Financial Markets This Week

2 DECEMBER 2022

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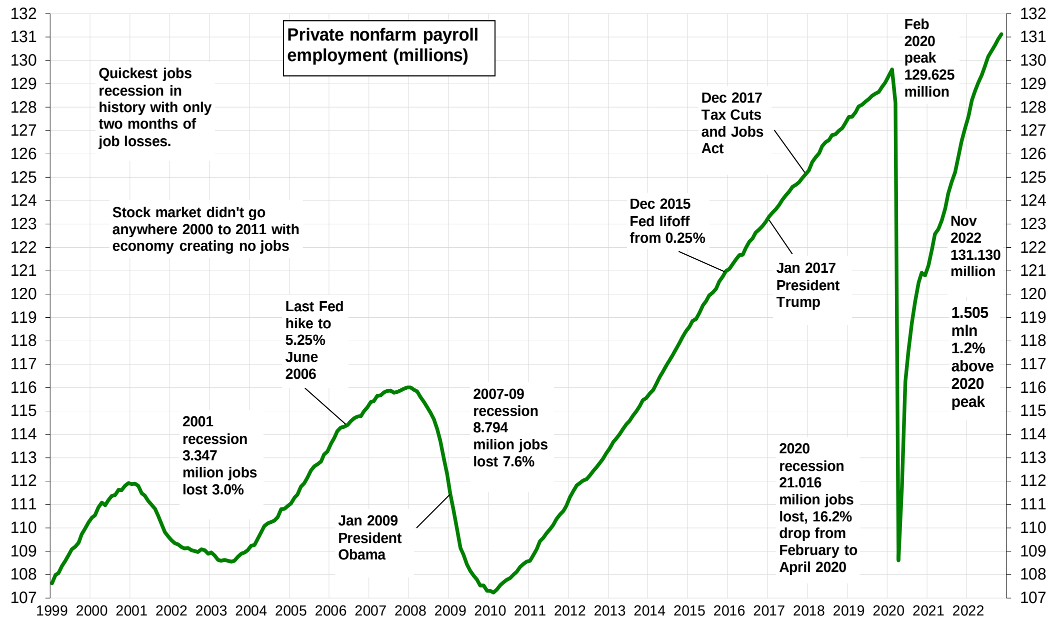
JOBS REPORT MIXED, WAGE INFLATION PERSISTS



November monthly payroll jobs rose 263K and the markets tanked because 200K was expected and the economy isn't slowing. The inflation data in the report isn't slowing either whether or not you think wages are cost-pushing current inflation higher or whether wages are simply trying to catch up to the inflation that is already out there. Big monthly changes, 0.6% for average hourly earnings for all private nonfarm payroll employees, and 0.7% for the little guy, production and nonsupervisory employees, not their big bosses. Core PCE inflation rose 0.2% in October reported yesterday, and 0.2% represents a slowdown in "underlying price pressures" that Fed Chair Powell is looking for. 0.2% good, 0.6% bad.

Monthly changes (000s)	Nov	Oct	Sep	Aug	Jul
Payroll employment	263	284	269	292	537
Private jobs	221	248	255	233	448
Leisure/Hospitality jobs	88	60	111	13	89
HH Employment Survey*	-138	-328	204	442	179
Unemployment rate %	3.7	3.7	3.5	3.7	3.5
Participation rate %	62.1	62.2	62.3	62.4	62.1
Not in labor force (mln)	100.227	99.868	99.667	99.438	100.051
... and Want A Job (mln)	5.550	5.717	5.834	5.549	5.910
Average hourly earnings	$32.82	$32.64	$32.49	$32.36	$32.27
MTM % Chg	0.6	0.5	0.4	0.3	0.5
YOY % Chg	5.1	4.9	5.1	5.2	5.2

* Household (telephone) Survey of employment behind unemployment rate

But is there more to the story? Is the labor market hot, or not? The alternative jobs report, the Household Survey, found employment fell 138K in November, after falling 328K in October. These data are volatile, but still the picture of the labor market isn't as rosy as the one seen in 263K more nonfarm payroll jobs. Employment fell, more people dropped out, if they had reported themselves as staying in, either looking for work or telling the survey "I'm unemployed," the unemployment rate would have moved up from 3.7% to 3.9%.

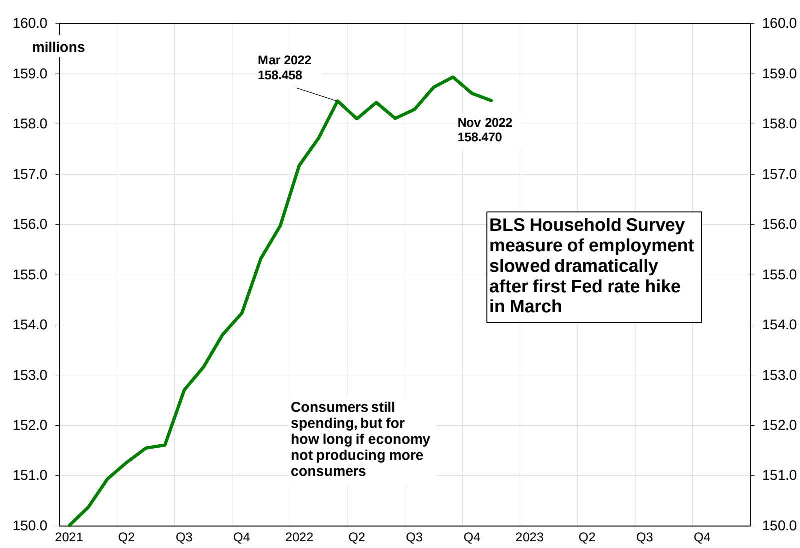
Can the Bureau of Labor Statistics (BLS) count jobs correctly at this stage of the business cycle? Initial reports of nonfarm payroll job changes the last three months look suspicious: Sep 263K, Oct 261K, Nov 263K. Kind of like the broken clock that is right twice a day: the needle is stuck.

