

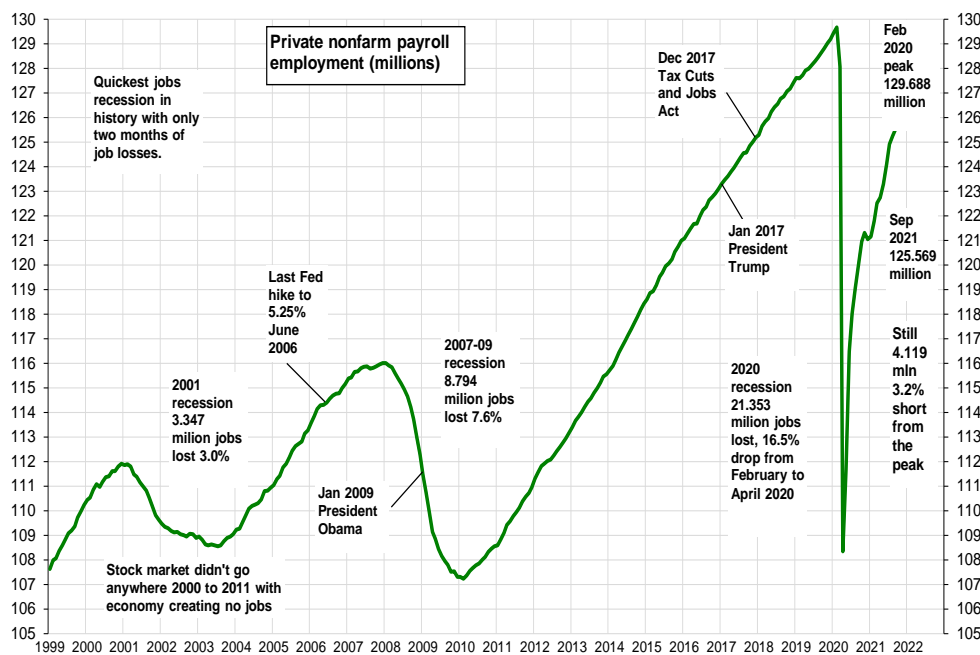
Financial Markets This Week

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JOBS REPORT IS HOT, HOT, HOT

Breaking economy news. Payroll employment rose just 194K in September which was less than expected, although perhaps forecasters know less what to expect than they normally do. It was revised up 169K in July/August, but still. Part of the reason for slower overall growth in September is the misaligned seasonal factors for teachers corrected finally after phantom jobs gains in



prior months. State government education jobs fell 17K, and local government education jobs fell 144K. The Delta variant, two words that are misused constantly in the attempt to characterize the economy's growth, is not gone yet if leisure and hospitality only added 74K jobs in September after big monthly gains of roughly 400K in June and in July at the start of the summer. We are skeptical of further big job gains from this category however regardless of the path of the virus.

There's nothing wrong with the economy's job creation ability if you know where to look. Since June the unemployment rate has fallen from 5.9% down to 4.8% with employment gains of 1.043 million in July, 509 thousand in August, and 526 million in September. This is not a sign of labor market weakness that deserves the support of the Federal Reserve.

Monthly changes (000s)	Sep	Aug	Jul	Jun	May
Payroll employment	194	366	1091	962	614
Private jobs	317	332	816	808	555
Leisure/Hospitality jobs	74	38	408	397	319
Unemployment rate %	4.8	5.2	5.4	5.9	5.8
Not in labor force (mln)	100.412	100.074	100.123	100.253	100.275
... and Want A Job (mln)	5.969	5.682	6.517	6.428	6.600
Average hourly earnings	\$30.85	\$30.66	\$30.55	\$30.44	\$30.31
MTM % Chg	0.6	0.4	0.4	0.4	0.5
YOY % Chg	4.6	4.0	4.0	3.7	1.9

People have dropped out of the labor force during the pandemic, 5.2 million Americans have, and they aren't coming back to work: that is why the labor market for hiring is tight as a drum right now.

