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Flash Macro Update (08/02/2019)

After the FED's FOMC meeting, in which the Bank has cut its interest rate by 25 bps points, most important data of the week were released today. July job data was more or less in line with expectations, but there were some eye-catching details as well. Business investment appetite remains relatively weak due to trade tension between US and China, as also pointed out by FED. It appears that the trade war also started to impact employment decisions of companies mildly as well.

According to the data, U.S. economy produced 164k non-farm jobs versus expectations of 164k in July. In addition, the June non-farm payroll data was revised down from +224k to +193k, while there was another downward revision in May reading by 10k. We observe that labor force participation rate increased to 63.0% in July from 62.9% in June. With the July data, unemployment rate in the US remained unchanged at 3.7% in July hovering at its lowest level in the last five decades.

As important as the aforementioned figures, average hourly earnings came in at +0.3% in July, which was higher than expectations (cons: +0.2%) and point to an annual increase of 3.2% in July compared to 3.1% in June. So overall the data continued to signal that there is no serious inflationary pressure and no recession yet. It is worth noting that annual average hourly earnings were also 3.2% in 2018.

Employment increased in both private and public sectors. When we look at the details, we see that the job cuts in the retail sector continued at full speed, which is a structural phenomenon due to online retailing, in our opinion, whereas other sectors did well in terms of creating jobs except information sector, which faced 10k job cuts but could be a one-off. In fact, apart from retail and information sectors, pretty much all sectors added new jobs in July but at a slower pace.

In terms of monetary policy, the data does not suggest a new information, in our view. Growth in the US continues despite weak investment appetite. Job market is still strong despite some slowdown. Inflationary pressures, if any, are still contained. In terms of financial markets, the data will be probably overshadowed by President Trump's tweets about new tariffs on Chinese products.

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