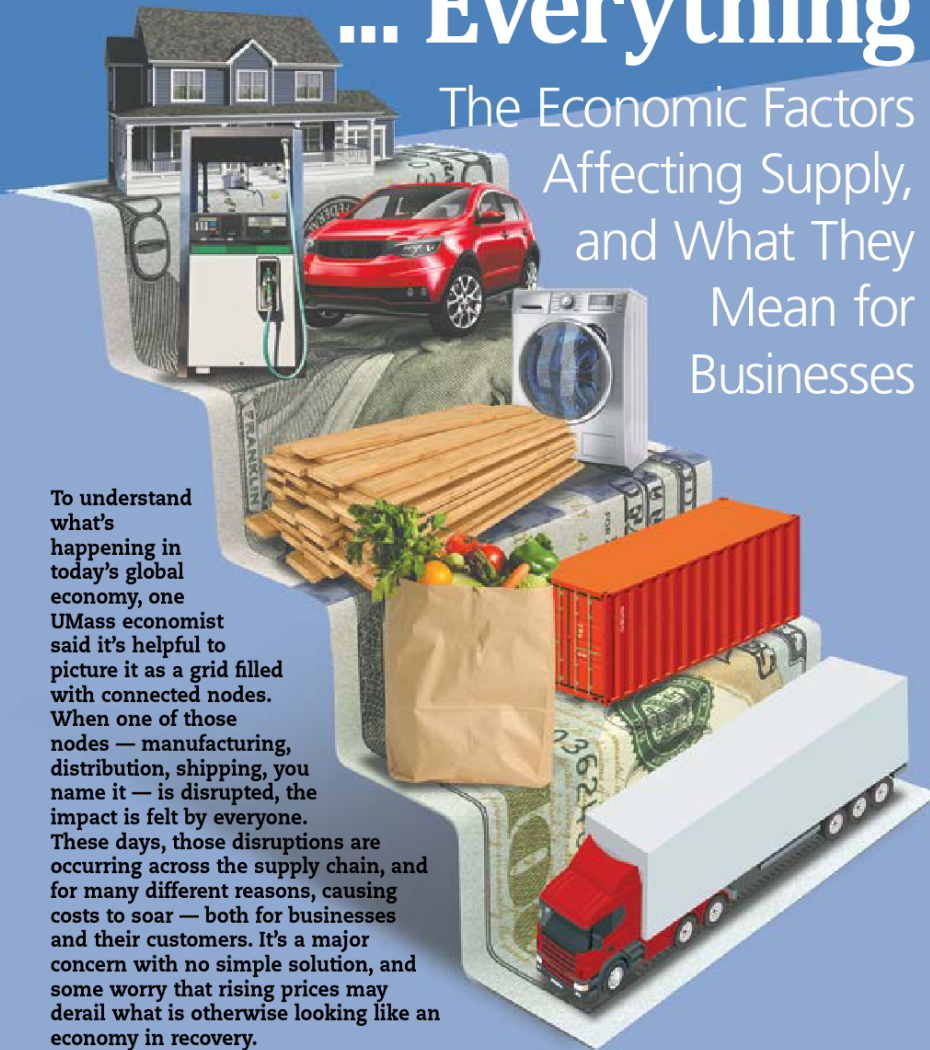


# The Rising Cost of ... Everything

The Economic Factors Affecting Supply, and What They Mean for Businesses

To understand what's happening in today's global economy, one UMass economist said it's helpful to picture it as a grid filled with connected nodes. When one of those nodes — manufacturing, distribution, shipping, you name it — is disrupted, the impact is felt by everyone. These days, those disruptions are occurring across the supply chain, and for many different reasons, causing costs to soar — both for businesses and their customers. It's a major concern with no simple solution, and some worry that rising prices may derail what is otherwise looking like an economy in recovery.



By Joseph Bednar

**W**hen people sit down at a restaurant, Bryan Graham says, they don't usually consider how their favorite meals and ingredients get there. They just expect them to be there.

It's not always a smooth process, and the last couple months, especially, have been a challenge.

"There have been shortages on everything — things you wouldn't think about, everything from the beverage side to the food side," said Graham, regional manager for the Bean Restaurant Group, which boasts a family of 11 eateries throughout the region, from Johnny's Tavern in Amherst to the Boathouse in South Hadley to the Student Prince in Springfield.