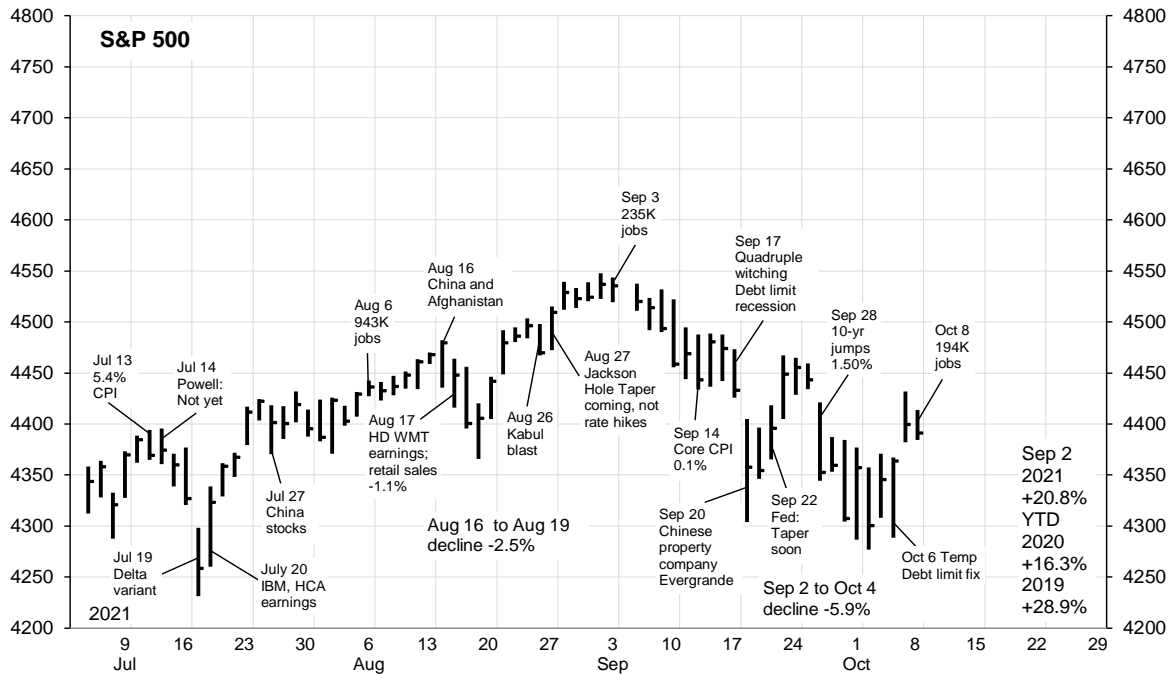
Payroll employment in September of 147.553 million is 4.970 million below the all-time record of 152.523 million in February 2020, and employment isn't going back up there if people have dropped out. There is no other plausible explanation why employers are unable to hire the workers they need: the reason is there is no one out there to hire and the economy is closer to full employment than Washington officials think.

Net, net, don't be fooled by the forecast miss on payroll jobs for a second straight month. The labor market recovery hasn't stalled. The jobless rate tumbled from 5.2% to 4.8% all in one month. The labor market is literally on fire, it is so hot. There are help-wanted signs out all across the country and Fed officials have their heads in the sand if they think the labor market isn't inches away from full employment and in danger of igniting an inflation fire that will be difficult if not impossible to put out. This isn't an inflation born out of temporary shortages and supply disruptions, this is a permanent inflation based on demand forces in the economy that are too darn strong. Fed policy needs to weigh against the prevailing winds, not join in and add fuel to the fire. The economy is hot and needs to be cooled down. Don't be fooled by today's payroll jobs forecast miss, Fed tapering remains on track for announcement at the upcoming November meeting. Premature tightening won't harm the recovery and labor market in this country. Bet on it.

