Daiwa Capital Markets

U.S. Economic Comment

- The Fed: no change in policy anticipated; new SEP may provide additional insight into path of rates
- May employment: strong job growth; firm advance in wages

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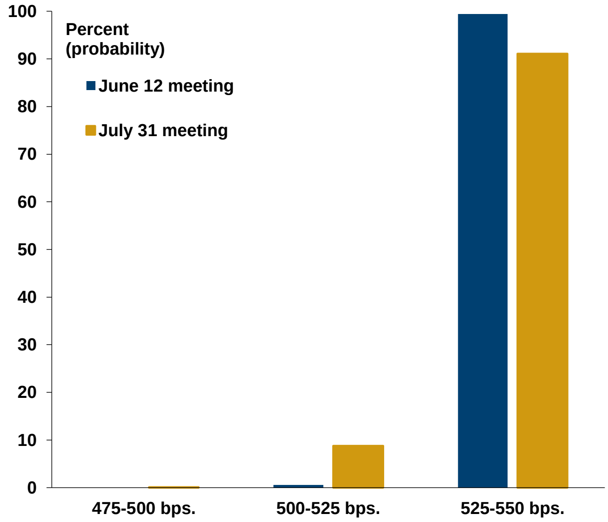
Policy on Hold in June

Recent inflation data, along with today's labor market report, left little doubt that a shift to easier monetary policy is doubtful at next week's FOMC meeting. Indeed, as of writing, futures pricing implies less than one percent chance of a pivot to lower rates. Additionally, expectations for a policy shift at the July 30-31 meeting declined, with the probability of a 25-basis-point cut easing from approximately 21 percent yesterday to less than 10 percent today (chart, below left).

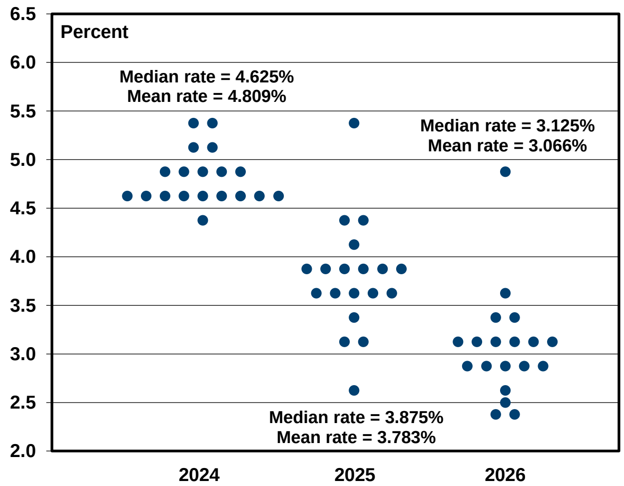
With views of market participants shifting to align with the latest data, and policymakers signaling ahead of the June 1 blackout period that they were in no rush to cut rates, there is little mystery about the near-term path of monetary policy. That said, a new Summary of Economic Projections (and dot plot) will be released alongside the June policy statement, with updated projections of Fed officials possibly offering new insights into the potential timing of rate cuts and the trajectory of the federal funds rate in coming years. For 2024, the median expectation for a year-end target federal funds rate of 4.625 percent (i.e. three cuts of 25 basis points) will almost certainly be revised to show less easing. The bar for a shift in the median to 4.875 percent is low. Only one official who previously expected three cuts would have to adjust their view to change the median. An expectation for one cut in 2024 (a median of 5.125 percent), a view articulated by Fed Governor Chris Waller and Atlanta Fed President Raphael Bostic (both with hawkish leanings and voters in 2024), is possible although the bar to achieve this shift is much higher (six officials who currently project two or more cuts would have to adjust their views). Should the median for 2024 increase by 25 basis points, and views held by officials on the number of cuts in the following two years remain essentially unchanged, then the medians for those years will increase to 4.125 and 3.375 percent from 3.875 and 3.125 percent, respectively, in March (chart, below right). Moreover, given recent discussion regarding the level of the longer-term neutral rate, and indications from some officials that they view it as having moved higher, we could easily see the median longer-term rate in the June SEP increasing to somewhere in the range of 2.65 to 2.75 percent from 2.56 percent in March.

