Daiwa Capital Markets

U.S. Economic Comment

- Unemployment claims: noticeable decline; unclear meaning
- Previews: GDP and FOMC

Michael Moran
Daiwa Capital Markets America
212-612-6392
michael.moran@us.daiwacm.com

Initial Claims for Unemployment Insurance

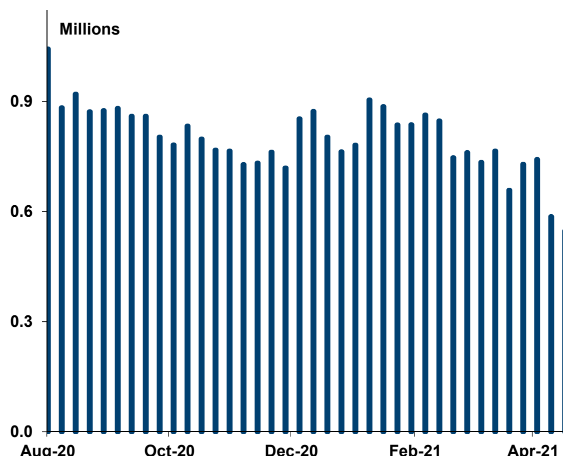
The string of strong economic reports continued into the latest week, with initial claims for unemployment insurance bringing the latest favorable surprise. After tumbling in the prior week, the number of individuals filing for unemployment benefits posted another sizeable retreat. The combined decline of 195,000 in the past two weeks represents the sharpest drop since last summer, when the economy was growing in excess of 30 percent after the swoon in the spring (chart, left).

The change is striking, but the causes and the significance of the decline are not clear. We have been perplexed by unemployment claims in the latest cycle, as the published results seem implausibly large. Consider: before the current cycle, the largest weekly reading on unemployment claims was 695,000, and results in surrounding weeks remained close to this level only briefly. In this episode, claims were above 1.0 million for 20 consecutive weeks and in excess of 700,000 for 52 consecutive weeks – a shocking persistence. The cumulative number of initial claims since March 21, 2020 (the date of the first spike) totals just over 80 million, which represents 52 percent of the pre-pandemic workforce. We find it hard to believe that more than half of all working individuals were laid off at some point in the past year.

Obviously, some individuals have filed more than once for unemployment insurance. In the early stages of the pandemic, processing problems reportedly led to multiple filings: individuals filed for benefits, but after receiving no response because of backlogs at unemployment offices, they filed again (and perhaps again and again).

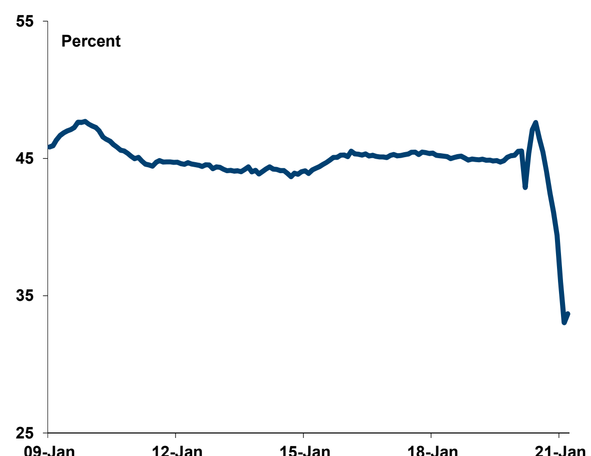
We also suspect that churn (for lack of a better term) has been a factor. That is, individuals may have lost their jobs, but were recalled for a time, only to lose their job again after a brief period of employment. Such movement in and out of the work force also would lead to multiple initial claims.

