U.S. Economic Comment

- Labor market improvement: slow and skewed, but still improvement

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The Labor Market: Generally Slow, but a Few Positive Elements

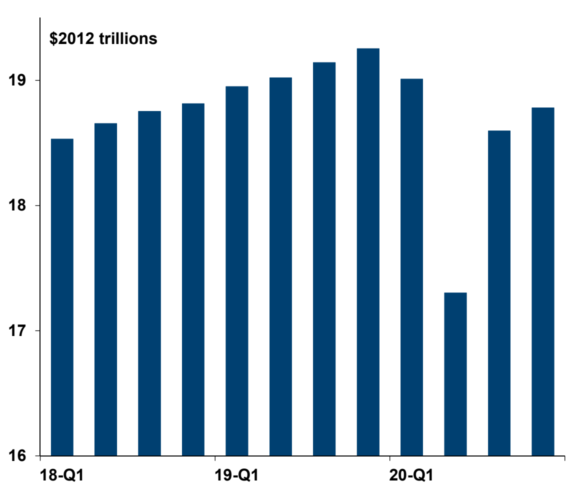
The Congressional Budget Office this week published a new economic forecast showing real GDP returning to its pre-pandemic level during the second quarter. Employment, in contrast, was seen as lagging the improvement in the overall economy, not returning to its pre-virus level until 2024. The recent pattern supports such a view, as GDP has shown good progress, recouping almost 76 percent of the drop in the first half of the year. Payroll employment, however, has regained only 56 percent of its lost ground (charts).

Some of the lag in employment might reflect the inability or unwillingness of individuals to work during a pandemic. Some could have child-care or other responsibilities that prevent them from working. Others might not be willing to bear the risks of contracting the virus (think teachers and the poor performance of employment in education; public and private education combined has regained only 8.5 percent of the jobs lost in the spring).

Businesses also are probably exercising caution in rebuilding payrolls because of the still-uncertain environment. In addition, some might be altering business models in response to the pandemic, searching for more efficient methods of operation that could involve lower employment levels.

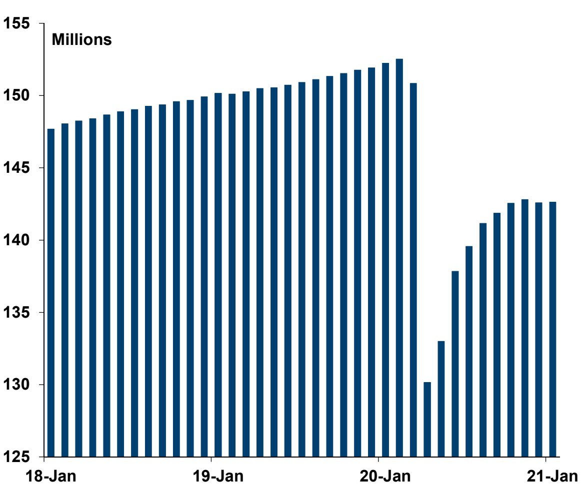
The slow improvement in the labor market has not been lost on individuals, as the survey of consumers conducted by the Conference Board shows a dim view of the labor market. Recent surveys have shown about an even split between individuals that view jobs as plentiful and those that see jobs as hard to get. In December and January, those with negative views of the labor market had a slight edge. In good times, the share viewing jobs as plentiful has a strong advantage (chart, next page).

Real GDP



Source: Bureau of Economic Analysis via Haver Analytics

Nonfarm Payrolls

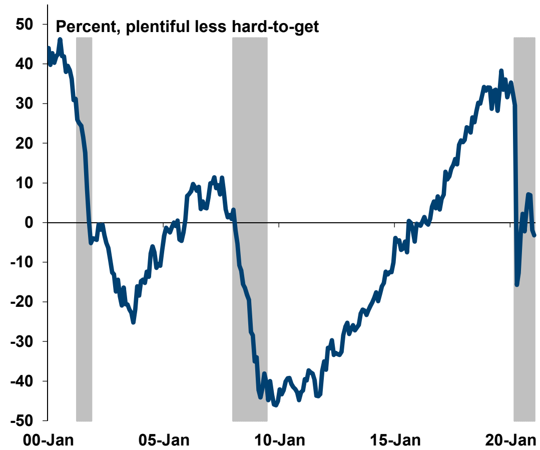


Source: Bureau of Labor Statistics via Haver Analytics

Slow and Skewed

In addition to noting the slow improvement in the labor market, many commentators have emphasized the skewed nature of the softness, with those in the lower end of the income spectrum bearing the heaviest burden. Certain aspects of the employment report and the monthly income and consumption report provide support for this view.

