

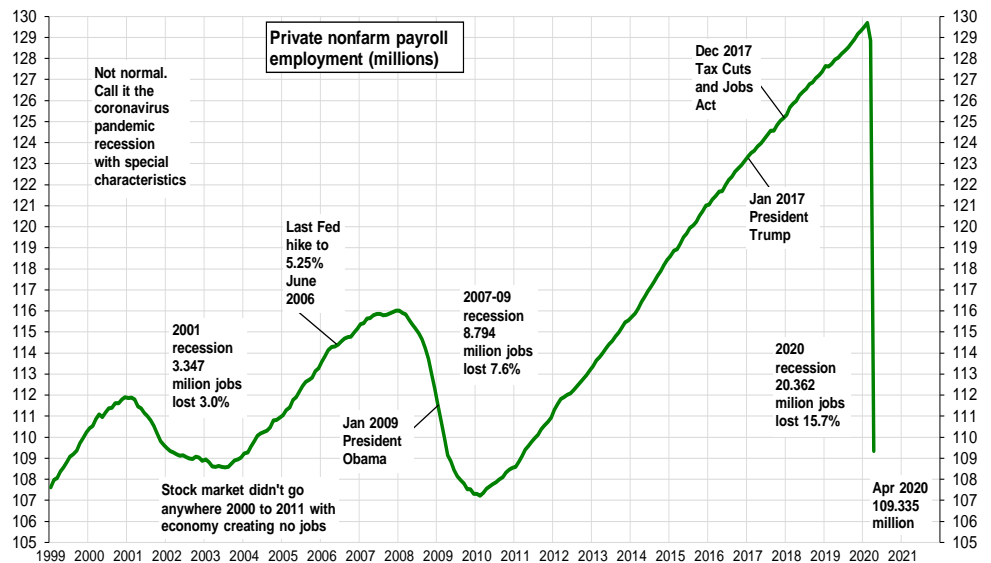
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8 MAY 2020

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MASSIVE JOB LOSSES NEAR THE END AS COUNTRY REOPENS

Nonfarm payroll employment fell a stunning and well-advertised 20.5 million in April with everyone but Federal government workers and couriers and messengers pitching in. Leisure and hospitality lost 7.7 million jobs with three-quarters of those at restaurants and bars. 1.3 million jobs were lost in the arts, entertainment and



recreation industries, and 839 thousand at hotels. Retail trade down 2.1 million, and manufacturing down 1.3 million with motor vehicles down 382 thousand. Pretty dismal picture, but April may be it for job losses going forward with the country starting to reopen. There had been a steady upward trend in private payroll jobs unshaken by the new president's election or the Tax Cuts and Jobs Act, but all that is history now. The labor market has collapsed faster than anytime in history. It's a health crisis after all that has shut down businesses and sent consumers into isolation. The data collection looks a little spotty. The BLS says payroll jobs data collection is normal, but the unemployment rate is less so. You are counted as employed in the nonfarm payroll jobs figures if you worked or got a paycheck for any part of the pay period that includes April 12. The unemployment rate went to 14.7% with 23.078 million unemployed in April, which is less than the 33.5 million who applied for unemployment benefits in the last seven weeks. There are 103.415 million total labor force dropouts in April, an increase of 6.6 million from

	Apr	Mar	Feb	Jan	Dec	Nov
Payroll jobs (000s)	-20537	-881	251	214	184	261
Unemployment rate %	14.7	4.4	3.5	3.6	3.5	3.5
Unemployment (3 decimal)	14.748	4.383	3.517	3.579	3.496	3.536
Participation rate %	60.2	62.7	63.4	63.4	63.2	63.2
Not in labor force (mln)	103.415	96.845	95.082	94.896	95.625	95.673
Average hourly earnings	\$30.01	\$28.67	\$28.52	\$28.43	\$28.37	\$238.34
MTM % Chg	4.7	0.5	0.3	0.2	0.1	0.4
YOY % Chg	7.9	3.3	3.0	3.1	3.0	3.3
Production Worker earnings	\$25.12	\$24.08	\$23.96	\$23.88	\$23.84	\$23.81
MTM % Chg	4.3	0.5	0.4	0.2	0.1	0.2
YOY % Chg	7.7	3.4	3.3	3.3	3.2	3.5

March, but still, it seems like the 23.078 million count of the unemployed is lagging a little. If you are desperate for Great Depression 25% job losses, you can look to the so-called U-6 unemployment rate of 22.8% that adds in the count of part-time workers who want full-time work but can't get it.

