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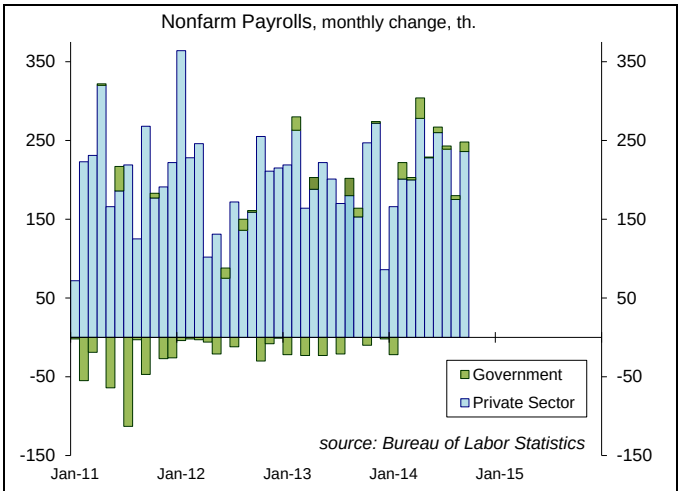
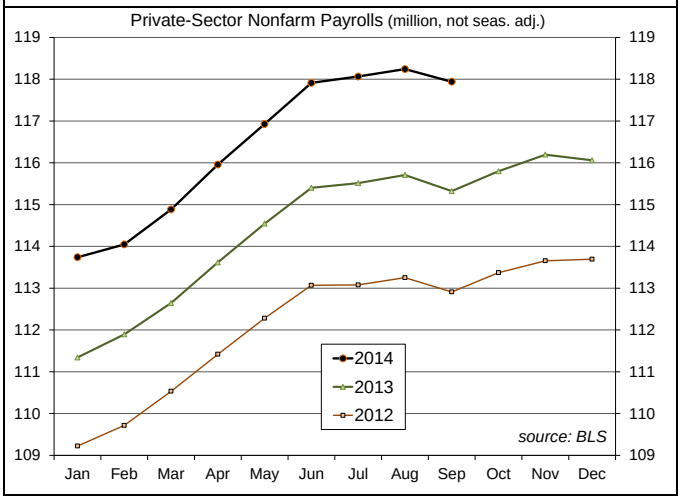
Weekly Market Monitor

The September Employment Report

The headline figures from the September jobs report were better than expected. However, the details were more consistent with moderate growth and a continued high degree of slack. Fed officials aren't going to jump to any conclusions.

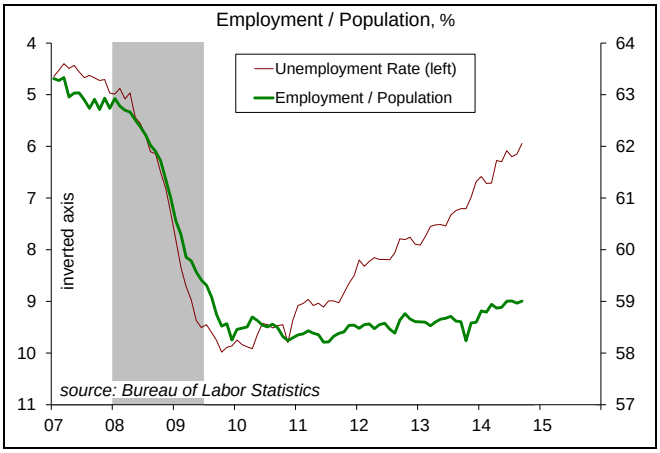
Payrolls rose by 248,000 in the initial estimate for September, while figures for July and August were revised a net 69,000 higher. Part of September's strength reflects a rebound from two special factors that reduced the August total (a seasonal adjustment quirk in autos and labor difficulties at a New England grocery chain). One can ex-out this impact, by averaging the last two months (a +215,000 average, vs. a +261,000 pace over the four previous months). Private-sector payrolls averaged a 217,000 monthly gain in 3Q14 (+216,000 over the 12 months).

