Daiwa Capital Markets

U.S. Data Review

- Unemployment claims: upward drift in insured unemployment claims
- Industrial production: strike activity weighed on manufacturing
- Housing market index: plunge in November

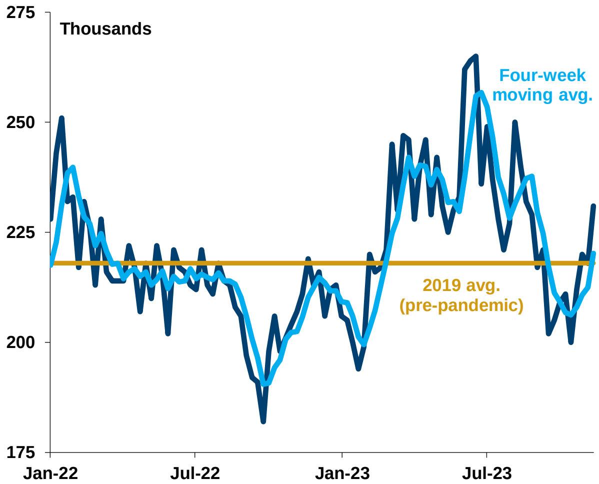
Lawrence Werther
Daiwa Capital Markets America
212-612-6393
lawrence.werther@us.daiwacm.com

Unemployment Claims

- Initial claims for unemployment insurance increased 13,000 to 231,000 in the week ended November 11. On a four-week-moving-average basis, claims rose 220,250 (versus 212,500 in the week ended November 4) and moved slightly above the 2019 (pre-pandemic) average of 218,000 (chart, below left).

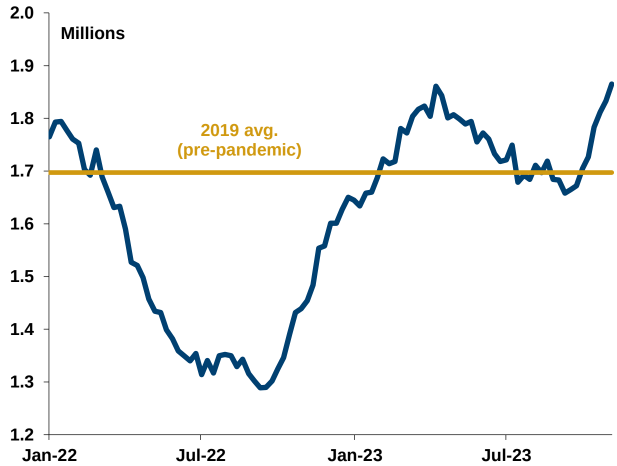
- Continuing unemployment claims (insured unemployment) rose 32,000 to 1.865 million in the week ended November 4, the eighth consecutive pickup. The cumulative increase of 207,000 left benefit rolls at their highest level in almost two years (and well above the 2019 average of 1.7 million). The recent deterioration in claims does not yet signal significant trouble in the labor market, but this metric should be monitored closely in coming months. Rapid tightening of monetary policy is likely to cause additional slowing in the economy, and the weekly claims data can provide insight into the timing of that influence.

Initial Claims for Unemployment Insurance



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

Continuing Claims for Unemployment Insurance



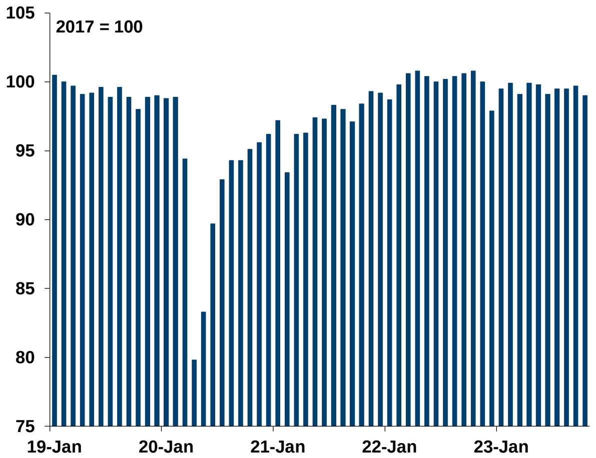
Source: U.S. Department of Labor via Haver Analytics

Industrial Production

- The drop of 0.6 percent in industrial production in October exceeded the market expectation of a decline of 0.4 percent. Manufacturing activity eased 0.7 percent, likely reflecting the effects of strike activity at automobile production plants, and utility output fell 1.6 percent as above average temperatures limited demand for home heating. The mining component, in contrast, rose 0.4 percent and held around levels prevailing prior to the onset of the pandemic.