Wages shot up, but don't get your hopes up, it's because lower-paid workers dropped out of the equation. Average hourly earnings rose 4.7 percent in April to \$30.01 which is an increase of 7.9 percent from year earlier levels. A 7.9% raise-someone please tell HR.

Net, net, the pandemic health crisis forced depression-sized job losses on the economy not seen in almost 100 years, but labor market conditions will certainly improve from here in what is looking like one of the quickest recessions in history. The way forward for the recovery may indeed be all

Payroll jobs fall in March as recession begins

Dec. 2019		Apr 20	Mar 20	Feb 20	4 months Dec 19 to Apr 20	12 months Dec 18 to Dec 19
Totals	millions					
151.998	Nonfarm Payroll Employment	-20537	-881	251	-20953	2133
129.319	Total Private (ex-Govt)	-19557	-853	220	-20011	1949
21.136	Goods-producing	-2355	-74	56	-2360	188
0.661	Mining	-46	-7	1	-54	-31
12.866	Manufacturing	-1330	-34	8	-1378	61
0.998	Motor Vehicles & parts	-382	-3	8	-384	-13
7.555	Construction	-975	-33	46	-924	153
108.183	Private Service-providing	-17202	-779	164	-17651	1741
27.809	Trade, transportation, utilities	-3057	-54	-2	-3090	143
15.672	Retail stores	-2107	-45	3	-2152	-32
3.061	General Merchandise	-67	9	0	-73	-19
3.088	Food & Beverage stores	-42	-3	-1	-43	16
5.656	Transportation/warehousing	-584	-7	0	-569	118
1.526	Truck transport	-88	-3	0	-91	4
0.508	Air transportation	-141	2	2	-136	10
0.846	Couriers/messengers	2	-1	-12	2	76
1.192	Warehousing and storage	-74	9	7	-49	25
0.548	Utilities	-3	0	-1	-5	-4
2.883	Information	-254	-4	0	-247	29
8.814	Financial	-262	-3	22	-234	149
2.808	Insurance	-4	0	4	6	52
2.349	Real Estate	-222	-8	11	-220	66
1.393	Commercial Banking	-5	-3	2	-6	4
0.969	Securities/investments	-4	1	1	-3	9
21.503	Professional/business	-2165	-80	27	-2198	375
2.950	Temp help services	-842	-58	-6	-910	-43
2.448	Management of companies	-82	0	-4	-82	47
1.530	Architectural/engineering	-85	0	11	-76	37
2.239	Computer systems/services	-93	2	6	-78	85
1.156	Legal services	-64	-1	2	-59	14
1.037	Accounting/bookkeeping	-68	5	3	-62	28
24.465	Education and health	-2544	-101	52	-2524	621
5.242	Hospitals	-135	4	10	-112	85
3.810	Educational services	-457	-37	-11	-476	92
16.784	Leisure and hospitality	-7653	-499	59	-8069	369
2.100	Hotel/motels	-839	-46	-4	-894	48
12.203	Eating & drinking places	-5491	-428	71	-5819	250
22.679	Government	-980	-28	31	-942	184
2.244	Federal ex-Post Office	1	21	13	43	43
5.184	State government	-180	-46	9	-211	11
2.481	State Govt Education	-176	-42	7	-210	-8
14.648	Local government	-801	-1	10	-771	135
8.039	Local Govt Education	-469	-5	-3	-471	68