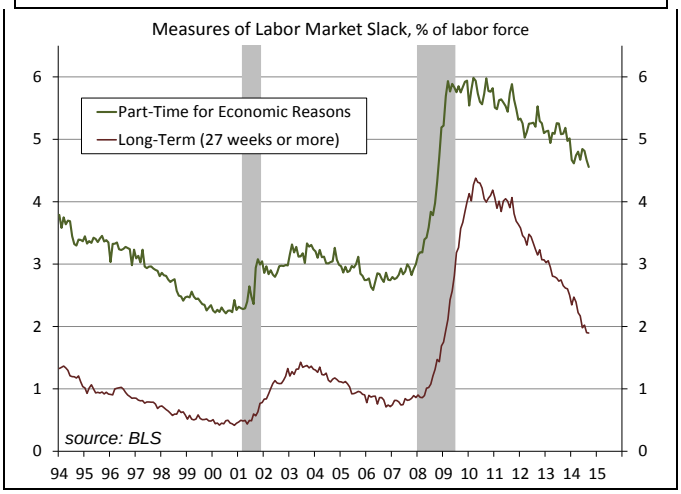




Seasonal adjustment adds some uncertainty to the headline payroll figures for September. Prior to adjustment, we added 1.487 million education jobs (vs. +1.416 million in September 2013), and shed 786,000 non-education jobs (vs. -823.000).

The unemployment rate fell to 5.9% in September (from 6.1% in August), the lowest since July 2008. However, most of the drop was due to a decrease in labor force participation (which may have reflected seasonal adjustment issues at the start of the school year). The employment/population ratio was flat at 59.0%, up just 0.4 percentage points from a year ago. The participation rate is now at its lowest point since October 1977.





Some short-term job market measures, such as weekly claims for unemployment benefits and the percentage of people out of work for less than half a year, are at levels we normally associate with an economy that has fully hit its stride. However, other gauges, such as the employment/population ratio, long-term unemployment, and involuntary part-time employment, continue to suggest that a lot of slack remains.

For Fed policymakers, the September employment figures tell us nothing new. The job market is improving, but we've a long way to go. The Fed has plenty of time to decide when to begin raising short-term interest rates. The economic figures over the next several months should dictate that decision, but we didn't really learn much that was new last week.

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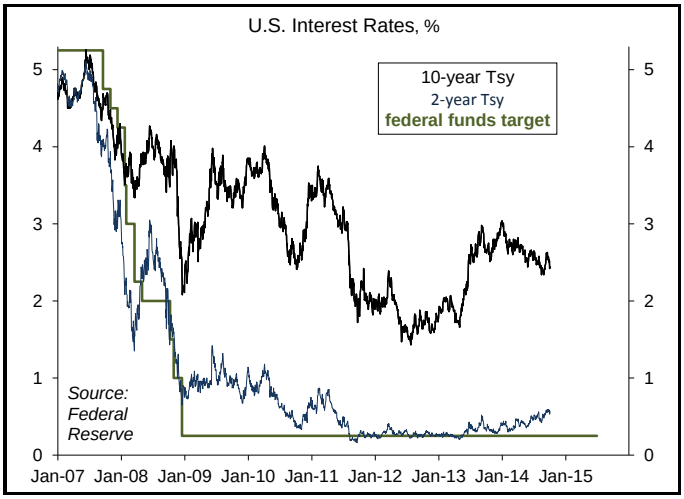
	Treasury Yields								Dollar				Equities		
	13-wk	26-wk	52-wk	2-yr	3-yr	5-yr	10-yr	30-yr	$/Euro	$/BP	JY/$	CD/$	NASD	SPX	DJIA
9/05/14	0.03	0.05	0.10	0.52	0.99	1.69	2.46	3.23	1.296	1.631	104.94	1.089	4582.90	2007.71	17137.36
9/26/14	0.01	0.03	0.11	0.59	1.08	1.80	2.54	3.22	1.269	1.625	109.32	1.116	4512.19	1982.85	17113.15
10/03/14	0.01	0.04	0.10	0.57	1.04	1.73	2.44	3.13	1.251	1.597	109.77	1.126	4475.62	1967.843	17009.12

Recent Economic Data and Outlook

There were plenty of economic data reports, but the markets spent most of their time obsessed with other things (quarter-end positioning, weak global growth, geopolitical tensions, Ebola). The headline employment figures were better than anticipated, but the details of the report were inconclusive.