*Bryan Graham says high food prices have forced the occasional menu change because the Bean Restaurant Group doesn't want to pass exorbitant costs to customers.*

And those shortages have a financial impact, he went on. "Increases in prices have gone through the roof — to the point where we've moved some things off the menu because we can't keep up with the prices; we're losing money."

The company has taken to switching menu items or brands of ingredients to keep up with price fluctuations, Graham added. "We'd always purchase one brand of canned tomatoes or one brand of ketchup, but we're seeing brands being short, so we have to switch brands to get by without running out of product day to day."

It makes for an odd market, he said. "You place your order, and you don't really know if it's all coming in until you open the truck and you're short one or two items."

It's not something customers typically notice — until their favorite appetizer is suddenly unavailable. "Ninety percent of our customers are really understanding. The other 10% are like, 'what do you mean I can't have this?' Unfortunately, we don't want to charge you \$40 for 10 chicken wings. Most people are pretty good about it."

Nationally, food prices rose 0.4% in April, both at restaurants and on grocery shelves. Prices are up 2.4% from May 2020.

But it's not just food. Rising prices for ... well, almost everything have become one of the leading economic stories of 2021. One reason is a positive of sorts — the economy is reopening at



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high speed. Unfortunately, in some cases, supply chains have been slow to respond to growing consumer demand.

For example, American steel manufacturers all but shut down production last spring as the pandemic took hold and the economy imploded. But as the recovery ramped up, mills were slow to resume full production, creating a massive steel shortage, one that has severely impacted building costs.

Meanwhile, sawmills also shut down lumber production last spring to brace for a housing slump that never arrived — and now, with the housing market on fire, both in new construction and home improvement, lumber shortages have sent consumer prices soaring. In fact, the median sale price of existing homes nationwide surged by 17.2% in March to a record \$329,100.

Anna Nagurney, the Eugene M. Isenberg chair in Integrative Studies at the Isenberg School of Management at UMass Amherst, said soaring prices in construction are a natural result of home-improvement activity increasing during the pandemic, while home buying never really slowed.

"People haven't been traveling or anything, so they've been improving their homes, building decks, and so on," she said. "Now we've seen the price of lumber has escalated dramatically in the last couple of months."

The pandemic messed with supply and demand in unexpected ways, but now that the economy is reopening and consumers want to go out and spend (and, in many cases, have been saving those stimulus checks for that purpose), supply has run into a number of roadblocks, from the slow ramp-up of the lumber and steel indus-

tries to serious delays in freight shipping (more on that later) to a shortage of workers putting additional strain on businesses.

"People want bigger homes, better homes, they have more money, the federal government has been pretty good to people ... there's just much more demand for products," Nagurney said.

She noted that the Trump administration was more overt about pursuing trade wars, and while back-and-forth tariffs haven't been as much of an issue lately, the U.S. is still not on great terms with China, which significantly impacts the cost of steel, aluminum, and rare-earth metals. "The geopolitics is scary."

Gas prices are on the rise as well, which impacts every sector of the economy, said Peter Picknelly, chairman and CEO of Peter Pan Bus Lines.

"Rising fuel has an effect on everyone — people have to ship things, produce things ... it's not just gas, but everything we buy," he said. "Chicken and beef and produce, they all need machinery to harvest; that's all fuel. You have to transport it; that's all fuel. Rising fuel costs are a significant hit to the average consumer."

### Easing the Burden

In the case of lumber, the shortage has been

exacerbated by existing tariffs. In the spring of 2017, the Trump administration hit Canada with tariffs of up to 24% on lumber. During the final months of his presidency, those tariffs were slashed to 9%, but the National Assoc. of Home Builders is calling on the Biden administration to temporarily remove the 9% tariff on Canadian lumber to help ease price volatility.

Supply-chain issues aren't helping, from the

***“People haven't been traveling or anything, so they've been improving their homes, building decks, and so on. Now we've seen the price of lumber has escalated dramatically in the last couple of months.”***



ANNA NAGURNEY

six-day Suez Canal shutdown in March to clear the container ship Ever Given to the cyberattack that shut down the Colonial Pipeline earlier this month, to a critical shortage of shipping containers worldwide, particularly in Asia. Companies are waiting weeks for containers to become available and paying premium rates to secure them, causing shipping costs to skyrocket.

