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People's Behavior Drives Economics, Not the Reverse

When one's normal behavior has been constrained, whether through isolation, illness, immobility, or work, when the constraining factor is removed most people respond exuberantly to the sudden freedom as they return to their normal behavior.

During the recent Covid imprisonment people coped to some extent through online purchases, home food deliveries, and binge television viewing. This was enabled by businesses who adapted by changing their business models to ones that would accommodate their customers in this new situation.

In the new post-Covid surge, consumers have reordered their buying behavior towards the experiences that were denied to them during the pandemic.

Dining out, travelling, going on cruises, all have seen surges since the lockdowns have ended.

Some businesses may have had trouble returning to their pre-Covid models, though others may have benefitted. Dine-in restaurants that added delivery and greatly increased their take-out business during Covid could still derive additional business from those expanded services even though Covid has ended. Businesses that reduced in-house staffs, may never replace them, but may derive more work from fewer employees even though it might be at higher cost per hour.

These changes could lead to an economy with different defining metrics from those we previously measured.

With banks still paying low rates on ordinary deposits, but proportionately much higher rates on CD's and time deposits, the measure of money supply as well as the velocity of short-term deposits could be more important than previously.

Returns on cash deposits at banks may have been almost ignored by investors over the last few years, but this could change as the FOMC continues to raise the fed funds rate from its current rate of 5%. [1]

These recent high rates, along with the current media induced perception of bank weakness, could start to affect consumer behavior.

If investors start to take advantage of these timely rates, as well as curbing their current spending, it could reduce the velocity of money, slowing the economy and creating the slower growth environment which could include the lower inflation rate that the Fed is trying to achieve.

This could also be considered an example of the consumer driving the economy, the opposite of 'central planning' even though 'the Fed' as part of the central government certainly contributed.

As always, these actions could, in my opinion, lead to various opportunities that may fit your personal financial objectives.

Please call to discuss those that may be applicable.

Sincerely,

James P Dretler

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1. bankrate.com/rates/interest-rates/federal-funds-rate/

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