The September **Employment Report** was stronger than expected. Nonfarm payrolls rose by 248,000, while the two previous months were revised a net 69,000 higher. The higher September gain partly reflects the unwinding of two factors that had depressed the August total (balancing that out, the +215,000 average for the last two months is strong, but well below the +261,000 average for April to July). The unemployment rate fell to 5.9%, partly reflecting a drop in labor force participation. Unemployment rates for teenagers and young adults rebounded (suggesting that there may have been problems with the seasonal adjustment in August). The unemployment rate for prime-aged workers (25-54) fell 4.9% (from 5.3%), as labor force participation fell sharply. Average weekly hours edged slightly higher. Average hourly earnings were flat (-0.041%), up 2.0% y/y).

Personal Income rose 0.3% in August (+4.3% y/y), buoyed by a 0.5% rise in private-sector wages and salaries (+5.8% y/y). **Personal Spending** rose 0.5% (+4.1% y/y), up 0.5% adjusting for inflation (+2.6% y/y). The **PCE Price Index** was unchanged (+1.5% y/y), up 0.1% ex-food & energy (+1.5% y/y).

Motor Vehicle Sales slowed to a 16.3 million seasonally adjusted annual rate in September, vs. 17.4 million in August and 16.4 million in July. The 3Q14 average (a 13.2 million pace) was higher than that of 2Q14 (12.9 million).

The Conference Board's **Consumer Confidence Index** fell to 86.0 in the initial estimate for September (based on data through the 18th), vs. 93.4 in August. Expectations, thought to be a factor in big-ticket purchases, fell sharply (to 83.7, from 93.1). Evaluations of current job market conditions deteriorated, while expectations of future job availability turned pessimistic.

Factory Orders fell 10.2% in August (vs. +10.5% in July), reflecting a pullback from July's spike in aircraft orders, a seasonal adjustment quirk in autos, and lower petroleum prices. Orders for nondefense capital goods ex-aircraft rose 0.4%, following a 0.1% decline in July and a 5.4% jump in June. Factory inventories edged up 0.1% (vs. unchanged in July), a sharply slower pace than in 2Q14 (a drag on 3Q GDP growth).

The **ISM Manufacturing Index** fell to 56.6 in September, from 59.0 in August. New orders slowed (from a very strong pace in August), but backlogs declined. The pace of production remained brisk. Employment growth slowed, but remained moderately strong. Input price pressures picked up a bit. Comments from supply managers were mostly upbeat.

The **ISM Non-Manufacturing Index** fell to 58.6 in September, vs. 59.6 in August and 58.7 in July. Comments from supply managers were mostly positive, but not very enthusiastic.

Construction Spending fell 0.8% in August (+5.0% y/y), while figures for June and July were revised lower. Residential construction slipped 0.1% (+3.7% y/y), as a decrease in home improvements offset gains in new homebuilding.

The **Pending Home Sales Index** fell 1.0% in August (vs. +3.2% in July), down 2.2% from a year ago. The National Association of Realtors noted a decrease in buying by real estate speculators.

The U.S. **Trade Deficit** narrowed slightly to $40.1 billion in August, from $40.3 billion in July. Despite the stronger dollar, the trade deficit is tracking lower in 3Q14, which means that net exports will add to overall GDP growth.

Economic Outlook (3Q14): GDP growth of around 3.0%

Employment: Short-term gauges, such as weekly jobless claims, are consistent with a strong job market, but other measures continue to suggest that a large amount of slack remains.

Consumers: Job growth is supportive, but average wages have struggled to keep up with inflation. Lower gasoline prices could help spur consumer spending growth in the next few months.

Manufacturing: Mixed results across industries, but mostly strengthening. Weakness in Europe and a stronger dollar should have a negative impact on export growth.

Housing/Construction: Affordability issues have remained a constraint for the middle of the market and below. Supply constraints remain an issue for builders, but should fade.

Prices: The PCE Price Index, the Fed's chief inflation gauge, remains well below the Fed's 2% target on a y/y basis. Pipeline pressures appear mild. Wage pressures are limited. Inflation expectations remain well-anchored.

