Financial Markets This Week

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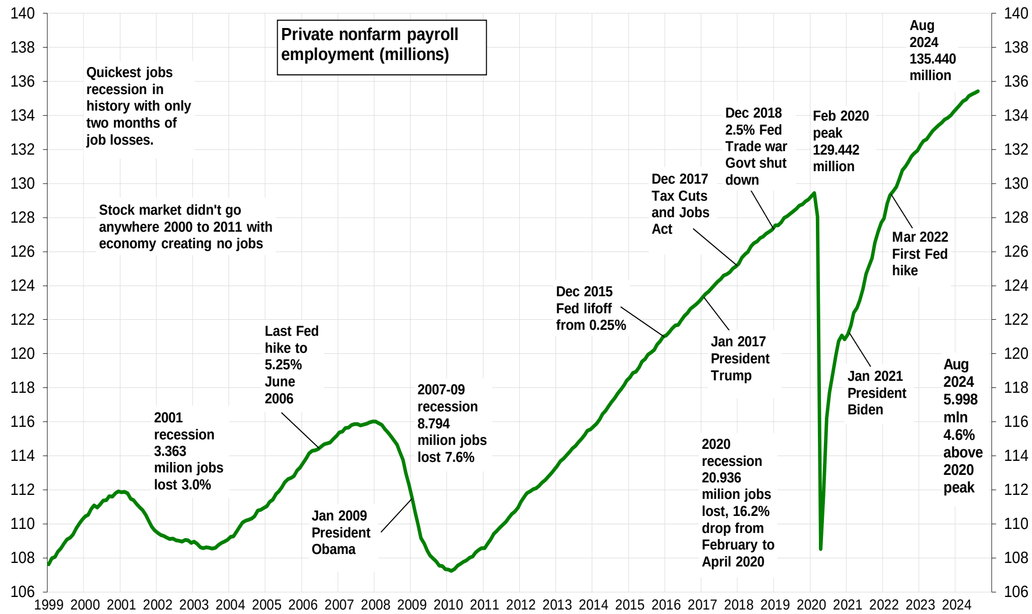
ECONOMY ALIVE AND WELL



Nonfarm payroll employment rose 142K in August and jobs creation has slowed to 116K on average the last three months from 225K in the first five months of the year. Because the unemployment rate has lifted 0.8 percentage points from the economic cycle low last April 2023, 3.4 to 4.2%, the economy should be in recession given the experience of the last three recessions. But it is not, and labor market confirmation of recession, besides jobless claims, would be if payroll employment falls. 142K is a long way from zero let alone going negative. We are still struck in the graph of private payroll jobs how various big news events/stories don't shake the labor market from its upward path: like the Fed rates liftoff in 2015, the Tax Cuts and Jobs Act in 2017, prior peak rates level of 2.5% with a trade war, Federal government shutdown and 20% stock market decline we would add did nothing in December 2018. Doesn't matter who is President either. We graph private payroll jobs not only because government workers are less likely to be laid off, but because the Federal government hires/fires for the census count every ten years ruins the trend.

Monthly changes (000s)	Aug	Jul	Jun	May	Apr
Payroll employment	142	89	118	216	108
Private jobs	118	74	97	206	108
Leisure/Hospitality jobs	46	24	4	18	-9
HH Employment Survey*	168	67	116	-408	25
Unemployment rate %	4.2	4.3	4.1	4.0	3.9
Participation rate %	62.7	62.7	62.6	62.5	62.7
Not in labor force (mln)	100.306	100.215	100.429	100.516	100.083
... and Want A Job (mln)	5.637	5.600	5.234	5.717	5.637
Average hourly earnings	$35.21	$35.07	$34.99	$34.88	$34.75
MTM % Chg	0.4	0.2	0.3	0.4	0.2
YOY % Chg	3.8	3.6	3.8	4.0	3.9

* Household (telephone) Survey of employment behind unemployment rate

Here are our colorful comments immediately after the jobs report at 830am today and we had no idea that stocks would collapse later on in the session. Net, net, jobs growth is still pushing the economy forward and not backward and if that is the case there is no need for Fed officials to come in with all guns blazing with a 50 bps rate cut to rescue the economy from going over the cliff and down into the depths of recession. The BLS told us last month that Hurricane Beryl in Texas did not cause the two-tenths jump in unemployment to 4.3%. Unemployment eased back this month a tenth but by only the slimmest of margins. 4.22% in August from 4.25% in July. The economy is not unraveling judging by today's monthly employment report so the soft-landing scenario where inflation recedes while the economy continues to grow remains intact for now. Private payroll jobs actually picked up to 118K in August (thanks, ADP estimate of 99K bottles of beer on the wall), from 74K in July and 97K in June. Just to be clear, payroll employment declines in recessions, and it is not and there is no recession even if 1.4 million Americans are out of work in August versus those fabled, best of best times back in April 2023 when the unemployment rate was down at 3.4% instead of 4.2% today. Stay tuned. Today turned out to be a big fat dud after waiting nervously all week long for the economic report that was going to turn the world and markets upside down. The stock market can settle down. There is no growth scare. The economy is not slowing, it is growing. Bet on it. The economy is alive and well despite all reports to the contrary.

