NO SPIN FORECAST

The Employment Situation

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August 2019

Chart 1
Total Nonfarm Payroll Employment
Change from Prior Month -- Thousands of Persons

The Plot Thickens

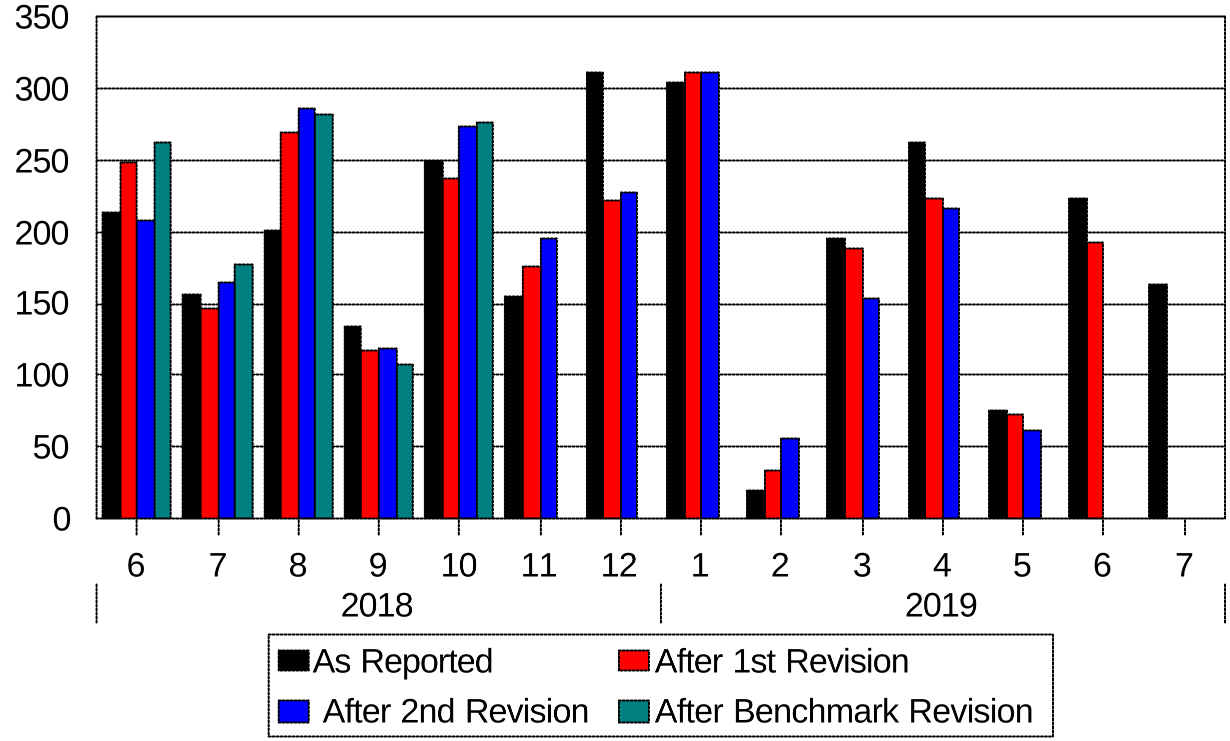
Today's version of the employment numbers, and I say "today's" to remind you that these numbers are going to go through several rounds of revision, are a reminder that Saint Offset is a mean son of a bitch. This report has something for everyone, it will be a spinner's delight. There is evidence of slowing in parts of the report, there is evidence of improvement in other parts of the report, and the headlines are benign. Just the sort of collection of facts that can be cherry-picked to make any case. I will point out some of those as we go through the charts.

My take, for what it's worth, is that this report is another in our current series of Boom phase reports. During the Boom we get good news because we are looking at an economy that is still expanding. But, we also start to see evidence of the limits of the expansion, as well as the particular constraints that might have come into being over the course of the expansion.

Month:Year	As Reported	After 1st Revision	After 2nd Revision	After Benchmark Revision
9:18	134	118	119	108
10:18	250	237	274	277
11:18	155	176	196	
12:18	312	222	227	
1:19	304	311	312	
2:19	20	33	56	
3:19	196	189	153	
4:19	263	224	216	
5:19	75	72	62	
6:19	224	193		
7:19	164			

Chart 2
Total Nonfarm Payroll Employment

Change from Prior Month -- Thousands of Persons



Right after I look at the headline numbers in the Establishment and Household surveys, I flip to the page in the summary where the Bureau of Labor Statistics [BLS] tells us about the revisions to the prior two months. And that number, allows the calculation of the second entry you see on the notes under the legend. The revisions to the two prior months took 41,000 jobs out of the two prior estimates. As it turned out, most of the revisions were in the public sector numbers, and I will get back to those later.

You will note that we have a pattern of downward revisions starting with the March numbers. And, in case you have been wondering why this chart is in the report, it is precisely so that we can see the pattern of the revisions.

It is common in the Boom phase for this pattern to come into evidence. And the fact that we now have enough observations to be able to conclude that we are looking at a pattern, is one of the reasons why I chose the title of this edition.

July Headline Change = +164K
July change net of Revisions = +123K

Chart 3
Total Nonfarm Payroll Employment
Change from Prior Month -- Thousands of Persons

The next round of our evaluation of employment conditions is with this sequence of charts that allows us to do three things at a glance.

First, we can look at the track of the blue bars to see what has been happening so far this year.

Second, we can compare the blue bar for each month to its counterpart from a year ago to see how we are doing relative to where we were a year ago.

Third, we can look to see what we will be up against to continue to outperform where we were a year ago.

As you see here, we are going to have to get busy if we want blue bars that are higher than the gray bars from here on out.

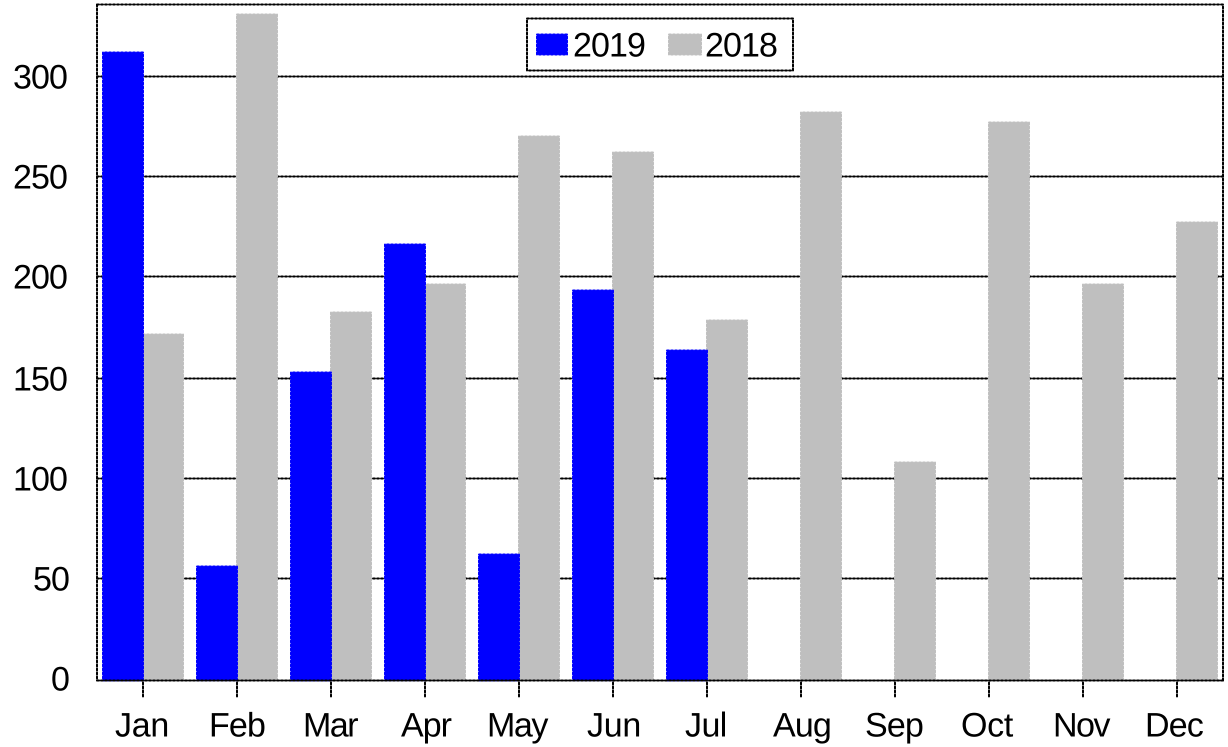


Chart 4
Leisure and Hospitality

Change from Prior Month -- Thousands of Persons

It is rarely a good thing (a technical term), to have the largest component of a series go sideways at a low level for a long time. With the exception of the January number, which I am almost certain is going to get revised away, there has not been a significant gain in employment in this category all year.

And, more importantly, the gains in hiring this summer can best be described as paltry.

The large gains in hiring that you see late last year are the rebound from the storm-induced drop of September.

All in all, a Boom phase set of readings.

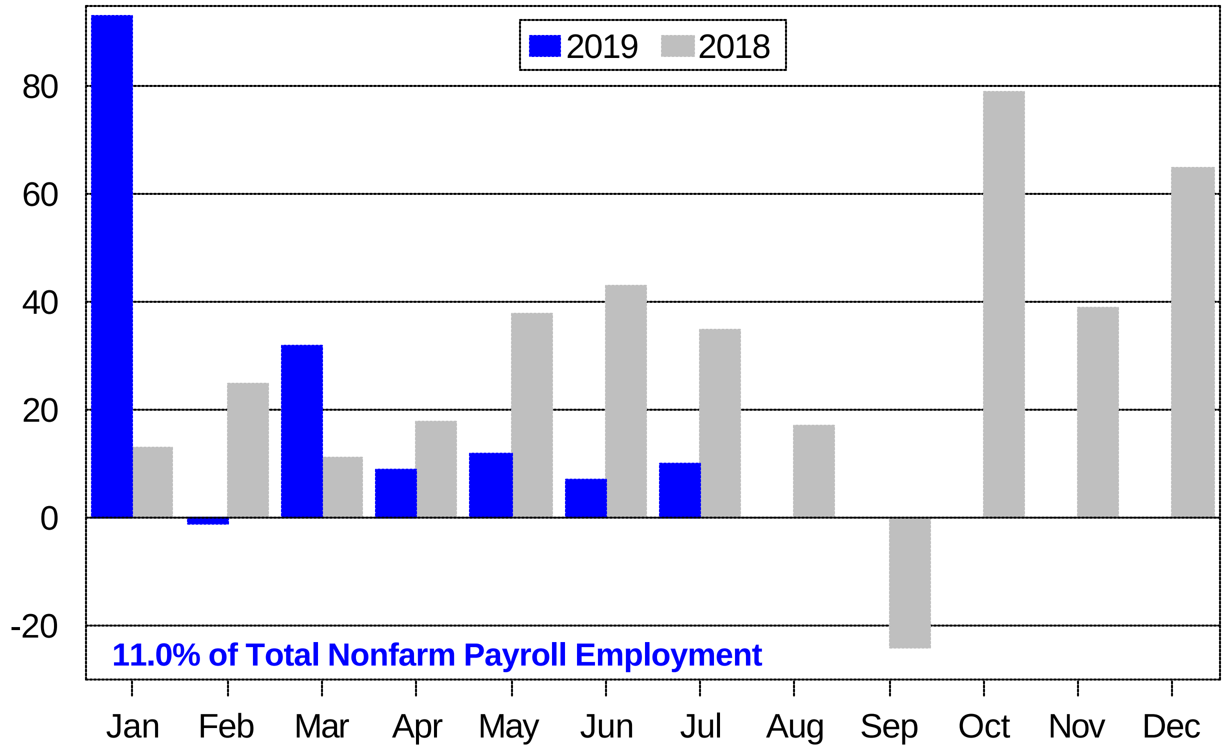


Chart 5
Health Care

The paltry gains in Leisure and Hospitality are allowing the Health Care category to continue to close the gap between the two sectors for the number one rank as an employment category. As of right now, there are 16,716,000 persons in Leisure and Hospitality and 16,412,000 in Health Care. Since Health Care has been growing without interruption for the past 20 years, it seems a fair bet that it will move into the number one slot within the near future.

Gains in health care employment over the first seven months have averaged 32,485 persons, as compared to 24,628 for the first seven months of 2018. In the last five months of 2018 gains averaged 35,580. Like I said, even our best performing sectors are going to have to get busy if we want to outperform last year.

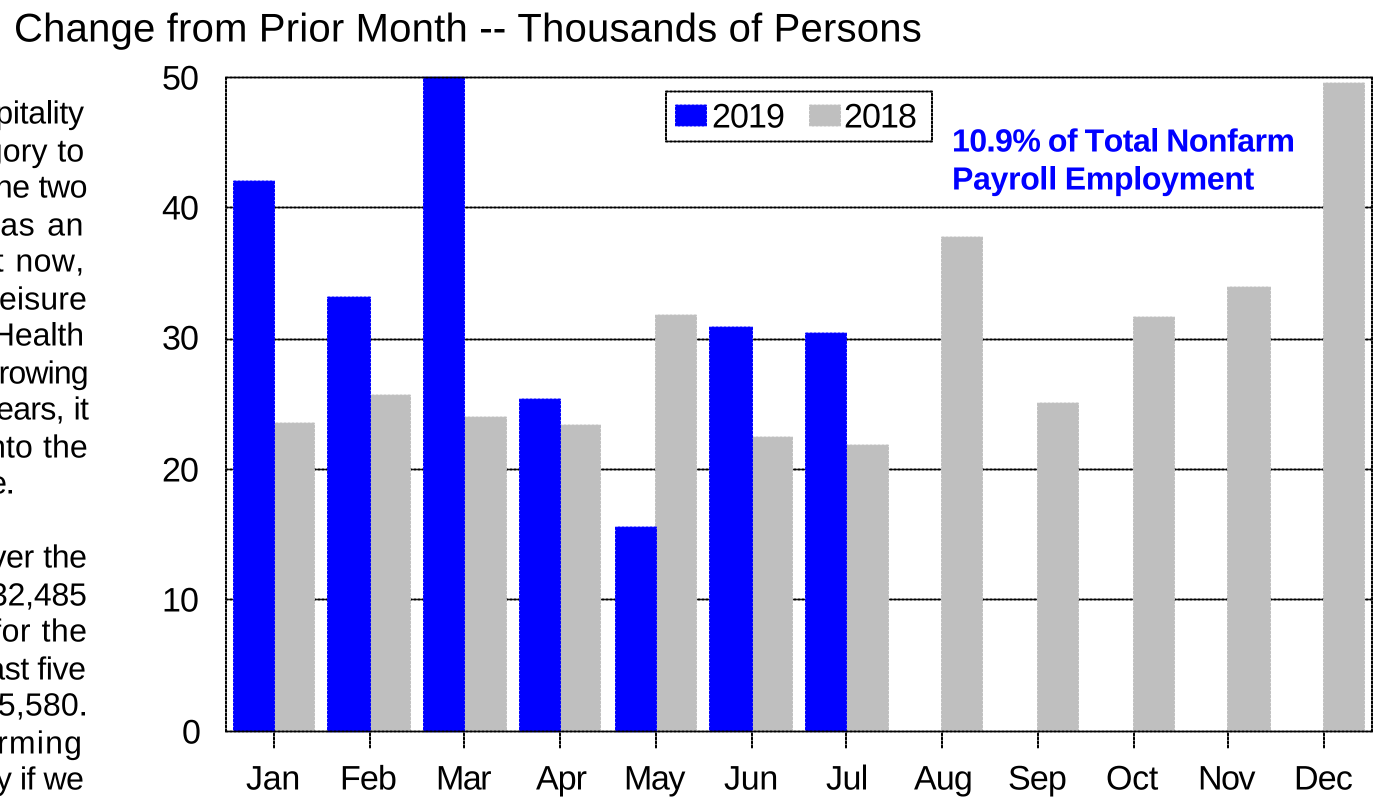


Chart 6
Retail Trade

Change from Prior Month -- Thousands of Persons

The bleeding continues. This month we had a large number of small losses being only partially offset by a large number of small gains. There are 15 different categories of retail employment, and each of them seems to have its own set of problems. And, from what we read, very few of those problems are going to be solved without further employment loss.

This is the only category among the Elite Eight that is below its level of a year ago. And, I am discounting that fact because of the structural problems that are at work here. Note, I said discounting and not ignoring.

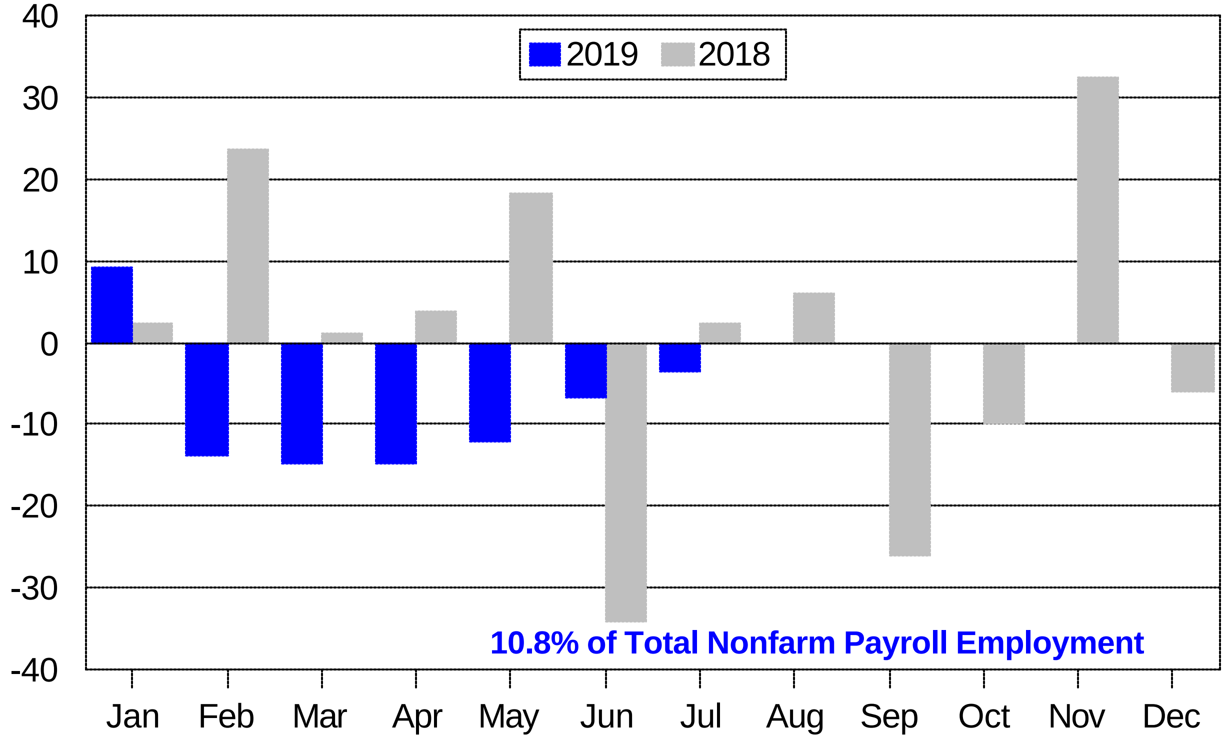
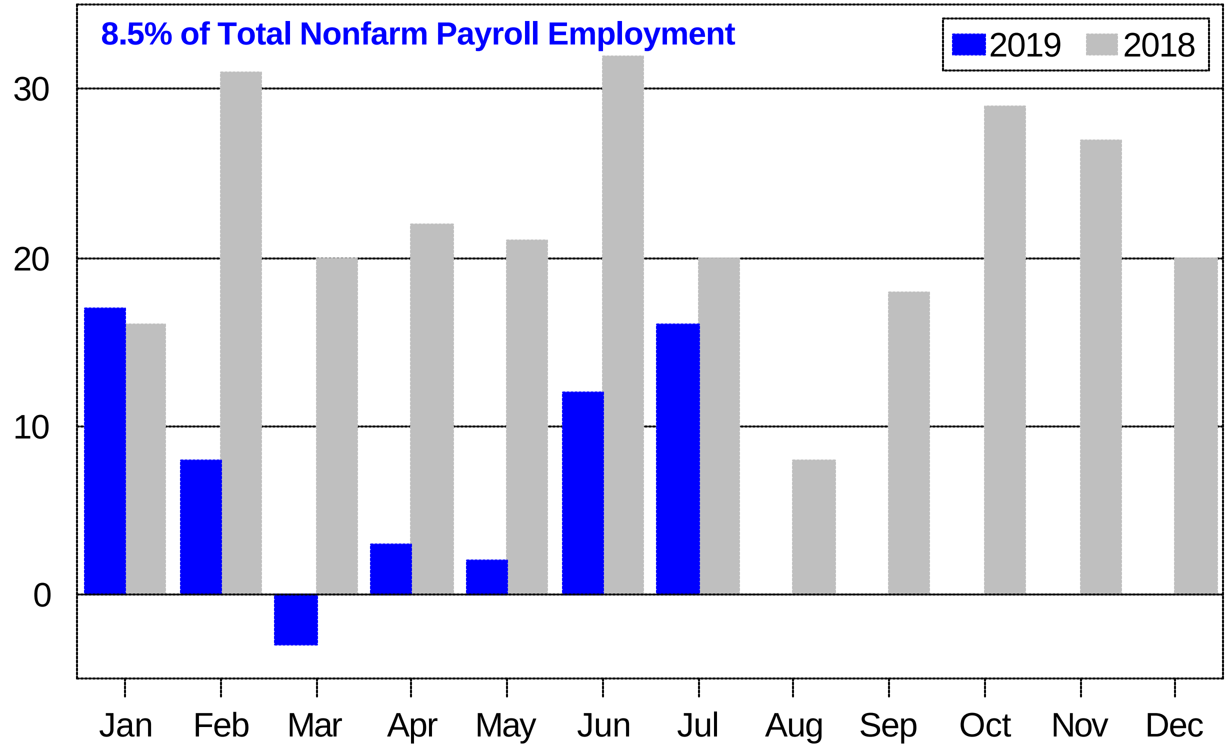


Chart 7
Manufacturing Payroll Employment
Change from Prior Month -- Thousands of Persons



The rebound in manufacturing employment you see over the past two months is certainly welcome news. But, as you also see what we have been doing this year is laughable (another technical term) compared to what we did last year to this point, and more importantly what we did in the final four months of last year.

