RATE CUTS BECOME A LITTLE LESS LIKELY AS JOB GROWTH IMPROVES

Bond yields jumped in early trading as June employment signaled much stronger job growth than economists expected, reducing the possibility of a July 31st rate cut.

U.S. companies added +224k new jobs to their payrolls last month, well above the +160k median Bloomberg forecast and, more importantly, all but nullifying the surprisingly weak +75k (revised) showing in May. Nonfarm payrolls have been quite volatile this year, ranging from an eye-popping +312k advance in January to just +56k a month later, but are now averaging +172k for the first half of 2019. Although the pace of the last six months is below the +223k average for all of last year, it’s still quite respectable considering we’re now building on the longest economic expansion in U.S. history.

The job gains were widespread last month with notable additions in education and healthcare (+61k), business services (+51k), construction (+21k) and manufacturing (+17k). Local governments added +31k while the federal government added just +2k. The lower-paying leisure and hospitality sector added just +8k, while the retail jobs declined for the fifth consecutive month (-8k) as more labor efficient online sales continue to build.

Headline unemployment rose slightly from a five-decade low of 3.6% to 3.7% in June, but this upward drift is hardly a problem as the fractional increase (+0.04%) was a result of more Americans entering or reentering the labor force. In the separate household survey, there were +247k new jobs reported with +335k additional people looking for work. Unemployment increases resulting from an energized labor base is normally a sign of optimism and a healthy labor market.

Usually in a labor market as tight as this, you’d expect to see oversized wage gains as employers are forced to pay more to attract and retain workers. But so far, this isn’t really happening. Hourly earnings were up just +0.2% in June, below forecast, and advancing at a moderate +3.1% annual pace. This lack of earnings pressure has been a surprise, but there’s valid reason to believe wages could move higher in future months if labor conditions remain strong. Higher wages would presumably fuel more consumer spending, thereby boosting GDP growth and resulting in continued pause by the Fed.

The financial markets have been convinced for months that multiple rate cuts are on the horizon, but today’s strong data doesn’t support that idea at all.

Stocks have retreated in early trading just a day after all three major indexes reached new record highs and on the heels of the best June performance in 80 years. The equity market feeds on low rates, and the notion that rate cuts are less likely may have prompted a bit of indigestion.
Expect continued volatility in the coming weeks and months. The trade war is far from settled, Brexit is still a mess and global growth is slowing. And it gets worse. Three months from now, the federal government is expected to run out of money, the current budget cap will expire and $120 billion in across-the-board government funding will be cut.

Market Indications as of 9:40 A.M. Central Time

DOW Down 214 to 26,752 (High 26,966)
NASDAQ Down 73 to 8,097 (High 8,170)
S&P 500 Down 21 to 2,974 (High 2,996)
1-Yr T-bill current yield 1.99%; opening yield 1.92%
2-Yr T-note current yield 1.89%; opening yield 1.76%
5-Yr T-note current yield 1.86%; opening yield 1.74%
10-Yr T-note current yield 2.07%; opening yield 1.95%
30-Yr T-bond current yield 2.57%; opening yield 2.47%