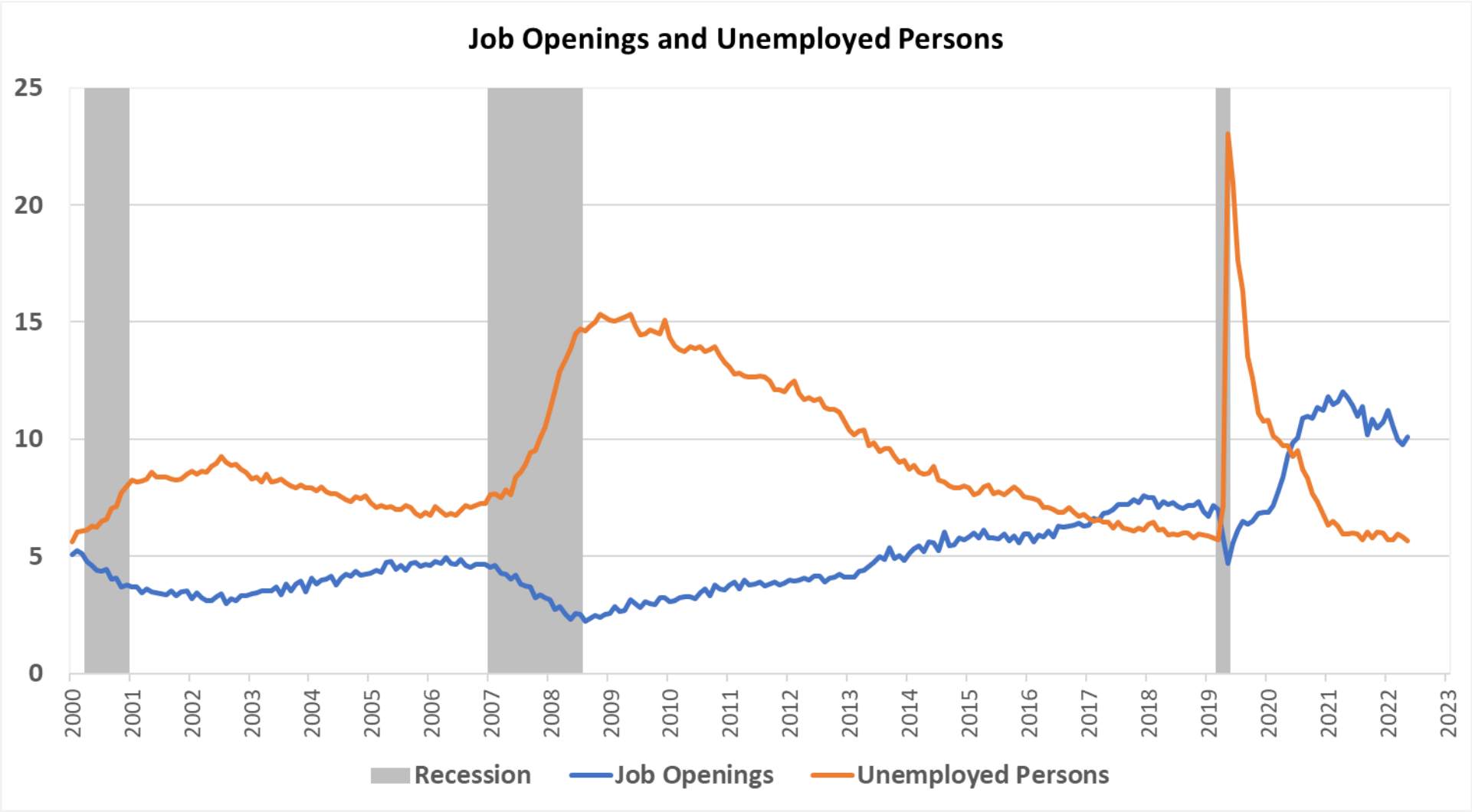
Recessions typically begin after the slope of the yield curve goes from negative to positive

