Daiwa Capital Markets

U.S. Economic Comment

- Employment: vigorous advance in March
- Biden fiscal policy, round 2: little stimulus this year

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The Labor Market: On Track

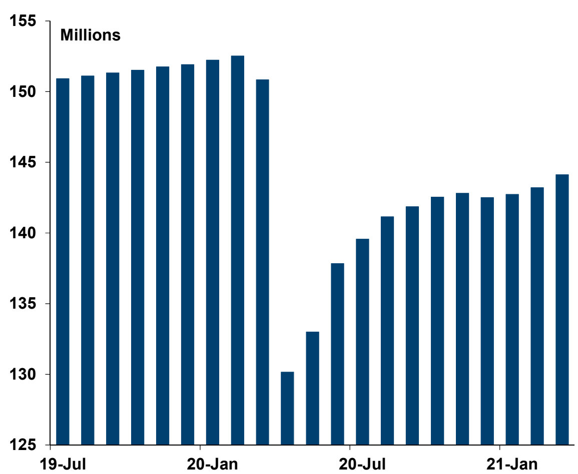
The job market improved considerably in March, with nonfarm payrolls increasing 916,000 (or 0.6 percent). In addition, results in the prior two months were revised upward, with January and February combined showing 156,000 more jobs than previously believed. Nonfarm payrolls have now retraced more than 62 percent of the jobs lost last spring, up from 57 percent shown in the employment report for February (chart, left).

Part of the strength in March was simply a rebound from weather-related constraints in February. The weather effect was evident in both construction and mining, where job growth was well above normal after cuts in the prior month. However, progress in fighting Covid also played a role, as job growth in areas most affected by the virus showed marked improvement.

Leisure and hospitality, for example, posted job growth of 280,000 (or 2.1 percent). This hard-hit sector has now recouped 62 percent of the ground lost last spring, essentially equal to the recovery for the labor market overall. State and local governments also posted strong results, as schools are reopening and workers in the education establishment are being recalled. Private-sector employment in the education sector also jumped in March, which marked the third consecutive increase and reversed a second round of weakening in the closing months of last year.

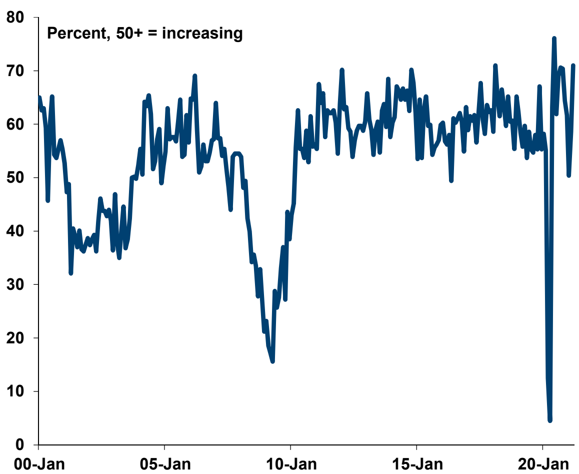
The diffusion index of employment also suggested that a reopening of the economy was a key driver of the employment gain in March. (The diffusion index is constructed like the ISM index. It is the share of industries posting employment gains plus one-half the share showing steady employment; 50 percent separates net expansion from net contraction.) The March tally totaled 71 percent, matching the best reading in the previous expansion and exceeded recently only by the 76.1 percent tally in June, when payroll employment surged by 4.8 million (chart, right).

Nonfarm Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

Diffusion Index of Private Nonfarm Payrolls*



** The diffusion index is constructed like the ISM index. The measure adds the share of industries posting employment gains plus one-half the share showing steady employment; 50 percent separates net expansion from net contraction.*