This is the chart that Federal Open Market Committee is most worried about for two different reasons. The first is that manufacturing employment growth has a multiplier effect. When you make goods you have to move goods, which affects the supply chain elements of warehousing and trucking, for starters. So, taking the spin off of manufacturing has important ripple effects. But, that is not what is really worrisome right now.

What is really worrisome right now is that the interest rate elasticity of manufacturing activity is pretty much zero in the short run, and not much (another technical term) in the long run. In other words, there is little correlation between the production of brake pads and the Federal Funds Rate. Which means, that if you want more brake pads, lowering the Funds rate won't help much. And, to make matters worse, if you are making fewer brake pads because of a tariff on the steel used to make those brake pads, cutting the Funds rate will do nothing to solve that problem. More about this in a moment.

Chart 8
Construction Payroll Employment
Change from Prior Month -- Thousands of Persons

The pattern of employment growth here remains consistent with the anecdotal and other statistical evidence we get from this sector. Housing starts are running at a very acceptable level and appear to not want to go much higher. The reports from the other construction sectors read pretty much the same way. So, we are at capacity and there does not appear to be much reason to hire very many more people. As the chart suggests, this has been the case for much of the last year and a half.

And, this is another instance of a set of readings consistent with the Boom phase. Especially in a sector that is as sensitive to the overall business cycle as this one.

Will the cut in the Federal Funds rate work its way into this category of employment by stimulating construction activity? Couldn't hurt, but it is hard to see a surge developing that would significantly change the pattern we have now.

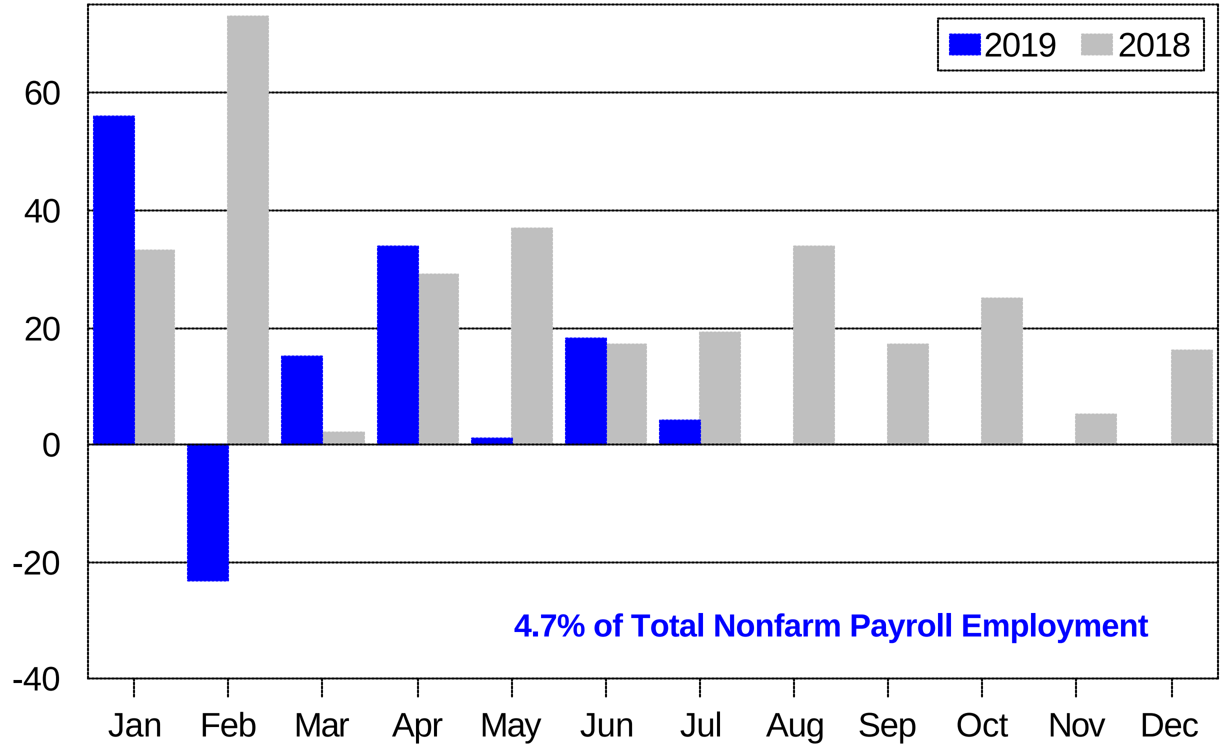


Chart 9
Wholesale Trade

Change from Prior Month -- Thousands of Persons

Nothing very exciting to report here. The movement in employment has been consistent with what we would expect both in terms of size and composition. The pickup in hiring last year was associated with the rise in inventories that started shortly after the trade war got under way. The last GDP report said that inventories were still building, but at a slower pace. It will be interesting to see if that slowdown translates to a slower pace of hiring in this sector.

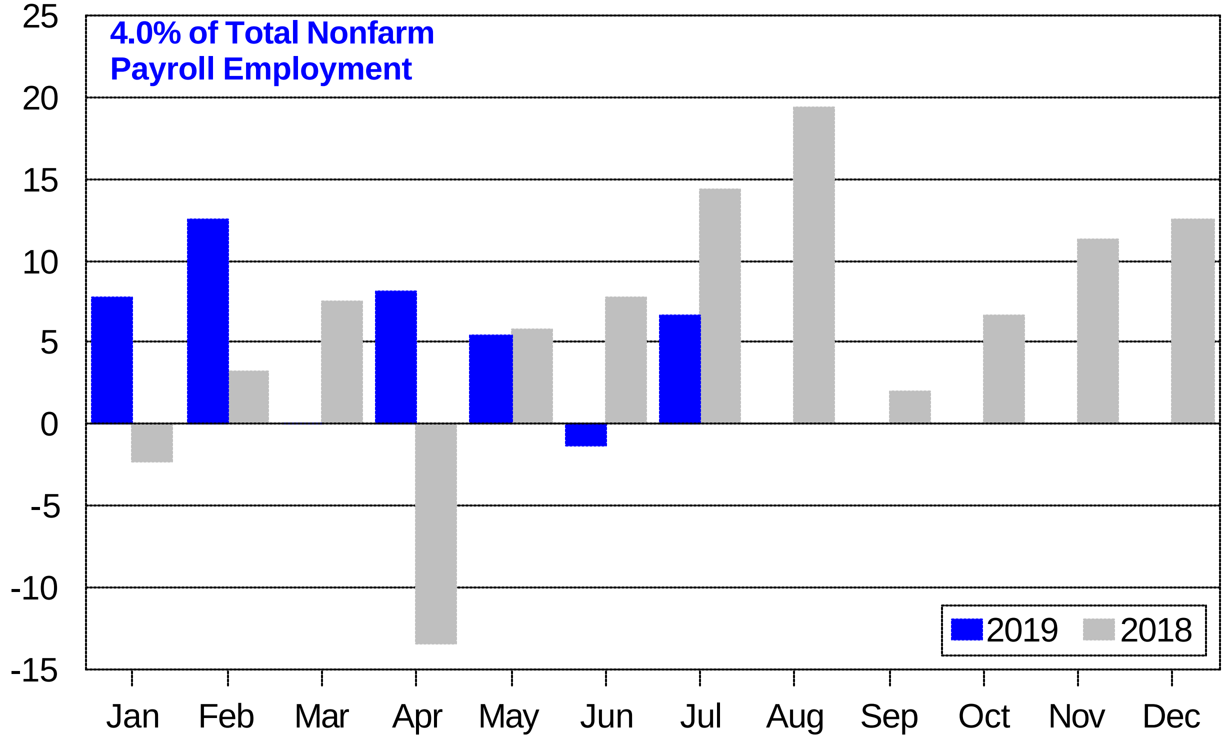


Chart 10
Temporary Help Services

Another instance of paltry gains. And another case where we have to wonder whether the cycle high that was set in December of last year will be challenged. We are currently 26,200 persons below that level, mainly because of what happened in January.

You might recall that we had a large outlier in January in Leisure and Hospitality. I am not saying that the two numbers are connected, only that they are so much different from the other readings around them as to make you wonder how much "noise" is in those observations.

That said, the numbers are what the numbers are, and this chart does not suggest much in the way of the demand for temporary help. Some might read this as evidence of weakness, others might say that firms are skipping the temp agency and hiring folks directly. As I said at the outset, we have several instances where you can spin the data more than one way.

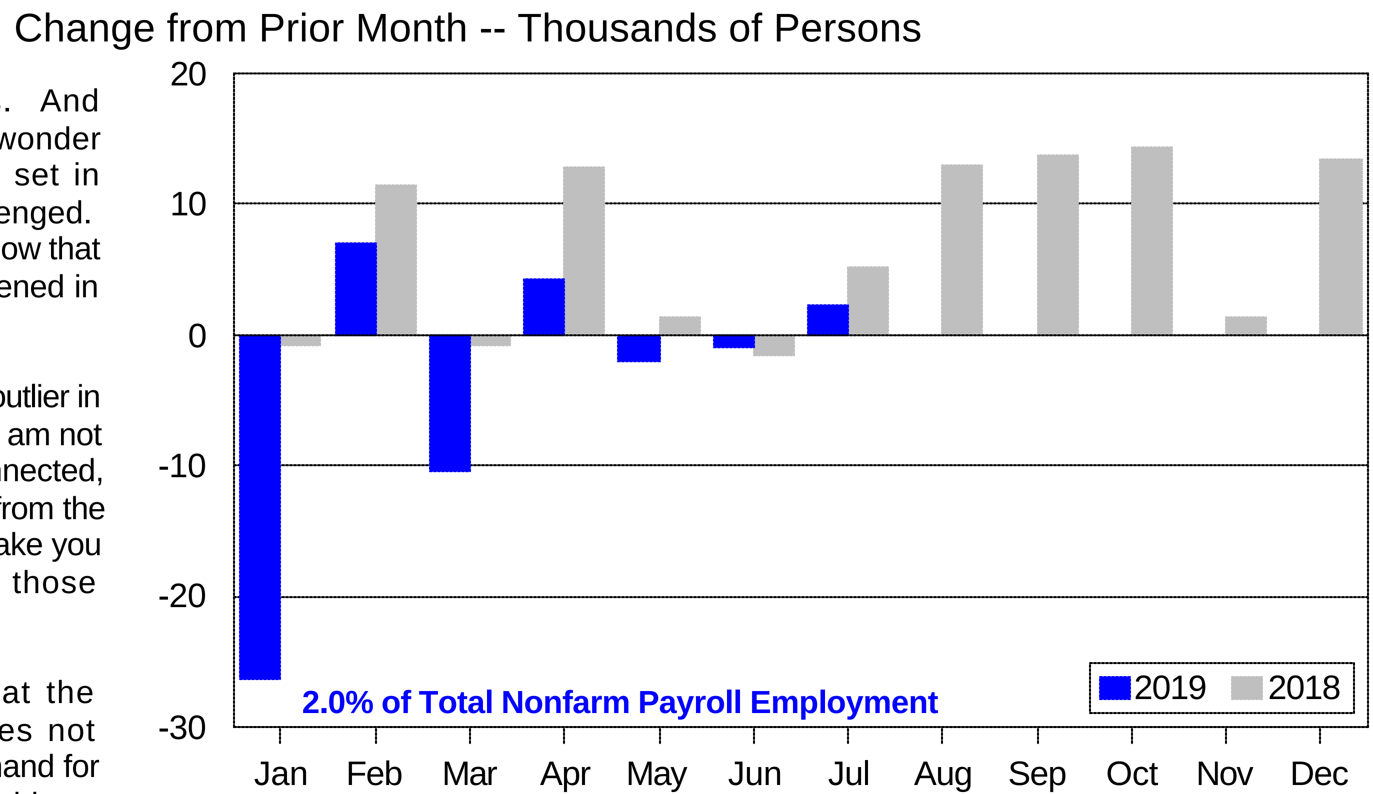


Chart 11
Truck Transportation

Change from Prior Month -- Thousands of Persons

I often marvel at how the Saint sends signals. Today the BLS link that I usually use to download the numbers was off-line as I was starting to compile the charts. So, I went old school and referred to the hard copy and typed in the updates. Yes children, back in the day, when we walked to school uphill both ways in the dark, that is how we updated the databases! And we liked it!

Anyway, because I had to type in the revised data I was able to do a review of the revisions, which as we noted earlier were important. Turns out truck transportation was one of the categories that contributed to the downward revisions.

The triple pattern of comparisons that I alluded to earlier is especially pronounced here. We have not been doing much this year. What we have done this year does not compare very favorably to what we did last year. What happened at the end of last year, when hiring expanded for reasons having to do with structural changes in the demand for drivers, suggests we will be hard pressed to match the gains. At 1,524,000, truck transportation employment set another cycle high in July.

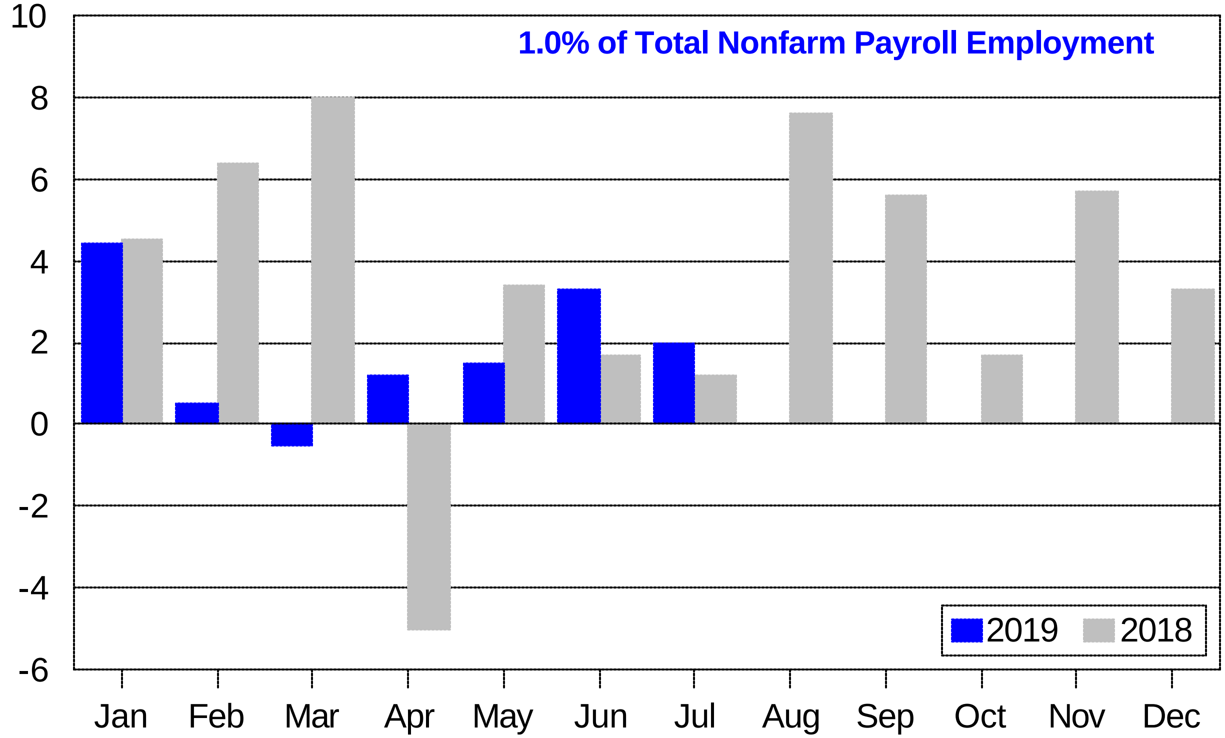


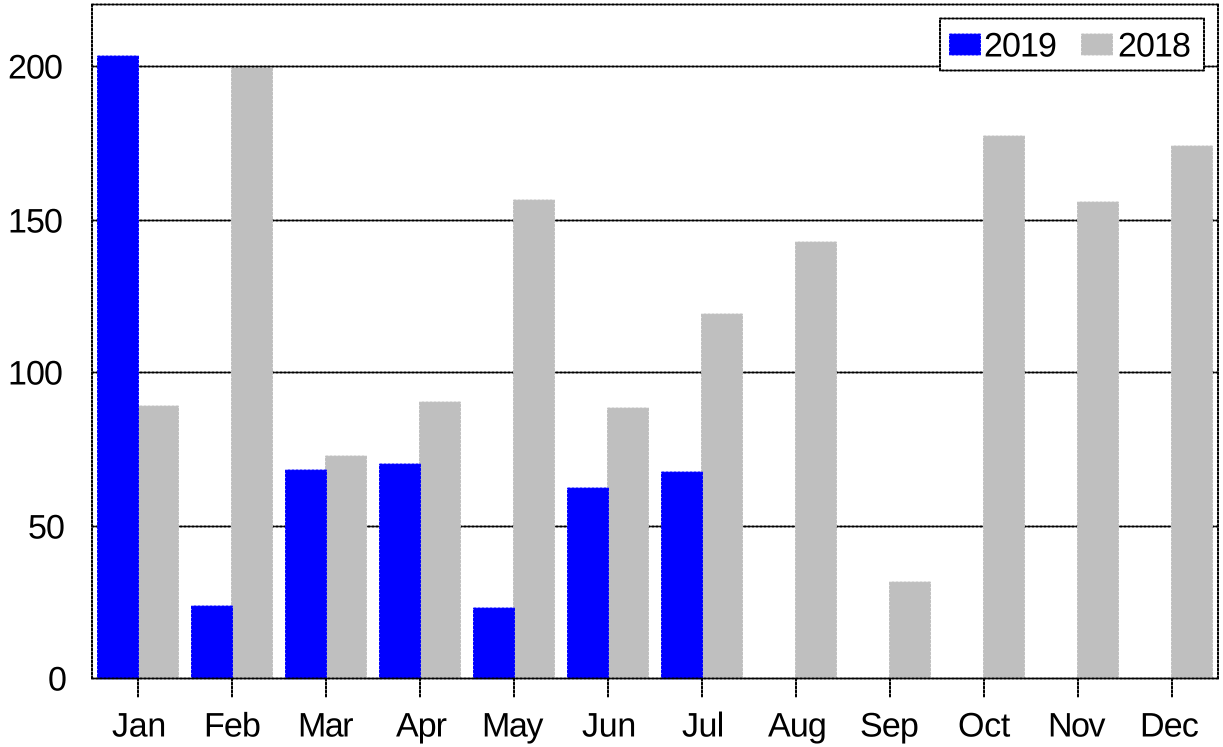
Chart 12
Elite Eight Payroll Employment
Change from Prior Month -- Thousands of Persons

Taken as a whole, the performance of the Elite Eight so far this year is not very good compared to what it achieved over the same period in 2018. There is one other pattern that I just noticed. The middle month of the first two quarters were weak this year. February and May were quite small. Last year it was the reverse. February and May were strong.

Could be nothing, but it will be interesting to see what happens in August. Last year August was strong.

Now, that remark was really deep pattern scanning. I pass it along for those of you who read reports that specialize in deep pattern scanning. Reports that usually start their comment with “the last time...“

My take, is this looks like what happens in the Boom phase of the cycle.