Initial Claims for Unemployment Insurance



Source: U.S. Department of Labor via Haver Analytics

First Payments as a Share of Initial Claims*



** A 12-month moving average of first payments as a share of initial claims for unemployment insurance. The data are not seasonally adjusted.*

Source: U.S. Department of Labor via Haver Analytics; Daiwa Capital Markets America

This report is issued by Daiwa Securities Group Inc. through its relevant group companies. Daiwa Securities Group Inc. is the global brand name of Daiwa Securities Co. Ltd., Tokyo (“Daiwa Securities”) and its subsidiaries worldwide that are authorized to do business within their respective jurisdictions. These include: Daiwa Capital Markets Hong Kong Ltd. (Hong Kong), regulated by the Hong Kong Securities and Futures Commission, Daiwa Capital Markets Europe Limited (London), regulated by the Financial Conduct Authority and a member of the London Stock Exchange, and Daiwa Capital Markets America Inc. (New York), a U.S. brokerdealer registered with the U.S. Securities and Exchange Commission, a futures commission merchant regulated by the U.S. Commodity Futures Trading Commission, and a primary dealer in U.S. government securities. The data contained in this report were taken from statistical services, reports in our possession, and from other sources believed to be reliable. The opinions and estimates expressed are our own, and we make no representation or guarantee either as to accuracy, completeness or as to the existence of other facts or interpretations that might be significant.

Fraud (unfortunately) is another factor that seems to be fueling unemployment claims. We have seen several press reports noting problems with fraud, and incentives for illicit filings in the current cycle have been heightened by the supplemental benefits authorized by Congress. Also, identity theft has become more prevalent than in the past, and thus criminals have more opportunity to raid the unemployment system.

Some obscure figures published by the Labor Department support the view that multiple filings by individuals are a major factor behind the elevated level of initial claims. Monthly figures are available on so-called first payments, which are the number of individuals receiving their first benefit check in the past 52 weeks. If an individual had filed earlier and received benefits, but experienced another round of unemployment within a 52-week period, that person would be counted only once in the first payment figure, but the filing for benefits with each round of unemployment would be included with the initial claims figure. Thus, a single individual can generate several initial claims, but only one first payment within a 52-week period.

As shown in the chart on the prior page (right), first payments as a share of initial claims have plummeted since last summer, shifting from a norm of approximately 45 percent to roughly 33 percent in February, which represents a record low since statistics were first published in 1971. The previous record low was 38 percent, recorded several times in the early and mid-1980s. (These figures are based on 12-month moving averages to remove obvious seasonal variation.)

The exact reason for the deviation from the norm is not clear, and thus it is difficult to draw conclusions about the labor market. Perhaps churn is diminishing, which would represent a positive development, as it would suggest more settled conditions in the labor market. Alternatively, perhaps unemployment offices are getting better at detecting fraud, which is a positive development, but it doesn't provide insight into labor market conditions.

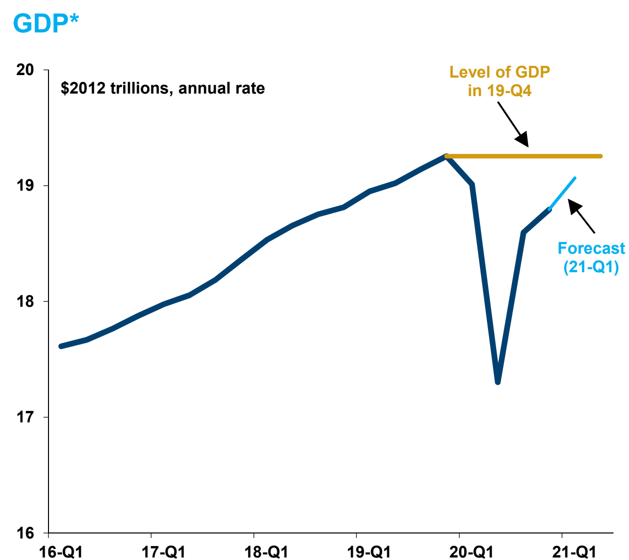
Unemployment claims in years past were one of our favorite indicators. They show considerable week-to-week volatility, but once a trend became clear, false signals were nonexistent. In this instance, though, cautious interpretation is warranted.

Q1 GDP

It turned out to be an amazing quarter. With Covid stirring in the closing months of last year, most analysts were expecting slow economic activity in early 2021. Our initial projection called for growth of only 1.5 percent; a few economists were looking for a decline in real GDP. Now, the consensus estimate calls for growth of 6.5 percent. We are a bit below consensus, but we see a still-firm 6.0 percent advance. If our view comes to pass, the economy will have recouped 91 percent of the ground lost in the first half of the year (chart). Annual growth of 3.9 percent in the second quarter would put the U.S. economy at its pre-pandemic level.

