Financial Markets This Week

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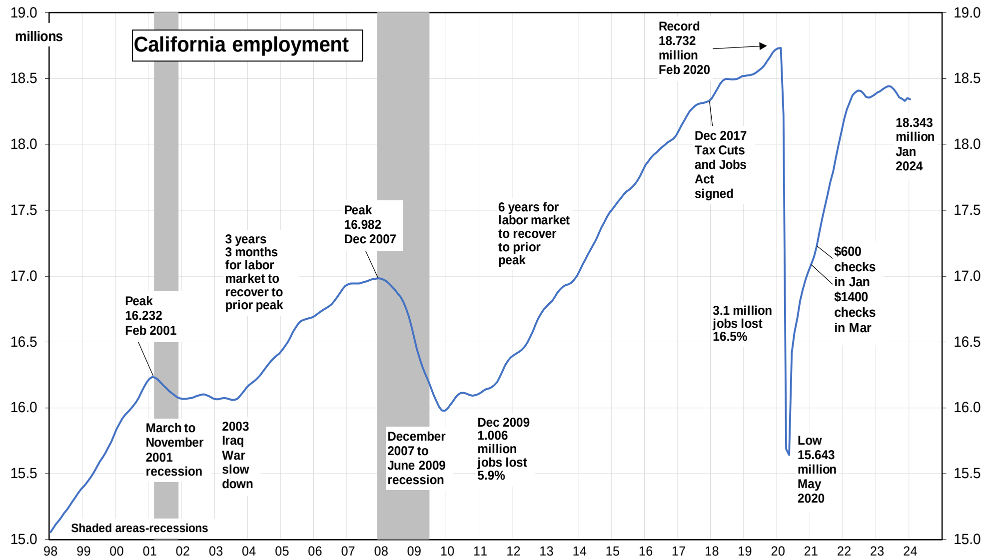
CALIFORNIA JOBS STALL



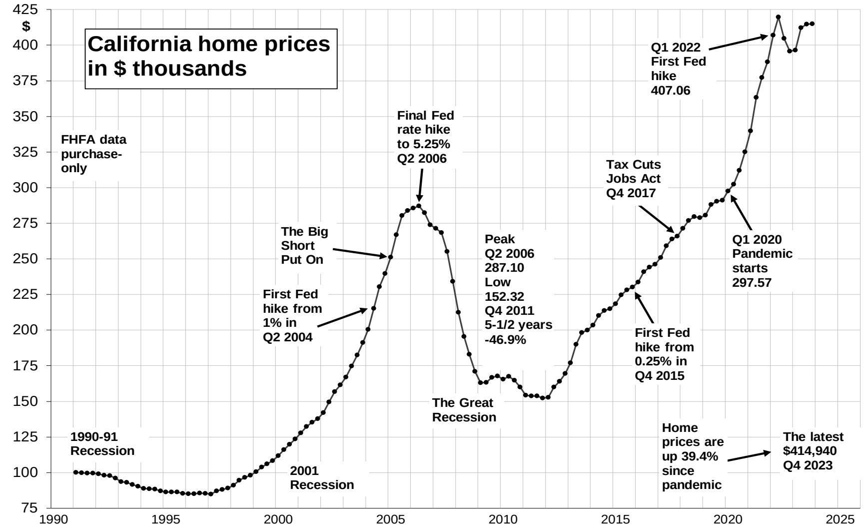
Not everyone is fleeing California, but its population is barely growing since before the pandemic. The population over the last 4 years is up about 72 thousand or 0.2% to 31.174 million in January 2024. Over the same period, the Texas population increased from 21.972 million in January 2020 to 23.620 million in January 2024, up 1.649 million or 7.5%. It stands to reason that if the California population is no longer growing then there are not going to be more jobs showing up in the labor market statistics.

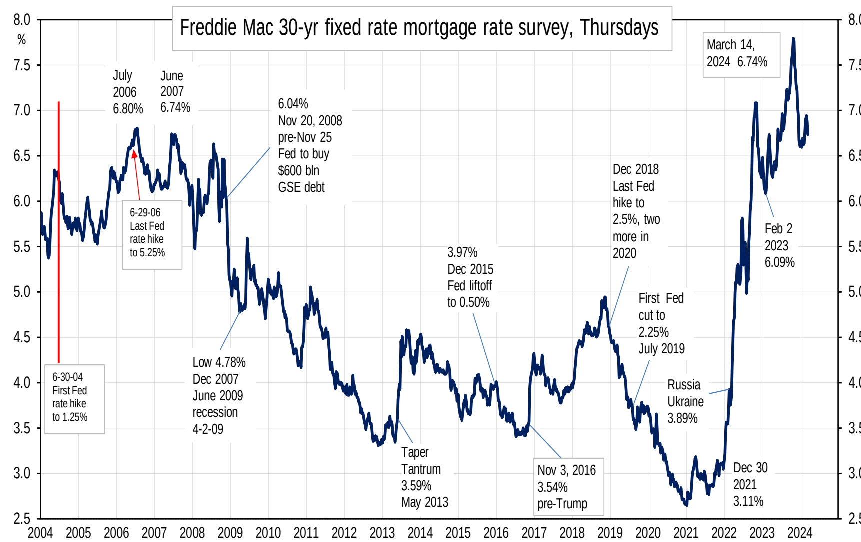
California Lost Jobs Since Aug 2022

Thousands	Aug 22	Jan 24	Change	% Chg
Population	31,049	31,174	125	0.4
Not in Labor Force	11,939	11,816	-123	-1.0
Employment	18,386	18,343	-43	-0.2
Unemployed	722	1,013	291	40.3
Rate	3.8	5.2	1.4	---
Participation rate	61.5	62.1	0.6	---
Payroll employment	17,762	18,007	245	1.4

