

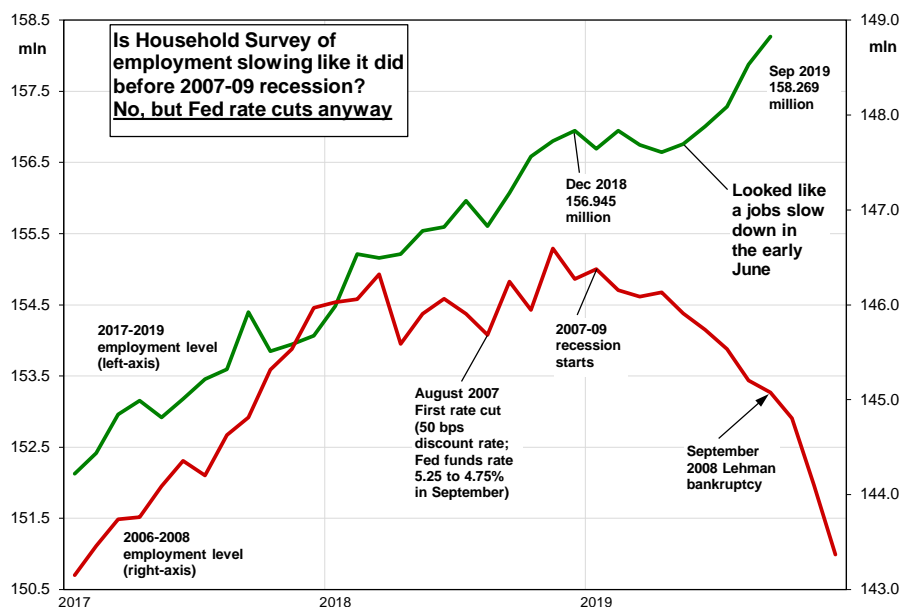
MUFG UNION BANK, N.A.  
 ECONOMIC RESEARCH (NEW YORK)  
 CHRISTOPHER S. RUPKEY, CFA  
 MANAGING DIRECTOR  
 CHIEF FINANCIAL ECONOMIST  
 (212) 782-5702  
 crupkey@us.mufg.jp

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## MAKE OR BREAK JOBS REPORT BREAKS THE RIGHT WAY FOR THE ECONOMY

Payroll jobs didn't fall over the cliff despite the adverse reading on employment in the ISM manufacturing and services reports this week that dropped the stock market almost 1,000 points. Payroll jobs managed to rise 136K in September despite the warnings of purchasing managers. Further evidence that economists don't know what they are talking about ([who writes this stuff?](#)) comes in



the parallel universe measure of “Household Employment” that has been on a juggernaut of hiring since the turn of the year and found there were 391K more jobs in September. You can thank the strength of the Household Survey measure of employment for pushing the unemployment rate to a new low of 3.5% for this economic cycle that got all the press and all the president’s tweets.

There is no recession. The economy isn't broken. America's businesses continue to hire workers despite the air of uncertainty stemming from the on-again, off-again trade talks between the US and its trading partners. Payroll jobs increased 136K in September with 45K of upward revisions to July and August. Manufacturing jobs fell 2K, the first decline since March this year, but the trade

	Sep	Aug	Jul	Jun	May	Apr
Payroll jobs (000s)	136	168	166	178	62	216
Unemployment rate %	3.5	3.7	3.7	3.7	3.6	3.6
Unemployment (3 decimal)	3.517	3.687	3.712	3.666	3.620	3.585
Participation rate %	63.2	63.2	63.0	62.9	62.8	62.8
Average hourly earnings	\$28.09	\$28.10	\$27.99	\$27.91	\$27.82	\$27.75
MTM % Chg	0.0	0.4	0.3	0.3	0.3	0.1
YOY % Chg	2.9	3.2	3.2	3.2	3.1	3.2
Production Worker earnings	\$23.65	\$23.61	\$23.51	\$23.43	\$23.38	\$23.30
MTM % Chg	0.2	0.4	0.3	0.2	0.3	0.2
YOY % Chg	3.5	3.6	3.5	3.4	3.4	3.3

