# *Financial Markets This Week*

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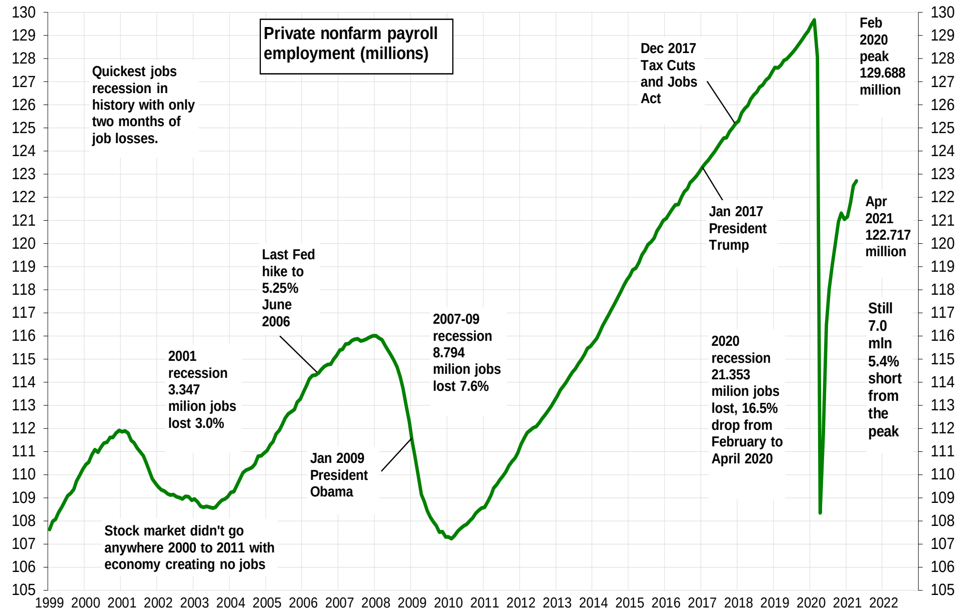
## MONSTER JOBS NUMBER




A monster jobs number on the road to economic recovery on Friday. The market's hyperbole- ahead of the biggest market-moving economic statistic in the world- not ours. Stock markets are still flying high for months now actually on the reopening and economic recovery trade. This begs the question of just how good the economy really was back in February 2020 before the pandemic struck growth down for a time. That's all water under the bridge now as it wasn't a million jobs report it was just 266 thousand created in April. And March's million jobs number got revised down from 916K to 770K. Bond yields fell sharply on the news. With volatility not seen in ages, stop-loss buying in bond futures sent prices up 1-1/4 points in the first 60 seconds at 830am ET and 19/32nds higher in the second minute before retracing from the high of the day. Sub-par 266K payroll jobs with economists estimates for 1 million to 2 million caused a two minute skid mark on the charts that won't be soon forgotten by fixed income traders. Maybe banks need risk management after all.

