U.S. Economic Comment

- Economic activity: on track in Q1, although off the firm pace in 23-Q4
- ISM manufacturing: a disappointing read on the factory sector

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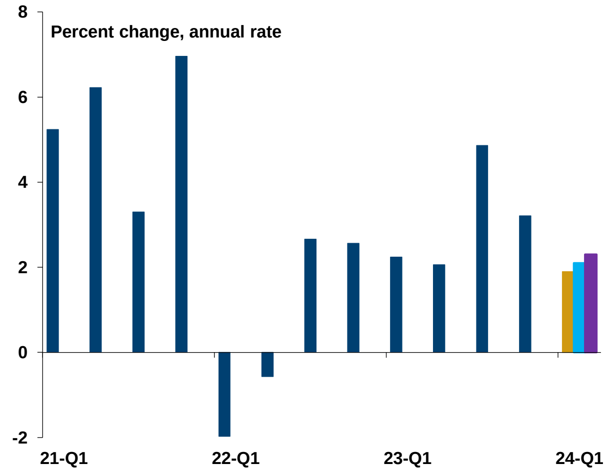
Easing Growth in Q1

Given firm underlying momentum in the closing months of 2023 (GDP growth of 3.2 percent in Q4), we anticipated the economy to remain on solid footing in early 2024. Inclement weather in January obscured the picture to a degree (perhaps constraining retail sales and construction activity, for example), but weather-related disruptions were modest in February and unlikely to have another material impact on the data as we move toward spring. What will be more pressing, however, is the assessment of incoming data for signs of weakness, particularly as the economy has yet to experience the full force of previous tightening in monetary policy by the Federal Reserve.

Cognizant of risks to growth associated with the current policy setting, and already-realized responses in various sectors of the economy, we were surprised by initial estimates of various Fed GDP models that suggest brisk growth in Q1. The Federal Reserve Bank of New York's Nowcast model recorded an initial estimate of 3.3 percent in early February before moderating to 2.3 percent on March 1 (chart, below left). Similarly, the closely monitored GDPNow model from the Federal Reserve Bank of Atlanta recorded a preliminary estimate of growth of 4.2 percent before fluctuating between 2.9 percent and 3.5 percent and slowing to expected growth of 2.1 percent as of today's estimate – closer to our Q1 projection of 1.9 percent growth.

With that said, citing these early reads from Fed models is not meant to assert that they're off the mark. Rather, we emphasize that incoming data may be evolving in a manner that suggests a more rapid slowing in underlying activity than previously considered. For example, real consumer spending dipped 0.1 percent in January (published February 29 in the Personal Income and Consumption report). The results were mildly disappointing after a burst of 0.6 percent in December, but given the elevated reading in the prior month (i.e. the jumping-off point for Q1) modest increases of only 0.1 percent per month in the next two months will leave the Q1 average well above that in Q4 and equate to annualized growth of consumer spending in Q1 of 2.0 percent (chart, below right). That favorable topline performance may obscure less favorable developments to a degree, such as pickups in credit delinquencies and layoff announcements that would suggest subdued consumer spending into early Q2.

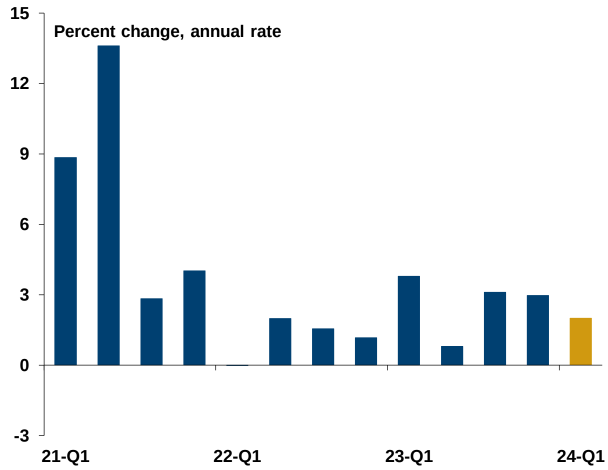
GDP Growth*



** The gold, light blue and purple bars are forecasts for 2024-Q1 provided by DCMA, the Atlanta Fed's GDPNow model, and the New York Fed's Nowcast model, respectively.*

