U.S. Economic Comment

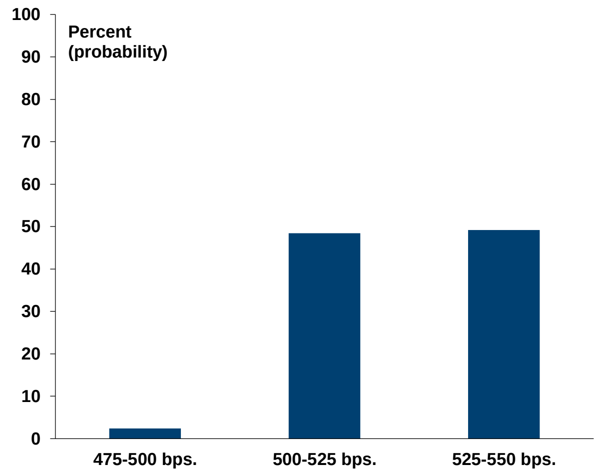
- March employment: strong job growth; ongoing easing in supply-demand imbalances
- Average hourly earnings: modest deceleration in wage growth
- Production hours: suggesting moderate economic growth in Q1

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

March Employment

Payroll growth of 303,000 in March far exceeded the Bloomberg consensus median of +214,000 and accelerated from the average of 235,000 in the previous six months (chart, below left). The latest results suggest that the U.S. economy remained on track in the spring and raise the possibility that the previous constraining effects of monetary policy on economic activity may be waning. The data offer a striking example of why even the most dovish Fed officials have in recent comments been noncommittal in signaling that rate cuts are imminent, while others have gone on the record indicating that they anticipate only one or two reductions of 25 basis points this year (versus the median expectation of 75 basis points indicated in the March Summary of Economic Projections). Indeed, the latest employment data, along with inflation that likely remained brisk in March (see our expectation for the upcoming CPI report), offer scant evidence for a rate cut at the April 30-May 1 FOMC meeting. Market expectations still slightly favor of the pivot coming in June, but that view could easily change over the next nine weeks (chart, right).

Target Rate Probability for June 2024*



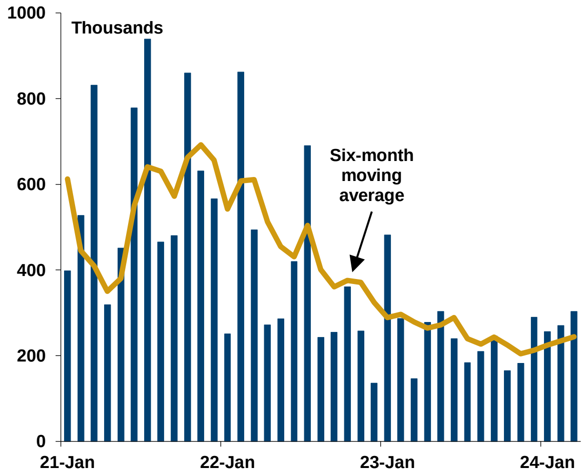
** The projected level of the federal funds rate the June 2024 FOMC meeting based on futures pricing data as of midday April 5, 2024.*

Source: CME Group, FedWatch Tool

Payrolls

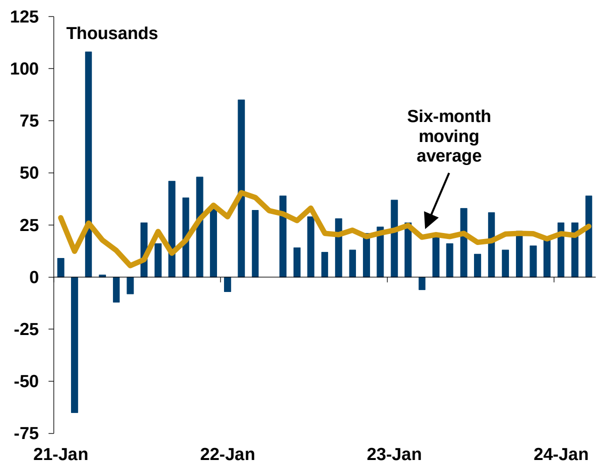
We viewed private-sector payroll growth of 232,000 in the latest month as particularly favorable. The latest result was well above the previous six-month average of 177,000, with several industries posting firm results. The construction sector added 39,000 positions in March, almost double the 20,000 average in the September-to-February period (chart, below right). Additionally, the health and social assistance sector reported job gains of 81,300

Change in Nonfarm Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

Change in Construction Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

(essentially matching the six-month average of 82,000) and the leisure and hospitality area reported hiring of 49,000. Private-sector payroll growth was not uniformly strong across sectors, but the total far exceeded the average monthly increase of 148,000 in 2019 – the pre-pandemic period that was lauded by Fed officials for its firm labor market conditions.

