U.S. Economic Comment

- Labor market: losing vigor, but still strong
- The Fed case for soft landing: interesting, but not entirely convincing

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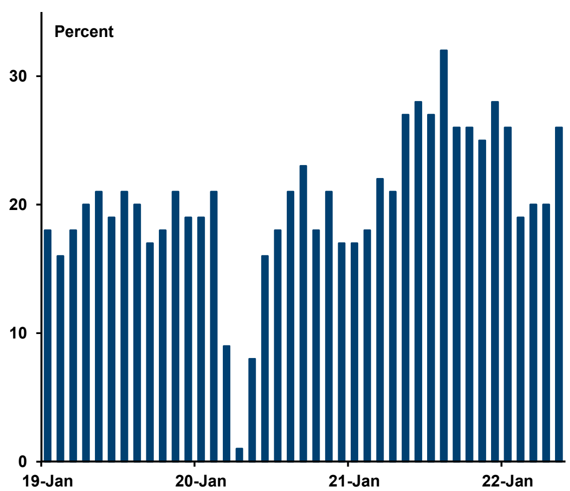
The Employment Situation: Getting Back to Normal

With job growth of 390,000 in May in the low end of the range from the current expansion, and well shy of the monthly average of 562,000 in 2021, it might be tempting to give a negative spin to the latest results. Similar readings in the prior two months might reinforce the temptation to take a negative view. However, we should keep in mind the unique nature of this cycle. Job losses during the brief recession were extreme, and thus gains during the expansion would be exceptional for a time as well. Job growth eventually would be expected to regress toward the norm.

In most settings, 390,000 new jobs would be viewed as a robust advance. For purposes of comparison, the best year of the previous expansion (2014) registered average growth of 250,000 per month. Thus, we do not view the recent results as a sign that the economy and labor market are faltering; rather, economic activity is merely losing the sharp edge seen last year. Certainly, the deceleration is not enough to stir thoughts of a pause in the Fed's tightening efforts.

Other labor market indicators leave a similar impression: net job growth has lost a degree of vigor, but it does not appear to be faltering. Initial claims for unemployment insurance, for example, have increased from exceptionally low levels in March and early April, but they are still in line with the lows in the previous expansion. On the hiring side, the survey of small businesses conducted by the National Federation of Independent Business showed a noticeable decline from February to April in plans to increase employment, but the drop occurred from record and near-record readings in late 2021, and recent levels were still high by historical standards (and the measure rebounded in May; chart, left).

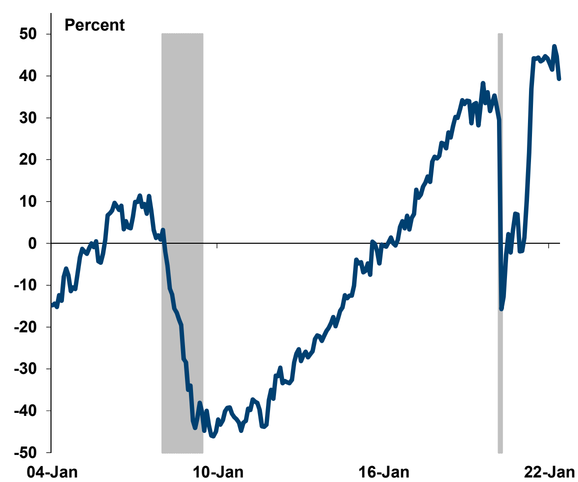
NFIB Survey: Firms Planning to Increase Empl.*



** The share of firms planning to increase employment less the share planning a reduction.*

Source: The National Federation of Independent Business via Haver Analytics

Conference Board: Labor Market Assessment*



** The shaded areas indicate periods of recession in the United States. The labor market assessment is the share of survey respondents reporting that jobs are plentiful less the share indicating that jobs are hard to get.*

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

The public's perception of the labor market suggests that individuals have sensed an easing in the environment, but they still have a highly favorable view. The survey on consumer confidence conducted by the Conference Board showed a decrease in June in the share of individuals indicating that jobs were plentiful; the share indicating that jobs were hard to get stepped higher. Despite the adverse changes on both ends, the net reading (plentiful less hard to get) remained near the top of its historical range (chart, prior page).

