Financial Markets This Week

1 SEPTEMBER 2023

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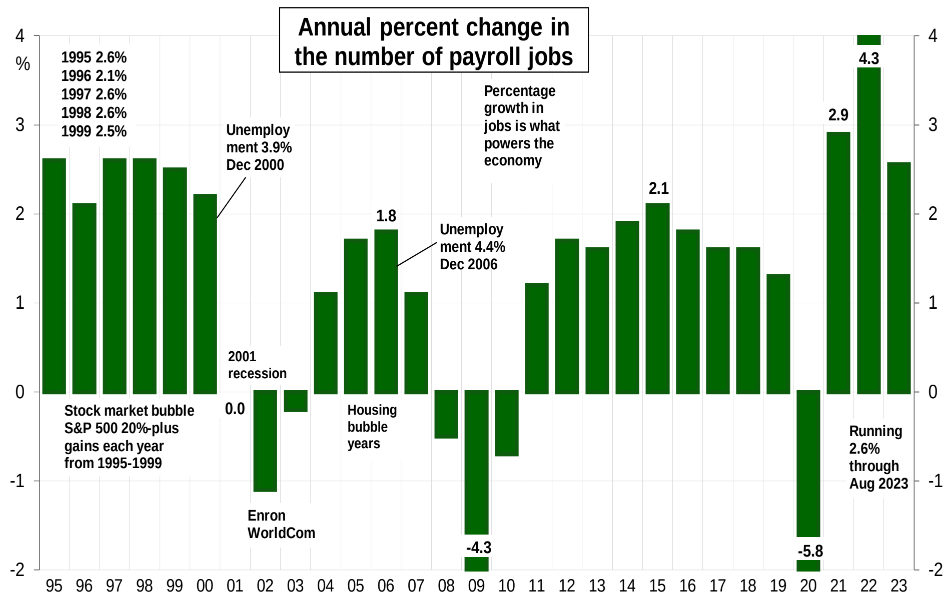
UNEMPLOYMENT JUMPS



Breaking economy news. Nonfarm payroll jobs up 187K in August. Check. (Wasn't it 187K in July as well before being revised down today?) 187K even with truck transportation falling 37K with the Yellow trucking bankruptcy. 187K even with the Hollywood strike with employment in the motion picture and sound recording industries falling 17K. The 187K number is stronger if we add back the 37 and 17 thousand losses in these special-situation specific industries. Meanwhile, the unemployment rate jumps three-tenths to 3.8%! What? This is 0.4 percentage points higher than 3.4% in April. Historically, at least the last several decades, when the unemployment rate jumped 0.5 percentage point from the low, that was the signal that the U.S. was in a recession. Only missed once looking back to the mid-70s recession. It's never easy. The three-tenths jump in August to 3.8% was 514 thousand people, and these are all accounted for by the extraordinary drop in those not in the labor force of 525 thousand. We are not sure this adds up, we mean it adds up, but is it convincing that all of a sudden near the end of the summer Americans come off the couches and the beaches and decide to look for work. Saying they are now part of the labor force. Further confusion from the Household Survey measure is that new entrants with no prior work experience jumped 597K. Not quite a recession, pardon our shouting. Four-tenths, not five-tenths. But closer to recession at the moment. The only thing critically missing in the recession call is that payroll jobs should be declining to match the sign of deteriorating labor market conditions shown by the rise in unemployment to 3.8% today.

Monthly changes (000s)	Aug	Jul	Jun	May	Apr
Payroll employment	187	157	105	281	217
Private jobs	179	155	86	255	179
Leisure/Hospitality jobs	40	32	26	28	11
HH Employment Survey*	222	268	273	-310	139
Unemployment rate %	3.8	3.5	3.6	3.7	3.4
Participation rate %	62.8	62.6	62.6	62.6	62.6
Not in labor force (mln)	99.374	99.899	99.850	99.800	99.755
... and Want A Job (mln)	5.370	5.247	5.389	5.477	5.271
Average hourly earnings	$33.82	$33.74	$33.60	$33.45	$33.34
MTM % Chg	0.2	0.4	0.4	0.3	0.4
YOY % Chg	4.3	4.4	4.4	4.3	4.4

