Financial Markets This Week

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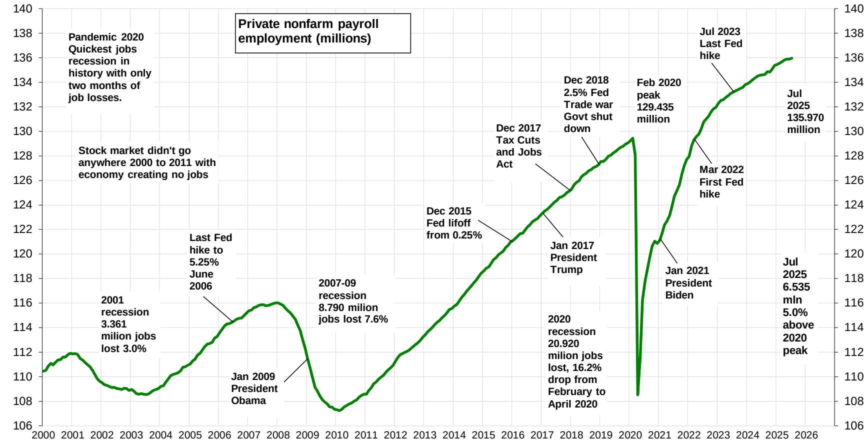
QUARTER MILLION JOBS VANISH



You're fired. Whether the import tariff roll-out creates uncertainty or whether the uncertainty has diminished, businesses are not waiting as they are cutting back on the numbers of new workers they bring on board which means we can no longer count on the employment markets to be a positive factor supporting economic growth in the weeks and months ahead. The President's unorthodox economic agenda and policies may be starting to make a dent in the labor market, and especially troubling was the massive downward revisions of over a quarter million jobs in May and June. Fed Chair Powell said on Wednesday to watch the unemployment rate, and it largely held steady in July, although the caveat emptor on his advice is that record numbers of Americans have dropped out of the labor force in recent months, perhaps in part due to the Administration's draconian immigration policies. Stay tuned. Bond prices exploded higher on the all-important jobs report, as the door to a Fed rate cut in September just got opened a crack wider. The labor market looks in much worse shape than we thought. Bet on it. The labor market is not rolling over, but it is badly wounded and may yet bring about a reversal in the US economy's fortunes.

Now if we can all try to calm down after this shocking employment report finding today, the jobless count (4.248%) may also be worse than we thought as labor force dropouts continue. We can look at the jobless rate by industry as compared to a year ago because the data are not seasonally adjusted. Joblessness is less than a year ago for private workers. July 2024 of course was the famous jump in unemployment to a new high that prompted Powell to come with a first-move, grande 50 bps rate cut in September 2024. Manufacturing is showing weakness with the unemployment rate for durables up to 4.2% versus 3.1% a year ago. More workers to help in the new factories coming to the USA. Quite a few out of work who have no prior work experience, thinking new college graduates with 1.149 million jobless versus 813 thousand last year.

Who are the unemployed?	Unemployed		Unemployed	
	July 2025		July 2024	
	Rate	Number*	Rate	Number*
Private	4.0	5,487	4.2	5,636
Mining, Oil & Gas	4.0	22	4.2	31
Construction	4.2	379	5.4	420
Manufacturing	4.2	641	3.6	537
Durables	4.2	413	3.1	298
Nondurables	4.4	228	4.5	239
Wholesale/Retail Trade	4.4	877	4.9	965
Transportation, Utilities	3.9	329	5.1	432
Information	5.5	140	5.6	145
Financial activities	2.2	238	2.5	256
Professional/Business	3.3	696	4.2	845
Education/Heath	3.8	1,023	3.7	973
Leisure/Hospitality	6.2	883	5.5	811
Other Services	3.9	259	3.2	219
Agriculture	3.6	64	8.5	152
Government	3.7	793	3.5	762
Self-Employed	3.5	354	3.1	322
Other **		1,149		813
Grand Total 16-yrs plus	4.6	7,847	4.5	7,685
* Number in thousands, not seasonally adjusted				
** Others w/no prior work experience or from military				

We were wondering why local government education was hiring 23K in June when schools let out in last month's report, and this was part of the downward revisions as local government hiring was revised to zero in June. Education hiring counts can be volatile in the summer, which isn't over, and for the 258K downward revisions to payroll jobs in May and June, local government education was about 60K, and state government education was about 50K of the downward revisions. Fewer construction jobs in April/May of 15K, manufacturing 12K less, warehousing and storage 12K fewer, and leisure and hospitality was reduced by 18K… all of these are approximations.

