

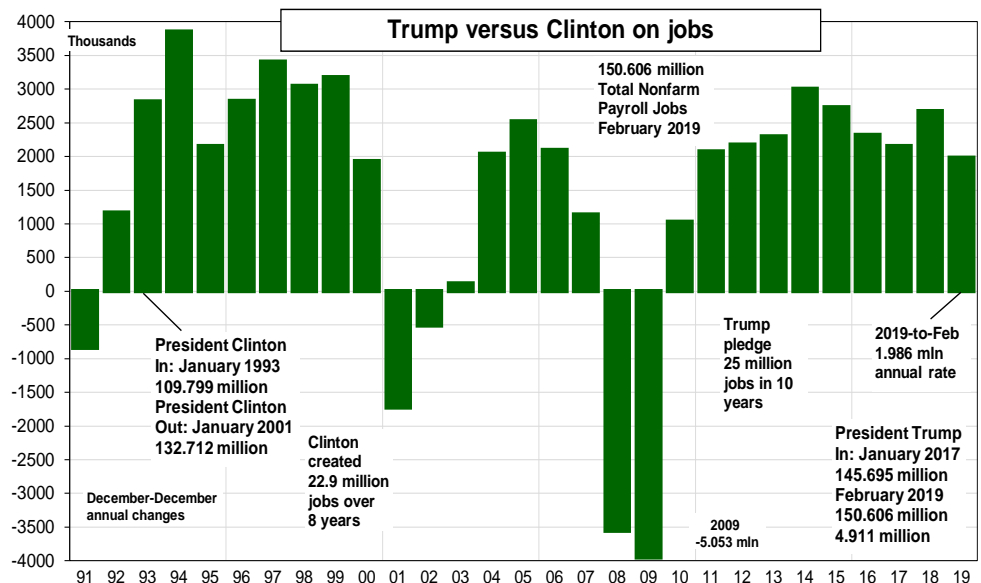
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MUFG Bank, Ltd.
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PLENTY OF WAGES FOR THOSE LUCKY ENOUGH TO HAVE A JOB

Breaking economy news. Payroll jobs rose just 20K in February after rising 311K in January and 227K in December. There were 12K in upward revisions to January/December. It looks like the weakness in retail sales and consumer spending in December finally started to negatively impact payroll employment in the country as companies became more cautious. The weakness is spreading. Recession right around the corner. Maybe. It was cold out there in January and February, and the 35-day Federal government shutdown that just ended January 25 cast a pall over the economy at the start of the year. The payroll jobs survey is conducted for the pay period that includes February 12. Leisure and hospitality jobs were unchanged in February after outsized gains of 89K in January and 65K in December, and these "amusement park and dining-out" jobs are the first to feel the effect of colder than seasonal temperatures. Construction jobs also fell 31K which looks weather-related. And retail jobs were 6K



	Feb	Jan	Dec	Nov	Oct	Sep
Payroll jobs (000s)	20	311	227	196	277	108
Unemployment rate %	3.8	4.0	3.9	3.7	3.8	3.7
Unemployment (3 decimal)	3.821	4.004	3.856	3.696	3.757	3.694
Participation rate %	63.2	63.2	63.1	62.9	62.9	62.7
Average hourly earnings	\$27.66	\$27.55	\$27.53	\$27.43	\$27.35	\$27.30
MTM % Chg	0.4	0.1	0.4	0.3	0.2	0.3
YOY % Chg	3.4	3.1	3.3	3.3	3.3	3.0
Production Worker earnings	\$23.18	\$23.10	\$23.09	\$22.99	\$22.90	\$22.86
MTM % Chg	0.3	0.0	0.4	0.4	0.2	0.3
YOY % Chg	3.5	3.3	3.5	3.4	3.2	3.0

