Daiwa Securities

Daiwa's View

FICC Research Dept

Japan/US central banks dialing-back, Feb US jobs data: Fading concerns that jobs market is too strong

- "Gangbusters" Jan jobs data revised significantly lower
- Gap between establishment survey and household survey has widened to point investors can no longer overlook; household survey suggests further jobs market easing (qualitative deterioration)
- BOJ's easing framework change from YCC/negative rates to quantitative easing = dialing back one step?

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Both the Daiwa Group and Eiichiro Tani have been ranked first in the Nikkei Veritas Analyst Rankings for two consecutive years. We would like to thank everyone who supported us.

The February US jobs report, released at the end of last week, included a sharp downward revision for the January reading, which had been praised as "gangbusters." This suggests a stronger likelihood that fears of labor market overheating, which emerged from the January employment report, are unfounded. Also, the household survey confirmed a qualitative deterioration, with the number of workers falling by a total of 899K over the past three months and the unemployment rate rising to 3.9% for the first time since January 2022. The gap between the establishment survey and the household survey has widened to a point that investors can no longer afford to overlook.

As has been widely indicated, it is very likely that behavioral changes, such as working multiple part-time jobs, have inflated figures in the establishment survey. The declines in the JOLTS hiring and voluntary turnover rates reported in this column last week suggest that the household survey may be more indicative of the reality within the US economy. That said, the rebound in growth indicated by *GDPNow* and the expansion of US consumer spending driven by surging asset prices could re-ignite the US jobs market, which would make the Fed increasingly cautious about dialing back. As an investor, the direction of the interest rate outlook could be the exact opposite depending on whether the focus is on the solid establishment survey or the weaker household survey.

Turning to Japan, on 8 March Jiji Press reported that the BOJ is mulling replacing YCC with a new "quantitative" monetary policy framework in which the size of future JGB purchases is indicated in advance, as a means to facilitate the normalization of monetary easing. In other words, the Bank is considering a return to a framework that targets the volume of JGBs purchased rather JGB yield targets (JGB purchase amounts expected to be adjusted to around current monthly level of just under Y6.0tn for time being). Regarding BOJ policy revisions, we recall how the IMF stated in Article IV talks with Japan in 2023, "The BOJ could consider the following options to allow further flexibility and increases in long-term yields—widening the 10-year target band and/or raising the 10-year target, shortening the yield curve target, or shifting from a JGB yield target to a quantity target of JGB purchases." Even in terms of "dialing back" QQE, the elimination of YCC and negative interest rates along with a return to quantitative easing are reasonable options that allow for continuity in terms of continued easing.

In this year's Article IV talks with Japan, the IMF also said (assuming staff's baseline inflation forecast bears out), "The BOJ should gradually raise the policy rate over its policy horizon (i.e., three years) thereafter." If that is the case, Japan's policy rate would undergo a period of rehabilitation over the next three years or so, moving higher until around 2027.

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