First Trust
Monday Morning OUTLOOK
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Money Won't Be Tight For A Long Time

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World monetary policy leaders (including Fed Chair Janet Yellen and ECB President Mario Draghi) met, and spoke, in Jackson Hole, WY last week. It's the equivalent of the Emmy Awards for central bankers.

But, what is most interesting about all of this is that the more central bankers talk, the less anyone understands them. Supposedly, all the speeches, minutes, transcripts and press conferences are making the Fed, and other central banks, more transparent. But, in the end, they are making everything more opaque.

The Fed, in particular, is becoming harder to understand. Instead of using the unemployment rate as an economic signal, Janet Yellen said the Fed is now using a 19-component "factor model" to measure the health of the labor market. If you really care about this – a Fed white paper describing the model, or something very close to what the Fed is using, can be found here.

The model shows the labor market has improved. But, this is what we already knew by looking at private payrolls, which have grown for 53 consecutive months. Nonfarm payrolls, which include government, are up by more than 200,000 per month for six months in a row – the first time that's happened since 1997.

But, according to Janet Yellen, the improvement in labor markets is suspect and still far from assured. And this is the problem with using multiple components. There will always be some data that are strong and other data that can be viewed with suspicion.

More importantly, the Fed is assuming monetary policy is the right tool to "fix" the labor market. Some say the Fed is only doing what Milton Friedman suggested they do in his Nobel Prize winning analysis of the Great Depression.

But this is simply not true. What Milton Friedman said was that a contraction in the money supply during the 1930s caused the Great Depression. He said this contraction was a mistake and blamed the Fed for causing the Depression. But this is not the same as saying Friedman would have supported QE and zero percent interest rates.

Friedman focused on M2, and that measure of the money supply has not fallen since 1948. It certainly did not fall in 2007, 2008, 2009 or at any time since. So, using Milton Friedman's ideas as support for what the Fed has done is misdirection.

So, it is impossible to blame money for our current problems, or the Panic of 2008 itself. The real reason the labor market (and overall GDP) is not preforming as well as it did in the 1980s and 1990s is that government spending, redistribution and regulation have become more burdensome. Like the 1970s, and exactly as in most of continental Europe, big government is a drag on growth, which monetary policy cannot overcome.

Evidence? Since Congress allowed "extended (99-week) unemployment benefits" to lapse in December, the median duration of unemployment has fallen from 17.1 weeks to 13.3 weeks – the fastest decline in history.

What does all this mean? The Fed, like it did in the 1970s, will continue to run policies that are looser than necessary. It will do this because it will try to fix under-utilized labor markets by using monetary policy. While the Fed will lift rates next year, it will do so very slowly and it will unwind QE slowly as well. In other words, don't fret the Fed. Monetary policy is not going to get overly tight for a very long time.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
8-25 / 9:00 am	New Home Sales – Jul	0.430 Mil	**0.433 Mil**	0.412 Mil	0.406 Mil
8-26 / 7:30 am	Durable Goods – Jul	+8.0%	**+17.0%**		+1.7%
7:30 am	Durable Goods (Ex-Trans) – Jul	+0.5%	**+0.1%**		+1.9%
9:00 am	Consumer Confidence – Aug	88.5	**89.4**		90.9
8-28 / 7:30 am	Initial Claims – Aug 23	300K	**300K**		298K
7:30 am	Q2 GDP Preliminary Report	3.9%	**4.0%**		4.0%
9:00 am	Q2 GDP Chain Price Index	2.0%	**2.0%**		2.0%
8-29 / 7:30 am	Personal Income – Jul	+0.3%	**+0.3%**		+0.4%
7:30 am	Personal Spending – Jul	+0.2%	**+0.1%**		+0.4%
8:45 am	Chicago PMI	56.5	**56.4**		52.6
8:55 am	U. Mich Consumer Sentiment- Aug	80.1	**80.5**		79.2