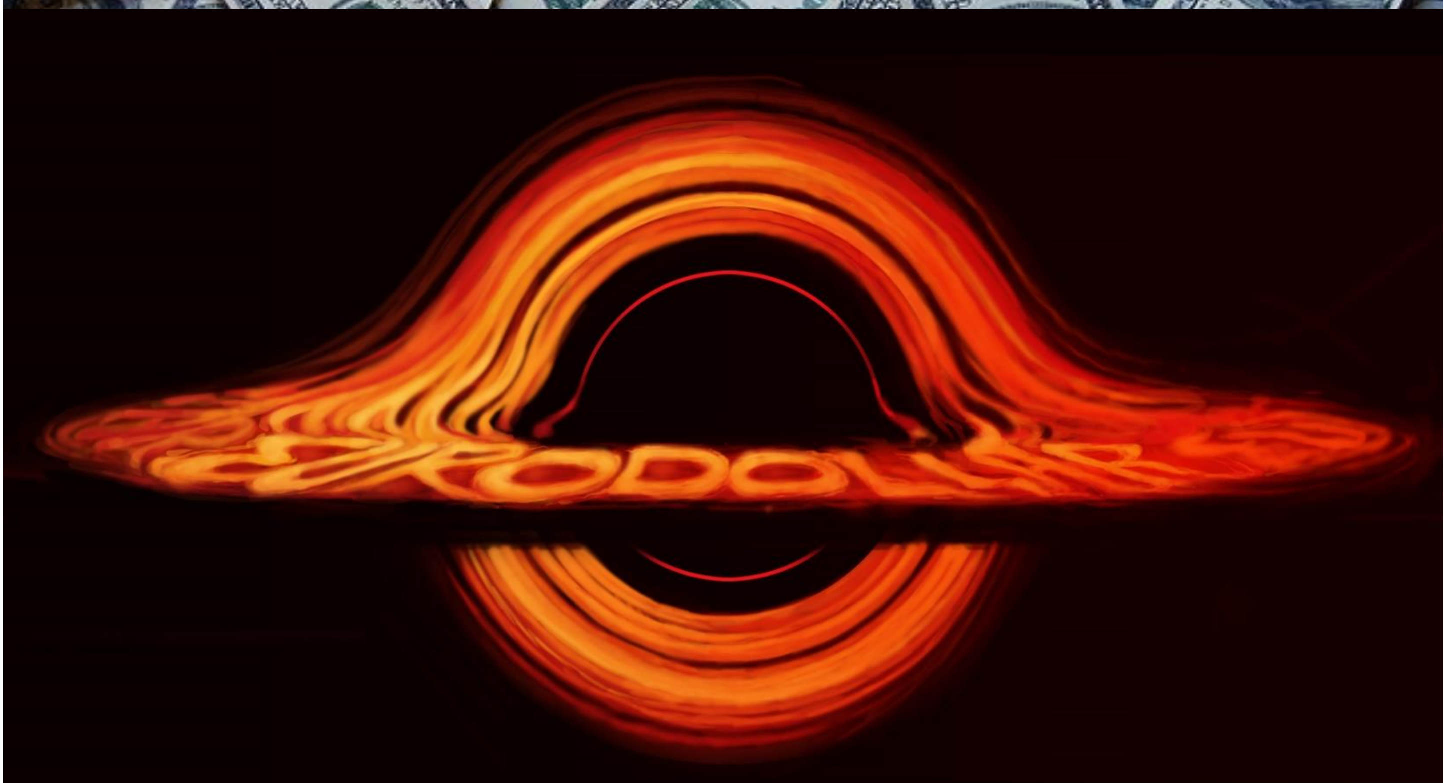

MONEY & MACRO PRO

DAILY BRIEFING

July 8, 2022

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US DATA (1)

Payrolls (CES)

The Bureau of Labor Statistics reported that non-farm payrolls (Establishment Survey) in the US during June 2022 increased by a seasonally-adjusted 372,000 from (downward revised) May. This was considerably more than analysts' expectations of around +300,000 or less.

