Financial Markets This Week

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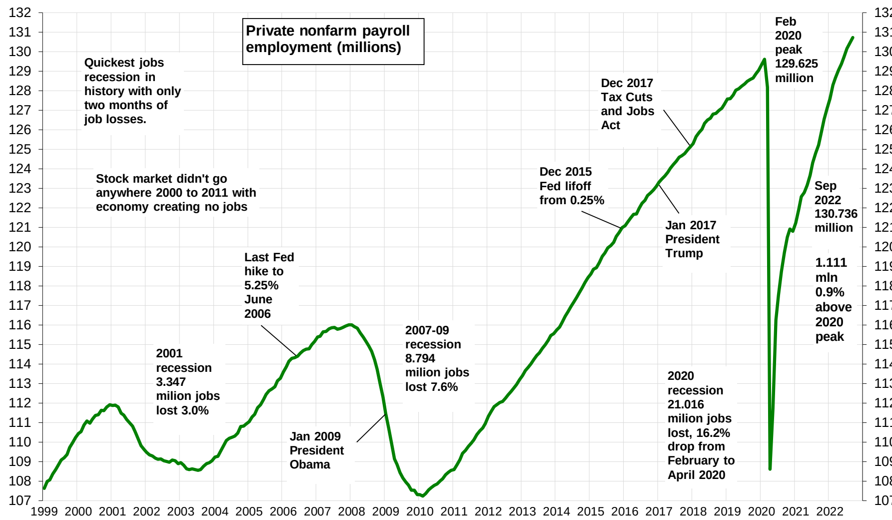
BEST ECONOMY IN FIFTY YEARS

Breaking economy news. It's back. The best economy in fifty years with the lowest unemployment rate in the nation's history is back. As advertised, the unemployment rate dropped back to the 3.5% lowest in history after jumping a couple tenths for all of one month in the prior report. Weekly jobless claims did pop this week, but markets won't know for another month what that means for the monthly employment situation report.



Payroll jobs of 263K in September after last month's unrevised 315K gain for August. Average nonfarm payroll gains 420K this year versus 562K over the comparable first nine months of 2021 do not constitute a slowdown, no way, no how.

It's hard to believe. The ISM manufacturing survey said employment was contracting, but manufacturing employment rose 22K, the biggest add from motor vehicles and parts. We thought the industry couldn't get parts. The Fed's too-late rate hikes aren't too much for the construction industry, although admittedly, the growth in jobs is in specialty trade contractors both residential and nonresidential. The only sign of business caution in today's hiring report comes from spending areas that get hit first before permanent layoffs in every cycle. Business support services (economists?) down 12K, legal services down 5K (cry me a river), and advertising down 5K.

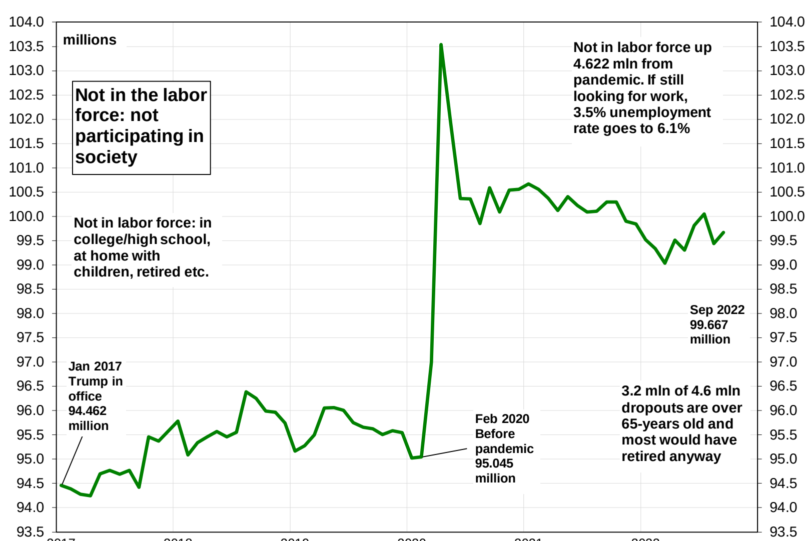
Monthly changes (000s)	Sep	Aug	Jul	Jun	May
Payroll employment	263	315	537	293	386
Private jobs	288	275	448	346	331
Leisure/Hospitality jobs	83	31	89	43	69
HH Employment Survey*	204	442	179	-315	321
Unemployment rate %	3.5	3.7	3.5	3.6	3.6
Participation rate %	62.3	62.4	62.1	62.2	62.3
Not in labor force (mln)	99.667	99.438	100.051	99.812	99.302
... and Want A Job (mln)	5.834	5.549	5.910	5.656	5.681
Average hourly earnings	$32.46	$32.36	$32.27	$32.11	$31.98
MTM % Chg	0.3	0.3	0.5	0.4	0.4
YOY % Chg	5.0	5.2	5.2	5.2	5.3
* Household (telephone) Survey of employment behind unemployment rate					

To conclude, the labor market isn't just rolling along, it's a virtual steam-roller that does nothing to slow economic demand and help the Federal Reserve in its inflation fight. To be fair, the Fed funds rate was only 2.5% when the employment data were collected and the interest rate peak forecast from Fed officials was "just" 3-7/8% next year. Nevertheless, the Fed will certainly not stand down, or pivot, or pause or anything else because this economy isn't slowing down. The first half negative GDP growth be damned, this labor market is on fire. We fully expect the Federal Reserve to meet their latest forecast with a 75 bps rate hike in November followed by a 50 bps rate hike in December to finish the year at 4.5%. Labor market take that. If these rate hikes don't slow the economy to the point of recession, nothing will. Bet on it.

