Doug, Ralph, Chris, Michelle, Andrea

Portfolio Talk

Market Update 03/12/2021

The $1.9 trillion COVID Relief Bill, called the American Rescue Plan, passed in the Senate straight down party lines, 50-49 with republican Dan Sullivan from Alaska not attending due to a family funeral back home. It was then sent back to the House for their final approval and was signed into law by President Biden yesterday. The plan is massive and according to the independent Senator from Maine, Angus King, attends to all areas of our economy and society that has been most affected by the virus. We talked last week about the effect on the deficit and thereby the national debt, but what about the economy and the trickledown effect to the markets?

One of the debates that continues to be raised when government spending increases is that of the "Monetary, or Money Multiplier". In other words, when the government spends a dollar, how does it affect the economy vs. the same dollar spent by the private sector? Does the spending of that dollar create jobs that by virtue of their work creates other jobs? It's an interesting debate given its conclusion is quite subjective. This was brought to light in a confrontation aired on ABC's This Week with George Stephanopoulos in February 2013 between Carly Fiorina, then running for the US Senate seat in California, and Paul Krugman, the Nobel Prize winning economist and liberal New York Times columnist. The two sparred over what government's role is in promoting economic growth, an important question given the looming drop in federal spending known as the sequester at the time. Fiorina made the comment, "I think it's important to remember when we talk about the economy that a private-sector job and a public-sector job are not the same things. They're not equivalent. I'm not saying public-sector jobs aren't important, but a private-sector job pays for itself. A private-sector job creates other jobs. A public-sector job is paid for by taxpayers." Krugman took issue with her characterization. What occurred afterwards is what was telling. Dozens of economists from across the ideological spectrum and most were careful against declaring Fiorina or Krugman right or wrong.

Evidence that supported Fiorina's thesis came from a January 2012 paper written by Valerie A. Ramsey of the University of California at San Diego. Ramsey concluded that "in most cases" when the government spends money, the result is that private-sector spending "falls significantly." Moreover, she found, government spending hikes tend to lower unemployment, but "virtually all" of the net job growth comes from government employment. This led Ramsey to conclude that, "on balance, government spending does not appear to stimulate private activity."

However, evidence supporting Krugman's side came from Tara Sinclair, a George Washington University economist. She offered the example of two paper-pushers who are equally unproductive, one working in the government and one working for a private employer. "If the paper-pusher works at a private company, then he or she only contributes to the GDP if their paper-pushing results in greater output for the company," Sinclair said. "In the government, however, we count government output by what it costs, so the paper-pusher automatically 'produces' the amount of their salary." Her conclusion, "This means that any government expenditure – by its very definition – increases GDP, while a private worker really has to truly earn their keep, and more, if they are going to help expand GDP".

As you can see, there is no clear winner in this debate. I offer you this, does an individual working in the US Department of the Interior add less value to the economy than one working at Facebook? Do the employees working to keep our national parks, monuments and natural resources in good use for visitors to enjoy their beauty add less to our economy? If these landmarks fall into disrepair, will visitor's show up? The visitors have to eat, stay and/or buy equipment to camp and hike our country's precious landmarks. Is this any different than the Facebook employee that helps in some way to allow people to connect to one another and share information? I'll let you make your own conclusion, but the analysis done by Obaidullah Jan, ACA, CFA and last modified on March 31, 2019, on this subject state that the government monetary multiplier is .8 (80%) verses the private sector is 1 (100%). Maybe its because of the $600.00 hammers? (just kidding!) Can government waste be the real problem in how the money spent filters back into the economy?

The real issue here is the trickledown effect to the economy. Regardless if it's $.80 or a $1.00 as a multiplier, $1.9 trillion along with the trillions that has already been added to the economy should boost corporate earnings for the foreseeable future. The question, is it a sugar rush that as it leaves us, will we be left with a hangover…that being a mountain of debt that will be detrimental to our ability to cover our essential needs in the future?

Economic News

- Monday:
  - Wholesale Inventories for Jan., 1.3% vs. 0.9% expected and 0.3% previously…not bad.
- Tuesday:
  - NFIB small-business index for Feb., 95.8 vs. 96.5 expected and 95.0 previously…flat.
- Wednesday:
  - Consumer Price Index for Feb., 0.4% vs. 0.4% expected and 0.3% previously…flat.
  - Core CPI for Feb., 0.1% vs. 0.1% expected and 0.0% previously…holding steady.
  - Federal Budget for Feb., -$311 billion vs. -$255 billion expected and -$235 billion previously…higher due to pandemic relief.
- Thursday:
  - Initial Jobless Claims (state, SA) for Mar 6th, 712,000 vs. 725,000 expected and 754,000 previously…holding.
  - Continuing Jobless Claims (state, SA) for Feb 27th, 4.14 million vs. 4.34 million previously…flat.
  - Job Openings for Jan., 6.9 million vs, 6.7 million expected and 6.8 million previously…holding.
  - Household Wealth (year over year) for Q4, 10.1% vs. 7.5% previously…very good!
- Friday:
  - Producer Price Index final demand for Feb., 0.5% vs. 0.5% expected and 1.3% previously…flat.
  - UMich consumer sentiment index (prelim) for March, 83.0 vs. 78.9 expected and 76.8 previously…very good!

The economy continues to hold its head above water as we recover from the pandemic. States are starting to open even more with reducing restrictions on businesses, especially those in the travel, leisure and entertainment industries. People are feeling better about going out and traveling as they get their vaccinations. Are we going to experience another “Roaring Twenties”, only this time they’re a century apart? Maybe, but let’s hope we learned our lesson as to what followed…. I seem to think we have and more safeguards are in place. That’s for another update!

Stay Safe…. we’re almost there!!!

Douglas E. Wells
Managing Director
Chief Investment Officer
(330) 752-4843

Ralph E. Trecaso
Managing Director
Family Wealth Advisor
(330) 752-6093

Christopher C. Walters
Managing Director
Portfolio Manager
(330) 242-0580

Michelle L. Weaver
Client Service Director
(330) 752-8825

Andrea B. Otte
Client Service Director
(330) 752-190