Interpretation

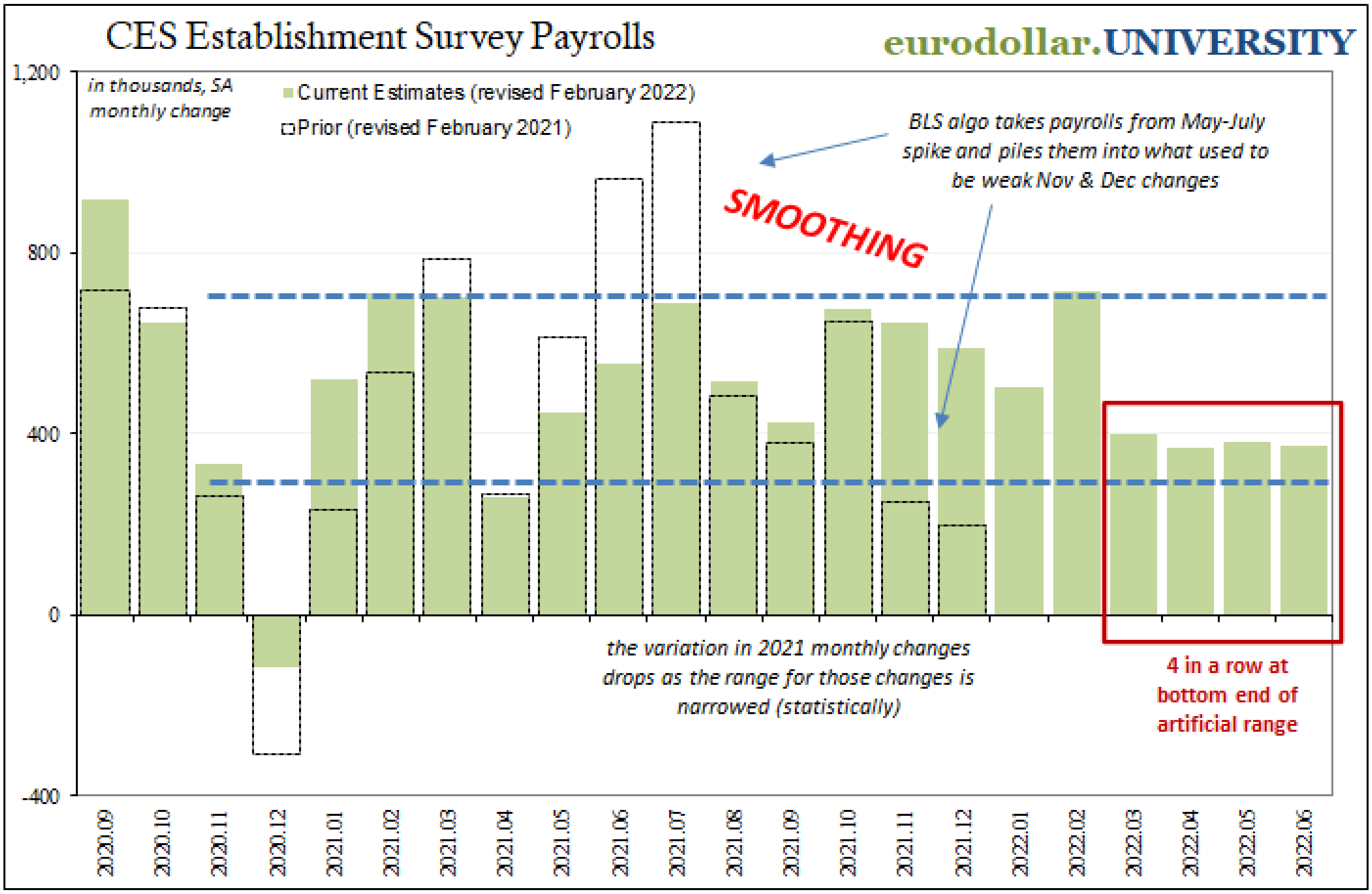
The positive "beat" for payrolls has been (knee-jerk) interpreted as a further green light for the Federal Reserve to continue its rate hike program. Because the headline figure didn't slow much, it would appear consistent with the official view of a strong and resilient labor market able to withstand pressures from consumer (and producer) prices along with any negative sentimental (not money) effects from the Fed's rate increases.

