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“The Grinch Is Coming” For Consumers This Holiday Season, Warns Golub Capital’s CEO

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For companies large, small, and in between, the American economy continued to boom this summer.

In the U.S. middle-market, private companies recorded median revenue growth of 23.7% during July and August compared to the same period in 2019, while earnings were up 21.2% over the same span, according to [a new report](#) published by private lender Golub Capital that’s based on data from the firm’s portfolio. With more than \$40 billion in assets under management, Golub is one of the leading providers of the sorts of loans that fuel the modern private equity industry.

When I spoke this week to Lawrence Golub, the firm’s billionaire founder and CEO, he deployed a series of superlatives to describe just how impressive those numbers are, especially against the backdrop of a pandemic: “Extraordinary.” “Robust.” “Fabulous.” In particular, Golub pointed to the consumer sector, where middle-market earnings were up 47.8% this year compared to 2019.

But Golub also sounded a warning to the same consumers who are driving that growth, a warning based on [the supply-chain woes gripping the globe](#) that are now leading to [round-the-clock operations at the Port of Los Angeles](#) in a bid to clear out an unprecedented logjam of freight: Get your holiday shopping done early.

“Here’s a prediction: The Grinch is coming for Halloween, and he’s going to stay all the way through Christmas,” Golub said. “The supply chain issues that industrial companies are dealing with are migrating over to consumers. If you want to buy a new car, you’ve seen the problem. If you want to buy a new boat, you’ve seen the problem. This Christmas, everybody’s going to see the problem. The stockouts are going to start in November, and they’re going to spread like crazy.”

The world economy relies on a complex tapestry of workers, raw materials, factories, planes, trains and ships, all operating with a frankly stunning degree of coordination to move products around the globe in a timely manner. The threads of that tapestry have become tangled during the pandemic. And despite the best efforts of logistics experts to untangle them, disruptions continue, leading to product shortages and long delays across any number of industries.

Heading into the holiday season—one that might be particularly celebratory for many families and friends after pandemic lockdowns made gathering much more difficult in 2020—it’s the consumer sector where the disruptions may be most painful.

Golub put the problem into some helpful pandemic context. Remember the spring of 2020, when no store in America could



Getty Images

Despite global supply-chain backups, revenue and earnings have surged for middle-market consumer companies this summer.

keep toilet paper or hand sanitizer on their shelves? Golub says there were two different causes for those shortages. There was, in theory, plenty of toilet paper—it was only in short supply because of panic buying. On the other hand, legitimate shortages of product were responsible for hand sanitizer being difficult to find.

He envisions this year's coming holiday crunch as the worst of both worlds. Snarled supply chains mean product will be scarce. And the emotions of the season could lead to flocks of panicked parents stripping toys and other hot-ticket items from store shelves.

"Popular toys are going to be like hand sanitizer, not like toilet paper," Golub said. "But the consumer behavior is going to be the same. They're going to start disappearing from shelves, and people are going to go crazy."

Some experts believe the globe's supply chains will be all straightened out within the next several months. Golub isn't so sure. This might not be the last holiday season when last-minute shopping could be a dangerous idea.

"I think there's a very good chance inventories generally will be caught up by January of 2023, post-Christmas of '22," he said. "I think Christmas of '22 should be better than Christmas of '21. But I think prognosticators who think all the supply chain issues are going to get cleaned up by mid-year '22 are highly optimistic, and it's not going to happen."

"I think what most people are missing is, we have to catch up not just to the old levels of inventory, but most companies, based on the problems that have occurred over the past year, now have their target inventories much higher than their old targets. So not only do we have to catch up to the old target inventory, we've got to go further and catch up to a new, more resilient, more conservative, larger amount of target inventory."

In the big picture, Golub expects the nation's remarkable pandemic recovery to continue. In one light, the anticipated toy shortages this winter are a good sign: It means there are lots of consumers who are ready to buy.

Political possibilities could tweak the picture. Regardless, Golub is confident. When it comes to assessing overall economic health, the earnings and revenue growth revealed in his firm's new report are probably stronger indicators than empty shelves.

"There's such a backlog of spending and consumers, inventory catch-up on the industrial side, that there's huge momentum for the next few quarters, almost no matter what happens in the United States," he said. "The infrastructure bill, the reconciliation bill, they're going to pass or they're not going to pass. Either way, for the next few quarters, the economy is going to be strong." 

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I write about buyouts, mergers, acquisitions and other dealmaking.