Daiwa Capital Markets

U.S. Economic Comment

- The labor market: favorable developments in October
- The election and the labor market: the gig market survives

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Employment Developments

We suspect that many observers will take a dim view of the latest labor market statistics, as job growth of 638,000 in October represents only moderate progress in regaining lost ground from the pandemic. However, we were not disappointed; we saw several favorable developments in the report.

First, the figures looked a bit better after taking account of the restraint associated with the trimming of 147,000 census workers; job growth of 785,000 ex-census could be viewed as respectable. In addition, we were encouraged by the magnitude of job growth in certain industries. Employment at temporary help agencies, which sometimes serves as a leading indicator for overall job growth, jumped 4.4 percent in October (versus 0.5 percent for total employment) and has now regained 61 percent of the jobs lost in the spring.

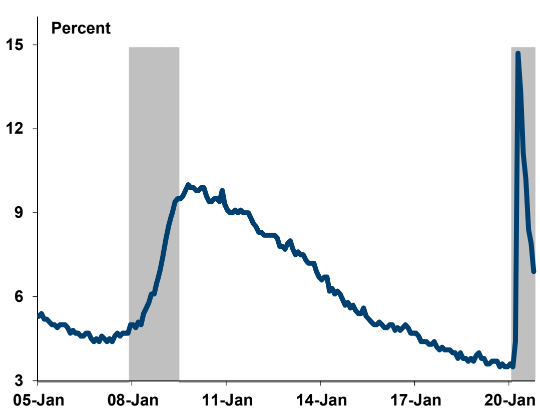
Even more notable, employment in the leisure and hospitality category rose 2.1 percent in October and has now regained 58.1 percent of lost ground (versus 54.5 percent for total nonfarm payrolls). Much of the improvement occurred in the food and accommodation subcategory, suggesting that individuals were getting out and learning to adapt to the virus. Firm employment gains in transportation (other than air travel) and retail trade also signaled that individuals were becoming more active. Such activity will probably slow because of concern about the acceleration in Covid cases, but the adjustment is not likely to come close to the retrenchment that occurred during the spring.

The most notable aspect of the October labor market report was the drop of 1.0 percentage point in the unemployment rate to 6.9 percent (chart). Such a reading was almost inconceivable a short time ago. For example, the second quarter results from the Survey of Professional Forecasters conducted by the Federal Reserve Bank of Philadelphia showed an expected jobless rate of 11.0 percent in the fourth quarter of this year. (The deadline for submissions to the Q2 survey was May 11, when the unemployment rate was 14.7 percent).

Moreover, it was a “strong” drop in the unemployment rate. That is, it was driven by a surge in employment as measured by the household survey rather than by individuals dropping out of the labor force. Indeed, the increase in employment was striking, with the survey of households showing 2.2 million new jobs in October.

Employment as measured by the household survey can be quite volatile, and thus we usually put more weight on the payroll figures from the establishment survey. In this instance, however, we put more credence in the household survey because of corroborating evidence from continuing claims for unemployment insurance (the number of individuals receiving jobless benefits).

Unemployment Rate*

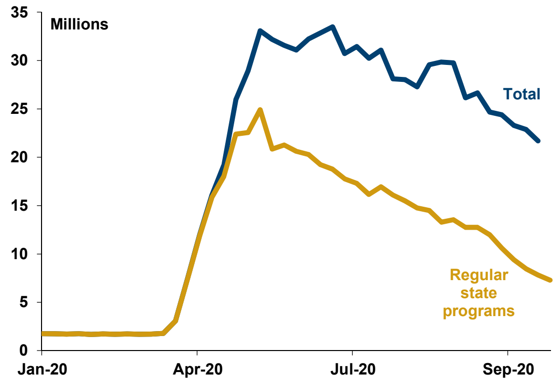


** The shaded areas indicate periods of recession in the United States.*

Source: Bureau of Labor Statistics and National Bureau of Economic Research via Haver Analytics

Continuing claims have moved sharply lower in recent weeks, falling by almost five million between survey dates for the September and October employment reports (chart). Some of this decline most likely reflected individuals exhausting their benefits, but a reading for total recipients includes those receiving benefits under extended programs, and this series also has moved sharply lower. An additional element of the decline in continuing claims might have been the result of fraud (individuals fraudulently receiving benefits in earlier weeks now being washed out), but the drop seems too large to be primarily due to fraud.

