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THE WALL STREET JOURNAL.

Economy

U.S. Jobless Claims Hit Lowest Level Since 1969; Initial claims fall to seasonally adjusted 207,000, lowest since December 1969's 202,000

By Sarah Chaney
413 words
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The Wall Street Journal Online
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WASHINGTON—The number of Americans claiming new unemployment benefits fell last week to the lowest level in nearly five decades.

Initial jobless claims, a proxy for layoffs across the U.S., decreased by 8,000 to a seasonally adjusted 207,000 in the week ended July 14, the Labor Department said Thursday. This marks the lowest level for claims since December 1969, when there were 202,000 applications for unemployment benefits. Economists surveyed by The Wall Street Journal expected 220,000 new claims last week.

Thursday's claims figure underscores a theme playing out for years: Unemployment-benefit applications have remained low, a sign that relatively few Americans are being laid off and seeking assistance in a buoyant U.S. job market.

In June, about 14 initial jobless claims were filed for every 10,000 people in the labor force, Labor Department data show. This compares with prerecession lows of 19 claims filed per 10,000 in April 2000 and 23 claims filed per 10,000 in spring of 1969.

The historically low claims figure could in part represent difficulties with seasonal adjustment of the data around the holidays.

Claims for the July 7 week, which included the Independence Day holiday, were revised to 215,000.

"Claims are being distorted by seasonal problems caused by the July 4 holiday, and the auto makers' annual retooling shutdowns, making the numbers even less predictable than usual," wrote Ian Shepherdson, chief economist at Pantheon Macroeconomics, in a note to clients.

The four-week moving average of claims, which smooths out weekly **volatility**, fell by 2,750 to 220,500 last week.

More broadly, an extremely tight labor market—the June unemployment rate was 4.0%—makes businesses reluctant to let workers go. The availability of jobs, and in some cases better pay, is causing workers to quit their jobs at record levels and is encouraging other Americans to start or restart job searches. Quitters and newcomers to the labor market can be counted as unemployed, but they are not eligible to apply for jobless benefits.

Thursday's report showed the number of claims workers made for longer than a week increased by 8,000 to 1,751,000 in the week ended July 7. The figure, also known as continuing claims, is reported with a one-week lag.

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THE WALL STREET JOURNAL.

Markets

M&A Market Headed for a Record, Powered by Tech Disruption, AT&T Ruling; If the current pace of deals continues, there will be $4.8 trillion worth of mergers and acquisitions in 2018, more than the record set in 2007

By Dana Mattioli and Dana Cimilluca
1,008 words
1 July 2018
12:24 PM
The Wall Street Journal Online
WSJO
English

This M&A market is zooming into record territory, helped along by factors not normally seen as big catalysts for deals: technological disruption and a court decision.

There have been $2.35 trillion of deals announced globally so far in 2018, up 57% from the same period a year earlier, according to Dealogic. Should that pace continue, there would be a total of $4.8 trillion worth of mergers and acquisitions for the full year, beating the prior record of $4.3 trillion set in 2007. (Sign up for our markets newsletter, a premarkets primer packed with news, trends and ideas.)

Like in 2007 and 2015, the second-busiest year by a hair, big deals abound. So far in 2018, there have been 25 mergers valued at $10 billion or more, according to Dealogic. That is a record for the first half of the year, surpassing the prior high-water mark of 20 set in 2007.

The burst of activity comes against the backdrop of an increasingly robust economy, which gives CEOs confidence, the key ingredient for deal making. It also helps that interest rates remain low—and may not stay that way for much longer—and stock prices are hovering near records.

But there is another factor that has become crucial: the rising threat Amazon.com Inc., Netflix Inc. and Silicon Valley giants pose for the biggest companies in industries ranging from media to health care. The rising popularity of streaming-video services from Amazon and Netflix has prompted traditional media companies like Walt Disney Co. to seek combinations that will help them meet the competitive threat. Meanwhile, Amazon has been pushing deeper into health care, helping trigger a scramble for consolidation in that industry.

Disney in June agreed to pay $71.3 billion to purchase entertainment assets from 21st Century Fox, topping earlier offers from Comcast Corp., while Cigna Corp. in March agreed to buy pharmacy-benefit manager Express Scripts Holding Co. for $54 billion. Fox and Wall Street Journal parent News Corp share common ownership.

In another deal with similar overtones, CVS Health Corp. is seeking to complete the acquisition of Aetna Inc. for nearly $70 billion.

"There are a lot of rapidly evolving industries that are being transformed by technology, and that is forcing these companies to look to M&A to improve their competitive and strategic positions," said Kurt Simon, the global chairman of M&A at JPMorgan Chase & Co. who recently advised on AT&T Inc.'s blockbuster purchase of Time Warner Inc.

Such efforts got a shot in the arm when a judge ruled in June that AT&T could proceed with the $80 billion-plus purchase. The U.S. had moved to block the deal on grounds that it would reduce competition in the pay-TV market. AT&T countered that the deal would help it compete more effectively against the technology giants. The ruling is expected to encourage companies that have been considering big, transformative deals to move forward.

"What I took away from that decision is that the courts aren't going to allow U.S. antitrust enforcement to veer from the traditional path, and that they'll take a 21st-century view of the competitive landscape," said Frank Aquila, a partner at Sullivan & Cromwell LLP who has advised many global companies on M&A over the years.

