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Global Macro Hedge Strategy EconomicsTrading

Financial Markets This Week

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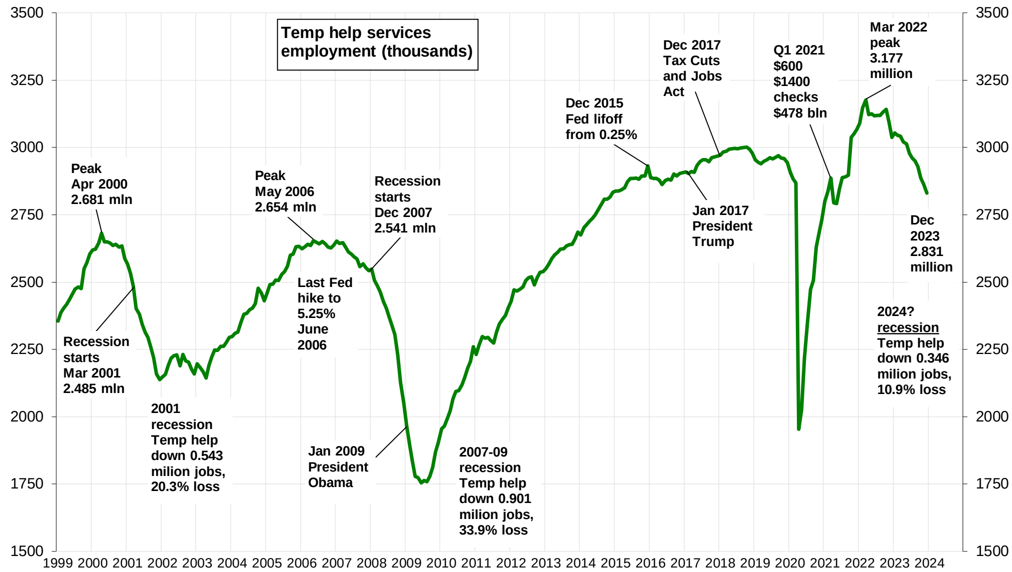
MORE JOBS, NO RECESSION



216 thousand payroll jobs, workers with paychecks to support the economy. No recession. Not enough job losses. There will be an annual revision for payroll employment next month, maybe better luck looking for a downturn on Friday, February 2 at 830am ET. Meanwhile, the economy is rolling along just fine at the end of the year with no cares or worries in the world, and the outlook for continued growth is good in the months ahead if companies are still hiring over 200 thousand workers in December. Payroll jobs fall in recessions, and that hasn't happened for even one month since the Fed started its rate hikes way back in March 2022. Every historical model we are aware of has been flashing recession warning signs for over a year. For example, the inverted yield curve signaled a recession ahead way back in November 2022, and that recession is expected to strike within the July 2023 to March 2024 timeframe. No downturn in hiring yet. Three months left.

The BLS this month even took one of our favorite recession indicators down from red alert by revising down the 3.9% 2023 high for the October unemployment rate to 3.8% in the annual revision. Now unemployment has only risen four-tenths from the 3.4% best economy in fifty years level in April 2023, and that was to 3.8% in October and unemployment has been unchanged at 3.7% for November and December. Not enough job losses to look like a recession although the number of unemployed have increased 553 thousand since April 2023 to 6.268 million in December.

In the spirit of recession hunting, we looked back at temp help services payroll employment this month. Makes sense logically, where companies cut back on consultants and temp help employees before they lay off their permanent staff. No recession, but temporary help employment is falling faster than it did before the 2001 and 2007-09 recessions in the graph above. In fact, the downward revisions to October payroll jobs of -45K, and to November payroll jobs of -26K, were almost completely accounted for by the greater revised losses in temp help jobs for these two months.

Wages or average hourly earnings rose 0.4% for a second month and are up 4.1% from year ago levels. Powell has already offered up his opinion that wages follow inflation rather than pushing inflation higher, so we would not make too much of the so-called inflation data in today's employment situation report. The Fed can still cut rates three times this year, probably not in March as some in the market expected, but by the end of the year. Inflation is slowing even with 0.4% wages the last two months, or at least core PCE inflation rose 0.1% in October and in November. Stay tuned. Story developing. The economy's not too hot, and moderate growth in hiring will keep growth in the plus column this year. Bet on it.

