

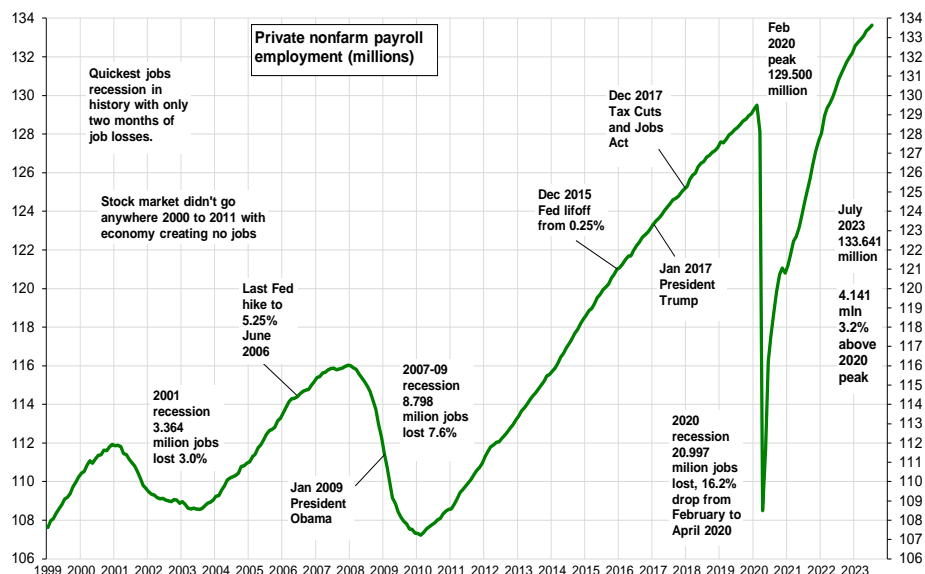
Financial Markets This Week

4 AUGUST 2023

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PAYROLL JOBS STEADY

Nonfarm payroll jobs slowed this month, although much of the relative softness was in government jobs. State government jobs in education fell 20K, meanwhile, despite the “spending crisis” down in Washington, the Federal government hired 9,000 more workers, with a little more than 60 thousand brought aboard the last year. No recession if you were hoping for one: payroll jobs decline in recessions not increase 187 thousand.



Let the record show that private jobs increased 172K in July, 128K in June (was 149K), and 255K in May (was 259K). Leisure and hospitality hiring has slowed dramatically while jobs in health care, social assistance, finance activities, and wholesale trade are booming. Please write to us if you are in wholesale trade as we very much want to understand what it is you do. Interest rate sensitive sectors like realtors and construction are hanging in there: Real estate rental and leasing jobs still 2.7% higher than last year, Construction jobs are 2.5% higher. If you are looking for recession, the only thing to hang your hat on is the drop in temp help jobs which are down 4.7% from last year.

If weary Fed policymakers were looking for help on wages to keep inflation in check, average hourly earnings rose 0.4% in July, the same increase as in June, and is running 4.4% above prior year levels. There is a labor shortage out there limiting hiring as the unemployment rate fell back a tenth to 3.5% this month, just a tenth above the 3.4% rate in April this year which is the lowest since the 1960s. No one claims to be

Payroll Employment Changes (thousands)							
March 2001 to November 2001 Recession "8 months"							
	<u>Nov 00</u>	<u>Dec 00</u>	<u>Jan 01</u>	<u>Feb 01</u>	<u>Mar 01</u>	<u>Apr 01</u>	<u>May 01</u>
Total	201	165	-20	87	-32	-297	-44
Private	184	121	-51	16	-71	-344	-81
December 2007 to June 2008 Recession "18 months"							
	<u>Nov 07</u>	<u>Dec 07</u>	<u>Jan 08</u>	<u>Feb 08</u>	<u>Mar 08</u>	<u>Apr 08</u>	<u>May 08</u>
Total	118	106	1	-76	-68	-217	-191
Private	81	64	-11	-105	-94	-224	-224
No Recession in 2023							
	<u>Jan 23</u>	<u>Feb 23</u>	<u>Mar 23</u>	<u>Apr 23</u>	<u>May 23</u>	<u>Jun 23</u>	<u>Jul 23</u>
Total	472	248	217	217	281	185	187
Private	353	193	157	179	255	128	172

unemployed and in need of a job and this will act as a brake on future hiring. This could be the first time in economic history that payroll employment drops, which normally indicates a recession, but the reason will be there is no one in the county left to hire.