Now that the outcome of the ruling is clear and executives have had time to work out the implications of recent changes to the tax code, the second half of 2018 could be at least as busy as the first, he said.

Not everyone waited for the AT&T-Time Warner ruling to move on deals. Sprint Corp. and T-Mobile US Inc. in April agreed to merge in a roughly $27 billion transaction, the culmination of three attempts in the past four years to combine. Whether that deal, which would bring together the nation's third- and fourth-largest wireless carriers, will pass regulatory muster is far from certain. The companies abandoned an earlier round of talks amid signals from Washington that it wouldn't approve the merger, fearing it would unduly curtail competition in the mobile-phone market.

Of course, the M&A market is notoriously unpredictable and any number of factors could derail the record run. High valuations, for example, can be a double-edged sword. Elevated stock prices often embolden CEOs to make deals, but they also make transactions more expensive, and that can stifle activity. And if market **volatility** persists—or worsens, as a result of trade tension or other political instability, for example—that could also slow the pace. At this point in 2007, there was a bit more activity than there is now and, indeed, some deal makers expect a slowdown in the second half like there was that year.

But even conflict over trade could have a silver lining if it prompts companies to strike deals to rebalance their geographic exposure and bulk up in foreign markets.

"When you talk about trade wars and tariffs, companies deal with that by having as much capability as possible in the markets they serve," said Sullivan's Mr. Aquila.

Deal making in Europe certainly doesn't appear to have taken a hit from recent tension with the U.S. over trade. European merger volume stands at $730 billion so far for the year, up 79% from the comparable period in 2017, according to Dealogic.

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Document WSJO000020180701ee710018h

THE WALL STREET JOURNAL.

Heard on the Street
Markets

NXP Will Be Just Fine on Its Own; Auto chip-maker shares are down, but business is good and will improve as the uncertainty of the NXP-Qualcomm deal fades away.

By Stephen Wilmot
599 words
26 July 2018
01:11 PM
The Wall Street Journal Online
WSJO
English

Qualcomm always needed NXP Semiconductors more than NXP needed Qualcomm. The collapse of the microchip megadeal will hurt hedge funds and challenges Qualcomm's diversification strategy, but the Netherlands-based chip maker can probably thrive on its own.

NXP stock was down 5% at midday Thursday in New York, after Qualcomm abandoned its $44 billion acquisition. Chinese regulators didn't grant approval before Qualcomm's self-imposed deadline late Wednesday. China did sign off on the $49 billion merger of two European companies—Luxottica, maker of Ray-Ban and Oakley shades, and lens company Essilor—which looks like further evidence the regulators' failure to approve the NXP-Qualcomm deal was political.

The immediate losers are the arbitrage hedge funds that piled into NXP. Chief among them is Paul Singer's Elliott Management, NXP's top shareholder, which last year argued the company was worth $135 a share as part of a lobbying drive to extract a higher price from Qualcomm. Now the shares change hands for $93, putting Elliott's losses at an estimated 15%, according to public filings collated by FactSet. Elliott, which could have sold out, declined to comment.

Qualcomm may also be a loser. It needed NXP as a counterbalance to the mature and increasingly litigious mobile-phone chip business, and it now has to pay the company a $2 billion break fee. Even so, its shares rose Thursday on the strength of its $30 billion share-buyback plan and following strong results for its fiscal third quarter. Those results included $500 million from Huawei that was billed as a "good-faith" payment as the two companies work to resolve a dispute over Qualcomm's royalty rates.

NXP, which announced a $5 billion buyback plan of its own, looks to be in a more comfortable strategic position. It is the world leader in microchips for the car industry, a sector undergoing rapid growth as cars gradually become more like computers on wheels.

This business doesn't seem to have lost too much momentum. Automotive revenue grew 7% year on year in the second quarter, and the company thinks this could accelerate as recent project wins feed through. There have been weaknesses elsewhere: The Qualcomm deal damped NXP's relationship with Apple and Samsung, given Qualcomm's legal disputes with the smartphone makers. And last quarter, NXP's networks business was hit hard by the U.S. Commerce Department's ban on shipments to Chinese tech group ZTE. But the core car-chip business that Qualcomm coveted is looking strong.

NXP does face awkward questions about the commitment of its management team. Chief Executive Richard Clemmer sold $400 million of stock last autumn, while former Chief Financial Officer Daniel Durn quit for a rival last July. Mr. Clemmer said he and his team were "fully committed" on a conference call to discuss second-quarter results Thursday, but this may not settle the matter.

Some **volatility** in NXP stock can be expected as arbitrageurs pull out. But this may give patient investors a buying opportunity. The stock now changes hands for 12 times expected earnings; peers in the car-chip business are trading closer to 20 times. After the Qualcomm debacle, there is no obvious buyer for NXP that could get the needed approvals. On it own though, NXP should fetch a higher valuation.

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Big Board Opens Fire On SEC's Fee Study

By Gretchen Morgenson
901 words
12 July 2018
The Wall Street Journal
J
B1
English

The New York Stock Exchange is stirring tension between some of its big listed companies and their largest investors over regulators' efforts to study the controversial practice of assigning fees and rebates to stock trades.

At issue is a Securities and Exchange Commission plan to study the system known as "maker taker," in which exchanges charge fees for some trades and pay rebates on others.