To conclude, the payroll employment trend tends to lag during a downturn in the labor market as statistical estimates for new employees at newly opened businesses stay too high and more businesses shut down than models predict as business conditions worsen and the economy edges closer to recession. Our money is on the Household Survey which showed employment fell 138K rather than the nonfarm payroll jobs increase of 263K. Unemployment was unchanged at 3.7% but only because 359 thousand dropped out of the labor force and are no longer looking for work and cannot be counted as "unemployed." In fact the dropouts were more than accounted for by the elderly, those over 65, retiring and dropping out of the labor force forever and ever.

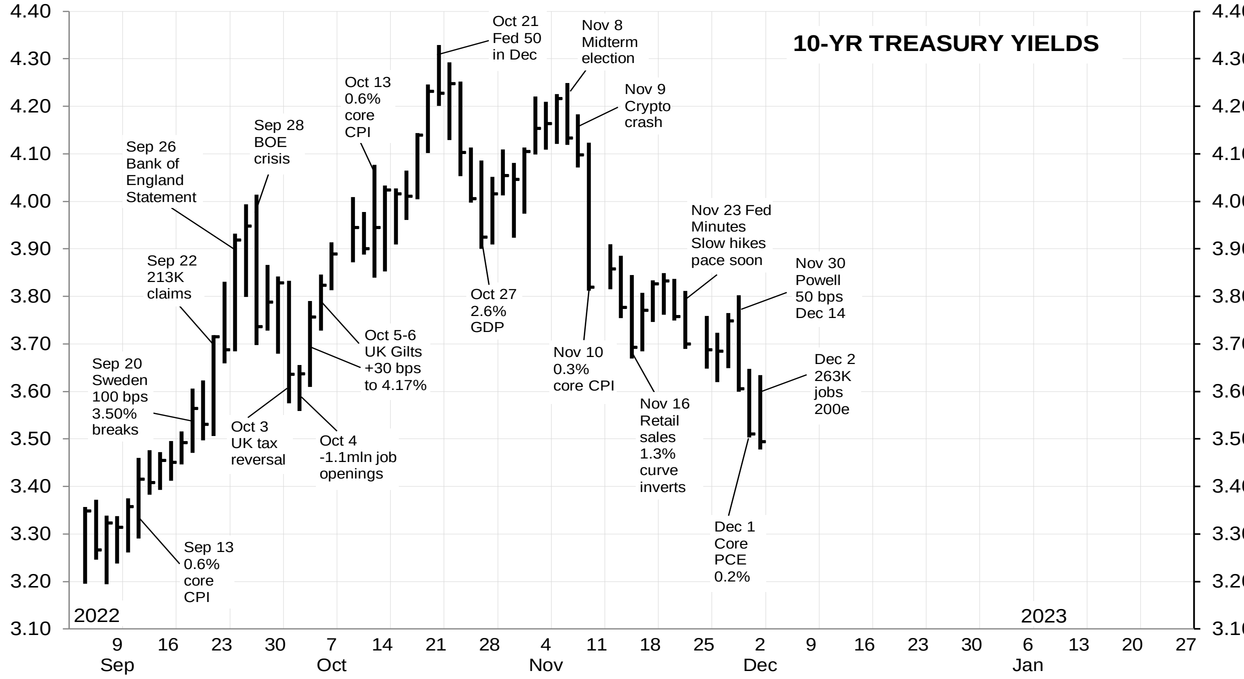
Meanwhile, weekly jobless claims find that a couple hundred thousand more jobless workers (170K) are receiving benefits since the October payroll jobs report, so something doesn't match up in the count of the unemployed. Stay tuned. Story developing. We believe the November count of 263K more nonfarm payroll jobs overstates the health and vitality of the labor market as the economy heads into the end of 2022 which doesn't bode well for the outlook in 2023. Today's jobs report doesn't put a 75 bps rate hike back on the table at the Fed's next decision date on December 14, but there was more wage inflation and Fed officials are likely to view today's report nervously warts and all.