Payroll jobs fall from February 2020 peak as recession began						
				19 months		
Data in thousands	Sep 21	Aug 21	Jul 21	Sep 21	Sep 21	Feb 2020
Nonfarm Payroll Employment	194	366	1091	-4,970	147,553	152,523
Total Private (ex-Govt)	317	332	816	-4,119	125,569	129,688
Goods-producing	52	37	74	-597	20,540	21,137
Mining	5	6	6	-38	603	641
Manufacturing	26	31	32	57	12,446	12,799
Motor Vehicles & parts	-6	10	14	-80	907	986
Construction	22	0	12	-201	7,447	7,648
Private Service-providing	265	295	742	-3,522	105,029	108,551
Trade, transportation, utilities	120	47	65	-300	27,576	27,876
Retail stores	56	-4	-6	-202	15,408	15,610
General Merchandise	-5	-2	19	73	3,073	2,999
Food & Beverage stores	16	-4	5	22	3,097	3,075
Transportation/warehousing	47	55	56	72	5,895	5,823
Truck transport	3	6	6	-22	1,503	1,525
Air transportation	10	9	4	-61	456	517
Couriers/messengers	13	22	10	162	1,045	883
Warehousing and storage	16	17	13	153	1,481	1,328
Utilities	-1	-1	0	-10	538	547
Information	32	29	19	-108	2,806	2,914
Financial	2	11	31	-25	8,850	8,875
Insurance	-3	1	1	5	2,861	2,856
Real Estate	7	10	20	-53	2,309	2,362
Commercial Banking	-3	-2	-3	-67	1,333	1,400
Securities/investments	-1	-1	5	28	994	966
Professional/business	60	85	91	-385	21,084	21,469
Temp help services	-5	-4	19	-257	2,688	2,945
Management of companies	3	6	0	-86	2,339	2,425
Architectural/engineering	15	17	4	47	1,593	1,546
Computer systems/services	9	10	8	39	2,278	2,239
Legal services	4	4	3	-20	1,146	1,165
Accounting/bookkeeping	0	4	7	38	1,066	1,028
Education and health	-7	51	84	-900	23,665	24,565
Hospitals	-8	4	11	-93	5,144	5,238
Educational services	-19	49	40	-172	3,606	3,779
Leisure and hospitality	74	38	408	-1,594	15,321	16,915
Hotel/motels	2	14	73	-347	1,758	2,105
Eating & drinking places	29	-25	280	-931	11,378	12,308
Government	-123	34	275	-851	21,984	22,835
Federal ex-Post Office	-1	3	-2	18	2,278	2,260
State government	-22	-6	0	-257	5,046	5,303
State Govt Education	-17	-2	10	-194	2,403	2,596
Local government	-101	37	268	-617	14,052	14,669
Local Govt Education	-144	16	257	-310	7,719	8,030



