

# Financial Markets This Week

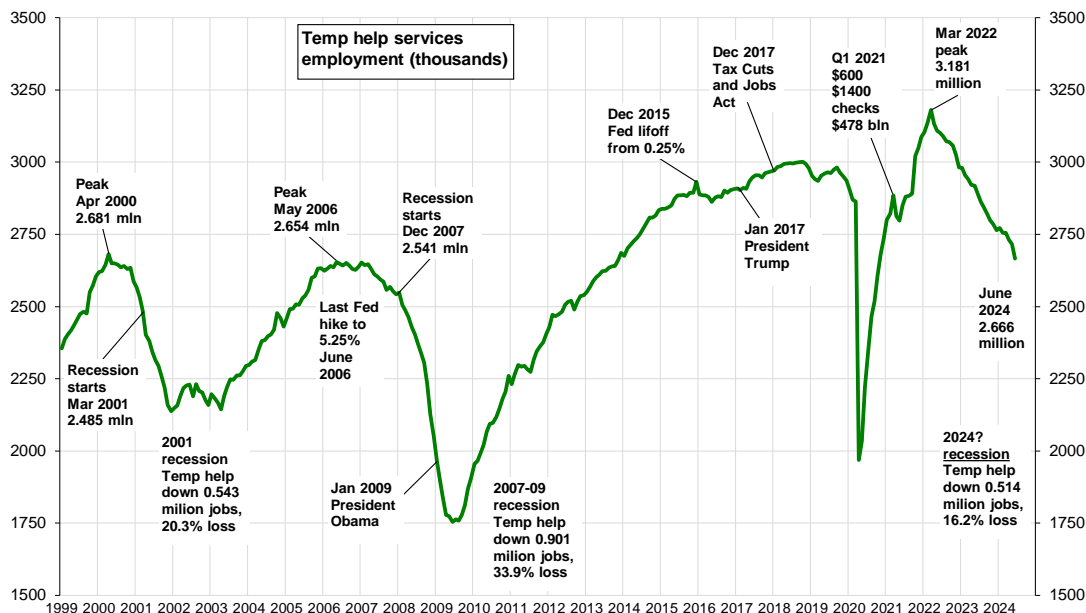
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## ONE MILLION OUT OF WORK

Recession-magnitude loss in Temporary help services employment

The June monthly employment report exhibited another robust gain in terms of payroll jobs, but pull back the tarp and the foundation of the labor market is showing worrisome signs of marked deterioration. 206K payroll jobs in June, but May's gain was revised down 54K



and April was revised down 57K which means there are just 95K more payroll jobs out there in the country than the count we knew coming in this morning. The soft payroll jobs report was echoed by the Household Survey of employment that rose 116K in June after May's 408K decline. The unemployment rate is rising and each tenth higher increases the risk of recession if we are not already in one. The 4.1% (4.054%) unemployment rate is seven-tenths higher than the cycle low for joblessness of 3.4% in April 2023 with over a million more Americans out of work... 6.811 million in total. Let's hope they can't vote. Fed officials have their heads in the sand if they think all is well with the labor market. Every other Fed in the last four decades had already cut interest rates with this amount of joblessness. Stay tuned. Story developing. There are darkening clouds moving in from offshore and it will be a miracle if the U.S. can avoid the direct hit of recession. The Fed is behind the curve and an interest rate cut is warranted by the September meeting at the latest. Bet on it.

Monthly changes (000s)	Jun	May	Apr	Mar	Feb
Payroll employment	206	218	108	310	236
Private jobs	136	193	108	232	181
Leisure/Hospitality jobs	7	22	-9	54	26
HH Employment Survey*	116	-408	25	498	-184
Unemployment rate %	4.1	4.0	3.9	3.8	3.9
Participation rate %	62.6	62.5	62.7	62.7	62.5
Not in labor force (mln)	100.429	100.516	100.083	99.989	100.285
... and Want A Job (mln)	5.234	5.717	5.637	5.443	5.672
Average hourly earnings	\$35.00	\$34.90	\$34.75	\$34.69	\$34.56
MTM % Chg	0.3	0.4	0.2	0.4	0.1
YOY % Chg	3.9	4.1	3.9	4.1	4.3

