Financial Markets This Week

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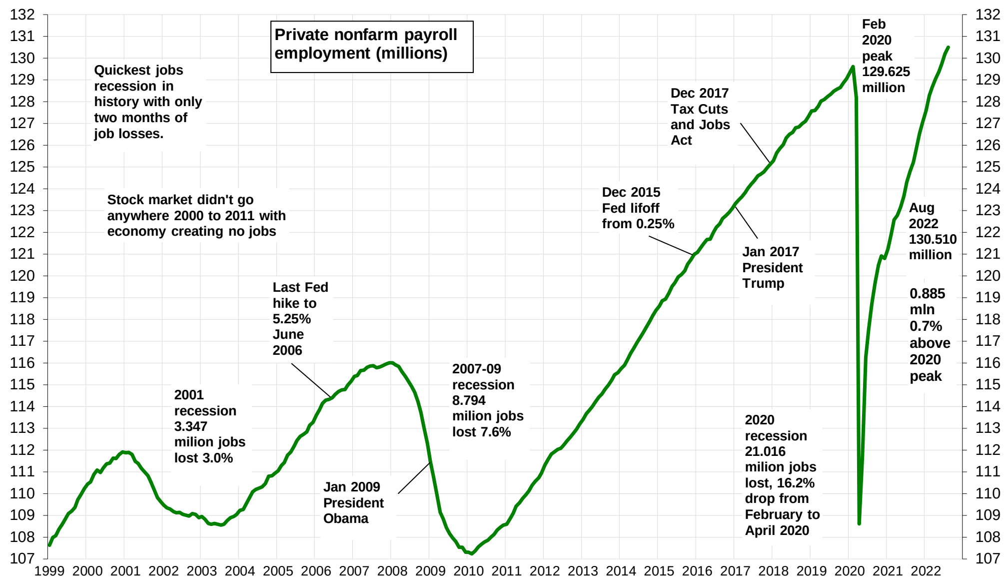
MORE JOBS, MORE UNEMPLOYED

The job wasn't done when Powell spoke at Jackson Hole last Friday. This Friday, the Fed's job is closer to done as the rise in the unemployment rate provides the first evidence that the labor market has peaked. Historically, recession is indicated when the unemployment rate lifts 0.5% from the low point. Or at least, it has never not happened.



The market and Fed officials finally got a jobs report they could like as the labor market wasn't as tight in August with the unemployment rate jumping from 3.5% in July to 3.7% in August (okay, 3.6505%). Inflation has driven more Americans to seek work apparently with those not in the labor force diving 613 thousand and they all couldn't find work as the number of unemployed behind the new 3.7% unemployment rate rose 344 thousand this month.

Monthly changes (000s)	Aug	Jul	Jun	May	Apr
Payroll employment	315	526	293	386	368
Private jobs	308	477	346	331	368
Leisure/Hospitality jobs	31	95	43	69	59
HH Employment Survey*	442	179	-315	321	-353
Unemployment rate %	3.7	3.5	3.6	3.6	3.6
Participation rate %	62.4	62.1	62.2	62.3	62.2
Not in labor force (mln)	99.438	100.051	99.812	99.302	99.513
... and Want A Job (mln)	5.549	5.910	5.656	5.681	5.859
Average hourly earnings	$32.36	$32.26	$32.11	$31.98	$31.86
MTM % Chg	0.3	0.5	0.4	0.4	0.3
YOY % Chg	5.2	5.2	5.2	5.3	5.5

* Household (telephone) Survey of employment behind unemployment rate

We almost forgot, nonfarm payroll jobs slowed to just 315K in August even if there were sizable gains in professional and business services, health care, and retail shops at the mall. 315K jobs in August, and 107K of downward revisions over July/June (-2/-105). The housing sector is probably the weakest part of the economy right now with mortgage yields rising to 5.66% this week versus 3.85% the week before the Fed's first rate hike, 25 bps to 0.50%, at the March meeting. Construction industry is still hiring though. Residential building construction workers are at a new high since the last housing bubble burst over a decade ago: 903.6 thousand workers in August, up 4.5% from last year. Same "record" story this month for residential specialty trade contractors: 2272.9 thousand in August, 3.6% higher than last year.

There's still some inflation cost-pressures in the jobs report as average hourly earnings rose 0.3% to $32.36 in August and are 5.2% higher than last year. Wall Street seemed to like the one-month gain was less than 0.5% in July. Powell has said he doesn't see any wage-price spiral, but we would bet our bottom dollar, workers will not return to the office unless management adjusts their compensation upward to offset the higher prices they have to pay.