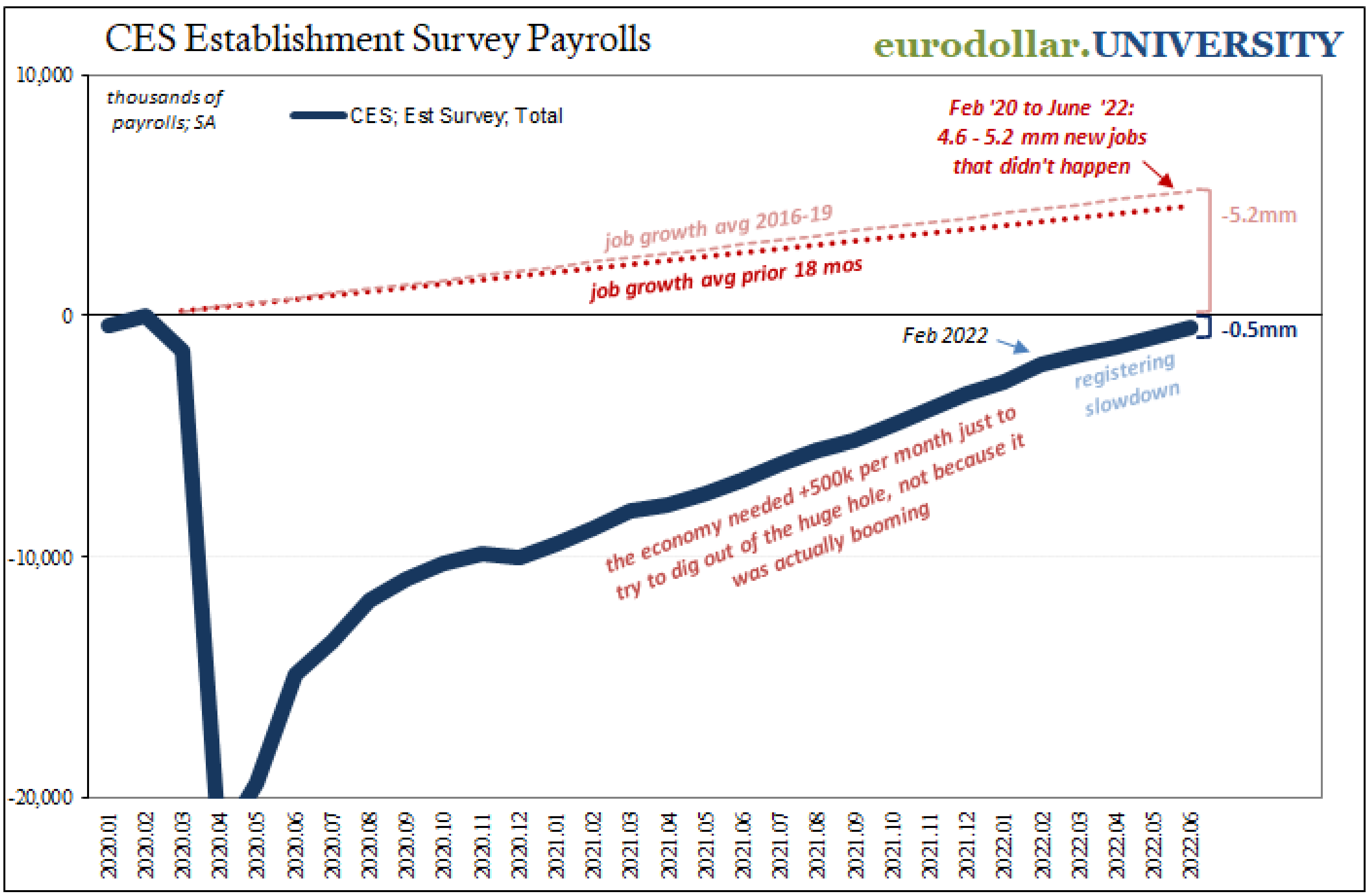
Chairman Powell has said, and testified, that he believes, and the Fed's models purportedly concur, the policy is attempting nothing more than to cool off a hot economy operating at or even above maximum employment. So long as it stays within these tolerances, the rate hikes will continue. The positive June payroll figure is well within this range.

However, it is becoming clear that the Establishment Survey is the *outlier*. The data is intentionally overly smoothed (in a statistical sense), reducing the scale of variations. Last year's extremely noisy data was evened out in benchmark revisions that have, in a very real sense, established (pun intended) a quasi-range for the monthly payroll changes.

Even so, those monthly changes have clearly downshifted to the bottom of that range. This indicates it is very likely, almost certain, the economy and labor market *have* decelerated since February and March. The question remains from what level/speed and by how much.

While the June estimate might allow the Fed to "get away" with claiming the rate hike justifications are still on track, actual labor conditions in the real economy likely are not as such (see: Household Survey, below; and, our deep dive weekly report for all the other payroll data).





Source: US Bureau of Labor Statistics

US DATA (2)

Employment (CPS)

The Current Population Statistics for employment, or Household Survey, declined sharply (-315,000) in June 2022 for the second time in the last three months. Employment losses were widespread in both full-time (-152,000) and part-time positions (-326,000). Given these current and prior declines, the total labor force fell by 353,000 in June, also the second large drop in the past three months.