Payroll jobs fell from February 2020 peak as recession began

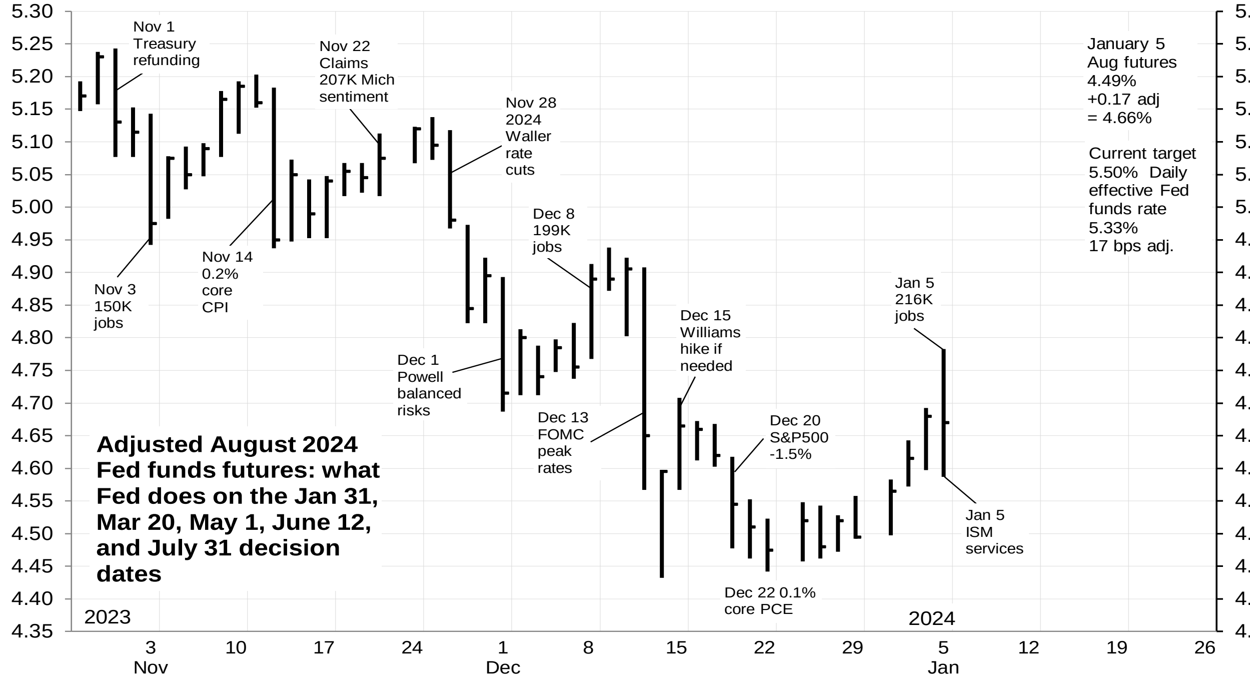
Data in thousands	Dec 23	Nov 23	Oct 23	46 months Feb 20 Dec 23	Dec 23	Feb 2020
Nonfarm Payroll Employment	216	173	105	4,861	157,232	152,371
Total Private (ex-Govt)	164	136	44	4,729	134,229	129,500
Goods-producing	22	30	-12	604	21,683	21,079
Mining	0	0	-1	-42	596	638
Manufacturing	6	26	-38	201	12,986	12,785
Motor Vehicles & parts	-2	31	-32	91	1,076	985
Computer/electronics	2	1	-2	19	1,100	1,081
Food manufacturing	2	0	5	72	1,726	1,655
Construction	17	6	27	448	8,056	7,608
Specialty trade contractors	6	3	14	270	5,091	4,821
Private Service-providing	142	106	56	4,125	112,546	108,421
Trade, transportation, utilities	0	-25	-2	1,100	28,846	27,746
Retail stores	17	-24	17	23	15,543	15,520
General Merchandise	2	-22	4	88	3,154	3,066
Food & Beverage stores	-4	0	1	124	3,248	3,124
Transportation/warehousing	-23	-5	-28	857	6,642	5,786
Truck transport	3	2	-3	67	1,586	1,520
Air transportation	4	4	3	45	562	517
Couriers/messengers	-32	-2	-13	213	1,078	865
Warehousing and storage	-5	-10	-16	534	1,851	1,317
Information	14	15	-12	143	3,051	2,908
Computing, data, web hosting	4	2	-1	138	500	363
Financial	2	1	-8	279	9,148	8,869
Insurance	5	2	-2	109	2,960	2,851
Real Estate	4	5	1	84	2,449	2,365
Commercial Banking	-3	-3	-7	-45	1,354	1,398
Securities/investments	-1	2	3	127	1,093	966
Professional/business	13	-19	-26	1,509	22,946	21,437
Temp help services	-33	-22	-42	-53	2,831	2,884
Management of companies	6	-5	-1	44	2,528	2,483
Architectural/engineering	0	4	2	143	1,691	1,548
Computer systems design	9	4	5	297	2,532	2,234
Legal services	5	4	0	27	1,191	1,164
Accounting/bookkeeping	4	0	2	129	1,162	1,033
Education and health	74	109	84	1,302	25,878	24,576
Private Educational services	15	13	17	189	3,987	3,798
Hospitals	15	20	18	193	5,429	5,236
Ambulatory health care	19	40	23	726	8,593	7,867
Leisure and hospitality	40	12	25	-163	16,782	16,945
Hotel/motels	6	1	5	-214	1,898	2,113
Eating & drinking places	22	13	-2	31	12,370	12,339
Government	52	37	61	132	23,003	22,871
Federal ex-Post Office	7	6	7	102	2,362	2,260
State government	8	4	26	9	5,326	5,317
State Govt Education	2	1	15	-34	2,579	2,613
Local government	37	31	28	13	14,712	14,699
Local Govt Education	19	14	22	-28	8,028	8,056

