

## Supply Chain

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If you have never driven in Pittsburgh, PA, you are missing out on one of the most intense, bridge-driving experiences in the country. Fort Pitt Bridge connects Route 376, which is the primary route for out of town traffic. Whether traversing on the first or second level of the bridge, drivers usually have to: merge into traffic, cross multiple lanes, exit, merge back into traffic, cross multiple lanes again, and then hope their final exit is not closed for construction. The chain of events is chaotic and first time drivers constantly slow down the flow of traffic. Once you have done it a few times, there are still challenges and delays, but the ride is much smoother and almost enjoyable. Likewise, an economic bridge, the supply chain, has been confounding the economy for the past year. We were unprepared to meet demands with the systems in place, but with innovation and determination, we might be getting back on track, and if so, there would be a direct impact on the inflation argument discussed previously here and in hundreds of articles online.

The first example is lumber, which has not seen prices this high for decades. According to industry insiders, this is not due to price gouging or market manipulation but rather lack of supply and DIY projects during the pandemic alongside normal activity. Throughout COVID 19, multiple businesses have had to stop production, and the lumber industry is no different. Canadian regulation has increased during this time too, reducing the Annual Allowable Cut (AAC). At the same time, home remodeling activity was in full force, which drew heavily on reserves. Sky high demand met with fettered supply has led to high prices and expectations that equilibrium should return at the end of 2021 or early 2022. The same can be said about food prices, but rather than DIY remodelers, home cooks and preppers have strained a busted restaurant supply chain. While not usually described as a direct supply chain, home prices and home buying activity have risen in low-cost locales, as those with means leave the cities to live in areas with lower risk/restrictions. This has in turn led to rental-dense areas offering provisions and lower monthly payments, which will probably continue until the exodus stops. Finally, previously depressed oil prices have risen steeply, as global activity begins to pick up faster than anticipated. High summer activity is the base case of expectations, but what happens after a mass reopening is still unknown.

The majority of markets are still in supply chain shock but starting to recover. After being in the pandemic for a year now, the U.S. has shown amazing adaptability, regardless if one agrees with the outcomes. The amount of energy and effort to navigate around closed businesses, mandated quarantines, and shuttered borders was Herculean. However, with the future in mind, the question is whether current higher inflation metrics are cyclical or structural. Most articles are inflation bulls and walk through a structural, here-to-stay shift in inflation. Investors should be aware when reading these though that there is a Bull and Bear case to be made, and what we are seeing could be just temporary as supply chains regroup.

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