Financial Market Weekly

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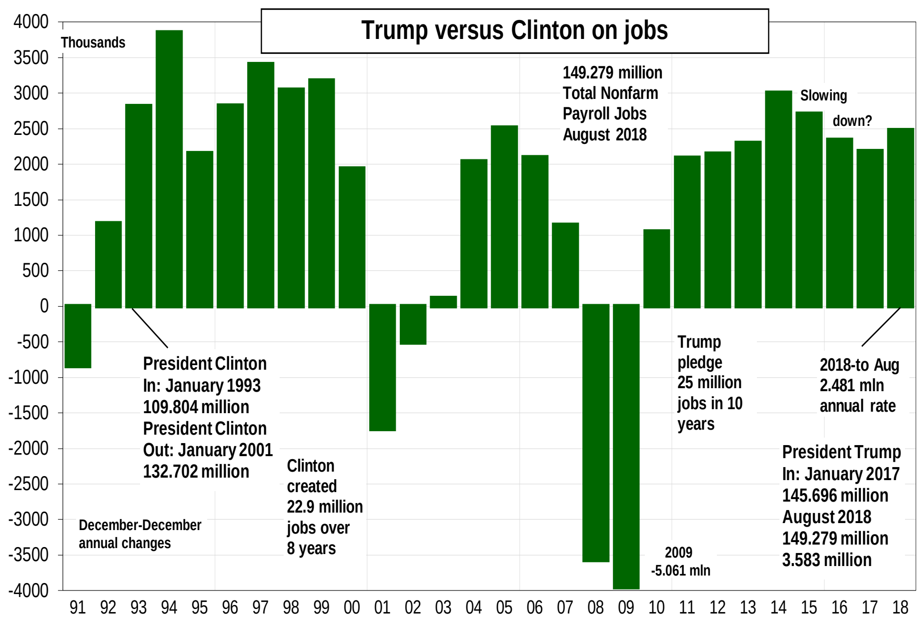
JOBS WITH WAGES TOO, WOO HOO!!



The monthly employment report for August. There is no longer a mystery about why companies are not rewarding their employees after one of the biggest tax cuts in history. Fed policymakers can cross that worry off their list. This economy has moved beyond full employment. Average hourly earnings jumped 0.4% in August to $27.16 which is a 2.9% increase from prior year levels. Corporations are doling out rewards to their employees, increasing their wages this year at the fastest rate yet since the recession ended eight years ago. The tight labor market is engendering more wages just like the economics textbooks proclaim and this can mean only one thing. Rate hikes are coming from the Federal Reserve, possibly at a faster pace, where rates are going to normal levels and even higher.

	Aug	Jul	Jun	May	Apr	Mar
Payroll jobs (000s)	201	147	208	268	175	155
Unemployment rate %	3.9	3.9	4.0	3.8	3.9	4.1
Unemployment (3 decimal)	3.853	3.871	4.048	3.755	3.929	4.071
Participation rate %	62.7	62.9	62.9	62.7	62.8	62.9
Average hourly earnings	$27.16	$27.06	$26.99	$26.94	$26.86	$26.80
MTM % Chg	0.4	0.3	0.2	0.3	0.2	0.2
YOY % Chg	2.9	2.7	2.8	2.8	2.6	2.6
Production Worker earnings	$22.73	$22.66	$22.63	$22.58	$22.52	$22.46
MTM % Chg	0.3	0.1	0.2	0.3	0.3	0.3
YOY % Chg	2.8	2.7	2.8	2.7	2.6	2.6

