Financial Markets This Week

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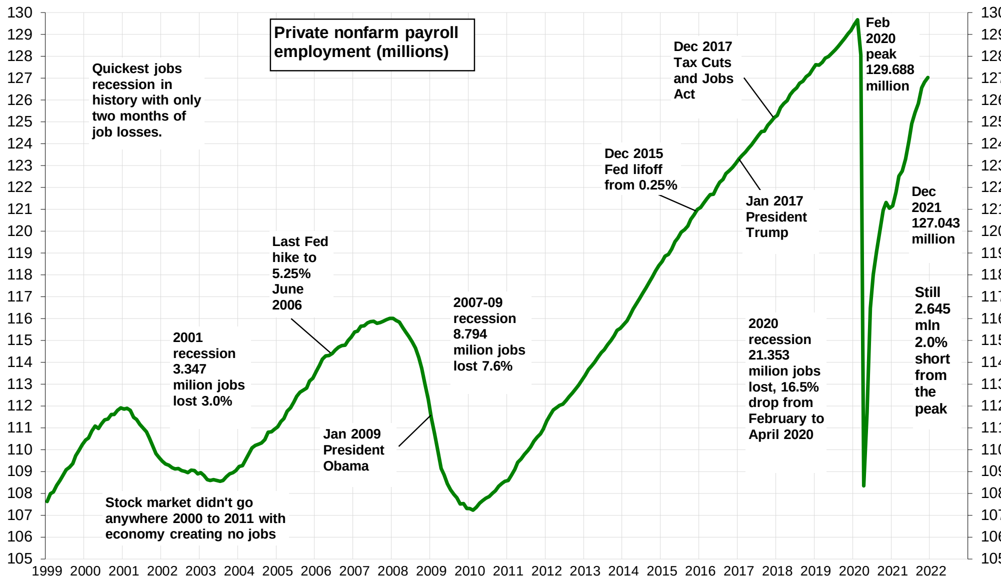
UNEMPLOYMENT TUMBLES AGAIN: FED LIFTOFF MOVES TO MARCH



Breaking economy news. A perfect jobs report. Unemployment tumbles again signaling the economy has all but recovered from the catastrophic job losses of the recession. At the worst point in April 2020 the unemployment rate was nearly 20.0% if the survey had been done correctly during the confusion of trying to count job losses as the economy shut down in the first weeks of the pandemic, the Bureau of Labor Statistics (BLS) said. In today's report, the unemployment rate is down to 3.9% just inches away from the best economy in fifty years before the pandemic with record low 3.5% unemployment. That's right, inches. C'mon. Try to keep the job losses in perspective. There are 6.319 million unemployed in December 2021 a mere 602,000 away from the 5.717 million in February 2020 during the good times before the pandemic. There are 155.975 million employed with jobs according to the Household Survey done by telephone calls. We have been an economist from the 1970s and have yet to be called by BLS and asked about our employment status all these years. Even more reason not to be asked now. The economy is at maximum employment or full employment, whatever you want to call it right now and it was the quickest recovery in history. Inflation is the greater worry for the economy not joblessness. Inflation destroys the wealth of 155.975 million with jobs and unemployment hurts the 602 thousand still out of work in the best economy in fifty years.

Monthly changes (000s)	Dec	Nov	Oct	Sep	Aug
Payroll employment	199	249	648	379	483
Private jobs	211	270	714	424	504
Leisure/Hospitality jobs	53	41	211	108	71
HH Employment Survey*	651	1090	428	639	463
Unemployment rate %	3.9	4.2	4.6	4.7	5.2
Not in labor force (mln)	99.842	99.902	100.298	100.294	100.106
... and Want A Job (mln)	5.713	5.819	5.935	5.918	5.701
Average hourly earnings	$31.31	$31.12	$31.01	$30.84	$30.67
MTM % Chg	0.6	0.4	0.6	0.6	0.4
YOY % Chg	4.7	5.1	5.0	4.5	4.1

