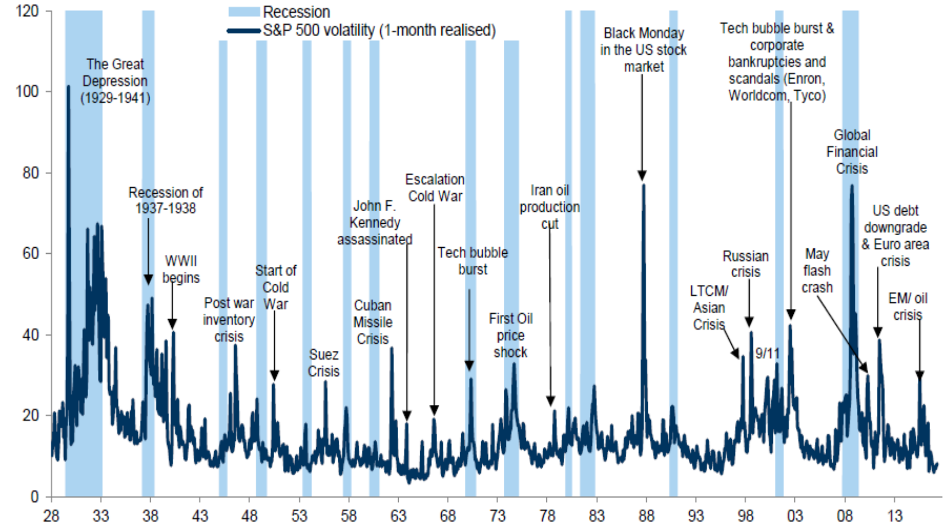
The BondBeat

Friday, July 07, 2017

GOVERNMENT PERSPECTIVES, LLC

See GP disclaimer HERE

Exhibit 8: S&P 500 volatility has been very volatile, with multiple drivers of spikes



In The News …

- **RTRS: Bank of Japan offers to buy unlimited amount of bonds to calm markets**
- **BBG: Yen Drops to 8-Week Low as BOJ Acts to Limit Increase in Yields**
- **ZH: Panicked BOJ Unleashes Bond Buying Bazooka: Offers To Buy Unlimited 10Y JGBs At 0.11%**
- **BBG: U.K. Factories, Builders Cut Output, Clouding Growth Outlook**
- **BBG: BOE Policy Hawks Face New Signs of Weakening U.K. Economy**
- **BBG: German Industry Output Rises for Fifth Month Amid Solid Upswing**
- **BBG: Bond Rout Sounds Warning for Equities**
- **RTRS: China FX reserves edge up by $3 bln in June to $3.057 trillion**
- **BBGs @boes_ Fed's Fischer Says Fiscal-Policy Uncertainty Denting Investment**
- **BBG: GUNDLACH Sees More Pain for Bond Bulls as Hedge Funds Make Exit**
- **BBG: Dalio Calls End of Central Bank Era, Time to Head to Party Exit**

Quick (& clickable) Links:

Items Of Interest

Bloomy/EconODay Calendar

GP Documents:

- ***Econ Indicators***
- ***5yr & Under***
- ***Index Spreads***
- ***Daily Pivots (end of TECHs)***

POSITIONS UPDATES

Specs covered SOME 10y, Eurodollar shorts BUT GOT SHORTER'er on dur wtd basis

StreetStuffWkly 07.03.17

StreetStuff 07.07.17

Technicals 07.07.17

What Happened Overnight

Fri 7/7/2017 5:10 AM

USTs are leaning gently (now) into the RED after a lower opening/grind in Tokyo. JGBs having gone from 5bps end of June up to just over 10bps yest, are LEADING … on heels of BoJs open-ended commitment to BUY UNLIMITED AMT to counter recent runup in yields. TGIF! Say that a few times. THINK about it – click/READ several h'lines below as I'm NOT just making this up … Build it and they will come? This mornings version of central banking that frankly, doesn't seem to be getting nearly enough attention. Yields UP and central banks have weighed in. "BOJ ***Offers to Buy Unlimited Amount*** in Fixed-Rate Bond Operation" –BBG Otherwise, some MIXED data so far – German Indus Prod UP (5th mo in a row) while UKs notsomuch. Pick which YOU'd like to build whatever narrative. ALSO worth knowing – Fischer last night on UNCERTAINTY denting investment? Yep. See Matt Boesler story below. And finally, while we respect ALL of the bears – check out CNBC story below that details WHY Nomura's Goncalves got bearish 1st time in 10yrs. NOTE that story ends with NOT BEARISH QUOTE FROM NONE OTHER THAN DAVID ADER. *"…My time horizon for this is a matter of 24 hours. Maybe it goes on a little bit longer than that. This is not going to be the theme of the summer, that we are now going to have a bearish bond* *move in the summer. The seasonals are favorable to us. The economic data in the U.S. has been benign and the Fed is hawkish," he said. "What I think has changed is near-term sentiment and near-term positioning," he added. "I think the market generally, which is at odds with the Fed outlook, will turn out to be correct."* NFP straight ahead. Whether or not positions have adj to where they NEED to be and the SPEC LONGS have been flushed (seems to be THE driving force of Gundlach's bearishness), I do not know. Perhaps this afternoons close and CFTC data will shine some light. For NOW, though, have a great start to the day and end to this rough week!

