Financial Markets This Week

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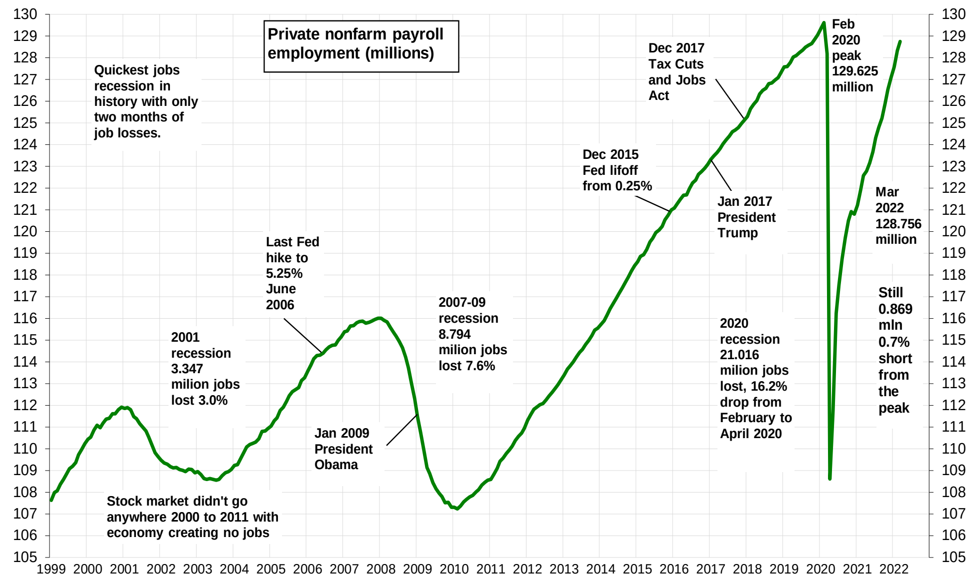
431 THOUSAND MORE PAYROLL JOBS, BUT FOR HOW LONG

Breaking economy news. The unemployment rate tumbled again and at 3.6% in March is just one-tenth away from the best economy in fifty years joblessness before the pandemic. No wonder inflation is out of control, the labor market is at full employment where the costs go up astronomically for companies to bring new workers in to run the factories and work the cash registers across the country. The cost of living crisis is aided and abetted by the worst labor shortage that America has ever faced. Waiting for more workers to join the labor force and "participate" in order to bring down wages and inflation is a pipedream. We put the participation rate graph on page 3 this week but we won't leave it there forever: don't waste your time. This is an economic statistic for politicians only. It's not the key to solving the wage-price spiral and it will fall further in the years ahead as the 58 to 76 year old baby boom generation keeps on keeping on retiring.



Payroll jobs increased 431 thousand in March as anticipated. Okay maybe the 95K upward revisions to January/February not so expected, so a good number based on the numbers. Our only question is whatever happened to Omicron with 1.685 million more workers on the job in the first quarter of 2022. Don't be fooled by the fact that payroll employment is still down 1.6 million or 1.0% from February 2020 before the recession as the vast majority of those jobs are in leisure and hospitality which was hit so badly by lockdowns during the pandemic. Many of those jobs will take years to come back and even if restaurants and bars and amusement parks wanted to increase staff, they wouldn't be able to because of the millions of labor force dropouts from baby boomers retiring at the age of 65. The economy will run into a wall if it can't get any more workers.