Target Rate Probabilities for FOMC Meetings



Source: FedWatch Tool, CME Group

FOMC Rate View, March 2024*



** Each dot represents the expected federal funds rate of a Fed official at the end of the year.*

Source: Federal Open Market Committee ,Summary of Economic Projections, March 2024

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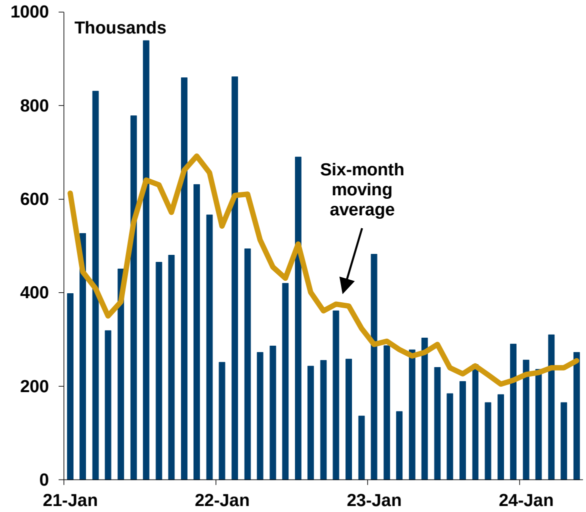
Beyond rate views, we will be monitoring officials' views on inflation. As of the March SEP, headline inflation measured by the price index for personal consumption expenditures was expected to increase 2.4 percent in 2024 (median expectation) before decelerating to 2.2 percent in 2025 and 2.0 percent the following year. The core PCE index was projected to advance at a faster clip in 2024 (2.6 percent), decelerating to 2.2 percent the following year and 2.0 percent in 2026. However, with both headline and core inflation surging 4.1 percent, annual rate, in the first four months of 2024, and policymakers indicating that they will need to gain greater confidence that inflation is moving sustainably down to two-percent, we wouldn't be surprised if near-term projections were revised higher. Even with that in mind, we expect officials to reaffirm support for the two-percent target and reaffirm their resolve to achieve the price stability mandate.

The May Employment Data

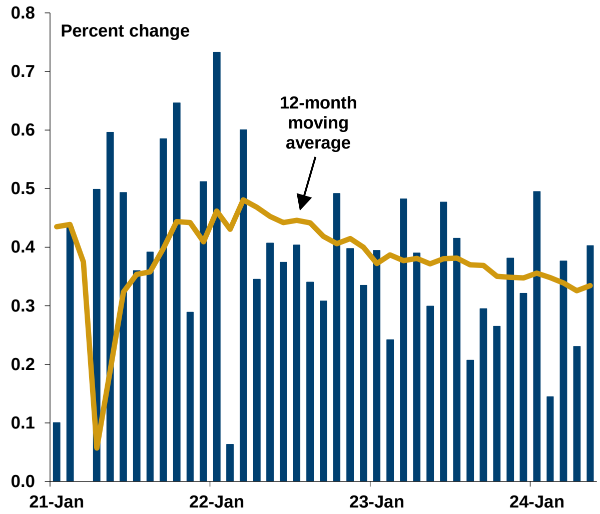
If recent inflation data and comments from Fed officials had not already closed the door on near-term policy easing, strong job growth in May accomplished that end. Although we viewed commentary leading up to Friday's release as indicating some concern about a potential forceful slowdown in the labor market, particularly taken in context with softening ancillary data, the result failed to materialize. We viewed an ongoing retreat in job openings (which eased by 296,000 to 8.059 million in April, well below the record of 12.182 million in March 2022 and approaching the average of 7.154 million in 2019 when the labor market was solid and generating only moderate wage growth) and the ISM services employment component printing below 50 for the fifth time in the past six months (47.1 in May) as raising the prospect of a miss on payrolls, but the realized advance of 272,000 was more than 90,000 better than the expected gain of 180,000. Even with downward revisions of 15,000 to results for March and April, the average of 248,000 in 2024 thus far essentially matched last year's average of 251,000 (chart). Job growth was still fairly concentrated, with hiring in the healthcare sector (+83,500) accounting for almost 37 percent of private-sector payroll growth of 229,000 (down from an average of 46 percent in the prior six months), but other cyclically sensitive industries added jobs at solid clips. The construction industry added 21,000 positions after flat hiring in the previous month (a reading in line with the trailing 12-month average of 20,500), and hiring in the professional and business services area jumped by 33,000 (versus a trailing 12-month average of 10,400). All told, hiring remained firm enough to generate growth in average hourly earnings of 0.4 percent after a below-average advance of 0.2 percent in April (chart, next page, top left). With the pickup, year-over-year wage growth rose 0.1 percentage point to 4.1 percent (with the April increase revised up from a preliminary reading of 3.9 percent; chart, next page, top right). With trend productivity growth likely in the 1.0-1.5 percent area and officials holding fast to the two-percent inflation target, additional easing in labor market conditions will be required to slow wage growth to a pace consistent with the inflation target.

