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Last week's S&P 500 Index: +0.8%

Is just-in-time DOA?

Key takeaways

- The current supply-chain disruptions have called into question “just in time” inventory strategies.
- While the pandemic has caused supply disruptions, we do not believe the result will be wholesale changes to inventory-management strategies.

Over the last four decades or so, many businesses and industries have been touting the wonders of “just in time” (JIT) inventory practices and the benefits to the bottom line. After all, carrying a bunch of inventory costs money; you have to pay for it, insure it, and store it in an appropriate facility. Why not just let some distributor hassle with those issues so individual businesses can focus on selling product and operating in the most efficient way possible? Makes sense, right?

Consider that until the COVID-19 pandemic gripped the globe and shut down what were smoothly running supply chains, it did make a lot of sense. The global supply chain had developed into a finely tuned machine where raw materials, components, and finished goods could move around the planet in a largely flawless manner. But the situation has dramatically changed over the last 18 months. So the big question is, will businesses that have relied on JIT inventory continue to follow that strategy or will they be more prone to carry in stock those inputs or finished goods needed to meet anticipated customer demand?

In our opinion, any changes will likely be evolutionary rather than revolutionary. By that we mean some adjustments will likely be made but wholesale changes to global sourcing and inventory strategies probably won't happen. Surveys from the American Chamber of Commerce have continued to indicate that China will be a major player in the manufacturing of components and products destined for consumer markets around the world. Other countries in Asia, such as Taiwan and South Korea, will also continue to produce a large percentage of the world's semiconductor chips and electrical components used by global manufacturers of everything from autos to consumer electronics.

But it does seem like a practical decision, for a number of reasons, that companies will carry at least somewhat more inventory than pre-pandemic levels. Consider that to be a “just in case” decision that would allow at least a short-term solution to any future potential supply-chain disruptions. JIT inventory strategies are likely to continue to be relied upon despite the current disruptions caused by pandemic-induced supply-chain headwinds.

Our outlook continues to call for above-average economic growth and inflation this year and next. Of course, we expect consumer spending to be a major contributor to growth over the coming 15 months, but part of that growth to come from inventory rebuilding. Inventory restocking is likely to trail demand for a while longer, and that gap should create friction that pressures inflation higher. In addition, we look for business capital spending (capex) to help push the economy ahead as companies replace equipment and look toward increasing efficiency through the use of technology and, in the long run, this trend should limit inflation and be a bullish signal for equity prices.

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