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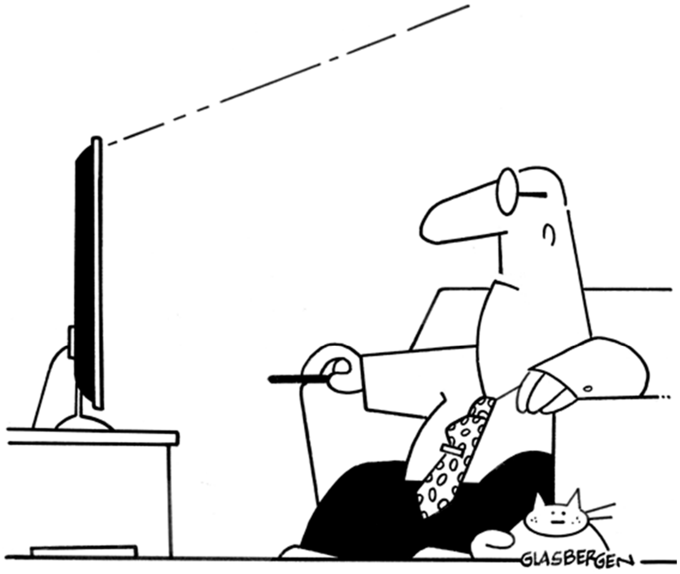


"There was an unexpected correction on Wall Street today after a leading analyst used the word 'irregardless' instead of 'regardless.'"

The Devil You Know -Article by Mark Lazar

Mark Lazar is an independent writer with Pathway to Prosperity and is not affiliated with Raymond James. Views expressed by this writer are the current opinions of this author and not necessarily those of Raymond James & Associates.

There are three ways to tell a lie; a lie, a damn lie, and statistics. **Mark Twain**

Item	YTD Change
Dow Jones Ind Avg	-9.61%
S&P 500 Index	-13.34%
EAFE Foreign Index	-17.07%
Emerging Market Index	-19.34%
Barclays Agg Bond Index	-8.16%
10-Year Inflation Forecast	2.53%
Unemployment Rate	3.6%