Payroll jobs see massive revisions May/June

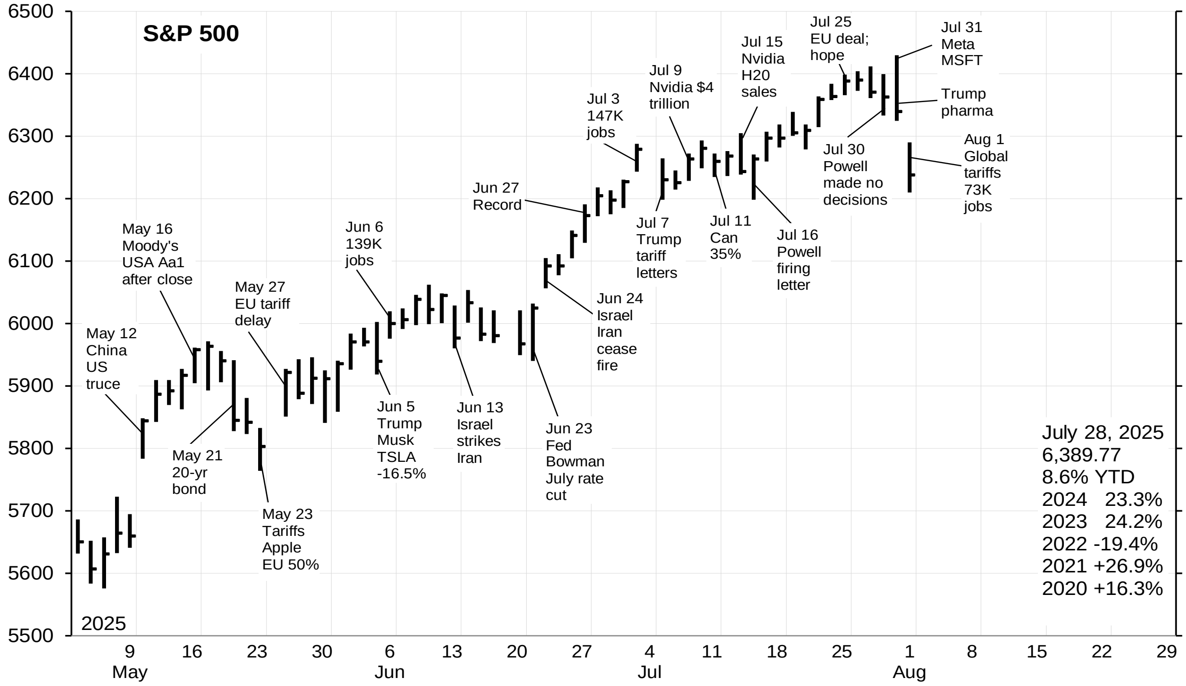
Dec. 2024 Totals millions		Jul 25	Jun 25	May 25	7 months Dec 24 to July 25	12 months Dec 23 to Dec 24
158.942	Nonfarm Payroll Employment	73	14	19	597	2012
135.382	Total Private (ex-Govt)	83	3	69	588	1559
21.673	Goods-producing	-13	-13	-13	-19	72
0.585	Mining	-3	-1	-3	-6	-9
12.760	Manufacturing	-11	-15	-11	-33	-105
1.008	Motor Vehicles & parts	-2	-3	3	-11	-20
1.015	Computer/electronics	0	-3	0	-11	-28
1.770	Food manufacturing	-2	-1	2	2	17
8.289	Construction	2	3	2	21	190
5.248	Specialty trade contractors	-1	9	-5	8	112
113.709	Private Service-providing	96	16	82	607	1487
29.033	**Trade, transportation, utilities**	11	-22	-11	44	179
15.538	Retail stores	16	-14	-15	40	-6
3.273	General Merchandise	11	-3	2	40	48
3.235	Food & Beverage stores	-2	-1	-3	7	19
6.723	Transportation/warehousing	4	1	-1	15	136
1.521	Truck transport	4	-4	-1	2	-18
0.569	Air transportation	3	-4	3	10	7
1.153	Couriers/messengers	6	7	8	5	79
1.844	Warehousing and storage	-6	-3	-10	-26	15
2.944	**Information**	-2	0	2	-5	-18
0.484	Computing, data, web hosting	-4	1	0	-1	0
9.206	**Financial**	15	-2	7	57	30
3.019	Insurance	8	-8	-1	6	37
2.481	Real Estate	1	1	2	24	11
1.369	Commercial Banking	-1	1	0	-7	-17
1.128	Securities/investments	5	5	4	24	16
22.614	**Professional/business**	-14	-11	-23	-52	-50
2.552	Temp help services	-4	-3	-15	-30	-159
2.622	Management of companies	2	3	5	16	7
1.729	Architectural/engineering	7	3	0	26	54
2.446	Computer systems/services	-5	-5	-1	-25	-6
1.192	Legal services	1	3	1	8	-10
1.141	Accounting/bookkeeping	1	1	7	14	-9
26.931	**Education and health**	79	52	70	478	999
5.641	Hospitals	16	15	22	119	209
8.934	Ambulatory health care	34	11	30	70	330
3.992	Educational services	6	-8	-2	8	80
16.979	**Leisure and hospitality**	5	4	27	51	251
1.949	Hotel/motels	5	-4	1	2	29
12.365	Eating & drinking places	0	0	15	2	130
23.560	Government	-10	11	-50	9	453
2.413	Federal ex-Post Office	-14	-10	-19	-78	48
5.512	State government	5	10	-11	18	134
2.630	State Govt Education	-1	8	-12	-2	37
15.036	Local government	-3	10	-13	72	273
8.186	Local Govt Education	-10	0	-30	8	109

