Financial Markets This Week

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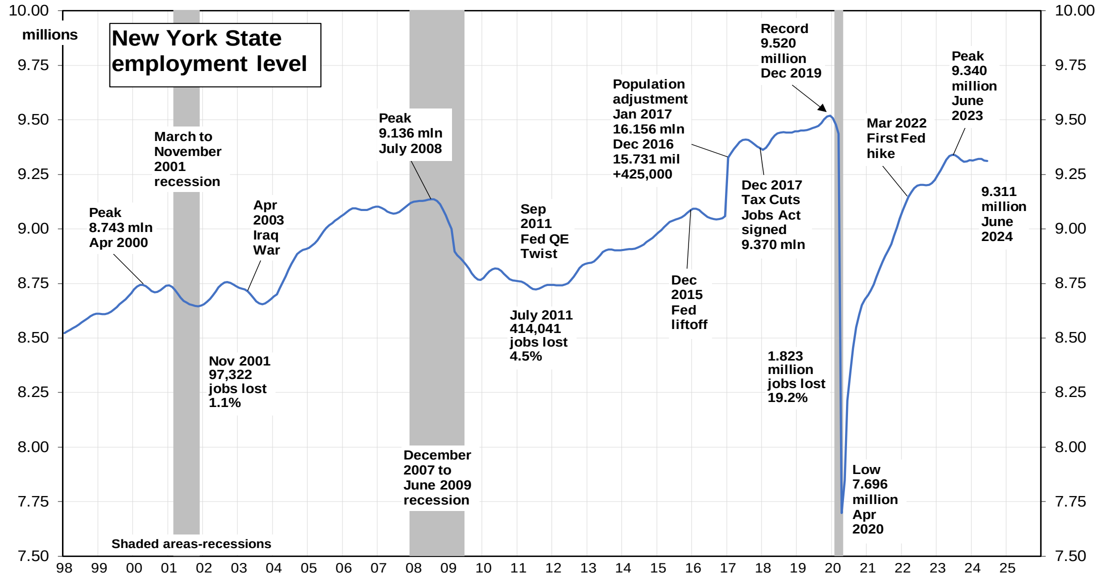
NEW YORK STATE OF MIND



We thought we would look at another state this week where the population has stopped growing instead of focusing on the largest state in the union California all the time. Good preparation for when the US population stops growing, likely when the 60 to 78 year old baby boomers have passed, unless the door to immigration shuts and some illegals are sent away. Most of the theory we learned in economics depends heavily on steady annual increases in the population, and it is unclear how the world will go on without growth.

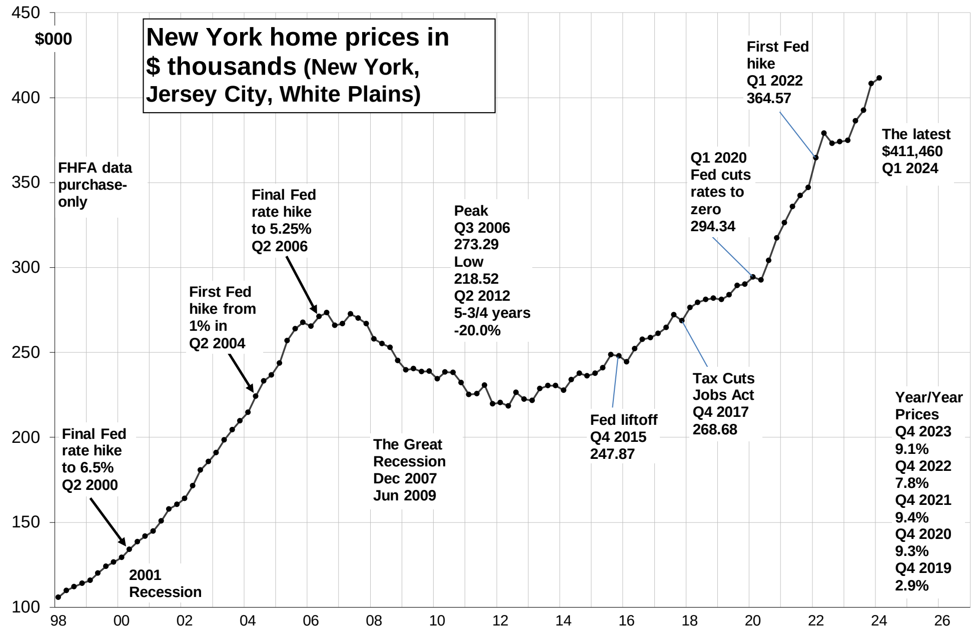
Employment and jobs from the Household Survey has stopped growing, peaking in June last year before the Fed's final rate hike to 5.5% in July 2023. This cannot be good for the economic outlook and cannot be caused just by more moving to Florida either for retirement or other reasons. New York state employment has slowed before the last three recessions. The data are hard to measure and are dependent on the population trend. There was a large upward adjustment to the population count in January 2017 for example. The recovery in New York state jobs has taken a long time, looking first at the 2001 recession where only 1.1% lost their jobs, and the recovery was held back by the economic slowdown from uncertainty ahead of the Iraq War in April 2003. The recovery in jobs was slow coming out of the long 18-month 2007-09 recession caused by the housing crash and "recession-level" 5.25% Fed funds rate; Bernanke came up with QE Twist stimulus in September 2011 to restart the economy if you will. QE Twist buys 6-year to 30-year Treasuries and sells under 3-years (keeps downward pressure on long-term yields) in order to avoid increasing the Fed's balance sheet and the criticism by Congress of money-printing that some think can lead to inflation.