Conference Board Labor Market Assessment*



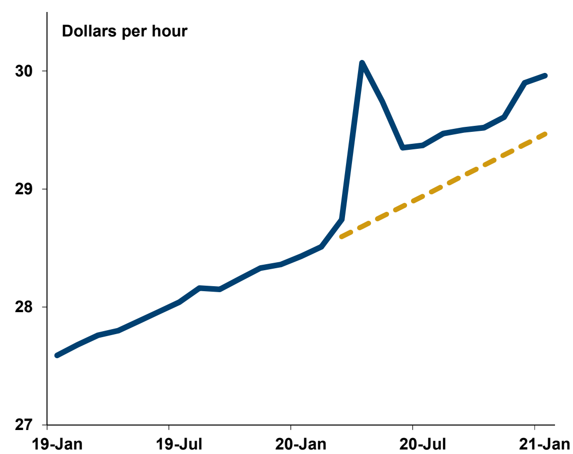
** The share of individuals responding to the Conference Board's consumer confidence survey who report that jobs are plentiful less the share indicating that jobs are hard to get. The shaded areas indicate periods of recession in the United States.*

Source: The Conference Board and The National Bureau of Economic Research via Haver Analytics

The marked decline in employment in the leisure and hospitality category, where wages are noticeably below average, suggests that low-income individuals face challenges. This was the softest sector by far when the pandemic first hit, with employment tumbling 48.6 percent in March and April versus a decline of 14.7 percent for total payrolls. This sector recovered to a degree in the summer and fall, but it tumbled again in December and January, losing 597,000 jobs over this two-month span, a drop of 4.4 percent. (Average hourly earnings in the leisure and hospitality sector totaled $17.24 in January versus $29.96 for the total nonfarm sector. The highest paid industry was information at $44.62. The information sector includes publishing, broadcasting, internet broadcasting, motion picture and sound recording, telecommunications, and data processing.)

The movement in average hourly earnings last year also indicated problems among low-wage workers. Total average hourly earnings jumped with the onset of the pandemic, which might seem like good news, but it was driven by a loss of low-paying jobs. The data series on average hourly earnings is not a fixed-weight measure. That is, changes in the composition of the workforce will alter the reported average. With fewer low-wage jobs entering the calculation, the average naturally rose. Average earnings have eased some in recent months, suggesting that low-wage workers have been recalled or found other jobs. However, the measure is still above the pre-pandemic trend, indicating fewer-than-normal jobs among low-wage workers (chart).

Average Hourly Earnings*



** The blue line shows the monthly level of average hourly earnings. The gold line assumes 0.3 percent growth per month from the level of average hourly earnings in February 2020.*

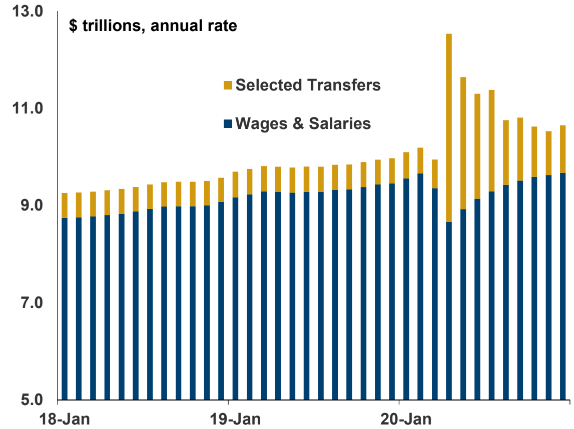
Source: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

The report on income and consumption (published on January 29) provided more striking evidence. Nominal wage income in December moved above its pre-pandemic peak in February, a remarkable achievement given that payroll employment had regained only 56 percent of lost ground by December (see the blue bars in the chart on the next page). Those being recalled or finding jobs apparently were moving into high-paying areas. Alternatively, those retaining their jobs received hefty pay increases. Whatever the cause, some workers have done well during the pandemic.