Labor market indicators will probably continue to slow in the months ahead. Even in the absence of a policy shift by the Federal Reserve, activity naturally would be slowing from the vigorous pace seen most of last year and the start of this year. The tightening by the Fed will hasten the adjustment.

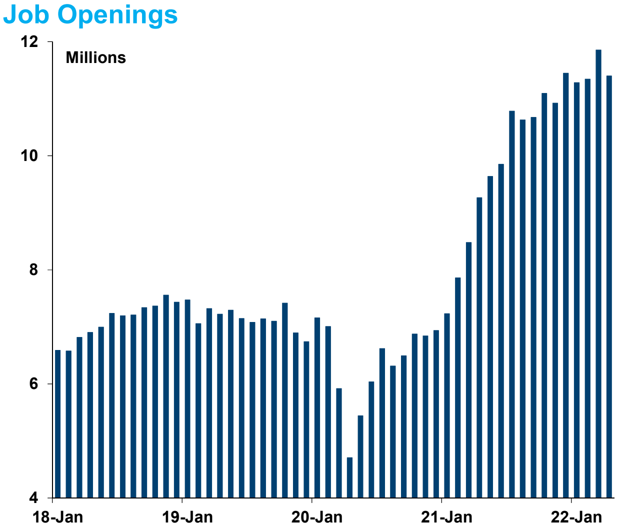
A Soft Landing?

Chair Powell has argued on several occasions that the Fed has a good chance of achieving a soft landing – reducing the inflation rate without generating undue damage to the labor market. His rationale is simply that the economy and labor market are currently strong and therefore can tolerate the restraint that will be associated with tighter monetary policy. Consider some of Mr. Powell's comments at his March press conference: "the economy is very strong and well positioned to withstand tighter monetary policy"; "[t]remendous momentum in the labor market"; [The U.S. has] "a very, very tight labor market, tight to an unhealthy level, I would say."

Fed Governor Christopher Waller in a speech this week also advanced the case for a soft landing. His talk was highly technical, complete with charts, equations, and academic references, but the crux of his argument is straightforward. Tighter monetary policy will slow the economy and reduce the demand for labor, but the softening in the demand for labor will take the form of reduced job openings rather than layoffs. With layoffs minimized, the unemployment rate is not likely to increase dramatically.

His argument perhaps has merit. Job openings have surged in the past year, climbing far above pre-pandemic norms (chart). Certainly, vacancies could decline considerably and still be consistent with a strong labor market. In addition, with businesses having difficulty finding workers, employers might be reluctant to let individuals go despite a slow pace of economic activity.

Job Openings



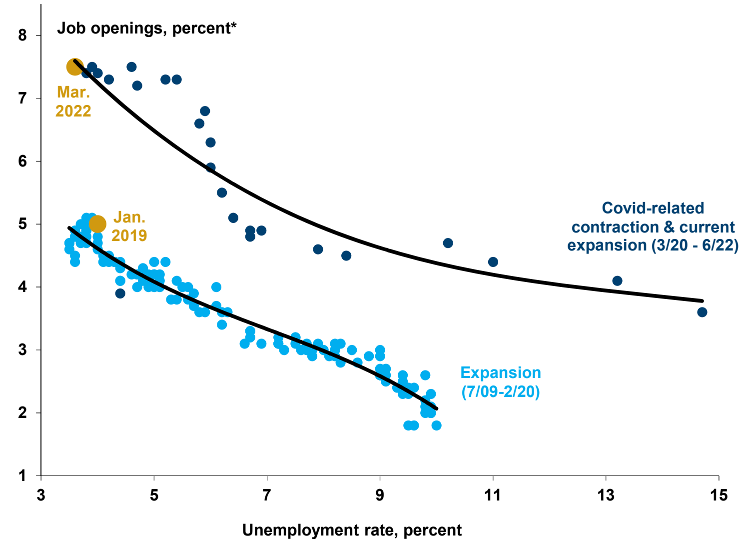
Source: Bureau of Labor Statistics via Haver Analytics

The argument has intuitive appeal, but the analytics behind the case leave some doubt. The construct underlying Mr. Waller's analysis is the so called Beveridge curve, a curve tracing the relationship between job vacancies and the unemployment rate. Observations on vacancies and unemployment typically trace a downward sloping curve: elevated vacancies usually result in active hiring, which reduces unemployment, while low vacancies are typically associated with high unemployment.

