Good morning readers,

Not much to report in Marketland this week, very “meh” as the kids would say. The equity markets rallied nicely off their early March lows and are of late, stable and processing 2 main issues of focus: Russia-Ukraine war (peace talks, albeit perhaps disingenuous ones on one side, but talks nonetheless are a start), and the inflation situation, specifically the effect this is having on bond yields. We are very close to the dreaded “invested yield curve” (2 year US bond rates exceed 10 year rates) that has preceded every US recession back to 1970 (along with 6 other key data points, 5 of which remain very positive). Worth noting that the last 2 times the yield curve inverted, the US stock market produced significant returns for 18-24 months more before turning lower. Translation: no reason to panic, not that you would realize that if you listen to market pundits looking for views and clicks...

Much has been made about labor shortages throughout the developed world. As this article details, as of December 2021, over 11 million US jobs remained unfilled, and those are just the ones we know about from major job sites. I visited Florida 3 weeks ago and read in the local paper there that for every person unemployed in the US (Friday’s payroll report showed unemployment at a record low 3.6%), there were 1.7 jobs available. In a 1 block radius I witnessed a young mother with her 2 kids begging for money beside a busy road, after which we entered a half empty Denny’s only to be told the wait time was an hour due to staff shortages. Colour me confused.

It's a situation that remains difficult to get one’s head around. Programs like CERB in Canada are over. Where have all the workers gone? Some is certainly demographics, a significant number of baby boomers decide to retire during Covid. Are all the young folks social media influencers now (you’d be shocked what a YouTube channel that gets popular can be worth to someone). This article touches on the fact younger workers are not interested in repetitive or more difficult jobs.

Whatever the case, it doesn’t appear that human beings are the solution, at least not without some tactical use of immigration in industries where job vacancies are rampant. Another option: robots.

“Society has long worried that the widespread adoption of robots will displace workers and eliminate jobs. But rather than fearing the arrival of automatons, Shakerria Grier, a 27-year-old quality auditor at Georgia-based Thomson Plastics Inc., is relieved to get the help. In late 2020, Thomson began installing robots that take plastic parts, such as fenders for ATVs or covers for lawn mowers, out of hot-molding machines and place them on a conveyor belt that brings them to Grier.”

Thankfully this is not that Skynet scenario from the Terminator movies. These robots are proving very helpful, as labor shortages, strong wage inflation and competition for workers are all contributors to the supply chain disruptions and resultant inflation we are experiencing.

Aren’t robots expensive, you say? They are ($125,000 for a high functioning robot that can perform tasks that require the vision, mobility and dexterity of a human being), but an emerging trend in robotics is borrowed from the software world’s “Saas” or Software as a service subscription model. Robot subscriptions, as it were:

“Thomson (Plastics) pays for the installed machines by the hour, at a cost that’s less than hiring a human employee—if one could be found, (CEO Steve Dyer) says. “We just don’t have the margins to generate the kind of capital necessary to go out and make these broad, sweeping investments,” he says. “I’m paying $10 to $12 an hour for a robot that is replacing a position that I was paying $15 to $18 plus fringe benefits.”

The pandemic has revealed the precarious nature of just in time supply chains that rely on cheap labor and transocean shipping to work. The “onshoring” of manufacturing is going to need some serious help from our tin friends if it is to work.

“The need to automate has never been more pronounced, because more companies are discussing moving manufacturing back to the U.S. to reduce the risks of supply chains stretched thin across the Pacific. The pandemic highlighted the U.S.’s dependence on foreign countries for key components, and the fourfold increase in maritime shipping costs and port delays have helped stoke the highest inflation since the 1980s. President Joe Biden in his February State of the Union speech called on businesses to bring production back to the U.S.

There simply aren’t enough workers in the country to handle a surge of new manufacturing.”

There are some very intriguing applications of robotics, mashed up with AI, described in here. A machine that a tractor can pull, capable via AI learning of distinguishing a healthy crop from harmful weeds and picking only the latter. This backbreaking work in a large field historically needed a crew of 25 people.

You can see easily how robots can cut labor costs by up to 60%, especially for more tedious jobs, that post-pandemic we are seeing people simply don’t want to do.

Bring on the ‘bots.

Have a good weekend, link below.

https://www.bloomberg.com/news/articles/2022-03-31/automation-comes-to-more-factories-with-robot-leasing

-Penned by Trevor Johnson