Revisions are the past, anything good to say about the July 73K jobs creation future? Not really, not strong, mostly health care jobs and the ailing economy is going to need them. The Household Survey measure of employment dropped 260K. There were nearly 1.4 million labor force dropouts since April and if the 503 thousand of them who said they wanted work and had told the BLS that over the last three months they were actively searching, then the unemployment rate would have been three-tenths higher at 4.5% this month. Maybe the labor markets are not as strong as we thought given the dropouts, possibly immigration enforcement related. Stay tuned. The best days for the US economy surely lie ahead.

Monthly changes (000s)	Jul	Jun	May	Apr	Mar
Payroll employment	73	14	19	158	120
Private jobs	83	3	69	133	114
Federal govt ex-post office	-14	-10	-19	-14	-9
Bars/Restaurants	0	0	15	15	38
HH Employment Survey*	-260	93	-696	461	201
Unemployment rate %	4.2	4.1	4.2	4.2	4.2
Participation rate %	62.2	62.3	62.4	62.6	62.5
Not in labor force (mln)	103.443	103.204	102.875	102.062	102.431
... and Want A Job (mln)	6.175	6.030	5.991	5.672	5.915
Average hourly earnings	$36.44	$36.32	$36.23	$36.08	$36.02
MTM % Chg	0.3	0.2	0.4	0.2	0.3
YOY % Chg	3.9	3.8	3.8	3.8	3.9