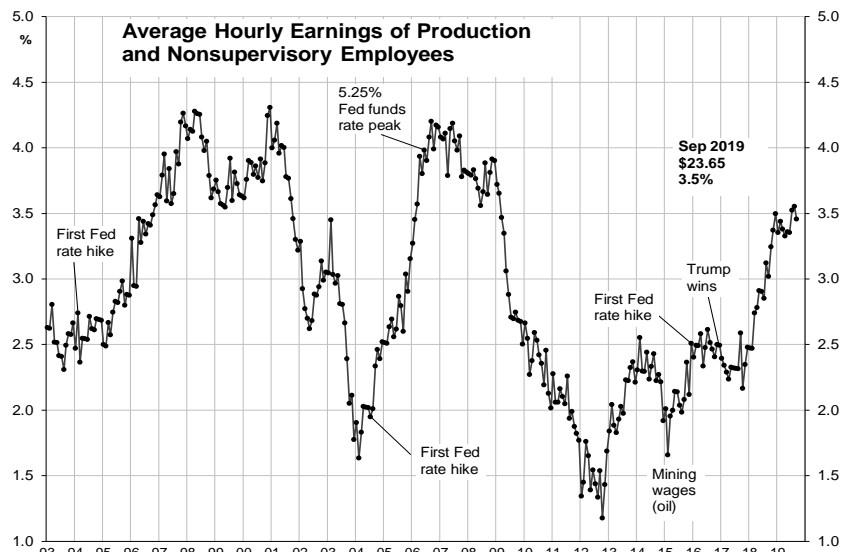
war effect on manufacturers seems much less than feared. Metal products, machinery, and motor vehicles showed job losses, but these were partly offset by employment gains in computers and electronic products and in food manufacturing.

A rate cut isn't a slam dunk anymore for Fed officials at the meeting later this month. Not with the new low for unemployment at 3.5% for this year. It didn't take the president long to tweet about the good news here. The labor market isn't overheating though, not with the 0.0% increase in wages for September which brings the year-to-year increase down to 2.9%. The labor market isn't overheating, so the economy is in a good place for Fed officials, and with more jobs, and the recession clouds still well offshore, today's report means the need for additional monetary stimulus later this month doesn't look quite as urgent. The trade war uncertainty isn't slowing the economy as much as markets thought after the signals of darkening skies from two purchasing manager surveys this week that crushed stocks.

The only risk that lies ahead for this expansion is whether the country is running out of workers for companies to hire with the new low for unemployment at 3.5%. Joblessness is the lowest since 1969. Fed officials have said they will do what it takes to keep the expansion going, but one has to wonder what good interest rate cuts will do when the biggest roadblock in the road ahead is that there is no one to man the factory shop floors and work at the shops and malls across America.