Unemployment Rate at a 60-Year Low



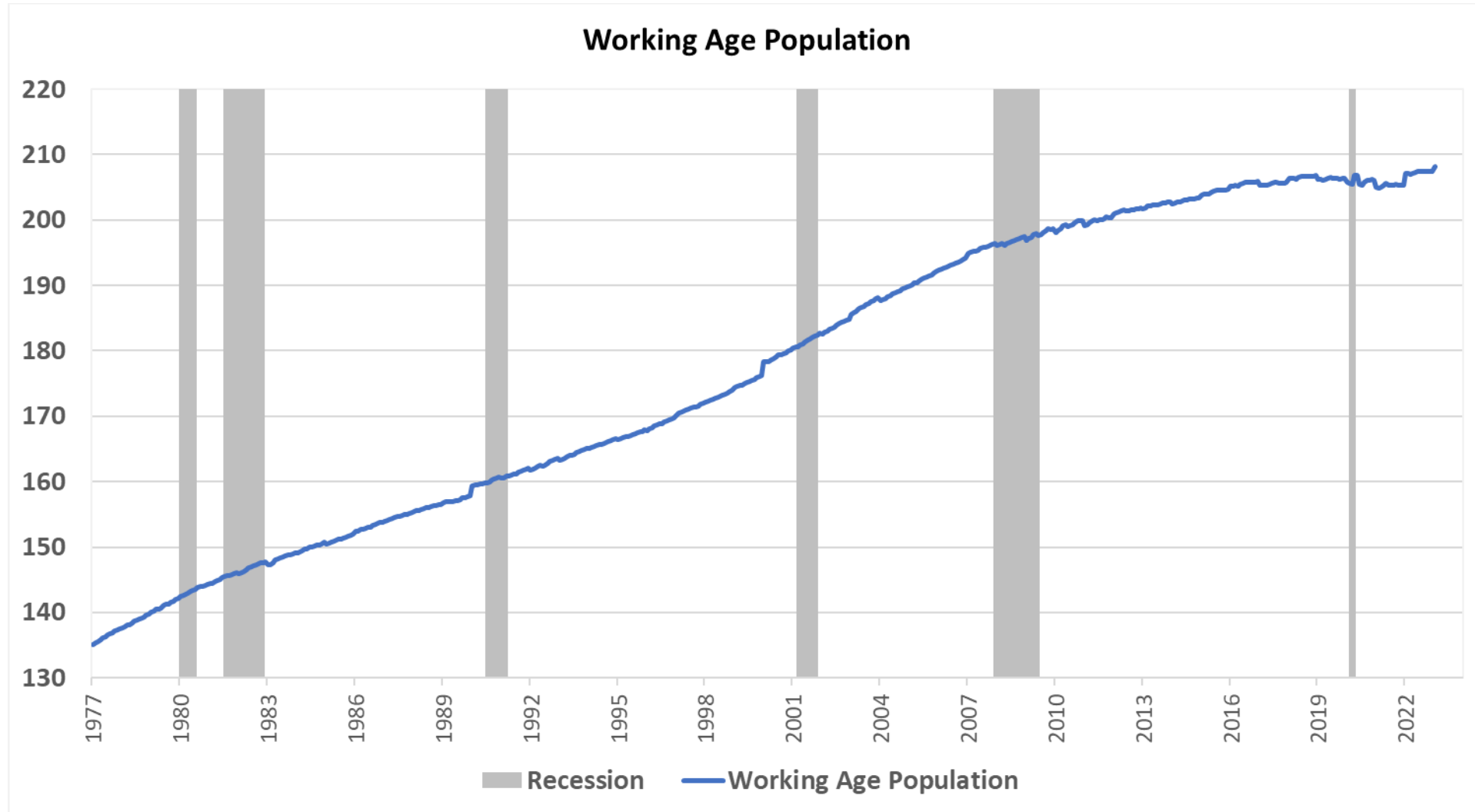
Prior to the onset of Covid, the potential for the unemployment rate to decline to an unprecedented low was being debated