Source: Bureau of Labor Statistics via Haver Analytics

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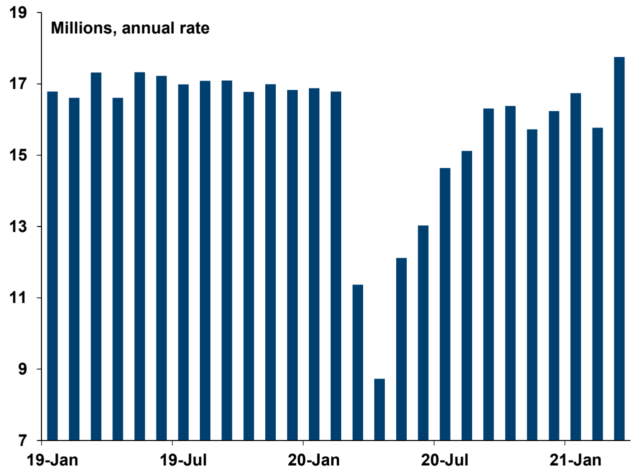
Not only was employment strong, but the length of the average workweek lengthened (up 0.3 hour to 34.9 hours). The combination of larger payrolls and more hours worked suggests that March was a robust month for production. A striking read on the ISM index for March also points to a strong month (up 3.9 percentage points to 64.7 percent, a 37-year high). Sales of new vehicles in March also were impressive at 17.7 million. Part of this total represented a rebound from weather-related softness in February, but the two months combined were still the best of the current recovery period and in line with pre-pandemic results (chart).

New Vehicle Sales



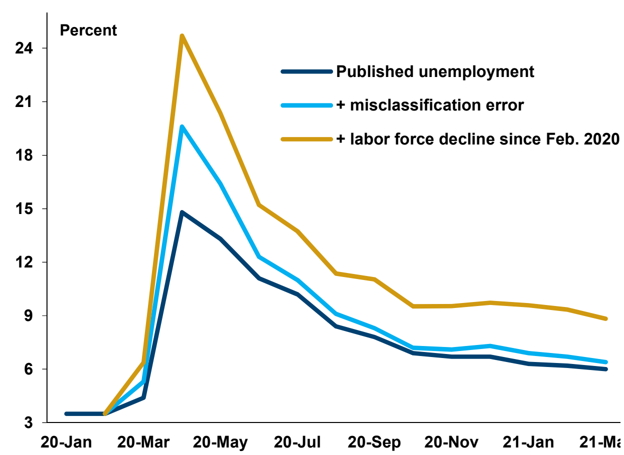
Source: Bureau of Economic Analysis via Haver Analytics

The unemployment rate fell 0.2 percentage point to 6.0 percent. The drop reflected an increase in employment as measured by the household survey that exceeded the increase in the size of the labor force. The results were not as impressive as those for the establishment survey, but job growth of 609,000 in the household survey and an expansion of 347,000 in the size of the labor force were still solid results (chart, below left).

The broad unemployment rate dropped 0.4 percentage point to 10.7 percent. Declines in both the number of involuntary part-time workers and the number of marginally attached workers reinforced the drop in the traditional jobless measure.

Average hourly earnings posted what might be viewed as a poor result: a drop of 0.1 percent. However, we are inclined to give this reading a positive spin, as it could be interpreted as a sign that lower-paid workers, who experienced heavy job cuts during the early stages of the pandemic, were being recalled to their jobs. The absence of low-wage jobs in the calculation of the average led to a pickup at the start of the pandemic that drove average hourly earnings well above trend (chart, below right). The recall of low-wage workers is pushing the average back toward trend, although there is still a gap.

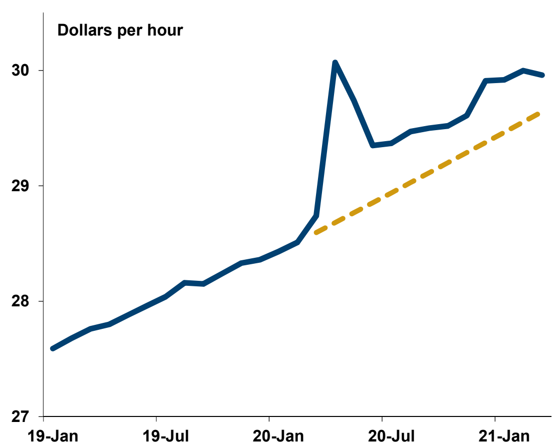
Official and Alternative Unemployment Rates*