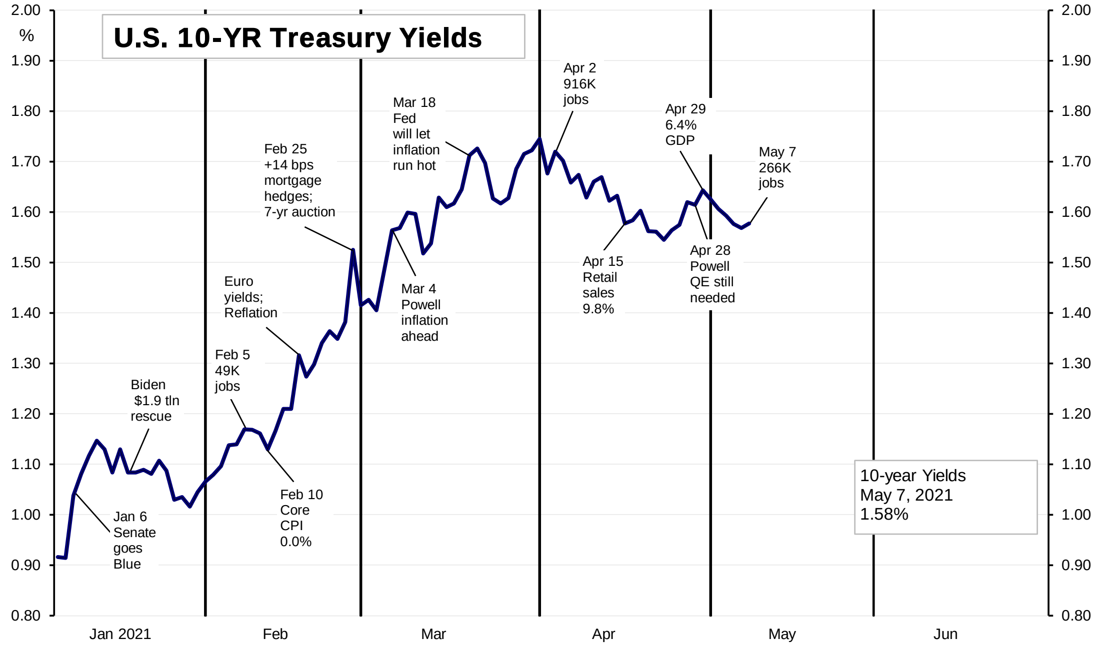
The reopening trade is still there with the lifting of pandemic restrictions and 331K more leisure and hospitality jobs in April, although it is notable, that we haven't been out to a restaurant yet, and leisure and hospitality jobs are still down 16.8% or 2.8 million jobs lost since February 2020. With 331K more leisure and hospitality jobs gained, somewhere there had to be lost jobs and wages. Temp jobs, couriers and messengers, retail and manufacturing didn't fare as well. Temporary help services lost 111K jobs. Couriers and messengers fired 77K workers. Retail jobs are down thanks to the 49K drop at food and beverage stores. America isn't bringing production back from overseas yet with manufacturing jobs dropping 18K. Motor vehicles and parts manufacturers lost 27K. The general theme in today's report is that the 266K gain is an uneven one in this recovery; the Covid-19 stay-at-home economy required more workers in some industries for a time and now the labor market is shifting back in the other direction.