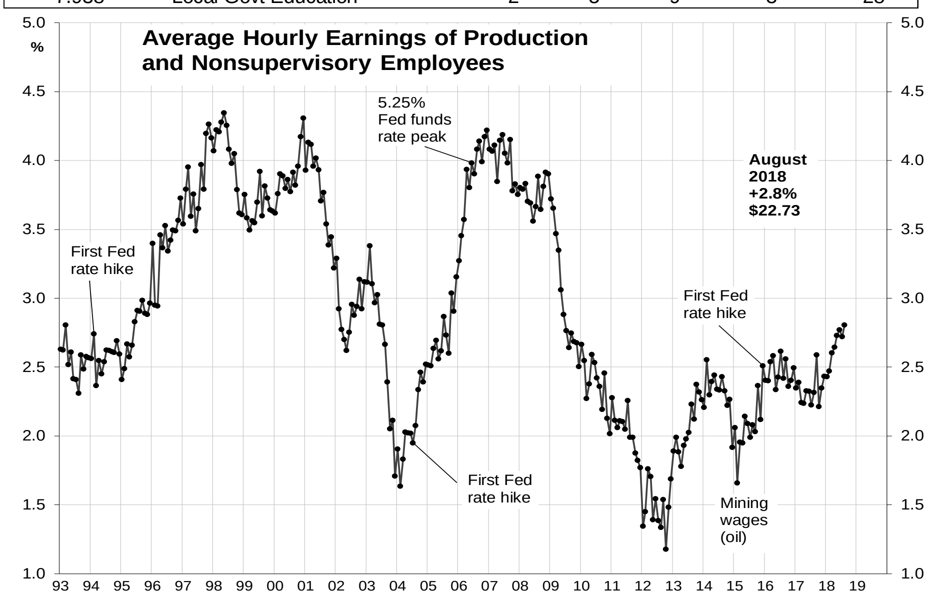
More wages mean more inflation pressures. This economy is a pressure cooker with companies still hiring big-time and giving out a better living wage for workers too. It is the law of supply and demand facing the steep wall of full employment, where companies if they are going to get over that wall, need to boost the rewards for their new hires or they will come away empty handed. Maybe Trump's economics team should start counseling the President that we cannot increase tariffs and bring factories back to the USA because there are no workers to put on the production line to make America great again. America is great again already where everyone who wants a job can find a job. Today's employment report shows that this country is truly the land of opportunity, as long as we keep those borders open; if we limit immigration there will be no workers to make the economy go. The greatest risk the long economic expansion faces is a shortage of labor. Where's my help!

On the jobs front, payroll employment still humming for now. 201K new jobs in August, 147K in July 208K in June, this summer is still smiling on the labor markets. The only notable weakness in August was Retail (-3K), Manufacturing (-3K), Information (-6K), and Government (-3K). Manufacturing jobs are up 159K this year still, but the weakness was broad-based except for a 4K rise in Fabricated metal products.

Net, net, the economy still has a lot of oomph left late in the business cycle if it can create 200 thousand new jobs and pump up the volume on wages. The historic tax cuts from Washington are working their magic today, with everyone sharing in the economy's good fortune, just don't look too far out on the horizon because at some point, when the tax cuts monies get fully paid out, the music is going to stop, most likely some time in 2019. For now, everyone is participating and this economy is creating employment opportunities with wages and rewards for all. The trade wars haven't dented the stock market yet, and now we see why. This economy is stronger than you think. The stock market's betting on it. You should too. Buy, buy, buy, buy, buy.

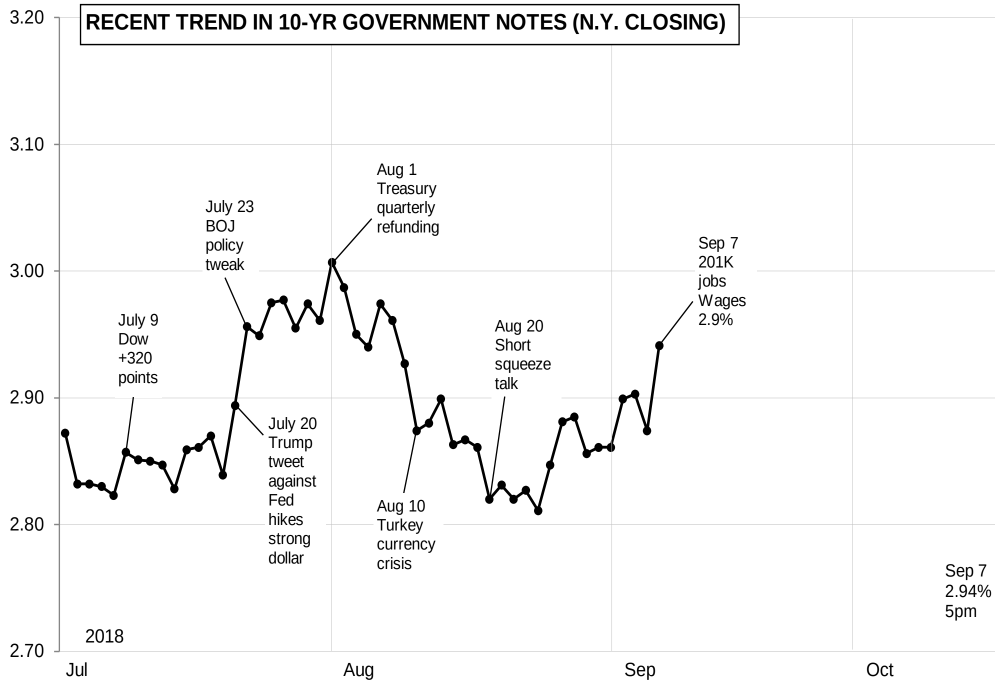
Payroll jobs in year ten following the recession