Payroll jobs fall from February 2020 peak as recession began

Data in thousands	Nov 22	Oct 22	Sep 22	33 months Feb 20 Nov 22	Nov 22	Feb 2020
Nonfarm Payroll Employment	263	284	269	1,044	153,548	152,504
Total Private (ex-Govt)	221	248	255	1,505	131,130	129,625
Goods-producing	37	47	43	228	21,323	21,095
Mining	1	3	3	-45	593	639
Manufacturing	14	36	17	149	12,934	12,785
Motor Vehicles & parts	2	8	9	41	1,030	988
Construction	20	9	23	126	7,750	7,624
Private Service-providing	184	201	212	1,277	109,807	108,530
Trade, transportation, utilities	-49	4	-42	880	28,712	27,832
Retail stores	-30	-3	-30	170	15,767	15,598
General Merchandise	-32	-13	-27	154	3,154	3,000
Food & Beverage stores	5	-1	2	150	3,206	3,056
Transportation/warehousing	-15	-3	-18	698	6,493	5,795
Truck transport	1	8	-5	86	1,601	1,515
Air transportation	4	4	3	59	575	516
Couriers/messengers	-12	4	-8	224	1,098	875
Warehousing and storage	-13	-20	-8	409	1,728	1,319
Utilities	-1	1	0	-13	534	547
Information	19	6	8	162	3,065	2,903
Financial	14	13	3	127	8,997	8,870
Insurance	4	10	-9	-5	2,848	2,853
Real Estate	13	-3	8	16	2,380	2,364
Commercial Banking	2	4	3	-48	1,351	1,399
Securities/investments	6	5	5	91	1,056	965
Professional/business	6	26	25	1,066	22,459	21,393
Temp help services	-17	-6	-23	203	3,109	2,906
Management of companies	3	3	3	-23	2,399	2,423
Architectural/engineering	6	6	5	120	1,668	1,547
Computer systems/services	8	11	5	232	2,459	2,227
Legal services	1	4	-2	20	1,183	1,163
Accounting/bookkeeping	-1	5	4	91	1,121	1,030
Education and health	82	80	82	208	24,806	24,598
Hospitals	11	11	24	22	5,258	5,236
Educational services	14	6	1	59	3,861	3,803
Leisure and hospitality	88	60	111	-980	16,003	16,983
Hotel/motels	16	18	10	-357	1,763	2,119
Eating & drinking places	62	36	80	-462	11,899	12,361
Government	42	36	14	-461	22,418	22,879
Federal ex-Post Office	5	4	5	16	2,277	2,261
State government	11	0	12	-26	5,284	5,310
State Govt Education	7	-2	10	27	2,633	2,606
Local government	32	31	-1	-445	14,263	14,708
Local Govt Education	18	16	-16	-271	7,794	8,064



INTEREST RATES



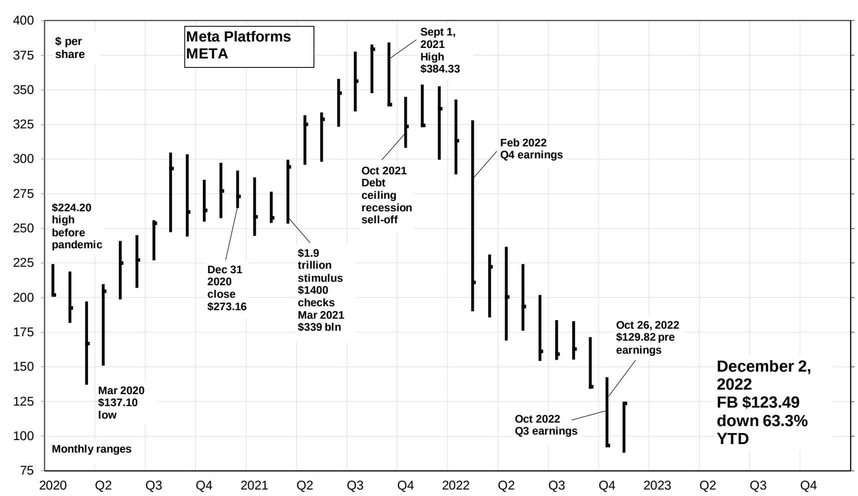
The bond rally from 4.30% gained steam on the three noteworthy news events, Powell, PCE inflation, and the jobs report. The move of about 80 bps looks like it would be hard to reverse. Reminds us of late 2018 when the markets ran the Fed out of its forecast to keep hiking rates from 2.5% in 2019. Powell says the terminal rate of 4.75% is going somewhat higher, meaning at least 5.0%, and the market does not care. It thinks inflation has turned. It is a 10-yr maturity. Powell says rates will remain high for some time, but the FOMC's own forecast looks for rates to drop back dramatically to 4.0% at the end of 2024 and 3.0% at the end of 2025. Stocks this week did break the 200-day moving average. It failed to break it on a first challenge in part due to Powell's admonishment at Jackson Hole "I'm going to be brief" when the Fed funds rate was still 2.5%. YTD Friday, S&P 500 -14.6%, Dow -5.3%.

Meta Platforms (META) down 63.3% YTD

The CEO said he was pleased with engagement and products like Reels in the earnings release on October 26, but the stock collapsed 24.6% from $129.82 to $97.94 at the next day close. Not sure what Wall Street disliked. But in the table here, revenue peaked a while back (company expects Q4 $30-32.5), daily active users have slowed, earnings are down significantly, most of it the Reality Labs losses. The stock has since nearly erased the earnings report loss. News on November 9 that the company will lay off 11,000 employees.