Sources: Bureau of Economic Analysis via Haver Analytics; Federal Reserve Bank of Atlanta; Federal Reserve Bank of New York; Daiwa Capital Markets America

Real Consumer Spending Growth*

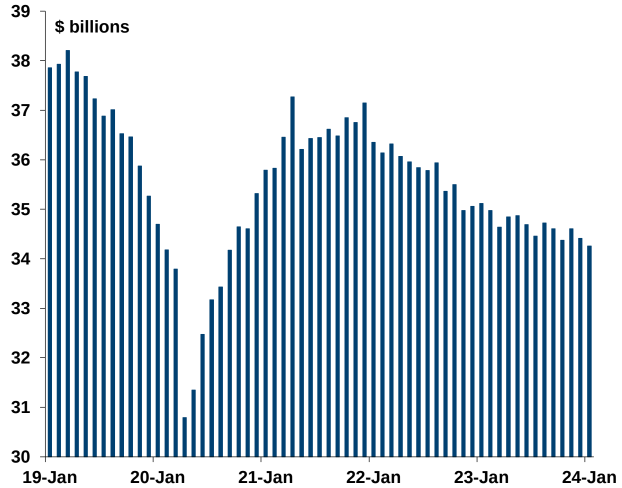


** The gold bar is a forecast for 2024-Q1.*

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

Similarly, data on the business sector suggest a tepid start to Q1. The January durable goods report published Tuesday indicated nominal growth of 0.8 percent in shipments of nondefense capital goods excluding aircraft, but adjusting for inflation left little change versus the Q4 average ($34.749 billion versus an average of $34.692 billion). In context, the data imply a soft performance for capital expenditures in Q1. Moreover, soft order flows raise the possibility of a weak performance into mid-year (chart, below left). Business investment in structures was strong in 2023, with Q4/Q4 growth of 16.0 percent, as the CHIPS Act led to significant investment in new facilities for manufacturing semiconductors. Notably, however, activity may be plateauing as the effects of the legislation fade (chart, below right). Thus, while we view the economy as currently on a growth track, we are increasingly vigilant regarding signs of slowdown in the months ahead – particularly if the FOMC maintains a restrictive policy setting beyond 2024-H1, as that would magnify downside risks to economic activity.

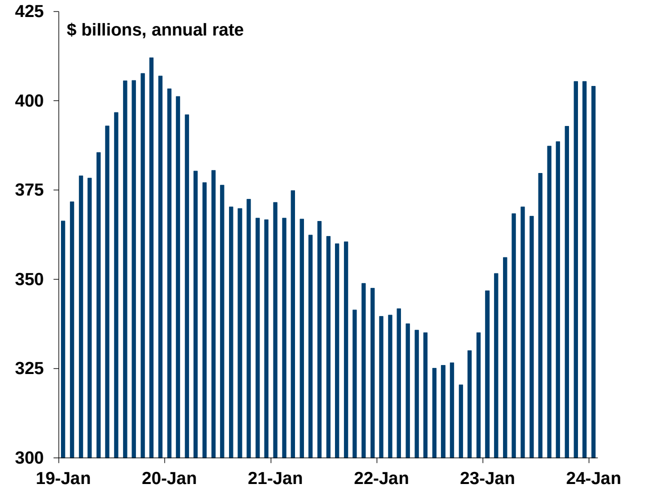
Real Orders of Durable Goods*



* Nominal orders of nondefense capital goods excluding aircraft adjusted by the private capital equipment component of the producer price index.