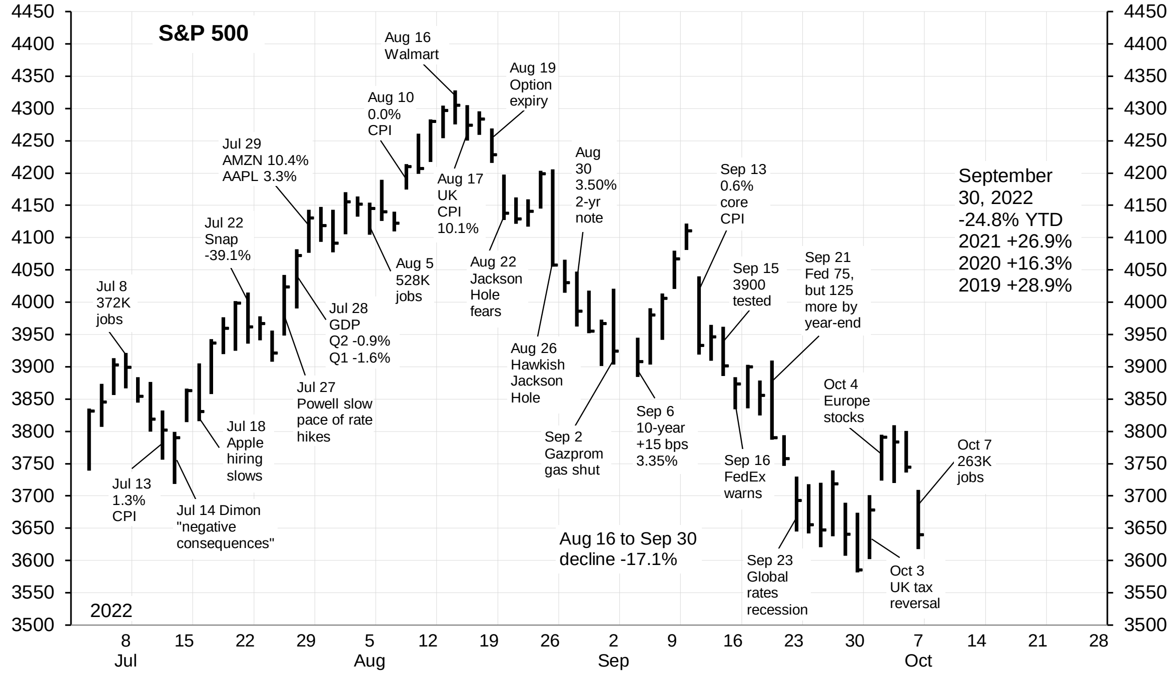
Payroll jobs fall from February 2020 peak as recession began

Data in thousands	Sep 22	Aug 22	Jul 22	31 months Feb 20 Sep 22	Sep 22	Feb 2020
Nonfarm Payroll Employment	263	315	537	514	153,018	152,504
Total Private (ex-Govt)	288	275	448	1,111	130,736	129,625
Goods-producing	44	35	63	137	21,232	21,095
Mining	3	-2	5	-51	588	639
Manufacturing	22	27	37	95	12,880	12,785
Motor Vehicles & parts	8	4	8	23	1,011	988
Construction	19	11	21	95	7,719	7,624
Private Service-providing	244	240	385	974	109,504	108,530
Trade, transportation, utilities	3	65	50	990	28,822	27,832
Retail stores	-1	43	16	244	15,842	15,598
General Merchandise	0	9	1	234	3,234	3,000
Food & Beverage stores	3	14	15	149	3,205	3,056
Transportation/warehousing	-8	5	18	734	6,529	5,795
Truck transport	-11	0	2	65	1,581	1,515
Air transportation	3	2	7	51	567	516
Couriers/messengers	-1	4	-4	237	1,111	875
Warehousing and storage	0	-5	-4	464	1,782	1,319
Utilities	0	1	1	-5	542	547
Information	13	5	16	140	3,043	2,903
Financial	-8	7	7	87	8,957	8,870
Insurance	-9	6	0	-19	2,834	2,853
Real Estate	5	5	1	3	2,367	2,364
Commercial Banking	2	1	5	-55	1,344	1,399
Securities/investments	0	1	7	75	1,040	965
Professional/business	46	54	84	1,080	22,473	21,393
Temp help services	27	13	13	290	3,196	2,906
Management of companies	4	-6	12	-31	2,392	2,423
Architectural/engineering	-1	7	10	102	1,649	1,547
Computer systems/services	2	9	-3	214	2,441	2,227
Legal services	-5	-8	4	12	1,175	1,163
Accounting/bookkeeping	7	3	3	93	1,123	1,030
Education and health	90	75	122	47	24,645	24,598
Hospitals	28	17	16	5	5,240	5,236
Educational services	14	16	33	58	3,860	3,803
Leisure and hospitality	83	31	89	-1,138	15,845	16,983
Hotel/motels	7	5	1	-392	1,727	2,119
Eating & drinking places	60	26	83	-560	11,801	12,361
Government	-25	40	89	-597	22,282	22,879
Federal ex-Post Office	3	2	6	4	2,265	2,261
State government	-16	1	8	-79	5,231	5,310
State Govt Education	-7	-2	3	-8	2,598	2,606
Local government	-11	41	73	-521	14,187	14,708
Local Govt Education	-22	21	55	-309	7,755	8,064