Net, net, the good news is demand in the economy is slowing down with companies hiring not as many workers this month, the bad news is companies still very much want to hire, but they cannot because unemployment is the lowest since the 1960s and there is no one out there to bring aboard. Welcome to the Great Shortage Economy of 2023 where there are no workers available to hire and the shortage of homes to buy is leading to a spike in home prices to all-time highs. If you were betting on another Fed

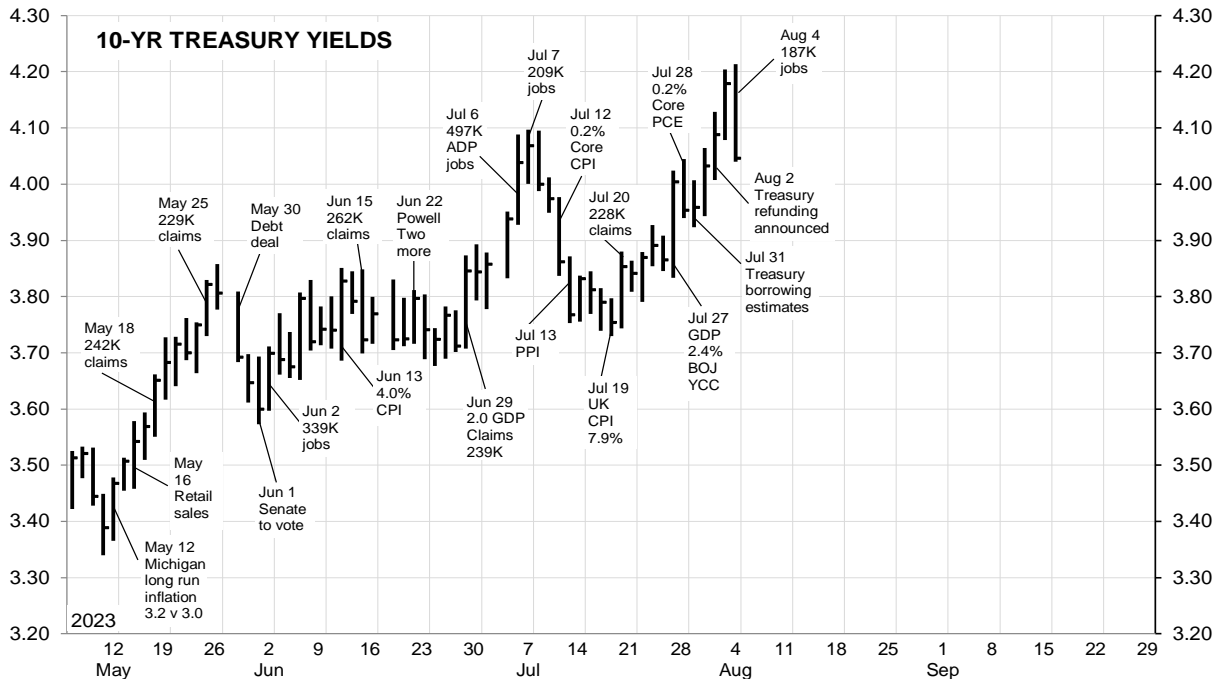
rate hike, Powell neglected to tell us how hot is too hot for the monthly payroll jobs report, but if we had to guess, 187 thousand new payroll jobs is not a sign of an economy that is red hot. The labor markets are slowing down and for whatever the reason, supply shortages of workers or not, the employment data today put another knife in the heart of the chances of a rate hike in September. Stay tuned. Story developing.

