

U.S. Economic Comment

- The labor market: softening, but not yet demanding aggressive action from the FOMC

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Views on Employment Ahead of the September Fed Meeting

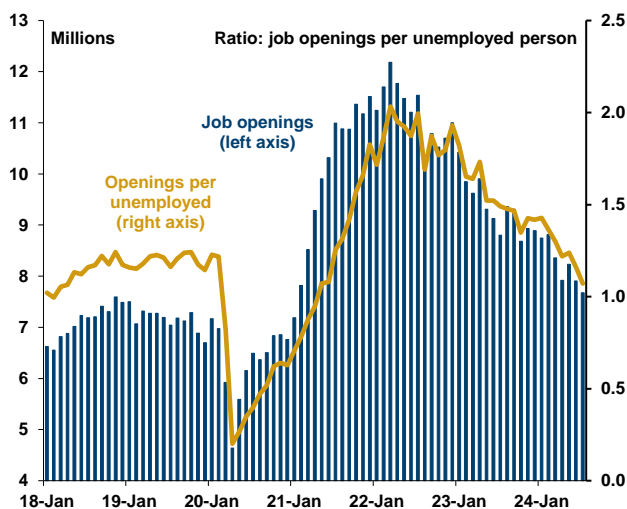
With Fed officials in recent weeks transmitting a clear shift in focus from the inflation side of the mandate to employment and Chair Powell announcing at Jackson Hole that “the time has come for policy to adjust,” little mystery remains about the potential for a cut in the federal funds rate at the conclusion of the September 17-18 FOMC meeting. Rather, discussion has transitioned to whether the reduction will be 25 or 50 basis points. The former, on one hand, would signal a more cautious approach and possibly a shallower path of cuts, a reasonable expectation at present given recent estimates of various Fed forecast models suggesting that economic growth in Q3 will exceed two percent (2.1 percent for the Atlanta Fed’s GDPNow model as of September 4 and 2.6 percent for the New York Fed’s estimate growth as of today). And, while core PCE inflation is moderating, the latest reading (2.6 percent year-over-year as of July) is still above the Fed’s two percent target. The latter, on the other hand, could convey a bias toward more rapid easing in response to undesirable deterioration in the labor market.

All else equal, we suspect the latest data (both the Employment Situation for August released today and the Job Openings and Labor Turnover Survey for July published earlier this week) tipped the scales in favor of a smaller cut in September, although the underlying details of the reports provided little evidence to assist in drawing broader conclusions about the longer-term health of the labor market. That is to say, tight labor market conditions are softening, with both demand easing and supply picking up, but the debate is ongoing as to whether we’re approaching a stable state or a precipice. Thus, with various potential outcomes in mind, we’re still inclined to view the current state of the labor market as more favorable than not.

JOLTS: Moderating Demand, Mostly by Way of Reduced Openings

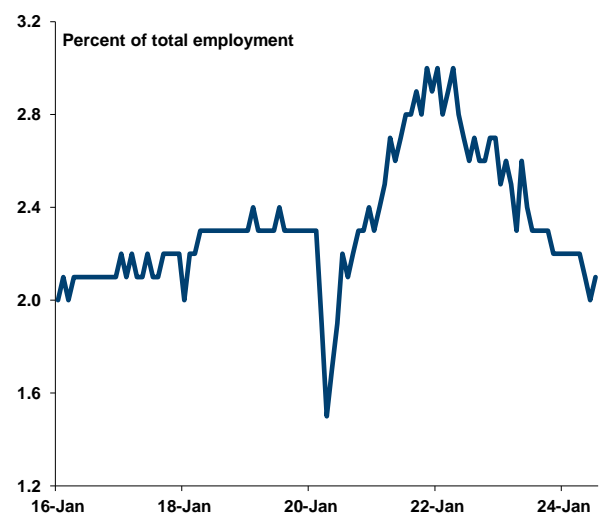
After peaking at a record 12.182 million in March 2022 (2.0 jobs per unemployed person), job openings -- a useful metric for assessing firms’ demand for labor -- have moved steadily lower, particularly as restrictive monetary policy slowed economic activity. Even so, openings have, at least until recently, remained well above pre-pandemic norms (chart, below left). The dynamic has now shifted, with a decline of 237,000 in July (-557,000 in the past two months combined) leaving openings at 7.673 million (1.1 jobs per unemployed person), close to the pre-pandemic record of