P.S. Those labor force dropouts moved up a little, 229K, to 99.667 million, so the participation rate fell a tenth to 62.3%. Labor Secretary Walsh the latest to lament after the jobs report today that he'd like to see the participation rate higher. Sometimes it is said if people return to work this will keep wages in check. Those not in the labor force that dropped out in the pandemic won't be returning as the long-term trend is lower participation. Also 3.2 million of the 4.6 million drop outs were over 65 years old and retired, like it or not.



INTEREST RATES

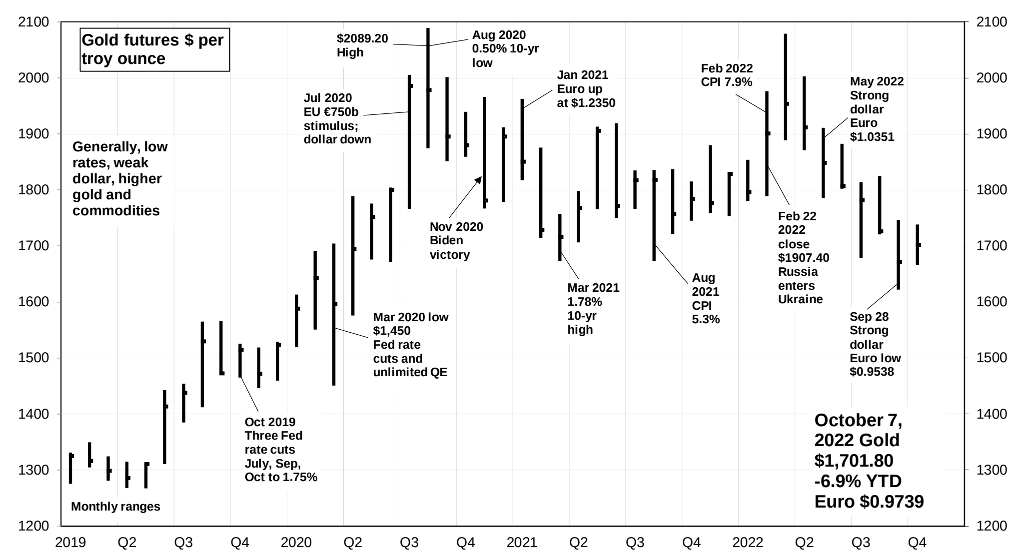


Another strange week in the way the stock market reacts to the news and data. Everything is about waiting for the Fed to stop hiking rates. Like it's March 2020 or March 2009 again waiting on the Fed to ride to the rescue. Anyway the 5.7% stock market rally Monday/Tuesday failed after the jobs data and the S&P 500 closed Friday just 1.5% higher on the week. 1.5% better than nothing. Bonds followed the UK Gilts crisis down and then back up. Same valuation question for bond yields, "where should they trade," even if the Fed's forecast for the terminal Fed funds rate is 4.75% now, up from 3-7/8%, after the September 21 FOMC press release. Markets reacted badly to the August month consumer inflation data, CPI September 13, PCE September 30. It can't go down again on September CPI released Thursday, October 13, can it? Friday closes: 10-yr 3.89%, S&P 500 -23.6% YTD.

Gold $1,701.80, down 6.9% YTD

Dollar up, gold down this year, after Russia invasion uncertainty spike. The dollar made its high against the Euro ($0.9538) on September 28 when gold made its low for 2022 at $1,622.20. Dollar up, commodities down normally. Crude oil bottomed around the same time, $76.71 November contract low September 26.

Wednesday, October 5 OPEC+ announced a 2 million barrels per day production cut and oil closed $87.76, up $1.24 on the day. Maybe oil inflation is coming back. Oil was $92.64 Friday. [Gas prices] were $3.831 Wednesday, and $3.891 Friday.