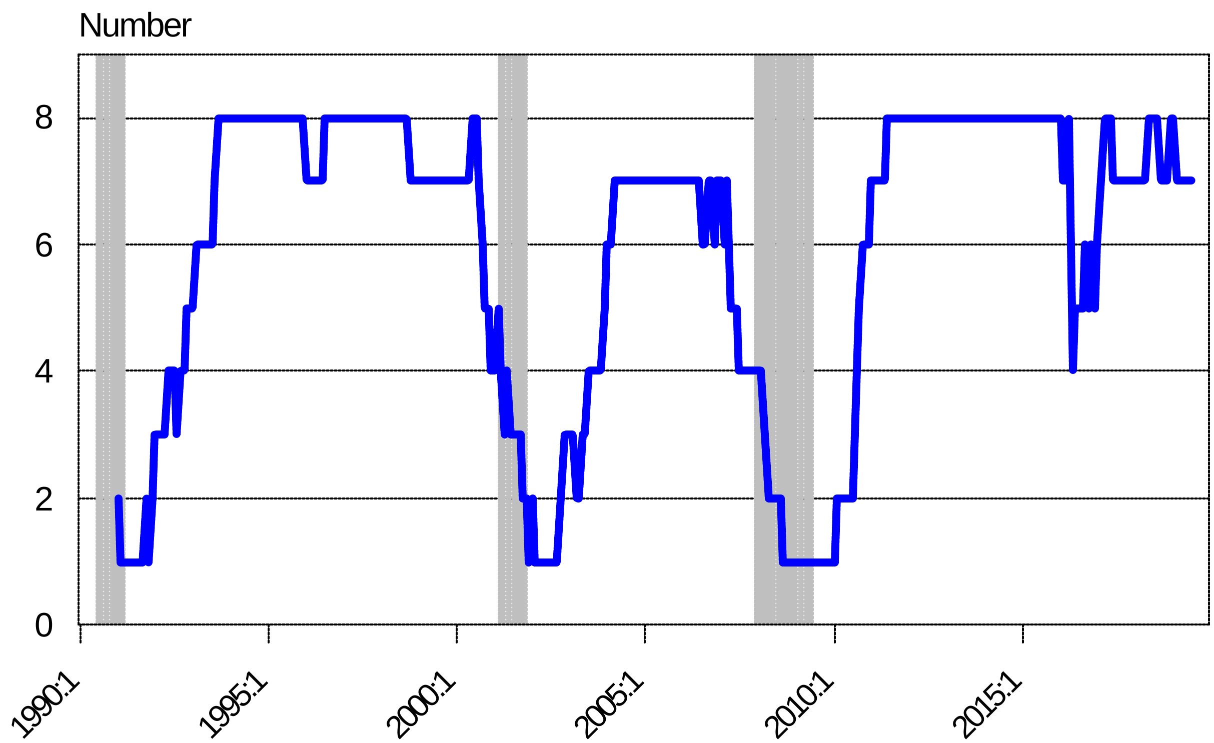


Elite Eight
Leisure and Hospitality
Retail Trade
Health Care
Manufacturing
Construction
Wholesale Trade
Temporary Help Services
Truck Transportation

Elite Eight account for 52.8% of Total Nonfarm Payroll Employment. Share is based on 2017 average level.

Chart 13
Number of Elite Eight up From Prior Year

As I said earlier, retail is the only part of the Elite Eight under its year-ago level. None of the other seven are currently within range of leaving this list.



Sectors that were not above their prior year level when count reached 4 ahead of the last two cycle peaks

2001	2007
Manufacturing	Construction
Wholesale Trade	Manufacturing
Trucking	Trucking
Temporary Help	Temporary Help

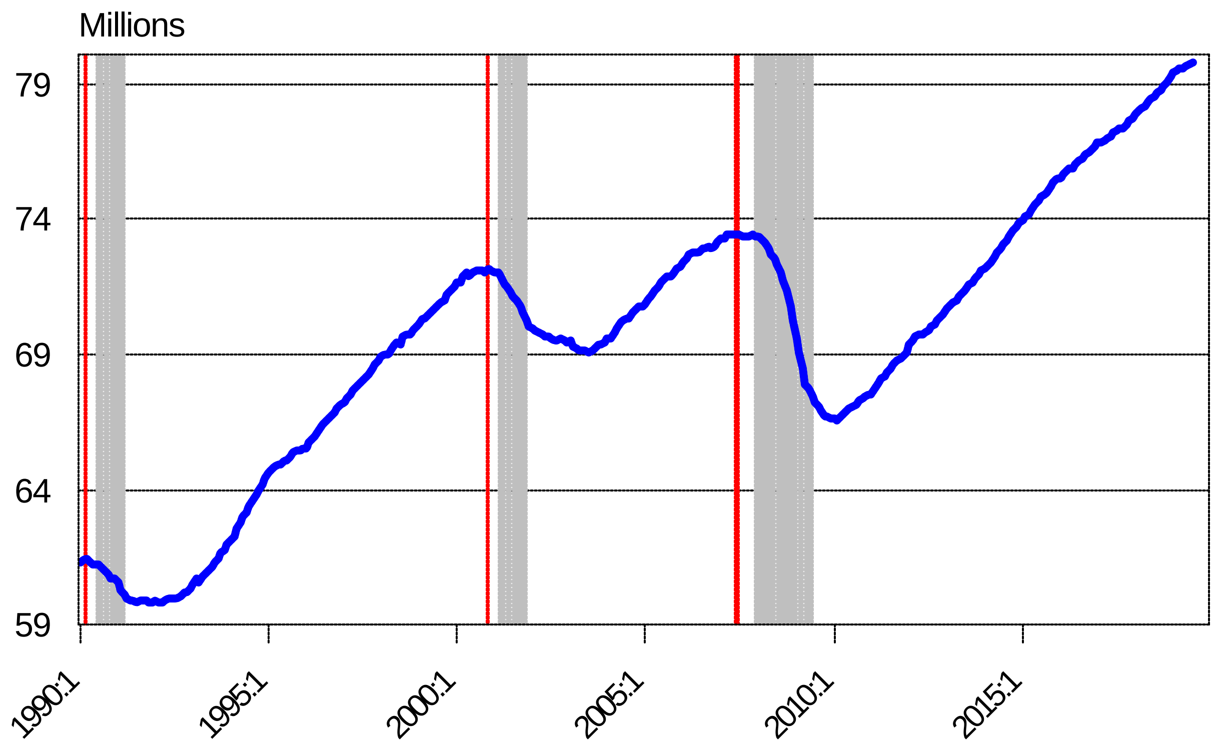
DATE	COUNT
2019:1	8
2019:2	7
2019:3	7
2019:4	**7**

Chart 14
Employment in the Elite Eight

I was recently asked if I only had one piece of information with which to make a call about the proximity of the cycle peak, which would that piece be? This one.

For several reasons. First, it has been a consistent leading indicator of cycle peaks. Second, it includes series that are very sensitive to the cycle as well as series that are not. Third, the series that are included account for 53% of total payroll employment. Fourth, it is available early in the month.

So, based on what we see here, it would appear that the cycle peak is not very close at hand. The Boom phase continues.



Red bars = Cycle High

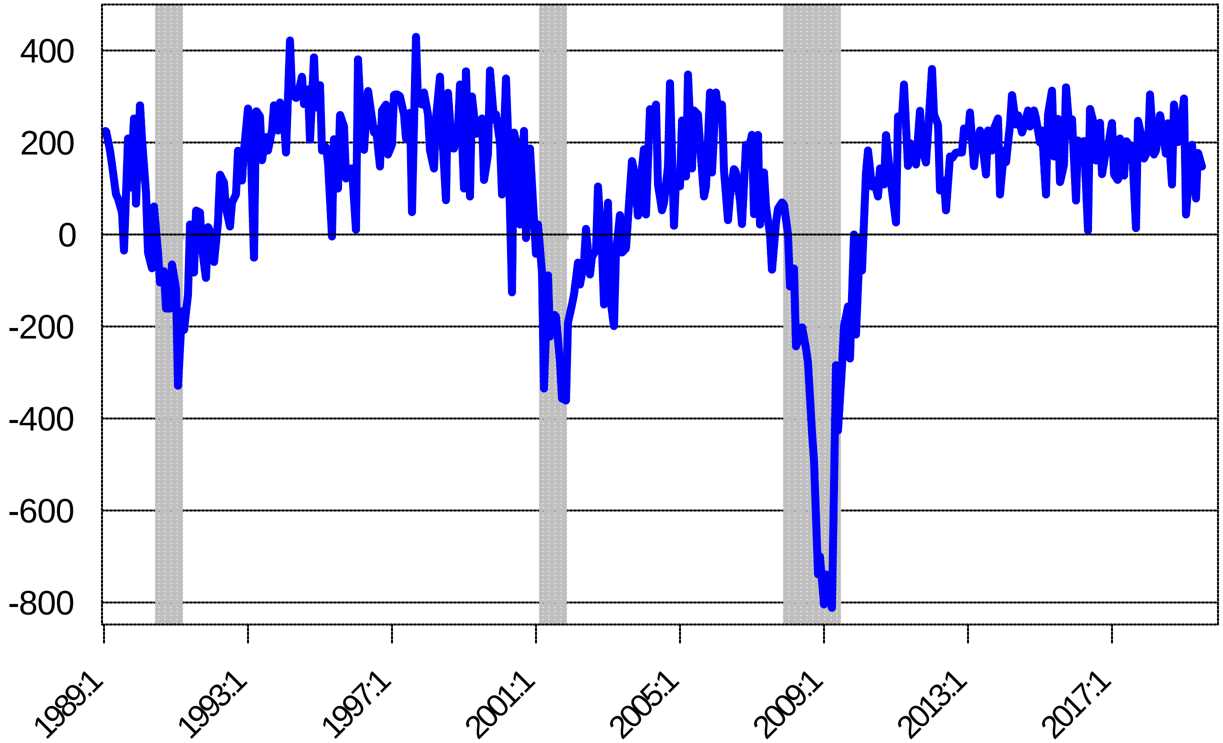
DATE	Lead
1990:3	4 months
2000:11	4 months
2007:6	6 month's

DATE	Level
2019:4	79,607
2019:5	79,630
2019:6	79,692
2019:7	**79,760**

Chart 15
Total Private Nonfarm Payroll Employment
Change from Prior Month (000)

And, as it turns out, we get the same message from the next 4 charts.

Historically, the end of the Boom phase is signaled by the break to the downside of this series. So far, that has not happened.

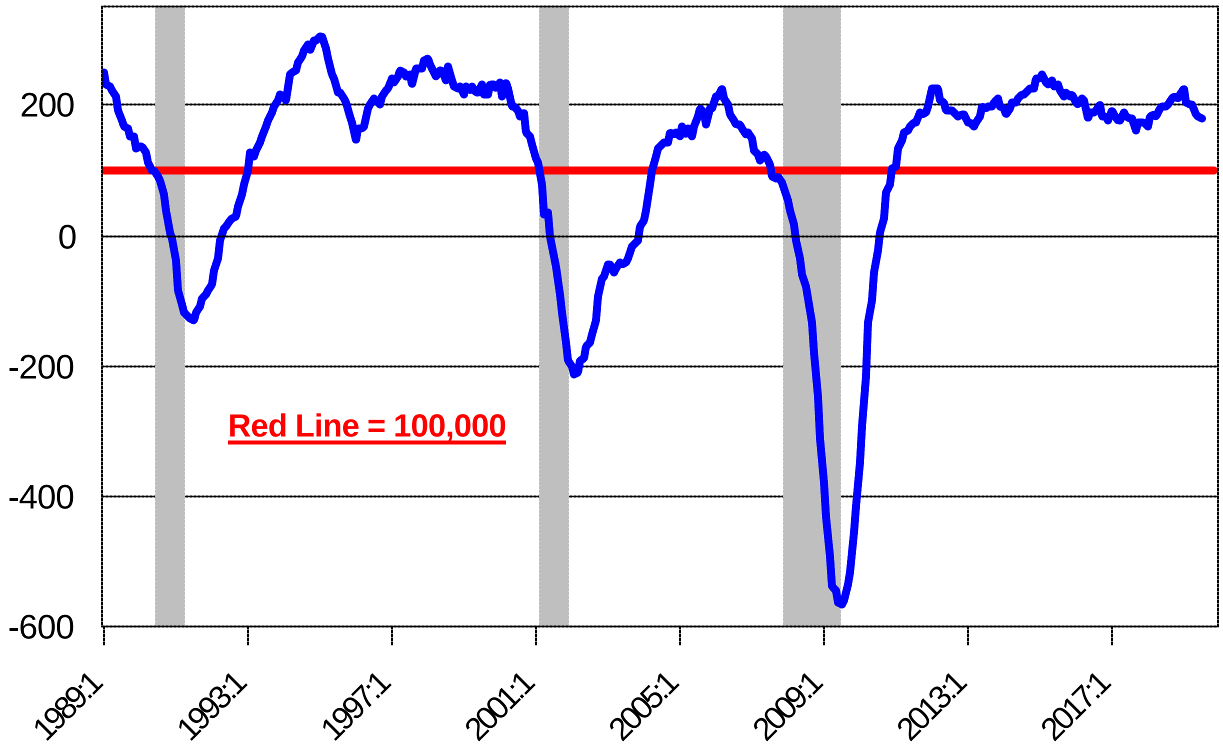


DATE	CHG.
2019:4	195
2019:5	81
2019:6	179
2019:7	**148**

Chart 16
Total Private Nonfarm Payroll Employment
12 Month Moving Average of the Change from Prior Month (000)

Now that the 12-month moving average appears to have settled below the 200,000 range, it is probably time to start dusting off the spreadsheets where we analyze what happened the last two times we went from 200K to 100K.

We will only look at the last two times because the statistics only go back to 1990. And yes, a sample size of three is not ideal. But it's what we have to work with. Stay tuned for a Special Report on the subject some time in the near future.

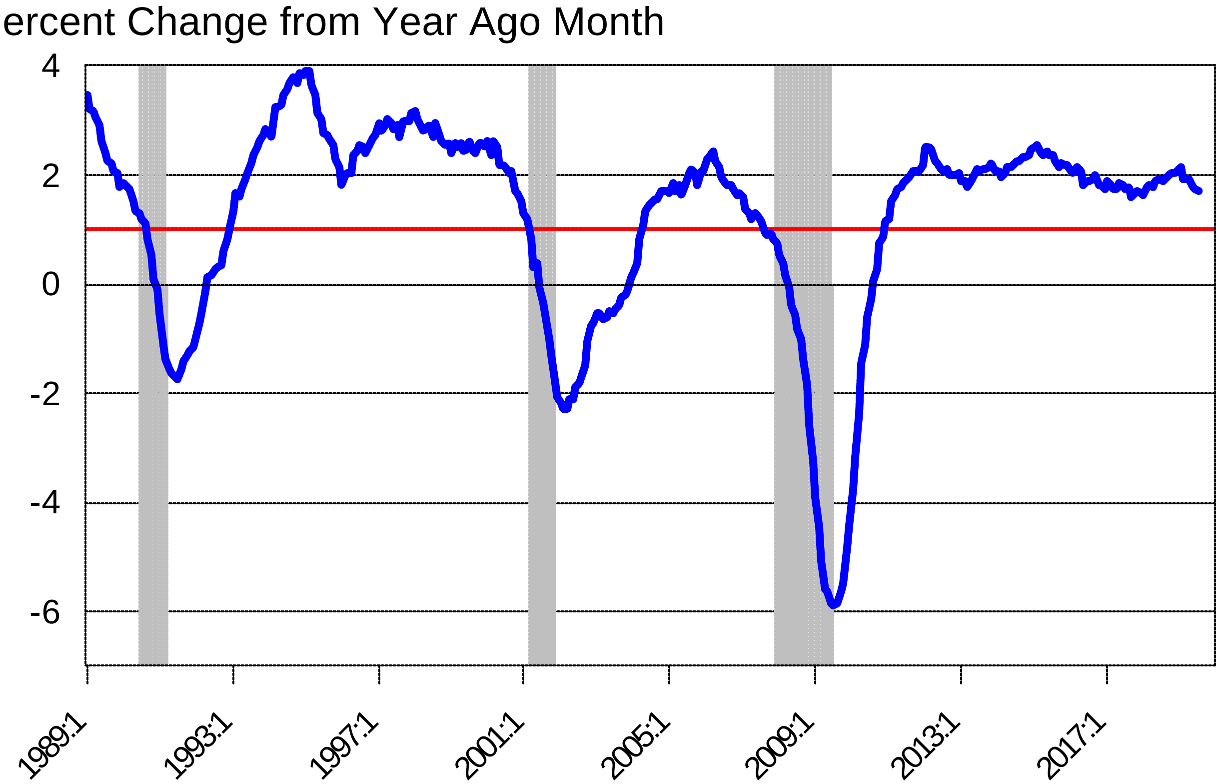


DATE	CHG.
2019:4	202
2019:5	187
2019:6	182
2019:7	**180**

Chart 17
Total Private Nonfarm Payroll Employment

We do the analysis both in terms of the levels, which is what you see on the previous page, and the rates of change, that you see here. The tracks are similar, but the information is not the same.

Here we want to see who got to 1% first, and why. And by “who” we are referring to the components of the Elite Eight.



DATE	**%CHG.**
2019:4	1.93
2019:5	1.78
2019:6	1.73
2019:7	**1.71**

Chart 18

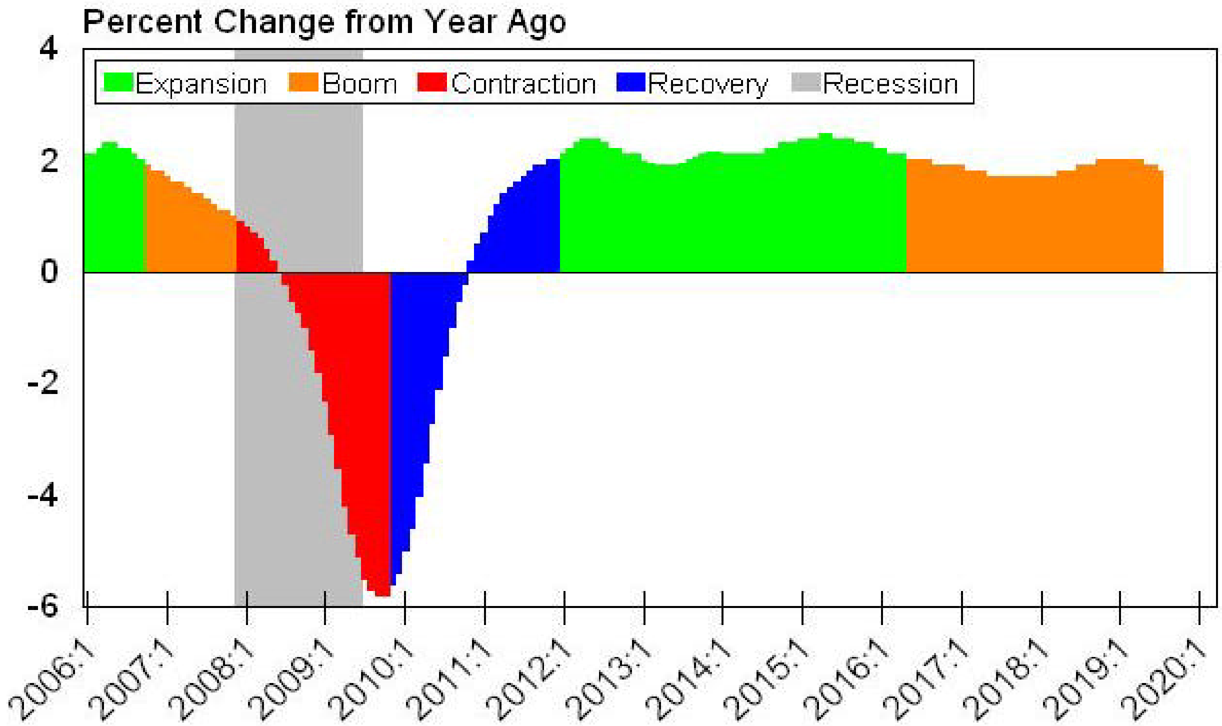
Total Private Nonfarm Payroll Employment

Six Month Moving Average of Percent Change from Year Ago Month

This chart has generated some confusion. The confusion is over the length of the Boom phase. The length of the Boom phase, which we refer to in the Prospects and Overview reports uses the information that is seen here along with the information from the Enhanced Aggregate Spread. On that chart, the green bars go farther to the right than they do here.

This chart is telling us about the phase in the labor market. As you might suspect, the phase of the labor market has a lot to do with the phase of the cycle as a whole, but they don't match exactly.

The conditions for the boom (small B) phase in labor market have been present since May of 2016. The conditions for the Boom (capital B) phase for the economy have been present since January 2019. The latter date is when the EAS went below 200 basis points. The dating procedure for all the phases can be seen in the charts that appear in the Prospects and Overview reports.



Coding Rules

If the Six Month Moving Average of Percent Change from Year ago is:

Greater than 2%: **the bars are Green.**

Between 2% and 1%: **the bars are Orange.**

Between 1% and any negative value: **the bars are Red.**

Between any negative value and 2%: **The bars are Blue.**

DATE	%CHG.
2019:4	2.0
2019:5	1.9
2019:6	1.9
2019:7	**1.8**

Chart 19
State and Local Government

Change from Prior Month -- Thousands of Persons

As I mentioned earlier, a large part of the downward revisions that we saw in the prior two months' estimates were made in public sector employment In particular, state employment.

We will have to wait for the detailed statistics that come with a month's lag to see why this happened. And, that might be a situation where A Special Report might come in handy.