* Household (telephone) Survey of employment behind unemployment rate

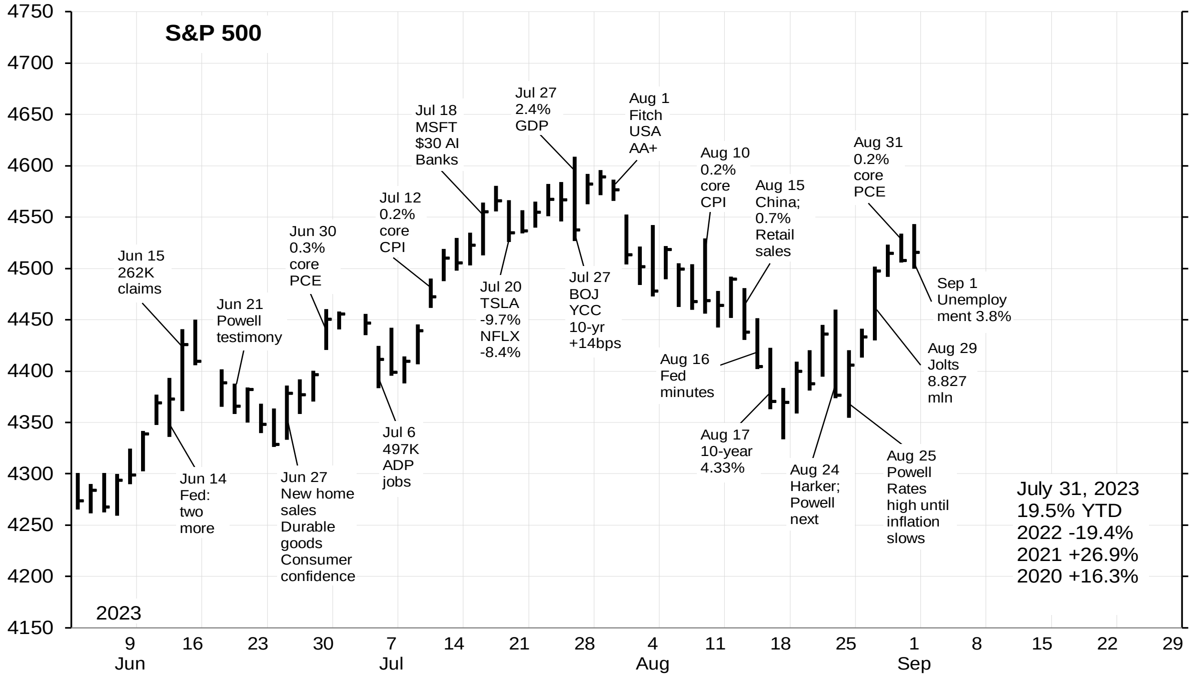
Meanwhile the wage data in the report today show signs of slowing down finally and this will support the downward trend in inflation slowly, step-by-step each month better than the last. Average hourly earnings rose 0.2% in August to $33.82, the slowest monthly increase since February 2022. Year-on-year, the increase is 4.3%, still too high for the Fed to be confident it has inflation under control, but obviously moving in the right direction this month.

Net, net, we don't know if the labor market is rebalancing, but the jobs outlook suddenly looks a little more wobbly this month. Joblessness is rising to the highest rate since the Fed started its massive rate hikes early last year. Wages are cooling finally and will be less supportive of higher prices in the services industries in the months to come. The economy is not falling off a cliff, payroll employment levels are still increasing, but labor market conditions need to be watched closely for any signs of further deterioration. We hope this isn't another instance of head-fake job losses like last year. Those not in the labor force dropped in August 2022, sending the unemployment rate up two-tenths from 3.5 to 3.7% which reversed in September 2022 with the unemployment rate back down to 3.5%. Stay tuned.

