PLENTY OF JOBS FOR AMERICAN WORKERS FOR NOW

Not sure who the trade wars are for. There are only 12.751 million employed in U.S. manufacturing. Maybe they can help win elections. 596 thousand manufacturing workers were unemployed in July out of a total 128 million votes cast for Clinton and Trump in November 2016. Guess the trade war could help these workers keep their jobs, and stop China, we mean, stop American companies from shifting their production offshore to increase their profits. Companies try to make a profit, that’s called capitalism in America. The U.S. trade war continues, “we want free trade without barriers,” and U.S. trade rep Lighthizer got an earful from Congress last week, from both sides of the aisle, on how tariffs were not the answer. More than trade, Lighthizer seems convinced that these actions are needed to combat unfair Chinese intellectual property practices. These include forced technology transfer, noneconomic licensing practices, state-funded strategic acquisitions of U.S. technology and cyber theft. With Lighthizer’s testimony, it can be seen this trade war might go on for a while. On the defensive near the end, he shouted, “If your conclusion is that China taking over all our technology and the future of our children is a stupid fight, then you are right. We should just capitulate.” Our conclusion is this sounds like it could be a long fight, but then again, the President could overrule this of course and settle up with China like he did with the EU before the midterm elections.
Here are our more colorful comments made in the seconds following the jobs report news release. Real-time analysis brought to you while standing in line at the airport to board a plane no less. The bond market never waivered, we mean never traded, on the news. Why bother? Odds of a September Fed rate hike were 92% Thursday night, and 92% again on Friday after the jobs report news.

157 thousand jobs is a distinct slowdown from the numbers the economy has been putting up on the board and for the blame for this look no further than the U.S. saber rattling over China and the unfair terms of trade. Uncertainty from the trade war finally comes home to roost. Time will tell if this is a one-month anomaly or whether this is the start of something darker like a Trump recession. You can give business and consumers all the money in the world but if they press the pause button on spending due to trade war uncertainty this economy is going nowhere.

America first means jobs first and wages second. When are corporations flush with cash from massive tax cuts going to give their employees a break?

Trump administration policies helped create jobs, but what happens when everyone has a job and the economy is at full employment? How about a raise for workers and giving them a bigger share of the pie. That’s what voters want to know. This long economic expansion has left many behind and Washington doesn’t seem to have any plan to see that workers see more of the fruits of their labor.
MARKETS OUTLOOK

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Bond yield 2.93% lows were on the BOJ announcement after midnight Monday night in New York that was less policy tweak friendly. The 3.01% highs were on the supply is coming, supply is coming, Treasury August quarterly refunding announcement Wednesday at 830am New York. 10-year Treasury yields closed the week at 2.95%. Not much of a reaction to the jobs report on Friday maybe blame it on the summer time, although bonds definitely rallied from 2.98% at 830am EDT. Nothing at all happened in the U.S. government bond market after 11am EDT. Next week Treasury sells $34 billion 3-years ($3 billion more than last quarter), $26 billion 10-years ($1 billion more), $18 billion 30-years ($1 billion more). We'll see if supply kicks up yields.

CORPORATE BONDS: SOUTHERN CAL EDISON, RYDER, PG&E, NY LIFE

Corporate offerings were $15.5 billion in the August 3 week versus $15.7 billion in the July 27 week. On Monday, Norfolk Southern sold $1.5 billion 7s/10s/30s/100s. It priced a $400 million 3.8% 10-yr (m-w +15bp) at 85 bps (Baa1/BBB+). The freight railroad will use a substantial part of the proceeds to repurchase outstanding shares. Corporate bond yields (10-yr Industrials rated A2) were 87 bps above 10-yr Treasuries this week versus 91 bps last Friday.
FEDERAL RESERVE POLICY

The Fed met July 31-August 1 to consider its monetary policy. No policy change was expected. Not saying anything at all about what they might do in the future, changing about three words in the press statement, was not expected. Not sure what Powell would have said at a press conference today. We will know next year when he holds a press conference after every “live” Fed meeting, all eight of them. Meanwhile, the odds of a Fed rate hike to 2.25% (is that all) on September 26 are 92%.

Maybe the Committee is lying low to stave off some of those critical tweets. The President isn't thrilled with rate hikes, but the Fed left in the words saying policy remains accommodative, so you can bet your bottom dollar more rate hikes are coming. At least one anyway in September.

The million dollar question is where exactly is normal. Trump’s economics team will prepare him for the inevitable--that rates are going up to normal. The June FOMC forecasts are split with four saying normal is 2.75% and five saying 3.0% is normal. Not too many more rate hikes before the White House really starts to squirm as no one there wants a restrictive monetary policy that slows economic growth. Rates above normal are “tightening” that takes away oxygen from the economy.

