



Basis Points – July 12, 2022

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Above the Fold

Why Declining Globalization May Be Fueling Inflation

Globalization has been considered by many to be a major contributing factor in keeping inflation at bay. With goods sourced from all over the world, supply can more easily keep up with demand, and competition remains healthy and diverse, all helping to temper prices. This has been shown in history time and time again. But with globalization starting to decline, already high global inflation rates may be poised to make another jump, and that's something the world certainly doesn't need.

After the Great Recession, U.S. economists, along with other global minds and policy makers, began to look deeper at “onshoring” to stabilize individual economies and reduce dependence on other nations for critical goods. Over the last decade, there has been some forward progression on trade (such as NAFTA 2.0), but also a myriad of tariffs and trade restrictions between some of the world's biggest economies. The UK leaving the European Union in 2020 was also a big hit to international trade. All of this was followed immediately by the COVID-19 pandemic, which brought the world and the fragile network of global supply chains to a screeching halt. While these things all have different causes, their effects are all driving in the same direction.

Former Federal Reserve Chair Alan Greenspan said that the era of low inflation following the 1970s inflationary woes could just as easily be attributed to globalization as it could the actions of the central bankers. He went on to say that international trade exposes the world's economies to international competition. He continued, "In the process, lower prices for some goods and services produced by our trading partners have competitively suppressed domestic price pressures." Increasing the flow of capital, goods and people across international borders does have the power to slow inflation if given adequate time. While the inflationary pressures at work now may prove to be a short-term fallout from the pandemic, if the dismantling of globalization continues, the past indicates that the days of price stability could become history.

Three Things

Twitter Takeover Takes Another Turn

Twitter is lawyering up in reaction to Elon Musk recently filing a document to attempt to cancel his \$44 billion buyout. The firm is the same one credited with the "poison pill" defense that Twitter used to initially slow down the Musk takeover. Twitter's defense team has experience defending companies against activist investors, while Musk's team has experience in defending Musk himself and other tech companies. The trial will be an interesting one to keep an eye on, but it seems that Twitter itself may be getting the worst of the deal (or should we say no deal).

Massive Rogers Outage Cuts Off 25% of Canada's Internet

A massive outage struck Canada's telecom Rogers, causing thousands of disruptions on Friday. Landlines, cellular connections and the internet all hit major snags around 5 a.m. ET. The outage continued for over 18 hours before some services began to see recovery, but many were without connection for days. Rogers' team released a letter to customers late Friday evening to reassure them that they were working diligently to fix the issues but didn't have an ETA on a complete recovery. As of today, a "vast majority" of customers have regained connectivity, but still not 100%. The next step is discovering the root cause of the issue. Rogers says it's automatically crediting their customers' loss of service, but many businesses were also unable to function or sell goods during the outage.

Nord Stream Closing for Repairs — It May Not Reopen

The Nord Stream gas pipeline runs from Russia to Germany and is set to close for annual maintenance soon. During peacetime, this has never been an issue. But with Russia's invasion of Ukraine, there are fears that the pipeline will be shut down for the foreseeable future. The Kremlin said that they plan to continue delivering gas through the pipeline but that any disruptions to the supply would be the fault of western sanctions.

In the Know

Amazon Prime Day is a Big Deal, but ...

Amazon Prime Day sales start today and go on through tomorrow. This is a sale lauded by Amazon as one of its best sales of the year. But that might not actually be the case at all. While you may see some exciting deals on Amazon-branded products (Kindle, Fire TV, Alexa devices), there are other days that Amazon has higher-valued items at lower prices. If you're looking for a TV, for example, the day before the Super Bowl historically shows the lowest prices of the year. Patio furniture? Check the prices near Labor Day.

Amazon relies on impulse buying when these types of deals pop up. With inflation still causing prices to rise, consumers are less likely to succumb to those urges as they have in previous years. Other big retailers like Target, Walmart and Best Buy are holding major sales around the same time. Target's big sale started yesterday and will continue to the 13th as well, matching the prices of Amazon Prime Day and taking an extra 5% off for Red Card holders. It may be worth your while to check out some of the other sales going on before committing to Amazon Prime Day this year.

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