The marked shift in the economic winds largely was the result of federal policy. A concerted effort to speed the distribution of vaccines helped to tame the virus, and Congress provided strong doses of fiscal stimulus ($900 billion approved in December and $1.9 trillion authorized in March).

GDP*



* The chart assumes a level of GDP in 2021-Q1 based on growth of 6.0 percent, annual rate.

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

This support will take time to filter through the economy, which could leave the first quarter the slowest of the year.

Consumer spending will stand out in the first quarter, with progress in vaccine distribution and financial support from the federal government leading to growth of approximately nine percent. Individuals also were active in the housing market despite challenging weather in February. Residential construction is likely to register its third consecutive quarter of double-digit growth, although our expectation of 15 percent pales in comparison to the average of 49 percent in the prior two quarters.

Businesses remain reluctant to undertake long-term construction projects, but they were active buyers of new equipment. Businesses added to their inventories in Q1, but the rate of addition was slower than that in the fourth quarter, and thus inventory investment most likely will make a negative contribution to growth. International trade also is likely to be a drag, as a good portion of consumer spending and business investment involved imports while exports lagged.

The federal government, of course, was active, but most of its outlays involved transfer payments, which do not feed directly into GDP (the economic push comes from spending by the recipients of the transfer payments). State and local governments have received federal support, and thus they could return to the plus column after three consecutive quarters of spending cuts.

FOMC

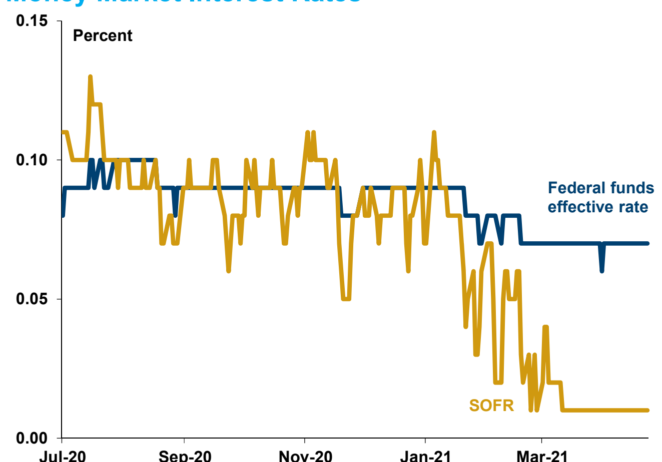
The probability of a change in monetary policy in the coming week is close to nil, but the meeting of the Federal Open Market Committee could be interesting nonetheless. While policy is likely to be unchanged, we expect Chair Powell to offer an optimistic view on the outlook, one more upbeat than the guarded view he provided at the March press conference: “indicators of economic activity and employment have turned up recently, although the sectors of the economy most adversely affected by the resurgence of the virus and by greater social distancing remain weak.”

Mr. Powell suggested a bright outlook in his television interview on *60 Minutes*, as he spoke of an inflection point in the economy, implying an upward revision to his outlook. It would be surprising if he did not bring a similar message to his press briefing on April 28. At the same time, Chair Powell is likely to emphasize that the labor market is still far from normal and that any pickup in inflation that accompanies the recovery is likely to be transitory. He will stop short of suggesting any near-term change in policy, although the positive outlook will support the view of many market participants that the Fed will begin to taper its QE program next year, and some might pull the expected date of the first rate hike into 2022. We are holding to the view that rate lift-off will occur late next year.

IOER and Rate on RRPs

Although the FOMC is not likely to adjust the federal funds rate, policymakers could raise the interest rate paid on excess reserves (IOER) and/or the interest rate on reverse repurchase agreements (RRPs). Money market interest rates have moved to rock-bottom levels in the past few months, with RPs rates at only one basis point (chart). Increases in the Fed’s two administered rates could nudge money-market rates higher and prevent them from drifting into negative territory.

Money Market Interest Rates*



** Daily data.*
Source: Bloomberg

However, such a shift is far from assured. Lorie Logan, the head of the open market trading desk at the New York Fed, noted in a recent speech that IOER and the rate on RRPs were key tools used

to control the federal funds rate, and FFR, at 0.07 percent on most days, is reasonably close to the midpoint of the 0.0-0.25 percent target range. The Fed does not have target values for RP rates or other money market rates, and with the federal funds rate close to target, the case for adjusting IOER or the rate on RRPs is not pressing.