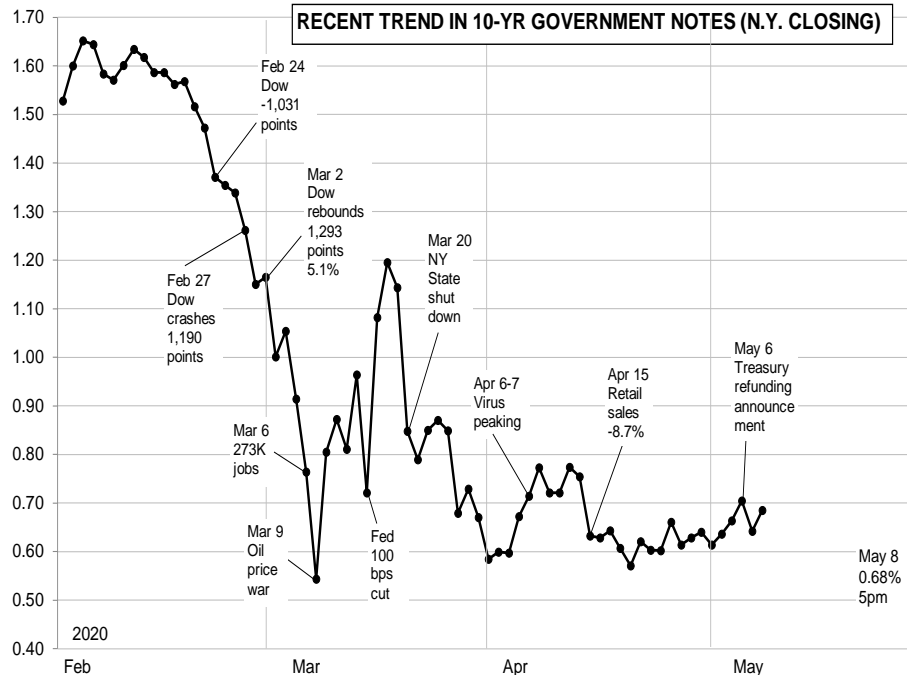
uphill, but at least the total number of unemployed workers in the country has peaked. Every recession has its darkest day and it looks like today will be the weakest point of the 2020 recession. Private payroll employment of 109.3 million in April is the lowest since 2011 when the labor market was in slow-recovery from the Great Recession. Two months ago in February, private payroll employment was a record 129.7 million, and the two-month decline of 15.7 percent to April is a stunning loss of 20.4 million jobs.

If there is a silver-lining in today's dismal jobs report, it is in the realization that the economy cannot possibly get any worse than it is right now. Joblessness can only diminish from this point forward as many states start reopening. The labor market is a game of musical chairs in every recovery from recession as cash-strapped companies facing less demand for their goods and services are unable to rehire everyone who was laid off in a downturn. Nevertheless, the skies look brighter here for the economic outlook if only because it cannot get any worse. Much worse anyway. There were another 11.4 million applying for unemployment compensation since the April 11 week that will give the 14.7% unemployment rate one (final) push higher in the May employment report on Friday, June 5.

MARKETS OUTLOOK

	29-Mar 2019	28-Jun 2019	30-Sep 2019	31-Dec 2019	31-Mar 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021
30-Yr Treasury	2.81	2.53	2.11	2.39	1.32	1.20	1.10	1.20	1.20	1.30
10-Yr Note	2.41	2.01	1.67	1.92	0.67	0.70	0.70	0.80	0.90	1.00
5-Yr Note	2.23	1.77	1.55	1.69	0.38	0.40	0.50	0.60	0.70	0.80
2-Yr Note	2.26	1.76	1.62	1.57	0.25	0.30	0.30	0.30	0.40	0.40
3-month Libor	2.60	2.32	2.09	1.90	1.45	1.10	1.00	0.80	0.60	0.50
Fed Funds Rate	2.50	2.50	2.00	1.75	0.25	0.25	0.25	0.25	0.25	0.25
2s/10s spread	15	25	5	35	42	40	40	50	50	60