Change in Nonfarm Payrolls



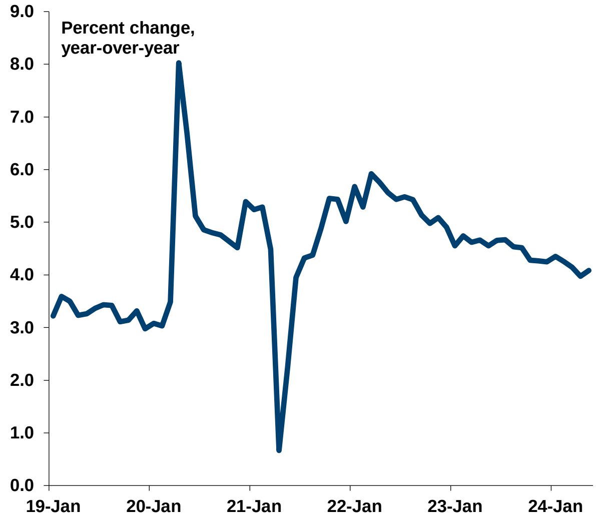
Source: Bureau of Labor Statistics via Haver Analytics

Average Hourly Earnings



Source: Bureau of Labor Statistics via Haver Analytics

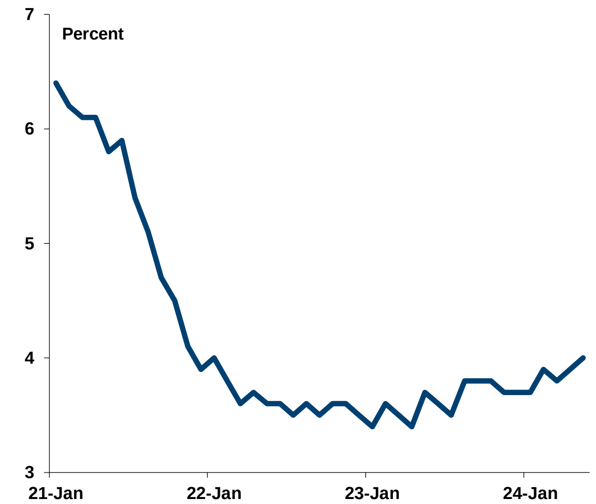
Average Hourly Earnings



Source: Bureau of Labor Statistics via Haver Analytics

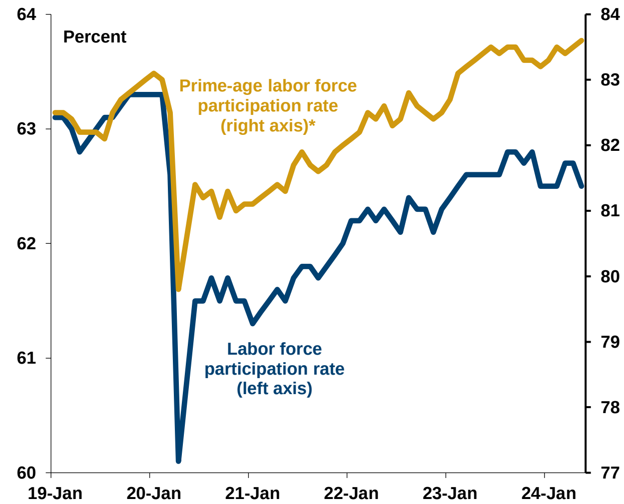
Even with brisk hiring generating firm wage growth, we did see some additional evidence of ongoing realignment of supply-demand imbalances in the labor market. The unemployment rate rose to 4.0 percent in May from 3.9 percent in the previous month (up from 3.7 percent in January; chart, below left) and although the broad labor force participation rate fell 0.2 percentage point to 62.5 percent, driven mostly by labor force declines among older workers, the prime-age participation rate rose to 83.6 percent – the highest of the current expansion. The return of prime age workers, along with increased immigration flows, will provide ongoing support for the supply-side of the labor market even as demand eases in response to restrictive monetary policy (chart, below right). However, current underlying strength in the labor market, particularly in light of wage growth stuck in the area of four-percent, will likely require ongoing restrictive policy for some time.

