Investing When There Are Too Much Oil and Steel and Too Many Workers

Proponents of automation envision a world of plenty with resources shared by all. But the real result of automation has been increased production coupled with fewer jobs. Workers produce products and they get paid. Then they use their money to buy products. And manufacturers turn around and produce more products. But when fewer workers make products there are fewer people with money to keep the cycle going. Today we look at investing when there are too much oil and steel and too many workers, many without jobs. *The New York Times* writes that we may be in a long term **low inflation world**.

> *There is a worldwide glut that includes oil wells, steel plants and eager would-be workers, and it will take more than a United States presidential election and a few months of solid global growth to fix it.*
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> *That, in a sentence, is the reality that haunts the world economy a third of the way through 2017.*

There was a brief surge of inflation following Trump's election and expectation of tax cuts, infrastructure spending, repatriation of offshore corporate cash and massive regulation. But the Trump bandwagon has gotten stuck in the muck of social and political disputes as well as the reality of dealing with congress and inflation has fallen back.

Oil Prices, Steel Plants and Inflation

When the price of crude oil goes up so, eventually, does the price of everything else. But there is a glut of oil. OPEC says it will reduce production but too many OPEC members cheat and oil prices are not likely to go up significantly for some time. In China there are too many steel plants. Central planners in the land of managed capitalism assumed that growth would continue on an exponential curve forever. With too much capacity for domestic needs Chinese steel manufacturers are dumping their products across the globe, depressing prices and driving local steel companies out of business. Along the way inflation remains low and thus the Fed does not raise interest rates very rapidly if at all.

Where Do You Invest When Inflation is Low?

Forbes looked at this issue a few years ago. **Investing strategies for low inflation** revolve around finding companies that can create new products. Low inflation goes with slow economic growth. Without steady inflation and economic growth it is hard for companies to raise prices.

Companies will continue to have problems exerting pricing power, meaning they won't be able to raise prices without customer resistance or lost sales. Rather, companies will have to look to either new product introductions or acquisitions to drive revenues higher.

The companies that will prosper in this brave new world will be the ones that create new products and new product sectors in which they have little or no competition and strong pricing power. Even in a world with too much oil and steel and too many workers everyone seems to have a cell phone/mobile device with access to the internet. And even in a world of slow growth and low inflation a new cancer cure will command a high price for a pharmaceutical company. The problem for investors is to seek out and choose the winners who can create new products and new value in a low inflation world.