

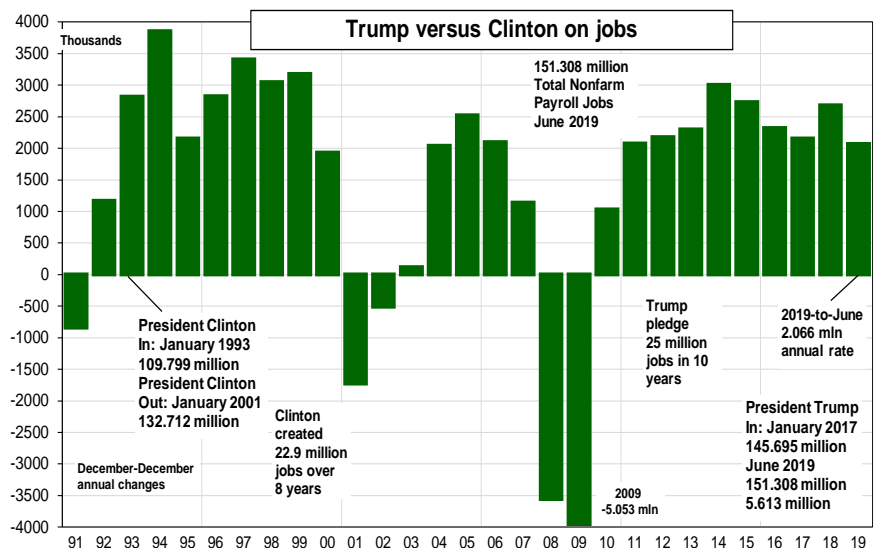
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JOBS MARKET CELEBRATION THIS JULY 4TH HOLIDAY AS WELL WITH 224K NEW HIRES

The economy isn't done yet as the length of the expansion enters into the history books. Those predicting an economic recession because its time's up are sadly mistaken. Bullish bond traders were thrown to the wolves as well with 10-yr Treasury yields jumping from 1.96% at the jobs report's release time to as high as 2.05% in the first hour of trading on the electrifying news. The jobs report produced its own fireworks for tired trading desks in for the short session after the July 4th holiday. 224K payroll jobs in June with 11K of downward revisions to April and May. Lots of jobs for Americans in professional and business services, in health care, and in transportation and warehousing. Government jobs added 33K in June after declining 11K in May and look a little fishy especially with local government jobs ex-education up 26K.



Manufacturing is back, the one sector that is supposed to be most affected by the trade wars, with jobs increasing 17K in June. The standouts: Machinery jobs up 4K, Electronic instruments up 4K, Plastics and rubber ducky products

	Jun	May	Apr	Mar	Feb	Jan
Payroll jobs (000s)	224	72	216	153	56	312
Unemployment rate %	3.7	3.6	3.6	3.8	3.8	4.0
Unemployment (3 decimal)	3.666	3.620	3.585	3.811	3.821	4.004
Participation rate %	62.9	62.8	62.8	63.0	63.2	63.2
Average hourly earnings	\$27.90	\$27.84	\$2.75	\$27.71	\$27.66	\$27.56
MTM % Chg	0.2	0.3	0.1	0.2	0.4	0.1
YOY % Chg	3.1	3.1	3.2	3.2	3.4	3.2
Production Worker earnings	\$23.43	\$23.39	\$23.30	\$23.25	\$23.17	\$23.11
MTM % Chg	0.2	0.4	0.2	0.3	0.3	0.1
YOY % Chg	3.4	3.4	3.3	3.4	3.4	3.4

rose 4K. Construction jobs were strong as well rising 21K in June. Nonresidential specialty trade contractors rose 12K within the construction sector.

Net, net, the great American jobs machine restarts its engines after the cautious hiring seen a month ago caused by the escalation in the trade war and rocky financial markets. Rising uncertainty from the escalation in the trade war between the U.S. and China may have held companies back from hiring new workers in May with just 72 thousand workers brought on board, but the uncertainty has lifted and there was no June gloom to be seen with 224 thousand new workers hired. The stronger than expected employment report sent bond yields soaring in thin trading conditions after the July 4th holiday, but we aren't sure 224 thousand jobs is strong enough to take a Fed rate cut off the table on July 31. A 50 bps rate cut is not very likely, but there is

