

Labor Market Softens Ahead of Payrolls Report as the ADP Employment Change Falls Sharply 10.81%, Fed Eyes Rate Cuts and U.S. Productivity Rises.

September 5, 2024

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The U.S. and European stock markets closed the session mostly down; after a two-day pullback during this holiday-shortened week, equity markets were looking to regain stability. However, it was not to be, as only the Nasdaq barely closed up. Mixed signals from the labor market are pushing government bond yields both short- and long-term—down to their lowest levels of the year, ahead of the much-anticipated U.S. payrolls report. Meanwhile, tech stocks, which have been under pressure this week, begin to recover, boosted by the Magnificent 7 group; WTI oil prices are also seeing some support after briefly dipping below \$70 per barrel for the first time since December 2023.

Labor Market Softens but Remains Stable

The labor market has been the focus this week, with all eyes set on Friday's payrolls report. Despite high interest rates and inflationary pressures, steady job gains and low unemployment have been crucial in sustaining U.S. economic growth. However, recent data suggest the labor market may be cooling. Job openings fell below eight million in July, marking the lowest ratio of openings to unemployed workers over three years, dipping slightly below pre-pandemic levels. The ADP's private payroll report released today also showed that U.S. companies added the fewest jobs since early 2021, falling below 100,000. This cooling trend is part of a normalization process following extraordinary growth. Weekly jobless claims remain low, implying the rise in unemployment is more a result of slower hiring and increased worker availability than widespread layoffs. Corporate profits are rising, and unit labor costs are falling thanks to improved productivity, reducing the need for headcount cuts. Friday's jobs report will likely shape further discussion about the state of the labor market, with expectations that the unemployment rate will tick down and the economy will add about 165,000 jobs.

Focus Shifts to Rate Cuts: The Debate Over Timing and Size

In addition to its implications for economic growth, Friday's employment data will help Fed officials decide whether a rate cut of a quarter or half a percentage point is appropriate for their September 18 meeting. With inflation showing signs of easing toward the 2% target, policymakers are now more focused on achieving maximum employment. As the focus shifts from the direction of rate policy to its pace and magnitude, the Fed appears poised to begin a multiyear cycle of rate cuts. While rate cuts won't solve every economic challenge, they should gradually ease borrowing costs, supporting consumer and business spending. From a market perspective, the start of a rate-cutting cycle is typically favorable for stocks, provided the economy avoids a recession.

We prefer that the Fed implement a 50 basis points rate decrease following its September 18 meeting.

Key Economic Data:

- **U.S. Initial Claims for Unemployment Insurance:** fell to 227,000, down from 232,000 last week, decreasing -2.16%.
- **ADP Employment Change:** fell to 99,000, down from 111,000 last month, decreasing -10.81%.
- **ADP Median Pay YoY:** is unchanged at 4.80%, compared to 4.80% last month.
- **U.S. Productivity:** rose to 2.50%, compared to 0.40% last quarter.
- **U.S. ISM Services PMI:** rose to 51.50, up from 51.40 last month.
- **U.S. ISM Services New Orders Index:** rose to 53.00, up from 52.40 last month.
- **U.S. ISM Services Employment Index:** fell to 50.20, down from 51.10 last month.
- **U.S. ISM Services Prices Paid Index:** rose to 57.30, up from 57.00 last month.
- **30-Year Mortgage Rate:** is unchanged at 6.35%, compared to 6.35% last week.
- **Eurozone Retail Trade YoY:** is at -0.10%, compared to -0.40% last month.

Eurozone Summary:

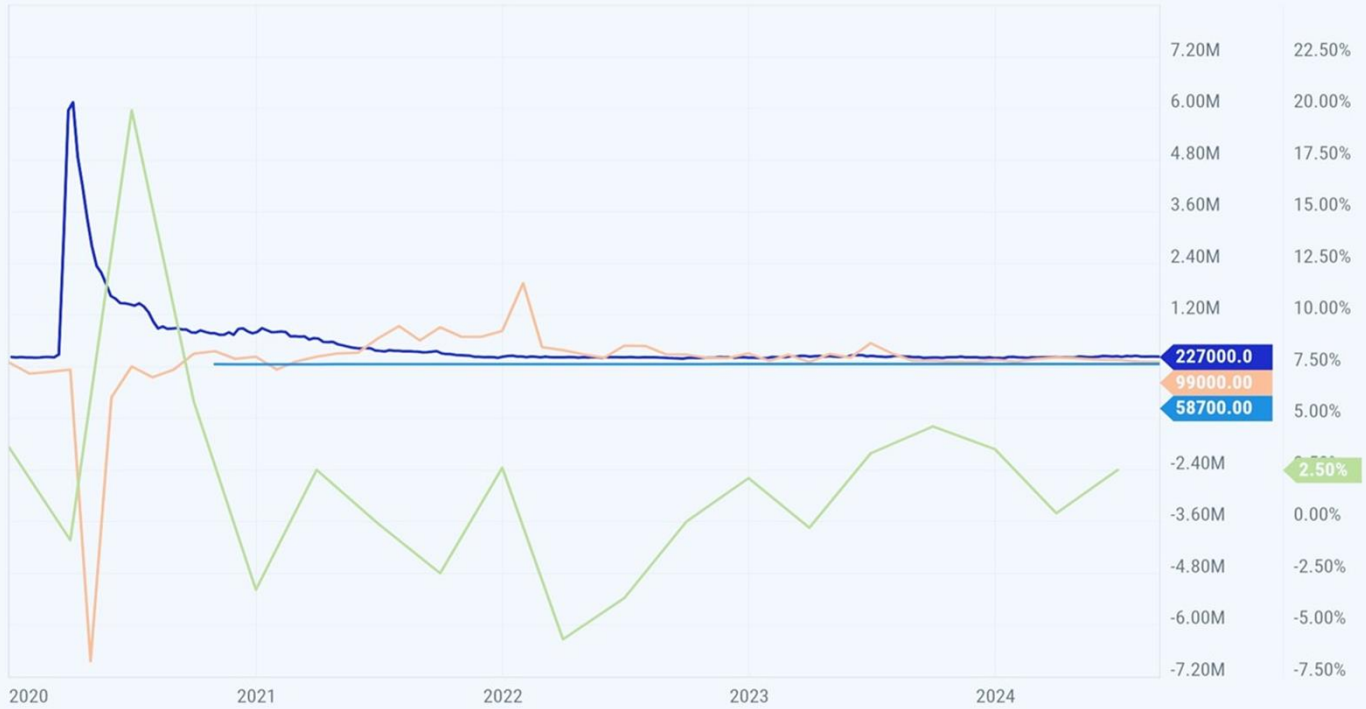
- **Stoxx 600:** Closed at 518.05, down 2.77 points or 0.54%.
- **FTSE 100:** Closed at 8,241.71, down 27.89 points or 0.34%.
- **DAX Index:** Closed at 18,576.50, down 15.35 points or 0.08%.

Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 40,755.75, down 219.22 points or 0.54%.
- **S&P 500:** closed at 5,503.41, down 16.66 points or 0.30%.
- **Nasdaq Composite:** closed at 17,127.66, up 43.37 points or 0.25%.
- **Birling Capital Puerto Rico Stock Index:** closed at 3,829.26, down 32.10 points or 0.83%.
- **Birling Capital U.S. Bank Stock Index:** closed at 5,357.09, down 6.17 points or 0.12%.
- **U.S. Treasury 10-year note:** closed at 3.73%.
- **U.S. Treasury 2-year note:** closed at 3.75%.

US Initial Claims for Unemployment, ADP Employment Change, ADP Median Annual Pay & US Productivity

	VAL
US Initial Claims for Unemployment Insurance	227000.0
ADP Employment Change	99000.00
ADP Median Annual Pay	58700.00
US Productivity	2.50%



US ISM Services PMI, US Services New Orders, US Services Employment Index, & US Services Prices Paid

	VAL
● US ISM Services PMI (I:ISMNMI)	51.50
● US ISM Services New Orders Index (I:ISMNNOI)	53.00
● US ISM Services Employment Index (I:ISMNMEI)	50.20
● US ISM Services Prices Paid Index (I:ISMNMPI)	57.30





30-Year Mortgage Rate & Eurozone Retail Trade YoY

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Wall Street Recap September 5, 2024



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