

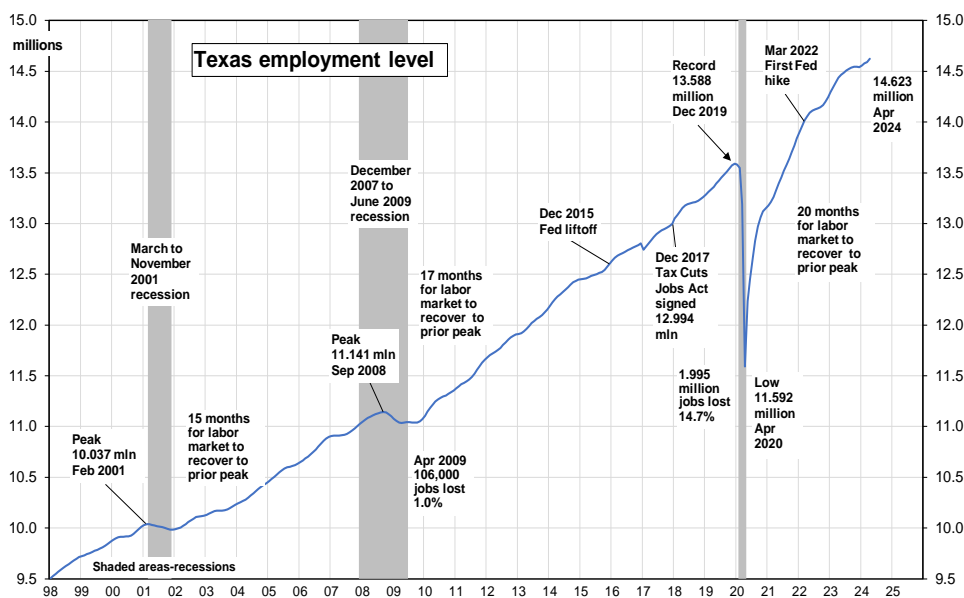
# Financial Markets This Week

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## NO RECESSION IN TEXAS

Historically, the economy has turned down or is inches away from recession when the unemployment rate lifts 0.5 percentage points from the cycle low, although this is more the definition of a recession rather than something that forecasts a recession. Every cycle some economists try to say the economy is at the brink of recession because the unemployment rate in many



states has lifted 0.5 percentage points from the low, and that is what we are hearing again. We did not go through BLS data for every state to confirm this, but we read on TikTok that 19 of 50 states have seen the unemployment rate rise more than 0.5 percentage points as of April 2024. (If we ignore the cycle low in each state, there are 20 of 50 where unemployment is 0.6 percentage points or higher in April. Take it to the bank.) We would say going state-by-state and counting up job losses is perilous as the rate in individual states often moves around a lot without being meaningful. Anyway, there is still no recession in Texas.