One final look at this report shows payroll jobs up 216K in December which is an increase from the 140K trend in October and November if we subtract out the autoworkers strike. No recession. Historically, we may be missing an external shock to the economy to bring on a recession. 1990-91 crude oil prices spiked after Iraq invaded Kuwait. 2001 had a stock market.com bubble. 2007-09 had a housing bubble. 2020 the pandemic, two-month recession. 2022-23 had massive Fed rate hikes, and the bank crisis in March 2023, but not enough of a shock to the system apparently, although there are only 3 real downturns to examine since the 90s.

Monthly changes (000s)	Dec	Nov	Oct	Sep	Aug
Payroll employment	216	173	105	262	165
Private jobs	164	136	44	199	114
Leisure/Hospitality jobs	40	12	25	76	8
HH Employment Survey*	-683	586	-270	50	291
Unemployment rate %	3.7	3.7	3.8	3.8	3.8
Participation rate %	62.5	62.8	62.7	62.8	62.8
Not in labor force (mln)	100.540	99.695	99.919	99.531	99.374
... and Want A Job (mln)	5.671	5.343	5.376	5.424	5.374
Average hourly earnings	$34.27	$34.12	$34.00	$33.91	$33.82
MTM % Chg	0.4	0.4	0.3	0.3	0.3
YOY % Chg	4.1	4.0	4.1	4.2	4.3

* Household (telephone) Survey of employment behind unemployment rate

INTEREST RATES



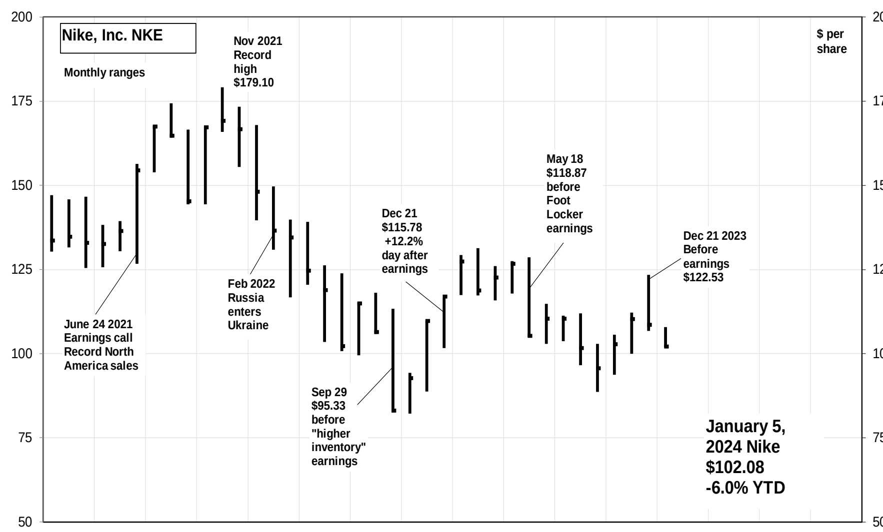
It is not often that anecdotal info from business surveys move the market more than real data like the employment situation report, but that is what happened on Friday. Stronger 216K payroll jobs at 830am ET brought the yield on August 2024 Fed funds futures up, taking some 2024 expected rate cuts off the table, then at 10am ET, the ISM services index said business conditions were weaker, especially the employment index where there were actually a quite positive 164K service jobs created in December in the BLS report. Anyway, all water under the bridge, and at the close of the day, Fed funds futures yields were little changed Friday. Meanwhile, the stock market kept falling this week before turning positive somehow on Friday. It all started with Barclays downgrading Apple before the NY open on Tuesday. On Friday the S&P 500 fell as much as 2.3% from the December 28 high.

Nike, Inc. (NKE) down 6.0% YTD

Nike was $122.53 before earnings on December 21, collapsing 11.8% the next trading day. The company said it faced macro headwinds in EMEA and China. Footwear sales this quarter were up in EMEA and LatAm versus a year ago, flat in China, and down in North America. The company is streamlining its operations and employee severance costs will hit in the 2.29.2024 quarter.

