U.S. Economic Comment

- U.S. labor market: easing but still firm
- The new ADP report: no better than the old

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The Labor Market and the 50/75 Debate

Many observers are likely to argue that the August employment report will allow the Federal Open Market Committee to slow its recent pace of tightening (50 basis points rather than 75 at its September 21 meeting). The increase of 315,000 in nonfarm payrolls in August was firm, but downward revisions totaling 107,000 in the prior two months resulted in underwhelming results overall. A decline of 0.1 hour in the length of the average workweek and a dip of 0.1 percent in the index of total worktime also softened the tone of the report. Some analysts also might highlight the increase of 0.2 percentage point in the unemployment rate to 3.7 percent and the increase of 0.3 percent in average hourly earnings, which lagged the recent average of 0.4 percent.

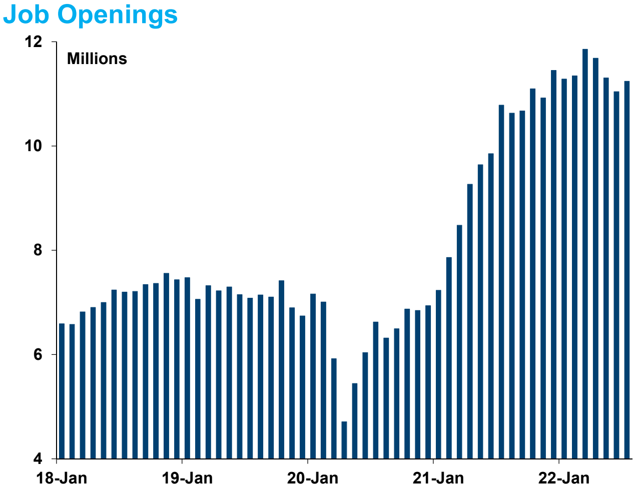
To be sure, the August report was less impressive than those from other recent months, but we do not believe it was soft enough to settle the 50/75 debate. In fact, we would still be favoring a shift of 75 basis points. Fed officials have talked tough in recent weeks about their determination to reduce inflation and the importance of moving to a restrictive stance. If they wish to maintain credibility, officials will need to back the tough talk with concerted action. Chair Powell's strong statement at the Jackson Hole conference will ring hollow if the Fed slows its pace of tightening at this time.

We also would dismiss some of the apparently soft elements of the August employment report. The unemployment rate rose in August, but we do not view the jump as a sign of weakness, as it reflected a surge in the size of the labor force (786,000) that exceeded the increase in employment as measured by the household survey (442,000). Given the tight supply/demand situation in the labor market, an increase in supply is encouraging. Average hourly earnings posted a below average increase in August, but that could be nothing more than an offset to an above-average gain in July; it certainly was not soft enough to indicate a shift in trend.

Fed officials have indicated that they will consider the totality of information in making their policy decisions, and thus they undoubtedly will be monitoring other reports on labor market conditions. Most other indicators paint a picture similar to that evident in the monthly employment report: conditions have softened to a degree, but they are still firm.

Job openings and quits now receive considerable attention in the financial press, and these measures have softened recently, but only modestly so. Openings are off the record high in March, but they remain at a stratospheric level relative to pre-pandemic norms (chart). Similarly, the quit rate of 2.7 percent in July trailed the record readings of 3.0 percent in November and December of last year, but it was comfortably above the pre-pandemic record of 2.4 percent.