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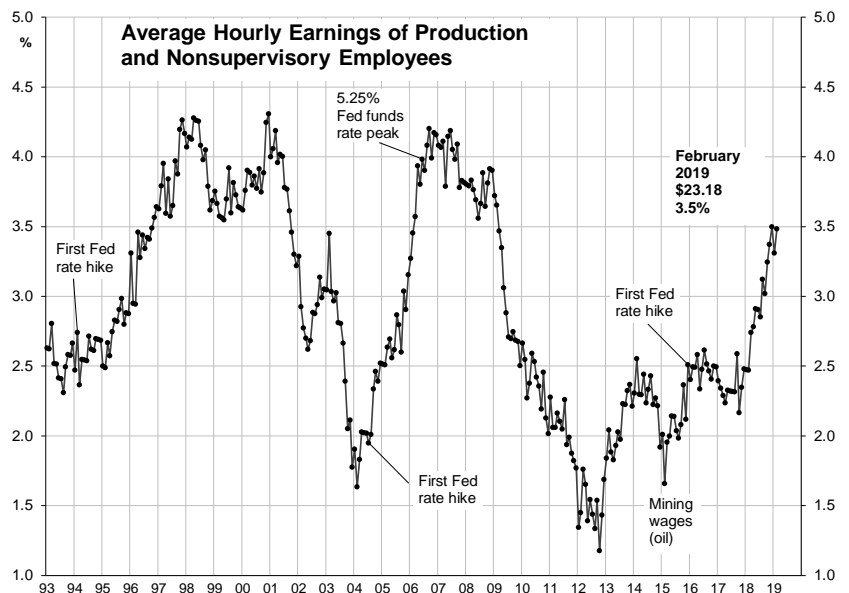
lower. If you don't like the 20K payroll job rise in January you can always look to the 255K rise in the household survey of employment if you want to feel better about the outlook.

At least wages were better rising 3.4% the last 12 months to \$27.66 an hour. The 3.4% pay raise (keeping our fingers crossed) is the best yet in this long economic expansion from the recession nearly ten years ago and of course reflects the lack of workers out there (where's my help?) with the unemployment rate falling back to 3.8% in February from 4.0% the month before.

Net, net, employers hit the brakes on hiring at the start of the year as the uncertainty over the Federal government shutdown, the never-ending trade talks with China and Europe, and diminished prospects for economic growth abroad darkened the domestic outlook for sales and revenues this year. We also think the colder than seasonal winter temperatures had a negative impact on hiring. Today's employment is the last nail in the coffin in our hopes that economic growth will be normal in the first quarter, in fact, it looks like the economy is a walking disaster in the first three months of the year. There are plenty of wages for those lucky to have a job and be sure to hang on to it as the economy could be teetering on the brink.

