

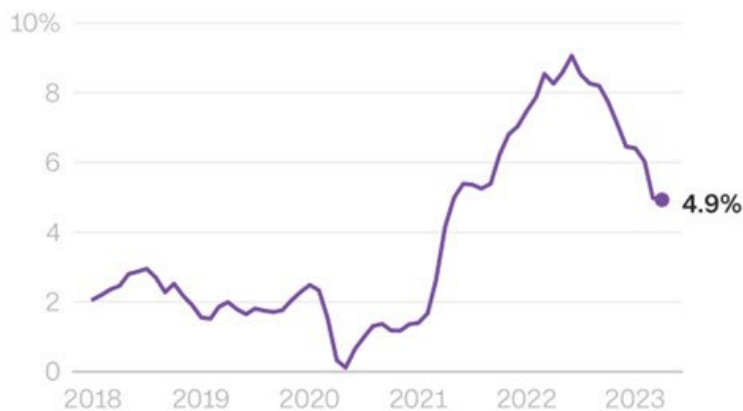
## J. Michael Locke Musings

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### #223: Musing May 13, 2023

Pretty amazing that we are now at a point where 4.9% inflation is viewed as a positive. It is all about the trend which continues to show deceleration in the rate of price growth. *“Annual inflation continued its slow-but-steady deceleration in April..... The CPI climbed by 4.9% for the 12 months ended in April representing a slightly slower pace of increase than the 5% in March.”* [cpi-consumer-inflation-april/index.html](https://www.federalreserve.gov/releases/cpi-consumer-inflation-april/index.html) I just don't see it going back to the 2% range as wage rates will stay high (although maybe there is some softness as Microsoft announced it will not give raises to full-time employees this year).

#### Year-over-year percent change in CPI



Note: Not seasonally adjusted; Consumer Price Index for all urban consumers, all items in US city average

Source: Federal Reserve Bank of St. Louis; Bureau of Labor Statistics

Graphic: Alex Leeds Matthews

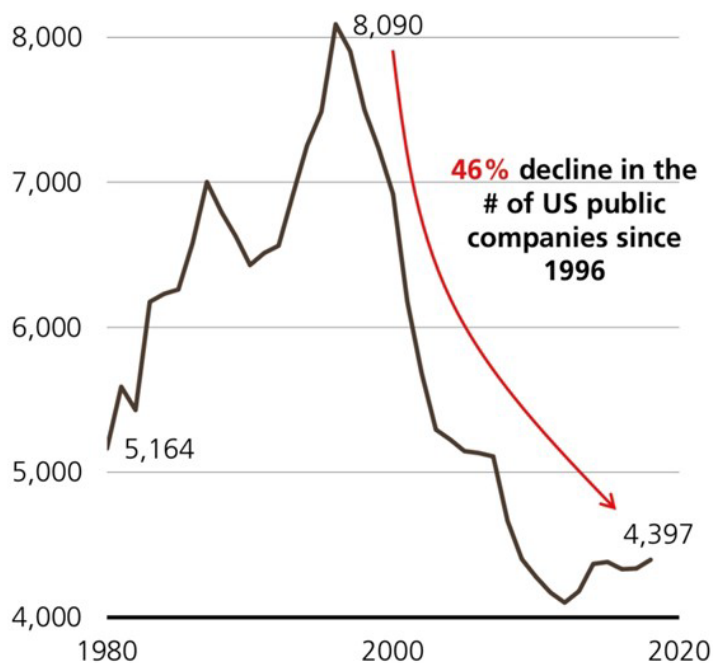


One deflationary driver is the buildup of inventories. As the supply chain “kinked up”, companies found themselves short of supplies but have now overpurchased and are sitting on excess inventory. A freight transit expert told me that industry is currently soft and product is not being moved because warehouses are already full. Warren Buffet shared at his annual meeting that he foresees discounting to move excess inventory which will help pull down inflation. *“The “Oracle of Omaha” believes that the “extraordinary period” of excessive spending on the back of Covid pandemic stimulus is over, and now many of his businesses are faced with an inventory build-up that they’ll need to get rid of by having sales”* (CNBC)

Good quote from an exec: “Expenses have feet.” In today’s world, it is hard to reduce your expenses without reducing your employees.

A lot of the action in equity investing has moved to the private markets. Great graph from UBS:

### Number of US publicly traded companies



Source: UBS, World Bank.

Lots of discussion of how AI is going to affect education. If you can ask ChatGPT the questions and get an answer, do you need an instructor? I am with Sal Khan that the answer is yes. Teaching is about guiding someone through knowledge attainment and helping them assimilate knowledge. My point is that great teachers don’t just transfer content, but rather guide the learning process. Khan has good Ted Talk on how Google could give every student a personalized tutor and thus raise the outcomes for everyone. [https://www.ted.com/talks/sal\\_khan\\_how\\_ai\\_could\\_save\\_not\\_destroy\\_education/c](https://www.ted.com/talks/sal_khan_how_ai_could_save_not_destroy_education/c)

AI is creating a real quandary for Google. Their revenue line is basically advertising as companies want to get listed and receive web traffic that starts with a Google search. Google gets paid for every click as a user does a search and then clicks on a link out to a separate website. With embedded AI search, the user should get their answer right away and not have to click “out.” The issue is how Google does this while still running its huge advertising machine as a director of traffic rather than providing answers.

