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**Baron Point Research**  
**BLS Employment Report, Recession Watch, Inflation, and the Fed**  
**Summer Edition**  
**July 11, 2022**

Baron Point issue research describing current intermediate term trends and topics we find interesting. This research is intended to complement the regular Monthly Fact Sheets which include our monthly return updates.

A summary table of contents is shown below. **If you have any comments please feel free to email us at [info@baronpoint.com](mailto:info@baronpoint.com) or call +1 (212) 248-2733 x701.**

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## **BLS Employment Report, Recession Watch, Inflation, and the Fed**

Baron Point Financial with the Curmudgeon

### **Proviso**

I do not trust or use any data from the U.S. government, including agencies (e.g., the BLS, BEA, etc), affiliates or even the institutions that are potentially influenced by the government's power. Instead, I do my own deep due diligence for "investment" purposes only. That involves analysis of original source documentation with verification from credible sources.

### **Discussion**

A case in point are the three credit rating companies (S&P, Moody's, and Fitch) that in 2008 gave AAA ratings to pools of mortgage-backed securities before they went bust. Can anyone forget the "**mortgage meltdown?**"

A more recent example of U.S. government deception was Friday's nonfarm payroll report. The BLS stated that there were 372,000 new jobs created in June 2022 SEASONALLY ADJUSTED (SA) with an unemployment rate of 3.6%. But did anyone tell you that the number of people in the labor force declined by 353,000?

Analysts are citing the "strong jobs numbers" to permit the Fed to increase Fed Funds Rate 75 bps at their July 27<sup>th</sup> FOMC meeting with further outside rate hikes at subsequent meetings. The Fed Funds futures market projects a 92.4% probability of a 75bps rate hike and a 7.6% probability of a **full percentage point increase** (vs 0% one week ago). Wow!



## **Analysis of June BLS Employment Report**

The total jobs created for the first half of 2022 reported as **Seasonally Adjusted** was +2,740,000 or +456,000 average per month. In contrast, the Non-Seasonally Adjusted (NSA) non-farm payroll data was +2,340,000. After deducting (the not seasonal adjusted) **Birth Death Model (BDM)** of (682,000) for a net +1,658,000 total jobs added or a net average of 276,000 average jobs created per month. Therefore, the headline (SA) number of 1<sup>st</sup> half 2022 jobs created is 1.65 times the **NSA not including the BDM**. That's quite a contrast!

The BLS employment data is “**seasonally adjusted**” to show what they want the public to believe which provides the rationale for the Fed to execute the monetary policy they desire.

The **BLS reported** on Friday (emphasis added): “The labor force participation rate was 62.2%, while the employment-population ratio was 59.9%. Both measures remain **below** their pre-pandemic February 2020 values. The **number of persons not in the labor force who currently want a job** was essentially unchanged at 5.7 million in June. This measure is **above** its February 2020 level of 5.0 million. These individuals were not counted as unemployed because they were not actively looking for work during the 4 weeks preceding the survey or were unavailable to take a job.”

However, the BLS does not openly state the **total number of people who are not counted as part of the labor force**. You have to search for the “**U.S. inactive labor force: seasonally unadjusted monthly number May 2022.**”

In May 2022, the inactive labor force amounted to about 99.52 million people in the United States. Labor Force measures are based on the civilian non-institutional population 16 years old and over. So, 99.52 million people are not working and not counted due to the criteria the BLS creates!



**Monthly number of inactive labor force of the United States from May 2021 to May 2022 (in millions, not seasonally adjusted)**



In summary, the BLS makes and changes the job number rules to make the U.S. economy look better than it actually is. The BLS is composed of 12 people, almost all academics, that effects the lives of 334.8 million people living in the U.S.



### Shadowstats' John Williams Comments

- Headline June 2022 Payroll Employment still held a half-million jobs shy of recovering Pre-Pandemic levels.
- Payrolls also held shy by about 3.9% (-3.9%) or by 6.1 (-6.1) million jobs of where they would be, had the U.S. economy continued its relatively stable trends in place before the externally driven Pandemic shut it down.
- How can the U.S. Economy be fully “Recovered” and booming, as so heavily touted by the Federal Reserve in its hiking of Interest Rates, given the headline contraction in First-Quarter 2022 GDP, along with early indications for a contraction in Second-Quarter 2022 GDP?
- In context of a continuing shift of headline discouraged workers from headline U.6 unemployment into the nether world of long-term discouraged/ displaced workers, who are not “tracked” by the Bureau of Labor Statistics (BLS), but who are included in the ShadowStats Alternate Unemployment estimate, the headline June 2022 U.3 Unemployment Rate held steady at 3.6% for the fourth month, with the broader U.6 easing to 6.7% in June from 7.1% in May, and with the still **broader ShadowStats Unemployment Estimate holding above 24%**, notching lower to 24.3% in June, from 24.6% in in May, on top of the U.6 decline.

### Historical Quote and Analogy

Permit me to quote someone who voiced similar skepticism. **Josiah Charles Stamp**, 1st Baron Stamp (21 June 1880 – 16 April 1941) was an English industrialist, economist, civil servant, statistician, writer, and banker. He was a Director of the “Bank of England” and chairman of the London, Midland and Scottish Railway.

Stamp said: "The government are very keen on amassing statistics. They collect them, add them, raise them to the nth power, take the cube root and prepare wonderful diagrams. But you must never forget that every one of these figures comes in the first instance from the chowky dar (village watchman in India), who just puts down what he damn pleases." (Stamp recounting a story from Harold Cox who quotes an anonymous English judge).

Upon close investigation of U.S. government published data, I've found Sir Stamp's view to be 100% correct!