The relationship is often stable, but it will shift in response to changes in the nature of the labor market, and it has shifted noticeably to the right during the pandemic-driven cycle (chart, next page). The rightward shift signals some type of impediment to hiring, one such that a given level of vacancies leaves the unemployment rate higher than it would have been in the past. Alternatively, because of the hiring constraint, a given unemployment rate will leave more positions unfilled.

One can easily imagine pandemic-related developments that might have shifted the curve to the right. For example, Covid led many individuals to drop out of the labor force because of care-giving responsibilities, and it induced others to retire earlier than they previously had planned. These individuals are not in the labor force and therefore are not counted as unemployed, but their absence triggers an increase in vacancies.

Beveridge Curve



** The job opening rate is private sector job openings as a share of the sum of private sector job openings and private sector employment.*

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

Alternatively, many individuals laid off during the pandemic might have reconsidered career paths or sought higher-paying jobs, which led them to search longer than they might have in the past. Generous support from the federal government gave many the financial wherewithal to pursue such strategies. With longer searches, they are unemployed for longer than in the past, and thus a given level of vacancies is associated with a higher unemployment rate.

Mr. Waller's speech included a chart on the Beveridge curve nearly identical to the one shown above, and he highlighted a recent observation and one before the pandemic. He argued that the economy should be able to move from the current position to one in line with the pre-pandemic performance (e.g. a movement from March 2022 on the chart back to January 2019). With such a shift, vacancies decline because of slower economic activity and reduced demand for labor, but unemployment increases only marginally – a soft landing.

His point is interesting, but it requires a leftward shift in the Beveridge curve, and such a change might not come to pass. It might be the case that the behavior of businesses and workers results in movement along the curve that has emerged in the past two years. If so, slow economic activity would generate both fewer vacancies and more unemployment – a hard landing.

We feel the same way about Mr. Waller's talk that we did about Chair Powell's view. Yes, the economy is currently on sound footing, and yes, there is a chance to achieve a soft landing. However, risks are on the downside. If the economy manages to avoid a recession, it will still have to deal with slow growth and an uncomfortable increase in unemployment.

Review

Week of May 30, 2022	Actual	Consensus	Comments
Consumer Confidence (May)	**106.4 (-2.0%)**	**103.6 (-3.4%)**	Higher prices of gasoline and groceries continued to weigh on the minds of consumers in May, as the Conference Board's measure of consumer confidence gave back modest gains from the prior two months. The index is now 17.5% below the peak of the current expansion thus far (128.9 in June 2021).
ISM Manufacturing Index (May)	**56.1 (+0.7 Index Pt.)**	**54.5 (-0.9 Index Pt.)**	The ISM manufacturing index rose modestly in May, and while off the peak of 63.7 in March of last year, the latest reading continued to signal respectable growth in the manufacturing sector of the economy. The new orders index led the advance in May (+1.6 index points to 55.1), and production posted a small gain (+0.6 index point to 54.2). The employment index provided a downside surprise, falling 1.3 index points to 49.6 after a drop of 5.4 points in April. The supplier deliveries index contributed negatively to the headline measure, falling 1.5 index points to 65.7. The decline, though, should be viewed as a positive development, as the easing signaled further healing to supply-chain difficulties.
Construction Spending (April)	**0.2%**	**0.5%**	All of the advance in construction activity in April occurred in the private residential sector, where activity rose 0.9%, with single-family, multi-family, and improvements all contributing. The gain seemed impressive, but construction costs rose by a larger amount, suggesting a drop in real terms. (Construction costs for single-family building rose 1.8% in April.) Private nonresidential building eased 0.2% after a drop in the prior month, while public construction fell 0.7%. Declines in real terms likely were larger.
Job Openings (April)	**11.400 Million**	**11.350 Million**	Job openings in April eased from the record reading of 11.855 million in March (revised from 11.549 million), but they were in line with other recent observations and far above historical norms (the pre-pandemic record totaled 7.558 million in November 2018). Fed Chair Powell often mentions the number of openings relative to the number of unemployed. That ratio totaled 1.9 in April, off from 2.0 in March, but still striking from a historical perspective and a reading that signals notable supply-demand imbalances in the labor market.
Factory Orders (April)	**0.3%**	**0.7%**	Durable goods orders rose modestly (0.5% versus 0.4% first published), supported by a rebound in aircraft bookings; orders ex-transportation increased 0.4%, the 23rd gain in the past 24 months. In the nondurable area, lower prices led to a decline in the value of petroleum bookings (-0.4%). Nondurable bookings excluding petroleum and coal rose 0.3%, but the pickup likely reflected higher prices rather than an increase in real activity.