In fact, California jobs have stalled, and the unemployment rate jump looks like its economy is in a recession. The table here is based on the cyclical low for the unemployment rate at 3.8% in August 2022, five months after the first Fed rate hike, where the jobless rate is sharply higher, a 1.4 percentage point increase to 5.2%. It is always nice when the economic data are consistent, but the 291 thousand increase in the unemployed from August 2022 to January 2024, was matched by a decline in employment of just 43 thousand, and the difference is accounted for by a 123 thousand decine in those Not in the Labor Force, deciding they should look for work. We stuck the increase in the participation rate to 62.1% in January for those politicians out there, who think it is a good thing for society if more Americans are participating, or in this case, working or looking for work or unemployed. The participation rate is still in a long-term decline as the baby boomers retire and drop out of society apparently.

The other inconsistency in the labor market count is payroll employment measured by paychecks is actually 245K higher to 18.007 million from August 2022 to January 2024 versus the Household Survey in the table above where employment dropped by 43K. Not a huge difference, but inconsistent.





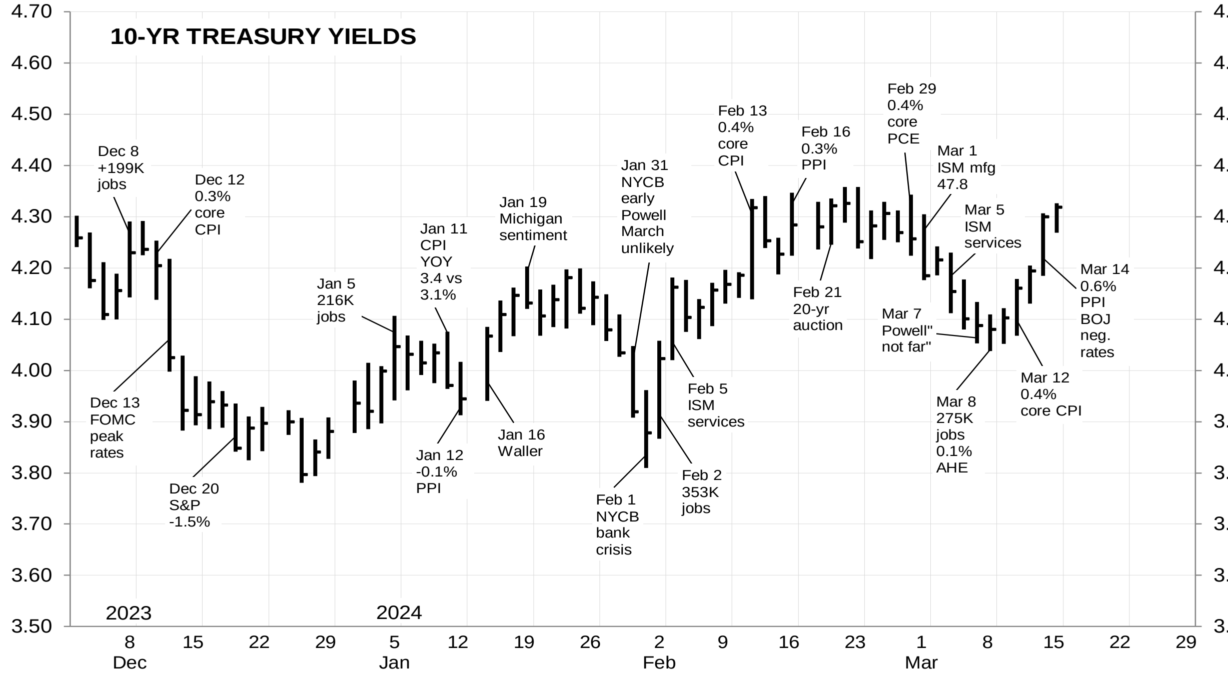
If California is in a recession and people are fleeing the state, you wouldn't know it looking at home prices that continue to shoot skyward. Recession-level Fed rates (5.25%) brought home prices down back in the Great Recession, a decline of 46.9% over 5-1/2 years ending in Q4 2011. Now of course nothing brings home prices down, not the pandemic, not the latest 5.5% Fed recession-level rates. Looking at this home prices graph, we wouldn't be so sure about cutting interest rates if we were a sitting Fed Governor. People still want to buy homes, but existing home sales are down because sellers cannot take their cheap 3% mortgage rates with them. That is one of the differences in the Fed's 5% recession-magnitude rates this time around. The rise in mortgage rates after the Fed started lifting rates in March 2022 is one of the largest in a couple of decades. Homeowners are frozen in place.