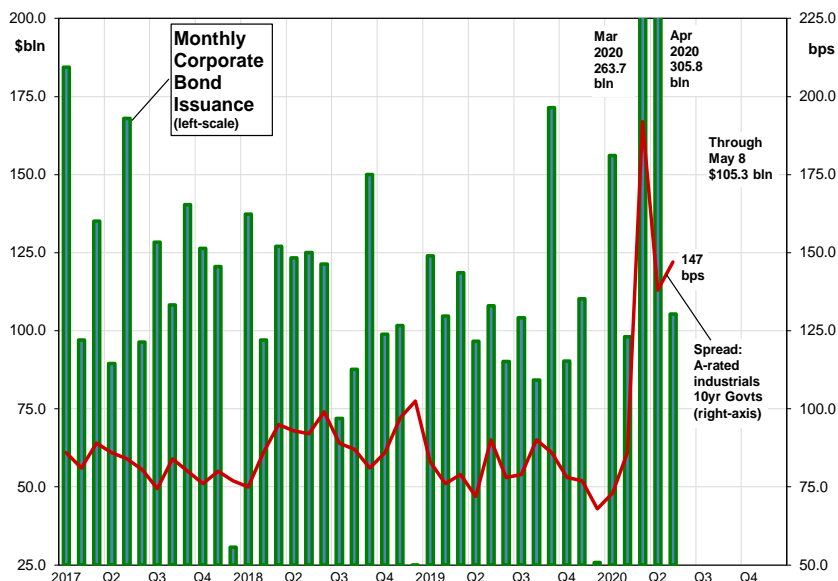
10-year Treasury yields moved around more this week. The Treasury May refunding auction announcement Wednesday at 830 ET sent yields to their 0.74% highs. More supply is certainly coming as the Treasury estimates \$3 trillion new cash needs to be raised all in the second quarter. Big number. Somehow Fed funds futures in a desperate plea for attention discounted negative rates Thursday morning. Keep in mind the daily effective Fed funds rate is only 0.05% within



a 0 to 0.25 percent target range and January 2021 futures said yields would be -0.04%. Friday jobs were only down 20.5 million, better than the 22 million consensus, and 10-year yields climbed back.

CORPORATES: APPLE, BROADCOM, CHEVRON, GE, AMGEN, GM, STARBUCKS

Corporate bond offerings were \$103.4 billion in the May 8 week versus \$90.7 billion in the May 1 week. On Thursday, Zoetis Inc. sold \$1.25 billion 10s/30s. It priced a \$750 million 2.0% 10-yr (m-w +25bp) at 145 bps (Baa1/BBB). The animal health company will use the proceeds to repay \$500 million 3.45% senior notes due 2020 and for general corporate purposes. Corporate bond yields (10-yr Industrials rated A2) were 147 bps above 10-yr Treasuries Friday versus 143 bps last Friday.