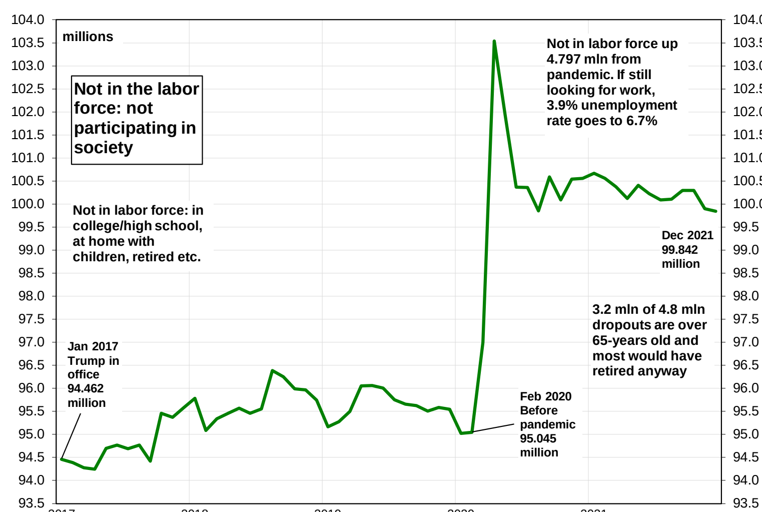
* Household (telephone) Survey of employment behind unemployment rate

We expect Fed officials will need no convincing about the economy's strength after today's report and will vote to hike rates 25 bps to 0.50% at the March 15-16 meeting which will come just days after the final emergency QE purchases are wound down to zero. They were only buying $20 billion of U.S. government securities in the final month of QE. The punchbowl is starting to be drained and it should be. Pay no attention to the payroll jobs survey that found just 199 thousand jobs were created in December, a second “slow” month. The same slow month as the 210K payroll jobs in November that Powell said was very strong.