Payroll jobs fall from February 2020 peak as recession began

Data in thousands	Aug 23	Jul 23	Jun 23	42 months Feb 20 Aug 23	Aug 23	Feb 2020
Nonfarm Payroll Employment	187	157	105	4,048	156,419	152,371
Total Private (ex-Govt)	179	155	86	4,261	133,761	129,500
Goods-producing	36	14	32	553	21,632	21,079
Mining	-1	1	-1	-42	596	638
Manufacturing	16	-4	4	212	12,997	12,785
Motor Vehicles & parts	0	2	4	88	1,073	985
Computer/electronics	-2	2	2	23	1,104	1,081
Food manufacturing	2	-6	-5	61	1,715	1,655
Construction	22	16	29	385	7,993	7,608
Specialty trade contractors	11	12	12	244	5,065	4,821
Private Service-providing	143	141	54	3,708	112,129	108,421
Trade, transportation, utilities	-20	18	-48	1,102	28,848	27,746
Retail stores	6	13	-23	25	15,545	15,520
General Merchandise	5	1	5	126	3,192	3,066
Food & Beverage stores	1	6	-4	123	3,247	3,124
Transportation/warehousing	-34	-10	-19	890	6,675	5,786
Truck transport	-37	-4	-1	48	1,568	1,520
Air transportation	3	3	3	31	547	517
Couriers/messengers	-9	-5	-12	235	1,100	865
Warehousing and storage	1	-5	-9	582	1,899	1,317
Information	-15	-15	-10	143	3,051	2,908
Computing, data, web hosting	6	4	4	142	505	363
Financial	4	17	2	289	9,158	8,869
Insurance	8	10	-1	107	2,959	2,851
Real Estate	1	9	1	64	2,429	2,365
Commercial Banking	-2	-3	2	-27	1,371	1,398
Securities/investments	2	0	4	121	1,087	966
Professional/business	19	-20	-1	1,578	23,015	21,437
Temp help services	-19	-24	-36	52	2,936	2,884
Management of companies	2	1	-2	38	2,522	2,483
Architectural/engineering	4	1	7	141	1,689	1,548
Computer systems design	10	7	5	293	2,527	2,234
Legal services	-4	-2	4	12	1,176	1,164
Accounting/bookkeeping	3	1	2	134	1,167	1,033
Education and health	102	102	79	944	25,520	24,576
Private Educational services	5	2	-6	141	3,939	3,798
Hospitals	15	16	20	109	5,345	5,236
Ambulatory health care	40	38	28	616	8,483	7,867
Leisure and hospitality	40	32	26	-290	16,655	16,945
Hotel/motels	9	5	8	-238	1,874	2,113
Eating & drinking places	15	24	7	-32	12,307	12,339
Government	8	2	19	-213	22,658	22,871
Federal ex-Post Office	7	9	5	72	2,332	2,260
State government	0	-5	15	-91	5,226	5,317
State Govt Education	-5	-12	6	-100	2,512	2,613
Local government	-2	1	-2	-208	14,491	14,699
Local Govt Education	-10	-18	-19	-189	7,867	8,056

INTEREST RATES

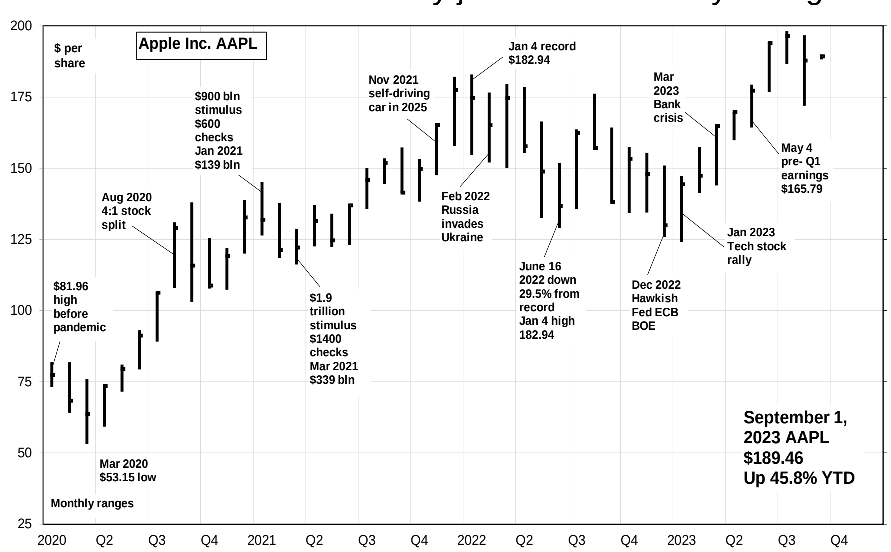


S&P 500 is up 17.6% YTD Friday. Dow industrials up 5.1% YTD. Loser. Geez, won't go back to graphing Dow for a while. Stocks had trouble closing up on the day on Thursday, and barely made it on Friday. The market has stalled trying to close the gap on the charts above 4,550 left after Fitch downgraded USA to AA+. Data this week was JOLTS job openings down to 8.827 million in July from the last update of 9.582 million in June. Core PCE inflation matched core CPI with a 0.2% increase thank goodness. Jobs report 187K, but unemployment lifted from 3.5 to 3.8%. Thinking on this further, after writing the first couple of pages, it may be technical. If there are jobless workers they aren't applying for unemployment benefits. Bond market thinks Fed hikes are less likely so the yield curve steepened on Friday's news with 2-yr sitting still at 4.87% and 10-yr up 8 bps to 4.19%.

Apple, Inc. AAPL 45.8% YTD

Apple reported Thursday night, August 3 for the July 1, 2023 quarter, and fell 4.8% the next day from $191.17. iPhone revenue seemed to be the issue at $33.7 billion down 17.2% from last year. The stock is back to $189.46 waiting on the announcement of the new iPhone 15 models. For the record, S&P 500 fell 5.9% July 27 to August 18 and is now down on Friday just 2.0% from July 27 high.