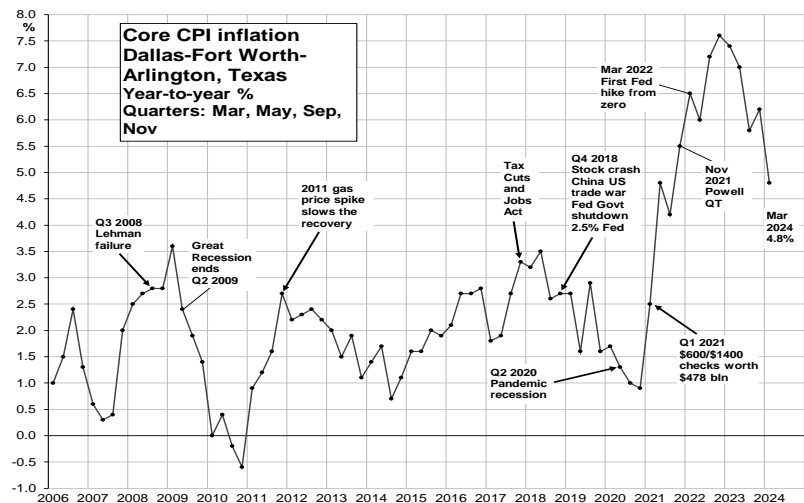
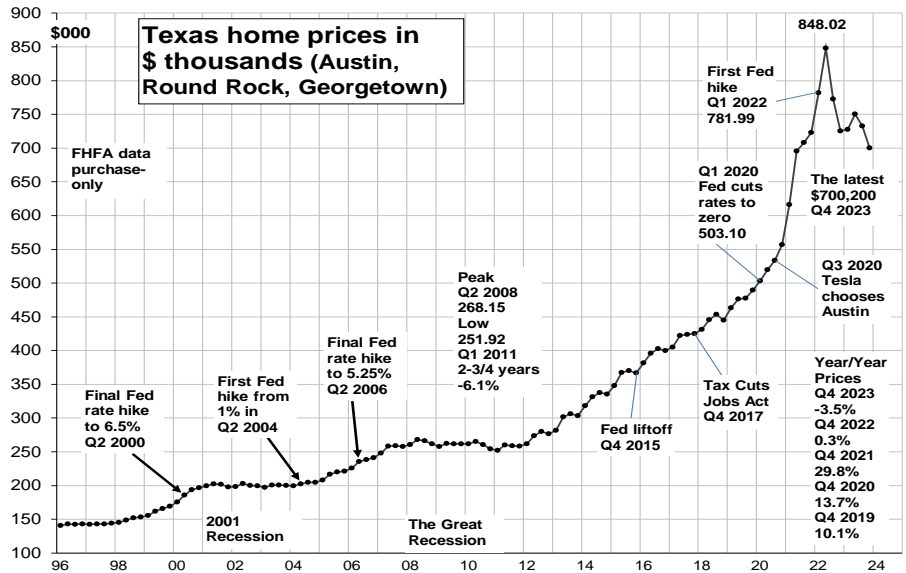
The Texas unemployment rate is unchanged the last year at 4.0%. The Household Survey measure of employment is up 1.3% the last year, and shows no sign of recession-ahead wobbling like the employment level for the entire country. There have been more news stories about companies moving out of Texas instead of moving their headquarters to Texas, but Texas payroll employment is still up 2.2% to 14.159 million, and Household employment increased 1.3% to 14.623 million from last year levels. The key to state job growth is population, and the Texas population is 2.0% higher

Texas labor market trends				
Thousands	Apr 23	Apr 24	Change	% Chg
Population	23,261	23,736	474	2.0
Not in Labor Force	8,228	8,509	280	3.4
Employment	14,436	14,623	188	1.3
Unemployed	597	603	6	1.0
Rate	4.0	4.0	0.0	---
Participation rate	64.6	64.2	-0.4	---
<u>Payroll employment</u>	13,853	14,159	306	2.2
Mining/Logging	213.6	209.5	-4.1	-1.9
Construction	815.8	846.3	30.5	3.7
Manufacturing	951.9	969.9	18.0	1.9
Trade/Trans/Utilities	2,756.8	2,776.3	19.5	0.7
Information	236.2	233.6	-2.6	-1.1
Financial activities	902.2	917.0	14.8	1.6
Professional/Business	2,120.0	2,149.3	29.3	1.4
Education/Health	1,879.4	1,947.0	67.6	3.6
Leisure/Hospitality	1,475.2	1,521.1	45.9	3.1
Other services	467.2	492.8	25.6	5.5
Government	2,034.7	2,096.2	61.5	3.0

this year at 23.736 million. Of the big-4 states, Florida matches Texas population growth, while California only increased 0.3%, and New York population fell 0.2% from last year. As is usual, these population data are aged 16 years or older and do not count those in the military or in prison. We used to say don't worry about population growth, there will be jobs for everyone, "that's how the economy works." But there have been some dropouts from the labor force (those employed or unemployed and looking for work) the last year. Don't worry too much about dropouts, those not in the labor force are mainly in school, at home with children or elderly and beyond caring (which one), and the number telling Washington statisticians they want a job is not very large.