Interpretation

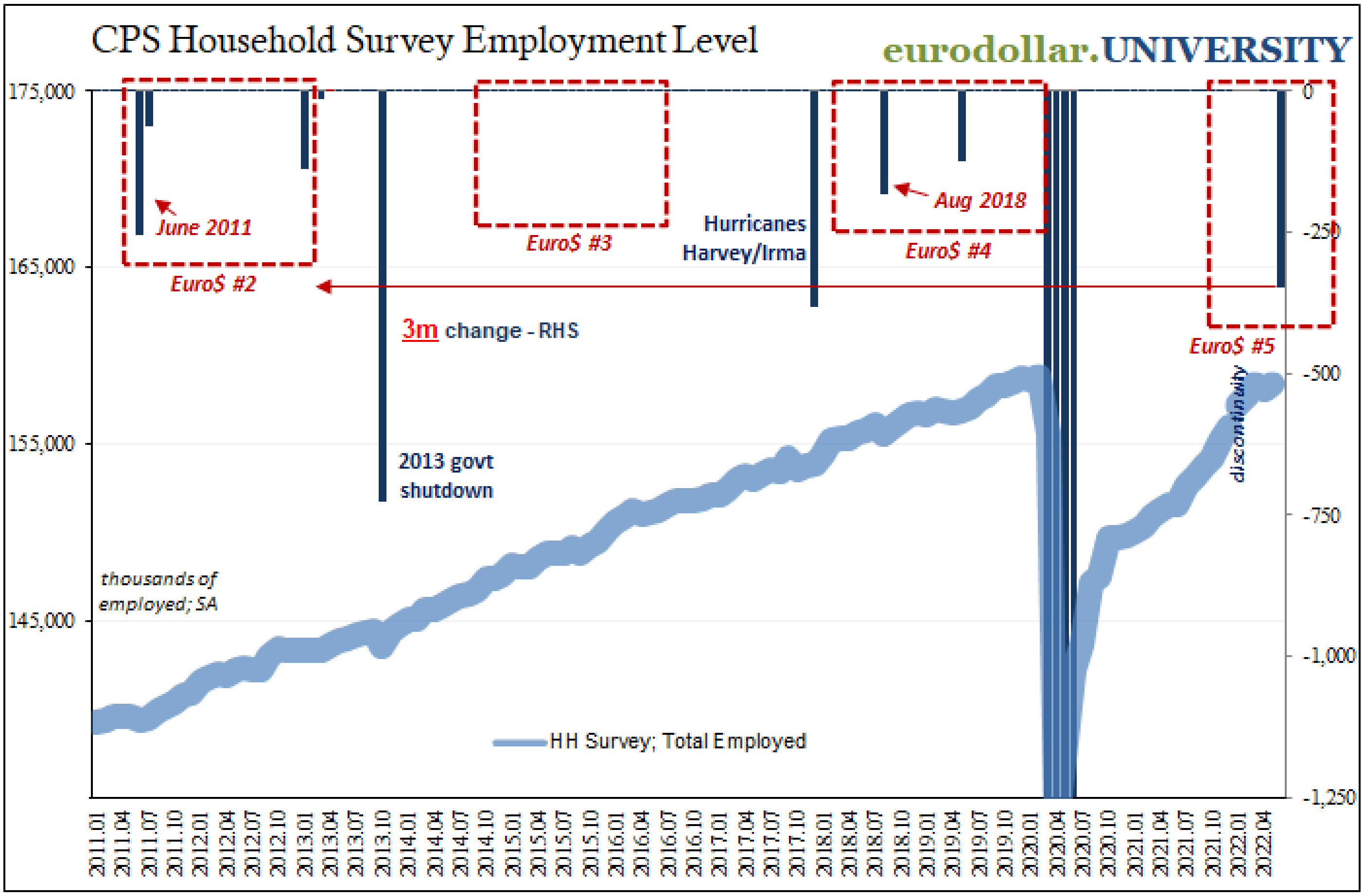
While most attention is, as usual, focused on the Establishment Survey's "upbeat" view of labor, the Household Survey (HH) data signals a very good possibility recession in the US (like other parts of the global economy) ***may have already begun***. The reason for so much focus on the CES is, ironically, its statistical manipulations (including a larger survey sample) which intentionally remove wider variation in the month-to-month estimates, variation that remains a full part of the HH.