### Payroll jobs in year eleven following the recession

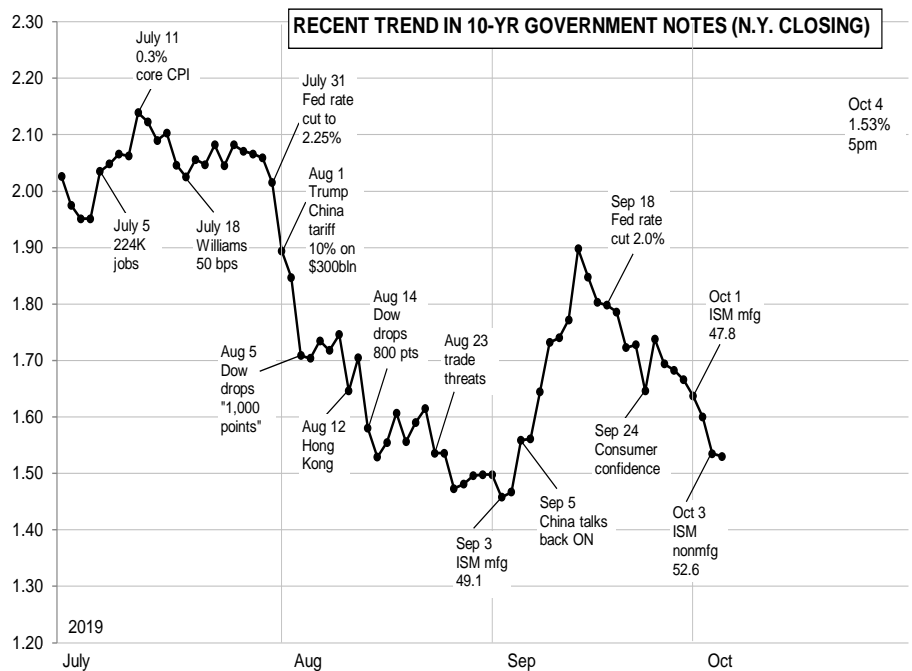
Dec. 2018		Sep 19	Aug 19	Jul 19	9 months Dec 18 to Sep 19	12 months Dec 17 to Dec 18
Totals	millions					
150.275	<b>Nonfarm Payroll Employment</b>	136	168	166	1447	2679
127.790	<b>Total Private (ex-Govt)</b>	114	122	122	1291	2583
20.961	<b>Goods-producing</b>	5	1	-4	145	631
0.705	Mining	0	-6	-5	-8	63
12.809	Manufacturing	-2	2	4	41	264
1.005	Motor Vehicles & parts	-4	-1	-2	-17	23
7.400	Construction	7	4	-3	110	307
106.829	<b>Private Service-providing</b>	109	121	126	1146	1952
27.788	<b>Trade, transportation, utilities</b>	5	-11	2	23	304
15.821	Retail stores	-11	-6	-2	-78	14
3.105	General Merchandise	0	-13	-1	-71	9
3.108	Food & Beverage stores	9	-3	6	20	20
5.511	Transportation/warehousing	16	-4	-1	64	216
1.512	Truck transport	-4	-5	0	0	44
0.750	Couriers/messengers	4	4	7	28	54
1.170	Warehousing and storage	3	2	3	29	84
0.555	Utilities	-2	-1	-1	-4	-1
2.827	<b>Information</b>	9	2	-2	10	6
8.615	<b>Financial</b>	3	15	19	81	115
2.703	Insurance	2	5	11	27	31
2.287	Real Estate	-1	7	3	44	67
1.316	Commercial Banking	1	2	0	-5	-7
0.967	Securities/investments	-1	-3	4	7	23
21.254	<b>Professional/business</b>	34	43	37	311	561
3.060	Temp help services	10	15	-11	-16	83
2.395	Management of companies	6	8	2	39	62
1.495	Architectural/engineering	3	1	3	29	42
2.162	Computer systems/services	0	8	9	66	86
1.140	Legal services	-1	4	0	7	1
1.034	Accounting/bookkeeping	2	-3	6	25	39
23.912	<b>Education and health</b>	40	56	76	484	532
5.195	Hospitals	8	14	2	72	100
3.746	Educational services	-1	4	29	75	50
16.554	<b>Leisure and hospitality</b>	21	9	-13	166	359
2.036	Hotel/motels	-1	1	-15	16	23
12.074	Eating & drinking places	2	6	-4	120	258
22.485	<b>Government</b>	22	46	44	156	96
2.192	Federal ex-Post Office	-2	28	2	44	9
5.183	State government	10	11	17	20	19
2.487	State Govt Education	5	7	13	5	10
14.504	Local government	14	7	27	91	74
7.974	Local Govt Education	6	11	29	52	31



## MARKETS OUTLOOK

	29-Mar 2019	28-Jun 2019	30-Sep 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
30-Yr Treasury	2.81	2.53	2.11	2.20	2.25	2.30	2.40	2.50	2.70
10-Yr Note	2.41	2.01	1.67	1.75	1.80	1.90	2.10	2.20	2.40
5-Yr Note	2.23	1.77	1.55	1.55	1.65	1.75	1.85	2.05	2.25
2-Yr Note	2.26	1.76	1.62	1.60	1.60	1.70	1.80	2.00	2.20
3-month Libor	2.60	2.32	2.09	2.10	2.10	2.10	2.10	2.20	2.20
Fed Funds Rate	2.50	2.50	2.00	2.00	2.00	2.00	2.00	2.00	2.00
2s/10s spread	15	25	5	15	20	20	30	20	20