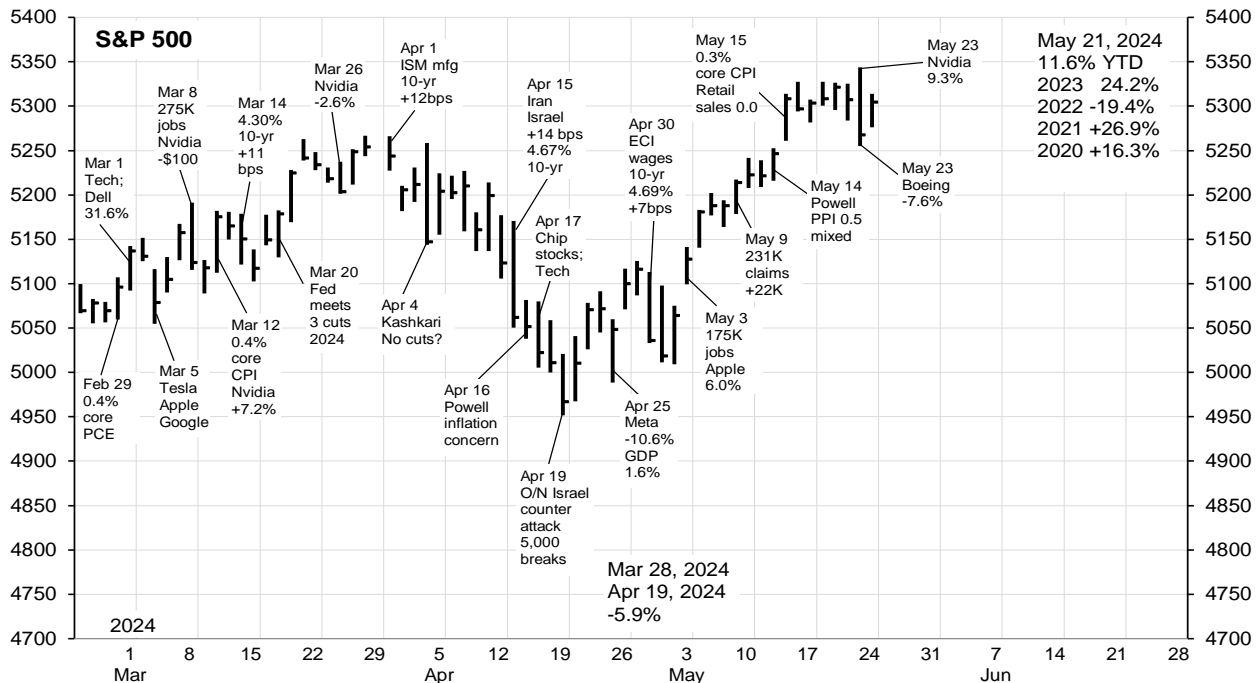
The only declines in Texas payroll jobs the last year was in mining/logging associated with energy production, and information jobs as well such as motion pictures, publishing, broadcasting, telecom, computing infrastructure, data processing, web hosting etc. Where are the jobs? Construction is up 3.7%. Service jobs like Education/Health are up 3.6% or 67.6 thousand from last year, where health care and social assistance is 58.2 thousand of the increase. Leisure/Hospitality is up 45.9 thousand or 3.1% where 36.4 thousand is hotels and food services. No one likes government spending apparently, but you can relax, it is mostly local government hiring with Federal government jobs only up 6.8 thousand of the 61.5 thousand Government payroll jobs increase. Businesses are lean and mean, those employed in the management of companies saw jobs increase just 3.5K to 185.5 thousand.

If the local economy is hot down South, what is happening with housing prices? Tesla chose Austin for its plant in July 2020 when the housing price index was \$533,560 in Q3 2020 purchase-only FHFA data, and prices are still higher at \$700,200 in Q4 2023 (Q1 2024 is due for release on Tuesday, May 28). It has been



a wild ride with prices peaking at \$848,020 in Q2 2022, the quarter after the Fed raised interest rates the first time. The data look incredible and unbelievable, although newspaper reports have home buyers in Austin buying properties at a similar discount from where some Austin home prices had been listed before being marked down. We like to think Fed rate cuts would be a mistake as it would set off a new housing price bubble, but it is hard to read the Texas trend after the overshoot in home prices in 2022. Anyway, Texas jobs are still booming, and inflation is heading lower.