Dec. 2017 Totals millions		Aug 18	July 18	June 18	8 months Dec 17 to Aug 18	12 months Dec 16 to Dec 17
147.625	Nonfarm Payroll Employment	201	147	208	1654	2188
125.294	Total Private (ex-Govt)	204	153	192	1645	2163
20.328	Goods-producing	26	36	36	394	509
0.648	Mining	6	-1	9	49	53
12.558	Manufacturing	-3	18	21	159	207
0.956	Motor Vehicles & parts	-5	-4	5	-5	4
7.072	Construction	23	18	8	187	250
104.966	Private Service-providing	178	117	156	1251	1654
27.593	**Trade, transportation, utilities**	37	18	-14	227	169
15.861	Retail stores	-6	4	-42	52	-29
3.122	General Merchandise	-3	13	-24	5	-51
3.100	Food & Beverage stores	4	10	-10	3	3
5.236	Transportation/warehousing	20	7	15	113	135
1.460	Truck transport	6	1	2	23	9
0.708	Couriers/messengers	4	7	4	44	39
1.011	Warehousing and storage	2	2	0	25	43
0.554	Utilities	0	-3	0	-4	-3
2.776	**Information**	-6	-1	-2	-14	-36
8.511	**Financial**	11	2	12	77	142
2.664	Insurance	0	-3	3	11	38
2.220	Real Estate	5	6	4	35	60
1.323	Commercial Banking	-2	-4	3	-2	5
0.951	Securities/investments	4	2	1	20	20
20.677	**Professional/business**	53	37	47	385	458
2.998	Temp help services	10	11	-7	49	96
2.308	Management of companies	5	0	7	28	38
1.456	Architectural/engineering	6	4	7	32	45
2.065	Computer systems/services	4	8	3	50	47
1.137	Legal services	-2	-3	3	-2	5
0.982	Accounting/bookkeeping	4	3	3	32	-3
23.380	**Education and health**	53	41	67	352	458
5.124	Hospitals	8	6	10	65	70
3.696	Educational services	12	6	38	69	77
16.207	**Leisure and hospitality**	17	32	28	167	354
2.014	Hotel/motels	3	6	4	29	31
11.844	Eating & drinking places	18	25	24	145	261
22.331	Government	-3	-6	16	9	25
2.182	Federal ex-Post Office	0	1	2	8	-12
5.129	State government	-1	1	5	-12	-16
2.462	State Govt Education	2	0	4	-7	-1
14.407	Local government	-2	-6	9	20	56
7.938	Local Govt Education	-2	-5	9	3	28