What's On OUR Minds

Well. You made it. NFP Friday. You may have gotten banged up a bit this week (and last)… we are all somewhat more proficient in technical analysis now -- everything broke what seems to be every important technical level. Bonds. Stocks. gold/copper ratios … FI bears are having another moment. Gundlach. Dalio. We're not naive in asking, though, if the concept of CBs stepping back is wishful thinking OR if this really IS the beginning of the end? And if so, what is ending? (***McClellan, "Treasury - Bund Spread Gives Early Warning of the End*** … *If we ever see a time when the yield on German bonds is higher than that of U.S. 10-year T-Notes, making a dip below zero in these charts, that will mark a great buying opportunity for the stock market, if the past 30 years' experience is any guide. And a few months from now, we should see a major price top for the stock market, which the current divergence is just now starting to foretell."*)

For somewhat MORE -- and an UPDATED 10s/BUNDS visual -- feel free to point and click this mornings once again VERY BEARISH **TECHNICALS.pdf**.

Willing and able to admit that we'd be long and wrong basing this sort of idea/concept/process of thought ON funDERmental data (ADP > ISM nMfg h'line, for example), we are as anxious as the next guys for this mornings NFP.

Whether or not it will turn out to MATTER is another topic entirely. Perhaps one better left for whatever we HOPE to cobble together and send over the weekend.

So, for NOW, rather than end on a 'high note' (in other words, lean on something supportive of OUR bias - as we did YESTERDAY with latest from KESSLER), how about we quit while we're behind and leave you with a visual and background of something that may BE 'good news' and so, supportive OF the current bearish opinion that is popular at the moment.

First the visual:

AND why we care … and by WE, well, have a look at recent **WSJ story** for current / updated input (“*Orders for new heavy-duty trucks are picking up again as fleet owners and equipment manufacturers resume their recovery from last year’s slumping freight market.”*) AND for some bigger picture context, BBGs View column by David Ader back in Sept of 2016:

> September 28, 2016, 10:15 AM EDT
> **As Heavy-Truck Sales Go, So Goes the Economy**
> August was a terrible month for selling big trucks. History says that's scary.
> By David Ader
>
> ...“August’s Cass Freight Index continued to signal that overall shipment volumes (and pricing) are persistently weak, with increased levels of volatility as all levels of the supply chain continue to try and word down inventory levels,” Cass said in its latest report.
>
> Weak truck sales have sometimes given false signals about a recession over the last 30-odd years. But the sheer size of this August’s drop looks different. We’ve never seen a plunge this steep that didn’t foretell a recession.

That was THEN and while we SHOULD be ending on this somewhat more positive economic tone, cannot help but offer the latest quote/snippet from David Ader -- who was part of this recent and VERY bearish FI story over on cnbc.com

The party is over: Central banks pull the plug on bond market rally

- Global bond yields have been rising as the world's central banks look set to move away from extremely easy policies.
- The Fed is leading the way higher, with another rate hike expected this year and a plan to reduce its balance sheet, possibly starting in September.
- **Nomura strategists had been "devout bulls" for 10 years, and recently turned bearish on the U.S. Treasury market.**

> ...Not all analysts are convinced the bond market is sending an important signal. David Ader, chief macro strategist at Informa Financial Intelligence sees the move as temporary and largely technical.
>
> "My time horizon for this is a matter of 24 hours. Maybe it goes on a little bit longer than that. This is not going to be the theme of the summer, that we are now going to have a bearish bond move in the summer. The seasonals are favorable to us. The economic data in the U.S. has been benign and the Fed is hawkish," he said.
>
> "What I think has changed is near-term sentiment and near-term positioning," he added. "I think the market generally, which is at odds with the Fed outlook, will turn out to be correct."