Payroll jobs fall from February 2020 peak as recession began

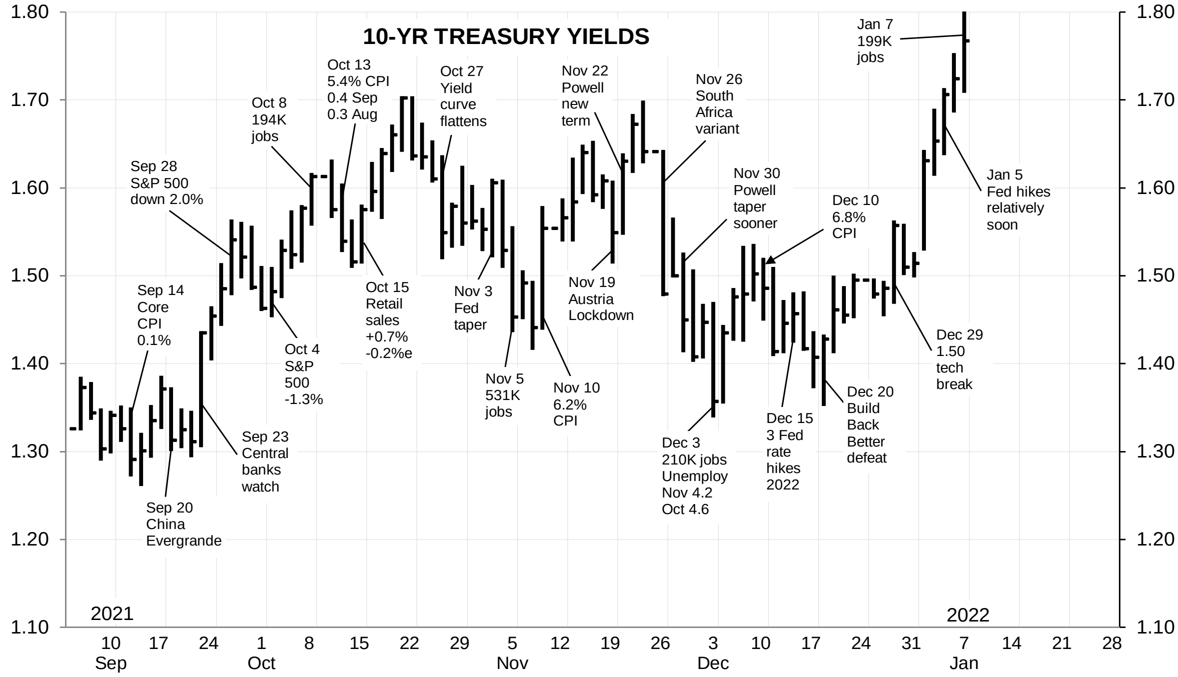
Data in thousands	Dec 21	Nov 21	Oct 21	22 months Feb 20 Dec 21	Dec 21	Feb 2020
Nonfarm Payroll Employment	199	249	648	-3,572	148,951	152,523
Total Private (ex-Govt)	211	270	714	-2,645	127,043	129,688
Goods-producing	54	72	100	-341	20,796	21,137
Mining	7	2	5	-27	614	641
Manufacturing	26	35	52	-219	12,580	12,799
Motor Vehicles & parts	4	-6	21	-52	934	986
Construction	22	35	44	-88	7,560	7,648
Private Service-providing	157	198	614	-2,304	106,247	108,551
Trade, transportation, utilities	30	40	122	-81	27,795	27,876
Retail stores	-2	-13	51	-158	15,452	15,610
General Merchandise	16	-15	23	120	3,119	2,999
Food & Beverage stores	-2	11	20	43	3,118	3,075
Transportation/warehousing	19	42	57	218	6,041	5,823
Truck transport	0	8	8	-2	1,523	1,525
Air transportation	6	4	9	-40	477	517
Couriers/messengers	0	17	-7	202	1,084	883
Warehousing and storage	5	5	22	181	1,509	1,328
Utilities	0	0	0	-11	536	547
Information	0	1	12	-119	2,795	2,914
Financial	8	17	28	44	8,919	8,875
Insurance	3	3	4	19	2,875	2,856
Real Estate	5	6	15	-19	2,343	2,362
Commercial Banking	-2	-2	-3	-74	1,326	1,400
Securities/investments	1	9	11	53	1,018	966
Professional/business	43	72	130	-35	21,434	21,469
Temp help services	-2	1	50	-157	2,788	2,945
Management of companies	1	5	7	-74	2,351	2,425
Architectural/engineering	9	5	4	64	1,610	1,546
Computer systems/services	10	13	15	85	2,325	2,239
Legal services	0	3	5	-9	1,156	1,165
Accounting/bookkeeping	3	5	3	55	1,083	1,028
Education and health	10	14	71	-761	23,804	24,565
Hospitals	-5	2	1	-96	5,142	5,238
Educational services	3	6	20	-137	3,642	3,779
Leisure and hospitality	53	41	211	-1,222	15,693	16,915
Hotel/motels	10	-3	22	-304	1,801	2,105
Eating & drinking places	43	34	161	-653	11,656	12,308
Government	-12	-21	-66	-927	21,908	22,835
Federal ex-Post Office	-1	0	-1	13	2,272	2,260
State government	0	-10	-25	-271	5,032	5,303
State Govt Education	5	-3	-20	-191	2,405	2,596
Local government	-10	-15	-37	-673	13,996	14,669
Local Govt Education	-2	-12	-38	-376	7,653	8,030

To finish up, the labor market is strong and the Fed is likely to hike rates in March. We don’t want to over analyze the 199K payroll jobs number today. It is nothing to point to as something that indicates a weak economy. The bond market didn’t misread it; Fed rate hikes on the way. But it is always of interest to know where the jobs are if you are in college getting ready to meet the world. Forgetting the government, private payroll employment is still down 2.645 million 2.0 percent from February 2020. We think baby boomers have retired and are responsible for most of the decline, or better said, why private payroll employment gains face headwinds with the labor pool “supply” running on empty. But let’s look at the so-called industries that have not recovered fully from the best of best times in February 2020. Luckily, the BLS calculates this for us ,in their writeup that we never used to pay much attention to, so we don’t have to.