MARKETS OUTLOOK

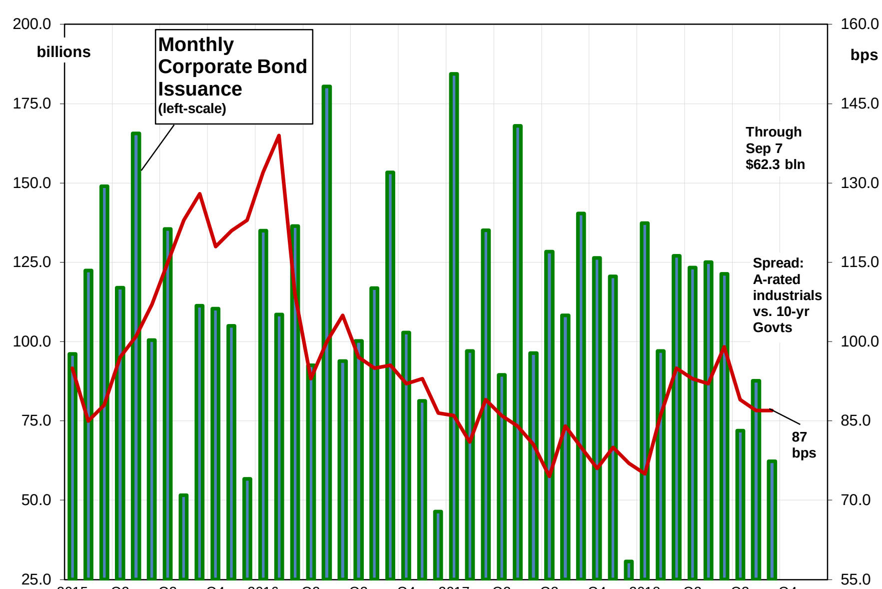
	29-Jun 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
30-Yr Treasury	2.99	3.10	3.20	3.35	3.45	3.60	3.60	3.75	3.85	3.80	3.95
10-Yr Note	2.86	2.90	3.00	3.20	3.30	3.50	3.50	3.70	3.80	3.80	3.95
5-Yr Note	2.74	2.70	2.90	3.10	3.20	3.45	3.45	3.65	3.75	3.80	3.95
2-Yr Note	2.53	2.55	2.80	3.00	3.15	3.40	3.40	3.60	3.75	3.80	4.00
3-month Libor	2.34	2.55	2.80	2.95	3.20	3.45	3.45	3.70	3.95	3.95	4.20
Fed Funds Rate	2.00	2.25	2.50	2.75	3.00	3.25	3.25	3.50	3.75	3.75	4.00
2s/10s spread	33	35	20	20	15	10	10	10	5	0	(5)



Ten-year Treasury yields were 2.94% on Friday versus 2.86% the week before. Yields jumped on Friday after the employment report showing wages at a new high, 2.9%, and stronger payroll jobs of 201K in August up from 147K in July. 10-yr Treasury yields were about 2.885% on Friday at the 830am jobs data release time and went as high as 2.95% by 10 o'clock. A slight majority, 8 of 15 Fed officials, see four rate hikes in 2018. The jobs report may increase that majority, but many Fed officials remain cautious about raising rates at a faster pace. Some don't want to push past neutral which 9 of 15 think is 2.75 to 3.0%.

CORPORATES: CIGNA, PFIZER, GM, UNILEVER, DEERE, CATERPILLAR

Corporate offerings were $62.3 billion in the September 7 week versus $2.9 billion in the August 31 week. On Wednesday, PSE&G sold $650 million 5s/10s. It priced a $325 million 3.65% 10-yr (m-w +12.5bp) at 75 bps (Aa3/A). The public utility, Northeast and Mid-Atlantic, will use the proceeds to repay debt and for general corporate purposes. Corporate bond yields (10-yr Industrials rated A2) were 87 bps above 10-yr Treasuries this week versus 87 bps last Friday.



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FEDERAL RESERVE POLICY

The Fed meets September 25-26 to consider its monetary policy. Fed funds futures say the odds are still high for a rate hike to 2.25% on September 26 -- 96% at Friday's close. Odds for a fourth hike this year (less reliable) to 2.5% at the December 18-19 meeting are 72%. Eight of fifteen Fed officials (53%) see four rate hikes this year.

The market odds of a fourth rate hike to 2.5% this year on December 19 rose from 64 to 72 percent after the jobs report on Friday, primarily on the stronger wages. Dallas Fed President Kaplan spoke after the employment report on Friday, his company contacts said they were growing more confident about the ability to raise prices, and some firms were discussing passing the higher tariff costs on to customers. He still seems to be watching whether the yield curve will invert if they raise the Fed funds rate. It sounds like he is not comfortable with raising rates very far above neutral. Unlike the Trump administration, he sees GDP growth falling back to potential in 2020-21. Fed officials see GDP running just 1.5 to 2.2 percent in 2020 according to their June meeting forecasts. The so-called "central tendency" forecast that kicks out the three highest and three lowest estimates is 1.8 to 2.0 percent. The Trump economics team is looking for 3.1% GDP growth in 2020.