As far as labor market trends, it is hard to find more employment and jobs in a state where the population (civilian noninstitutional 16 years or older) is unchanged over the last year. The unemployment rate is up a couple of tenths to 4.2% from last year. Payroll employment, the survey of companies, is 1.2% higher over the last twelve months. Construction and manufacturing is down. Trade, Transportation, and Utilities are down more, and Information fell sharply by 5.1% over the last year. Education and Health payroll jobs keep rising as does Leisure and Hospitality.

New York labor market trends

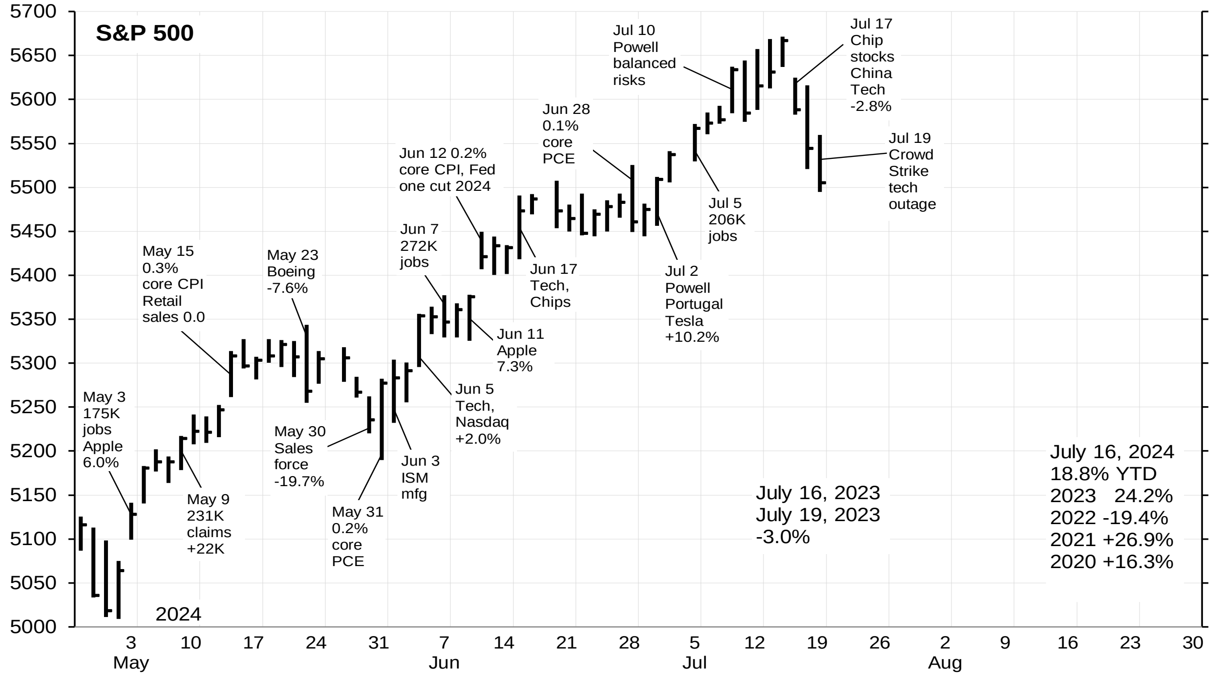
Thousands	Jun 23	Jun 24	Change	% Chg
Population	15,891	15,859	-32	-0.2
Not in Labor Force	6,162	6,139	-23	-0.4
Employment	9,341	9,312	-29	-0.3
Unemployed	388	409	21	5.3
Rate	4.0	4.2	0.2	---
Participation rate	61.2	61.3	0.1	---
Payroll employment	9,728	9,867	139	1.4
Mining/Logging	5.5	5.4	-0.1	-1.8
Construction	390.8	385.4	-5.4	-1.4
Manufacturing	423.1	419.0	-4.1	-1.0
Trade/Trans/Utilities	1,496.7	1,473.3	-23.4	-1.6
Information	285.0	270.6	-14.4	-5.1
Financial activities	748.0	750.9	2.9	0.4
Professional/Business	1,397.6	1,403.9	6.3	0.5
Education/Health	2,220.4	2,336.3	115.9	5.2
Leisure/Hospitality	916.4	945.4	29.0	3.2
Other services	387.2	388.8	1.6	0.4
Government	1,457.4	1,488.4	31.0	2.1