Leisure and hospitality is the biggest laggard with employment down 1.2 million or 7.2% from February 2020. There are jobs in other areas, like job growth in couriers and messengers that is 202 thousand higher than in February 2020, and there are 181 thousand more jobs in warehousing and storage. Stay tuned. Watch here where the world goes next.

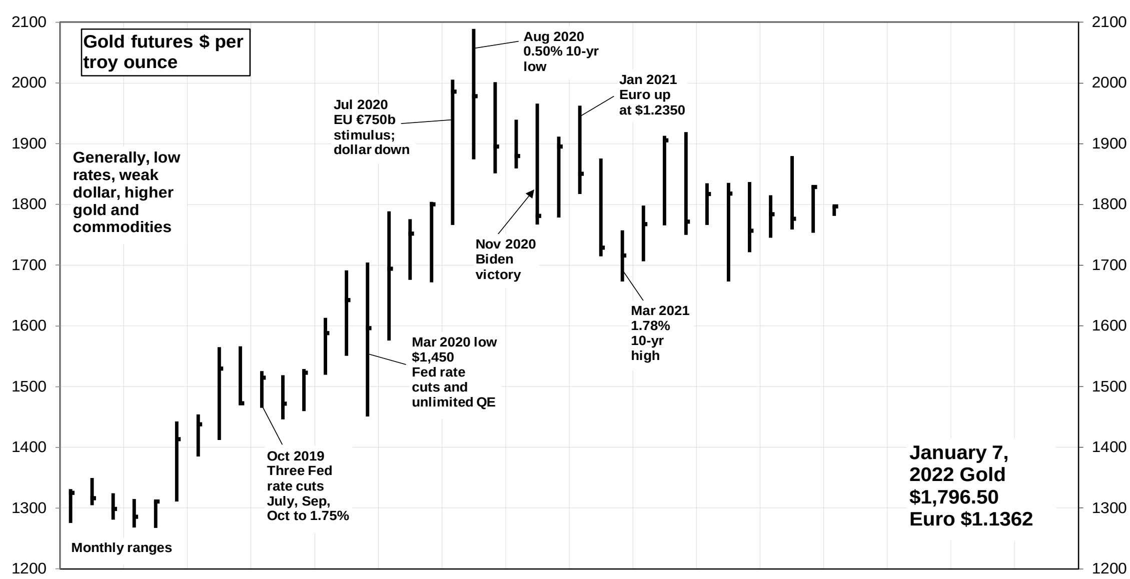
INTEREST RATES



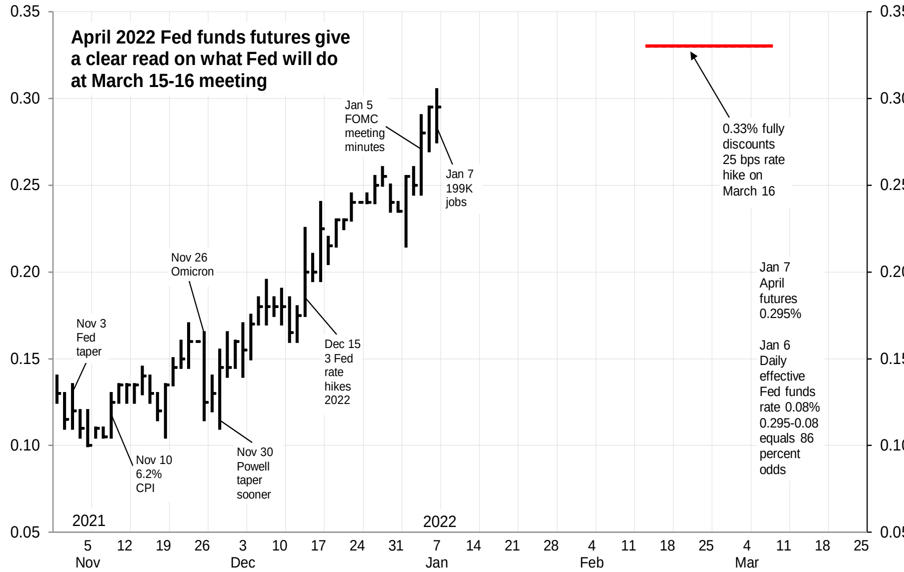
Bonds can provide steady growth to your portfolio. Googled "bond yield" and got this. Current 30-year Treasury pays 1.875% this year, but price is the problem with yields soaring this first week of 2022. The 10-year Treasury closed 2021 at 1.51% and reached as high as 1.80% after the jobs report on Friday, closing the day at 1.77%. The prior post-pandemic yield high was 1.78% on March 30, 2021. Yields moved higher at the start of the week on no new news and was about 1.69% at 2pm ET Wednesday before the Fed meeting minutes. Nice to see yields moving higher, perhaps it is a reaction to the decline in QE Treasury purchases to come and those three Fed rate hikes forecast this year.

When there's uncertainty, buy Gold: $1,796.50

Not enough buying to move gold away from $1,800 in recent months. The dollar rally against the Euro from the start of the year, $1.2350 to $1.1362, could be holding gold back. Fed rate hikes are ahead, and 10-year yields hit 1.80% on Friday. Higher bond yields in the last Fed tightening to 2.5% in 2018 held gold down. 10-yr yields peaked 3.26% in October 2018 consistent with Fed forecasts they would need to push the Fed funds rate to 3.5%. Never made it. Now Fed looks for a rate of 2.25% in 2024.



FEDERAL RESERVE POLICY



The Fed meets on January 25-26, 2022 to consider its monetary policy. Unemployment plunged 0.3 percentage points to 3.9% on Friday. The best of best times economy before the recession had an unemployment rate low of 3.5%. What should a Fed policy maker do? You make the call. For the record, April Fed funds futures were unchanged on Friday after the most important economic statistic in the world. The market-based odds of a March meeting rate hike are already high enough. The decision date is still 68 days away and the stock market could always crash.