The FOMC discussed the low level of money-market rates at its March meeting, and Chair Powell indicated that undue downward pressure on overnight rates might warrant an increase in the administered rates. However, like the speech by Lorie Logan, his focus was on the federal funds rate, and an increase in IOER or the rate on RRPs would represent an effort to keep the fed funds rate comfortably within its target range.

Ms. Logan seemed keen to avoid money market rates moving into negative territory, and increases in IOER and the rate on RRPs could prevent this from happening. However, she also noted that only a handful of trades had occurred at negative rates, and thus the situation did not seem troubling.

Thus, Fed officials do not seem to see a strong case for raising the two administered interest rates. However, if the federal funds rate were to ease from its recent level, the Fed would most likely push IOER and the rate on RRPs higher. We suspect a fed funds rate of 5 basis points could be a trigger. If the Fed were to hike IOER and/or the rate on RRPs, it would emphasize that the change is a technical adjustment to keep the fed funds rate close to the mid-point of its target range; it would not represent a fundamental change in policy.

As an aside, the Fed will soon stop using the term “interest rate on excess reserves” and replace it with the “interest rate on reserve balances” (IORB). One of the many actions taken by the Fed in response to the pandemic was to reduce reserve requirements on transactions accounts to zero (requirements on other types of accounts already were zero). Thus, with no reserve requirements, there is no distinction between required and excess reserves – there are only reserve balances. Hence, the new term will be IORB.

Review

Week of April 19, 2021	Actual	Consensus	Comments
Existing Home Sales (March)	**6.01 Million (-3.7%)**	**6.11 Million (-1.8%)**	Sales of existing homes fell for the second consecutive month in March, with the latest retreat following a drop of 6.3% in February. Despite the recent softening, sales remained at a respectable level (5.4% above the pre-pandemic level in February 2020). The National Association of Realtors cited tight inventories as a key factor in restraining sales in March, with higher mortgage interest rates and declining affordability also playing roles. In addition, adverse weather probably restrained sales to a degree. Sales of existing homes are based on closed transactions, and the challenging weather in February probably limited searches for homes and the signing of contracts, which would affect closings in March.
Leading Indicators (March)	**1.3%**	**1.0%**	Large positive contributions from initial claims for unemployment insurance, the ISM new orders index, and the slope of the yield curve led the advance in the index of leading economic indicators in March. The index has now increased in 10 of the past 11 months (the one decline was a dip of 0.1% in February), with the cumulative change retracing more than 97% of the ground lost since the onset of the pandemic.
New Home Sales (March)	**1.021 Million (+20.7%)**	**0.885 Million (+14.2%)**	New home sales surged in March from an upwardly revised level in February (sales in February were 9.2% firmer than first reported). The latest reading was the best since the second half of 2006, when sales started to decline from the peak of the housing boom. Weather seemed to play a role. Sales of new homes are based on contracts signed, and storms undoubtedly limited search activity and the signing of contracts in February, only to rebound in March with the return of mild conditions. The geographic breakdown also points to a strong weather effect. Results in the South were unusually strong in March (up 40.2%) after weak results in February (off 14.7%). Weather was exceptionally challenging in this region (Texas, hit very hard by storms, is a Southern state).

Sources: National Association of Realtors (Existing Home Sales); The Conference Board (Leading Indicators); U.S. Census Bureau (New Home Sales); Consensus forecasts are from Bloomberg