Critics say it can distort brokers' decisions about where to send customer orders, and attracts high-speed traders whose rapid-fire strategies sometimes focus on capturing rebates.

The SEC, through a proposal known as the Transaction Fee Pilot, is seeking to assess how much those fees and rebates affect trading costs, and how they influence which exchanges investors choose to trade their shares, and at what prices.

Both the NYSE and **Nasdaq** Inc. oppose the regulatory proposal, saying it is flawed and doesn't accurately assess costs. If the SEC pilot program results in the elimination of rebates, it could reduce fees that generate significant revenue to the exchange.

In an email last month, the NYSE told its listed companies the proposal "could impact trading in your stock" and urged them to write their own letters arguing against it if they were concerned.

By early July, more than two dozen corporations had written letters to the SEC criticizing the pilot or asking to have their stocks excluded from it.

But many of these same companies' largest investors aren't buying it.

More than three-quarters of companies opposing the pilot program have at least one of their five top institutional investors supporting it, regulatory filings show. These include large investors of Apache Corp., Halliburton Co., Home Depot Inc. and Mastercard Inc.

By following the NYSE's direction, these companies are aligning themselves against some of their biggest investors. Because the NYSE also acts as regulator of its listed companies, it brings considerable leverage when it urges listed companies to oppose a program it is against.

"Corporate issuers are being put in a terrible position," said Tyler Gellasch, executive director of Healthy Markets, an investor-oriented nonprofit organization. "Do I side with my listing exchange or my largest investors?"

A spokesman for the NYSE said in a statement: "We believe this pilot proposal will harm investors, listed companies and the quality of public markets. We've supported our view with substantive analysis and, as a fierce advocate for our listed companies, have shared our concerns with them. We understand, and largely agree, with investor concerns that have led them to support the transaction fee pilot, but do not agree that the pilot actually addresses their concerns."

Officials at companies that oppose the proposal said it would harm their shareholders. Apache, for example, asked the SEC to withdraw the proposal and "use other tools to study the market in a less-impactful manner that does not harm the very investors and issuers that it seeks to serve."

Apache submitted its letter on June 7, well after four of its five top shareholders had expressed support for the program. Those holders -- BlackRock Inc., Davis Selected Advisers, State Street Corp. and Vanguard Group -- together hold nearly one-quarter of Apache's shares.

An Apache official declined to say whether the company had spoken with its shareholders about the program.

At Halliburton, its five largest investors, holding about 27% of its shares, wrote letters supporting the pilot. A Halliburton spokesman didn't respond to a request for comment about whether it had talked with shareholders.

Home Depot's top three shareholders holding nearly 19% of its shares, said they favor the pilot. Isabel Janci, Home Depot's investor-relations chief, wrote the company's letter criticizing the SEC's proposal. She is a former senior director of investor relations at Intercontinental Exchange Inc., which owns the NYSE.

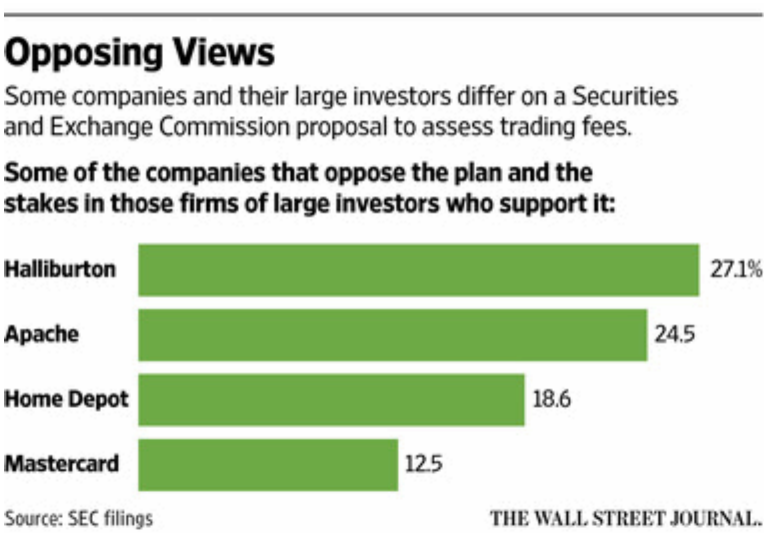
A spokesman for Ms. Janci said her previous role "gives her a unique and well-qualified understanding of how this all works." In an interview, Ms. Janci said she hadn't yet spoken with the shareholders about the SEC pilot. "Because of the complexity of the market and solutions that are proposed I wouldn't say we are diametrically opposed to our investors," she said. "We all agree that market structure reform is needed."

Janet McGinness, corporate secretary at Mastercard, also wrote in opposition to the transaction pilot. The company's two top outside shareholders are BlackRock and Vanguard, holding 12.5% of Mastercard's stock.

Ms. McGinness was corporate secretary and general counsel at the NYSE from 2006 to 2014 according to her LinkedIn profile. A spokesman for Ms. McGinness declined to say whether that association shaped her opposition to the SEC pilot.

The SEC issued the proposal in March, saying the results of the two-year pilot would "facilitate a data-driven evaluation of the need for regulatory action in this area." The commission asked market participants for their views. As of early July, the SEC had received more than 100 comment letters.

