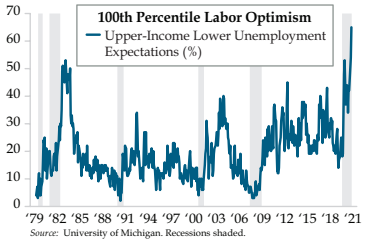
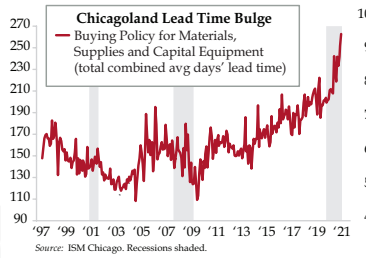
The Daily Feather

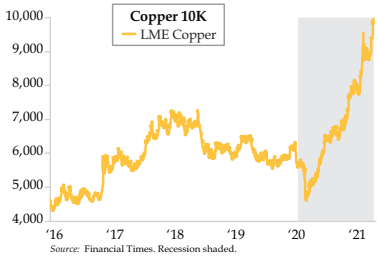
The ATF Macro Task Force

VIPs

- Even if inflation were unchanged MoM in April, base effects would still drive a 3.3% YoY print, a near-decade high; households are also feeling the inflation heat, per UMich, with upper income Lower Unemployment Expectations in the 100th percentile, a record high
- Per Opportunity Insights, the job openings gap for those with minimal vs. considerable education was a record 55 percentage points the week of April 23; the shortage of low-skilled workers continues, despite Q1 private sector wages seeing their strongest rise since 2006
- Every regional Fed survey besides New York saw modest declines in shipping costs in April, a potential positive sign; however, as raw materials costs remain high, April and March saw a record 1,949 and 1,950 M&A deals, respectively, as firms look to mitigate input costs via consolidation







On January 11, 1985, an unadulterated evil was unleashed when the country's most prolific arsonist in history emptied a two-liter bottle filled with gasoline underneath the door of a complete stranger and lit the house afire. In 2003, the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) was called in by local fire officials to aid in finding a killer who they thought was new to an incendiary life of crime. The District of Columbia and Prince George's County, Maryland had suffered 14 house fires with distinct similarities resulting in two deaths and enormous monetary damages. It took nearly two years for the task force to apprehend the suspect. By then, the ATF task force had tied 50 fires to the same signature. Serving a life sentence without the possibility of parole, Thomas Sweatt later admitted he was responsible for an additional 300 fires spanning three decades.

The idea of heat is increasingly front and center. The "record declines" that featured bright in last year's *Feathers* have been replaced by "record rises." A week from Wednesday, investors will be confronted with the first of two "base effect" ignited Consumer Price Index reports. The consensus is calling for a 0.2% monthly gain, a level not out of step with the norm. The year-over-year (YoY) rate, though, will be calculated against that of 0.3% in April 2020. Even if inflation disappoints to the downside (it won't) and comes in unchanged for the month, the YoY rate would print at 3.3%, a near decade high.

Households and businesses alike feel the heat of inflation. Per the University of Michigan's (UMich) final read on April's consumer confidence, among the top third of income earners, those who anticipate falling unemployment is in the 100th percentile (blue line), a record high. It doesn't get any hotter than that given this cohort is one and the same with those who control headcount. Not pictured but also fresh out of UMich is the record number of complaints about rising home prices. On that note, the data's arbiter of a half century, Richard Curtin, noted how remarkable it was that home buying conditions had barely been dented.

A quick perusal of Opportunity Insights Economic Tracker, which has aggregated real-time data since January 2020 shows little abatement in the shortage of low-skilled workers. The yawning gap between job openings for those with "minimal" vs. "considerable" education was a record high 55.1 percentage points (pps) in the week ended April 23rd. That compares with 54.6 pps four weeks earlier. From the biggest to the smallest businesses that can't source labor, the September 6th expiration of Pandemic Emergency Unemployment Compensation benefits can't come soon enough.

Wage pressures are already evident in the data. Friday morning's release of the first quarter employment cost index surprised to the upside with private sector wages rising at the strongest pace since 2006. While that figure may perplex against a backdrop of 8.5 million jobs lost since the pandemic hit, it's less puzzling when extended unemployment benefits and the greatly exacerbated skills mismatch are factored in.

"Rising home prices and rising incomes create the most fertile soil for the growth of inflationary psychology," Curtin warned. "While it is critical to first secure robust and equitable economic growth, contingency plans are urgently needed to avoid declining inflation-adjusted incomes and surging interest costs."

From firms' perspectives, labor is the latest in a long line of rising costs crimping margins. It's well known that the prices of industrial metals from aluminum to copper (yellow line) to iron ore have spiked. Lumber is this close to having its own reality TV show and semiconductors aren't far behind. The Federal Reserve's Jerome Powell would be quick to reassure that ramped-up semi production and increased sawmill capacity in 2022 renders these pressures transitory. While true, that doesn't take the heat off in the here and now.

There is, we should note, the teensiest glimmer of light in the category of dissipating costs. With the exception of New York's Empire State Manufacturing Survey, every other Fed region saw modest declines in shipping strains. In the case of Friday's Chicago PMI, Supplier Deliveries fell 3.5 points in April. Did we mention teensy? That ever-so-slight decline is off a base of 73.8 where delivery times ended the first quarter, the highest level since the second quarter of 1974. As you see on the red line, total lead times have lengthened by 60 days since the pandemic first shocked an already stressed supply chain last February.

No executive worthy of his or her C-Suite is going to sit back and watch their profit and loss statements go up in smoke. Mitigation is critical, especially when their corporate currency, as in stock price, has extraordinary buying power to grow revenues and protect margins. The evidence is plain that CEOs have no qualms. April's merger and acquisition count rang in at 1,949 as of Friday's close, all of one shy of March's 1,950 deals. These two months are…wait for it… record highs. We'll expect to see the upshot of this urge to merge in Thursday's layoff data out of Challenger, Gray and Christmas. For the moment, post-merger synergies are one of the few fire retardants firms have on hand to beat back the flames threatening to burn their bottom lines.