Job Openings



Source: Bureau of Labor Statistics via Haver Analytics

Quits Rate



Source: Bureau of Labor Statistics via Haver Analytics

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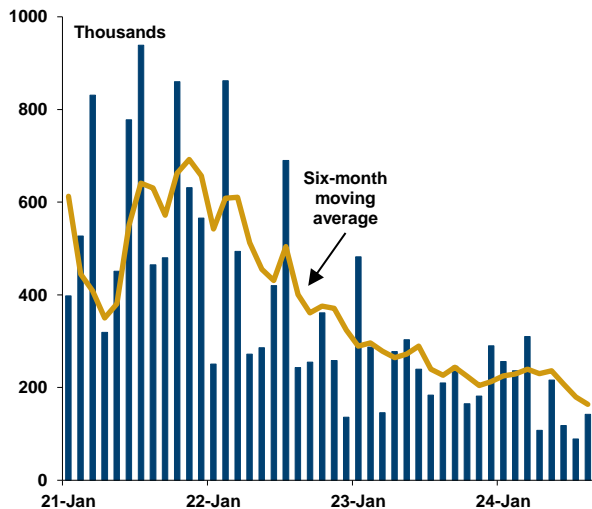
7.594 million in November 2018 (1.2 openings per unemployed person). Thus, the level of openings, and by extension the ratio of jobs to unemployed individuals hovering in a range of 1.0 to 1.2, is again consistent with a favorable labor market rather than one with significant misalignment in supply and demand. The view can further be affirmed by the views from the supply-side of the market. The quits rate, which assesses individuals' willingness to leave current positions in pursuit of better opportunities, increased by 0.1 percentage point to 2.1 percent in July but remained well below the post-pandemic peak of 3.0 percent. Here, too, the dynamic aligns with prior trends (chart, prior page, right). New opportunities are available, but firms are not engaged in fierce competition for workers that drove unsustainably brisk wage growth.

At the same time, moderation in demand has not driven a surge in separations. Openings have declined, but currently filled positions have not been terminated. Thus, while the layoff and discharges rate rose by 0.1 percentage point in July to 1.1 percent, it remained consistent with longer-term trends (chart). This development has served as a point of encouragement for Fed officials who have used the steady layoff rate as evidence that the recent upward shift in the unemployment rate more likely reflects an increase in labor supply rather than a reduction in currently held positions. As such, demand is moderating but the realignment is not disorderly.

The Employment Situation: Slowing Job Growth; Still-Low Unemployment

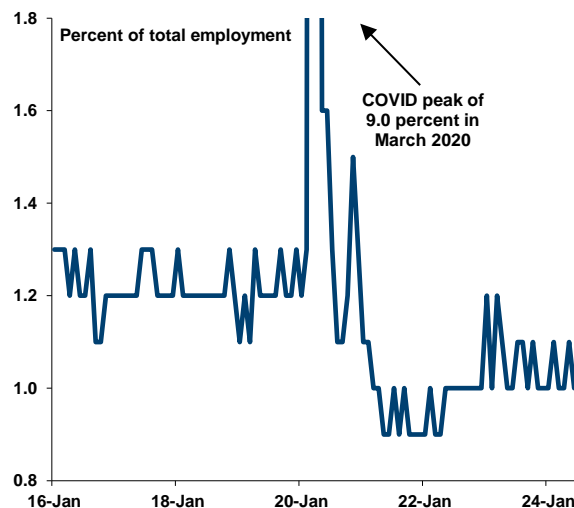
Today's data, much like the mid-week JOLTS release, was consistent with a labor market that is cooling. Payroll growth in August totaled 142,000, firmer than the hurricane-constrained total of 89,000 in July (revised from 114,000; combined two-month revision to payrolls of -86,000) but well below the H1 average of 207,000 (chart, below left). Private-sector job growth followed a similar track. The advance of 118,000 was notably stronger than the 74,000 jobs added in July but trailed the monthly average of 170,000 in the January-to-June period. Performances by industry were mixed. The construction sector added 34,000 positions in August, exceeding by a wide margin the average of 18,800 in the prior 12 months, but a contraction of 24,000 in manufacturing jobs also was worse than the 12-month average of reductions of 2,500 per month. Also, a previous driver of recent growth, the healthcare area, added approximately 44,000 positions in August – about one-half that of the trailing 12-month average of 80,900. Results in other areas more closely aligned with recent averages.