Monthly changes (000s)	Mar	Feb	Jan	Dec	Nov
Payroll employment	431	750	504	588	647
Private jobs	426	739	492	561	627
Leisure/Hospitality jobs	112	154	138	186	191
HH Employment Survey*	736	548	1199	651	1090
Unemployment rate %	3.6	3.8	4.0	3.9	4.2
Not in labor force (mln)	99.035	99.333	99.516	99.842	99.902
... and Want A Job (mln)	5.737	5.355	5.704	5.713	5.819
Average hourly earnings	$31.73	$31.60	$3.56	$31.38	$31.23
MTM % Chg	0.4	0.1	0.6	0.5	0.4
YOY % Chg	5.6	5.2	5.4	4.9	5.3

* Household (telephone) Survey of employment behind unemployment rate

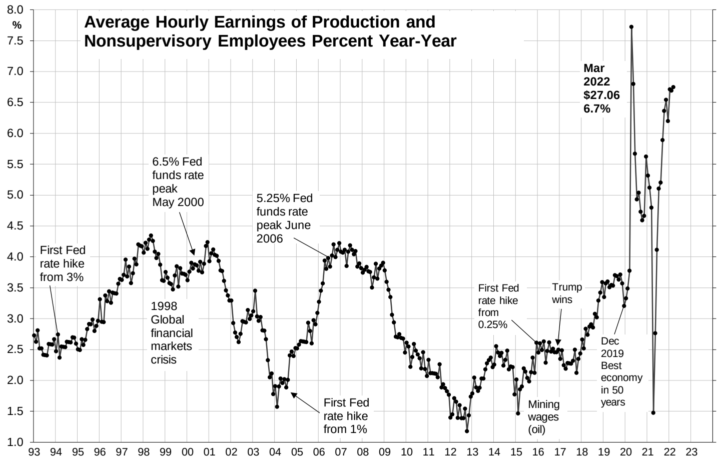
Economic growth is already slowing down to a crawl this quarter. This could be the shortest economic boom in history.

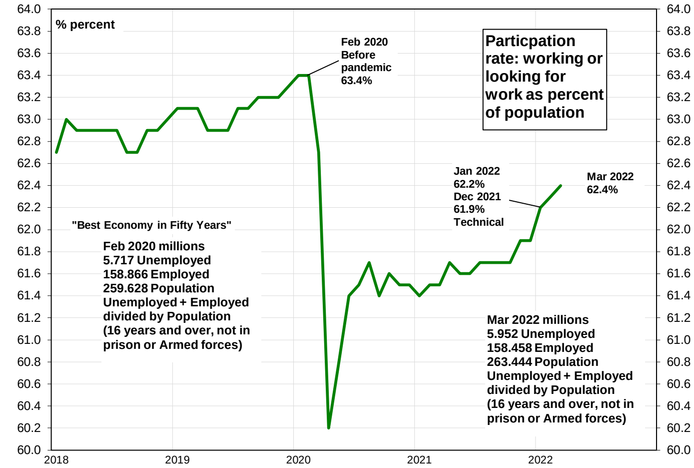
Wages of production and nonsupervisory workers have stuck at a 6.7% year-to-year rate for three straight months this year earning $27.06 an hour in March. Here's your inflation problem right here. The wage-price spiral is back. Whatever the reason inflation starts rising in some prices, often it is food prices or gasoline prices at the pump, the inflation cancer spreads quickly throughout the economy. The buck stops here at the central bank when it comes to fighting inflation, but this time, Fed officials thought the supply chain problems and shortages which caused goods prices to jump would be temporary. Instead, goods price inflation spread to services and now every price in America goes up. Then when wages start going up to match inflation, you have a king-size problem because wages are sticky and no one wants a salary cut.