Job Openings



Source: Bureau of Labor Statistics via Haver Analytics

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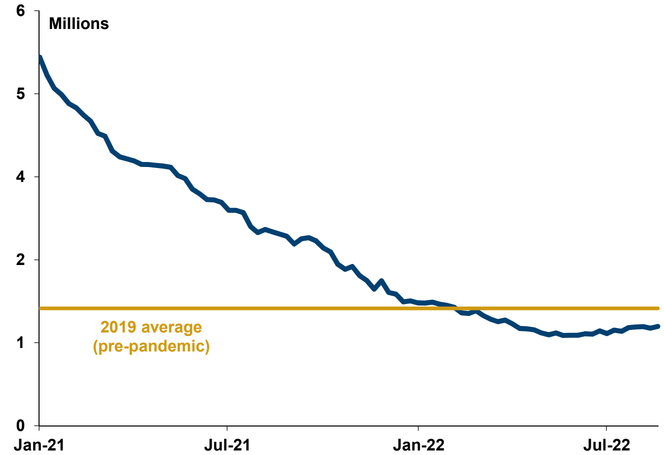
Claims for unemployment insurance are off their recent lows, but they are still far from troubling. Initial claims are slightly above the pre-pandemic average in 2019, but they are well within the range from that year. Continuing unemployment claims, while inching up on balance since mid-June, are still running below observations of approximately 1.8 million in place before the onset of Covid (chart).

Continuing Claims for Unemployment Insurance



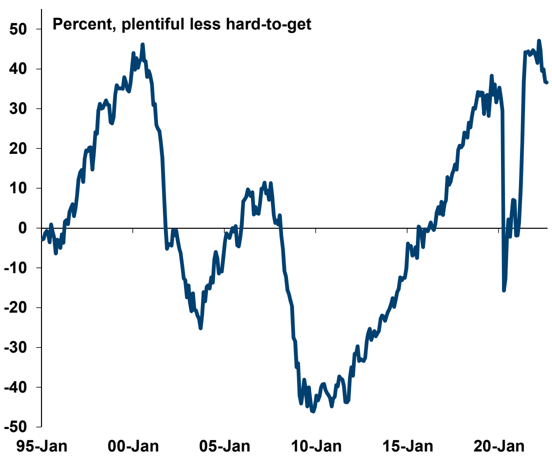
Source: U.S. Department of Labor via Haver Analytics

Perceptions of the labor market among individuals remain firm. The survey of consumers conducted by the Conference Board shows that the share of individuals indicating that jobs are plentiful is in the upper portion of its historical range, while the share indicating that jobs are hard to get is close to record lows. The net reading (plentiful less hard to get) has backed off the record reading in March of this year, but it is in the upper end of its historical range (only one observation from the previous expansion was better; chart, below left).

Probably the best gauge of the overall employment situation is the Labor Market Conditions Index published by the Federal Reserve Bank of Kansas City. This measure combines 24 employment-related statistics into a single index, and the latest observation (July) is still near the top of its historical range (chart, below right). A related measure of labor market momentum published by the Kansas City Fed has tilted lower, which might suggest developing weakness, but the momentum index started at an elevated level and it remains in the middle of its historical range.

Chair Powell noted in his Jackson Hole speech that the Fed's efforts to reduce inflation will likely cause pain among some individuals and businesses. Pain does not seem widespread at this point.

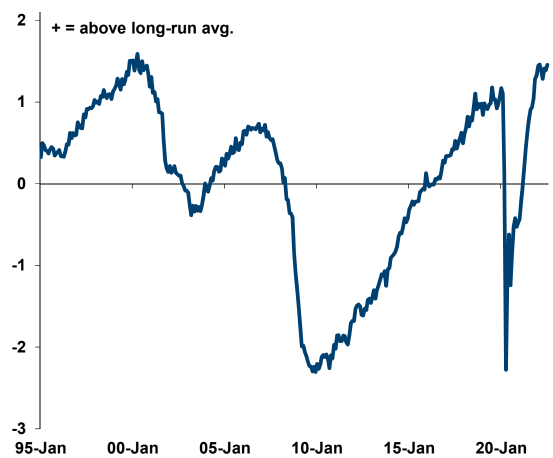
Labor Market Assessment*



** The share of survey respondents indicating that jobs are plentiful less the share reporting that jobs are hard to get.*