But for now, we have to contend with a situation that suggests that the drag on total employment that this sector put on the economy last year, might happen again. With the difference that private employment growth appears to be less robust this year than last.

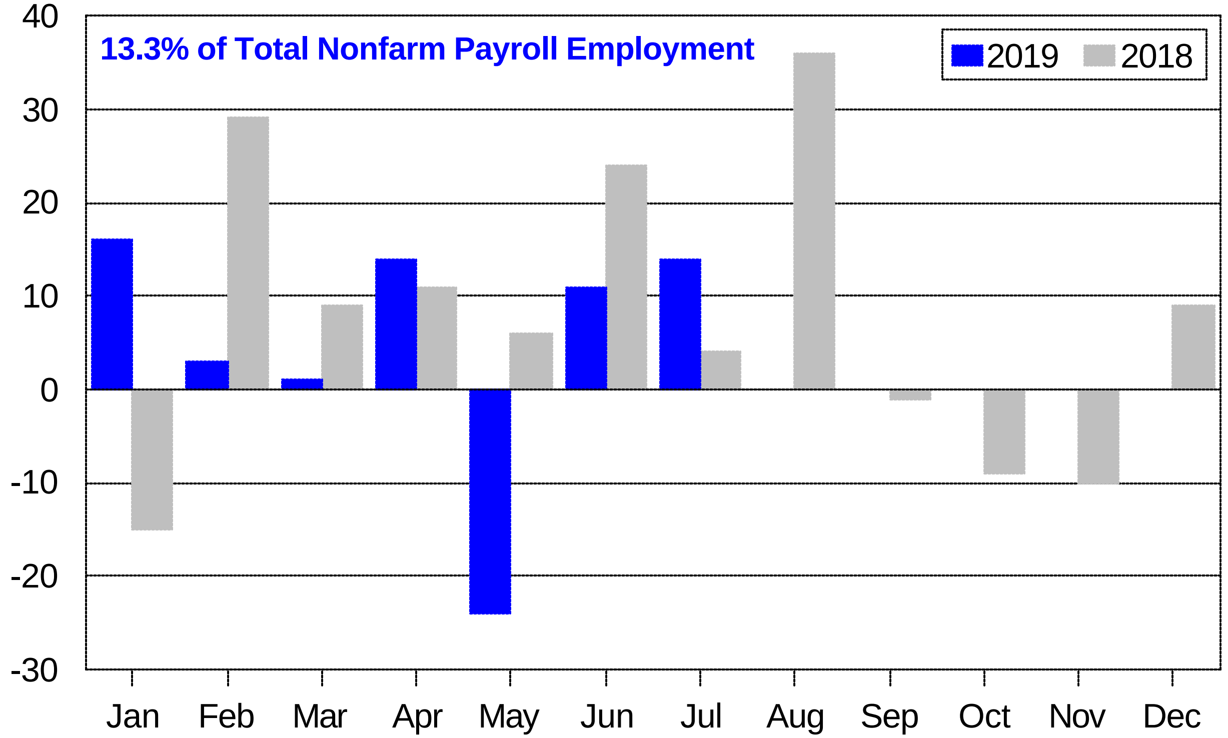


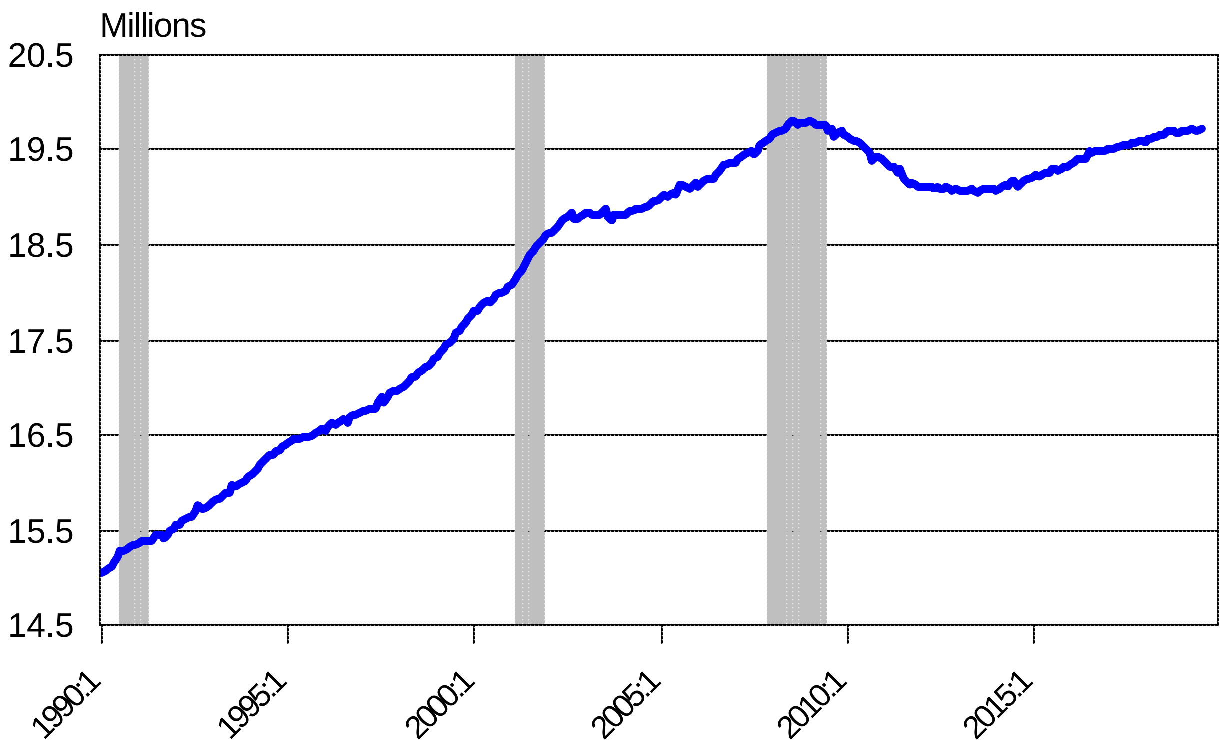
Chart 20
State and Local Government

We have not been running this chart for quite a while, but I thought it might be helpful to show it to you now so that you can see the difference in the pattern of state and local hiring today and what it looked like in front of the last three recessions.

Note that it hardly broke stride in 1990 and 2001. But, it is the pattern in place since 2008 that has caused the most change in the way that we analyze employment.

Prior to that time we used total nonfarm payrolls as our key indicator. Since that time, as you probably noticed, we use private payrolls and the Elite Eight. Why? Because what is going on here is a structural change that includes political, economic, and demographic factors that have to be considered separately.'

We do not ignore public sector employment. Rather we take account of how its current configuration might help us better understand when the next business cycle peak will (notice that word) occur.



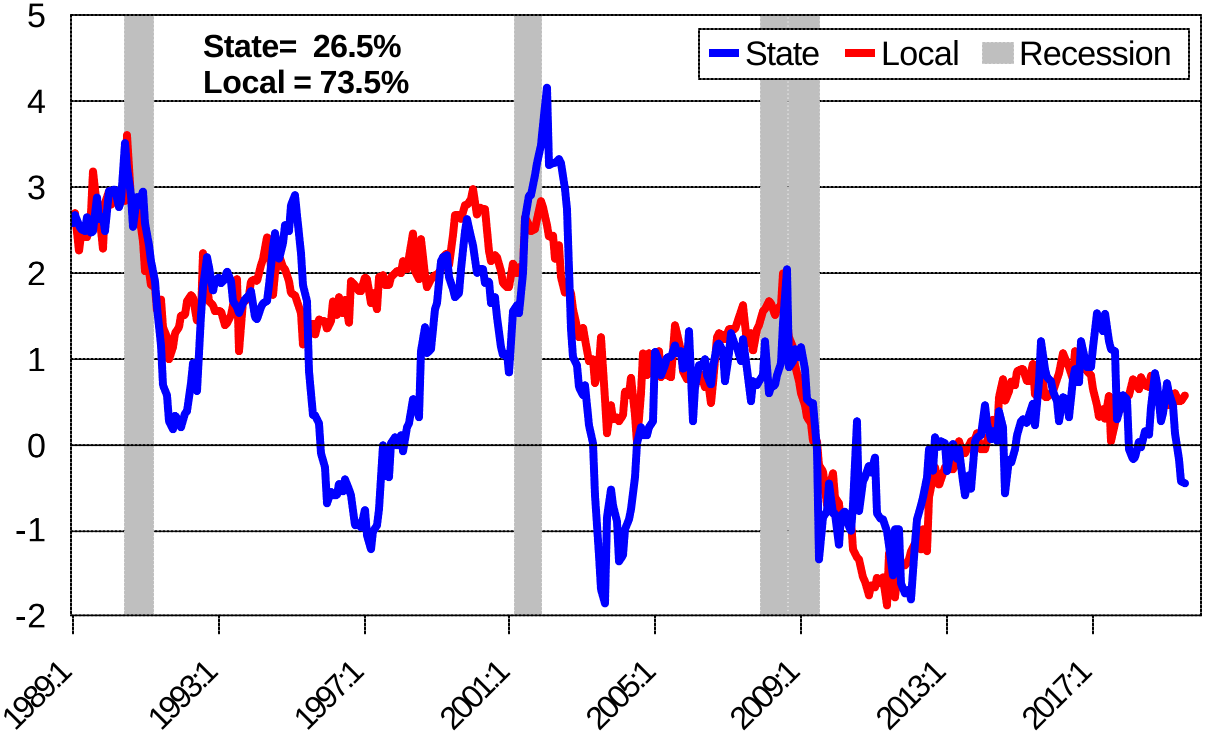
DATE	Level
2019:4	19,721
2019:5	19,697
2019:6	19,708
2019:7	**19,722**

rd
lb

Chart 21
State and Local Government Payroll Employment

Percent Change from Prior Year Month

This chart breaks down the two components of the prior chart to allow a little closer look as to what is driving the trend. With new state budgets going into effect in July in most parts of the country, it could be several months before we can be sure how the blue line is going to behave. But one thing does appear fairly certain, we are not going to get the type of performance we saw in front of the last three cycle peaks this time.



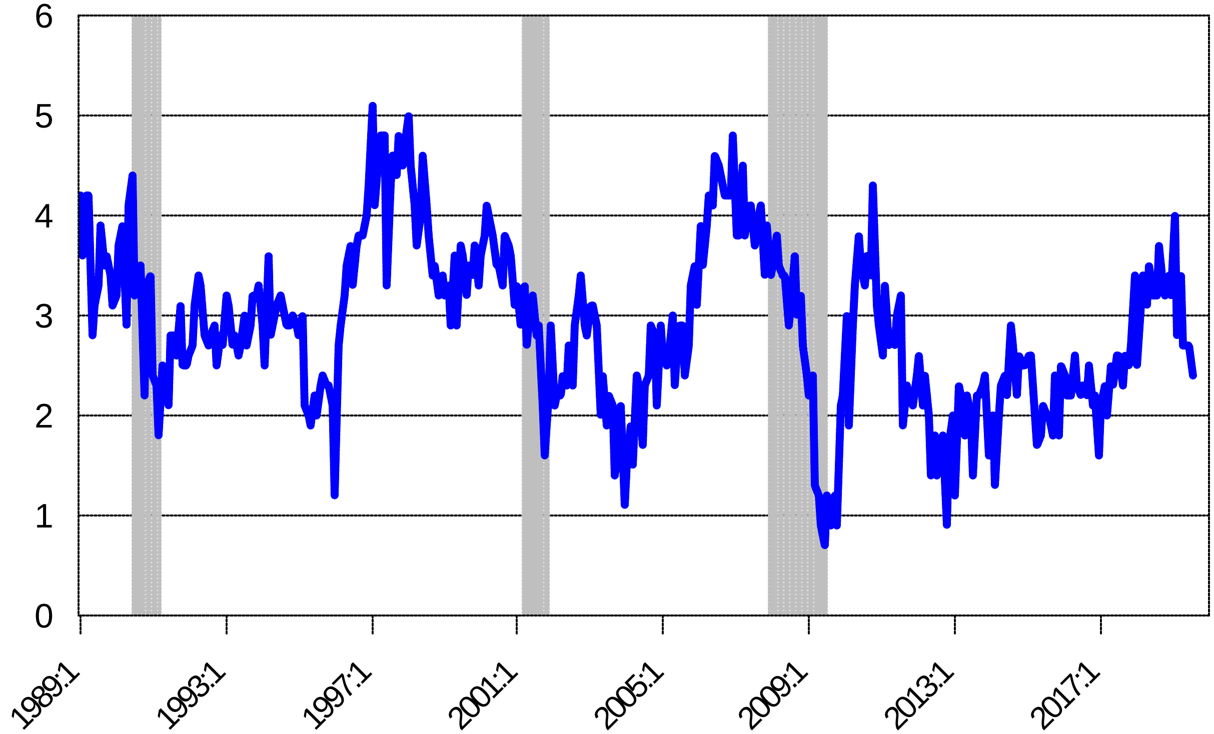
DATE	State	Local
2019:4	0.14	0.59
2019:5	-0.17	0.50
2019:6	-0.42	0.50
2019:7	**-0.44**	**0.57**

Chart 22
Average Weekly Earnings Of Production and Nonsupervisory Employees
Percent Change from Year Ago Month

The next two charts are quite worrisome.

The pace of growth in earnings has slowed once again. And it has slowed both because the pace of wage growth has slowed and the workweek has gotten shorter.

Even allowing for the volatility of this series, the latest move to the downside appears to be well established. And for this to be happening this late in the cycle, which, as the chart suggests, is where we usually see a rising trend in earnings growth, is not good.

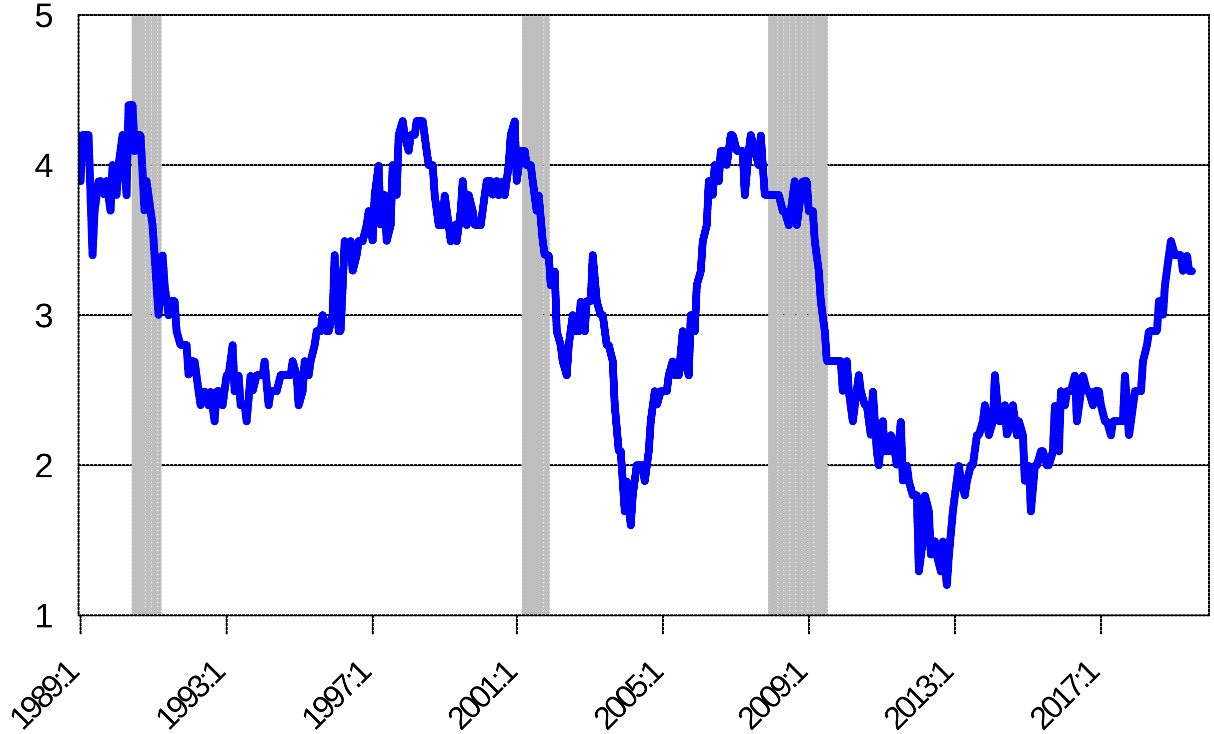


DATE	%CHG.
2019:4	2.7
2019:5	2.7
2019:6	2.7
2019:7	**2.4**

Chart 23
Average Hourly Earnings Of Production and Nonsupervisory Employees
Percent Change from Year Ago Month

I have not hadthe chance to get into the details of this chart. The BLS publishes the wage data for all of the sectors that it surveys as part of the Establishment report. I am not sure if this is a general situation, or whether we have some outliers on either end of the distribution.

Were Janet Yellen still at the Fed, this chart woud have been trotted out to explain why they cut rates earlier this week. As I said, there is something for every stripe of spinner in this report.



DATE	%CHG.
2019:4	3.3
2019:5	3.4
2019:6	3.3
2019:7	**3.3**

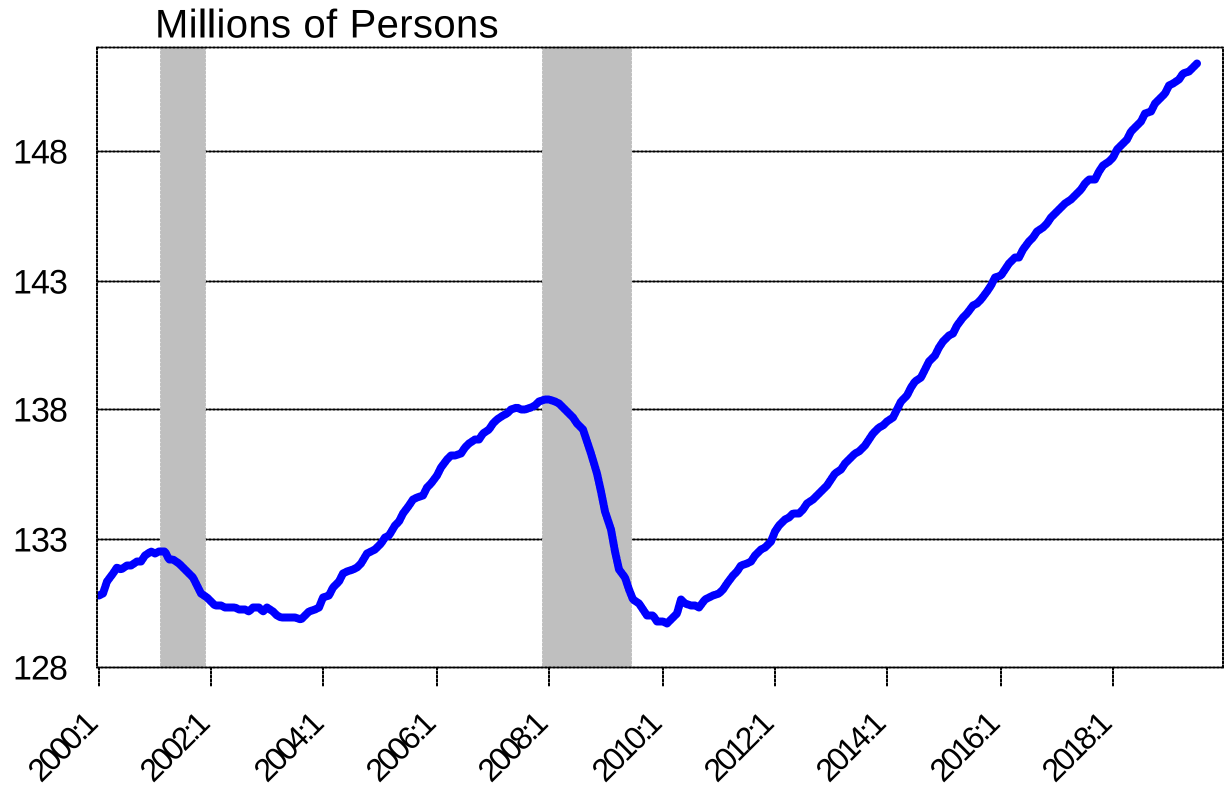
Chart 24
Total Nonfarm Payroll Employment

OK, let's wrap up the Establishment data.

Good headline, fairly good internals. A Boom phase set of numbers.

That said, Boom phase sets of numbers make one start to dust off the spreadsheets where one starts to look for cycle peak numbers.

The compostition of this set of numbers suggest that while a cycle peak is not immediately at hand, there is absolutely no reason to stop looking for one in the months ahead.