Once again, if you ONLY read the H’LINE you’d be misled into thinking EVERYONE ‘out there’ is bearish. While we GET the popular kids have not YET ‘dropped the mic’ -- seems to US that guys like GUNDLACH, selling his current bearishness based on spec LONGS still being liquidated, well, misses a couple points. FIRST, see CITIGROUPs LATEST RPM note

([stuff.pdf this morning](#)). LONGS HAVE BEEN LIQUIDATED. ALSO, momentum was overbought and now, nears oversold. Enter ADER (or any of the technicals WE have pointed out all week long?)

Be any/all of this as it may, BIG RIG orders are in fact taking a step BACK AWAY FROM THE EDGE OF middle LAST years cliff. Things may in fact be less bad now and it is on THAT note, recognizing good for what it is, we'll hit SEND and wish you a GREAT start to the day and end to this brutal FI week!

Best, Saul/Steve

<u>Items of Interest</u>

[EconoDay Economic Calendar](#)

AND, ripped from the BBG:

Economic Calendars — Options
G20 — Browse 03:43:36 — 07/07/17 - 08/07/17
Economic Releases — All Economic Releases — View Agenda Weekly

Date Time	C	A	M	R	Event	Period	Surv(M)	Actual	Prior	Revised
07/07 08:30	US				Change in Nonfarm Payrolls	Jun	178k	--	138k	--
07/07 08:30	US				Two-Month Payroll Net Revision	Jun	--	--	--	--
07/07 08:30	US				Change in Private Payrolls	Jun	170k	--	147k	--
07/07 08:30	US				Change in Manufact. Payrolls	Jun	5k	--	-1k	--
07/07 08:30	US				Unemployment Rate	Jun	4.3%	--	4.3%	--
07/07 08:30	US				Average Hourly Earnings MoM	Jun	0.3%	--	0.2%	--
07/07 08:30	US				Average Hourly Earnings YoY	Jun	2.6%	--	2.5%	--
07/07 08:30	US				Average Weekly Hours All Employees	Jun	34.4	--	34.4	--
07/07 08:30	US				Labor Force Participation Rate	Jun	62.7%	--	62.7%	--
07/07 08:30	US				Underemployment Rate	Jun	--	--	8.4%	--
07/10 10:00	US				Labor Market Conditions Index Change	Jun	--	--	2.3	--
07/10 15:00	US				Consumer Credit	May	$13.000b	--	$8.197b	--

Bloomy's Fed-speak Calendar July 6, 2017

Economic Calendars — Options
G20 — Browse 03:43:59 — 07/07/17 - 08/07/17
Central Banks — All Central Banks — View Agenda Weekly

Date Time	C	A	M	R	Event	Period	Surv(M)	Actual	Prior	Revised
07/07 11:00	US				Fed releases July 2017 Monetary Policy Report to the Congress					
07/10 23:05	US				Fed's Williams Speaks in Sydney					
07/11 12:30	US				Fed's Brainard Speaks on Monetary Policy in New York					
07/12 08:30	US				Fed Releases Chair Yellen's testimony to Congress					
07/12 10:00	US				Yellen to Appear Before U.S. House Panel					
07/12 14:00	US				U.S. Federal Reserve Releases Beige Book					
07/12 14:15	US				Fed's George Speaks in Denver on the Economic Outlook					
07/13 10:00	US				Fed Chair Yellen Testifies Before Senate Banking Panel					
07/13 11:30	US				Fed's Evans Speaks at Rocky Mountain Summit in Victor, Idaho					
07/13 13:00	US				Fed's Brainard Speaks in Cambridge, Mass.					
07/14 09:30	US				Fed's Kaplan Speaks in Mexico City					
07/26 14:00	US				FOMC Rate Decision (Upper Bound)	Jul 26	1.25%	--	1.25%	--

GPs Key Econ Indicators June 7, 2017-> Our “Economic Graph Package” is used by some of our clients to include in their monthly or quarterly reports. We have most of the major economic indicators included to give an accurate snapshot of the economy.

GPs 5yr & Under Summary June 15, 2017- > this is our chart package we call the “One to Five Year Daily”. It tracks agency bullet spreads to Treasuries, date to date, to compute the real maturity spread levels (in basis points) out to five years. We track agency callables against agency bullets and Treasuries. We compare equal maturity dates when tracking these spreads because the effective durations of callables are not stable. So over time we have a consistent methodology that we use to determine “value”. Please give us a call for more in depth explanation.