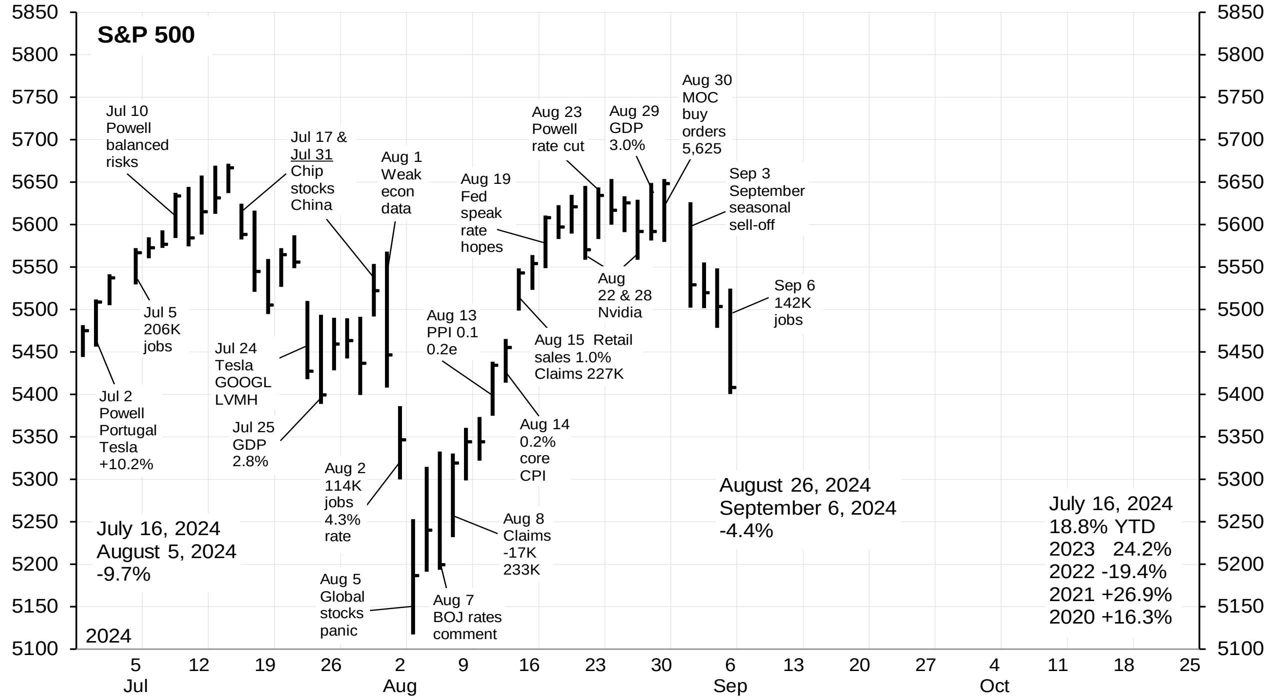
Payroll jobs slowdown in last few months

Dec. 2023 Totals millions		Aug	Jul 24	Jun 24	8 months Dec 23 to Aug 24	12 months Dec 22 to Dec 23
157.304	Nonfarm Payroll Employment	142	89	118	1475	3013
134.228	Total Private (ex-Govt)	118	74	97	1212	2304
21.723	Goods-producing	10	20	2	119	275
0.600	Mining	1	1	2	-3	15
12.960	Manufacturing	-24	6	-16	-33	26
1.063	Motor Vehicles & parts	-6	6	5	15	32
1.108	Computer/electronics	-3	-1	-2	-11	1
1.729	Food manufacturing	4	1	2	15	10
8.120	Construction	34	13	18	160	236
5.148	Specialty trade contractors	15	14	9	92	135
112.505	Private Service-providing	108	54	95	1093	2029
28.867	**Trade, transportation, utilities**	2	9	-1	180	161
15.603	Retail stores	-11	-3	-20	48	118
3.209	General Merchandise	-2	7	4	78	118
3.247	Food & Beverage stores	2	-4	-1	13	24
6.521	Transportation/warehousing	8	6	11	104	-69
1.552	Truck transport	-1	-2	-1	-8	-35
0.570	Air transportation	3	-2	2	8	40
1.060	Couriers/messengers	0	4	2	39	-10
1.767	Warehousing and storage	4	7	2	25	-99
3.012	**Information**	-7	-15	0	-19	-83
0.494	Computing, data, web hosting	1	-3	0	1	8
9.233	**Financial**	11	-1	13	25	88
2.997	Insurance	3	3	9	33	50
2.496	Real Estate	6	1	2	8	63
1.378	Commercial Banking	-1	-3	-3	-19	-17
1.115	Securities/investments	0	-1	6	6	33
22.882	**Professional/business**	8	-13	-11	93	149
2.765	Temp help services	-3	-18	-30	-70	-217
2.558	Management of companies	-7	3	3	-3	15
1.673	Architectural/engineering	1	4	4	37	39
2.525	Computer systems/services	3	2	4	27	41
1.194	Legal services	-2	-2	-3	-14	12
1.158	Accounting/bookkeeping	2	-5	2	13	26
25.831	**Education and health**	47	55	82	607	1058
5.440	Hospitals	10	16	15	144	194
8.635	Ambulatory health care	24	27	23	224	345
3.843	Educational services	3	-4	14	22	93
16.816	**Leisure and hospitality**	46	24	4	160	561
1.924	Hotel/motels	4	2	-6	-6	70
12.292	Eating & drinking places	30	14	-2	86	309
23.076	Government	24	15	21	263	709
2.360	Federal ex-Post Office	2	1	1	31	82
5.404	State government	1	10	7	43	273
2.637	State Govt Education	-3	0	-8	-16	183
14.711	Local government	22	5	12	184	351
8.039	Local Govt Education	5	20	-15	57	162