** The data are from the Bureau of Labor Statistics and Federal Reserve Board staff calculations. Results were updated by Daiwa Capital Markets America to include January to March 2021 data.*

Source: Powell, Jerome H. "Getting Back to a Strong Labor Market." 10 Feb. 2021. Federal Reserve Board: https://www.federalreserve.gov/newsevents/speech/powell20210210a.htm; Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

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

Employment Report*

	Nonfarm Payrolls	Private-Sector Payrolls	Unemp. Rate	Broad Unemp. Rate	Household Emp.	Labor Force	Emp.-Population Ratio	Median Duration of Unemp.	Part-Time Econ. Reasons	Avg. Hourly Earnings	Avg. Workweek
	(Chg., Thousands)		(Percent)		(Chg., Thousands)		(Pct.)	(Weeks)	(Thou.)	% Chg.	(Hours)
Annual Average											
2019	168	150	3.7	7.2	166	121	60.8	9.2	4,408	0.2	34.4
2020	-785	-679	8.1	13.7	-742	-334	56.8	12.6	7,227	0.5	34.6
2021	539	487	6.2	11.0	339	-3	57.6	17.8	5,956	0.1	34.8
Qtrly. Average											
20-Q2	-4,333	-3,860	13.1	20.7	-4,479	-975	52.9	7.6	10,190	0.7	34.5
20-Q3	1,342	1,174	8.8	14.5	1,814	94	56.1	16.5	7,405	0.2	34.7
20-Q4	213	346	6.8	11.9	762	163	57.4	18.2	6,493	0.5	34.8
21-Q1	539	487	6.2	11.0	339	-3	57.6	17.8	5,956	0.1	34.8
2020 Monthly											
July	1,726	1,523	10.2	16.5	1,677	288	55.2	15.1	8,400	0.1	34.6
Aug.	1,583	1,066	8.4	14.2	3,499	733	56.5	16.7	7,533	0.3	34.7
Sept.	716	932	7.8	12.8	267	-740	56.6	17.8	6,283	0.1	34.8
Oct.	680	954	6.9	12.1	2,126	640	57.4	19.0	6,668	0.1	34.8
Nov.	264	359	6.7	12.0	140	-182	57.4	18.9	6,641	0.3	34.8
Dec.	-306	-274	6.7	11.7	21	31	57.4	16.8	6,170	1.0	34.7
2021 Monthly											
Jan.	233 (166)	122	6.3	11.1	201	-406	57.5	15.3	5,954	0.0	35.0
Feb.	468 (379)	558	6.2	11.1	208	50	57.6	18.3	6,088	0.3	34.6
Mar.	916	780	6.0	10.7	609	347	57.8	19.7	5,826	-0.1	34.9

** Preliminary readings on nonfarm payrolls are shown in parenthesis.*
Source: Bureau of Labor Statistics via Haver Analytics

Biden Round 2: Hurdles to Clear

President Biden's first fiscal package, the $1.9 trillion American Rescue Plan, cleared Congress rather quickly. We suspect that his new proposal, the American Jobs Plan, will take a considerably longer time. The Rescue Plan, because of its focus on Covid, had a high degree of urgency behind its passage, which probably limited the efforts of legislators to alter its contents. The new proposal, focused on infrastructure, is important, but certainly is not an emergency-like situation. As a result, representatives and senators, not to mention lobbyists, will probably push hard to amend the proposal to fit their preferences.

The new plan involves corporate taxes, which no doubt will trigger strong lobbying efforts by business groups. In addition, it could open a door to changes in the personal tax code. For example, some representatives have already indicated that they will seek to eliminate the cap of $10,000 on the deductibility of state and local taxes.

The spending elements of the proposal also are likely to receive considerable attention. Those with a conservative tilt are likely to argue that spending is either excessive or poorly focused. They have a point, as several elements of the Biden proposal are outside the range of traditional infrastructure projects (home renovation, job training, in-home health care). Those with a liberal bent might argue that the package is too small (some already have).