Yields in the bond market went to new highs after the Fed meeting minutes at 2pm ET Wednesday. The minutes said that most participants judged the Fed's maximum employment goal "could be met relatively soon if the recent pace of labor market improvements continued." Once maximum employment has been reached then the Fed will lift interest rates from 0.25% of course. "Some participants" said it could be appropriate to hike rates even before maximum employment has been reached. To keep it simple, we thought maximum employment was when the 4.2% unemployment rate fell back to the 3.5% best economy in fifty years level before the pandemic. But many at the Fed are concerned about the participation rate and labor force dropouts no longer being counted as unemployed, so in effect, they may be waiting for payroll employment to return to the all-time high before the pandemic. The problem with all this discussion is that interest rates are supposed to be at 2.5% normal levels when the labor market is normal. The maximum employment goal should match many rate hikes and a 2.5% Fed funds rate; maximum employment should not the condition that governs when to hike rates the first time from 0.25%.

The stock market fell sharply after the Fed meeting minutes. Some may have thought it was the mention of the Fed's balance sheet. There were more details even if Powell did say at the press conference they reviewed their actions on the balance sheet after the last recession. And he added that just like interest rates going up faster than the last time, they probably wouldn't wait as long to let the balance sheet start running back down. Market interest rates might go up more quickly if the balance sheet is allowed to run off as it adds to the debt that the U.S. Treasury auctions each month. The balance sheet of Treasuries fell about $700 billion over 2018 and three-quarters of the year in 2019. Some market participants thought this was adding to the fire of restrictive monetary policy that put the economy at risk. Fears will probably run ahead of dollars and sense again once the balance sheet starts coming down. That won't happen until the first interest rate hike. Wall Street is betting on the first rate hike at the March meeting, if April Fed funds futures represent Wall Street.