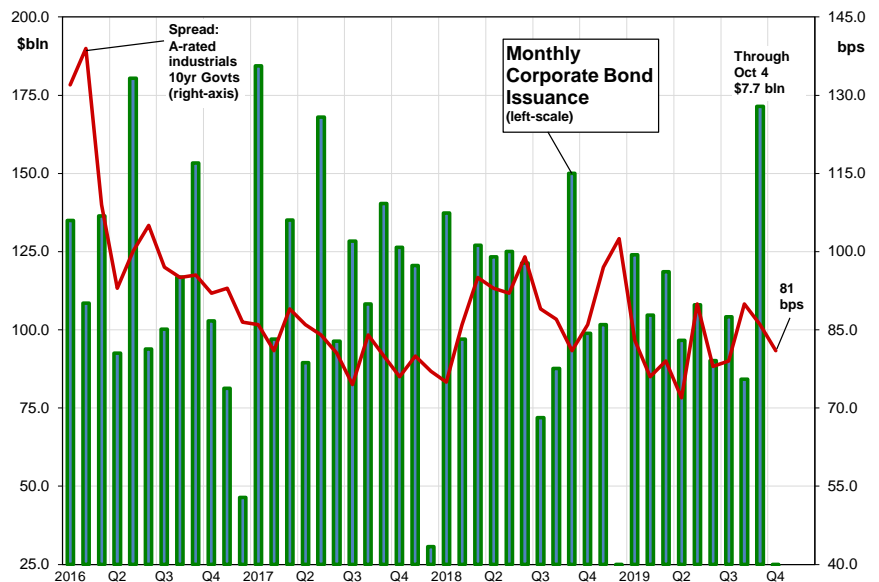
It looks like a slow descent in bond yields this week on a closing basis to 1.53% on Friday which is 15 bps lower than the prior week. No real lift in yields from 136K payroll jobs on Friday. The descent in yields was even greater though because of the weak Japanese government bond auction which sent yields as high as 1.75% early Tuesday morning before the weak US ISM manufacturing data. Bond yields were 1.73% before the ISM manufacturing index Tuesday, based on a



survey not hard data, and fell to a new low-close since the September Fed rate cut. It was all downhill for yields from there. Fed funds futures discount a 17.5 bps rate cut at the October 29-30 meeting.

## CORPORATE BONDS: NEXTERA ENERGY, MARRIOTT, DIAGEO CAPITAL

Corporate offerings were \$7.7 billion in the October 4 week versus \$16.9 billion in the September 27 week. On Monday, American Tower sold \$1.35 billion 7s/30s. It priced a \$600 million 3.7% 30-yr (m-w +25bp) at 160 bps (Baa3/BBB-). The REIT, which owns and operates wireless communications and broadcast towers, will use the proceeds to repay existing indebtedness, the 2013 Credit Facility and 2019 Term Loan. Corporate bond yields (10-yr Industrials rated A2) were 81 bps above 10-yr Treasuries Friday versus 86 bps last Friday.