Payroll jobs in year ten following the recession

Dec. 2018		June 19	May 19	Apr 19	6 months Dec 18 to June 19	12 months Dec 17 to Dec 18
Totals	millions					
150.275	Nonfarm Payroll Employment	224	72	216	1033	2679
127.790	Total Private (ex-Govt)	191	83	195	965	2583
20.961	Goods-producing	37	11	37	159	631
0.705	Mining	-1	1	1	5	63
12.809	Manufacturing	17	3	3	45	264
1.005	Motor Vehicles & parts	0	2	-3	-7	23
7.400	Construction	21	5	34	108	307
106.829	Private Service-providing	154	72	158	806	1952
27.788	Trade, transportation, utilities	20	4	-1	45	304
15.821	Retail stores	-6	-7	-15	-47	14
3.105	General Merchandise	-5	-1	-12	-60	9
3.108	Food & Beverage stores	-1	0	2	9	20
5.511	Transportation/warehousing	24	3	8	56	216
1.512	Truck transport	4	2	1	12	44
0.750	Couriers/messengers	7	3	2	12	54
1.170	Warehousing and storage	1	1	3	20	84
0.555	Utilities	1	1	-2	0	-1
2.827	Information	2	0	-6	-19	6
8.615	Financial	2	2	14	40	115
2.703	Insurance	-1	2	2	7	31
2.287	Real Estate	2	1	8	34	67
1.316	Commercial Banking	-1	-1	-3	-10	-7
0.967	Securities/investments	3	0	4	9	23
21.254	Professional/business	51	24	55	208	561
3.060	Temp help services	4	0	4	-22	83
2.395	Management of companies	4	-2	4	16	62
1.495	Architectural/engineering	3	4	3	24	42
2.162	Computer systems/services	7	6	14	47	86
1.140	Legal services	0	2	-1	4	1
1.034	Accounting/bookkeeping	4	4	4	20	39
23.912	Education and health	61	28	71	319	532
5.195	Hospitals	11	5	9	50	100
3.746	Educational services	11	1	13	41	50
16.554	Leisure and hospitality	8	18	9	159	359
2.036	Hotel/motels	10	13	0	33	23
12.074	Eating & drinking places	0	8	19	112	258
22.485	Government	33	-11	21	68	96
2.192	Federal ex-Post Office	1	-1	7	11	9
5.183	State government	2	-10	-8	-15	19
2.487	State Govt Education	-4	-13	-3	-20	10
14.504	Local government	29	-3	22	67	74
7.974	Local Govt Education	3	-6	6	12	31

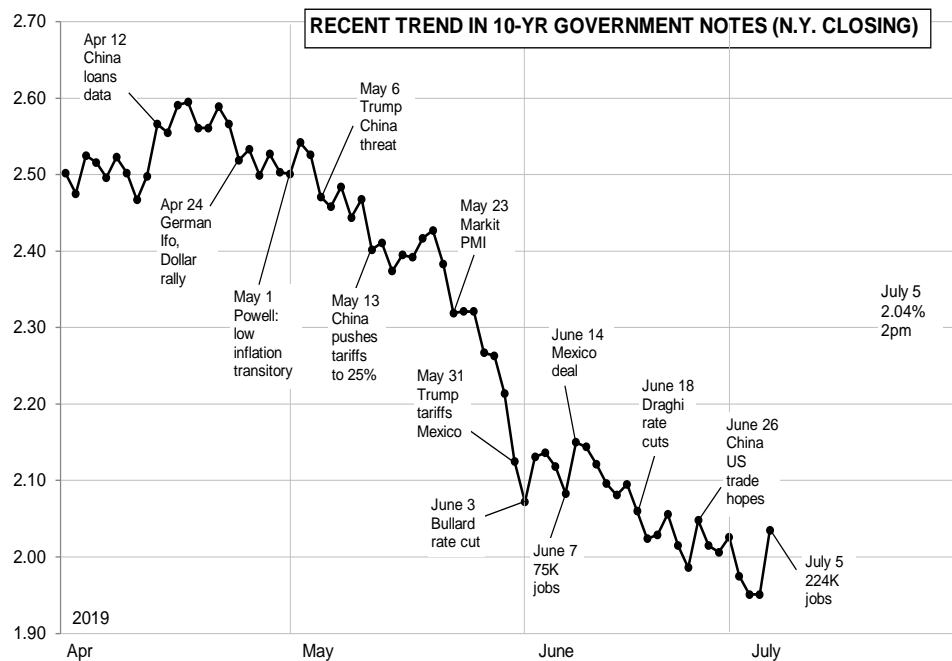
still uncertainty out there for the economy as the US and China have agreed to just a temporary truce in the trade battle and there is no sign of a lasting peace agreement between the two nations yet.