Interest Rates: The tapering of the Fed's monthly pace of asset purchases should be completed at the end of October. Short-term interest rates are expected to remain exceptionally low *"for a considerable time"* after the asset purchase program ends. The Fed's policy moves in 2015 will be dictated by the evolution of the economic outlook in the second half of 2014.

This Week:					*forecast*	last	last –1	comments
Monday	10/06		no significant data					Karol Szymanowski born 1882
Tuesday	10/07	9:00	**IMF: World Econ Outlook**					another downgrade
		10:00	JOLTS: hiring rate	Aug	***NF***	3.5%	3.5%	still suggesting slack
			JOLTS: quit rate		***NF***	1.8%	1.8%	still suggesting slack
		1:00	Treasury Note Auction					3-year notes
Wednesday	10/08	11:00	Labor Mkt Conditions Index	Sep	***NF***	-0.524	-0.597	slack being taken up, but gradually
		1:00	Treasury Note Auction					re-opened 10-year notes
		2:00	**FOMC Minutes**	9/17				some new details in the Fed discussion
Thursday	10/09	7:45	BOE Policy Decision					no change
		8:30	Jobless Claims, th.	10/04	***294***	287	295	a low trend
		1:00	Treasury Bond Auction					re-opened 30-year bonds
Friday	10/10	8:30	Import Prices	Sep	***NF***	***-0.9%***	-0.3%	falling
			ex-food & fuels		***NF***	***0.0%***	-0.1%	no inflation pressure from abroad
		2:00	Treasury Budget, $bln	Sep	***+84.0***	***+75.1***	+75.2	release date and time tentative
			cumulative	FY14	***-505***	-680	-1089	less than 3% of GDP
Saturday	10/11	5:00	Fed Gov Fischer Speaks					"The Fed and the Global Economy"
Next Week:								
Monday	10/13		Columbus Day Holiday					bond market closed
Tuesday	10/14	7:30	Small Business Optimism	Sep	***NF***	96.1	95.7	an improving trend, but still relatively soft
Wednesday	10/15	8:30	**Producer Price Index**	Sep	***-0.1%***	0.0%	+0.1%	lower energy prices
			ex- food & energy		***+0.1%***	+0.1%	+0.2%	modest core inflation
		8:30	**Retail Sales**	Sep	***-0.2%***	+0.6%	+0.3%	unit auto sales fell
			ex-autos		***+0.1%***	+0.3%	+0.3%	gasoline prices fell
			ex-autos, bld mat, gasoline		***+0.3%***	+0.4%	+0.4%	moderate core sales
		8:30	Empire State Manf. Index	Oct	***18.0***	27.5	14.7	likely to have slowed
		10:00	Business Inventories	Aug	***NF***	+0.4%	+0.4%	seen slower in 3Q14
		2:00	**Fed Beige Book**					still mixed, modest-to-moderate
Thursday	10/16	8:30	Jobless Claims, th.	10/04	***292***	***294***	293	still low
		9:15	**Industrial Production**	Sep	***+0.3%***	***-0.1%***	+0.2%	moderate
			Manufacturing Output		***+0.2%***	***-0.4%***	+0.8%	aggregate hours were flat
			Capacity Utilization		***78.9%***	***78.8%***	79.1%	no threat to the inflation outlook
			Manufacturing		***78.1%***	***78.0%***	78.5%	still plenty of slack
		10:00	Philadelphia Fed Index	Oct	***16.5***	***22.5***	28.0	likely to have slowed somewhat
		10:00	Homebuilder Sentiment	Oct	***60***	***59***	55	trending higher
Friday	10/17	8:30	Yellen Speaks					on inequality of economic opportunity
		8:30	**Building Permits, th.**	Sep	***1040***	***1003***	1057	seen higher
			% change		***+3.7***	***-5.1***	+8.6	but watch for revisions
			Housing Starts		***1030***	***956***	1117	likely to have improved
			% change		***+7.8***	***-14.4***	+22.9	reflecting multi-family volatility
		9:55	UM Consumer Sentiment	m-Oct	***NF***	84.6	82.5	likely little changed

This Week…

The economic calendar thins out this week. Global growth is expected to remain a key concern for the financial markets. The IMF will update its World Economic Outlook on Tuesday and Federal Reserve Governor Stanley Fischer will speak on Saturday. Minutes of the mid-September Federal Open Market Committee meeting are unlikely to shed any new light on the outlook for Fed policy, but there's always a chance that the markets will take something out of context.