Payroll jobs in year ten following the recession

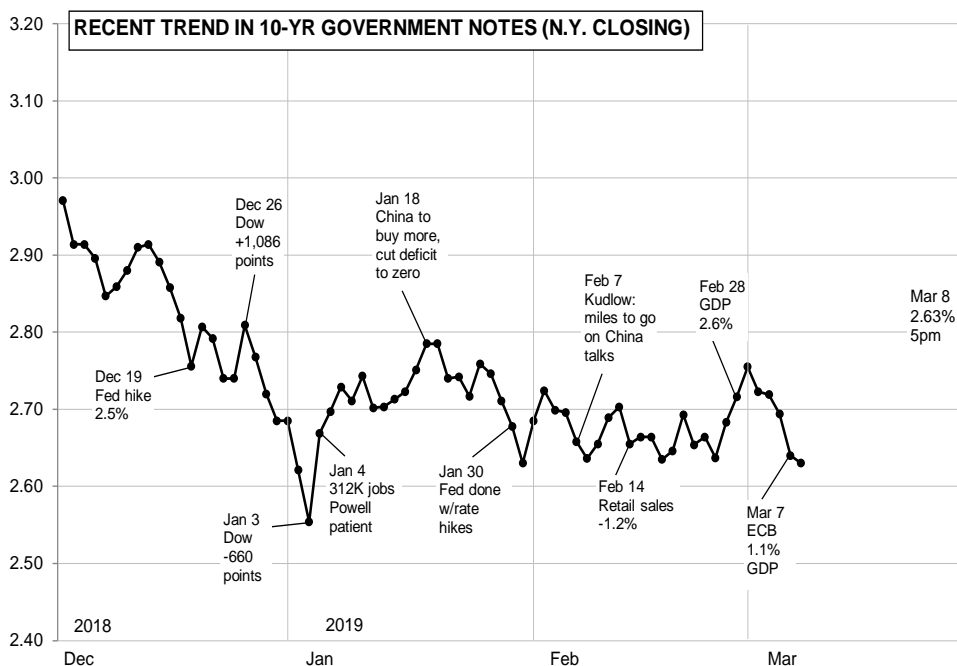
Dec. 2018		Feb 19	Jan 19	Dec 18	2 months Dec 18 to Feb 19	12 months Dec 17 to Dec 18
Totals	millions					
150.275	Nonfarm Payroll Employment	20	311	227	331	2679
127.790	Total Private (ex-Govt)	25	308	224	333	2583
20.961	Goods-producing	-32	81	40	49	631
0.705	Mining	-3	6	4	3	63
12.809	Manufacturing	4	21	20	25	264
1.005	Motor Vehicles & parts	1	0	1	1	23
7.400	Construction	-31	53	16	22	307
106.829	Private Service-providing	57	227	184	284	1952
27.788	Trade, transportation, utilities	2	54	5	56	304
15.821	Retail stores	-6	14	-6	8	14
3.105	General Merchandise	-3	-10	-23	-13	9
3.108	Food & Beverage stores	4	2	9	6	20
5.511	Transportation/warehousing	-3	30	-1	27	216
1.512	Truck transport	1	5	3	6	44
0.750	Couriers/messengers	-10	15	7	5	54
1.170	Warehousing and storage	4	11	-4	15	84
0.555	Utilities	0	1	0	1	-1
2.827	Information	0	-12	-2	-12	6
8.615	Financial	6	9	1	15	115
2.703	Insurance	5	3	1	8	31
2.287	Real Estate	1	9	6	10	67
1.316	Commercial Banking	-1	1	-1	0	-7
0.967	Securities/investments	1	-2	-1	-1	23
21.254	Professional/business	42	15	37	57	561
3.060	Temp help services	6	-12	14	-6	83
2.395	Management of companies	4	3	3	7	62
1.495	Architectural/engineering	6	3	2	9	42
2.162	Computer systems/services	3	2	4	6	86
1.140	Legal services	1	2	-1	3	1
1.034	Accounting/bookkeeping	4	-2	6	2	39
23.912	Education and health	4	64	67	68	532
5.195	Hospitals	4	13	6	18	100
3.746	Educational services	-19	27	14	8	50
16.554	Leisure and hospitality	0	89	65	89	359
2.036	Hotel/motels	2	8	7	10	23
12.074	Eating & drinking places	2	51	47	53	258
22.485	Government	-5	3	3	-2	96
2.192	Federal ex-Post Office	2	2	-1	3	9
5.183	State government	-1	-6	3	-7	19
2.487	State Govt Education	-6	-7	3	-13	10
14.504	Local government	-4	8	6	4	74
7.974	Local Govt Education	-4	5	3	1	31