Payroll jobs fall from February 2020 peak as recession began

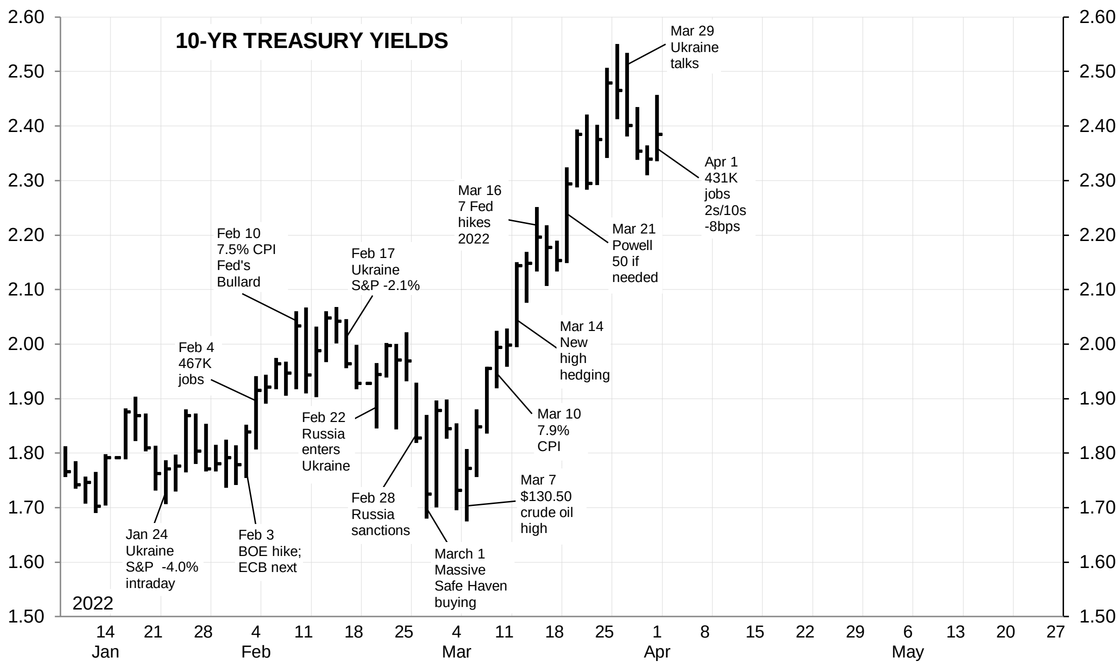
Data in thousands	Mar 22	Feb 22	Jan 22	25 months Feb 20 Mar 22	Mar 22	Feb 2020
Nonfarm Payroll Employment	431	750	504	-1,579	150,925	152,504
Total Private (ex-Govt)	426	739	492	-869	128,756	129,625
Goods-producing	60	102	32	-210	20,885	21,095
Mining	2	7	0	-85	554	639
Manufacturing	38	38	26	-128	12,657	12,785
Motor Vehicles & parts	6	-16	0	-13	975	988
Construction	19	57	6	4	7,628	7,624
Private Service-providing	366	637	460	-659	107,871	108,530
Trade, transportation, utilities	54	199	188	772	28,604	27,832
Retail stores	49	110	121	278	15,876	15,598
General Merchandise	20	59	69	306	3,306	3,000
Food & Beverage stores	18	10	4	96	3,153	3,056
Transportation/warehousing	-1	70	53	608	6,402	5,795
Truck transport	-5	10	7	35	1,551	1,515
Air transportation	1	5	6	13	529	516
Couriers/messengers	7	10	18	248	1,122	875
Warehousing and storage	4	27	20	446	1,765	1,319
Utilities	-1	0	1	-10	537	547
Information	16	-5	5	26	2,929	2,903
Financial	16	30	2	41	8,911	8,870
Insurance	-1	3	0	-41	2,812	2,853
Real Estate	14	18	2	-16	2,349	2,364
Commercial Banking	-1	-1	0	-56	1,343	1,399
Securities/investments	5	3	-5	50	1,014	965
Professional/business	102	105	88	723	22,116	21,393
Temp help services	5	43	28	247	3,153	2,906
Management of companies	4	11	5	-52	2,370	2,423
Architectural/engineering	6	4	8	62	1,609	1,547
Computer systems/services	12	4	11	168	2,395	2,227
Legal services	2	0	1	14	1,177	1,163
Accounting/bookkeeping	18	-5	-5	48	1,078	1,030
Education and health	53	117	33	-456	24,142	24,598
Hospitals	5	6	0	-98	5,137	5,236
Educational services	20	20	22	-32	3,771	3,803
Leisure and hospitality	112	154	138	-1,474	15,509	16,983
Hotel/motels	25	27	21	-422	1,698	2,119
Eating & drinking places	61	94	97	-820	11,541	12,361
Government	5	11	12	-710	22,169	22,879
Federal ex-Post Office	0	1	-1	8	2,269	2,261
State government	-14	-12	-18	-117	5,193	5,310
State Govt Education	-6	-7	-6	-29	2,577	2,606
Local government	20	21	27	-612	14,096	14,708
Local Govt Education	16	14	26	-331	7,733	8,064