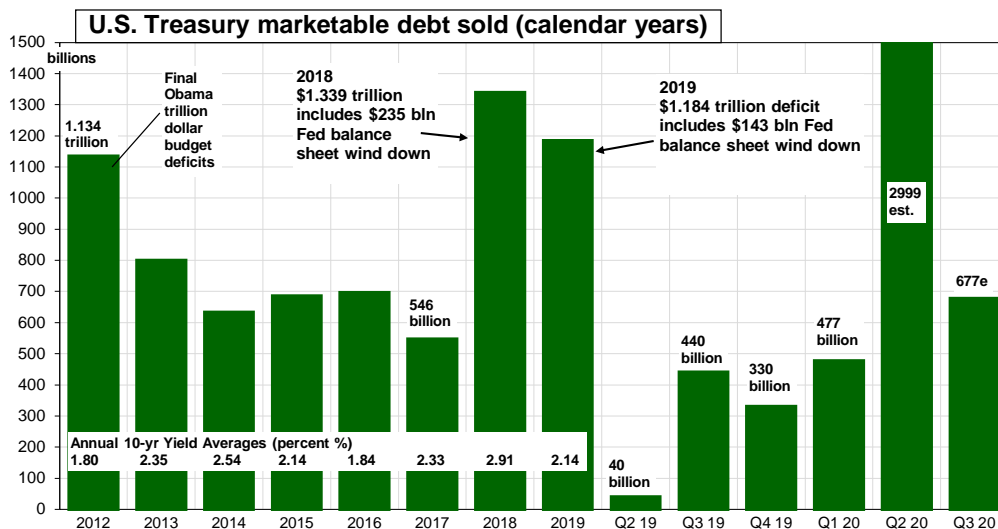


FEDERAL RESERVE POLICY

The Fed meets June 9-10, 2020 to consider its monetary policy. Yes, they are meeting again and not sure why as interest rates will likely be left down at zero for seven more years of famine just like they were the last time after the Great Recession when economists Bernanke and Yellen had their turn at the helm of the Federal Reserve's ship. The Fed's target rate will stay low, but 10-year yields may not if the Fed doesn't print more money by buying up a lot of the bonds the Treasury is selling to fund the coronavirus fiscal stimulus and plug the hole from plunging IRS tax collections. The Treasury announced its funding needs for the second quarter at 3pm ET Monday, and it is a big ask: \$2.999 trillion dollars. On Friday, the Fed said it would buy \$7 billion Treasuries a day next week down from \$8 billion per day this week so that will be a help. The Fed bought \$993 billion in April, but unlimited QE has taken a step back. Stay tuned. For monetary policy, there's little to monitor now but how many government securities they are buying. What's a poor Fed watcher to do? Maybe move over to the bond desk to trade.

Selected Fed assets and liabilities					Sep 10
Fed H.4.1 statistical release					2008**
billions, Wednesday data					pre-LEH
Factors adding reserves					
U.S. Treasury securities	4020.191	3971.419	3909.352	3788.858	479.782
Federal agency debt securities	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	1605.380	1604.720	1622.487	1568.171	0.000
Repurchase agreements	172.700	158.202	157.500	181.100	126.750
Primary credit (Discount Window)	26.494	31.759	33.742	36.284	23.455
Factors draining reserves					
Currency in circulation	1921.765	1910.511	1895.994	1887.593	834.477
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
Reverse repurchases w/others	1.175	1.450	10.825	3.150	0.000
Reserve Balances (Net Liquidity)	3165.605	3539.660	3521.444	3069.872	24.964
Treasuries within 15 days	104.760	55.294	58.869	58.644	14.955
Treasuries 16 to 90 days	213.636	249.856	243.599	225.035	31.549
Treasuries 91 days to 1 year	558.517	535.821	528.185	527.601	69.272
Treasuries over 1-yr to 5 years	1568.584	1572.472	1536.392	1493.336	170.807
Treasuries over 5-yr to 10 years	675.810	665.596	659.309	621.255	91.863
Treasuries over 10-years	898.885	892.381	882.997	862.987	101.337
**September 10, 2008 is pre-Lehman bankruptcy of 9-15-08					
MMLF: Money Market Mutual Fund Liquidity Facility; loans secured by assets bought by banks from money market funds					
PDCF: Primary Dealer Credit Facility; o/n and term funding with maturities to 90 days					

U.S. Treasury New Cash Needs and Fed Treasury Purchases (QE)									
Monthly Changes (\$ billions)									
Fiscal Year (FY) Ending September 2020									
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Total
Fed QE	67.808	73.007	80.364	80.246	64.952	504.312	993.047	48.772	1,912.5
New Cash	166.8	112.5	50.9	38.5	199.8	238.7	1368.6	321.4	2,497.2
Bills	79.1	59.0	-98.2	-12.5	160.3	92.8	1344.3	282.4	1,907.2
Coupons	87.6	53.4	149.2	51.1	39.5	145.8	24.2	39.0	589.8



OTHER ECONOMIC NEWS THIS WEEK

US buying more from the world than they are buying from US (Tuesday)