MARKETS OUTLOOK

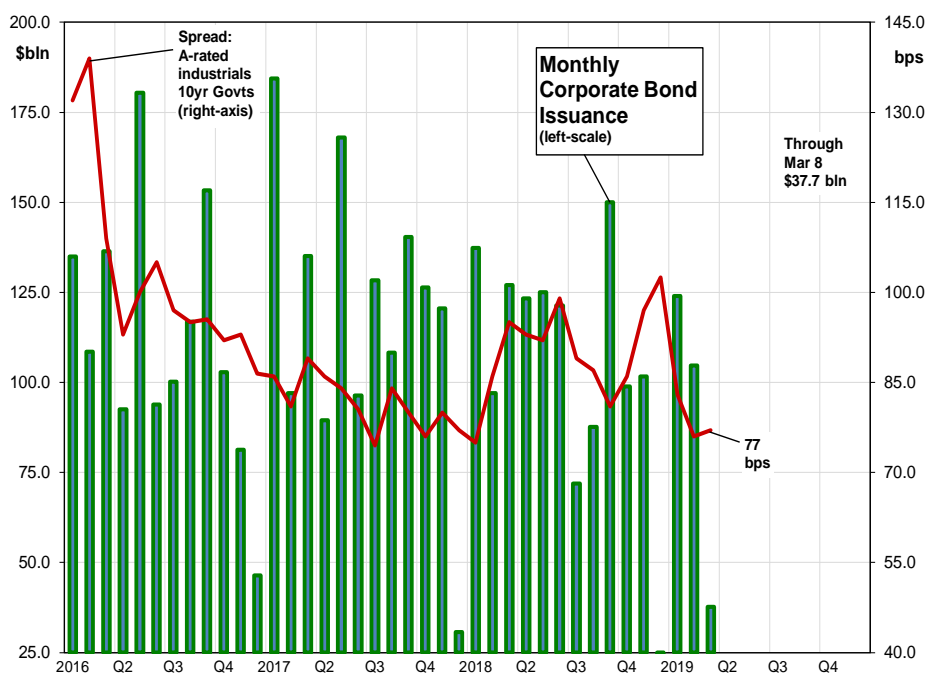
	31-Dec 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
30-Yr Treasury	3.02	3.20	3.30	3.35	3.45	3.45	3.50	3.60	3.70
10-Yr Note	2.68	3.00	3.10	3.20	3.30	3.30	3.40	3.50	3.60
5-Yr Note	2.51	2.85	3.00	3.10	3.20	3.25	3.35	3.45	3.60
2-Yr Note	2.49	2.80	3.00	3.10	3.20	3.20	3.35	3.45	3.60
3-month Libor	2.81	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	19	20	10	10	10	10	5	5	0

Treasury bond yields fell 12 bps to 2.63% this week. Yields were 2.63% before the 20K no-jobs report on Friday and closed the day at 2.63%. Wages, average hourly earnings, rose to a new high of 3.4%, more inflation on the way, which offsets the economic weakness story of just 20K jobs. Kidding. The public has lost sight of what inflation is, what it means, where it is. The big event bringing down yields was the ECB on Thursday cutting the GDP forecast this year to 1.1% from 1.7% and saying they won't raise interest rates this year. 10-yr German yields closed Friday at 0.07%. We hope the Fed doesn't push bond yields this low in the next recession to "help us."



CORPORATE BONDS: DELL, MARRIOTT, BERKSHIRE HATHAWAY, PFIZER

Corporate offerings were \$36.6 billion in the March 8 week versus \$26.5 billion in the March 1 week. On Tuesday, Merck sold \$5.0 billion 5s/10s/20s/30s. It priced a \$1.75 billion 3.4% 10-yr (m-w +12.5bp) at 75 bps (A1/AA). The global health care company will use the proceeds to repay commercial paper and other debt coming due. Corporate bond yields (10-yr Industrials rated A2) were 77 bps above 10-yr Treasuries this week versus 76 bps last Friday.



FEDERAL RESERVE POLICY

The Fed meets March 19-20 to consider its monetary policy. Rejoining the gradual rate hike path. Anyone, anyone? Show of hands. This week's relevant Fed decision news includes (1) Thursday's ECB meeting and (2) Friday's 20K no-jobs report. Pick your poison this week, Door #1 or Door #2, on which one keeps another rate hike (geez, we're only talking 25 bps to 2.75%) from materializing later on this year... if ever again. Cementing the rates holding pattern at 2.5% was New York Fed President Williams saying he thinks the neutral rate for the economy is 2.5% and he does not want to actually tighten monetary policy by lifting rates above neutral. We won't go into why he thinks a 2.5% rate is the neutral gear for the economy and you wouldn't believe it if we told you anyway. (Hint: it involves a senior Fed staff official in Washington.)

