When ‘good’ is ‘terrible’

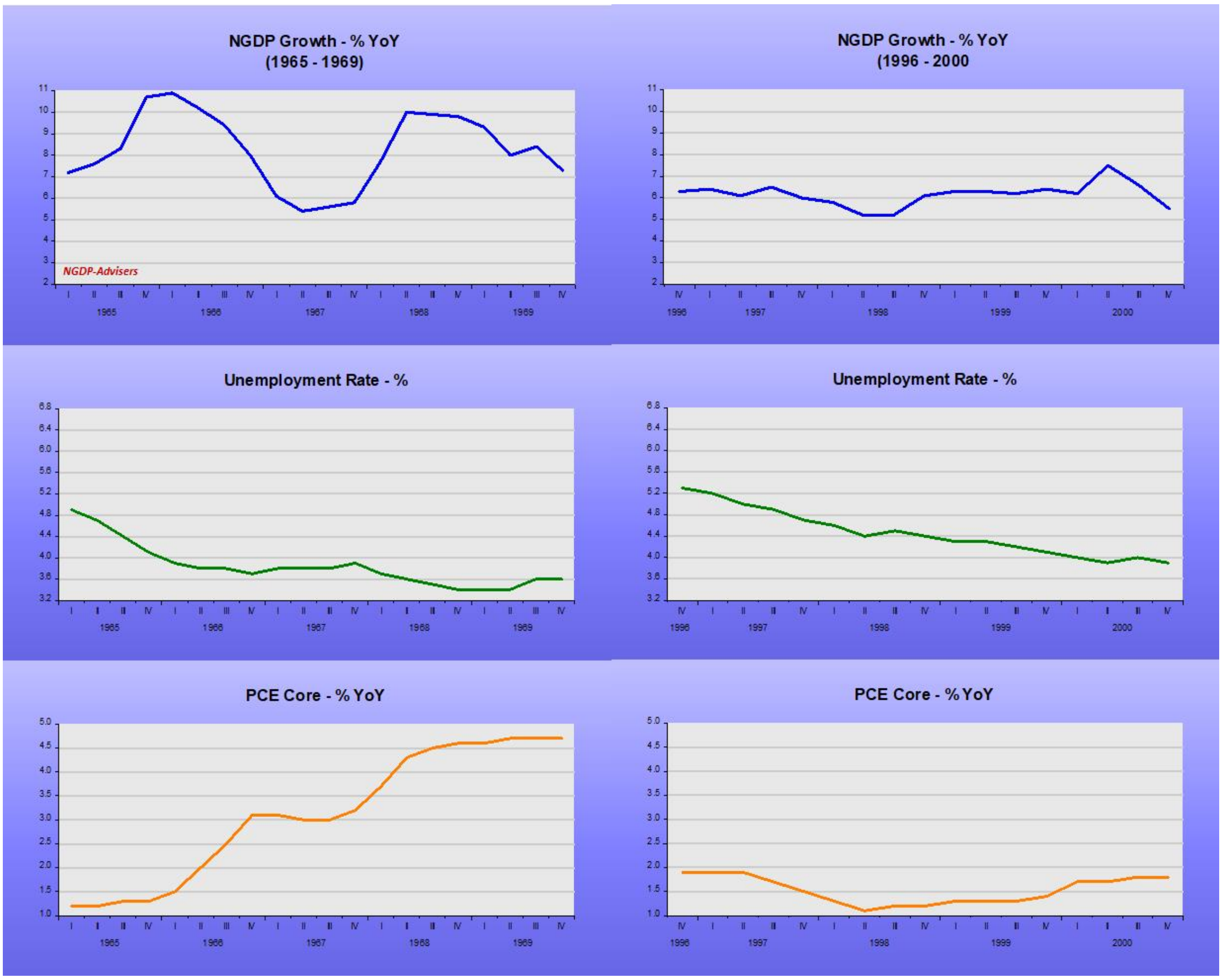
The headline: **The Fed’s Biggest Dilemma: Is the Booming Job Market a Problem?**

Snipets:

> No question looms larger for Federal Reserve Chairman Jerome Powell than this: How low can the U.S. unemployment rate safely go?
>
> Only twice in the past half-century has unemployment fallen to its current rate of 3.8%—for a few years in the late 1960s and for one month in 2000.
>
> The ’60s episode spurred years of soaring inflation that would take a decade for policy makers to corral. The latter coincided with a technology bubble that, when it burst, caused the 2001 recession.

It seems low unemployment is ‘terrible’, out of which no good can came!