Calendar Year Mln $	Operating Income	Net Sales	iPhone	Greater China
Q2 2023	22,998	81,797	33,669	15,758
Q1 2023	28,318	94,836	51,334	17,812
Q4 2022	36,016	117,154	65,775	23,905
Q3 2022	24,894	90,146	42,626	15,470
Q2 2022	23,076	82,959	40,665	14,604
Q1 2022	29,979	97,278	50,570	18,343
Q4 2021	41,488	123,945	71,628	25,783
Q3 2021	23,786	83,360	38,868	14,563
Q2 2021	24,126	81,434	39,570	14,762
Q1 2021	27,503	89,584	47,938	17,728

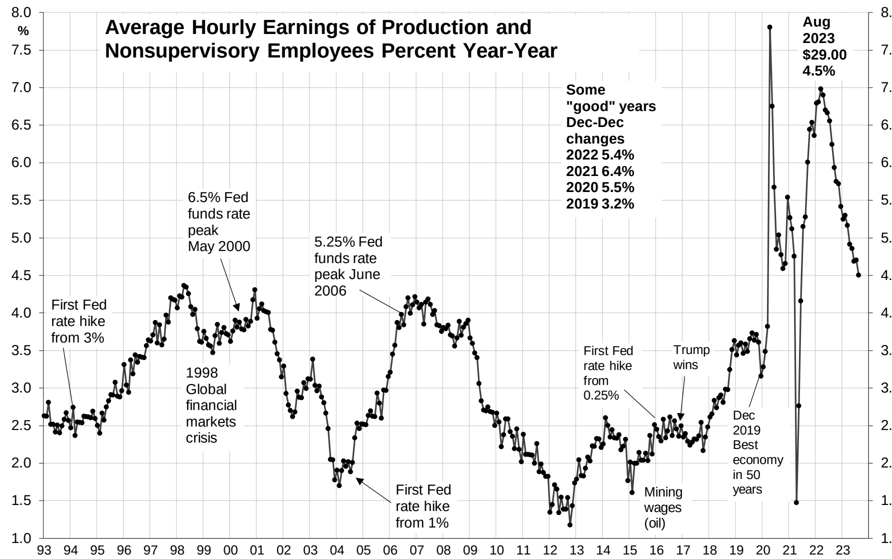


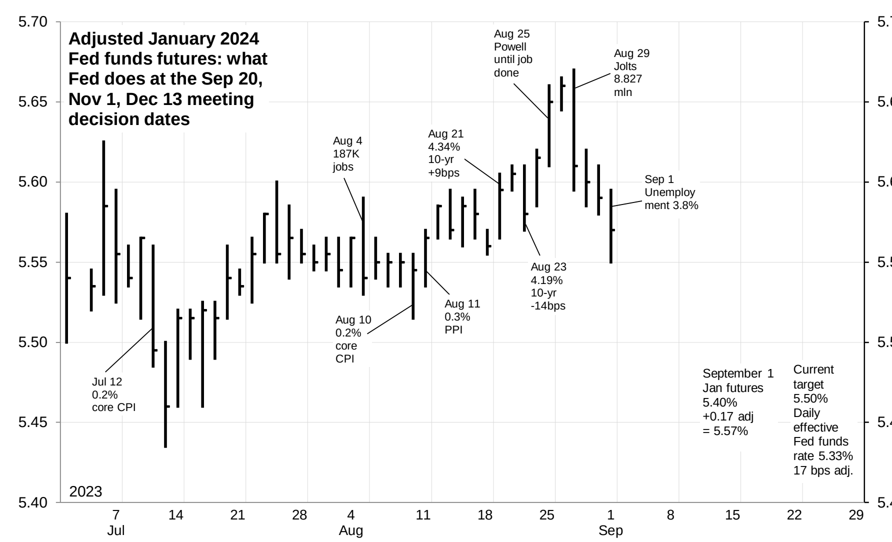
FEDERAL RESERVE POLICY

The Fed meets September 19-20, 2023 to consider its monetary policy. It looks like a 25 bps rate hike to the 5.75% terminal rate forecast by the end of 2023 will not be on the table at this meeting. Fed funds futures odds of a rate hike on September 20 are negligible on Friday after the jobs report with the three-tenths increase in the unemployment rate to 3.8%. It does not look good these job losses, the numerous caveats about its believability aside. Sometimes bad times start from bad data that grow worse anyway. It is what it is and as always, stands as the law until corrected: 3.8% in August from the best of best times low of 3.5% in July.