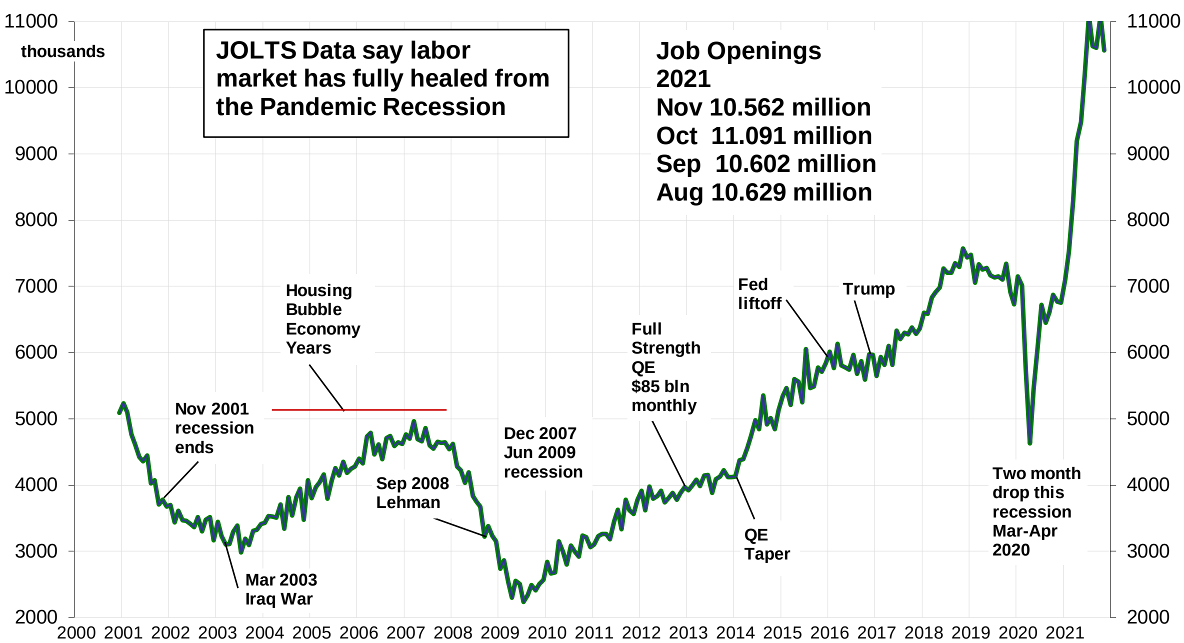
OTHER ECONOMIC NEWS

Job openings still above 10 million (Tuesday)

Breaking economy news. The Jolts job openings data fell from near record levels to 10.562 million in November from 11.091 million in October. Companies' overall demand for help remains well above the official number of unemployed workers around the country. Job openings fell 529 thousand and about one-half of that (261 thousand) was in accommodation and food services, and this was as of November 30, the day before the first Omicron case was discovered in the U.S. The labor market is hot today, but will cool tomorrow as social distancing measures are starting to appear again in many parts of the country as the virus spreads at lightning speed.

