



GLOBAL STRATEGY
Data Watch

June 7, 2024

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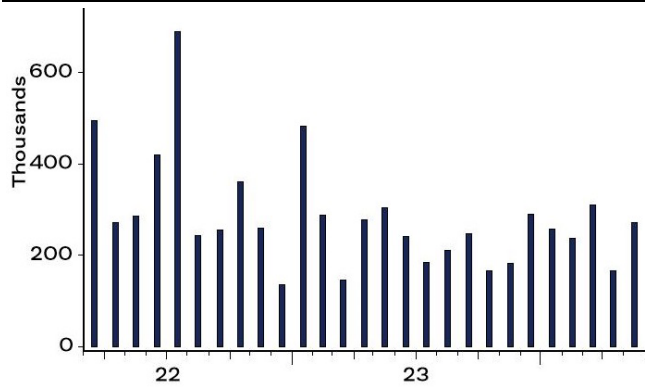
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The Crystal Ball is Getting Murky

- The Fed has long articulated that timing of a switch to less contractionary monetary policy would be data dependent. This makes it sound remarkably cut and dry, but the data have become increasingly unclear of late.
- The May payrolls report surprised markets and economists by coming in at a very strong 272K well above even the highest estimate, and 90K above consensus. And yet, the unemployment rate ticked up to 4.0% in the month, and the noisier household survey showed outright employment declines.
- This isn't the first month of disagreement between the two simultaneously released employment reports, but the gap between them is growing, and eventually will have to be closed in favor of one or the other labor market story.
- Bloomberg's US Economics team was out this week with a story about upcoming large negative revisions to payrolls based on the surprisingly soft Quarterly Census of Employment and Wages (QCEW), which is used to revise the non-farm payrolls data (but comes out with substantial lags).
- But while we do believe the payrolls data will likely be revised lower in August when we get the annual revisions, we think it will likely be a releveling event, not a recontouring. After the revision we would anticipate payrolls to be more in line with our long-standing view of continued incremental slowing of labor market growth (but not contraction).
- However, for a data dependent Fed, it is not just the official employment data that offer a confused view of the US economy. Small businesses have reported that they have more unfilled job openings at the same time that official job openings numbers showed a sharp retreat for April.
- Both the manufacturing (and for employment more important) services ISM figures have shown a slowing in employment over the past few months. And the number of long run (>27 weeks) unemployed have been growing.
- And the University of Michigan and Conference Board measures of consumer sentiment have remained seemingly uncorrelated, increasing the confusion.
- So, while the Fed is saying again and again that it is data dependent, with a crystal ball that has become so murky on the current state of the economy much less the future, the probability of market moving surprises in the next few months goes up.
- Next week we will see the May CPI figure, but as with the employment situation, the caveats and questions that surround inflation between the two different surveys (CPI and PCE) seem only to increase ambiguity and reduce the likelihood of clear cut answers.
- If there is one thing we can say with outright certainty from the murky data, it is that we do not envy Chairman Powell's challenge of setting appropriate monetary policy in an increasingly uncertain time.

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FIGURE 1: May Payroll employment surprised markets and economists with a strong 272K print



Source: Haver as of June 7, 2024. Shaded areas are recessions.

FIGURE 2: But the unemployment rate continued to rise, lifting to 4% in the month

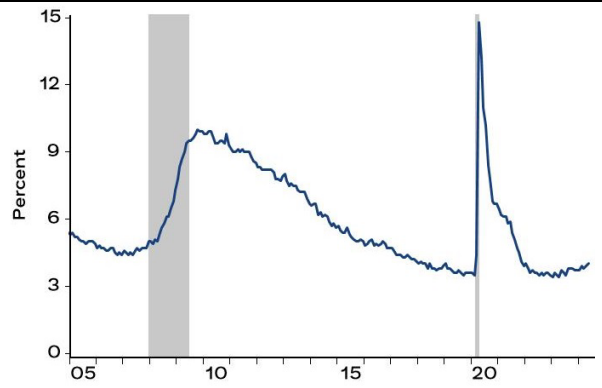
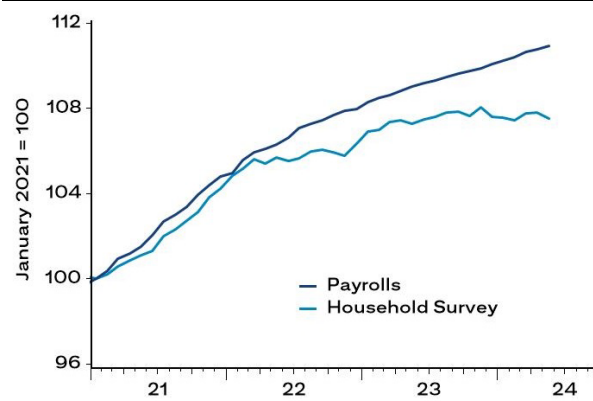


FIGURE 3: The two monthly employment surveys have been showing an increasingly different picture of the labor market



Source: Haver as of June 7, 2024.