Institutional investors overseeing more than $8 trillion in assets have written in support of the pilot. They include BlackRock, Fidelity Investments Inc., State Street and Vanguard, and public pensions such as the California Public Employees' Retirement System and the State of Wisconsin Investment Board. Citigroup Inc. also backs it.



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Business & Finance
What's News

Business & Finance

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13 July 2018
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A1
English

The Justice Department is trying to undo AT&T's purchase of Time Warner, appealing the ruling that struck down the government's antitrust challenge.

U.S. inflation hit its highest rate in more than six years, with consumer prices eating away at modest wage gains by American workers.

Powell said a strong economy should keep the Fed's rate plans on track and it was premature to judge how trade actions might alter them.

Delta said it will increase fares and add fewer flights than planned, as airlines face a surge in fuel prices.

Walmart is talking to Capital One about taking over its store credit card, potentially shutting out Synchrony as the retailer's sole issuer.

The SEC is investigating whether Facebook adequately warned investors about lapses involving third-party access to users' data.

U.S. stocks rose, led by surging technology shares. The **Nasdaq** closed at a record and the Dow gained 224.44 points to 24924.89.

Activist investors are launching campaigns to pressure companies at a record pace, even as stock prices make big strides.

The U.K. government said it won't oppose a bid by Fox to consolidate ownership of Sky, as the company battles it out with Comcast.

J&J was ordered by a jury to pay $4.7 billion to 22 women and their families who blamed cancer cases on asbestos in its baby powder.

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THE WALL STREET JOURNAL.

Markets

Citigroup Earnings Lifted by Growing Loans; New York bank's trading revenue falls about 1% in latest quarter; per-share earnings beat analysts' expectations

By Christina Rexrode
747 words
13 July 2018
04:58 PM
The Wall Street Journal Online
WSJO
English

Citigroup Inc. said Friday its second-quarter profit rose 16%, boosted by growing loans and flat expenses.

Quarterly profit at the New York-based bank was $4.49 billion, up from $3.87 billion a year earlier. Per-share earnings were $1.63. Analysts had expected $1.56 per share.

Revenue rose 2% from a year ago to $18.47 billion. Analysts had expected $18.51 billion.

Citigroup does business around the world. Chief Financial Officer John Gerspach said in a call with reporters that trade disputes have dampened the overall market, but haven't affected the bank.

That is partly because Citigroup helps companies trading throughout the world, not just those trading with the U.S. or based in the U.S. Mr. Gerspach said the bank has seen a big pickup in trade flowing between Asian countries, including China trading with South Korea.

"It's certainly had some impact in the overall feeling in the market, it's created some uncertainty, so I do think it's probably had some impact on people making decisions," Mr. Gerspach said, referring to trade and tariff disputes. "But from an overall business point of view we haven't seen that impact as of yet."

On a call with analysts, Chief Executive Michael Corbat was asked about the bank's large presence in emerging-market countries. He replied that the bank works with multinational companies in those markets, and that those clients would be able to realign their supply chains and trade routes if needed.

Second-quarter trading revenue fell about 1% from a year ago, to $3.94 billion. Mr. Gerspach said last month that trading revenue would be roughly flat in the second quarter.

Fixed-income trading was down 6%. The smaller equities trading unit, which Citigroup has been expanding, was up 19%. Mr. Gerspach said the decline in fixed-income trading came from a drop in spread products concentrated in the U.S.

JPMorgan Chase & Co., which also reported earnings Friday, increased trading revenue by 13%, growing both fixed-income and equities trading.

Citigroup's shares fell 2.2%, more than the decrease at other big banks Friday, and are down about 10% this year, more than the 2% decline in the KBW**Nasdaq** bank index. On a call with analysts, bank executives fielded multiple questions about its efficiency goals.

Citigroup's efficiency ratio, or expenses as a percentage of revenue, for the year so far is about 58%, but it has ambitious goals for improvement: The bank wants to push the ratio to 57% for the full year, and to the low 50s by 2020. Bank executives expressed confidence that they could do both.

Shares for most big banks have been hurt by concerns that the Trump administration's trade tariffs and protectionist tone could crimp the economy.

Citigroup's backbone is the Treasury and Trade Solutions unit, which does back-office work for governments and companies that operate in multiple countries. So far, though, that unit continues to grow: Revenue rose 11% from a year ago.

Total loans were up 4%, driven by an increase in corporate loans. Citigroup's credit costs increased, which the bank said was due to loan growth and normal trends in consumer loans.

Total operating expenses were roughly flat. Citigroup cut spending on advertising and marketing but increased spending on technology and communication.

Citigroup and other banks have been helped by last year's tax law that slashed the corporate tax rate to 21% from 35%. Citigroup said its effective tax rate during the second quarter was 24%, down from 32% a year ago.

Activist investor ValueAct Capital Partners LP told its investors recently that it had bought a stake in Citigroup. So far, ValueAct hasn't called for significant strategic changes, and it has told its investors it supports Mr. Corbat.