Source: The Conference Board via Haver Analytics

Labor Market Conditions Index*



** The Labor Market Conditions Index (LMCI) is a monthly measure of labor market activity that is based on 24 labor market variables. A positive reading indicates that labor market conditions are above their long-run average, whereas a negative value indicates that conditions are below their long-run average.*

Source: Federal Reserve Bank of Kansas City via Haver Analytics

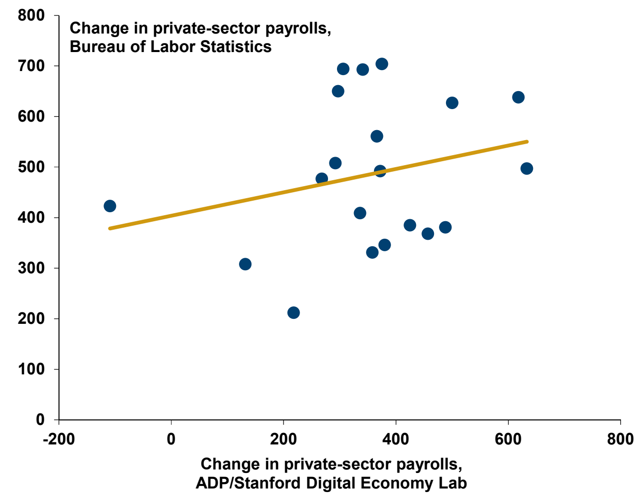
ADP: New, but Not Improved

ADP, a service provider for human resource departments, has provided secured data on its payroll processing business to private research firms in order to produce monthly estimates of job growth. Macroeconomic Advisors, an economic forecasting firm, began the effort in early 2001 and continued through late 2012, when it handed the project off to Moody's Analytics. Neither group was able to generate consistently reliable forecasts with the ADP data.

Moody's Analytics abandoned the project this year, and now the forecasting effort is conducted internally at ADP (the ADP Research Institute) in conjunction with the Stanford Digital Economy Lab (a group at Stanford University). Researchers at ADP and Stanford suspended publication of estimates in May and June while they fine-tuned their models, but they provided a view on the August employment situation this past week.

The group did not have a good start, as its initial forecast of 132,000 involved a triple-digit error (176,000 shy of the 308,000 gain in private-sector employment; the ADP report focuses on private payrolls). The ADP Research Institute also published historical figures generated by its models, and results were not favorable. The chart to the right shows results from 2021 to the present (to eliminate the high degree of volatility in the early phases of the pandemic), and there is little correlation (an R^2 of .07; that is, the ADP data explain only 7 percent of the variation in the monthly payroll figures). The projections of Moody's Analytics had an R^2 of .06 over the same period. Results before the onset of the pandemic were not much better, as both ADP and Moody's Analytics generated an R^2 of .11 over the period from 2013 to 2019.

Change in Private-Sector Payrolls



Sources: Bureau of Labor Statistics and ADP/Stanford Digital Economy Lab via Haver Analytics

One can only conclude that ADP is not a rich source of data for projecting the monthly change in nonfarm payrolls.

