Summer 2021

Contrary to popular belief, and many children's stories, bears don't go into a deep slumber each winter. Grizzlies and black bears, for example, enter into torpor, where body temperatures are lowered and heart, breathing, and metabolic rates slowed, allowing the conservation of energy. They may wake, stir, stretch, and even wander out, especially if they sense danger or their den is flooded. In torpor, or "light hibernation," bears are able to live off stored fat, inside their caves or claw-dug dens, and avoid the harsh elements and dearth of food.

In essence, the bears are largely staying inside and trying to survive until sunny days arrive. Exactly what most of us have been doing since COVID hit North America. (One envious difference, alas, is bears lose weight but very little muscle during their largely sedentary periods.)

When bears finally start to emerge, they enter a phase called "walking hibernation." They don't immediately become a voracious beast, but rather eat in bits and drabs while allowing their bodies to adjust. Which feels a bit like the early part of this year, when many of us cautiously re-entered society as vaccines slowly began to roll out and the pandemic curbed.

When "walking hibernation" ends, the bears are ready for normal behavior. Feel familiar?

Which, stay with us here, brings us to inflation, the rising costs of goods and services. Currently, gas prices, depending on where one lives, are up 15% to 23%. Rental cars costs have skyrocketed an astronomical 293%, according to the latest Federal Reserve monthly statistics. Used cars are up nearly 80%. Beef, milk, and beer rose 32%, 30%, and 13%, respectively.

Why? Because we're a mass of ravenous bears anxious to consume the pleasures denied by lockdowns and shutdowns. And, for the time being, there are only so many seats in a plane, concert hall, or restaurant; cars available to rent or purchase; and houses on the market.

A big part of the problem is that months upon months of laid-off workers, shut-down factories, and cancelled orders have caused massive bottlenecks in supply chains. Understandably, perhaps, most industries weren't in a position to suddenly meet the sharp demand of a quickly re-opening economy. Add to this the artificially tight labor markets, pushing up wages and leading to more disposable income for goods and services. Compound that with the government dispensing trillions in unemployment benefits and infrastructure spending and attempting to elevate employment and wages even further. The result? Annual inflation levels above 4.0% for the first time since the USSR dissolved and Schwarzenegger made "Hasta la Vista, Baby" a ubiquitous catchphrase. (Thirty years ago, if you can believe it.)

Our ending hibernation and emerging into a barren marketplace is lightening our wallets. It's a difficult phase. The good news is it's just that, a phase. Soon enough, the landscape will be bountiful. As Federal Reserve Chair Jerome Powell told Congress in late June, the current price gains are largely due to those aforementioned bottlenecks, which are temporary. The Chairman pointed to used cars, airplane tickets, and hotel rooms, which make up a huge part of the gains, as industries were caught off guard by skyrocketing demand from a rapidly opening economy.

The vehicle sector provides a good look at the Chairman's point. During the pandemic, fears over public transportation caused an increased demand for new cars. That, combined with the shortage of the microchips needed to manufacture them drove folks over to the used car market. Who else is bidding in that market? Rental car companies, many of which sold their fleets at the beginning of the pandemic, and suddenly need to meet a furious demand. You don't need a degree in Econ to know how that's gonna play out.

"Those things that we would look to, to stop going up and ultimately to start to decline as the situations resolve themselves," Powell said. "They don't speak to a broadly tight economy—the kind of things that has led to high inflation over time." He added that these effects have been larger, and may last a little longer than the Fed expected, but "the incoming data are very much consistent with the view that these factors will wane over time and inflation will then move down towards our goal" of 2%.

We're in the camp of believers that the higher-than-expected inflation will, indeed, last longer than central banks predict. Also, that there should be no fear of this leading to a recession. There is no comparison, as some have made, to the late 70s or early 80s, when a global oil crisis had the economy reeling and economists thought higher inflation could grow employment (the Phillips Curve).

For almost twenty years inflation has run right around 2%, the stated goal of North American central banks. With a little bit of time, we'll start heading there. Global economies are opening exponentially, and there's a palpable demand for normal behavior. The temporary rise in inflation won't derail growth. Interest rates may move a bit higher, but even if they doubled (a hit to long-term bond investors), the 10-year government bond yields in the US and Canada would be right around 3%, awfully cheap by historic standards and just slightly above inflation, which is ideal.

The current price spikes are not a reason for panic. They're an indication the economy is healing, and on the cusp of being able to fuel even more expansion to meet the demands of a growing world.

Come fall, bears, in preparation for the winter, will enter into hyperphagia, a stage of massive consumption. With supply chain kinks being worked out, production ramping up, and inflation trending downward, the global economy will likely be in the same stage.