**Payroll jobs fall from February peak as recession began**

| Data in thousands | Apr 21 | Mar 21 | Feb 21 | 14 months Apr 21 Dec 20 | Apr 2021 | Feb 2020 |
|---|---|---|---|---|---|---|
| Nonfarm Payroll Employment | 266 | 770 | 536 | -8,215 | 144,308 | 152,523 |
| Total Private (ex-Govt) | 218 | 708 | 622 | -6,971 | 122,717 | 129,688 |
| Goods-producing | -16 | 166 | -20 | -786 | 20,351 | 21,137 |
| Mining | 3 | 16 | 2 | -70 | 571 | 641 |
| Manufacturing | -18 | 54 | 35 | -515 | 12,284 | 12,799 |
| Motor Vehicles & parts | -27 | 1 | 0 | -108 | 879 | 986 |
| Construction | 0 | 97 | -57 | -196 | 7,452 | 7,648 |
| Private Service-providing | 234 | 542 | 642 | -6,185 | 102,366 | 108,551 |
| **Trade, transportation, utilities** | -81 | 99 | 58 | -777 | 27,099 | 27,876 |
| Retail stores | -15 | 33 | 14 | -400 | 15,210 | 15,610 |
| General Merchandise | -10 | -6 | -1 | 64 | 3,063 | 2,999 |
| Food & Beverage stores | -49 | -1 | 10 | 38 | 3,113 | 3,075 |
| Transportation/warehousing | -74 | 45 | 36 | -142 | 5,681 | 5,823 |
| Truck transport | -2 | 3 | -2 | -45 | 1,480 | 1,525 |
| Air transportation | 7 | 5 | -5 | -98 | 419 | 517 |
| Couriers/messengers | -77 | 14 | 29 | 126 | 1,009 | 883 |
| Warehousing and storage | -4 | -3 | -3 | 78 | 1,406 | 1,328 |
| Utilities | 0 | 1 | 0 | -7 | 540 | 547 |
| **Information** | 1 | 8 | 6 | -227 | 2,687 | 2,914 |
| **Financial** | 19 | 19 | -7 | -63 | 8,812 | 8,875 |
| Insurance | -7 | 10 | -6 | 19 | 2,875 | 2,856 |
| Real Estate | 17 | 13 | -5 | -101 | 2,260 | 2,362 |
| Commercial Banking | -1 | -2 | -3 | -47 | 1,353 | 1,400 |
| Securities/investments | 5 | 0 | -1 | 17 | 983 | 966 |
| **Professional/business** | -79 | 67 | 93 | -748 | 20,721 | 21,469 |
| Temp help services | -111 | -8 | 48 | -296 | 2,649 | 2,945 |
| Management of companies | 6 | 2 | 0 | -78 | 2,347 | 2,425 |
| Architectural/engineering | 12 | 8 | 2 | 4 | 1,550 | 1,546 |
| Computer systems/services | 6 | 7 | 11 | 0 | 2,240 | 2,239 |
| Legal services | 4 | 0 | 6 | -33 | 1,133 | 1,165 |
| Accounting/bookkeeping | 4 | 4 | 6 | -13 | 1,015 | 1,028 |
| **Education and health** | -1 | 104 | 57 | -1,170 | 23,395 | 24,565 |
| Hospitals | -6 | 5 | -2 | -100 | 5,138 | 5,238 |
| Educational services | -20 | 54 | 4 | -342 | 3,437 | 3,779 |
| **Leisure and hospitality** | 331 | 206 | 413 | -2,848 | 14,067 | 16,915 |
| Hotel/motels | 54 | 40 | 39 | -569 | 1,536 | 2,105 |
| Eating & drinking places | 187 | 100 | 337 | -1,666 | 10,642 | 12,308 |
| Government | 48 | 62 | -86 | -1,244 | 21,591 | 22,835 |
| Federal ex-Post Office | 6 | 6 | 1 | 22 | 2,282 | 2,260 |
| State government | 7 | 15 | -53 | -326 | 4,977 | 5,303 |
| State Govt Education | 6 | 17 | -49 | -298 | 2,298 | 2,596 |
| Local government | 32 | 41 | -39 | -952 | 13,717 | 14,669 |
| Local Govt Education | 31 | 28 | -35 | -611 | 7,419 | 8,030 |

Net, net, the economic recovery remains on track it is just that the gains in employment will be more moderate than many had hoped. It is good that the reopening is happening quicker, it is just that some jobs flourished in the pandemic and those jobs gains are going away as the country gets back to normal. The bottom line is the Federal Reserve has their framework for taking action and right now the economy is a long way still from where it was back before the pandemic. Fed Chair Powell looks back admiringly at the 3.5% unemployment rate before the recession and he will be unlikely to take his foot off the monetary stimulus accelerator in the near future. What worries us is that companies are never going to bring back all the workers they off-loaded during the recession and the labor market will never get back to the Fed leadership's vision of normal. Looking back historically, in every recession, businesses discover that they had more employees than they needed at the economic peak during good times, and management still in cost-cutting, save-the-ship mode after recessions, is reluctant to hire them all back. At the very least, million jobs reports gains may be spotty if at all the rest of this year, and the true run rate for recovery may be 250K new jobs per month. Stay tuned. Story developing. That Federal Reserve discussion on whether to discuss QE tapering at Jackson Hole in August this year has been shelved.