DATE	NFP (000)
2019:4	151,012
2019:5	151,074
2019:6	151,267
2019:7	**151,431**

Chart 25
Components of the Civilian Unemployment Rate
Change from Prior Month --Thousands of Persons, except where noted

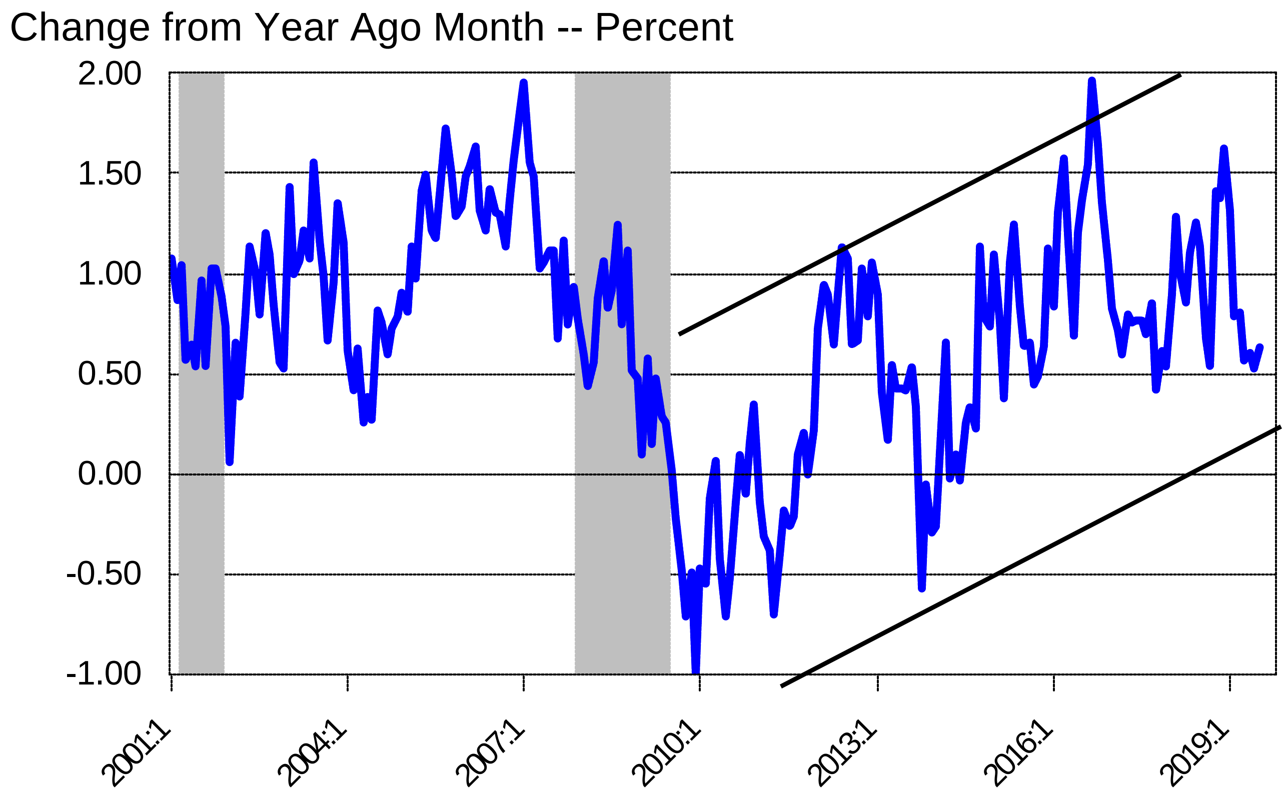
While I think that several of you are going to be surprised by this, I am giving this Household Survey a B-. Some of you are going to think that this is either too generous on the merits, or some form of spin on my part, or worse, some relaxation of the grading standards especially after the harsh treatment the report got last month. For those of you who might not remember that report got a C.

Let me explain, this report, like the report last month, gets marked down two letter grades because of what you see in the two right columns of the chart. The fact that the level of unemployment was up and the unemployment rate was not down, costs the report one letter grade for each event. So, that would get us to a C. Why then did this report get the B- and last month's stay a C? The "internals", meaning the details this month showed improvements in several of the secondary indicators, and for that reason we end up with a B-.

Month:Year	Change in Labor Force [1]	Change in Employment [2]	Difference = [1] - [2]	Change In Unemployment Rate (Basis Points)
1:19	**-11**	**-251**	**241**	**10**
2:19	**-45**	**255**	**-300**	**-20**
3:19	**-224**	**-201**	**-24**	**0**
4:19	**-490**	**-103**	**-387**	**-20**
5:19	**176**	**113**	**64**	**0**
6:19	**335**	**247**	**87**	**10**
7:19	**270**	**283**	**88**	**0**

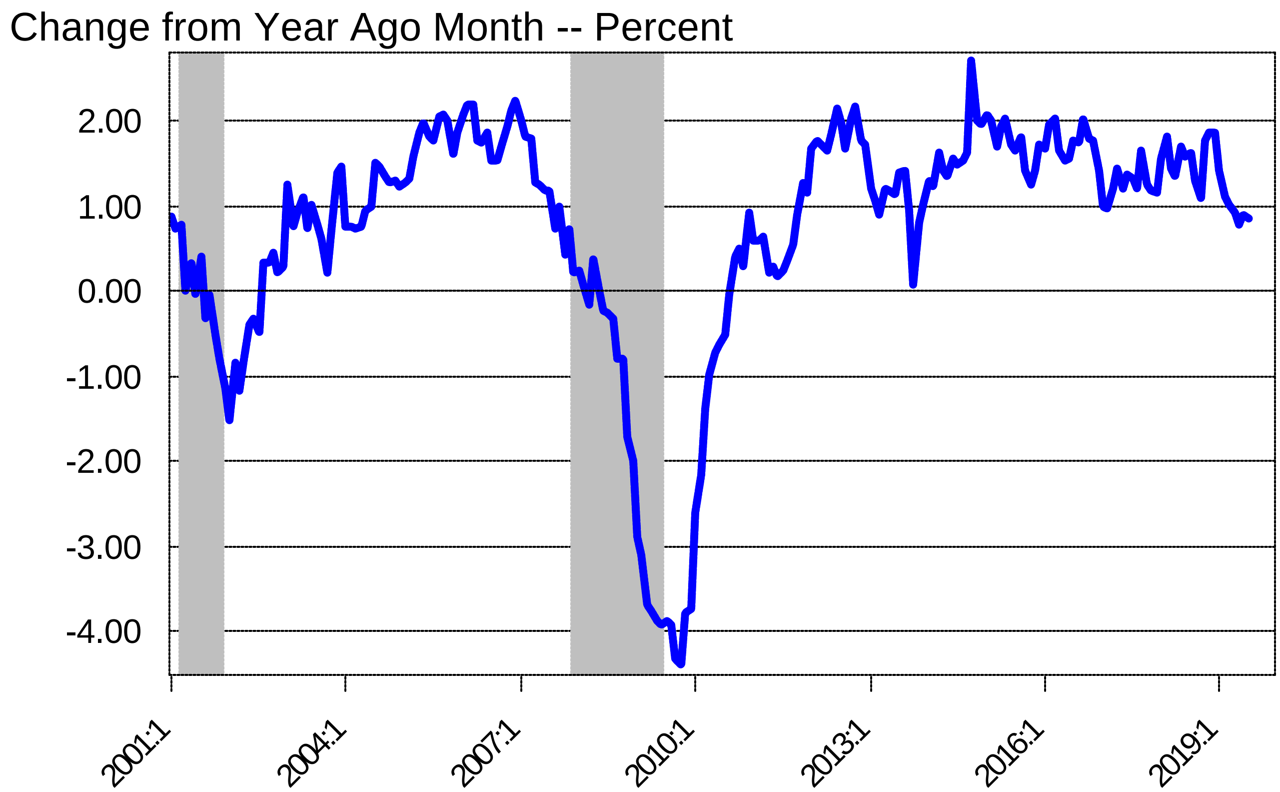
Chart 26
Civilian Labor Force

And now that we have that out of the way, I don't think that the contents of either the Establishment or the Household surveys,had they been published before the FOMC meeting, would been enough to justify cutting the Funds rate. The contents of both reports are consistent with the Boom phase of the cycle. What elements of weakness both have do not, in my opinion, appear to be the result of an overly tight monetary policy stance. Further, as I said in the prior section, there is little to think that a less restrictive monetary policy stance would remove the current sources of weakness in both reports.



Date	Force
2019:4	0.57
2019:5	0.61
2019:6	0.53
2019:7	**0.64**

Chart 27
Total Civilian Employment

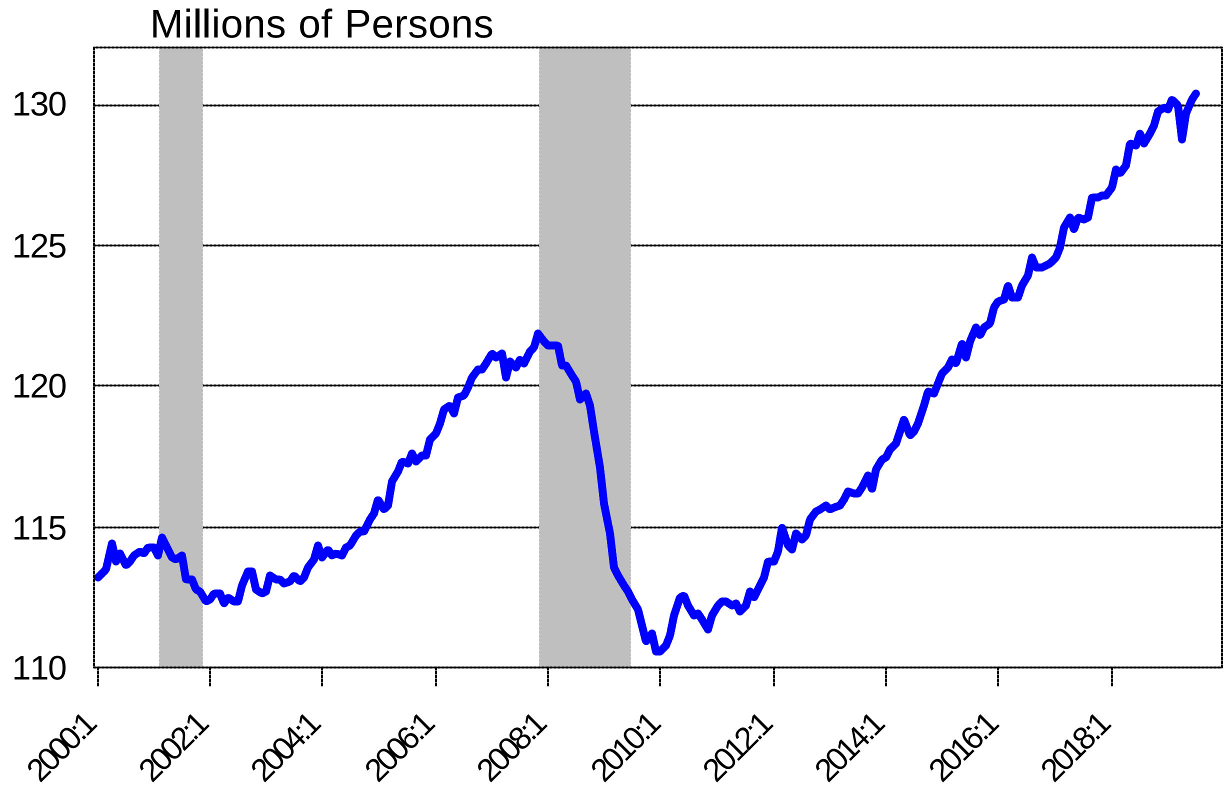


The gain in civilian employment was enough to keep the track of this line in the sideways track it has been in for almost the entirety of this expansion. The absence of a period of accelerating growth, is one of the many reasons why this expansion has such a poor reputation and so few fans. How and why this happened will make for some interesting dissertations a few years down the road.

Date	Employed
2019:4	0.92
2019:5	0.78
2019:6	0.91
2019:7	**0.85**

Chart 28
Full-Time Civilian Employment

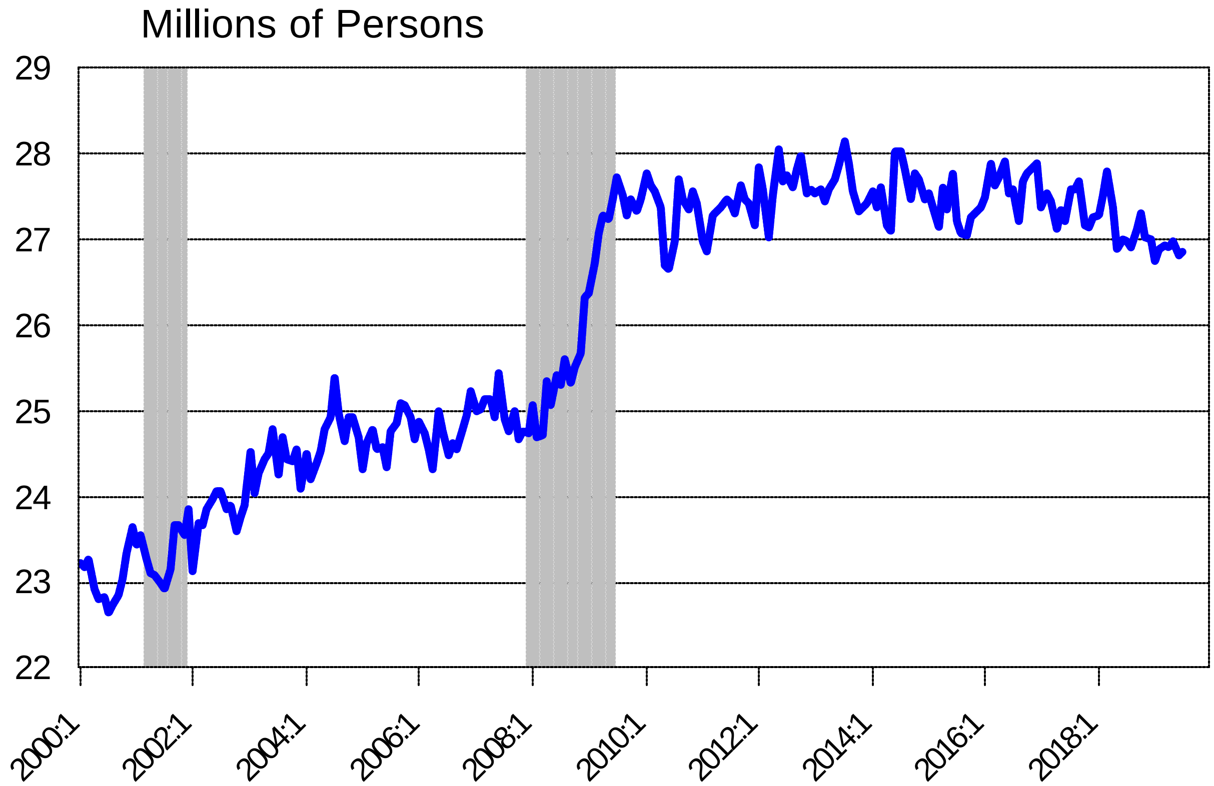
Among the first factors that began to change my mind about the C, was the move on this chart where full-time employment moved to a new cycle high. Even though we should not get concerned about every twitch to the downside that this series makes, the sharp moves down that we saw in March and April were unnerving. So, it was nice to see those completely wiped out by the recent progress you see here.



DATE	TOTAL (000)
2019:4	128,776
2019:5	129,695
2019:6	130,148
2019:7	**130,429**

Chart 29
Part-Time Civilian Employment -- Total

The next thing that helped boost the grade this month is what happened here and on the next 4 charts. We have no objection to gains in part-time employment, as long as they are in the "right" kind of part-time employment. This month we did get the right kind, and this added to the list of things that made us want to bring the grade up from that C.



DATE	TOTAL (000)
2019:4	26,915
2019:5	26,981
2019:6	26,807
2019:7	**26,861**

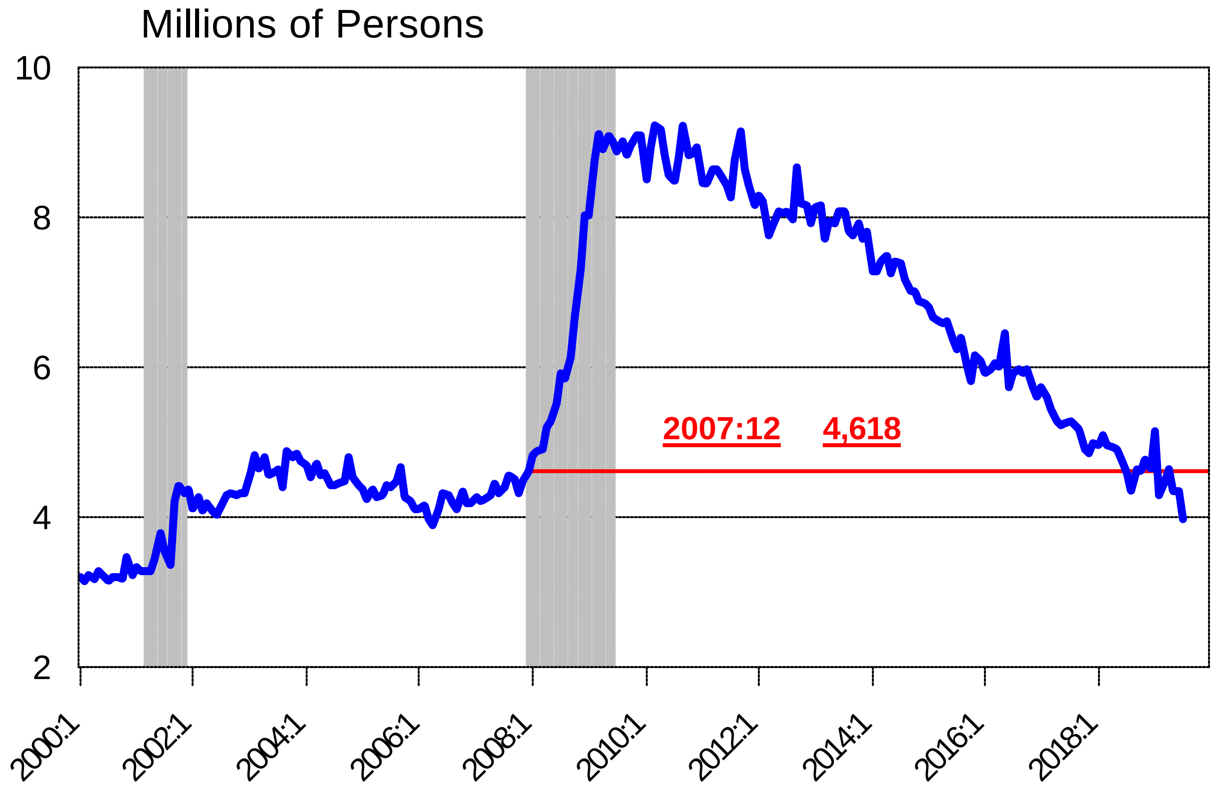
Chart 30
Part-Time Civilian Employment -- Economic Reasons

The sharp decline in part-time work for economic reasons was a singularly good piece of news for several reasons.

The first, as you see here, is that it appears that we have finally broken decisively through the level we had prior to the last business cycle peak.

The second, is that perhaps we have gotten back to an employment regime which is more in keeping with the historical norm. Were that to be the case it would finally be time to start looking for changes in other indicators, such as wages, because it would suggest that employers are going back to the way they previously handled staffing.

Third, and this is more speculative, the trend here could be connected to what we saw earlier with the temporary employment hiring numbers. Part-time workers are often temporary workers.

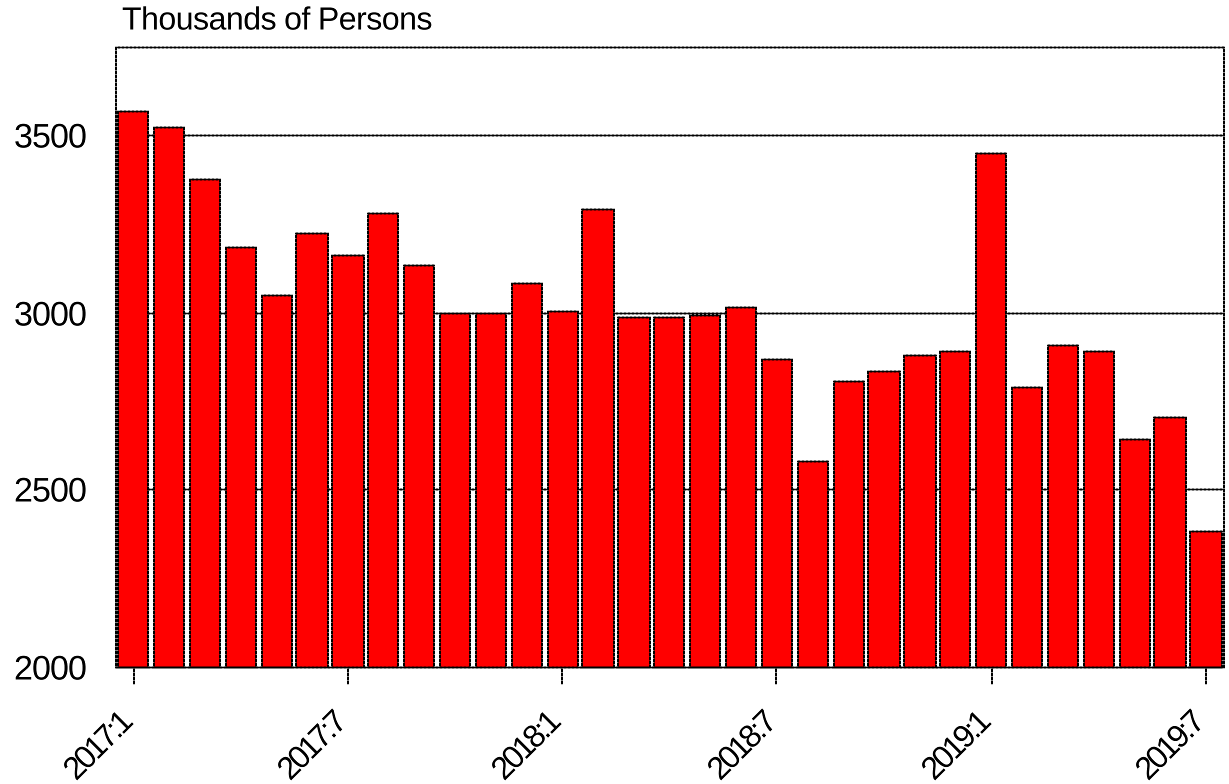


,DATE	TOTAL (000)
2019:4	4,654
2019:5	4,355
2019:6	4,347
2019:7	**3,984**

Chart 31
Part-Time Civilian Employment -- Economic Reasons: Slack Work

The BLS asks those who have identified themselves as working part-time why they worked part-time. One of the reasons can be that their employer did not have more than 35 hours of wrok (that being the boundary between full-time and part-time work) for them to do. And so, their hours were cut back.