GPs Index Spread Summary May 31, 2017-> We use certain Merrill Lynch indices, which are described at the top of each graph, to try and determine optimal entry and exit points for each sector. Though the indices should have similar durations, they commonly don’t match precisely so we’ve included the green line (which should be read off from the right axis) to allow you to take the curve into account when looking at historical spread relationships.

GPs Daily Pivots July 7, 2016 -> the pivot point is essentially a mechanism for analyzing the short-term supply and demand factors affecting the market. It has limited applications for long- term decision making. Professional futures floor traders, also known as locals, are the biggest proponents of the pivot technique. Scalpers, brokers, market makers, and other short-term traders also use the technique, while upstairs or longer-term traders occasionally look at the pivot for ideas of what the floor traders are doing. The pivot point is basically the weighted average price of the previous trading day, calculated as the average of the previous trading day’s high, low, and closing prices. It represents the major point of inflection each day. Unless there has been significant market news between the previous trading day’s close and the current trading day’s opening, locals often try to test the near term support, resistance, and pivot point. For example, many floor traders cover their shorts and go long into the pivot level if the market opens above the pivot point and starts to sell off.

Well, it’s once again that time for information OVERLOAD and so we remind you … clicking up the StreetStuffWeekly.pdf will bring you to a few paged SUMMARY – a cliff notes version, if you will – of what some of the brightest minds and best SELL-SIDE analysts are saying and thinking. WE have focused mostly on things directly impacting US RATES so you’ll find lots of specifics as well as economics AND EVEN a couple of the more notable equity thoughts. Just because. Here are OUR ‘cliff notes’ of what stood out this weekend and what you’ll find on the PDF WE’VE LINKED TO:

[StreetStuffWEEKLY July 3, 2017]

More than a handful of GDP downgrades after Personal INCOME / SPENDING. Outright levels still matter and there remains a wide variety of OPTIMISM out there. Steven Stanley, case in point, "…**This small shortfall was sufficient to shave two tenths off of my tracking estimate for Q2 real consumer expenditures, from +3.2% to 3.0%, which in turn takes my Q2 real GDP projection down by two tenths from +3.6% to +3.4%…"**

A few OTHER things caught my eyes and MAY be of interest:

- **CSFBs** latest, *"**US Economy Notes: Core Inflation: Assessing Recent Weakness** … **However, in our view it is a mistake to view the recent weakness as just a short-term technicality, and the FOMC's forecast of a rapid return to 2.0% appears aggressive. Instead, we expect inflation in one year to be closer to its 20 year-average of 1.7% …"***
- **GSs weekly EconOrama explores the downside risks of inflation?** *"…Taking into account last week's weaker inflation data, as well as downside risks in the shelter, healthcare, and communications categories, we are lowering our year-end 2017 core PCE forecast to +1.6% (vs. +1.7% previously). **While we continue to expect a return to the Fed's 2% inflation target by mid-2019, further methodological changes in coming years could delay this…."***
- **TD, "*Tantrum in Progress?*** *… Markets were caught off guard this week as central bankers hinted at an earlier removal of global policy accommodation. While the move higher in yields may slow, **we continue to like being short duration and positioning for additional Fed rate hikes.** The market's focus during the holiday-shortened week will fall on payrolls and the June FOMC minutes."*
- DBs GLOBAL FI Weekly? *"Coordinated tightening … **The next leg of the repricing in rates will need to be led by the US. This will require either a turn in core inflation or more tangible signs of fiscal easing. Relative to current market pricing and positioning, risks remain asymmetric towards an upside surprise in both cases…"***
- **DBs H2 UST outlook**, "Our forecast for 10y Treasury yields calls for 2.45% at the end of Q3 and 2.75% at the end of Q4. Compared to current market forwards 1, we are moderately bearish. Our view is predicated on the term premium rising once the Fed begins to unwind its balance sheet, and firmer global growth in the second half will help inflation and inflation expectations recover"

AND MORE…

[StreetStuff July 7, 2017]

Today's one of my favorite days of the month. the sell-side here gets to completely GUESS a number (when using a random number generator might produce closest to the pin NFP guess-timate) and does so with little consequence (when wrong, or right). It's heads they win, tails we lose so away from ALL of the experts … pros … guessing what NFP will print today. If I WERE gonna read a NFP preview, have a look at Steve Stanley / Amherst. "…as the data currently stand, the last time that the headline payrolls fell short of the 150k mark two months in a row was 2012. Thus, there is good reason to expect a bounceback in June after May's disappointing result…" >> Monty Python – the WITCH scene comes to mind. I know, it's just ME, right?? (reminder – YESTERDAY from Citi **"Payrolls & Yellen: Don't be fooled by wages"** followed BY, **"NFP preview: Wages are the focus".**