INTEREST RATES



May 21, 2024  
 11.6% YTD  
 2023 24.2%  
 2022 -19.4%  
 2021 +26.9%  
 2020 +16.3%

Bonds 4.40-4.50 all week, the excitement, if that's what it was, was a yield rally on Thursday S&P services PMI 54.8 vs 51.3; data are not stable, and we learn May 31 whether consumers spent on services in April. 10-yr 4.47% early close on Friday at 2pm ET for holiday weekend. Stocks rallied to new highs Thursday after Nvidia earnings, dragged lower by Boeing stock troubles. Waller on Tuesday really got into the weeds with the April core PCE inflation report on May 31. After PPI/CPI he said core PCE inflation might be 0.23 to 0.26 percent, so rounded it could be 0.2 or 0.3%. Helpful. Stay tuned.

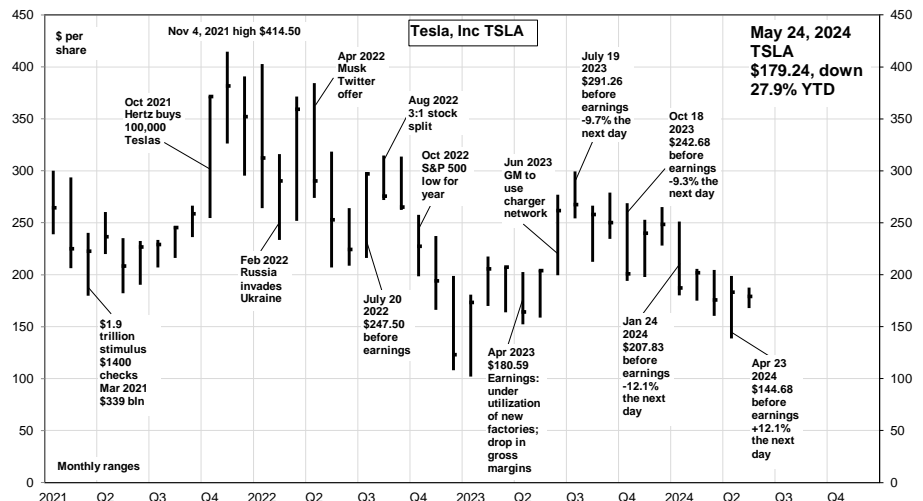
**Next up: April PCE inflation report Friday, May 31**

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

**Tesla, Inc. (TSLA) down 27.9% YTD**

Wall Street did not like the last three earnings reports, but the stock jumped 12.1% after Q1 earnings on April 23. The shares jumped to just short of \$200 on April 29 after China gave approval to Full Self-Driving (FSD). The controversies keep coming for the complex company, and it is a good thing investors are getting more than a car company. Model 3/Y deliveries were 369,783 in Q1 2024 down from 461,538 peak in Q4 2023.

	Revenue	Income	Deliveries
Q1 2020	5,985	283	76,266
Q2 2020	6,036	327	80,277
Q3 2020	8,771	809	124,318
Q4 2020	10,744	575	161,701
Q1 2021	10,389	594	182,847
Q2 2021	11,958	1,312	199,409
Q3 2021	13,757	2,004	232,102
Q4 2021	17,719	2,613	296,884
Q1 2022	18,756	3,603	295,324
Q2 2022	16,934	2,464	238,533
Q3 2022	21,454	3,688	325,158
Q4 2022	24,318	3,901	388,131
Q1 2023	23,329	2,664	412,180
Q2 2023	24,927	2,399	446,915
Q3 2023	23,350	1,764	419,074
Q4 2023	25,167	2,064	461,538
Q1 2024	21,301	1,171	369,783



