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Dace Blaskovitz: Good morning. Welcome to Money and Politics in Delaware. I am your host. I am Dace Blaskovitz. And compliance asked me to read the following. I am Dace Blaskovitz. I am the president and majority owner of Wealth Advisors in Wilmington, Delaware. As a financial advisor, I offer full brokerage services. Wonderful program today. In the first half, Robert Fry, economist Robert Fry, the world's on fire, hopefully he can sort the proverbial tea leaves. In the second half. Whew. We drop a bomb, a nuclear bomb. Charles Elson, the guru of corporate governance was a headline last week, when the Business Roundtable went rogue, if you would. We'll tell that story and Charles is going to suggest, I think, that maybe all those CEOs, 181 of them did not have the approval of their board to make the statement that they made. That's the second half. Welcome back, Robert Fry.

Robert Fry: Thanks David. It's good to be back.

Dace Blaskovitz: All right, Robert Fry. Let's see. You're a Delawarean. You're a noted economist. You're a regular to the program the first of each month. It's your turn. 30 seconds about you, 30 seconds about your business.

Robert Fry: Well, as you said, I'm an economist. I was at DuPont for more than 30 years, counting a few years with Conoco at the front end, a few months with Chemours at the back end. I retired in 2015, started my own company. I'm publishing a newsletter. I've been doing that for about 25 years now. I have numerous subscribers, most of which are businesses that I dealt with during my DuPont years. I also give speeches on the economic outlook. I've got three of them scheduled for the rest of September. On Tuesday, I'm speaking to a company called ERCO Worldwide, which is a manufacturer of chlorine and chlor-alkali products. A couple weeks after that, I'm speaking to the National Association of Graphic and Product Identification Manufacturers. Say that three times fast, and at the end of the month I'm speaking to the International Cable and Connectivity Symposium, which is a group of manufacturers of cable for electronics and communications purposes, and I've spoken to them probably 15 times over the years. I'm a regular speaker at their meetings, both in the U.S. and in Shanghai.

Dace Blaskovitz: You ready to go?

Robert Fry: I'm ready to go.

Dace Blaskovitz: All right. For our first time listeners, we start the same way every month. As dramatic as I can be over the radio. The porridge, the economy, if you will. Robert Fry, Jr. LLC, Robert Fry Economics LLC. Is the economy too hot, too cold or just right?

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Robert Fry: Well, I think there are multiple bowls of porridge on the table this morning. If you're looking at the global economy, it's very cold. I think you're probably more focused on the U.S. economy. There if you're looking at the manufacturing sector, it's also cold. U.S. manufacturing, industrial production has declined since last November. The Institute of Supply Management's Purchasing Managers Index fell below the neutral level of 50 in August. That indicates that the manufacturing sector in the U.S. is shrinking. The new orders component of that index was at its lowest level since the recession in 2009. But if you look at the broader economy, especially the service sector, I would say it's cooled a little bit, but it's maybe going from too hot to just right. It's still growing at a pretty good clip. The Non-manufacturing Purchasing Managers Index, which is mostly the service sector, was at a very high level. The disparity between manufacturing and services was among the biggest that it's ever been.

Robert Fry: So something's got to give here. Either manufacturing has to pick up or the rest of the economy has to slow down. And in the past it's gone both ways. So it's kind of hard to figure out what's going to happen here right now. But I would say the overall economy is close to just right. We got an employment report Friday morning, only 130,000 jobs, that was somewhat disappointing, but that's still more than you need to absorb growth in the adult population. So it's still unsustainably strong even if it doesn't come close to the 200,000 a month that we had gotten used to over the last seven or eight years.

Dace Blaskovitz: Robert Fry, we tape for our audience. As you know, we tape on Friday, air on Saturday and I believe there is a Federal Reserve or Wall Street Journal piece as we were getting ready to tape. You pointed it out, that said, gee whiz growth is 1% less. It's a headline story. People are going to see it on Saturday or Sunday. Tell us what's happening.

Robert Fry: Well the study from the Fed said that uncertainty about trade policy would in coming quarters trim a full percentage point off of GDP growth and that even so far in recent quarters it had trimmed close to a percentage point, I think 0.8% off the growth rate. You can look at this two ways. You can argue, well, trade policy is bad and it's really slowing the economy, but then you look at it, well growth is slowed from 3% to 2% and if that's due to trade policy and we fix the trade policy, that gets us back to 3% which is a lot stronger than the pessimists think this economy is capable of growing. So I would read this study for the Fed quite positively because it argues that absent the trade uncertainty, this economy's capable of growing at a pretty rapid clip.

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Dace Blaskovitz: Fascinating. Absolutely fascinating. Thank you for those insights. Switch gears a little bit. We're going to do a jeopardy round, wink, wink or a primer round. I am going to put you in a hypothetical eighth grade class and you're going to give us some basic answers and then we're going to go into the weeds. You're ready to go?

Robert Fry: I'm ready.

Dace Blaskovitz: What is an inverted yield curve?

Robert Fry: Well, before we talk about what an inverted yield curve is, we should talk about what a yield curve is. A yield curve is a plot of interest rates, from short term interest rates on the left side of the plot to long term interest rates at the right side. And normally that plot is going to slope up. Long term interest rates, like 30 year bond yield or 10 year bond yields, are normally higher than short term interest rates like three month treasury bills or the Federal Funds Rate, which is the overnight rate that the Fed targets. An inverted yield curve happens when the short term rates get above the long term rates. The spread that the Fed or the Federal Reserve Banks of San Francisco and New York have focused on in their research is the spread between three month T-bills and 10 month or 10 year treasury notes, and when the three months gets above the 10 year, we tend to have a recession down the road.

Robert Fry: For some crazy reason, the folks in the financial press have started focusing on the two year versus the 10 year. I don't know why they do that. The data on the two year only go back to 1976. You can't do serious research with a short time series like that. My own research says that they should be looking at the Federal Funds Rate, which is a little better than three month T-bills, I think as a forecaster, which makes sense to me because if you look at the prime rate, which is what banks charge their best customers, or prime plus loans, which is what they charge, their less than best customers. Those rates are tied to the Federal Funds Rate, so they go up and down with Fed funds. Fed funds is, I think really what matters. So we're in a situation now where the federal funds rate is above the 10 year bond yield, which means the yield curve is inverted and historically that has meant that there is a recession coming down the road.

Robert Fry: Oh, all right, but you got 30, maximum 45 seconds. Do you think that's going to hold true this time, quickly?

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Dace Blaskovitz: It depends on what the Fed does because a short little inversion that lasts a couple months and isn't very big, does not signal a recession. You need a substantial inversion that lasts several months. The minimum and version we've ever had before a recession is 10 months, so we're two or three months in. The Fed has six or seven months to right the ship and avoid a recession, so hopefully they will do that.

Dace Blaskovitz: His name is Robert Fry. Robert Fry, Jr. technically Robert Fry Economics LLC. That's how you find him online. He does two segments with us. What's going to happen now? We have to take a short break. When we come back, negative interest rates and you've got to have three quarters of growth to get reelected. We will be right back.