Civilian Unemployment Rate



Source: Bureau of Labor Statistics via Haver Analytics

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

Note to Readers

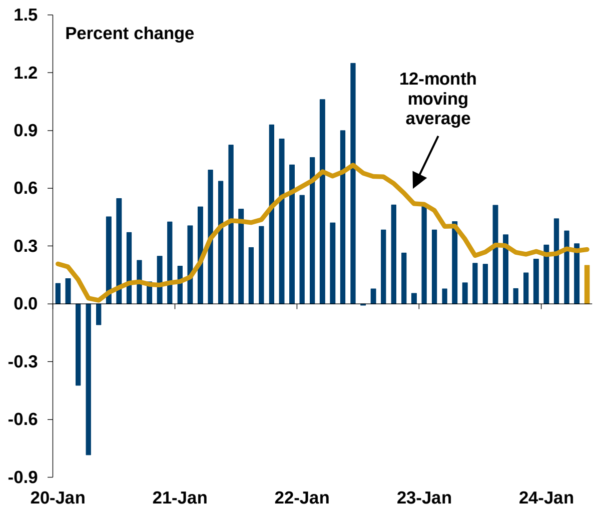
After this week's edition, the next Weekly Economic Comment will be published on June 28, 2024.

The Week Ahead

CPI (May) (Wednesday)
Forecast: 0.2% Headline, 0.3% Core

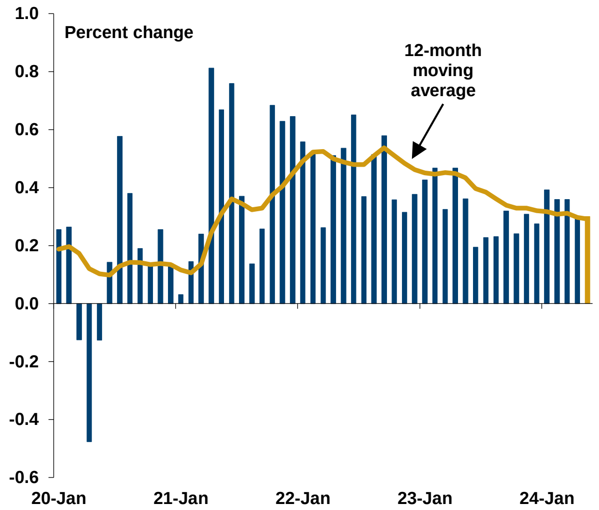
Available data suggest that a decline in the prices of energy commodities could pull the broad energy component lower in May after three consecutive increases. Additionally, the food component appears likely to remain on its subdued trend (average increase of 0.2 percent per month in the past 12 months, including two flat readings in the past three months). Core goods prices have declined in 10 of the past 12 months (average decline of 0.1 percent), although core service prices are still inconsistent with two-percent inflation (+0.4 percent, on average, in the past 12 months). 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 +0.4 percent in April after a jump of 0.6 percent in March).