Net, net, the good news is the economy is creating more jobs and putting thousands of Americans to work, the bad news is it is hard for companies to hire unless they boost worker wages and this produces more inflation. The Federal Reserve has switched gears from fighting joblessness to trying to extinguish the inflation fires roaring out of control. Today's 431 thousand more jobs is nothing to rejoice about and the employment gains are unlikely to last forever with the Fed saying they will hike rates at every remaining meeting this year. The rock-bottom low in unemployment is not something to celebrate, it is a sign the labor pool of available workers is nearly empty. Let's hope companies don't bring any more factories back to America because right now there is no one to work out on the shop floor to build the goods that the country has enjoyed for so long. Bad news employment report today. Bet on it. The bond market is. The 2-year/10-year Treasury yield curve inverted after the inflationary aspects of the jobs report today saying the Fed has many more rate hikes to go to slow the economy and rein in inflation. Raise rates so high the result will be recession is what the bond market in its wisdom is saying. Get ready: the curve inversion could signal a recession is as close as 13 months away in May 2023 if history is any guide. Here's hoping as recession is the tried and true remedy for out of control inflation. Lose your job for inflation today.





INTEREST RATES

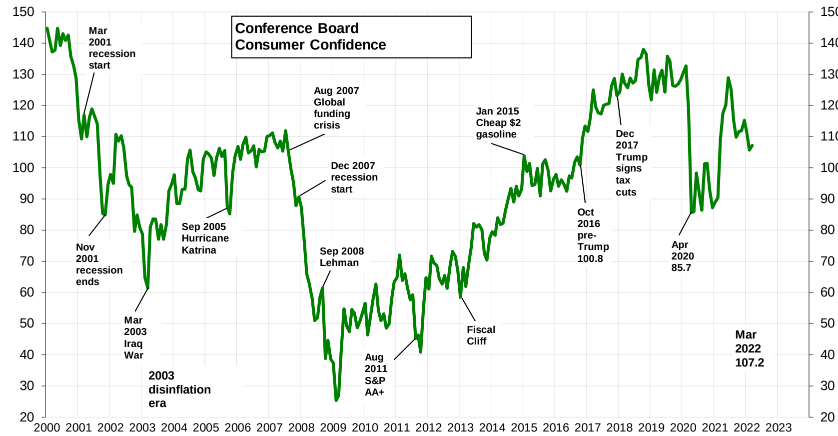


10-year yields made a new 2022 high at 2.55% on Monday before Russian-Ukraine peace talks pushed the stock market higher and bond yields fell. Actually, confidence in a more aggressive Fed brought bond yields down flattening the curve. The curve inverted slightly Thursday at the close, and 2s/10s was minus 8 bps on Friday after the stronger employment report meant the Fed had a green slight to try and slow things down. Last Friday, the 2-year/10-year curve was +20 bps and this Friday the close was -8 bps. The Fed funds rate is only 0.50% which we guess tells you how confident the market is that the Fed will push rates up every meeting this year ending the year at a minimum of 2.0%. For the record, the S&P 500 closed Friday at -4.6% year-to date. The darkest day for stock this year was March 8 with a close -12.5% year-to-date. It all looks easy in hindsight, the same reasoning Powell used about his inflation-miss.