A Favorable Spin

We should not push the negative view too hard, as we also could make several positive points. First, although some industries have suffered badly, the federal government has provided substantial financial support that will lessen the economic damage. The combination of wage income and certain transfer payments (primarily unemployment benefits and recovery rebate checks) moved well above pre-virus trends and were still at a healthy level in December (chart). In addition, more support is on the way with the $900 billion package passed in December, not to mention the $1.9 trillion proposal of President Biden.

Personal Income: Wages & Selected Transfers*



** Selected transfers include unemployment insurance benefits and other government social benefits to persons.*

Source: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

Second, context matters. Although economic activity has slowed recently and the past two employment reports can be described as either mediocre or disappointing, these developments occurred at a time when the number of Covid cases was surging. The spread of the virus easily could have caused more severe damage. The fact that the economy did not plummet could be viewed as a sign of resiliency; businesses and consumers seem to be learning to cope with the virus.

Finally, the January employment report, while not impressive, carried a few positive signs. Certain sectors (other than leisure) that had been underperforming showed signs of life, such as mining, education, and state and local governments. Also, the unemployment rate fell noticeably, dropping 0.4 percentage point to 6.3 percent; the broad unemployment rate fell 0.6 percentage point to 11.1 percent. A portion of these declines reflected individuals dropping out of the labor force, but employment as measured by the survey of households showed a good gain (up 201,000), and the number of individuals working part-time involuntarily or marginally attached to the labor force declined. In short, mixed results.

Review

Week of February 1, 2021	Actual	Consensus	Comments
ISM Manufacturing Index (January)	**58.7% (-1.8 Pct. Pts.)**	**60.5% (-0.5 Pct. Pt.)**	Although the ISM manufacturing index slipped in January, it still remained elevated relative to recent and historical standards, comparing favorably with the average of 58.9% in 2018, which was the best year of the previous expansion for the index. The new orders and production components led the decline in the headline index, falling 6.4 and 4.0 percentage points, respectively. However, both measures remained historically strong with the readings in excess of 60%. With orders and production well maintained, manufacturers picked up the pace of hiring, although the level was not especially impressive (up 0.9 percentage point to 52.6%). The supplier delivery index rose 0.5 percentage point to 68.2%. The elevated reading perhaps reflects strong demand, but pandemic-related disruptions to supply chains probably account for the most recent surge.
Construction Spending (December)	**1.0**	**0.9%**	Total construction activity rose in December from an upwardly revised level in the prior month (results in November were 1.1% firmer than previously believed). Private residential construction led the advance (+3.1%; up for seven consecutive months), with a jump of 5.8% in new construction of single-family homes accounting for most of the gain. Private nonresidential building fell again, with the drop of 1.7% representing the 10th decline in the past 11 months. Government-related construction increased 0.5%, which marked the second gain in the past three months. Activity is still lighter than it was earlier in the year, but state and local governments have revived new construction to a degree.
ISM Services Index (January)	**58.7% (+1.0 Pct. Pt.)**	**56.7% (-1.0 Pct. Pt.)**	The ISM services index in January registered its best reading since the onset of the pandemic. The new orders component posted a solid gain, increasing 3.2 percentage points to 61.8%. The latest observation did not represent a new high for the pandemic period (July posted a reading of 64.8%), but it matched the second best tally and was elevated relative to historical standards. Despite the jump in orders, the business activity index eased 0.6 percentage point, but the level of the index remained high at 59.9%. The employment index had been lagging other components in recent months. However, this measure rose 6.5 percentage points in January to 55.2%, a respectable reading by historical standards. The supplier delivery index fell 5.0 percentage points to 57.8%, but we view this as a favorable development. The retreat most likely signals that supply-chain disruptions related to the virus are easing.
Nonfarm Productivity (2020-Q4)	**-4.8%**	**-3.0%**	Output in the fourth quarter grew at a solid pace (5.3%, annual rate), but businesses required a large increase in the number of hours worked to generate this output (10.7%). The productivity performance looks dreadful when viewed in isolation, but growth totaled 10.6% and 5.1% in the second and third quarters, respectively, and the latest drop could be viewed as random volatility or payback for the strong advances in the prior two quarters.