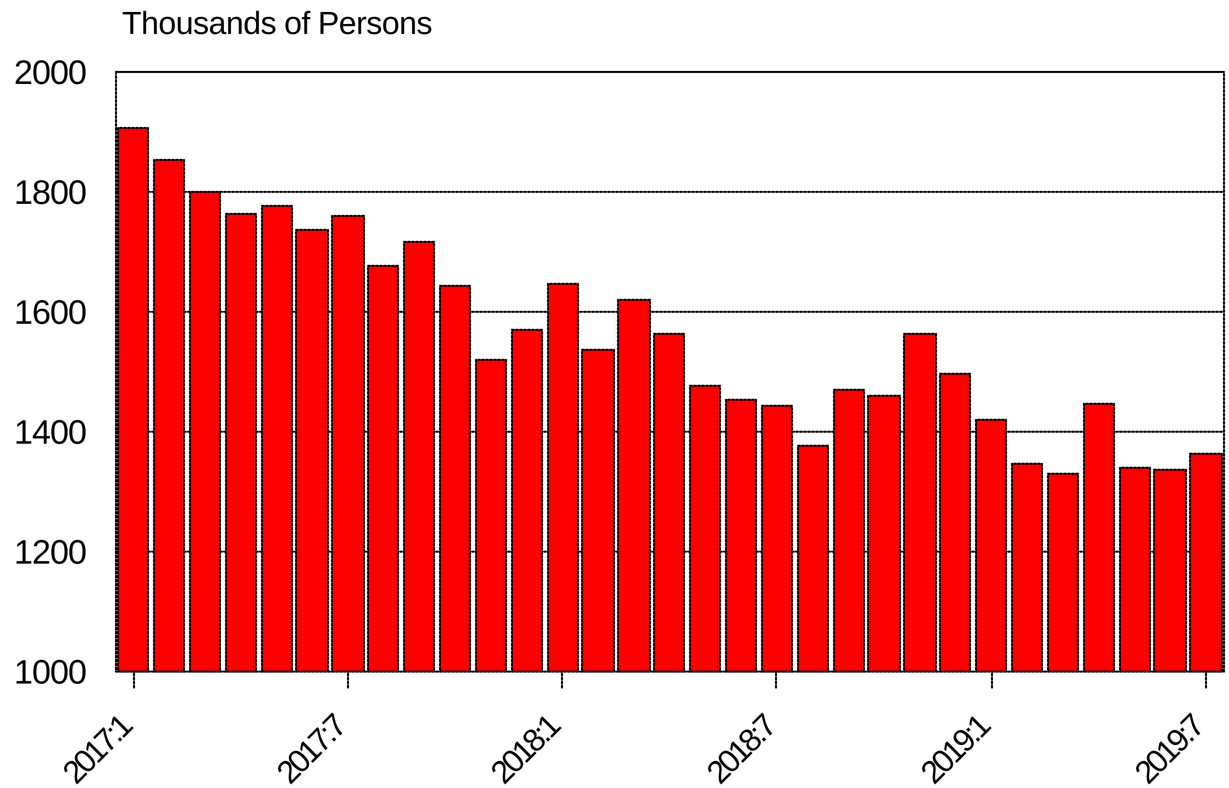
As you can see, July had the smallest number of persons reporting part-time hours because of slack work. Whether this will turn out to be a one-off event remains to be seen. But for right now it's the kind of news that suggests that a C is too harsh a grade for this set of numbers.



DATE	TOTAL (000)
2019:4	2,891
2019:5	2,646
2019:6	2,707
2019:7	**2,385**

Chart 32
Part-Time Civilian Employment -- Economic Reasons: Only Part Time Work was Available

Also helpful, was the fact that there was little change in the other aspect of part-time work, namely that there are only part-time jobs to be had. The only concern here is that this series might be making a bottom. But, that is one of the aspects of the Boom phase of the cycle. Had this number been up more than the fraction than it was, we would have had an offset to the good news on the prior two charts. But it wasn't so we didn't.



DATE	**TOTAL (000)**
2019:4	1,446
2019:5	1,339
2019:6	1,337
2019:7	**1,364**

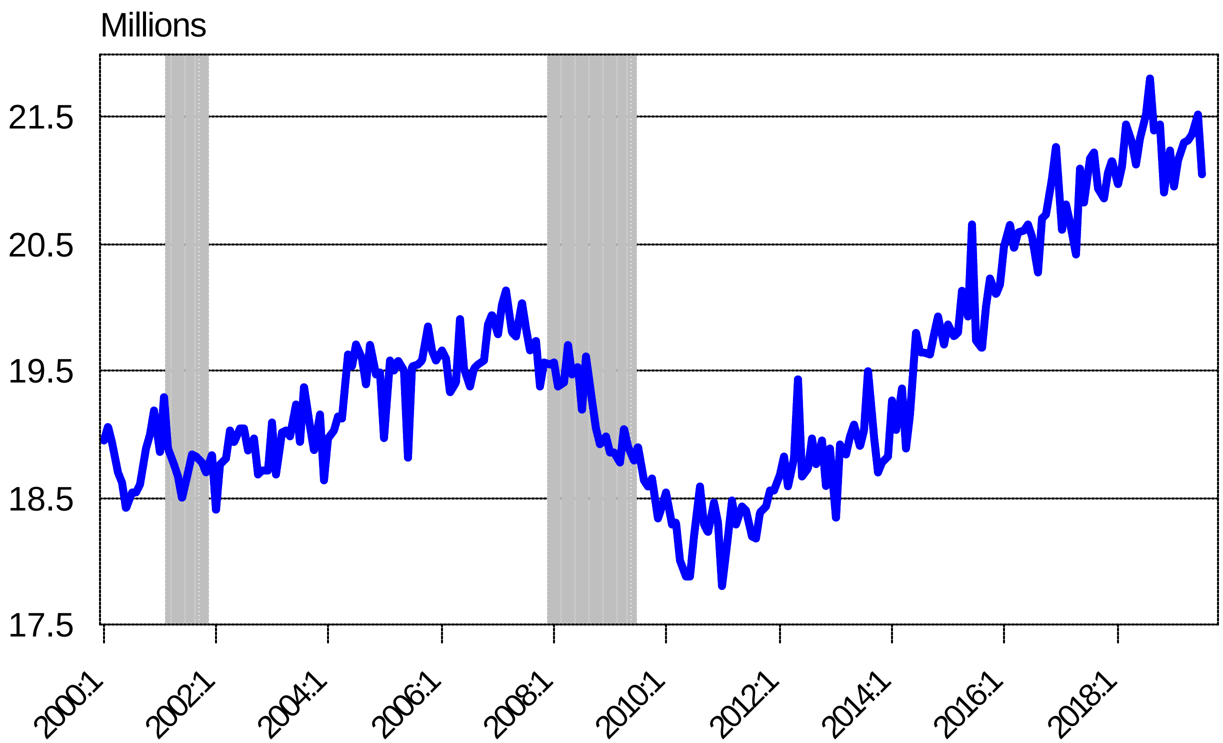
Chart 33
Part-Time Civilian Employment -- Non Economic Reasons

mr. model

While this might seem repetitive it bears mention here. People who work part-time for noneconomic reasons are people who, by their stated preference, either can't or don't want to work full-time. These are the folks who are most likely to be looking for summer jobs, temporary work, or positions that do not require that they be available for more than 35 hours per week.

The drop that you see in July is not all that surprising given the propensity of this series to make large month-to-month moves. But, I have to wonder whether some of the move we see here is also related to the moves, or lack of same, that we saw in leisure and hospitality and in temporary employment in the Establishment survey.

Fishing for trends is not a good use of your time or mine, but looking for changes in patterns as we go through the phases of the business cycle is. We will continue to monitor this for a while.



DATE	TOTAL (000)
2019:4	21,322
2019:5	21,366
2019:6	21,524
2019:7	**21,049**

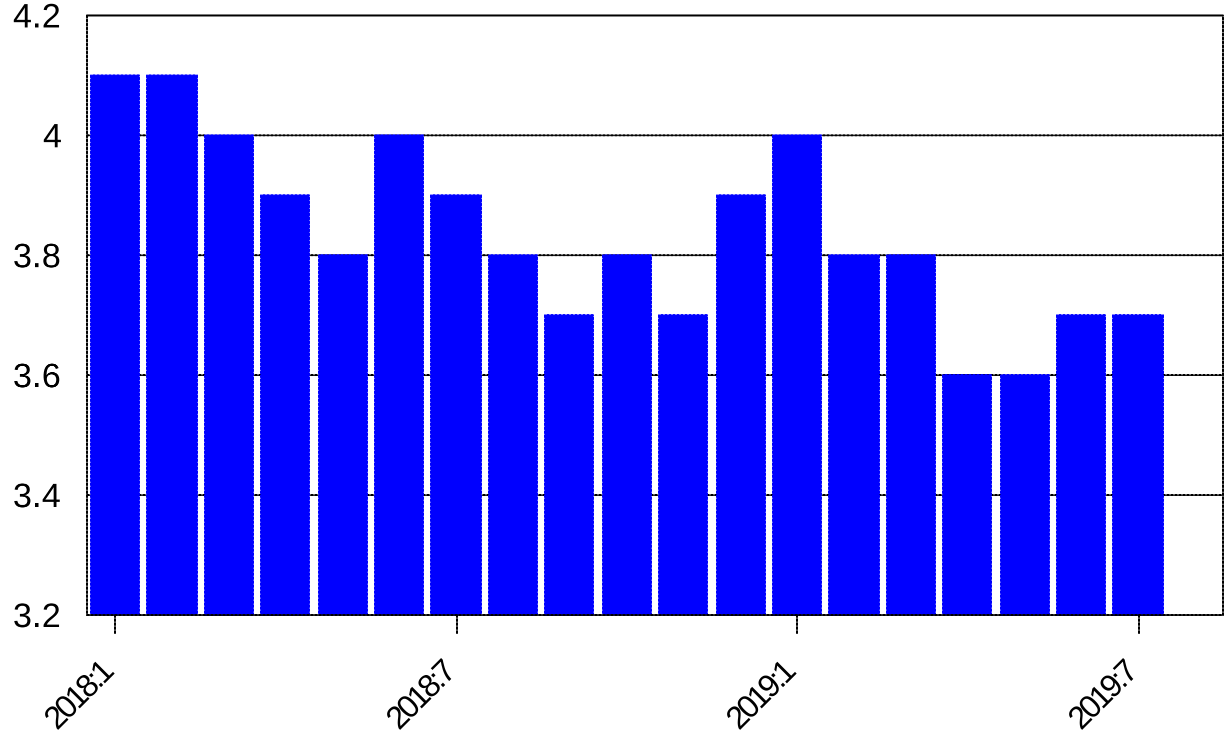
Chart 34
Official Unemployment Rate (U-3)
Percent

This series continues to trace out the pattern it has in other Boom phases of the cycle.

And, because the arithmetic just happened to work out that way, the unemployment rate was unchanged even though the number of persons employed and the number persons unemployed both went up. I put that in as a reminder that very few news outlets will mention that. Worse, most will mention the change in nonfarm payrolls as not having been large enough to bring down the unemployment rate.

Which is ALWAYS TRUE. Why? Because the change in nonfarm payrolls HAS NOTHING TO DO WITH THE UNEMPLOYMENT RATE!

Sorry, did not mean to shout. But that kind of sloppy coverage makes me crazy.

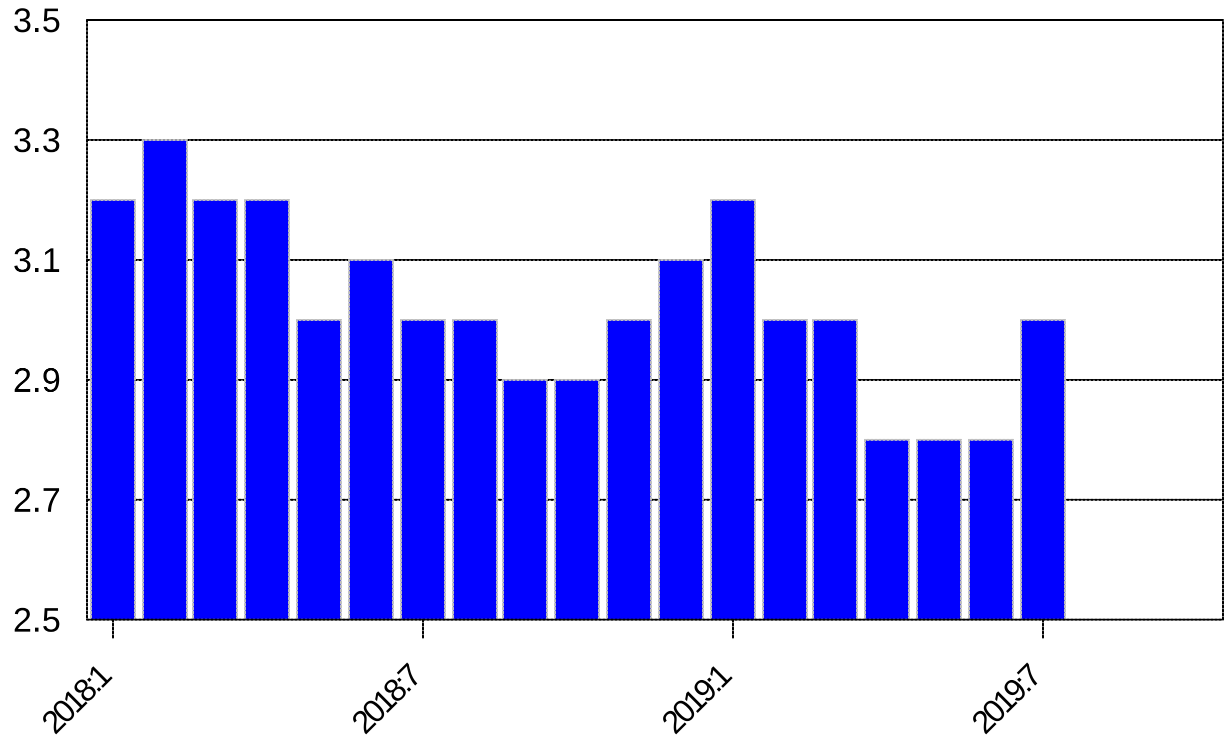


DATE	U-3
2019:4	3.6
2019:5	3.6
2019:6	3.7
2019:7	**3.7**

Chart 35
Short-Term Unemployment Rate (STRUC)
Percent

Those of you asking about where the EAS is headed will note that this rise in the short-term unemployment rate will add 20 Basis Points to the EAS. How much of that gets offset, or augmented, by the moves of the other components remains to be seen. But, this is a good place to tell you that the cut in the Federal Funds rate will not have an effect on the EAS until we start using August data. The calculation this month will involve only July data.

The reason why STRUC was up will be explained on the next chart.



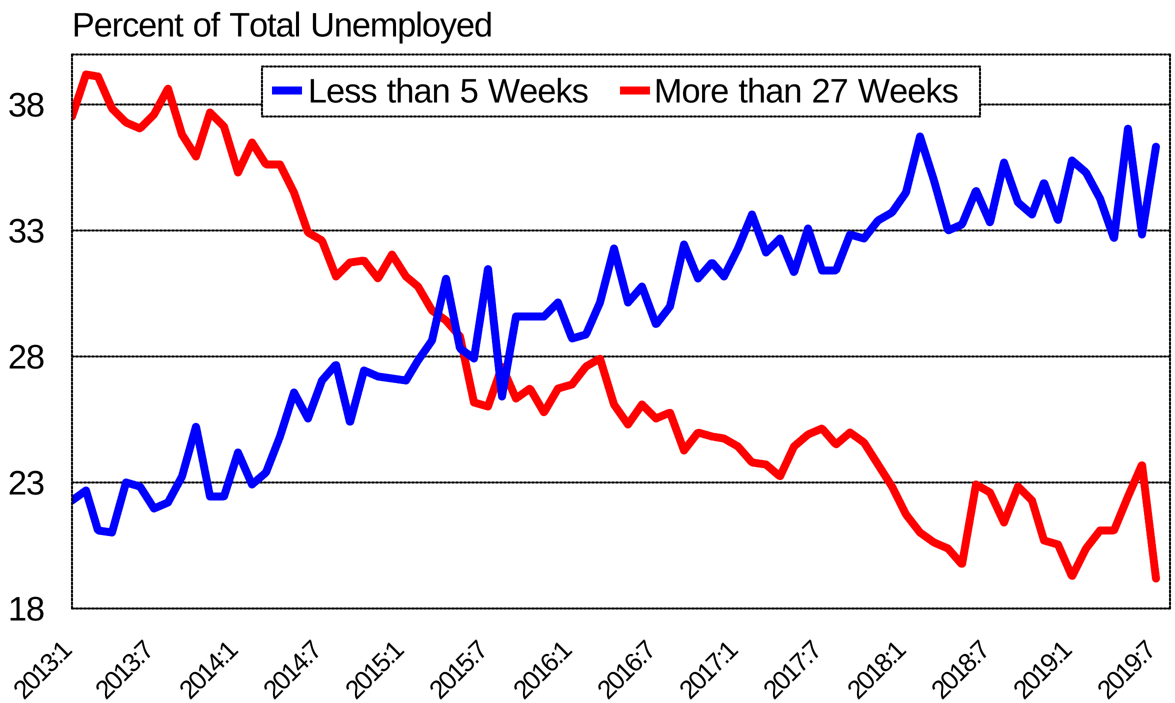
DATE	STRUC
2019:4	2.8
2019:5	2.8
2019:6	2.8
2019:7	**3.0**

Chart 36
Share of Unemployed By Duration of Unemployment

The reason why the short-term unemployment rate went up was because the number of people unemployed for five weeks or less went up. And as an added plus, the number of people who were unemployed more than 27 weeks went down.

What you see plotted here are there shares of total unemployment.

The moves on this chart had some consequences for other charts that we will look at momentarily. But for now, we want to note two moves that we view as favorable and hence worth some points toward boosting the grade of this report to the B- level.