Write to Christina Rexrode at christina.rexrode@wsj.com

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Document WSJO000020180713ee7d001up

WSJ PRO CENTRAL BANKING

Economy
Transcript: Town Hall Q&A With Atlanta Fed's Raphael Bostic in Virginia; Official discusses demographic and productivity challenges and the outlook for inflation and interest rates

5,193 words
16 July 2018
12:27 PM
WSJ Pro Central Banking
RSTPROCB
English

Federal Reserve Bank of Atlanta President Raphael Bostic answered questions during a town hall chat in Falls Church, Va., on Friday, July 13, 2018. He talked about demographic and productivity challenges in the U.S., the labor market, and the outlook for inflation and interest rates. Here is a transcript of the exchange, lightly edited for clarity and length.

RAPHAEL BOSTIC: [event in progress] ... I think debt in and of itself is not a bad thing. But I would assume every one of us has gone into debt to do something. And at the time we did it, we thought that was a good idea. We were trying to accomplish something to get us to a better place down the road. We didn't have enough cash on hand to do it, so we went into debt to accomplish that.

So to me, debt in and of itself isn't the issue. The issue is what are you going into debt for. And what kind – you talk about risk versus return. What kind of risk are you exposing yourself to, and are you sufficiently positioned to be resilient if those risks are realized. All right, so when we think about the federal government, to start. We just had this tax overhaul and the increase in new spending, all right? And there are different estimates about how much of a deficit this is going to cause, how much is it going to add to the debt. But suffice to say, it's large, all right?

That could be a reasonable investment if the proceeds from that generated economic growth such that there was a new trajectory for earnings for workers and a new trajectory for [gross domestic product], so that the economy was much, much larger after than it was before, all right? So what we're doing – now, the question is, is that really happening? That's actually – when you look at reality, what's happen? So we – right now, we are asking. We're asking businesses: What are you doing with your windfall from lower tax rates? We're looking for evidence that consumers are spending in a different way and on different things, all right?

Today, we are not seeing – and let me say, many options that businesses have. They could invest in new technology. They could increase wages. They could do spot bonuses. They can pay down debt that they may have. They can buy back stocks. There are lots of different things they could do. So what we're doing now is canvassing our business contacts to say: What are you doing, all right? And the thing that would be most promising from the perspective of getting to a new trajectory would be investing in capital such that you can be more productive, and you can get more product out of it at a lower cost point – reducing inefficiencies and doing all that kind of stuff.

So we look a lot at capital expenditures and what's happening in that space. So we actually have a survey – a business expenditure survey that we do with businesses. And we asked them: So, given the tax overhaul, have you changed your cap expenditure plans for 2018? Seventy-five percent said no. And then – so then we thought, well, you know, it just happened new. So maybe 2018, is not the right question, because they've already got things in the pipeline. So 2019. Seventy-five percent of them said no. So then we asked, so what's going on? And that's where the messages get kind of mixed.

So when we talk to very large companies, what they tell us is that, you know, we are large. You know, so Delta's going to do a $10 billion capital plan, right? They're not – and it's a five- to seven-year plan, not like a two-year plan. And they're in year four of a seven-year plan that billions – they're not going to – this is not going to cause them to change, all right, because there's too much that's already – there's too much momentum that's already going in that space.

And so it may be that the effects of this in that space may take a long, long time to be realized, which then means all the accounting that you do about it, is it a net positive or a net negative? You guys know a lot more about this than I do. But when the revenues hit matters for your assessment of the net. So we're actually trying to figure – so, the short answer is we're trying to figure this out on the business side. The consumer side is quite interesting, because we have not seen a really large ramp up in consumer spending. Right, it's positive. There's been growth that's been consistent with the long-run trajectory that we've seen of this expansion, plus the government spending that's happened more recently.

But we haven't seen sort of this explosion of growth. So when you – so we do forecasts of the economy's performance. Before the crisis, before the tax reform and the increased spending deal, we were projecting that growth this year would be about 1.9 percent GDP. We've bumped that up to about 2.6 percent because of all the stimulus that's happened, right? When you look at the – first quarter came in about 2 percent. This quarter it looks like it's going to be about 3.8. Three-point-eight is higher than what we expected. In part, I think it's because we're seeing some forward spend in the tariff space to try to beat the tariffs. And so we think the next two quarters are not going to be at 3.8. They're going to be much lower. And we'll get somewhere close to what we expect...

Q: I have a question. On – I heard lately that there's a labor shortage...Is it because of the immigration policy? Or is it because of less children are born? This is when?

MR. BOSTIC: For a long time.

Q: Yeah.

MR. BOSTIC: So the question is, do we have a labor shortage?

Q: That's what I've heard.

MR. BOSTIC: Yeah, I've heard people say that too. (Laughter.) It's complicated. So here's what I would say. We know that for some sectors and some professions, there aren't enough workers. We know that there's a tremendous shortage of nurses in this country. We know there's a tremendous shortage of truckers in this country. We know we don't have enough engineers to fill. And in those sectors that have long-term and well-known shortages, you see incredible wage pressure. You see incredible tightness. You see poaching across companies. You see all those sorts of things.

We have not seen that more broadly in the overall economy, all right? So you guys listen – watch CNBC, any of those sorts of things, you know that everybody talks about tepid wage growth. Why aren't wages growing faster? Wage growth is a sign of tightness in the labor market, right? If you don't have enough workers, then you got to pay more – or, you should try to pay more to attract them. So we're not seeing that. Then maybe there is not a shortage of workers. Maybe there is some slack in the marketplace such that there's still more runway to go before you get to that.