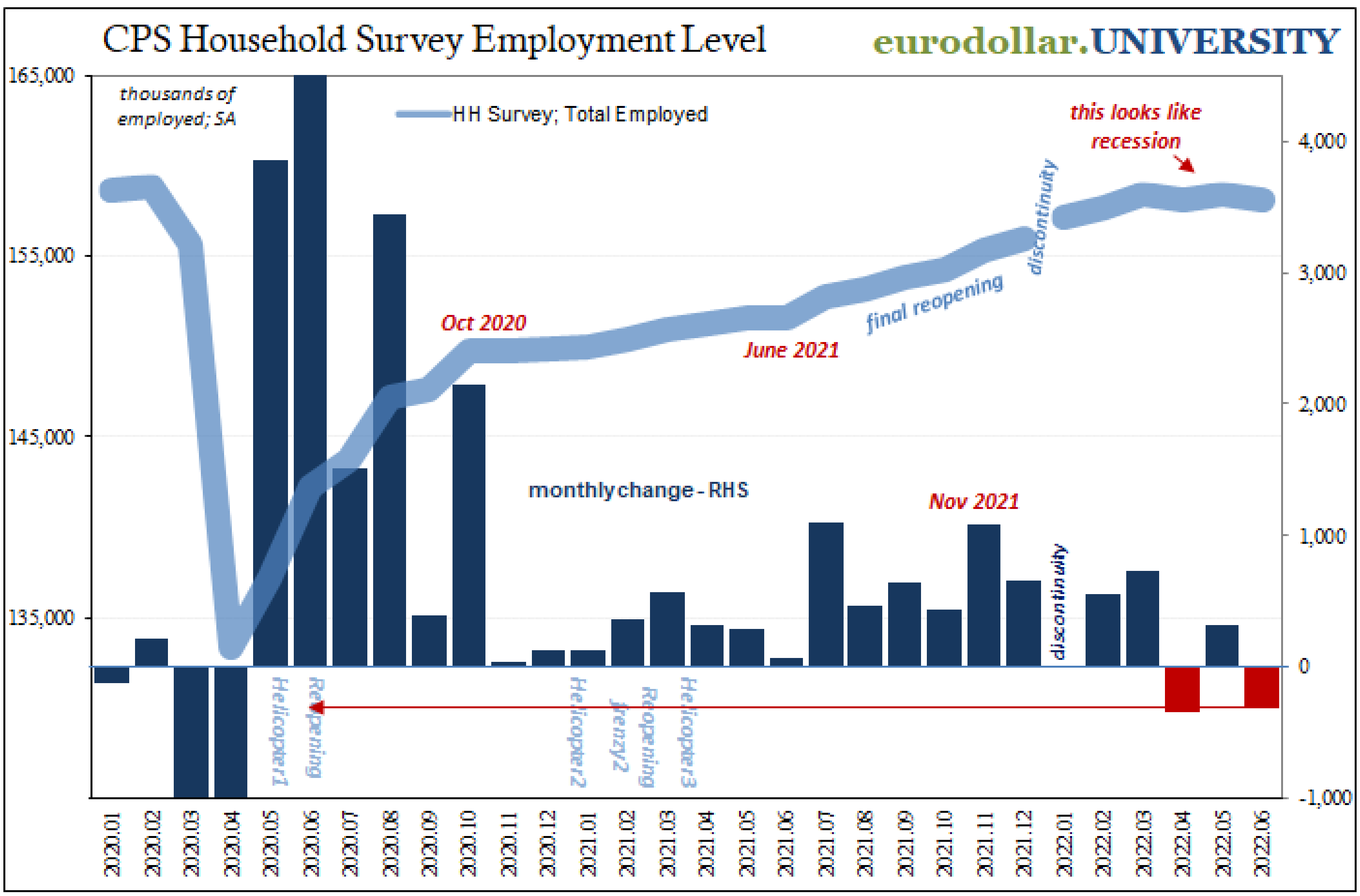
Because of the differences in data construction, individual monthly changes to HH are considered not much more than random noise. However, the decline in employment first in the April data was a substantial departure from recent trends, already suggesting a potential inflection in the employment situation.

This has been subsequently confirmed by two more months of data, May now June, leaving the HH Survey lower for this three-month period, reducing the possibility this shift is statistical noise and greatly raising the possibility that what's happening in the real economy is not just the same minor slowdown as may be interpreted by the Establishment Survey's trend-cycle devotion.

In fact, the three-month decline is the largest since the Great "Recession" (ignoring the gov't shutdown in '13 and the hurricanes of '17), further emphasizing a high degree of confidence there is indeed a serious downturn already underway.

We will have more complete details and analysis in the payroll breakdown of our Weekly Money & Macro Dive.