* Household (telephone) Survey of employment behind unemployment rate

INTEREST RATES

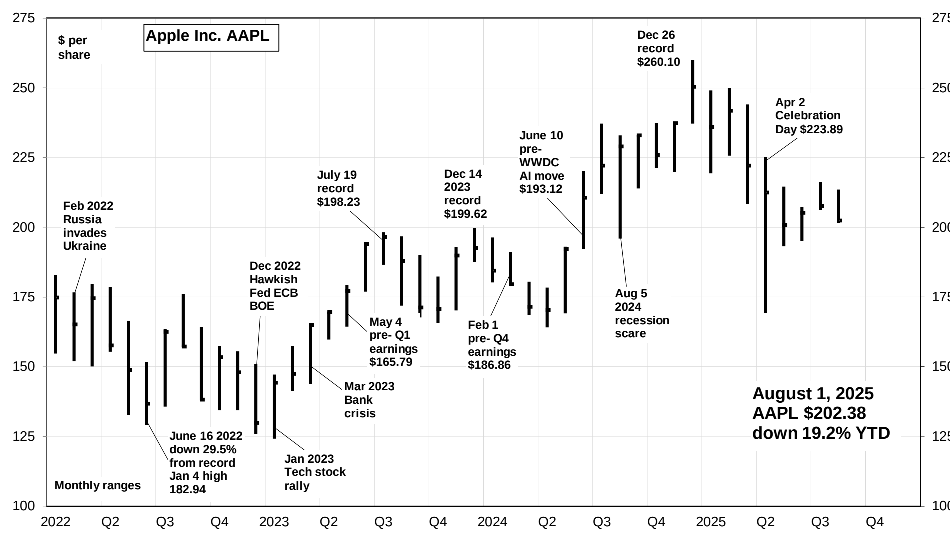


~~Trump 2.0 seems to mean that the stock market just moves higher and higher regardless of the latest fact-based, import tariff news.~~ Even the weak jobs report Friday where a quarter-million workers vanished upon revisions, could not rescue the stock market after Trump's global tariffs announcement Thursday evening. The door to a September rate cut was certainly opened wider even if the tariffs won't be applied to imports coming in on ships sailing currently (goods landing October 5 and beyond will pay). The Fed will not see the tariff effect on the economy for a while, but Fed funds futures discount all but 1 bps of a 25 bps rate cut on September 17. Bond yields tumbled 15 bps to 4.22% as the market prepares for recession/rate cuts. Treasury refunding announcement Wednesday keeps coupon auction amounts unchanged, as Bessent wants to sell more T-bills to save interest costs.

Apple, Inc. (AAPL) falls 2.5% Friday on weak jobs report

Earnings were well received after the bell on Thursday, but then the Trump global tariffs were announced later Thursday evening. Apple was hit much harder with the 73K jobs report on Friday, sending the stock down 2.5% to close the week at $202.38. Amazon reported the same time. Apple's quarterly sales beat expectations the most in at least four years. iPhone sales were stronger than expected in the second calendar quarter. No tariff effects yet.

Calendar Year Mln $	Operating Income	Net Sales	iPhone
Q2 2025	28,202	94,036	44,582
Q1 2025	29,589	95,359	46,841
Q4 2024	42,832	124,300	69,138
Q3 2024	29,591	94,930	46,222
Q2 2024	25,352	85,777	39,296
Q1 2024	27,900	90,753	45,963
Q4 2023	40,373	119,575	69,702
Q3 2023	26,969	89,498	43,805
Q2 2023	22,998	81,797	39,669