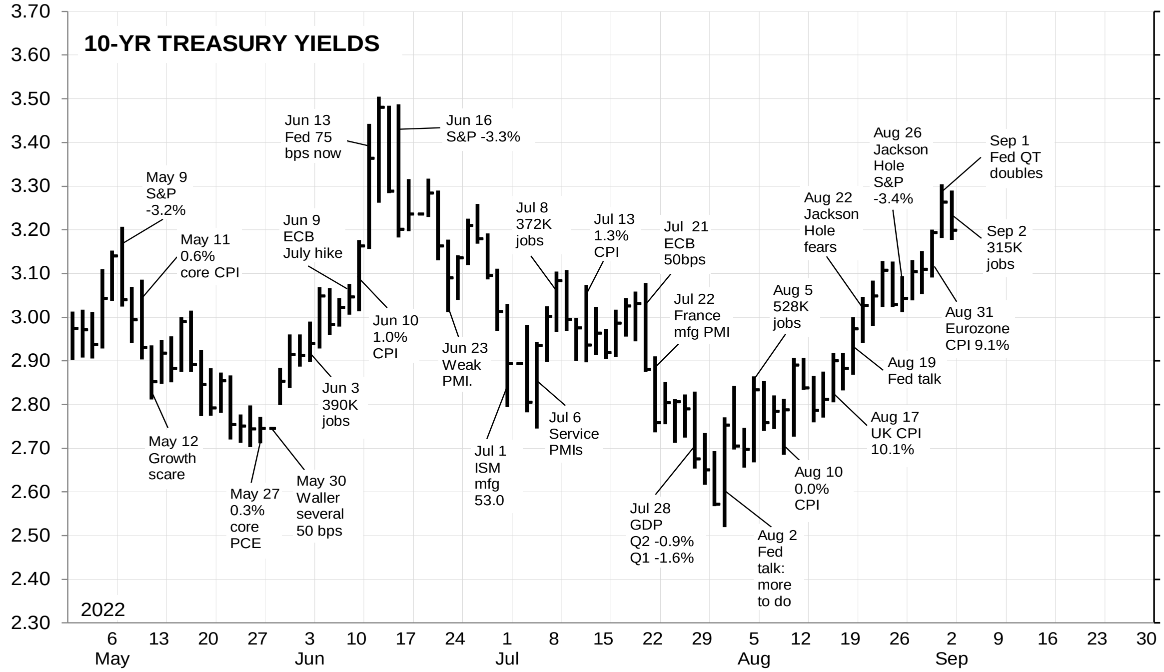
Payroll jobs fall from February 2020 peak as recession began

Data in thousands	Aug 22	Jul 22	Jun 22	30 months Feb 20 Aug 22	Aug 22	Feb 2020
Nonfarm Payroll Employment	315	526	293	240	152,744	152,504
Total Private (ex-Govt)	308	477	346	885	130,510	129,625
Goods-producing	45	66	43	106	21,201	21,095
Mining	6	6	7	-43	596	639
Manufacturing	22	36	25	67	12,852	12,785
Motor Vehicles & parts	-2	4	2	4	992	988
Construction	16	24	10	84	7,708	7,624
Private Service-providing	263	411	303	779	109,309	108,530
Trade, transportation, utilities	65	69	49	1,006	28,838	27,832
Retail stores	44	29	22	260	15,857	15,598
General Merchandise	15	10	0	249	3,250	3,000
Food & Beverage stores	15	15	6	147	3,203	3,056
Transportation/warehousing	5	25	16	748	6,543	5,795
Truck transport	1	4	6	80	1,596	1,515
Air transportation	2	7	6	48	565	516
Couriers/messengers	5	-1	-2	242	1,117	875
Warehousing and storage	-6	-2	3	464	1,783	1,319
Utilities	1	1	0	-6	542	547
Information	7	16	26	129	3,032	2,903
Financial	17	13	5	111	8,981	8,870
Insurance	5	2	7	-7	2,846	2,853
Real Estate	6	2	-1	-1	2,363	2,364
Commercial Banking	1	4	0	-58	1,341	1,399
Securities/investments	4	8	7	78	1,043	965
Professional/business	68	84	90	1,048	22,441	21,393
Temp help services	12	9	7	257	3,162	2,906
Management of companies	-2	13	9	-29	2,393	2,423
Architectural/engineering	10	12	10	106	1,654	1,547
Computer systems/services	14	-2	8	219	2,446	2,227
Legal services	-9	4	2	16	1,179	1,163
Accounting/bookkeeping	2	0	8	82	1,112	1,030
Education and health	68	118	94	-54	24,544	24,598
Hospitals	15	14	19	-27	5,208	5,236
Educational services	6	25	11	25	3,828	3,803
Leisure and hospitality	31	95	43	-1,215	15,768	16,983
Hotel/motels	4	2	3	-399	1,720	2,119
Eating & drinking places	18	78	28	-633	11,728	12,361
Government	7	49	-53	-645	22,234	22,879
Federal ex-Post Office	1	7	-10	2	2,263	2,261
State government	3	10	-20	-59	5,251	5,310
State Govt Education	-5	3	-21	-3	2,603	2,606
Local government	6	30	-21	-588	14,120	14,708
Local Govt Education	-14	14	-33	-363	7,702	8,064

