



# TFA

## Monthly Newsletter

### December 2021

### Santa Claus is Coming to Town... and Bringing Sustained Inflation

By Kristi Jackson

On November 30th, Federal Reserve Chairman Jerome Powell stated that inflationary pressures will continue well into next year. The Fed had been claiming for some time that inflation was transitory – now we are finally seeing them retract and reflect reality. Reasons are numerous and while it may not be at 1970s era levels, fundamental factors in play do suggest inflation will persist for several more years.

We saw October CPI up 6.2% - the fastest year over year increase in prices since 1990 as shown in Figure 1. What is causing this surge? Since the report, we have witnessed most major retailers report

earnings that cite both supply chain issues and rising labor costs as reasons for price increases. Additionally, we have noted several other market forces driving momentum in prices that will be difficult to re-direct.

#### Consumers are Flush with Cash

The Wall Street Journal cited the roughly \$2 trillion in excess savings that households have amassed since the spring of 2020 as well as low interest rates as reasons for this robust demand. Whether those savings are attributed to Federal monetary policy, the relative lack of “things to do” dur-

#### IN THE NEWS

**Notice of Intent Deadline Extended for Tribal Governments**

11/1/21 – [treasury.gov](https://www.treasury.gov)

**Latest CA Tribal Sports Betting Proposal Now Has Power Behind It**

11/8/21 – [sportshandle.com](https://www.sportshandle.com)

**More States Considering Casino Gambling Expansion**

11/15/21 – [reviewjournal.com](https://www.reviewjournal.com)

**Interior Department Announces Formation of First Tribal Advisory Committee to Strengthen Nation-to-Nation Relationship with Tribes**

11/16/21 – [indianz.com](https://www.indianz.com)

**Tribes Welcome Infusion of Money in Infrastructure Bill**

11/18/21 – [pbs.org](https://www.pbs.org)

**Judge Delivers Double Blow to Florida Gambling Compact**

11/25/21 – [fox13news.com](https://www.fox13news.com)

**North Dakota Joins Sports Betting Party**

11/27/21 – [casino.org](https://www.casino.org)



Figure 1

Source: U.S. Bureau of Labor Statistics

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ing quarantine period, or a generally increasing consumer confidence – the fact remains that there is money to spend, and most sectors are seeing an increase in demand. Eventually, this pendulum will swing back and normalize – but given these once-in-a-generation government transfers, this will take some time to settle.

### Fundamental Shift to E-Commerce

Solidified during the pandemic-quarantines when brick and mortar shopping was restricted, consumers' move to e-commerce purchasing is here to stay. According to Digital Commerce 360, in 2020, US consumers spent \$792 billion online, up an incredible 34% vs 2019 (see Figure 2). Digital purchases now represent nearly 20% of all retail purchasing (excluding for items that don't typically sell online such as fuel, restaurant and auto sales) up from 14.8% in 2018.

#### Ecommerce vs Total Retail Sales:

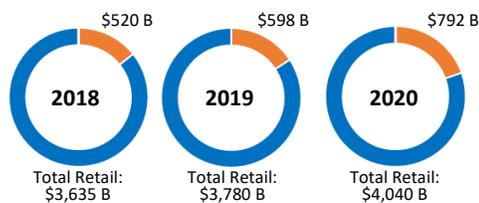


Figure 2

Source: Digital Commerce360

Consumers are spending more – it's easier to sit at your laptop or simply hold your phone than make the trek to a store where the item you are searching for may be out of stock. This trend is likely to last.

### Supply Chain Bottlenecks

Whether it can be blamed on the actual months-long shut-down of factories

where the supply originated in Asia, the continual COVID-related shut down of port activity in Asia, or numerous contributors to the widely photographed clogged ports in the US – the fact remains that shelves are sparsely stocked.

Longshoremen demanding higher pay to increase their hours, a shortage of truck drivers, container ships charging higher freight costs – delays cost money and a shortage of products drive prices higher. The imbalance will correct over time – but will prices fall once the supply of goods is back to an even flow?

### Higher Costs for the Last-Mile

The e-commerce goods described in the earlier section must be delivered – and there is a shortage of delivery capacity to service this surge in activity. The CEO of UPS recently forecast a daily holiday-season gap of 5 million parcels for which the nations demand for goods exceeds delivery capacity. Building this needed capacity will cost carriers, who in turn will pass price increases through. Demand is higher, delivery costs are higher, prices will be pushed up.

### Labor Costs are Skyrocketing

According to the Bureau of Labor and Statistics there are 10.4 million currently open job vacancies and just 7.4 million people unemployed. As federal unemployment supplements have largely sunset, it is more likely that the labor participation rate is down for a while. Whether it is consumers living off their savings for some time, or 50+ year old workers taking an early retirement – a smaller labor pool will drive

wages higher. We don't have to look far for evidence. On a recent visit to NY state casinos we witnessed signage in many offering over \$18 an hour to housekeepers, with full benefits including a 401k plan (minimum wage is up to \$15/hour). Some properties we visited told us their workforce is off 25% or more versus the ideal staffing level, and they are paying up to attract labor. Wages are traditionally "sticky" – once they increase, it is extremely difficult to reduce them.

We think rising labor cost is the key structural change that will cause inflation to persist. Now that the Fed has acknowledged the point, they need to begin tapering their asset purchases and moving away from easy monetary policies. Mohammed El-Erian, current Allianz Chief Economist, recently urged the US Fed to take action sooner, stating "We all want to be wrong on this call and we all hope that inflation is going to come down very quickly very soon. But I don't think that is going to happen."

TFA is working with Tribes on cash flow planning and positioning them for the future – whether that be for more attractive financing, supporting internal discussions on budgets, or assistance with negotiating key agreements. Our scenario analysis is a valuable tool offering Tribes an independent view on the effects of key trends. We see this inflation as a side effect of the pandemic – a proverbial lump of coal and not a welcomed gift from Santa. Plan for it: it will linger for several more years.

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