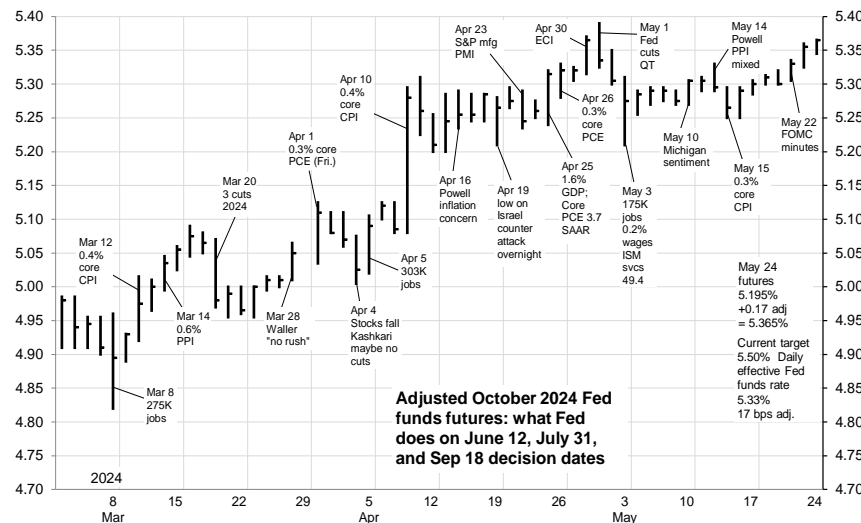
FEDERAL RESERVE POLICY

The Fed meets June 11-12, 2024 to consider its monetary policy. There will be new interest rate forecasts. [Waller's comments](#) on Tuesday that inflation was probably cooling enough (two-decimal monthly percent core CPI changes) to claim that the Fed was making progress toward 2 percent, so no rate hikes should be on the table. The market seemed to like that, if no cuts, then at least no rate hikes, but we thought it was bearish when near the end of his remarks he said "in the absence of a significant weakening in the labor market, I need to see several more months of good inflation data..." where what, a few is three and several is four more months? That is a ways off. CPI data for May, then June, July, August, heck the August CPI report is not until Wednesday, September 11... barely enough time for a rate cut at the September 17-18 meeting, but okay.

New Fed forecasts are coming, are three rate cuts still on the table this year? Powell has said they can be patient, and the last time he said this in early January 2019, the Committee took down the rate hikes it was looking for. They had been looking to push rates to 3.5% earlier in the chaos of that year with the White House calling Fed officials loco for raising interest rates. After a December 2018 stock crash (-20%), China US trade war, Federal government shutdown, Powell's patience was reflected in the Committee taking down the two rate hikes to 3.0% in 2019 they had forecast at the December 2018 Fed meeting. They could take all three rate cuts in 2024 down at this next meeting, but our guess is they keep two.

Selected Fed assets and liabilities						Change from 3/11/20 to May 22
Fed H.4.1 statistical release	22-May	15-May	8-May	1-May	3/11/20*	
<b>Factors adding reserves</b>						
U.S. Treasury securities	4488.767	4488.090	4518.691	4517.906	2523.031	1965.736
Federal agency debt securities	2.347	2.347	2.347	2.347		0.000
Mortgage-backed securities (MBS)	2368.240	2371.983	2372.049	2372.049	1371.846	996.394
Repurchase agreements	0.001	0.000	0.001	0.000	242.375	-242.374
Primary credit (Discount Window)	6.664	6.364	6.198	6.791	0.011	6.653
Bank Term Funding Program	109.005	109.595	112.663	124.117		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	2.925	2.938	2.949	2.962		
Main Street Lending Program	11.304	13.773	14.130	14.114		
Municipal Liquidity Facility	0.000	0.000	0.000	0.000		
Term Asset-Backed Facility (TALF II)	0.000	0.000	0.000	0.000		
Central bank liquidity swaps	0.123	0.130	0.125	0.124	0.058	0.065
<b>Federal Reserve Total Assets</b>	<b>7350.6</b>	<b>7355.3</b>	<b>7404.5</b>	<b>7413.0</b>	<b>4360.0</b>	<b>2990.586</b>
3-month Libor %	5.31	5.31	5.31	5.32	1.15	4.160
<b>Factors draining reserves</b>						
Currency in circulation	2349.764	2348.375	2348.973	2346.816	1818.957	530.807
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	710.882	706.108	816.809	890.442	372.337	338.545
Treasury credit facilities contribution	4.958	7.438	7.438	7.438		
Reverse repurchases w/others	496.382	443.779	493.427	438.148	1.325	495.057
<b>Federal Reserve Liabilities</b>	<b>3975.597</b>	<b>3938.885</b>	<b>4073.790</b>	<b>4096.104</b>	<b>2580.036</b>	<b>1395.561</b>
<b>Reserve Balances (Net Liquidity)</b>	<b>3375.014</b>	<b>3416.386</b>	<b>3330.687</b>	<b>3316.943</b>	<b>1779.990</b>	<b>1595.024</b>
Treasuries within 15 days	68.095	41.744	89.940	94.329	21.427	46.668
Treasuries 16 to 90 days	224.099	216.735	212.031	184.358	221.961	2.138
Treasuries 91 days to 1 year	532.306	565.935	522.131	545.252	378.403	153.903
Treasuries over 1-yr to 5 years	1502.016	1501.723	1506.100	1505.775	915.101	586.915
Treasuries over 5-yr to 10 years	648.792	643.410	678.562	678.459	327.906	320.886
Treasuries over 10-years	1513.459	1518.543	1509.928	1509.733	658.232	855.227
Note: QT starts June 1, 2022						
U.S. Treasury securities	-1282.012	4488.767	5770.779			
Mortgage-backed securities (MBS)	-339.206	2368.240	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