Headline CPI*



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

Core CPI*

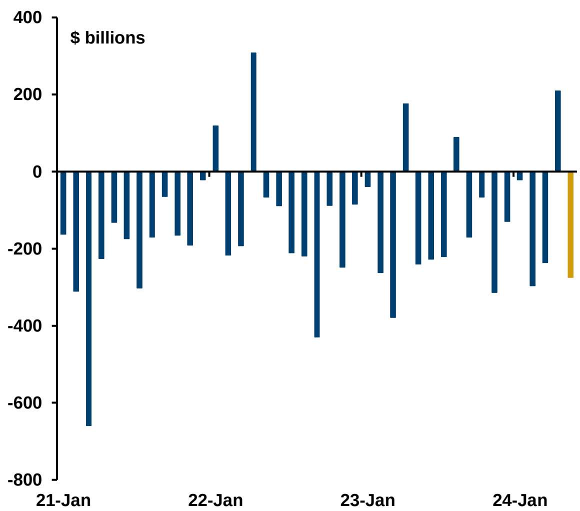


** The gold bar is a forecast for May 2024.*
Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

Federal Budget (May) (Wednesday)
Forecast: -$275.0 Billion

Available data from the Daily Treasury Statement suggest that federal revenue growth was firm in May, but outlays also have risen at a brisk clip. For comparison, receipts of $2.96 trillion are up 10.3 percent in FY2024 thus far (October 2023 to April 2024), but outlays of $3.82 trillion also are 5.8 percent above levels in the same period last fiscal year. If the deficit projection for May 2024 is realized, the cumulative shortfall for the first eight months of FY2024 will total $1.13 trillion, only marginally better than the $1.17 trillion deficit in the same period in FY2023 and unsustainable from a longer-term perspective.

Federal Budget Surplus/Deficit*

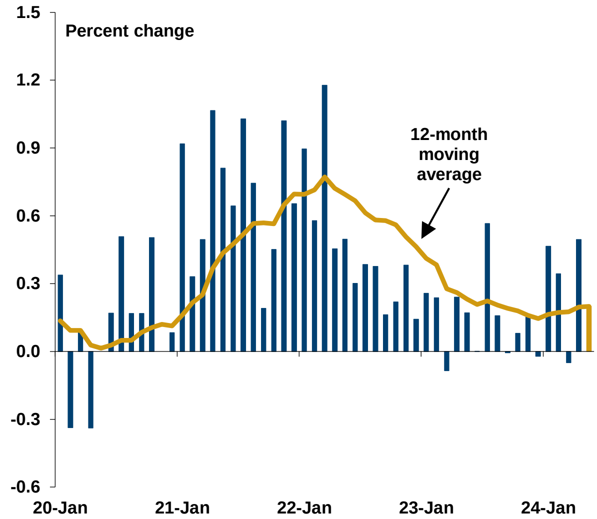


** The gold bar is a forecast for May 2024.*
Sources: U.S. Treasury via Haver Analytics; Daiwa Capital Markets America

PPI (May) (Thursday)
Forecast: 0.2% Final Demand, 0.2% Ex. Food & Energy

Energy prices could ease after a jump of 2.0 percent in April, although food prices may tick higher after a drop of 0.7 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 contained recently, dipping 0.1 percent per month on average over the past year.