The ball is in the Fed's court and officials are really on the hot seat now as the optics don't look good for a third 75 bps super-sized rate hike in a few of weeks when the unemployment is rising. First we unleashed the worst inflation in forty years, and now we will send thousands of you into the unemployment line to fix it. You won't have to worry about those higher grocery bills because now you won't have a paycheck to bring the bacon home, or something like that. We think the 0.2 percentage points jump in the unemployment rate to 3.7% indicates the true trend in the labor market. It is consistent with the rise in initial unemployment claims from the low of 166K in the March 19 week this year. It is consistent with the rise in continuing unemployment claims from the low of 1.306 million in the May 21 week this year. Both of these weekly data have to continue rising however in the weeks ahead or the recession story with job losses will fade away. Unemployment has started rising which means the Fed's front-loaded rate hikes are working. But the trend is sure taking its sweet time. The Fed is starting to win the inflation battle, or at least the labor market is slowing. It won't stop the Fed funds rate from going to 4% though.

P.S. People dropped back into the labor force this month 613,000 of them. This lifts the "participation rate" that tells politicians to tell voters they're winning. Don't get used to it. The long term trend of those not in the labor force goes up as the population increases over time. If the labor market is starting to deteriorate, higher unemployment, the drop-ins, drop-outs in the labor force won't stop it.

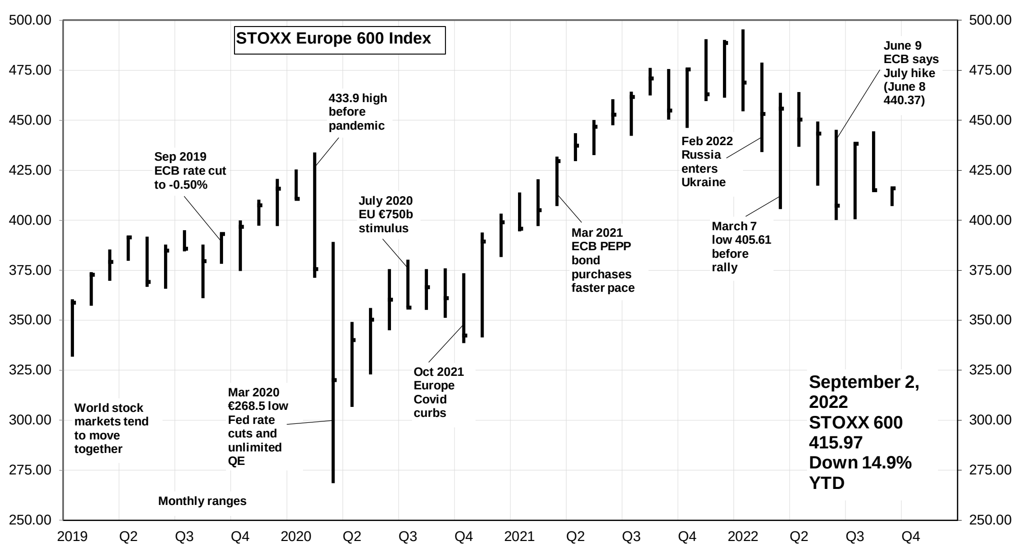
INTEREST RATES



[Stocks kept falling this week]() as Treasury yields kept rising. The market hasn't figured out where 2-year or 10-year Treasury yields should trade if, as Cleveland Fed President Mester said again this week, they move rates to 4% and keep them there all next year. The 10-year yield peaked at 3.5% back in June when the Fed did its first 75 bps rate hike to all of 1.75%. The markets thought the labor market wasn't as strong, jobs, unemployment, wages, and yields came down, especially in the short-end with the 2-yr yield dropping 11 bps to 3.40%. The S&P 500 was up as much as 1.3%, but news headlines shortly after 12 noon "Gazprom says Nord Stream to stay shut in blow to Europe" sent stocks lower. August Fed funds futures (adjusted) are still close to 50/50 between a 50 or 75 bps Fed hike on September 21—3.19% Thursday, 3.145% Friday. 3.145% is 58% chance of 75 bps.