Continuing Claims for Unempl. Insurance*



** Total continuing claims include those filed under regular state programs, extended benefits programs, Pandemic Unemployment Assistance (PUA), and Pandemic Emergency Unemployment Compensation (PEUC). Continuing unemployment claims (regular state programs; gold line) are for the week of October 24th; the total is for the week of October 17th (latest available).*

Source: U.S. Department of Labor, Employment & Training Administration via Haver Analytics

Given the shift in the number of benefit recipients, it is difficult to explain a reading of less than one million in the payroll figures. In the unusual economic environment that has emerged during the pandemic, we suspect that the payroll survey is somehow missing job gains. The household survey and the unemployment rate, in our view, are providing a more accurate view of the labor market than the payroll figures are.

The Elections: A Labor Market Issue in California

All eyes were on the presidential and congressional elections this past week, but there was another ballot initiative that caught our attention. Proposition 22 on the California ballot (App-Based Drivers as Contractors and Labor Policies Initiative) proposed to overturn a California law that defined app-based drivers as employees rather than contract workers. As employees, such drivers would be protected by California labor laws, which require a list of benefits and offer some degree of worker protection. If viewed as contract workers, drivers would not be covered by labor laws, and the firms employing them could determine working rules and conditions.

The initiative passed. That is, the law designed to protect app-based drivers was overturned. This could be a watershed event for the so-called gig market. If the initiative had failed (i.e. the protective law retained), firms such as Uber and Lyft might not be economically feasible, which would probably force them out of business in this state. If other states were to follow the lead of California, the gig market in total might wither and die. As it now stands, the gig market survives and will continue to evolve.

We found it especially interesting that the initiative passed in California. The state has a reputation for strong liberal values and a sharp leftward tilt on the political spectrum. One would expect a program promoting worker rights and social justice to receive broad-based support in California and to face easy approval in any election. Yet, the electorate voted to overturn the protective legislation. This outcome seems to support the maxim that individuals vote their wallet. While the citizens of California might like to see strong protection for workers, they have a greater preference for better service at a lower price than that provided by traditional taxi cabs.

Review

Week of Nov. 2, 2020	Actual	Consensus	Comments
ISM Manufacturing Index (October)	**59.3% (+3.9 Pct. Pts.)**	**56.0% (+0.6 Pct. Pt.)**	The increase in the ISM manufacturing index in October left the level above all readings in 2019 and thus far in 2020. It also exceeded the average of 58.9% in 2018, which was the best year of the previous expansion for this indicator. All five components contributed to the increase in the headline index, although the new orders component stood out with a jump of 7.7 percentage points to 67.9%, a reading better than any print in the prior expansion. With orders firm, the production index rose 2.0 percentage points from an already elevated level, moving to 63.0%. The employment component had been lagging, posting sub-50 readings since August 2019, but it moved above this threshold in October with an increase of 3.6 percentage points to 53.2%.
Construction Spending (September)	**0.3%**	**1.0%**	A jump of 2.8% in private residential construction was largely offset by contractions in private nonresidential activity and government-sponsored building in September, leaving only a modest pickup in total activity. The brisk rebound underway in the housing market fueled the jump in residential construction. Private nonresidential activity (off 1.5% in September and down in seven of the past eight months) seems constrained by Covid-related uncertainty. Government construction (off 1.7%) is probably being limited by tight budgets generated by the pandemic.
Factory Orders (September)	**1.1%**	**1.0%**	New orders for durable goods rose 1.9%, unrevised from the preliminary tally published on Oct 27. Durable bookings have now increased for five consecutive months and have recovered 89% of the ground lost during the virus-related drop in the spring. Excluding the volatile transportation category, durable orders rose 0.9%; bookings ex-transportation have now exceeded readings prior to the plunge in the spring. New orders for nondurable goods increased 0.3%. Bookings for petroleum and coal products slipped 0.1%, likely reflecting lower prices, but orders ex-petroleum and coal offset the weakness with an advance of 0.4%. Increases ex-petrol in the past five months have left this category in line with readings prior to the onset of the virus.
Trade Balance (September)	**-$63.9 Billion ($3.1 Billion Narrower Deficit)**	**-$63.9 Billion ($3.2 Billion Narrower Deficit)**	Trade in goods accounted for nearly all of the improvement in overall trade, as a jump of 3.1% in exports outweighed an increase of 0.3% in imports, leaving the goods deficit $3.1 billion narrower than the shortfall in August. The surplus in service trade improved marginally in September, as both exports and imports increased by similar amounts, although the dollar volumes remained far below levels seen before the onset of the pandemic. Travel and transportation naturally were hit hard by the virus and account for much of the slippage in service trade. The September trade results were largely in line with the assumptions built into the first estimate of GDP, which showed a large negative contribution from net exports to GDP growth (-3.1 percentage points).