Memo: Projected appropriate policy path										
Fed Meeting	2018	2019	2020	2021	2022	2023	2024	2025	2026	Longer run
Mar 24							4.6	3.9	3.1	2.6
Dec 23						5.4	4.6	3.6	2.9	2.5
Sep 23						5.6	5.1	3.9	2.9	2.5
Jun 23						5.6	4.6	3.4		2.5
Mar 23						5.1	4.3	3.1		2.5
Dec 22					4.4	5.1	4.1	3.1		2.5
Sep 22					4.4	4.6	3.9	2.9		2.5
Jun 22					3.4	3.8	3.4			2.5
Mar 22					1.9	2.8	2.8			2.4
Dec 21			0.1	0.9	1.6	2.1				2.5
Sep 21			0.1	0.3	1.0	1.8				2.5
Jun 21			0.1	0.1	0.6					2.5
Mar 21			0.1	0.1	0.1					2.5
Dec 20	0.1	0.1	0.1	0.1						2.5
Sep 20	0.1	0.1	0.1	0.1						2.5
Jun 20	0.1	0.1	0.1							2.5
Mar 20	No meeting: 150 bps rate cuts between Jan and Mar (scheduled)									
Dec 19	1.6	1.6	1.9	2.1						2.5
Sep 19	1.9	1.9	2.1	2.4						2.5
Jun 19	2.4	2.1	2.4							2.5
Mar 19	2.4	2.6	2.6							2.8
Dec 18	2.4	2.9	3.1	3.1						2.8
Sep 18	2.4	3.1	3.4	3.4						3.0
Jun 18	2.4	3.1	3.4							2.9
Mar 18	2.1	2.9	3.4							2.9



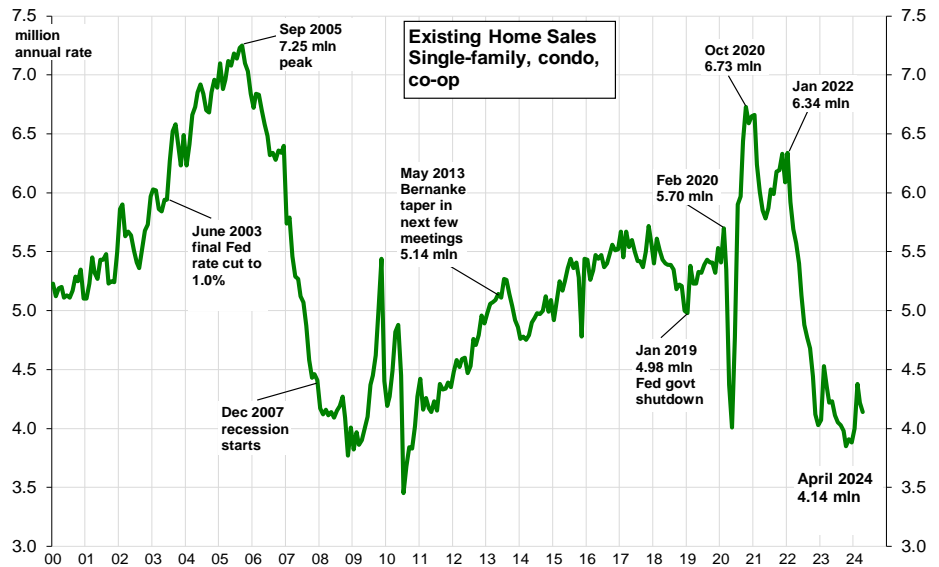
Last week the market discounted 20 of a 25 bps rate cut on September 18, and now they say it is a coin-toss.