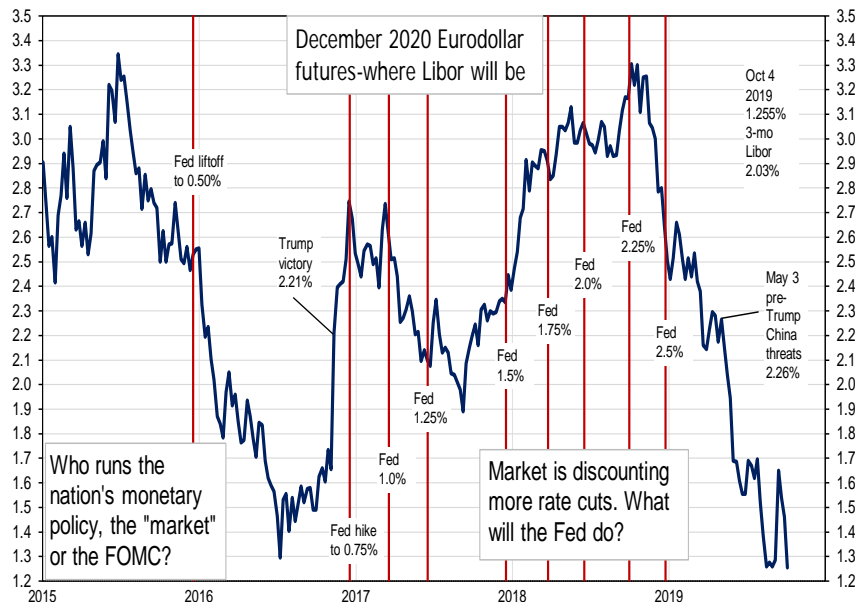
# FEDERAL RESERVE POLICY

The Fed meets October 29-30 to consider its monetary policy. The stock market rallied on Friday with the employment report showing the economy is not going over the cliff and down into the recession abyss for now. Maybe later. For recession. If you are long bonds waiting for that one last ride in rates down to zero. Stocks rallied 372 points Friday, but there was just a modest lift in gloom and doom December 2020 Eurodollar future yields, where 3-month Libor (2.03% Friday) will be in December 2020. December 2020 Eurodollar futures are pricing in a 1.0 to 1.25 percent Fed funds rate next year. The Fed can't do that without a recession, can they? No recession coming. Not with the President telling reporters on the tarmac Friday that China wants a deal badly. A China deal will lift the veil of uncertainty over the economic outlook according to Fed officials. We guess, although National Economic Council (NEC) head Kudlow said Friday that the biggest trade problem (that has not been addressed) is our manufacturing exports to Europe. He said, "We have lost \$150 billion in manufacturing exports to Germany." U.S. exports of goods to Germany were \$57.8 billion in 2018 and we imported \$125.8 billion.

In the meantime, the Fed is taking it on a meeting by meeting basis according to Fed Vice Chair Clarida this week. Clarida was one of the advocates this year for some risk-management, take out some insurance, rate cuts just like those done in the 1990s. The Fed cut rates in three steps by a total of 75 bps back then, so at the moment, they aren't taking out as much insurance as they did way back when. It doesn't seem too likely they would want to disappoint the market or themselves or the president. Fed funds futures are discounting a 70% chance of a rate cut at the October 29-30 meeting and 1-1/2 rate cuts are discounted by the December 10-11 meeting.

Selected Fed assets and liabilities					
Fed H.4.1 statistical release	2-Oct	25-Sep	18-Sep	11-Sep	Sep 10 2008**
billions, Wednesday data					
<b>Factors adding reserves</b>					
U.S. Treasury securities	2117.130	2107.683	2105.826	2101.169	479.782
Federal agency debt securities	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	1467.260	1467.257	1484.434	1489.605	0.000
Repurchase agreements	181.050	105.000	75.000	0.000	126.750
Primary credit (Discount Window)	0.031	0.004	0.004	0.002	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	
<b>Central bank liquidity swaps</b>	0.973	0.042	0.039	0.040	62.000
Federal Reserve Assets	3993.3	3906.0	3892.9	3817.8	961.7
3-month Libor %	2.06	2.10	2.16	2.13	2.82
<b>Factors draining reserves</b>					
Currency in circulation	1765.667	1762.927	1762.755	1765.344	834.477
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
Reverse repurchases w/others	3.054	0.133	18.910	3.612	0.000
<b>Reserve Balances (Net Liquidity)</b>	<b>1486.710</b>	<b>1427.289</b>	<b>1385.426</b>	<b>1458.666</b>	<b>24.964</b>
Treasuries within 15 days	0.128	13.085	12.985	0.050	14.955
Treasuries 16 to 90 days	77.461	66.568	66.593	78.951	31.549
Treasuries 91 days to 1 year	267.176	269.442	269.514	265.487	69.272
Treasuries over 1-yr to 5 years	848.695	839.685	837.878	837.872	170.807
Treasuries over 5-yrs to 10 years	302.345	297.606	297.580	297.554	91.863
Treasuries over 10-years	621.326	621.296	621.275	621.254	101.337

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



Yields are down 100 bps since May 3 when Trump tweeted he would increase tariffs on the second tranche of \$200 billion from 10% to 25% because China "broke the deal."