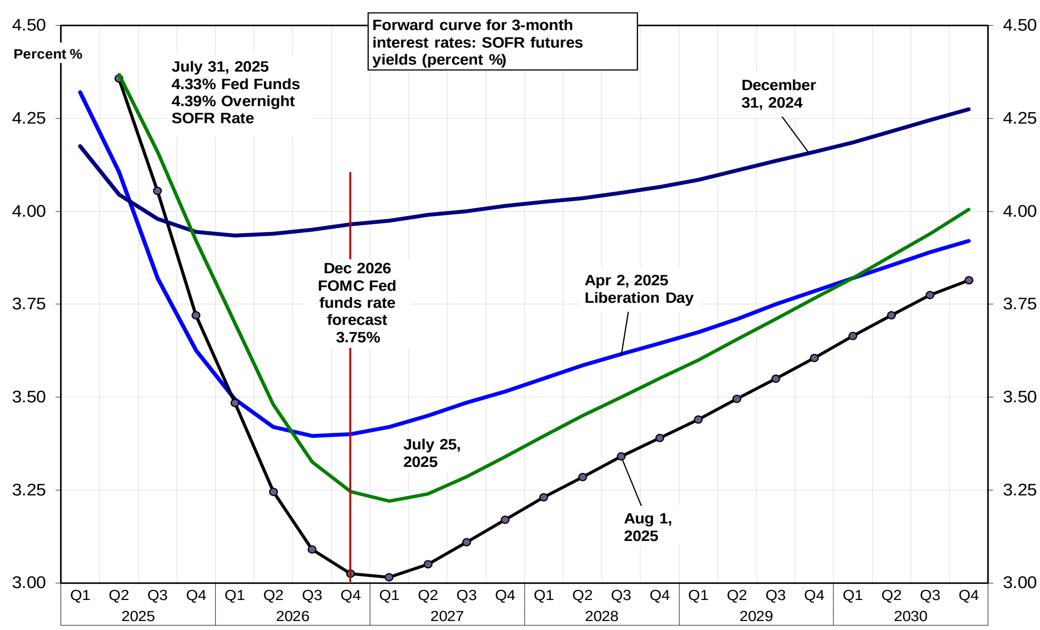


FEDERAL RESERVE POLICY

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	30-Jul	23-Jul	16-Jul	9-Jul	3/11/20*	3/11/20
Factors adding reserves						to Jul 30
U.S. Treasury securities	4206.916	4206.720	4206.523	4208.526	2523.031	1683.885
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2120.672	2134.784	2138.426	2138.496	1371.846	748.826
Repurchase agreements	0.000	0.003	0.000	0.000	242.375	-242.375
Primary credit (Discount Window)	5.595	5.242	5.230	6.131	0.011	5.584
Bank Term Funding Program	0.000	0.000	0.000	0.000		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	1.411	1.417	1.436	1.442		
Main Street Lending Program	4.471	4.553	4.548	5.189		
Term Asset-Backed Facility (TALF II)	0.000	0.000	0.000	0.000		
Gold stock	11.041	11.041	11.041	11.041	11.041	0.000
Central bank liquidity swaps	0.057	0.084	0.063	0.055	0.058	-0.001
Federal Reserve Total Assets	6692.9	6708.9	6710.7	6713.2	4360.0	2332.905
~~3-month Libor %~~ SOFR %	4.32	4.28	4.34	4.32	1.15	3.170
Factors draining reserves						
Currency in circulation	2401.980	2399.077	2399.858	2403.329	1818.957	583.023
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	419.446	333.538	312.085	311.048	372.337	47.109
Treasury credit facilities contribution	2.029	2.029	2.029	2.029		
Reverse repurchases w/others	155.481	189.632	197.086	227.273	1.325	154.156
Federal Reserve Liabilities	3393.235	3350.557	3335.633	3371.237	2580.036	813.199
Reserve Balances (Net Liquidity)	3299.696	3358.382	3375.036	3341.999	1779.990	1519.706
Treasuries within 15 days	67.487	60.158	53.204	50.659	21.427	46.060
Treasuries 16 to 90 days	166.106	173.195	176.903	199.034	221.961	-55.855
Treasuries 91 days to 1 year	448.282	448.489	451.704	436.472	378.403	69.879
Treasuries over 1-yr to 5 years	1440.549	1440.465	1440.384	1434.947	915.101	525.448
Treasuries over 5-yrs to 10 years	510.290	510.275	510.256	516.011	327.906	182.384
Treasuries over 10-years	1574.202	1574.137	1574.071	1571.403	658.232	915.970
Note: QT starts June 1, 2022	Change	7/30/2025	6/1/2022			
U.S. Treasury securities	-1563.863	4206.916	5770.779			
Mortgage-backed securities (MBS)	-586.774	2120.672	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

The Fed met July 29-30, 2025 to consider its monetary policy. Two dissents give a preview of what is going to happen over the next year to monetary policymaking as we know it. Both votes in favor of rate cuts we would say were made less on economics and more on a desire to curry favor with the President. It is happening everywhere else down in Washington. I never promised you a Rose Garden. There were plenty more economic reports before the September 17 decision date, but the markets read Powell as saying no interest rate cut in September. At the end of the day on Wednesday, October Fed funds futures said the odds were 50/50, a yield of 4.38%. The Fed funds rate at 4.5% is somewhat restrictive, Powell said, and it still needs to be, as the tariff threat will not be resolved for some time. We were struck by how Powell "strayed outside his lane," perhaps because there is little else the Administration can do to him before his term is up; Powell said he did not consider Trump's big, beautiful bill as being all that stimulative for the economy. The bill just stops the 2017 tax cuts from expiring. One thing that is not in doubt is the Washington cutbacks in government spending with a 0.3 percentage point drag from Federal nondefense spending in the Q2 2025 3.0% real GDP report on Wednesday.