Fed funds futures call Fed policy	
Current target: May 24 -- 5.50%	
Rate+0.17 Contract	Fed decision dates
5.475 Aug 2024	June 12, July 31
5.360 Oct 2024	Adds Sep 18
Last trade, not settlement price	

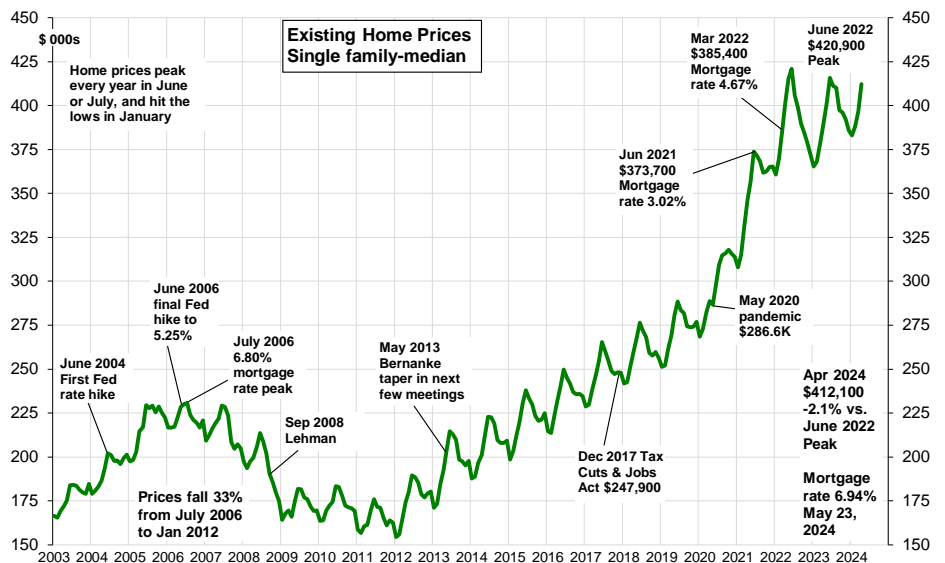
OTHER ECONOMIC NEWS

Home sales blah, home prices soar (Wednesday)

Breaking economy news. The spring buying season is not producing home sellers, so the result is another big jump in home prices. Existing home sales (single-family, condos) fell 1.9% in April to 4.14 million at an annual rate, and are also 1.9% lower than a year ago. The annual data tell it all 6.12 million in 2021 after the pandemic, 5.03 million in 2022 as the Fed starts its rate hikes in March 2022, and 4.09 million in 2023.



Net, net, sales turnover of the existing home stock is stuck in the mud with little rush for homeowners to sell even at the start of the traditionally strong spring buying season. Existing homes might as well be permanent homes for most American home owners who are loath to give up their 3% mortgages taken out before the pandemic hit. The housing industry is facing a very unique situation that has not been seen in recent decades where mortgage costs shot up literally overnight. Stay tuned.



One thing that is not down in the dumps in the housing market is single-family home prices that jumped 3.9% to \$412,100 in April at the start of the spring buying season. Prices in the Northeast saw the most appreciation with an increase of 6.0% in April, and are 9.0% higher than a year ago. Fed officials are weighing progress on overall inflation before cutting interest rates, but what they better not miss is the acceleration in home prices which means the cost of shelter is not going to come back down in a meaningful way. It is obvious that Fed rates are not high enough to stop the Home Price Bubble II from continuing to inflate. The housing bubble in the mid-2000s caused the worst recession in almost 100 years, and it will be a miracle if the US economy can avoid a hard landing again. If the Fed could have only one economic indicator on their policy lever dashboard, it had better be home prices.

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