FIGURE 4: The Quarterly Census of Employment and Wages (QCEW) which is used for annual revisions suggests the August bench mark revision could recast the past year and a half

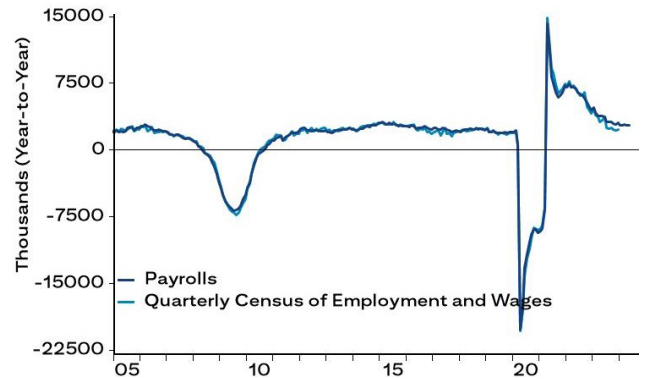
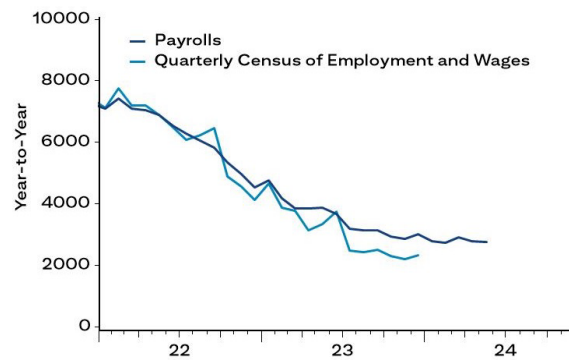


FIGURE 5: Zoomed in on the past year or so, we can see the QCEW is pointing to a lower growth rate of employment, but not a switch to contraction



Source: Haver as of June 7, 2024. Shaded areas are recessions.

FIGURE 6: It is not just the official employment surveys that are muddy, but small business unfilled job openings are moving in the opposite direction as job openings in the JOLTS survey

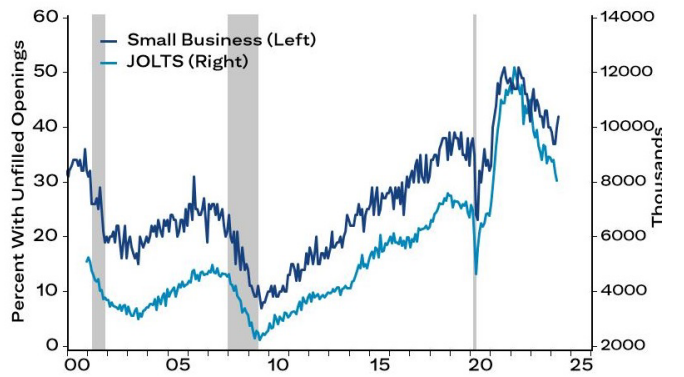
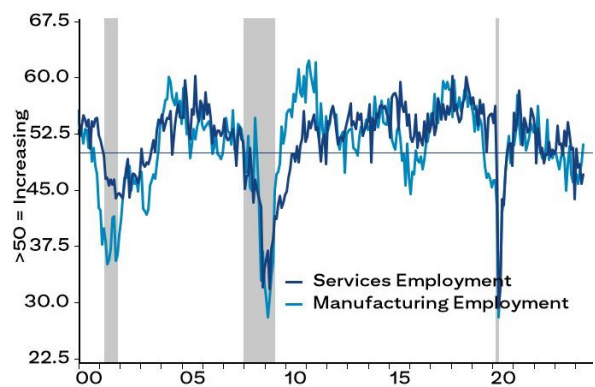


FIGURE 7: The two ISM surveys have both been signaling a slowing labor market of late, even as the manufacturing survey ticked into nominally positive territory for May



Source: Haver as of June 7, 2024. Shaded areas are recessions.