"The containers are not where they're supposed to be," Nagurney said. "It's like a puzzle. We need to move them. That's one of the reasons we can't get some of the goods from China, like furniture. The prices of shipping containers have gone up as a result because they're not where they

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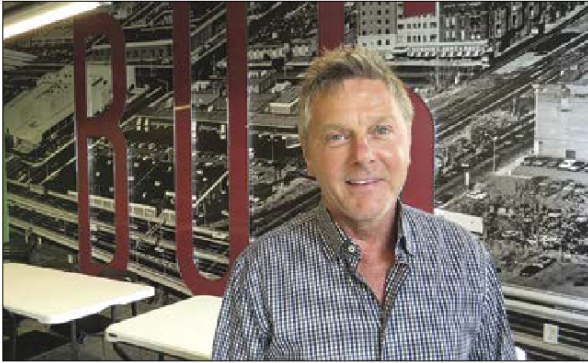
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Peter Picknelly says fuel prices affect more than the transportation sector he works in, impacting everything from manufactured goods to the processing and delivery of food.



should be."

Margeaux MacDonald knows that well. As imports manager for East Coast Tile, which supplies Best Tile in Springfield, she is dealing with significant delays in bringing material in from Europe and Asia.

"There are huge delays right now," she said. "We could have a booking on an actual boat and might not have a container to put the material in. Or, we've been bumped from boats because the vessel is overbooked. It's frustrating — it's taking four weeks, depending on where the stuff is. In Portugal, the booking is awful; it's taking forever to get on the boat."

The backups are affecting shipping costs —

significantly. As one example, she cited a container from Turkey that currently costs four times as much to book as it did only a few months ago. "That's just to pay for the container to get on the ocean carrier."

Not all locations have gone up as dramatically, MacDonald added, noting that rates from Italy have more or less doubled — not as bad as the Turkey situation, but not ideal. "And we're not the only ones seeing delays," she said, citing a company she works with that's trying to get a container of material from Brazil to New York, and has been delayed more than a month.

"I'm relatively new in this position, but I've definitely picked the brains of veterans across the

industry, and a lot of people have said to me, 'I've never seen this — I've been in the industry for 25 years, and I've never seen the volume and delays coming right now.'"

The problem doesn't end when the product is shipped, she added. With huge backups in ports, truckers are sometimes waiting hours to load,

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and instead of hauling two or three loads a day, they might get only one. And returning empty containers to port has become more difficult as well. All these factors raise prices down the supply line. "There are a lot of moving pieces."

It's helpful to think about supply chains holistically to convey what's going on, Nagurney said.

**Prices**  
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## Prices

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describing the global economy as a grid of connected nodes representing manufacturing sites, warehouses, freight service providers, distribution centers, and demand points. A disruption at any of those nodes reverberates throughout the grid — and the economy has endured many such disruptions over the past year, on both the supply and demand sides.

"We've seen all sorts of shocks — supply shocks, different kinds of demand shocks, and, more recently, what's happening with freight issues, from port congestion to the Ever Given blocking freight in the Suez Canal.

"With lumber, some of it has to do with higher tariffs on Canadian lumber," she went on. "We don't have containers in the right places to ship lumber. Freight costs are going up, and there's all sorts of demand on imports from Europe."

In short, things are chaotic right now, and that globally connected grid is under plenty of stress.

## Inflation Spikes

Which brings us back to rising price

es on, again, almost everything. U.S. consumer prices in April increased 4.2% from a year earlier, more than the 3.6% economists had predicted, and the largest 12-month increase since September 2008.

The biggest driver of last month's inflation jump, CNN reported, was a 10% increase in used cars and trucks, which accounted for more than one-third of the overall inflation increase. Over the past year, used-car prices rose 21%, due in large part to a spike in demand — as people sought to travel last year without relying on public transit — just as car manufacturers were closed or running at diminished capacity.

Other factors in April's inflation report include rising costs for furniture — a casualty of the shipping backlog — and hotels, airline tickets, and recreational activities, a trend that speaks to growing demand among Americans to get back to normal life.

Restaurants are feeling that



One major cost issue right now, Bob Bolduc says, is businesses having to compete with unreasonably high unemployment benefits in attracting workers.

demand, and are struggling, in many cases, to staff up to meet it.

