CPI, FedEx, and Economic Models

CPI & FedEx

Backward-looking data seems to tell one story.

Contemporaneous data seems to tell another (especially if you strip out the backward-looking data, which is embedded in the contemporaneous data).

Virtually everything that I see as a leading indicator points to economic issues down the road – I have been in the 'recession this year' camp and continue to be.

The FedEx CEO's warning should be taken seriously. Their critical role in today's economy gives them insights that many do not have and their CEO just warned about global economic problems!

Economic Models

Layman's understanding of economics:

$$X + Y^2 = Z$$

Policy level economic equation:

$$\int_y^X z + \sum_1^n N - e^n + \oint_a^b q$$

Real world behavior:

$$\begin{bmatrix} a & A \\ B & b \end{bmatrix} \begin{bmatrix} C & c \\ d & D \end{bmatrix} \iint_x^{xx} X \frac{\partial y}{\partial x} \frac{-b \pm \sqrt{b^2 - 4ac}}{2a} e^{-i\omega t} \csc^{-1} Z \lim_{n \to \infty} \left(1 + \frac{1}{n}\right)^n$$

I have no idea what the models really are (I only play an economist on TV), but I do think that the public relies on very simple models or thoughts. The policy makers have complex models, but as complex as they are, they do not capture the complexity of the real world. Newtonian physics explains a lot, but as further advances (like relativity) are required to explain more phenomena, we may find that the economic models we've been using cover a lot of situations, but not all. For those of you who have been reading the T-Report for the past decade, you know that I like comparing pendulums to double pendulums where starting conditions are extremely important (and I think that is relevant now).

The Fed and the Economy

The Fed has a formidable job as the data that the media, politicians, and the public all have indicates that inflation is stubbornly high. Evidence is also coming in demonstrating that not only is the future looking far less rosy than thought a month or two ago, but that the economy could actually deteriorate faster than expected.

The one thing policy makers seem to have ignored recently is that their own models tell them there is a lag effect between policy implementation and when the impact shows up in the real-world economy.

Yes, the headlines are rife with unions getting materially better pay packages (did the rail workers just top tick the market?), but I believe that:

- We are more leveraged to rates than at any previous point in history, so these hikes will continue to hurt more than many predicted.
- Excesses from fiscal stimulus, misinterpreting supply chain fears for consumer demand, and a myriad of other issues have overstated the robustness of the economy (and fueled inflation), but many of those factors are receding or are already gone (taking care of some inflation in their

own right).

- The wealth effect is real and is growing.

Bottom Line

The Fed, already with a difficult job next week, just found that their job may be more difficult as markets and companies started the week fixated on inflation metrics and may be finishing the week focused on recession fears.

What model will the Fed use? The answer to this might be the wildcard for next week. Since Jackson Hole, central banks across the globe have been sticking to one script, but maybe yesterday's warning is one that shouldn't be ignored?