There's a huge debate going on on exactly this question, because the unemployment numbers and the wage numbers are significant. The unemployment numbers would suggest that there's clearly a shortage. And I'm told the natural rate is somewhere – I think the Fed's public projection on this is 4.8 [percent], which I think is too high, but it's 4.8. We're at 4.0. All right, so that's way below the natural rate. We should be seeing wages running wild. But we're not seeing that, right? So if you want to anchor on the unemployment rate, then you got to say, OK, we should expect there's a shortage of workers. But then you'd look at the wage numbers – (inaudible).

And when I talk to employers, I'm like, do you have a shortage of workers? They say, yeah, yeah. And I said, well, are you raising wages? They say no. And I'm like, well, how can you have both?

Q: Say there's a shortage if you're not –

MR. BOSTIC: Right? If you have a shortage and you're not raising wages, what's going on? And they're like, well, we don't really feel like we need to, and this is another thing. So it has not gotten acute, or sufficiently acute, to where you're seeing this present itself in the marketplace.

Now, you touched on two – on one other thing that I did want to mention. We have a demographic problem. So Americans are not having babies at the rate that they were before. And we've got a large group of people who are about to retire, right? And we call that the demographic dynamic. And the demographic dynamic would suggest that our labor-force participation is going to go down just naturally. If more people retire than are added to the labor force, then you got fewer people to work, right? If you don't have enough people to work, then it's hard to see how the economy is going to grow a lot faster, unless you get tremendous increases in productivity.

And if you look at the productivity numbers, they've been low. They've been low for a while, right? So we are getting to a place where the demographics are going to put a ceiling on how fast this economy can grow, right? So what's our response. So one of my colleagues, Neel Kashkari, he's the president in Minneapolis, he said you got two options: One, we can subsidize childbearing. We can pay people to have babies. (Laughter.)

Q: Well, better benefits.

Q: Is he serious?

MR. BOSTIC: He's serious. Yeah. Yeah, absolutely.

Q: Free child care.

Q: Yeah, better benefits for –

MR. BOSTIC: The second thing you can do is promote immigration, get workers from somewhere else.

Q: Yes. But we don't do that now.

MR. BOSTIC: We're going to talk about it.

Q: OK. (Laughter.)

MR. BOSTIC: And what Neel says – and I think this is just math, right – if the number of people working is going down, that puts a ceiling on what you can produce. If we want to produce more, we got to find more people somewhere, right? And he does not say – and Neel is good about this, he's clever about it. Well, he is actually more pointed than I would be. This is a political decision, right? We got to decide, are we going to allow the ceiling to just be what it is? Are we going to subsidize people having kids? Or are we going to promote immigration?

Q: Or be Japan, and watch the economy just decrease.

MR. BOSTIC: That's the ceiling. That's the demographic ceiling.

Q: Yeah, that's the ceiling.

MR. BOSTIC: And that's just the math.

Q: Or leave it up to individual companies. I guess that's the ceiling as well.

MR. BOSTIC: OK. That's the ceiling.

Q: My point is, an individual company can offer an extraordinary benefit to attract workers.

MR. BOSTIC: But that's just leaving it – that is an ad hoc approach.

Q: Right.

MR. BOSTIC: All right? So we can decide if we want something where the system is promoting broad values, or we're going to let companies have ad hoc approaches to this and hope that – and then we collectively hope that it all adds up to what we need it to be.

Q: Well, this is our boat – (inaudible) – the fact that our generation has – (inaudible).

MR. BOSTIC: Well, that may not be known. This is well known, right? So one thing – demographics – it's easy to tell the demographic trends. They don't just pop up on you. Like, one day we know – (laughter) – and we know – and we're going to – (inaudible) – you're closer to retirement. This is not rocket science. This does not take a lot of sophisticated analysis. But so demographics, I think, it's hard to imagine them as a focusing event because it – I mean, people were talking about this in 1990 because they just did the math. Like, this is how many kids are we having, how big is this generation, when are they all going to retire? There's going to be an explosion in 2021.

And they – because you just do it. Like, one of the guys I work with, his name is Dowell Myers, he's a professor at USC. He does a lot of – a lot of demographic analysis. For California, he did a book called "Immigrants and Boomers." And it was all about the housing market. And it was about how the baby boomers were shortsighted – and he wouldn't say it like this – but were shortsighted because they wouldn't invest in education for immigrants. And they were shortsighted because when they want to sell their house, which is going to be their entire nest egg, they need someone with enough income to buy it at the price they want to sell it for. So you got to invest in those people. That was his message.

Right? So this is all about the demographic space. This is all about how our arcs of generations are going to go, right? So when we think about immigration, we think about it in that context. We do, because we're about long-run, sustainable economic performance, right? And so what we decide collectively in immigration translates directly to what our maximum productive economy can be.

Q: So what would you recommend in how they choose? (Laughter.)

MR. BOSTIC: So I – they have to choose. You know, once they choose, they can tell me what they choose, and then we will operate monetary policy according to that.

Yeah.

Q: So, but to bring it – to bring it back full circle, how does the automation and the technology changes that are happening at such a rapid pace affect the demographic ceiling that you're talking about? Because you can produce more with automation and technology. You know, they've got to interplay somewhere in there.

