The Birth Death Adjustment: Trade With Caution

When formulating its monthly employment data, the BLS includes an adjustment for the net number of new jobs coming from new businesses and those lost by companies that have shut down. This adjustment is logical, as neither new nor closing firms are included in their surveys. While the so-called birth death adjustment is rational, the number of net jobs added due to the estimate can be incredibly flawed. The latest example is in the latest BLS Business Employment Dynamics Summary.

Within the summary covering March through June 2024, the BLS reports the following regarding its birth death adjustment: ?*The difference between the number of gross job gains and the number of gross job losses yields a net employment decline of 163,000 jobs in the private sector during the second quarter of 2024.*? Interestingly, during that same period, the total birth death adjustment in the BLS reports added 683,000 jobs.

The BLS presumes that the growing economy means the number of new businesses exceeds that of failing companies. Thus, the number of net jobs due to the birth and death of companies adds to the employment number. This has been wrong on numerous occasions. We bring this up because Friday?s employment data will have a big adjustment for the birth death rate. The markets will potentially be volatile if the number of jobs is well above or below forecasts. The birth death adjustment will be wrong and possibly by over 100,000 jobs. Such introduces the idiocy of the markets when it trades off one month of the initial employment data that will inevitably be changed, possibly significantly.

2024 Net Birth-Death Forecasts, not seasonally adjusted (in thousands)

CES Industry Code	Supersector	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
10-000000	Mining and logging	-1	0	0	0	1	1	0	0	0	1	0	0
20-000000	Construction	-43	11	15	39	36	21	10	10	0	26	-10	-15
30-000000	Manufacturing	-10	5	1	6	7	3	0	4	0	8	3	1
40-000000	Trade, transportation, and utilities	-28	17	0	17	23	7	26	17	-1	64	11	4
41-420000	Wholesale trade	-14	4	-3	0	4	-4	3	2	-7	15	1	0
42-000000	Retail trade	-9	10	2	13	13	8	15	10	2	30	0	-1
43-000000	Transportation and warehousing	-5	3	1	4	6	3	7	5	4	19	10	5
44-220000	Utilities	0	0	0	0	0	0	1	0	0	0	0	0
50-000000	Information	-6	5	0	9	6	-2	7	3	-3	11	3	1
55-000000	Financial activities	-30	8	-5	7	7	-3	11	3	-11	36	2	8
60-000000	Professional and business services	-28	31	-26	112	40	-24	77	18	-36	127	6	-26
65-000000	Private education and health services	43	19	-36	63	16	-29	45	21	-23	58	12	-19
70-000000	Leisure and hospitality	-15	47	32	93	89	83	65	20	-50	21	-21	-3
80-000000	Other services	-3	8	-2	17	6	2	5	4	-4	16	-1	-3
00-000000	Total nonfarm net birth-death forecast	-121	151	-21	363	231	59	246	100	-128	368	5	-52

BUSINESS EMPLOYMENT DYNAMICS - SECOND QUARTER 2024

From March 2024 to June 2024, gross job losses from closing and contracting private-sector establishments were 7.8 million, an increase of 639,000 jobs from the previous quarter, the U.S. Bureau of Labor Statistics reported today. Over this period, gross job gains from opening and expanding private-sector establishments were 7.6 million, a decrease of 17,000 jobs from the previous quarter. The difference between the number of gross job gains and the number of gross job losses yielded a net employment decline of 163,000 jobs in the private sector during the second quarter of 2024. (See tables A and 1.)