Bln $	Revenue	Operating Income	Employee Count	Daily active users *	Reality Labs loss
Q1 2021	26.171	11.378	60,654	1.88	1.827
Q2 2021	29.077	12.367	63,404	1.91	2.432
Q3 2021	29.010	10.423	68,177	1.93	2.631
Q4 2021	33.671	12.585	71,970	1.93	3.304
Q1 2022	27.908	8.524	77,805	1.96	2.960
Q2 2022	28.822	8.358	83,553	1.97	2.806
Q3 2022	27.714	5.664	87,314	1.98 bln	3.672 bln

* DAU is average for last month of quarter



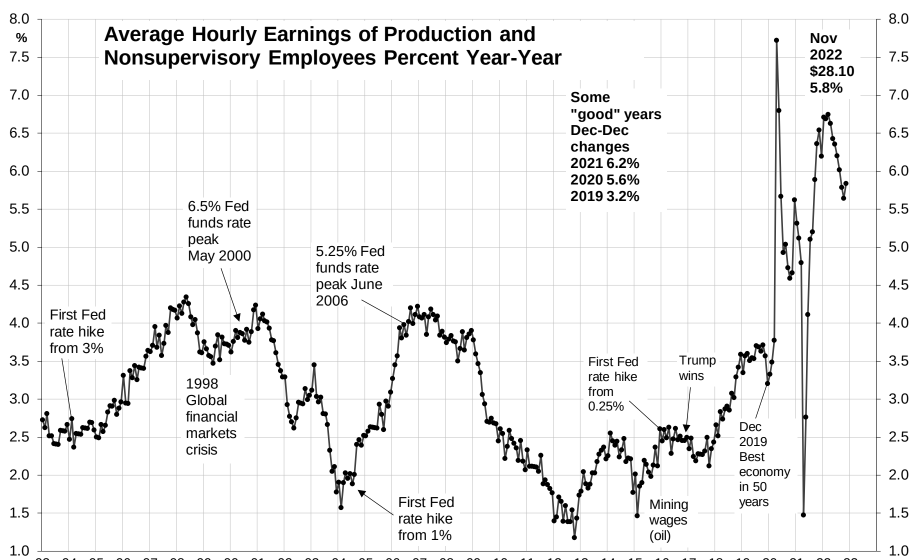
FEDERAL RESERVE POLICY

The Fed meets December 13-14, 2022 to consider its monetary policy. A 50 bps rate hike to 4.5%, a downshift, from a catch-up 75 bps pace at the June, July, September, November Fed meetings, is the call. Powell confirmed that a 50 bps hike may come as soon as the December meeting when he spoke Wednesday at 130pm ET. He spoke on inflation and the labor market and took questions which covered about one hour. The stock market rallied on the initial headlines and continued higher (3.1% at the close) with his remarks which contained an interesting take on inflation, how they think about it, and what to watch for in 2023. The staff briefed him well. The reasons inflation will be coming down appear reasonable, but no one knows of course. We will examine his inflation explanation at another time. Interesting.

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	30-Nov	23-Nov	16-Nov	9-Nov	3/11/20*	3/11/20
Factors adding reserves						to Nov 30
U.S. Treasury securities	5515.984	5535.323	5535.051	5575.232	2523.031	2992.953
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2658.756	2672.083	2676.881	2678.524	1371.846	1286.910
Repurchase agreements	0.000	0.000	0.100	0.001	242.375	-242.375
Primary credit (Discount Window)	10.085	9.140	7.851	3.734	0.011	10.074
Paycheck Protection Facility	12.236	12.538	12.647	12.859		
Main Street Lending Program	22.795	22.775	25.191	25.659		
Municipal Liquidity Facility	5.559	5.557	5.579	5.576		
Term Asset-Backed Facility (TALF II)	1.978	1.995	2.106	2.105		
Central bank liquidity swaps	0.204	0.202	0.202	0.195	0.058	0.146
Federal Reserve Total Assets	8633.7	8671.2	8675.6	8728.8	4360.0	4273.671
~~3-month Libor %~~ SOFR %	3.82	3.79	3.81	3.78	1.15	2.670
Factors draining reserves						
Currency in circulation	2297.852	2296.592	2293.437	2292.260	1818.957	478.895
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	532.791	492.754	472.185	517.340	372.337	160.454
Treasury credit facilities contribution	15.347	15.347	17.940	17.940		
Reverse repurchases w/others	2115.913	2069.174	2099.070	2237.812	1.325	2114.588
Federal Reserve Liabilities	5581.465	5502.362	5498.796	5657.572	2580.036	3001.429
Reserve Balances (Net Liquidity)	3052.233	3168.849	3176.796	3071.230	1779.990	1272.243
Treasuries within 15 days	57.414	83.416	88.820	109.880	21.427	35.987
Treasuries 16 to 90 days	375.394	321.595	246.856	301.375	221.961	153.433
Treasuries 91 days to 1 year	722.066	754.177	823.500	789.366	378.403	343.663
Treasuries over 1-yr to 5 years	1948.110	1956.645	1956.539	1939.222	915.101	1033.009
Treasuries over 5-yrs to 10 years	948.869	957.046	944.689	980.441	327.906	620.963
Treasuries over 10-years	1464.130	1462.446	1474.649	1454.949	658.232	805.898
Note: QT starts June 1	Change	30-Nov	1-Jun			
U.S. Treasury securities	-254.795	5515.984	5770.779			
Mortgage-backed securities (MBS)	-48.690	2658.756	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