PPI Ex. Food & Energy*



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

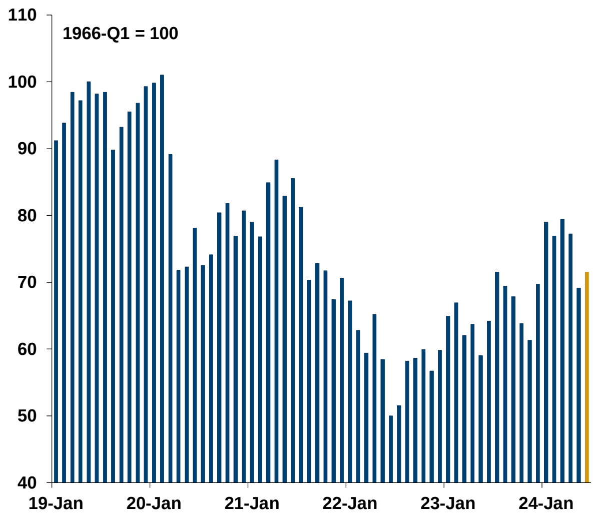
Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

Consumer Sentiment (June) (Friday)
Forecast: 71.5 (+2.4 Index Pts. or +3.5%)

A slight easing in gasoline prices could provide a modest boost to consumer sentiment in early June after declines in the prior two months, but broader concerns regarding previous brisk inflation and now softening labor market conditions suggest that the pickup is likely to be small.

The inflation expectations measures released with the University of Michigan survey provide useful insights into consumer views on price pressures. The year-ahead measure increased to a 2024 high of 3.3 percent in May. The long-term measure recorded readings of 3.0 percent in the past two months, below the expansion high of 3.2 percent in November 2023, but well above readings in the low-to-mid two-percent range that persisted in the years directly preceding the pandemic.

