Client's Corner

On the Meaninglessness of Month-to-Month

THE LATE JOHN KENNETH GALBRAITH—THAT RAREST OF SPECIES, a genuinely witty economist—famously said, "The sole function of economic forecasting is to make astrology look respectable." At some point he amplified this observation by saying, "There are two kinds of forecasters: those who don't know, and those who don't know they don't know."

Investors are always well advised to bear these complementary thoughts in mind—especially as they relate to highly noisy month-to-month variations in economic trends, as well as to financial journalism's reportage thereof.

A case in point was the report in early May that in April the economy had added 266,000 new jobs, and remained stuck at an unemployment rate of 6.1%. Unidentified "economists" had forecast upwards of a million new jobs and an unemployment rate of 5.8%. ("Jobs boom goes bust!" caterwauled financial journalism.)

At that point, an observant adult might have thought, "Well, we've never had an economic contraction as sudden and deep as the one driven by COVID, so it's unsurprising that the pace of recovery may be uneven." With a little further consideration, he/she might have decided that "Month-to-month, economists are clearly guesstimating in the dark—as are we all."

Hold those thoughts, if you will, as we fast-forward to the following month—May's job report, announced on June 4. It showed a gain of 559,000 jobs (and an upward revision to 278,000 for April), as well as a drop in the unemployment rate—delayed, as it turned out, by a mere month—to 5.8%. But wait, there's more: average hourly earnings month-over-month rose a very solid 0.5% (after 0.7% in April), indicating not only that many more Americans were back to work, but that they're earning higher wages.

"That's more like it," you might have said—if you were marooned on a desert island, where you couldn't access financial journalism.

You see, going into this report, the consensus forecast of "economists"—the selfsame "economists" who missed the April number by a country mile—had been an increase of 675,000 jobs. Journalism's flash headline? You guessed it:

"U.S. JOBS REPORT DISAPPOINTS AGAIN."

Dear reader, were you disappointed? No, I wasn't either (nor, I suspect, were those 559,000 newly employed Americans). Who was, then? Right: the "economists" who were wrong yet again—and financial journalists, who insist on treating the consensus forecasts as some sort of holy writ, rather than as the almost pure

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guesswork they are. Thus we find that "economists" are very often very wrong month-to-month, which is bad enough. But financial journalism, by focusing entirely on the miss versus "consensus," deliberately emphasizes the imaginary cloud ***to the exclusion of the very real silver lining.***

After what this economy has been through, the fact that well over half a million more Americans are working at higher wages must be regarded as an unalloyed good. (Not to mention that there are currently more posted job openings than there are Americans on unemployment—but that's a whole other silver lining.) That financial journalism labors unremittingly to throw shade on the good is what should concern us long-term, goal-focused investors.

Once you start realizing that that's what's being done to you, you can see it for what it is. But let me offer another example, just so you don't think I'm generalizing from one isolated input.

On Thursday, June 10, the Federal Reserve reported that in this year's first calendar quarter, U.S. private sector household net worth (including nonprofit organizations) jumped 3.8% to a record $136.9 trillion, powered by both gains in the equity market and the rising value of American homes. I invite you to look closely at the "Key Points" summary of this announcement that appeared on CNBC.com:

- "Household net worth rose to $136.9 trillion in the first quarter, a 3.8% gain from the end of 2020." (Silver lining.)
- "The gain came amid a 7% increase in the S&P 500 that boosted equity wealth by $3.2 trillion." (Silver lining.)
- "Household debt totaled $16.9 trillion, growing at the fastest pace going back to 2006." (Dark cloud.)

Did you catch that? It's classic financial journalism, grudgingly reporting the positives, but making sure to go out on an ***uh-oh*** note: maybe soaring debt will yet bring the household to ruin, as it did going into the Global Financial Crisis.

Yes, dear reader, it is narrowly true that household debt went

up in the first quarter of 2021. But assets went up much more, or else how could net worth have spiked as it did? Not only that, but as the acerbic blogger Scott Grannis points out in this chart, U.S. private sector leverage—the ratio of total debt to total household assets—continued a long and dramatic decline that began in 2008. Indeed, this measure of household leverage is down around where it was 50 years ago. ***An unalloyed good***—and therefore unreported.

In summary, then: we long-term investors must guard against getting distracted by any and all of three things: (1) the utter randomness of economic data month-to-month, (2) how wildly wrong the consensus forecasts of "economists" will often be with regard to those data, and (3) the existential need of financial journalism to accentuate the negative—or simply to concoct it, where it can't immediately be discovered.

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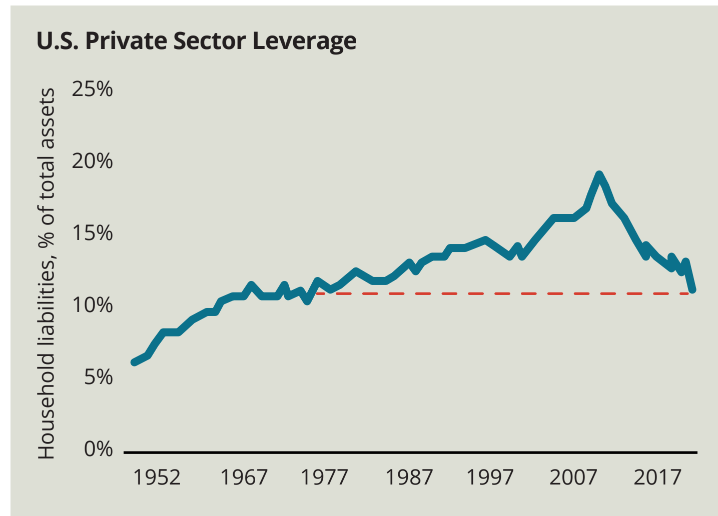

Source: Federal Reserve; as of Q1/21; includes NPOs; scottgrannis.blogspot.com