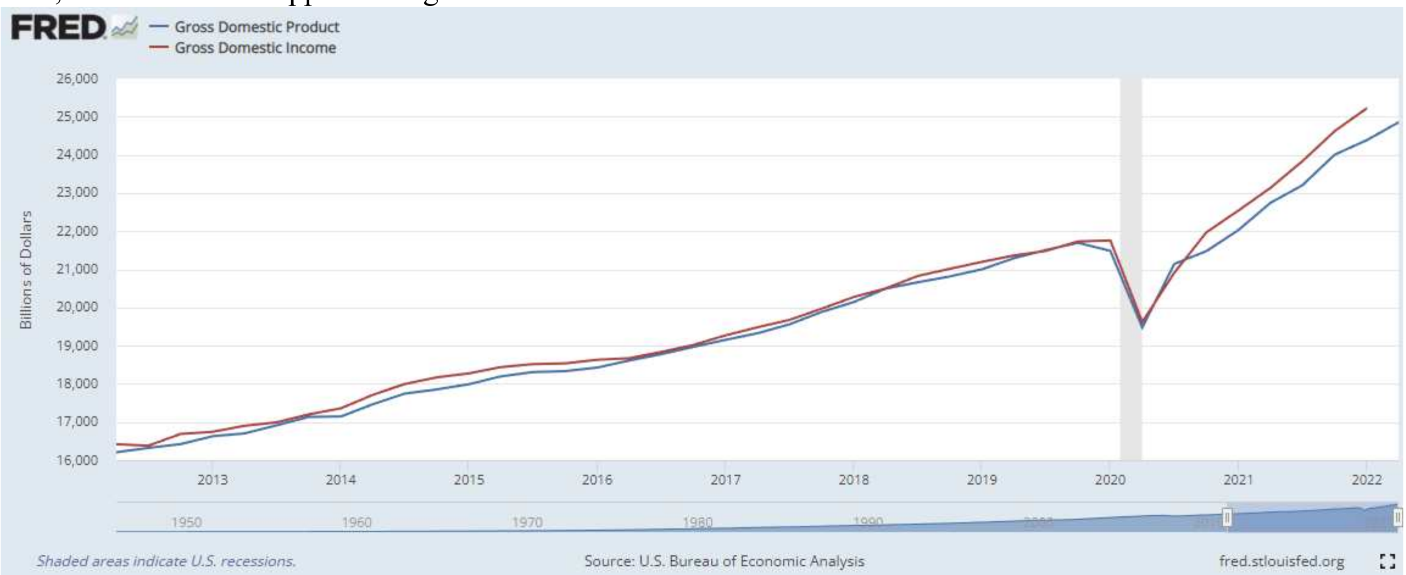
**Market index data as of 7/31/2022*

It's official; the US is in a recession … or is it? Following on the heels of a 5.7% growth rate in 2021, domestic output contracted by 1.6% in the first quarter of this year. This surprised most economists, especially since the Atlanta Fed's GDP Now metrics suggested GDP had increased by nearly 1%. Economists and investors alike have since been waiting with bated breath to determine whether Q1 data was simply an anomaly or the harbinger of an economic downturn. The wait is finally over. According to the recent BEA release, the US economy shrank by nearly 1% in the second quarter. The report sparked a firestorm of debate about what exactly a recession is and whether the US economy is contracting or, as some Administration officials have suggested; simply "transitioning." This would be a good time to take a few moments to better understand econometrics and the all-too-often incestuous relationship between economics and politics.

Let's begin with a little history. Prior to the Great Depression there wasn't a standardized methodology for quantifying national income. However, in 1931 British economist Colin Clark and American economist, Simon Kuznets (incidentally, Milton Friedman was one of Kuznet's doctoral students at Colombia), were charged with devising an econometric model for measuring national income.

Interestingly, Kuznet's original equation did not include, among other things, military spending. However, at the time Keynesian ideology, which promoted demand-side government interventionist spending policies, could be "scientifically" validated if government spending was included in the calculation of national accounts. Economics and politics are oftentimes familiar bedfellows and Kuznet, who worked for the NBER, was pressured into changing his methodology. Ultimately, Kuznet's model for determining national output/GDP would be calculated as such; Consumption (consumer spending) + Government (government expenditures) + Investment (business investment) + Net Exports (exports less imports). By contrast, Gross National Product measures the total value of all final products and services produced in a given period by the means of production owned by a country's residents. In the US, the total value of GNP tends to be slightly greater than GDP; $24.65T versus $24.387T

An alternate measure of economic health is Gross Domestic Income. The formula to determine GDI is as follows; Wages + Profits + Interest Income + Rental Income + Taxes – Production/(Import) Subsidies. Whereas GDP measures output, GDI measures income. In theory, GDP and GNI should be identical. However, Uncle Sam's heavy-handed COVID policies (lockdowns followed by unprecedented peacetime fiscal and monetary stimulus), has created a clear divergence between the two. While GDP is trending lower, GDI is still in the black, providing a contrasting picture of the US economy. This is likely attributed to the fact that GDI tends to be more correlated with the labor market, and unemployment has thus far remained low. Eventually, the two should converge as either output increases or employment falls, which tends to happen during recessions.



Federal Reserve Board, St. Louis

To piggyback on the previous relationship between economics and politics, since the preliminary data was released on July 28, the definition of "recession" on the popular website Wikipedia has been changed 41 times. According to a recent NPR article, "Wikipedia has frozen edits to its page for *recession*, halting a frenzy of changes to the entry after the Biden administration insisted that the U.S. economy has not entered a economic downturn." While the longstanding definition of a recession has been *two consecutive quarters of negative economic growth*, the NBER, the official arbiter of recessions, considers six key indicators prior to declaring that the economy is officially in a recession. Those indicators are:

1. Personal income–Has fallen YTD
2. Nonfarm payrolls–Has risen since April 2020, but is still ~4 million below pre-COVID numbers
3. Personal consumption expenditures–Has risen five of the past six months
4. Manufacturing and Trade Index–Is marginally higher YTD but down ~25% from pre-COVID high
5. Household employment–Has almost fully recovered to pre-COVID high, but declined two of the last three months
6. Industrial production–Appears to have peaked between April and May and is currently declining

Add them all up and you get a mixed bag. That said, the aforementioned are all lagging indicators, meaning economists cannot call a recession until after the fact. To that point, most of us remember things felt really bad in 2008, although the NBER didn't officially declare a recession until January of 2009—and subsequently declared the recession over in June of that year.

Over time, there have been countless articles attesting to the superiority of one national accounting measurement over the other, and some even assert they all should be scrapped and a new metric devised and agreed upon. While most economists can agree that GDP is a very imperfect method for quantifying a nation's economic health, make no mistake that every proposed replacement would be skewed to reflect the creator's inherent biases.

Few dispute that the methodology behind GDP computations are suspect, at best. However, we now have nearly a century of data from which to draw a baseline for ongoing comparison and by which to measure policy efficacy. It is this author's opinion that other than occasional tinkering to take into account improvements in quality, innovation, and service metrics, it should be more or less left alone. Sometimes you're better off with the devil you know versus the devil you don't.

Mark Lazar, MBA
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Pathway to Prosperity

Wasatch Team Updates

Stan

Stan and his bride attending Matt Brunner's wedding in Sun Valley!

Rees

Rees sailing on Jordanelle

John

John wake surfing on Jordanelle!

Reed

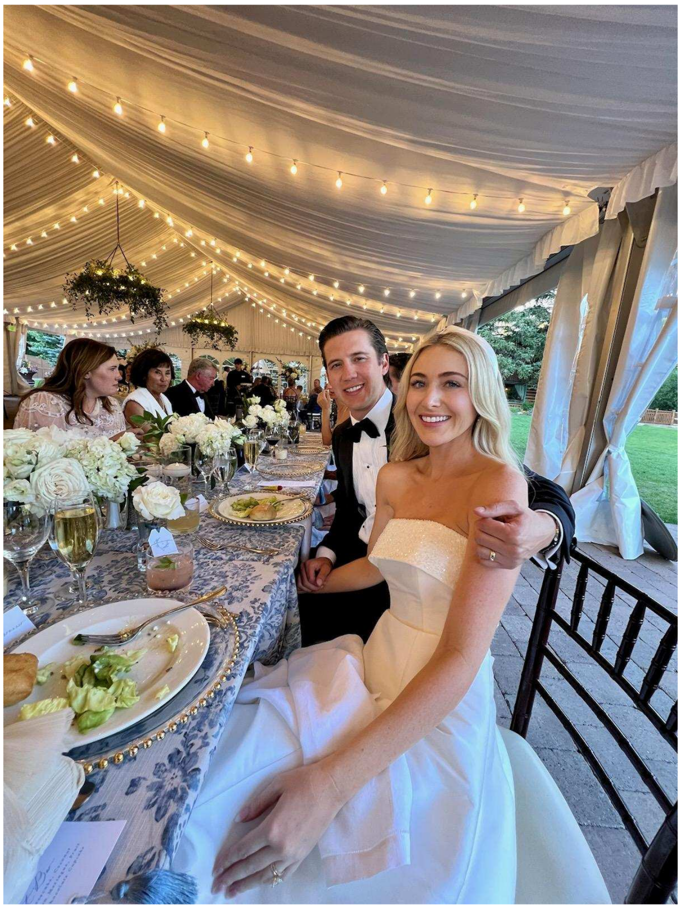
Reed recently celebrating his mom's 85^{th} birthday!

Nicola

Nicola and her step daughter hiking Beacon Rock in Washington!

Matt

Matt & Sam getting married in Sun Valley!



Jon

Jon and Jin at Tai and Mailea’s NA17 rugby tournament!

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