Odds of Rate Cuts	
Fed funds futures	
F10-4-2019	
Fed meeting	
17.5 October 30	
37.5 December 11	
Total bps of cuts discounted at future Fed meetings	

Eurodollar futures say many more Fed rate cuts				
Year-ends for Interest Rates				
Percent %	2019	2020	2021	2022
Eurodollar futures	1.83	1.255	1.205	1.26
Fed's Sept forecast	2.0	2.0	2.25	2.5
Eurodollar futures price where 3-month Libor will be in the future. Friday, October 4, 2019 3-month Libor 2.03%				

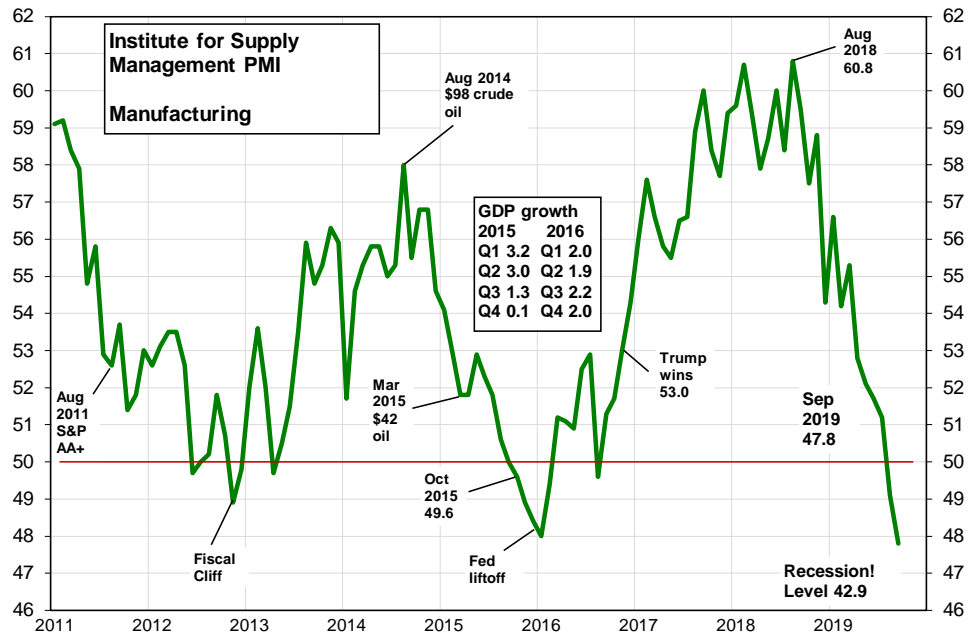


## OTHER ECONOMIC NEWS THIS WEEK

### Manufacturing cuts run deeper (Tuesday)

Breaking economy news. Industrial production has been climbing the last few months but don't tell that to manufacturing executives who say the worst is yet to come. The ISM manufacturing index fell deeper onto recession territory in September with a reading of 47.8 even weaker than the 49.1 level in August. The consensus on third quarter GDP growth is still close to 2 percent, but it won't be for long when economists plug today's dismal data into their models.

Net, net, manufacturing executives are scared to death that the trade war is going to crush their exports to recession levels and force them to turn the factory lights out. It couldn't be more ironic that the trade tariffs done to bring factories back from overseas, are actually shutting down production at existing plants here in the US.



The economy is in a precarious situation here with the plummeting outlook for manufacturing in danger of taking the entire economy over the cliff into the abyss of recession. Fed officials looking for a third rate cut this year just got the news they need to take out more insurance. Fed officials are going to need a bigger gun because the recession warning light is definitely flashing a yellow caution warning for the economy.