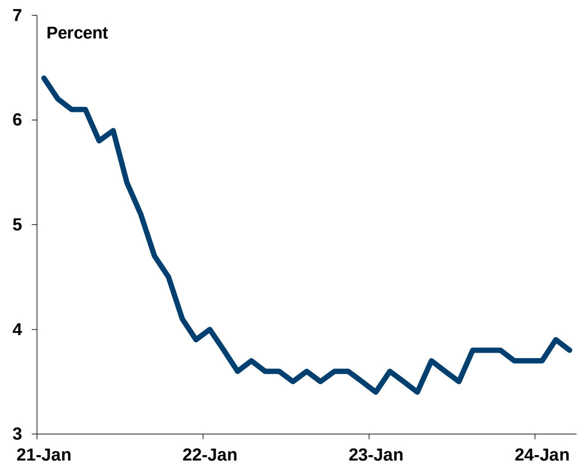
Hiring in the government sector also was robust, with 62,000 of the 71,000 positions being added at the state and local levels. Moreover, the advance in state and local government hiring exceeded the brisk average of 50,000 in the past six months, suggesting an ongoing positive effect from prior COVID-related stimulus on the budgets of government entities.

Data from the Household Survey

The unemployment rate dipped 0.1 percentage point to 3.8 percent, but we're inclined to view the development favorably in the context of ongoing rebalancing in the labor market (chart, right). Employment jumped 498,000 in the latest month, but the gain followed declines in four of the prior five months (a net decline of 582,000 over that span; chart, below left). Growth in the labor force fell short of that in employment, which prompted the dip in the unemployment rate, but it was large in an absolute sense (+469,000) and followed a gain in February (chart, below right).

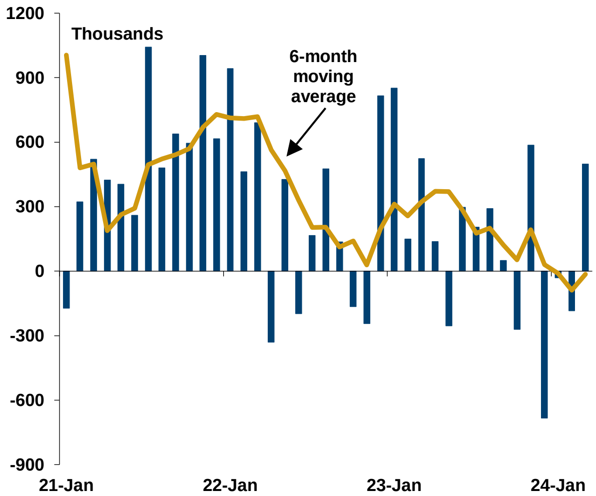
When recent increases in the labor force are viewed in the context of the participation rate, they support the assessments of Fed officials that the supply side of the labor market will factor importantly into mitigating ongoing imbalances and will, over time, facilitate wage growth more so in line with the price stability mandate. The broad labor force participation rate increased 0.2 percentage point in March to 62.7 percent, just shy of the high for the current expansion (chart, next page, top left). The participation rate lags that in the years preceding the pandemic, with retirements of Baby Boomers preventing the broad measure from recovering fully. Importantly, prime-age workers have partially offset the drag from retirements. Although the prime-age participation is a bit below the recent high of 83.5 percent, it is above readings that prevailed in early 2020 (chart, next page, top right). Additionally, the return of immigration to patterns that prevailed prior to COVID should provide ongoing support to labor supply.

