



Basis Points – February 5, 2019

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Above the Fold

- The Fed is on hold for rate hikes in 2019. The Fed Funds futures market shows an 80 percent chance of no hikes this year, and a 15 percent chance of a rate cut. The market is pricing in only a 5 percent chance of a rate increase this year.
- Could the China/U.S. trade dispute be settled this month? China is pinning its hopes on another meeting between President Trump and Chinese leader Xi Jinping to help solve the trade dispute between the world's two largest economies, as a wide gap remains between U.S. demands and what Beijing is willing to offer. The Chinese delegation is led by China's economic czar who is holding talks with American negotiators in Washington this week. China has proposed to the U.S. that Trump meet with Xi in Asia after his planned summit with the North Korean leader, Kim Jong Un, in late February.
- The Congressional Budget Office has estimated the economic effects of the 35-day government shutdown on GDP growth rates. The CBO found that the annualized growth rate in Q4 2018 dropped by 0.2 points and by 0.4 points in 1Q 2019. The CBO expects a make-up in the second quarter of 2019, lifting annualized GDP by 1.0 points, and by the fourth quarter GDP "will have nearly returned to its path that it would have taken in the absence of a shutdown."

Three Things

- Last Friday brought a very strong jobs report, with more than 304,000 jobs added in January. The unemployment rate ticked up 0.1 points to 4.0 percent, but much of the increase in unemployment was driven by those on temporary layoff, likely workers affected by the government shutdown. The economy has clearly not slowed down, but an important data point below the headline is the real story from the report. Although the unemployment rate remains at a very low level, the U.S. economy is still not operating at full employment. Strong growth continues to draw workers back into the labor force, driving the workforce participation rate higher,

meaning more people are re-entering the workforce after significant time off and are now accounted for in the labor numbers. The labor force participation rate rose to a cycle high of 63.2 percent. Wage growth will remain restrained if people continue to come back into the labor force, so that will restrain inflation as well and lengthen the runway for this long economic expansion.

- 19-year-old Luca Mangiarano's first mistake was robbing an Austin, Texas, bank on Dec. 18. His second mistake was using an electric scooter as his getaway vehicle. The Gen-Z bandit passed a stick-up note to a bank teller and left the bank with an envelope stuffed with \$100 bills. He then climbed aboard his rented Jump electric scooter and made his 15-mile-per-hour getaway. When police reviewed the bank's video footage, they clearly saw a man scooting away from the bank shortly after the robbery. Authorities then served a search warrant to Uber, the owner of the Jump line of scooters. Uber gave police the name, address, credit card information and phone number of the user that rented the scooter on that afternoon, and the police used cell phone GPS coordinates to prove that he was at the bank that day. Luca's digital footprint ended his new career soon after it began.
- CBS News notes that there are thousands of valuable researchers and writers behind the success of internet encyclopedia website Wikipedia, and Steven Pruitt is the king of Wikipedia posts. Pruitt has made nearly 3 million edits on Wikipedia and written 35,000 original articles. His work has earned him not only accolades but almost legendary status on the internet. Pruitt toiled in obscurity in his parents' basement for years, but that changed when Time magazine named him one of the top 25 most influential people on the internet, alongside J.K. Rowling and Kim Kardashian West. The online encyclopedia now boasts more than 5.7 million articles in English and millions more translated into other languages — all written by online volunteers. A full one-third of all English language articles on Wikipedia have been edited by Pruitt. Pulling from books, academic journals and other sources, he spends more than three hours a day researching, editing and writing. Even his day job is research, working in records and information at U.S. Customs and Border Protection. Wikipedia is now one of the top five most visited websites in the world.

Did You Know

There is one thing that the proponents of the new platform of "Let's Kill All the Billionaires" miss is the difference between capital and theoretical value in our financial markets and economy. Just because one person is wealthy does not mean that he or she has taken it from someone else, or that his or her holding of wealth necessarily hurts the economy or the prospects of those with less wealth. For instance, Jeff Bezos, founder of Amazon, is the richest person in the world with a net worth of \$130 billion. If Bezos had \$130 billion in cash that he stacked in a warehouse, then he would, in fact, be sitting on a pile of capital that is not being invested for productive use or the public good.

However, 99.9 percent of Bezos' wealth is accounted for with one line-item on a brokerage statement that reads: 79 million shares of AMZN at \$1,650 per share. This \$130 billion is not actually money in circulation and has never been a part of the U.S. capital stock that has been taken out for his use. Bezos created a company that did not exist before, and the current market value is simply the theoretical value of his ownership stake in Amazon today.

His ownership stake would only convert into capital if he sold his shares and received the proceeds from another investor. Even then, the value of his stake would be its current value, minus X, minus Y. The value of X being the tax he would pay upon sale, and Y would be the large decline in the value of Amazon stock if he ever decided to sell it. Imagine a news item today announcing that Bezos was selling half his Amazon shares. The share price of the stock would lose significant value as investors would worry that he knows something negative regarding the company's prospects and has lost faith in its future value. Therefore, the value of his shares is only worth the full \$130 billion if he never sells them. The \$130 billion worth of his shares is not an actual stockpile of capital that cannot be used by the market or economy, it is only a bookkeeping entry of an estimate of the shares' theoretical value today.