U.S. Data Review

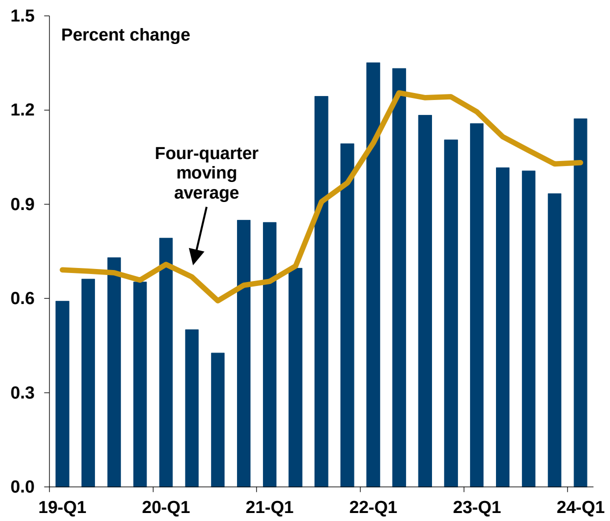
- Employment Cost Index: firm advance in Q1
- Consumer Confidence: drop in April
- FHFA House Price Index: notable acceleration in February
- MNI Chicago PMI: broad-based weakness across subcomponents

Lawrence Werther
Daiwa Capital Markets America
212-612-6393
lawrence.werther@us.daiwacm.com

Employment Cost Index

- Total compensation costs rose 1.2 percent (not annualized) in 2024-Q1, a faster advance than the Bloomberg median expectation of 1.0 percent. The latest observation exceeded growth of 0.9 percent in 2023-Q4 and was the most rapid since a fractionally larger increase in 2022-Q3 (1.172 and 1.183 percent, respectively; chart, right). Compensation costs rose 4.2 percent on a year-over-year basis. Compensation costs for private-sector workers increased 1.1 percent in Q1 (versus 0.9 percent in 2023-Q4). The year-over-year advance totaled 4.1 percent, matching that in 2023-Q4 but below the cycle high of 5.5 percent in 2022-Q2.

Employment Cost Index: Total Compensation

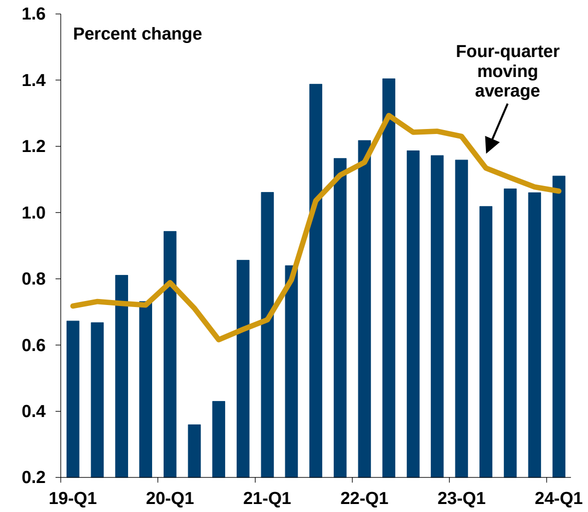


Source: Bureau of Labor Statistics via Haver Analytics

- Wage growth increased 1.1 percent in Q1, matching advances in the prior two quarters (chart, below left). Year-over-year wage growth of 4.4 percent was faster than that in 2023-Q4 (4.3 percent) but was below the cycle high of 5.3 percent in the second quarter of 2022.

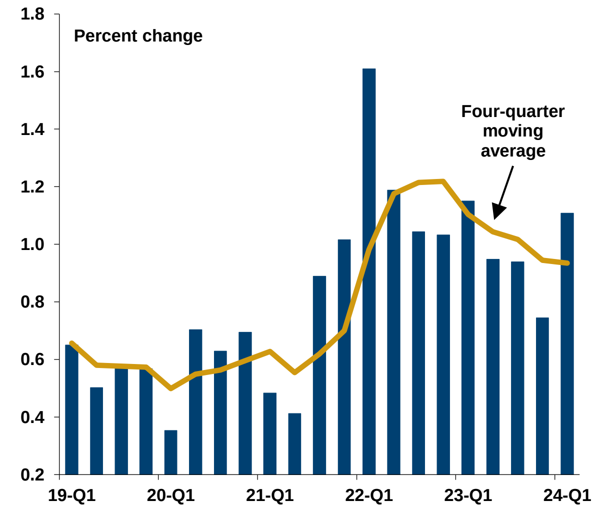
- Benefit costs also rose 1.1 percent in the first quarter (versus 0.7 percent in 2022-Q4), with the year-over-year increase of 3.7 percent a tick lower than that in Q4. The latest annual change was off the cycle high of 5.0 percent in 2022-Q3.