Review

Week of Aug. 29, 2022	Actual	Consensus	Comments
Consumer Confidence (August)	**103.2 (+8.3%)**	**98.0 (+2.4%)**	While the pickup in consumer confidence in August was a welcome development, the measure has trended lower since the recent peak of 128.9 in June 2021, and it remained in the low portion of the range of the current expansion. An easing in inflation expectations likely played a key role in the improvement in confidence. Although expected inflation in the year ahead remained elevated at 7.0%, it declined for the second consecutive month from the recent high of 7.9% in June. Views on the labor market softened for the fourth consecutive month, as the net labor market assessment (survey respondents reporting that jobs are plentiful less those indicating that jobs are hard to get) eased to 36.6% -- down from a recent high of 47.1% in March, but still favorable.
Job Openings (July)	**11.239 Million**	**10.375 Million**	Job openings had shown signs of easing after posting a record high of 11.855 million in March, but an upward revision to results in June and a jump of 199,000 in July showed that demand for labor remained vigorous. There are now 1.98 job openings per unemployed person, up from 1.87 in June and just shy of the record of 1.99 in March.
Revised Nonfarm Productivity (22-Q2)	**-4.1% (+0.5 Pct. Pt. Revision)**	**-4.3% (+0.3 Pct. Pt. Revision)**	The measure of output that feeds into nonfarm productivity was revised higher in Q2 (i.e. less negative; -1.4% versus -2.1%), resulting in a slightly less dismal reading on productivity. The latest drop in productivity followed a contraction of 7.4% in Q1 and left a year-over-year drop of 2.4%. Labor compensation per hour was unrevised at 5.7%, and thus the revision to productivity led to slightly slower growth in unit labor costs, but still striking at 10.2% (versus the preliminary estimate of 10.8%).
ISM Manufacturing Index (August)	**52.8 (Unchanged)**	**51.9 (-0.9 Index Pt.)**	The August reading on the ISM index indicated continued modest growth in the manufacturing sector -- a respectable performance given labor shortages, supply chain issues, and the hit to demand from tighter monetary policy -- but recent readings are down notably from the average of 57.8 in Q1 and 60.6 in 2021. The employment index provided a bright spot, recovering from the bottom of the range of the current expansion to the middle (+4.3 index points to 54.2). The production index, in contrast, slipped 3.1 index points in August to 50.4. The price index posted its second consecutive sharp decline, cooling to 52.5 in August after a drop of 18.5 index points in July to 60.0.

Review Continued

Week of Aug. 29, 2022	Actual	Consensus	Comments
Construction Spending (July)	**-0.4%**	**-0.2%**	While total construction activity slipped in July, the decline occurred from upward revised levels in the prior two months, which left activity in June 1.2% firmer than previously believed. The decline in July was concentrated in private residential construction (off 1.5%), which marked the second consecutive retreat in excess of 1.0% and seemed to signal the end of an upward trend. Private nonresidential building rose 0.4%, the third consecutive advance. However, recent gains offset only a portion of declines in March and April, and the recent increases probably translated to declines after adjusting for inflation. Public construction jumped 1.5%, led by a surge in construction projects of state and local governments.
Payroll Employment (August)	**315,000**	**298,000**	Nonfarm payrolls rose 315,000 in August, but downward revisions totaling 107,000 in the prior two months dulled the luster on the August advance. The latest reading, while solid, trailed the brisk average of 562,000 in 2021 and 456,000 in the first seven months of this year. The unemployment rate increased 0.2 percentage point to 3.7%, but the change can be viewed in a positive light as growth of 786,000 in the size of the labor force outpaced job growth of 442,000 as measured by the household survey. Average hourly earnings rose 0.3% in August, shy of the average of 0.4% in the prior 12 months, but still faster than the rate that would lead inflation back to the Fed’s target of 2%.
Factory Orders (July)	**-1.0%**	**0.2%**	Both durable and nondurable bookings contributed to the weakness in total factory orders in July, with nondurable bookings especially soft. The drop of 1.9% in the nondurable sector was led by a price-related decline of 6.7% in bookings for petroleum and coal. Nondurable orders excluding petroleum and coal slipped 0.3%, only the second decline in the past 27 months. A drop of 0.8% in the volatile transportation component accounted for much of the dip of 0.1% in orders for durable goods. Other areas showed modest growth, with durable bookings ex transportation increasing 0.2%.

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

Preview

Week of Sept. 5, 2022	Projected	Comments
ISM Services Index (August) (Tuesday)	**55.0 (-1.7 Index Pts.)**	With higher interest rates from tighter monetary policy slowing economic activity, the ISM services index appears likely to continue easing from the post-Covid high of 68.4 in November of last year. In particular, the business activity and new orders components appear vulnerable after high-side readings in July.
U.S. International Trade Balance (July) (Wednesday)	**-$70.0 Billion ($9.6 Billion Narrower Deficit)**	The already reported narrowing of $9.5 billion in the goods trade deficit in July should dominate the report on total international trade (The change was driven by a drop of 3.5% in imports that swamped a dip of 0.2% in exports.). The surplus in service trade has moved erratically in recent months, but it has drifted upward since mid-2021 and could make a small positive contribution in July.