Selected Fed assets and liabilities					Sep 10
Fed H.4.1 statistical release					2008**
billions, Wednesday data	5-Sep	29-Aug	22-Aug	15-Aug	pre-LEH
Factors adding reserves					
U.S. Treasury securities	2313.202	2324.589	2324.540	2324.391	479.782
Federal agency debt securities	2.409	2.409	2.409	2.409	0.000
Mortgage-backed securities	1697.006	1679.006	1706.731	1708.187	0.000
Primary credit (Discount Window)	0.001	0.039	0.010	0.007	23.455
Term auction credit (TAF auctions)	0.000	0.000	0.000	0.000	150.000
Asset-backed TALF	0.000	0.000	0.000	0.000	
Maiden Lane (Bear)	1.719	1.718	1.720	1.719	29.287
Maiden Lane II (AIG)	0.000	0.000	0.000	0.000	0.000
Maiden Lane III (AIG)	0.000	0.000	0.000	0.000	
Central bank liquidity swaps	0.090	0.092	0.068	0.106	62.000
Federal Reserve Assets	4255.8	4266.3	4276.5	4276.5	961.7
3-month Libor %	2.32	2.31	2.31	2.31	2.82
Factors draining reserves					
Currency in circulation	1688.628	1681.023	1675.101	1673.616	834.477
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
Reverse repurchases w/others	0.010	0.840	1.126	0.315	0.000
Reserve Balances (Net Liquidity)	1897.901	1880.507	1902.785	1918.744	24.964
Treasuries within 15 days	0.000	20.932	20.932	0.000	14.955
Treasuries 16 to 90 days	102.160	77.244	77.244	63.772	31.549
Treasuries 91 days to 1 year	315.819	326.061	326.060	360.363	69.272
Treasuries over 1-yr to 5 years	1010.628	1016.040	1016.033	1016.026	170.807
Treasuries over 5-yrs to 10 years	267.464	267.189	267.171	258.449	91.863
Treasuries over 10-years	617.130	617.123	617.099	625.780	101.337

**September 10, 2008 is pre-Lehman bankruptcy of 9-15-08

Fed Individual Forecasts				
Fed funds rate by year-end				Longer
Votes	2018 End	2019 End	2020 End	run
1	1.875	1.875	1.875	2.250
2	1.875	2.125	2.625	2.500
3	2.125	2.625	2.625	2.625
4	2.125	2.875	3.125	2.750
5	2.125	2.875	3.250	2.750
6	2.125	2.875	3.375	2.750
7	2.125	2.875	3.375	2.750
8	2.375	3.125	3.375	3.000
9	2.375	3.125	3.375	3.000
10	2.375	3.125	3.500	3.000
11	2.375	3.125	3.625	3.000
12	2.375	3.375	3.625	3.000
13	2.375	3.375	3.625	3.250
14	2.375	3.375	4.125	3.500
15	2.625	3.625	4.125	
Median	2.375	3.125	3.375	2.875
Meeting	Jun 2018	Jun 2018	Jun 2018	Jun 2018

Fed					Longer
Meeting	2017	2018	2019	2020	run
Jun 18		2.4	3.1	3.4	2.9
Mar 18		2.1	2.9	3.4	2.9
Dec 17	1.4	2.1	2.7	3.1	2.8
Sep 17	1.4	2.1	2.7	2.9	2.8
Jun 17	1.4	2.1	2.9		3.0
Mar 17	1.4	2.1	3.0		3.0
Dec 16	1.4	2.1	2.9		3.0
Sep 16	1.1	1.9	2.6		2.9
Jun 16	1.6	2.4			3.0
Mar 16	1.9	3.0			3.3

Tax cuts and fiscal spending stimulus moved 2020 forecast to 3.4% in March. Now what for 2021?