Review Continued

Week of February 1, 2021	Actual	Consensus	Comments
Factory Orders (December)	**1.1%**	**0.7%**	New orders for durable goods rose 0.5% (revised from the preliminary estimate of 0.2%), reflecting weak results in the volatile transportation category that were countered by an increase of 1.1% elsewhere. Durable orders ex-transportation are now 6.4% above the pre-virus peak in January. Orders for nondurable goods rose 1.7% in December. Part of the increase was the result of a jump of 5.6% in bookings for petroleum and coal products, which undoubtedly was influenced by higher prices. However, orders ex-petrol also performed well, increasing 0.9% and marking the eighth consecutive advance. The latest increase pushed nondurable orders ex-petrol further above the pre-pandemic high (now 2.1% above the January level).
Payroll Employment (January)	**49,000**	**105,000**	Payroll employment rose modestly in January, with downward revisions of 159,000 in the prior two months adding to the soft tone of the report. Total employment remains well shy of its pre-pandemic level, having recouped only 56% of the ground lost in the spring. While generally unimpressive, some areas posted encouraging results. The mining industry registered its fifth consecutive month of gains, and the education sector and state and local governments ended strings of monthly job cuts. The unemployment rate provided a favorable surprise with a drop of 0.4 percentage point to 6.3%. Some of the decline was the result of individuals dropping out of the labor force (off 406,000), but the survey of households also showed a decent gain in employment (up 201,000).
Trade Balance (December)	**-$66.6 Billion ($2.4 Billion Narrower Deficit)**	**-$65.7 Billion ($2.4 Billion Narrower Deficit)**	Exports and imports both rose in December (up 3.4% and 1.5%, respectively), and with the larger change in exports, the trade deficit in goods and services narrowed after swelling in November. The deficit in goods narrowed by $2.8 billion, a change suggested by last week's preliminary report on goods trade, which accounted for all of the improvement. The services surplus, in contrast, slipped for the sixth consecutive month (off $0.45 billion). Trade flows in recent quarters have been a drag on economic growth, with preliminary figures for Q4 showing a drag of 1.5 percentage points after net exports subtracted 3.2 percentage points from growth in Q3.

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

Preview

Week of February 8, 2021	Projected	Comments
CPI (January) (Wednesday)	**0.2% Total, 0.1% Core**	Higher energy prices are likely to be a factor in the January CPI, but the food component should be tame as prices of food for home consumption continue to unwind the surge in early 2020. The sub-par economy seems to have eased pressure on several key items in the CPI, which should leave another modest increase in the core component. The increase in rental rates has slowed considerably, and medical costs are decelerating as well. Prices of used vehicles are now easing after surging in the early stages of the pandemic, and we suspect that prices of new vehicles will soon begin to cool after increasing noticeably in seven of the prior eight months.
Federal Budget (January) (Wednesday)	**$150.0 Billion Deficit**	Available data suggest that federal revenues in January grew approximately 2.0% from the total in the same month last year, a less-than-robust pace but an improvement from the average of -0.4% in the first quarter of the current fiscal year (Oct to Dec). Outlays are likely to be above the average in the prior quarter, as spending associated with the stimulus package approved in December began to flow. The underwhelming increase in revenues and the pickup in spending are likely to generate a deficit well ahead of the $32.6 billion shortfall in the same month last year.
Consumer Sentiment (February) (Friday)	**80.0 (+1.0 Index Pt.)**	Record readings in the stock market might brighten consumer moods, but concern about the coronavirus seems to have curbed enthusiasm in recent months, and slow distribution of vaccines could reinforce apprehensions.