"More places are reopening, and restrictions are being lifted," Graham said. "That goes to supply and demand — demand was down for so long, and now it's back up."

However, he noted, federal unemployment benefits have kept service workers — who are in some cases, being paid more for not working —

away from available jobs.

Bob Bolduc knows this story well.

The CEO of Pride Stores said he recently shuttered four stores because he didn't have anyone to staff them — and he blames unrealistically generous unemployment benefits.

"We've been competing with the

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## Nonprofits

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quality-of-life services.

"We're important to education, and we're very important to helping solve racial inequality," she explained, "but it's not frontline work."

She is expecting that funding will improve this year and next, as the pandemic recedes, and in the meantime, she's coping with a smaller budget and having to present programs virtually, which, while not ideal in most respects, still allows the mission to be carried out. And in some cases, especially with more remote regions of the area, it allows the agency to serve more young people.

But the in-person model is much preferred, and at the moment, there are many questions about when, and to what extent, volunteers will be allowed to return to the classroom.

"I think those classrooms will have to get re-acclimated to the school the way it used to be before the pandemic," Connelly explained. "And I'm wondering if the schools won't invite people until we see how the fall goes — do people need booster shots, for example?"

"We'll follow the COVID restrictions, and we'll talk to our companies and see how they want their volunteers to be involved," she went on. "And, of course, we'll follow the school guidelines; we'll have plan A, plan B, and plan C, which is hybrid."

## Food for Thought

Indeed, many nonprofits are developing a host of plans right now. For the survival centers in Amherst and Northampton, COVID has brought about radical changes — again, out of necessity — to how their respective, and very similar, missions are carried out. And these changes, or lessons, if you will, will shape how they do things moving forward.

Ben-Ezra noted that, when her agency was in "full operating mode," before COVID, it served as a community center that provided a wide range of resources to help people meet basic needs. It was (again,

healthcare, or other

the past tense) a one-stop shop where people could access meals, groceries, clothing and housewares, medical care, and a resource center that could connect them to other resources.

Since COVID, the facility has stayed open, but it is far less of a gathering place. Meanwhile, there has been a sharpened focus on meals and groceries in the wake of surging food insecurity prompted by elimination of jobs, especially in the hospitality and service sectors.

"Our meals program has exploded — it's tripled in size, and that's a strong indicator of the need in the community," she explained, adding that the food pantry has nearly doubled the amount of food it is handing out to area residents.

While the numbers are changing, so, too, is the way meals and food are distributed. Indeed, while there was limited, as in very limited, curbside and delivery before the pandemic, now far more than half the meals and food are dispensed in that fashion. This model, while more expensive and labor-intensive, also brings some advantages, especially the ability to expand hours, to the convenience of the clients.

The question moving forward involves just what kind of model will be put in place. Like Nortonsmith, Ben-Ezra said a good amount of time and energy is going into answering that question.

"Moving forward, my hope is to combine the best of what we were. There are many people who are absolutely desperate to get back to our community center. We want to be a gathering place, a place where people make connections and share resources," she said. "But we've also really tapped into the realization that that the reason many people couldn't get to the center was because the bus stopped running in March [of 2020] for a while, or they couldn't carpool because it wasn't safe.

"But there were a lot of people we're delivering now to who were new to the food pantry," she went on. "Their food insecurity wasn't new; it wasn't that they lost their job to COVID — they had been food insecure for a long time. And their transportation

challenges weren't new; it was that, previously, we didn't have a good way to serve them. So it's very important for us to continue this additional access."

Nortonsmith agreed, noting that discussions are taking place on an almost daily basis about how to operate for the short and long term, with the answers driven by the desire to come up with a model that best serves the clients of the agency.

"In the future, I think there will be less of a one-size-fits-all approach, and more of a diversified model of food distribution," she explained. "Our building is being used quite differently than before; it's full of food and equipment — boxes, crates, refrigerators, and carts — to get the food out and delivered, and as full with people as we can safely manage right now.

"That makes it tricky to figure out how we'll expand deliveries, keep some outdoor distribution, and also begin to think about letting some interested clients back into the building at some point," she went on. "These are the details that have us scratching our heads — and longing for a crystal ball — right now."