FEDERAL RESERVE POLICY

The Fed meets November 1-2, 2022 to consider its monetary policy. Another week and more Fed talk, talk, talk about how they aren't done yet. We know. It's in the interest rate forecast from your September FOMC meeting: 125 bps higher at the remaining two meetings this year. If you stopped talking, maybe the market could try to forget. A 125 bps move over the final two meetings is a Fed funds rate of 4.5% at the end of 2022. January 2023 Fed funds futures (adjusted) closed 4.525% Friday; the rate was 4.465% Thursday, and 4.385% the week before.

Selected Fed assets and liabilities

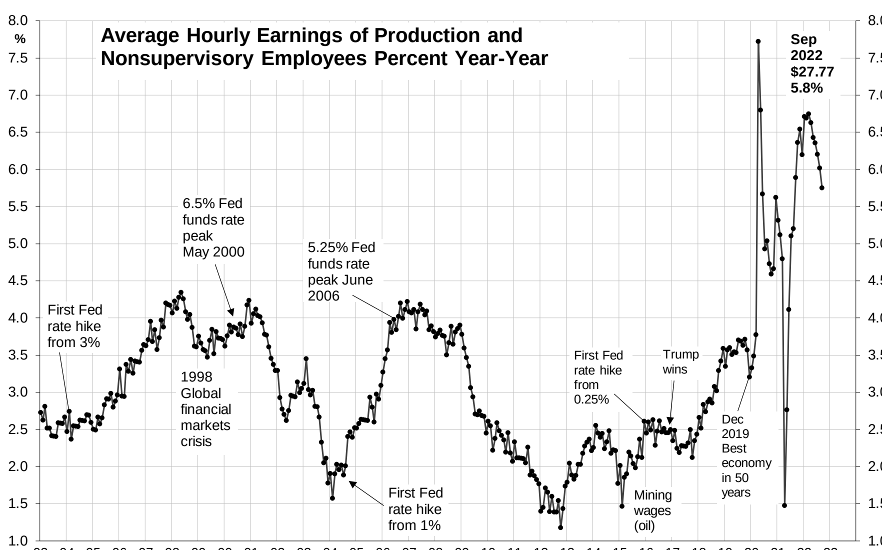
Fed H.4.1 statistical release billions, Wednesday data	5-Oct	28-Sep	21-Sep	14-Sep	3/11/20*	Change from 3/11/20 to Oct 5
Factors adding reserves						
U.S. Treasury securities	5633.926	5671.848	5673.919	5687.031	2523.031	3110.895
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2698.158	2698.158	2714.887	2718.526	1371.846	1326.312
Repurchase agreements	0.000	0.001	0.000	0.000	242.375	-242.375
Primary credit (Discount Window)	7.511	6.470	6.913	6.158	0.011	7.500
Paycheck Protection Facility	13.847	14.030	14.175	14.399		
Main Street Lending Program	25.722	25.704	25.687	25.969		
Municipal Liquidity Facility	5.565	5.563	5.561	5.559		
Term Asset-Backed Facility (TALF II)	2.136	2.149	2.148	2.146		
Central bank liquidity swaps	0.300	0.216	0.273	0.203	0.058	0.242
Federal Reserve Total Assets	8808.9	8844.9	8866.7	8882.6	4360.0	4448.838
~~3-month Libor %~~ SOFR %	3.04	2.98	2.25	2.27	1.15	1.890
Factors draining reserves						
Currency in circulation	2283.376	2278.657	2277.468	2280.792	1818.957	464.419
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	622.131	661.920	690.286	617.997	372.337	249.794
Treasury credit facilities contribution	17.940	17.940	17.940	17.940		
Reverse repurchases w/others	2230.799	2366.798	2315.900	2225.579	1.325	2229.474
Federal Reserve Liabilities	5732.414	5861.695	5862.936	5723.910	2580.036	3152.378
Reserve Balances (Net Liquidity)	3076.450	2983.206	3003.721	3158.694	1779.990	1296.460
Treasuries within 15 days	71.778	92.355	85.002	52.038	21.427	50.351
Treasuries 16 to 90 days	347.710	316.644	325.495	358.104	221.961	125.749
Treasuries 91 days to 1 year	787.632	813.531	814.092	810.627	378.403	409.229
Treasuries over 1-yr to 5 years	1979.974	1993.540	1993.545	2010.470	915.101	1064.873
Treasuries over 5-yrs to 10 years	991.982	1000.920	1000.924	1000.928	327.906	664.076
Treasuries over 10-years	1454.849	1454.857	1454.861	1454.864	658.232	796.617
Note: QT starts June 1	Change	5-Oct	1-Jun			
U.S. Treasury securities	-136.853	5633.926	5770.779			
Mortgage-backed securities (MBS)	-9.288	2698.158	2707.446			

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

It seems new this cycle for Fed officials to be talking down asset prices, the stock market and incredibly, home prices, as if this is somehow necessary for America to win the inflation battle. The Fed pivot to rate cuts in the 2007-09 recession didn't turn around the stock market or halt the slide in home prices. The Fed cut rates the first time in September 2007 and the existing home sales median single-family home price index didn't stop falling until down 33% to the bottom in January 2012. No one can just flip a switch and turn this stuff on and off.