Job Openings 1.8 Times Greater Than the Number of Unemployed People



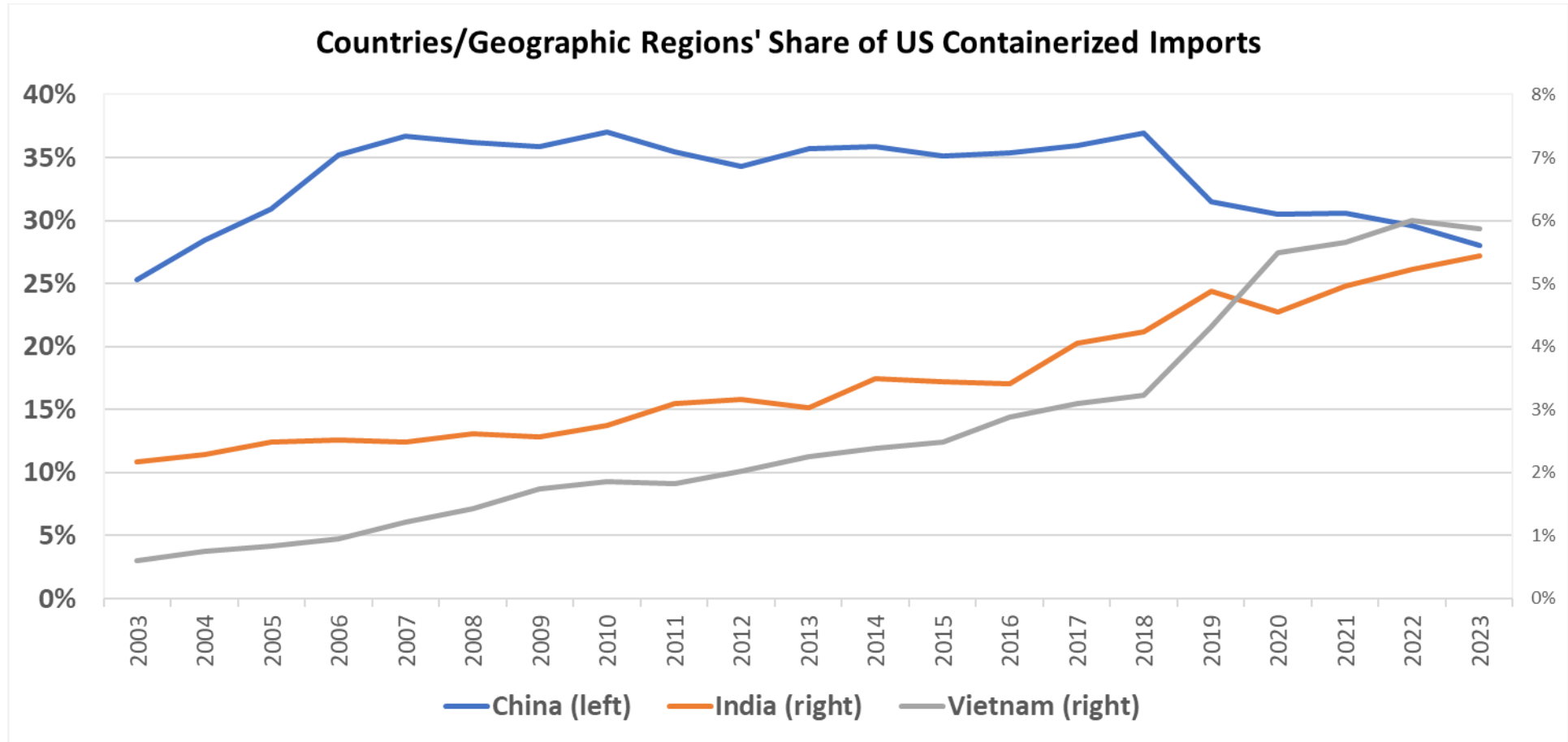
Help wanted advertisements have shifted from the retailers' sector to the services sector

US Working Age Population Growth Has Been Flat During The Last Six Years



There is a labor shortage - Current US unemployment rate has been averaging 3.5%, lowest level in 60 years
Census Bureau forecasts & work force participation rate imply that the available labor pool will +300K people per year over the next 10 years
Labor shortage will persist due to historically low Working Age Population growth and an out-of-date US immigration policy

Changing Import Sources: Changing Shares of US Containerized Imports



- China's share of US containerized imports has been decreasing since before the COVID-19 pandemic, mostly due to rising labor costs as the Chinese working age population began to decline and as a result of tariffs imposed in 2019. The higher cost of imported goods made in China has motivated importers to seek other sources.
- Vietnam and India have benefitted from the exodus from China and continue to. Mexico and others in LatAm have also benefitted.
- As companies shift their sourcing to Western Asia, Africa and South America, they will seek to use East Coast US ports more heavily.

