Bond Yields Plunge as Job Market Sags

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Quite suddenly, the effects of restrictive Fed policy have shown up en masse. Just +114k jobs were added to company payrolls in July, less than +175k median forecast and below the lowest estimate among 74 economists surveyed by Bloomberg. Downward revisions to May and June subtracted another -29k.

Fed Chairman Powell stressed earlier this week that *the downside risk to employment was real*, and that the policymaking committee was *attentive to both sides of the dual mandate*. In doing so, he amplified the importance of this morning's labor report.

According to the Bureau of Labor Statistics (BLS), July job gains were concentrated in healthcare and social assistance (+64k), construction (+25k) and leisure and hospitality (+23k). Notable job losses were found in information technology (-20k) and financial activities (-4k), both on the high end of the wage scale.

Temp jobs continued to disappear (-8.7k), suggesting the number of permanent jobholders could shrink in the coming months. And in a sign that consumer demand may be waning, only +4k retail jobs were added.

In the separate household survey, +420k workers entered (or reentered) the labor force, while just +67k found work. The large increase in jobseekers last month relative to the number of employed workers pushed the headline unemployment rate up from 4.1% to 4.3%, *the highest since October 2021.*

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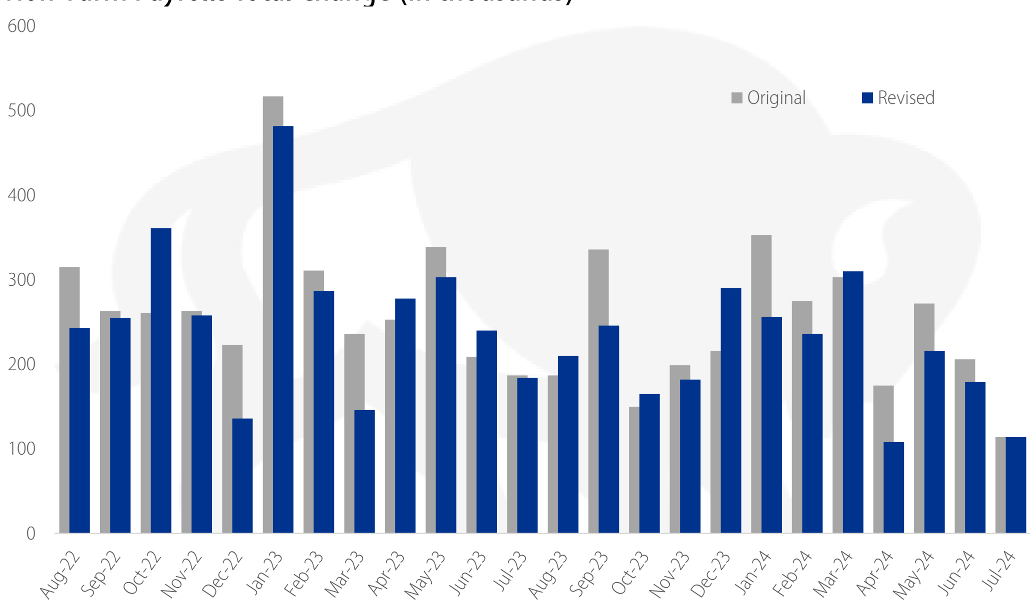
Non-Farm Payrolls Total Change (in thousands)



Source: Bureau of Labor Statistics

In theory, when the three-month average of the unemployment rate is a half percentage point above 12-month low point the economy has entered a contraction period. This "Sahm Rule" has signaled every U.S. recession since the 1970s. Although many of the old economic rules have been broken in the pandemic/post-pandemic era, the Sahm Rule has become a favored talking point in recent months. *The July data has apparently triggered this rule.*

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The number of unemployed workers rose from 6.65mm to 6.8mm in July. A year ago, jobseekers totaled just under six million. In addition, another 5.6mm currently would like a job, but are considered outside the labor force because they have not looked for work in the past 30 days. The total number of Americans *in and outside the labor force* are now slightly above the total in the most recent JOLT survey, which indicated just under 8.2 million jobs openings.

The July employment report appeared extraordinarily weak across the board with even the lesser numbers softening. Average hourly earnings, which feed into inflation, rose by just +0.2%, pushing the annual wage gain down from 3.8% to 3.6%, *a 37-month low*. The average workweek fell -0.3% to 34.2 hours, while the manufacturing workweek dropped -0.5% to 39.9 hours.

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Bond yields are sharply lower in early trading as the market recalibrates to the idea that the Fed may have waited too long. This morning, the futures market is pricing in roughly a 70% possibility *of a 50 basis point rate cut in September*, and more than five quarter point cuts over the next four FOMC meetings. One month ago, a single quarter point cut in September was a toss-up, while just two cuts were priced before the end of January. The two-year Treasury note, trading at a yield slightly below 5.0% at the end of May is now at 3.90%.

Stocks are taking a beating, as the equity markets are suddenly more concerned about slowing growth than any future advantages lower interest rates may provide.

Market Indications as of 9:23 A.M. Central Time

DOW	Down -703 to 39,645 (HIGH: 41,198)
NASDAQ	Down -555 to 16,640 (HIGH: 18,647)
S&P 500	Down -118 to 5,329 (HIGH: 5,667)
1-Yr T-bill	current yield 4.39%; opening yield 4.60%
2-Yr T-note	current yield 3.90%; opening yield 4.15%
3-Yr T-note	current yield 3.73%; opening yield 3.96%
5-Yr T-note	current yield 3.64%; opening yield 3.83%
10-Yr T-note	current yield 3.81%; opening yield 3.97%
30-Yr T-bond	current yield 4.15%; opening yield 4.27%