WEEKLY ECONOMIC UPDATE AUG. 12, 2024

Stocks ended last week with modest losses, masking a volatile five-day trading period that saw investors embrace recession concerns and then dismiss the slow-down talk as speculation as the week progressed.

The Dow Jones Industrial Average slipped 0.60 percent, while the Standard & Poor's 500 Index ended flat (-0.04 percent). The Nasdaq Composite dipped 0.18 percent. The MSCI EAFE Index, which tracks developed overseas stock markets, fell 1.21 percent.[1,2]

Stocks Stage Comeback
Monday was the worst day for the S&P 500 and the Dow in nearly two years. As recession talk grew louder, investors took a "risk off" position.

On Monday, the Japanese market had its worst drop since 1987 as market participants unwound positions from a popular trading strategy called a "carry trade" amid a global sell-off in stock prices.[3]

But on Thursday, initial jobless claims fell less than expected—a positive sign for the labor markets— which quieted some of the recession talk. Also, as the week progressed, there was growing speculation that the July jobs report was more of an outlier than a lead indicator of a pending recession.

By Friday's close, all three major averages had regained most of the week's losses.[4]

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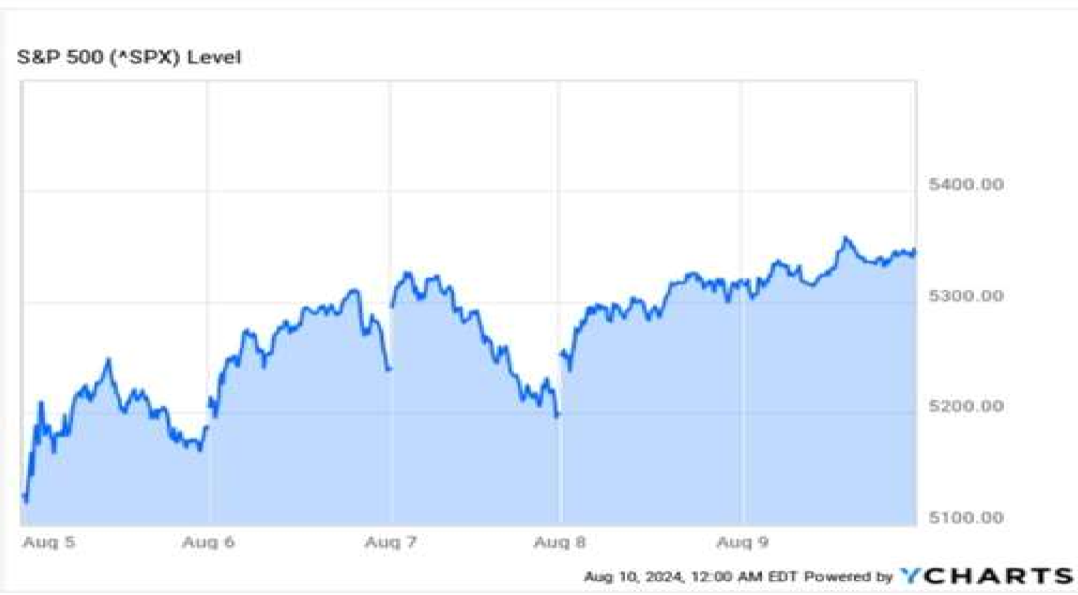
Weekly Market Insights (WMI)

Major Index Return Summary

Name	1M TR	YTD TR	1Y TR	5Yr TR
Dow Jones Industrial Average	0.32%	5.78%	14.00%	65.97%
MSCI EAFE	-4.02%	3.55%	9.82%	42.62%
Nasdaq Composite	-9.46%	11.43%	20.91%	115.9%
S&P 500	-4.48%	12.42%	20.00%	96.41%

S&P 500 Daily Close



10-Year Note Review

Indicator Name Date	Latest Value	1M Ago 3M Ago 1Y Ago	1M Change 3M Change 1Y Change
10 Year Treasury Rate 08/09/24	3.94%	4.30% 4.45% 4.00%	-8.37% -11.46% -1.50%

Mortgage Update

Last Thursday, the average rate on a 30-year fixed mortgage dropped to 6.47 percent—a 15-month low. Many home buyers welcomed the news, and it appeared to help support Thursday's rally.[5]

But the announcement left some wondering whether rates would continue to trend lower. Mortgage rates are tied to the interest rates set by the Federal Reserve. Some speculated the drop was due to market participants anticipating the Fed would adjust rates in September, which remains anything but certain.[6]

This Week: Key Economic Data

Tuesday: Producer Price Index (PPI). Fed Official Raphael Bostic speaks.

Wednesday: Consumer Price Index (CPI). EIA Petroleum Status Report.

Thursday: Jobless Claims. Retail Sales. Industrial Production. Business Inventories. Fed Officials Alberto Musalem and Patrick Harker speak.

Friday: Housing Starts and Permits. Consumer Sentiment. Fed Official Austan Goolsbee speaks.

"An evil enemy will burn his own nation to the ground to rule over the ashes."

