



Weekly Economic News & Updates

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FOMC-What do a Supreme Court case from 55 years ago and the FOMC have in common? Well, maybe more than one might think. In *Jacobellis vs. Ohio*, a 1964 lawsuit about a racy movie shown in Cleveland Heights, Justice Potter Stewart got the assignment to write the opinion for the majority. The Court ruled against Ohio and overturned the State’s decision that the film was obscene. Although his opinion never specifically defined obscenity, the Justice famously said “I know it when I see it.”

That sounds a lot like the Fed talking about the “neutral” rate of interest. They can’t exactly tell us what it is, but, one hopes, they’ll know it when they see it. Federal Reserve Vice-Chairman Richard Clarida thinks he can see it now. Kind of. In a speech given yesterday at New York University, Mr. Clarida observed that “the federal funds rate is now equal to the lower end of the range of Committee participants’ estimates of its longer-run equilibrium level.” Macroeconomic nerds refer to this nirvana-like rate of neutrality as r^* , and the Vice-Chairman reminded everyone that it is both unobservable and varies over time. So, it’s like when the wind comes sweeping down the plain, it can’t be seen, it can only be inferred from the data; or the tumbleweeds.

BUSINESS NEWS!

Small business owners have certainly been forthcoming with their optimistic outlook. The National Federation of Independent Businesses Optimism Index only slipped a little bit in a month that it was expected to slip a lot. November’s reading of 104.8 only drifted slightly down to 104.4 in December, as experts predicted a plummet to 103. Optimism is alive and well. That’s good, because the week got started with some disappointing news from the Institute of Supply Management (ISM). After seeing it’s manufacturing index plummet last week, the non-manufacturing or Services Index followed suit with a sharper-than-expected decline to 57.6 from 60.7. The BLS also reported that, despite the putatively, ultra-tight labor market, the number of open employment positions fell to 6,888k from 7,131k. That’s not a decline that one would expect to see in the context of current circumstances.

But, and here’s the good news, those folks that are currently working have gained some more purchasing power. Adjusted for inflation, Real Averagely Hourly Earnings grew in December by 1.1%, and that’s up from November’s growth of just 0.8%. Nevertheless, this is America, and if you really want to acquire some more purchasing power, just borrow it. The Federal Reserve reported that Consumer Credit grew by more than \$22B in November when it was only “supposed” to grow by \$17.5B. Consumers aren’t the only ones borrowing money these days. The Treasury held auctions this week for \$78B worth of 3’s, 10’s, and 30’s. The Ten-Year auction went okay, but decidedly lower Bid-to-Cover ratios for the 3’s and 30’s have some analysts concerned that investor appetite might be on the wane. Also on the wane this morning are Treasury yields. This morning’s CPI report seems to have sparked a significant rally that has pushed the Ten-Year yield below 2.70% while the Two-Year is a nudge over 2.50%. So, despite the fact that about 25% of the government remains shuttered, the part that borrows money is open

WEEKLY QUOTE

“Sometimes when you innovate, you make mistakes. It is best to admit them quickly, and get on with improving your other innovations.” ~Steve Jobs

WEEKLY TIP

Many people sign up credit cards without looking at their interest rates and terms. Be sure to read the fine print when applying for a [card](#)

WEEKLY RIDDLE

What speaks, also listens, and has ten digits yet no hands?

Last week’s answer: **Br
n**

Sources: MarektingPro, Financial Strategies Group, The Baker Group, www.sj.com, bigcharts.com, treasury.gov, Randy Baker and Chris Low and Rebecca Kooshak FTN Financial
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