Sources: Bureau of Labor Statistics, U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

Real Private Nonresidential Construction*



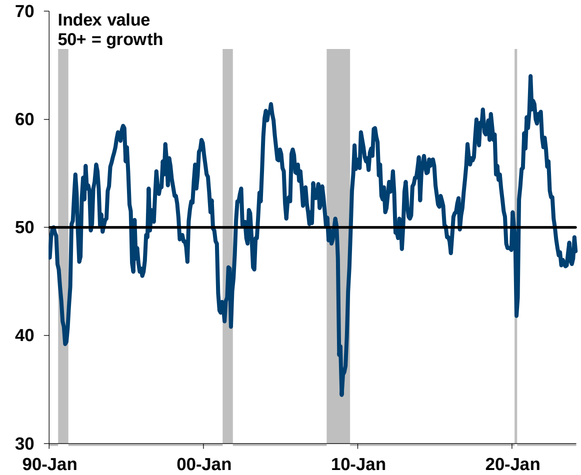
* Nominal value of business-related construction deflated by the Final Demand Construction for Private Capital Investment component of the PPI.

Sources: Bureau of Labor Statistics, U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

ISM Manufacturing Softens in February

Recently, we had become more hopeful that the manufacturing sector was emerging from the doldrums. Factory firms added jobs for three consecutive months, including 23,000 in January (versus an average of 2,000 per month in 2023). Additionally, the ISM index rose for two consecutive months, with the January reading of 49.1 within striking distance of expansion territory. The measure reversed course in February, falling to 47.8 – a reading consistent with those in previous recessionary periods (chart).

ISM Manufacturing: Headline Index*

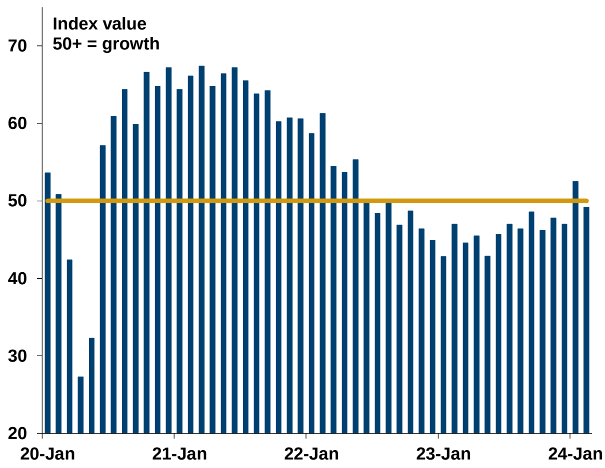


* The shaded areas indicate periods of recession in the United States.

Sources: Institute for Supply Management, National Bureau of Economic Research via Haver Analytics

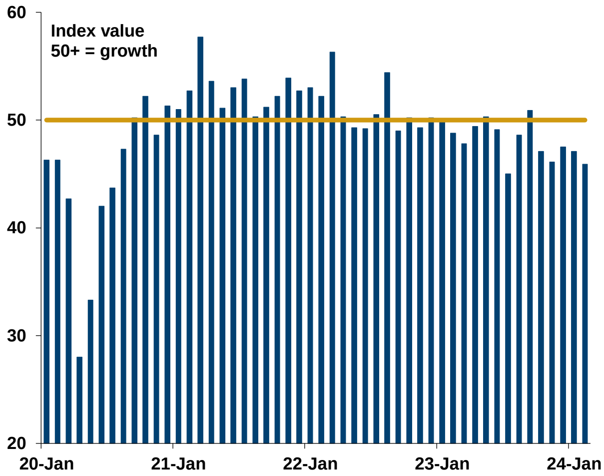
Our sentiments fell, however, in the latest month as four out of five components which directly factor into the Manufacturing PMI signaled contraction. Among them, employment, new orders, and production were most notable. The employment index eased 1.2 index points to 45.9, the fifth consecutive reading signaling a contraction in hiring. Additionally, the new orders and production components both fell below 50.0 (49.2 and 48.4, respectively, versus 52.5 and 50.4 in January; charts, next page). The latest reading underscores the challenges faced by a cyclically sensitive sector amid tight financial conditions and an uncertain outlook.