OTHER ECONOMIC NEWS

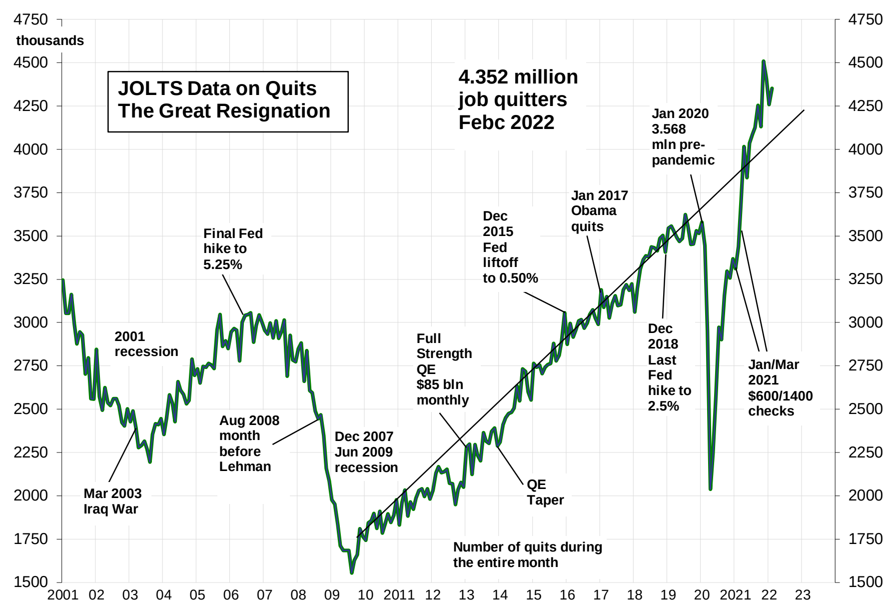
Consumers are confident enough to quit their jobs anyway (Tuesday)

Breaking economy news. Jolts data, Job Openings and Labor Turnover statistics for February and the consumer confidence index for March both at the same release time of 10am ET. 11.3 million job openings in February showing little change against the official number of unemployed workers behind the 3.8% unemployment rate at 6.270 million. You quitters out there made it to honorable mention status in Powell's Monday, March 21 speech; congratulations, your inability to stay on the job, keep moving on up for more bucks, is one of the reasons cited for labor market tightness. Powell said, "Record numbers of people are quitting jobs each month, typically to take another job with higher pay." You quitters are the reason inflation and interest rates are going up. Might be good for baby boom retirees savings accounts but almost no one else. Still wonder if we will escape this period of the worst inflation since the 1980s without a massive recession like the early 1980s.



Meanwhile, the Conference Board's measure of consumer confidence rose to 107.2 in March from 105.7 in February. This would count as good news except they also have a consumer expectations measure (this index is a component of the Index of Leading Indicators, remember those days?) that fell sharply. Exepectations were down due to inflation just like the consumer sentiment index from the University of Michigan.

Net, net, job openings are still too high if the Federal Reserve is hell-bent on bringing down inflation now, as in right now, or as expeditiously as possible. Sounds like a Bernanke word, expeditiously, or trying for it anyway. If there are massive job openings then there is upward pressure on wages which reinforces the inflation trend keeping inflation higher for longer.



Ahoy. Big changes ahead for GDP growth (Wednesday)

Breaking economy news. Real GDP was 6.9% in Q4 2021 for the third and final revision. Big changes are ahead for GDP growth in 2022 because the Fed is in the fight for its life against out-of-control inflation and policymakers will not rest until they finish the mission to slow the economy back down. Real GDP of 5.7% for the full year 2021 is going to come crashing back down to reality this year as the Fed takes the punch bowl away to stop the dangerous inflation outbreak. We see big changes ahead for the economy this year where the Fed needs to slow the economy without putting the expansion into reverse. Don't forget, the 6.9% Q4 2021 was a largely a mirage as 5.3 percentage points was due to the temporary buildup of inventories. The Atlanta Fed GDPNow forecast has growth plunging to 0.9% in the first quarter of 2022. Ouch.