In ANY case, there are a couple/few OTHER things that caught OUR eyes – first on POSITIONS (since it seems to be large part of Gundlach BEAR story). Citi's RPM Daily? *"Building Short Base. In US, the tactical long base has been entirely washed out (in both cash and futures) with positioning now mildly short. Yesterday an additional $3mln was added to the short base (through long liquidation and new* *shorts). Meanwhile similar long liquidation dynamics are occurring in the Eurodollar strip and in EM $ credit…"*

ALSO WORTH NOTING:
Citigroup's EUROPEAN RATES team – BUY BUNDS
Citigroup's OD REMINDER, "One final little tidbit is that a year ago 10yr yields hit their historic lows (1.318%) on July 6th—so Happy first Birthday to the bear market?"
GSs latest global STRAT paper, "Trade Fade - the risk to equities from slower world trade, "…One potential risk to our central case is that global growth slows, or profits are hit, by increased US tariffs on trade and the possibility of an escalating global trade war. While this is not our expectation, this topic has once again become a focus for markets and could take centre-stage at the forthcoming G20 meeting…"

Technicals July 7, 2017

w/PIVS: 5s vs 1.94; 10s vs 2.36; 30s vs 2.89
Daily Pivots are **RESISTANCE**

What you'll find and WHY you'll wanna point/click:

- **GP**: 10s/Bunds CONTINUES to work and is EASIEST way to be LONG US10s – watch 178bps (Nov 2015 peak) next
- **BBG**: Bund Futures Volumes Surge to Year High as Yields Jump: Chart
- **BBG**: German Bonds Face Fresh Downside Risks After Technical Breakout
- **CSFB**: bearish, seller of strength 10s AND GOT SHORT 30s. "**30yr US yields** have broken with ease price and 38.2% retracement support at 2.87/89%, and we stay bearish for 2.95%. Short. Add at 153-16/26, stop above 154-00. Take profit at 151-20/16. Re-sell below, for 150-12. Above 154-00 should see a recovery back to 154-12, potentially 155-02/09."
- **GS on 10s**, "U.S. 10-year yields Daily – **The move since the Jun. 14th low is now looking distinctly impulsive**. **The market is also through the 100-dma at 2.327%, a level which held the previous interim high in May.** This is still an incomplete iii of v waves which means that **pullbacks should be shallow/corrective**. **Would use a move to 2.32% and even 2.28% as an opportunity to re-establish topside exposure.** The next level above is the May 11th high at 2.42%. Overall, expecting this to be a larger 1st of 5-waves, similar to the basing process that developed in July of last year. In short, although there's still a need for a corrective 2nd wave, **it's important to keep in mind that a meaningful low is now likely in place. View: Add to topside exposure between 2.32% and 2.285%. Next level above is 2.42%. Eventually see potential to take out the 2.63% highs from earlier this year."**

Wrightson ICAP
The Money Market Observer®

MMO for July 3, 2017

The Fed on Friday released daily market share data for fed funds, Eurodollars and RRP activity for the first quarter. While there were no major surprises in the data, the additional details provide useful color about the structure of the overnight market.

In The Press NOW:

THE WALL STREET JOURNAL.

July 7, 2017 4:59 a.m. ET

Bank of Japan Punches Down Bond Yields

As the global bond selloff intensifies, so does the central bank's intervention

Updated July 7, 2017 6:50 a.m. ET

Global Markets Fall on Worries About Central Bank Tightening

Global stock markets were lower ahead of the U.S. jobs report as investors weighed the prospect of tighter policies by central banks around the world.

Updated July 6, 2017 9:34 p.m. ET

Fed's Fischer Says Government Can Help Boost Productivity

Federal Reserve Vice Chairman Stanley Fischer said government actions, if done correctly, can do a lot to reinvigorate moribund levels of productivity.

Updated July 6, 2017 5:16 p.m. ET

Global Bonds Sell Off, Deepening Losses

Investors around the world sold government bonds anew, as anxiety deepened that central banks are moving toward reducing support from monetary policy.

Updated July 6, 2017 1:00 p.m. ET

U.S. Oil Producers Find a Surprise New Market: China

China, one of the world's largest oil importers, is buying nearly 100,000 barrels of oil a day from the U.S., on average, the result of a surprise American glut that has made the country's oil cheaper than Mideast rivals.

