

Long Island Business News

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Choppy waters

By: [Adina Genn](#) July 21, 2022

In a sea of decades-high inflation, business leaders and consumers alike are grappling with choppy financial waters. Interest-rate hikes coupled with labor and supply-chain shortages are prompting many to fear a recession looms.

In this environment, amid rising consumer prices, some companies are seeing profits while others are casting a gloomy economic outlook. While some leaders are bracing for a recession, some anticipate growth.

“It’s no secret that 2022 brought its challenges,” said Sarah Veitch, a market executive at JPMorgan Chase & Co., in Melville.

Business leaders across the country are increasingly cautious in their economic outlooks, according to a recent JP Morgan Chase 2022 Business Leaders Outlook. More than 1,500 midsize business leaders participated in the survey, which was conducted between May 25 and June 10.

In the study, only 19% of business leaders expressed optimism in the national economy for the year ahead. That percentage was the lowest percentage recorded in 12 years of survey data, and down from 75% one year ago.

The study comes at a time of dipping consumer optimism as the June consumer prices soared 9.1% compared with a year earlier, the biggest yearly increase since 1981. And last week the Labor Department reported that the U.S. producer price index — which measures inflation before it hits consumers — rose at the fastest pace since hitting a record 11.6% in March.

Last month’s jump in wholesale inflation was led by energy prices, which soared 54% from a year earlier. But even excluding food and energy prices, which can swing wildly from month to month, producer prices in June jumped 8.2% from June 2021. On a month-to-month basis, wholesale inflation rose 1.1% from May to June, also the biggest jump since March.

Last week’s report on wholesale prices came a day after the Labor Department reported that surging prices for gasoline, food and rent catapulted consumer inflation to a new four-decade peak in June, further pressuring households and likely sealing the case for another large interest rate hike by the Federal Reserve.

Still, on Long Island, there are business leaders who are “much more optimistic about their individual companies and growth prospects,” Veitch said. “It’s a testament to their ability to have control of strategic decision-making.” And many of these businesses are “well-run and nimble” and so can adapt to change, Veitch said.

COVID forced businesses to find new efficiencies, and some became more innovative in the process, Veitch said. For example, one owner consolidated delivery routes to alleviate labor shortages. That tweak allowed the business “to deliver the same quantity of goods in a significantly shorter period of time, allowing him to serve more clients,” she said.

Meanwhile, consumers face increased prices for goods and services. The rising price of raw materials – oil, energy and agricultural goods, among others – is triggering the rise in costs, experts say.

At the same time, some major corporations are reporting record profits.

“Part of the price increases are due to the cost increases generated” during COVID, which “broke the supply chain and, as a result, goods became scarce,” said Professor Martin Melkonian, an economics professor at Hofstra University.

Then came the war in Ukraine, which in the United States, brought “counterproductive sanctions meant to harm the Russians but turned out to harm the U.S. and the world at large” in terms of the recent rising prices in natural gas and oil, especially in Europe, Melkonian said.

Now, fertilizer, which is important to food production, is also in short supply, “so food prices are going up,” Melkonian said.

“On top of that is the element of profiteering,” he said, referring to monopoly-type industries that can jack up prices. And that may continue to the extent companies could get away with it, he said.

Meanwhile, gas prices have come down, initially in part because of the suspension of the gas tax, which could be a “temporary phenomenon,” he said. Things could get worse if the Russians decided to retaliate economically by denying shipments of gas and oil to the West. It could lead to countries resorting to dirty coal mines “to get energy for industry, which is not good for climate – we’re already falling seriously behind.”

Still, industry analyst Trilby Lundberg of the Lundberg Survey said recently that the continued decline comes as crude oil costs also fall.

“Assuming oil prices do not shoot up from here, motorists may see prices drop another 10-20 cents as the oil price cuts continue making their way to street level,” Lundberg said in a statement.

Yet, the COVID-fueled supply chain shortages, which many thought would be over by now, “still exist,” Melkonian said. And those shortages can force people to pay higher prices.

And yet when it comes to business outlook, Veitch said that companies with business-to-consumer models, where they are “much closer to consumers” may be “a little more cautious about optimism.” However, the food and beverage sector “largely does well in many types of business cycles,” as often, those “goods are always in demand.”

The business outlook in the northeast is similar to that of across the nation, according to the recent [Marcum-Hofstra CEO survey](#).

Among the factors impacting their business planning were economic concerns, rising material/operational costs and availability of talent, according to the survey.

“The Northeast was slightly less positive in their outlook, but not by anything substantial enough to say they varied from the overall sample,” Andrew Forman, a Hofstra associate professor of marketing who ran the field research for the survey, said by email about the study. Conducted in mid-June, the study interviewed 254 mid-market CEOs of companies with revenues ranging from \$5 million to \$1 billion-plus. Still, 19.4% in the Northeast had a very positive view of the current business environment, versus 15% in the overall sample sharing that view, according to the survey.

And regarding the rise in gas prices in the Northeast, 55.2% said it increased operational costs. Another 22.4% said that rise increased the reluctance of employees to return to the office. Just over 46% said it reduced the amount of business travel. Another 37.3% said it slowed their supply chain. And while 17.9% said that rising gas prices led to decreased revenue, another 17.9% said it did not directly impact their business.

Meanwhile, consumer prices in the New York-Newark-Jersey City area rose 1.4% in June, primarily due to higher prices for energy and other non-food items, including new and used motor vehicles and medical care, according to the U.S. Bureau of Labor Statistics.

Food prices increased 0.3% in June. Prices for food away from home rose 0.8%. Prices for food at home were flat, according to the BLS. Lower prices for fruits and vegetables, as well as for meats, poultry, fish, and eggs, offset price increases among other groceries. Still, overall confidence is higher in New York than across the nation, and the New York State Index of Consumer Sentiment now stands at 61.7, down 6.3 points from the last measurement in the first quarter of 2022, the Siena College Research Institute said about its June poll.

And consumers picked up their spending from May to June, underscoring their resilience despite higher prices at the gas pump and in grocery aisles, allaying fears that the economy might be on the verge of a recession. U.S. retail sales rose 1% in June, from a decline of 0.1 % in May.

But as shortages and the costs of raw materials subside, can businesses continue to blame rising costs on inflation? For some companies, that may vary based on the competition.

“It depends how strong your market power is,” Melkonain said.

The Associated Press contributed to this report.