How are home prices doing? The BLS Household Survey says new jobs are stagnant the last year, the population count is down, but New York home prices are still increasing, those close in to the city. If there is a Fed rate cut at the September meeting, monetary policy is going to be out of kilter with the housing market. There were job losses in the 2001 recession, so Greenspan cut interest rates from 6.5% to 1.0%, but this just sent home prices in New York higher and higher to bubble levels that eventually broke, and brought down the economy and caused the 2007-09 recession. New York home prices fell as much as 20% in the Great Recession and have been rising ever since 2012. Home prices accelerated to the upside when Powell cut rates to zero in the 2020 pandemic and paused just briefly after the Fed's first rate hike from zero in Q1 2022. It looks like rate cuts help some, but hurt others in the economy, in this case rate cuts send home prices higher making the cost of shelter even more unaffordable.



In conclusion, New York payroll employment shows workers are getting hired, but the Household Survey measure of employment does not, similar to the nationwide labor market data, but it looks like the latter telephone survey of the public does a better job at forecasting when the broader economy is starting to slow down. New York state unemployment is up 0.2 percentage points the last year to 4.2%, but the cycle low was 3.9% in May 2023; the rate was as high as 4.6% in December 2023 before easing back to 4.2% the last three months. Stay tuned. Story developing.

INTEREST RATES



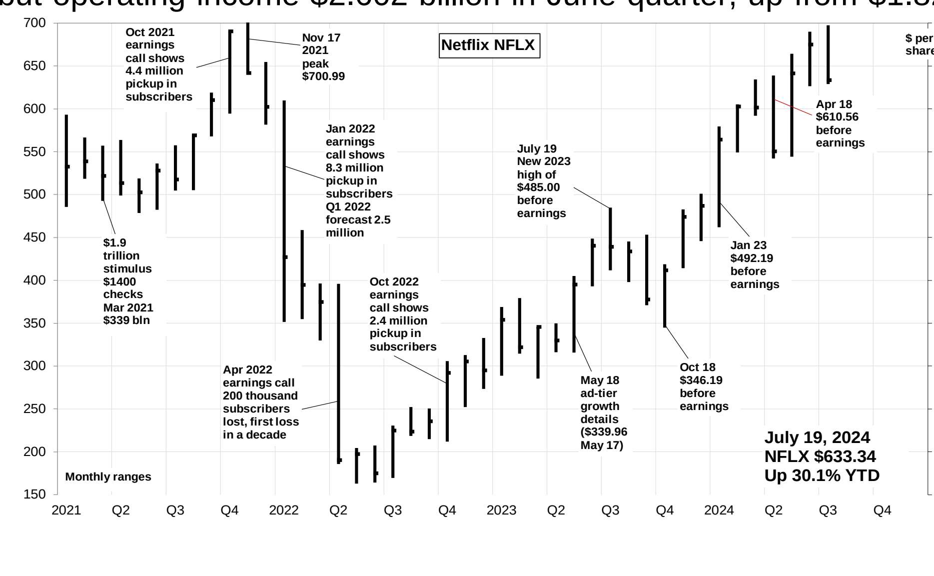
Stocks were lower this week so everyone is unhappy; quite an abrupt turnaround from record highs for the S&P 500 on Tuesday – the loss from high to low this week is 3.0%. News overnight on Wednesday started stocks on a downward path starting with UK inflation of all things that may have taken a Bank of England rate cut off the table. The bigger Wednesday news was a report the US was considering putting more restrictions on companies that provide advanced chip technology to China. Trump weighed in as well saying Taiwan needed to pay for its defense. The S&P 500 fell 1.4% and tech dragged down Nasdaq by 2.8%, the worst loss in over a year. Dow industrials climbed however, adding to the confusion, with big gains by United Health and Johnson & Johnson. 10-yr yields were 4.24% Friday up from 4.19% the week before, CrowdStrike tech outage was overnight Thursday.

Netflix (NFLX) up 30.1% YTD

The stock fell after earnings Thursday afternoon, maybe something to do with earnings guidance for next quarter. Friday was a wild session with the stock at the open up as much as 5.6% before dropping as much as 7.3% from the high. Subscribers numbers that investors like went up, but that metric is still going away in 2025. The company is complicated with live TV and ad-supported tiers and password sharing crackdowns, but operating income $2.602 billion in June quarter, up from $1.827 billion last year.