Net, net, there was just a slight adjustment to GDP growth for the last quarter of 2021, but make no mistake about it, there are big changes ahead for the economy in 2022. There was a massive demand surge on the part of the consumer last year from the Federal government's Economic Impact Payments. That's gone. Growth is slowing around the globe from the war in Europe and Covid lockdowns in China and the U.S. economy will not be able to remain an island of prosperity while the rest of the world tumbles. Energy prices have shot higher helping to pull the trigger on prior recessions and the same thing is happening right now. Finally, if the economy does not slow, the Federal Reserve is waiting in the wings to pull the curtain down on growth that feeds the inflation fires. Bet on it. The 2-year to 10-yr Treasury yield curve briefly inverted yesterday, and the inversion forecast for recession ahead may turn out to be right this time if inflation does not come back down in a hurry. Stay tuned. Story developing badly.

	Q3 20	Q4 20	Q1 21	Q2 21	Q3 21	Q4 21p	Q4 22r	Q4 22f
REAL GDP	33.8	4.5	6.3	6.7	2.3	6.9	7.0	6.9
REAL CONSUMPTION	41.4	3.4	11.4	12.0	2.0	3.3	3.1	2.5
CONSUMPTION	25.5	2.3	7.4	7.9	1.4	2.3	2.1	1.8
Durables	5.5	0.1	3.5	1.0	-2.5	0.1	0.2	0.2
Nondurables	4.4	-0.2	2.2	2.0	0.3	0.0	0.1	0.1
Services	15.6	2.3	1.8	4.9	3.6	2.1	1.8	1.5
INVESTMENT	11.7	4.0	-0.4	-0.7	2.1	5.2	5.4	5.8
Business Plant	-0.5	-0.2	0.1	-0.1	-0.1	-0.3	-0.3	-0.2
& Equipment and	2.7	1.3	0.8	0.7	-0.1	0.1	0.1	0.2
Intellectual Property	0.5	0.5	0.8	0.6	0.5	0.5	0.5	0.5
Homes	2.2	1.3	0.6	-0.6	-0.4	0.0	0.1	0.1
Inventories	6.8	1.1	-2.6	-1.3	2.2	4.9	4.9	5.3
EXPORTS	4.6	2.1	-0.3	0.8	-0.6	2.4	2.4	2.2
IMPORTS	-7.9	-3.7	-1.3	-1.0	-0.7	-2.4	-2.4	-2.5
GOVERNMENT	-0.2	-0.1	0.8	-0.4	0.2	-0.5	-0.5	-0.5
Federal defense	0.1	0.2	-0.3	0.0	-0.1	-0.2	-0.2	-0.2
Fed nondefense	-0.4	-0.4	1.0	-0.3	-0.3	0.0	-0.1	-0.1
State and local	0.1	0.1	0.0	0.0	0.5	-0.2	-0.2	-0.2
Below line: Percentage point contributions to Q4 2021 6.9% real GDP								
First estimate for Q1 is Thursday, April 28								