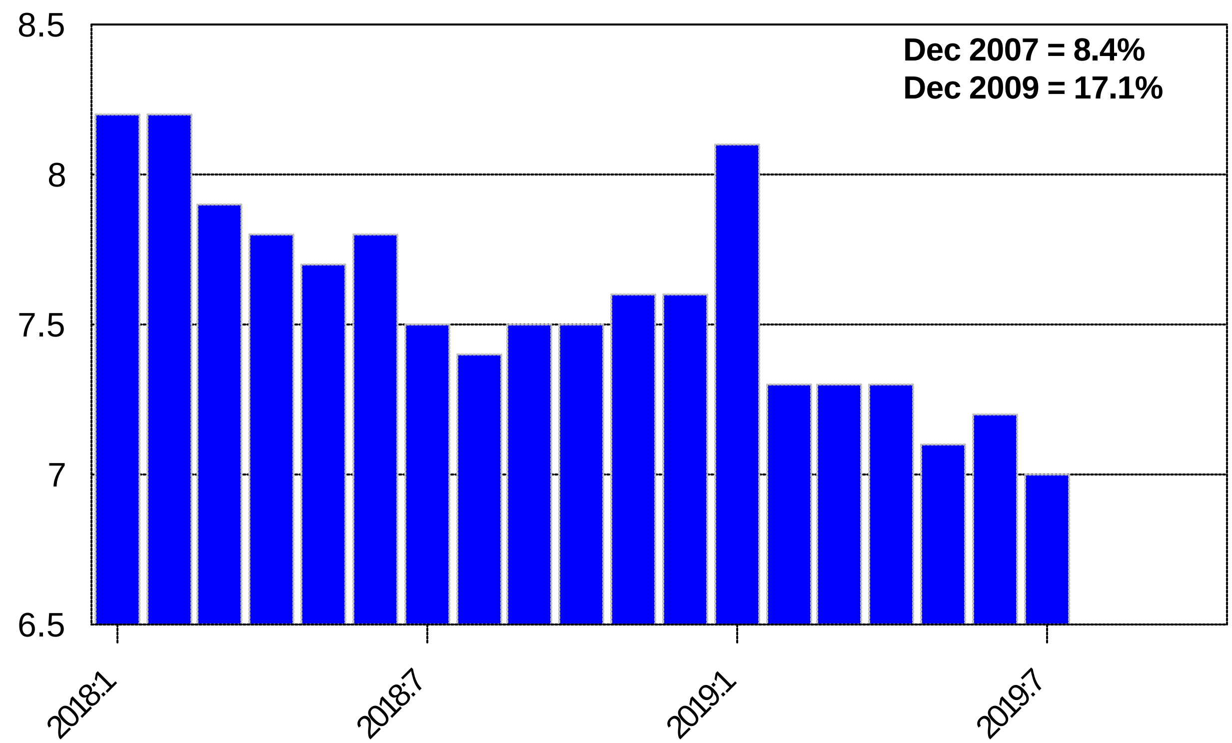


Date	**<5**	**>27**
2019:4	32.7	21.1
2019:5	37.0	22.4
2019:6	32.8	23.7
2019:7	**36.3**	**19.2**

Chart 37
Selected Measures of Labor Underutilzation (U-6)

Percent

The drop in part-time employment was largely responsible for the drop in the U-6. This does not give any more credit to the survey because we already awarded the bonus points for the drop in part-time employment when we discussed the drop in part-time employment. Note that we are down more than 10 percentage points from the cycle high of this number that was set in December of 2009. Ten years to shed 10 percentage points. Discuss.



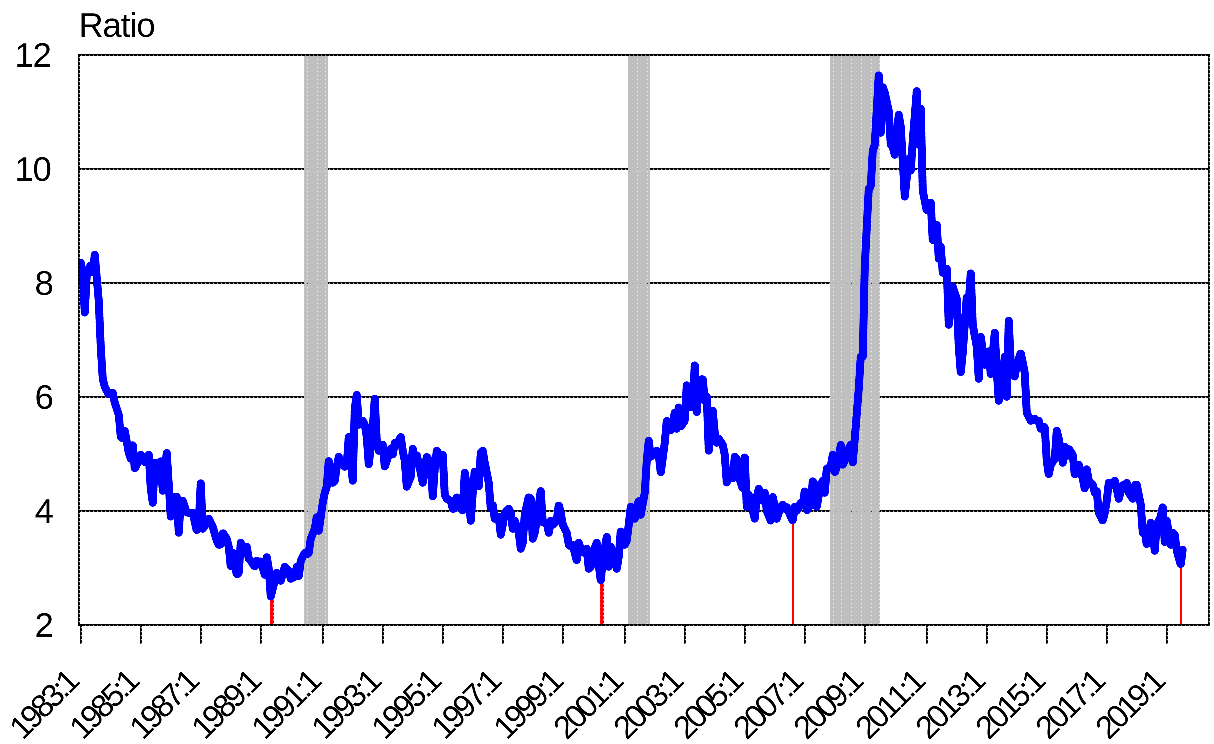
U-6 Total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force

DATE	U-6
2019:4	7.3
2019:5	7.1
2019:6	7.2
2019:7	**7.0**

Chart 38
Ratio: Job Losers to Job Leavers

The loser/leaver ratio bounced off its cycle low. Not a surprise.

That little table suggests that we will probably have to see this ratio go more than 100 basis points above its cycle low before we run into the cycle peak. I mention that because we jumped 30 basis points in July.



Recession	At Peak	At Trough	Low	Low Date
1990	3.24	4.43	2.51	1989:5
2001	3.40	5.25	2.78	2000:4
2007	4.98	11.63	3.84	2006:8

Low for This Expansion: 3.08 in 2019:6

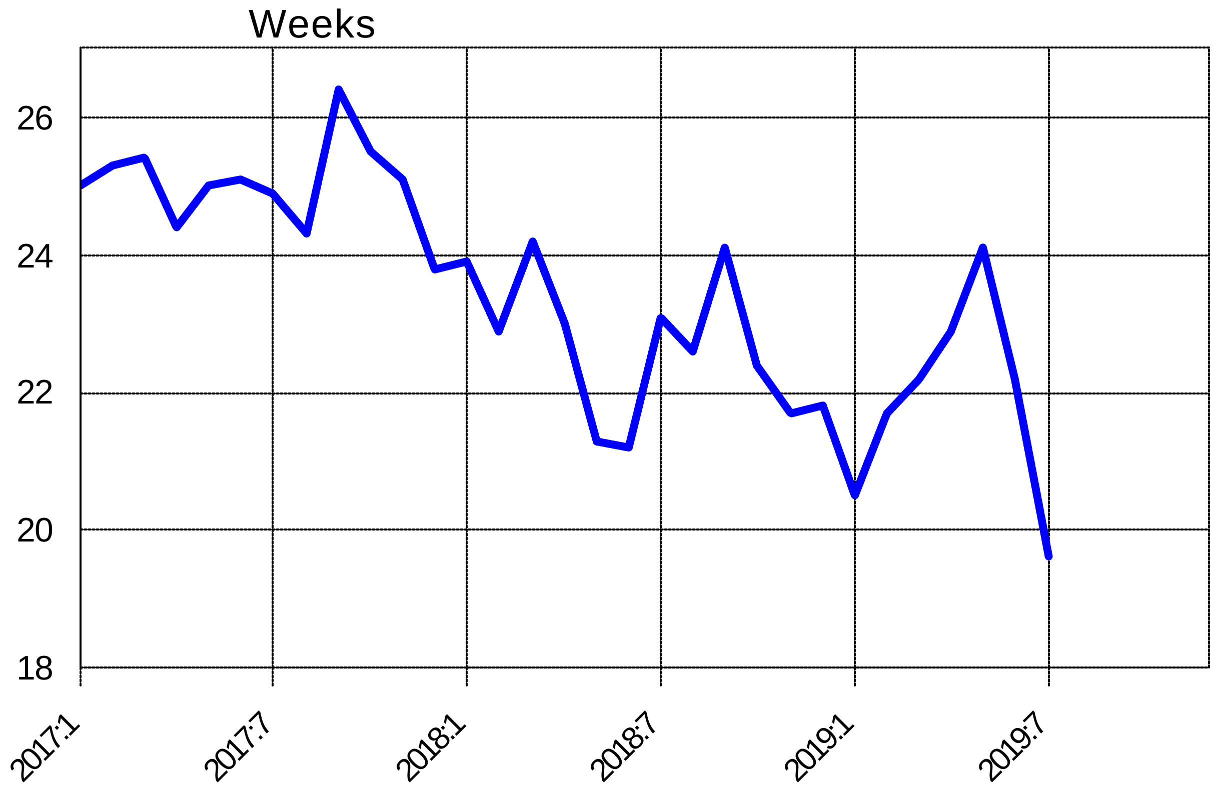
DATE	Ratio
2019:4	3.60
2019:5	3.32
2019:6	3.08
2019:7	**3.36**

Chart 39
Average Duration of Unemployment

Perhaps the biggest reason why this report ended up with the B- grade is what happened here and on the next chart. In both cases I had to open the bottom of the vertical scale.

Because of the arithmetic of this series and the next, that change in the mix of the cohorts of the unemployed produced some large changes, to the downside.

With fewer people out of work for more than 27 weeks and more people out of work for less than 5 weeks, the weighted average duration of unemployment dropped sharply. The question is whether this will be a more permanent improvement than the last time we saw this number fall only to rebound sharply the next month.



Note: December 2007 = 16.6 weeks
July 2011 = 40.7 weeks

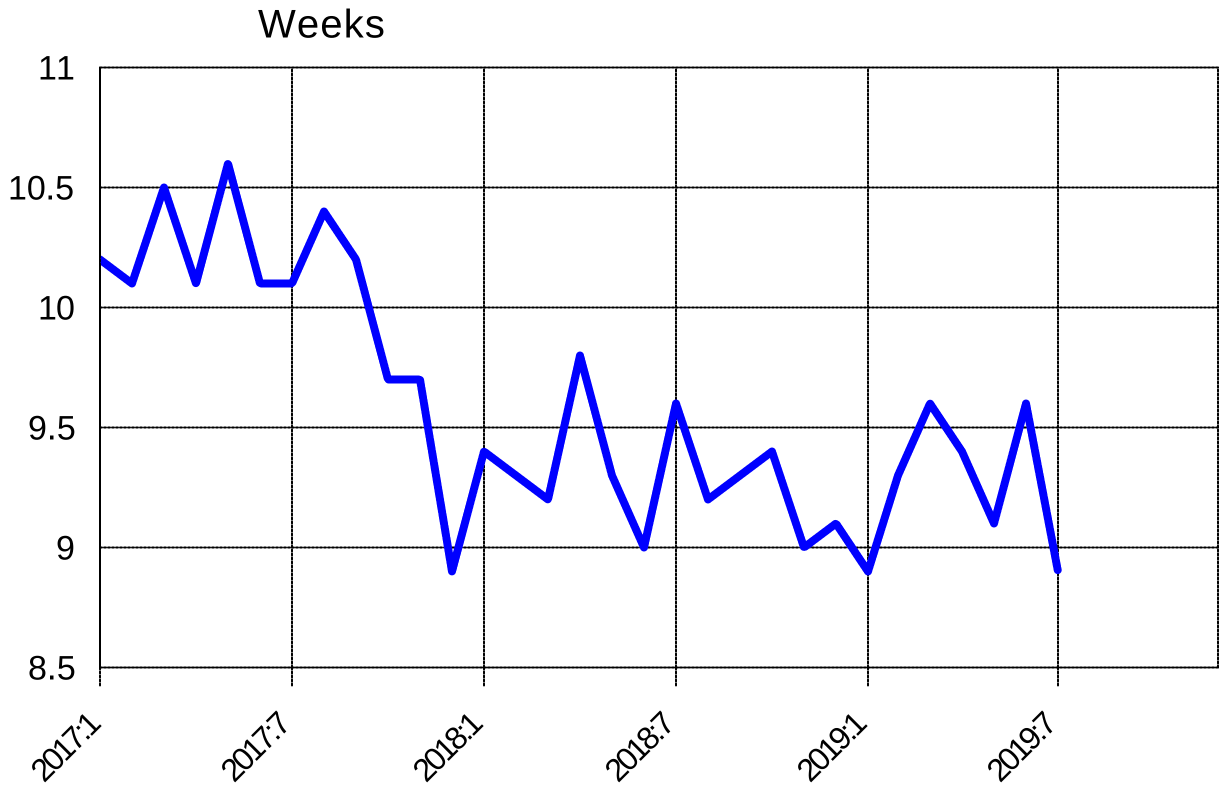
DATE	WEEKS
2019:4	22.9
2019:5	24.1
2019:6	22.2
2019:7	**19.6**

Chart 40
Median Duration of Unemployment

Same thing here. Will we finally be able to stay below the 9 week level for more than a month at a time?

And, might we be able to get back to the 8.4 week level we had at the start of the last recession?

These are Boom phase questions.



Note: December 2007 = 8.4 weeks
June 2010 = 25.2 weeks

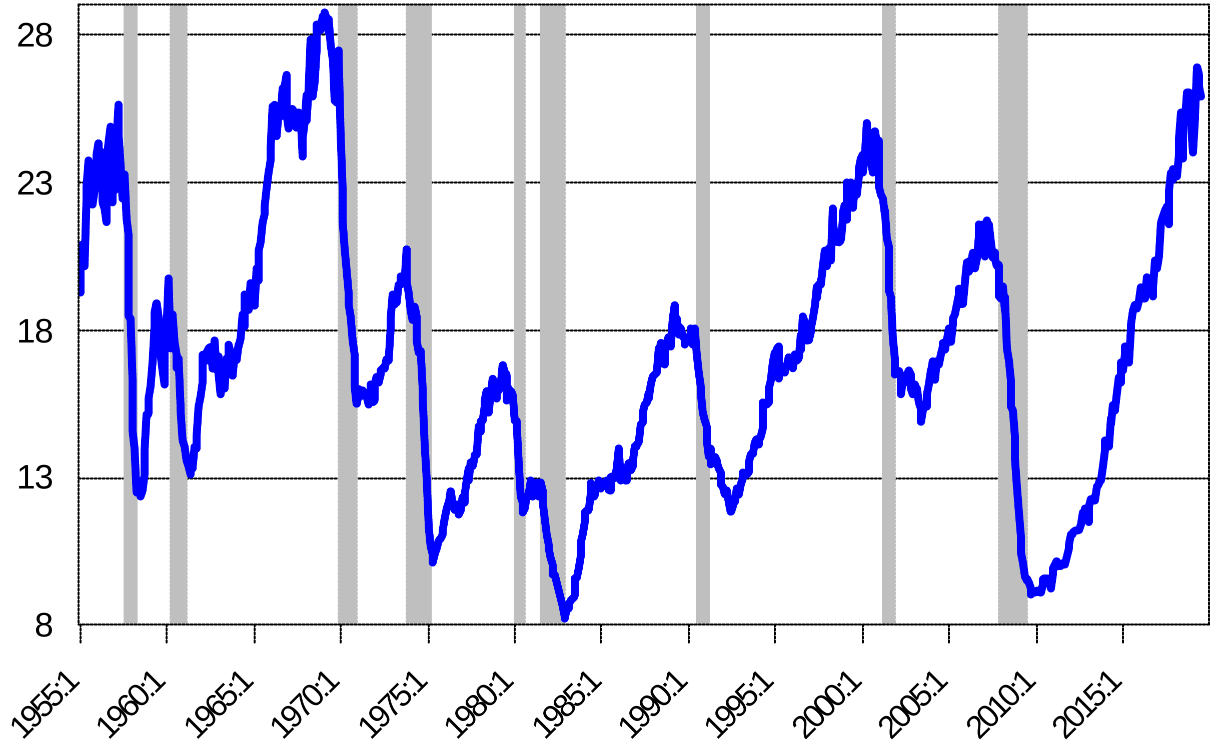
DATE	WEEKS
2019:4	9.4
2019:5	9.1
2019:6	9.6
2019:7	**8.9**

Chart 41
Ratio: Number of Total Employed In Household Survey to Number of Total Unemployed In Household Survey

We mentioned last month that we would be looking closely at this chart, and the next one, for evidence of a cycle high and for evidence of retreating from the cycle high.

Both because of the proximity of the cycle high that was set here, and the propensity of this line to move in zigs and zags, we are not prepared to say that we have met the conditions we are trying to monitor.

As you see, this series departs its cycle highs in much the same fashion it as sets them. The drop over the past three months has not been trivial, but it is also not of the size that could not be recouped under the most favorable of conditions. In other words, another Boom phase reading.

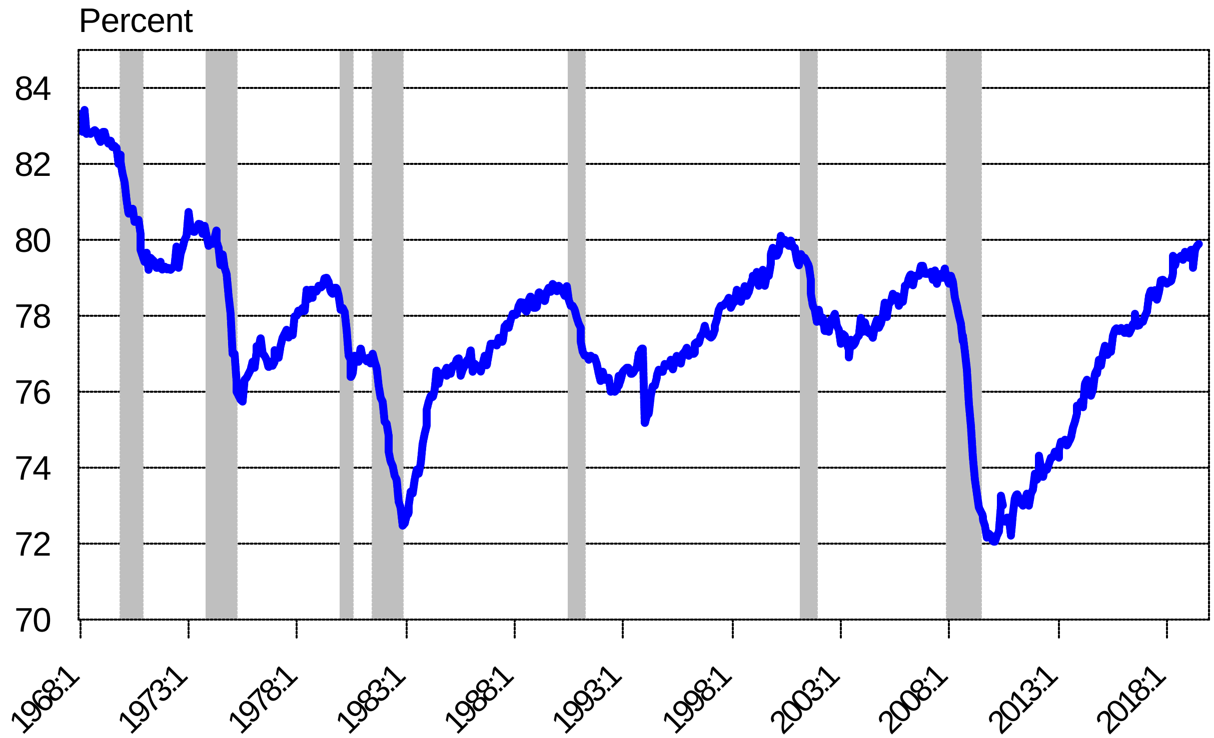


Note: December 2007 = 19.13
October 2009 = 9.02
Current Cycle High:
April 2019 = 26.90

DATE	RATIO
2019:4	26.90
2019:5	26.62
2019:6	26.28
2019:7	**25.94**

Chart 42
Full-Time Employed In Household Survey Divided by Civilian Labor Force

The last observation here is a new cycle high. Whether it is THE cycle high remains to be seen.