Netflix results (millions)

Quarter	Member ships Paid	Net Additions
6.30.2024	277.65	8.05
3.31.2024	269.60	9.33
12.31.2023	260.28	13.12
9.30.2023	247.15	8.76
6.30.2023	238.39	5.89
3.31.2023	232.50	1.75
12.31.2022	230.75	7.66
9.30.2022	223.09	2.41
6.30.2022	220.67	-0.97
3.31.2022	221.64	-0.20
12.31.2021	221.84	8.28

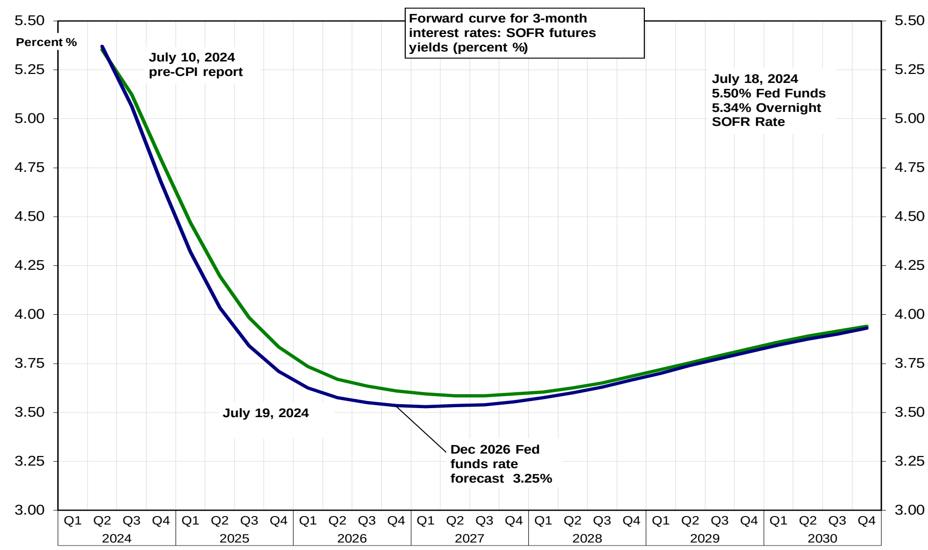


FEDERAL RESERVE POLICY

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	17-Jul	10-Jul	3-Jul	26-Jun	3/11/20*	3/11/20
Factors adding reserves						to Jul 17
U.S. Treasury securities	4423.552	4438.095	4437.894	4453.571	2523.031	1900.521
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2335.932	2335.997	2335.997	2335.997	1371.846	964.086
Repurchase agreements	0.100	0.001	0.004	0.001	242.375	-242.275
Primary credit (Discount Window)	6.634	6.803	6.404	7.026	0.011	6.623
Bank Term Funding Program	103.248	105.998	106.284	106.556		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	2.735	2.788	2.801	2.847		
Main Street Lending Program	10.869	11.199	11.186	11.173		
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	0.163	0.122	0.211	0.124	0.058	0.105
Federal Reserve Total Assets	7259.5	7275.3	7272.3	7282.3	4360.0	2899.449
~~3-month Libor %~~ SOFR %	5.35	5.34	5.33	5.34	1.15	4.200
Factors draining reserves						
Currency in circulation	2350.408	2356.054	2358.292	2352.646	1818.957	531.451
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	766.779	722.328	745.608	744.206	372.337	394.442
Treasury credit facilities contribution	4.958	4.958	4.958	4.958		
Reverse repurchases w/others	399.401	422.147	425.898	490.156	1.325	398.076
Federal Reserve Liabilities	3937.028	3934.269	3950.087	4013.355	2580.036	1356.992
Reserve Balances (Net Liquidity)	3322.446	3341.046	3322.165	3268.895	1779.990	1542.456
Treasuries within 15 days	57.058	62.997	63.469	46.454	21.427	35.631
Treasuries 16 to 90 days	184.932	206.784	202.631	219.055	221.961	-37.029
Treasuries 91 days to 1 year	544.310	534.437	538.099	535.109	378.403	165.907
Treasuries over 1-yr to 5 years	1479.567	1471.206	1471.141	1489.439	915.101	564.466
Treasuries over 5-yrs to 10 years	637.630	646.240	646.217	647.692	327.906	309.724
Treasuries over 10-years	1520.056	1516.431	1516.338	1515.822	658.232	861.824
Note: QT starts June 1, 2022	Change	7/17/2024	6/1/2022			
U.S. Treasury securities	-1347.227	4423.552	5770.779			
Mortgage-backed securities (MBS)	-371.514	2335.932	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

The Fed meets July 30-31, 2024 to consider its monetary policy. A couple of Fed voices this week seem to be backing up the Fed funds futures calls for a second week for no rate change on July 31, but a 25 bps rate cut to 5.25% is discounted on the September 18 Fed decision date. Fed Governor Waller Wednesday said he was getting closer to thinking a rate cut is warranted. He said that in his opening, but at the end laid out three inflation scenarios including the one he thought was most likely: that inflation results ahead are more uneven meaning the timing of a first Fed rate cut is more uncertain. Thanks for clearing that up. He did point out components of retail sales on Tuesday were stronger than the headline and as a result the Atlanta Fed GDPNow in Q2 2024 is 2.5%, revised from 2.0%, which is better than the Q1 2024 1.4% slow growth. In Waller's view, personal income is holding up so consumption should as well in the second half of 2024. Later in the week, Chicago Fed President Goolsbee said policy was restrictive, which is what you want if the economy is overheating, but the economy is not overheating so a rate cut will be necessary. Longer-term market expectations of rates are close to the Fed's forecasts out to 2026, with a new 2027 year forecast coming at the September meeting. The 0.1% core CPI report on July 11 brought the forward curve down less than one would have thought.