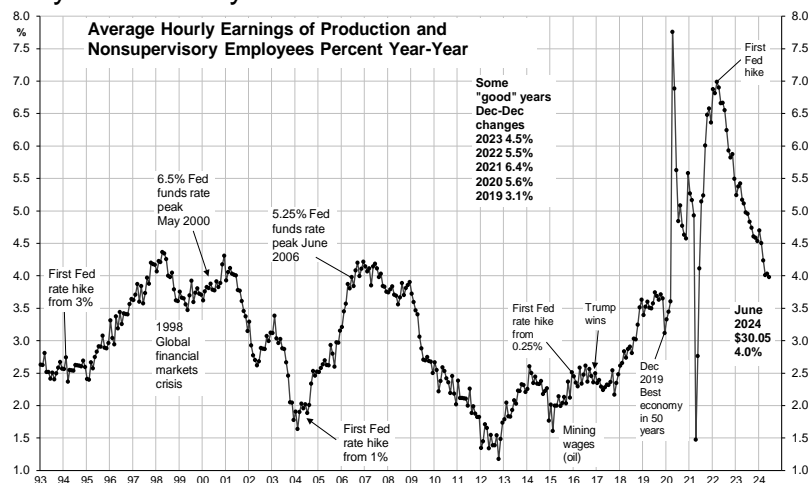
\* Household (telephone) Survey of employment behind unemployment rate

Through the first six months of 2024, payroll jobs are off the full year 2023 pace with the average monthlies slowing to 177K in Q2 2024 from 267K in Q1 2024. Real consumer spending is quite slow at 1.5% in Q1 2024 and running 1.4% in Q2 2024. There is a drag from hotels/motels and restaurants and bars, the latter are a good coincident indicator of general economic conditions. State governments have stopped the hiring spree and local government education is soft.

Other news: Wages for production and nonsupervisory workers (not their bosses) have been running 4.0% year-year for three months now which is good enough to be called normal as it was increasing 3.7% in much of the second half of 2019 before the pandemic inflation burst. Additionally, the same soft trend is evident in the population count, and so employment, within the Household Survey, which is weak like a recession, where native born Americans are not increasing in number over the last year, unlike the foreign born Americans seeing a 4.9% increase in their population. All the jobs are going to immigrants because they are the only workers out there.