Source: Bureau of Labor Statistics

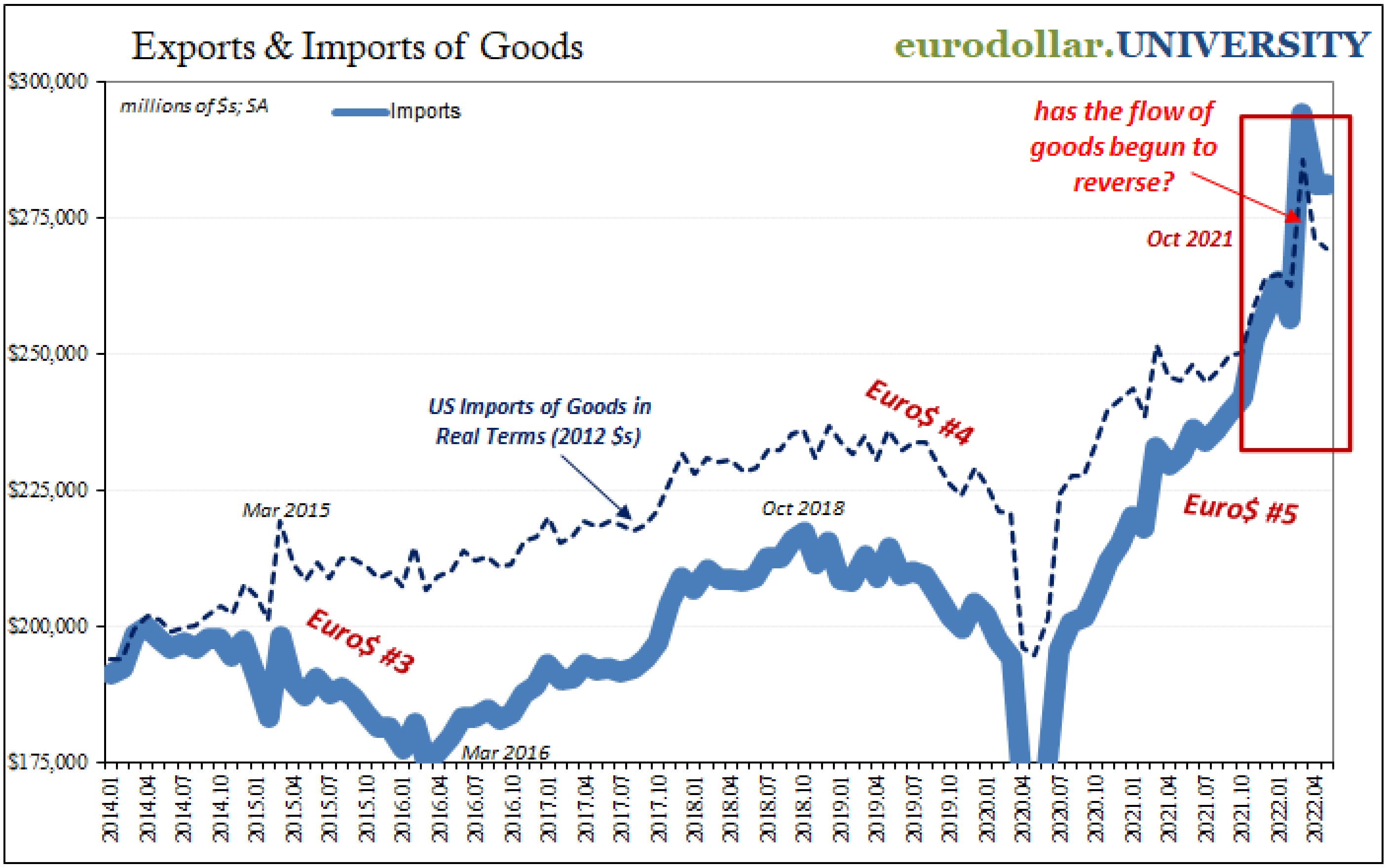
US DATA (3)