INTEREST RATES

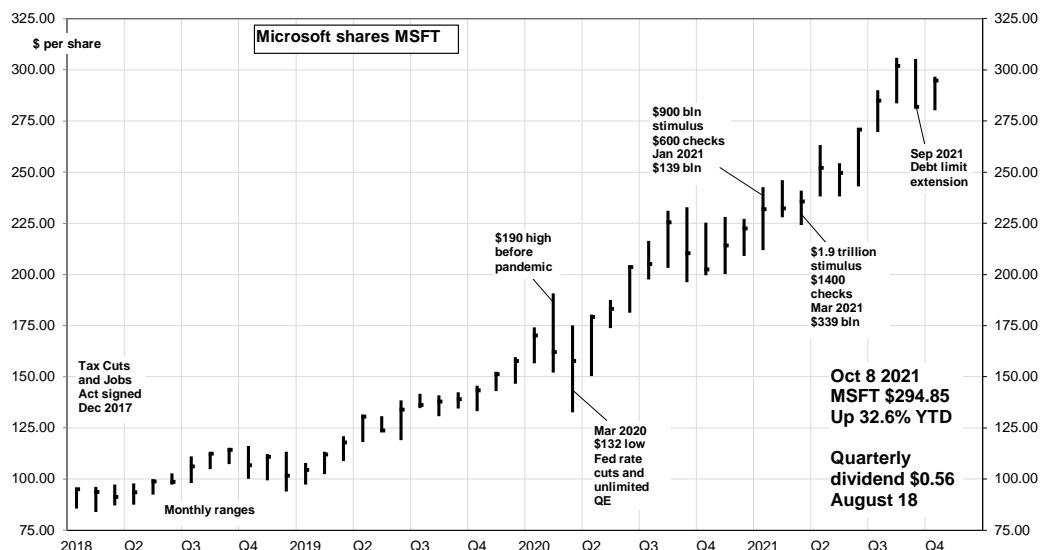


Bond yields fell 2-3 bps on the weaker payroll jobs data for a second month, but a couple of hours later yields moved to a new high for the week and for the overall uptrend move from the 1.13% yield low on August 4. 10-year yields closed Friday at 1.61% up from 1.46% Friday, October 1. It's possible that higher bond yields held the recovery in stocks back. With Q3 earnings reports dead ahead, the S&P 500 has fallen as much as 5.9% from the September 2 high to the October 4 low, and was still down 3.4% at Friday's close from the record high at the start of September. News of a debt ceiling agreement, even if temporary, lifted stocks sharply on Wednesday from a test of the lows.

Microsoft MSFT up 32.6% YTD, calendar Q3 earnings three weeks away

Earnings for the June 30, 2021 quarter were released July 27, 2021 after the bell. Revenue of \$46.152 billion is up 21.3% from last year. Three main business segments. Productivity and Business Processes \$14.691 billion Q2 revenue has Office 365 products. Intelligent Cloud \$17.375 billion revenue includes Azure products and services. More personal computing \$14.086 billion of revenue saw the least gain from last year with Windows down 3%, Xbox down 4%, Surface down 20%.

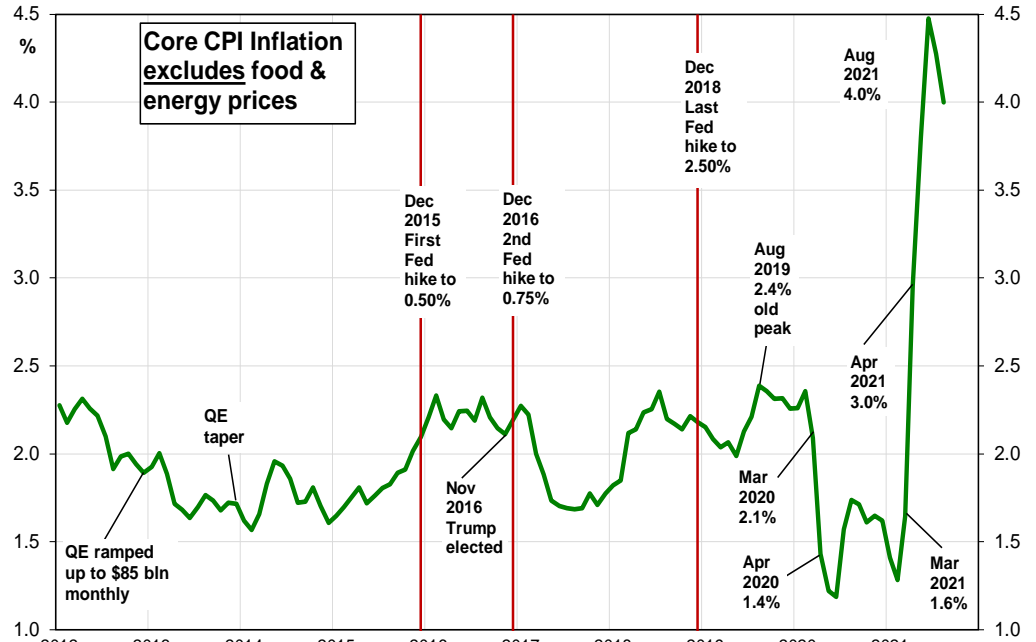
S&P 500 Weights	
Top 6: 24% of S&P	
6.03	AAPL
5.94	MSFT
3.85	AMZN
2.10	FB
1.73	TSLA
2.25	GOOGL
2.10	GOOG
24.00	Top 6



FEDERAL RESERVE POLICY

The inflation damage to the economy is irreversible.