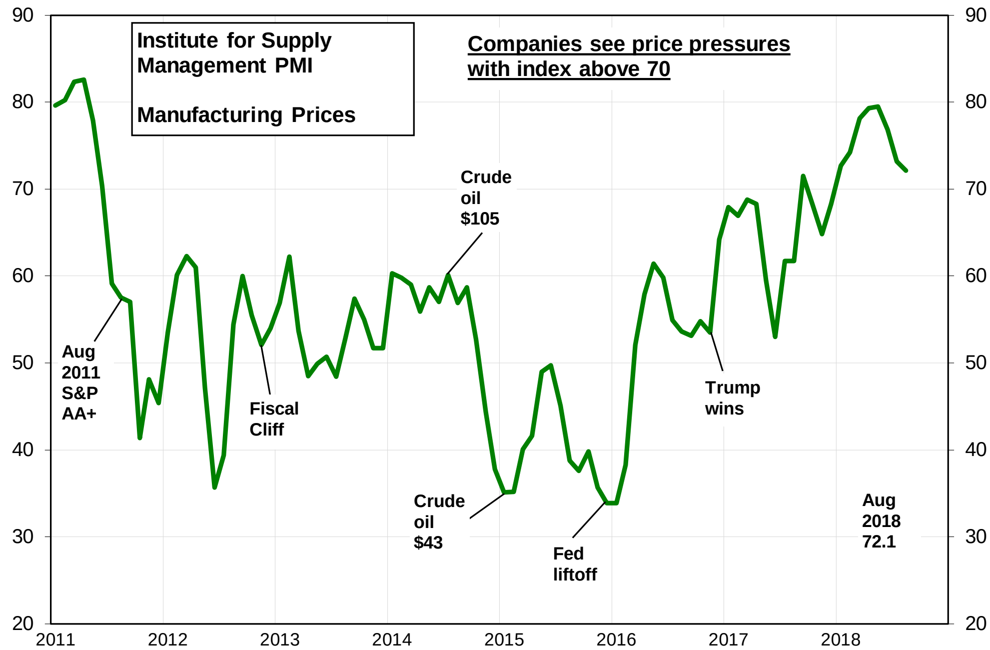
Year-ends for Interest Rates

Percent %	2018	2019	2020	2021
Eurodollar futures	2.645	3.04	3.035	3.01
Fed's June forecast	2.5	3.25	3.5	

Eurodollar futures price where 3-month Libor will be in the future.
Friday, September 7, 2018 3-month Libor 2.33 %

OTHER ECONOMIC NEWS THIS WEEK

Manufacturers, exporters, are the most optimistic yet (Tuesday)



Breaking economy news. ISM manufacturing executives are the most confident about the outlook that they have been so far during this long economic expansion from the recession. This does not compute, but we guess it does. Manufacturers export goods overseas, but the rising trade tensions have done nothing to hurt their confidence. It all seems tied to new orders we would guess, as nondefense capital goods orders ex-aircraft are picking up strongly this summer as well.