Housing Permits - California				
	Total	One Unit	5 or more Units	Number of Structures with 5 or more Units
2023	111,221	57,959	49,444	2,082
2022	119,667	63,717	51,564	1,893
2021	119,436	65,890	49,507	1,763
2020	106,075	59,043	43,215	1,384
2019	110,197	58,575	47,452	1,600
2018	113,502	58,831	50,031	1,763
2017	114,780	57,132	53,342	1,874
2016	102,350	50,311	48,850	1,544
2015	98,188	45,644	49,736	1,601
2014	83,657	39,222	42,197	1,422
2013	80,742	37,034	41,267	1,364
2012	58,549	27,736	28,688	1,028
2011	45,471	21,705	22,340	851
2010	43,716	25,693	16,306	850
2009	35,069	25,525	8,153	540
2008	62,681	32,432	27,642	1,224
2007	110,073	68,266	36,805	1,851
2006	160,502	107,714	46,281	2,290
2005	205,020	154,703	43,114	2,574
2004	207,390	151,568	48,594	2,810

There is also a shortage of homes contributing to upward pressure on home price because residential building construction is down. Single-family housing permits are still fairly high the last 7 years despite the short 2020 recession, and 57,959 in 2023. Construction was much higher in the final years of the housing bubble. But California is the biggest state in the union by population, and a ranking of single-family permits by state shows the largest was Texas (145,055), followed by Florida (124,478) and North Carolina (65,593).

To conclude, California is in recession looking at joblessness. It is not really correct statistically, but the 291 thousand increase in California unemployment from the August 2022 3.8% low to January 2024 5.2% high is 60% of the 475 thousand increase in national unemployment rate over the August 2022 to February 2024 period. Stay tuned. February 2024 California unemployment is due to be released on Friday, March 22 at 10am ET.

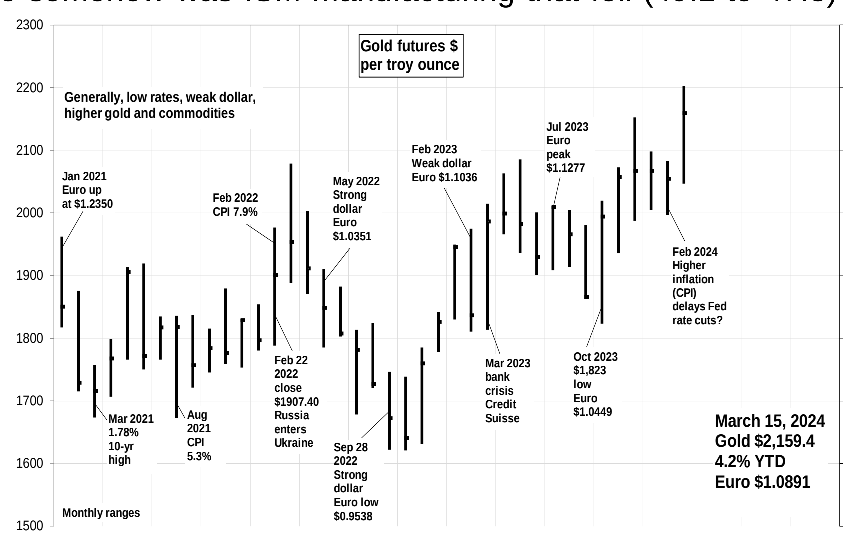
INTEREST RATES



It is not clear what ailed the stock market at week's end, but it is follow the bouncing ball with Nvidia apparently and there is a Nvidia developers conference next week before the Fed meeting. The daily changes in Nvidia and the S&P 500 matched perfectly each day this week. CEO Jensen Huang gives a keynote speech Monday, March 18 at 4-6pm ET. The daily changes up/down in Nvidia (5.0% weight in the S&P 500) and the S&P 500 matched perfectly each day this week. What can you say about a stock market that makes a record high close after Tuesday's strong CPI report that could delay Fed rate cuts. At least bond yields went higher on the inflation report, and Thursday's PPI report as well although there was also a story about the BOJ going to exit its negative rates policy on Tuesday, March 19. The insane, surprise move to negative rates in January 2016 brought Treasury yields down.

Gold new record high, with core CPI inflation uptick the last 4 months perhaps

You can buy dollars or gold, and while the dollar is not doing much against the Euro, gold went to a new record recently. The futures contract likes round numbers as it failed a few times to get through $2,100 since the year 2020; it did get through finally, and went to $2,200 where it has stalled again. The fundamentals trigger for the move somehow was ISM manufacturing that fell (49.1 to 47.8) on Friday, March 1 that brought down 10-yr yields from 4.26% to 4.18%, and the dollar moved down slightly against Euro. The high was Friday, March 8 after the strong 275K payroll jobs report, and the surprise 0.4% jump in core CPI on Tuesday this week did nothing for the famous inflation-hedge precious metal.