Next up: August CPI inflation report Wednesday, September 11

Monthly % Changes	Jul	Jun	May	Apr	Mar	Feb	2024 Jan	2023 Dec	Nov	Oct	Sep	Aug	Jul	Jun	2023 May
Core CPI inflation	0.2	0.1	0.2	0.3	0.4	0.4	0.4	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.4
Core PCE inflation	0.2	0.2	0.1	0.3	0.3	0.3	0.5	0.2	0.1	0.1	0.3	0.1	0.1	0.2	0.3
Core PCE YOY	2.6	2.6	2.6	2.8	2.8	2.8	2.9	2.9	3.2	3.4	3.6	3.7	4.2	4.3	4.7
Core CPI YOY	3.2	3.3	3.4	3.6	3.8	3.8	3.9	3.9	4.0	4.0	4.1	4.3	4.7	4.8	5.3

INTEREST RATES

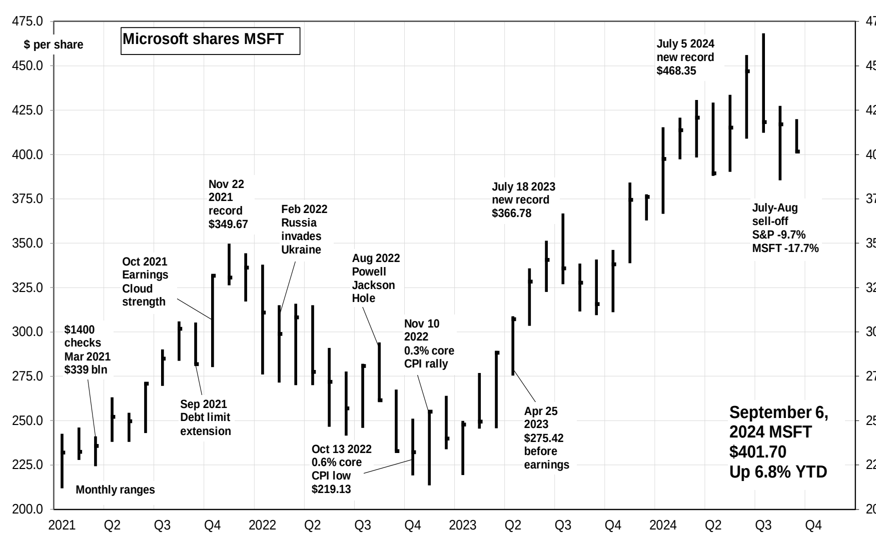


Seasonal September selling started Tuesday with a vengeance after the holiday with a sharp 2.1% loss for the day. Are the seasonal pressures every September that compelling? Apparently, with major September declines you can take to the bank: -4.9% 2023, -9.3% 2022, -4.8% 2021, -3.9% 2020. For 2024 another winner, down 4.2% as of Friday. We could not see any other reason for selling after the jobs report unless it was the Fed officials saying multiple rate cuts are needed even though we are not in a recession. Maybe they say we are not in a recession, whistling in the dark, too many times for the market to believe them. The bond market ended Friday at 3.71% down 20 bps from 3.91% last Friday at the end of August. Same story, unless the Fed drops their funds rate to 2.5%, there probably is not much value here. And our money market fund savings say the Fed should not do it. Don't.

Microsoft (MSFT) up 6.8% YTD

Earnings were out on July 30, but the overall market was in a correction. Intelligent Cloud was somewhat disappointing relative to expectations, but it is up 18.8% from a year ago. Microsoft shares have been hit harder than the 9.7% high-low, July-August downdraft for the S&P 500.

Calendar Year Mln $	Revenue	Productivity Business Processes	Intelligent Cloud	More Personal Computing
Q2 2024	64,727	20,317	28,515	15,895
Q1 2024	61,858	19,570	26,708	15,580
Q4 2023	62,020	19,249	25,880	16,891
Q3 2023	56,517	18,592	24,259	13,666
Q2 2023	56,189	18,291	23,993	13,905
Q1 2023	52,857	17,516	22,081	13,260
	Income	Processes	Cloud	Computing
Q2 2024	27,925	10,143	12,859	4,923
Q1 2024	27,581	10,143	12,513	4,925
Q4 2023	27,032	10,284	12,461	4,287
Q3 2023	26,895	9,970	11,751	5,174
Q2 2023	24,254	9,052	10,526	4,676
Q1 2023	22,352	8,639	9,476	4,237