Civilian Unemployment Rate



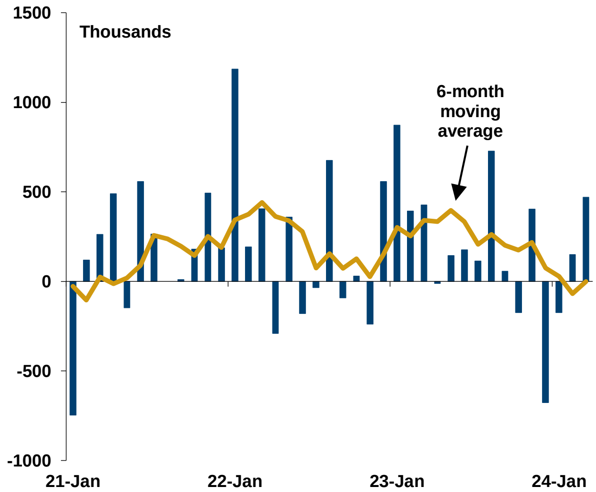
Source: Bureau of Labor Statistics via Haver Analytics

Change in Household Employment



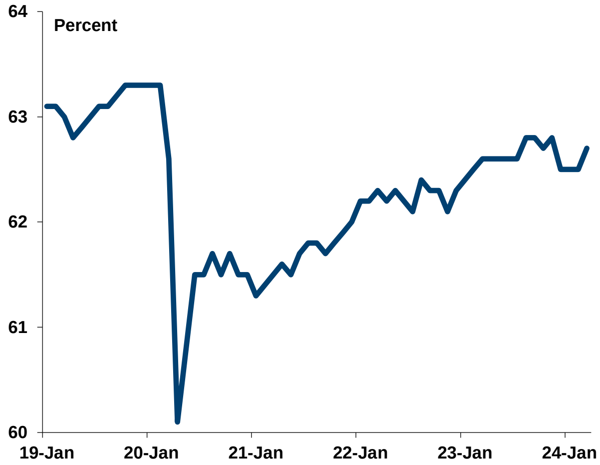
Source: Bureau of Labor Statistics via Haver Analytics

Change in the Labor Force



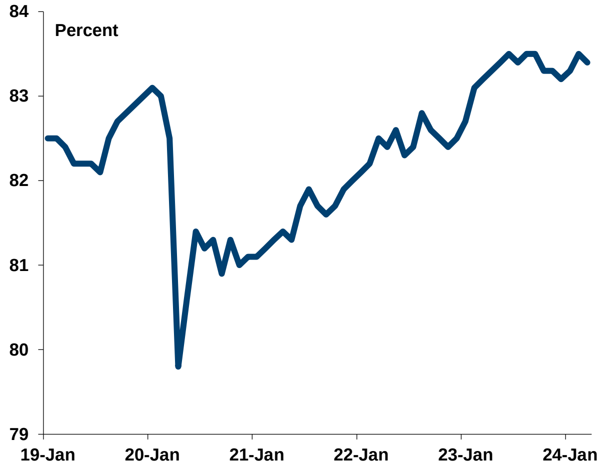
Source: Bureau of Labor Statistics via Haver Analytics

Labor Force Participation Rate



Source: Bureau of Labor Statistics via Haver Analytics

Prime-Age Labor Force Participation Rate*



** Labor force participants aged 25 to 54 as a share of the civilian non-institutional population aged 25 to 54.*

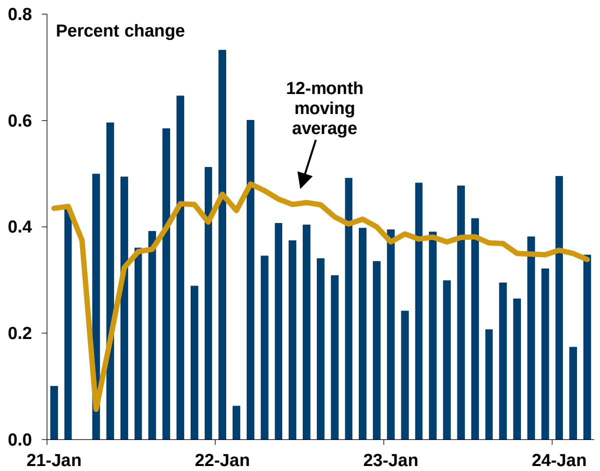
Source: Bureau of Labor Statistics via Haver Analytics

Wage Growth

Given the Fed's ongoing fight against inflation, average hourly earnings remain one of the most followed elements of the labor market report. Labor is a key input in the provision of services, and wage growth factors importantly into the costs of those services. In the latest month, wages again registered modest improvement. Average hourly earnings rose 0.35 percent, matching the average in the prior 12 months, but the year-over-year increase moderated to 4.1 percent from 4.3 percent (charts, below).

