**Gregory Cater Sr., AIF ®**
Wealth Manager

Phone: 832-617-3276

Mailing Address:
3600 FM 1488 RD STE 120 #234
Conroe, TX 77384

02/28/2024
Gregory Cater Sr. & Gregory Cater Jr.
It's all About Jobs (According to the Fed)

When I got into this business 44 years ago (1979) the economic release that moved markets the most was the monthly Money Supply number. According to the "Monetarist Theory of Inflation" if the amount of money grew too fast, inflation was sure to follow. The 1970s seem to have settled the issue. Money supply and inflation both accelerated dramatically. But did the increase in money cause inflation or did inflation cause the increase in money? In the 1970s we experienced 2 powerful and dramatic oil shocks. Early in the decade, the Arab Israeli war resulted in an oil embargo and late in the decade, the Iran revolution again caused oil prices to spike. The sudden increases in energy costs affected everyone. It was not so much a competitive issue, everyone's cost went up, it was a survival issue. Increased costs of production caused an immediate increase in the need for money to pay those costs. Businesses small and large went to their banks to ask for more money (increased revolving credit lines). Banks went to the Federal Reserve to ask for more money so they could accommodate their customers. More money was created. Is the money supply important today? When asked the official response from the Fed's website is:

> "Over recent decades, however, the relationships between various measures of the money supply and variables such as GDP growth and inflation in the United States have been quite unstable. As a result, the importance of the money supply as a guide for the conduct of monetary policy in the United States has diminished over time."

Today the economic releases that seem to move the markets the most are the year-over-year inflation rate and the latest monthly jobs report. The Fed believes low unemployment rates are inflationary. This comes from the classic Phillips Curve. Bill Phillips, a New Zealand born economist, wrote a paper in 1958 titled "The Relation between Unemployment and the Rate of Change of Money Wage Rates in the United Kingdom, 1861-1957". Mr. Phillips wrote a 17-page report (including hand-drawn graphs) 65 years ago analyzing data over a roughly 100-year period in the United Kingdom from 1861-1957. Nowhere in the report did Mr. Phillips see a relationship between unemployment and consumer inflation. What he did see was an inverted relationship between unemployment and wages. It wasn't until the 1970s that noted economists Paul Samuelson and Robert Solow made the leap to consumer inflation. Samuelson wrote almost every "Intro to Economics" textbook used by most colleges and universities in the US. His views are widespread, even today. In the 1970s a funny thing happened. We experienced high unemployment and high inflation (Stagflation). According to the Phillips Curve this shouldn't happen. Professional economists noticed. Since 1974 seven Nobel Prizes have been given to economists for, among other things, work critical of some variations of the Phillips Curve. Recently the opposite has occurred. Since the financial crisis in 2008 through COVID (12 years) inflation has averaged 3.1% while the unemployment rate averaged 3.7%. Not supposed to happen per the Phillips Curve. Since the latest Federal Reserve tightening cycle started in March'22, the Phillips Curve has come back in vogue. Inflation has returned while unemployment is remaining low. This looks temporary. With the current drop in reported inflation and unemployment remaining at 4-decade lows, the Phillips Curve is breaking down again.

In previous "Notes" we have outlined our views on understanding inflation. Year-over-year vs month-over-month, what happened a year ago vs what's happening now, etc. We won't re-hash that here, but we will discuss how the important Jobs numbers are calculated and if they are telling us the whole story.



Securities offered through Cetera Advisors LLC, a registered broker-dealer, member FINRA, SIPC. Advisory services offered through Cetera Investment Advisers LLC, a registered investment adviser. Cetera firms are under separate ownership from any other named entity.