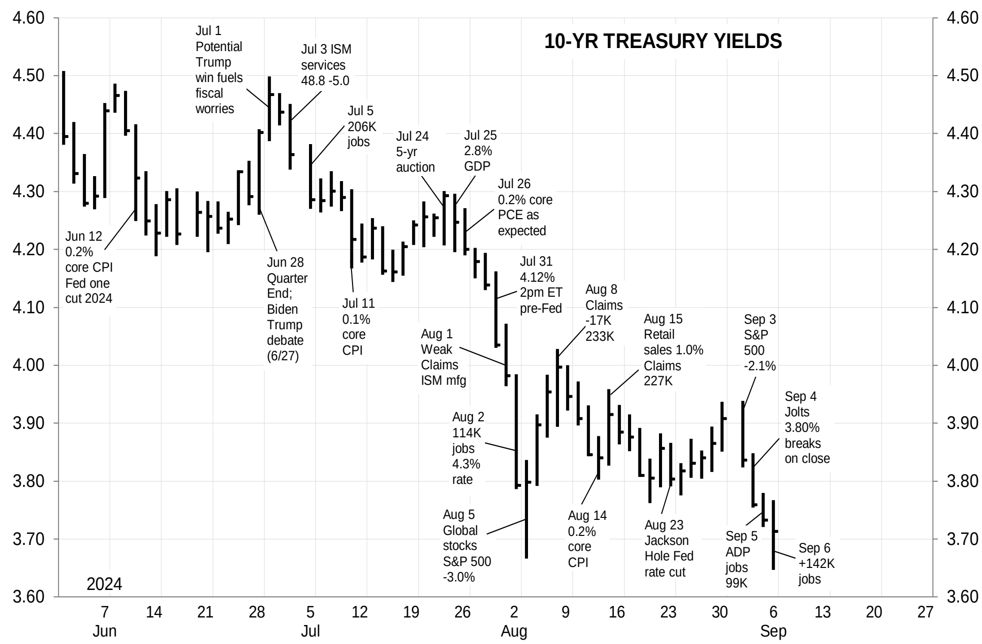


FEDERAL RESERVE POLICY

The Fed meets September 17-18, 2024 to consider its monetary policy. The focus is on whether Fed cuts rates 25 bps or 50 bps. The last two times they cut interest rates the first time from the peak, before the last two recessions, they went 50 bps. Although the larger 50 bps move was seen partially as an emergency rate cut, if only because the big 50 bps rate cuts from 6.5% back in 2001 and from 5.25% back in 2007 were announced between regularly scheduled FOMC meetings. There was a Global funding crisis in 2007 with markets concerned about liquidity and counterparty credit risk. They announced a discount rate cut intermeeting at 815am ET Friday, August 17, 2007, a week after liquidity injections from the ECB and Fed. The 50 bps cut in the Fed funds rate was at the regular September 18 meeting. Greenspan also cut rates the first time for emergency reasons between meetings in January 2001. Greenspan and Bernanke are no longer captain of the ship, but Powell did cut rates three times, three 25 bps rate cuts from the "peak" of just 2.5%, at the July 30-31, September 17-18, October 29-30 meetings in 1999 because he saw a ghost or something else, trade war volatility in markets, something which led him to back rates down at the margin from 2.5% to 1.75%, a modest move in bps if not percentagewise, which will puzzle economic historians for decades to come. Not sure what Powell has in mind for this September, but the labor market that he is now concerned about did not worsen further in today's jobs report.

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	4-Sep	28-Aug	21-Aug	14-Aug	3/11/20*	3/11/20
Factors adding reserves						to Sep 4
U.S. Treasury securities	4388.817	4398.721	4398.736	4413.685	2523.031	1865.786
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2299.798	2299.798	2314.079	2318.124	1371.846	927.952
Repurchase agreements	0.000	0.000	0.001	0.000	242.375	-242.375
Primary credit (Discount Window)	1.517	1.679	2.061	2.410	0.011	1.506
Bank Term Funding Program	98.335	98.872	99.488	100.452		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	2.497	2.524	2.566	2.589		
Main Street Lending Program	10.663	10.647	10.635	10.905		
Municipal Liquidity Facility	0.000	0.000	0.000	0.000		
Term Asset-Backed Facility (TALF II)	0.000	0.000	0.000	0.000		
Central bank liquidity swaps	0.137	0.145	0.151	0.151	0.058	0.079
Federal Reserve Total Assets	7163.2	7174.2	7191.1	7228.9	4360.0	2803.182
~~3-month Libor %~~ SOFR %	5.35	5.35	5.31	5.33	1.15	4.200
Factors draining reserves						
Currency in circulation	2356.084	2350.572	2347.140	2348.932	1818.957	537.127
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	771.047	757.077	734.727	788.823	372.337	398.710
Treasury credit facilities contribution	4.958	4.958	4.958	4.958		
Reverse repurchases w/others	337.312	388.890	321.329	328.472	1.325	335.987
Federal Reserve Liabilities	3898.603	3929.217	3832.031	3889.965	2580.036	1318.567
Reserve Balances (Net Liquidity)	3264.604	3244.959	3359.078	3338.916	1779.990	1484.614
Treasuries within 15 days	12.163	41.339	50.292	74.521	21.427	-9.264
Treasuries 16 to 90 days	240.316	211.970	202.574	168.923	221.961	18.355
Treasuries 91 days to 1 year	536.489	535.637	536.076	538.661	378.403	158.086
Treasuries over 1-yr to 5 years	1482.687	1492.601	1492.585	1527.128	915.101	567.586
Treasuries over 5-yrs to 10 years	590.245	591.554	591.550	583.558	327.906	262.339
Treasuries over 10-years	1526.917	1525.619	1525.659	1520.894	658.232	868.685
Note: QT starts June 1, 2022	Change	9/4/2024	6/1/2022			
U.S. Treasury securities	-1381.962	4388.817	5770.779			
Mortgage-backed securities (MBS)	-407.648	2299.798	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