Updated July 6, 2017 10:02 a.m. ET

U.S. Trade Deficit Narrowed in May

The U.S. trade deficit narrowed in May as exports rose to their highest level in more than two years. The foreign-trade gap in goods and services narrowed 2.3% from the prior month to a seasonally adjusted $46.51 billion in May, the Commerce Department said Thursday.

July 6, 2017 2:56 p.m. ET

Orders for Heavy-Duty Trucks Rise in June

Expansion signals renewed confidence in trucking industry that had started 2017 by ramping up orders

BARRON'S

July 6, 2017 6:52 a.m. ET

UP AND DOWN WALL STREET

Is the Fed Driven by Data Or Metaphors?

As inflation lags its target, Yellen & Co. seemingly revert to watching the proverbial punchbowl.

The New York Times

Microsoft to Cut Up to 4,000 Sales and Marketing Jobs

By STEVE LOHR

News of the cuts comes a week after the company described sweeping changes that will shift resources to selling cloud-computing services.

Jobs Report: What to Watch For

By PATRICIA COHEN *5:00 AM ET*

The government's June report, at 8:30 a.m., will shed light on whether wages are picking up and sidelined workers are rejoining the labor force.

The Washington Post

[GOP must bolster Affordable Care Act's markets if Senate bill dies, McConnell says]

If Republicans can't muster 50 votes for their measure to overhaul health coverage, they will have to draft a more modest bill with Democrats, Senate Majority Leader Mitch McConnell said. "No action is not an alternative," he said in remarks that represent a significant shift for him.

By Juliet Eilperin and Amy Goldstein

Mortgage rates surge higher as markets fret over Federal Reserve's monetary strategy

The 30-year fixed-rate average rose to 3.96 percent but remained below 4 percent for the seventh week in a row.

USA TODAY

Published 7:00 a.m. ET July 7, 2017

Are student loans as big of a problem as people think?

…No one disputes that heavy student debt loads have become more prevalent as tuition has skyrocketed and budget-strapped states have doled out less money to public universities. Since 2007, total student debt has nearly tripled while the number of people with loans has climbed to 44 million from 28 million. The Great Recession prompted many young adults to stay in school longer, while many older laid-off workers returned to college.

In 2015, nearly 70% of college seniors graduated with student debt, up from less than half in 1993, and their average tab had tripled to $30,100, according to the Institute for College Access and Success. All told, about 20% of American adults and 35% of Millennials are burdened by student debt, according to a 2015 Gallup poll.

Wages have not kept up. From 2007 to 2015, average student loan balances surged 60% while average pay for recent graduates rose 13%, FitchRatings says. About 8 million borrowers are in default on their loans, damaging their ability to rent apartments, buy cars and even get jobs.

The biggest toll is in the housing market, some experts say. The homeownership rate for Americans under 35 fell to 34% last year from 41% in 2000. The trend has hurt housing construction — and prevents Millennials' from building wealth that spurs more spending.

… But all isn't lost. The Hillyers expect to have enough saved for a down payment in two years. A Federal Reserve study found that student debt delays home purchases for adults in their 20s, but by age 30 to 34, the homeownership rates of college grads with and without student debt are nearly identical at about 42% and well above the 30% for those with no college. In other words, the benefit of a college degree on homeownership seem to be deferred, but not squashed, by student debt.

Yet the financial strain also affects consumer spending, which makes up about 70% of economic activity. The share of household outlays accounted for by Americans under 35 fell steadily from about 16% in 2007 to 12.8% in the fourth quarter, according to Moody's and government figures.

FINANCIAL TIMES

China forex reserves climb for fifth straight month

Keep on climbin'.
China's foreign exchange reserves expanded for the fifth straight month in June to hit their highest level since October 2016.

Japan pension fund assets hit record

Assets held by the world's largest pension fund hit a record high last year, rebounding strongly courtesy of a bounce in global prices following Donald Trump's US election triumph late last year

Oil slips below $45 a barrel on US production rise

Oil prices fell on Friday as a rise in US production offset a fall in crude and gasoline stockpiles.