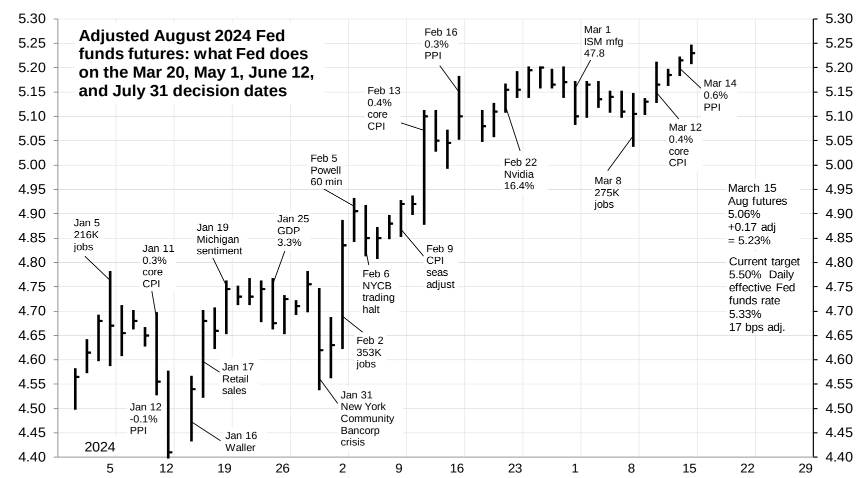
FEDERAL RESERVE POLICY

The Fed meets March 19-20, 2024 to consider its monetary policy. Inflation is running too hot in the first two months of the year for the Fed to be confident that they are going to achieve their target of 2%. Hot inflation probably takes one of the three rate cuts they have forecast for this year off the table. The presidential election is ahead as well and although policymakers traditionally say they are not political, they would have to be brave to venture out and cut interest rates at the September meeting before the November elections. The November 2024 final day meeting decision date is on a Thursday… November 7, instead of Wednesday, possibly to give an extra day's time to digest the results of the Tuesday, November 5 national election results. We can't recall any other Fed in recent economic history that has cut rates so close to a presidential election so maybe we still get one rate cut in June if the monthly inflation reports cool off, Fed officials signal that they're not in any hurry, and then we get one final rate cut after the election at the December meeting, ending the year at 5%. There does not appear to be any special urgency with home prices poised to go even higher, and while retail sales have been weak, real consumption spending of services (not in retail sales report), a much larger category, has run strong at 0.4% in November, December, and in January. And why hurry, just look at the last four months of core CPI meaning there has to be 0.2% monthly changes all year to get anywhere near the target. Instead, there is 0.3% in November, December, and 0.4% in January, February. Stay tuned. Wednesday, March 20 2pm ET for the Fed's updated forecasts, where they saw 3 rate cuts before, what now?

Selected Fed assets and liabilities

Fed H.4.1 statistical release billions, Wednesday data	13-Mar	6-Mar	28-Feb	21-Feb	3/11/20*	Change from 3/11/20 to Mar 13
Factors adding reserves						
U.S. Treasury securities	4628.851	4631.706	4661.257	4661.421	2523.031	2105.820
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2403.235	2403.235	2403.235	2414.220	1371.846	1031.389
Repurchase agreements	0.004	0.005	0.001	0.001	242.375	-242.371
Primary credit (Discount Window)	1.825	1.882	2.105	2.405	0.011	1.814
Bank Term Funding Program	167.463	164.022	163.474	164.231		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	3.104	3.148	3.193	3.230		
Main Street Lending Program	14.855	14.843	14.826	14.809		
Municipal Liquidity Facility	0.000	0.000	0.000	0.001		
Term Asset-Backed Facility (TALF II)	0.000	0.000	0.000	0.000		
Central bank liquidity swaps	0.179	0.183	0.217	0.215	0.058	0.121
Federal Reserve Total Assets	7592.7	7589.3	7618.1	7632.5	4360.0	3232.711
~~3-month Libor %~~ SOFR %	5.31	5.31	5.31	5.30	1.15	4.160
Factors draining reserves						
Currency in circulation	2341.493	2339.026	2333.089	2330.768	1818.957	522.536
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	748.388	760.550	767.672	788.759	372.337	376.051
Treasury credit facilities contribution	7.438	7.438	7.438	7.438		
Reverse repurchases w/others	521.738	456.847	569.855	574.882	1.325	520.413
Federal Reserve Liabilities	4019.585	3958.576	4077.140	4109.371	2580.036	1439.549
Reserve Balances (Net Liquidity)	3573.153	3620.689	3540.982	3523.095	1779.990	1793.163
Treasuries within 15 days	18.538	16.450	56.650	67.773	21.427	-2.889
Treasuries 16 to 90 days	305.941	310.294	264.929	257.083	221.961	83.980
Treasuries 91 days to 1 year	542.493	543.637	553.197	549.934	378.403	164.090
Treasuries over 1-yr to 5 years	1544.134	1543.878	1572.206	1563.703	915.101	629.033
Treasuries over 5-yrs to 10 years	709.700	709.563	707.656	716.276	327.906	381.794
Treasuries over 10-years	1508.045	1507.883	1506.619	1506.651	658.232	849.813
Note: QT starts June 1, 2022	Change	3/13/2024	6/1/2022			
U.S. Treasury securities	-1141.928	4628.851	5770.779			
Mortgage-backed securities (MBS)	-304.211	2403.235	2707.446			

**March 11, 2020 start of coronavirus lockdown of country



August Fed funds futures now are saying just 25 bps in June. Could be July 31, but there does not appear to be any urgency to cut rates faster than every quarter, meaning March, June, September, December meetings.