Powell said in Wednesday's remarks that the terminal rate would go "somewhat" higher. The September Fed meeting forecasts showed a peak Fed funds rate of 4.75%, that was the median guess with 6 of 19 participants saying 5.0%. Nothing higher than 5.0% from Fed officials back then. Somewhat higher is what, maybe 50 bps more to 5.25%? We will find out at 2pm ET Wednesday, December 14. Not a lot of change in the terminal Fed funds rate or at least August 2023 Fed funds futures despite Powell, 0.2% core PCE inflation, and 263K payroll jobs this week. Fed funds futures were 5.01% Friday, only 100 bps away from here, after being more or less split last week that the peak will be 5.0 or 5.25%.

Wages were up 0.7% in November, but the year-year rise was 5.8%. Wages support the current high inflation as it adds to business costs to produce goods and provide services. But it still seems to follow the inflation trend with a lag, basically one year.



Fed funds futures call Fed hikes		
Current target: Dec 2 -- 4.0%		
Rate+0.17	Contract	Fed decision dates
4.525	Jan 2023	Dec 14
4.865	Feb 2023	Dec 14, Feb 1
5.035	Apr 2023	Dec 14, Feb 1, Mar 22
5.01	Aug 2023	Dec, Feb, Mar, May,
	Jun, Jul Fed decision dates	

Fed funds futures call Fed hikes		
Current target: Nov 25 -- 4.0%		
Rate+0.17	Contract	Fed decision dates
4.55	Jan 2023	Dec 14
4.92	Feb 2023	Dec 14, Feb 1
5.105	Apr 2023	Dec 14, Feb 1, Mar 22
5.14	Aug 2023	Dec, Feb, Mar, May,
	Jun, Jul Fed decision dates	

OTHER ECONOMIC NEWS

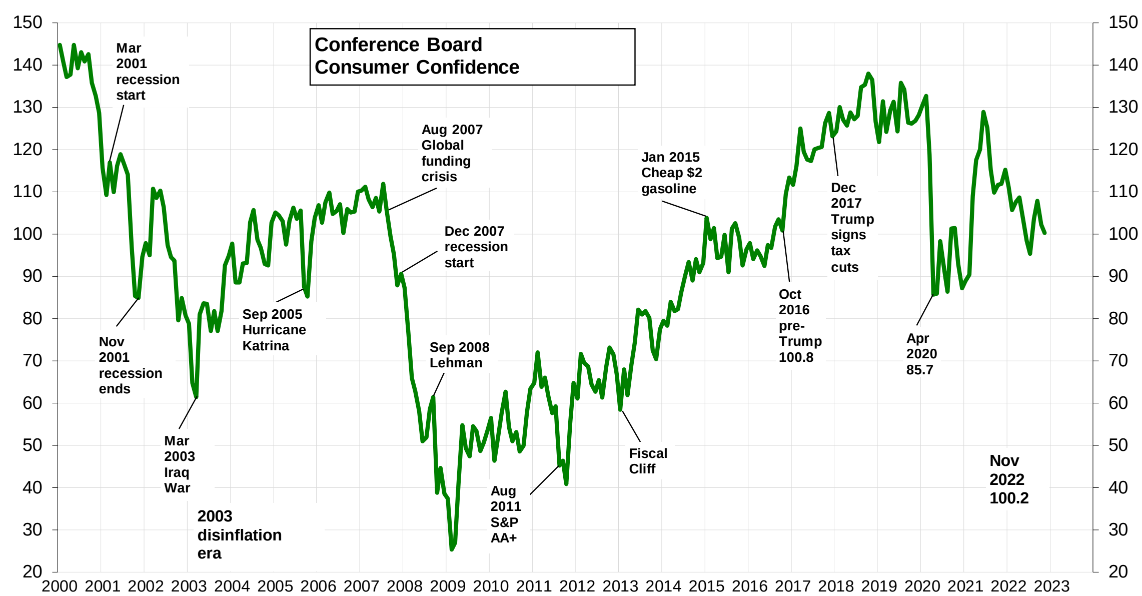
Consumer confidence is down but not out (Tuesday)

Breaking economy news. Consumer confidence from the Conference Board lost some ground in November falling to 100.2 from 102.2 in October. If consumer confidence is falling due to higher gasoline prices at the pump, that is not going to last with $3.534 per gallon gasoline prices this week almost back down to the $3.487 level before Russia invaded Ukraine in February. It was over $5 earlier this year.

We have to say that the consumer isn't exactly buckled down in their seats waiting for the recession to hit as the index has been much lower in other recessions over the last two decades. Confidence has faded somewhat since the economy reopened from the pandemic in the first half of 2021, but consumer confidence is down not out. 45.8% of consumers say jobs are plentiful, more than the 44.8% from last month, but that is unlikely to last with the Fed officials saying they still need to push interest rates higher over the next few months. At some point the economy is going to break, and that will take the wind out of the consumers' sails in a hurry. We will find out on Friday how plentiful jobs are in the monthly employment report for November and our guess is the labor market will be weaker than the 200K nonfarm payroll jobs expected.