Source: Forecasts provided by Daiwa Capital Markets America

Economic Indicators

August / September 2022

Monday	Tuesday	Wednesday	Thursday	Friday
29	30	31	1	2
	FHFA HOME PRICE INDEX Apr 1.6% May 1.3% June 0.1% **S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX** SA / NSA Apr 1.7% / 2.3% May 1.2% / 1.5% June 0.4% / 0.4% **JOLTS DATA** Openings (000) / Quit Rate May 11,303 / 2.8% June 11,040 / 2.8% July 11,239 / 2.7% **CONFERENCE BOARD CONSUMER CONFIDENCE** June 98.4 July 95.3 Aug 103.2	**ADP EMPLOYMENT REPORT** Private Payrolls June 380,000 July 268,000 Aug 132,000 **MNI CHICAGO BUSINESS BAROMETER** Index / Prices June 56.0 / 79.6 July 52.1 / 81.9 Aug 52.2 / 81.8	**UNEMP. CLAIMS** Initial / Continuing (millions) Aug 6 0.252 / 1.434 Aug 13 0.245 / 1.412 Aug 20 0.237 / 1.438 Aug 27 0.232 / N/A **REVISED PRODUCTIVITY & COSTS** Productivity / Unit Labor Costs 22-Q1 -7.4% / 12.7% 22-Q2(p) -4.6% / 10.8% 22-Q2(r) -4.1% / 10.2% **ISM INDEX** Index / Prices June 53.0 / 78.5 July 52.8 / 60.0 Aug 52.8 / 52.5 **CONSTRUCTION SPEND.** May 0.7% June -0.5% July -0.4% **VEHICLE SALES** June 13.0 million July 13.3 million Aug 13.2 million	**EMPLOYMENT REPORT** Payrolls / Un. Rate June 293,000 / 3.6% July 526,000 / 3.5% Aug 315,000 / 3.7% **FACTORY ORDERS** May 1.8% June 1.8% July -1.0%
5	6	7	8	9
LABOR DAY	**ISM SERVICES INDEX (10:00)** Index / Prices June 55.3 / 80.1 July 56.7 / 72.3 **Aug 55.0 / 65.0**	**TRADE BALANCE (8:30)** May -$84.9 billion June -$79.6 billion **July -$70.0 billion** **BEIGE BOOK (2:00)** **July Beige Book:** Economic activity expanded at a modest pace, on balance, since mid-May...	**UNEMP. CLAIMS (8:30)** **CONSUMER CREDIT (3:00)** May $23.8 billion June $40.2 billion July --	**WHOLESALE TRADE (10:00)** Inventories / Sales May 1.9% / 0.7% June 1.9% / 1.8% **July 0.8% / 0.5%**
12	13	14	15	16
	NFIB SMALL BUSINESS OPTIMISM INDEX **CPI** **FEDERAL BUDGET**	**PPI**	**UNEMP. CLAIMS** **RETAIL SALES** **IMPORT/EXPORT PRICES** **EMPIRE MFG INDEX** **PHILY FED INDEX** **IP & CAP-U** **BUSINESS INVENTORIES**	**CONSUMER SENTIMENT** **TIC FLOWS**
19	20	21	22	23
NAHB HOUSING INDEX	**HOUSING STARTS** **FOMC MEETING (1ST DAY)**	**EXISTING HOME SALES** **FOMC DECISION**	**UNEMP. CLAIMS** **CURRENT ACCOUNT** **LEADING INDICATORS**	