## Bottom Line

Indeed, everyone in the nonprofit sector is looking for a crystal ball. Without one, they'll just continue their juggling acts and plan, as Nortonsmith said, to devote attention to both what's happening today and what can happen tomorrow, as well as that proverbial 'someday.'

COVID has made this assignment more difficult in some respects, but it also opened agencies' eyes to new and, in many ways, better ways of doing things.

And this means that, while there might be a return to how things were before the pandemic, in some respects, nonprofits won't be turning back the clock completely. ♦

George O'Brien can be reached at obrien@businesswest.com

## Junior Achievement Golf Tournament

**June 4:** Junior Achievement of Western Massachusetts (JAWM) announced it will hold its 23rd annual golf tournament at the Crumpin-Fox Club in Bernardston. In addition to the golf tournament, participants can enjoy online bidding for the auction through June 3 and live bidding at the event on June 4. Social-distancing regulations will include requiring players to wear masks in common areas, providing each player with their own cart, and a scramble format with all putts inside three feet conceded, with flags remaining in the holes. Businesses can sponsor the tournament and will receive a prize package valued at over \$200. The package includes a \$100 gift card to the pro shop, buy-two/get-two passes for Crumpin-Fox or Fox Hopyard Golf Club in Connecticut good through the 2022 season, and other gifts, such as Yankee Candle items. If they prefer, sponsors can opt to receive a voucher for their foursome valid through the 2022 season. In addition to a round of golf, an auction, and a raffle, golfers will enjoy a gourmet boxed breakfast at 10 a.m. and lunch served on the course around noon. To learn more about registration and sponsorship opportunities, visit [jawm.org/annual-golf-tournament](http://jawm.org/annual-golf-tournament).

## Fresh Paint Springfield

**June 5-13:** Fresh Paint Springfield, the mural festival that began in 2019 in downtown Springfield and transformed large, exterior walls into art, will be returning to Springfield on June 5-13. This year's festival will feature new murals in downtown Springfield and in Mason Square. Among the murals that will be part of Fresh Paint 2021 are "Pioneers Past and Present," which will be painted by local portrait painters in Mason Square, and the repainting of a historic mural on the Mosque 13 building on State Street. For news and updates about this year's festival, visit [www.freshpaintspringfield.com](http://www.freshpaintspringfield.com).

## Asnuntuck Foundation Golf Tournament

**June 15:** Asnuntuck Community College's foundation and Aerospace Components Manufacturers will host a golf tournament fundraiser — the program's 13th annual tournament and the first year the fundraiser will be held at Tuxis Country Club in Farmington, Conn. Proceeds from the event will benefit to the Advanced Manufacturing Technology Center at Asnuntuck, which features leading-edge technology and has educated more than 9,000 students since 1998. Additional sponsors committed to the tournament include Air Industries Group/Sterling Engineering, Aerospace Alloys Inc., Aeroswiss, Advance Welding, Pilot Precision Products, Kaman Precision Products, Willington Nameplate, Accu-Rite Tool and Manufacturing Co. Inc., and Jarvis Surgical Inc. Golfers will pay \$150 for 18 holes of golf. The entry fee also includes a cart, goody bags, and two drink tickets. The day will also include a barbecue lunch and fountain drink, along with dinner and an ice cream sundae bar. Golfers will have a chance at door prizes, and awards will be presented to top golfers during the dinner portion of the evening. Registration begins at 11:30 a.m. with tee-off at 1 p.m. Golfers will play with a 'shamble,' which is a modified scramble. This format has each golfer hit their tee shot, and the group picks the best one and plays their own ball from there. The best score on the hole is recorded, allowing everyone to feel like they contributed and not putting pressure on any one golfer. Visit [birdsease.com/amigolf](http://birdsease.com/amigolf) to register and learn about sponsorship opportunities. For more information, contact event coordinator Joshua Ware at [jash@ctgolfeventplanner.com](mailto:jash@ctgolfeventplanner.com) or (203) 228-2768.

