Weekly Commentary

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Difficult course to chart

Uncertainty is the name of the game that is economics. There are no experiments with independent, dependent and control variables. It's real life, and you only get one shot. But even economists think the 2020s have been extraordinarily unpredictable. From the Covid-19 pandemic to shooting wars to international trade agreements, the tried-and-true models are wavering or wrong outright.

The latest undulation for the US could be a video of the Federal Reserve as a ship bobbing on a turbulent sea. One moment a wave of concern about inflation accelerating hits one side and the next moment anxiety about a weakening labor market crashes into the other.

Last week the latter struck. The Bureau of Labor Statistics (BLS) reported a decline of 23,000 jobs in July. Not "gained fewer jobs" but, on net, US companies and the broad government sector lost jobs. The street had expected a net gain of around 80,000. Furthermore, the BLS revised June and May's initial results down by a combined 103,000 jobs. In total, the data suggests a cooling US economy, in which businesses are reluctant to hire new workers. Traditionally, that would mean the Fed would consider loosening monetary policy. But officials also worry that tariffs, the close of the Strait of Hormuz and other geopolitical issues are fundamentally inflationary. That argues for tightening. We will find out more on that front when the Consumer Price Index for July is released.

Time to get out the spyglass.