Nike Footwear Sales ($millions)

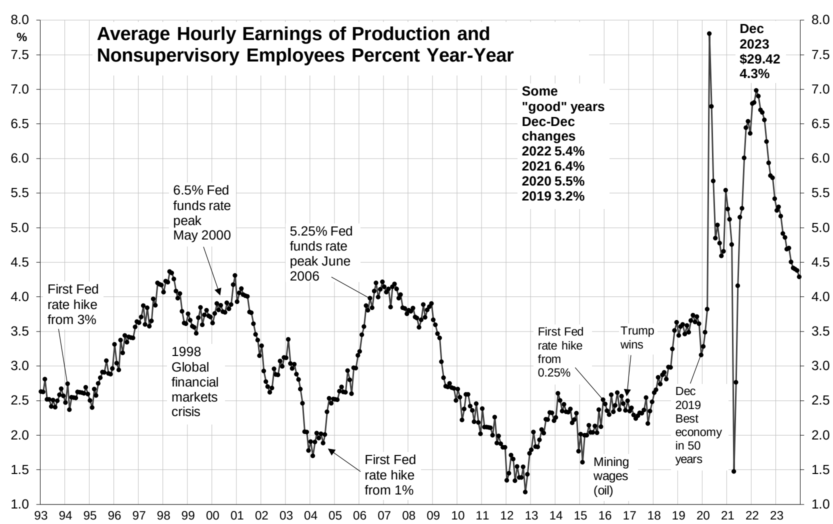
Fiscal Quarter	Quarter	North America	Europe (EMEA)	Greater China	Asia Pac LatAm
Q2 2024	11.30.2023	3757	2186	1361	1303
Q1 2024	8.31.2023	3733	2260	1287	1141
Q4 2023	5.31.2023	3807	2174	1336	1230
Q3 2023	2.28.2023	3322	2011	1496	1141
Q2 2023	11.30.2022	3963	2063	1370	1108
Q1 2023	8.31.2022	3805	2012	1233	1064
Q4 2022	5.31.2022	3,580	2,030	1,178	1,197
Q3 2022	2.28.2022	2,532	1,569	1,554	1,005
Q2 2022	11.30.2021	2,852	1,806	1,235	887
Q1 2022	8.31.2021	3,264	1,983	1,449	1,022



FEDERAL RESERVE POLICY

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	3-Jan	27-Dec	20-Dec	13-Dec	3/11/20*	3/11/20
Factors adding reserves						to Jan 3
U.S. Treasury securities	4753.330	4790.547	4792.329	4809.734	2523.031	2230.299
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2431.773	2431.773	2443.492	2446.901	1371.846	1059.927
Repurchase agreements	0.000	0.000	0.000	0.007	242.375	-242.375
Primary credit (Discount Window)	2.159	2.492	2.400	2.173	0.011	2.148
Bank Term Funding Program	141.202	135.805	131.335	123.764		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	3.447	3.467	3.501	3.603		
Main Street Lending Program	16.173	16.156	16.136	16.638		
Municipal Liquidity Facility	0.213	0.213	2.695	5.609		
Term Asset-Backed Facility (TALF II)	0.046	0.046	0.169	0.324		
Central bank liquidity swaps	1.357	1.359	0.235	0.340	0.058	1.299
Federal Reserve Total Assets	7731.4	7763.5	774.9	7790.4	4360.0	3371.362
~~3-month Libor %~~ SOFR %	5.39	5.39	5.31	5.31	1.15	4.240
Factors draining reserves						
Currency in circulation	2348.237	2334.610	2335.924	2331.429	1818.957	529.280
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	743.464	713.064	732.721	630.618	372.337	371.127
Treasury credit facilities contribution	7.438	7.438	10.311	10.311		
Reverse repurchases w/others	719.897	818.869	779.143	823.329	1.325	718.572
Federal Reserve Liabilities	4271.980	4329.295	4297.603	4222.603	2580.036	1691.944
Reserve Balances (Net Liquidity)	3459.408	3434.213	3477.288	3567.772	1779.990	1679.418
Treasuries within 15 days	57.224	65.252	58.676	37.026	21.427	35.797
Treasuries 16 to 90 days	249.347	240.389	247.297	280.611	221.961	27.386
Treasuries 91 days to 1 year	554.981	572.986	574.396	572.212	378.403	176.578
Treasuries over 1-yr to 5 years	1614.938	1627.413	1627.431	1635.336	915.101	699.837
Treasuries over 5-yrs to 10 years	771.704	779.339	779.349	779.358	327.906	443.798
Treasuries over 10-years	1505.136	1505.168	1505.180	1505.191	658.232	846.904
Note: QT starts June 1, 2022	Change	1/3/2024	6/1/2022			
U.S. Treasury securities	-1017.449	4753.330	5770.779			
Mortgage-backed securities (MBS)	-275.673	2431.773	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

