

Huge Payroll Gain Defies Recession Claim

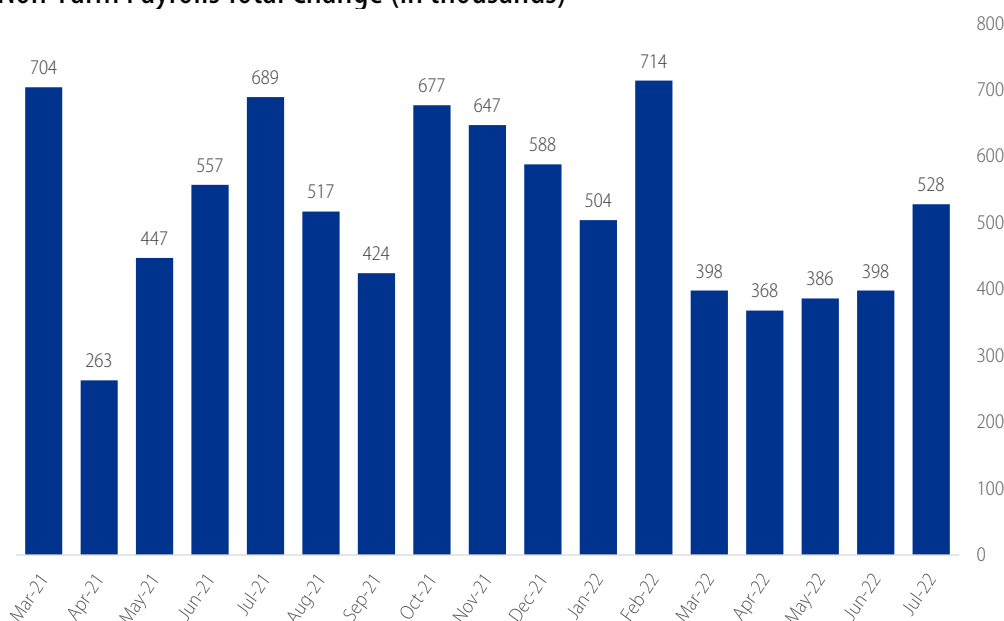
U.S. companies added an eye-popping +528k jobs to nonfarm payrolls in July, more than doubling the median forecast, while the headline unemployment rate returned to a fifty-year low. Recession concerns, the counter-weight to the Fed's aggressive monetary policy, have suddenly diminished. The result is that market yields have risen sharply in early trading as investors realize the Fed has considerably more work ahead to slow economic growth enough to lower inflation. At this point, another 75 basis point move at the September meeting is more likely than not.

After 29 long months, the total payroll count has finally returned to pre-pandemic levels. Job gains were wide-spread across industries. July increases were concentrated in leisure and hospitality (+96k), professional and business services (+89k), healthcare (+70k), government (+57k), construction (+32k), manufacturing (+30k) and social services (+27k). Of these, only Jobs in leisure and hospitality, healthcare and local government remain below the February 2020 count. Private sector payrolls are now +629k above pre-pandemic levels while government payrolls are -597k lower.

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Non-Farm Payrolls Total Change (in thousands)



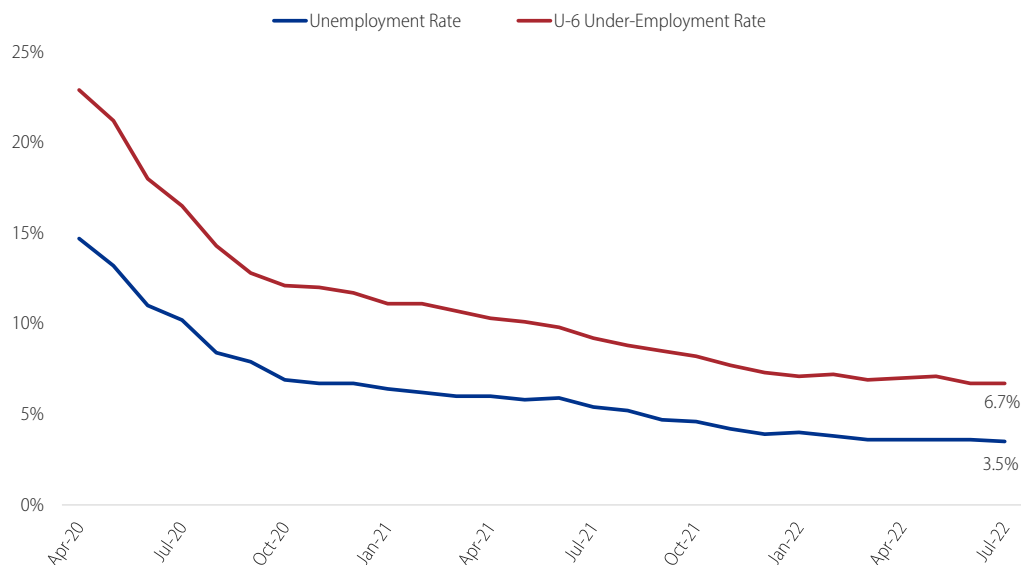
Source: Bureau of Labor Statistics

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The headline unemployment rate fell from 3.6% to 3.5%, just fractionally above the lowest point since the early 70's. However, the decline was primarily due to the labor force participation rate, which slipped from 62.2% to 62.1% as 63k workers retreated to the sidelines. In February 2020, the participation rate, which represents the percentage of working-age Americans either employed or actively seeking employment, was 63.4%.

The total number of unemployed Americans actively looking for work fell to 5.7 million in July, and has now returned to pre-pandemic levels. Americans who would like a job but haven't actually looked for work in the last 30 days increased slightly to 5.9 million last month, roughly 900k *above* the February 2020 count. With the most recent Job Openings and Labor Turnover Survey (JOLTS) showing 10.2 million job openings, the degree of slack in the labor market is still intact.

Unemployment Rate



Source: Bureau of Labor Statistics

Hourly earnings rose +0.5 percent last month and 5.2% on an annual basis. The earnings rate seems to have peaked in March, but the decline has been a little too gradual for the Fed.

Bonds continue to sell off as investors factor-in additional front-loading of policy. The futures market is now indicating a total of 125 basis points in tightening ahead, *all of it this year*, while the two-year Treasury yield is currently 39 basis points above the 10-year.

The bottom line (*for now anyway*) is that the U.S. is *not in recession*. This point will be fiercely debated along political lines, but extremely strong employment simply doesn't fit into the recession equation.

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Market Indications as of 8:55 A.M. Central Time

DOW	Down -85 to 32,642 (HIGH: 36,800)
NASDAQ	Down -132 to 12,589 (HIGH: 16,057)
S&P 500	Down -26 to 4,127 (HIGH: 4,797)
1-Yr T-bill	current yield 3.25%; opening yield 3.06%
2-Yr T-note	current yield 3.23%; opening yield 3.03%
3-Yr T-note	current yield 3.18%; opening yield 2.96%
5-Yr T-note	current yield 2.97%; opening yield 2.78%
10-Yr T-note	current yield 2.84%; opening yield 2.67%
30-Yr T-bond	current yield 3.08%; opening yield 2.95%

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