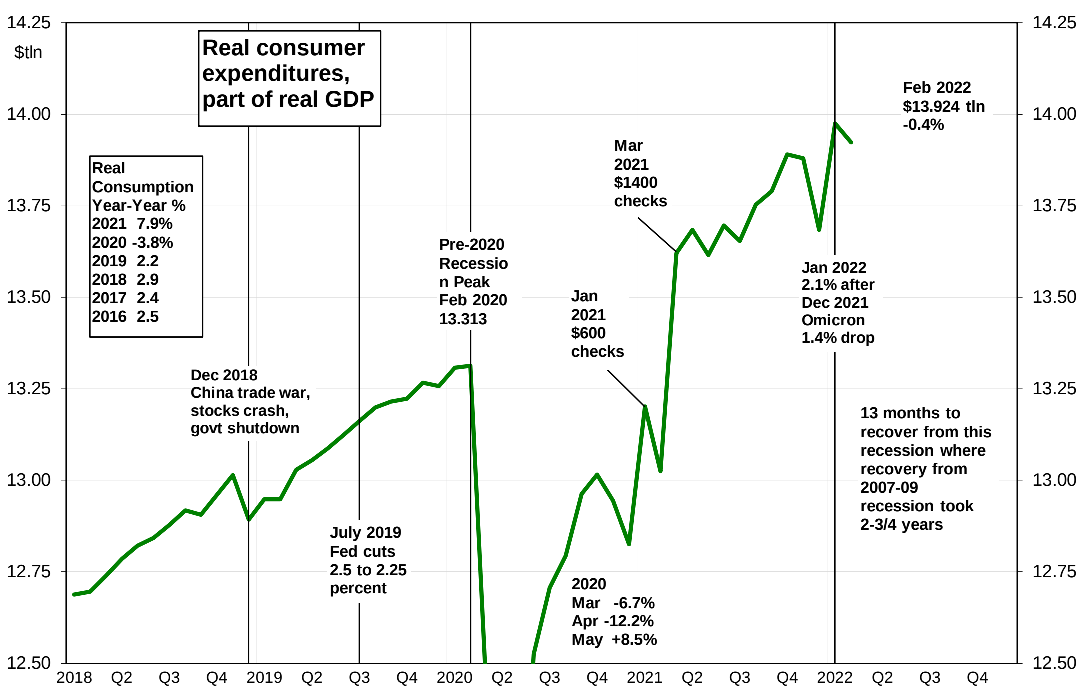
Consumer spending and inflation and jobless claims (Thursday)

Breaking economy news. Jobless claims rose modestly to 202 thousand in the March 26 week from an upward revision to 188 thousand the week before. This means last week's reading is no longer the best since 1969; it is the best labor market with the fewest unemployment insurance benefits filings since December 4, 2021. Nevertheless, the die is cast and the labor market did strengthen this month which should allow for another drop in the unemployment rate from 3.8% in February when we get Friday's employment situation report for March.

Consumer spending was a worry after steady downward revisions in Q4 2021 with real consumption expenditures falling, falling, falling from 3.3 to 3.1 and then 2.5 percent in yesterday's third revision GDP data. Real consumption fell 0.4% in February, but after being revised to a gain of 2.1% from the preliminary figure of 1.5% reported last month. Overall, spending is stronger now in the first quarter and running about 3.5% which will keep most of the economy growing moderately even if inventories crash back down and erase some GDP growth for technical reasons.

Consumer inflation isn't exactly taking a breather, but it is less than the CPI measure and there is hope the inflation outbreak will lessen in intensity in coming months. Prices can't continue to rise too fast or companies will lose product sales as consumers back off because they simply can't afford it. PCE inflation in February is 6.4% year-year versus 7.9% for CPI. Core PCE inflation in February is 5.4% year-year versus 6.4% for CPI. Core CPI moderated in February rising just 0.4% after steady 0.5% monthly increases from October through January. Inflation is hot, but it isn't getting any hotter is our reading as we may be close to seeing the peak.

Net, net, you know the economy is fully open again when consumers open their wallets and purses and spend more on services. Consumers shied away from in-store shopping and doctor visits, vacations, ball games, and haircuts where they had to leave their homes during the pandemic, but no longer as services spending is strongest yet rising 0.6% in February in real terms which is the most seen since 0.8% in July. The public is confident enough in the outlook to keep on spending to make the economy humm even if they tell pollsters they are vexed about higher prices. The war in Europe and stock market volatility hasn't hurt spending yet.



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