Key Dates 2007-09 Recession	
8/9/2007	Global funding crisis
	ECB injects $130bln
8/10/2007	Fed injects $38 bln liquidity
8/17/2007	Discount rate 50 bps cut to 4.75%
9/18/2007	Fed 50 bps rate cut to 4.75%
Dec 2007	Great Recession "start"
Jan 2008	Bernanke cuts 125 bps in ten days
3/13/2008	Bear Stearns bailout
7/13/2008	FNMA/Freddie bailout
9/15/2008	Lehman files bankruptcy
9/29/2008	House rejects financial-rescue bill
12/16/2008	Fed rates to zero (0.25%)
2/13/2009	$787 bln fiscal stimulus passed
3/6/2009	S&P500 down 57.7% low
3/18/2009	First Fed QE govts ($300bln)
June 2009	Recession ends 9.5% unemployed



October Fed funds futures say 17.5 bps to go before a 50 bps rate cut is discounted on September 18. Over 100 bps discounted for the next three meetings. Fedspeak says 25 bps at the next 3 meetings.

Fed funds futures call Fed policy		
Current target: September 6 -- 5.50%		
Rate+0.17	Contract	Fed decision dates
5.175	Oct 2024	Sep 18
4.335	Jan 2025	Add Nov 7, Dec 18*
Last trade, not settlement price		
* Not strictly true, Jan 2025 has Jan 29 Fed date, so 2 days could be a new interest rate		

OTHER ECONOMIC NEWS

Purchasing managers less negative (Tuesday)

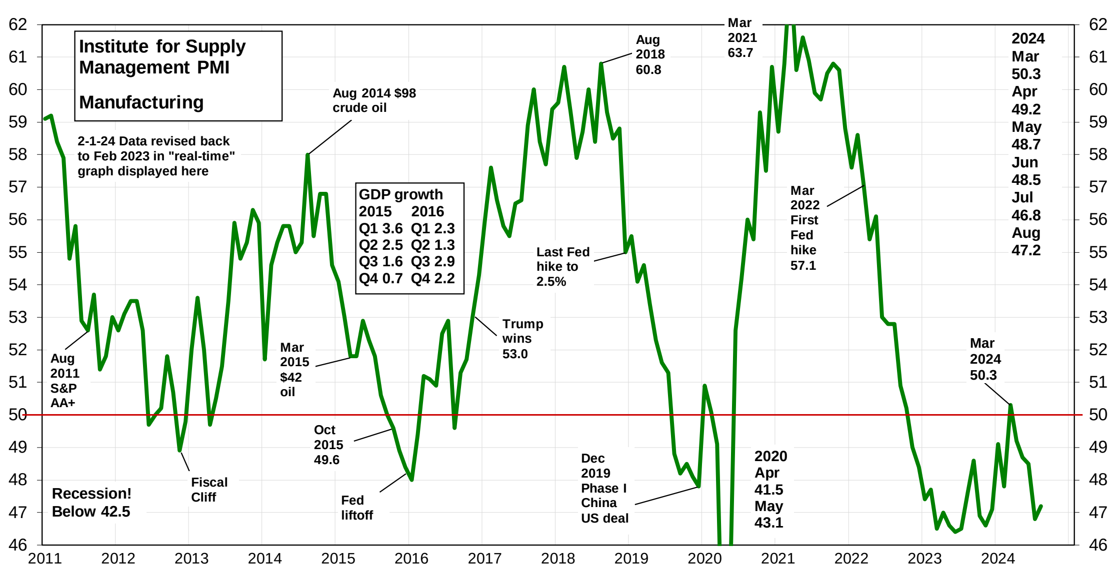
ISM manufacturing index

	Aug 24	Jul 24	Jun 24	May 24
PMI index	47.2	46.8	48.5	48.7
Prices	54.0	52.9	52.1	57.0
Production	44.8	45.9	48.5	50.2
New orders	44.6	47.4	49.3	45.4
Supplier deliveries	50.5	52.6	49.8	48.9
Employment	46.0	43.4	49.3	51.1
Export orders	48.6	49.0	48.8	50.6

Breaking economy news. The ISM manufacturing index lifted its weary head in September, although the sector is still in recession, based on the latest survey of purchasing managers. The index rose slightly by 0.4 percentage point to 47.2 in August. Last month all hell broke loose in the markets after the purchasing managers report when ISM manufacturing tumbled 1.7 percentage points from 48.5 to 46.8 where it looked like the economy was headed for recession, helped along by a new 2024 high for weekly jobless claims at 249K. No recession yet, but the leaves are falling and stocks are too today as they normally do in September for the last several years anyway. We've lost count of the years.