Preview

Week of April 26, 2021	Projected	Comments
Durable Goods Orders (March) (Monday)	**1.5%**	Various supply disruptions, including shortages of semiconductors, represent challenges for the manufacturing sector that could restrain orders, but rebounds from weather-related constraints in February involve upside potential that should carry the day. Firm orders at Boeing after many slow months also argue for an advance.
Consumer Confidence (April) (Tuesday)	**112.0 (+2.3 Index Pts.)**	The easing of Covid restrictions and the receipt of rebate checks probably added to the sizeable pickup in confidence registered in March (up 19.3 index points or 21.4%). Record readings on indexes of stock prices also might have brightened moods. Despite recent and expected improvement, the confidence index remains noticeably below the pre-pandemic high of 132.6 in February 2020.
U.S. International Trade in Goods (March) (Wednesday)	**-$86.5 Billion ($0.6 Billion Narrower Deficit)**	Both exports and imports are likely to rebound from declines in February associated with weather delays and port congestion. Exports, having been severely constrained in February, are likely to show the sharper pickup, leaving a slight improvement in the monthly trade deficit.
GDP (2021-Q1) (Thursday)	**6.0%**	As in the prior two quarters, consumer spending and residential construction will account for most of the advance in GDP, with business outlays for new equipment providing support as well. Net exports and inventory investment probably made negative contributions.
Personal Income, Consumption, Core Prices (March) (Friday)	**20.0%, 2.5%, 0.3%**	Strong job growth probably fueled a solid advance in wage income, but a surge in government support payments (so-called transfer payments) will dominate the income side of this report. The report on retail sales showed that support from the federal government led to vigorous spending by individuals. Energy prices will probably drive the headline PCE price index higher, but the CPI also points to an above-average increase in the core index.
Employment Cost Index (2021-Q1) (Friday)	**0.7%**	The ECI posted modest gains in the second and third quarters of last year when unemployment was elevated, but with the labor market getting back on track, growth should be within the pre-pandemic range, as it was in Q4. This measure is a fixed-weight index, and thus changes in the composition of the workforce will not influence the results.

Source: Forecasts provided by Daiwa Capital Markets America

Economic Indicators

April/May 2021

Monday	Tuesday	Wednesday	Thursday	Friday
19	20	21	22	23
			UNEMPLOYMENT CLAIMS Initial / Continuing (Millions) Mar 27 0.729 3.717 Apr 03 0.742 3.708 Apr 10 0.586 3.674 Apr 17 0.547 N/A **CHICAGO FED NATIONAL ACTIVITY INDEX** Monthly / 3-Mo. Avg. Jan 1.10 0.59 Feb -1.20 0.07 Mar 1.71 0.54 **EXISTING HOME SALES** Jan 6.66 million Feb 6.24 million Mar 6.01 million **LEADING INDICATORS** Jan 0.5% Feb -0.1% Mar 1.3%	**NEW HOME SALES** Jan 1.010 million Feb 0.846 million Mar 1.021 million
26	27	28	29	30
DURABLE GOODS ORDERS (8:30) Jan 3.6% Feb -1.2% **Mar 1.5%**	**FHFA HOME PRICE INDEX (9:00)** Dec 1.2% Jan 1.0% Feb -- **S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX (9:00)** SA / NSA Dec 1.3% 0.9% Jan 1.2% 0.9% Feb -- -- **CONFERENCE BOARD CONSUMER CONFIDENCE (10:00)** Feb 90.4 Mar 109.7 **Apr 112.0** **FOMC MEETING**	**U.S. INTERNATIONAL TRADE IN GOODS (8:30)** Jan -$84.4 billion Feb -$87.1 billion **Mar -$86.5 billion** **ADVANCE INVENTORIES (8:30)** Wholesale / Retail Jan 1.4% -0.3% Feb 0.6% 0.0% Mar -- -- **FOMC DECISION (2:00)** **POWELL PRESS CONFERENCE (2:30)**	**INITIAL CLAIMS (8:30)** **GDP (8:30)** GDP / Chained Price 20-Q3 33.4% 3.5% 20-Q4 4.3% 2.0% **21-Q1 6.0% 2.5%** **PENDING HOME SALES (10:00)** Jan -2.4% Feb -10.6% Mar --	**PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX (8:30)** Inc. / Cons. / Core Jan 10.1% 3.4% 0.2% Feb -7.1% -1.0% 0.1% **Mar 20.0% 2.5% 0.3%** **EMPLOYMENT COST INDEX (8:30)** Comp. / Wages 20-Q3 0.5% 0.4% 20-Q4 0.7% 0.9% **21-Q1 0.7% 0.7%** **MNI CHICAGO BUSINESS BAROMETER INDEX (9:45)** Index / Prices Feb 59.5 75.3 Mar 66.3 80.4 Apr -- -- **REVISED CONSUMER SENTIMENT (10:00)** Feb 76.8 Mar 84.9 Apr(p) 86.5
3	4	5	6	7
ISM MFG. INDEX **CONSTRUCTION SPEND.** **VEHICLE SALES**	**TRADE BALANCE** **FACTORY ORDERS**	**ADP EMPLOYMENT REPORT** **ISM SERVICES INDEX**	**INITIAL CLAIMS** **PRODUCTIVITY & COSTS**	**EMPLOYMENT REPORT** **WHOLESALE TRADE** **CONSUMER CREDIT**
10	11	12	13	14
	NFIB SMALL BUSINESS OPTIMISM INDEX **JOLTS DATA**	**CPI** **FEDERAL BUDGET**	**INITIAL CLAIMS** **PPI**	**RETAIL SALES** **IMPORT/EXPORT PRICES** **IP & CAP-U** **CONSUMER SENTIMENT** **BUSINESS INVENTORIES**