Europe STOXX 600 down 14.9% YTD to 415.97

Europe didn't like what Powell had to say either with STOXX Europe at 433.36 Thursday night August 25 before Jackson Hole. European finance officials were there as well talking up rate hikes with perhaps 75 bps now at ECB meeting September 8. STOXX liked the US jobs data (who didn't) closing up 2.0% Friday before the Gazprom news. Our Vanguard European stock fund (VGK) fell 2.3% after 1220pm ET.



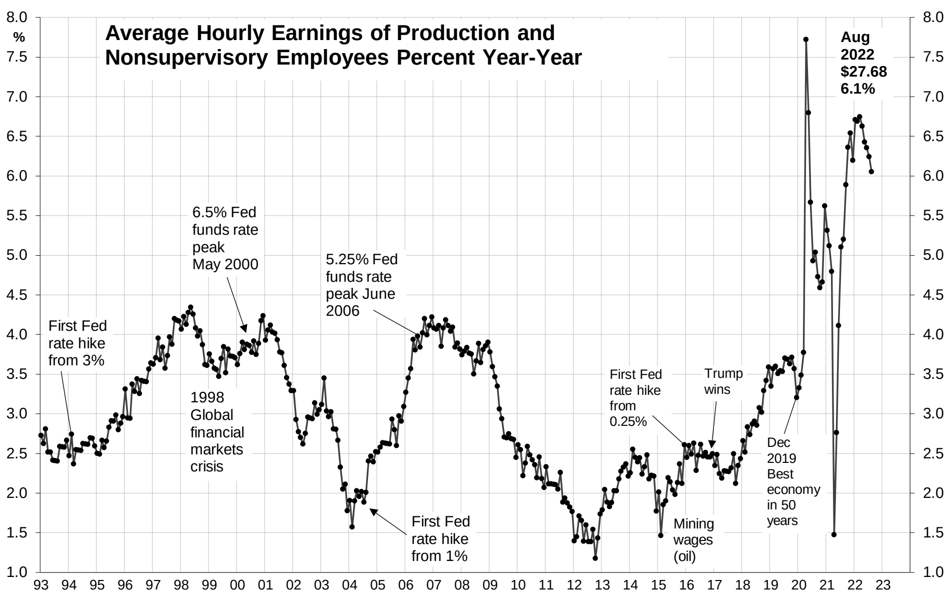
FEDERAL RESERVE POLICY

The Fed meets September 20-21, 2022 to consider its monetary policy. The debate is over whether to hike a third time by 75 bps or just 50 bps. It might be more important to see how high they think the Fed funds rate needs to go even if the science behind the forecasts is not certain. In the latest June forecasts, nine out of 18 Fed officials looked for a 4% or higher Fed funds rate in 2023: for the hawkish nine, four said 4%, four said 4.25% and one said 4.5%. In September, if we had to guess, those nine will raise the ante 50 bps higher, and look for a 4.5% or higher Fed funds rate at the end of 2023.