Fed Policy-key variables				Long
	2025	2026	2027	Term
Fed funds	3.9	3.6	3.4	3.0
PCE inflation	3.0	2.4	2.1	2.0
Core inflation	3.1	2.4	2.1	
Unemployed	4.5	4.5	4.4	4.2
GDP	1.4	1.6	1.8	1.8
June 2025 median Fed forecasts				



All but 1 bps of a 25 bps rate cut is discounted at the September meeting. All but 8 bps of a second cut to 4.0% discounted on Oct 29.

Fed funds futures call Fed policy		
Current target: August 1 -- 4.50%		
Rate+0.17	Contract	Fed decision dates
4.260	Oct 2025	Sep 17*
4.080	Nov 2025	Adds Oct 29
3.865	Jan 2026	Adds Dec 10
Last trade, not settlement price		
*Not strictly true, Oct 2025 could be 2 days at a new rate		

Next up: July CPI inflation report Tuesday, August 12 at 830am ET														
Monthly	2025					2025	2024							2024
% Changes	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr
Core CPI inflation	0.2	0.1	0.2	0.1	0.2	0.4	0.2	0.3	0.3	0.3	0.3	0.2	0.1	0.1	0.3
Core PCE inflation	0.3	0.2	0.2	0.1	0.5	0.3	0.2	0.1	0.3	0.3	0.2	0.2	0.2	0.1	0.3
Core PCE YOY	2.8	2.8	2.6	2.7	2.9	2.7	2.9	2.8	2.8	2.7	2.7	2.7	2.6	2.7	2.9
Core CPI YOY	2.9	2.8	2.8	2.8	3.1	3.3	3.2	3.3	3.3	3.3	3.2	3.2	3.3	3.4	3.6

OTHER ECONOMIC NEWS

GDP 3.0%… for now (Wednesday)

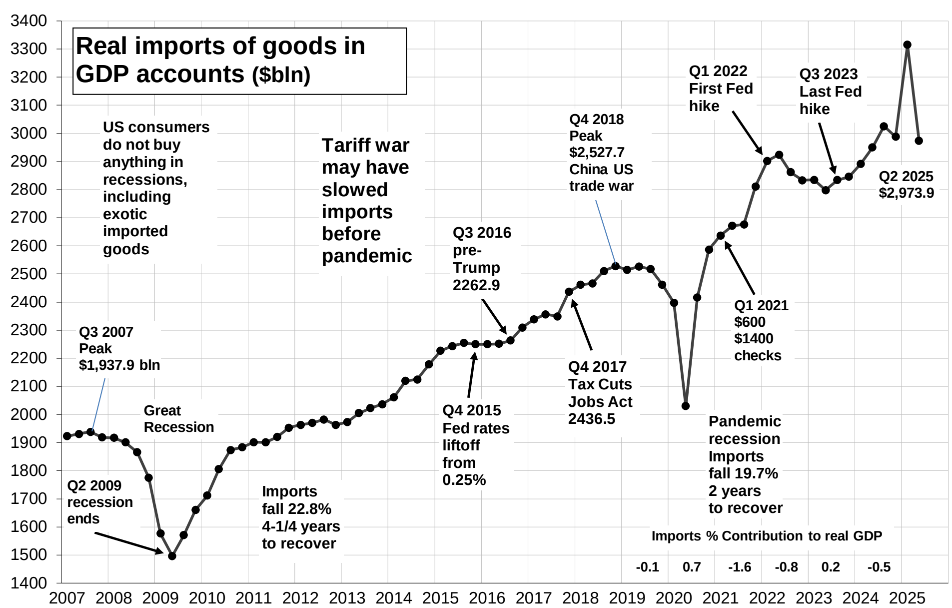
Breaking economy news. Real GDP was 3.0% in Q2 2025, but after the first quarter drop, the run-speed for growth is the first half average of the two quarters at (0.5+3.0)/2 = 1.8% The tariff avoidance story is the reason for the GDP volatility this year where greater goods imports subtracted 4.8 percentage points in Q1 2025 (though inventories added 2.6 percentage points as a partial offset), and goods imports added 5.0 percentage points in Q2 2025 (inventories fell back, subtracting 3.2 percentage points).