Review Continued

Week of Nov. 2, 2020	Actual	Consensus	Comments
ISM Services Index (October)	**56.6% (-1.2 Pct. Pts.)**	**57.5% (-0.3 Pct. Pt.)**	Despite the decline in the ISM services index in October, the level of the index remained at a respectable level. The latest read was in line with the average of 56.4% in January/February prior to the onset of Covid and it was above the average of 55.5% in 2019. The new orders component led the decline in the headline index with a drop of 2.7 percentage points to 58.8%. However, the decline occurred from an elevated reading in the prior month, and the new level was above the average of 57.5% in 2019. With orders slipping, the business activity and employment indexes also lost ground, easing 1.8 percentage points to 61.2% and 1.7 percentage points to 50.1%, respectively. The business activity index remained in the upper portion of the range from the past two years, while the employment index was on the light side of recent results (noticeably below the pre-virus average of 54.4% in January/February and the average of 55.0% in 2019).
Nonfarm Productivity (2020-Q3)	**4.9%**	**5.6%**	A surge of 43.5% (annual rate) in output in Q3 exceeded a jump of 36.8% in hours worked, resulting in a firm increase in productivity. Combined with a jump of 10.6% in Q2, the two-quarter performance was the best since 1965-H2. The recent gains were impressive, but one wonders if the surge was driven by genuine gains in efficiency or by unsustainable burdens on workers during a unique environment.
Payroll Employment (October)	**638,000**	**590,000**	The employment gain in October, combined with an upward revision of 15k in the prior two months, brought the share of jobs regained to 54.5%, up from 51.6% in September. Results in the private sector were firmer than the headline total, with job growth totaling 906,000 and the share recouped totaling 58.1%. The stronger showing in the private sector was partly the result of the federal government trimming 147,000 census workers. The unemployment rate posted a striking change, falling 1.0 percentage point to 6.9%. Employment as measured by the household survey surged 2.243 million, dwarfing an increase of 724,000 in the size of the labor force. Normally, we put more weight on the payroll figures, but given the recent decline in the number of individuals on unemployment rolls and the gain in household employment, we wonder if the payroll figures are undercounting employment to a degree.

Sources: Institute for Supply Management (ISM Manufacturing Index, ISM Services Index); U.S. Census Bureau (Construction Spending, Factory Orders); Bureau of Economic Analysis (Trade Balance); Bureau of Labor Statistics (Nonfarm Productivity, Payroll Employment); Consensus forecasts are from Bloomberg

Preview

Week of Nov. 9, 2020	Projected	Comments
CPI (October) (Thursday)	**0.2% Total, 0.2% Core**	Available quotes suggest only moderate changes in the prices of food and energy. Changes in core prices seem to be settling into a trend-like pattern after pandemic-related volatility in prior months (discounting in the spring and retracing in the summer).
Federal Budget (October) (Thursday)	**$275 Billion Deficit**	With pandemic-related support from the federal government fading, outlays are likely to be lighter than the norm in other recent months. However, the still-sub-par economy is likely to result in soft revenue flows and leave the budget deficit noticeably wider than the norm for October (the shortfall totaled $134 billion last October and averaged $96 billion in the five prior Octobers).
PPI (October) (Friday)	**0.2% Total, 0.2% Core***	Prices of food and energy seemed to be generally calm in October, and the volatile trade-services category should be subdued after advancing noticeably in the prior three months. Prices related to construction seem to have residual seasonality (firm in the first month of quarters), which will probably lead to a jump in the upcoming report.

