Between a Rock and a Hard Place

What do you do, if you're the Federal Reserve, when inflationary pressures are starting to mount in the unit labor cost arena? Of course, the answer is simple: You raise interest rates to head off inflation.

What do you do, if you're the Federal Reserve, when worker productivity is showing a steep decline, the mortgage market is imploding, and GDP continues to be revised lower? Of course, the answer is simple: You lower interest rates to stimulate growth.

What do you do, if you're the Federal Reserve, when everything is happening at once? Well, if you're Ben Bernanke, you appear before the media and state that everything is under control, and that you're monitoring the situation. You give the impression that, just like Goldilocks, the porridge is neither too hot, nor too cold, but just right. You could also quote that great philosopher from Mad Magazine, Alfred E. Newman, who said "What, me worry?" Finally, you could hint at raising interest rates, and also hint at lowering interest rates, in order to placate those who want one or the other.

Alan Greenspan said last week that a recession was possible, not probable. This week, he fine tuned his analysis by saying that there was a one-in-three chance of a recession. Given the latest data, I believe Alan will be upping his odds. When it comes to poor Ben, with the recent data showing the U.S. economy appearing less productive and more inflationary prone, he may have to worry.

The economic data, though being pooh-poohed by the pundits, brings to mind the words stagflation, Jimmy Carter, sweaters, and a difficult stock market environment.
Gee, and we haven't even mentioned the housing market or the carry trade. Maybe next time. Ben will soon, if not already, realize he's between the proverbial rock and a hard place.

What can he do? Beats me. I don't get paid for that decision.

Till next time,

Bill