**Payroll jobs slowdown in second quarter**

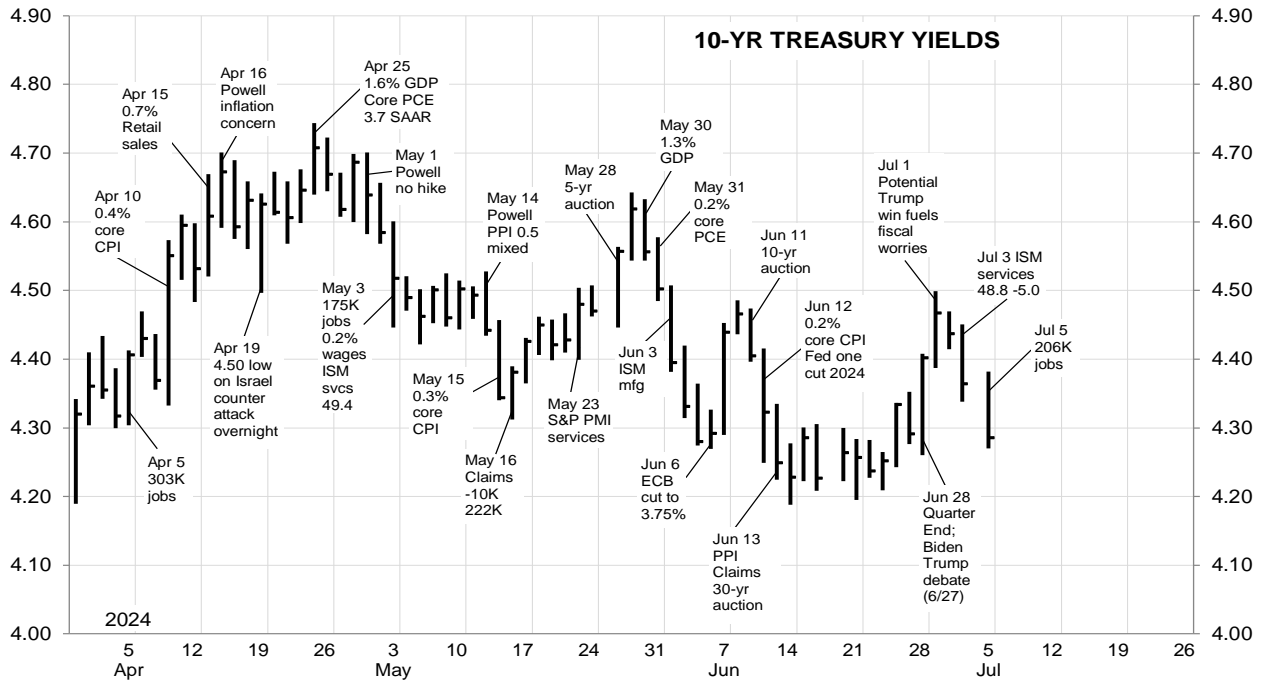
Dec. 2023	Totals	Jun 24	May 24	Apr 24	6 months Dec 23 to Jun 24	12 months Dec 22 to Dec 23
157.304	Nonfarm Payroll Employment	206	218	108	1334	3013
134.228	Total Private (ex-Govt)	136	193	108	1046	2304
21.723	Goods-producing	19	12	-3	106	275
0.600	Mining	0	-3	-5	-6	15
12.960	Manufacturing	-8	0	7	-10	26
1.063	Motor Vehicles & parts	6	5	2	18	32
1.108	Computer/electronics	-1	0	-3	-8	1
1.729	Food manufacturing	3	3	3	12	10
12.866	Specialty trade contractors	39	39	39	-754	61
8.120	Construction	27	16	-5	125	236
5.148	Specialty trade contractors	12	8	-3	67	135
112.505	Private Service-providing	117	181	111	940	2029
28.867	Trade, transportation, utilities	14	22	41	172	161
15.603	Retail stores	-9	7	14	72	118
3.209	General Merchandise	5	-3	11	73	118
3.247	Food & Beverage stores	-2	3	-2	15	24
6.521	Transportation/warehousing	7	12	21	73	-69
1.552	Truck transport	0	-6	-2	-3	-35
0.570	Air transportation	2	2	1	8	40
1.060	Couriers/messengers	1	4	7	24	-10
1.767	Warehousing and storage	-2	3	5	5	-99
3.012	Information	6	5	-3	15	-83
0.494	Computing, data, web hosting	1	0	0	4	8
9.233	Financial	9	12	-3	11	88
2.997	Insurance	9	5	6	25	50
2.496	Real Estate	1	6	-9	2	63
1.378	Commercial Banking	-3	-2	-3	-15	-17
1.115	Securities/investments	3	2	2	3	33
22.882	Professional/business	-17	31	-17	68	149
2.765	Temp help services	-49	-16	-24	-98	-217
2.558	Management of companies	2	1	-3	0	15
1.673	Architectural/engineering	5	12	1	35	39
2.525	Computer systems/services	7	3	4	26	41
1.194	Legal services	1	1	2	-3	12
1.158	Accounting/bookkeeping	5	9	3	23	26
25.831	Education and health	82	81	98	517	1058
5.440	Hospitals	22	12	20	126	194
8.635	Ambulatory health care	22	38	30	174	345
3.843	Educational services	-1	-2	0	12	93
16.816	Leisure and hospitality	7	22	-9	97	561
1.924	Hotel/motels	1	-1	-1	-3	70
12.292	Eating & drinking places	-3	11	-7	34	309
23.076	Government	70	25	0	288	709
2.360	Federal ex-Post Office	4	2	1	34	82
5.404	State government	26	-9	4	61	273
2.637	State Govt Education	13	-17	0	18	183
14.711	Local government	39	31	-4	187	351
8.039	Local Govt Education	5	6	-1	47	162