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	31-Aug	24-Aug	17-Aug	10-Aug	3/11/20*	3/11/20
Factors adding reserves						to Aug 31
U.S. Treasury securities	5694.997	5700.628	5699.175	5720.572	2523.031	3171.966
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2709.288	2725.906	2727.473	2717.568	1371.846	1337.442
Repurchase agreements	0.000	0.000	0.000	0.000	242.375	-242.375
Primary credit (Discount Window)	5.251	3.570	2.657	2.934	0.011	5.240
Paycheck Protection Facility	14.969	15.188	15.469	15.755		
Main Street Lending Program	25.933	25.917	25.902	26.154		
Municipal Liquidity Facility	5.556	5.554	5.552	5.551		
Term Asset-Backed Facility (TALF II)	2.144	2.160	2.159	2.158		
Central bank liquidity swaps	0.171	0.166	0.189	0.191	0.058	0.113
Federal Reserve Total Assets	8874.9	8901.2	8899.5	8928.9	4360.0	4514.907
~~3-month Libor %~~ SOFR %	2.29	2.27	2.29	2.28	1.15	1.140
Factors draining reserves						
Currency in circulation	2278.728	2276.186	2276.370	2276.462	1818.957	459.771
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	669.911	530.196	539.278	561.140	372.337	297.574
Treasury credit facilities contribution	17.940	17.940	17.940	17.940		
Reverse repurchases w/others	2251.025	2237.072	2199.631	2177.646	1.325	2249.700
Federal Reserve Liabilities	5759.087	5630.283	5565.800	5571.377	2580.036	3179.051
Reserve Balances (Net Liquidity)	3115.846	3270.912	3333.695	3357.493	1779.990	1335.856
Treasuries within 15 days	59.696	78.233	78.277	136.625	21.427	38.269
Treasuries 16 to 90 days	317.001	324.425	323.810	279.513	221.961	95.040
Treasuries 91 days to 1 year	852.012	819.487	819.992	809.524	378.403	473.609
Treasuries over 1-yr to 5 years	2010.480	2017.728	2017.163	2039.330	915.101	1095.379
Treasuries over 5-yrs to 10 years	1000.936	1009.321	986.738	1018.180	327.906	673.030
Treasuries over 10-years	1454.871	1451.434	1473.195	1437.400	658.232	796.639
Note: QT starts June 1	Change	31-Aug	1-Jun			
U.S. Treasury securities	-75.782	5694.997	5770.779			
Mortgage-backed securities (MBS)	1.842	2709.288	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

QT doubles to $60 bln monthly for Treasuries on September 1. MBS holdings haven't budged.

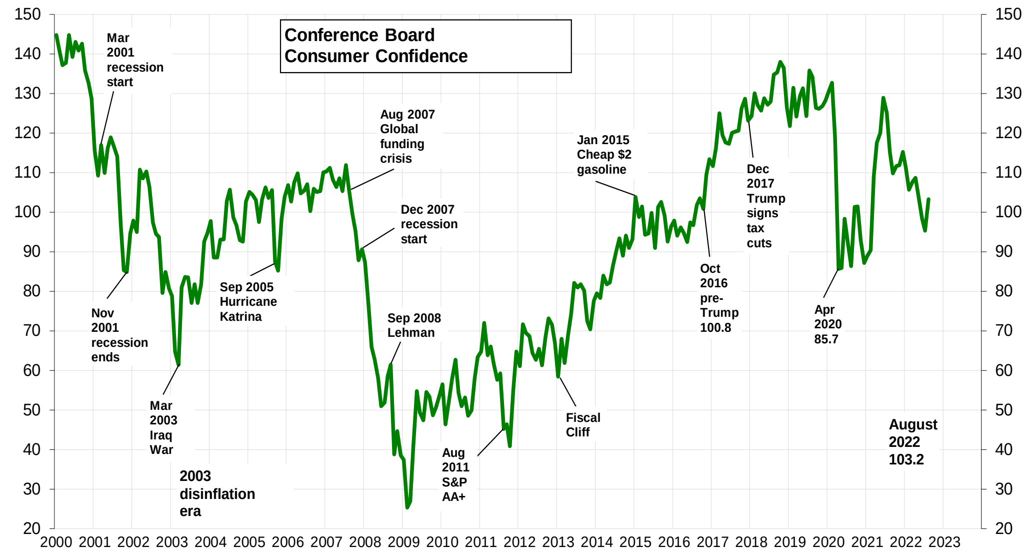
The market is uncertain about 50 or 75 bps after the jobs report. It doesn't look right to us to go-big a third time with unemployment rising and plummeting gasoline prices keeping CPI inflation unchanged a second month on Tuesday, September 13. But the Fed's interest rate forecasts are likely going higher on September 21 and the median call for year-end Fed funds may lift from 3.5% currently to 4.0%. In such a case, a 75 bps rate hike to 3.25% would be likely on September 21, 50 bps more to 3.75% on November 2, and 25 bps more to 4.0% on December 14. Time to move your savings account money out of the bank for more interest. If you know a safe place, let us know.