Selected Fed assets and liabilities Fed H.4.1 statistical release billions, Wednesday data	30-Aug	23-Aug	16-Aug	9-Aug	3/11/20*	Change from 3/11/20 to Aug 30
Factors adding reserves						
U.S. Treasury securities	5006.839	5006.494	5006.075	5048.370	2523.031	2483.808
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2498.870	2513.140	2517.483	2517.559	1371.846	1127.024
Repurchase agreements	0.001	0.000	0.006	0.000	242.375	-242.374
Primary credit (Discount Window)	2.907	2.190	1.966	1.911	0.011	2.896
Bank Term Funding Program	107.527	107.386	107.242	106.864		
FDIC Loans to banks via Fed	134.369	137.171	141.636	145.407		
Paycheck Protection Facility	5.693	5.817	6.055	6.142		
Main Street Lending Program	19.534	19.512	19.497	19.771		
Municipal Liquidity Facility	5.618	5.615	5.612	5.609		
Term Asset-Backed Facility (TALF II)	1.583	1.581	1.580	1.579		
Central bank liquidity swaps	0.232	0.230	0.229	0.229	0.058	0.174
Federal Reserve Total Assets	8171.4	8189.8	8196.6	8258.2	4360.0	3811.419
~~3-month Libor %~~ SOFR %	5.30	5.30	5.30	5.30	1.15	4.150
Factors draining reserves						
Currency in circulation	2331.504	2328.199	2330.572	2332.594	1818.957	512.547
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	500.702	416.031	384.814	432.262	372.337	128.365
Treasury credit facilities contribution	13.358	13.358	13.358	13.358		
Reverse repurchases w/others	1696.819	1816.533	1796.725	1796.519	1.325	1695.494
Federal Reserve Liabilities	4974.904	5012.398	4967.670	5029.632	2580.036	2394.868
Reserve Balances (Net Liquidity)	3196.542	3177.380	3228.952	3228.582	1779.990	1416.552
Treasuries within 15 days	65.077	68.144	71.990	125.994	21.427	43.650
Treasuries 16 to 90 days	255.130	251.632	214.937	246.183	221.961	33.169
Treasuries 91 days to 1 year	634.521	634.931	667.757	624.898	378.403	256.118
Treasuries over 1-yr to 5 years	1719.220	1719.070	1718.845	1723.880	915.101	804.119
Treasuries over 5-yrs to 10 years	832.030	831.951	817.656	835.441	327.906	504.124
Treasuries over 10-years	1500.862	1500.768	1514.890	1491.975	658.232	842.630
Note: QT starts June 1, 2022	Change	8/30/2023	6/1/2022			
U.S. Treasury securities	-763.940	5006.839	5770.779			
Mortgage-backed securities (MBS)	-208.576	2498.870	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

Fed futures odds have come back down this week, no chance of a hike on September 20 and for the November 1 decision date, 9 out of 25 bps is discounted. If Powell was trying to jawbone markets at Jackson Hole, odds of a rate hike tumbled on Tuesday's JOLTS data, and then the jobs report on Friday with its 3.8% unemployment rate. Lots of talk how inflation cannot come down if wages are up. Workers probably don't know they are on the front lines of the Fed's inflation battle. Production and nonsupervisory worker wages, people who do the heavy lifting while their bosses sit upstairs and steer the company, were around 3.5% in 2019, the year before the pandemic and no one said wages were producing inflation. The year-year rate is down to 4.5% in August 2023, not that much higher than 2019.

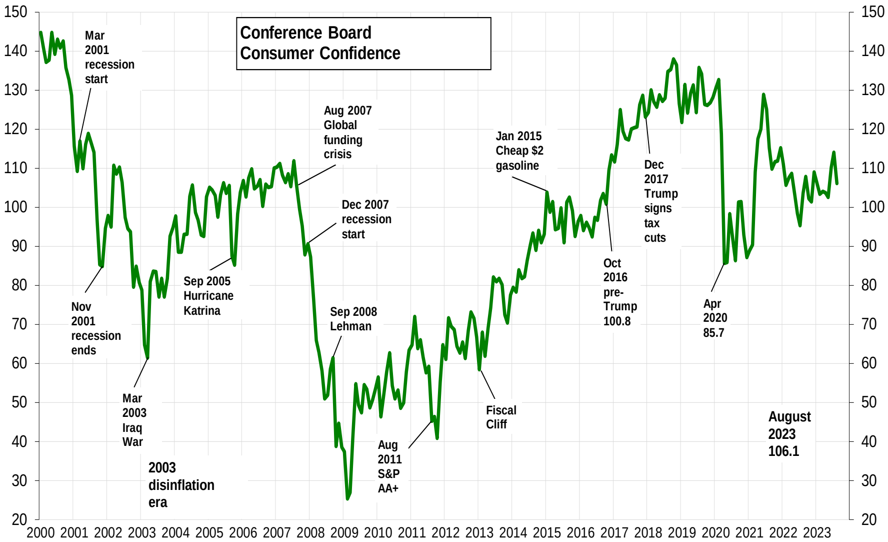




Fed funds futures call Fed hikes Current target: September 1 -- 5.50%		
Rate+0.17	Contract	Fed decision dates
5.515	Oct 2023	Sep 20
5.590	Nov 2023	Sep 20, Nov 1
5.575	Jan 2024	Sep 20, Nov 1, Dec 13
Last trade, not settlement price		