Fed funds futures call Fed policy

Current target: March 15 -- 5.50%

Rate+0.17	Contract	Fed decision dates
5.500	Apr 2024	Mar 20
5.240	Aug 2024	May 1, Jun 12, Jul 31

Last trade, not settlement price

Next up: February PCE inflation report Friday, March 29

Monthly		2024	2023										2023	2022
% Changes	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec
Core CPI inflation	0.4	0.4	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.4	0.5	0.3	0.5	0.4	0.4
Core PCE inflation		0.4	0.1	0.1	0.2	0.3	0.1	0.1	0.2	0.3	0.3	0.3	0.4	0.5	0.4
Core PCE YOY		2.8	2.9	3.2	3.4	3.6	3.7	4.2	4.3	4.7	4.8	4.8	4.8	4.9	4.9
Core CPI YOY	3.8	3.9	3.9	4.0	4.0	4.1	4.3	4.7	4.8	5.3	5.5	5.6	5.5	5.6	5.7

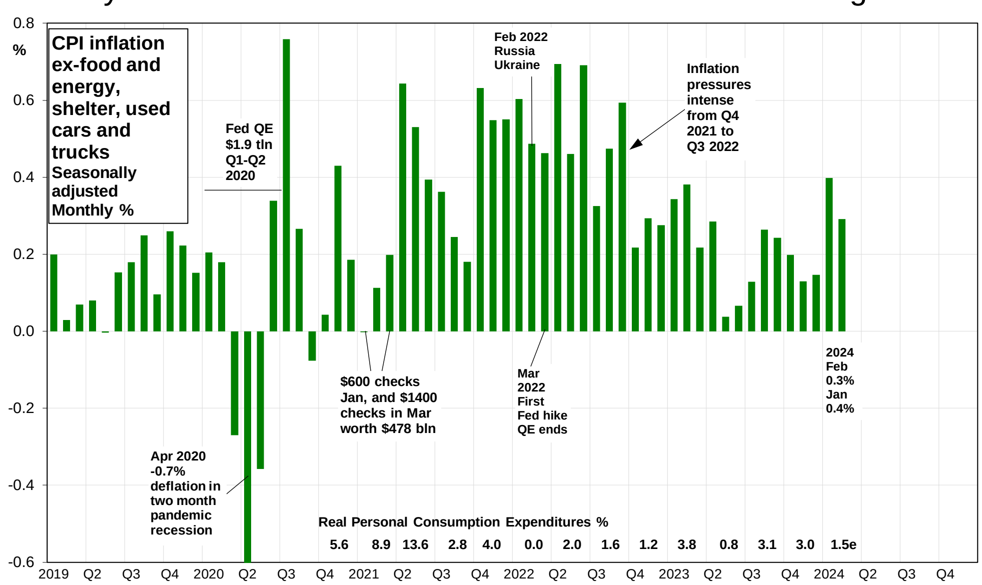
OTHER ECONOMIC NEWS

Fork in the eye for Fed officials (Tuesday)

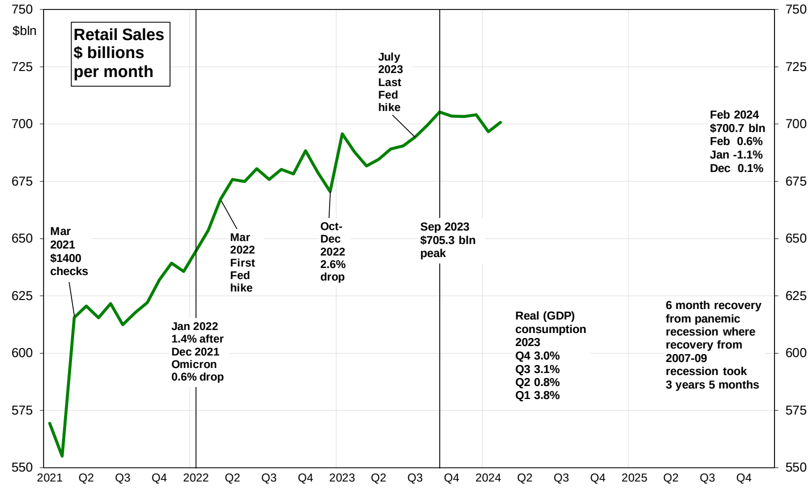
Breaking economy news. Inflation isn't dead yet. Core commodity prices are not falling and services prices are still increasing more than before. Even with shelter slowing to 0.4% in February from 0.6% in January, core CPI inflation still increased 0.4% for a second consecutive month (okay, okay 0.358% for the bulls). Even with medical care services falling 0.1% in February after increasing 0.7% in January, core CPI inflation remains too hot to handle at 0.4%. Inflation is not under control if the annual rate (0.4X12) is 4.8%. The Fed's target is 2.0%.