**Gregory Cater Sr., AIF ®**
Wealth Manager

Phone: 832-617-3276

Mailing Address:
3600 FM 1488 RD STE 120 #234
Conroe, TX 77384

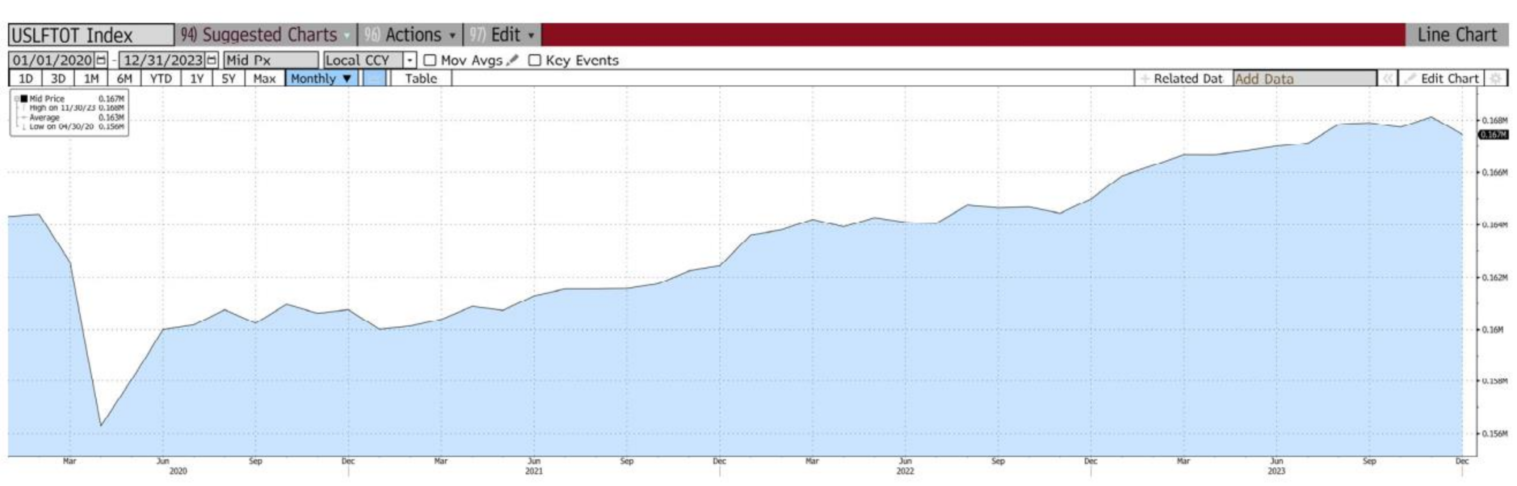
According to the official Jobs report from the Bureau of Labor Statistics, we lost a lot of jobs during COVID, but did gain them back quickly.

**2020** **lost 9.2 million jobs**

**2021** **gained 7.3 million jobs**

**2022** **gained 4.8 million jobs**

**2023** **gained 3.0 million jobs.**




**USLFTOT Index (US Employment Civilian Labor Force Total in Labor Force SA Household Survey) Monthly 01JAN2020-31DEC2023**

The Fed believes a strong or tight jobs market leads to more money paid to workers which leads to higher inflation. The number of jobs is important but so is the number of hours workers work. The missing number is the average work week. Last year (2023) the average workweek fell from 34.6 hours to 34.1 hours. In other words, the average worker lost 1 half hour of pay per week. The US Civilian Labor Force as reported by the Bureau of Labor Statistics started 2023 at 165 million and ended the year at 167 million. It's good that we gained a few million jobs, but all 167 million workers lost hours. We actually lost pay across the year. We lost 14 million hours' worth of pay. So where is the extra money that's supposed to fuel inflation? Let's now address the jobs number and where it comes from.

The monthly jobs number comes from 2 surveys, the Payroll Survey, and the Household Survey. They both have advantages and disadvantages and they do seem to converge over time. The Payroll Survey gets most if not all the attention. Last month the Payroll Survey was very strong, we gained 353,000 jobs. The Household survey reported a loss of 31,000 jobs. How can that be? The Payroll Survey polls businesses, and the Household Survey polls individuals. The biggest problem with the Payroll Survey is over counting. If a person has 2 different jobs at different companies, it's counted as 2 jobs. The Payroll Survey also ignores the self-employed. Both are important and both need to be taken seriously. It's interesting to us that both the unemployment number and the average workweek come from the Household Survey.