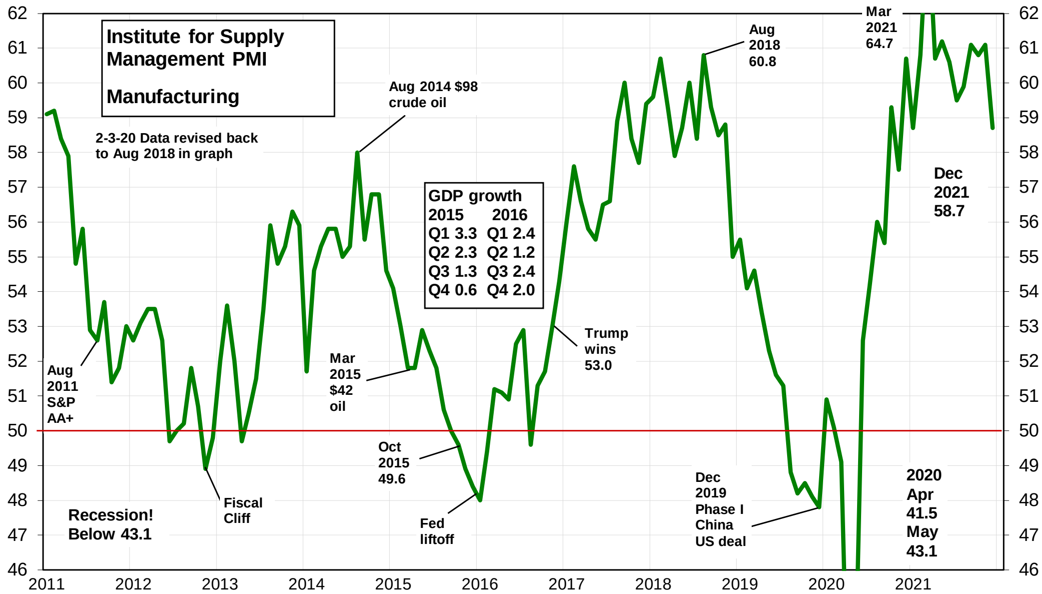
Policymakers seeing the job openings report today will not be able to rest assured as the labor market is still tight and workers are hard to find for many companies. One of the ingredients of inflation is higher labor costs and with workers in short supply, wages are going to go up, and inflation isn't going to stop.

Net, net, job openings are still higher now than in any other post-recession recovery in economic history. The massive shortage of workers continues with over 10 million help-wanted signs around the country because the economy is booming. The economic recovery is over and companies have shifted their demand for workers at a pace that is normally only seen during economic booms. The economy is booming today but for how long is the question with the spread of the latest Covid variant that is closing many schools and slowing commerce and buyer traffic at many shops and malls. Stay tuned. Story developing.



Manufacturers see some slowing of price pressures and shortages (Tuesday)

Breaking economy news. The ISM manufacturing index fell 2.4 percentage points to 58.7 in December from 61.1 in November. The overall drop reflects diminished supply shortages that had held back manufacturing activity in prior months. To be sure the economy isn't out of the woods yet as there are still reported shortages in many commodities like semiconductors, copper products and electrical and electronic components. The largest decline seen was in prices however falling 14.2 percentage points to 68.2 in December. Manufacturers are seeing some slowing of price pressures and shortages but overall activity remains strong at the nation's factories.



Net, net, manufacturing executives say activity wasn't quite as strong as the last several months even if production and order flow is still growing solidly. Purchasing managers are saying the recovery is over and the business expansion is full on. Employment is actually one category that is seeing even greater demand. The overall dip in the index is being blamed on what is actually good news where the supply/demand imbalance is starting to normalize after months of reported shortages and supply chain concerns.

ISM manufacturing index	Dec 21	Nov 21	Oct 21	Sep 21
PMI index	58.7	61.1	60.8	61.1
Prices	68.2	82.4	85.7	81.2
Production	59.2	61.5	59.3	59.4
New orders	60.4	61.5	59.8	66.7
Supplier deliveries	64.9	72.2	75.6	73.4
Employment	54.2	53.3	52.0	50.2
Export orders	53.6	54.0	54.6	53.4