**Foreign Born 17.9% of Population**

Thousands	Jun 2024	Jun 2023	Change
<b>Foreign born</b>			
Population	48,099	45,873	2,226
Employed	30,867	29,710	1,157
Unemployed	1,357	1,020	337
Unempl rate	4.2	3.3	0.9
Not in labor force	15,875	15,142	733
<b>Native born</b>			
Population	220,339	220,928	-589
Employed	130,906	131,849	-943
Unemployed	5,877	5,331	546
Unempl rate	4.3	3.9	0.4
Not in labor force	83,556	83,749	-193

INTEREST RATES

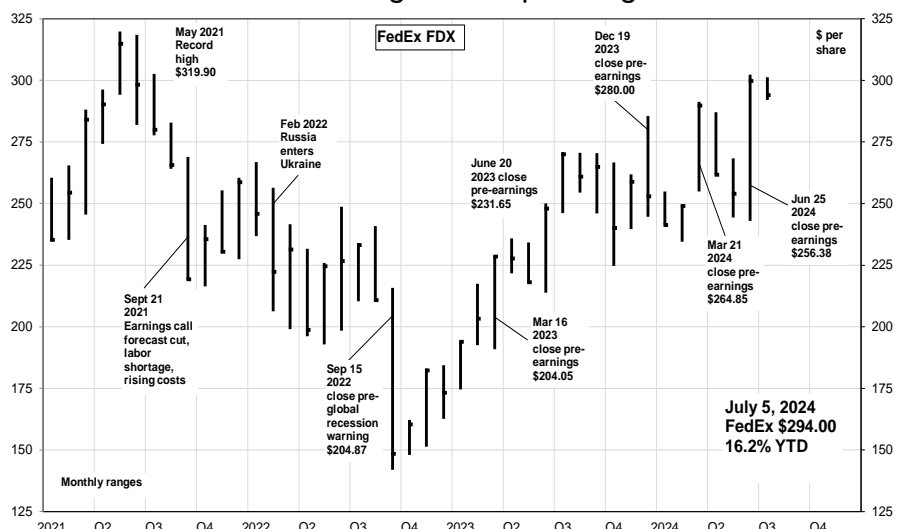


Bond yields ended the week at 4.29%. The presidential election news may have moved rates up early in the week, but the worsening economic outlook brought yields back down. It is early to worry about the Federal debt and the Fed did cut QT recently bringing down the Treasury’s annual borrowing need by \$420 billion. A lot of the bump in bond yields was portfolio rebalancing late on June 28 at the end of the quarter. For the darkening economic outlook, ISM services fell sharply (again) on Wednesday, and the jobs report on Friday eventually was seen as a negative for growth perhaps with the tick up in the unemployment rate. Through it all the stock market kept moving higher, ending Friday up 16.7% year-to-date. At least Powell has stopped talking down the stock market, where easy financial market conditions were thought to hurt the inflation fight. May 2024 PCE inflation is only 2.6% year-on-year.

**FedEx (FDX) up 16.2% YTD**

The stock jumped 15.5% the next day after the earnings report after the bell on Tuesday, June 25 in part as the company’s projected fiscal year 2025 EPS guidance was slightly better than expected. Restructuring will continue in the new fiscal year. FedEx is considering selling the FedEx freight business; UPS sold its freight business back in 2021. FedEx Freight had operating income of \$1.814 billion in FY 2024, 32.6% of the total.