It is remarkable that companies continue to hire with abandon this late in the economic cycle as June marks the month where a full ten years have occurred since the end of the Great Recession. The economic outlook must be bright for the second half of 2019 otherwise companies would never risk hiring additional help to produce their goods and sell their services. Nevertheless, one number doesn't eliminate the uncertainties to the outlook completely. The case for an insurance rate cut remains just as strong, especially given the president's criticisms about the Fed's leadership and its policies. Jobs creation this year overall is slower at a 2.066 million annual rate versus 2.679 million for all of 2018. Stay tuned. Story developing.

MARKETS OUTLOOK

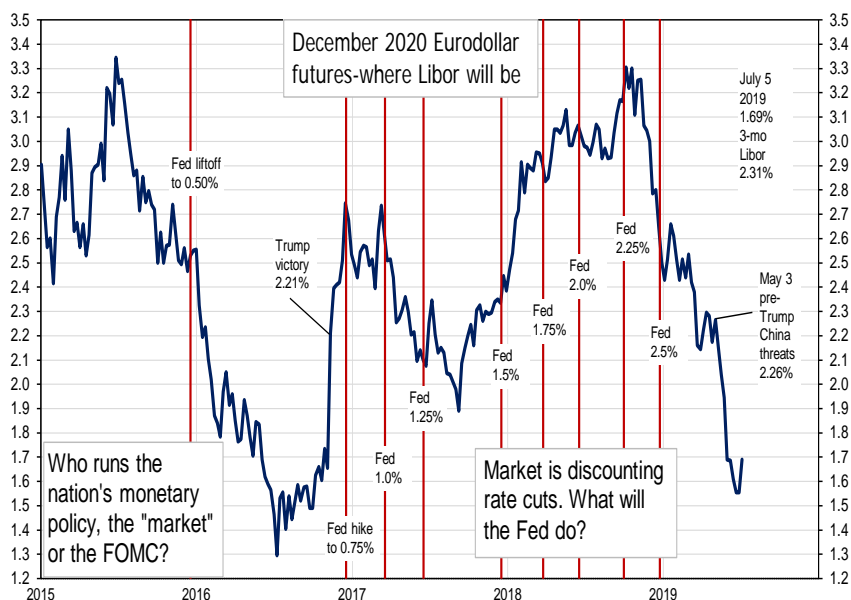
	29-Mar 2019	28-Jun 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
30-Yr Treasury	2.81	2.53	2.25	2.30	2.40	2.50	2.50	2.70
10-Yr Note	2.41	2.01	1.75	1.80	2.00	2.10	2.20	2.40
5-Yr Note	2.23	1.77	1.50	1.55	1.80	1.90	2.00	2.20
2-Yr Note	2.26	1.76	1.50	1.60	1.70	1.80	2.00	2.20
3-month Libor	2.60	2.32	2.00	2.00	2.00	2.00	2.00	2.00
Fed Funds Rate	2.50	2.50	2.00	2.00	2.00	2.00	2.00	2.00
2s/10s spread	15	25	25	20	30	30	20	20

10-year Treasury yields fell this week before the stronger 224K jobs report on Friday. Crude oil prices fell almost \$3 Tuesday to \$56.25 and the Bank of England's Carney said the downside risks were rising due to trade tensions. 10-yr year yields closed at a new 2019 low of 1.975% on Tuesday. 10-yr yields were 1.96% at 830am EDT before the stronger jobs report and moved as much as 11 bps higher to 2.07%, "soaring" before closing at 2.04% to end the week. Market trading conditions were quite thin on Friday and the yield rally may not stick.



FEDERAL RESERVE POLICY

The Fed meets July 30-31 to consider its monetary policy. 224K jobs on Friday so no recession, no need for rate cuts. But our call for a rate cut this meeting is based on a couple of press conferences. (1) Powell's last meeting where he downplayed those dots looking for no rate cut this year. (2) Trump today: "If we had a Fed that would lower interest rates, we'd be like a rocket ship. But we're paying a lot of interest and it's unnecessary, but we don't have a Fed that knows what they're doing..."