MR. BOSTIC: So, yeah, this is a conversation that I have pretty much every day. (Laughter.) Because there's a puzzle here. All right, so, you know, we talked about the gig economy and more efficiency in the marketplace. The more efficient use of resources, blah, blah, blah, right? And if you talk to most business leaders, they will tell you that they are investing a ton in technology in their businesses to make every worker more efficient and to get every minute in the workplace more effective – blah, blah, blah.

You look at their productivity numbers, they aren't going anywhere, right? So what's going on? I mean, they're making all these investments. We see it in the gig economy, you know, why is it not showing up in productivity numbers? Right? And so I've been working on this. We've been thinking about this. There are a number of possibilities. One is that, you know, the business is just wrong. They're not investing that smart, you know, this stuff is not really making anybody more productive. I don't believe that, so I don't think that's really right.

A second is that it takes a while for, when technology has been introduced, for the economy to really understand how to use it most effectively. And many of these things have just been introduced not long ago enough for us to have figured out how to use it. There is some truth to that. I mean, you think about the desktop computer. Right? It took a long time for the desktop computer to show up in our productivity numbers.

A third argument is that we're just mismeasuring productivity today, the world is different. Like, when you have your phone, like, and now you can take pictures and do all this sort of stuff that you couldn't do before, like, that doesn't show up as productivity. And it could be different and it could be material.

A fourth thing – and this is one I've been pushing on – is that, while we've seen all these benefits in the productivity space, we also have a lot of new costs. Right? So I've been – so we have a lot more regulatory compliance coming out of the crisis. There is a lot of stuff that we now want to pay attention to that we didn't want to pay attention to before. Businesses are spending a ton on cybersecurity, like, a ton, and that was a line item that was zero 12 years ago. Right?

And so productivity is how much you produce at a given cost. So if we've got new costs, right, that's going to eat away at productivity as well. Right? So I'll try to parcel this out, like, how much is in each of the pieces. That's where – that's where academic economists are working right now, to try to understand, like, all these different dynamics. Because on some level, they're all true, but it's just a question of, how much of it – which ones are the big-ticket items? Are they all weighted the same? And that's how we get a deeper understanding of how the economy works. But it's a – it's a puzzle.

Q: You know, going back to the demographics and the aging population – we heard about Japan – but this is a global thing, this is systemic. This isn't isolated to just the United States. So how are other central banks or countries dealing with this or addressing this also?

MR. BOSTIC: Well, central banks do not address this at all – are we talking about it? We talked a little bit. Remember, you guys have a demographic issue. But we don't have tools to change immigration law. We don't have tools to promote, you know, larger families or whatever is necessary.

Q: Well, policy input. Let's say that.

MR. BOSTIC: Oh, no, we don't – no, no. (Laughter.) No. No.

So we have two mandates, right? Maximum employment and the price level. We do not have mandates to manage the immigration rate, you know, so –

Q: That's what I'm saying.

MR. BOSTIC: So the – so the way I approach policy is I take the policy environment as a given and then try to maximize performance given that given. Right? And if people want to say, OK, what can we do? I'll say you can move these eight levers to get us to a different place, but it's not – I have not been authorized to make recommendations on weighting across the levers. That's not my job. Right?

And one thing – and it's important that we keep that wall. We're an independent organization, right? And if people believed that we were starting to take on mandates that we hadn't been given, there is going to be less comfort with us being independent. Right? And so we are very careful.

And any Fed speaker, they do not and I'm not going to go beyond saying these are important issues that someone needs to figure out. And once you figure it out, we'll manage our stuff to maximum effect. But we're very – I want us to be very careful about staying in our space. These things affect what success will look like, but it's not for us to determine.

Q: Yeah. So on stable prices, the [consumer-price index] is 2.9 [percent] at the end of June, it was 2.1 in December. Can you address the stable price part of your mandate, because it seems like prices are going up? And how is that going to affect employment and people's spending?

MR. BOSTIC: OK. So prices are starting to rise faster, that's true. Let me say a couple of things on this.

First, you know, when we have a target, you know, the target is a symmetrical target, right? So when you think – when I think about target, we have a 2 percent target. And there's going to be some narrow band around that 2 percent that if it's, like, 2.1, that's pretty much 2 or if it's 1.9, that's pretty much 2.

I don't want anyone to be – to leave here with an illusion that we think we have that much control, that we can control things to decimal-place precision. This is about momentum. This is a huge economy; there's tremendous momentum and we're going to be operating in a general space. All right?

So we just hit 2.0 for the first time in seven years. If it goes a little above 2.0, that's not going to trouble me. Right?

Q: What about 2.9?

MR. BOSTIC: So 2.9 is one estimate, right? And if you looked at the inflation numbers, they bounce. Right? There is a lot of **volatility** in those month to month. So I – so I look at these numbers are sort of a general trend and then if we get, like, five 2.9s in a row, then maybe we're at 2.9. Right? But we have one 2.9.

So we even had a 1.4 and it was – for one month – and it was driven largely by a battle between telecommunications firms and cellphones. They were having a fare war, a price war and it dragged a whole bunch of stuff down. And then they stopped. Right? So it was 1.4 for one month and then it went back.

Two-point-nine, so what's happening? What's happened in oil recently? I mean, there are lots of, like, idiosyncratic dynamics. But one thing we do and we are watching very closely is what's happening in the tariff space, right, because tariffs is basically just a cost, an increment added on top of whatever price people wanted to pay. And that may translate into a much higher rate of inflation.