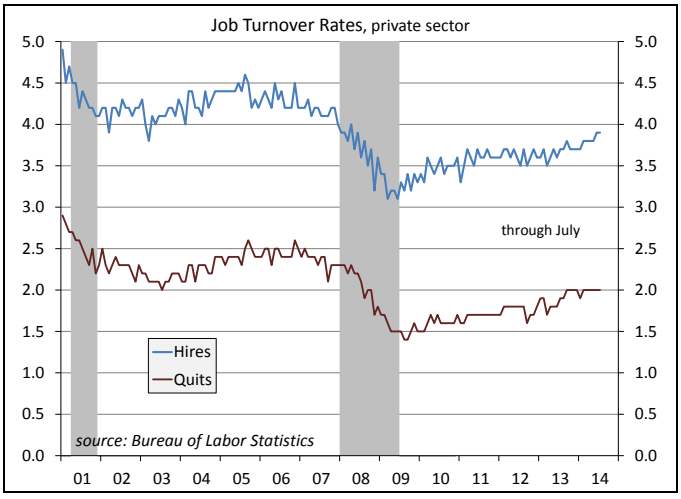
Monday

No significant economic data.

Tuesday

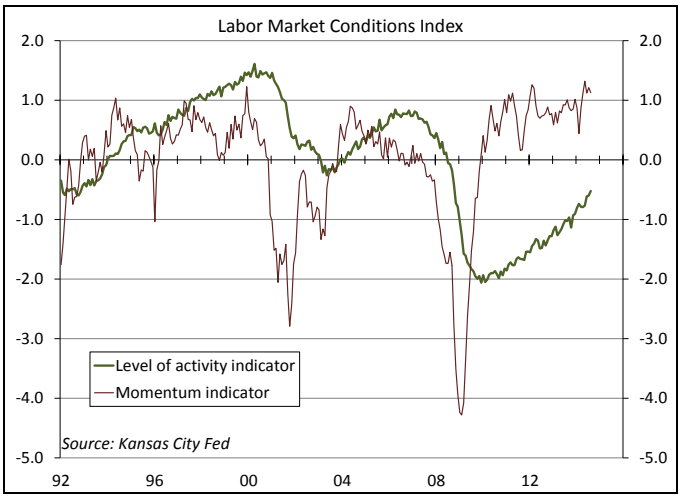
IMF World Economic Outlook – The IMF will update its WEO and it's not going be pretty. The IMF is expected to ratchet its global outlook a bit lower. Note that the IMF does a good job in laying out the issues and the price ($0) is right.

JOLTS Data (August) – Hiring and quit rates have trended gradually higher, suggesting that labor market slack is being taken up, but a lot of slack remains.



Wednesday

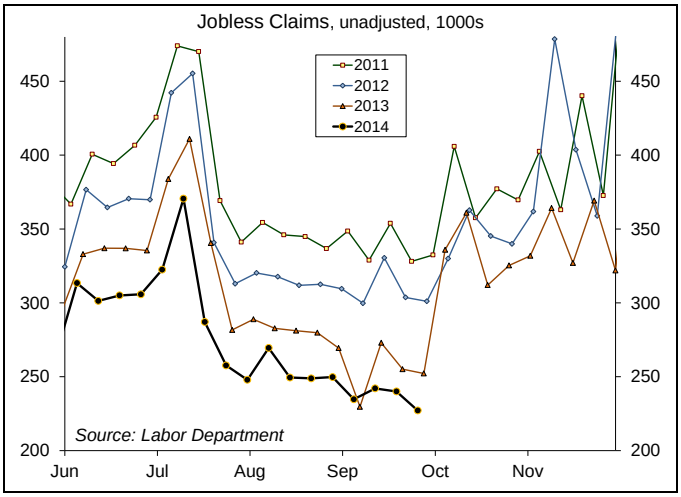
Labor Market Conditions Index (September) – In her Jackson Hole speech, Fed Chair Yellen highlighted the LMCI, a composite of 24 labor market gauges, as a handy summary for gauging the amount of slack in the labor market. As with the JOLTS data, the index evolves glacially. Hence, it's more of a diagnostic tool, not a catalyst for any significant moves in the financial markets.