Out earlier this morning, home prices from the FHFA not seasonally adjusted fell in September, the third consecutive decline with "industry experts" warning home values will fall 20 percent over the next two years. This home price index is down 1.8% from the peak in June as the Fed's rate hikes start to bite affordability in the housing market.

Net, net, the consumer is still bummed out about the economic outlook coming into the home stretch for the year, but the major worry hasn't yet shifted from inflation with the rising prices of goods sitting on store shelves to the labor market or whether or not you can find or keep your job. That tectonic shift in consumer confidence from inflation worries to job concerns is coming though. Bet on it. Recession is just around the corner.



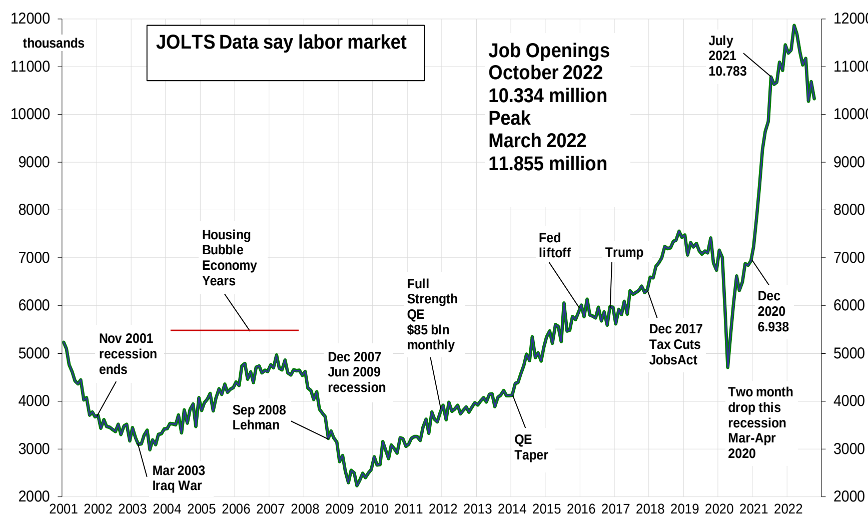
GDP 2.9% was 2.6%, and still over 10 million job openings (Wednesday)

Breaking economy news. Second look at third quarter GDP shows an upward revision to 2.9% from 2.6% reported a month ago. Real consumer expenditures were revised to up 1.7% for the quarter from 1.4% in the advance estimate, and business investment in equipment hangs on to most of the quarter's rebound in Q3 from -2.0% in Q2: last month's equipment spending estimate was 10.8% and today's report says the increase was 10.7%. The biggest drag on the economy remains residential housing construction which cut real GDP growth by a huge 1.4 percentage points meaning real GDP would be 4.3% if housing starts were unchanged. The Federal Reserve's rate hikes to date have mostly just sent the housing sector into a recession where the rest of the economy continues to run fairly smoothly. We expect Powell to tell us this afternoon he and his fellow central bankers need to try harder meaning interest rates will have to go even higher.

	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22	Q3 22p	Q3 22r
REAL GDP	7.0	2.7	7.0	-1.6	-0.6	2.6	2.9
REAL CONSUMPTION	12.1	3.0	3.1	1.3	2.0	1.4	1.7
CONSUMPTION	7.8	2.0	2.1	0.9	1.4	1.0	1.2
Durables	0.9	-2.2	0.4	0.6	-0.2	-0.1	0.0
Nondurables	1.7	0.3	0.1	-0.7	-0.4	-0.2	0.0
Services	5.2	3.9	1.6	0.9	2.0	1.2	1.2
INVESTMENT	0.3	1.8	5.1	1.0	-2.8	-1.6	-1.7
Business Plant	-0.1	-0.2	-0.4	-0.1	-0.3	-0.4	-0.2
& Equipment and	0.7	-0.1	0.1	0.6	-0.1	0.5	0.5
Intellectual Property	0.6	0.4	0.4	0.5	0.5	0.4	0.3
Homes	-0.2	-0.3	-0.1	-0.2	-0.9	-1.4	-1.4
Inventories	-0.8	2.0	5.0	0.2	-1.9	-0.7	-1.0
EXPORTS	0.5	-0.1	2.4	-0.5	1.5	1.6	1.7
IMPORTS	-1.1	-1.0	-2.5	-2.6	-0.4	1.1	1.2
GOVERNMENT	-0.5	0.0	-0.2	-0.4	-0.3	0.4	0.5
Federal defense	-0.1	-0.1	-0.2	-0.3	0.1	0.2	0.2
Fed nondefense	-0.4	-0.4	0.2	0.0	-0.3	0.1	0.1
State and local	0.0	0.5	-0.2	0.0	-0.1	0.2	0.3

Below line: Percentage point contributions to Q3 2022 2.9% real GDP
Third estimate for Q3 is Thursday, December 22

Net, net, GDP was revised up modestly, but the key growth drivers of consumer spending and business investment in equipment are looking good despite the Federal Reserve ratcheting interest rates 375 bps higher this year. If the Fed is trying to slow the economy by hitting the brakes, they haven't done enough yet. Even corporate profits continue to shine with a modest 1.1% decline in the third quarter that was all caused by technical losses at the Federal Reserve. Central banks can't actually lose money, can they?