Employment Cost Index: Wages



Source: Bureau of Labor Statistics via Haver Analytics

Employment Cost Index: Benefits



Source: Bureau of Labor Statistics via Haver Analytics

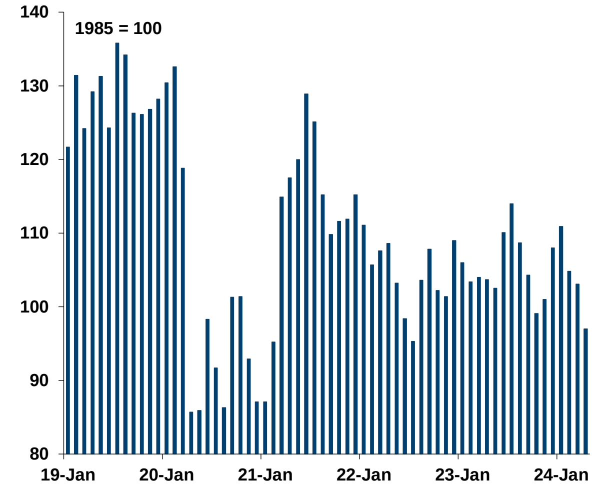
- Although Fed officials have indicated that supply and demand in the labor market are coming into better balance, which should slow wage growth over time, the latest reading on compensation (and by extension wages) is still above that consistent with the price stability mandate. We view wage growth of approximately three to three and one-half percent (the two-percent inflation target plus trend productivity growth) as more in line with stable prices over time. Achieving additional moderation in compensation growth will require further softening in underlying labor market conditions.

Consumer Confidence

- Consumer confidence dropped 6.1 index points (5.9 percent) in April from a downward revised reading the prior month (103.1 versus a preliminary estimate of 104.7; chart, right). The drop pushed confidence to the low end of the range in place since 2021 when the economy began to emerge from COVID-related disruptions.

- Both the present situation and expectations components fell in the latest month. The present situation component eased 3.9 index points (2.7 percent) in April, the third consecutive decline. Despite the recent weakness, this measure remained in the middle of the recent range (chart, below left). The expectations component performed far worse, dropping for the fourth consecutive month (-7.6 index points or 10.3 percent in April; chart, below left). The latest reading was only slightly above the expansion low of 65.6 in July 2022.

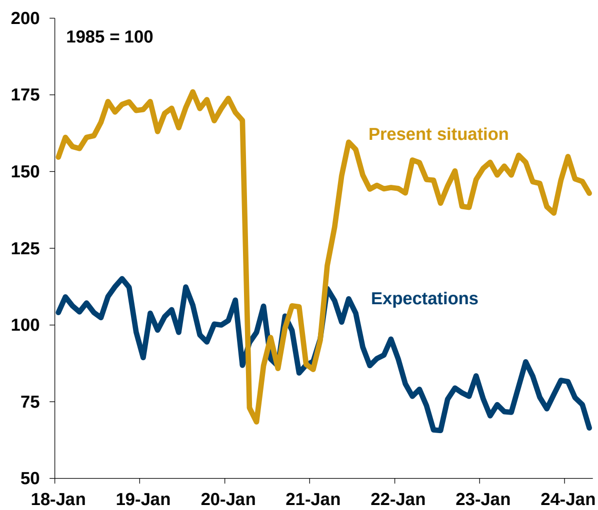
Consumer Confidence



Source: The Conference Board via Haver Analytics

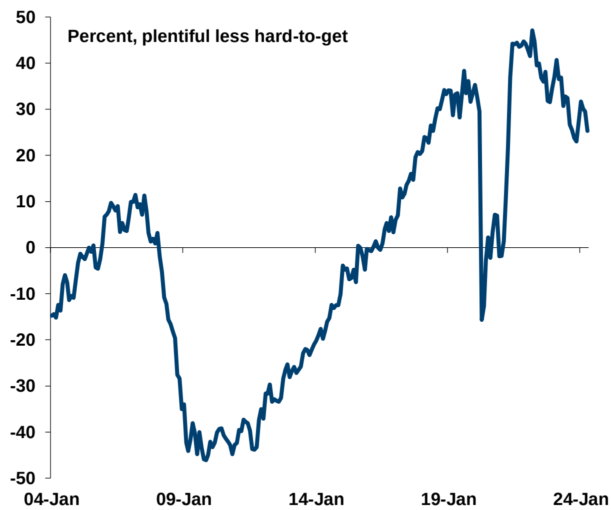
- Despite weakening in confidence, respondents' assessments of the labor market remained favorable. The share reporting that jobs were plentiful dipped to 40.2 percent from 41.7 percent but was elevated from a longer-term perspective. The portion responding that jobs were hard-to-get increased to 14.9 percent from 12.2 percent in March. The net reading was well below the cycle high of 47.1 percent in March 2022 but firm in a longer-term context (chart, below right) and indicative of solid underlying conditions in the labor market.