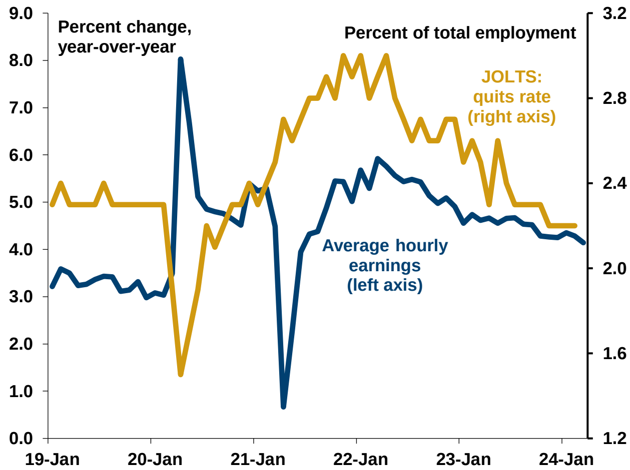
On face, progress toward slower wage growth is frustratingly slow. Deceleration of another one-half to one percentage point in average hourly earnings is likely needed to achieve the requisite deceleration in service inflation consistent with a sustainable return to two-percent inflation over time. That said, we suspect that the previously noted improvement in labor supply could contribute to ongoing slowing in wage growth. Note the gold line on the chart below (right), which shows the quits rate from the Job Openings and Labor Turnover Survey released earlier this week. When labor was scarce earlier in the expansion, workers could easily jump to new positions offering better compensation and benefits packages. That dynamic drove brisk increases in labor costs as firms were forced to compete to add or retain qualified workers. The quits rate has fallen sharply in recent months, returning to pre-pandemic norms even as hiring has remained strong. Thus, it appears that firms are more easily able to fill positions without offering additional enticements to workers. In turn, workers sense this underlying shift and are less likely to leave current jobs. Consequently, this shift, if maintained, bodes well for additional easing in wage growth.

Average Hourly Earnings



Source: Bureau of Labor Statistics via Haver Analytics

Average Hourly Earnings vs. Quits Rate*



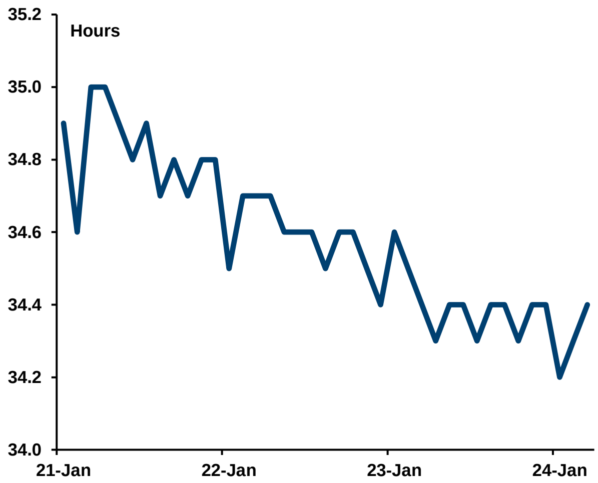
** The latest observation for the quits rate is February 2024.*