The Fed meets January 30-31, 2024 to consider its monetary policy. The 216K jobs report doesn't change the outlook in 2024 where inflation continues to run 0.2% per month on average. The labor market does not have to rebalance much more if at all for inflation to come down. Rebalancing is seen mostly in the decline in job openings, although the unemployment rate lifted as high as 3.8% in October from 3.4% in April which means jobless workers increased 728 thousand to 6.443 million unemployed in October, the worst point of 2023. Wages, or average hourly earnings rose 0.3% or 4.3% from a year ago, to $29.42 in December for production and nonsupervisory employees. We don't want to pretend wages are adding to services inflation, especially as the problem in services is mostly in housing costs. Market forecasts for the Fed show all but 7 bps of a 25 bps rate cut to 5.25% is discounted by the March meeting. Two and a half rate cuts to 4.67% are discounted by the July 31, 2024 Fed decision date. Inflation is the key. If monthly changes ahead for the December to May period inflation reports are 0.2% per month, the year-on-year-rate for core PCE inflation in May 2024 drops to 2.1%. Ahead of schedule, and likely to prompt the first 2024 Fed cut at the June meeting.



Fed funds futures call Fed hikes		
Current target: January 5 -- 5.50%		
Rate+0.17	Contract	Fed decision dates
5.320	Apr 2024	Jan 31, Mar 20
4.670	Aug 2024	May 1, Jun 12, Jul 31
Settlement prices, not last trade		

Fed Policy-key variables	2023	2024	2025	2026	Long Term
Fed funds	5.4	4.6	3.6	2.9	2.5
PCE inflation	2.8	2.4	2.1	2.0	2.0
Core inflation	3.2	2.4	2.2	2.0	
Unemployed	3.8	4.1	4.1	4.1	4.1
GDP	2.6	1.4	1.8	1.9	1.8
December 2023 median Fed forecasts					

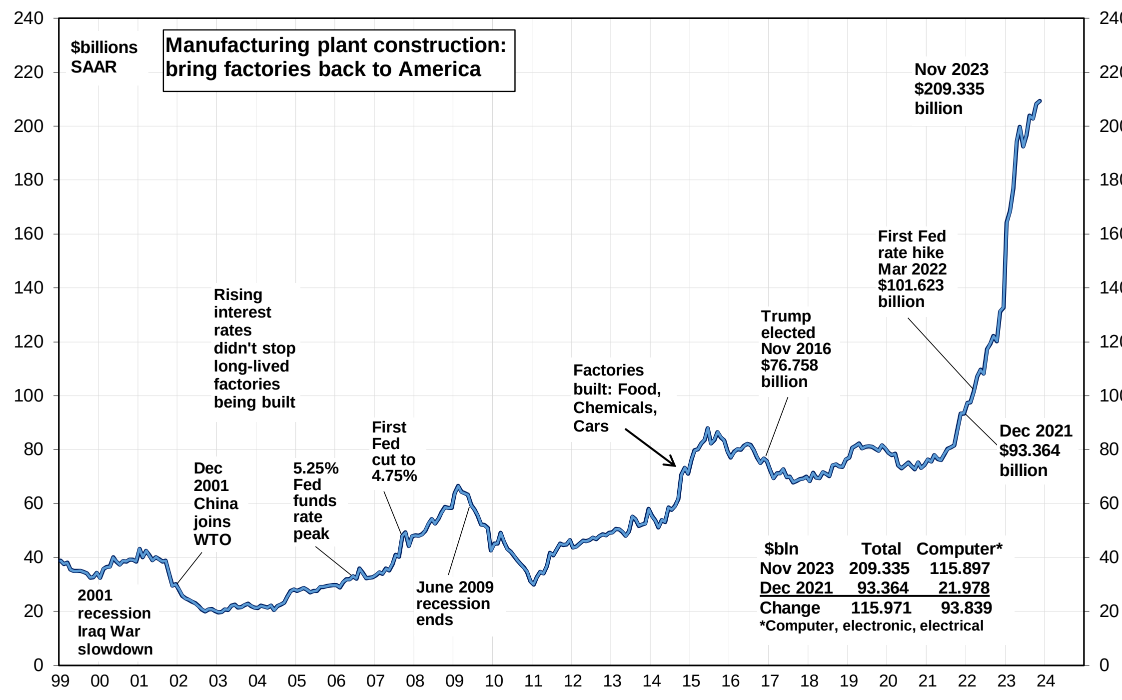
Next up: December CPI inflation report Thursday, January 11														
Monthly	2023									2023	2022			2022
% Changes	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep
Core CPI inflation	0.3	0.2	0.3	0.3	0.2	0.2	0.4	0.4	0.4	0.5	0.4	0.4	0.3	0.3	0.6
Core PCE inflation	0.1	0.1	0.3	0.1	0.1	0.2	0.3	0.3	0.3	0.4	0.5	0.4	0.3	0.3	0.5
Core PCE YOY	3.2	3.4	3.6	3.7	4.2	4.3	4.7	4.8	4.8	4.8	4.9	4.9	5.1	5.3	5.5
Core CPI YOY	4.0	4.0	4.1	4.3	4.7	4.8	5.3	5.5	5.6	5.5	5.6	5.7	6.0	6.3	6.6