	Q1 24	Q2 24	Q3 24	Q4 24	Q1 25	Q2 25p
REAL GDP	1.6	3.0	3.1	2.4	-0.5	3.0
REAL CONSUMPTION	1.9	2.8	3.7	4.0	0.5	1.4
CONSUMPTION	1.3	1.9	2.5	2.7	0.3	1.0
Durables	-0.1	0.4	0.5	0.9	-0.3	0.4
Nondurables	-0.1	0.2	0.6	0.4	0.3	0.2
Services	1.6	1.3	1.3	1.4	0.3	0.5
INVESTMENT	0.6	1.5	0.2	-1.0	3.9	-3.1
Business Plant	0.2	0.0	-0.2	0.1	-0.1	-0.3
& Equipment and	0.0	0.5	0.5	-0.5	1.1	0.3
Intellectual Property	0.4	0.0	0.2	0.0	0.3	0.3
Homes	0.5	-0.1	-0.2	0.2	0.2	-0.1
Inventories	-0.5	1.1	-0.2	-0.8	2.6	-3.2
EXPORTS	0.2	0.1	1.0	0.0	0.0	-0.2
IMPORTS	-0.8	-1.0	-1.4	0.3	-4.7	5.2
GOVERNMENT	0.3	0.5	0.9	0.5	-0.1	0.1
Federal defense	-0.1	0.2	0.5	0.2	-0.3	0.1
Fed nondefense	0.1	0.0	0.1	0.1	0.0	-0.3
State and local	0.3	0.3	0.3	0.3	0.2	0.3

Below line: Percentage point contributions to Q2 2025 3.0% real GDP

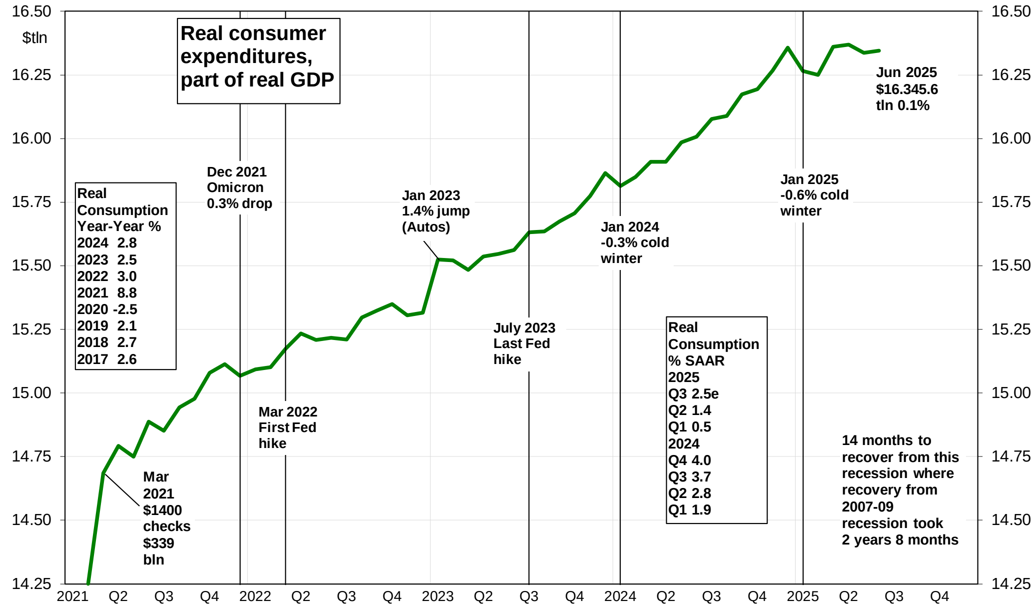
Second estimate for Q2 is Thursday, August 28

