Basis Points – July 28, 2022

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Above the Fold

The Phillips Curve is Back … Should We Pay Attention?

The Phillips curve is a significant economic model that many economists use to guide their approach to inflation. First proposed by William Phillips in an article from 1958, the Phillips curve was originally used to demonstrate the relationship between wage inflation and unemployment in the UK from 1861 to 1957. At that time, Phillips showed that they have an inverse relationship; when inflation is high, unemployment is low. When inflation is subdued, unemployment is elevated. As inflation has once again risen to the forefront of economic conversation, the Phillips curve is being discussed to help measure our approach to solving these issues.

But an important question we need to ask is how useful is the Phillips curve? Many years have passed since Phillips' article was published, and data since then has shown that reality may not be as neat as the curve would originally like to suggest. One of the biggest areas that it fails in now, is how it contextualizes inflation. The Phillips curve holds a lot more weight when the causes of inflation are demand driven, and if that were the case now, calls for a recession might be more understandable. However, current economic volatility is not notable for naturally increasing or decreasing demand, but rather supply chain disruptions and pandemic-related stimulus.

Unemployment may be down, as the U.S. reports an unemployment rate of around 3.6% (a near 50-year low), but the Phillips curve might suggest, in this instance, that inflation would rise due to decreased demand and income. But unprecedented and unforeseen economic forces, such as COVID-19 and the Russia-Ukraine war, have prompted wide-scale logistical disruptions that have been the main cause of reduced consumption. Here, the Phillips curve could be interpreted to support the idea that unemployment needs to increase (recession scenario) for inflation to be brought back down.

But higher employment is not the cause of many of the current issues plaguing the economy, nor is reduced demand. To approach the current economic climate with the right intent, the Phillips curve may have to, at the very least, be altered to reflect this unique economic reality.

Three Things

Google Joins Other Tech Giants Feeling the Squeeze

Economic pressure is continuing to grow as even bigger firms like Google are beginning to see a downturn in some areas. While Google's parent company Alphabet did experience increased revenue compared to this time last year, they are also reporting the slowest quarterly sales growth in nearly two years. This is largely due to current struggles in the online ad market and that is affecting other big names like Snap Inc., Twitter and others.

GM Halts New Hires on Supply Chain, China and More

GM reports that its net profit fell 40% from around this time last year, and the major factors include trouble in the Chinese market and supply-chain issues. In response to this, GM announced a reduction in discretionary spending and limiting hiring in the near future, to tighten up their budget and save money in the short term. GM's outlook for the year is still positive, however, and they expect to sharply increase production of their vehicles in the second half of the year, as precious chips and other components needed to complete their automobiles will soon be available again.

Walmart Feels Inflation Pressure but Lowers Prices

Walmart is the country's largest retailer but has not been exempt from inflation woes. Back in May, Walmart reported that the current economy had left them with too many goods, due to supply chain issues, as well as reduced spending by consumers. A decision was made to lower prices, in an effort to move more inventory out of their stores, and recoup as much profit as possible. That approach is still being used today, as Walmart announced they expect their profits to fall in the second quarter of the fiscal year but still intend to lower prices.

In the Know

How to Zoom Like President Biden

President Biden was recently diagnosed with COVID-19 and reaffirmed his commitment to serving the people by announcing that he would be completing his duties remotely. While this has surely occurred during previous months of the pandemic, this may have been the first time the President offered a look at his remote office tech setup.

On Friday, July 22, Biden tweeted a picture of himself working at his Zoom station, and it was an impressive sight. Most notable, perhaps, was the appearance of what is known as a Neat Board. If you have ever done work with a Microsoft Surface Hub or used Google's physical Jamboard, then you have an idea of what Neat Board is set to accomplish. Of course, if you wanted a similar presidential setup for yourself, you could expect to pay around $7,200 for this experience.