Change in Nonfarm Payrolls



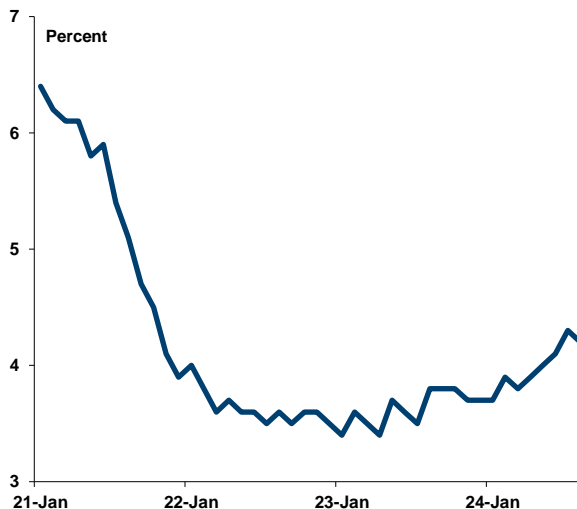
Source: Bureau of Labor Statistics via Haver Analytics

Layoffs & Discharges Rate



Source: Bureau of Labor Statistics via Haver Analytics

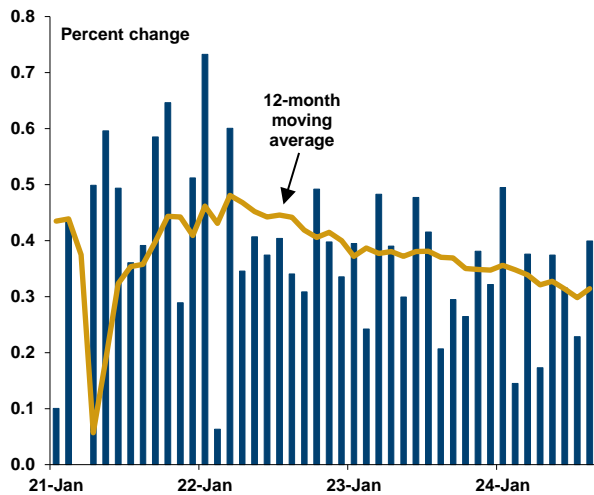
Civilian Unemployment Rate



Source: Bureau of Labor Statistics via Haver Analytics

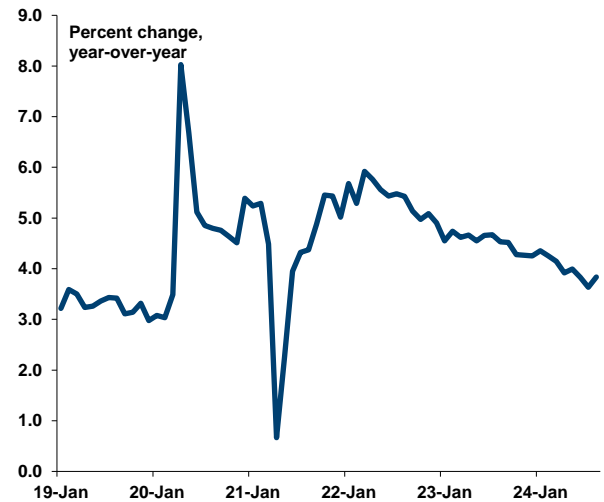
While the payroll data supported the thesis of ongoing moderation in the labor market, wage growth provided a bit of an upside surprise in August. Average hourly earnings rose 0.4 percent (versus the Bloomberg median expectation of 0.3 percent), which nudged the year-over-year growth rate to 3.8 percent from 3.6 percent previously (charts, below). Wage growth has eased from recent highs, and the labor market is no longer viewed by Fed officials as problematic in the context of returning to two percent inflation, but the latest observation suggests that underlying demand for labor is still firm enough to support relatively fast wage growth. Again, this metric does not support the view of disorderly deterioration.