The Fed meets on November 2-3, 2021 to consider its monetary policy. The September meeting press statement used the word “soon” when it comes to tapering, where “soon” generally has meant historically the next meeting. Several Fed officials have said they expect the wind down to be quicker than the Bernanke/Yellen tapering of monthly \$45 billion of QE Treasuries purchases which took a year. June 2022



seems to be the completion date that keeps popping up. As far as we are concerned they can cut the \$80 billion QE Treasuries to \$70 billion in November and then cut \$10 billion per month. But if they wait until December, that’s 60 in January, 50 in February, 40 in March, 30 in April, 20 in May, 10 in June and then zero next July when the stock market tanks. Put that last point on your calendar. So does the 194 thousand weaker than expected payroll jobs number Friday matter for the timing? Not for us. Probably not for Powell either given his response to a question at the September 22, 2021 press conference in the text box here.

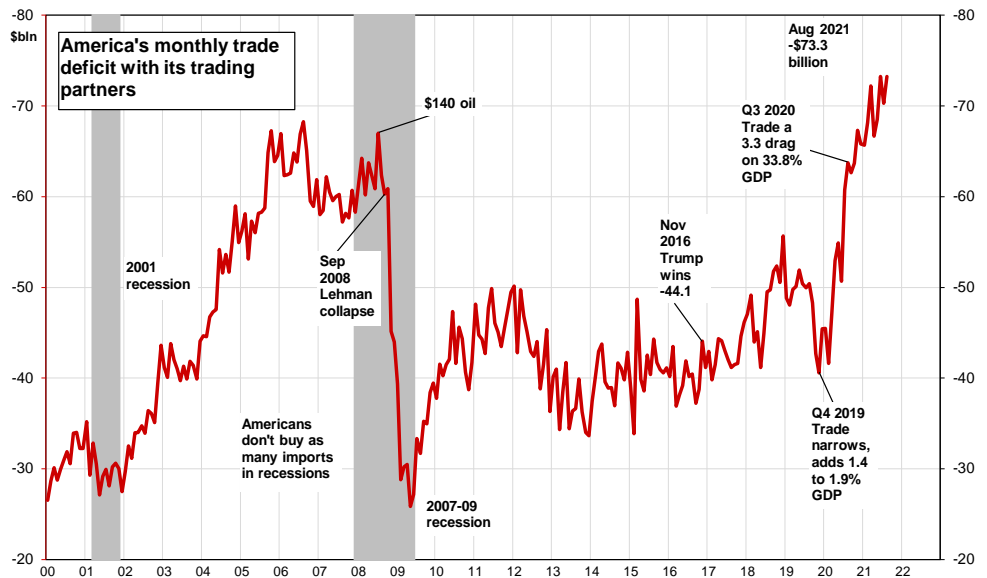
The Fed went back on its “[Fed Listens](#)” tour which centers more around listening to the public complain about the labor market’s woes rather than what’s up with inflation. The Fed isn’t listening to inflation, that’s for sure. The argument whether inflation is temporary or permanent misses the point. There is inflation. If there is inflation, then stop easing monetary policy. Taper the QE purchases and prepare to hoist the sails on interest rates. The damage the rise in the cost of living does to workers, 147.553 million payroll workers with their paychecks, far outweighs the harm done to the 7.674 million unemployed. The Fed’s own research says keeping interest rates down here at zero puts people back to work about a year earlier than would naturally occur if the Fed didn’t exist. There’s a natural cycle to the economy. It doesn’t need Washington to pull out of a slump and neither does the stock market need the Fed when it’s down in the dumps. The other problem with the Fed’s policy is that Powell’s more stringent test for rate hikes is that the unemployment rate needs to drop back to the best economy in fifty years 3.5% level first. This is completely counter to Fed officials’ views a decade ago that interest rates should be normal, or 2.5%, when the economy is back to normal with its 3.5% unemployment rate. Stay tuned. Story developing, slowly.