Net, net, the tsunami wave of imports receded in the second quarter lifting economic growth spectacularly and keeping the U.S. well away from the threat of recession. White House economists will certainly congratulate themselves that the dreaded import tariff effect has done nothing to slow the economy. But if we dig a little deeper into the report, things are not as rosy as the 3% growth would appear, as the trend in the expenditures for consumers, exporters, residential housing looks troubling, along with a sharp drop in Federal nondefense expenditures which was a significant drag on real GDP. Consumer spending would have been even weaker if not for the March surge in tariff-related auto sales that spilled into the second quarter, and consumer spending on services was mostly on health care. Stay tuned. The economy is not in a recession is the good news, the bad news is that this is not a report of robust growth which would make one confident about the economic outlook for the second half of 2025. Fed officials voting on policy today will not believe that the economy is in a good place and the odds of an interest rate cut later this year remains high if the import tariffs do not lead to higher inflation as would normally be expected.

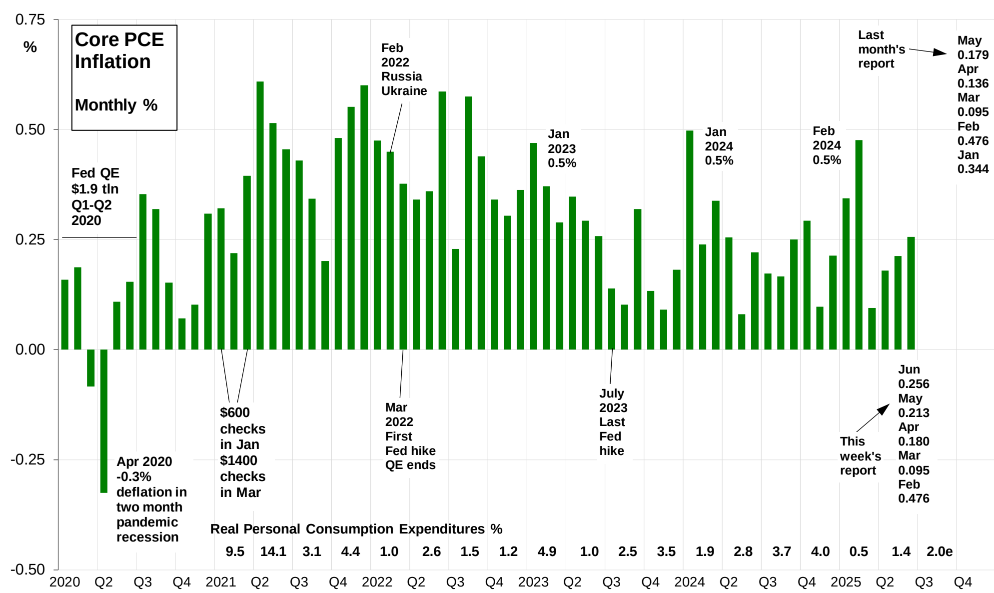


Consumer spending slows to a crawl (Thursday)

Breaking economy news. The personal income report for June. June 2025 real consumer expenditures are less than they were in December 2024 during the Biden administration, just as a point of reference. Because spending has been flat in the entire first half of 2025, we forecast 2.5% consumer spending in Q3 2025. Core PCE inflation, especially for goods, is picking up due to the early tariffs most likely; June core PCE inflation was 0.3% although 3-digits was less house-on-fire exciting at 0.256%.



Net, net, consumer purchases have slowed to a crawl the last three months and there is zero momentum in sales going into the third quarter. Economic growth in the third quarter faces uncertainty headwinds and very little tailwinds. Consumer confidence has improved somewhat but shoppers are still staying away from the stores, and even services spending is barely registering a pulse. It is hard to know what has led consumers to pull back on their spending because certainly the stock market has been making new highs. It looks like the tariff uncertainty continues to restrain spending in the economy because it is still too early to know how the import tariffs will affect the cost of goods even while there have been so-called big trade deals announced. One thing that has put a damper on consumer expenditures is the high cost of goods and June's 0.3% rise in core PCE prices provides a reminder of how expensive goods are out there. Motor vehicle prices dropped 0.4% in June, but furnishings and household durable goods jumped 1.3%, and clothing and footwear increased 0.4%. Stay tuned. Personal income rebounded in June, but consumers did not spend a nickel of it, instead they elected to keep the money for a rainy day that may be just around the corner.



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