



# Week In Review

October 5, 2018

## **Employment**

Nonfarm payrolls rose by 134,000 jobs in September, far short of the 185,000 consensus. Revisions to the previous two months of a cumulative 87,000 jobs more than closed the gap. The unemployment rate fell from 3.9% to 3.7%, recording its lowest level since 1969. Average hourly earnings rose 0.3% in September and are up 2.8% year-over-year. The labor force participation rate remained at 62.7%.

**Our Take:** The employment report was solid overall, especially when considering the revisions to July and August. The numbers may be somewhat skewed due to Hurricane Florence, but are likely to further convince the Fed that they are on the correct tightening path.

## **China**

Vice President Pence gave a speech in which he laid out a number of grievances against China. This list included forced technology transfer, metal making overcapacity, assertion of sovereignty over the South China Sea, cyber espionage and government subsidization of key industries. China responded with denials of any wrongdoing. U.S. military freedom of navigation operations in the South China Sea have been met with increasing resistance from the Chinese military.

**Our Take:** The Vice President's remarks reinforce the notion that the trade conflict between the U.S. and China is fundamentally different from those with other major trading partners. Recent developments indicate lessening trade tensions with other trading partners. The conflict with China appears to be about more than the size of the trade deficit. The Trump administration is objecting to certain Chinese practices and actions that China views as necessary to its geopolitical ascendance. Given this underlying dynamic, it is unlikely that either side will be able to de-escalate the current conflict.

## **The Fed**

Fed Chair Jerome Powell spoke at a couple of events this week where he commented on how the U.S. is currently experiencing "a remarkable positive set of economic circumstances." He described the current stable low inflation and very low unemployment as a "historically low pairing." Powell believes interest rates are still accommodative and repeated the Fed's intention to gradually raise interest rates until they are neutral, the point at which the rate is neither accommodative nor restrictive to economic growth. He added, the Fed may go past neutral, "but we're a long way from neutral at this point." The Fed's baseline forecast shows the unemployment rate remaining below 4% and inflation steady at 2% through the end of 2020.

**Our Take:** The Fed remains committed to gradual increases in interest rates. The committee's current projection is for one more hike in rates this year and another three in 2019.

## **Municipals**

Chicago Mayor Rahm Emanuel announced this week that a Kerry James Marshall painting titled "Knowledge and Wonder", commissioned for the Legler Branch Library in 1995 for \$10,000, would be sold to raise money for a library

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expansion and a public art fund. It is estimated that the large painting could receive \$10 million to \$15 million at auction.

**Our Take:** Selling assets to fund projects is not new to the city. Chicago's Metropolitan Pier and Expansion Authority sold a Marshall painting earlier this year for \$21 million and the proceeds will be used for maintenance projects for McCormick Place. Some residents, including the artist, have voiced opposition to the sale of "Knowledge and Wonder". City leaders must make difficult choices when determining how to pay for projects. Chicago continues struggle financially and without the proceeds from the sale, funding for the library might not occur.

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