Payroll jobs fall from February 2020 peak as recession began							
	41 months						
Data in thousands	Jul 23	Jun 23	May 23	Jul 20	Jul 23	Feb 2020	
Nonfarm Payroll Employment	187	185	281	3,971	156,342	152,371	
Total Private (ex-Govt)	172	128	255	4,141	133,641	129,500	
Goods-producing	18	31	24	520	21,599	21,079	
Mining	0	-1	4	-42	596	638	
Manufacturing	-2	6	-4	200	12,985	12,785	
Motor Vehicles & parts	-2	5	5	84	1,069	985	
Computer/electronics	3	2	0	26	1,107	1,081	
Food manufacturing	-3	-4	-3	62	1,717	1,655	
Construction	19	26	25	363	7,971	7,608	
Specialty trade contractors	11	12	10	231	5,052	4,821	
Private Service-providing	154	97	231	3,621	112,042	108,421	
Trade, transportation, utilities	18	-31	48	1,139	28,885	27,746	
Retail stores	9	-14	21	23	15,543	15,520	
General Merchandise	-1	0	18	115	3,180	3,066	
Food & Beverage stores	6	-1	4	126	3,250	3,124	
Transportation/warehousing	-8	-9	19	936	6,722	5,786	
Truck transport	-3	-2	1	85	1,604	1,520	
Air transportation	3	3	1	27	544	517	
Couriers/messengers	-3	-5	6	252	1,117	865	
Warehousing and storage	-6	-7	-6	582	1,900	1,317	
Information	-12	-5	-4	166	3,074	2,908	
Computing, data, web hosting	4	2	0	133	496	363	
Financial	19	9	13	294	9,163	8,869	
Insurance	8	-1	8	98	2,949	2,851	
Real Estate	12	6	2	73	2,438	2,365	
Commercial Banking	-3	2	-5	-26	1,373	1,398	
Securities/investments	0	5	4	120	1,086	966	
Professional/business	-8	23	45	1,595	23,032	21,437	
Temp help services	-22	-20	-7	88	2,972	2,884	
Management of companies	4	2	0	44	2,528	2,483	
Architectural/engineering	1	7	6	137	1,684	1,548	
Computer systems design	7	4	3	280	2,515	2,234	
Legal services	-1	5	-2	19	1,183	1,164	
Accounting/bookkeeping	0	1	12	128	1,161	1,033	
Education and health	100	71	88	832	25,408	24,576	
Private Educational services	14	0	15	154	3,952	3,798	
Hospitals	16	11	15	86	5,322	5,236	
Ambulatory health care	35	22	26	568	8,435	7,867	
Leisure and hospitality	17	19	28	-352	16,593	16,945	
Hotel/motels	3	5	-4	-253	1,859	2,113	
Eating & drinking places	13	0	25	-64	12,275	12,339	
Government	15	57	26	-170	22,701	22,871	
Federal ex-Post Office	9	3	9	64	2,324	2,260	
State government	-11	30	14	-82	5,235	5,317	
State Govt Education	-20	22	6	-88	2,525	2,613	
Local government	19	24	3	-162	14,537	14,699	
Local Govt Education	0	6	-13	-136	7,920	8,056	

Monthly changes (000s)	Jul	Jun	May	Apr	Mar
Payroll employment	187	185	281	217	217
Private jobs	172	128	255	179	157
Leisure/Hospitality jobs	17	19	28	11	46
HH Employment Survey*	268	273	-310	139	577
Unemployment rate %	3.5	3.6	3.7	3.4	3.5
Participation rate %	62.6	62.6	62.6	62.6	62.6
Not in labor force (mln)	90.899	99.850	99.800	99.755	99.541
... and Want A Job (mln)	5.247	5.389	5.477	5.271	4.925
Average hourly earnings	\$33.74	\$33.60	\$33.45	\$33.34	\$33.20
MTM % Chg	0.4	0.4	0.3	0.4	0.3
YOY % Chg	4.4	4.4	4.3	4.4	4.3