Review Continued

Week of May 30, 2022	Actual	Consensus	Comments
Payroll Employment (May)	**390,000**	**320,000**	Payroll growth was firm in May, although it trailed the brisk results last year (average of 562,000) and the sharp average gain of 609,000 in the first two months of 2022. The unemployment rate was unchanged at 3.6% in May, as an increase of 321,000 in employment as measured by the household survey was nearly matched by a gain of 330,000 in the size of the labor force. The increase in the labor force led to a one-tick increase in the labor force participation rate to 62.3%, although the rate remained below the high for this cycle of 62.4% in March. Average hourly earnings rose 0.3%. The increase led to a year-over-year change of 5.2%, down from 5.5% in the prior month and 5.6% in March.
ISM Services Index (May)	**55.9 (-1.2 Index Pt.)**	**56.5 (-0.6 Index Pt.)**	The decline in the ISM services index in May was the fifth in the past six months, with activity off sharply from the record high of 68.4 in November 2021. Despite the softening from the performance in the second half of last year, the level of the index remained solid from a longer-term perspective. The business activity index led the decline in May, falling 4.6 index points to 54.5. Although some cooling was expected after the index rose to a record 72.5 in November 2021, recent slowing in business activity pushed the level of the index to the low end of the range of the current expansion. In contrast to the slowing in business activity, the new orders index rose 3.0 index points to 57.6, a good performance. The employment index shifted back into growth territory (50.2 vs 49.5), but it remained unimpressive. The supplier deliveries index was a drag on the headline measure in May, but the slide of 3.8 index points to 61.3 suggested further normalization of supply chains.

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

Preview

Week of June 6, 2022	Projected	Comments
Trade Balance (April) (Tuesday)	**-$88.5 Billion ($21.3 Billion Narrower Deficit)**	The already reported narrowing of $20 billion in the goods deficit will probably dominate the report on total trade. Slight improvement in the service surplus could give a small added boost to the U.S. balance.
CPI (May) (Friday)	**0.6% Total, 0.4% Core**	After a respite in April, available quotes indicate that energy prices were on the march again in May. Food prices likely remained on their upward trajectory. In the core component, an easing is some pandemic-related pressure points could provide an element of restraint (new and used vehicles, apparel, hotel stays), but underlying inflation has become broadly based, which should result in another notable increase.
Consumer Sentiment (June) (Friday)	**60.0 (+2.7%)**	A rebound from mid-May lows in major equity indexes might be sufficient to lift the sentiment index off its recession-like reading in May.
Federal Budget (May) (Friday)	**-$125.0 Billion**	Federal revenues in May will fall sharply from the total in the same month last year, but the drop largely reflects unusually large inflows in May 2021 because of the shift in the filing deadline for final individual obligations from April to May. Outlays also are likely to be noticeably lighter than the total last year because of the continued fading of pandemic-related outlays. All told, the monthly deficit is not likely to deviate sharply from the year-ago results.