ISM Manufacturing: New Orders Index



Source: Institute for Supply Management via Haver Analytics

ISM Manufacturing: Employment Index



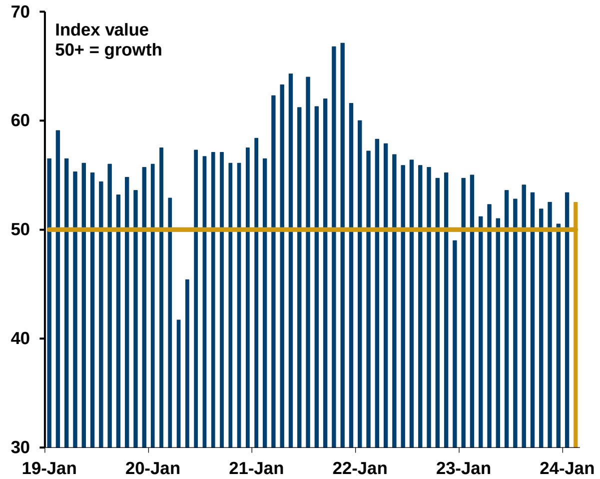
Source: Institute for Supply Management via Haver Analytics

The Week Ahead

ISM Services Index (February) (Tuesday)
Forecast: 52.5 (-0.9 Index Pt.)

The service sector of the economy has remained on a growth track, but the jump to 53.4 in January from 50.5 in December may be overstating the degree of strength in this sector, especially in light of a dip in the S&P Global services PMI (-1.2 index points to 51.3 in February; flash estimate published on February 22). With respect to the ISM survey, the new orders component has bounced around in recent months, raising the possibility of a decline after an increase of 2.2 index points to 55.0 in January.

ISM Services Index*



* The gold bar is a forecast for February 2024.

Sources: Institute for Supply Management via Haver Analytics; Daiwa Capital Markets America

Factory Orders (January) (Tuesday)
Forecast: -3.6%

Durable goods orders fell 6.1 percent in January, in part reflecting a drop of 16.2 percent in the transportation category (which was mostly a drop in aircraft orders). Bookings excluding transportation eased for the second consecutive month (off 0.3 percent in January). Nondurable bookings, the new information in the factory orders report, could slip in the latest month. In particular, low prices could again restrain the value of bookings in the petroleum and coal category. Nondurable bookings excluding petroleum and coal drifted only modestly higher on balance in 2023.

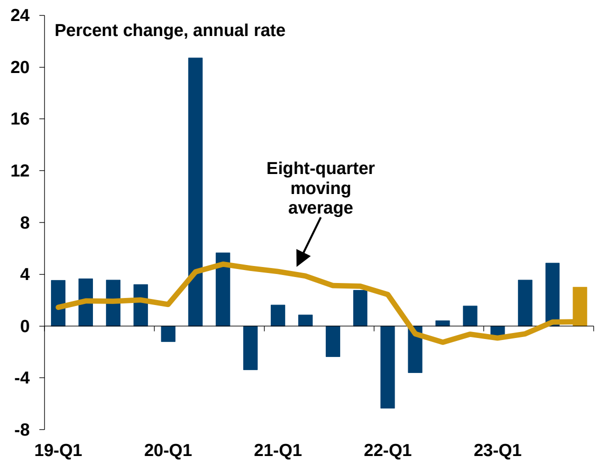
Trade Balance (January) (Thursday)
Forecast: -$64.0 Billion ($1.8 Billion Wider Deficit)

The widening of $2.3 billion in the goods deficit (released on February 28) suggests similar deterioration in the total trade deficit for January. The surplus in service trade increased by $1.7 billion in the past three months combined to $26.9 billion, raising the possibility that further improvement in service trade could provide a partial offset to the slippage in the goods balance.