FIGURE 8: One metric to avoid concentrated errors is to average the household and payroll survey employment figures. While more noisy than the payrolls survey, this does signal contraction

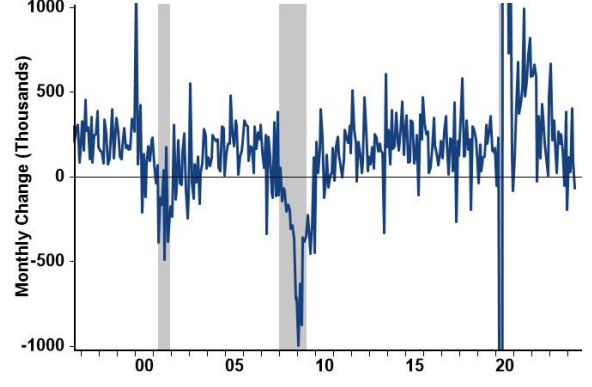
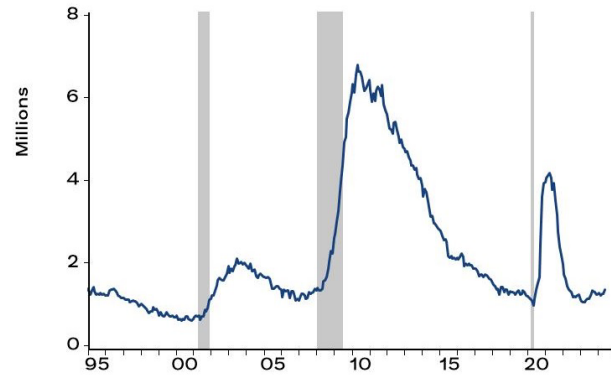


FIGURE 9: The number of individuals who have been unemployed for more than 27 weeks has started to climb



Source: Haver as of June 7, 2024. Shaded areas are recessions.

FIGURE 10: The labor force participation rate appears to be turning away from growth

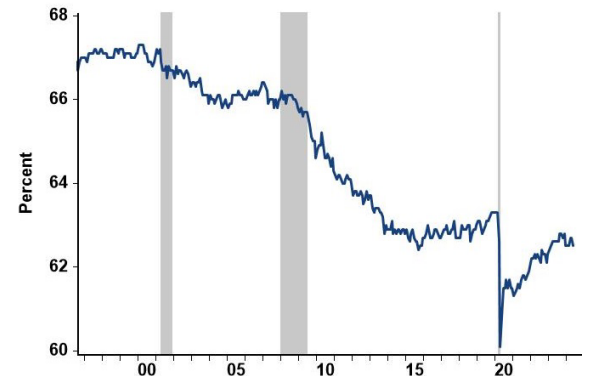
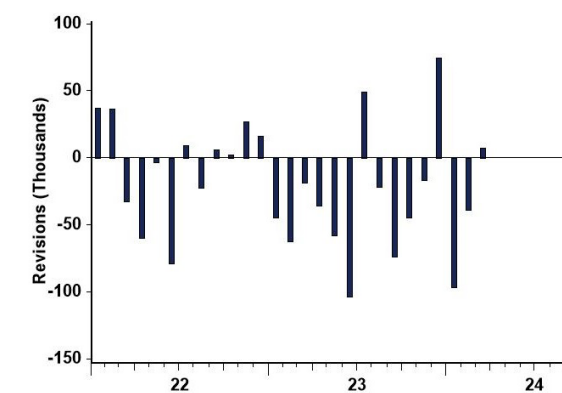
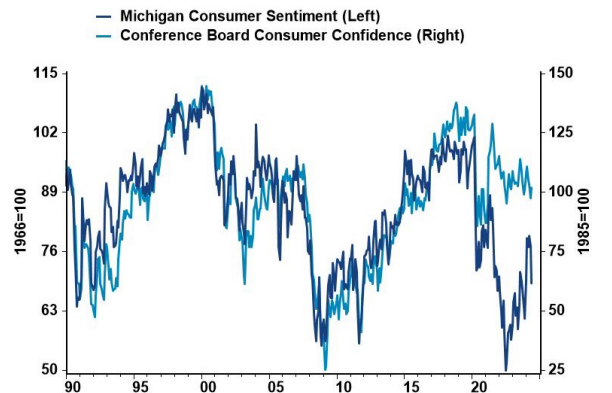


FIGURE 11: Around turns in the economy revision momentum in employment can be telling, and revisions between first release and third for payrolls have been strongly negative of late



Source: Haver as of June 7, 2024. Shaded areas are recessions.

FIGURE 12: It is not just employment that is unclear with consumer sentiment measures showing unprecedented dispersion



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High quality (very strong)	Aa	AA	AA
Upper medium grade (Strong)	A	A	A
Medium grade	Baa	BBB	BBB
Not Investment Grade			
Lower medium grade (somewhat speculative)	Ba	BB	BB
Low grade (speculative)	B	B	B
Poor quality (may default)	Caa	CCC	CCC
Most speculative	Ca	CC	CC
No interest being paid or bankruptcy petition filed	C	D	C
In default	C	D	D

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