Fed Governor Waller on Thursday in Lexington, Kentucky talked about housing, what could happen there in the Fed's efforts to achieve its dual mandate of maximum employment and stable prices. We hope the audience knew what they were in for, as Waller was the former head of research for the St. Louis Federal Reserve. Waller said the expectation for Friday's jobs report was 260K which would still be "very healthy relative to past experience." He acknowledged the 1.1 million drop in job openings in the Jolts data on Tuesday, but "the labor market is still quite tight" and he didn't think the jobs data would affect his thinking. Fine, so how much does Waller want to reduce America's home prices? Prices of existing homes rose about 20% year-year through May this year he said and slowed to 10% year-year in recent months. He said he "could not dismiss the possibility of a much larger drop in demand and house prices before the market normalizes."

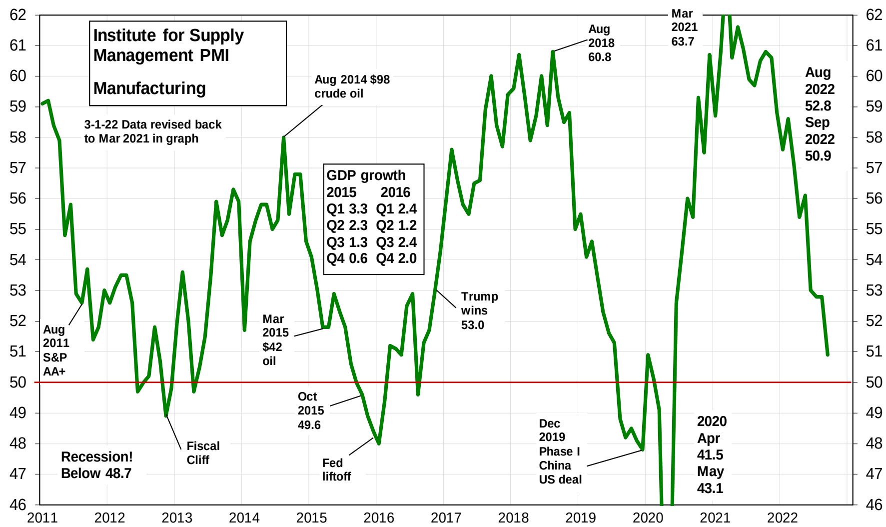
Maybe if companies didn't give workers wage increases to "match" inflation, maybe that would help cool aggregate demand.



OTHER ECONOMIC NEWS

Business sentiment sours (Monday)

Breaking economy news. The ISM manufacturing index fell closer to the 50-line separating an expanding sector from one that is contracting. We wonder if business executives are seeing their views affected by the plunge in their own company's share price and valuations this year. The overall index dropped 1.9 percentage points to 50.9. Purchasing managers are reporting sharply weaker new orders and employment. We will see if manufacturing employment declines in Friday's payroll jobs report for September. In the meantime, stocks are rallying on the report, hopeful that economic weakness will eventually force the Federal Reserve to slow the pace of its interest rate hikes. A 75 bps rate hike is discounted in November and futures are saying the call for the December meeting is evenly split between a 25 or 50 bps move.



Construction spending is also out at 10am ET today for August. Nonresidential private construction fell 0.1% and is 5.5% higher than a year ago. The strongest construction sector has been manufacturing this year, still up 21.6% from prior year levels even if it fell 0.5% this month.

How bad is it out there for the broader economy? ISM keeps moving around what index level means what for the overall economy. They say real GDP is in decline or recession if the index falls below 48.7. The confusion comes with the realization that real GDP has been negative for the entire first half of 2022.