Consumer Confidence



Source: The Conference Board via Haver Analytics

Labor Market Differential*



** Share of survey respondents who reported that jobs were plentiful less those who said they were hard-to-get.*

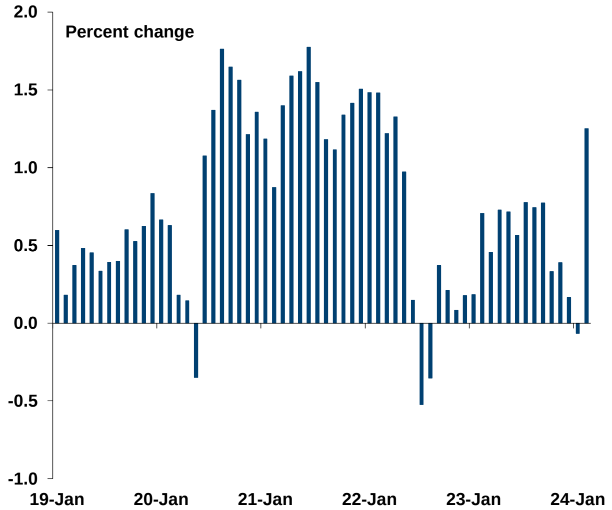
Source: The Conference Board via Haver Analytics

FHFA House Price Index

- The house price index released by the Federal Housing Finance Agency increased by 1.2 percent in February, surpassing the Bloomberg median expectation of an increase of 0.2 percent (chart, below left). Moreover, February's observation far exceeded the average increase of 0.5 percent in the prior 12 months. Perhaps more concerning, the latest reading was the highest seen since the increase of 1.3 percent in April 2022, the tail end of a period where the housing market saw a jump in activity due to the post-COVID economic reopening. We hesitate to draw broad conclusions from one month's data, but we will be monitoring this measure closely in coming months.

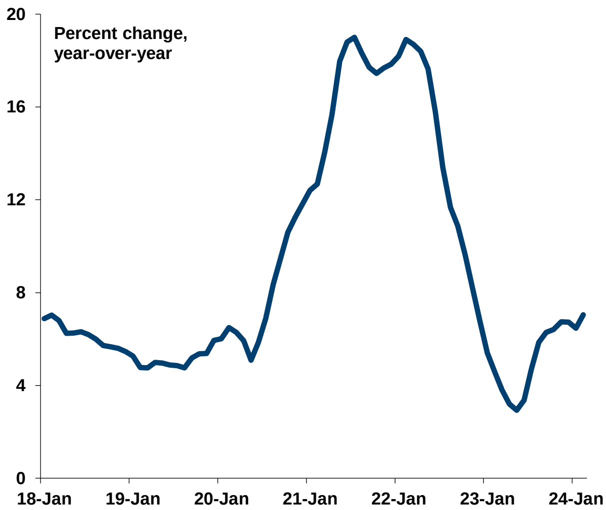
- On a year-over-year basis, the FHFA house price index rose 7.0 percent in the latest month (up from 6.5 percent in January). The year-over-year change is notably below the cycle high of 19.1 percent in July 2021, but it has accelerated since last fall and is tracking ahead of observations in the two years prior to the onset of the pandemic (chart, below right).

House Price Index



Source: Federal Housing Finance Agency via Haver Analytics

House Price Index



Source: Federal Housing Finance Agency via Haver Analytics

MNI Chicago PMI

- The Chicago Purchasing Managers' Index fell short of expectations today, dropping 3.5 index points to 37.9 (versus the Bloomberg median projection up an uptick to 45.0). The latest reading is the lowest recorded since November 2022 (37.8) and leaves the index below 50.0 (the critical threshold that separates economic growth and contraction) for the 19th month in the past 20.

- The dip in the headline measure can be attributed to weakness in several subcomponents. Production, for instance, fell by 6.9 index points to 35.5, its fifth consecutive decrease. New Orders also posted disappointing results in April, falling 5.1 points to 37.9. Additionally, Employment posted the largest month-to-month decrease of all, sliding 8.5 points to 38.6.

- The Prices Paid measure, contrastingly, rose 6.7 points to 69.3, its highest reading since August 2023. Observations in 2024 thus far indicate potential stirring in input prices, although they still remain well below the recent high of 74.5 in August 2023 and the cycle peak of 96.5 November 2021.

- We do not view the Chicago index as representative of manufacturing conditions nationally. That said, we acknowledge that the sector has been constrained by an uncertain demand outlook that could remain such until the Fed pivots to easier monetary policy (which we do not anticipate until at least the fall).