OTHER ECONOMIC NEWS

Construction still going great guns (Tuesday)

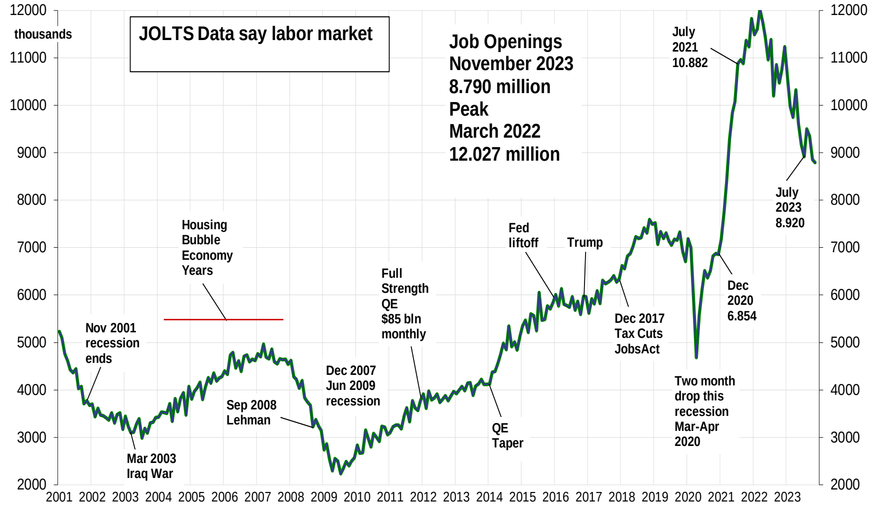
Breaking economy news. Construction activity for November rose 0.2% to $698.2 billion which is for nonresidential private construction. Building construction has added to GDP growth for the last four quarters and the trend shows no sign of stopping. Construction spend is up a phenomenal 19.3% over the last year, with most of the gain coming from the 59.4% increase in manufacturing construction. Building has centered on computer/electronic/electrical plants, investment that was helped along by the CHIPS and Science Act of 2022 which gives $52 billion to help support semiconductor production. The 19.3% manufacturing rise from November 2022 is an $78.023 billion increase to $209.335 billion.

Net, net, the construction boom in manufacturing continues to keep the economy well away from the shoals of recession at the end of last year. Construction activity is one reason the Federal Reserve rate hikes have not brought the economy to its knees like the economic models from other business cycles had forecasted. The construction industry is going great guns with plenty of punch left in the punch bowl to keep new factories coming on line for the foreseeable future. There's money for new industrial building projects with the only risk being there is a severe nationwide shortage of construction workers. Stay tuned.

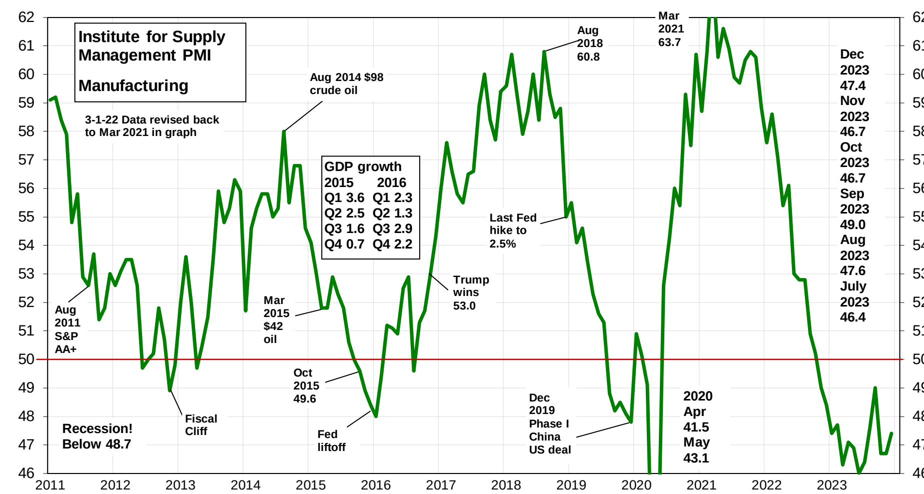


Job openings soft-landing (Wednesday)

Breaking economy news. Job openings fell 62K at the end of November to 8.790 million after an upward 119K revision to 8.852 million in October. Openings are still higher than the 6.291 million number of unemployed (3.7% rate) in November.