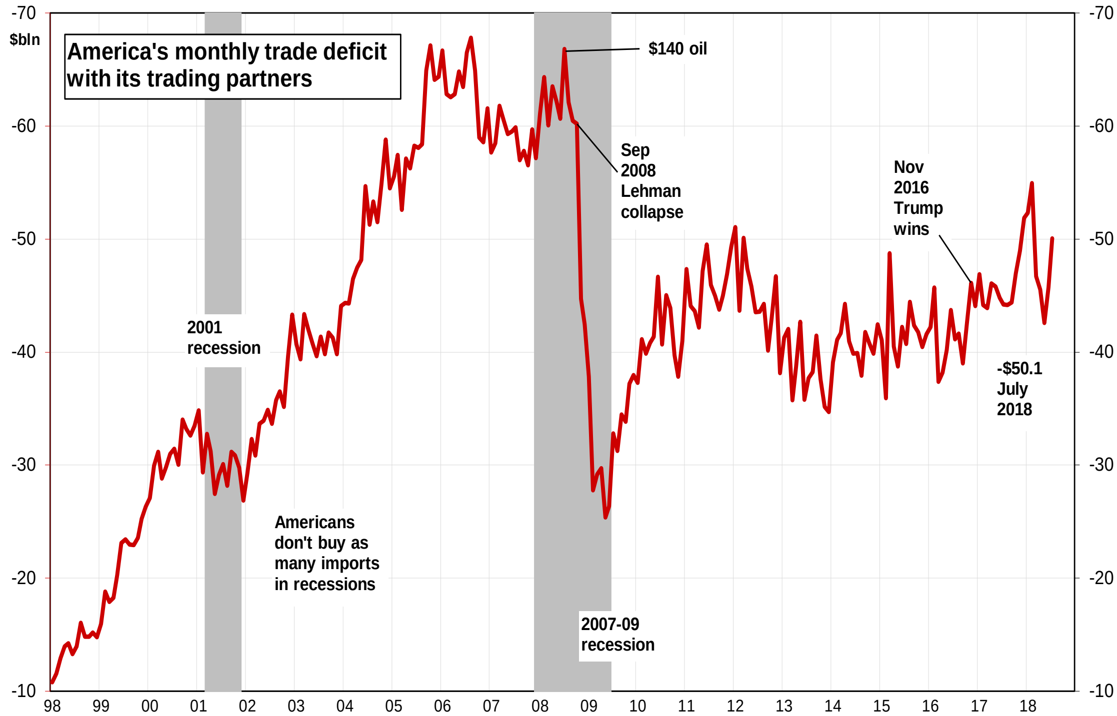
The ISM manufacturing index jumped 3.2 points to a new high this year of 61.3. Purchasing managers at factories are the most bullish on the outlook that they have been since the recession, and are close to the giddy highs of the housing bubble economy years, 61.4 in May 2004, a month before the Fed's first rate hike from 1% we might add.

Net, net, the economy is getting a boost from US manufacturers who are seeing a flood of new orders despite the rise in trade tensions that are making company executives on other continents less confident in the future. The trade war uncertainty hasn't made a dent in the confidence of factory executives. With business confidence at 14-year highs, you can bet that Fed officials will go ahead with another rate hike when they meet later this month. Manufacturers don't need low interest rates as a confidence booster anymore, that's for sure.

Manufacturers remain confident for today, but with trade tariffs starting to take effect, one wonders how long purchasing manager executives will remain upbeat. Both the sky-high valuations in the stock market and the confidence of factory executives seem to run counter to the news headlines we read every day. We hope that the stock market and purchasing managers have got the right call on the economic outlook. It's too early to see how the Administration's tough trade talk with China will play out. And don't forget, companies just got one of the biggest tax giveaways in U.S. history, which makes one wonder what will happen when the money goes away. Stay tuned. Story developing. It's all good. Sure. For now. But how long can it last?

America's still getting ripped off by its trading partners (Wednesday)

Breaking economy news. The trade deficit including goods and services we trade with the world rose from $45.7 billion in June to $50.1 billion in July. The trade deficit in goods with China is already at $222.5 billion through July this year with five more months to go. Both exports to and from China are soaring ahead of the tariffs being put in place on both sides, both running about 8% faster than the comparable period in 2017. The trade deficit in goods with China will rise to nearly $410 billion in 2018 from $375 billion in 2017 if this seven month trend so far this year continues.



