# Financial Market Weekly

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**MUFG Bank, Ltd.**
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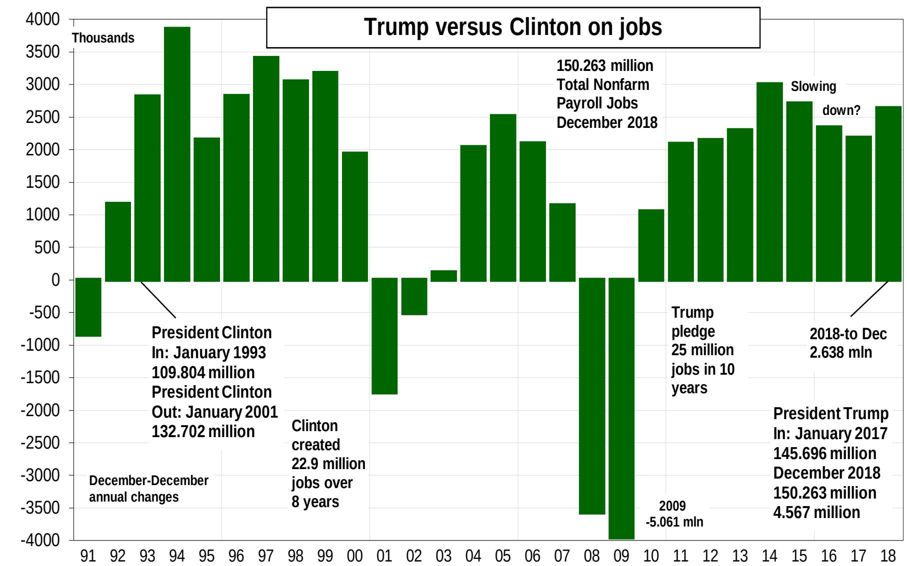
**4 JANUARY 2019**

## 312K PAYROLL JOBS. ECONOMISTS 1, MARKETS 0
## Feels like a recession out there, but sure doesn't look like one




Breaking economy news. The December monthly employment situation report. The economy isn't on life support like the markets thought, the economic times they are a booming. 312K payroll jobs in December with 58K of upward revisions to October/November. Wages rising 3.2% right now, where last month it was just up 3.1% year-to-year. Hey, 11 more cents this month added to average hourly earnings of $27.48, live it up American workers. We're winning. The unemployment rate is higher at 3.9%, but forget about it, it's the product of the annual benchmark revision, not reflective of "tighter" labor market conditions. [Fake news interpretation is 237K dropped back into labor force from off the sidelines of society and couldn't find work so the number of unemployed rose 276K. More people participating: looking for work.]

The American economy is booming based on today's reading of the employment situation which should go a long way to reassuring nervous nellies in financial markets that the 2019 economic outlook skies will not be turning dark and gray.