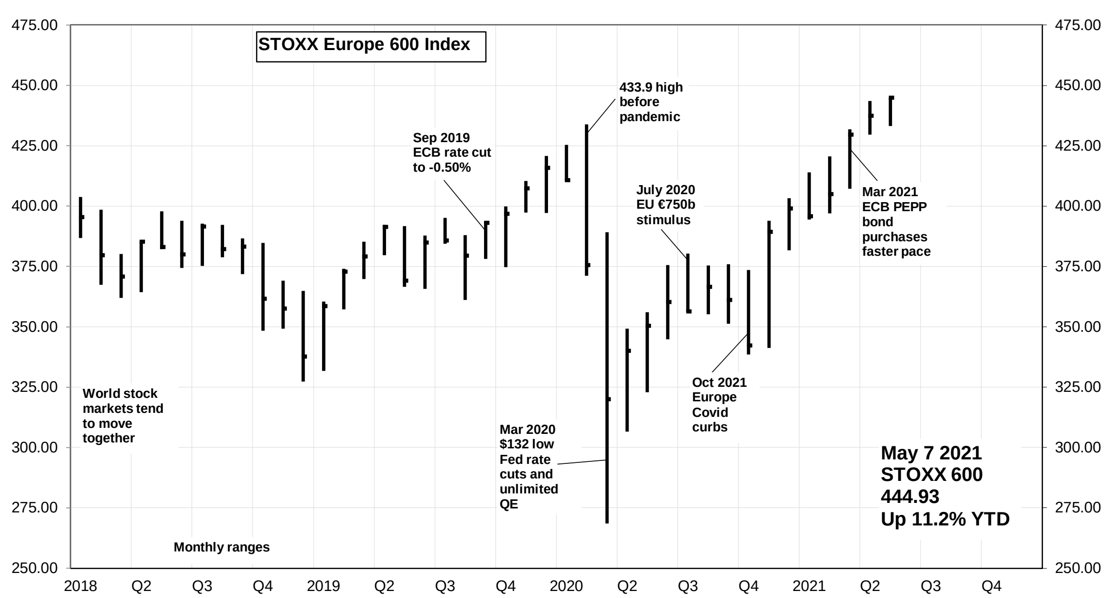
## INTEREST RATES




The bond yield rally on reflation and recovery hopes has not been able to extend itself since the 2021 yield high was made on March 30. It would be ironic if while looking for more inflation to lift yields, the markets instead got a good old-fashioned economic slowdown leading the bond market to rally for a time with higher prices lower yields. Bond yields fell as low as 1.470% on Friday after the shock of a less than one million payroll jobs number. Not exactly sure how low the low was as it was for less than two minutes of trading in fast market conditions. By the end of the day, all was forgiven for now with 10-yr yields closing at 1.58% Friday.

## EUROPE STOXX 600 UP 11.2% YTD

European stocks settled at a record this week. There was an odd, largely unexplainable, 1.4% drop Tuesday, followed by a 1.8% rebound on Wednesday. All world stock markets tend to trend the same despite sometimes vastly different fundamentals. It is going to take Europe a year longer than the U.S. to recover back to pre-pandemic levels according to the latest IMF April 2021 economic forecast. Maybe that's why STOXX 600 is only 2.5% better than February 2020 where S&P 500 is 25.0% higher.



## FEDERAL RESERVE POLICY

The Fed meets June 15-16, 2021 to consider its monetary policy. They will issue new forecasts of the economy and interest rates. In the March forecast, four out of eighteen Fed participants looked for a rate hike in 2022, that's by the end of 2022, no indication of when within the year. Big Help.

> Yellen Tuesday, May 4, 2021
>
> Question
> You're increasing government's share of GDP, is there a risk to overall economic growth if government's share of GDP grows in the way that it would under your plan?
>
> Answer
> It does involve a reallocation of resources toward these kind of programs and away from other things. It may be that interest rates will have to rise somewhat to make sure that our economy doesn't overheat, even though the additional spending is relatively small relative to the size of the economy. So it could cause some very modest increases in interest rates to get that reallocation, but these are investments our economy needs to be competitive and to be productive.

