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CONY Flash Macro Note **October 4, 2019**

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Flash Macro Update (10/4/2019)

After the disappointing ISM prints in the US and before FED's FOMC meeting at the end of the month, most important data of the month were released today. Job data is always the most important one, as it gives clues to the market about the state of economic activity and inflationary pressures at the same time. September job data was more or less in line with expectations, but there were some sizeable upward revisions in previous months. Despite the discouraging ISM data that clearly showed the weakness in business investment due to trade tension between US and China, the job growth was still on track and did not hint any recession.

According to the data, U.S. economy produced 136k non-farm jobs versus expectations of 145k in September. In addition, the August non-farm payroll data was revised up from +130k to +168k, while there was another upward revision in July reading by 7k. We observe that labor force participation rate remained unchanged at 63.2% in September, which still shows the strength of US economy. With the September data, unemployment rate in the US declined to 3.5% in September from 3.7% in August hovering at its lowest level in the last five decades.

As important as the aforementioned figures, average hourly earnings came in at +0.0% in September, which was significantly lower than expectations (cons: +0.3%) and point to an annual increase of 2.9% in September compared to 3.2% in August. 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 manufacturing, which faced 2k job cuts. In fact, apart from retail and manufacturing sectors, all sectors added new jobs in September.

In terms of monetary policy, the data does not suggest a new information, in our view. Growth in the US continues at a slower pace despite weak investment appetite. Job market is still strong despite some slowdown. Inflationary pressures, if any, are still contained. Before the data, the street was believing that 25bps rate cut is now almost a done deal in end-October. While another rate cut in October is not 100% confirmed yet, the job data is not completely against a rate cut, in our view. The disappointment of the rate cut camp is mainly due to the fact that the job data was stronger than what ISM data was suggesting.

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