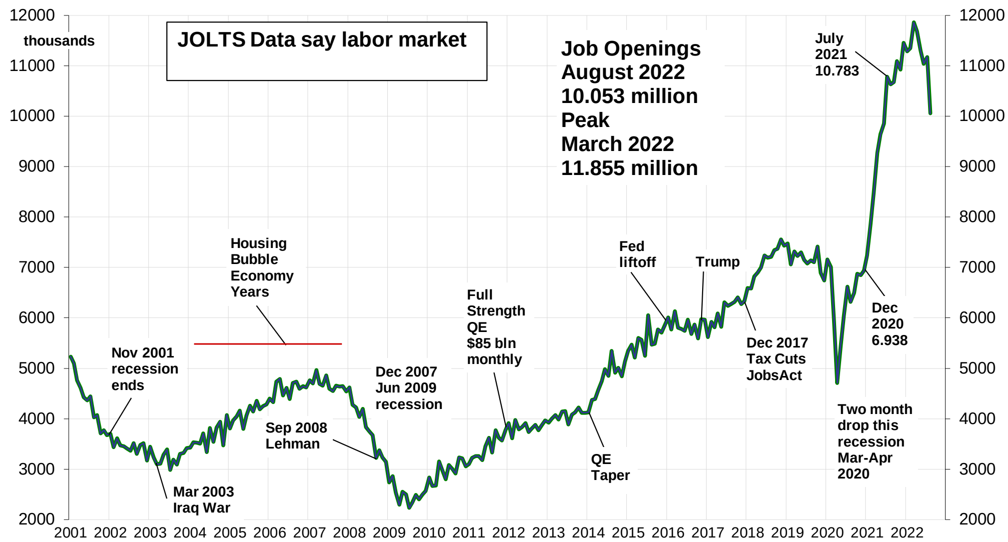
Net, net, manufacturing business executives are growing increasingly cautious about the outlook and having seen a sharp decline in new orders, they are tapping the brakes by cutting staff. It must be a hard decision on employment as workers keep leaving for higher wages due to inflation. Long-lived capital goods orders in the August durable goods report actually hit an all-time high last week, but purchasing managers nonetheless are saying orders tumbled in September. Prices are increasing at a slower pace, but past inflation continues to keep upward pressures on input costs and wages. Stay tuned. Manufacturing executives said new orders and employment hit the skids in September and time will tell if this is the month where the broader economy started going over the proverbial cliff.

ISM manufacturing index

	Sep 22	Aug 22	Jul 22	Jun 22
PMI index	50.9	52.8	52.8	53.0
Prices	51.7	52.5	60.0	78.5
Production	50.6	50.4	53.5	54.9
New orders	47.1	51.3	48.0	49.2
Supplier deliveries	52.4	55.1	55.2	57.3
Employment	48.7	54.2	49.9	47.3
Export orders	47.8	49.4	52.6	50.7

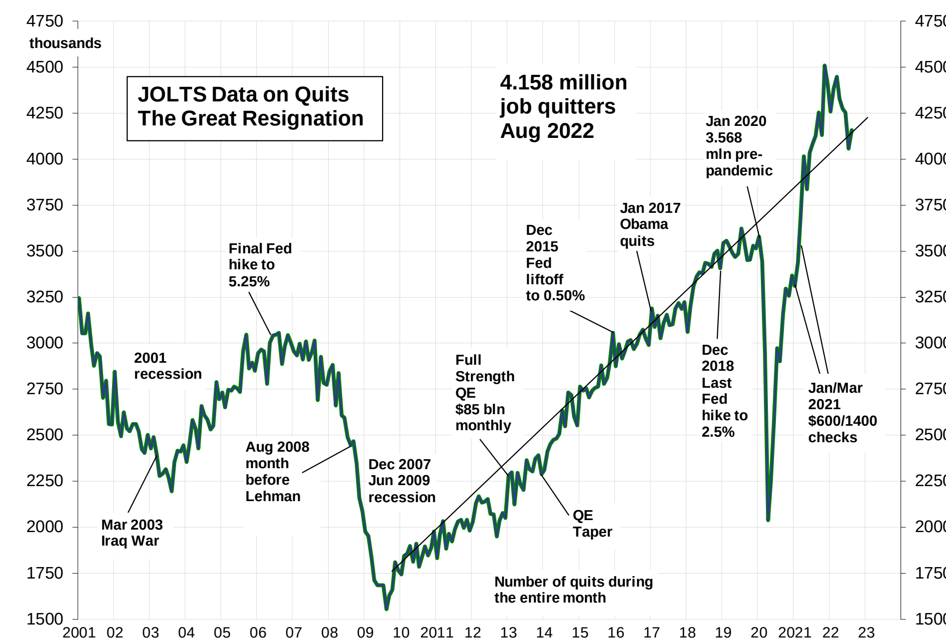
Job openings plummet (Tuesday)

Breaking economy news. Companies didn't need as much help at the end of August with job openings plummeting by over one million from 11.170 million in July to 10.053 million in August. The back-to-back decline in real GDP the first half of the year means companies require fewer workers to produce the goods and provide the services that a growing economy needs. Ironically, one of the few sectors requiring more help in August was Real estate and rental and leasing with openings up to 177 thousand in August from 167 thousand in July. New and existing home sales have tumbled from the Federal Reserve's aggressive rate hikes and yet realtors need more help. Construction job openings as well rose to 407 thousand in August from 353 thousand last month.