– Sun Tzu

Of Note

Last week, the Bureau of Labor Statistics reported that the unemployment rate had jumped to 4.3% in July. The pace at which unemployment is rising matches the speed often found in the early stages of a recession — an indicator known as the Sahm Rule. The triggering of the Sahm Rule sparked a panic in the stock market that only grew at the start of this week after other economies, especially in East Asia, experienced even sharper downturns.

Many establishment-friendly economists and political figures are dismissing concerns that the surge in unemployment and resulting scare on Wall Street represent a recession. However, some are clearly worried.

Senator Elizabeth Warren, for instance, used the jobs data to restate her argument that the Fed is waiting too long to cut rates. She said Fed Chair Jerome Powell "risks driving the economy into a ditch," and that he "needs to cancel his summer vacation and cut rates now."

Paul Krugman has been making the same point. Last Friday, he called the Fed's reluctance to cut rates already "a big oopsie" that the central bank needs to reverse fast to "head off" a recession.

Although both couch their calls for rate cuts in language that suggests it may already be too late, there is still acceptance of the idea that the Fed can prevent a recession. All our monetary central planners must do is recognize the wisdom of Warren and Krugman and lower the interest rate by exactly half a percent in their next meeting, and the good times will continue.

In truth, if we're ever going to see the end of these debilitating boom-bust cycles, what we need are not lower rates or higher rates. What we need are accurate interest rates.

Interest rates are prices. And so, like any other price, they are determined by people's preferences. In this case, the factor in question is called time preference. Every human always prefers satisfaction in the present to the same exact satisfaction in the future. That is a fact central to the entire concept of human action. However, the extent to which we prefer present gratification over future satisfaction differs from person to person.

For some – mainly children – immediate gratification is highly preferred to delayed gratification, even when that delayed gratification is much larger. These people have a high time preference. Typically, as we become adults, we come to recognize that if we partially withhold from consumption, we can often bring about significantly more satisfaction by helping to produce more goods and services that can be consumed and/or traded in the future. Those who forgo a lot of instant gratification to pursue delayed gratification are said to have a low time preference.

A similar evolution happens on a civilizational scale. As Hans-Hermann Hoppe details in A Short History of Man, early humans lived nomadically because they were forced to move to a new area when the supply of food and other resources dried up. Adopting tools and hunting strategies allowed early humans to catch bigger game, but they still existed in a state of high time preference by our modern standards.

That remained essentially constant until the Neolithic Revolution around 11,500 years ago, when humans started to recognize that they could produce more food than they could hunt or gather if they grew crops and raised livestock. The adoption of these practices also led to institutions like private property and the family as a homogenous unit. And, before long, they freed up people to pursue trades unrelated to gathering food — like metalworking, architecture, and philosophy.

As human production expanded, more and more present needs could be met, leading to more investment in production for future consumption. Economies grew, civilizations developed, and time preferences fell. The next big acceleration came in the early 1800s with the Industrial

Revolution. Advancements in energy made production significantly more efficient. The result is the developed world we have today. It's important to recognize that the fall in time preference was not merely a symptom of the development of human civilization but a leading cause.

Interest rates are prices that serve as the closest proximation for a society's time preference. They are the premiums charged for acquiring future money in the present. And, for almost all of human history, they have tracked nicely with the ten-thousand-year fall in time preference explained above, that is, until governments started artificially manipulating interest rates.

Thanks to central banking and the politicization of money, governments today control interest rates by expanding or restricting the supply of new money and credit entering the loan market. Like anything, an increase in the supply of loanable funds drives the interest rate — or price — down, and vice versa.

But there is a big difference between interest rates that are lowered by an increase in people's willingness to save and invest in production and rates cut artificially by political authorities. The former frees up resources to be used in the new lines of production. The latter does not.

And, not only does an artificially-lowered interest rate trick producers into acting as if there are more resources available for production than there are — generating the boom-bust cycle we find ourselves in the middle of — it also incentivizes people to consume more than they otherwise would, because the rate of return for saving and investing is now lower.

This means that by artificially lowering interest rates, governments are reversing the progress made over the last ten thousand years as humans learned to use foresight and to value production over the easiest form of instant gratification. The hyper-consumerism and economic chaos that pervades our society is precisely what results when governments artificially lower interest rates — the very policy Warren and Krugman are desperately calling for the Fed to enact yet again.

If our economy is ever going to heal, interest rates must be brought back in line with people's actual time preferences. Like any true price, a pure market interest rate won't always be stable because reality isn't always stable. But if we want to see an end to perpetual recessions and debt-fueled mass consumption, we need to stop listening to those who benefit from the current system of centrally-planned interest rates. We need a return to accurate interest rates, which have helped encourage and coordinate the production of a better future for thousands of years.[7]

Footnotes and Sources

1. The Wall Street Journal, August 9, 2024
2. Investing.com, August 9, 2024
3. CNBC.com, August 5, 2024
4. The Wall Street Journal, August 8, 2024
5. The Wall Street Journal, August 8, 2024
6. The Wall Street Journal, August 9, 2024

7. mises.org/mises-wire/fed-rate-cut-will-not-solve-our-economic-problems