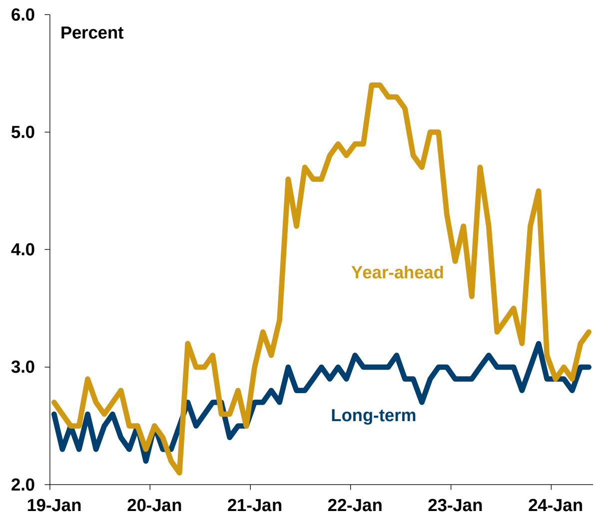
Consumer Sentiment*



** The gold bar is a forecast for June 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

June 2024

<table>
<tr><th>Monday</th><th>Tuesday</th><th>Wednesday</th><th>Thursday</th><th>Friday</th></tr>
<tr><td>3</td><td>4</td><td>5</td><td>6</td><td>7</td></tr>
<tr>
<td>ISM MFG. INDEX
Index Prices
Mar 50.3 55.8
Apr 49.2 60.9
May 48.7 57.0
CONSTRUCTION
Feb 0.9%
Mar -0.2%
Apr -0.1%
VEHICLE SALES
Mar 15.5 million
Apr 15.8 million
May 15.9 million</td>
<td>FACTORY ORDERS
Feb 1.4%
Mar 0.7%
Apr 0.7%
JOLTS DATA
Openings (000) Quit Rate
Feb 8,813 2.2%
Mar 8,355 2.2%
Apr 8,059 2.2%</td>
<td>ADP EMPLOYMENT
Private Payrolls
Mar 211,000
Apr 188,000
May 152,000
ISM SERVICES INDEX
Index Prices
Mar 51.4 53.4
Apr 49.4 59.2
May 53.8 58.1</td>
<td>UNEMPLOYMENT CLAIMS
Initial Continuing
(millions)
May 11 0.223 1.787
May 18 0.216 1.790
May 25 0.221 1.792
June 1 0.229 N/A
TRADE BALANCE
Feb -$69.0 billion
Mar -$68.6 billion
Apr -$74.6 billion
REVISED PRODUCTIVITY & COSTS
Productivity Unit Labor Costs
23-Q4 3.5% -2.8%
24-Q1(p) 0.3% 4.7%
24-Q1(r) 0.2% 4.0%</td>
<td>EMPLOYMENT REPORT
Payrolls Un. Rate
Mar 310,000 3.8%
Apr 165,000 3.9%
May 272,000 4.0%
WHOLESALE TRADE
Inventories Sales
Feb 0.2% 2.0%
Mar -0.5% -1.3%
Apr 0.1% 0.1%
CONSUMER CREDIT
Feb $11.8 billion
Mar -$1.1 billion
Apr $6.4 billion</td>
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<tr><td>10</td><td>11</td><td>12</td><td>13</td><td>14</td></tr>
<tr>
<td></td>
<td>NFIB SMALL BUSINESS OPTIMISM INDEX (6:00)
Mar 88.5
Apr 89.7
May --
FOMC MEETING (FIRST DAY)</td>
<td>CPI (8:30)
Total Core
Mar 0.4% 0.4%
Apr 0.3% 0.3%
May 0.2% 0.3%
FEDERAL BUDGET (2:00)
2024 2023
Mar -$236.6B -$378.4B
Apr $209.5B $176.2B
May -$275.0B -$240.3B
FOMC RATE DECISION (2:00)</td>
<td>UNEMP. CLAIMS (8:30)
PPI (8:30)
Final Demand Ex. Food & Energy
Mar -0.1% -0.1%
Apr 0.5% 0.5%
May 0.2% 0.2%</td>
<td>IMPORT/EXPORT PRICES (8:30)
Non-Petrol Imports Nonagri. Exports
Mar 0.1% 0.3%
Apr 0.7% 0.7%
May -- --
CONSUMER SENTIMENT (10:00)
Apr 77.2
May 69.1
June 71.5</td>
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<tr><td>17</td><td>18</td><td>19</td><td>20</td><td>21</td></tr>
<tr>
<td>EMPIRE MFG</td>
<td>RETAIL SALES
IP & CAP-U
BUSINESS INVENTORIES
TIC FLOWS</td>
<td>NAHB HOUSING INDEX
JUNETEENTH NATIONAL INDEPENDENCE DAY</td>
<td>UNEMP. CLAIMS
HOUSING STARTS
CURRENT ACCOUNT
PHILLY FED INDEX</td>
<td>EXISTING HOME SALES
LEADING INDICATORS</td>
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<td>CHICAGO FED NATIONAL ACTIVITY INDEX
FHFA HOME PRICE INDEX
S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX
CONFERENCE BOARD CONSUMER CONFIDENCE</td>
<td>NEW HOME SALES</td>
<td>UNEMP. CLAIMS
REVISED Q1 GDP
DURABLE GOODS ORDERS
INTERNATIONAL TRADE IN GOODS
ADVANCE INVENTORIES
PENDING HOME SALES</td>
<td>PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX
MNI CHICAGO BUSINESS BAROMETER
REVISED CONSUMER SENTIMENT</td>
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Forecasts in bold. (p) = preliminary, (r) = revised