What To Watch Today

Earnings

Thursday Feb 6	EPS	Consensus	Previous	Revenue	Consensus	Previous	MarketCap	Fiscal	Time
Amazon AMZN:US		1.47	1.00		187.33B	170B	$2.5T	Q4	AM
Eli Lilly LLY:US		5.30	2.49		13.78B	9.35B	$771.23B	Q4	PM
Philip Morris International PI		1.50	1.36		9.5B	9.05B	$202.32B	Q4	PM
Honeywell International HON		2.46	2.60		9.97B	9.44B	$145.91B	Q4	AM
ConocoPhillips COP:US		1.79	2.40		14.27B	14.68B	$127.69B	Q4	AM
Bristol-Myers Squibb BMY:US		1.47	1.70		11.54B	11.48B	$119.4B	Q4	AM
Intercontinental Exchange IC		1.53	1.33		2.35B	2.67B	$91.56B	Q4	AM
Fortinet FTNT:US		0.61	0.51		1.59B	1.42B	$77.32B	Q4	AM
Becton, Dickinson and Co. B		2.99	2.68		5.11B	4.7B	$71.85B	Q1	PM
Hilton Worldwide HLT:US		1.67	1.68		2.77B	2.61B	$64.67B	Q4	AM
MetLife MET:US		2.20	1.83		19.28B	19.03B	$62.56B	Q4	PM
Roblox RBLX:US		-0.45	-0.52		1.37B	1.13B	$44.94B	Q4	AM
Corteva CTVA:US		0.32	0.15		4.07B	3.71B	$44.86B	Q4	PM
Kenvue Inc KVUE:US		0.31	0.31		3.95B	3.7B	$40.77B	Q4	AM
Xcel Energy XEL:US		0.89	0.83		3.77B	3.44B	$37.3B	Q4	AM
Yum Brands YUM:US		1.61	1.26		2.36B	2.04B	$36.7B	Q4	PM
IQVIA Holdings IQV:US		3.11	2.84		3.93B	3.87B	$36.57B	Q4	AM
Equifax EFX:US		2.11	1.81		1.44B	1.33B	$34.07B	Q4	AM
Take Two Interactive Software		0.59	-0.54		1.39B	1.36B	$31.65B	Q3	PM
Monolithic Power Systems MP		3.98	2.88		608.09M	454M	$31.02B	Q4	AM
Hershey HSY:US		2.38	2.02		2.84B	2.66B	$30.47B	Q4	AM
Microchip Technology MCHP:US		0.29	1.08		1.05B	1.77B	$29.33B	Q3	AM
Mettler Toledo International MT		11.72	9.40		1.01B	935M	$29.32B	Q4	AM
Kellogg K:US		0.83	0.78		3.11B	3.17B	$27.94B	Q4	PM
FirstEnergy FE:US		0.71	0.62		4.36B	3.2B	$22.95B	Q4	AM
Zimmer Biomet Holdings ZBH:U		2.30	2.20		2.01B	1.94B	$22.5B	Q4	AM
Expedia EXPE:US		2.02	1.72		3.07B	2.89B	$21.92B	Q4	AM
Verisign VRSN:US		2.00	1.92		394.13M	380M	$21.71B	Q4	AM

Economy

Thursday February 06 2025			Actual	Previous	Consensus	Forecast
06:30 AM	US	Challenger Job Cuts JAN		38.792K		45K
07:30 AM	US	Initial Jobless Claims FEB/01		207K	215K	215.0K
07:30 AM	US	Nonfarm Productivity QoQ Prel Q4		2.2%	1.7%	1.9%
07:30 AM	US	Unit Labour Costs QoQ Prel Q4		0.8%	3.5%	3%
07:30 AM	US	Continuing Jobless Claims JAN/25		1858K		1855.0K
07:30 AM	US	Jobless Claims 4-week Average FEB/01		212.5K		215.5K
09:30 AM	US	EIA Natural Gas Stocks Change JAN/31		-321Bcf		
10:30 AM	US	4-Week Bill Auction		4.250%		
10:30 AM	US	8-Week Bill Auction		4.240%		
11:00 AM	US	15-Year Mortgage Rate FEB/06		6.12%		
11:00 AM	US	30-Year Mortgage Rate FEB/06		6.95%		
01:30 PM	US	Fed Waller Speech				
02:30 PM	US	Fed Daly Speech				
03:30 PM	US	Fed Balance Sheet FEB/05		$6.82T		

Market Trading Update

Yesterday, we discussed the history of&#2013266080;?tariffs? and their impact on the market and volatility. Notably, when it comes to investing, the markets factor in the economic and earnings impacts from tariffs very quickly. Estimates are reduced, and expectations are adjusted, which allows markets to adapt to the current environment and continue to move higher based on the change in *?future?* expectations.

Such is why *?sentiment?* is critical to assessing future market outcomes. While extremely *?bearish?* or *?bullish?* headlines will get clicks and views, it is often much better to step back and look at the fundamental drivers of the market in the short term, which are sentiment and liquidity. Both remain firmly intact despite *?tariff?* headlines or missed earnings by Google and AMD. As shown, money flows remain robust, with the markets holding support and the 20 and 50-DMA. Notably, the market also triggered a bullish cross of the 20-DMA above the 50, suggesting buyers are coming into the market *(bullish sentiment).* Lastly, money flows (liquidity) remain broadly positive.

The only issue of concern is the short-term MACD *?sell signal,?* which is approaching with money flows at decently high levels. Such suggests that the current rally may be nearing a short-term exhaustion level, and more consolidation may be likely. As noted yesterday, we suggest taking small steps to rebalance portfolios, reduce risk as needed, and diversify across sectors and factors to mitigate increased volatility.

However, for now, the bullish trend remains firmly intact, keeping equity exposures near full allocations.

ISM Services

Yesterday, we discussed the improvement in the ISM manufacturing survey. Today, we learned that the services sector survey moved in the opposite direction. This survey is more important as it represents about 80% of economic activity. The headline number was 52.8, below expectations of

54.4. More importantly, ISM prices fell from 64.4 to 60.4. Moreover, new orders, a good indicator of future activity, fell from 54.4 to 51.3.