Source: Forecasts provided by Daiwa Capital Markets America

Economic Indicators

May / June 2022

Monday	Tuesday	Wednesday	Thursday	Friday
30	31	1	2	3
MEMORIAL DAY	**FHFA HOME PRICE INDEX** Jan 1.7% Feb 1.9% Mar 1.5% **S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX** SA NSA Jan 1.7% 1.4% Feb 2.4% 2.5% Mar 2.4% 3.1% **CHICAGO PURCHASING MANAGERS' INDEX** Index Prices Mar 62.9 85.7 Apr 56.4 86.1 May 60.3 88.6 **CONFERENCE BOARD CONSUMER CONFIDENCE** Mar 107.6 Apr 108.6 May 106.4	**ISM MFG INDEX** Index Prices Mar 57.1 87.1 Apr 55.4 84.6 May 56.1 82.2 **CONSTRUCTION SPEND.** Feb 1.0% Mar 0.3% Apr 0.2% **JOLTS DATA** Openings (000) Quit Rate Feb 11,344 2.9% Mar 11,855 2.9% Apr 11,400 2.9% **BEIGE BOOK** "All…Districts have reported continued economic growth since the prior Beige Book period, with a majority indicating slight or modest growth…" **VEHICLE SALES** Mar 13.4 million Apr 14.5 million May 12.7 million	**UNEMPLOYMENT CLAIMS** Initial Continuing (Millions) May 07 0.197 1.315 May 14 0.218 1.343 May 21 0.211 1.309 May 28 0.200 N/A **ADP EMPLOYMENT REPORT** Private Payrolls Mar 249,000 Apr 202,000 May 128,000 **PRODUCTIVITY & COSTS** Productivity Unit Labor Costs 21-Q4 6.3% 3.9% 22-Q1(p) -7.5% 11.6% 22-Q1(r) -7.3% 12.6% **FACTORY ORDERS** Feb 0.3% Mar 1.8% Apr 0.3%	**EMPLOYMENT REPORT** Payrolls Un. Rate Mar 398,000 3.6% Apr 436,000 3.6% May 390,000 3.6% **ISM SERVICES INDEX** Index Prices Mar 58.3 83.8 Apr 57.1 84.6 May 55.9 82.1
6	7	8	9	10
	TRADE BALANCE (8:30) Feb -$89.8 billion Mar -$109.8 billion **Apr -$88.5 billion** **CONSUMER CREDIT (3:00)** Feb $37.7 billion Mar $52.4 billion Apr --	**WHOLESALE TRADE (10:00)** Inventories Sales Feb 2.8% 1.5% Mar 2.7% 1.7% **Apr 2.1% 1.5%**	**INITIAL CLAIMS (8:30)**	**CPI (8:30)** Total Core Mar 1.2% 0.3% Apr 0.3% 0.6% **May 0.6% 0.4%** **CONSUMER SENTIMENT (10:00)** Apr 65.2 May 58.4 **June 60.0** **FEDERAL BUDGET (2:00)** 2022 2021 Mar -$192.6B -$659.6B Apr $308.2B -$225.6B **May -$125.0B** -$132.0B
13	14	15	16	17
	NFIB SMALL BUSINESS OPTIMISM INDEX **PPI** **FOMC MEETING**	**RETAIL SALES** **IMPORT/EXPORT PRICES** **EMPIRE MFG INDEX** **BUSINESS INVENTORIES** **NAHB HOUSING MARKET INDEX** **FOMC DECISION** **TIC DATA**	**INITIAL CLAIMS** **HOUSING STARTS** **PHILY FED INDEX**	**IP & CAP-U** **LEADING INDICATORS**
20	21	22	23	24
JUNETEENTH	**CHICAGO FED NATIONAL ACTIVITY INDEX** **EXISTING HOME SALES**		**INITIAL CLAIMS** **CURRENT ACCOUNT**	**REVISED CONSUMER SENTIMENT** **NEW HOME SALES**