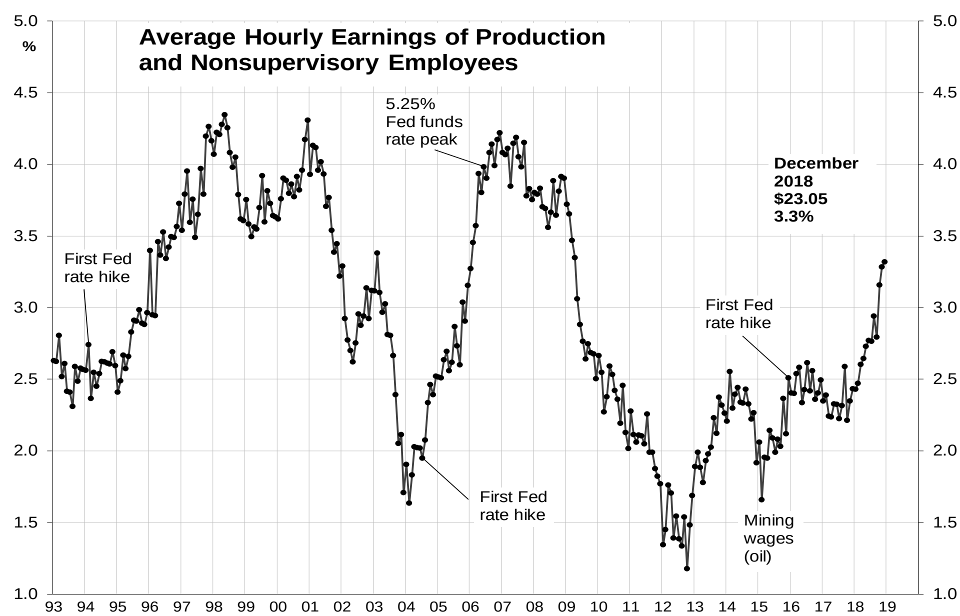
| | Dec | Nov | Oct | Sep | Aug | Jul |
|---|---|---|---|---|---|---|
| Payroll jobs (000s) | 312 | 176 | 274 | 119 | 286 | 165 |
| Unemployment rate % | 3.9 | 3.7 | 3.8 | 3.7 | 3.8 | 3.9 |
| Unemployment (3 decimal) | 3.856 | 3.696 | 3.757 | 3.694 | 3.830 | 3.850 |
| Participation rate % | 63.1 | 62.9 | 62.9 | 62.7 | 62.7 | 62.9 |
| Average hourly earnings | $27.48 | $27.37 | $27.31 | $27.25 | $27.17 | $27.07 |
| MTM % Chg | 0.4 | 0.2 | 0.2 | 0.3 | 0.4 | 0.3 |
| YOY % Chg | 3.2 | 3.1 | 3.2 | 2.8 | 3.0 | 2.8 |
| Production Worker earnings | $23.05 | $22.96 | $22.88 | $22.82 | $22.76 | $22.67 |
| MTM % Chg | 0.4 | 0.3 | 0.3 | 0.3 | 0.4 | 0.2 |
| YOY % Chg | 3.3 | 3.3 | 3.2 | 2.8 | 2.9 | 2.8 |

Want a job? 82K more in education and health this month. Leisure and hospitality 55K more. Manufacturing 32K, Construction 38K. Retail isn't dead, they hired 24K. This economy isn't sinking, it's going to the moon. Bring back those colorful floor traders trading stocks, and tell them to buy, buy, buy, buy, buy. Cleveland Fed President Mester, the last Hawk standing, told TV viewers this morning before the jobs report there was no urgency to raise interest rates because inflation was low, well, how about the red-hot labor market? Isn't that a reason to bring rates up to normal 3 percent levels? It looks to us like the Fed has backed down from raising rates on their tried and true, full employment models of the economy in favor of the White House, the president who doesn't like fighting with his hand tied behind his back with a 2.5% Fed funds rate when President Obama had it easy with zero interest rates.

Net, net, the markets sure had it wrong on the outlook where the economy hit the high notes at the end of the year, producing the most jobs this December since February when jobs bounced back from a couple months of cold winter weather. Those forecasts of CFOs where half predict a recession in 2019? Forget about it. The economy has. This economy is strong enough to hire 2.638 million workers in 2018 the most since 2015. Do you know when was the last time that over 2 million jobs were created in one year, and the next year the economy nose-dived into recession? Answer: Never. There is no recession coming next year. Bet on it.

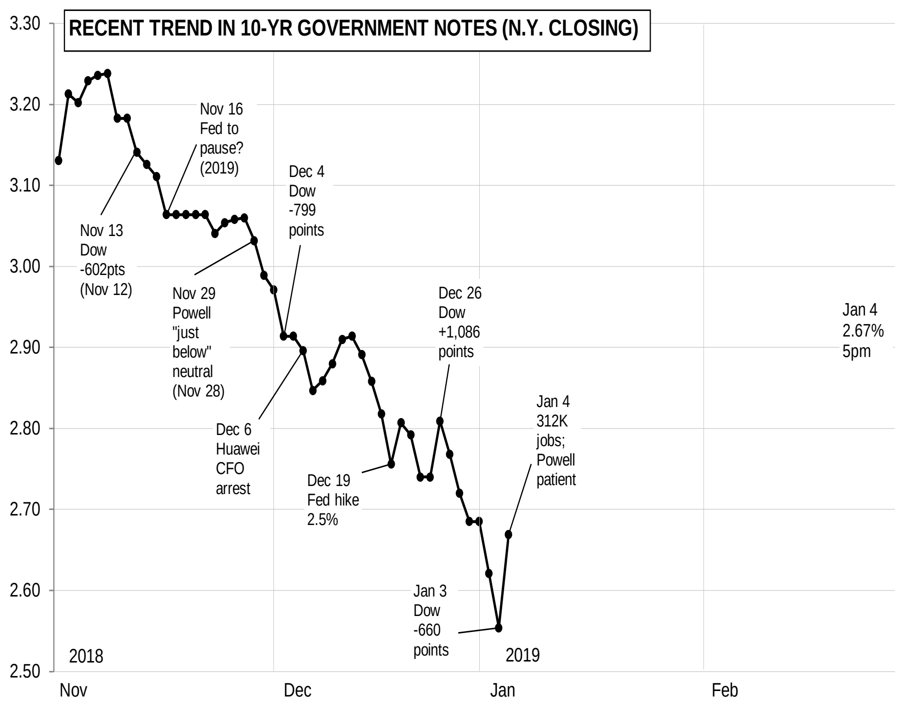
**Payroll jobs in year ten following the recession**