We don't see debate ending quickly, and passage is not assured. Even if the legislation clears Congress within a reasonable time period -- say during the summer -- it is not likely to bring meaningful stimulus this year. The projects involved will take time to initiate. The experience with the stimulus program of President Obama is instructive. He intended to deal only with "shovel-ready" projects, but he later admitted that no projects are truly shovel ready. In addition, the stimulus, when it does arrive, will be less forceful than suggested by the $2 trillion price tag, as the tax increases involved will provide a dampening effect.

In one sense, the delay in stimulus is fortunate, as there is plenty of federal support in the pipeline for this year. Households saved a sizeable portion of the transfer payments from the government last year, and those funds can be drawn on this year. In addition, the support from the $900 billion package authorized in December and the $1.9 trillion allotted by the Rescue Plan will be stirring activity for some time.

Review

Week of March 29, 2021	Actual	Consensus	Comments
Conference Board Consumer Confidence (March)	**109.7 (+19.3 Index Pts.)**	**96.9 (+5.6 Index Pts.)**	The jump in the Conference Board's index of consumer confidence was among largest in the history of the series. Although the change was notable, the level of the index was still not impressive, as it remained well below readings before the onset of the pandemic (17.3% below the February 2020 level). The approval and disbursement of rebate checks probably brightened moods, and perceptions of an improving labor market probably had an influence as well (the share of individuals indicating that jobs were plentiful rose while the share indicating that jobs were hard to find fell).
ISM Manufacturing Index (March)	**64.7% (+3.9 Pct. Pts.)**	**61.5% (+0.7 Pct. Pt.)**	The ISM manufacturing index jumped in March, pushing the measure above all observations in the prior three expansions; one has to go back to December 1983, when the economy started to recover from a deep recession, to find a stronger reading. The new orders, production, and employment components all posted sizeable gains and moved to the upper portions of their historical ranges. The supplier delivery index was the strongest of all the components, with the reading of 76.6%. Strong demand no doubt played a role in boosting this measure, but difficult weather conditions and disruptions to supply chains probably had a strong influence as well.
Construction Spending (February)	**-0.8%**	**-1.0%**	A drop of 1.7% in government-related building led the decline in construction activity in February, but private nonresidential and private residential activity also contributed (off 1.0% and 0.2%, respectively). The declines were neither surprising nor troubling, as severe storms no doubt inhibited new building. In fact, we view the modest decline in private residential construction in the face of severe weather as a sign of underlying strength.
Payroll Employment (March)	**916,000**	**660,000**	Nonfarm payroll growth in March accelerated sharply from average growth of 165,000 from November to January. With the latest shift, nonfarm payrolls have recovered 62.4% of the ground lost in the spring. The unemployment rate declined 0.2 percentage point to 6.0%, as employment growth of 609,000 as measured by the household survey eclipsed an expansion of 347,000 in the size of the labor force. The broad unemployment rate declined more sharply (down four ticks to 10.7%), as both marginally attached workers and those working part-time for economic reasons moved lower.

Sources: The Conference Board (Consumer Confidence); Institute for Supply Management (ISM Manufacturing Index); U.S. Census Bureau (Construction Spending); Bureau of Labor Statistics (Payroll Employment); Consensus forecasts are from Bloomberg

Preview

Week of April 5, 2021	Projected	Comments
ISM Services Index (March) (Monday)	**58.5% (+3.2 Pct. Pts.)**	The ISM services index fell almost two points in February from its average in the prior eight months, perhaps reflecting disruptions related to severe storms. It should retrace most or all of the weather-related weakness in the prior month.
Factory Orders (February) (Monday)	**0.0%**	An expected increase in orders for nondurable goods should about offset the already reported drop of 1.1% in orders for durable goods. The gain in the nondurable component, however, most likely reflected a price-led jump in the petroleum and coal category. Challenging weather might have ended a string of nine consecutive increases in orders for nondurable goods excluding petroleum and coal.
Trade Balance (February) (Wednesday)	**-$70.0 Billion ($1.8 Billion Wider Deficit)**	The already reported widening of $2.1 billion in the goods trade deficit is likely to account for most of the slippage in the overall trade deficit. Added flows of exports and imports not captured through normal customs channels will probably add to the shortfall. A slight improvement in the service surplus in January offers hope that the erosion seen in the past year is drawing to a close.
PPI (March) (Friday)	**0.4% Total, 0.1% Ex. Food and Energy**	A surge in energy prices is likely to account for most of the increase in the producer price index. The food component jumped above its underlying trend in February and should settle in March. Prices excluding food and energy are due for a quiet month after an average increase of 0.5% in the prior four months.