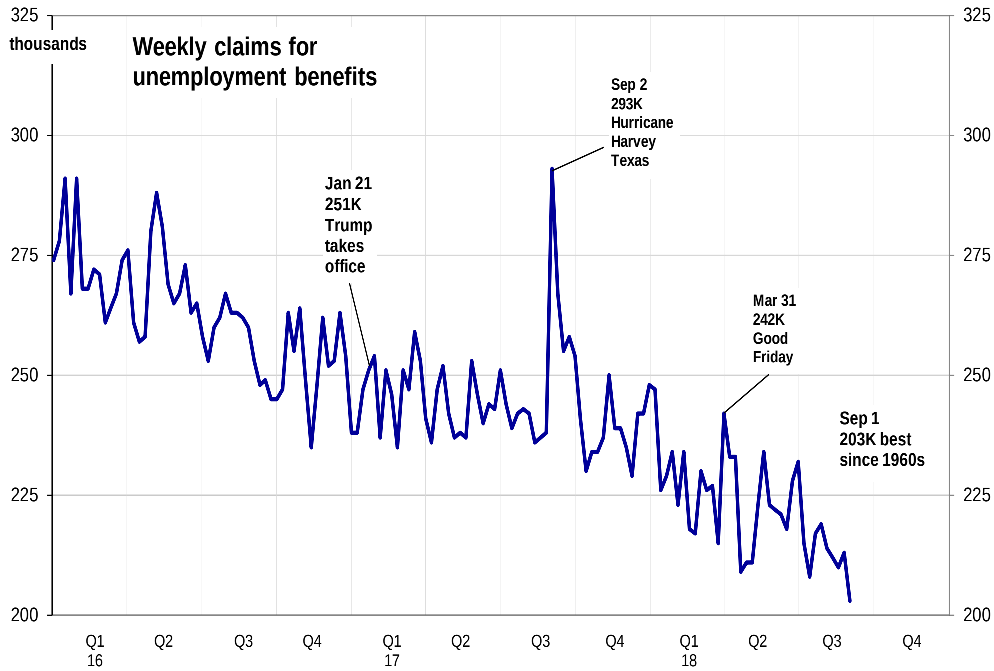
The data say that the Trump administration will likely keep pushing until we get a free trade deal because at the moment it is getting worse. No wonder the stock market is at record highs. The trade war has done nothing to put a dent in the economy's upward trajectory as of right now today. Rising trade war tensions and threats aren't even a pothole in the road at the moment for US economic growth. Some US companies are reportedly in big trouble due to these tariffs, but it is likely to be several months, even maybe a year, before the broader economy slows due to trade sanctions.

Net, net, America still isn't getting a fair deal on trade with the world as the deficit in tradable goods and services jumped to $50.1 billion and that can only mean one thing. President Trump is going unleash another $200 billion in tariffs on China imports when the comment period concerning this action ends on Thursday, September 6. The vast majority of companies commenting are against it, but the Trump administration economics officials are all in on it. The global supply chain links to the US economy are complex and the three decade trend towards globalization will not be changed by policies dictated from Washington overnight. Multinational companies make the business decisions where to produce their products, and at the moment, US politicians are coming up empty on their promise to make it here in America. The trade deficit with the world is big and getting bigger, and there is nothing anyone down there in Washington can do about it. Stay tuned. Story developing.

Jobless claims new low, Fed, c'mon, take away the economy's punch! (Thursday)

Initial jobless claims fell 10K to 203K in the September 1 week. That's a good thing, not a bad thing, as the President says. The lowest number of people claiming jobless benefits since 1969. Look up for yourselves what week that was. 1969. Wow. Like only 202 million living in the good old USA in 1969 from the mountains to the valleys versus 328 million right now. No wonder people want to take us back to the good old days in the 60s. More for everybody, less mouths for the American economy to feed.

The economy is in overdrive with jobless claims at lows not seen since the 1960s and this gives the Fed the green light to raise interest rates later this month and take away some of the economy's punch. The economy doesn't need the support of the central bank this late in the economic expansion. Every other Federal Reserve in history was slamming on the brakes at this stage of the business cycle, not doling out cheap money. The lack of experience and knowledge at the Federal Reserve currently is breathtaking.



This economy is hot, hot, hot, and the labor market is on fire right now. No company's management in their right minds would let any of their workers go in this labor market that's tight as a drum. Let's not fool ourselves, there is no labor on the sidelines, not participating, just waiting for a chance to get in the game, maybe some people working part time who would love the opportunity for full time work. C'mon. There are not workers out there for companies to employ and it will be a miracle if the Trump administration's forecasts of 3% economic growth uber alles, we mean forever, can ever be achieved if there are no workers to put on those factory floors coming back to America.

This economy will complete its tenth year of expansion next June, matching the best economic period of longevity and growth during the Clinton presidency in the 1990s. They tried to impeach "Bill" as well, but the economy labored on and set growth records anyway.

There are many risks out there, emerging markets causing market chaos (forget US stocks are at all-time highs and could care less), rising trade tensions threatening long-established world trade patterns and disrupting company supply-chains. If they can't get it, they can't build it. But maybe the biggest risk to the economy is the lack of labor. No one available to work. There are storm clouds of recession out there on the horizon, and with the economy running out of fuel here in its tenth year, it will be a miracle if the economy can continue to move forward the next few years without the help of labor.

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