Revised Nonfarm Productivity (23-Q4) (Thursday)
Forecast: 3.0% (-0.2 Pct. Pt. Revision)

A modest downward revision to the output measure that feeds into the calculation of productivity and an upward adjustment to hours worked suggest that productivity growth in Q4 was a bit softer than first believed. That said, productivity growth has been stirring in recent quarters, with current Q4/Q4 growth in 2023 of 2.7 percent a marked contrast to the contraction of 2.0 percent in 2022. Consequently, the expected downward revision to productivity raises the possibility of an upward adjustment to unit labor costs (0.6 percent, annual rate, expected versus a preliminary reading of 0.5 percent).

Nonfarm Productivity*



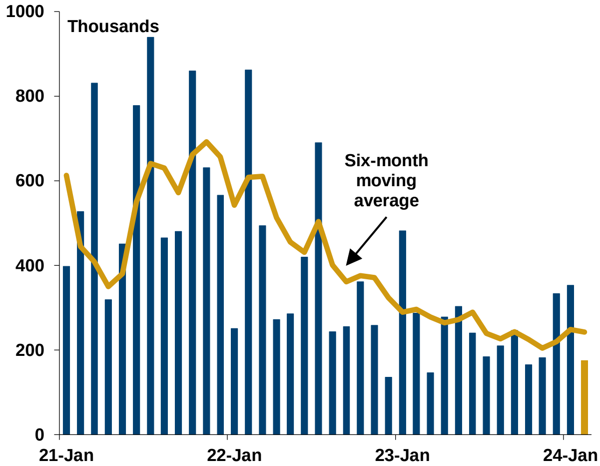
* The gold bar is a forecast for 2023-Q4.

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

Payroll Employment (February) (Friday)
Forecast: 175,000

Jumps of 353,000 and 333,000 in nonfarm payrolls in January 2024 and December 2023, respectively, far exceeded the average of 248,000 in the first 11 months of 2023. While the recent performance could signal an acceleration in hiring, we're inclined to view it as upside noise – particularly in light of a recent increase in layoff announcements that implies a softening in underlying labor market conditions. Both the labor force and employment measured by the household survey contracted sharply in the past two months combined (off 851,000 and 714,000, respectively), raising the possibility of rebounds in February. The potential shifts could be offsetting, leaving the unemployment rate unchanged at 3.7 percent. The surge of 0.6 percent in average hourly earnings in January was likely influenced by inclement weather, as the length of the average workweek fell by 0.2 hour to 34.1 hours (-0.6 percent) and reported employees not at work due to bad weather spiked: nonagricultural employees not at work due to bad weather totaled 553,000 in January 2024 versus an average of 288,000 each January in the 2000-2023 period. A normalization of conditions in February raises the possibility of a correction in average hourly earnings (+0.2 percent expected).