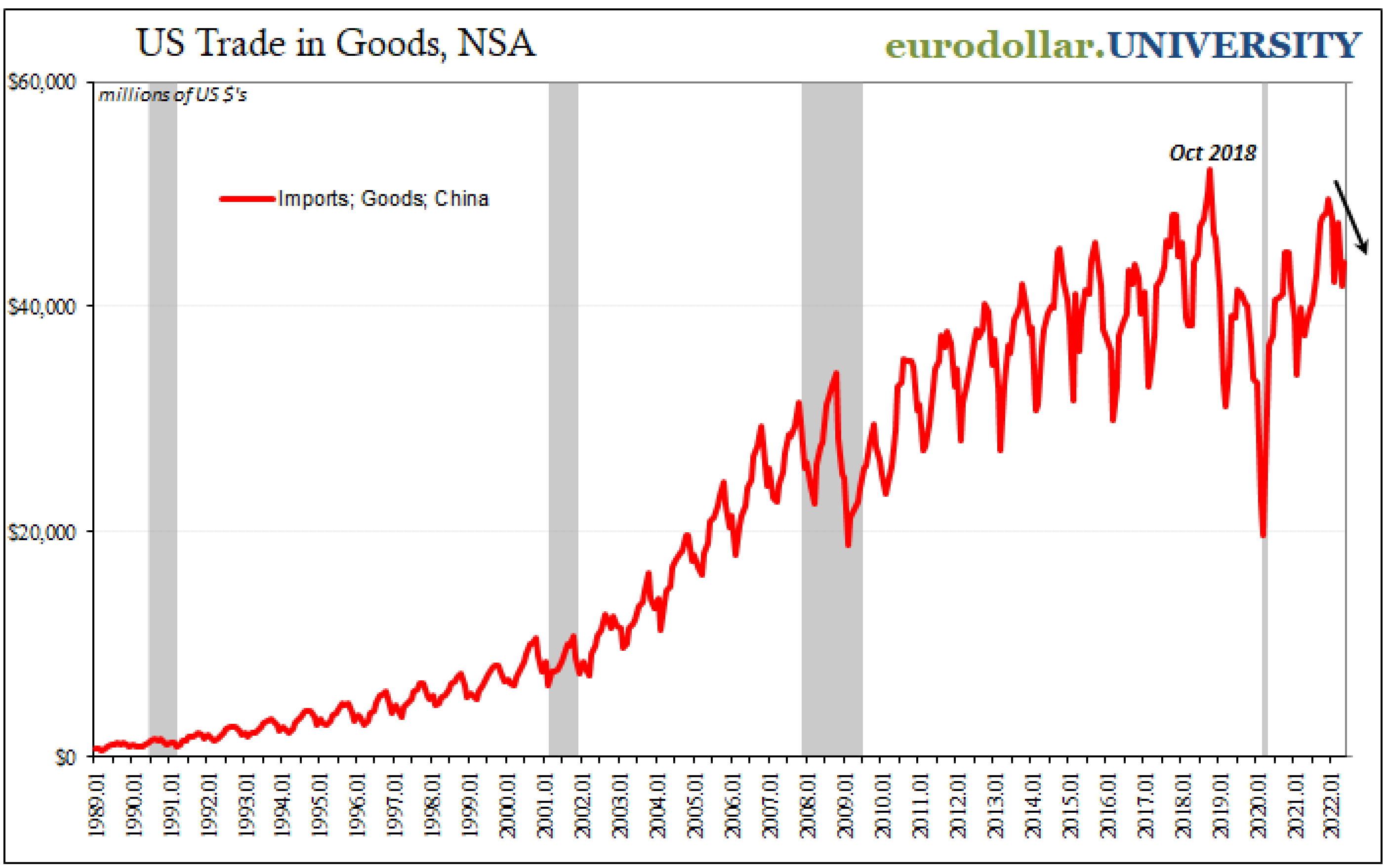
US Exports & Imports (Census)
US exports of goods rose to $177.1 billion (seasonally adjusted) in May 2022, not adjusting for price changes, up from $174.5 billion in April. Imports of goods into the US declined slightly for the second straight month, down to $281.2 billion from a peak of $294.3 billion recorded in March (also not adjusted for prices).

Interpretation
Our focus remains on US imports as a measure of falling US demand colliding against record flows of goods for what will enter already-massive wholesaler and retailer inventories. Should, or when, imports decline on both a price-adjusted basis as well as in nominal terms, this would be a key signal for the traditional downside of the inventory cycle to have kicked in.

While import levels remain elevated, extremely so, for two months now they have reversed. In real terms, adjusting for prices, the decline is more substantial therefore volumes are expressing a higher likelihood for the anticipated snapback or bullwhip effect. Anecdotes from retailers (like Target) along with data in manufacturing and production, especially forward-looking indications (new orders), already suggest there is a falling off of activity.

Census' May import data is consistent with those other sentiment surveys and corporate announcements; at least so far as the decline in imports may represent just the first few months, or just the beginning, of that effect. The potential is more pronounced in the import of goods from China, which is also consistent with a more pronounced downturn (apart from lockdowns) there.