Selected Fed assets and liabilities					Sep 10
Fed H.4.1 statistical release					2008**
billions, Wednesday data	6-Mar	27-Feb	20-Feb	13-Feb	pre-LEH
Factors adding reserves					
U.S. Treasury securities	2175.420	2182.092	2182.201	2205.604	479.782
Federal agency debt securities	2.409	2.409	2.409	2.409	0.000
Mortgage-backed securities (MBS)	1607.609	1607.609	1614.150	1621.956	0.000
Primary credit (Discount Window)	0.000	0.003	0.009	0.003	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)	0.000	0.000	0.000	0.000	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	
<u>Central bank liquidity swaps</u>	0.065	0.088	0.068	0.071	62.000
Federal Reserve Assets	4016.6	4021.7	4029.2	4076.3	961.7
3-month Libor %	2.59	2.63	2.66	2.68	2.82
Factors draining reserves					
Currency in circulation	1719.446	1712.356	1712.038	1709.649	834.477
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
Reverse repurchases w/others	2.115	1.915	2.275	1.697	0.000
Reserve Balances (Net Liquidity)	1736.547	1682.210	1619.745	1634.417	24.964
Treasuries within 15 days	0.000	12.529	12.529	56.052	14.955
Treasuries 16 to 90 days	112.837	92.780	92.780	54.305	31.549
Treasuries 91 days to 1 year	270.526	274.117	274.118	275.447	69.272
Treasuries over 1-yr to 5 years	922.063	930.742	930.757	942.588	170.807
Treasuries over 5-yr to 10 years	252.449	254.779	254.819	259.274	91.863
Treasuries over 10-years	617.546	617.145	617.197	617.938	101.337

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

Fed governor Brainard stuck her oar in again ahead of the upcoming Fed meeting in a week and a half with a timely spilling-the beans ahead of time speech on monetary policy. (All these new crop of Fed officials want to get their names in the newspapers, we are hearing Fed Chair Powell will be on CBS TV's 60 Minutes on Sunday night. Bernanke went on 60 Minutes and talked about the hopeful "green shoots" he was seeing, and Powell will probably talk about pulling back the tarp and finding that the wood foundation the economy is built on is rotting.) [Brainard's speech](#) wasn't uninteresting, and she did add another log on the fire for the idea that some of those rate hikes the Fed saw in the December forecasts were probably coming off the table. There were only three more rate hikes contemplated by the Fed back then for crying out loud, and other moderate Fed officials have said recently they favored one rate hike in 2019 and one more rate hike in 2020. 3X now 2X. In any event, it is hard times ahead if you are a "Fedwatcher." It's a strong economy, look for another line of work. Bond trader maybe on Wall Street.

Besides the lower path for rates Brainard talked about, in questions after her speech in New Jersey (where we live, stop in and visit anytime!) she said, "I don't want to prejudge what kind of move might be appropriate late in the year..." [Late in the year](#), what the heck, if she is a stalking horse for Fed Chair Powell that seems to imply the Fed is not looking to restart the rate hikes this year as soon as the June or even September 2019 "quarterly" meetings. She like her boss Fed Chair Powell seems to be thinking that tame inflation means the economy has more room to run without the Fed burdening it with higher interest rates. But what about higher returns to savers (half the country doesn't have money in the stock market) that are hurt by the Fed's low interest rate policy? You want more interest. Ask Senator Elizabeth Warren maybe. Stay tuned. Story developing.

Trump boost to growth (and rates) fades for the FOMC						
Fed Meeting	2017	2018	2019	2020	2021	Longer run
Dec 18		2.4	2.9	3.1	3.1	2.8
Sep 18		2.4	3.1	3.4	3.4	3.0
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

Tax cuts and fiscal spending stimulus moved 2020 forecast to 3.4% in March 2018. No higher.