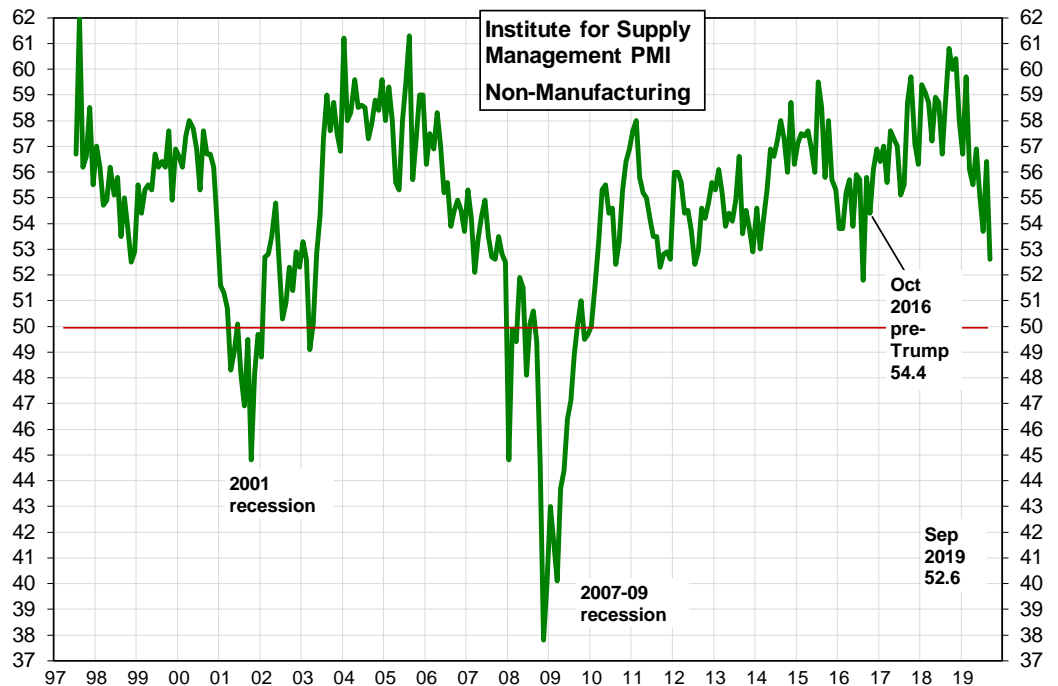
The ISM manufacturing index is now weaker than it was after the oil price crash in late 2014 which was the last time it was lights out for manufacturing. The Trump economics team is going to have to pull a rabbit out of their hats if this country has any hope of avoiding a broader downturn in the economy. Stock market investors are clearly bailing on today's dismal factory recession news as they know that Washington is out of bullets to kill the economy's slide as the tax cuts stimulus was made almost two years ago, and Fed rate cuts from 2 percent are unlikely to make companies borrow any more to make new investments.

The lights haven't gone out on the economic outlook yet, but they are certainly growing very dim. It will be a miracle if our economic ship can avoid the economic shoals of a recession because the sharp retreat we are seeing on manufacturing confidence is exactly what a recession looks like. Purchasing managers are telling stock market investors to get out. Run. Run for your life. Get out while you can. The outlook is darkening and the thunder is growing louder by the day.

## Services hit the skids! Recession Alert! Markets Dive, Dive, Dive (Thursday)

Breaking economy news. You just can't make this up, or can you? The ISM purchasing managers index for services tumbled to a new low since the president was elected putting his reelection hopes at risk if it is still the "economy stupid" for millions of voters. Stock markets aren't waiting for the election they are exiting right now as the Dow industrials fell over 300 points on the weakening services sector news.

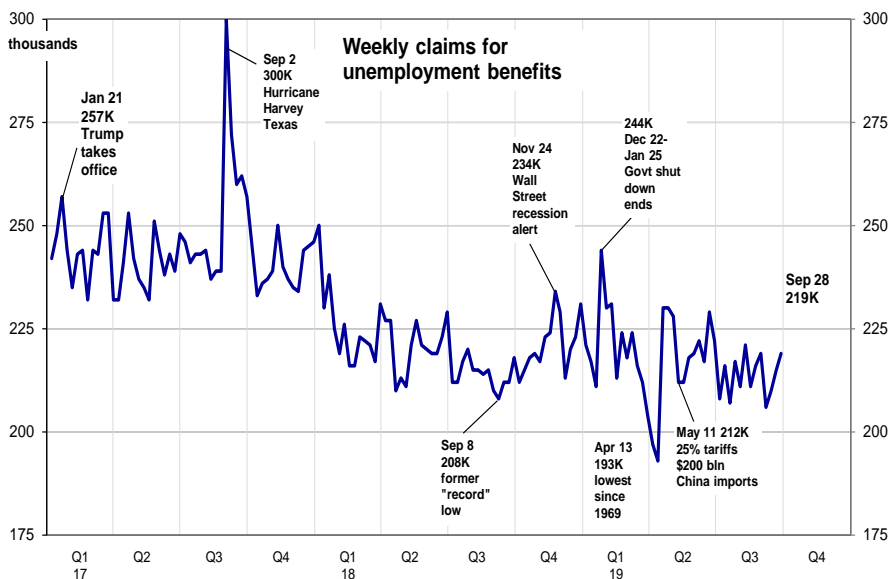
Net, net, look out below is what purchasing managers from services industries are shouting at the markets as the fears of recession continue to mount. Stock investors don't like that the doom and gloom in the manufacturing sector is starting to infect the bigger part of the economy that employs millions of workers in services industries including health care, retailing, business administration, accounting, computer services on and on.