## Healthcare Heroes Nominations

**Through June 24:** In the spring of 2017, the Healthcare News and its sister publication, *BusinessWest*, created a new and exciting recognition program called Healthcare Heroes. It was launched with the

theory that there are heroes working all across this region's wide, deep, and all-important healthcare sector, and that there was no shortage of fascinating stories to tell and individuals and groups to honor. That theory has certainly been validated. But there are hundreds, perhaps thousands of heroes whose stories we still need to tell, especially in these times, when the COVID-19 pandemic has brought many types of heroes to the forefront. Nominations will be accepted in seven different categories: Patient/Resident/Client Care Provider, Health/Wellness Administrator/Administration, Emerging Leader, Community Health, Innovation in Health/Wellness, Collabora-

## Agenda

tion in Health/Wellness, and Lifetime Achievement. The Healthcare Heroes event is presented by Elms College. Nominations can be submitted at [businesswest.com/healthcare-heroes/nominations](http://businesswest.com/healthcare-heroes/nominations). For more information, contact Jennifer Godaire, Marketing and Events Director, at (413) 781-8600, ext. 100, or [godaire@businesswest.com](mailto:godaire@businesswest.com).

## 40 Under Forty Gala

**Sept. 23:** In light of Gov. Charlie Baker's recent announcement that most, if not all, restrictions on events will be lifted effective Aug. 1, *BusinessWest* has made the decision to move its annual 40 Under Forty gala, originally scheduled for late June, to Thursday, Sept. 23 at the Log Cabin Banquet & Meeting House in Holyoke. The class of 2021 was introduced to the region in the magazine's May 12 issue, and the profiles may read online at [businesswest.com](http://businesswest.com). Additional details on the Sept. 23 gala will be forthcoming. Tickets, which will go on sale in June, will be available on a first-come, first-served basis.

## Prices

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15 months now, and we're not getting through to them," he said. "The real story is how much the government is paying, and how that's driving prices up unrealistically.

"We're all paying the same people, for the same labor, two to five dollars an hour more than we normally do, and the definition of inflation is when you pay a lot more but don't get anything more for it," he went on. "The biggest factor is that we're competing with the government for labor — the government is paying people to stay home, and we're trying to get them to come back to work."

The frustration is palpable, Bolduc said. "People say they can't get a job, but we offer them jobs, and they don't show up. They just want to come in and apply to say they applied. And nobody checks; they're just giving it away. It's been that way for 15 months now, and it's worse than you realize. People have no idea."

State officials have heard such complaints from business owners, however, and announced last week that, starting in mid-June, Massachusetts will more diligently require proof of genuine job-search activity as a condition of accessing unemployment benefits.

At the same time, Bolduc said, "other prices are going crazy — on everything. Convenience items and food are up at least 10%, maybe pushing 15%, and I don't see an end in sight."

For some industries, rising prices can be a benefit. "We always view our largest competitor as pas-

senger automobiles," Peter Pan's Picknelly said. "Historically, when fuel starts going over \$3.50, we see a significant increase in passengers because it's just too expensive for people to travel, so they look for alternatives in the bus."

If anything, rising fuel prices — married to a desire

**“The biggest factor is that we're competing with the government for labor — the government is paying people to stay home, and we're trying to get them to come back to work.”**

among people to get away this summer — has benefited Peter Pan's business, Picknelly explained, noting that Cape Cod trips are almost 100% booked, while he sees similar interest in destinations like New York and Washington, D.C. The reason is that people are looking to travel a little closer to home — in range of a drive, not a flight — and see bus travel as an affordable, low-stress option.

High gas prices should also benefit the company's commuter buses by making public transit more attractive, he said, noting that the average city bus gets about 280 passenger miles to the gallon, as opposed to about one-tenth of that for cars.

## The Struggle Continues

That makes for an environmentally friendly byproduct of a challenging economic season. And Nagurney doesn't separate the economy from the environment — in fact, she believes business and industry leaders need to adopt techniques from disaster management because climate change remains a factor in the global economy.

"Things aren't going to get better — we'll see more storms, more floods, more hurricanes, sea levels rising, even more things like the fires we had on the West Coast. Climate change will lead to a greater frequency of natural disasters, and that will affect global supply chains, and it'll take longer to get products."

For now, though, most businesses are just focused on when the short-term stress will end. And no one really knows the answer to that.

"In January, we thought this will probably last until March," MacDonald said of the shipping delays. "In March, we heard it might fizzle out by the summer. We're almost to summertime, and I'm releasing things from Spain that can't get a booking until the beginning of July."

"And we're seeing a huge increase in sales, too," she added. "There's a huge need in the United States, and we're trying to pump as much material as we can into the States, but it's a struggle." ♦

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