| Dec. 2017 Totals millions | | Dec 18 | Nov 18 | Oct 18 | 12 months Dec 17 to Dec 18 | 12 months Dec 16 to Dec 17 |
|---|---|---|---|---|---|---|
| 147.625 | Nonfarm Payroll Employment | 312 | 176 | 274 | 2638 | 2188 |
| 125.294 | Total Private (ex-Govt) | 301 | 173 | 281 | 2564 | 2163 |
| 20.328 | Goods-producing | 74 | 27 | 64 | 624 | 509 |
| 0.648 | Mining | 4 | 0 | 4 | 62 | 53 |
| 12.558 | Manufacturing | 32 | 27 | 29 | 284 | 207 |
| 0.956 | Motor Vehicles & parts | 2 | -1 | 6 | 13 | 4 |
| 7.072 | Construction | 38 | 0 | 31 | 280 | 250 |
| 104.966 | Private Service-providing | 227 | 146 | 217 | 1940 | 1654 |
| 27.593 | **Trade, transportation, utilities** | 34 | 68 | 24 | 370 | 169 |
| 15.861 | Retail stores | 24 | 29 | 0 | 92 | -29 |
| 3.122 | General Merchandise | 15 | 37 | -2 | 76 | -51 |
| 3.100 | Food & Beverage stores | 4 | 6 | 6 | 15 | 3 |
| 5.236 | Transportation/warehousing | 2 | 29 | 17 | 190 | 135 |
| 1.460 | Truck transport | 3 | 4 | 1 | 37 | 9 |
| 0.708 | Couriers/messengers | -5 | 13 | 5 | 65 | 39 |
| 1.011 | Warehousing and storage | 2 | 4 | 8 | 53 | 43 |
| 0.554 | Utilities | 1 | 1 | 1 | 0 | -3 |
| 2.776 | **Information** | -1 | -5 | 7 | -16 | -36 |
| 8.511 | **Financial** | 6 | 1 | 10 | 110 | 142 |
| 2.664 | Insurance | 1 | 3 | 3 | 23 | 38 |
| 2.220 | Real Estate | 8 | -3 | 10 | 64 | 60 |
| 1.323 | Commercial Banking | -2 | -1 | -1 | -8 | 5 |
| 0.951 | Securities/investments | 1 | 7 | -2 | 27 | 20 |
| 20.677 | **Professional/business** | 43 | 44 | 56 | 583 | 458 |
| 2.998 | Temp help services | 10 | 11 | 16 | 99 | 96 |
| 2.308 | Management of companies | 0 | -3 | 3 | 29 | 38 |
| 1.456 | Architectural/engineering | 1 | 5 | 7 | 44 | 45 |
| 2.065 | Computer systems/services | 2 | 10 | 8 | 78 | 47 |
| 1.137 | Legal services | -1 | -1 | 1 | 0 | 5 |
| 0.982 | Accounting/bookkeeping | 3 | 1 | 6 | 42 | -3 |
| 23.380 | **Education and health** | 82 | 21 | 44 | 517 | 458 |
| 5.124 | Hospitals | 7 | 9 | 13 | 108 | 70 |
| 3.696 | Educational services | 24 | -10 | -4 | 57 | 77 |
| 16.207 | **Leisure and hospitality** | 55 | 18 | 67 | 306 | 354 |
| 2.014 | Hotel/motels | 8 | -5 | -3 | 21 | 31 |
| 11.844 | Eating & drinking places | 41 | 25 | 45 | 235 | 261 |
| 22.331 | Government | 11 | 3 | -7 | 74 | 25 |
| 2.182 | Federal ex-Post Office | 2 | -1 | 3 | 13 | -12 |
| 5.129 | State government | 5 | -7 | -12 | 2 | -16 |
| 2.462 | State Govt Education | 0 | -7 | -16 | -5 | -1 |
| 14.407 | Local government | 9 | 4 | 3 | 63 | 56 |
| 7.938 | Local Govt Education | 2 | -5 | -2 | 18 | 28 |