FOMC Meeting Minutes (October 28-29) – We're unlikely to get any fresh insights into the Fed's policy debate (and it's not much of a debate, just a few squawking hawks). The Fed will provide a little more color on the economic projections of senior officials. We may get a little more information on the Fed's exit plans, but the broad outline was unveiled in mid-September.

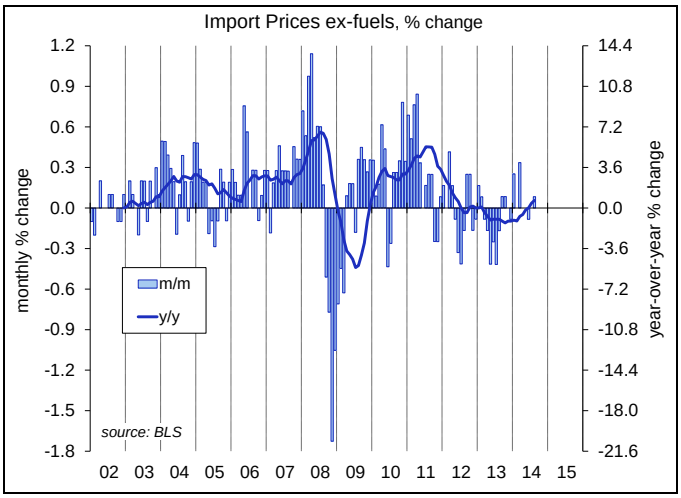
Thursday

Jobless Claims (week ending October 4) – Seasonal adjustment is more difficult in the final months of the year, which may add to the week-to-week volatility. However, the underlying trend is likely to remain very low in the weeks ahead. In 2013, claims were boosted by the government shutdown.

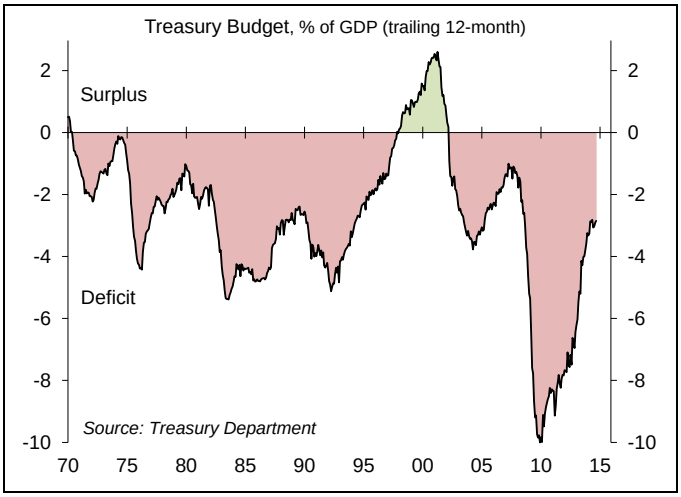


Friday

Import Prices (September) – There has been little inflation pressure from imports (raw materials, or finished goods). The stronger dollar and soft global economy should continue to help keep inflationary pressures down.



Federal Budget (September and FY14) – The timing of the release of the September data is subject to some fiscal-year end rules (hence, this is tentative). Having improved significantly as the economy recovered from recession, the deficit for FY14 should be below 3% of GDP (vs. about 10% in FY09).



Next Week …

Monday's a holiday for the bond market. The economic calendar picks up, helping to fill in the near-term picture.

Coming Events and Data Releases

October 21	Existing Home Sales (September)
October 22	Consumer Price Index (September)
October 24	New Home Sales (September)
October 29	FOMC Policy Decision (no press conference)
November 4	Election Day
October 29	Employment Report (October)
December 17	FOMC Policy Decision, Yellen press conference
January 28	FOMC Policy Decision (no press conference)
March 18	FOMC Policy Decision, Yellen press conference
April 29	FOMC Policy Decision (no press conference)
June 17	FOMC Policy Decision, Yellen press conference