Forecasts in Bold. (p) = preliminary; (r) = revised

Treasury Financing

May / June 2022

Monday	Tuesday	Wednesday	Thursday	Friday
30	31	1	2	3
MEMORIAL DAY	**AUCTION RESULTS:** Rate / Cover 13-week bills 1.120% 2.98 26-week bills 1.580% 2.81 **ANNOUNCE:** $35 billion 4-week bills for auction on June 2 $30 billion 8-week bills for auction on June 2 $30 billion 17-week CMBs for auction on June 1 **SETTLE:** $35 billion 4-week bills $30 billion 8-week bills $30 billion 17-week CMBs $17 billion 20-year bonds $14 billion 10-year TIPS $47 billion 2-year notes $48 billion 5-year notes $42 billion 7-year notes	**AUCTION RESULTS:** Rate / Cover 17-week CMB 1.390% 3.09	**AUCTION RESULTS:** Rate / Cover 4-week bills 0.860% 3.07 8-week bills 1.040% 3.23 **ANNOUNCE:** $87 billion 13-,26-week bills for auction on June 6 $44 billion 3-year notes for auction on June 7 $33 billion 10-year notes for auction on June 8 $19 billion 30-year bonds for auction on June 9 **SETTLE:** $87 billion 13-,26-week bills	
6	7	8	9	10
AUCTION: $87 billion 13-,26-week bills	**AUCTION:** $44 billion 3-year notes **ANNOUNCE:** $35 billion* 4-week bills for auction on June 9 $30 billion* 8-week bills for auction on June 9 $30 billion* 17-week CMBs for auction on June 8 **SETTLE:** $35 billion 4-week bills $30 billion 8-week bills $30 billion 17-week CMBs	**AUCTION:** $30 billion* 17-week CMBs $33 billion 10-year notes	**AUCTION:** $35 billion* 4-week bills $30 billion* 8-week bills $19 billion 30-year bonds **ANNOUNCE:** $87 billion* 13-,26-week bills for auction on June 13 $34 billion* 52-week bills for auction on June 14 **SETTLE:** $87 billion 13-,26-week bills	
13	14	15	16	17
AUCTION: $87 billion* 13-,26-week bills	**AUCTION:** $34 billion* 52-week bills **ANNOUNCE:** $35 billion* 4-week bills for auction on June 16 $30 billion* 8-week bills for auction on June 16 $30 billion* 17-week CMBs for auction on June 15 **SETTLE:** $35 billion* 4-week bills $30 billion* 8-week bills $30 billion* 17-week CMBs	**AUCTION:** $30 billion* 17-week CMBs **SETTLE:** $44 billion 3-year notes $33 billion 10-year notes $19 billion 30-year bonds	**AUCTION:** $35 billion* 4-week bills $30 billion* 8-week bills **ANNOUNCE:** $87 billion* 13-,26-week bills for auction on June 21 $22 billion* 2-year FRNs for auction on June 22 $14 billion* 20-year bonds for auction on June 22 $18 billion* 5-year TIPS for auction on June 23 **SETTLE:** $87 billion* 13-,26-week bills $34 billion* 52-week bills	
20	21	22	23	24
JUNETEENTH	**AUCTION:** $87 billion* 13-,26-week bills **ANNOUNCE:** $35 billion* 4-week bills for auction on June 23 $30 billion* 8-week bills for auction on June 23 $30 billion* 17-week CMBs for auction on June 22 **SETTLE:** $35 billion* 4-week bills $30 billion* 8-week bills $30 billion* 17-week CMBs	**AUCTION:** $30 billion* 17-week CMBs $22 billion* 2-year FRNs $14 billion* 20-year bonds	**AUCTION:** $35 billion* 4-week bills $30 billion* 8-week bills $18 billion* 5-year TIPS **ANNOUNCE:** $87 billion* 13-,26-week bills for auction on June 27 $46 billion* 2-year notes for auction on June 27 $47 billion* 5-year notes for auction on June 27 $40 billion* 7-year notes for auction on June 28 **SETTLE:** $87 billion* 13-,26-week bills	**SETTLE:** $22 billion* 2-year FRNs

**Estimate*