Treasury Financing

June 2024

Monday	Tuesday	Wednesday	Thursday	Friday
3	4	5	6	7
AUCTION RESULTS: Rate Cover 13-week bills 5.250% 2.74 26-week bills 5.155% 2.95	**AUCTION RESULTS:** Rate Cover 42 day CMBs 5.275% 3.08 **ANNOUNCE:** $60 billion 17-week bills for auction on June 5 $70 billion 4-week bills for auction on June 6 $70 billion 8-week bills for auction on June 6 **SETTLE:** $60 billion 17-week bills $70 billion 4-week bills $70 billion 8-week bills	**AUCTION RESULTS:** Rate Cover 17-week bills 5.225% 2.79	**AUCTION RESULTS:** Rate Cover 4-week bills 5.270% 2.81 8-week bills 5.265% 3.23 **ANNOUNCE:** $140 billion 13-,26-week bills for auction on June 10 $46 billion 52-week bills for auction on June 11 $58 billion 3-year notes for auction on June 10 $39 billion 10-year notes for auction on June 11 $22 billion 30-year bonds for auction on June 13 $60 billion 42-day CMBs for auction on June 11 **SETTLE:** $140 billion 13-,26-week bills $60 billion 42-day CMBs	
10	11	12	13	14
AUCTION: $140 billion 13-,26-week bills $58 billion 3-year notes	**AUCTION:** $46 billion 52-week bills $39 billion 10-year notes $60 billion 42-day CMBs **ANNOUNCE:** $60 billion* 17-week bills for auction on June 12 $70 billion* 4-week bills for auction on June 13 $70 billion* 8-week bills for auction on June 13 **SETTLE:** $60 billion 17-week bills $70 billion 4-week bills $70 billion 8-week bills	**AUCTION:** $60 billion* 17-week bills	**AUCTION:** $70 billion* 4-week bills $70 billion* 8-week bills $22 billion 30-year bonds **ANNOUNCE:** $140 billion* 13-,26-week bills for auction on June 17 $13 billion* 20-year bonds for auction on June 18 $21 billion* 5-year TIPS for auction on June 20 **SETTLE:** $140 billion 13-,26-week bills $46 billion 52-week bills $60 billion 42-day CMBs	
17	18	19	20	21
AUCTION: $140 billion* 13-,26-week bills **SETTLE:** $58 billion 3-year notes $39 billion 10-year notes $22 billion 30-year bonds	**AUCTION:** $13 billion* 20-year bonds **ANNOUNCE:** $60 billion* 17-week bills for auction on June 20 $70 billion* 4-week bills for auction on June 20 $70 billion* 8-week bills for auction on June 20 **SETTLE:** $60 billion* 17-week bills $70 billion* 4-week bills $70 billion* 8-week bills	***JUNETEENTH NATIONAL INDEPENDENCE DAY***	**AUCTION:** $60 billion* 17-week bills $70 billion* 4-week bills $70 billion* 8-week bills $21 billion* 5-year TIPS **ANNOUNCE:** $140 billion* 13-,26-week bills for auction on June 24 $69 billion* 2-year notes for auction on June 25 $70 billion* 5-year notes for auction on June 26 $44 billion* 7-year notes for auction on June 27 $28 billion* 2-year FRNs for auction on June 26 **SETTLE:** $140 billion* 13-,26-week bills	
24	25	26	27	28
AUCTION: $140 billion* 13-,26-week bills	**AUCTION:** $69 billion* 2-year notes **ANNOUNCE:** $60 billion* 17-week bills for auction on June 26 $70 billion* 4-week bills for auction on June 27 $70 billion* 8-week bills for auction on June 27 **SETTLE:** $60 billion* 17-week bills $70 billion* 4-week bills $70 billion* 8-week bills	**AUCTION:** $60 billion* 17-week bills $70 billion* 5-year notes $28 billion* 2-year FRNs	**AUCTION:** $70 billion* 4-week bills $70 billion* 8-week bills $44 billion* 7-year notes **ANNOUNCE:** $140 billion* 13-,26-week bills for auction on July 1 **SETTLE:** $140 billion* 13-,26-week bills	**SETTLE:** $21 billion* 5-year TIPS $28 billion* 2-year FRNs

**Estimate*