Source: Census Bureau

MONEY & MARKET MINUTE

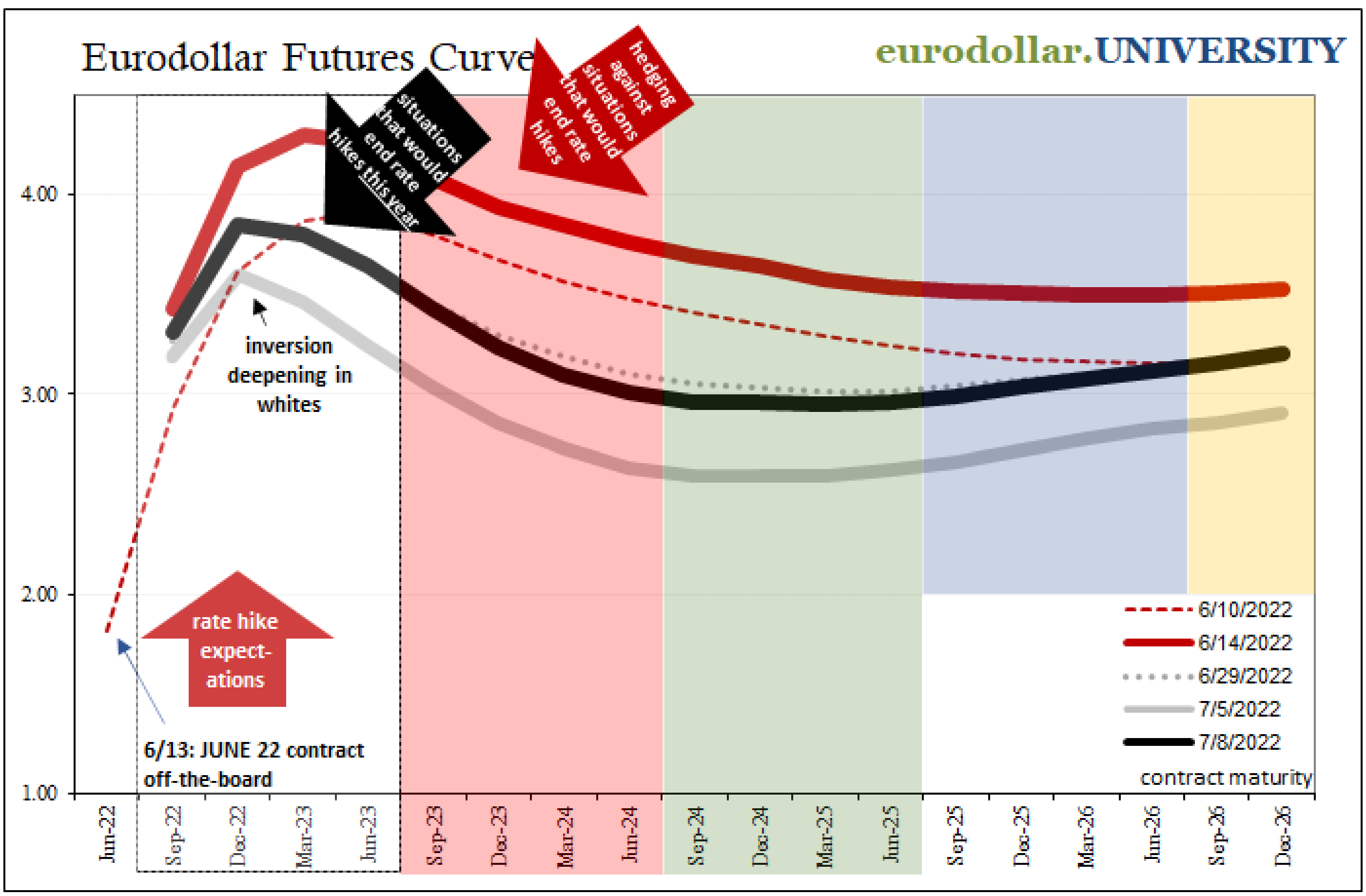
MARKETS REVERSE TUESDAY DEFLATION (EURO$ FUTURES)

After the deflationary plunge in nearly all markets which had begun last week and reached its crescendo on Tuesday, the financial world has reversed course over the final three days of this week (including today). Market fluctuations, the extreme nature of the various moves in many classes, as well as the Fed explain much of the bounce.

On Wednesday, the FOMC minutes showed that policymakers' so-called reaction function remains very committed to rate hikes. This accounted for the biggest of the contrary moves in curves, as short end instruments and contracts retraced back to around June 29 (see: below). With the June headline payroll estimate being "good" in any mainstream sense, Jay Powell has the Fed back in the markets.

The actual labor data, however, was…not good. In fact, the HH Survey and other labor data exposed a considerable chance a recession may have already begun. Therefore, despite the front-end bounce, the back end of curves is relatively more inverted (the "sag" in the middle) than they had been around the 29th or before.

Some further rate hikes remain, yet the economy is coming up more like the non-Fed part of the markets than not.



Source: CME

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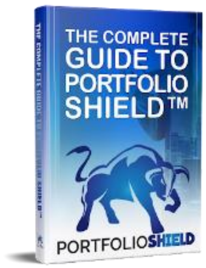

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