## MARKETS OUTLOOK

| | 28-Dec 2018 | Q1 2019 | Q2 2019 | Q3 2019 | Q4 2019 | Q1 2020 | Q2 2020 | Q3 2020 | Q4 2020 |
|---|---|---|---|---|---|---|---|---|---|
| 30-Yr Treasury | 3.02 | 3.20 | 3.30 | 3.35 | 3.45 | 3.45 | 3.50 | 3.60 | 3.70 |
| 10-Yr Note | 2.72 | 3.00 | 3.10 | 3.20 | 3.30 | 3.30 | 3.40 | 3.50 | 3.60 |
| 5-Yr Note | 2.56 | 2.85 | 3.00 | 3.10 | 3.20 | 3.25 | 3.35 | 3.45 | 3.60 |
| 2-Yr Note | 2.52 | 2.80 | 3.00 | 3.10 | 3.20 | 3.20 | 3.35 | 3.45 | 3.60 |
| 3-month Libor | 2.80 | 2.70 | 2.95 | 2.95 | 3.20 | 3.20 | 3.45 | 3.45 | 3.70 |
| Fed Funds Rate | 2.50 | 2.50 | 2.75 | 2.75 | 3.00 | 3.00 | 3.25 | 3.25 | 3.50 |
| 2s/10s spread | 20 | 20 | 10 | 10 | 10 | 10 | 5 | 5 | 0 |




Bond yields fell as low as 2.54% Friday which is down near the 2.5% Fed funds rate. Yields down here seem to be guessing at the Fed cutting rates at some point, not raising them two more times in 2019 to 3.0% by year's end. Powell said they could be "patient" on Friday morning. The stock market is just as easy to understand with the S&P 500 falling as much as 20.2% to the lows on December 26 from the September 2018 all-time highs. Stocks also fell 20.4% during the 1990-91 recession, so share prices have discounted a lot. Perfectly reasonable price action if recession lies ahead.

## FEDERAL RESERVE POLICY

**Eurodollar futures say no more Fed rate hikes**

**Year-ends for Interest Rates**

| Percent % | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| Eurodollar futures | 2.803 | 2.62 | 2.430 | 2.46 |
| Fed's Dec forecast | 2.5 | 3.0 | 3.25 | 3.25 |

Eurodollar futures price where 3-month Libor will be in the future.
Friday, January 4, 2019 3-month Libor 2.80%

The Fed meets January 29-30 to consider its monetary policy. It is live, but the odds of a rate hike to 2.75% are minus 4% at the Fed's next quarterly meeting on March 19-20, 2019. Powell, Yellen, Bernanke were on stage at the ASSA 2019 Annual Meeting starting at 1015am Friday morning. ["ASSA" Look it up.] Powell said it was a "strong" employment report, but the market tuned into his comment that "with the muted inflation readings we've seen coming in, we will be patient as we watch to see how the economy evolves." The news that Powell would be patient along with the 312K payroll jobs report sent Dow industrials closing up 746 points on Friday. Earlier before the jobs report was released Cleveland Fed President Mester who once was a Hawk said there was no urgency to raise interest rates because inflation was low. PCE inflation was 1.8% year-year in November, below the Fed's 2% target. The government is in shutdown; don't ask when the December inflation report will be released.

