

Misery

An important assessment of fiscal policy is its impact on the well-being of the electorate. The wide range of needs, expectations and personal positions within the electorate makes a universal assessment difficult. Nevertheless, there is general agreement that levels and direction of employment and inflation impact most if not all in similar ways. It is no accident that monetary policy has a dual mandate of full employment and stable prices. A simple economic indicator, the Misery Index, was introduced in the 1960s. It combines the unemployment rate and the rate of inflation. It is assumed that a higher rate of unemployment and a worsening of inflation both create economic and social costs for an economy. The perspective here provides some comparisons that might be useful for assessing the economic environment ahead and investment implications.

Q PERSPECTIVE

Measuring the percentage of unemployed civilians is a bit complex. It takes into consideration the number of eligible employees, the number of such eligible individuals actively seeking work and the number of available unfilled jobs. Estimates of the unemployment rate (“UER”) are revised over time as more information becomes available. In spite of questions raised from recent revisions, employment data including the UER are viewed as quite reliable. **Chart I** shows the UER for most of the post-WWII period. The UER has averaged 5.7%. With the exception of the pandemic period that included a spike to a high reading of 14.7%, the UER has been below average for most of the past ten years. The latest UER reading stood at 4.1%.

Price stability is measured by the rate of inflation. Many measures of inflation are available, but the broadest one covers all urban consumers and is generally referred to as the Consumer Price Index (“CPI”). **Chart II** shows the CPI for most of the post-WWII period. The CPI has averaged 3.5%. As was the case with the UER, the CPI has been below average for over ten years with the notable exception of the pandemic period. Over time, the CPI has been biased to lower with 63% of the readings below average. The CPI has posted a few readings below 0%, i.e., deflation. In general, some inflation rather than deflation is viewed as consistent with a healthy economy. The latest CPI reading stood at 2.7%

The Misery Index (“MI”), the combination of the UER and the CPI, is shown in **Chart III**. The actual index value is of significance relative to the long-term average, e.g., if above average, either the UER, the CPI or both. Each of these outcomes suggests potentially different policy remedies and investment preferences. For example, a high MI arising primarily from a high CPI indicates that supply is falling short of demand for the economy at large. Over the whole period, MI has been above average 59% of the time. Of those observations, 46% have occurred when both the UER and the CPI were above average and 54% when only one was above average. The latest MI reading of 6.8 suggests an economy meeting more needs than not.

INVESTMENT IMPLICATIONS

For much of the past ten years, the Misery Index received little attention as each of its components remained well-below its long-term average. The pandemic period brought the MI back into discussion as the UER and the CPI both reached decades-long highs. Each indicator has retreated to below its long-term average, but interest in the MI continues. A source of much current discussion is monetary policy and the current level of interest rates. The MI reading alone would suggest no need for lower interest rates, impacting both bond and stock prices. Each of the MI components should be monitored closely.

CHART I

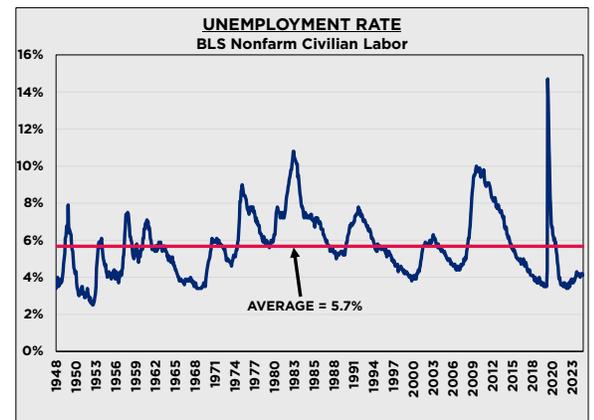


CHART II

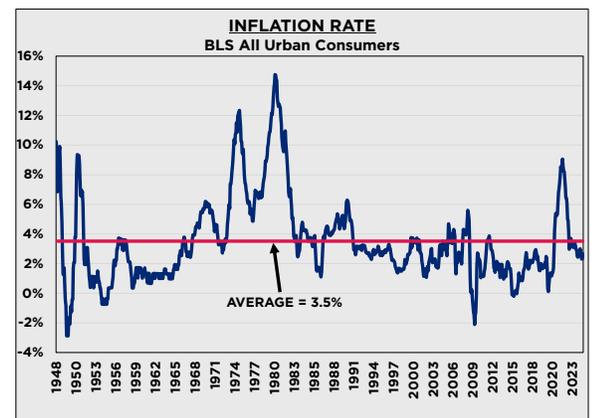


CHART III

