doing business across 19 states with many talented entrepreneurs and business owners has given me
great insight and perspective into the daily ‘goings-on’ of the American economy. As of late, I am having
the same conversation over and over again with business owners regardless of geography or
vocation. They have to pay more in wages to attract talent. This holds true from entry level to CEO and
from unskilled to highly skilled. This is very understandable when you look at the national
unemployment statistics that are near all-time lows. But what is interesting is that this fact has not
currently led to an increase in inflation. I think that will change. Historically when the unemployment
levels have dropped to levels like we are seeing now, wages have risen followed by inflation. Since I am
never a believer in ‘but it is different this time,” I have to believe that if we continue on the same job
creation trajectory that the national statistics will begin to reflect wage inflation which in turn could
trigger an increase in the overall national inflation rate.

I believe we are already beginning to see signs of increased prices in areas where we are spending a
larger part of our wallet share. In almost anything service related whether it is restaurants, plane tickets,
hotels, health care or education, prices have increased. Where we have seen prices drop is in fuel and
“stuff.” We still have a global glut of “stuff” or products such as computers, clothing, and appliances. I
do not believe that will end soon and thus we have a tug of war between goods (deflationary) and
services (inflationary). But is it really a fair tug of war? Almost 80% of the US economy is service
related. [1]

I cannot speak to whether the Fed will continue to raise short term overnight lending rates or not. I
think they should, but trying to predict the FED’s moves is a fool’s game. I will be so bold as to say the
Fed, for the time being, is done stimulating the economy and that should have an effect on markets and
interest rates. Also, and this is purely my opinion, I do not think the FED will step in after the next 10%
market drop and state “lower for longer, “ in an attempt to calm markets.

Just like inflation, which can potentially be around the corner, I feel the same about volatility.

Please feel free to forward this article to anyone who might benefit from reading it.

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About the author:

Andrew Schultz has been a Financial Advisor at Morgan Stanley and its predecessor firms for over 25
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