Source: Forecasts provided by Daiwa Capital Markets America

Economic Indicators

March/April 2021

Monday	Tuesday	Wednesday	Thursday	Friday
29	30	31	1	2
	FHFA HOME PRICE INDEX Nov 1.1% Dec 1.2% Jan 1.0% **S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX** SA / NSA Nov 1.5% 1.1% Dec 1.3% 0.9% Jan 1.2% 0.9% **CONFERENCE BOARD CONSUMER CONFIDENCE** Jan 88.9 Feb 90.4 Mar 109.7	**ADP EMPLOYMENT REPORT** Private Payrolls Jan 196,000 Feb 176,000 Mar 517,000 **MNI CHICAGO BUSINESS BAROMETER INDEX** Index / Prices Jan 63.8 75.2 Feb 59.5 75.3 Mar 66.3 80.4 **PENDING HOMES SALES** Dec 0.5% Jan -2.4% Feb -10.6%	**UNEMPLOYMENT CLAIMS** Initial / Continuing (Millions) Mar 06 0.734 4.123 Mar 13 0.765 3.840 Mar 20 0.658 3.794 Mar 27 0.719 N/A **ISM MFG. INDEX** Index / Prices Jan 58.7 82.1 Feb 60.8 86.0 Mar 64.7 85.6 **CONSTRUCTION SPEND.** Dec 2.1% Jan 1.2% Feb -0.8% **NEW VEHICLE SALES** Jan 16.7 million Feb 15.8 million Mar 17.7 million	***GOOD FRIDAY*** **EMPLOYMENT REPORT** Payrolls / Un. Rate Jan 233,000 6.3% Feb 468,000 6.2% Mar 916,000 6.0%
5	6	7	8	9
ISM SERVICES INDEX (10:00) Index / Prices Jan 58.7 64.2 Feb 55.3 71.8 **Mar 58.5 72.0** **FACTORY ORDERS (10:00)** Dec 1.6% Jan 2.7% **Feb 0.0%**	**JOLTS DATA (10:00)** Openings (000) / Quit Rate Dec 6,752 2.4% Jan 6,917 2.3% Feb -- --	**TRADE BALANCE (8:30)** Dec -$67.0 billion Jan -$68.2 billion **Feb -$70.0 billion** **FOMC MINUTES (2:00)** **CONSUMER CREDIT (3:00)** Dec $8.8 billion Jan -$1.3 billion Feb --	**INITIAL CLAIMS (8:30)**	**PPI (8:30)** Final Demand / Ex. Food & Energy Jan 1.3% 1.2% Feb 0.5% 0.2% **Mar 0.4% 0.1%** **WHOLESALE TRADE (10:00)** Inventories / Sales Dec 0.3% 1.4% Jan 1.4% 4.6% **Feb 0.5% -2.5%**
12	13	14	15	16
FEDERAL BUDGET	**NFIB SMALL BUSINESS OPTIMISM INDEX** **CPI**	**IMPORT/EXPORT PRICES** **BEIGE BOOK**	**INITIAL CLAIMS** **RETAIL SALES** **EMPIRE MFG. INDEX** **PHILLY FED INDEX** **IP & CAP-U** **BUSINESS INVENTORIES** **NAHB HOUSING MARKET INDEX** **TIC DATA**	**HOUSING STARTS** **CONSUMER SENTIMENT**
19	20	21	22	23
			INITIAL CLAIMS **CHICAGO FED NATIONAL ACTIVITY INDEX** **EXISTING HOME SALES** **LEADING INDICATORS**	**NEW HOME SALES**

Forecasts in Bold.