Dec 23 Weight	CPI inflation	Monthly Percent Changes Dec 2023	Jan 2024	Feb 2024	YOY % Feb 2024
100.0	Total	0.2	0.3	0.4	3.2
13.555	Food	0.2	0.4	0.0	2.2
5.388	Food away from home	0.3	0.5	0.1	4.5
6.655	Energy	-0.2	-0.9	2.3	-1.9
79.790	Ex-food & energy	0.3	0.4	0.4	3.8
3.684	New vehicles	0.2	0.0	-0.1	0.4
2.012	Used cars/trucks	0.6	-3.4	0.5	-1.8
2.512	Clothing	0.0	-0.7	0.6	0.0
1.489	Medical care goods	-0.1	-0.6	0.1	2.9
36.191	Shelter	0.4	0.6	0.4	5.7
26.769	Owner equiv. rent	0.4	0.6	0.4	6.0
6.294	Transportation	0.1	1.0	1.4	9.9
6.515	Medical care services	0.5	0.7	-0.1	1.1
	Special: Where inflation might come back down to				
60.899	Services ex-energy	0.4	0.7	0.5	5.2
18.891	Commodities (core)	-0.1	-0.3	0.1	-0.3

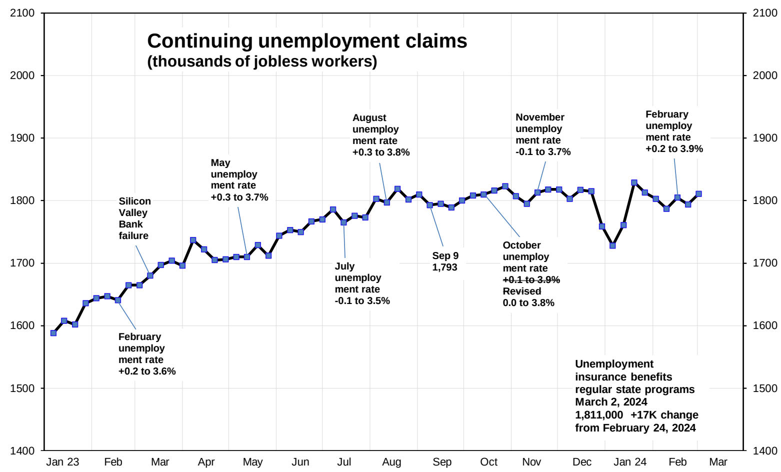
Net, net, Fed officials got a real fork in the eye from inflation for a second month in a row which starts to change the narrative from the central bank is winning to the central bank is losing the inflation fight. Two months in a row for 0.4% core CPI inflation means interest rates are going to stay higher for longer this year and we would not be surprised if the Fed forecasts at next week's meeting take down one of the three rate cuts they had penciled in for this year. Stay tuned. Inflation is alive and well, and just like the Great Inflation of the 80s, the medicine of the Federal Reserve's interest rate hikes can only do so much to return inflation back to the level of where prices were increasing each year before the outbreak. Once the match is lit and inflation flares up, it becomes very difficult for Washington officials to bring it under control. Forget about Washington's inflation-fighting measures to bring down prescription drug prices or address so-called shrinkflation, the Federal Reserve is in the driver's seat and right now it looks like Powell and crew are sitting on the hot seat. It is looking more and more that interest rates were not high enough to slow the economy's advance and rebalance the labor market to bring inflation down. The stock market is lifting on today's above consensus inflation news thinking a Fed rate hike in June is still the most likely scenario, but something is wrong with the market's assessment because services prices continue to spiral upward and commodity prices are no longer falling like they did which helped to slow inflation's advance.



Economy not in great shape (Thursday)



Breaking economy news. Retail sales, initial jobless claims and PPI inflation. We are shocked at how consumers have pulled back their support of the American economy with significant downward revisions to December and January and now a modest 0.6% rebound if you call it that with February retail sales rising 0.6%. The picture of retail sales is as much in the hole as it was a month ago with spending a negative 2.8% in Q1 2024. It is downright scary that the level of retail sales is below the recent record peak way back in September last year. A big five months of nothing from consumers who have sat on their hands maybe showing that higher inflation does indeed cause shoppers to spend less like it says in economics textbooks.



Jobless claims got their annual revision to seasonal factors and the number of Americans receiving benefits remains elevated where 1.811 million in the March 2 week got benefits; however the extensive revision does show a flat-line level of these jobless at 1.819 million in the August 19, 2023 week to 1.811 million in the March 2 week. No exceptional weakness for the labor markets since last August where the unemployment rate was 3.8% in August and 3.9% in the latest February 2024 data.