Fed Policy-key variables	2024	2025	2026	Long Term
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				



No change in Fed expectations. October Fed funds futures discount 25.5 bps of a 25 bps rate cut (102%) on September 18. Two and a half 25 bps rate cuts are discounted this year.

Fed funds futures call Fed policy		
Current target: July 19 -- 5.50%		
Rate+0.17	Contract	Fed decision dates
5.490	Aug 2024	July 31
5.245	Oct 2024	Add Sep 18
4.865	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 PCE inflation report Friday, July 26														
Monthly						2024	2023							2023
% Changes	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr
Core CPI inflation	0.1	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
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
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
Core CPI YOY	3.3	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

OTHER ECONOMIC NEWS

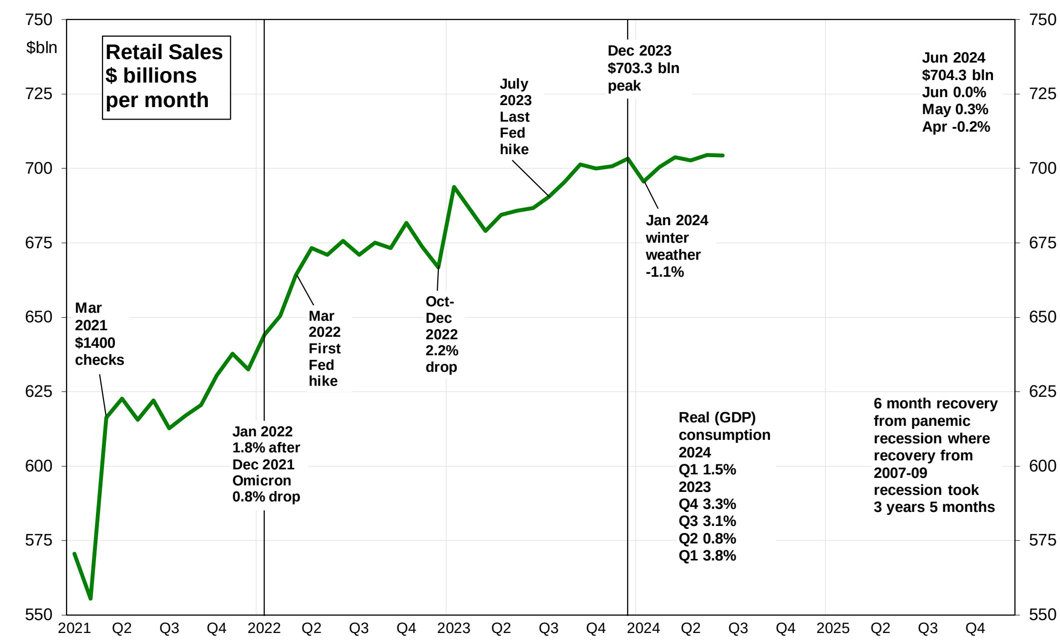
Flat retail sales this summer (Tuesday)

Retail spending, actual dollars, each month	$million Jun	% to Total	Percent Changes % Jun	May	Year/year
Total Retail Sales	704,324	100.0	0.0	0.3	2.3
Motor vehicles/parts	130,731	18.6	-2.0	1.0	-2.2
Furniture/furnishings	11,084	1.6	0.6	0.7	-4.0
Electronics/appliances	7,863	1.1	0.4	0.3	2.7
Building materials/garden	40,675	5.8	1.4	-0.7	-0.9
Food & beverage	82,674	11.7	0.1	-0.2	1.9
Health/personal care	36,544	5.2	0.9	0.3	0.7
Gasoline stations	51,918	7.4	-3.0	-2.1	-0.4
Clothing/accessories	26,363	3.7	0.6	1.2	4.3
Sporting goods, books	8,257	1.2	-0.1	1.7	-3.4
General merchandise	75,619	10.7	0.4	0.1	3.3
Department stores	10,976	1.6	0.4	0.0	1.7
Miscellaneous retailers	15,055	2.1	0.3	-1.3	2.8
Nonstore retailers (internet)	122,710	17.4	1.9	1.1	8.9
Eating & drinking places	94,831	13.5	0.3	0.4	4.4
[Total ex-autos/gas]	521,675	74.1	0.8	0.3	3.8

Breaking economy news. Retail sales were flat in June, but subtracting out motor vehicle sales and gasoline sales, retail sales had a moderate 0.8% advance in June following a 0.3% gain in May. A technical computer glitch for auto dealers may have held back vehicle sales this month, and gasoline prices of course fell for the month leading to reduced dollar sales for total retail expenditures. Nevertheless, there has been a pronounced slowdown in retail sales this year which borders on being almost recession-like, keeping in mind many recessions do not see much of a downturn in actual total consumer expenditures. The record shows 6.0% retail sales in Q3 2023, and 3.3% in Q4 2024, but this year retail sales fell 0.8% in the first quarter and increased just 2.2% in Q2 2024 with little momentum going forward where Q3 2024 sales are just 0.3% using the June 2024 level of $704.3 billion with no sales yet of course for July, August, September.