Source: Bureau of Labor Statistics via Haver Analytics

Views on Economic Activity

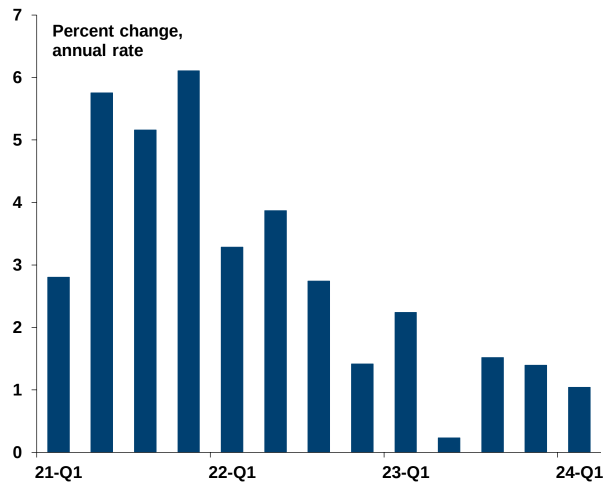
Often lost amid other employment-related data, statistics on the average workweek provide insights into economic activity. Along with the brisk pace of hiring, the average workweek increase by 0.1 hour to 34.4 hours in March (chart, below left). The shifts contributed to a month-to-month jump of 0.5 percent in the aggregate weekly hours index, which correlates with economic output – particularly when productivity growth is accelerating. For 24-Q1, the aggregate hours index increased 1.0 percent, annual rate, which included a weather-related constraint in January (chart, below right). The latest performance lags annualized growth of 1.4 percent and 1.5 percent in 23-Q4 and 23-Q3, respectively, when GDP increased at annualized rates of 3.4 and 4.9 percent. That said, the aggregate hours index for Q1 suggests a solid pace of activity in the opening quarter of 2024.

Length of the Average Workweek



Source: Bureau of Labor Statistics via Haver Analytics

Aggregate Weekly Hours Index



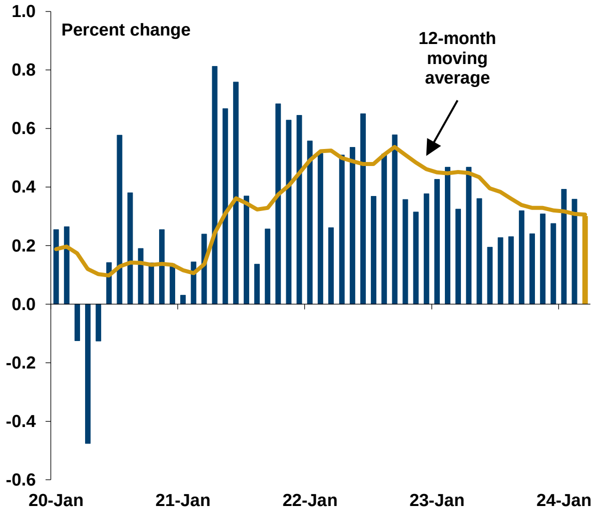
Source: Bureau of Labor Statistics via Haver Analytics

The Week Ahead

CPI (March) (Wednesday)
Forecast: 0.4% Total, 0.3% Core

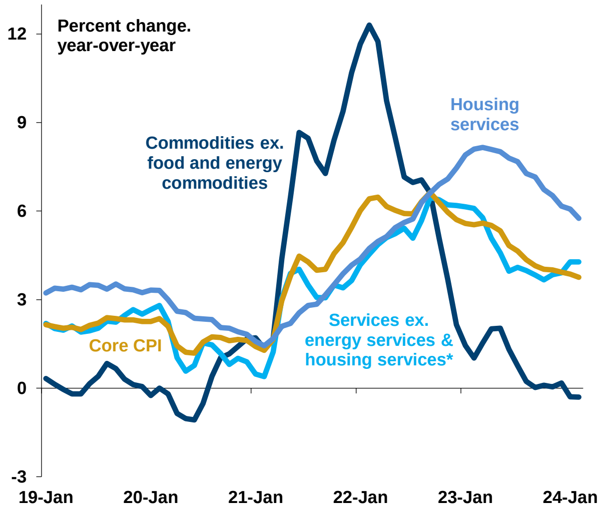
Available data suggest that the energy component could advance for the second consecutive month. The food component was little changed in February after a high-side increase of 0.4 percent in the prior month. Averaging through the recent volatility in the food component indicates a subdued underlying trend (+0.2 percent per month in the past 12 months). Core goods prices rose modestly in February (+0.1 percent) after easing for eight consecutive months (-0.15 percent average over the nine-month span), but core service prices have remained under pressure (+0.4 percent per month in the past 12 months, including an advance of 0.5 percent in February). Part of the pressure in core services reflects the costs of shelter, but increases in core service prices excluding rents and owners' equivalent rent also have been firm (+0.4 percent per month, on average, in the past 12 months, including +0.5 percent in February after a surge of 0.8 percent in the prior month).