Quarter	Operating Income \$bln					
	Total	FedEx Express	FedEx Ground	FedEx Freight	Other; layoffs	
5.31.24	1.555	0.201	1.104	0.506	-0.256	
2.29.24	1.243	0.233	0.942	0.340	-0.272	
11.30.23	1.276	0.137	0.900	0.487	-0.248	
8.31.23	1.485	0.205	1.103	0.481	-0.304	
FY 2024	5.559	0.776	4.049	1.814	-1.080	
FY 2023	6.245	2.922	2.642	1.663	-0.982	
FY 2021	5.857	2.810	3.193	1.005	-1.151	
FY 2020	2.417	0.996	2.014	0.580	-1.173	



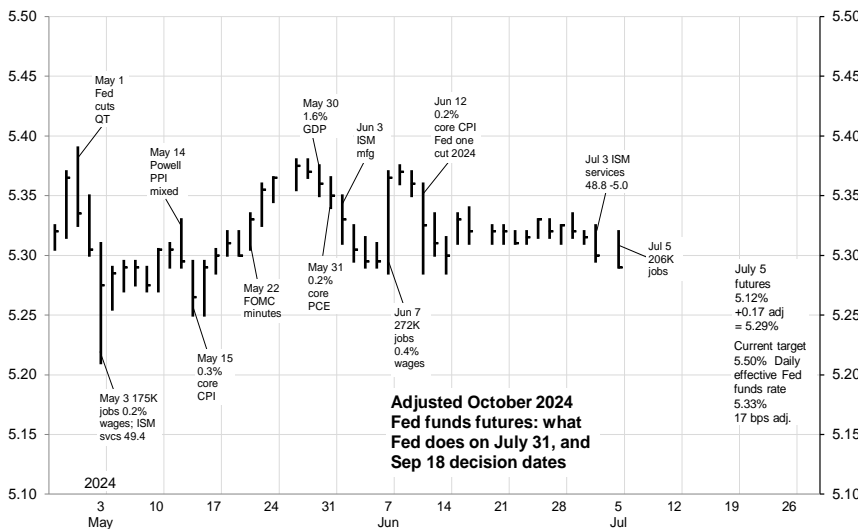
### FEDERAL RESERVE POLICY

The Fed meets July 30-31, 2024 to consider its monetary policy. Too early for a rate cut, a rate cut that is supposed to be followed by additional rate cuts, so the bar to lowering the Fed funds rate the first time is a high one... unless the employment market softens, policymakers say. For some reason they continue to say the unemployment rate remains relatively low. The 4.1% unemployment rate in June is seven-tenths off the low back in April 2023; every other time since the mid-1970s, the economy was in a recession with losses of this magnitude. The Fed had already cut interest rates before the unemployment rate had risen 0.5 percentage point from the low, looking back as far as we care to, the 1990-91 recession; this time nothing from policymakers who are watching inflation instead. Not that we want to see a rate cut necessarily, as the interest on money market funds is good enough for a large percentage of anyone's investment portfolio unless you are 25 years old and living to 100. Stay tuned. Powell just cannot stop speaking. The ECB Forum on Central Banking in Sintra, Portugal on Tuesday, July 2. The semiannual Monetary Policy Report was released Friday at 11am ET, and Powell will explain it all before the Senate at 10am ET on Tuesday, July 9, and before the House at 10am ET on Wednesday, July 10.