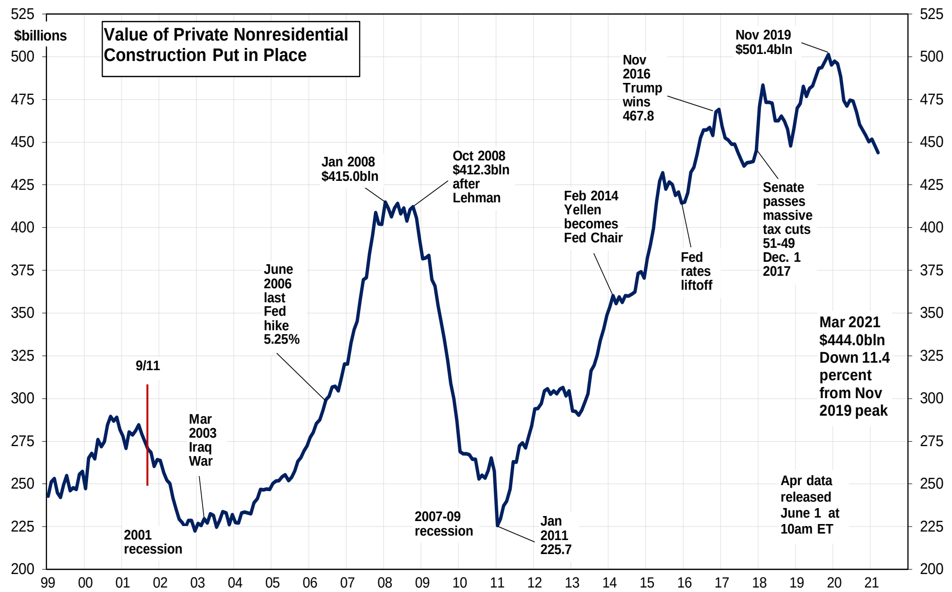
Treasury Secretary Yellen talked about higher interest rates on Tuesday that led to some confusion. She was speaking live at an event sponsored by The Atlantic and it may have moved the market, although stocks had already sold off earlier. The conference started around 11am ET and Yellen was questioned first. The background discussion was on the second two Biden plans where the government spending would be spread out over many years, so if she meant to say interest rates would rise, it would proceed over a number of years just like the proposed and not passed program spending: American Jobs Plan $2.3 trillion and American Families Plan $1.8 trillion. Yellen was questioned later on Tuesday at another venue and said that she had not been commenting on Federal Reserve Policy.

The Bank of England met Thursday. Its QE purchases are being pared back, but only for a technical reason. Basically, the BOE set a fixed total amount of purchases this year and have already bought so much that the weekly purchases will have to slow from now through year end to keep under the target amount. It was interesting that the outgoing Chief Economist Haldane was the one lone vote to taper their purchases for real. Still it is less intervention in the markets over there. What about here? When is the Fed going to stop pumping away? Consensus is that they will discuss QE tapering in August at Jackson Hole and then start to cut back the $120 billion of QE purchases amounts in the first quarter of 2022. This still seems a long time to wait as the economy's substantial forward momentum does not require additional stimulus at this stage. QE won't put people back to work any quicker, and the 2%-plus inflation target is a goal that lacks purpose. Higher inflation actually worsens inequality. All the massive purchases are doing at this point is contributing to potential stock market and housing price bubbles. Dallas Fed President Kaplan said on Thursday the discussion on QE should take place sooner rather than later, but he's in the minority.

Friday's jobs report was underwhelming for expectations even if 266K is a reasonable speed for recovery. The Federal Reserve pays more attention to the labor market than it used to. Under Greenspan, after the economy lost 3.347 million private payroll jobs, a decline of 3.0%, the Fed did not wait for the lost jobs to return before raising rates the first time from 1 to 1.25% in June 2004. Real GDP growth was quite strong at the time. In the 2007-09 so-called Great Recession, after the economy lost 8.794 million jobs, a decline of 7.6%, even though the lost jobs were regained and millions more created, Bernanke tapered QE but never raised rates. Fed Chair Yellen first raised rates in December 2015. Powell's first term in office ends in February 2022 and he may never raise rates again.