Retail spending, actual dollars, each month

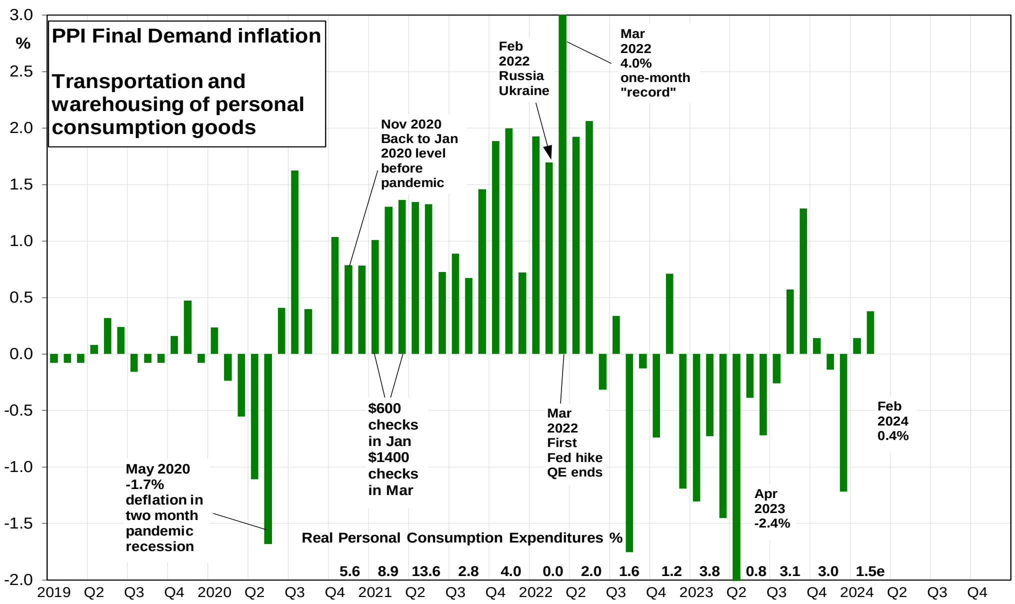
	$million	% to	Percent Changes %		
	Feb	Total	Feb	Jan	Year/year
Total Retail Sales	700,727	100.0	0.6	-1.1	1.5
Motor vehicles/parts	133,937	19.1	1.6	-2.1	1.4
Furniture/furnishings	10,593	1.5	-1.1	0.2	-10.1
Electronics/appliances	7,773	1.1	1.5	2.8	1.9
Building materials/garden	40,417	5.8	2.2	-4.3	-6.1
Food & beverage	82,579	11.8	0.1	-0.3	0.4
Health/personal care	35,999	5.1	-0.3	-1.4	1.7
Gasoline stations	53,044	7.6	0.9	-1.4	-4.5
Clothing/accessories	26,289	3.8	-0.5	-0.8	1.3
Sporting goods, books	8,461	1.2	0.0	-0.4	-3.0
General merchandise	73,785	10.5	0.4	0.0	0.7
Department stores	11,064	1.6	-0.2	1.0	-4.4
Miscellaneous retailers	15,783	2.3	0.6	0.2	3.2
Nonstore retailers (internet)	118,765	16.9	-0.1	-0.3	6.4
Eating & drinking places	93,302	13.3	0.4	-1.0	6.3

Inflation? We got Producer Prices today rising 0.6% in February with much of the increase due to energy increasing 4.4%. Final demand prices less foods and energy were higher at 0.3% in February, the same as in January, so inflation worries will remain on the front burner of concern for the markets and Fed officials for now. At least the trip to the doctor will be less daunting this month with offices of physicians prices increasing just 0.1% in February after the 1.3% medicare-related jump in January. The question remains unanswered about the inflation outbreak at the start of the year with price pressures continuing for a second month. Is it real or not?

Net, net, a somewhat darker outlook for the US economy this month where price pressures are simmering at the producer level, jobless workers cannot get off the unemployment rolls, and consumers have pulled their support for the economy where retail shopping is below the level of activity seen way back in September last year. Even internet sales, so-called nonstore retailers saw spending drop 0.1% in February and 0.3% in January.

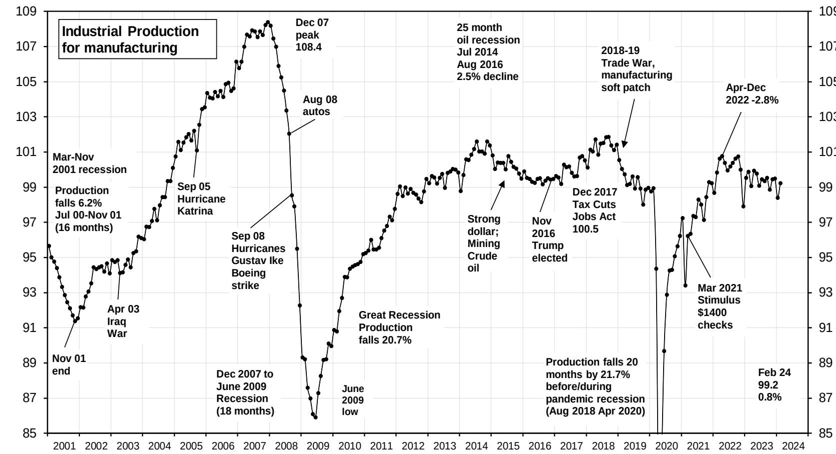
	PPI Final demand goods less foods/energy-- Monthly Percent Changes SA											
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
2023	0.6	0.3	0.2	0.1	0.1	-0.1	0.0	0.1	0.3	0.1	0.1	0.1
2024	0.3	0.3										
	PPI Final demand goods less foods/energy-- Year/Year Percent Changes NSA											
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
2023	5.6	5.1	4.3	3.3	2.7	2.0	1.9	1.8	2.1	2.1	2.0	1.9
2024	1.6	1.6										