Source: Forecasts provided by Daiwa Capital Markets America

Economic Indicators

February 2021

Monday	Tuesday	Wednesday	Thursday	Friday
1	2	3	4	5
ISM INDEX Index Prices Nov 57.7 65.4 Dec 60.5 77.6 Jan 58.7 82.1 **CONSTRUCTION SPEND.** Oct 2.5% Nov 1.1% Dec 1.0%	**VEHICLE SALES** Nov 15.7 million Dec 16.2 million Jan 16.2 million	**ADP EMPLOYMENT REPORT** Private Payrolls Nov 299,000 Dec -78,000 Jan 174,000 **ISM SERVICES INDEX** Index Prices Nov 56.8 63.9 Dec 57.7 64.4 Jan 58.7 64.2	**UNEMPLOYMENT CLAIMS** Initial Continuing (Millions) Jan 09 0.927 4.975 Jan 16 0.875 4.785 Jan 23 0.812 4.592 Jan 30 0.779 N/A **PRODUCTIVITY & COSTS** Productivity Unit Labor Costs 20-Q2 10.6% 12.3% 20-Q3 5.1% -7.0% 20-Q4 -4.8% 6.8% **FACTORY ORDERS** Oct 1.3% Nov 1.3% Dec 1.1%	**EMPLOYMENT REPORT** Payrolls Un. Rate Nov 264,000 6.7% Dec -227,000 6.7% Jan 49,000 6.3% **TRADE BALANCE** Oct -$63.8 billion Nov -$69.0 billion Dec -$66.6 billion **CONSUMER CREDIT** Oct $4.3 billion Nov $13.9 billion Dec $9.7 billion
8	9	10	11	12
	NFIB SMALL BUSINESS OPTIMISM INDEX (6:00) Nov 101.4 Dec 95.9 Jan -- **JOLTS DATA (10:00)** Openings (000) Quit Rate Oct 6,632 2.2% Nov 6,527 2.2% Dec -- --	**CPI (8:30)** Total Core Nov 0.2% 0.2% Dec 0.4% 0.1% **Jan 0.2% 0.1%** **WHOLESALE TRADE (10:00)** Inventories Sales Oct 1.3% 1.7% Nov 0.0% 0.2% **Dec 0.1% 0.5%** **FEDERAL BUDGET (2:00)** FY2021 FY2020 Nov -$145.3B -$208.8B Dec -$143.6B -$13.3B **Jan -$150.0B** -$32.6B	**INITIAL CLAIMS (8:30)**	**CONSUMER SENTIMENT (10:00)** Dec 80.7 Jan 79.0 **Feb 80.0**
15	16	17	18	19
PRESIDENTS' DAY	**EMPIRE MFG INDEX** **TIC DATA**	**RETAIL SALES** **PPI** **IP & CAP-U** **BUSINESS INVENTORIES** **NAHB HOUSING INDEX** **FOMC MINUTES**	**INITIAL CLAIMS** **HOUSING STARTS** **IMPORT/EXPORT PRICES** **PHILLY FED INDEX**	**EXISTING HOME SALES**
22	23	24	25	26
CHICAGO FED NATIONAL ACTIVITY INDEX **LEADING INDICATORS**	**FHFA HOME PRICE INDEX** **S&P CORELOGIC CASE-SHILLER HOME PRICE INDEX** **CONSUMER CONFIDENCE**	**NEW HOME SALES**	**INITIAL CLAIMS** **DURABLE GOODS ORDERS** **REVISED GDP** **PENDING HOME SALES**	**PERSONAL INCOME, CONSUMPTION, PRICE INDEXES** **U.S. INTERNATIONAL TRADE IN GOODS** **ADVANCE INVENTORIES** **MNI CHICAGO PMI** **REVISED CONSUMER SENTIMENT**

Forecasts in Bold.