Treasury Financing

March/April 2021

Monday	Tuesday	Wednesday	Thursday	Friday
29	30	31	1	2
AUCTION RESULTS: Rate Cover 13-week bills 0.020% 2.68 26-week bills 0.040% 2.93	**AUCTION RESULTS:** Rate Cover 6-week CMB 0.015% 2.97 **ANNOUNCE:** $40 billion 4-week bills for auction on April 1 $40 billion 8-week bills for auction on April 1 $35 billion 17-week CMBs for auction on March 31 **SETTLE:** $40 billion 4-week bills $40 billion 8-week bills $35 billion 17-week CMBs	**AUCTION RESULTS:** Rate Cover 17-week CMB 0.030% 3.49 **SETTLE:** $24 billion 20-year bonds $13 billion 10-year TIPS $60 billion 2-year notes $61 billion 5-year notes $62 billion 7-year notes	**AUCTION RESULTS:** Rate Cover 4-week bills 0.015% 3.19 8-week bills 0.015% 3.62 **ANNOUNCE:** $111 billion 13-,26-week bills for auction on April 5 $40 billion 6-week CMBs for auction on April 6 **SETTLE:** $111 billion 13-,26-week bills $40 billion 6-week CMBs	***GOOD FRIDAY***
5	6	7	8	9
AUCTION: $111 billion 13-,26-week bills	**AUCTION:** $40 billion 6-week CMBs **ANNOUNCE:** $40 billion* 4-week bills for auction on April 8 $40 billion* 8-week bills for auction on April 8 **SETTLE:** $40 billion 4-week bills $40 billion 8-week bills $35 billion 17-week CMBs		**AUCTION:** $40 billion* 4-week bills $40 billion* 8-week bills **ANNOUNCE:** $111 billion* 13-,26-week bills for auction April 12 $58 billion* 3-year notes for auction on April 12 $38 billion* 10-year notes for auction on April 12 $24 billion* 30-year bonds for auction on April 13 **SETTLE:** $111 billion 13-,26-week bills $40 billion 6-week CMBs	
12	13	14	15	16
AUCTION: $111 billion* 13-,26-week bills $58 billion* 3-year notes $38 billion* 10-year notes	**AUCTION:** $24 billion* 30-year bonds **ANNOUNCE:** $40 billion* 4-week bills for auction on April 15 $40 billion* 8-week bills for auction on April 15 **SETTLE:** $40 billion* 4-week bills $40 billion* 8-week bills		**AUCTION:** $40 billion* 4-week bills $40 billion* 8-week bills **ANNOUNCE:** $111 billion* 13-,26-week bills for auction on April 19 $34 billion* 52-week bills for auction on April 20 $24 billion* 20-year bonds for auction on April 21 $19 billion* 5-year TIPS for auction on April 22 **SETTLE:** $111 billion* 13-,26-week bills $58 billion* 3-year notes $38 billion* 10-year notes $24 billion* 30-year bonds	
19	20	21	22	23
AUCTION: $111 billion* 13-,26-week bills	**AUCTION:** $34 billion* 52-week bills **ANNOUNCE:** $40 billion* 4-week bills for auction on April 22 $40 billion* 8-week bills for auction on April 22 **SETTLE:** $40 billion* 4-week bills $40 billion* 8-week bills	**AUCTION:** $24 billion* 20-year bonds	**AUCTION:** $40 billion* 4-week bills $40 billion* 8-week bills $19 billion* 5-year TIPS **ANNOUNCE:** $111 billion* 13-,26-week bills for auction on April 26 $28 billion* 2-year FRNs for auction on April 27 $60 billion* 2-year notes for auction on April 26 $61 billion* 5-year notes for auction on April 26 $62 billion* 7-year notes for auction on April 27 **SETTLE:** $111 billion* 13-,26-week bills $34 billion* 52-week bills	

**Estimate*