



Inflation: A demand or supply side problem?

Oldfield Partners

When you ask CEOs today what is it that keeps them up at night, supply side constraints are near the top of the list. However, it maybe that the supply side constraints are really a demand side problem rather than a supply side problem.

At the start of the pandemic in March 2020 there were a few key trends driving consumer behaviour. These included a huge reduction in the consumption of services such as travel and entertainment, and large handouts from governments through direct payments or indirect payments such as furlough schemes. These trends had a huge impact on consumer savings, with the savings rate reaching unprecedented levels across the developed world.

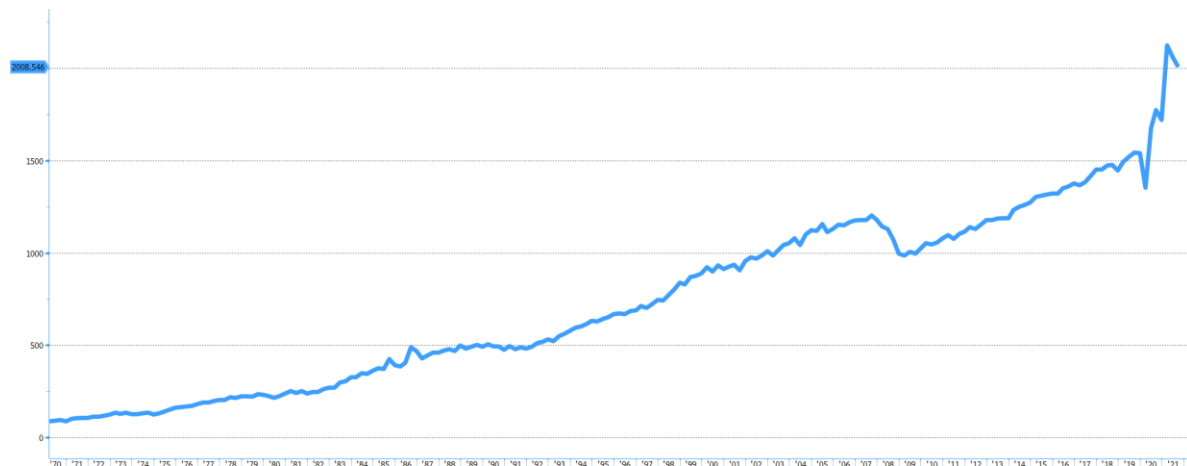
US Personal savings rate as a % of disposable income (%)



Source: Bloomberg PIDSDPS Index (US Personal Saving as a % of Disposable Personal Income) Quarterly 31st Mar 1970 – 30th Sep 2021

When consumers have so much money to spend but cannot spend it by going on holiday or out for dinner, what do they do? It would appear they spend it on goods. The chart below shows the spending on durable goods by consumers over time. In normal times this grows at around 4-5% per annum. However, as you can see from the onset of the pandemic, demand exploded. From February 2020 to February 2021 demand for durable goods in the US rose by a whopping 37% - nearly seven years growth in one year. These goods range from sofas to dishwashers to new TVs.

US consumer spending on durable goods (\$bn)



Source: Bloomberg PCE DRBL Index (US Personal Consumption Expenditures Durable Goods Nominal Dollars SAAR) Quarterly 31st Mar 1970 – 30th Sep 2021

No CEO is likely to turn round and say the biggest issue we face today is demand is too high, but the strong demand for goods manifests itself in supply chain constraints.

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