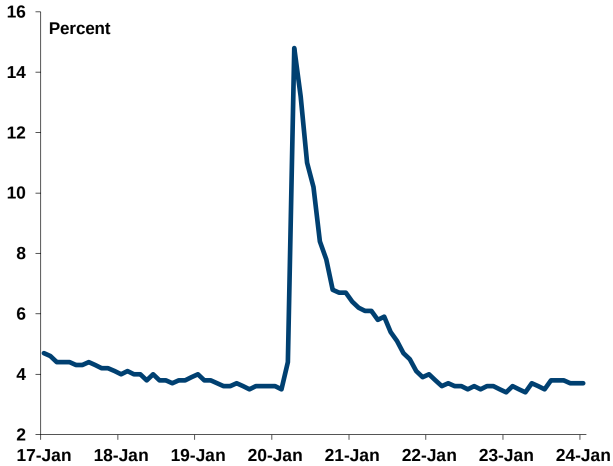
Change in Nonfarm Payrolls*



** The gold bar is a forecast for February 2024.*

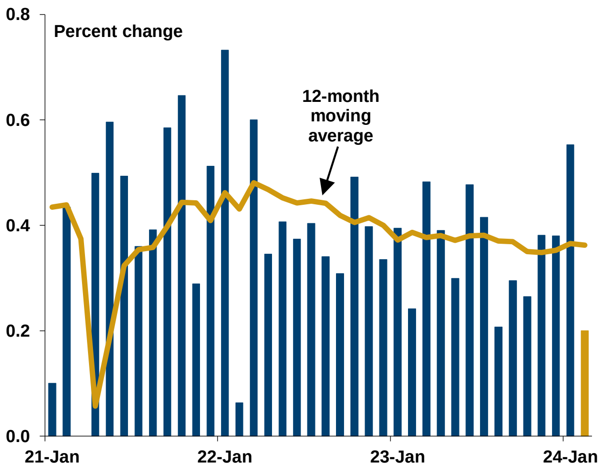
Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

Civilian Unemployment Rate



Source: Bureau of Labor Statistics via Haver Analytics

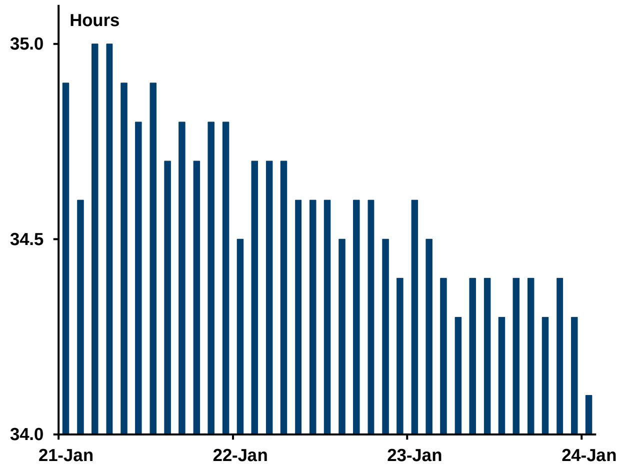
Average Hourly Earnings



** The gold bar is a forecast for February 2024.*

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

Length of the Average Workweek



Source: Bureau of Labor Statistics via Haver Analytics

Economic Indicators

February/March 2024

Monday 26

NEW HOME SALES

Nov	0.607 million
Dec	0.651 million
Jan	0.661 million

Tuesday 27

DURABLE GOODS ORDERS

Nov	5.4%
Dec	-0.3%
Jan	-6.1%

FHFA HOME PRICE INDEX

Oct	0.3%
Nov	0.4%
Dec	0.1%

S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX

Oct	0.6%
Nov	0.2%
Dec	0.2%

CONFERENCE BOARD CONSUMER CONFIDENCE

Dec	108.0
Jan	110.9
Feb	106.7

Wednesday 28

REVISED GDP

	GDP	Chained Price
23-Q3	4.9%	3.3%
23-Q4(a)	3.3%	1.5%
23-Q4(p)	3.2%	1.6%

INTERNATIONAL TRADE IN GOODS

Nov	-$88.3 billion
Dec	-$87.9 billion
Jan	-$90.2 billion

ADVANCE INVENTORIES

	Wholesale	Retail
Nov	-0.4%	0.0%
Dec	0.4%	0.6%
Jan	-0.1%	0.5%

Thursday 29

UNEMPLOYMENT CLAIMS

	Initial (millions)	Continuing (millions)
Feb 3	0.220	1.889
Feb 10	0.213	1.860
Feb 17	0.202	1.905
Feb 24	0.215	N/A

PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX

	Inc.	Cons.	Core
Nov	0.3%	0.4%	0.1%
Dec	0.3%	0.7%	0.1%
Jan	1.0%	0.2%	0.4%

MNI CHICAGO BUSINESS BAROMETER

	Index	Prices
Dec	47.2	68.0
Jan	46.0	63.9
Feb	44.0	64.7

PENDING HOME SALES

Nov	0.7%
Dec	5.7%
Jan	-4.9%

Friday 1

ISM MFG. INDEX

	Index	Prices
Dec	47.1	45.2
Jan	49.1	52.9
Feb	47.8	52.5

REVISED CONSUMER SENTIMENT

Jan	79.0
Feb (p)	79.6
Feb (r)	76.9

CONSTRUCTION

Nov	1.2%
Dec	1.1%
Jan	-0.2%

VEHICLE SALES

Dec	16.1 million
Jan	15.0 million
Feb	15.8 million

Monday 4

Tuesday 5

ISM SERVICES INDEX (10:00)

	Index	Prices
Dec	50.5	56.7
Jan	53.4	64.0
Feb	**52.5**	**65.0**

FACTORY ORDERS (10:00)

Nov	2.6%
Dec	0.1%
Jan	**-3.6%**

Wednesday 6

ADP EMPLOYMENT (8:15)

	Private Payrolls
Dec	158,000
Jan	107,000
Feb	--

JOLTS DATA (10:00)

	Openings (000)	Quit Rate
Nov	8,925	2.2%
Dec	9,026	2.2%
Jan	--	--

WHOLESALE TRADE (10:00)

	Inventories	Sales
Nov	-0.4%	-0.1%
Dec	0.4%	0.7%
Jan	**-0.1%**	**0.5%**

CHAIR POWELL MONETARY POLICY TESTIMONY (HOUSE) (10:00)

BEIGE BOOK (2:00)

January 2024:

"A majority of the twelve Federal Reserve Districts reported little o no change in economic activity since the prior Beige Book period."

Thursday 7

UNEMP. CLAIMS (8:30)

TRADE BALANCE (8:30)

Nov	-$61.9 billion
Dec	-$62.2 billion
Jan	**-$64.0 billion**

REVISED PRODUCTIVITY & COSTS (8:30)

	Productivity	Unit Labor Costs
23-Q3	4.9%	-1.1%
23-Q4 (p)	3.2%	0.5%
23-Q4 (r)	**3.0%**	**0.6%**

CHAIR POWELL MONETARY POLICY TESTIMONY (SENATE) (10:00)

CONSUMER CREDIT (3:00)

Nov	$23.5 billion
Dec	$1.6 billion
Jan	--

Friday 8

EMPLOYMENT REPORT (8:30)

	Payrolls	Un. Rate
Dec	333,000	3.7%
Jan	353,000	3.7%
Feb	**175,000**	**3.7%**

Monday 11

Tuesday 12

NFIB SMALL BUSINESS OPTIMISM INDEX

CPI

FEDERAL BUDGET

Wednesday 13

Thursday 14

UNEMP. CLAIMS

PPI

RETAIL SALES

BUSINESS INVENTORIES

Friday 15

EMPIRE MFG

IMPORT/EXPORT PRICES

IP & CAP-U

CONSUMER SENTIMENT

Monday 18

NAHB HOUSING INDEX

Tuesday 19

HOUSING STARTS

TIC FLOWS

FOMC MEETING (FIRST DAY)

Wednesday 20

FOMC RATE DECISION

Thursday 21

UNEMP. CLAIMS

CURRENT ACCOUNT

PHILLY FED INDEX

EXISTING HOME SALES

LEADING INDICATORS)

Friday 22

Forecasts in bold. (a) = advance (1st estimate of GDP), (p) = preliminary (2nd estimate of GDP), (r) = revised