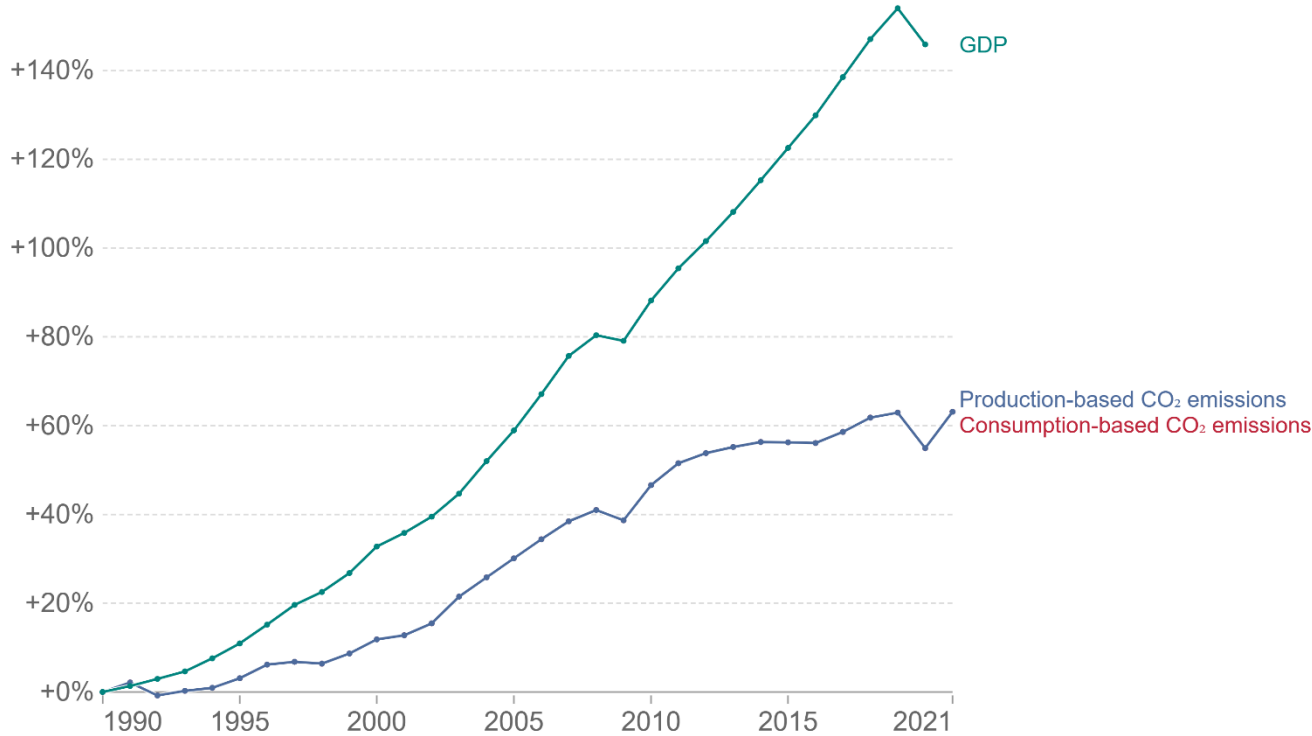
The Energy Transition is About Reversing CO2 Emissions



Change in CO2 emissions and GDP, World



Consumption-based emissions¹ are national emissions that have been adjusted for trade. This measures fossil fuel and industry emissions². Land use change is not included.



Source: Global Carbon Project; World Bank

OurWorldInData.org/co2-and-greenhouse-gas-emissions • CC BY

Note: Gross Domestic Product (GDP) figures are adjusted for inflation.

1. Consumption-based emissions: Consumption-based emissions are national or regional emissions that have been adjusted for trade. They are calculated as domestic (or 'production-based' emissions) emissions minus the emissions generated in the production of goods and services that are exported to other countries or regions, plus emissions from the production of goods and services that are imported. Consumption-based emissions = Production-based – Exported + Imported emissions

2. Fossil emissions: Fossil emissions measure the quantity of carbon dioxide (CO₂) emitted from the burning of fossil fuels, and directly from industrial processes such as cement and steel production. Fossil CO₂ includes emissions from coal, oil, gas, flaring, cement, steel, and other industrial processes. Fossil emissions do not include land use change, deforestation, soils, or vegetation.

Most institutions and private entities seek to flatten or reduce their emissions while increasing output. Many seem to have made substantial progress.

Others are seeking to reverse their carbon emissions from decades past via sequestration.

To achieve these goals. Their energy/manufacturing infrastructure will require major transformation and sequestration infrastructure will also be needed.



Energy Transition

The transition to “green” energy is an unprecedented attempt to internalize the cost of global carbon emissions. This requires a **large-scale transformation of the economy, coordinated across industries and countries**, which makes it more challenging than any past economic revolution.

The decarbonization efforts agreed in the Paris Accord require additional net investments of **2-8% of global GDP** per year in renewable energy according to Barclays Capital Inc. To reach the climate targets, these efforts must be **front-loaded**, and **more than half of them are needed in developing economies**.

Some economists believe the transition may help boost GDP growth over time, but the more immediate effect is likely a **negative supply shock** and **higher inflation pressures**, which may be challenging to address with monetary policy.

Uncoordinated national industrial policies make the transition less efficient than under a global carbon taxation or pricing.

The transition policies and climate change could result in many ‘**stranded assets**’. However, there are many investment **opportunities in assets related to the technologies and commodities** needed for the green transition.

Recap



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- **US and Global demographic trends – labor shortages**
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Thank you for your time

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