Bond Yields Plunge as Employment Sags

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Treasuries rallied in early trading, sending bond yields sharply lower following an unexpectedly poor July employment report. Nonfarm payrolls rose by just +73k last month, below the +104k median forecast and lower than all but two predictions from 76 economists surveyed. But as soft as the July payroll count was, it paled in comparison to the enormous prior month revisions which reduced the combined May/June tally by -258k. At this point, the three-month average nonfarm payroll gain is just +35k, a significant downshift from June when the three-month average was +150k.

There were very few notable sectors adding to company payrolls last month. Healthcare (+55k) and social assistance (+18k) combined to account for the entire July increase. Manufacturing shed -11k jobs, the third straight month of contraction, *bringing total factory employment to its lowest level in more than three years*. Within the manufacturing category, the number of autoworkers fell for the second straight month. The higher-paying category of business and professional services lost -14k jobs, while lower-paying retail trade (+16k) and leisure and hospitality (+5k) added jobs.

In the separate household survey, the number of employed workers fell by -260k in July, while -38k exited the labor force, combining to push the headline unemployment rate up from 4.1% to 4.2%. Although this percentage remains low by historical standards, the unemployment rate would be significantly higher except for a dramatic reduction in the number of employed foreign-born workers, down -506k in July and -1.7 million since March according to analysts at Bloomberg.

The extreme weakness of this report shifts the narrative. Quite suddenly, the economy looks vulnerable. The probability of a quarter point rate cut in September has climbed from 40% yesterday to 85% this morning *and will likely continue to rise.*

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Non-Farm Payrolls Total Change (in thousands)

Source: Bureau of Labor Statistics

At the Fed's annual economic symposium in Jackson Hole in three weeks, Powell will have another opportunity to cue-up a September rate cut. If there are indications of further economic deterioration between now and then, the possibility of a larger 50 basis point reduction in September will gain traction.

Market Indications as of 8:58 A.M. Central Time

DOW	Down -656 to 43,474 (HIGH: 45,014)
NASDAQ	Down -463 to 20,660 (HIGH: 21,179)
S&P 500	Down -95 to 6,245 (HIGH: 6,390)
1-Yr T-bill	current yield 3.92%; opening yield 4.09%
2-Yr T-note	current yield 3.76%; opening yield 3.96%
3-Yr T-note	current yield 3.72%; opening yield 3.90%
5-Yr T-note	current yield 3.81%; opening yield 3.97%
10-Yr T-note	current yield 4.25%; opening yield 4.38%
30-Yr T-bond	current yield 4.83%; opening yield 4.90%

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