Average Hourly Earnings



Source: Bureau of Labor Statistics via Haver Analytics

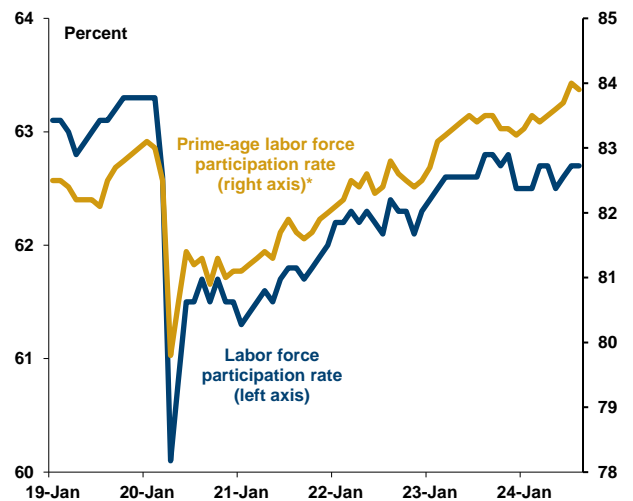
Average Hourly Earnings



Source: Bureau of Labor Statistics via Haver Analytics

We also would highlight the unemployment rate as being of particular importance at this juncture. The measure garnered scrutiny, as it had previously jumped from 3.7 percent in January to 4.3 percent last month before slipping back to 4.2 percent in August (chart, prior page, bottom right). Here too, Fed officials appeared fairly sanguine about the move, arguing that the rate was objectively low from a historical perspective (and close to one consistent with a fully employed economy) and that much of the recent increase was driven by an increased supply of labor rather than a jump in layoffs (see previous discussion of JOLTS). Moreover, although the broad labor force participation rate has held fairly steady (62.7 percent in August), the participation rate for those in their prime working years has moved well above pre-pandemic norms (despite easing 0.1 percentage point to 83.9 percent in the latest month; chart, right).

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

Thus, in light of labor market developments this week, Fed Governor Christopher Waller in post-release remarks noted, “the August report along with other recent labor data tend to confirm that there has been a continued moderation in the labor market.” And therefore he indicated, “As of today, I believe it is important to start the rate cutting process at our next meeting.” However, while he kept the door ajar to larger cuts if necessary (i.e. 50 basis points), he echoed a familiar refrain: “I am open-minded about the size and pace of cuts, which will be based on what the data tell us about the evolution of the economy, and not on any pre-conceived notion of how and when the Committee should act.” It may be an unsatisfactory outcome for market watchers, but the FOMC is still “data dependent” not “data point dependent.” To that end, we suspect the latest employment data point to a cut of 25 basis points on September 18. (For more information, see: Waller, Christopher J. “The Time Has Come,” Federal Reserve Board, September 6, 2024. <https://www.federalreserve.gov/newsevents/speech/waller20240906a.htm>)

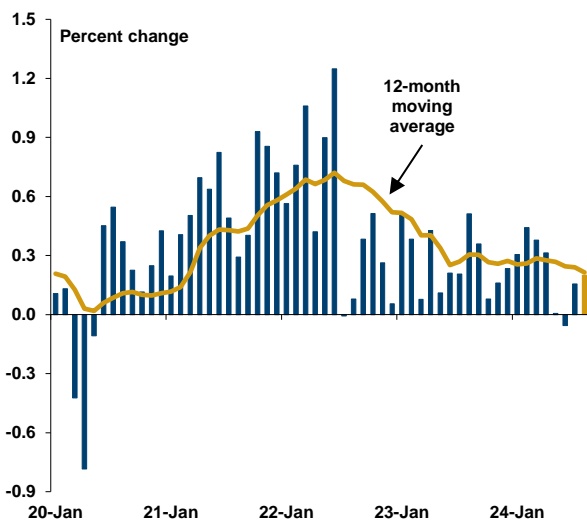
The Week Ahead

CPI (August) (Wednesday)

Forecast: 0.2% Headline, 0.2% Core

Available data suggest that declines in the prices of energy commodities raise the possibility of a dip in the energy component of the CPI after little change in the prior month (which followed back-to-back declines of approximately 2.0 percent in both May and June). 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). Core goods prices have eased in all but one month in 2024 thus far (including a decline of 0.3 percent in July); encouragingly, core service inflation appears to be moderating as well – which has been noted by Chair Powell and other Fed officials in recent comments. On the point, increases in core service inflation averaged 0.2 percent per month in the past three months versus 0.5 percent per month in the January-to-April period (and 0.4 percent per month in 2023).