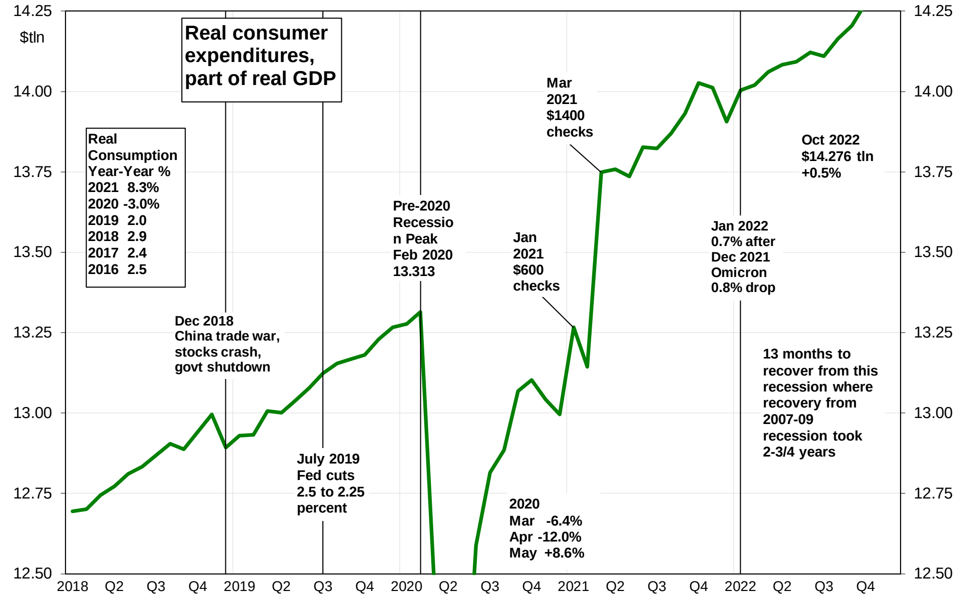


More Breaking economy news. There were still 10.334 million job openings at the end of October, little changed from 10.687 million jobs at the end of September, which won't be music to the Fed's ears. The labor market is not loosening up as much as Fed officials had hoped with over 10 million job openings at the end of October. There is still a shortage of labor out there in the country and if it persists, Fed officials will have to brake the economy harder with even more interest rate hikes.

Today's report does not bode well for Friday's monthly employment report although there are significant measurement differences. The Jolts job openings are on the last day of October while the unemployment rate is for the calendar week that includes the 12th of the month, so it is unclear what could have changed in just two weeks. There are important differences however. For one thing, the job openings are overweighted with the normal high turnover of low-wage employees at retail stores, health care, and bars and restaurants that add significantly to the 10 million job openings data. Stay tuned. Story developing. We still expect that the labor market is showing some cracks even if the Jolts data don't confirm there are significantly fewer help wanted signs out there around the country.

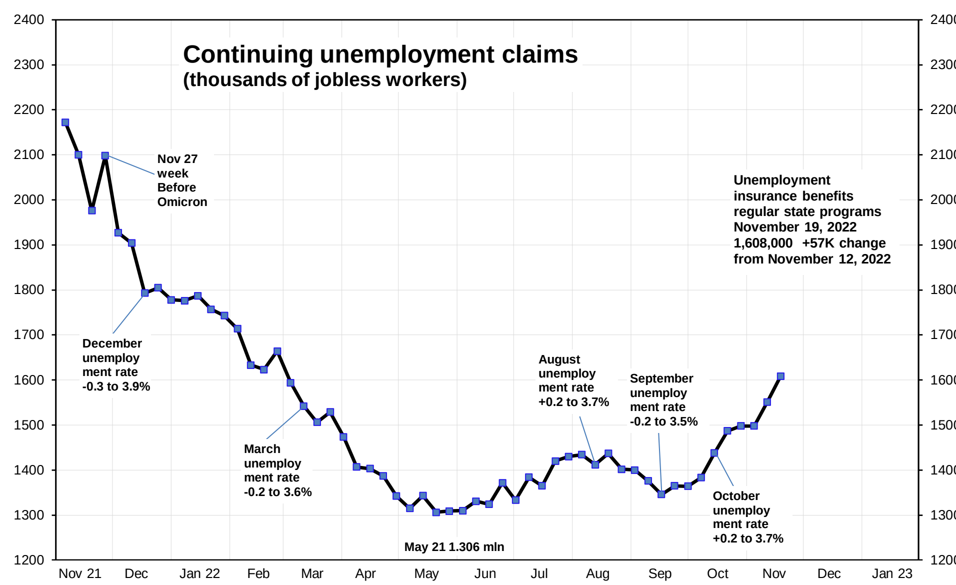
Core PCE inflation peaked in March (Thursday)

Breaking economy news. The October personal income report if you still have any. Finally, a forecast win by Team Fed Chair Powell after yesterday's fireside chat minus sweaters. Powell said core PCE inflation would moderate to 5.0% in October from 5.1% in September, based on Fed economics staff estimates using CPI and PPI for October. Who says economists' forecasts can't hit the broad side of a barn. It was actually even better at 4.98% and the one-month change was 0.2% versus 0.5% readings in August and September; July is now 0.1% revised from 0.0, but who's counting. The turn of inflation is here.