Selected Fed assets and liabilities						Change from 3/11/20 to Jul 3
Fed H.4.1 statistical release billions, Wednesday data	3-Jul	26-Jun	19-Jun	12-Jun	3/11/20*	
<b>Factors adding reserves</b>						
U.S. Treasury securities	4437.894	4453.571	4453.071	4461.661	2523.031	1914.863
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2335.997	2335.997	2354.640	2354.642	1371.846	964.151
Repurchase agreements	0.004	0.001	0.001	0.005	242.375	-242.371
Primary credit (Discount Window)	6.404	7.026	6.683	6.461	0.011	6.393
Bank Term Funding Program	106.284	106.556	107.338	107.690		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	2.801	2.847	2.855	2.893		
Main Street Lending Program	11.186	11.173	11.159	11.386		
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	0.211	0.124	0.120	0.114	0.058	0.153
<b>Federal Reserve Total Assets</b>	<b>7272.3</b>	<b>7282.3</b>	<b>7303.8</b>	<b>7310.1</b>	<b>4360.0</b>	<b>2912.226</b>
3-month Libor-% SOFR %	5.33	5.34	5.33	5.31	1.15	4.180
<b>Factors draining reserves</b>						
Currency in circulation	2358.292	2352.646	2351.912	2350.601	1818.957	539.335
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	745.608	744.206	782.158	650.212	372.337	373.271
Treasury credit facilities contribution	4.958	4.958	4.958	4.958		
Reverse repurchases w/others	425.898	490.156	375.542	447.574	1.325	424.573
<b>Federal Reserve Liabilities</b>	<b>3950.087</b>	<b>4013.355</b>	<b>3937.622</b>	<b>3876.091</b>	<b>2580.036</b>	<b>1370.051</b>
<b>Reserve Balances (Net Liquidity)</b>	<b>3322.165</b>	<b>3268.895</b>	<b>3366.166</b>	<b>3434.032</b>	<b>1779.990</b>	<b>1542.175</b>
Treasuries within 15 days	63.469	46.454	27.742	22.030	21.427	42.042
Treasuries 16 to 90 days	202.631	219.055	237.783	252.515	221.961	-19.330
Treasuries 91 days to 1 year	538.099	535.109	534.963	536.167	378.403	159.696
Treasuries over 1-yr to 5 years	1471.141	1489.439	1489.256	1489.783	915.101	556.040
Treasuries over 5-yr to 10 years	646.217	647.692	647.626	646.300	327.906	318.311
Treasuries over 10-years	1516.338	1515.822	1515.701	1514.867	658.232	858.106
Note: QT starts June 1, 2022	Change	7/3/2024	6/1/2022			
U.S. Treasury securities	-1332.885	4437.894	5770.779			
Mortgage-backed securities (MBS)	-371.449	2335.997	2707.446			

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

Fed Policy-key variables				Long Term
	2024	2025	2026	
Fed funds	5.1	4.1	3.1	2.8
PCE inflation	2.6	2.3	2.0	2.0
Core inflation	2.8	2.3	2.0	
Unemployed	4.0	4.2	4.1	4.2
GDP	2.1	2.0	2.0	1.8
June 2024 median Fed forecasts				



October Fed funds futures discount 21 bps of a 25 bps rate cut (84%) on September 18. Two 25 bps rate cuts are discounted this year.

Fed funds futures call Fed policy	
Current target: July 5 -- 5.50%	
Rate+0.17 Contract	Fed decision dates
5.480 Aug 2024	July 31
5.290 Oct 2024	Add Sep 18
4.985 Jan 2025	Add Nov 7, Dec 18*
Last trade, not settlement price	
* Not strictly true, Jan 2025 contract has Jan 29 as the expected Fed decision date	