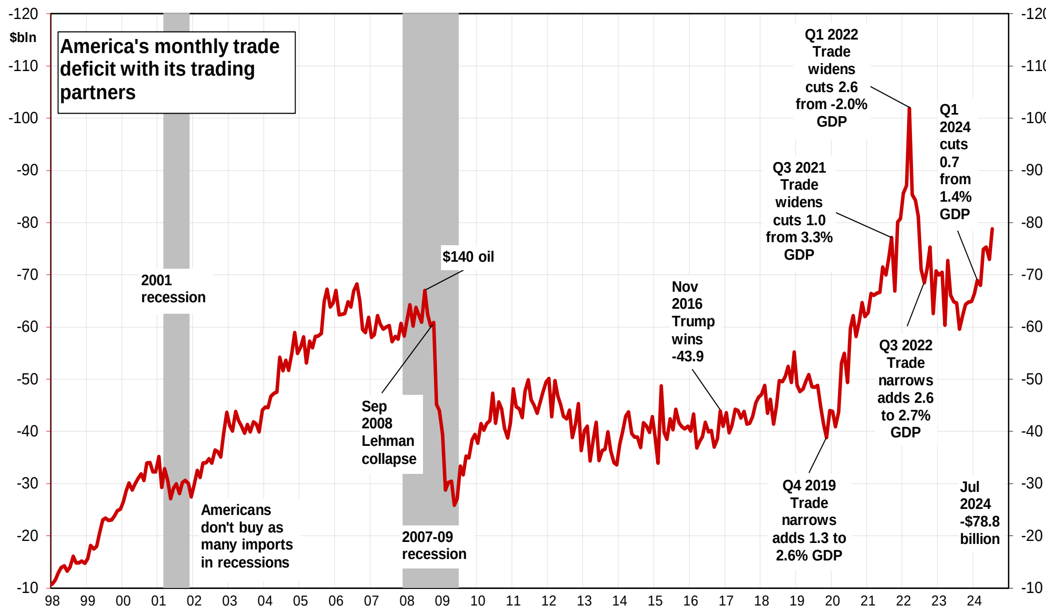
There is not a lot of construction going on at the start of the third quarter with nonresidential private construction falling 0.4% in July. All the focus has been on chip factory construction which although it was unchanged today for July, it is over 20% higher than a year ago. The focus on manufacturing should not take away from the picture of weakness in commercial construction, down 0.4% in July and 14.8% from a year ago.

Net, net, the manufacturing sector remains down in the dumps and looks unlikely to add much to economic growth anytime soon with factory purchasing managers continuing to say the sky is falling and manufacturing is in recession. Construction activity slowed in July as well with manufacturing construction un changed. Business plant construction had added to real GDP growth for several quarters before subtracting 0.1% from second quarter 3.0% real GDP. The purchasing managers have cried wolf before about the troubles they see for manufacturers and time will tell if this anecdotal information will lead to an actual downturn in the hard economic indicator data from the Fed's industrial production index or key core capital goods orders in the monthly durable goods report. Stay tuned. No recession yet, it is still just lots of smoke but no fire for those recession calls made by many economists.

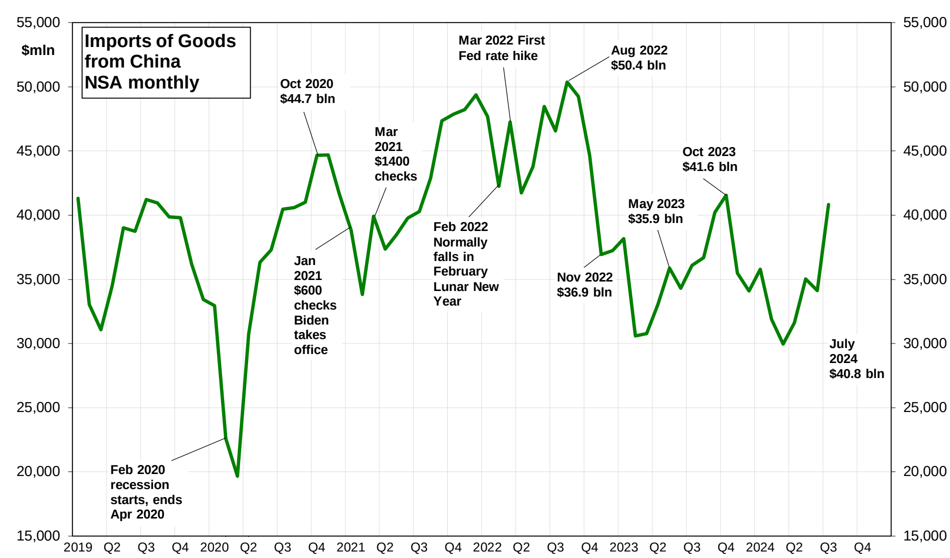


More red ink for trade deficit (Wednesday)

Breaking economy news. The trade deficit is widening again as imports increase faster than exports. Although this subtracts from economic growth, increased import demand is considered a positive. The trade deficit tends to narrow in recessions as the public stops buying anything, including imports.