DATE	**RATIO**
2019:4	79.26
2019:5	79.74
2019:6	79.85
2019:7	**79.89**

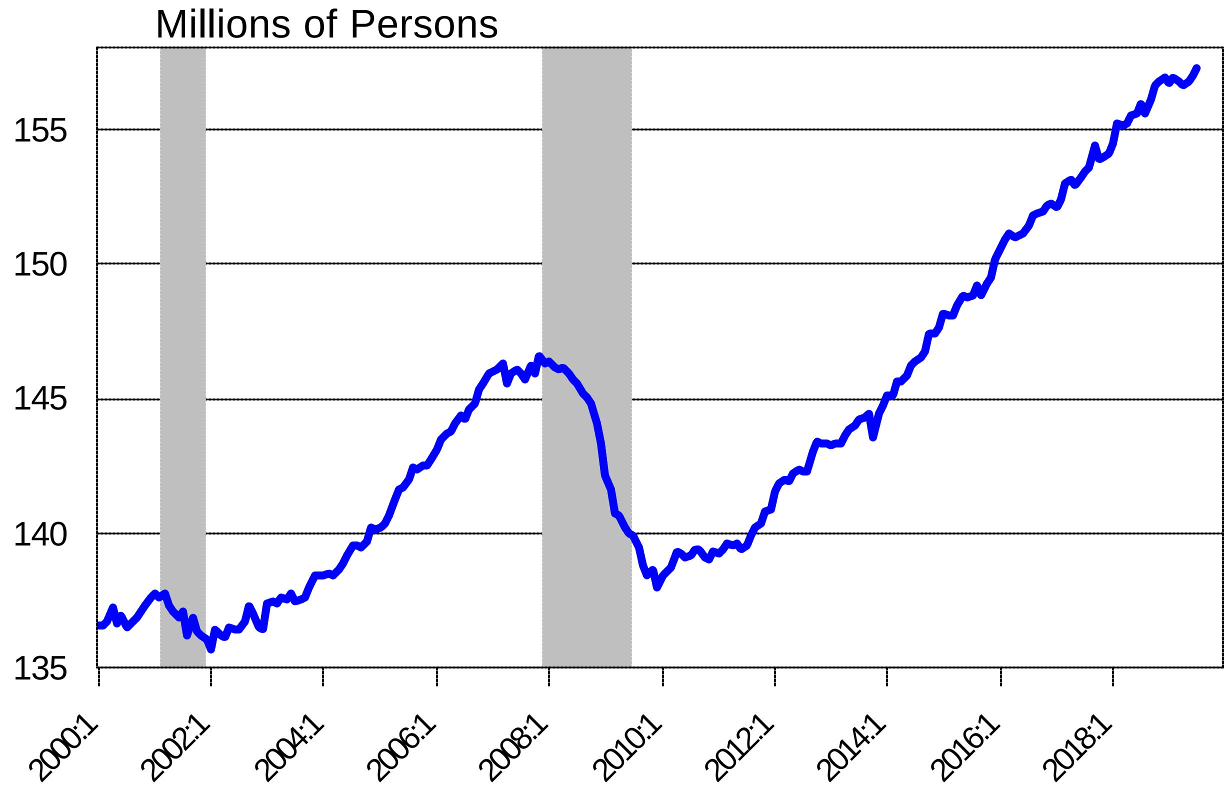
Chart 43
Total Civilian Employment

OK, let's wrap up the Household survey.

From what I am seeing on the tape, this set of numbers is not getting very much love. Which I think is somewhat unfair. The headline was fine, and the internals were good. Not the stuff of legend, but certainly what one would expect at this part of the cycle.

It being the Boom phase of the cycle, we have to ask whether the trend we see on this chart, and most every other chart, can be sustained. From what we saw in the both sides of the employment report the answer is "for now."

We will take up the reasons for that answer in the Prospects and the Overview reports.



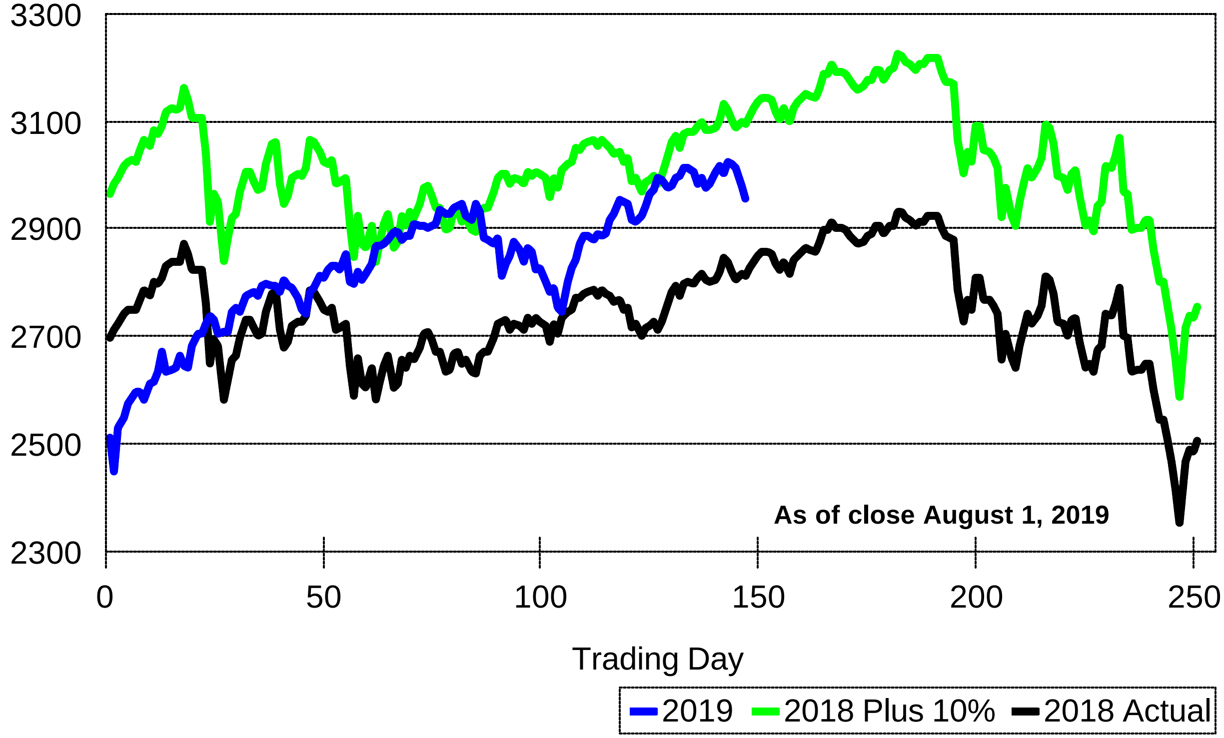
DATE	**TOTAL (000)**
2019:4	156,645
2019:5	156,758
2019:6	157,005
2019:7	**157,288**

Chart 44
Standard and Poor's 500 Stock Index
S&P500 2018 Daily Close with Zone of Death Limits (Index Points)

From what I see on the tape, the stock market really did not like the employment report.

Those of the equity persuasion can explain this far better than I can, so I will leave that to you. What is of more interest to me is whether the blue and the green lines on this chart are going to meet again.

Thoughts?



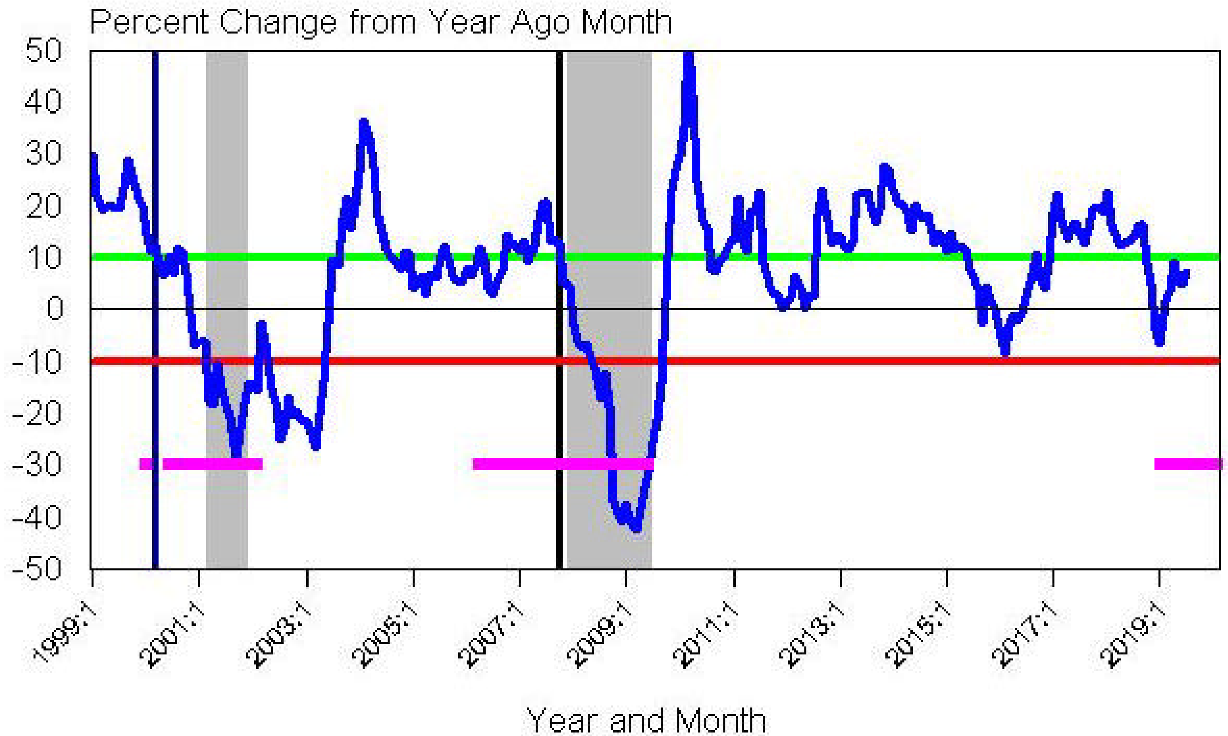
Current cycle high close =3,025.86 on 7/26/2019 as of August 1, 2019

Chart 45
Standard and Poor's 500 Stock Index

As I said in the last edition of the Prospects and the Overview reports my interest in the two lines on the prior chart coming together has to do with the way this chart will look when we get to the next cycle peak.

My preference is for the next peak to look the last two. It makes it easier to explain the dynamic of how the financial markets react to the news and the arrival of business cycle peaks and troughs.

But, if it turns out that we get a different configuration, so be it.

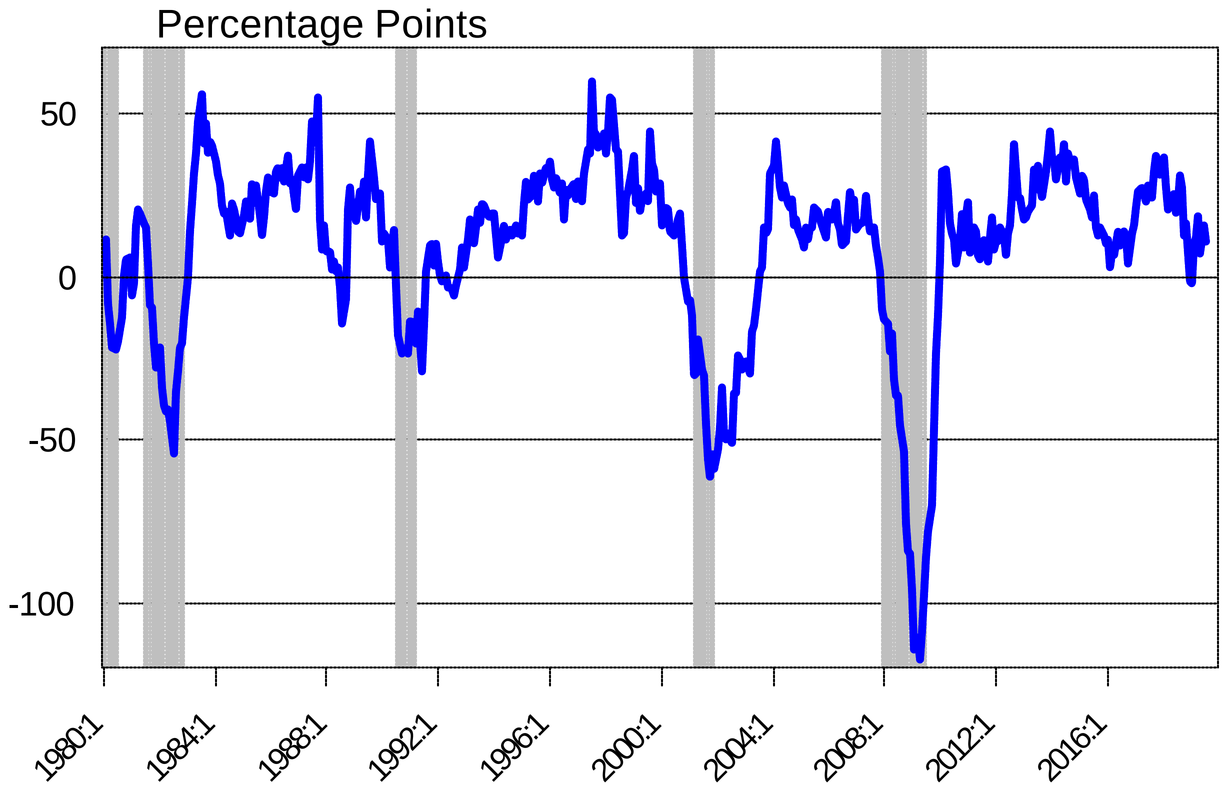


The pink dots denote months where the EAS was less than 200 basis points.
The black bars denote the month in which the S&P 500 made its high in each expansion. The leftmost is March of 2000. The rightmost is October 2007.

Date	S&P500
2019:4	9.42
2019:5	5.67
2019:6	4.92
2019:7	**7.26**

Chart 46
DeltaDelta

DeltaDelta continued to send the signal we expect it to in this phase of the cycle. The number is above zero and the components are in the right configuration.



DeltaDelta = YOY%Chg of SP500 minus YOY%Chg of Official Unemployment Rate

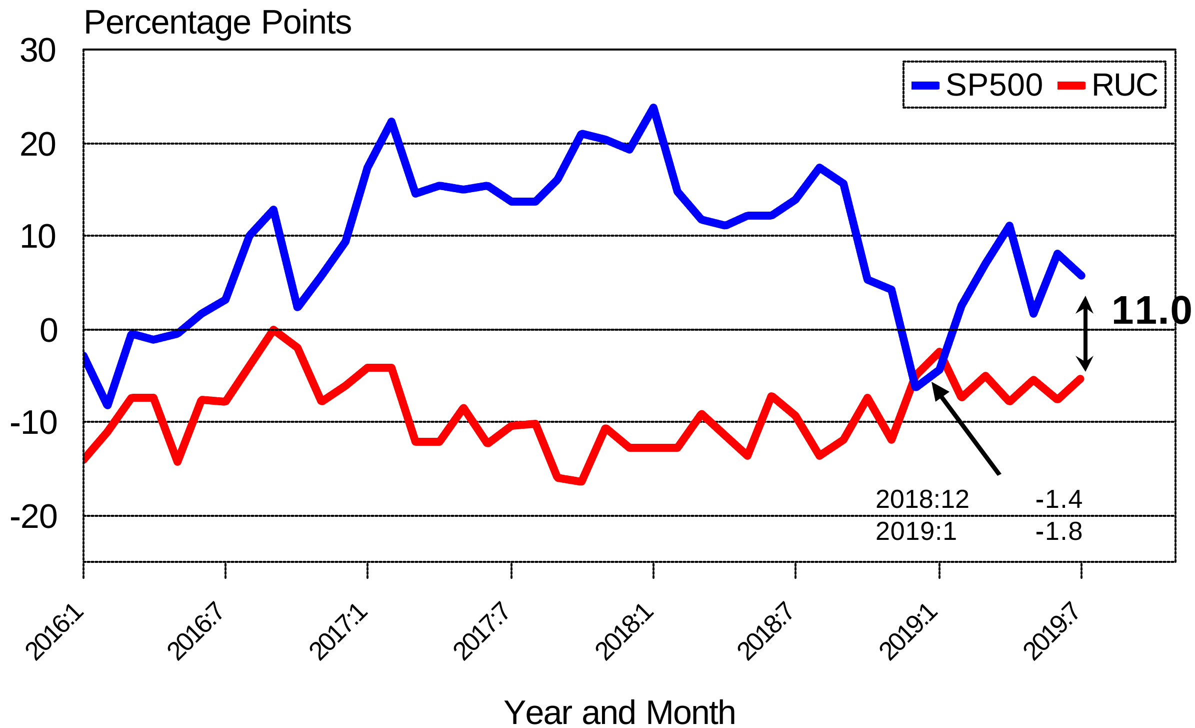
DATE	DD	SP	U3
2019:4	18.9	11.2	-7.7
2019:5	7.0	1.7	-5.3
2019:6	15.7	8.2	-7.5
2019:7	**11.0**	**5.8**	**-5.1**

DD = DeltaDelta = SP-U3
SP = % Chg in SP 500
U3 = % Chg in Unemployment Rate

Chart 47
Components of DeltaDelta

By the "right" configuration we mean the "right" configuration for the Boom phase of cycle. Actually, this is the right configuration for the Boom, the Expansion and the Recovery phases of the cycle. And that is the percent change in the SP500 above zero and the percent change in the unemployment rate below zero.

You will note that when DeltaDelta last went negative (see the arrow on the chart), we did not have the Contraction Phase configuration of the SP500 line being negative and the unemployment rate line being positive.



DD = DeltaDelta = SP-U3
SP = % Chg in SP 500
U3 = % Chg in Unemployment Rate

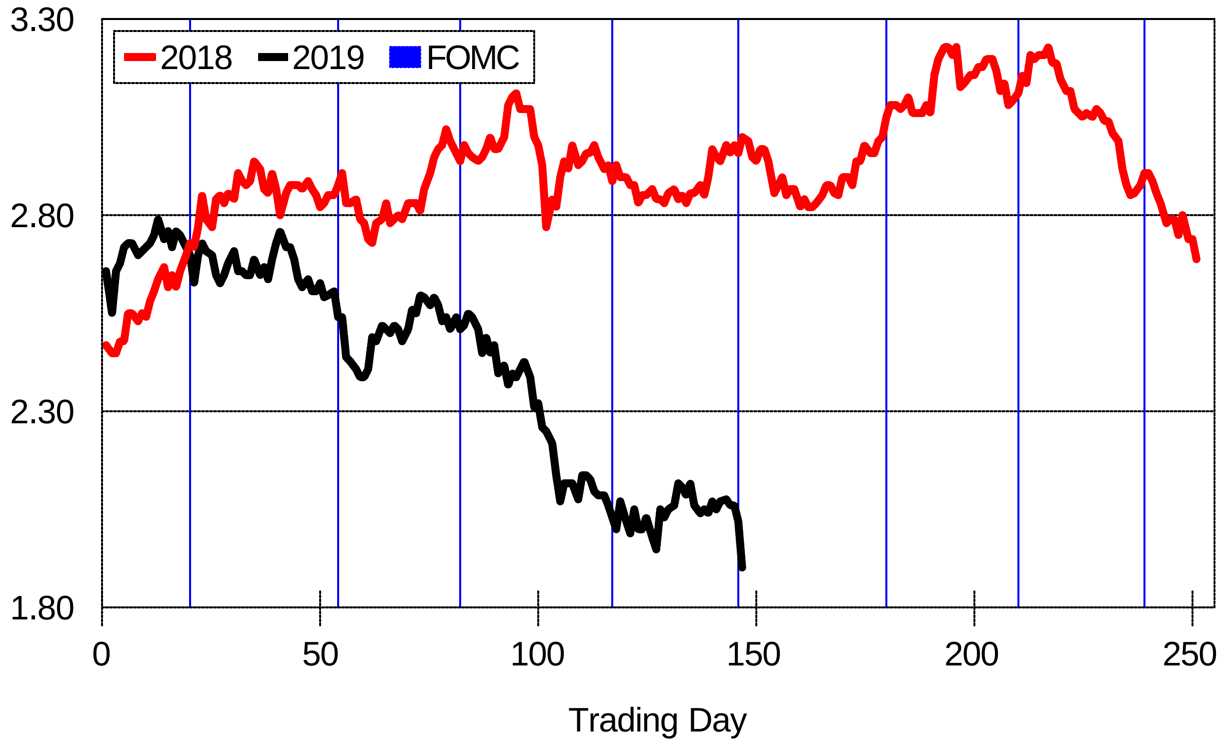
DATE	DD	SP	U3
2019:2	9.9	2.6	-7.3
2019:3	12.1	7.1	-5.0
2019:4	18.9	11.2	-7.7
2019:5	**7.0**	**1.7**	**-5.3**

Chart 48
10-Year Treasury Note
Percent

As of close August 1, 2019

The next question we will want to know the answer to is how much lower the 10-Year will go under the combined influences of what appears to be another flight-to-quality rally and the drop in the Fed Funds Rate. The lower boundary of the Funds target is 2.00%. Last I looked, the EFS would still be negative if the current situation prevails.

We will take this matter up in the Prospects and the Overview reports.



Summary and Conclusions

Establishment Survey:

Decent headline, but downward revisions. Another Boom phase report.

The composition of the gain does not suggest outright weakness, but there are few signs of strength.

The report squares up with a lot of the anecdotal evidence. The question is where and when the real weakness will appear as the second and third order effects of the trade war begin to be felt.

Household Survey:

The headline does not tell the story. Quite a bit going on under the surface.

Changes in the composition of unemployment are more consistent with the Boom phase.

As is the case with the Establishment numbers, sustainability is going to become the primary concern.

Major Players:

Political: A spinner's delight. The victory laps continue.

Federal Reserve Policy: These reports neither hurt nor help the FOMC. They are probably glad they cut the Funds rate, but they really have the same problems today that they had before the cut.

Fixed-Income: How low can you go?

Equity Market: As was the case for the FOMC, this report really does not help to clarify where things should go next. While it does not appear that a cycle peak is imminent, there was nothing in the report to suggest that one might be avoided.

"The plot thickens"

The Boom phase continues to unfold.

With the FOMC showing some willingness to provide offsets to the several headwinds, calculations of when the cycle peak might occur are harder to make.

But, as long as questions of sustainability continue to dominate the discussion, prudence suggests careful preparation for a cycle peak.

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