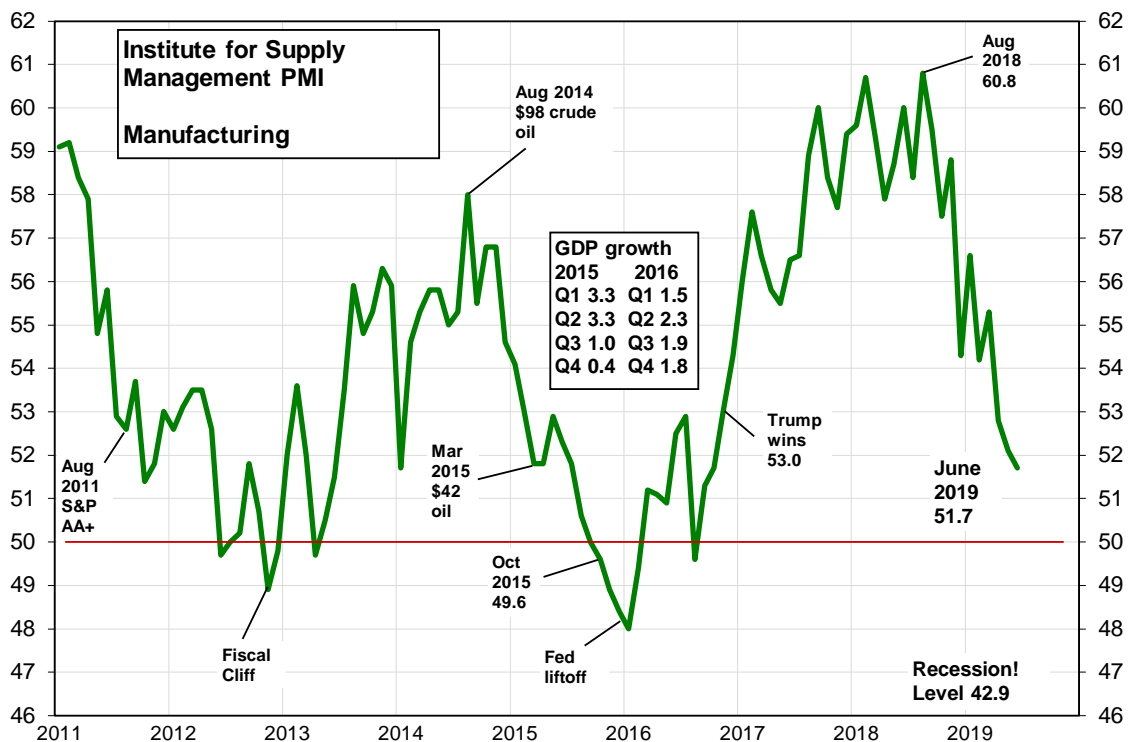
The daily effective Fed funds rate was 2.41% on Wednesday, and October Fed funds futures were 1.95% Friday, 46 bps lower and consistent with two 25 bps rate cuts the next two meetings. It was 1.885% Wednesday before the 224K jobs report.

OTHER ECONOMIC NEWS THIS WEEK

ISM orders at the brink (Monday)

Breaking economy news. ISM manufacturing purchasing managers index for June was 51.7 versus 52.1 in May. The signs beneath the surface were even worse for the manufacturing sector with orders on the brink of going over the edge and heading down, and prices are falling raising the specter of deflation instead of the trade tariff story of inflation for the country.

Net, net manufacturing is clearly taking it on the chain from the rising trade uncertainty. China and the US are talking again but it may be too late with companies throwing in the towel and trying to move their supply chains further away from China. That stock market rally over the weekend from the Trump Xi meeting may be another false hope that will end in tears for investors betting the world economy and trade can get back to normal where it was before the Trump economics and trade teams started turning the world upside down.