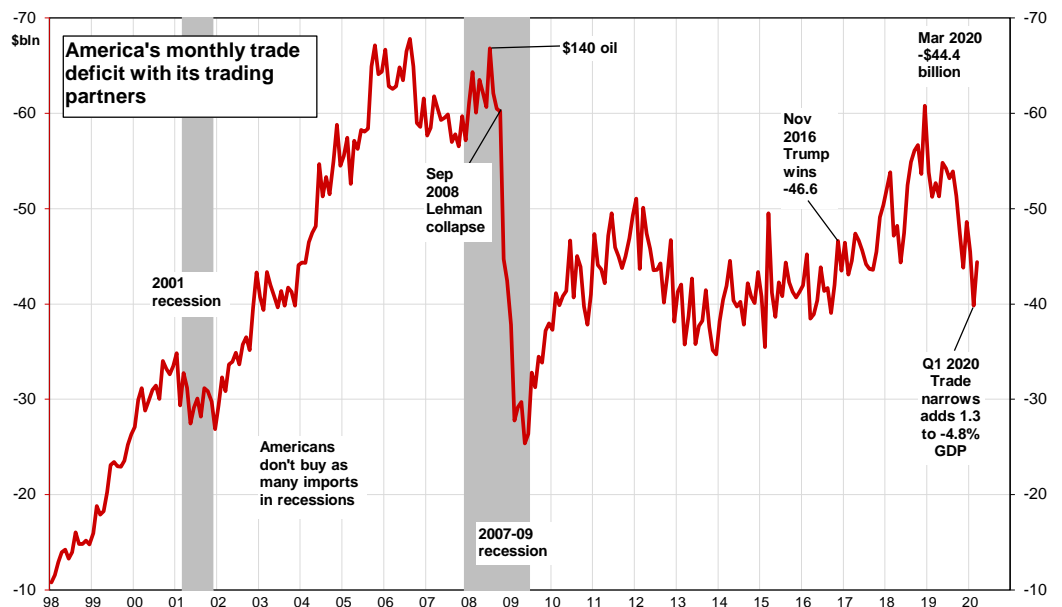
Breaking economy news. The trade deficit jumped to \$44.4 billion in March from \$39.8 billion in February. The U.S. isn't winning its trade war with the world this month as the red ink deficit is growing again. Exports fell 9.6% in March to \$187.7 billion while imports fell just 6.2%. Imports and exports of services are down sharply, 21.8% and 15.3%, respectively. The primary difference is that Americans are still buying imported goods from the world even if the rest of the world is buying much less from the U.S.

The U.S. and China relationship is more complicated in most things of course and here our imports from China are down sharply to \$75.9 billion in the first three months this year from \$106.0 billion in the first three months of 2019. We are winning if you think it is a good thing we are buying less from China. Tariff collections won't be as much.

Trade War 2019			
Trade deficit in goods			
\$ billions		Exports	Imports
China	345.6	106.6	452.2
EU	177.8	337.0	514.8
Germany	67.1	60.2	127.4
Mexico	101.7	256.3	358.1
Japan	68.9	74.6	143.6
Vietnam	55.7	10.8	66.6
South Korea	20.6	56.8	77.5
Canada	27.0	292.6	319.7
World	852.9	1,645.5	2,498.4

Net, net, even in the throes of a global pandemic health crisis, the trade deficit red ink is rising as the world is buying much less goods from the U.S. than manufacturers here are able to sell abroad. This is the trade data for March and it is too early to tell if the trade deficit trend is starting to change. The trade deficit has been narrowing since mid-2019 which adds to GDP growth. The average trade deficit has moved from \$52.8 billion in Q3 2019 to \$46.6 billion in Q4 2019 to \$43.2 billion in Q1 2020. We are buying fewer imports which means imports, which are subtracted from GDP "Gross Domestic Product," well there is less to subtract so it is actually an add: 1.3 percentage points boost to 2.1% real GDP in Q4 2019, and 2.3 percentage points boost to -4.8% real GDP in Q1 2020.