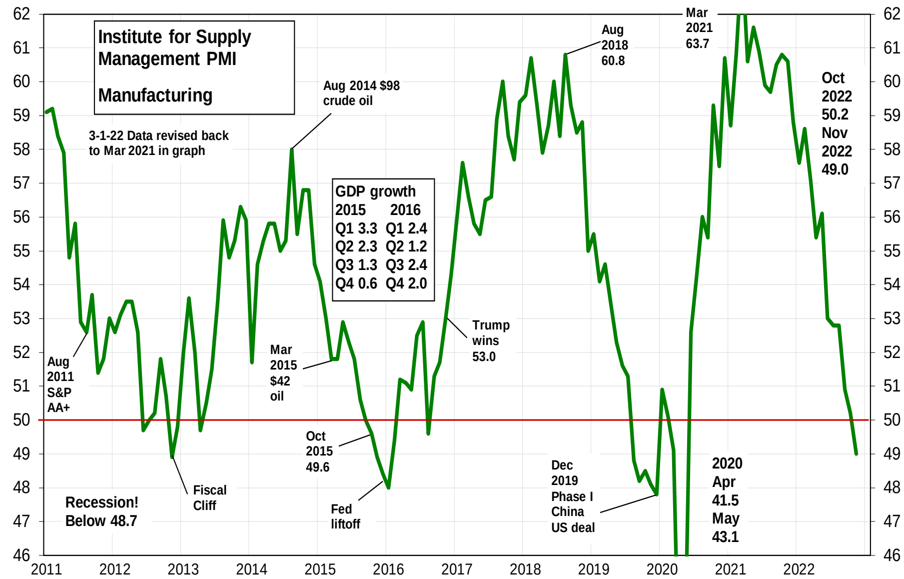


The consumer is alive and well even if their household budgets are strained under the current hyper inflation regime where they saved just 2.3% of their disposable personal income in October down from 3.8% as recently as March. Car & light truck sales were very strong in October which pushed total real consumer spending up a very strong 0.5% this month. With revisions we saw in yesterday's Q3 real GDP report, third quarter real consumer spending was revised to 1.7% from 1.4%, and right now, even if consumers do not buy anything more in November and December, real consumer spending is running 3.3% which is well above normal and in no way, shape or form looks like a recession.

Net, net, inflation looks to be increasingly stable and as long as that remains the case, the odds favor an inflation moderation in 2023 as the Fed Chair outlined once the extraordinary shock forces behind one of the most rapid inflation surges in history begins to dissipate. Core PCE inflation peaked in March, and this is October where the markets can see the day coming that the Fed's interest rate goes somewhat higher as Powell said, but not all that much higher. The Fed funds rate will be 4.5% on December 14 and yet the 10-yr Treasury yield is 3.59% this morning, an inverted curve of almost 100 bps so the market is betting the Fed will eventually cut interest rates if not next year, then in 2024 as the latest FOMC forecasts say. Stay tuned. Story developing. Weekly first-time jobless claims are down in the Thanksgiving week, but continuing unemployment claims hint that the unemployment rate could jump two-tenths from 3.7 to 3.9 percent in tomorrow's all-important jobs report.



Inflation falling, but manufacturing sector is too ISM says (Thursday)



Breaking economy news. The ISM manufacturing index dropped below the 50 line that divides an expansion from a contraction. Hope they know what they are doing these anecdotal surveys of confidence or the lack thereof because the Jolts report yesterday said manufacturing needed 746 thousand workers at the end of October. Anyway, ISM manufacturing dropped to 49.0 in November from 50.2 in October. Prices are falling with that sub-index at 43.0 in November from 46.6 in October where 10 out of 18 industries are saying they paid less for raw materials this month.

Meanwhile, construction spending also out at 10am ET this morning continues to be troubled by the Fed's massive interest rate hikes this year. Or maybe not. ISM manufacturing purchasing managers may be negative on the outlook, but manufacturing construction is soaring up 33.6% in October from last year. Manufacturing construction was $111.1 billion in October a big increase from $97.1 billion in June. Cars and computers are going great guns, but somehow chemical plants collapsed in October taking down manufacturing construction for one month anyway.

Net, net, not only has manufacturing hit the wall and changed over from expansion to contraction, but now the ISM purchasing managers index says the broader economy is inches away from the cliff. Real GDP growth may be running positive at 3 or 4 percent in the fourth quarter, but the statisticians at ISM say an index of 48.7 or below means the overall economy is in recession. It appears they have doctored up the recession call based on the ISM manufacturing index because it used to take an index down around 42.0 to indicate a recession. Stay tuned. Story developing.

ISM manufacturing index

	Nov 22	Oct 22	Sep 22	Aug 22
PMI index	49.0	50.2	50.9	52.8
Prices	43.0	46.6	51.7	52.5
Production	51.5	52.3	50.6	50.4
New orders	47.2	49.2	47.1	51.3
Supplier deliveries	47.2	46.8	52.4	55.1
Employment	48.4	50.0	48.7	54.2
Export orders	48.4	46.5	47.8	49.4

Analyst Certification

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