So some data came up earlier this week about washing machines. You guys didn't see this data?

Q: Yes, we did.

MR. BOSTIC: So the washing machine prices are up, they're up faster than they've ever risen in history and in our tracking. Now, why is that interesting? Because we put tariffs on washing machines as well, right?

And so one thing that I think about the tariff dynamic is that a tariff gets hit and it doesn't show up in the marketplace immediately. They're going to get to the consumer market with some amount of lag. I mean, the producers are already producing now, they've got stuff, they're producing it. The cost basis for the things that are in plant now haven't changed. It's when they get the new materials in, that next batch of things that comes out, that's being produced at a different cost basis. Right? And it's going to take some time for that stuff to flow through into the marketplace.

And so Christmastime should be more interesting in thinking about these costs, you know? (Laughter.) Five, six months from now, you know, many of the – like, so a bunch of tariffs just went into place, what, July 2nd, July 1st, something like that.

Q: (Inaudible.) Do your Christmas shopping now.

MR. BOSTIC: Christmas shopping now, yes, yes. (Laughter.) That might be it.

Q: Christmas in July.

Q: But is it making people buy American instead of buying foreign? Or you have – I'm sure you analyze this.

MR. BOSTIC: So it is too early to tell. It is too early to tell.

The businesspeople I talk to are nervous because most of them have built their business plan based on existing supply chains and existing cost basis. And they are all potentially going to be different five months, two months from now, and nobody knows exactly where this is going to wind up. And so that uncertainty has implications as well for businesses willing to invest, right?

So if you don't know what the rules are going to be two years from now, how do you know whether it makes sense to build a new plant or to add a shift or to invest in some new research and development? You just don't.

So we're seeing increasingly – businesses tell us we're just going to wait for all this to play out. And then once they do it, we're not going to do anything different, we're going to sit tight and let the world work the way it does.

But that has implications for all that we're talking about in terms of the likelihood that the economy gets to a different ramp point because you don't see those investments. You know, the productivity we've got today is what we're going to have. Right? And so, you know, these hit all things we're thinking about and it's very complicated.

I think we'll do one more.

Q: The federal government debt level is higher than it's ever been. I was wondering if you could share your views on that.

MR. BOSTIC: ... So, you know, before I took this job, I was a professor at USC. And I taught a class called Real Estate Market Analysis and we did a whole bunch on macroeconomics.

And I put up a table – and I should start traveling with this table because it showed the debt as a percentage of GDP for a bunch of countries. Right? And you had the United States was somewhere in the middle. I think Italy and Greece were way high. And then Russia was really low.

And then I asked everyone in the room, would you rather invest in Russia or the United States? Do you think the Russian economy is healthier and in a better position or the U.S. economy? Right?

And my only point is, not to say that debt is not something we should worry about, but that debt is just one point in a larger story about what's happening and what we are willing or unwilling to do. Right?

And so, is there a point at which it could become unsustainable? Sure. And with the demographic flow that we discussed earlier, the burden of that debt is going to grow over time. That's what we know with the demographics. Right?

So the question is, what are we going to do to respond to that to make that burden not become debilitating? Right? So that's the discussion I think policy makers need to focus on as they start to understand better how the economy is responding to the stimulus that just went in and really asking, is the stimulus going to get us to a permanent new trajectory whereby we may be able to run ourselves out and that debt burden will actually go down, or is it such that, you know we're actually just kind of piling on extra burden that can become increasingly unsustainable as the demographics shift? Right?

But it's – we should be thinking about it, but we also need to see what the response is. Right? Which is why, you know, I spend a lot of time just talking to people, trying to see what they're doing in response to the debt that we're taking on.

Q: Do you think that we will see an increase in the interest rate between now and the end of the year? (Laughter.)

Q: OK, so — (laughter)

MR. BOSTIC: We're not in blackout. So what happens is that, you know, there's a set schedule for [Federal Open Market Committee] meetings. The two weeks before that, we're not allowed to say anything about the economy and whether it's going up or going down. Yeah, we're not in that period now, so I can say whatever I want to say. (Laughter.)

What I would say – so coming in 2019, our team forecast –and I was comfortable with two increases in 2018 – with the stimulus, the economy is going to work faster. I bumped that up to three. Right? I'm still at three.

Q: We've had two, right?

MR. BOSTIC: And we've had two. And so math would tell us – (laughter) – that there would be one. So I would be in favor of one more as things currently stand.

Now, the only thing I – you know, let me – let me put one little piece of color on that. We have projections about how the economy is going to perform through the year. Right? So if the economy performs at that level, then I would be comfortable with three. If we see data that's coming in that suggests the economy is coming in a lot stronger than that, then I may be OK with four. If we have data come in that says it's coming a lot weaker than that, then I would be comfortable with two. Right?

So we have – we have a model, we have expectations. But we're going to let, I'm going to let the data and reality guide what we actually do. Right? So I think about three as my baseline based on trajectory of economic performance. If that performance deviates a lot from what we expected – and that's possible; I don't know what's going to happen in two months from now – then the prudent course may be something totally different. Right?

So just as you think about what we're going to do, be mindful about, like, what did the Fed expect over the course of the year? And is this coming in hotter or colder than that when thinking about the likelihood of action?

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