They remained cool today, but the economy at full employment is heating up, so more rate hikes are on the way. Trump’s admonishment and that of his economics team to proceed cautiously will be taken under advisement. But no one at the Federal Reserve believes interest rates below 2.75 to 3 percent normal is good for the sustainability of the expansion at this stage of the business cycle.

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### August 1 Fed Press Statement

Information received since the Federal Open Market Committee met in June indicates that the labor market has continued to strengthen and that economic activity has been rising at a strong rate. Job gains have been strong, on average, in recent months, and the unemployment rate has stayed low. Household spending and business fixed investment have grown strongly. On a 12-month basis, both overall inflation and inflation for items other than food and energy remain near 2 percent. Indicators of longer-term inflation expectations are little changed, on balance.

### June 13 Fed Press Statement

Information received since the Federal Open Market Committee met in May indicates that the labor market has continued to strengthen and that economic activity has been rising at a solid rate. Job gains have been strong, on average, in recent months, and the unemployment rate has declined. Recent data suggest that growth of household spending has picked up, while business fixed investment has continued to grow strongly. On a 12-month basis, both overall inflation and inflation for items other than food and energy have moved close to 2 percent. Indicators of longer-term inflation expectations are little changed, on balance.
**OTHER ECONOMIC NEWS THIS WEEK**

**Core PCE inflation back down a tick to 1.9%, and no stinking wages for workers (Tuesday)**

Breaking economy news. Personal Income report for June and the Employment Cost index for Q2. We already know that consumer spending was strong as all get out in the second quarter in Friday's GDP report. Real consumer spending of 4.0%, and now with data for June, consumption is up 1.2% already in Q3 2018 based on phantom momentum purchases even if workers don't spend another dime in July, August, September.

Speaking of workers. Their wages stink last quarter in the Employment Cost index report also out at 830am this morning. Wages up just 0.5% in the second quarter. Got more benefits though, up 0.9%. More healthcare coverage for your cats and dogs. Okay, maybe we exaggerated a little. Wages don't stink exactly. Private industry wages up just 0.6% seasonally adjusted in the second quarter, but in the 12 months ending Q2 2018 wages are the same, up 2.9% which isn't that far off the best workers have seen since right before the recession hit over a decade ago. (This wage measure never went that high in the housing bubble years.)

Inflation in the personal income report is on target, at least the headline number is, rising 0.1% in June and up 2.2% the last year. Add real neutral rates which some models say are zero, others say about 1%, to 2.2% inflation and that is where the neutral Fed funds rate is: 2.25 to 3.25 percent.

Net, net, the economy ran all out in the second quarter with very strong purchases by consumers of 4.0%, but the increase in buying and selling did not lead to overheating as wages are modest in the second quarter and core consumer inflation is still slightly short of the Fed's 2.0% target. The Fed can continue on its path of gradual rate hikes for now, but unless inflation pressures start to build, they may have to scale back their forecasts of how high interest rates actually need to go in this business cycle. Especially when the President of the United States is not in favor of any rate hikes at all. Stay tuned. Story developing.

**Consumer confidence hasn't cracked yet (Tuesday)**

Breaking economy news. Consumer confidence up a tick to 127.4 in July from 127.1 May. May was revised up from 126.4 a month ago. What trade war the consumer is saying, it's summer time and the living is easy. Especially if you are forever young. Consumer confidence jumped over ten points to 137.2 in July for those under 35 years old. The overall level of confidence for those 25 to 54 years old...
plummeted nearly ten points, falling from 132.0 in June to 123.5 in June. Maybe this key working-man demographic is struggling to figure out what their tax bill is next year, we know we are. The older generation are also more likely to read the worrying news headlines about the business outlook unlike the Millennials who are looking at god knows what on their phones.

The outlook isn't all rosy. Consumer spending is strong today, but buying plans for many major appliances are flat to down over the next six months: washing machines, TVs, vacuum cleaners, clothes dryers, air conditioners, and carpets.

Net, net, consumers are confident because employment opportunities have never been this plentiful with help wanted signs plastered in every window on Main Street. You have to go back over two recessions ago to have people saying the labor market is this good. The strong labor market trumps the negative trade war headlines when it comes to consumer sentiment out there in the country for most Americans. The consumer's attitude is that there is nothing to worry about and those storm clouds that economists see on the horizon don't mean it will rain on them.

This economy isn't perfect, but it sure is pretty darn close. It is a myth that Americans are worried their wages are not keeping up with inflation. The consumer confidence numbers simply don't show it. Republicans and Democrats don't agree on much, but one thing that they can't argue over is how the confidence of consumers has soared since President Trump was elected in November 2016. The consumer confidence index was 100.8 in October 2016 and remains over 25 points higher at 127.4 in July 2018. The economy starts its tenth year of expansion from the recession this month, and the economy is going to break the full ten-year expansion record from the Clinton years if consumer confidence remains this bright. Stay tuned. Story developing. Consumer confidence remains stronger than you think. Bet on it.
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