OTHER ECONOMIC NEWS THIS WEEK

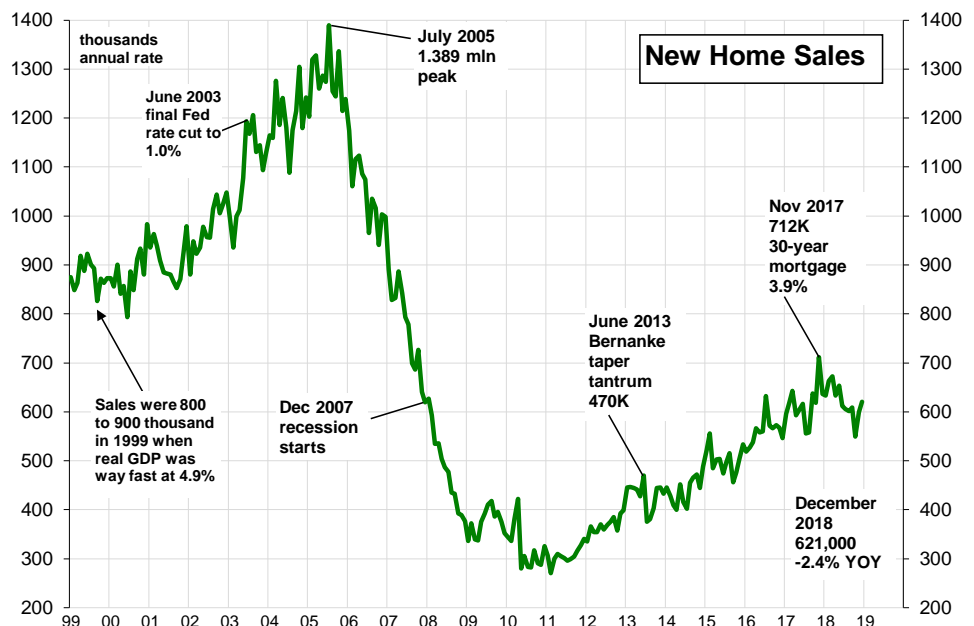
ISM Services up, Manufacturing down, let's call the whole thing off (Tuesday)

Breaking economy news. Make up your minds you darn purchasing managers! Not sure what the heck you know about your own company or your industry or the economic outlook anyway. We know what Chair Powell would say. "Mixed signals." C'mon, get it together. And stop the two-handed economists jokes. You know who you are. The data are just as two-handed.

On Friday, ISM manufacturing fell to a new low, dropping the Dow industrials a quick 150 points, and now today, ISM Services executives in a survey say things are absolutely fine. After tumbling 4.1 points from 60.8 in November to 56.7 in January, the ISM nonmanufacturing index in February jumped 3.0 points to 59.7.



Meanwhile, new home sales have risen from a sharp drop in October (data delayed from the government shutdown) and are running at a 621 thousand annual rate in December. That sharp drop to 549 thousand in October that sent shivers up the spines of Fed officials thinking they might have hiked interest rates a step or two too far was a one-off. The trend in new home sales have been sideways the last two years. That's a fact.