Nonfuel Imports prices-- Monthly Percent Changes NSA	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2023	0.2	0.4	-0.5	-0.1	0.0	-0.3	-0.1	-0.2	-0.2	-0.2	0.1	0.1
2024	0.6	0.1	0.2	0.7	-0.3	0.2						

Also released, nonfuel import prices rose a modest 0.2% in June after falling 0.3% in May. A couple of big jumps in import prices earlier this year in January and April appear to be outliers. The US is not at risk of importing more inflation.



Net, net, Fed officials reading the tea leaves will find some comfort in the latest economic data where retail sales have slowed at the start of summer and inflation pressures from imports were modest. There's no need for policymakers to surprise the markets with an early rate cut at the meeting in a couple of weeks, but at least Fed officials are seeing reports that likely give them greater confidence that they are winning the battle with inflation and making progress on bringing inflation to heel. Stay tuned. There are some technical issues this month, but it is a fact that consumer spending has slowed dramatically this year. Strong consumer demand fueled by pandemic stimulus helped send prices soaring, and now the slowdown in retail spending at the shops and malls in the first half of this year should limit inflation and help bring it back down to the Fed's target.

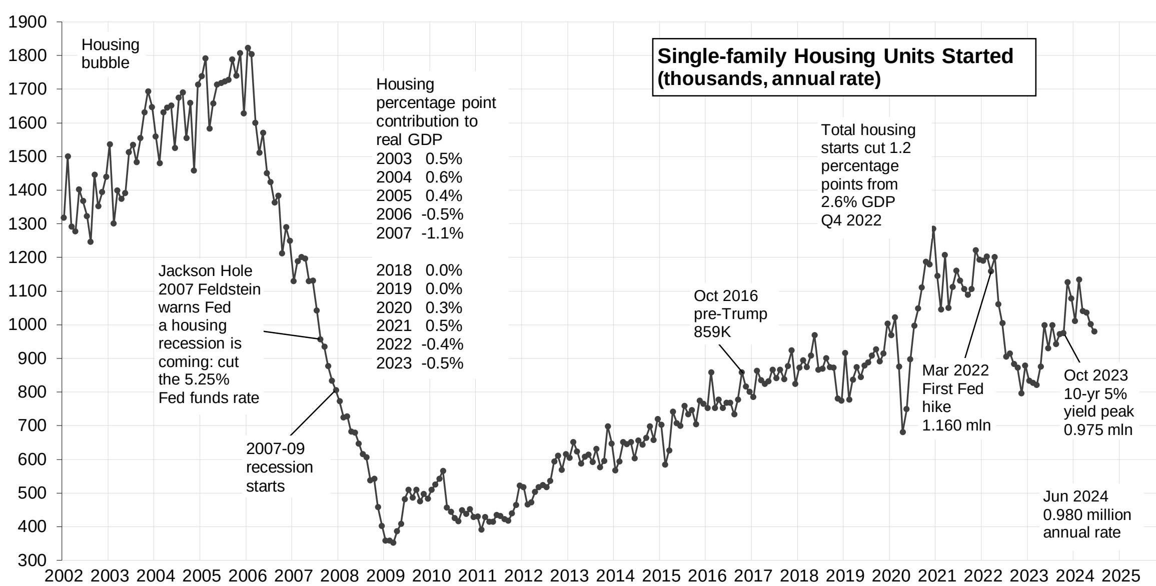
Modest rise in housing starts (Wednesday)

Breaking economy news. Housing starts rebounded partially by 3.0% to 1.353 million at an annual rate in June after falling 4.6% in May. Most of the increase was in multifamily starts in the Midwest and Northeast. Single-family residential construction continues its troubling downward trend falling by 2.2% to 980 thousand in June even if the weakness was mostly in the West this month. The country is not building enough single-family homes to alleviate the shortage of affordable housing and this is guaranteed to further inflate the housing price bubble and make the cost of buying a new home even more unaffordable.