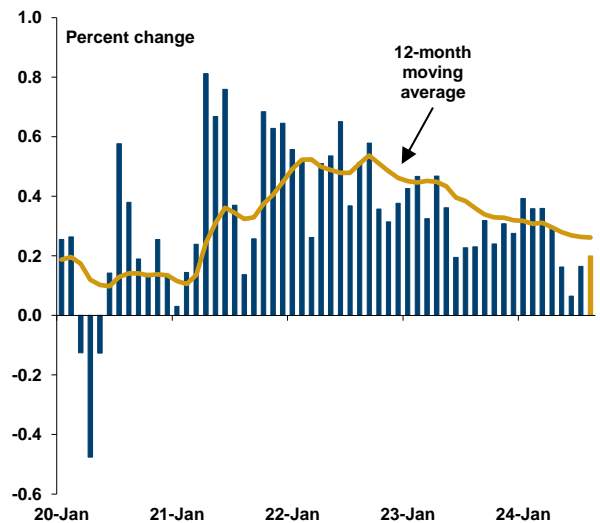
Headline CPI*



* The gold bar is a forecast for August 2024.

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

Core CPI*



* The gold bar is a forecast for August 2024.

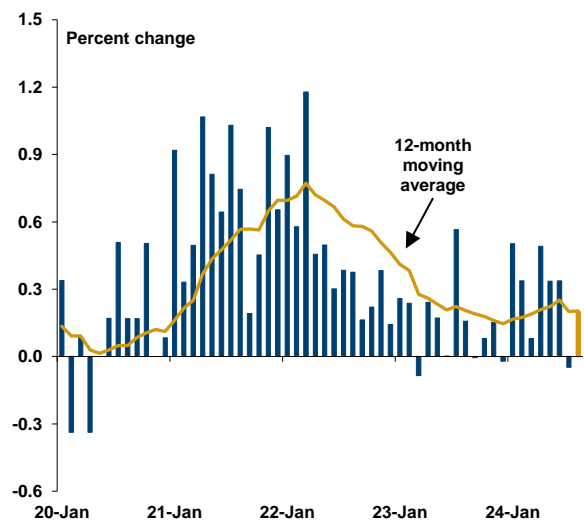
Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

PPI (August) (Thursday)

Forecast: 0.2% Final Demand, 0.2% Ex. Food & Energy

Energy prices could dip after a jump of 1.9 percent in July, as could food prices after a jump of 0.6 percent. Keep in mind, food prices reported in the PPI tend to swing widely (range of -0.7 percent to +1.0 percent in the past 12 months; monthly average of +0.1 percent). Goods prices excluding food and energy have increased 0.2 percent (0.172 percent with less rounding) per month, on average, in the past 12 months, similar to the average monthly change in the broad services category (+0.211 percent per month). Construction costs have been contained, increasing 0.1 percent per month on average over the past year despite upside volatility in July (0.8 percent month/month increase).

PPI Ex. Food & Energy*



* The gold bar is a forecast for August 2024.

