CenterState
CORRESPONDENT DIVISION

Market Update

Economic News

October 2, 2020

- The September Employment Report is out and it missed the headline expectation mainly due to government job cuts. For the month, 661 thousand jobs were created versus the 875 thousand median estimate. This miss came largely from government losing 216 thousand jobs. Even with the decent gain in jobs the scope of the damage still to be repaired is daunting.   11.2 million jobs have been created in the last five months versus 22.2 million jobs lost in March and April. The unemployment rate fell from 8.4% to 7.9%, beating the pre-release 8.2% expectation. Recall in August the unemployment rate dropped from 10.2% but the issue was the much smaller Household Survey—which is used to derive the unemployment rate—found 3.76 million new jobs compared to the much larger Establishment Survey's 1.37 million jobs. We were expecting some sort of reversion to the mean in September but we didn't get it. Maybe in October? With most of the CARES Act relief measures expired you're seeing some large and notable companies announce large dismissals for October and that will likely weigh on the unemployment rate going forward. We look at some more of the details in the report below.

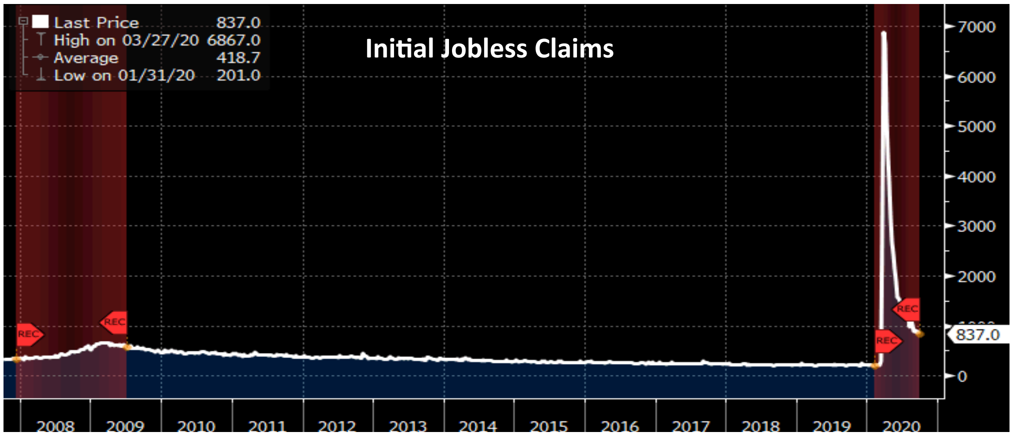
- The unemployment rate fell from 8.4% to 7.9% beating the 8.2% expectation, and finally after sixth months the BLS noted that errors in survey responses, were almost negligible after adding multiple points to the unemployment rate in late spring and early summer. For September, If the responses were adjusted they would have added perhaps 0.4% to the official rate. The Household Survey—which is used to generate the various employment ratios— found unemployed fell by 970,000 driving the rate drop but it also saw a drop of 695,000 from the labor force as perhaps discouraged unemployed began to stop actively looking for work. That caused the Labor Force Participation Rate to drop three-tenths to 61.4% giving back the three-tenths gain of August. With most of the CARES Act relief measures expired you're seeing some large and notable companies announce large dismissals for October and that will likely weigh on the unemployment rate going forward.

- For the month, 661 thousand jobs were added to payrolls (all private sector as government saw a decline of 216,000 jobs. That headline gain missed the 875 thousand expectation, and job gains have been sliding lower every month now with 12.5 million still unemployed after the bloodletting of 22 million jobs in March and April. Once again the leisure/hospitality field had the largest gains at 318 thousand. The services sector as a whole added 784 thousand jobs. Goods-producing jobs had a decent month adding 93 thousand jobs versus 45 thousand in August. Manufacturing added 66 thousand and construction added 26 thousand jobs. As mentioned above government shed 216 thousand jobs during the month which was the source for the headline miss.

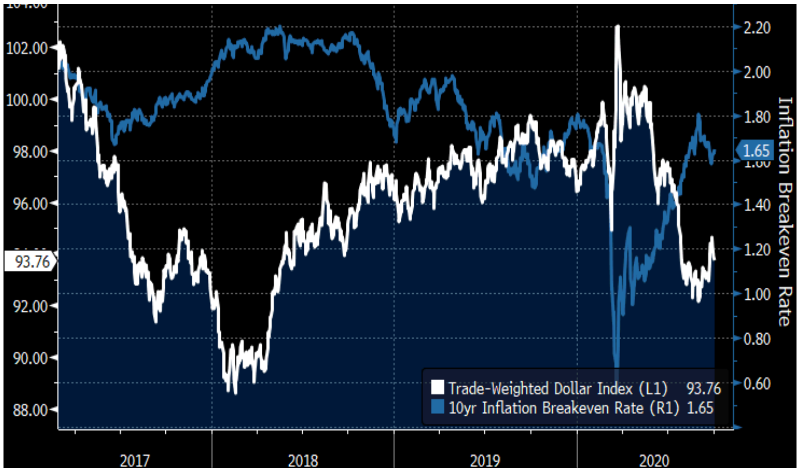
- The underemployment rate (unemployed plus part-time workers wanting a full-time job and those wanting a job but not currently looking) fell from 14.2% to 12.8%. In addition to the drop in unemployed the rate was helped by a huge 1.3 million decline in part-time workers. The Fed will want to see this rate back in the mid to high single-digits before declaring victory.

Initial Jobless Claims Seem to be Plateauing Around 800,000-850,000

While initial jobless claims first fell below a 1.0 million a month ago but since then the reductions in claims are coming only grudgingly and will likely head higher when you read about the high profile job cuts at Disney which total 28,000 cast members and other firms like Allstate and Goldman Sachs will be adjusting payrolls. In addition, the airlines are looking to cut payrolls now that CARES Act benefits expired on September 30. So, while jobless claims were heading lower in early summer, the latest few months point to a slowing in those declines and more of the aforementioned losses starting to hit in the weeks ahead we could easily see claims start to head higher and with nearly 11 million workers still out of jobs from the first wave of layoffs it may bode ill for a challenging fourth quarter.



The Dollar and TIPs Breakeven Rates



There's been a lot made of the increasing TIPs breakeven rates since the lockdown-induced panic of March and April. And a lot of the that upward movement can be attributed to the weakening US dollar (white line) while breakeven rates (blue line) head the other way. Since we first looked at this a month ago the dollar reversed it's month's long decline and as it headed higher breakeven rates dutifully responded by breaking their climb and seem to be settling around 1.65%, right around the level that prevailed pre-pandemic. They also remain well below the Fed's 2% target. As long as that is the case, the Fed will be sidelined and inflation-induced catalysts to higher rates will be muted.

Market Rates

Treasury Curve	Today	Chg Last wk.	LIBOR Rates	Today	Chg Last wk.	FF/Prime	Rate	Swap Rates	Rate
3 Month	0.09%	-0.01%	1 Mo LIBOR	0.15%	Unch	FF Target Rate	0.00%-0.25%	3 Year	0.236%
6 Month	0.10%	-0.01%	3 Mo LIBOR	0.23%	-0.02%	Prime Rate	3.25%	5 Year	0.337%
2 Year	0.12%	-0.02%	6 Mo LIBOR	0.26%	-0.03%	IOER	0.10%	10 Year	0.688%
10 Year	0.66%	-0.01%	12 Mo LIBOR	0.36%	-0.01%	SOFR	0.10%		

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