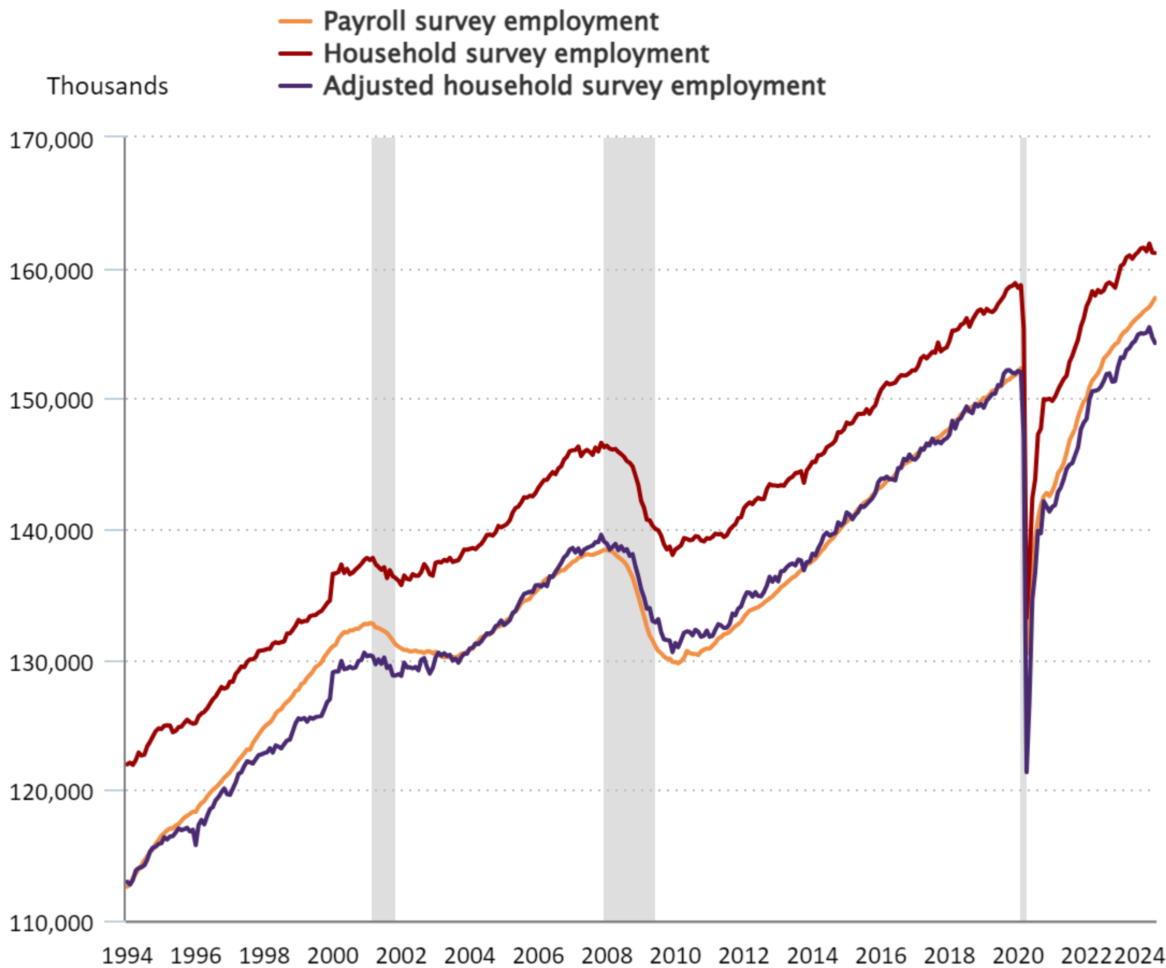
Securities offered through Cetera Advisors LLC, a registered broker-dealer, member FINRA, SIPC. Advisory services offered through Cetera Investment Advisers LLC, a registered investment adviser. Cetera firms are under separate ownership from any other named entity.

**Gregory Cater Sr., AIF ®**
Wealth Manager

Phone: 832-617-3276

Mailing Address:
3600 FM 1488 RD STE 120 #234
Conroe, TX 77384

When you graph the Payroll and Household surveys together, the long-run correlation is obvious. The last 2 months tell a very different story. The Payroll Survey (the one that gets the most attention) shows a gain of 689,000 jobs while the Household Survey shows we lost 714,000. Add this to the recent loss of hours worked and the Jobs market may not be a tight as the Fed says it is.




The only datapoint (a tight jobs market) keeping the Fed from lowering rates is based on a false assumption regarding the correlation between employment and inflation. On top of that, a deeper look into the numbers gives us reservations about the actual strength of the jobs market in the first place. Due to high interest rates, we are starting to see cracks in the commercial real estate and regional banking sectors, and those are just the weaknesses we are aware of. The problems are obvious, the solution is (to us) obviously to reduce interest rates. This all points away from “Higher for longer”.

FINRA Registered Branch Address:
6411 Ranch Park Dr.
Magnolia, TX 77354

Securities offered through Cetera Advisors LLC, a registered broker-dealer, member FINRA, SIPC. Advisory services offered through Cetera Investment Advisers LLC, a registered investment adviser. Cetera firms are under separate ownership from any other named entity.