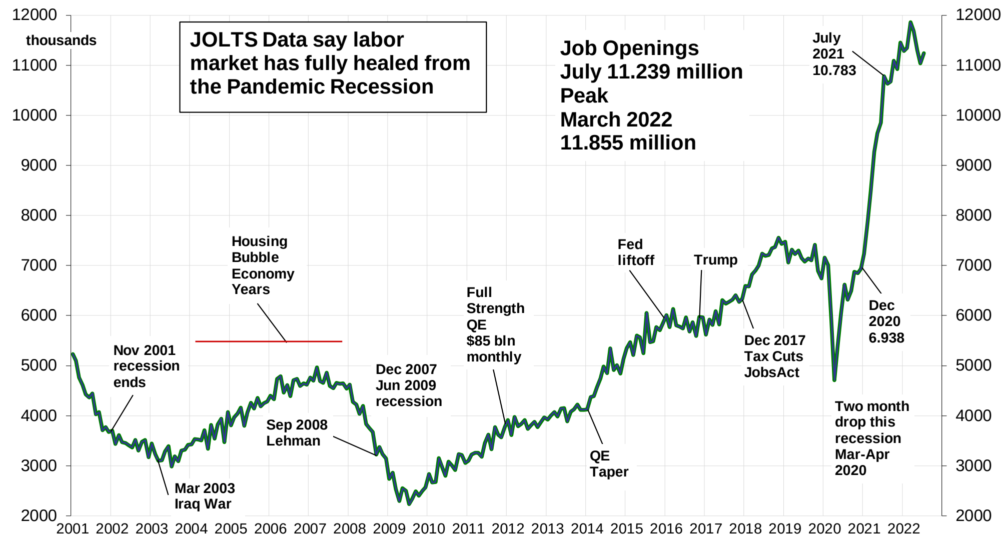
Fed Individual Forecasts				
Fed funds rate at year-end				Longer
Votes	2022 End	2023 End	2024 End	run
1	3.125	2.875	2.125	2.000
2	3.125	3.375	2.250	2.250
3	3.125	3.625	2.875	2.250
4	3.125	3.625	2.875	2.250
5	3.125	3.625	3.125	2.250
6	3.375	3.625	3.125	2.250
7	3.375	3.625	3.375	2.250
8	3.375	3.625	3.375	2.375
9	3.375	3.625	3.375	2.500
10	3.375	3.875	3.375	2.500
11	3.375	3.875	3.375	2.500
12	3.375	3.875	3.375	2.500
13	3.375	3.875	3.375	2.500
14	3.625	4.125	3.375	2.500
15	3.625	4.125	3.625	2.500
16	3.625	4.125	3.625	3.000
17	3.625	4.125	3.875	3.000
18	3.875	4.375	4.125	
Median	3.375	3.750	3.375	2.500
Meeting	Jun 22	Jun 22	Jun 22	Jun 22

OTHER ECONOMIC NEWS

Too much news to count, but labor market strong (Tuesday)



Breaking economy news. At 9am ET, a couple of home price indicators slowed their relentless upward climb in June, but they are still higher not lower. The Jolts data were little changed, the Bureau of Labor Statistics (BLS) said at 10am ET, but the trend isn't what the Fed is looking for. 11.2 million job openings in July with the monthly employment report counting 5.670 million out of work behind that record low 3.5% unemployment rate in July. Incredibly, the BLS revised up the softer reading of 10.698 milion job openings in June reported just a month ago, saying today there are 11.040 million job openings in June. The labor market's demand for workers isn't slowing down with the Fed raising rates to 2.5% so far this year, so the Jolts data won't hold the Fed back from going big with a 75 bps hike a third month in a row if they want next month.



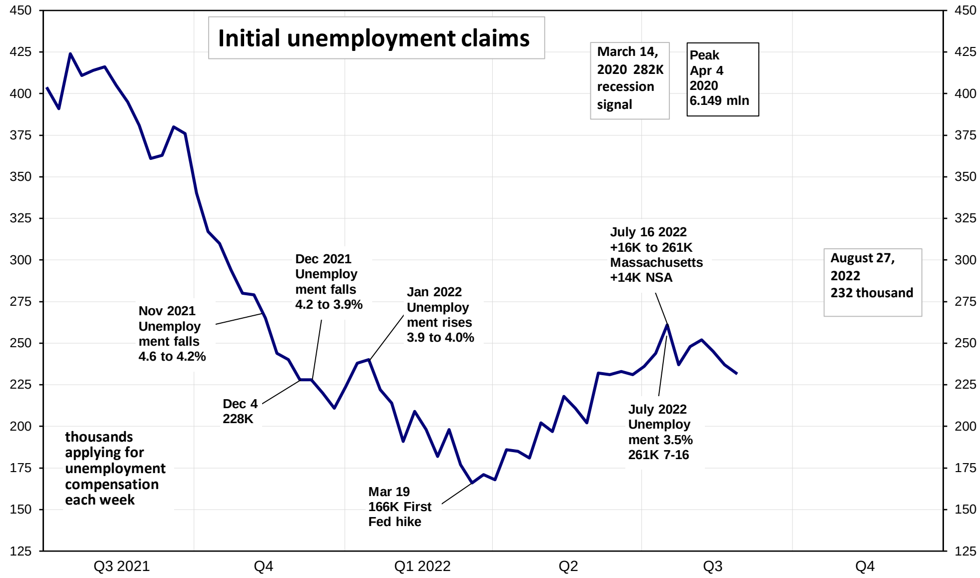
Meanwhile, consumer confidence recovered this month, jumping to 103.2 in August from 95.3 in July. It is hard to tell what the consumer is so darn happy about with inflation still jacking up the cost-of-living higher than almost all can stand. A fairly big drop in consumers saying jobs were hard to get with 11.4% believing this was the case in August down from 12.4% in July. If you had just one input to your payroll jobs forecasting model for Friday, this one says no slowdown in hiring from the 528 thousand new jobs created in July.