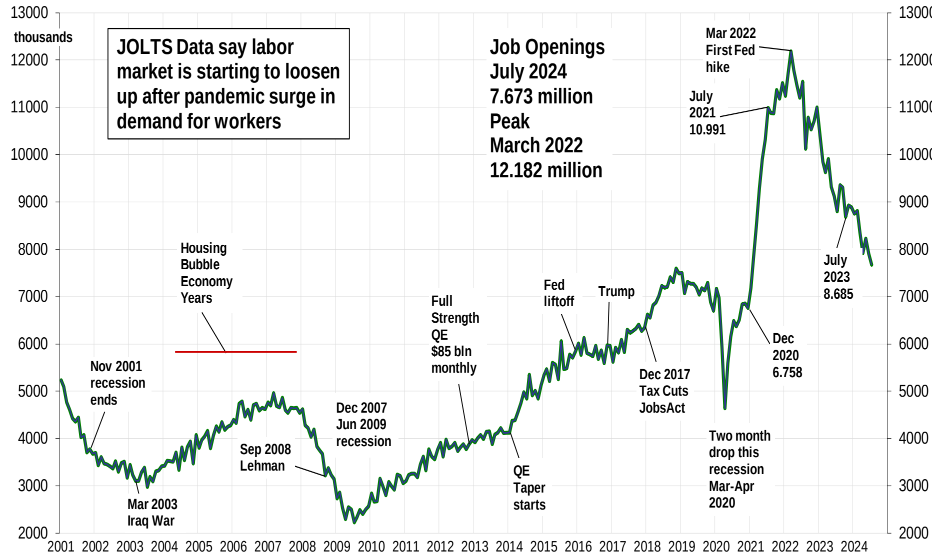


Net, net, at the start of the third quarter the American economy sure has a strong demand for imported goods and services which is not recessionary at all even if it techncially subtracts from GDP growth which strictly measures domestic output only. It is possible that some imports are being stockpiled in case there are more tariffs and trade wars coming depending on the outcome of the national election in November. Exports showed a modest increase of 0.5% while imports jumped 2.1% which swings the monthly deficit out to $78.8 billion in July from $73.0 billion in June. Net exports were a 0.8 percentage point drag on 3.0% GDP growth in the second quarter, meaning real GDP would have been 3.8% if American sourced all those imports here in the USA, and it looks like the drag could be similar in the third quarter. Imports of goods from China increased $6.7 billion to $40.8 billion in July from $34.1 billion in June which shows how difficult it will be to direct US manufacturers away from their dependence on lower-cost goods originating from China if that is what Congress and political candidates wish to do. $6.7 billion accounts for all of the $6.4 billion increase in imported goods behind the increase in the trade deficit, realizing that China imports are not seasonally adjusted like the trade deficit is. Stay tuned. The economy is not going under if companies and consumers continue to have strong demand for imports because import demand typically falls sharply in a recession.

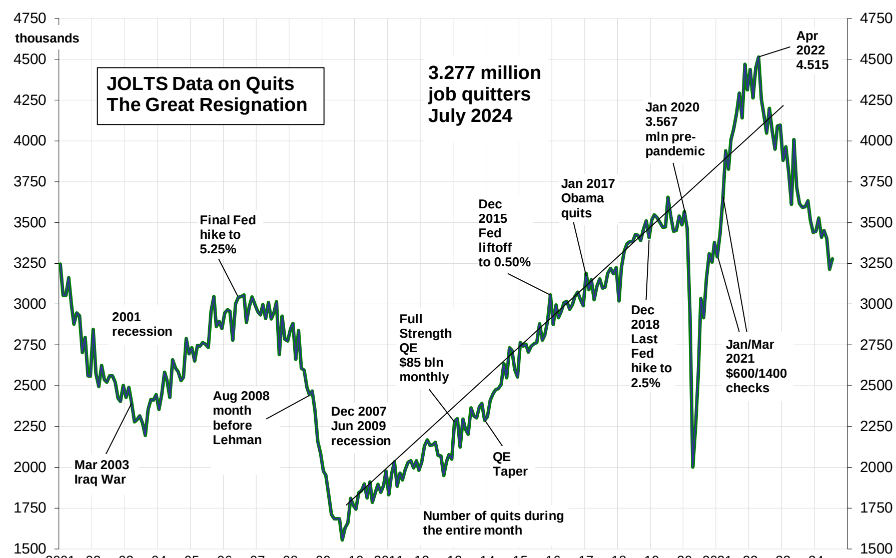


Too late: half a million job openings gone, poof (Wednesday)

Breaking economy news. Job openings continue to fall, at least one indicator is doing what it should in a recession. Job openings declined 237K to 7.673 million, but the June figure was revised sharply lower. Healthcare and social assistance jobs tumbled the most: down 187K to 1.431 million. Most of the openings are in the South (namely Florida, Texas), the only region that saw an increase in openings in July.