### Next up: June CPI inflation report Thursday, July 11

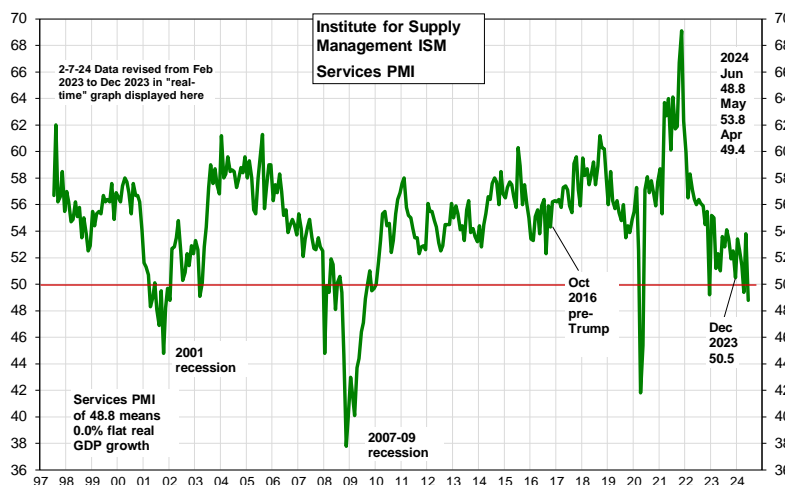
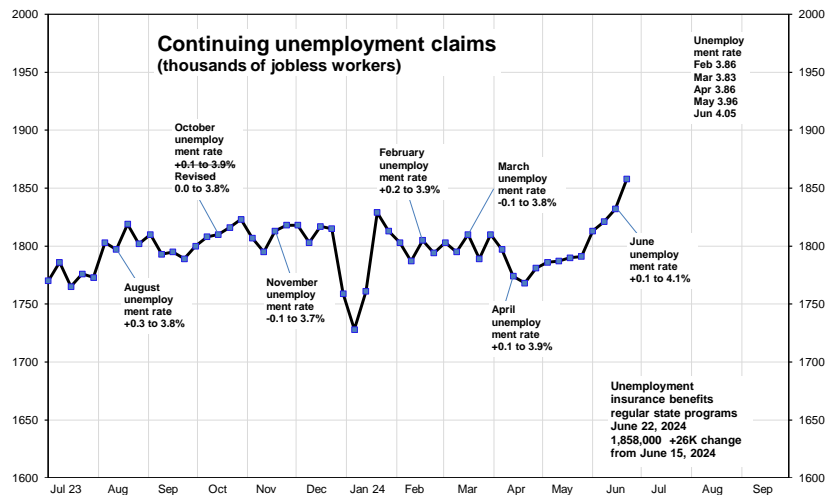
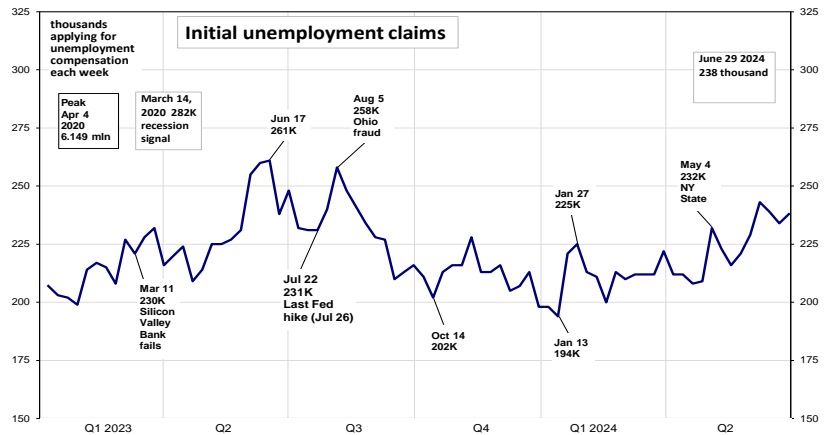
Monthly % Changes	2024												2023		
	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar
Core CPI inflation	0.2	0.3	0.4	0.4	0.4	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.4	0.5	0.3
Core PCE inflation	0.1	0.3	0.3	0.3	0.5	0.2	0.1	0.1	0.3	0.1	0.1	0.2	0.3	0.3	0.3
Core PCE YOY	2.6	2.8	2.8	2.8	2.9	2.9	3.2	3.4	3.6	3.7	4.2	4.3	4.7	4.8	4.8
Core CPI YOY	3.4	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

OTHER ECONOMIC NEWS

Jobless claims and ISM services index (Wednesday)

Breaking economy news. Weekly jobless claims moved up 4K to 238K in the June 29 week with the largest increases in New York and then New Jersey. Because first-time applications have increased recently, it is starting to impact the total number receiving benefits, which will then lead to a higher unemployment rate. Continuing unemployment claims rose 26K to 1.858 million in the June 22 week.

Meanwhile the purchasing managers survey of service industries fell back below the 50-line signaling the sector is contracting. The ISM services people also say a reading of 48.8 means real GDP growth is stalled at 0.0%. The series is highly volatile, but is always a big crowd-pleaser for traders in financial markets.



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