You Knew This Was Coming

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With economic factors showing a recent dramatic weakening which the markets could no longer pretend not to notice, the WSJ and especially Bloomberg began printing repetitive hand-wringing pronouncements: *Oh, what terrible fate awaits us if the September jobs figure is as bad as real conditions seem to indicate?*

The Bureau of Labor Statistics, the government department that recently admitted that it inflated jobs figures in the twelve months prior to March of this year by 20%, realized that it was sandwiched between a six-headed monster and a giant whirlpool: How to concoct a number so precisely weighted between a positive that it doesn't scare the markets into collapse while retaining enough negative to insure another Fed rate cut later this month.

It chose 136,000 for September, 9,000 below forecast but no where near the zilch many feared. Along with the jobs figure was a lowering of the unemployment rate to 3.5%, the lowest since 1969. One would expect such a low rate to spur a rise in hourly income, but it declined from an annualized 3.2% to 2.9%. Economic data that makes sense has long ago been dispensed with.

The markets loved the jobs number, and what was really bad news was turned into a substantial across the board gain that didn't quite wipe out the week's losses. Alan Ruskin of Deutsche Bank thinks the decent number may lead some in the Fed to lean toward ending rate cuts for the remainder of the year. But not having one this month could be disruptive as a poor number. He thinks there will be a cut and then the Fed will massage investors into accepting that one is not needed in December.

Meanwhile, back to the far more serious and sudden evaporation of liquidity; the NY Fed has twice the extended the operation of its repo office. What's going on with banks and bond dealers is uncertain. Are they really so short of cash and highly liquid securities that they dare not part with what they have, or do they have plenty but are so concerned by a sudden downturn and cash call that they are stockpiling and hunkering down. The NY Fed repo office is open through November 4th. Don't be surprised if it becomes a fixture.

All the concern about today's jobs report should be understood in accordance with the nature of those jobs. Research by Lawrence Katz of Harvard and Alan Krueger of Princeton reported that of the 10 million jobs created in the Obama years 94% were temporary, contract, and gig jobs. In short: shit jobs. And there is no sign the types of available jobs are any different under Trump. But the markets don't care, shit stimulates them as much as sugar.

Economics Info

– The ISM's manufacturing reading for September fell to 47.8 indicating contraction an quite a bit lower than the projected 50.2. The worst reading since June 2009. Export orders came in at 41, the lowest since March 2009.

– If the above on manufacturing bothers you, Markit updated its flash reading which indicated contraction to a positive 51.1.

– Distinguished international organizations are no better with their predictions because positive lies pay better than stifling truths. In April 2018 the WTO predicted 4% world trade growth for 2019. In April of this year it lowered the estimate to 2.6% for all of this year. This month they lowered it to 1.6%. On Dec 31, 2019 you will learn that you may as well waited until the end of the year.

– With all the bad news on manufacturing, the touts never tire noting that manufacturing only accounts for 12% of the GDP, the rest is the service economy. Well that sector tumbled from about 56 to 52.6. Since 2009 there have been only 2 readings that were lower.

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