September 22, 2021 press conference Powell
 So it is, it's accumulated progress. So, you know, for me, it wouldn't take a knockout, great, super strong employment report. It would take a reasonably good employment report for me to feel like that test is met. And others on the Committee, many on the Committee feel that the test is already met. Others want to see more progress. And, you know, we'll work it out as we go. But I would say that, in my own thinking, the test is all but met. So I don't personally need to see a very strong employment report, but I'd like it see a decent employment report. I mean, it's not, it's, again, it's not to be confused with the test for liftoff, which is so much higher.

OTHER ECONOMIC NEWS

Trade deficit red ink continues to spill (Tuesday)

Breaking economy news. The trade deficit in August widened to a record (barely) \$73.252 billion in August from \$70.303 billion in July. More red ink what else is new. The short-lived pandemic recession turned the usual pattern of trade flows in recessions upside down. Americans are buying record amounts of goods from overseas. Hard to figure how there can be supply chain problems when the goods imported from overseas are at record levels. Maybe the goods are floating offshore in ships waiting to be unloaded.



If America buys more goods from abroad, it subtracts from economic growth, and that has been the case almost every quarter since Q4 2019 before the pandemic. Real GDP was 1.9% in Q4 2019 and 1.4 percentage points of that was due to a narrowing of the trade deficit. The first look at Q3 2021 real GDP is on Thursday, October 28, and trade should be a drag of about 1 percentage point once again. Consumer spending is quite weak, or relatively unchanged, unless we see some pickup in September, so growth will be hard put to rise more than 3%.

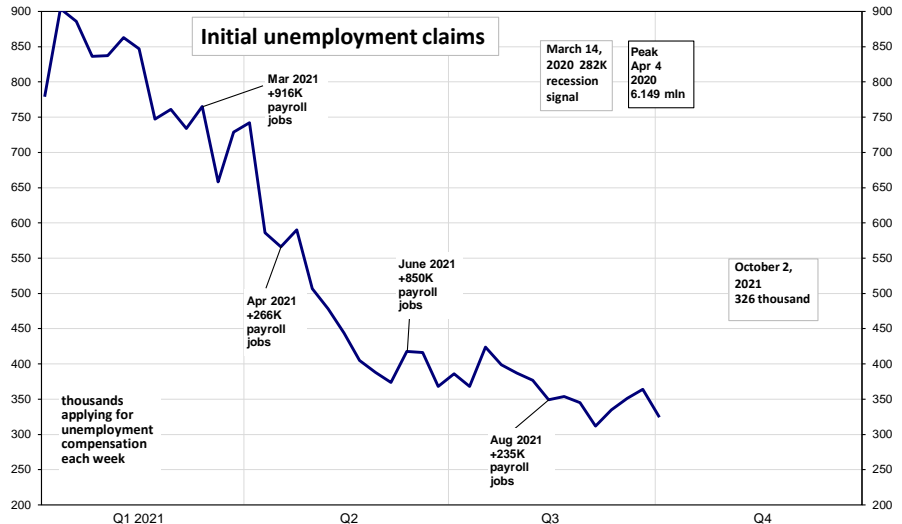
Imports of goods dropped very low during the worst of the pandemic last year in April, May, and June, which distorts the year-to-date changes. Imports of goods in the first eight months this year are running \$1.846 trillion versus \$1.500 trillion in the comparable period of 2020. Crude oil imports are higher this year in part due to the recovery in oil prices: \$11.884 billion imported in August 2021. Cell phones are less than you would think, running \$76.7 billion in 2021 versus \$63.8 billion in 2020. Same story with pharmaceutical preparations at \$112.9 billion versus \$108.6 billion. Semiconductors are \$45.5 billion this year relative to \$38.9 billion in 2020 and there still do not seem to be enough chips. Car and light truck sales plummeted in August and September, but importers are still bringing \$235.1 billion of auto vehicles and parts this year. Stay tuned. Story developing.