Forecasts in Bold. (p) = preliminary

Treasury Financing

April/May 2021

Monday	Tuesday	Wednesday	Thursday	Friday
19	20	21	22	23
AUCTION RESULTS: Rate Cover 13-week bills 0.025% 2.64 26-week bills 0.040% 3.23	**AUCTION RESULTS:** Rate Cover 52-week bills 0.065% 3.69 6-week CMB 0.010% 3.56 **ANNOUNCE:** $40 billion 4-week bills for auction on April 22 $40 billion 8-week bills for auction on April 22 $35 billion 17-week CMBs for auction on April 21 **SETTLE:** $40 billion 4-week bills $40 billion 8-week bills $35 billion 17-week CMBs	**AUCTION RESULTS:** Rate Cover 20-yr bonds 2.144% 2.42 17-week CMB 0.025% 3.55	**AUCTION RESULTS:** Rate Cover 4-week bills 0.005% 3.73 8-week bills 0.015% 3.14 5-year TIPS -1.631% 2.50 **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 $40 billion 6-week CMBs for auction on April 27 **SETTLE:** $111 billion 13-,26-week bills $34 billion 52-week bills $40 billion 6-week CMBs	
26	27	28	29	30
AUCTION: $111 billion 13-,26-week bills $60 billion 2-year notes $61 billion 5-year notes	**AUCTION:** $28 billion 2-year FRNs $62 billion 7-year notes $40 billion 6-week CMBs **ANNOUNCE:** $40 billion* 4-week bills for auction on April 29 $40 billion* 8-week bills for auction on April 29 **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 on May 3 **SETTLE:** $111 billion 13-,26-week bills $40 billion 6-week CMBs	**SETTLE:** $24 billion 20-year bonds $18 billion 5-year TIPS $28 billion 2-year FRNs $60 billion 2-year notes $61 billion 5-year notes $62 billion 7-year notes
3	4	5	6	7
AUCTION: $111 billion* 13-,26-week bills	**ANNOUNCE:** $40 billion* 4-week bills for auction on May 6 $40 billion* 8-week bills for auction on May 6 **SETTLE:** $40 billion* 4-week bills $40 billion* 8-week bills	**ANNOUNCE MID-QUARTER REFUNDING:** $58 billion* 3-year notes for auction on May 11 $41 billion* 10-year notes for auction on May 12 $27 billion* 30-year bonds for auction on May 13	**AUCTION:** $40 billion* 4-week bills $40 billion* 8-week bills **ANNOUNCE:** $111 billion* 13-,26-week bills for auction on May 10 **SETTLE:** $111 billion* 13-,26-week bills	
10	11	12	13	14
AUCTION: $111 billion* 13-,26-week bills	**AUCTION:** $58 billion* 3-year notes **ANNOUNCE:** $40 billion* 4-week bills for auction on May 13 $40 billion* 8-week bills for auction on May 13 **SETTLE:** $40 billion* 4-week bills $40 billion* 8-week bills	**AUCTION:** $41 billion* 10-year notes	**AUCTION:** $40 billion* 4-week bills $40 billion* 8-week bills $27 billion* 30-year bonds **ANNOUNCE:** $111 billion* 13-,26-week bills for auction on May 17 $34 billion* 52-week bills for auction on May 18 $27 billion* 20-year bonds for auction on May 19 $13 billion* 10-year TIPS for auction on May 20 **SETTLE:** $111 billion* 13-,26-week bills	

**Estimate*