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

Federal Budget (August) (Thursday)
Forecast: -\$285.0 Billion

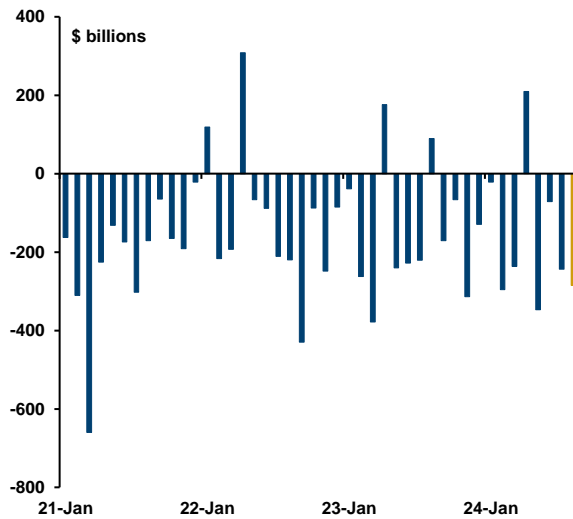
Available data from the Daily Treasury Statement suggest that federal revenue growth was solid in July (up approximately 7.5 percent year-over-year by our estimate), but outlays also appear to have increased briskly. If the deficit projection for August 2024 is realized, the cumulative shortfall for the first 11 months of FY2024 will total \$1.8 trillion, wider than the \$1.5 trillion deficit in the same period in FY2023 and unsustainable from a longer-term perspective.

Consumer Sentiment (September) (Friday)
Forecast: 68.5 (+0.6 Index Pt. or +0.9%)

With signs of softening in the labor market and hints of cautious spending amid lower-income households, consumer sentiment could remain rangebound in early September.

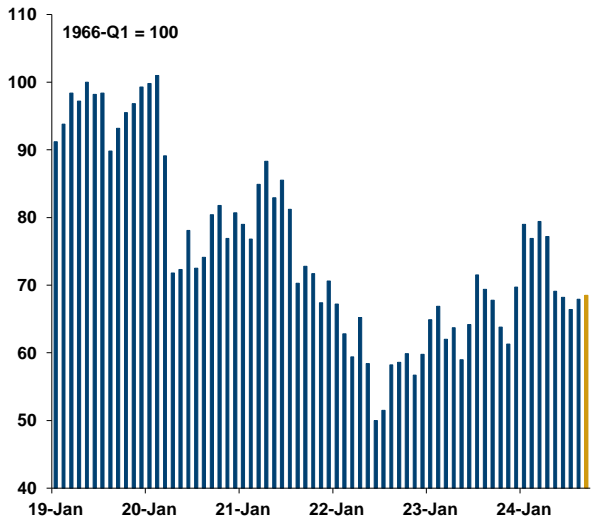
Although caution on the part of consumers regarding the economic outlook appears to have increased in recent months, views on inflation have improved. The year-ahead inflation measure released with the monthly sentiment report registered a reading of 2.8 percent in August (latest available), an observation consistent with those prior to the onset of the pandemic. The long-term measure recorded readings of 3.0 percent in the past five months. Fed officials have noted that these observations are consistent with anchored inflation expectations.

Federal Budget Surplus/Deficit*



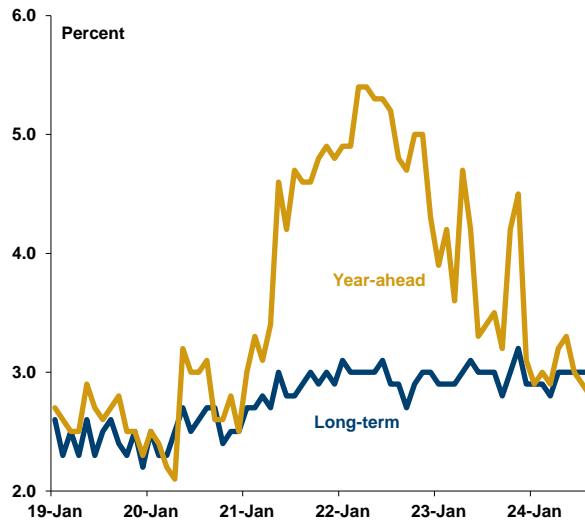
* The gold bar is a forecast for August 2024.
Sources: U.S. Treasury via Haver Analytics; Daiwa Capital Markets America

Consumer Sentiment*



* The gold bar is a forecast for September 2024.
Sources: University of Michigan via Haver Analytics; Daiwa Capital Markets America