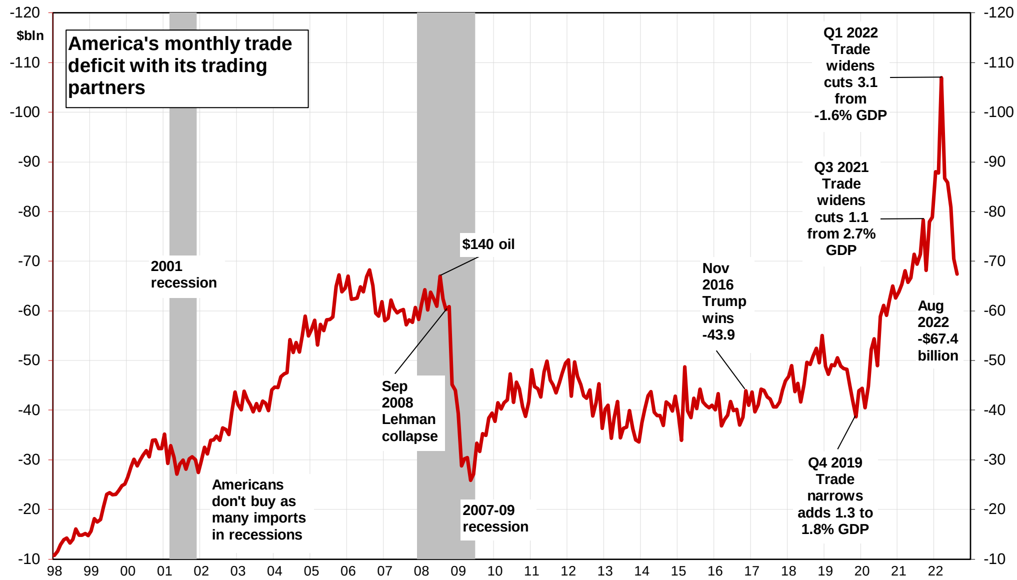
Job openings dropped 1.117 million in August. The biggest declines were in Health care and social assistance, Retail trade, Hotels and restaurants, and Other services. Maybe the shift in consumer demand from goods to services is not as strong as is commonly believed.

Net, net, one of the strongest labor market's in history is finally starting to run out of gas with job openings plummeting by over 1 million at the end of August. Fed officials' hopes and prayers for a soft landing looks more achievable now that business hiring is beginning to slow down and the help wanted signs are being taken down from store front windows. No sign of actual job losses, but fewer help wanted signs around the country means the Fed's rate hikes are cooling down the labor market which could lessen the upward pressure on wages and ultimately inflation. Stay tuned. Story developing. We still expect the unemployment rate to fall back in Friday's report for September, but the labor market is beginning to cool, and that's music to the stock market's ears. If job openings plummet, maybe the stock market no longer has to.



Trade winds blowing favorably for the economy (Wednesday)

Breaking economy news. America's export machine continues to lead the way for positive economic growth with the trade deficit falling to $67.4 billion in August from $70.5 billion in July. The trade deficit was $84.5 billion in the second quarter. U.S. Exporters are killing it despite the small decline in August with exports of goods 22.1% higher than a year ago. The trade winds are blowing favorably for the economy, adding to growth, despite high inflation and turbulent financial markets. Globalization isn't dead yet with imports of $50.3 billion of goods from China in August, the first 50 billion dollar month since the trade wars in 2018.



The trade winds have been whipping around real GDP this year where that first quarter -1.6% drop in output that makes a recession a recession was mostly due to the -3.1 percentage point drag in net exports. In the second quarter the 0.6% drop in real GDP would have been worse without the positive 1.2 percentage point contribution from net exports, and the contribution of trade to third quarter economic growth could be twice the amount seen last quarter keeping real GDP positive.

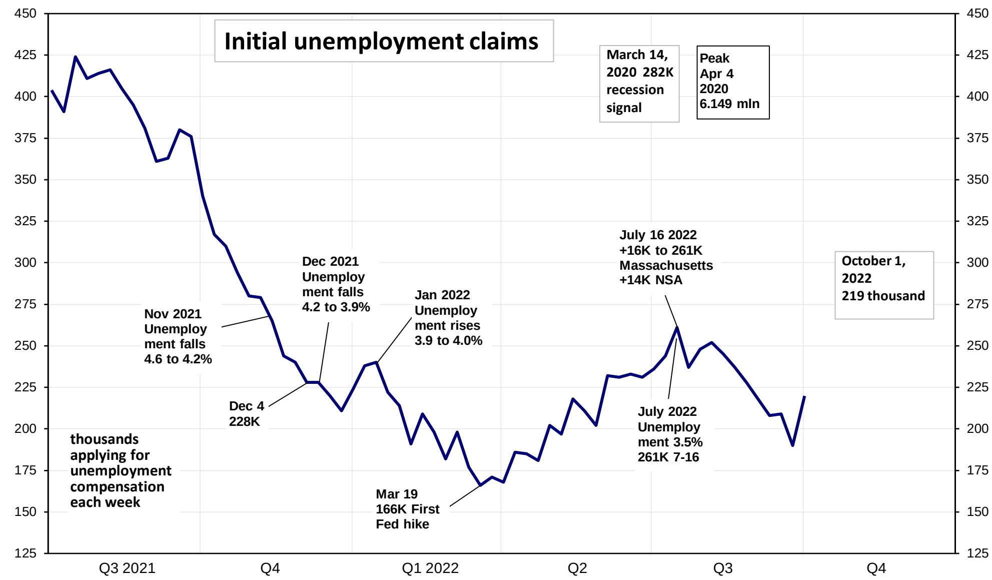
Net, net, the trade winds are blowing favorably for the economy in the third quarter putting economic growth back squarely in the plus column for the first time this year and keeping the recession winds offshore for now. Consumers tend to shy away from foreign goods in recessions historically and real non-petroleum imports are down noticeably in August from the monthly average pace of the first half of 2022 so this trend needs to be watched closely. Stay tuned. Story developing.