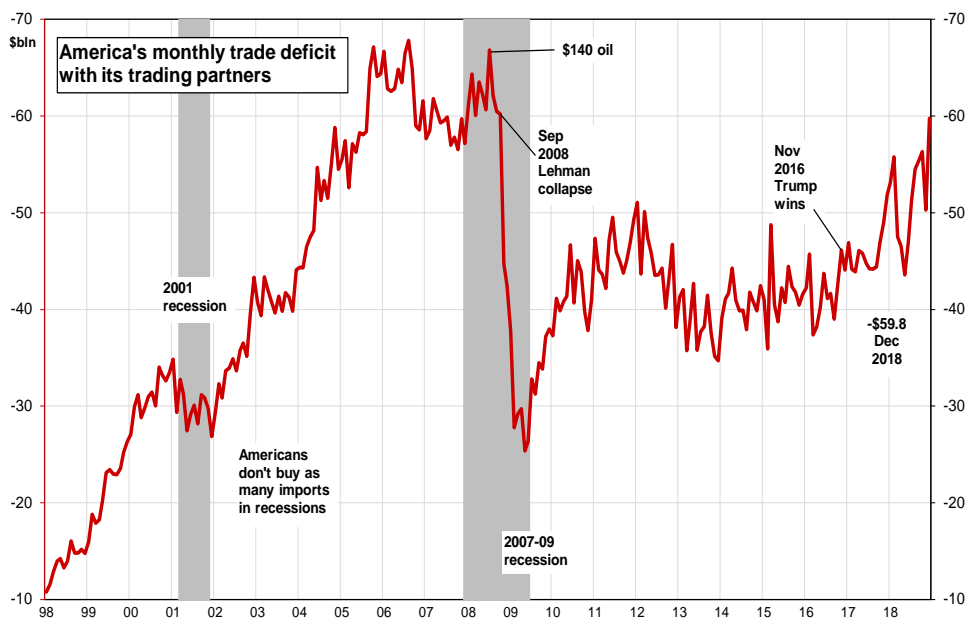


Net, net, the tea leaves are looking more spring like today with service sector executives saying the outlook is more positive and new home sales, a key indicator of whether interest rates are too high, were not as weak as we thought last year. Fed officials are watching the economic data like a hawk and today's favorable reports on the services economy and new home purchases will go a long way to calming the Fed's fears about downside risks to the economy.

The economy is not out of the woods but the outlook is not as dark as some would have it either. It doesn't look like the 2.5% Fed funds rate is restrictive for economic growth. The Fed is on hold, but it won't be for long if the tea leaves continue to point to a brighter future for companies and consumers later on this year.

Trade deficit explodes last year despite Trump efforts to make America great again (Wednesday)

Breaking economy news. The trade deficit jumped to \$59.8 billion in December from \$50.3 billion in November. This is one promise not kept as the Trump economics and trade teams have been unable to rein in the trade deficit with America's trading partners. American factories are losing out to the steady stream of imported goods coming to our shores. To be fair, much of the increase in trade incoming and outgoing



was an attempt to bring goods in and ship them out before the tariffs were put in place or became even worse. Imported goods from China goods totaled \$539.5 billion in 2018 an increase of 6.7% from \$505.5 billion in 2017. Goods coming in from China seem to have not grown any worse the last two months, but perhaps this is a mirage because goods imports in September and October were off the charts.

Net, net, America's love of imported goods continues unabated despite all the Trump administration attempts to rein it in, and the dollar's strength may be starting to price US manufacturers out of world export markets. Domestic economic growth is going to continue to be slower because more goods are manufactured abroad than there are here in the U.S. We expect the trend towards globalization to continue with more goods supplied to US consumers from overseas markets and this will likely make last year's 3.1% economic growth the high-water mark for this administration. All the kings horses and all the kings men can't put any oomph into American manufacturing again. It is especially perplexing that US goods exports have topped out the last two months as perhaps the war of words over America's trade policies have injected too much uncertainty into world trading markets and have caused companies to rethink their global supply chains. Stay tuned. Story developing.

The trade deficit exploded last year despite Trump administration efforts to make America great again, and the trend is unlikely to get any better in 2019. One thing is for certain. There will be a US and China agreement on trade as the administration cannot allow the uncertainty to take a toll on economic growth any longer. Not when the presidential election is less than two years away. Bet on it.