Net, net, the latest economic data are not showing any loss of momentum for growth and that can only mean inflation pressures will continue to build. Fed officials are closely monitoring the economy for whether to proceed with a 50 bps or 75 bps rate hike later next month, and right now, the data are in the 75 bps camp. The Fed has front-loaded its monetary restraint this year to an unprecedented degree and the economy isn't giving them any reason to hold back. Keep 'em coming. The labor market is strong as a bull, two jobs out there for the unemployed to choose from, and the improvement in consumer confidence says demand for goods and services will continue to keep the economy far from recession's door. Stay tuned. The Fed's rate hikes haven't wrecked the economy yet.

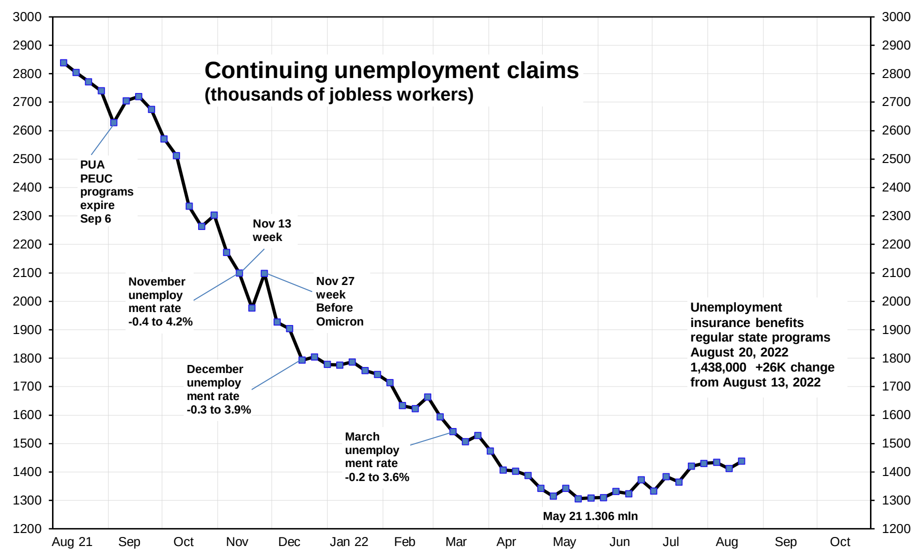
Claims down, but peak-employment may be here (Thursday)

Breaking economy news. First-time jobless claims are 232K in the August 27 week with another downward revision to the week before: August 20 was 243K and now it is 237K.

Not seasonally adjusted initial unemployment claims fell 2,492 in this quiet period of the year as the country starts the back to school season, and would have been weaker without big increases from New York (4,754) and Massachusetts (3,079). No labor market weakness trend is evident in the data today except perhaps for a large increase of 26K in continuing claims to 1.438 million which is technically a new high since the rising trend got going at the end of May. The labor market may be seeing slow erosion despite the decline in first-time filings this week.



It doesn't look like the labor market is going off the cliff, on the other hand, the market for new jobs has probably seen its best days for this cycle as the Federal Reserve's rate hikes attempt to pull the rug out from under this economic expansion. Payroll employment has run historically fast and may be headed for a fall as both initial and continuing unemployment claims have moved up after hitting bottom months ago. It wouldn't be surprising to see a weaker than expected monthly payroll jobs report tomorrow assuming there is anyone in on Wall Street to trade the numbers ahead of the Labor Day holiday weekend.