The ISM manufacturing survey released the same time at 10am ET increased from 46.7 in November to 47.4 in December. Because the index is not above 48.7, ISM believes the entire economy is in a recession, and as the index is below 50 (14th consecutive month) the manufacturing sector is in a long if not deep recession. The employment index increased 2.3 percentage points to 48.1, so employment "contracted," and the Jolts data say manufacturing job openings fell 14K to 547 thousand at the end of November.



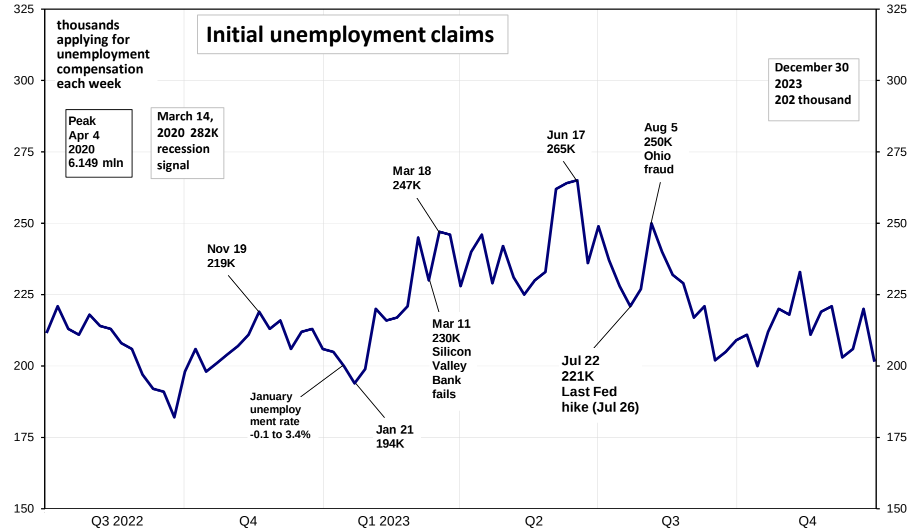
Net, net, the labor market looks to be coming in for a soft landing with job openings on a downward trajectory that is sure to please Fed officials as they plot their course on interest rates this year. Layoffs have not led to recession magnitude unemployment yet and the lack of job openings is not a factor apparently. There is an upward trend in ex-workers receiving jobless benefits. There are more jobless workers receiving unemployment compensation, but apparently their skills are not up to snuff and they do not qualify for the current online job postings which are still high even if they are down from the peak of 12 million openings in March 2022 when the Fed first hiked rates for this cycle. At the end of the year the economy is not setting any land speed records, but perhaps that is what Fed officials are wishing for in the New Year. One thing for sure is that core consumer inflation has slowed dramatically since July last year which means rate cuts are on the menu for monetary policy this year even if there is no sign of a recession.

ISM manufacturing index

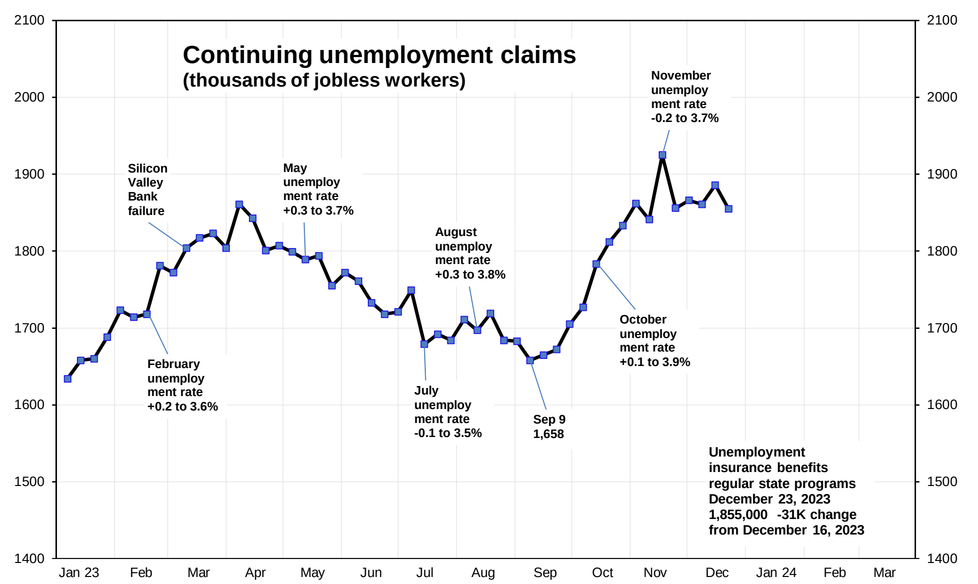
	Dec	Nov	Oct 23	Sep 23
PMI index	47.4	46.7	46.7	49.0
Prices	45.2	49.9	45.1	43.8
Production	50.3	48.5	50.4	52.5
New orders	47.1	48.3	45.5	49.2
Supplier deliveries	47.0	46.2	47.7	46.4
Employment	48.1	45.8	46.8	51.2
Export orders	46.9	46.0	49.4	47.4