** The core PPI excludes food, energy, and trade services.*
Source: Forecasts provided by Daiwa Capital Markets America

Economic Indicators

November 2020

Monday	Tuesday	Wednesday	Thursday	Friday
2	3	4	5	6
ISM MANUFACTURING INDEX Index Prices Aug 56.0 59.5 Sept 55.4 62.8 Oct 59.3 65.5 **CONSTRUCTION SPEND.** July 1.1% Aug 0.8% Sept 0.3%	**FACTORY ORDERS** July 6.5% Aug 0.6% Sept 1.1% **VEHICLE SALES** Aug 15.1 million Sept 16.3 million Oct 16.2 million	**ADP EMPLOYMENT REPORT** Private Payrolls Aug 482,000 Sept 753,000 Oct 365,000 **TRADE BALANCE** July -$63.4 billion Aug -$67.0 billion Sept -$63.9 billion **ISM SERVICES INDEX** Index Prices Aug 56.9 64.2 Sept 57.8 59.0 Oct 56.6 63.9 **FOMC MEETING**	**UNEMPLOYMENT CLAIMS** Initial Continuing (Millions) Oct 10 0.842 8.472 Oct 17 0.797 7.823 Oct 24 0.758 7.285 Oct 31 0.751 N/A **PRODUCTIVITY & COSTS** Productivity Unit Labor Costs 20-Q1 -0.3% 9.6% 20-Q2 10.6% 8.5% 20-Q3 4.9% -8.9% **FOMC DECISION** **POWELL PRESS CONFERENCE**	**EMPLOYMENT REPORT** Payrolls Un. Rate Aug 1,493,000 8.4% Sept 672,000 7.9% Oct 638,000 6.9% **WHOLESALE TRADE** Inventories Sales July -0.2% 4.8% Aug 0.5% 1.2% Sept 0.4% 0.1% **CONSUMER CREDIT** July $14.7 billion Aug -$6.9 billion Sept $16.2 billion
9	10	11	12	13
	NFIB SMALL BUSINESS OPTIMISM INDEX (6:00) Aug 100.2 Sept 104.0 Oct -- **JOLTS DATA (10:00)** Openings (000) Quit Rate July 6,697 2.1% Aug 6,493 2.0% Sept -- --	***VETERANS DAY***	**INITIAL CLAIMS (8:30)** **CPI (8:30)** Total Core Aug 0.4% 0.4% Sept 0.2% 0.2% **Oct 0.2% 0.2%** **FEDERAL BUDGET (2:00)** 2020 2019 Aug -$200.0B -$200.3B Sept -$124.6B $82.8B **Oct -$275.0B** -$134.5B	**PPI (8:30)** Final Demand Core* Aug 0.3% 0.3% Sept 0.4% 0.4% **Oct 0.2% 0.2%** **CONSUMER SENTIMENT (10:00)** Sept 80.4 Oct 81.8 **Nov 82.0**
16	17	18	19	20
EMPIRE MFG INDEX	**RETAIL SALES** **IMPORT/EXPORT PRICES** **IP & CAP-U** **BUSINESS INVENTORIES** **NAHB HOUSING MARKET INDEX** **TIC DATA**	**HOUSING STARTS**	**INITIAL CLAIMS** **PHILLY FED INDEX** **EXISTING HOME SALES** **LEADING INDICATORS**	
23	24	25	26	27
CHICAGO FED NATIONAL ACTIVITY INDEX	**FHFA HOME PRICE INDEX** **S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX** **CONSUMER CONFIDENCE**	**INITIAL CLAIMS** **U.S. INTERNATIONAL TRADE IN GOODS** **ADVANCE INVENTORIES** **REVISED Q3 GDP** **DURABLE GOODS ORDERS** **PERSONAL INCOME, CONSUMPTION, PRICES** **NEW HOME SALES** **REVISED CONSUMER SENTIMENT** **FOMC MINUTES**	***THANKSGIVING***	