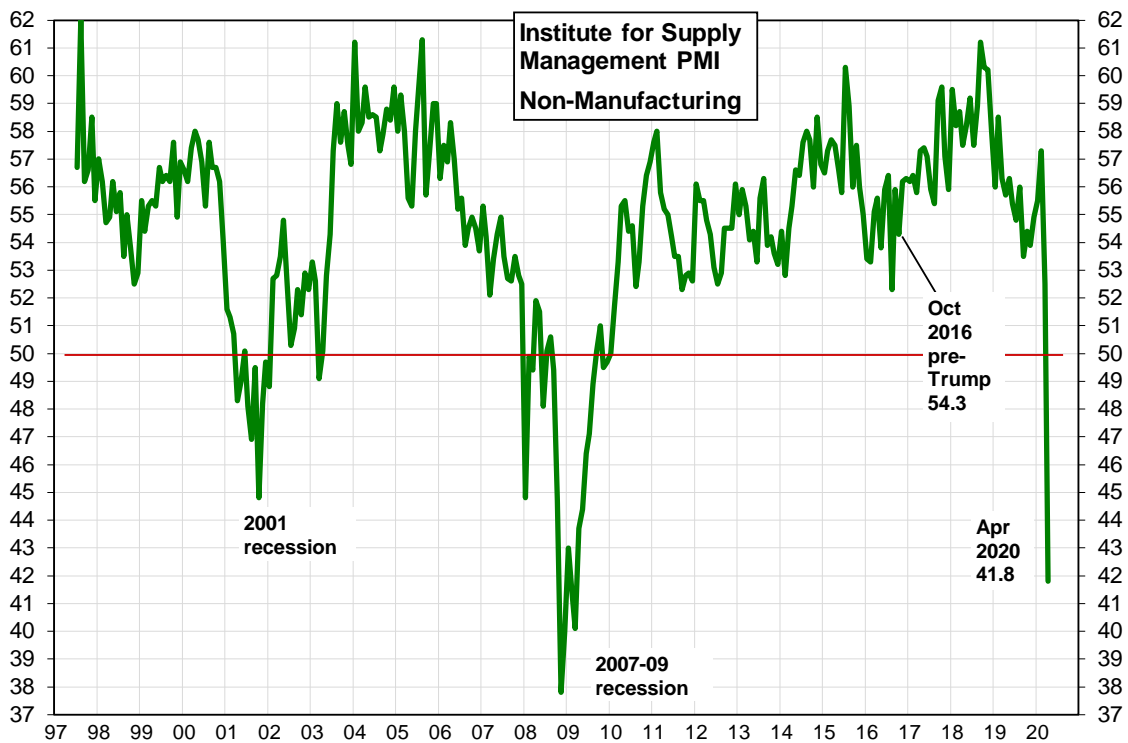
Stay tuned. Story developing. Trade between locked-down countries all over the globe will continue to falter in what looks like a second Great Depression and it could be years before the globalization trend reasserts itself as the world grows more cautious during this unprecedented health crisis.



Purchasing managers in service industries say recession not Great Depression (Tuesday)

Breaking economy news. The Institute for Supply Management survey of service sector industries tumbled to 41.8 in April from 52.5 in March. Sentiment is still better than it was in the Great Recession over a decade ago so this pandemic hit to the economy is more like a bad recession than a nightmare Great Recession II. ISM services hit a low of 37.8 last recession in November 2008 a couple of months after the U.S. let Lehman go bankrupt to teach Wall Street a lesson. Wall Street returned the favor and the stock market collapsed over 50% from the highs before it was over.

Net, net, services sector activity is sliding hard as the spreading coronavirus pandemic has kept people at home instead of out shopping at stores and malls or taking vacations or engaging in recreation activities. If you can't go outside, there's no reason to buy a new car and car & light truck sales tumbled to 8.6 million in April from 11.4 million in March at annual rates. The states are starting to open up again in some parts of the country and that's a good thing, but it is going to take a much longer time for the services sector to contribute meaningfully to an economic upswing when you have air carriers warning it will take three years to get back to normal. Stay tuned. Story developing. We will know more in a few years. Wait for it.