Goldilocks jobs market (Thursday)

Breaking economy news. Initial unemployment claims fell 18K to 202K in the final December 30 week of last year. Continuing unemployment claims fell 31K to 1.855 million in the December 23 week. Same old story for the labor market, companies did not fire people during the year-end holidays, and those on the unemployment rolls apparently cannot find a job so they continue to search and collect their benefit checks each week. We don't know if it is just right or not, but the labor market is not too hot and not too cold at the moment. We will leave it up to Fed officials to say whether the labor market is "rebalancing" enough to bring inflation down further.

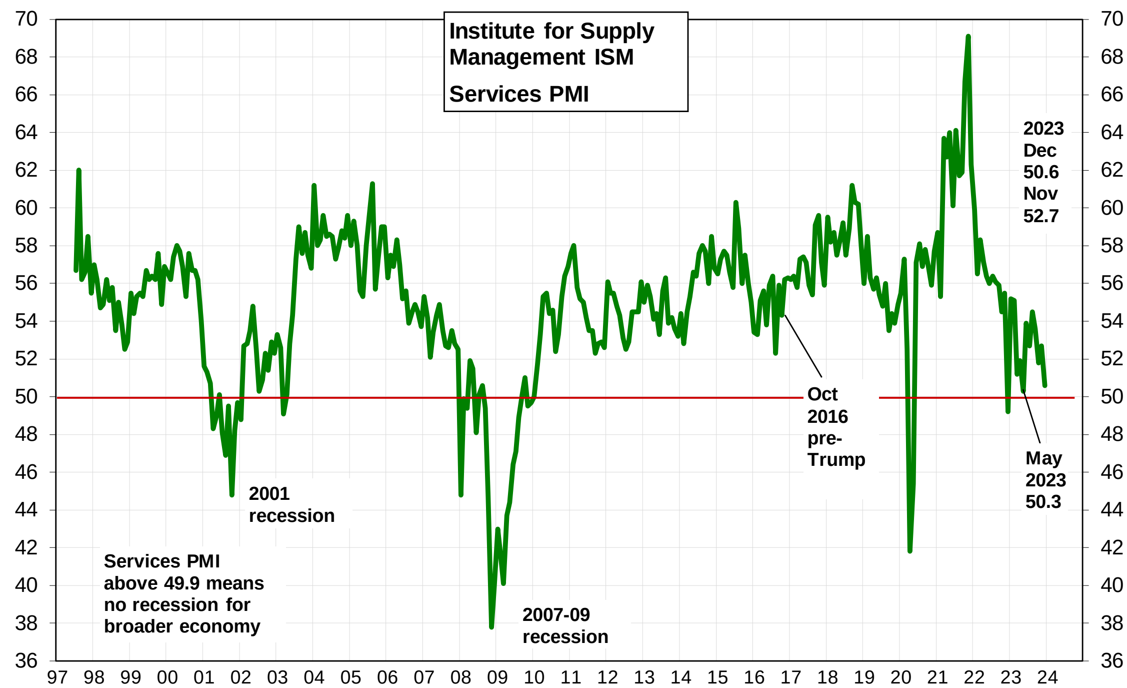


Net, net, companies keep talking about the need to bring their headcount down because of their cautious outlook for sales and revenues in 2024, but so far they have not brought the hammer down and actually taken steps to lay off workers. The bank crisis in March 2023 sent layoffs to the 2023 high of 265K in the June 17 week, but the worst of times for labor market conditions are over. The total number of Americans on the jobless rolls receiving benefits remains elevated relative to prior year levels, but at the moment, there is not enough unemployment to say the economy is on the downward slope to recession. Companies are posting fewer job openings, but they are not laying off workers and that keeps economic growth in the plus column in the new year.



ISM services fall, especially employment (Friday)

Breaking economy news. Yields rose and the market took Fed rate cuts off the table on the stronger 216K jobs report, then at 10am ET ISM services fell, bringing yields back down as well. ISM services fell 2.1 points to 50.6 in December, where it had been recovering from the May 2023 lowpoint of 50.3. The bank crisis in March 2023 brought the index down. If you are betting on recession maybe this is your index. It had fallen below the 50 line a year ago in December 2022. ISM says an index above 49.9 means no recession for the broader economy. Stay tuned. The market was focused on Employment tumbling 7.4 points to 43.3, but then again, the employment report at 830am ET said the economy created 164 thousand private service jobs in December, showing anecdotal information based on surveys of the public are sometimes misleading as they don't always match the actual hard data.



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