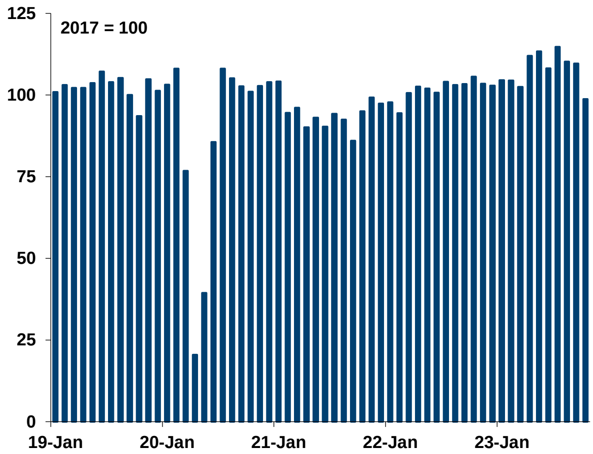
- The decline of 0.7 percent in manufacturing was influenced significantly by a drop of 10.0 percent in motor vehicle and parts production, which reflected rolling strike activity at large U.S automakers amid contentious wage negotiations with unions (charts, next page). Provided that new labor agreements are ratified, the drag could unwind in coming months. Manufacturing activity excluding autos rose 0.1 percent. Factory production (excluding the strike effect) has moved sideways with demand restrained by tight financial conditions.

Industrial Production: Manufacturing



Source: Federal Reserve Board via Haver Analytics

Industrial Production: Motor Vehicles & Parts



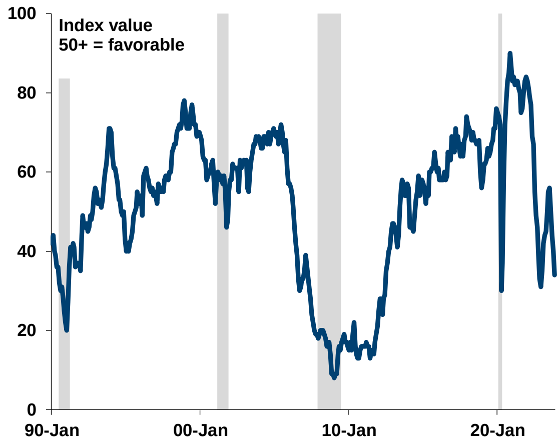
Source: Federal Reserve Board via Haver Analytics

NAHB Housing Market Index

- The NAHB/Wells Fargo Housing Market Index fell to 34 in November (versus the consensus expectation of no change from the October reading of 40). The measure has now declined for four consecutive months after a brief recovery in the summer. The latest reading is above the recent low of 31 in December 2022 (and recession trough of 30 during the brief 2020 contraction), although it is consistent with readings during other recessionary periods (chart, right).

- We currently do not view the broader U.S. economy as in recession, but we do see the housing market as in a deep slump. Home sales respond forcefully to shifts in interest rates, and aggressive hikes by the Fed have pushed mortgage rates close to eight percent (chart, below left). The combination of elevated interest rates and high prices, which has been exacerbated by tight supplies in many regional markets, has created an affordability crisis that has forced many potential homebuyers to the sidelines and had a notable constraining effect on sales (chart, below right). Thus, homebuilder sentiment is unlikely to improve while conditions in the housing market remain challenging.

Housing Market Index

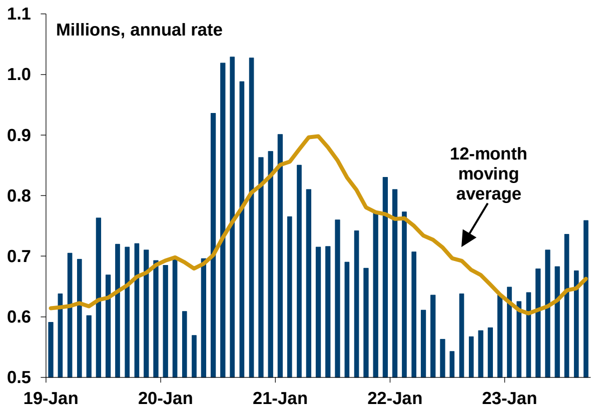


Source: National Association of Home Builders via Haver Analytics

30-Year Mortgage Rate

Source: Freddie Mac via Haver Analytics

New Home Sales



Source: U.S. Census Bureau via Haver Analytics