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Dace Blaskovitz: Welcome back to Money and Politics in Delaware. Welcome back, Robert Fry, Robert Fry Economics LLC. Welcome back, Robert.

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

Dace Blaskovitz: If you're a first time listener, I'll try to do this briefly. Robert Fry was an economist at the DuPont Company. He spent a career there, Conoco, Chemours, but it was really DuPont. While at DuPont, he and the DuPont team, underline DuPont team, Robert was a part of that, were the only three time at the time, three time the most rated economist. Retires, stays in the area and hangs out a shingle and continues to write and consult as an economist.

Dace Blaskovitz: The umbrella is the title Robert Fry Economics LLC. He comes on the show the first of each month as a way to plug his product, if you will, and to expose that he's still in business. So it's your turn, Robert, 30 seconds about you, 30 seconds about your business.

Robert Fry: Well, as you said, I am an economist. I spent more than 30 years at DuPont, including a few years with Conoco at the beginning and a few months with Chemours at the end.

Robert Fry: I have my own firm now. I publish a monthly newsletter that's very similar to one that I wrote for DuPont for more than 20 years. I have some subscribers, many subscribers, most of whom got my old newsletter at DuPont but I'm trying to add others, mostly targeted at the manufacturing sector but I have some money managers that subscribe. I have some DuPont retirees that subscribe. I have a special retiree rate for people who are not in the corporate sector and who are paying out of their own pocket. So if anyone's interested, they can go to my website, robertfryeconomics.com, and check out my newsletter. I also do speaking engagements on the economic outlook for corporate leadership teams, corporate events like customer events and trade association meetings.

Dace Blaskovitz: You ready to go?

Robert Fry: I'm ready to go.

Dace Blaskovitz: And to the audience, we're going to do the headlines in the second segment, if you will. Robert identified four things we should talk about. We're going to try to do that in this first of two segments. In this segment, we're going to say, okay, is the economy too hot, too cold, just right? That's how we start every month that he joins us. We're going to look at those employment numbers that came out this morning, airs on Saturday, we tape on Friday. We're going to talk about the Fed and then we're going to talk about NIPA. So with that said, Robert Fry, is the porridge too hot, too cold, just right?

Robert Fry: Well, if you buy the Congressional Budget Office estimate of potential growth that it's like around 2%, maybe slightly below, then I'd say the economy is just right. I don't buy that estimate of potential growth. I think we can do better than that.

Robert Fry: So I think we're a little too cool right now. I think the economy has slowed considerably since last fall and you don't get that from looking at the headline payroll employment number today. That was up 164,000 right in line with expectations, a bit slower than the last seven or eight years, but still more than we need to absorb growth in the adult population. So that looks pretty strong on the surface. But then when you dig into the details below the surface, you find out that there were 41,000 of net downward revisions to the two prior months, so you should think of that 164,000 as really 123,000.

Robert Fry: Unemployment held steady at 3.7. The U6 Unemployment Rate, the underemployment rate, actually fell to 7%. That's the lowest since 2000. Those numbers look good. What was really concerning, the average work week fell a tenth of an hour, which is not great. Not terrible, but the manufacturing work week fell three-tenths of an hour. That's a pretty big monthly decline. That suggests that industrial production and manufacturing went down in July. We'll get those data in a couple of weeks, and it's consistent with at least the manufacturing sector being pretty cool right now.

Dace Blaskovitz: All right. The other headline that you identified, the obvious one, the Fed cut rates, what does that mean for a lay person in radio land and then, secondly, your thought?

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Robert Fry: Well, the Fed's key tool for implementing monetary policy is the target federal funds rate. That's the rate that banks charge each other for overnight loans, and the Fed lowered their target this week. It was a range from two and a quarter to two and a half. They lowered that to two to two and a quarter. They also decided to conclude the shrinkage of their balance sheet, which is their holdings of treasury and mortgage backed securities just to conclude that shrinkage a couple of months earlier than they originally planned. So that'll be done ... They'll finish up with that this month. So that's what they did.

Robert Fry: Fed Chairman Powell went on TV, did his regular news conference, said some things the market didn't like and the market proceeded to drop 280 points on the Dow or something like that. They were not real happy with his statements.

Robert Fry: I would identify two problems with what they did. First, we have an inverted yield curve. We have short-term rates that are above long-term bond yields. Historically, meaning the last 60 years, that's been a very good leading indicator of recessions. The Fed thinks they know better and that it doesn't mean what it has meant in the past, so they don't seem to be panicking or in a big hurry to uninvert the yield curve. So they didn't uninvert the yield curve. It's still inverted. In fact, they cut the federal funds rate by a quarter point and this week the 10-year bond yield is going down by 21 basis points, almost a quarter of a point so the yield curve is almost as inverted as it was before the Fed started, so they didn't do that.

Robert Fry: The other thing they do, and I don't think the people at the Fed know how people make decisions, so they cut interest rates by a quarter point. I think everybody in the market expects them to cut another quarter or two before the end of the year. Well, what do people do if they expect, what do potential borrowers do if they expect rates to fall further? They wait. So that first rate cut does nothing to stimulate the economy. People are going to wait for what they perceive to be the last rate cut and, because they left market participants expecting further rate cuts, they don't get the desired stimulus and they'll just have to cut further later in the year.

Dace Blaskovitz: Yeah. My significance of that is any time you see a quarter of a point move on a 2%, if you will, 2%, I mean we're talking 10% moves and I believe the betting side of the market move the probability of another rate cut from 60 to 90% after his remarks. Ticktock on a clock, two minutes to go. Your fourth item in this first segment, NIPA, what are we talking about?

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Robert Fry: That's the National Income and Product Accounts. That's GDP and all of the other statistics that go with it. Every year the Bureau of Economic Analysis at the Congress Department does an annual revision. They go back and do major revisions, usually back about three years and maybe some smaller revisions further back than that.

Robert Fry: This time the revisions were really huge. First of all, they revised GDP, so they show a more significant acceleration in the economy from the sort of slow Obama Administration, 2% growth rate, up to something than 3% over the period from the middle of 2017 through the third quarter of 2018 but then they show a much bigger deceleration after that than what the old data showed, especially in the fourth quarter of 2018, so a little more cyclical than it was. Really three ways to interpret this. If you were, say, a Democrat who believes that the potential growth rate is only 2% and that…

Dace Blaskovitz: Thirty seconds.

Robert Fry: ... the acceleration was just a temporary sugar high due to tax cuts, well, we're just returning back to that 2% growth rate. If you're the Trump Administration, you're going to say, "Well, our policies boosted that growth rate to 3% but then the mean old Fed raised interest rates too much and that slowed growth and that's what brought growth down." I think more conventional free trade, free market Republicans would say, "Well, this shows that the tax cuts and the deregulation policies that President Trump brought in help the economy," but then his tariffs and his trade policy undid a lot of that stimulus, maybe all of it…

Dace Blaskovitz: Stop right there.

Dace Blaskovitz: We will be right back.