Trade War 2018

Trade deficit in goods

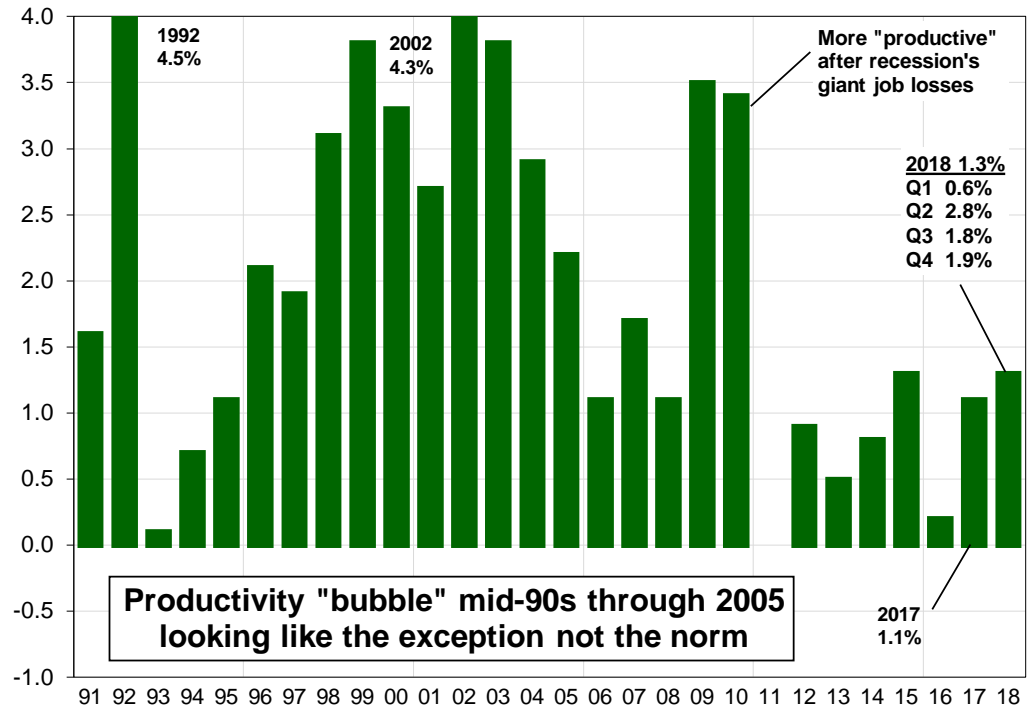
\$ billions		Exports	Imports
China	419.2	120.3	539.5
EU	169.3	318.6	487.9
Germany	68.3	57.7	125.9
Mexico	81.5	265.0	346.5
Japan	67.6	75.0	142.6
Vietnam	39.5	9.7	49.2
South Korea	17.9	56.3	74.3
<u>Canada</u>	<u>19.8</u>	<u>298.7</u>	<u>318.5</u>
World	878.7	1,664.1	2,542.8

At least someone out there is doing something productive (Thursday)

Breaking economy news. Nonfarm business productivity rose 1.9% in Q4 2018. At least someone is out there working productively, doing something of value. It's not happening everywhere, just glance over at your co-workers, if they are in the office today and not "working from home."

Fourth quarter 2018 productivity rose 1.9% and for the year it increased 1.3% after that cold winter weather start to the year of just 0.6% in the first quarter of 2018. Let's see 1.3% productivity in 2015, take a year off due to the oil price crash in 2016 at 0.2%, 1.1% productivity in 2017 and 1.3% productivity in 2018, this is starting to look like a new positive trend which lays the foundation for solid 2 percent economic growth in the future.

Net, net, productivity is starting to emerge out of its long slumber for this long economic expansion from the recession and combined with a growing workforce, the positive productivity trend will be enough to keep the economy's engines running at 2 percent growth. Productivity is laying a solid foundation for a better tomorrow for American workers and their families. A chicken in



everyone's pot with liberty and justice for all. The presidential election is coming get ready for it. Oh, and wages too. We almost forgot. Worker compensation in today's report increased 2.7% in 2018 versus 3.4% in 2017. Companies are producing more and giving more in wages back to their workers keeping everyone happy. You happy? You good? You sure are.

Stay tuned. Story developing. The ECB sees less growth in 2019 at 1.1% where they had thought the Euro area economy would grow 1.7%, so they will keep interest rates at zero forever and ever. That will help. Draghi this morning shouted "fire!" from the back of the movie theatre, we mean he said the risks to the economic outlook are tilted to the downside which is sure to encourage workers and their bosses alike. But Europe is not the good old USA where workers are working and loving it with better wages for all. Recession? What recession. What is happening in Europe, will never happen here. Bet on it.

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