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

Treasury Financing

August / September 2022

Monday	Tuesday	Wednesday	Thursday	Friday
29	30	31	1	2
AUCTION RESULTS: Rate Cover 13-week bills 2.880% 3.03 26-week bills 3.235% 2.88	**ANNOUNCE:** $50 billion 4-week bills for auction on Sep 1 $45 billion 8-week bills for auction on Sep 1 $30 billion 17-week CMBs for auction on Aug 31 **SETTLE:** $55 billion 4-week bills $50 billion 8-week bills $30 billion 17-week CMBs	**AUCTION RESULTS:** Rate Cover 17-week CMB 3.100% 3.54 **SETTLE:** $8 billion 30-year TIPS $15 billion 20-year bonds $44 billion 2-year notes $45 billion 5-year notes $37 billion 7-year notes	**AUCTION RESULTS:** Rate Cover 4-week bills 2.470% 2.65 8-week bills 2.730% 3.02 **ANNOUNCE:** $96 billion 13-,26-week bills for auction on Sep 6 $34 billion 52-week bills for auction on Sep 6 **SETTLE:** $96 billion 13-,26-week bills	
5	6	7	8	9
LABOR DAY	**AUCTION:** $96 billion 13-,26-week bills $34 billion 52-week bills **ANNOUNCE** $50 billion* 4-week bills for auction on Sep 8 $45 billion* 8-week bills for auction on Sep 8 $30 billion* 17-week CMBs for auction on Sep 7 **SETTLE:** $50 billion 4-week bills $45 billion 8-week bills $30 billion 17-week CMBs	**AUCTION:** $30 billion* 17-week CMBs	**AUCTION:** $50 billion* 4-week bills $45 billion* 8-week bills **ANNOUNCE:** $96 billion* 13-,26-week bills for auction on Sep 12 $41 billion* 3-year notes for auction on Sep 12 $32 billion* 10-year notes for auction on Sep 12 $18 billion* 30-year bonds for auction on Sep 13 **SETTLE:** $96 billion 13-,26-week bills $34 billion 52-week bills	
12	13	14	15	16
AUCTION: $96 billion* 13-,26-week bills $41 billion* 3-year notes $32 billion* 10-year notes	**AUCTION:** $18 billion* 30-year bonds **ANNOUNCE:** $50 billion* 4-week bills for auction on Sep 15 $45 billion* 8-week bills for auction on Sep 15 $30 billion* 17-week CMBs for auction on Sep 14 **SETTLE:** $50 billion* 4-week bills $45 billion* 8-week bills $30 billion* 17-week CMBs	**AUCTION:** $30 billion* 17-week CMBs	**AUCTION:** $50 billion* 4-week bills $45 billion* 8-week bills **ANNOUNCE:** $96 billion* 13-,26-week bills for auction on Sep 19 12 billion* 20-year bonds for auction on Sep 20 $15 billion* 10-year TIPS for auction on Sep 22 **SETTLE:** $96 billion* 13-,26-week bills $41 billion* 3-year notes $32 billion* 10-year notes $18 billion* 30-year bonds	
19	20	21	22	23
AUCTION: $96 billion* 13-,26-week bills	**AUCTION:** $12 billion* 20-year bonds **ANNOUNCE:** $50 billion* 4-week bills for auction on Sep 22 $45 billion* 8-week bills for auction on Sep 22 $30 billion* 17-week CMBs for auction on Sep 21 **SETTLE:** $50 billion* 4-week bills $45 billion* 8-week bills $30 billion* 17-week CMBs	**AUCTION:** $30 billion* 17-week CMBs	**AUCTION:** $50 billion* 4-week bills $45 billion* 8-week bills $15 billion* 10-year TIPS **ANNOUNCE:** $96 billion* 13-,26-week bills for auction on Sep 26 $43 billion* 2-year notes for auction on Sep 26 $44 billion* 5-year notes for auction on Sep 27 $36 billion* 7-year notes for auction on Sep 28 $22 billion* 2-year FRNs for auction on Sep 28 **SETTLE:** $96 billion* 13-,26-week bills	

**Estimate*