Like Disco Inferno, The Fed Just Can’t Stop

The US Federal Reserve this week released its latest Beige Book, a series of increasingly repetitious and unintentionally lugubrious reviews of the national economy.

If you read the Fed’s Beige Book from January 2016, about two-and-half-years ago, then don’t read the July 2018 version. Nothing has changed.

The economy was and is and perchance always will be defined by “labor shortages.”

A sampler from earlier Fed Beige Books:

From the Fed’s Oct. 18 2017 rendition: “Labor markets were widely described as tight. These shortages were also restraining business growth.”

January 2017: “District reports cited widespread difficulties in finding workers for skilled positions; several also noted problems recruiting for less-skilled jobs.”

September 2016: “In many Districts, businesses reported trouble filling job vacancies for high-skilled positions, especially those aimed at technology specialists, engineers, and selected construction workers.”

March 2016: “Contacts in New York, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, and Kansas City reported difficulty in finding skilled workers….Contacts in Cleveland and Richmond noted that low-skilled positions were becoming increasingly difficult to fill….”

In January 2016 the Fed found “labor shortages or turnover among entry-level positions in banking, retail, and hospitality.”

Unit Labor Costs?

Of course, with “labor shortages” the rule, we would expect to see labor costs soaring, no?

In fact, from Q1 2016 through Q1 2018 (the latest print), unit labor costs are up 1.98%. Not annually—in total.

While the Fed has all but peevishly fixated on putative “labor shortages," in fact unit labor costs have acted as a drag on the Fed reaching its 2% inflation target on the PCE.

What Do Words Mean

In macroeconomics there are words that have lost their meaning. The Bank of Japan for years and years has been described as operating an "ultra-loose" monetary policy. Yet Japan presently has 0.7% annual inflation rate, and perennially postpones hitting a 2% IT. So, what is a "loose" central-bank policy?

And in the US we have permanent "labor shortages," but nearly flat unit labor costs (despite sluggish productivity increases).

In many regards it is embarrassing that the Fed even uses the term "labor shortages." Macroeconomists by rote posit that supply and demand determine price, and the idea of a "shortage" is subjective at best. In markets where government manifestly and severely limits supply of a good for which there is inelastic demand—say West Coast housing markets—one might posit there are artificial "shortages." In housing, even higher prices flush out very little supply. But US labor markets resemble an accordion.

Nevertheless, there are a few precious gems in the latest Fed Beige book. Try this:

Labor shortages continued to be an issue in the hospitality industry, particularly in seasonal destinations like Cape Cod.

I wish I was making this up.