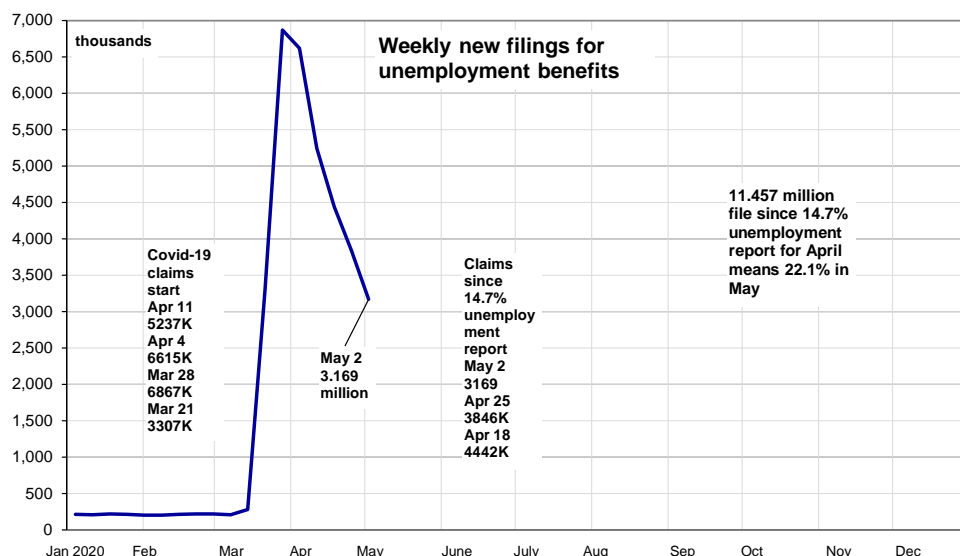


The economy lies in ruins with no way out for workers displaced by coronavirus (Thursday)

Breaking economy news. The U.S. and China will hold a phone call next week on the status of the trade talks. Stocks made a new high on the news overnight at 3am. Phone call. Can we listen in? Haha. Trade? There's a global recession, there is no trade between nations. No. The big news this morning is that the economy lies in ruins because tens of millions are without work today. The total number out of work in the last recession over a decade ago caused by the housing bubble collapse was only 15.352 million. In this recession starting from mid-March, 33.483 million have applied for unemployment benefits over the last seven weeks. You can't have a recession without job losses and boy has this pandemic virus lockdown of the economy produced millions and millions of job losses. We don't know about tomorrow's April employment report, but 7.140 million unemployed in March plus 33.483 million more means an unemployment rate of 24.9%. It's official. The pandemic job losses in the U.S. are depression magnitude on the economic recession Richter scale.

Sending Americans home to slow the spread of the deadly coronavirus is sending joblessness sky-high to record levels that are even worse than the Great Depression. As businesses rethink how to reopen it is clear that many will discover they are financially ruined and will be forced to declare bankruptcy and lay off even more workers. Fed Chair Powell's fear of a wave of bankruptcies is closer to becoming a reality. Many small businesses will be unable to open with workers going AWOL as the Cares Act provides an extra \$600 a week in unemployment benefits through July 31st, and many workers are likely to decide to simply take the money and run. Forty percent of the country can't come up with \$400 in an emergency, so \$600 a week must truly be manna from heaven. \$600 alone is a \$15 an hour "job."

Washington officials were once hopeful the economy could be restarted without a hitch and pent-up demand from cooped up consumers would lead to a powerful recovery. But the job losses the economy has taken are massive and it will be very hard to glue the pieces of the labor market back together again after it is broken. The number of Americans who seek employment but are unable to find it because of distressed economic conditions is going to soar. However bad tomorrow's monthly employment report for April is, just remember, it is even worse out there than you think. Bet on it.



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