## OTHER ECONOMIC NEWS

### The economic boom following the recession hasn't spread to construction (Monday)




Breaking economy news. Construction spending for the month of March. Private nonresidential construction fell 0.9% this month to $443.954 billion and is down 9.1% from March 2020. Business investment in structures lags the economic cycle normally even if this economic downturn was not normal. There's a lot of talk about all the investments companies are making, but it isn't construction; this money is being spent on equipment and so-called intellectual property that includes software, and R&D. Companies may be rethinking their need for physical space during the Covid-19 work-from-home environment. But it is too early to tell the trend. Private nonresidential construction is down 11.4% from the peak in November 2019 before the pandemic. The reduction in construction was much greater during the 2007-09 Great Recession.

Among construction sectors, the steepest year-to-year declines were in lodging -24.0%, and education -18.1%, and amusement and recreation -24.9%. But every category was down and the smallest drop was 3.1% for communication. Power is the biggest single category. Two-thirds of the entire dollar amount drop in spending the last year was from power, commercial, lodging, and manufacturing.

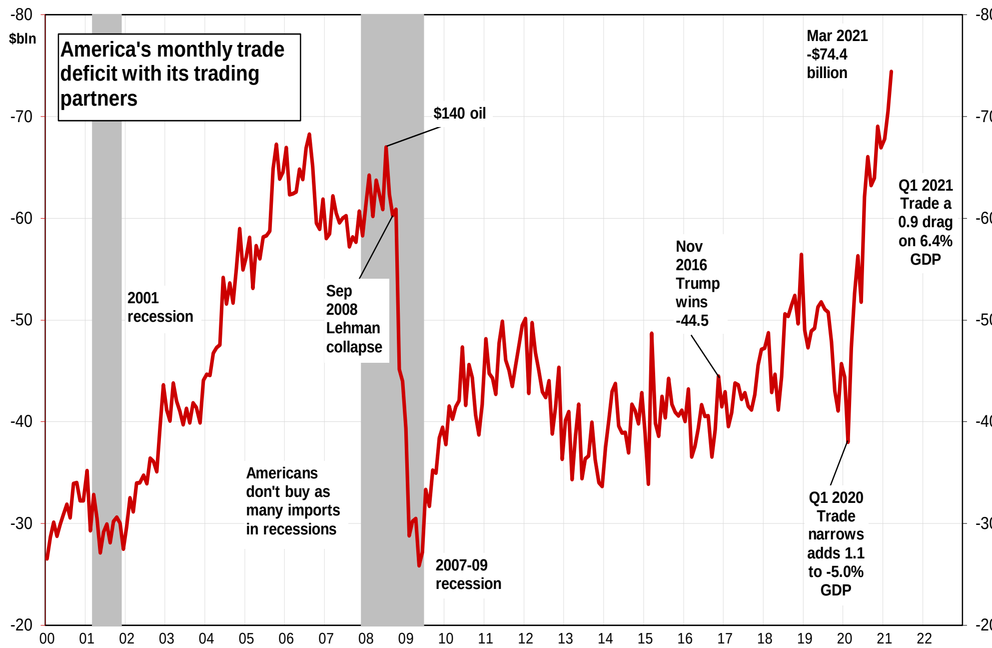
Net, net, construction spending projects are slow to turn direction in recessions and booms, and it is early yet to call the bottom for business investment spending on manufacturing plants, office buildings and commercial space that includes retail stores. Stay tuned. Story developing. Business confidence is sky-high during the reopening from the pandemic, but this confidence isn't leading to the expansion of new premises from which to conduct business.