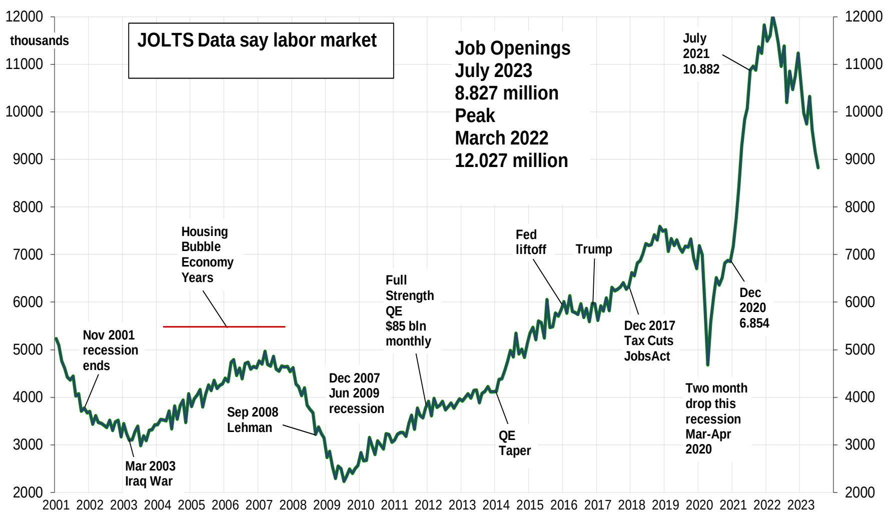
OTHER ECONOMIC NEWS

Confidence and job openings down (Tuesday)



Breaking economy news. Confidence and JOLTS data. Consumer confidence is fading in the dog days of summer and July's exuberance of 117.0 for the index has been revised lower to 114.0 and August has tumbled further to 106.1. Rich and poor consumers are more concerned, while sentiment for those in the middle class (incomes from $50,000 to $99,999) have not seen any deterioration. The primary reason for consumer angst is the labor market where jobs are harder to get, and we will find out on Friday whether nonfarm payroll jobs slow further. There are also some consumers who are concerned by rising gasoline prices.

Job openings came down from 9.165 million at the end of June (were 9.582 million before revisions today) to 8.827 million at the end of July. The labor market is slowly cooling and this helps make the case for an economic soft landing where inflation can be brought under control without triggering the massive job losses seen in recessions. Job openings remain high but are trending lower and this will be music to Fed Chair Powell's ears.



Net, net, some cracks have appeared in the economic outlook with consumers not as confident and employment opportunities not what they were just a few months ago. The stock and bond markets are rallying as traders and investors are thinking Federal Reserve rate hikes are nearing the end. The Jolts data hint that the labor market is moving into better balance which means the odds of another Fed rate hike as early as the November meeting is no longer an open and shut case. Stay tuned. Story developing. One of the reasons the labor market has not simply rolled over with the Fed's massive rate hikes to slow growth and fight inflation is because of the millions of help wanted signs out there across the country. But now the economy is cooling where companies are not needing as many workers, outside of the information and the transportation and warehousing industries, and this could mean that demand for higher wages that helps keep the inflation fires burning will start to diminish. Confidence and job openings are down and this means the odds of another rate hike this year are down as well.

Second look at Q2 GDP and ADP jobs report (Wednesday)

Breaking economy news. Second look at Q2 2023 real GDP. Growth is now 2.1% where last month's estimate was 2.4%. A slowdown, but before you say big deal, stock futures rose a little on GDP at 830am ET after rising a little after ADP jobs at 815am ET, but there was much more volatility in the hours that followed. Growth is 2.1%, the revisions were largely of little consequence, but we are struck by how 0.6 percentage points of the 2.1% growth is from government spending; in this case, before you rush out to post on X formerly known as Twitter, it is from State and local government spending, not Washington.