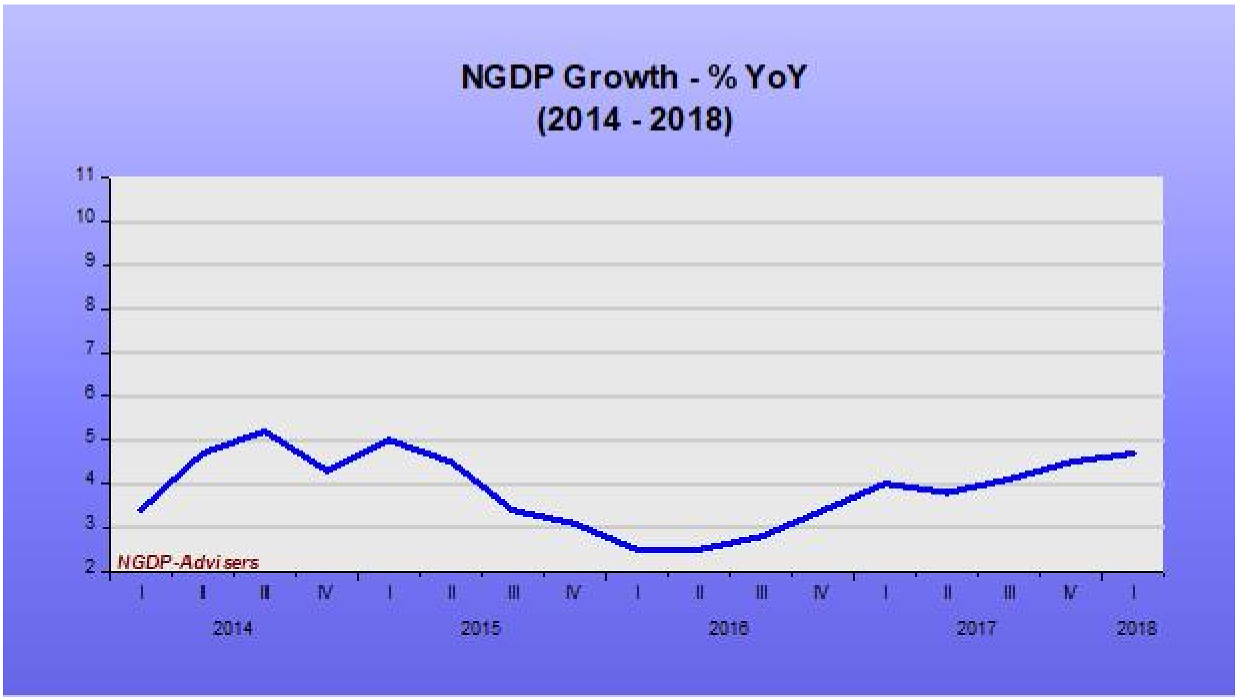
Let´s review the episodes, where the charts illustrate.