U.S. Exports of Goods to the Rest of the World

Millions of dollars	Aug 2022	July 2022	2022 YTD	2021 YTD
Total *	180,404	181,658	1,379,177	1,139,264
Foods, feeds, beverages	15,760	15,555	125,951	108,095
Meat, poultry, etc.	2,254	2,235	18,000	16,515
Corn	1,401	1,700	14,608	14,162
Soybeans	3,325	3,306	26,081	16,980
Industrial supplies, materials	74,585	76,815	557,924	410,392
Crude oil	10,398	11,419	76,323	43,463
Petroleum products, other	7,961	8,070	63,346	39,720
Capital Goods ex-autos	48,460	48,184	376,044	343,181
Semiconductors	5,273	5,579	44,454	44,130
Electric apparatus	4,149	4,071	32,217	28,102
Medical equipment	3,772	3,630	28,434	26,573
Engines-civilian aircraft	4,083	3,740	28,240	24,019
Telecom equipment	2,598	2,884	22,076	21,907
Civilian aircraft	2,144	2,260	20,738	15,210
Auto vehicles, parts, engines	12,689	13,742	103,267	95,938
Consumer goods	21,657	20,360	164,909	138,776
Pharma preparations	7,932	7,102	59,142	48,344
Cell phones	2,687	2,555	21,208	20,023
Gem diamonds	1,890	1,723	14,018	10,349
Other goods	7,253	7,002	51,082	42,881
* Total Exports of goods on Census Basis				

Job layoffs pop (Thursday)

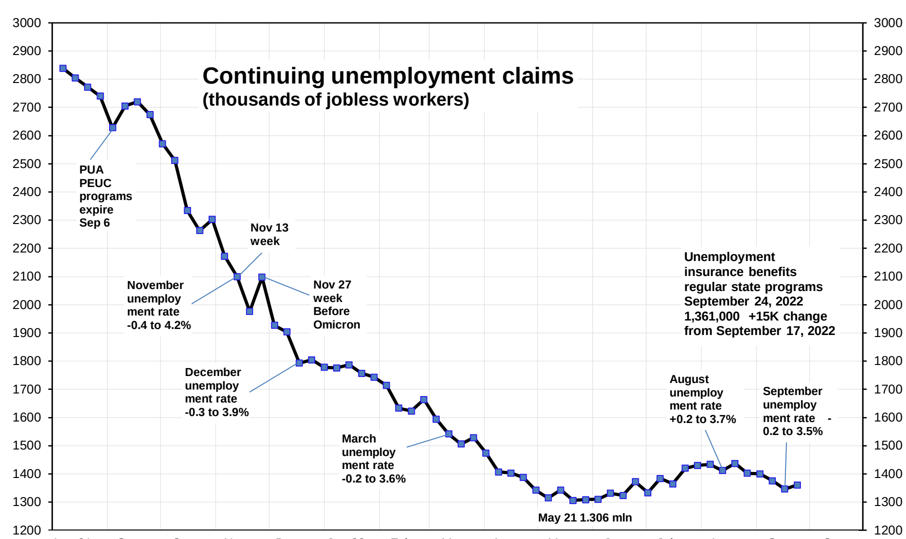
Breaking economy news. First-time jobless claims popped 29K to 219K in the October 1 week from a downward revised 190K the prior week. The seasonal factors are tricky this time of year at the start of the fourth quarter always with not seasonally adjusted claims rising only 13K, but nevertheless these timeliest of leading economic indicators hint that a slowdown in companies hiring intentions are closer to becoming a reality.



There were some special factors behind the 13K rise in not seasonally adjusted claims with Puerto Rico seeing the biggest increase of 3.9K after Hurricane Ida. Florida claims actually fell 1.4K this latest week, but could easily surge in coming weeks due to storm-related shutdowns and damage.

Net, net, some cracks are starting to show in the labor market with the sudden jump in job layoffs in the first week of October. Time will tell if this is the turning point where employment gains turned to job losses. There were over a million fewer help wanted signs up on factory gates and in store front windows at the end of August and now it looks like layoffs are starting as aggregate demand slows. The outlook of companies is hardening in the face of uncertainty where those saying we don't need any additional help are turning rapidly into we don't need the employees we have.

Time will tell if the Federal Reserve's relentless messaging on rates going higher and faster has gone too far in its battle with inflation. Today's weekly jobless claims should mean little for tomorrow's monthly payroll jobs with the survey week already past, but the anecdotal signs are getting more noticeable that jobs aren't as plentiful as they were. The worry of central bankers won't be shifting from inflation to the economy yet, but the signs are there and the danger of overdoing it is as well.



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