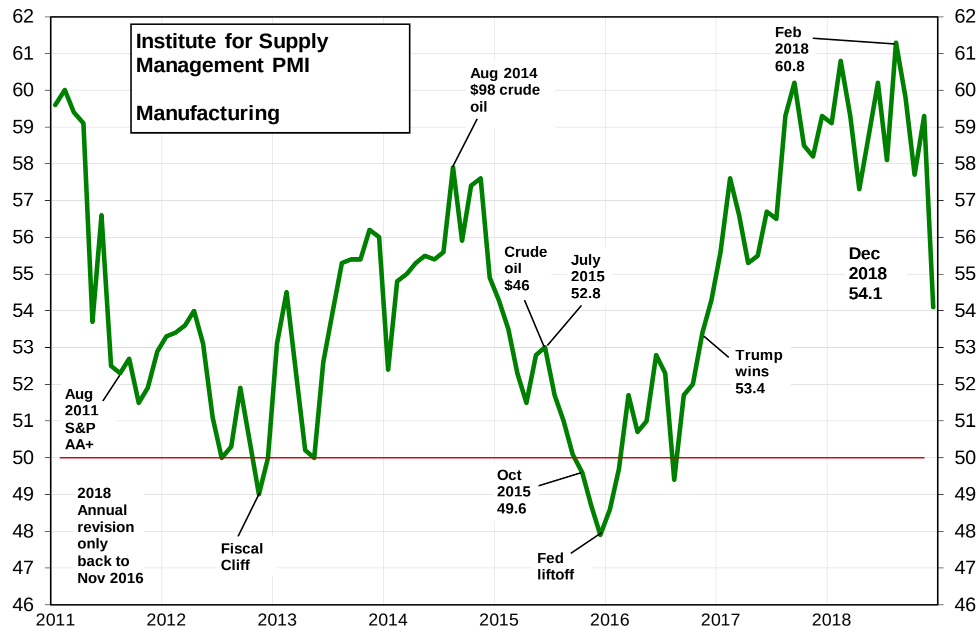
## OTHER ECONOMIC NEWS THIS WEEK

### Another day another manufacturing survey number bites the dust (Thursday)

Breaking economy news. Corporate America is getting cold feet about the outlook at the end of last year with the ISM manufacturing survey tumbling 5.2 points to 54.1. New orders fell exceptionally hard from 62.1 in November to 51.1 in December. Keep in mind this is as much a survey of sentiment as it is an accurate read on how companies are doing with their orders and production and hiring plans, and in December the stock market absolutely cratered which of course makes stock options less valuable for the C-suite at America's best companies. In short, it's not surprising that the ISM manufacturing index fell as much as it did at the end of last year given the sharp drop in U.S. stocks. All 18 manufacturing industries are still expanding the report says, but for how long is what we want to know? That's what the stock market is saying with new selling and new lows after the manufacturing survey's release today.

Net, net it is a battle between hard data and soft economic data today with the ADP employment survey saying private payroll jobs will jump 271K in tomorrow's monthly report, while business confidence collapses for manufacturing companies. Manufacturing confidence is falling all over the world in surveys out this week in China and Europe and now in the USA. New orders plummeted in December the purchasing managers survey says, but hard data to back up this finding, the durable goods orders report for December, won't be released until January 25 although this is likely to get delayed with the 13-day Federal government shutdown.

The economy is just going to be spinning its wheels with subpar growth in 2019 if the purchasing managers' report is to be believed. New orders have dried up and this will take a toll on business investment and growth in 2019. The Tax Cuts and Jobs Act effect that boosted GDP growth faster than 3% in 2018 looks like it will no longer continue to support such rapid economic growth.




Stay tuned. Story developing. The Federal government has shut down and purchasing managers are saying the U.S. economy is likely to shut down later on this year too. Economic growth will be slower in 2019 than it was in 2018, you can take that bet to the bank, purchasing managers are saying. Caution levels are rising with supply chain re-sourcing from China disrupting business operations and Brexit uncertainty affecting business plans as well. The key words for the 2019 economic outlook are caution and uncertainty. Bet on it.

***Powell downplayed the weak ISM figures in his remarks Friday, and keep in mind the signal of recession is when the ISM index falls below 43.2. Still, it fell a long way, no?

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