* Household (telephone) Survey of employment behind unemployment rate

INTEREST RATES

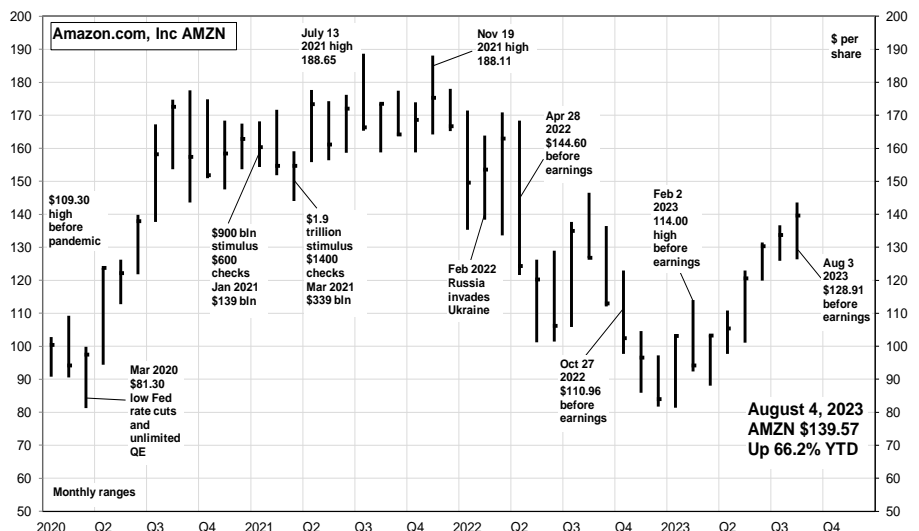


Bond yields moved up sharply basically on supply jitters. 3pm ET Monday the Treasury released its new quarterly borrowing estimates. We know these are the largest, deepest, most liquid markets in the world, but they need to auction nearly \$3.2 trillion of Treasuries in calendar year 2023, more than double the \$1.5 trillion sold in 2022 or the \$1.5 trillion sold in 2021. Shortly after 5pm ET Tuesday, Fitch downgraded the U.S. to AA+, echoing the move S&P made that shocked the world in August 2011 when the stock market was more fragile having sold off already during one of the many European debt crises. Bond yields jumped after the Wednesday 830am ET Treasury quarterly refunding announcement of the 3-yr, 10-yr, 30-yr securities to be sold next week, and those higher yields along with the Fitch downgrade sent the S&P 500 down 1.4% for the day. That's enough markets this week.

Amazon AMZN up 66.2% YTD

Amazon rallied 8.3% on Friday after earnings while the S&P 500 fell 0.5%. EPS of \$0.65 beat expectations of \$0.35. Operating income was \$7.7 billion and the company made money outside of AWS this quarter (\$2.3 billion) for the first time since Q1 2021. Whether the number is \$7.7 billion total or \$5.4 billion for AWS, Amazon's market cap is way up there at \$1.4 trillion. Some investors pointed to growth in sales for advertising services at \$10.7 billion up from \$9.5 billion last quarter.

S&P 500 Weights	
Top 6: 25% of S&P	
7.52	AAPL
6.46	MSFT
2.03	GOOGL
1.75	GOOG
3.06	AMZN
2.93	NVIDIA
1.86	TSLA
25.61	Top 6