IBM announced that its’ plans call for AI to make 20% of jobs unnecessary. The CEO is actually pausing hiring in non-customer-facing roles like human resources and “*being deliberate and thoughtful in our hiring with a focus on revenue-generating roles,*” and being “*very selective*” about hiring for jobs that aren’t client- or technology-focused. [ibm-ceo-says-tools-able](#)

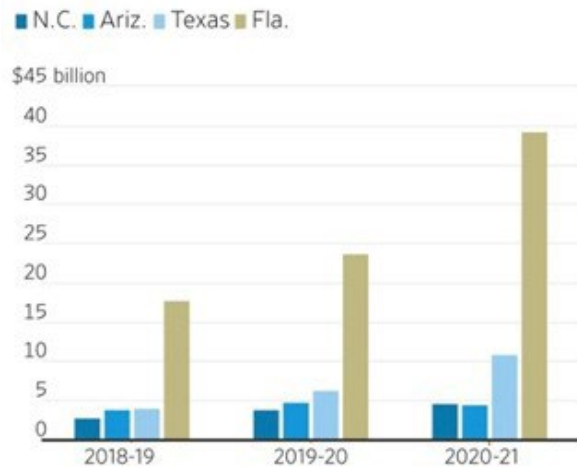
Make sure and focus on mobility. I mean this in two ways – the mobile experience of technology (website etc.) as well as the delivery of a service. On the former, most consumers are engaging with your business over the web on their mobile phone. Make sure your website is mobile-friendly with appropriate design and functionality. It might even make sense to have a mobile app. On the latter, all delivery now has a mobile component. I saw a great story in healthcare about a “mobile stroke unit” where the CT scanner is in the back of the truck and can drive to the patient. Some providers are creating “mobile mammogram offerings” where they bring the machine to the neighborhoods of populations where more testing is needed (recommendation this week to start annual mammograms at 40 rather than 50). DoorDash and Uber are bringing food to your door and the Trunk Club brings clothes curation right into your living room. I encourage everyone to go asset light, don’t invest in real estate and don’t sign any long leases. Instead of people leaving their home to go to store, restaurant, hospital or school, the consumer is now demanding those services come to them via technology or delivery. Sad for community but it is the reality of today’s world.

The federal government finally declared the Covid national health emergency over as of May 11. Like most things in the government, this is about a year late and has major implications. For instance, the US can no longer immediately deport immigrants who cross illegally and ask for asylum under Title 42. Now, they will have to be given an administrative hearing and will be released in the meantime until their hearing which is months away. The prescribing of Adderall use to require an in person visit that got waived due to the emergency and will now come back. Student loan interest payments got paused due to the emergency etc. Medicaid enrollment must now be evaluated for eligibility. I even know a really talented lawyer who had built “out clauses” into a contract so that the national emergency eliminated contractual performance metrics. Now, back to pre-Covid rules.

I surprise most people with my support for immigration across the southern border. Our economy needs more workers. I love the grit of someone walking across the country of Mexico to seek a better life in the US. We obviously must have a systematic approach vs the current “let them in, release them and then they go into the shadows” approach but let’s not become anti-immigrant. Let’s enhance our screening so we don’t let in “criminals” and give the others a defined path to citizenship and let them all get to work and grow our economy.

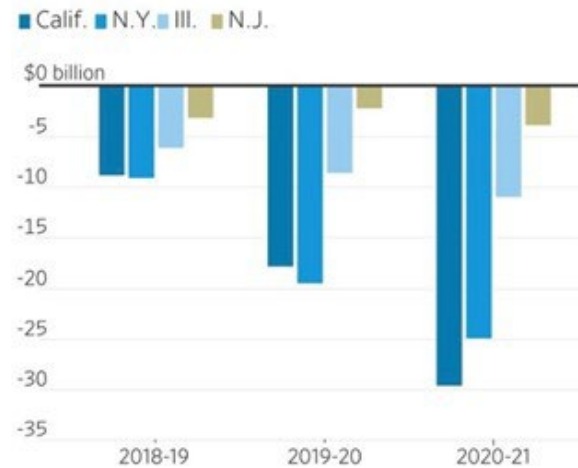
Nonprofits need to be watching their geographic “risk” on fundraising. As capital migrates with the moving residency of citizens, nonprofits in “money losing” states like Illinois need to be managing their risk. The IRS recently released the Adjusted Gross Income (AGI) lost or gained as people moved from one city to the other. Illinois lost \$10.9 billion as residents moved out especially to Florida and Texas (see below). I was recently recommending to a nonprofit I work with that we open up efforts in Florida. If that is where the donors have gone, we need to follow them as tax experts will tell you that auditors look at where your donations were made (along with who your doctors are etc.) when judging your residency so the money will start flowing to Florida nonprofits unless Illinois nonprofits create a base there.

### Net Gain in State Adjusted Gross Income Due to Domestic Migration



Source: Bureau of Labor Statistics

### Net Loss in State Adjusted Gross Income Due to Domestic Migration



Love the integrity of Tommy Kuhl, a University of Illinois golfer, who had a record round qualifying for the US open as an amateur but got disqualified for fixing “aeration” marks on the greens. No one caught him — he realized his mistake and turned himself in. That is integrity. [college-golfer-disqualifies-himself-from-us-open-qualifier-course-record-](#) (Thanks Keith Watson).

Happy Mother’s Day to all moms. In my household growing up, as well as my current household, the mom was/is the glue of the family unit. The role is often unappreciated and lacks glamor but every successful person I know had a supportive coach called mom when they were growing up. I think the ultimate compliment to my wife Heather was our daughter recently sharing that she wanted to be a young mom and have six kids!

Jml