

The Yellow Brick Road Has a Wall at the End

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Wall Street cannot understand why corporate CEOs in this country are “hoarding” their cash. You know, maybe the answer is that they see something out there that the conflict of interest sell-side brokers don’t understand. The following is an e-mail we received from one of our Economic Commentary readers. His name is Donald Lynn Collins. He is president and CEO of NASDAQ listed Collins Industries (COLL). He and his team have done an excellent job in managing this company, which manufactures ambulances, school busses, and terminal trucks. We must admit that we are a bit prejudiced, as Don Peters is on their Board of Directors.

I have to tell you. Inflation is here and coming in a big way, just not how you normally see it. The fed is not real worried, but they focus on wage inflation. The fact is there is a little wage inflation, but the big inflation is coming from price increases in 1) raw materials (40-50%) the last year, and 2) from overhead items that include health insurance, legal expenses, worker compensation and liability insurance premiums. There is a day of reckoning coming for the retail and consumer sector like we have not seen for over 75 years. Consumer debt combined with real reductions in purchasing power are going to destroy the consumer's ability to keep pace. I see some major adjustments coming in lifestyles and purchasing habits. People will not be able to go out to dinner as much, have as big of Christmas and birthday celebrations, they will work longer into their 70's and 80's and overall their houses and mortgages will be downsized. For those in the lower end of economic ladder, it is poverty like we have not seen. Credit card debt and mortgage debt delinquencies will rise to record highs and banks won't be able to give away money if it has an interest rate attached to it. So, hold on to your hat, it's coming in the next 18-24 months.

We agree with most of what he said. The brick wall that we have worried about all these many years is appearing in the headlights. He describes well what is presently occurring in the economy. We are experiencing an industrial recovery and a disappearing consumer. The question has always been “Will we have inflation first then deflation as debts are liquidated or the other way around.” Don Collins seems to indicate the former while we believe it will be the latter. Be that as it may, the end result is that the consumer is in for a rude awakening. Living standards seem certain to be flat at the very best.