FEDERAL RESERVE POLICY

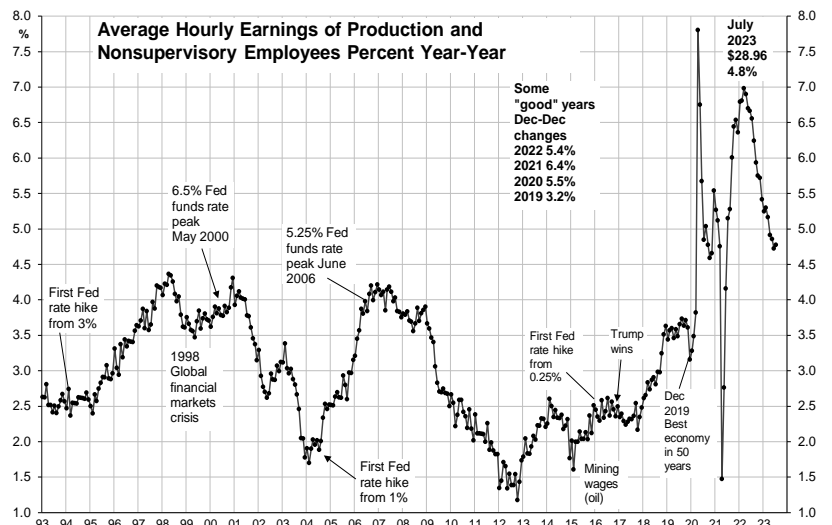
The Fed meets September 19-20, 2023 to consider its monetary policy. That's a long way away. 47 days from August 4 to the September 20 decision date. Two Weddings and a Funeral, we mean 2 payroll jobs reports and 2 CPI inflation reports to dissect before they meet again Fed Chair Powell said at last week's meeting. They got the first one with the payroll jobs report today before heading out of town (enjoy your summer) assuming the Fed doesn't still work from home as well. Interesting. Not sure what is left in these jobs reports to tell them what to do. Inflation is heading down for months now on a year-year basis. The unemployment rate is at the lowest level of 3.5% as reported Friday for the month of July, the lowest since 3.4% in April, and before that, the lowest since the 1960s. Wages are still going up, but we think most economic research worth its salt says that wages follow inflation, not the other way around. Although as often happens in the economics of an uncertain world where anything can happen, we are common-sense sure that higher wages can reinforce the higher inflation trend. Which all means it could take months and years to bring inflation down. Worker wages rose 0.5% in July to \$28.96 and are 4.8% higher than last year.

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release billions, Wednesday data	2-Aug	26-Jul	19-Jul	12-Jul	3/11/20*	from 3/11/20 to Aug 2
Factors adding reserves						
U.S. Treasury securities	5048.025	5080.981	5083.036	5104.348	2523.031	2524.994
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2517.559	2517.559	2538.059	2538.138	1371.846	1145.713
Repurchase agreements	0.001	0.001	0.025	0.003	242.375	-242.374
Primary credit (Discount Window)	1.898	2.249	2.633	2.292	0.011	1.887
Bank Term Funding Program	105.684	105.078	102.927	102.305		
FDIC Loans to banks via Fed	148.072	152.455	159.640	162.438		
Paycheck Protection Facility	6.401	6.553	6.828	6.898		
Main Street Lending Program	19.752	19.734	19.713	19.992		
Municipal Liquidity Facility	5.607	5.604	5.601	5.598		
Term Asset-Backed Facility (TALF II)	1.577	1.644	1.642	1.641		
Central bank liquidity swaps	0.235	0.255	0.235	0.243	0.058	0.177
Federal Reserve Total Assets	8256.6	8293.5	8324.8	8347.1	4360.0	3896.528
3-month-Libor-% SOFR %	5.30	5.06	5.05	5.05	1.15	4.150
Factors draining reserves						
Currency in circulation	2333.186	2333.000	2335.473	2341.919	1818.957	514.229
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	460.926	549.897	726.632	517.418	372.337	88.589
Treasury credit facilities contribution	13.358	13.358	13.358	13.358		
Reverse repurchases w/others	1770.186	1749.733	1732.804	1820.146	1.325	1768.861
Federal Reserve Liabilities	5039.157	5126.707	5104.239	5184.998	2580.036	2459.121
Reserve Balances (Net Liquidity)	3217.397	3166.767	3220.590	3162.124	1779.990	1437.407
Treasuries within 15 days	130.448	78.359	74.279	61.800	21.427	109.021
Treasuries 16 to 90 days	236.616	282.668	288.159	311.030	221.961	14.655
Treasuries 91 days to 1 year	629.989	645.487	646.383	623.851	378.403	251.586
Treasuries over 1-yr to 5 years	1723.730	1740.436	1740.319	1761.872	915.101	808.629
Treasuries over 5-yr to 10 years	835.362	842.230	842.168	854.140	327.906	507.456
Treasuries over 10-years	1491.880	1491.801	1491.728	1491.655	658.232	833.648
Note: QT starts June 1, 2022	Change	8/2/2023	6/1/2022			
U.S. Treasury securities	-722.754	5048.025	5770.779			
Mortgage-backed securities (MBS)	-189.887	2517.559	2707.446			