	Q1 22	Q2 22	Q3 22	Q4 22	Q1 23	Q2 23p	Q2 23r
REAL GDP	-1.6	-0.6	3.2	2.6	2.0	2.4	2.1
REAL CONSUMPTION	1.3	2.0	2.3	1.0	4.2	1.6	1.7
CONSUMPTION	0.9	1.4	1.5	0.7	2.8	1.1	1.1
Durables	0.6	-0.2	-0.1	-0.1	1.3	0.0	0.0
Nondurables	-0.7	-0.4	0.0	0.1	0.1	0.1	0.2
Services	0.9	2.0	1.6	0.7	1.4	1.0	1.0
INVESTMENT	1.0	-2.8	-1.8	0.8	-2.2	1.0	0.6
Business Plant	-0.1	-0.3	-0.1	0.4	0.4	0.3	0.3
& Equipment and	0.6	-0.1	0.5	-0.2	-0.5	0.5	0.4
Intellectual Property	0.5	0.5	0.4	0.3	0.2	0.2	0.1
Homes	-0.2	-0.9	-1.4	-1.2	-0.2	-0.2	-0.1
Inventories	0.2	-1.9	-1.2	1.5	-2.1	0.1	-0.1
EXPORTS	-0.5	1.5	1.7	-0.4	0.9	-1.3	-1.3
IMPORTS	-2.6	-0.4	1.2	0.9	-0.3	1.2	1.0
GOVERNMENT	-0.4	-0.3	0.7	0.7	0.9	0.5	0.6
Federal defense	-0.3	0.1	0.2	0.1	0.1	0.1	0.1
Fed nondefense	0.0	-0.3	0.1	0.3	0.3	0.0	0.0
State and local	0.0	-0.1	0.4	0.3	0.5	0.4	0.5
Below line: Percentage point contributions to Q2 2023 2.1% real GDP							
Third estimate for Q2 is Thursday, September 28							

We don't know how many years the ADP jobs report has been kicking around, maybe someone should kick them around a little harder. We consulted "pro bono" for the company during the ADP reports development in 2005-06. Story the same. The whole point of looking at ADP on Wednesdays at 815am ET is to forecast the real nonfarm payroll jobs number on Fridays at 830am ET a couple days later. Someone wrote that the markets reacted to the ADP jobs report so we will look at it. The dirty secret on Wall Street is that when trying to trade these eco numbers, the first reaction often reverses, and bonds or stocks come back to where they was before the report, so if you really thought it was a reason to buy stocks, you get a second chance to Bet The Ranch, and did not need to know the eco number in advance.

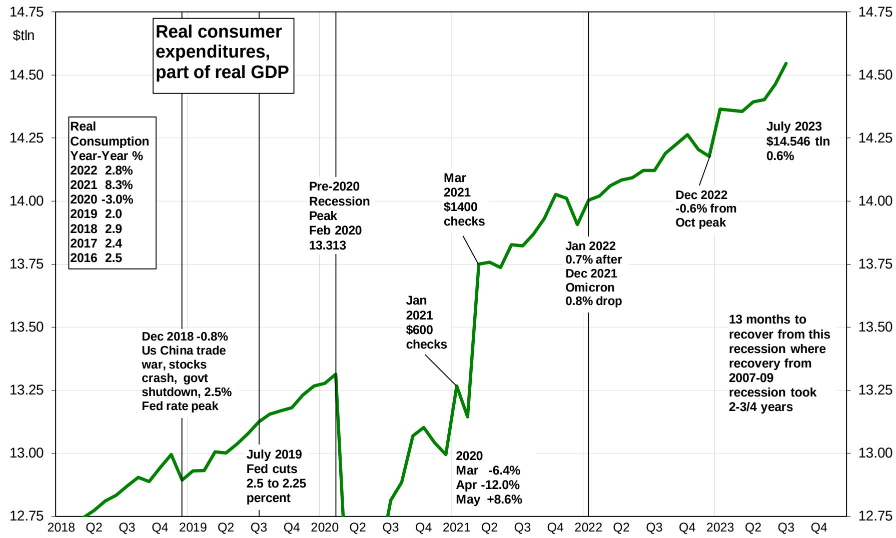
ADP said private payroll jobs increased 177K in August and the real number from the official Bureau of Labor Statistics (BLS) count is Friday. Okay. Last month on August 2 the ADP private jobs number was 324K in July and two days later on Friday, August 4 the BLS said private jobs increased 172K. Swing and a miss. Two months ago on July 6 the ADP private jobs number was, wait for it, 497K, and the BLS real number was 149K on Friday, July 7. Big swing, big miss. Apologies, but it is the US Open week in New York, and you've got to be kidding me. 149K not 497K.

Net, net, the economy was slightly slower than expected in the second quarter with real GDP of 2.1%.The Atlanta Fed GDPNow estimate for Q3 with its sky-high 5.9% forecast, will not be reviewed until after the personal income report on Thursday. There is nothing in the Q2 2023 2.1% revision to real GDP that points to a rebound in economic growth of that magnitude.