Housing Starts Total, Single-Family, Multi-Family

	United States			Northeast		Midwest		South		West	
000s	Total	1 unit	Multi	Total	1 unit	Total	1 unit	Total	1 unit	Total	1 unit
Jun 2024	1353	980	360	121	67	194	111	732	591	306	211
May 2024	1314	1002	295	90	69	153	110	745	588	326	235
Jun 2023	1415	930	470	97	58	167	111	813	560	338	201
% Chgs											
Jun/May	3.0	-2.2	…	34.4	-2.9	26.8	0.9	-1.7	0.5	-6.1	-10.2
Jun/Jun	-4.4	5.4	…	24.7	15.5	16.2	0.0	-10.0	5.5	-9.5	5.0

Net, net, the weakness in single-family residential housing construction is a ticking time bomb that threatens to upend the Fed's best intentions as they cautiously inch closer to reversing the high, recession-level interest rates that weigh on economic growth. Policymakers are damned if they do and damned if they don't. If the Federal Reserve cuts rates to turn the dial down on its restrictive monetary policy, they risk blowing more air into the housing price bubble and add even further to inflation pressures down the road. The last housing bubble ended with a bang and was the proximate cause of the long 2007-09 recession. We have never witnessed a Federal Reserve cutting rates when home prices are screaming higher. Fed officials need to tread cautiously here as there are no easy answers on setting the proper course for monetary policy in the months ahead. Stay tuned.

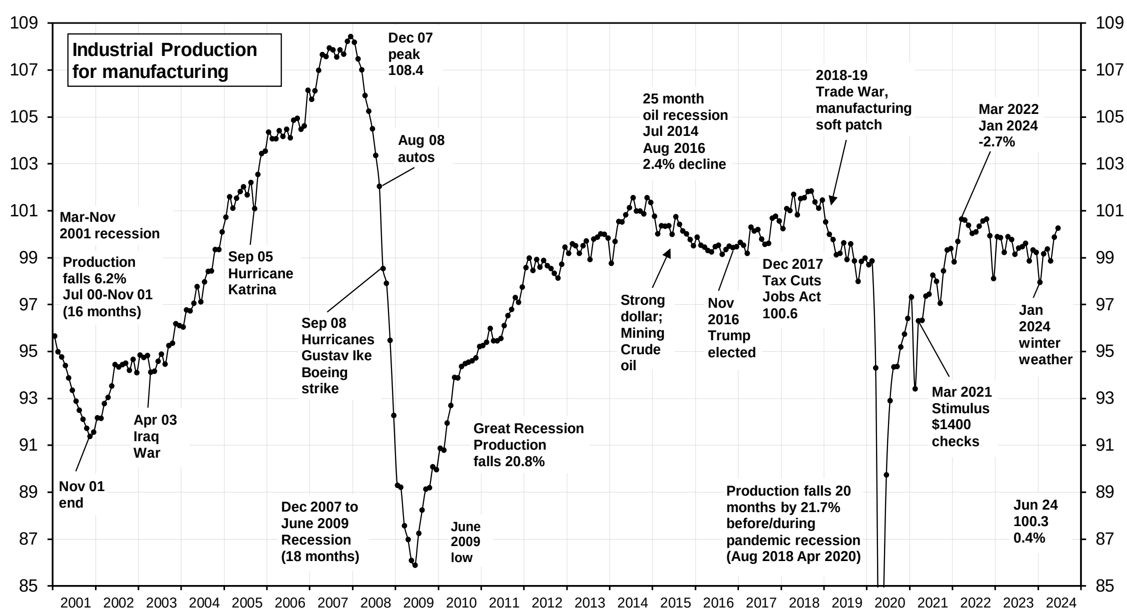


Factory production resurgence (Wednesday)

Breaking economy news. Industrial production data from the Federal Reserve for the month of June. Industrial production increased 0.6% in June after a 0.9% gain in May. Production has lifted the last two months after being relatively flat earlier in 2024, helped along by a temporary factor, weather trends, with Utilities output up 2.8% in June and a large increase of 7.9% from last year which is unlikely to stand of course.

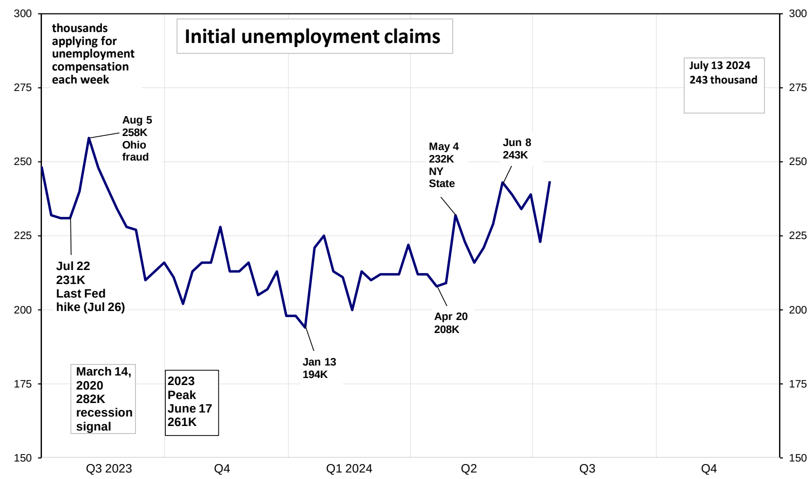
Percent changes			Industrial Production June 2024		
Apr	May	Jun	YOY		Weight
0.0	0.9	0.6	1.6	Total Index	100.0
-0.5	1.0	0.4	1.1	Manufacturing	75.1
0.2	-0.7	0.3	-0.6	Mining	14.2
3.6	1.9	2.8	7.9	Utilities	10.7
			Manufacturing payroll jobs 13.0 million +5K YOY 9.6% of Private Payroll Jobs		

