# Phillips Curve Is Not Even Wrong

***e*Research Corporation** is pleased to provide a weekly commentary, authored by Tom McClellan, entitled "The McClellan Chart-In-Focus", which is a free technical analysis article published each week.

In this article, Mr. McClellan examines the relationship between unemployment and inflation.

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## The McClellan Chart-In-Focus

by Tom McClellan (bio at end)

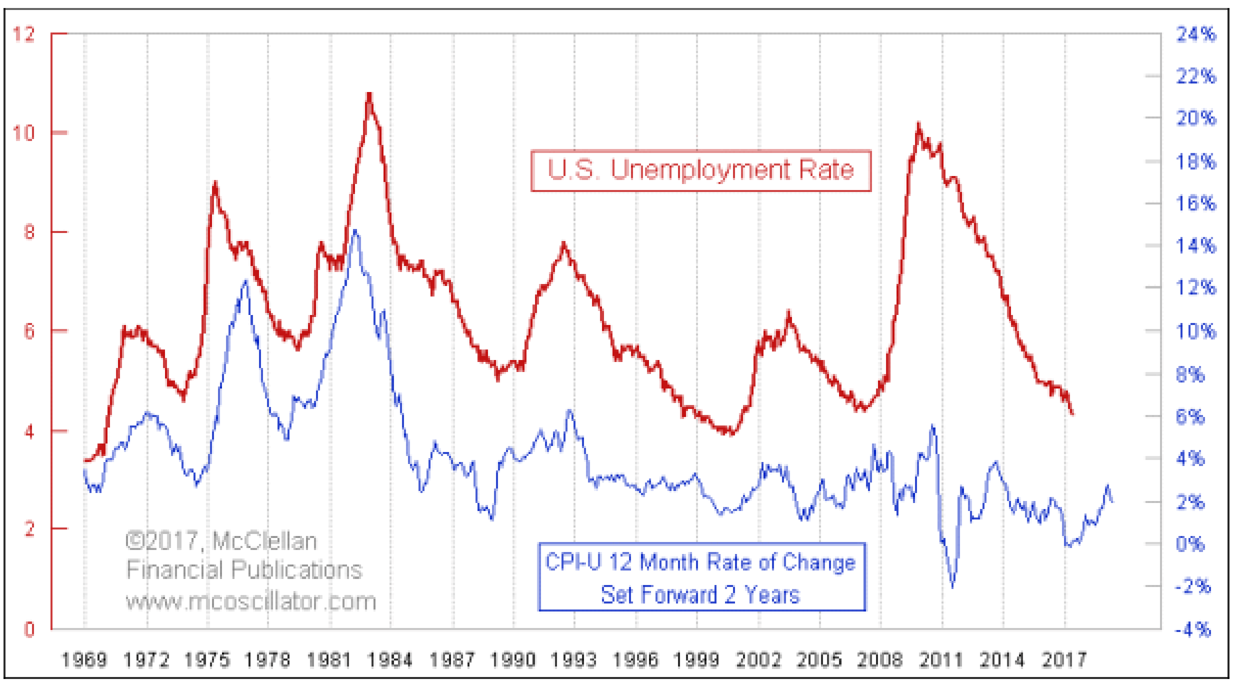
### Phillips Curve Is Not Even Wrong

To paraphrase Wolfgang Pauli, the whole idea behind the Phillips Curve is "not even wrong".

A.W.H. Phillips studied the relationship between inflation and unemployment in the United Kingdom, and noticed that they were usually moving in opposite directions. He therefore theorized that when unemployment is low (and it is hard to find workers), prices of things rise because employers have to pay more to hire qualified employees. That led 2-3 generations of economists to undertake an effort to determine what is the exact trade-off between inflation and unemployment, thinking that if a government or central bank changed one factor, there would be an equal and opposite reaction in the other factor.

The problem is that neither Dr. Phillips nor the generations who came after him understood the real relationship. It is not one of opposition, but rather of lead-lag.

In the chart below, the plot of the CPI-U Inflation rate is shifted forward by 2 years (24 months) to reveal how the U.S. unemployment rate follows in the same footsteps. That is important because the inflation rate bottomed in early 2015, and so the echo of that bottom is coming due right now for the unemployment rate.




This is not a perfect relationship, though. Sometimes exogenous events put a thumb on the scale. We saw that especially in 2008, when the commodities bubble sent the inflation rate up to an unnatural high, which was followed by a crash of equal magnitude to the downside. Two years later, the unemployment rate did not exactly match those dance steps. But after a few months, the relationship got back into step again.

The CPI-U inflation rate rose from the low in April 2015 to its high in February 2017. Add two years to those dates, and we get a low for unemployment due in roughly May 2017 and a high in February 2019. But it does not appear to be as big of a rise as some of those we have seen in the past, so don't worry too much. But do brush up your résumé.

Tom McClellan

Editor, The McClellan Market Report

**BW: Information on Tom McClellan and *The McClellan Market Report* and *The Daily Edition* follows below.**

## ABOUT THE AUTHOR

### Tom McClellan

Tom McClellan has done extensive analytical spreadsheet development for the stock and commodities markets, including the synthesizing of the four-year Presidential Cycle Pattern. He has fine-tuned the rules for inter-relationships between financial markets to provide leading indications for important market and economic data.

Tom is a graduate of the U.S. Military Academy at West Point, where he studied aerospace engineering, and he served as an Army helicopter pilot for 11 years. He began his own study of market technical analysis while still in the Army, and discovered ways to expand the use of certain indicators to forecast future market turning points.

Tom views the movements of prices in the financial market through the eyes of an engineer, which allows him to focus on what the data really say rather than interpreting events according to the same "conventional wisdom" used by other analysts.

In 1993, he left the Army to join his father in pursuing a new career doing this type of analysis. Tom and his Father spent the next two years refining their analysis techniques and laying groundwork.

In April 1995 they launched their newsletter, The McClellan Market Report, an 8-page report covering the stock, bond, and gold markets, which is published twice a month. They utilize the unique indicators they have developed to present their view of the market's structure as well as their forecasts for future trend direction and the timing of turning points.

A Daily Edition was added in February 1998 to give subscribers daily updates on their indicators and also provide market position indications for stocks, bonds, and gold. Their subscribers range from individual investors to professional fund managers. Tom serves as editor of both publications, and runs the newsletter business from its location in Lakewood, WA.

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