



Basis Points – June 21, 2022

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Above the Fold

Inventories Soar and Consumer Demand Becomes Harder to Match

In a world where consumers' desires can change on a whim, once nimble retailers are dealing with a bit of a one-two punch from both inventory gluts and still wonky supply chains. It's a tough time to be a retailer. On the one hand, many larger retailers have completely restructured supply chains, taken on tons of inventory, and ordered foreign-made goods further in advance to keep up with what seemed like unrelenting demand. But with interest rates now soaring on top of the cost of just about everything else we buy, the masses of buyers willing to pay anything and everything has (relatively) dried up. What's left are more fickle consumers who want the latest and greatest in apparel and other goods ... and now want a deal.

But these stretched-out lead times are putting big retail behind the 8-ball as they can't predict what the consumer will want 10 to 13 months down the road, which is the current production cycle of many goods like footwear (which was about eight months before the pandemic). Experts believe the lack of matching consumer trends could lead to an even bigger inventory swell and put further pressure on profit margins. Many corporations are also turning to artificial intelligence (AI) to help improve supply chain efficiency and even better predict what the consumer will want months in advance. The good news is that consumers are starting to see some of the best pricing in the last couple years on all sorts of goods! You might want to check and see if an item you've been watching has gone on sale.

Three Things

A Recession Likely, but It Shouldn't Be Nearly as Bad as 2009

As we've predicted for some time now, it seems the majority of economists are anticipating a recession to begin either late this year or early next. A new survey of 49 U.S. macroeconomics experts conducted at the beginning of June by the Financial Times and the Initiative on Global Markets revealed the data, with the majority of those surveyed looking for a recession to begin in 2023. Economists cite a still strong housing market, with owners flush in equity as one of the main reasons this recession is unlikely to be severe. A large swath of investors and firms also hold a large portion of American real estate, which is also likely to help support prices even if the economy weakens.

EY to Split Its Business in Two

According to documents obtained by the Wall Street Journal, consulting giant Ernst & Young is planning to split its audit and consulting businesses into completely separate entities. Dubbed Project Everest, the breakup of the 312,000-person firm could begin as early as next year. The current plan would be to take the consulting business public through an initial public offering, selling roughly 15% of the company for an estimated \$10 billion, while at the same time borrowing \$17 billion. The decision comes amid intensifying scrutiny from lawmakers for companies like EY and others to address potential conflicts of interest.

Apparently, Consumers Don't Really Mind Commercials

Video-on-demand promised to bring content that we wanted to watch, without all the advertisements, but trends are changing. As some consumers' media bills stack up, some are opting to go back to commercial-laden plans, while advertisers are also targeting lesser-known streaming platforms to offer mainstream content to viewers who refuse to pay for premium services. Advertising-supported video-on-demand (AVOD) platforms including the likes of Pluto TV, Xumo, Tubi and even the ad-supported versions of Hulu and others are expected to double their revenues to a collective \$19 billion this year compared with 2020. Experts see meteoric growth in this space in the coming years and expect increasingly higher-quality content to work its way into many of these lesser-known streaming services.

In the Know

The Summer Solstice

For much of the U.S., unseasonably high temperatures have already ushered spring right out the door, but today marks the official (astronomical) start of summer. In the Northern Hemisphere, the Earth arrives at the point of its orbit where the North Pole is tilted its maximum 23.5 degrees toward the Sun. This puts the fiery ball at its highest and northernmost points in the sky, resulting

in sunlight cast at the most direct angle of the year. The word “solstice” comes from Latin solstitium, merging sol (Sun) and stitium (still or stopped) as on this day, the Sun seems to pause as it ends its northern journey and shifts southward in the sky.

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