Fed officials are not going to panic and bring forward the rate cuts they forecast this year as the shortfall in retail sales can still mean the consumer is buying more services than they are spending on hard goods. The weekly claims data help support the current elevated 3.9% unemployment rate that the FOMC sees going to 4.1% in Q4 2024 anyway. Inflation is not going away, but despite the 0.6% jump in producer prices, the year-on-year PPI inflation index rose a modest 1.6%. There would need to be several more months of bad monthly PPI inflation numbers before the year-year level picked back up enough to undo the progress seen to date. The peak PPI year-year inflation rate was 11.7% in March 2022 the exact same month the Fed hiked interest rates for the first time this cycle. Stay tuned.



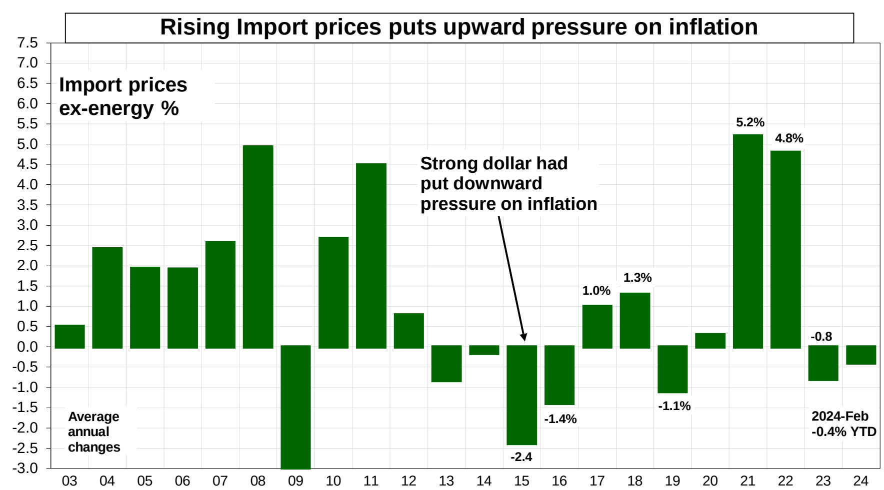
Import prices up, factory output stalls (Friday)

Breaking economy news. Industrial production and import prices. Industrial production rose 0.1% in February which was a weak bounce after a 0.5% drop in January. Cold winter weather increased utility output 7.4% in January before warmer than seasonal temps in February led to a 7.5% decline. However you look at it, either industrial production or just manufacturing industrial production or factory output, manufacturing is sputtering outside the building of a few new semiconductor plants. For industrial production, the completion of those semiconductor plants couldn't come soon enough.



Percent changes			Industrial Production Feb 2024		
Dec	Jan	Feb	YOY		Weight
-0.3	-0.5	0.1	-0.2	Total Index	100.0
0.0	-1.1	0.8	-0.7	Manufacturing	75.4
0.8	-2.9	2.2	1.4	Mining	14.1
-4.0	7.4	-7.4	0.8	Utilities	10.5
			Manufacturing payroll jobs 13.0 million +24K YOY 9.6% of Private Payroll Jobs		

Higher energy prices are fueling the increase in import prices at the start of the year. Stripping out the jump in oil prices, there has been a slight moderation in nonfuel import prices from 0.7% in January to a 0.2% increase in February. It is not all bad news on the inflation outlook for Fed officials with less imported inflation coming into the country to boost domestic consumer inflation, but the central bank needs to remain on its guard because the general public still believes inflation is the number 1 economic problem facing the country. Finished consumer goods imports increased 0.3% in February after the huge 1.3% jump in January.



Net, net, imported non-energy goods prices are ticking up and time will tell whether this is just winter-weather related, and the price increases will moderate as winter turns to spring. The increase does not appear to be foreign exchange rate driven especially. Meanwhile, the soft patch for American factory output continues and without a sustained pickup in world growth, export-driven industrial production is likely to remain lackluster. Factory output bounced back 0.8% in February following the cold winter weather plunge of 1.1% in January, but production is still below last year's levels. About the only way to get US factory output up is to bring the factories back from overseas and that is unlikely to happen anytime soon if ever. The factories left for the cheaper labor abroad over two decades ago, and to reverse that trend would take another twenty years. Stay tuned. Factory production remains down in the dumps without a spark to lead to increased output while import prices continue to fan the winds of inflation. It isn't stagflation looking at the depressed factory production and higher import prices, but it is close.

Analyst Certification

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