So where are we? We doubt the bond market in its wisdom did not like that worker wages rose 0.5% in July, the biggest monthly increase since November 2022. The key to Fed policy, remembering there is still one more 25 bps rate hike on the table this year, will be the Thursday, August 10 CPI inflation report. There is just one month of a relatively favorable 0.2% core CPI report

Fed funds futures call Fed hikes		
Current target: August 4 -- 5.50%		
Rate+0.17 Contract	Fed decision dates	
5.525 Oct 2023	Sep 20	
5.535 Jan 2024	Sep 20, Nov 1, Dec 13	
Last trade, not settlement price		

The market is still not looking for any Fed action on rates at the final three meetings of the year.



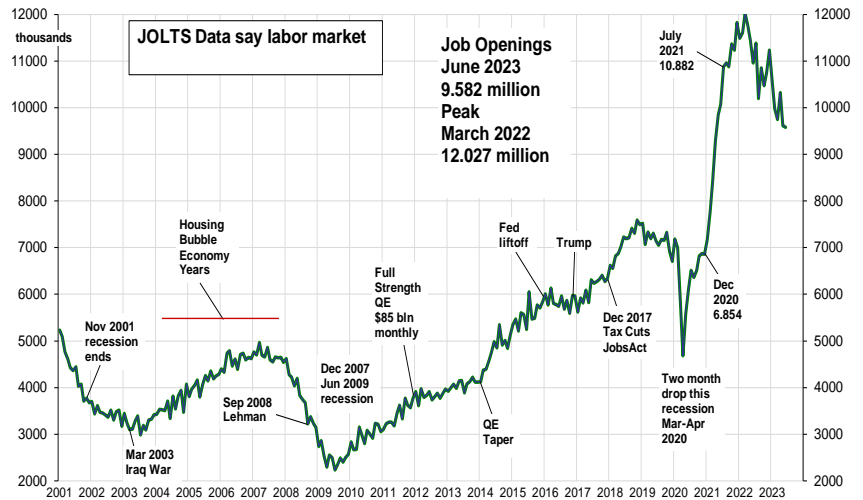
Next up: July CPI inflation report Thursday, August 10														
Monthly	2023					2022					2022			
% Changes	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May
Core CPI inflation	0.2	0.4	0.4	0.4	0.5	0.4	0.4	0.3	0.3	0.6	0.6	0.3	0.6	0.6
Core PCE inflation	0.2	0.3	0.4	0.3	0.3	0.5	0.4	0.2	0.3	0.5	0.6	0.1	0.6	0.4
Core PCE YOY	4.1	4.6	4.6	4.6	4.7	4.7	4.6	4.8	5.1	5.2	4.9	4.7	5.0	4.9
Core CPI YOY	4.8	5.3	5.5	5.6	5.5	5.6	5.7	6.0	6.3	6.6	6.3	5.9	5.9	6.0

OTHER ECONOMIC NEWS

Job openings fall, ISM sees recession despite more factory construction (Tuesday)