The consumer is hot, inflation is not (Thursday)

Breaking economy news. The personal income report and jobless claims. Forget jobless claims. At 228K in the August 26 week, there is no real joblessness or layoffs to speak of in the country. There is no recession. If there is a recession, why are consumers buying everything that isn't nailed down.

Real consumer spending jumped 0.6% in July and 0.4% in June. The economy is literally on fire, lit by the consumer's over the top purchases, especially on durable goods. Household furnishings and appliances, computer software and accessories were especially big, TVs purchased too.



Core PCE inflation cooled to 0.2% for a second consecutive month just like core CPI. The Fed staff blew the forecast saying July would increase 4.3% year-to-year, and it was actually 4.2% year-to year. Close but no cigar. It was nice for Powell to stick his economists' necks out there to be chopped off. Thanks a lot boss, we are sure they are saying.

Net, net, consumers bought it all in July, clearing the store shelves, and while inflation cooled, it won't be for long because demand in the economy is red hot. The Fed's massive rate hikes failed to put a dent in consumers' ambitions to live life to the fullest this summer. The consumer's demand for durable goods is simply off the charts this summer, and whoever tells a story that recession is coming, is really just spinning a ludicrous fairy tale. Powell said at Jackson Hole that stronger than trend growth could mean a further tightening of monetary policy and today we got it in spades. It might be too late for the Fed to put a rate hike up on the board in September, but the odds of a rate hike in November look very scary, very real. Stay tuned. Story developing. Economic demand is on fire and inflation is cooling. How long inflation can continue to come down with consumer spending this strong is an open question. The consumer is hot, inflation is not.

Dec 2021 Weight		Year-Year % Change Dec 2020	Dec 2021	Dec 2022	Jul 2023	Monthly % changes Apr 2023	May 2023	Jun 2023	Jul 2023
1.000	PCE inflation	1.3	6.0	5.3	3.3	0.3	0.1	0.2	0.2
0.075	Food at home	3.9	5.7	11.6	3.5	0.0	0.1	-0.1	0.2
0.027	Energy goods	-15.1	47.1	3.1	-22.3	2.4	-5.5	0.8	0.3
0.016	Electricity/Gas	2.3	9.9	17.1	-1.1	-1.7	-1.4	0.3	-0.1
0.883	Core PCE	1.5	5.0	4.6	4.2	0.3	0.3	0.2	0.2
	Durable goods								
0.020	New vehicles	1.8	11.2	7.4	3.6	-0.2	-0.1	0.0	-0.1
0.017	Used vehicles	10.1	36.2	-6.7	-5.6	4.5	4.5	-0.4	-1.3
0.030	Furnishings	3.1	8.8	5.0	-1.8	-0.9	-0.6	-0.3	-0.2
0.037	Recreational	-0.9	1.3	-1.5	-3.2	-0.5	-0.3	-0.7	-1.1
	Nondurable goods								
0.028	Clothing	-4.6	5.5	3.0	2.4	0.4	0.4	0.3	0.0
0.030	Prescription drugs	-2.4	0.0	1.8	2.8	0.3	0.1	0.0	0.0
0.010	Personal care	-0.3	0.3	7.9	6.5	0.6	1.1	0.2	0.5
0.239	Goods x-foodenergy	0.0	6.1	3.4	1.1	0.2	0.3	-0.1	-0.4
0.644	Services ex-energy	2.0	4.6	5.1	5.4	0.4	0.3	0.3	0.5
0.036	Rents	2.3	3.3	8.4	8.1	0.6	0.5	0.5	0.4
0.112	Home prices	2.2	3.8	7.5	7.7	0.5	0.5	0.4	0.5
0.161	Health care	2.6	2.7	2.5	2.2	0.4	0.2	0.1	0.2
0.031	Transportation	-2.9	8.3	13.5	6.6	-1.0	0.1	-0.3	1.0
0.035	Recreation	1.7	4.3	5.7	4.9	0.1	-0.3	0.5	0.8
0.059	Food services	4.3	6.8	7.5	6.6	0.5	0.5	0.4	0.2
0.011	Hotels/Motels	-8.0	20.8	1.7	5.5	-2.6	1.6	-1.8	-0.2
0.080	Financial/Insurance	1.4	5.0	0.6	6.1	0.7	-0.2	0.6	1.6
0.080	Other services	1.3	3.0	4.1	3.9	0.8	0.0	0.7	0.2
0.030	Nonprofits	3.7	13.0	7.6	9.4	-0.3	1.1	0.7	0.3
	Year-year is Dec/Dec Percent Change								

Analyst Certification

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