



Basis Points – December 11, 2018

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Above the Fold

- The U.S. Postal Service is reviewing its shipping rates for package delivery from large customers such as Amazon. A new government report indicates that they are not charging nearly enough, and these low rates are seen by the White House as a kind of subsidy for large and profitable corporations that heavily rely on the cheap shipping prices of the USPS. The post office has not priced package deliveries with profitability in mind, according to the task force's report released last week. The USPS is allowed to charge market rates for delivery of packages that are not deemed to be essential services, and most Amazon packages clearly are not essential to the shopper's well-being. Higher rates on packages would hit Amazon the hardest, as 45 percent of its packages flow through the USPS system at some point in the delivery chain. The report did not recommend a specific amount to hike charges, but is exploring what the correct amount should be.
- A part of the yield curve inverted last week, as the yield on the 3-year government bond, at 2.81 percent was higher than the 5-year bond, at 2.79 percent. However, looking to the 3-year/5-year spread has been a terrible recession indicator in the past. Since 1954, this 3-year/5-year inversion has happened 73 times, but only nine of these occurrences were seen prior to an actual recession.

Three Things

- In November, the U.S. became a net exporter of oil for the first time since 1949. Weekly crude oil production in the U.S. has risen from 9.5 million barrels a day only two years ago to 12 million barrels a day at the end of 2018.
- So far in 2018, \$598 billion of offshore cash has been repatriated back to the U.S. by large companies. That number should end up on the higher end of the \$500-700 billion estimate range for the full year of 2018. Moving forward, companies are able to repatriate their active earnings tax-free, so this flexibility should help companies better manage their cash flow. Estimates for 2019 repatriation is \$250 billion. While

politicians may claim that this cash coming back to the U.S. is only being used for stock repurchases, the actual numbers show that only about a third of the cash has been used to purchase shares. Cash has also been used to pay down corporate debt, complete M&A projects and for investment in capital expenditures.

- “The U.S. has as many as 2 billion parking spots for about 250 million cars, a ratio that many planners and economists say is overbuilt. The area of parking per car in the U.S. is greater than the area of housing per citizen,” writes Donald Shoup, the UCLA transportation scholar and founding father of parking economics.

Did You Know

It appears that the three-year restaurant waitstaff tipping experiment is coming to an end. New York Magazine reports that restaurant industry pioneers Thad Vogler and Danny Meyer are ending the initiative in their restaurants that banned waitstaff tipping and instead built service costs into the price of items on the menu. While it seemed like a noble idea that would improve kitchen and support staff pay and mirror their favorite restaurants in Europe, it has not worked well in dining establishments in the U.S. for many reasons, but mostly because top-notch employees hated the new policy.

When tipping was banned, waitstaff turnover increased to 40 percent a year, and very quickly after the policy went into effect, most high-productive and loyal staff left their employers to work at other restaurants. Vogler has struggled to stay adequately staffed since he eliminated tipping for his waitstaff, and he saw most of his best employees leave to take other jobs. It turns out that “you just get a better, well-adjusted employee with tipping. They are more focused, and they get that instant gratification” of providing great service and immediately getting paid for it, said a restaurant manager.

Surveys showed why employees disliked the no-tipping policy so intensely, as after tips were restored to restaurants, waitstaff now earns a stunning 25 to 40 percent more per hour than they had under the no-tipping policy.

The report also noted that most restaurant patrons like the current waitstaff tipping system, as it gives them power over what their server is paid and leads to better service and a more enjoyable dining experience.

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