Core CPI*



** The gold bar is a forecast for March 2024.*
Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

Decomposition of Core CPI



** Service prices excluding energy services, rent of primary residence, and owners' equivalent rent.*
Source: Bureau of Labor Statistics via Haver Analytics

Federal Budget (March) (Wednesday)
Forecast: $220.0 Billion Deficit

While available data from the month-end Daily Treasury Statement suggest that revenues grew moderately in March (+5.0 percent year-over-year expected), outlays also appear to have remained on their brisk growth trajectory. If the projected shortfall is realized, the cumulative deficit for the first six months of FY2024 would total $1,048 billion. The deficit would be slightly less than that in the same period in FY2023 ($1,101 billion) but still massive from a longer-term perspective.

PPI (March) (Thursday)
Forecast: 0.3% Total, 0.2% Ex. Food & Energy

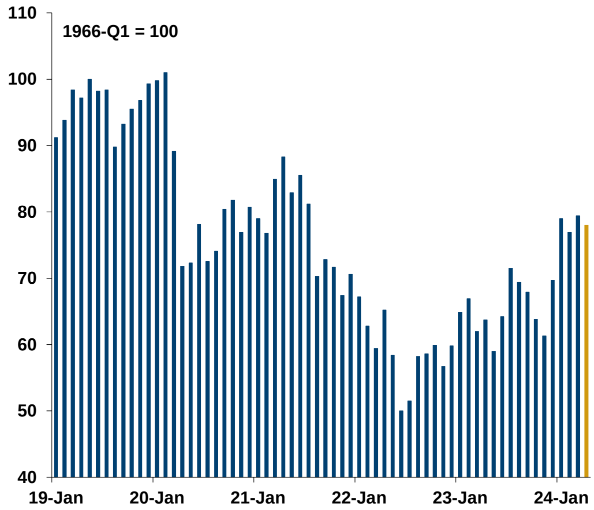
Energy prices could register a brisk increase in March after a jump of 4.4 percent in February, although food prices may cool after previously advancing 1.0 percent. Food prices reported in the PPI tend to swing widely (range of -0.8 percent to +1.0 percent in the past 12 months; monthly average of 0.0 percent). Goods prices excluding food and energy have increased 0.1 percent per month, on average, in the past 12 months, while service prices have advanced at a slightly faster pace (+0.2 percent per month). Construction costs have been subdued after surging from late 2021 through early 2023, dipping 0.1 percent per month in the past 12 months.

Consumer Sentiment (April) (Friday)
Forecast: 78.0 (-1.4 Index Pt. or -1.8%)

With gasoline prices drifting higher amid heightened geopolitical tensions and the longer-term economic outlook remaining uncertain amid the Fed's campaign to tame inflation, consumer sentiment appears poised to ease in April.

Keep an eye on the inflation expectations measures released with the sentiment report, as both may stir amid the uptick in gasoline prices. That said, the year-ahead measure at 2.9 percent as of March is well below the cycle peak of 5.4 percent in the spring of 2022. Additionally, while the longer-term measure is above the range of 2.2 to 2.6 percent that prevailed in the two years prior to the pandemic, the March reading of 2.8 percent is off the recent peak of 3.2 percent in November 2023.

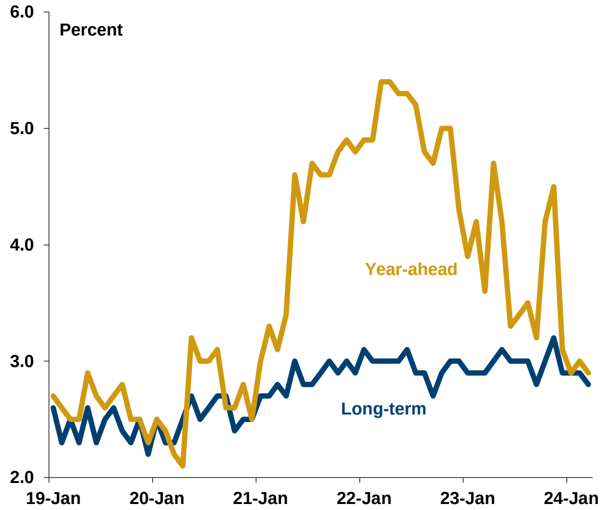
Consumer Sentiment*



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

Sources: University of Michigan via Haver Analytics; Daiwa Capital Markets America