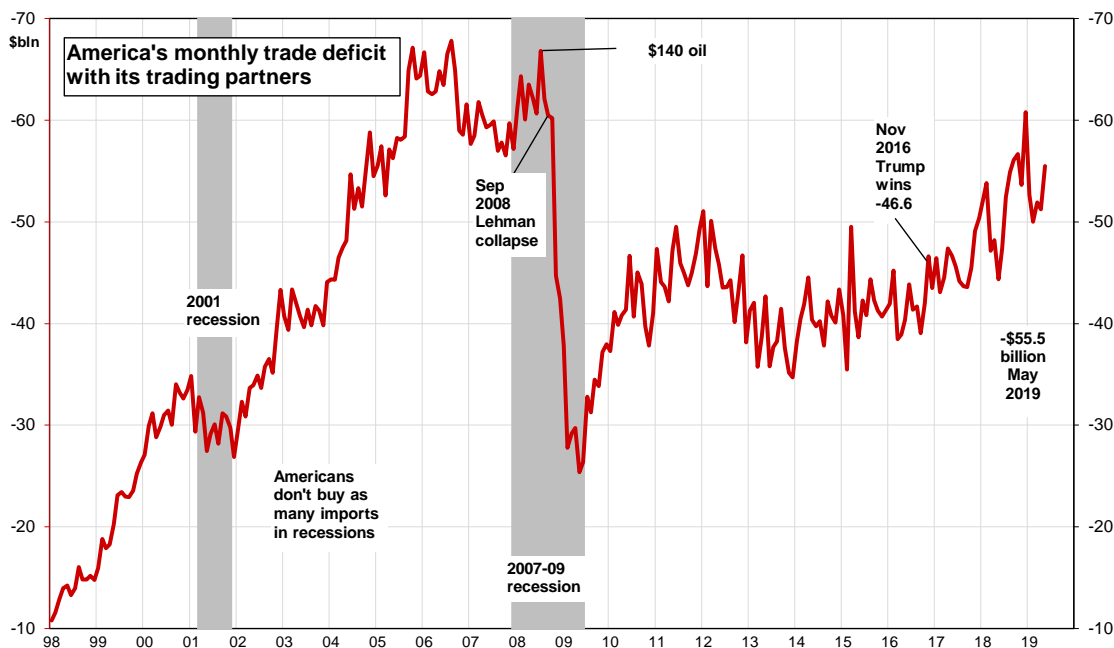


ISM manufacturing index							
	June 19	May 19	Apr 19	Mar 19	Feb 19	Jan 19	Dec 18
PMI index	51.7	52.1	52.8	55.3	54.2	56.6	54.3
Prices	47.9	53.2	50.0	54.3	49.4	49.6	54.9
Production	54.1	51.3	52.3	55.8	54.8	60.5	54.1
New orders	50.0	52.7	51.7	57.4	55.5	58.2	51.3
Employment	54.5	53.7	52.4	57.5	52.3	55.5	56.0
Export orders	50.5	51.0	49.5	51.7	52.8	51.8	52.8

Trade more of a drag on growth, fewer job layoffs (Wednesday)

Breaking economy news. The trade deficit in May widened to \$55.5 billion from \$51.2 billion in April. Unemployment claims fell 8K to 221K in the June 29 week showing all is well for now with companies continuing to hold on tight to their workers. No recession as there are no job losses for now.

The trade deficit with China widened as it tends to do seasonally in May to \$30.2 billion from \$26.9 billion in April. Overall trade between the US and China is still down this year because of the tariff war making imports and exports on both sides more costly. The worst is still to come as the final tariffs of 25%



on \$200 billion of imported goods from China were not put on until May. US exports of goods to China are down 19.3% so far this year, and US imports from China are 12.3% lower through May this year versus 2018. America isn't winning the trade battle for domination with China yet. The America First policies have dented the prospects for growth worldwide which seems like a high price to pay just to bring the trade deficit in goods with China down to \$137.0 billion in the first five months of this year from \$152.1 billion in the first five months of 2018. The deficit in goods with China has been cut a modest \$15 billion while these protectionist policies are starting to slow global growth down to a standstill. America is winning but the world is certainly not.

Net, net, the economy is holding its breath waiting for the next salvo in the trade wars that are raging across the world. Businesses are not laying off workers yet from the rising uncertainty posed by trade conflict as they continue to assess the outlook. Real GDP is going to slow further as the trade deficit widens and we make fewer goods here relative to what we bring in from American factories overseas. One wonders how long Washington will continue to claim they are helping the US economy and creating jobs here as they try to turn around two decades of globalization with their draconian protectionist policies overnight. One of the factors behind the economy's fall in the Great Depression was protectionism and trade wars and it will be a miracle if the world economy can avoid another downturn this time. Stay tuned. Story developing. 12 o'clock and all's well. But for how long? The bottom line is that US manufacturing sentiment is turning down because US exports orders to the rest of the world have declined during the trade war this year. Exports totaled \$685.835 billion in January through May 2019 which is 0.1% lower than it was in the first five months of 2018. Trade wars may be easy to win for some, but it is not easy if you are a US exporter. In 2018, US exports with the world rose 7.7% for the year. Quite a change in fortunes for US manufacturers from 2018 to 2019. No wonder the purchasing manager surveys are down.

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