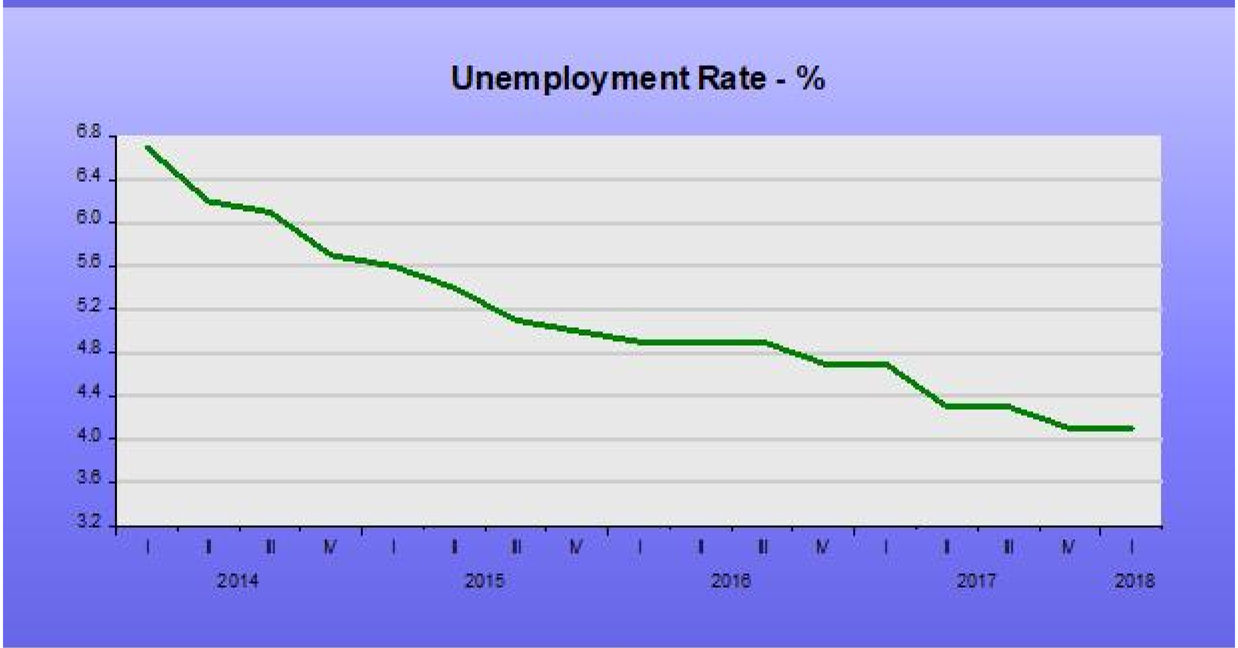


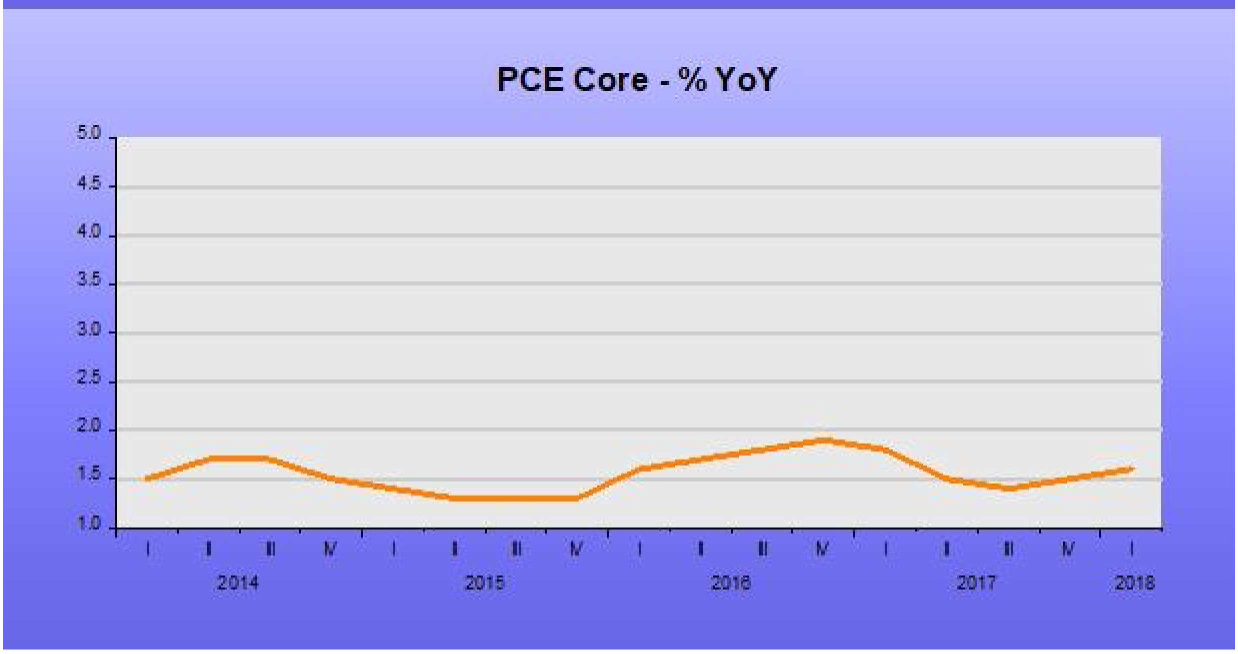
In all cases, unemployment is falling/low. In the late 1960s, inflation was on an upward trend. That´s not due to low unemployment, but the result of an expansionary monetary policy gauged by nominal spending (NGDP) growth, which was high and erratic.

In the other instances, inflation was low and stable. Again, not because of low unemployment, but the outcome of stable NGDP growth.

In the most recent episode, NGDP growth is maybe too low, especially given that the Great Recession was the outcome of a drastic fall in the **level** of spending, and subsequent spending **growth** never made up for that drop, keeping the economy in a depressed state.


NGDP Growth - % YoY
(2014 - 2018)
NGDP-Advisers
2014
2015
2016
2017
2018


Unemployment Rate - %
2014
2015
2016
2017
2018


PCE Core - % YoY
2014
2015
2016
2017
2018

Bottom Line: If the Fed worries about “low” unemployment, it will tighten monetary policy. Even if a recession is not called, the economy will weaken further.