Treasury Financing

February/March 2024

Monday	Tuesday	Wednesday	Thursday	Friday
26	27	28	29	1
AUCTION RESULTS: Rate / Cover 13-week bills 5.255% 2.93 26-week bills 5.130% 2.92 2-yr notes 4.691% 2.49 5-yr notes 4.320% 2.41	**AUCTION RESULTS:** Rate / Cover 7-yr notes 4.327% 2.58 42 day CMBs 5.290% 2.61 **ANNOUNCE:** $60 billion 17-week bills for auction on Feb 28 $95 billion 4-week bills for auction on Feb 29 $90 billion 8-week bills for auction on Feb 29 **SETTLE:** $60 billion 17-week bills $95 billion 4-week bills $90 billion 8-week bills	**AUCTION RESULTS:** Rate / Cover 17-week bills 5.225% 2.86	**AUCTION RESULTS:** Rate / Cover 4-week bills 5.285% 2.80 8-week bills 5.285% 2.71 **ANNOUNCE:** $149 billion 13-,26-week bills for auction on Mar 4 $80 billion 42-day CMBs for auction on Mar 5 **SETTLE:** $149 billion 13-,26-week bills $16 billion 20-year bonds $9 billion 30-year TIPS $63 billion 2-year notes $64 billion 5-year notes $42 billion 7-year notes $80 billion 42-day CMBs	
4	5	6	7	8
AUCTION: $149 billion 13-,26-week bills	**AUCTION:** $80 billion 42-day CMBs **ANNOUNCE:** $60 billion* 17-week bills for auction on Mar 6 $95 billion* 4-week bills for auction on Mar 7 $90 billion* 8-week bills for auction on Mar 7 **SETTLE:** $60 billion 17-week bills $95 billion 4-week bills $90 billion 8-week bills	**AUCTION:** $60 billion* 17-week bills	**AUCTION:** $95 billion* 4-week bills $90 billion* 8-week bills **ANNOUNCE:** $149 billion* 13-,26-week bills for auction on Mar 11 $56 billion* 3-year notes for auction on Mar 11 $39 billion* 10-year notes for auction on Mar 12 $22 billion* 30-year bonds for auction on Mar 13 **SETTLE:** $149 billion 13-,26-week bills $80 billion 42-day CMBs	
11	12	13	14	15
AUCTION: $149 billion* 13-,26-week bills $56 billion* 3-year notes	**AUCTION:** $39 billion* 10-year notes **ANNOUNCE:** $60 billion* 17-week bills for auction on Mar 13 $95 billion* 4-week bills for auction on Mar 14 $90 billion* 8-week bills for auction on Mar 14 **SETTLE:** $60 billion* 17-week bills $95 billion* 4-week bills $90 billion* 8-week bills	**AUCTION:** $60 billion* 17-week bills $22 billion* 30-year bonds	**AUCTION:** $95 billion* 4-week bills $90 billion* 8-week bills **ANNOUNCE:** $149 billion* 13-,26-week bills for auction on Mar 18 $46 billion* 52-week bills for auction on Mar 19 $13 billion* 20-year bonds for auction on Mar 19 $16 billion* 10-year TIPS for auction on Mar 21 **SETTLE:** $149 billion* 13-,26-week bills	**SETTLE:** $56 billion* 3-year notes $39 billion* 10-year notes $22 billion* 30-year bonds
18	19	20	21	22
AUCTION: $149 billion* 13-,26-week bills	**AUCTION:** $46 billion* 52-week bills $13 billion* 20-year bonds **ANNOUNCE:** $60 billion* 17-week bills for auction on Mar 20 $95 billion* 4-week bills for auction on Mar 21 $90 billion* 8-week bills for auction on Mar 21 **SETTLE:** $60 billion* 17-week bills $95 billion* 4-week bills $90 billion* 8-week bills	**AUCTION:** $60 billion* 17-week bills	**AUCTION:** $95 billion* 4-week bills $90 billion* 8-week bills $16 billion* 10-year TIPS **ANNOUNCE:** $149 billion* 13-week bills for auction on Mar 25 $66 billion* 2-year notes for auction on Mar 25 $67 billion* 5-year notes for auction on Mar 26 $43 billion* 7-year notes for auction on Mar 27 $28 billion* 2-year FRNs for auction on Mar 27 **SETTLE:** $149 billion* 13-,26-week bills $46 billion* 52-week bills	

*Estimate