Net, net, despite the headline-grabbing news of mass layoffs from several major companies and stern warnings to staff from CEOs that they may need to trim labor costs, first-time filings for unemployment benefits remain below the highs hit July 16 at 261K. There is no rapid-fire cumulative deterioration in the economy signaled with today's jobless claims, but the steady upward creep from record lows earlier this year makes us wonder if a slowdown in the new jobs count is in the offing, especially with the all-time 3.5% unemployment rate low means labor is increasingly hard to find. The economy cannot keep pumping out 500 thousand payroll jobs each month. Stay tuned. Story developing tomorrow at 830am ET. We will be in at our desk, will you? You better be. Unemployment claims are down, but peak-employment may be here.

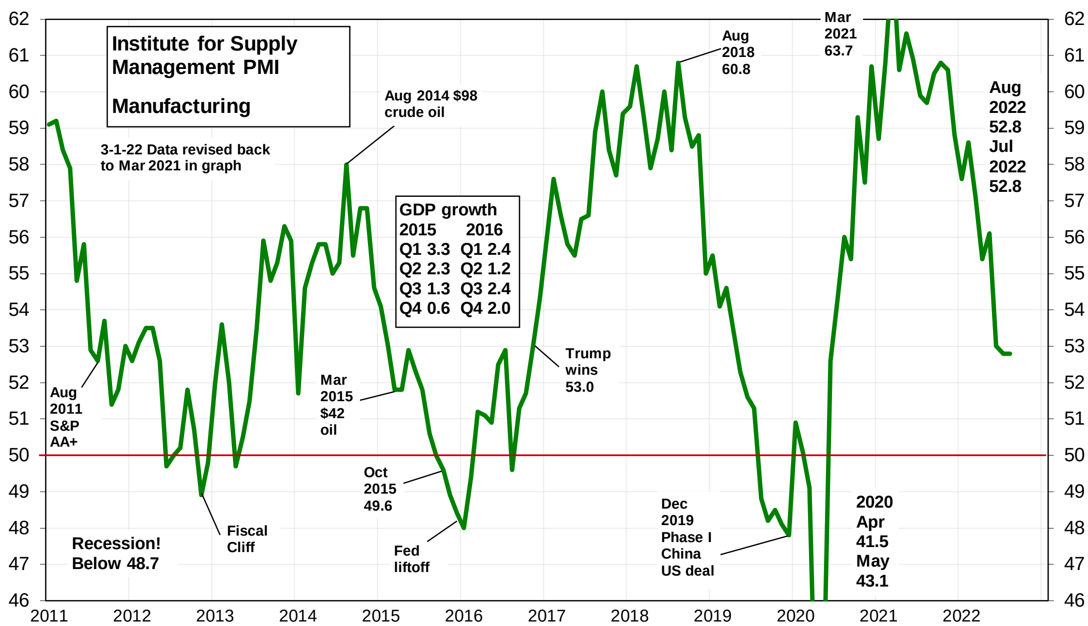
Business sentiment holding, growth remains positive for now (Thursday)

Breaking economy news. The ISM manufacturing index held steady this month which counts as good news with business sentiment in virtual freefall for the last year and a half. Importantly, new orders and employment rose back above the 50 line separating expansion from contraction, while inflation seems to be receding. Production almost fell below 50 this month which is odd as July manufacturing industrial production surged according to the Federal Reserve's indicator.

ISM manufacturing index

	Aug 22	Jul 22	Jun 22	May 22
PMI index	52.8	52.8	53.0	56.1
Prices	52.5	60.0	78.5	82.2
Production	50.4	53.5	54.9	54.2
New orders	51.3	48.0	49.2	55.1
Supplier deliveries	55.1	55.2	57.3	65.7
Employment	54.2	49.9	47.3	49.6
Export orders	49.4	52.6	50.7	52.9

Net, net, business sentiment has stabilized for the manufacturing sector where the focus like the rest of the country has been on inflation, inflation, inflation. The Prices index fell to 52.5 in August from 60.0 in July as more companies are reporting lower prices this month, including important industries like Transportation Equipment, and Food, Beverage & Tobacco Products. With any luck this will result in lower prices for consumers at the grocery store, although don't bet on it. At the moment, business sentiment is holding and growth for the manufacturing sector remains positive, although for how long is the question with the Fed's front-loaded rate hikes trying to engineer a growth recession for the broader economy. It won't be an accident if the economy goes off the rails, but purchasing managers are holding their breath for at least another month.



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