This downturn is starting to spread and that means the tea leaf readers at the Fed are going to be teeing up a third rate cut this year when they next meet again at the end of this month. Policymakers are going to need a bigger gun to stop this avalanche of bad news from dragging down business and consumer confidence even further. Rate cuts are coming. Lots of them. Bet on it.

## Unemployment claims remain low, no recession (Thursday)

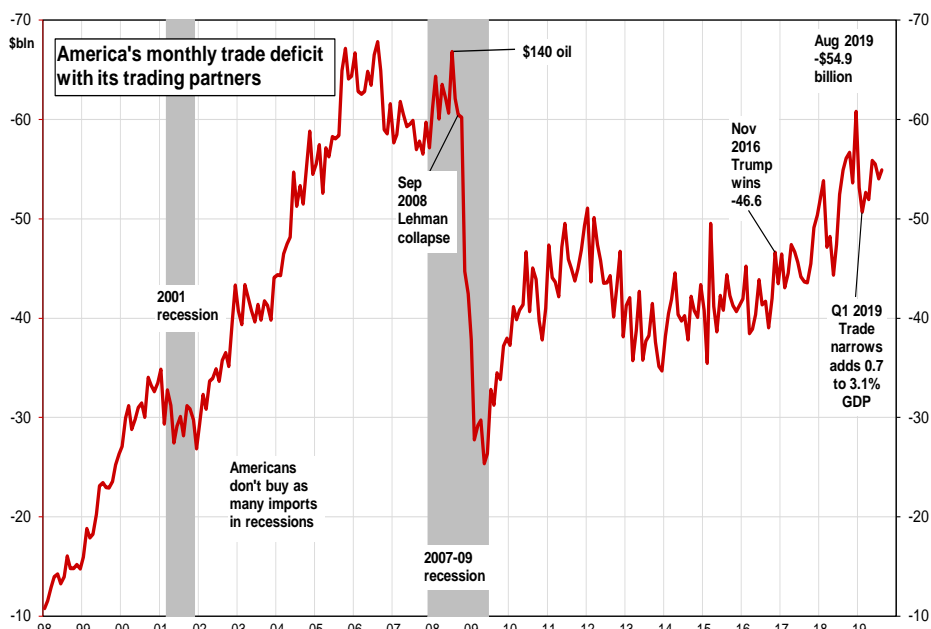
If the trade war is going to bring down the economy, it has got to do more than slow the economy and business investment spending. Businesses need to stop hiring and start firing. And companies haven't yet. We thought a (long) while back, it was okay to go on alert and start closely monitoring the economy, like the Greenspan Fed did years ago. Those were the days. Gone. All gone. Close monitoring of the economy is not so secret anymore, just watch for



job losses. None to report yet. We thought the escalation of tariffs on China back in May were worrisome for the outlook, but jobless claims remain low at 219K in the September 28 week.

## U.S. trade deficit widens, but trade deficit with China is melting due to the tariffs (Friday)

The trade deficit widened in August to \$54.9 billion from \$54.0 billion in July. This is the balance between exports and imports for goods and services. Markets tend to focus more on the trend in goods imports (the White House says America is being ripped off) and goods exports which U.S. factories export around the world. National Economic Council (NEC) head Kudlow said Friday that European trade practices were holding back U.S.



manufacturing exports there. Europe has enough going on with Brexit, and markets hope the White House focus will be more on the China trade talks. With tariffs flying on both sides, the data today show U.S. exports to China are down 16.0% so far this year from 2018. U.S. imports in 2018 were \$540 billion, but over the first 8 months of 2019, imports are down 12.5% which would bring the 2019 total down to about \$475 billion if the trend continues.

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