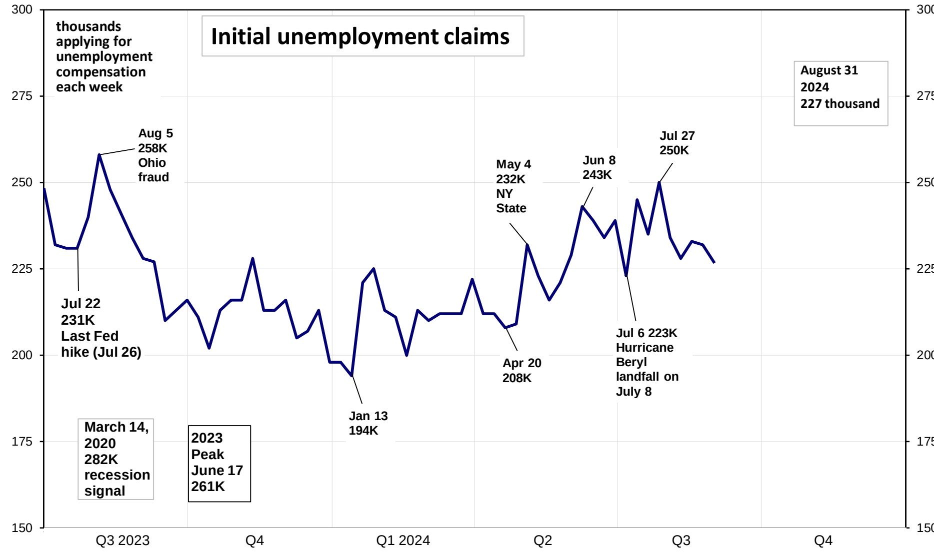
Net, net, job openings are falling sharply to lower levels which are right on the borderline between a labor market that is rebalancing to a labor market that is starting to deteriorate in a more worrisome way that might have some Fed officials arguing for a larger 50 bps rate cut at the meeting in a couple of weeks. It looks like the Chicago and New York Federal Reserve banks were thinking already that a rate cut was needed back on the July 31 meeting, and today's job openings data may lead them to believe that monetary policy is too tight and policy officials need to rebalance their own policy at a faster pace. The Fed may be dangerously close to falling behind the curve as there are signs of labor market weakness that have the potential to dash the market's hopes for a soft-landing overnight. Stay tuned.



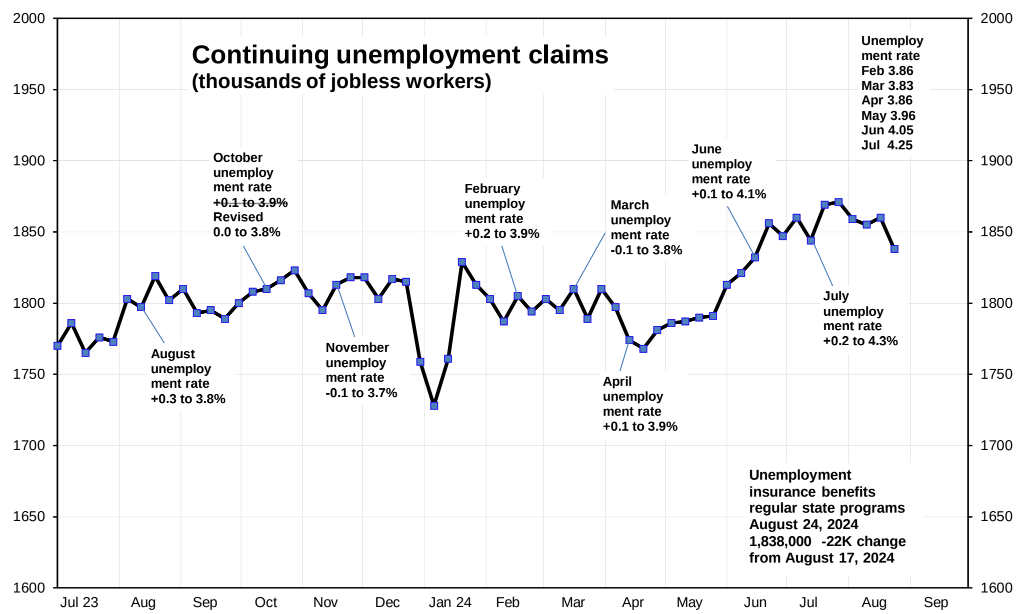
There were 8.184 million job openings at the end of June and suddenly in today's report there are 7.673 million openings at the end of July. Half a million job openings evaporated overnight. Many of these openings are not real of course and serve as window-dressing and keep a company's name out there in the public eye, but still, the loss of half a million jobs in one month is something that is starting to look recessionary. The labor market may be less stable than Fed officials believe.

Another day and no recession (Thursday)

Breaking economy news. Weekly jobless claims fell 5K to 227K in the August 31 week which remains below the 2024 high of 250K in the July 27 week. Meanwhile, the total number receiving benefits tumbled 22k to 1.838 milion in the August 24 week; this could be it for the rising unemployment rate trend.



Net, net, the worries on whether labor market conditions were deteriorating instead of merely rebalancing have to be shelved for now as the latest weekly job layoffs remain below the recent highs made at the end of July. Since the 250K level in the July 27 week, which now may have been hit only because of Hurricane Beryl in Texas, weekly jobless claims have steadied at a few thousand on either side of the 230K level. The old rule of thumb that a sudden spike over several weeks of 20% above baseline levels meant the markets should be on recession watch. In this case weekly job layoffs were 210K baseline in March, and 20% higher would mean 252K. Meanwhile, the ADP jobs report was weaker than expected for August at 99K versus 145K expected. This news caused selling in the markets, but 99K is merely copying/matching the 97K increase in BLS private payroll jobs in July in last month's employment report, and does not represent new news. The real jobs report as opposed to ADP's jobs count comes out soon enough tomorrow morning to settle where labor market conditions are currently. The elevated unemployment rate has said for several months now that the US is in recession, but this needs to be confirmed by a decline in payroll employment. The last two times the Federal Reserve had interest rates at this high of a level, their first rate cuts were 50 bps before the 2001 recession and then the Great Recession. There are signs of a slowdown in hiring with fewer job openings, but until payroll jobs actually decline there is no recession. At the moment, it does not look like the Fed is behind the curve and can proceed with a regular 25 bps rate cut.



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