South China Morning Post
南華早報

Hong Kong stocks log worst week in 4 months on tech rout

UPDATE

Hong Kong stocks dropped a combined 1.6 per cent for the first week of July, the worst weekly performance in four months, as the tech sector retreated heavily and Chinese internet giant Tencent took a hit after a fierce attack by the Communist Party's mouthpiece against its "addictive" hit mobile

7 Jul 2017 - 6:52am

From The Blog-O-Sphere:

Here you'll find postings and research from the likes of Barry Ritholtz's Big Picture, Pragmatic Capitalism, Kimble Charting and Zero Hedge - along with everything else we stumbled across that WE need to point out …The point of all this is to pass along things that strike us as interesting – even though they may NOT be our very own…

FRED®

ECONOMIC DATA | ST. LOUIS FED

The FRED® Blog

A review of labor market conditions

… FRED has recently added several data series that capture various measures of labor market tightness. A very tight labor market means that employers have a harder time filling open positions because most workers are employed and fewer are looking for jobs. There are several ways to capture labor market tightness: In the following graphs, we present a few of them and compare their evolution before and after the previous recession.

The first graph shows the vacancy-to-unemployment ratio and the quits rate. The blue line (left axis) is the number of vacancies per unemployed worker. When the economy enters recession, this measure declines as the number of unemployed workers increases and the vacancies per unemployed worker decrease. A low number of vacancies per unemployed worker is a sign of slack in the labor market. After the 2007-09 recession, this ratio increased at a slow pace until 2014, when it increased sharply and surpassed its pre-recession high. The red line (right axis) is the number of quits per employed worker. Similar to the vacancy ratio, this indicator declines in recessionary periods. Within the past few months the quit rate has recovered to pre-recession levels.

...The second graph shows the mean level of vacancy duration and an index of recruiting intensity per vacancy. In a tight labor market, employers will have to look harder, or more intensely, to fill open positions as the number of unemployed candidates is reduced. Similarly, vacancy durations will be higher as recruiting efforts take longer in a tight labor market. Since the 2007-09 recession, vacancy durations have surpassed pre-recession levels, reaching a series high of 29.6 business days per vacancy in April 2016. The recruiting intensity index is close to its pre-recession level, but has not increased as quickly as vacancy durations.

... Overall, the different indicators of labor market conditions analyzed here point to a healthy recovery of the U.S. labor market.

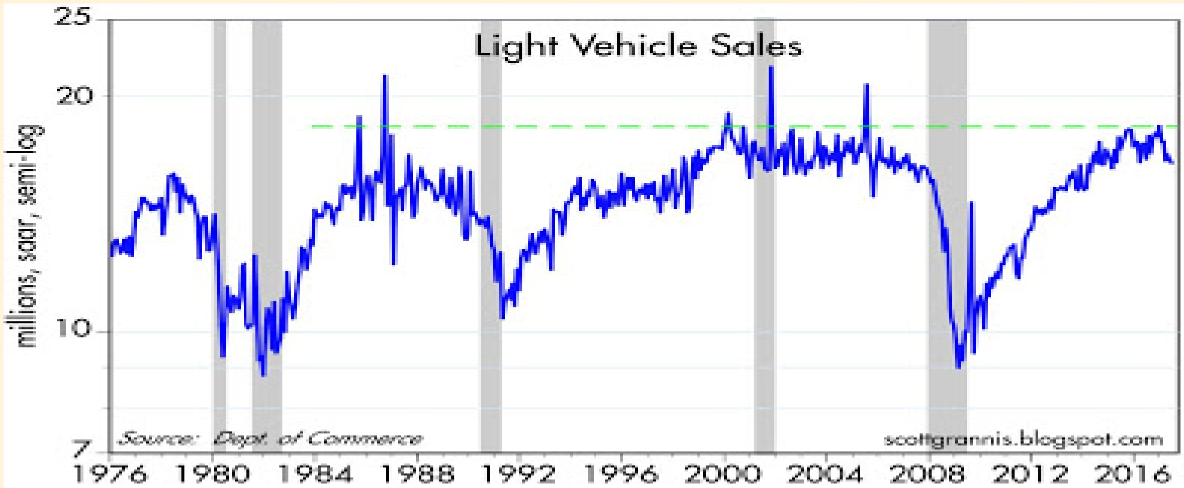
THURSDAY, JULY 6, 2017

A 16-chart review of the outlook

Blogging's been light of late, mainly because there hasn't been much going on. The economy is still growing at a disappointing pace, inflation is still relatively low and stable, and the equity market is no longer cheap but neither is it overly optimistic. It's encouraging to see the progress that Trump has made towards reducing regulatory burdens, but it's disappointing to see that his major legislative initiatives (tax and healthcare reform) are bogged down in Congress. I wish he had chosen the low-hanging fruit (reducing the corporate tax rate) first, rather than tackling the very messy and complicated task of repealing and replacing Obamacare. Reducing the corporate tax rate is something just about everyone understands must be done, and it would have already unleashed a wave of new investment in the economy, and that in turn would have made all the other reforms easier on the margin. Fortunately, it's still too early to rule out some major policy developments which could significantly improve the economic outlook. If there's a silver lining to the cloud of sub-par growth, it's that the economy has tremendous upside potential—if Trump's pro-growth policy promises become reality.