Net, net, factory production has seen a resurgence the last two months which shows manufacturing is not quite yet on the life support indicated in the purchasing manager surveys. Although total industrial production has been boosted by utilities production during hotter than seasonal temps the last few months, manufacturing production is doing better than expected with last month's 0.6% gain revised to up 1.0%, followed by June's 0.4% increase in today's report from the Federal Reserve. Auto and light truck assemblies are at new 2024 highs, so automakers must believe that consumer demand will be there if they ship more vehicles to dealer showrooms. Among final products, consumer goods showed the most strength with a 2.8% year-to-year increase after solid increases each of the last three months. Stay tuned. There is life in America's factories yet and if America First policies are coming next year, perhaps further factory production can be expected to help drive 2025 economic growth forward as well. Whatever the signs of recession coming from the labor markets, industrial production falls in recessions, and for the last two months, manufacturing activity is going up.

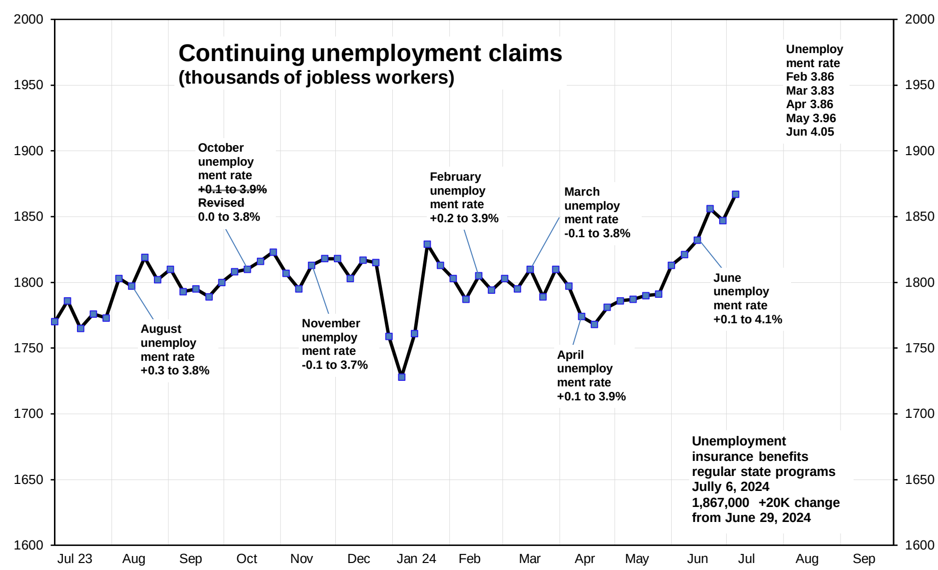


Jobless claims new high (Thursday)

Breaking economy news. Initial jobless claims jumped 20K to 243K in the July 13 week which returns the weekly layoffs to the June 8 high for 2024 which was also 243K. Texas claims increased the most of any state, after Hurricane Beryl probably, by 11,537 out of a US total claims rise of 36,824. The seasonal factor is very aggressive for this auto plant closings period, but initial claims would be about 233K if Texas showed no increase. Continuing unemployment claims are at a new high of 1.867 million and these are for the July 6 week, before the hurricane, so the labor market may be still deteriorating. Continuing claims if they stick here could mean another tenth higher for the unemployment rate to 4.2% for July to be reported Friday, August 2. The five-tenths increase in the unemployment rate recession-signal was triggered back in February already so the clock is ticking. Many recessions however need an external shock to get the ball rolling like a stock market crash or a war or a spike in crude oil prices. No shock yet unless you look to the national elections coming up.



Net, net, the recession clouds have moved back in suddenly, literally, almost overnight, and the skies are darkening ominously with new job layoffs surging back to the high of 2024 hit in the June 8 week, and the total number of jobless workers receiving unemployment benefits at a new 2024 high. This is exactly what a recession looks like and it will be a miracle if the economy misses one. Every President since the 2000s has had a recession, and it looks like President Biden will have his too. Some Fed officials have said in recent days that they are watching the labor market like a hawk as conditions there can change suddenly, and guess what? The outlook has changed dramatically where the labor market is not just moving into better balance, the labor market is in danger of falling off a cliff and dragging the entire US economy down into the depths of recession. Don't ask for whom the bell tolls, it tolls for thee.



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