Nonresidential Construction $bln

| | Mar 2021 | % Chg | Feb 2021 | Jan 2021 | Mar 2020 |
|---|---|---|---|---|---|
| Total private | 443.954 | -0.9 | 447.812 | 451.666 | 488.226 |
| Lodging | 22.229 | -2.1 | 22.716 | 23.399 | 29.232 |
| Office | 68.351 | -0.4 | 68.606 | 68.894 | 71.322 |
| Commercial | 73.717 | -0.5 | 74.100 | 75.119 | 80.836 |
| Health Care | 35.841 | 0.1 | 35.802 | 37.547 | 39.010 |
| Educational | 15.277 | -2.1 | 15.609 | 15.517 | 18.644 |
| Religious | 3.167 | -1.5 | 3.215 | 3.366 | 3.262 |
| Amusement | 10.676 | -3.1 | 11.015 | 11.255 | 14.218 |
| Transportation | 15.022 | -4.7 | 15.768 | 15.648 | 15.827 |
| Communication | 22.204 | 0.7 | 22.048 | 22.208 | 22.922 |
| Power | 107.002 | -0.4 | 107.423 | 108.321 | 116.733 |
| Manufacturing | 69.157 | -1.3 | 70.099 | 68.969 | 74.987 |

## Trade deficit red ink continues to spill regardless of the change of Administrations (Tuesday)

Breaking economy news. The March trade balance which is of course in deficit. The March trade deficit was a record at $74.4 billion versus $70.5 billion in February. Exports and imports both rose about the same percentage in March, but imports are bigger and so the deficit red ink continued to spill. Exports in March rose 6.6% to $200.0 billion and Imports in March rose 6.3% to $274.5 billion.



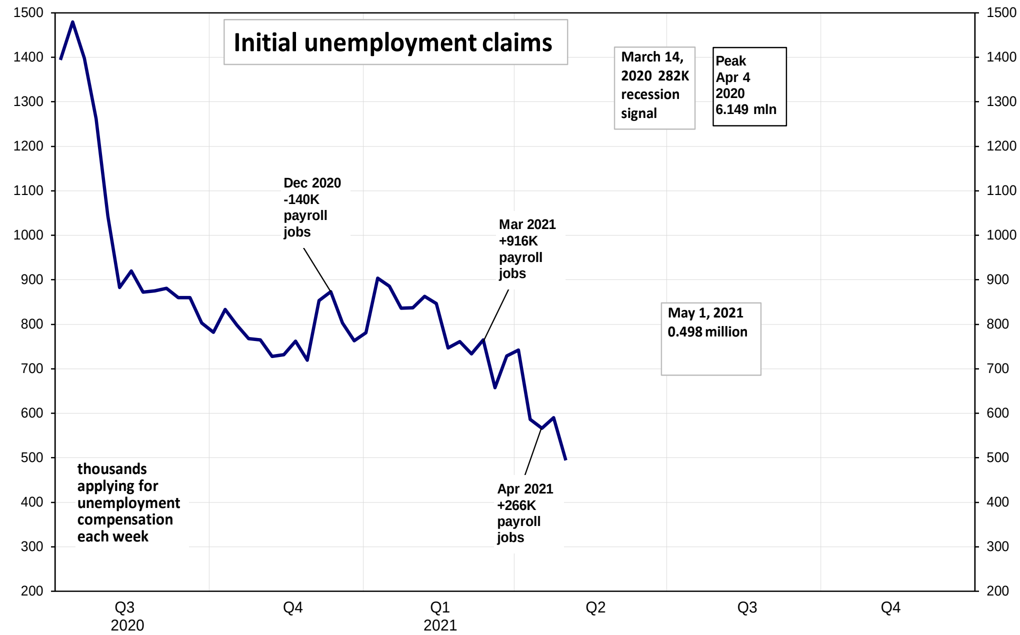

Imports normally decline in recessions at least the first two recessions since 2000 as American consumers buy less goods generally either domestically produced or from factories overseas. That did not happen this time as much, or at least exports fell even harder, and then when consumer purchases picked up a lot, world demand for American exports continued to be lackluster. In the first three months of the year, consumer goods imports were $189.2 billion, up 25.1% from the same period a year ago. Toys, games, and sporting goods were especially strong. U.S. imports are up substantially this year, but we will see what happens as stay-at-home employees go back to work.