The graph below, courtesy of Trading Economics, shows that ISM service prices spiked last month. The increase fed concerns that inflation was starting to increase. The most recent data shows inflation is back in the range it oscillated in during the two years before the pandemic. Bond yields fell sharply on the report as it lessens fears of a spike in inflation.

Where Does Money Come From?

All money is lent into existence. **The Federal Reserve or the government does not print money.** Those two facts are vital to understanding our lead question: where does money come from? Furthermore, knowing who does and doesn?t print money and the incentives and disincentives that change the money supply are critical to inflation forecasting. &#2013266080;

Some so-called bond vigilantes are running around like Chicken Little, warning that the Fed?s recent rate cuts will increase inflation. They fail to understand the two lead facts. **Moreover, and somewhat ironic, the Fed?s shift to a dovish monetary policy has been hawkish and disinflationary on the margin.**

A dovish-hawkish policy description may sound crazy, but read on. With a better appreciation of how money is created, you will see that inflation fears driven by Fed actions may be misplaced. Furthermore, inflation concerns are significantly impacting bond yields. Opportunity may lay in wait for those who appreciate how the money supply impacts inflation.

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CHAIRMAN BERNANKE. Well we are—this is a Main Street policy, because what we're about here is trying to get jobs going. We are trying to create more employment, we are trying to meet our maximum employment mandate, so that's the objective. Our tools involve—I mean, the tools we have involve affecting financial asset prices, and that's—those are the tools of monetary policy. There are a number of different channels—mortgage rates, I mentioned other interest rates, corporate bond rates, but also the prices of various assets, like, for example, the prices of homes. To the extent that home prices begin to rise, consumers will feel wealthier, they'll feel more disposed to spend. If house prices are rising, people may be more willing to buy homes because they think that they'll, you know, make a better return on that purchase. So house prices is one vehicle. Stock prices—many people own stocks directly or indirectly. The issue here is whether or not improving asset prices generally will make people more willing to spend. One of the main concerns that firms have is there is not enough demand, there's not

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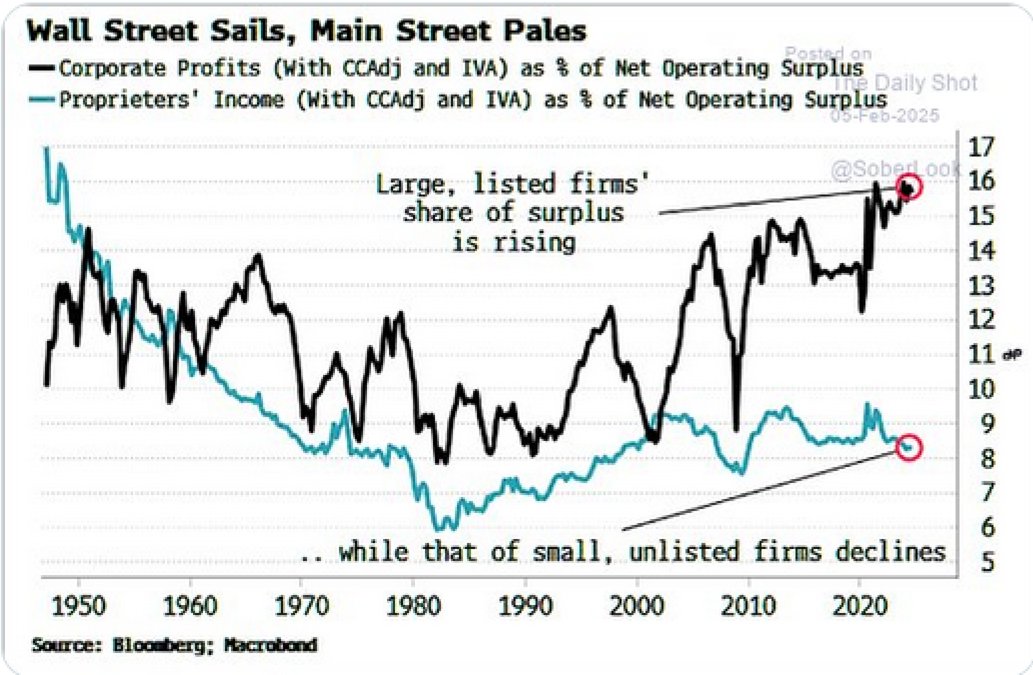
"The share of net operating surplus going to large, listed firms has surged, while smaller, unlisted firms have seen their share decline significantly, highlighting a growing concentration of economic power among publicly traded corporations." - Simon White, Bloomberg
@soberlook



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