U.S. Imports of Goods from the Rest of the World				
Millions of dollars	Aug 2021	Jul 2021	2021 YTD	2020 YTD
Total *	237,275	234,857	1,846,020	1,500,442
<u>Foods, feeds, beverages</u>	15,695	15,933	118,536	101,115
<u>Industrial supplies, materials</u>	57,091	55,285	410,697	323,132
Crude oil	11,884	11,653	80,632	52,249
Finished metal shapes	2,627	2,432	22,263	34,216
<u>Capital Goods ex-autos</u>	63,095	63,353	499,166	417,035
Computers	7,374	8,209	65,789	55,878
Computer accessories	6,313	5,753	44,359	36,482
Semiconductors	5,897	5,862	45,503	38,910
Electric apparatus	5,646	5,666	44,405	33,683
Telecom equipment	5,068	5,237	43,039	37,886
Medical equipment	5,114	4,987	40,187	29,840
<u>Auto vehicles, parts, engines</u>	28,012	29,562	235,054	183,211
<u>Consumer goods</u>	63,236	60,257	504,300	406,291
Pharma preparations	15,650	13,412	112,868	108,622
Cell phones	8,041	9,513	76,743	63,816
Toys, games, sporting goods	4,616	3,992	38,524	23,380
Furniture, household goods	4,320	4,084	32,804	22,956
Household appliances	3,330	3,289	27,293	19,832
<u>Other goods</u>	10,145	10,467	78,268	69,659
* Total Imports of goods on Census Basis				

New claims for unemployment finally reverse course this week (Thursday)

Breaking economy news. The labor market is back on track after a few weeks of rising claims threw a question mark into the market's understanding of just how solid the economic outlook really is. If there was a Delta variant effect, it no longer poses a threat to the outlook based on today's report from the timeliest of economic indicators. Initial unemployment claims fell 38K to 326K in the October 2 week with a 10.5K drop in California and 3.1K drop in Texas, the two biggest states for jobs, leading the way.

Net, net, the number of new filings for unemployment benefits dropped sharply this week so the darkening skies from rising jobless claims the last few weeks no longer pose a threat to the economic outlook. The labor market outlook is brightening even if it is not completely back to normal as 326 thousand initial jobless claims remain elevated to where they should be, roughly 210



thousand this time of year back in 2019 prior to the pandemic. The labor market continues to recover and with layoffs down and the massive count of job openings in the millions, the Federal Reserve has the evidence it needs to start paring back its emergency QE stimulus purchases of \$120 billion per month when it meets next month.

The only negative news in the report is the finding that millions have lost their special pandemic unemployment benefits and time will tell if the loss of this income in the tens of billions will subtract from retail sales in the months to come. In the August 28 week, 5.487 million in the Pandemic Unemployment Assistance program had benefits and 3.805 million received compensation from the Pandemic Emergency Unemployment Compensation program. Those numbers have collapsed with the expiration of the two programs. In the September 18 week, 0.647 million in the Pandemic Unemployment Assistance program had benefits and 0.630 million received compensation from the Pandemic Emergency Unemployment Compensation program. If the jobless benefits were keeping some from going back to work, we could see a bigger jump in Friday's employment report as many return to the workforce. Stay tuned. Story developing.

Unemployment Benefits Recipients	
<u>18-Sep-21</u> Program	<u>28-Aug-21</u>
2,463,677 Regular State	2,656,747
8,375 Federal Employees	8,723
5,569 Newly Discharged Veterans	6,054
647,690 *Pandemic Unemployment Assistance	5,487,233
630,814 *Pandemic Emergency UC	3,805,795
390,656 Extended Benefits	98,730
1,941 State Additional Benefits	1,063
<u>24,231</u> STC/Workshare	<u>42,382</u>
4,172,943 TOTAL	12,196,727
* Programs expired September 6, 2021	

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