Consumer Inflation Expectations



Source: University of Michigan via Haver Analytics

Daiwa Capital Markets

Economic Indicators

April 2024

Monday	Tuesday	Wednesday	Thursday	Friday
1	2	3	4	5
ISM MFG. INDEX Index / Prices Jan 49.1 52.9 Feb 47.8 52.5 Mar 50.3 55.8 **CONSTRUCTION** Dec 0.9% Jan -0.2% Feb -0.3%	**FACTORY ORDERS** Dec -0.3% Jan -3.8% Feb 1.4% **JOLTS DATA** Openings (000) / Quit Rate Dec 8,889 2.2% Jan 8,748 2.2% Feb 8,756 2.2% **VEHICLE SALES** Jan 14.9 million Feb 15.7 million Mar 15.5 million	**ADP EMPLOYMENT** Private Payrolls Jan 111,000 Feb 155,000 Mar 184,000 **ISM SERVICES INDEX** Index / Prices Jan 53.4 64.0 Feb 52.6 58.6 Mar 51.4 53.4	**UNEMPLOYMENT CLAIMS** Initial / Continuing (millions) Mar 9 0.212 1.795 Mar 16 0.212 1.810 Mar 23 0.212 1.791 Mar 30 0.221 N/A **TRADE BALANCE** Dec -\$64.2 billion Jan -\$67.6 billion Feb -\$68.9 billion	**EMPLOYMENT REPORT** Payrolls / Un. Rate Jan 256,000 3.7% Feb 270,000 3.9% Mar 303,000 3.8% **CONSUMER CREDIT** Dec \$3.2 billion Jan \$17.7 billion Feb \$14.1 billion
8	9	10	11	12
	NFIB SMALL BUSINESS OPTIMISM INDEX (6:00) Jan 89.9 Feb 89.4 Mar --	**CPI (8:30)** Total / Core Jan 0.3% 0.4% Feb 0.4% 0.4% **Mar 0.4% 0.3%** **WHOLESALE TRADE (10:00)** Inventories / Sales Dec 0.5% 0.6% Jan -0.2% -1.8% **Feb 0.5% 0.7%** **FOMC MINUTES (2:00)** **FEDERAL BUDGET (2:00)** 2024 / 2023 Jan -\$21.9B -\$38.8B Feb -\$296.3B -\$262.4B **Mar -\$220.0B** -\$378.4B	**UNEMP. CLAIMS (8:30)** **PPI (8:30)** Final Demand / Ex. Food & Energy Jan 0.3% 0.5% Feb 0.6% 0.3% **Mar 0.3% 0.2%**	**IMPORT/EXPORT PRICES (8:30)** Non-Petrol Imports / Nonagri. Exports Jan 0.6% 1.1% Feb 0.2% 0.8% Mar -- -- **CONSUMER SENTIMENT (10:00)** Feb 76.9 Mar 79.4 **Apr 78.0**
15	16	17	18	19
RETAIL SALES **EMPIRE MFG** **NAHB HOUSING INDEX** **BUSINESS INVENTORIES**	**HOUSING STARTS** **IP & CAP-U**	**BEIGE BOOK** **TIC FLOWS**	**UNEMP. CLAIMS** **PHILLY FED INDEX** **EXISTING HOME SALES** **LEADING INDICATORS**	
22	23	24	25	26
CHICAGO FED NATIONAL ACTIVITY INDEX	**NEW HOME SALES**	**DURABLE GOODS ORDERS**	**UNEMP. CLAIMS** **Q1 GDP** **INTERNATIONAL TRADE IN GOODS** **ADVANCE INVENTORIES** **PENDING HOME SALES**	**PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX** **REVISED CONSUMER SENTIMENT**

Forecasts in bold.