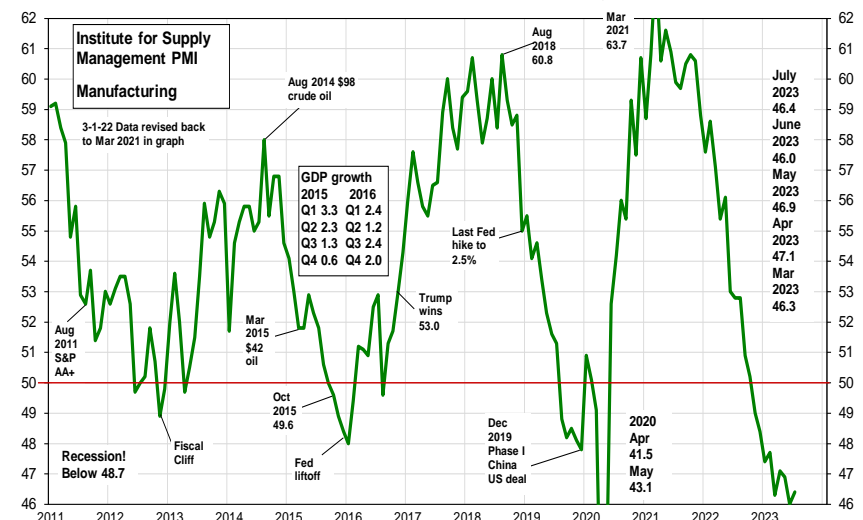
Breaking economy news. ISM purchasing managers, June job openings if you need one, and construction spending.

The labor market is cooling slowly back to normal where job openings surged in 2021 following the pandemic. Job openings at the end of June (keeping in mind we get payroll employment for the first couple of weeks of July on Friday) were 9.582 million, little changed from 9.616 million in May, but well below the peak of 12.027 million in March 2022. More evidence of slower growth came from the ISM purchasing managers survey. Their index has said the broader economy, forget just manufacturing, the whole economy has been in a recession since December 2022. Not yet of course, and the July index of 46.4 was barely changed from 46.0 in June. The Institute For Supply Management says an index of 48.7 or lower is consistent with the economy being in a recession. If only we had known.



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Meanwhile, construction spending for June was unchanged even if it is 20.9% higher than the prior year. The standout is the \$195.5 billion of manufacturing construction that is up 0.3% in June and 80.7% higher than a year ago. Lodging up 22.0% the last year and Educational construction up 17.9% are the next two largest areas of construction activity.

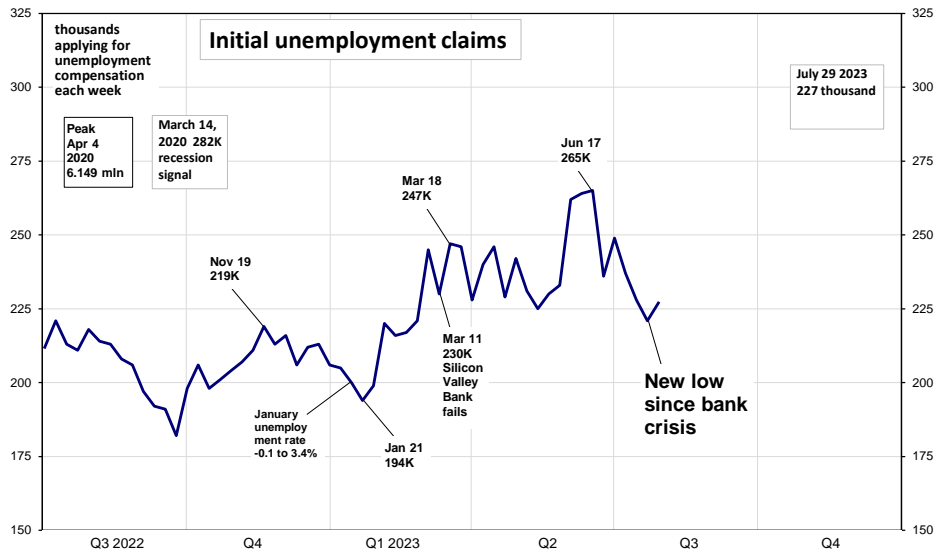


Net, net, the latest data are consistent with an economy that is experiencing below-trend growth that is just slow enough to bring the inflation rate down without engendering an outright recession that adds millions to the nation's unemployment lines. That is the hope although the U.S. Treasury increased their borrowing requirement yesterday for the full calendar year 2023 to nearly \$3.2 trillion which is double the amount of securities auctioned both in 2021 and in 2022. It may take a miracle for investors to take down this paper with 10-year Treasury yields fairly low at close to 4%. Stay tuned. Story developing. All is well today, but tomorrow may be a different story if the Federal budget deficit is not brought under control.