The **CPI**, for example, is 100% subjective, does not measure anything accurately and can be manipulated to be anything the BLS wishes it to be. The CPI is used politically to paint a picture of what the U.S. government wants the public to see and believe?

### **Recession Watch**

The U.S. is **in a recession** according to the age-old definition of **two consecutive declining quarters of GDP** (unofficially as 2<sup>nd</sup> quarter GDP has yet to be reported)..The NBER will determine when it started, how deep it will be, and when it ends in about nine months after it ends. That is purely for historic purposes and has nothing to do with investing.

There are **several other signs of a recession**: all time low in consumer confidence with nearly half of respondents saying inflation is eroding their standard of living, super strong U.S. dollar (“flight to safety”) which curtails bank lending, Dr Copper is in a bear market (making a 17-month low on July 1<sup>st</sup>), retail sales fell 0.3% in May and rose less in April than initially reported, demand for real estate has fallen (due to higher mortgage rates) and construction of new homes has declined, inverted yield curve (2 year yield > 10 year yield) is a classical signal for an imminent recession, M2 growth is slowing to a snail’s pace (see below), VC and angel investments in start-ups have declined to their lowest level since 2019 dropping 23% over the last three months, commodities have reversed and are all now in intermediate term downtrends. There’s more.....

If you believe the **stock market** is a leading economic indicator (it’s a component of the **Conference Board’s Leading Economic Index -LEI**), take note—it’s down more than 20% in 2022 with all stock sectors except energy showing a YTD decline. Finally, the LEI itself decreased by 0.4% in May 2022 to 118.3 (2016 = 100), following a 0.4% decline in April 2022. The LEI is now down 0.4% over the six-month period from November 2021 to May 2022.



## **Biden's Approval Ratings Continue to Drop**

The abysmal U.S. economic conditions have contributed to Joe Biden's negative approval rating, which keeps hitting new lows. The RealClearPolitics poll average shows Joe Biden's presidency reaching terminally unpopular levels, with a 38% approval and 57% disapproval — or a net -19.3% disapproval.

The latest national **Monmouth poll** is just a massacre. Since April 2021, Biden's approval rating has held steady or gotten worse in every single Monmouth poll, and he is now at 36 percent approval to 58 percent disapproval, consistent with the general trend in which he continues to sink no matter which pollster is asking the questions. Eighty-eight percent of voters say the country is on the wrong track.

When Fed Chairman Jerome Powell admitted that inflation (he refers to price increases rather than money supply growth), was not transitory on 11/30/21, the esteemed **Harris Poll** showed Biden at 45% approve to 51% disapprove (-6% net disapproval). The polls of Biden's performance have gone straight down from there to the current worst rating of any President at this time of term in office.

Does the Fed believe that if it **pivots in September** and causes stock and bond market rallies (with a lower Fed Funds rate increase than expected) that would **help Biden and the Dems in the 2022 mid-term elections**? *If so, that would be a "Keystone Cops" strategy.*



## Inflation and the Fed

The Curmudgeon and I are 100% for bringing down the rate of growth of price increases to help the economy and ailing U.S. public (especially those on fixed incomes). But we believe it should be done without “assassinating the patient.”

Powell has admitted he didn't understand inflation. Mr. Powell said in a 2021 congressional hearing, “**M2 . . . does not really have important implications. It is something we have to unlearn, I guess.**” He and other central bankers must “unlearn” their disdain for monetary analysis before they make another egregious error.

As we've repeatedly stated and documented in previous **Curmudgeon** posts (many), **inflation is always and everywhere a Monetary Phenomenon.** The Fed finally gets that message. In the three months before June (when quantitative tightening began), allowed M2 growth to plunge to an anemic annualized growth rate of 0.1%. When broad money growth falls to near zero, nominal spending contracts and a **recession begins**, according to a WSJ editorial by John Greenwood and Professor Steve H. Hanke.

For sure, shortages and supply chain bottlenecks can also raise prices, but those are for specific goods or commodities, not the “**general continuous**” **price increases** the U.S. is now experiencing. As we've explained many times, that was caused by the Fed's ultra-easy “free money party,” and U.S. federal government stimulus payments. Now it seems the Fed wants to overcompensate with huge rate increases while the economy is showing weakness almost everywhere.

It is extremely rare for the Fed to be raising rates, especially by 75bps per month, when the U.S. is close to or already in a recession.

*Does the Powell led Fed realize that would cause a recession to deepen?*

*Is the picture at the beginning of this research commentary familiar to you?*



### Curmudgeon Closing Comment

Economists expect that the **CPI for June 2022**, to be released on July 13<sup>th</sup>, will hit a fresh 40+ year high of 8.8%, according to a poll conducted by **Reuters**. [The monthly core index is forecast to decline to 5.8% from 6.0% in May.] The CPI probably rose nearly 9% in June from a year earlier, based on the median projection of economists in a **Bloomberg** survey. If those forecasts are correct, count on a 75 bps Fed Funds rate hike at the FOMC meeting on July 27<sup>th</sup>.

### End Quote

Another quote by Sir Josiah Stamp:

*"Banking was conceived in iniquity and was born in sin. The bankers own the earth. Take it away from them, but leave them the power to create money, and with the flick of the pen they will create enough deposits to buy it back again. However, take away from them the power to create money and all the great fortunes like mine will disappear and they ought to disappear, for this would be a happier and better world to live in. But, if you wish to remain the slaves of bankers and pay the cost of your own slavery, let them continue to create money."*

Said to be from an informal talk at the University of Texas in the 1920s.

Thanks for reading,

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