Net, net, the change in Administrations has not done much to reduce America's demand for foreign goods if that is still an objective. The stay-at-home economy during the pandemic saw strong demand for foreign goods like iPhones and toys and communications gear. Eventually, world demand for US exports will pick up again, but until it does the trade deficit red ink will continue and potentially contribute to dollar weakness.

**U.S. Imports of Goods from the Rest of the World**

| Millions of dollars | Mar 2021 | Feb 2021 | 2021 YTD | 2020 YTD |
|---|---|---|---|---|
| Total * | 233,026 | 217,741 | 670,629 | 592,374 |
| Foods, feeds, beverages | 14,036 | 13,118 | 40,939 | 38,348 |
| Industrial supplies, materials | 50,281 | 46,584 | 139,920 | 124,086 |
| Crude oil | 9,325 | 8,718 | 25,799 | 28,706 |
| Finished metal shapes | 2,646 | 3,925 | 9,437 | 6,684 |
| Capital Goods ex-autos | 63,023 | 59,708 | 182,279 | 161,659 |
| Computers | 8,827 | 8,612 | 26,472 | 17,813 |
| Computer accessories | 5,316 | 5,079 | 15,674 | 12,973 |
| Semiconductors | 6,334 | 5,024 | 16,382 | 16,039 |
| Electric apparatus | 5,634 | 5,212 | 15,971 | 13,633 |
| Telecom equipment | 5,725 | 5,263 | 16,317 | 14,459 |
| Medical equipment | 5,128 | 4,700 | 14,380 | 11,275 |
| Auto vehicles, parts, engines | 30,234 | 28,184 | 89,994 | 87,657 |
| Consumer goods | 65,147 | 60,670 | 189,156 | 151,149 |
| Pharma preparations | 12,938 | 13,600 | 44,013 | 41,767 |
| Cell phones | 8,664 | 9,672 | 27,806 | 21,749 |
| Toys, games, sporting goods | 5,584 | 4,734 | 11,936 | 7,884 |
| Other goods | 10,305 | 9,478 | 28,342 | 29,475 |
| * Total Imports of goods on Census Basis | | | | |

## Unemployment claims improve, but new jobless applications continue (Thursday)




Breaking economy news. Weekly jobless applications with 498K new claims in the May 1 week down from 590K in the April 24 week. The labor market is heading in the right direction as the economy reopens, but the measurement problems of joblessness continue.

One problem is today's release with a lag shows that the total number of continuing claims for all the programs total 16.157 million Americans in the April 17 week, where the unemployed count behind the latest 6.0% unemployment rate is just 9.710 million for the month of March with the April employment situation report due out tomorrow.

Net, net, the jobless count is hard to measure, and so it is best to focus on the direction that the tide is moving. The jobs are coming in as the number of new jobless claims are falling. Today's 498K thousand new claims reading for the May 1 week is the lowest since the recession began which counts as good news. The jobless data tell a story of a labor market that continues to heal and the job losses are not as bad as they have been even if the labor market is a long way from normal or at least a long way from where it was in early 2020 before the pandemic began.

| Unemployment Benefits Recipients | | |
|---|---|---|
| 4/17/2021 | Program | Prior Year |
| 3,755,987 | Regular State | 17,731,217 |
| 14,681 | Federal Employees | 13,766 |
| 7,602 | Newly Discharged Veterans | 8,664 |
| 6,862,705 | Pandemic Unemployment Assistance | -- |
| 4,972,507 | Pandemic Emergency UC | -- |
| 453,653 | Extended Benefits | 328 |
| 1,667 | State Additional Benefits | 4,962 |
| 88,222 | STC/Workshare | 88,770 |
| 16,157,024 | TOTAL | 17,487,707 |

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