ISM manufacturing index				
	Jul 23	Jun 23	May 23	Apr 23
PMI index	46.4	46.0	46.9	47.1
Prices	42.6	41.8	44.2	53.2
Production	48.3	46.7	51.1	48.9
New orders	47.3	45.6	42.6	45.7
Supplier deliveries	46.1	45.7	43.5	44.6
Employment	44.4	48.1	51.4	50.2
Export orders	46.2	47.3	50.0	49.8

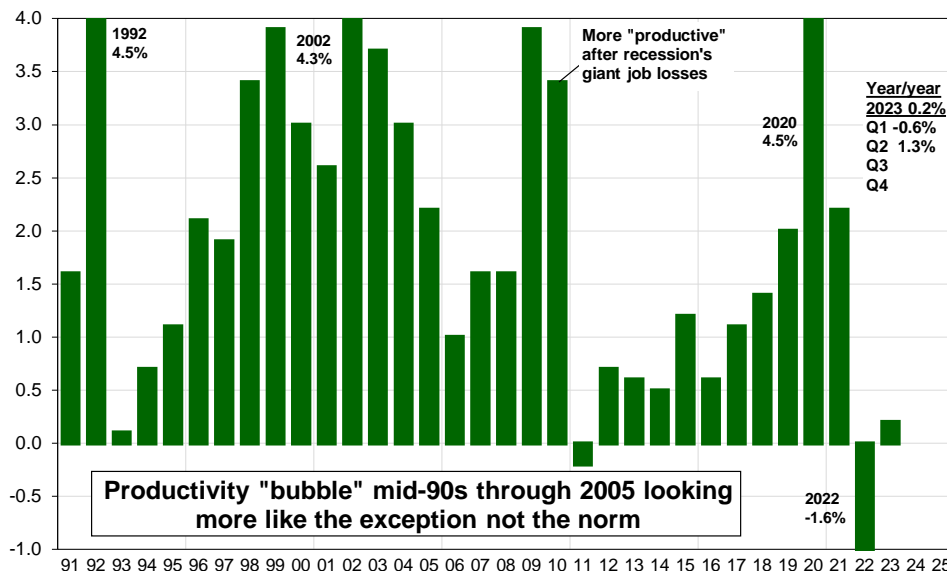
Productive workers get to keep their jobs for now (Thursday)

Breaking economy news. Weekly jobless claims and first look at second quarter productivity. Nonfarm productivity for the business sector was 3.7% in Q2 2023 which was even more impressive than the 2.4% real GDP figure released last week. Hourly compensation was better at 5.1% in Q2 2023, up from 2.1% in Q1 2023. Worker wages are keeping up with inflation or at least they are not falling too far behind with hourly compensation of 5.4% in 2021 and 3.9% in 2022.



Weekly filings for unemployment claims moved back up to 227K in the July 29 week versus 221K in the July 22 week, but are still miles away from warning of an imminent recession. The labor market looked a little more dicey in terms of job layoffs with the 265K peak in claims in mid-June, but the June gloom in the weekly layoffs data have passed. If we are in a recession, the unemployed are not applying for or getting unemployment benefits.

Net, net, there is no reason for corporate America to downsize their headcount when workers are this productive. Productivity drives economic growth in the long run and the increase in productivity today means an even better tomorrow for the economy. The headwinds the economy faces from the most rapid increase in interest rates in decades has done nothing to slow the productivity of the American worker. No wonder business holds on tight to their employees and layoffs remain at marginal, non-recessionary levels. Workers contribute to the bottom line. Productive workers get to keep their jobs and this keeps the clouds of recession offshore for now.



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