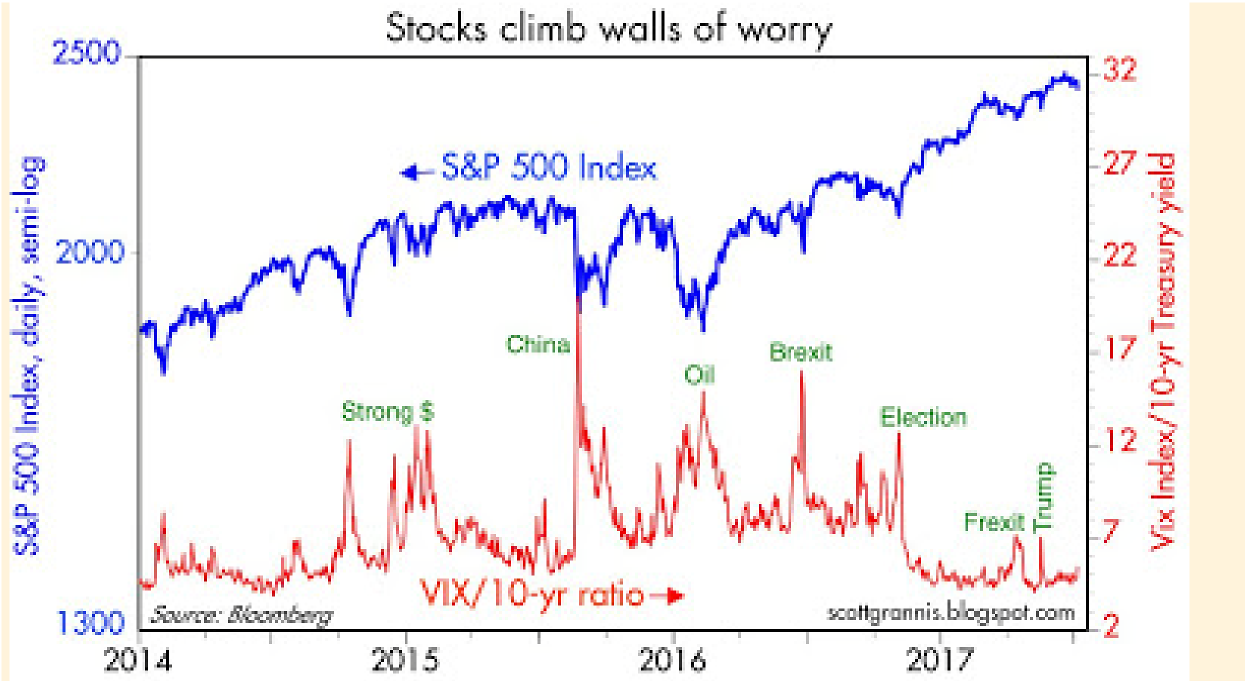
In recent months there have been some negative developments in the economic outlook (a slowdown in housing starts, car sales and jobs), but those have been outweighed, in my view, by a variety of positives (tight credit spreads, strong ISMs, rising industrial commodity prices, rising real yields, and increased global trade). I review these below in 16 updated charts.

Meanwhile, my major worry continues to be North Korea, since it is difficult to see how we can find a non-violent resolution. As one wag put it, we've been kicking the can down the road for decades, and we've finally run out of road. A nuclear attack somewhere in the world is now more likely than it has been for decades. One well-placed EMP bomb, moreover, could wreak massive, incalculable destruction in any of the world's highly developed economies...



Car sales have also weakened of late, and have been flat for several years. One likely explanation is that the advent of ride-sharing services has sapped demand for car rentals, which in turn has depressed sales of new cars to rental fleets...

Real yields on 5-yr TIPS continue to inch higher, suggesting that the outlook for the economy is improving. I posted at greater length on this subject **here**...



If anything stands out as worrisome, it's the fact that the market does not appear to be very worried at all. The Vix/10-yr ratio, my favorite indicator of the market's nervousness about the prospects for growth, remains relatively low.