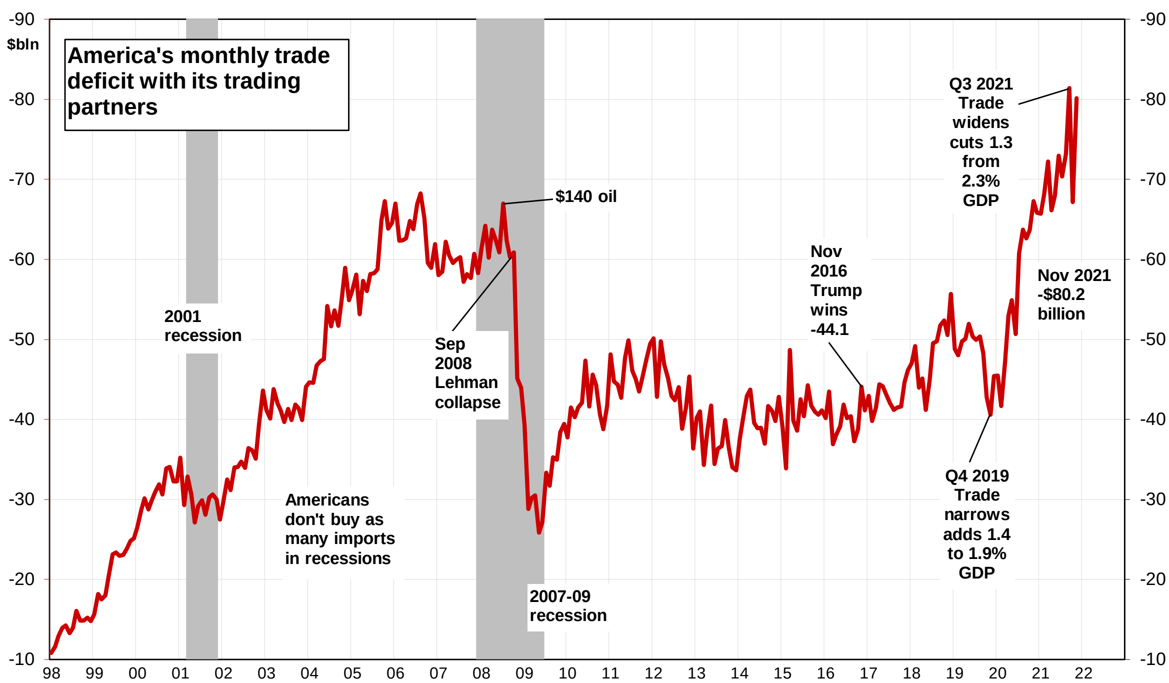
Jobless claims and record demand for imports point to a booming economy (Thursday)

Breaking economy news. Initial unemployment claims rose 7 thousand to 207 thousand in the January 1 week which means the labor pool is running low and the economy is closer to full employment than ever. There is no sign yet that business demand for labor is slowing since the first case of the Omicron variant was discovered on December 1 in the U.S.

Meanwhile, the trade deficit this month stopped short of September's $81.4 billion, but was darn close at $80.2 billion in November. Exports had jumped in October, pushing the deficit down to $67.2 billion for one month before imports rallied back. US imports of goods and services were a record $304.4 billion in November which shows U.S. companies are doing their best to bring in the goods from overseas to alleviate those supply shortages in this strengthening economic recovery.

The trade war with China with tariffs on many goods has tamed the overall deficit, but red ink continues to explode elsewhere in the world. The deficit with China peaked at $418. 2 billion in 2018 and in the first eleven months of 2021 it is running $319.2 billion. With one month left to go, the trade deficit with China is going higher with the monthly deficit running over $30 billion since August. US exports to China this year will certainly hit a record $150 billion which counts as progress where the prior record was $130.0 billion in 2017. China's not buying all-American yet however.

Net, net, signs of economic strength are everywhere with job layoffs at rock bottom levels and record imports of goods from America's trading partners overseas spilling more trade deficit red ink in November. A booming economy certainly doesn't need the support of the central bank so it is a good thing Fed officials are winding down their emergency stimulus early and signaling that rate hikes could be coming relatively soon. Jobless claims remain low and record demand for imports point to a booming economy this year. Bet on it.



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