Treasury Financing

April 2024

Monday	Tuesday	Wednesday	Thursday	Friday
1	2	3	4	5
AUCTION RESULTS: Rate / Cover 13-week bills 5.230% 2.83 26-week bills 5.125% 2.85 **SETTLE:** $13 billion 20-year bonds $66 billion 2-year notes $67 billion 5-year notes $43 billion 7-year notes $28 billion 2-year FRNs	**AUCTION RESULTS:** Rate / Cover 42 day CMBs 5.280% 3.12 **ANNOUNCE:** $60 billion 17-week bills for auction on Apr 3 $70 billion 4-week bills for auction on Apr 4 $75 billion 8-week bills for auction on Apr 4 **SETTLE:** $60 billion 17-week bills $75 billion 4-week bills $80 billion 8-week bills	**AUCTION RESULTS:** Rate / Cover 17-week bills 5.200% 2.91	**AUCTION RESULTS:** Rate / Cover 4-week bills 5.265% 3.13 8-week bills 5.260% 2.87 **ANNOUNCE:** $140 billion 13-,26-week bills for auction on Apr 8 $58 billion 3-year notes for auction on Apr 9 $39 billion 10-year notes for auction on Apr 10 $22 billion 30-year bonds for auction on Apr 11 $65 billion 42-day CMBs for auction on Apr 9 **SETTLE:** $140 billion 13-,26-week bills $65 billion 42-day CMBs	
8	9	10	11	12
AUCTION: $140 billion 13-,26-week bills	**AUCTION:** $58 billion 3-year notes $65 billion 42-day CMBs **ANNOUNCE:** $60 billion* 17-week bills for auction on Apr 10 $70 billion* 4-week bills for auction on Apr 11 $75 billion* 8-week bills for auction on Apr 11 **SETTLE:** $60 billion 17-week bills $70 billion 4-week bills $75 billion 8-week bills	**AUCTION:** $60 billion* 17-week bills $39 billion 10-year notes	**AUCTION:** $70 billion* 4-week bills $75 billion* 8-week bills $22 billion 30-year bonds **ANNOUNCE:** $140 billion* 13-,26-week bills for auction on Apr 15 $46 billion* 52-week bills for auction on Apr 16 $13 billion* 20-year bonds for auction on Apr 17 $23 billion* 5-year TIPS for auction on Apr 18 **SETTLE:** $140 billion 13-,26-week bills $65 billion 42-day CMBs	
15	16	17	18	19
AUCTION: $140 billion* 13-,26-week bills **SETTLE:** $58 billion 3-year notes $39 billion 10-year notes $22 billion 30-year bonds	**AUCTION:** $46 billion* 52-week bills **ANNOUNCE:** $60 billion* 17-week bills for auction on Apr 17 $70 billion* 4-week bills for auction on Apr 18 $75 billion* 8-week bills for auction on Apr 18 **SETTLE:** $60 billion* 17-week bills $70 billion* 4-week bills $75 billion* 8-week bills	**AUCTION:** $60 billion* 17-week bills $13 billion* 20-year bonds	**AUCTION:** $70 billion* 4-week bills $75 billion* 8-week bills $23 billion* 5-year TIPS **ANNOUNCE:** $140 billion* 13-,26-week bills for auction on Apr 22 $69 billion* 2-year notes for auction on Apr 23 $70 billion* 5-year notes for auction on Apr 24 $44 billion* 7-year notes for auction on Apr 25 $30 billion* 2-year FRNs for auction on Apr 24 **SETTLE:** $140 billion* 13-,26-week bills $46 billion* 52-week bills	
22	23	24	25	26
AUCTION: $140 billion* 13-,26-week bills	**AUCTION:** $69 billion* 2-year notes **ANNOUNCE:** $60 billion* 17-week bills for auction on Apr 24 $70 billion* 4-week bills for auction on Apr 25 $75 billion* 8-week bills for auction on Apr 25 **SETTLE:** $60 billion* 17-week bills $70 billion* 4-week bills $75 billion* 8-week bills	**AUCTION:** $60 billion* 17-week bills $70 billion* 5-year notes $30 billion* 2-year FRNs	**AUCTION:** $70 billion* 4-week bills $75 billion* 8-week bills $44 billion* 7-year notes **ANNOUNCE:** $140 billion* 13-,26-week bills for auction on Apr 29 **SETTLE:** $140 billion* 13-,26-week bills	

*Estimate