Treasury Financing

February 2021

Monday	Tuesday	Wednesday	Thursday	Friday
1	2	3	4	5
AUCTION RESULTS: Rate / Cover 13-week bills 0.065% 2.88 26-week bills 0.070% 3.41 **SETTLE:** $24 billion 20-year bonds $28 billion 2-year FRNs $60 billion 2-year notes $61 billion 5-year notes $62 billion 7-year notes	**AUCTION RESULTS:** Rate / Cover 6-week CMB 0.050% 4.05 17-week CMB 0.060% 3.97 **ANNOUNCE:** $30 billion 4-week bills for auction on February 4 $35 billion 8-week bills for auction on February 4 $25 billion 15-week CMBs for auction on February 3 $30 billion 22-week CMBs for auction on February 3 **SETTLE:** $30 billion 4-week bills $35 billion 8-week bills $25 billion 15-week CMBs $30 billion 22-week CMBs	**AUCTION RESULTS:** Rate / Cover 15-week CMB 0.055% 3.84 22-week CMB 0.055% 3.57 **ANNOUNCE MID-QUARTER REFUNDING:** $58 billion 3-year notes for auction on February 9 $41 billion 10-year notes for auction on February 10 $27 billion 30-year bonds for auction on February 11	**AUCTION RESULTS:** Rate / Cover 4-week bills 0.030% 3.86 8-week bills 0.035% 3.84 **ANNOUNCE:** $105 billion 13-,26-week bills for auction on February 8 $30 billion 6-week CMBs for auction on February 9 $30 billion 17-week CMBs for auction on February 9 **SETTLE:** $105 billion 13-,26-week bills $30 billion 6-week CMBs $30 billion 17-week CMBs	
8	9	10	11	12
AUCTION: $105 billion 13-,26-week bills	**AUCTION:** $58 billion 3-year notes $30 billion 6-week CMBs $30 billion 17-week CMBs **ANNOUNCE:** $30 billion* 4-week bills for auction on February 11 $35 billion* 8-week bills for auction on February 11 $25 billion* 15-week CMBs for auction on February 10 $30 billion* 22-week CMBs for auction on February 10 **SETTLE:** $30 billion 4-week bills $35 billion 8-week bills $25 billion 15-week CMBs $30 billion 22-week CMBs	**AUCTION:** $41 billion 10-year notes $25 billion* 15-week CMBs $30 billion* 22-week CMBs	**AUCTION:** $30 billion* 4-week bills $35 billion* 8-week bills $27 billion 30-year bonds **ANNOUNCE:** $105 billion* 13-,26-week bills for auction February 16 $27 billion* 20-year bonds for auction on February 17 $9 billion* 30-year TIPS for auction on February 18 $30 billion* 6-week CMBs for auction on February 16 $30 billion* 17-week CMBs for auction on February 16 **SETTLE:** $105 billion 13-,26-week bills $30 billion 6-week CMBs $30 billion 17-week CMBs	
15	16	17	18	19
PRESIDENTS' DAY	**AUCTION:** $105 billion* 13-,26-week bills $30 billion* 6-week CMBs $30 billion* 17-week CMBs **ANNOUNCE:** $30 billion* 4-week bills for auction on February 18 $35 billion* 8-week bills for auction on February 18	**AUCTION:** $27 billion* 20-year bonds **SETTLE:** $30 billion* 4-week bills $35 billion* 8-week bills $58 billion 3-year notes $41 billion 10-year notes $27 billion 30-year bonds $25 billion* 15-week CMBs $30 billion* 22-week CMBs	**AUCTION:** $30 billion* 4-week bills $35 billion* 8-week bills $9 billion* 30-year TIPS **ANNOUNCE:** $105 billion* 13-,26-week bills for auction February 22 $34 billion* 52-week bills for auction on February 23 $26 billion* 2-year FRNs for auction on February 24 $60 billion* 2-year notes for auction on February 23 $61 billion* 5-year notes for auction on February 24	$62 billion* 7-year notes for auction on February 25 $30 billion* 6-week CMBs for auction on February 23 **SETTLE:** $105 billion* 13-,26-week bills $30 billion* 6-week CMBs $30 billion* 17-week CMBs
22	23	24	25	26
AUCTION: $105 billion* 13-,26-week bills	**AUCTION:** $34 billion* 52-week bills $60 billion* 2-year notes $30 billion* 6-week CMBs **ANNOUNCE:** $30 billion* 4-week bills for auction on February 25 $35 billion* 8-week bills for auction on February 25 $30 billion* 17-week CMBs for auction on February 24 **SETTLE:** $30 billion* 4-week bills $35 billion* 8-week bills	**AUCTION:** $26 billion* 2-year FRNs $61 billion* 5-year notes $30 billion* 17-week CMBs	**AUCTION:** $30 billion* 4-week bills $35 billion* 8-week bills $62 billion* 7-year notes **ANNOUNCE:** $105 billion* 13-,26-week bills for auction March 1 $30 billion* 6-week CMBs for auction on March 2 **SETTLE:** $105 billion* 13-,26-week bills $34 billion* 52-week bills $30 billion* 6-week CMBs	**SETTLE:** $9 billion* 30-year TIPS $26 billion* 2-year FRNs

**Estimate*