Forecasts in Bold.   ** The core PPI excludes food, energy and trade services*

Treasury Financing

November 2020

Monday	Tuesday	Wednesday	Thursday	Friday
2	3	4	5	6
AUCTION RESULTS: Rate / Cover 13-week bills 0.095% 2.79 26-week bills 0.110% 2.98 **SETTLE:** $22 billion 20-year bonds $26 billion 2-year FRNs $54 billion 2-year notes $55 billion 5-year notes $53 billion 7-year notes	**AUCTION RESULTS:** Rate / Cover 52-week bills 0.135% 3.54 42-day CMB 0.085% 3.21 119-day CMB 0.105% 3.20 **ANNOUNCE:** $30 billion 4-week bills for auction on November 5 $35 billion 8-week bills for auction on November 5 $25 billion 105-day CMBs for auction on November 4 $30 billion 154-day CMBs for auction on November 4 **SETTLE:** $30 billion 4-week bills $35 billion 8-week bills $25 billion 105-day CMBs $30 billion 154-day CMBs	**AUCTION RESULTS:** Rate / Cover 105-day CMB 0.100% 3.36 154-day CMB 0.105% 3.55 **ANNOUNCE MID-QUARTER REFUNDING:** $54 billion 3-year notes for auction on November 9 $41 billion 10-yr notes for auction on November 10 $27 billion 30-yr bonds for auction on November 12	**AUCTION RESULTS:** Rate / Cover 4-week bills 0.080% 3.32 8-week bills 0.085% 3.11 **ANNOUNCE:** $105 billion 13-,26-week bills for auction on November 9 $30 billion 42-day CMBs for auction on November 9 $30 billion 119-day CMBs for auction on November 9 **SETTLE:** $105 billion 13-,26-week bills $34 billion 52-week bills $30 billion 42-day CMBs $30 billion 119-day CMBs	
9	10	11	12	13
AUCTION: $105 billion 13-,26-week bills $54 billion 3-year notes $30 billion 42-day CMBs $30 billion 119-day CMBs	**AUCTION:** $41 billion 10-year notes **ANNOUNCE:** $30 billion* 4-week bills for auction on November 12 $35 billion* 8-week bills for auction on November 12 105-,154-day CMBs for auction on November 12 **SETTLE:** $30 billion 4-week bills $35 billion 8-week bills $25 billion 105-day CMBs $30 billion 154-day CMBs	***VETERANS DAY***	**AUCTION:** $30 billion* 4-week bills $35 billion* 8-week bills $27 billion 30-year bonds 105-,154-day CMBs **ANNOUNCE:** $105 billion* 13-,26-week bills for auction on November 16 $27 billion* 20-year bonds for auction on November 18 $12 billion* 10-year TIPS for auction on November 19 **SETTLE:** $105 billion 13-,26-week bills $34 billion 52-week bills $30 billion 42-day CMBs $30 billion 119-day CMBs	
16	17	18	19	20
AUCTION: $105 billion* 13-,26-week bills **SETTLE:** $54 billion 3-year notes $41 billion 10-year notes $27 billion 30-year bonds	**ANNOUNCE:** $30 billion* 4-week bills for auction on November 19 $35 billion* 8-week bills for auction on November 19 **SETTLE:** $30 billion* 4-week bills $35 billion* 8-week bills 105-,154-day CMBs	**AUCTION:** $27 billion* 20-year bonds	**AUCTION:** $30 billion* 4-week bills $35 billion* 8-week bills $12 billion* 10-year TIPS **ANNOUNCE:** $105 billion* 13-,26-week bills for auction on November 23 $24 billion* 2-year FRNs for auction on November 24 $56 billion* 2-year notes for auction on November 23 $57 billion* 5-year notes for auction on November 23 $56 billion* 7-year notes for auction on November 24 **SETTLE:** $105 billion* 13-,26-week bills	
23	24	25	26	27
AUCTION: $105 billion* 13-,26-week bills $56 billion* 2-year notes $57 billion* 5-year notes	**AUCTION:** $24 billion* 2-year FRNs $56 billion* 7-year notes **ANNOUNCE:** $30 billion* 4-week bills for auction on November 25 $35 billion* 8-week bills for auction on November 25 **SETTLE:** $30 billion* 4-week bills $35 billion* 8-week bills	**AUCTION:** $30 billion* 4-week bills $35 billion* 8-week bills **ANNOUNCE:** $105 billion* 13-,26-week bills for auction on November 30 $34 billion* 52-week bills for auction on December 1	***THANKSGIVING***	**SETTLE:** $105 billion* 13-,26-week bills $24 billion* 2-year FRNs

**Estimate*