Consumer Inflation Expectations



Source: University of Michigan via Haver Analytics

Economic Indicators

September 2024				
Monday	Tuesday	Wednesday	Thursday	Friday
2	3	4	5	6
LABOR DAY	ISM MFG. INDEX Index Prices June 48.5 52.1 July 46.8 52.9 Aug 47.2 54.0 CONSTRUCTION May 0.2% June 0.0% July -0.3%	TRADE BALANCE May -\$75.3 billion June -\$73.0 billion July -\$78.8 billion FACTORY ORDERS May -0.5% June -3.3% July 5.0% JOLTS DATA Openings (000) Quit Rate May 8,230 2.1% June 7,910 2.0% July 7,673 2.1% BEIGE BOOK August 2024: "Economic activity grew slightly in three Districts, while the number of Districts that reported flat or declining activity rose from five in the prior period to nine in the current period." VEHICLE SALES June 15.2 million July 15.8 million Aug 15.1 million	ADP EMPLOYMENT Private Payrolls June 155,000 July 111,000 Aug 99,000 UNEMPLOYMENT CLAIMS Initial Continuing (millions) July 20 0.235 1.869 July 27 0.250 1.871 Aug 3 0.234 1.864 Aug 10 0.227 N/A REVISED PRODUCTIVITY & COSTS Unit Labor Productivity Costs 24-Q1 0.4% 3.8% 24-Q2(p) 2.3% 0.9% 24-Q2(r) 2.5% 0.4% ISM SERVICES INDEX Index Prices June 48.8 56.3 July 51.4 57.0 Aug 51.5 57.3	EMPLOYMENT REPORT Payrolls Un. Rate June 118,000 4.1% July 89,000 4.3% Aug 142,000 4.2%
9	10	11	12	13
WHOLESALE TRADE (10:00) Inventories Sales May 0.5% 0.3% June 0.1% -0.6% July 0.3% 0.2% CONSUMER CREDIT (3:00) May \$13.9 billion June \$8.9 billion July --	NFIB SMALL BUSINESS OPTIMISM INDEX (6:00) June 91.5 July 93.7 Aug --	CPI (8:30) Total Core June -0.1% 0.1% July 0.2% 0.2% Aug 0.2% 0.2%	UNEMP. CLAIMS (8:30) PPI (8:30) Final Demand Ex. Food & Energy June 0.2% 0.3% July 0.1% 0.0% Aug 0.2% 0.2% FEDERAL BUDGET (2:00) 2024 2023 June -\$71.0B -\$227.8B July -\$243.7B -\$220.8B Aug -\$285.0B \$89.3B	IMPORT/EXPORT PRICES (8:30) Non-Petrol Imports Nonagri. Exports June 0.2% -0.4% July 0.2% 1.0% Aug -- -- CONSUMER SENTIMENT (10:00) July 66.4 Aug 67.9 Sep 68.5
16	17	18	19	20
EMPIRE MFG	RETAIL SALES IP & CAP-U NAHB HOUSING INDEX BUSINESS INVENTORIES FOMC MEETING (FIRST DAY)	HOUSING STARTS FOMC RATE DECISION TIC FLOWS	UNEMP. CLAIMS CURRENT ACCOUNT PHILLY FED INDEX EXISTING HOME SALES LEADING INDICATORS	
23	24	25	26	27
CHICAGO FED NATIONAL ACTIVITY INDEX	FHFA HOME PRICE INDEX S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX CONFERENCE BOARD CONSUMER CONFIDENCE	NEW HOME SALES	UNEMP. CLAIMS REVISED Q2 GDP DURABLE GOODS ORDERS PENDING HOME SALES	PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX INTERNATIONAL TRADE IN GOODS ADVANCE INVENTORIES REVISED CONSUMER SENTIMENT

Forecasts in bold. (p) = preliminary, (r) = revised

Treasury Financing

September 2024																																		
Monday	Tuesday	Wednesday	Thursday	Friday																														
2	3	4	5	6																														
LABOR DAY	<p>AUCTION RESULTS:</p> <table border="1"> <thead> <tr> <th></th> <th>Rate</th> <th>Cover</th> </tr> </thead> <tbody> <tr> <td>13-week bills</td> <td>4.970%</td> <td>2.62</td> </tr> <tr> <td>26-week bills</td> <td>4.645%</td> <td>3.08</td> </tr> <tr> <td>52-week bills</td> <td>4.150%</td> <td>3.00</td> </tr> <tr> <td>42-day CMBs</td> <td>5.120%</td> <td>3.01</td> </tr> </tbody> </table> <p>ANNOUNCE: \$60 billion 17-week bills for auction on Sep 4 \$80 billion 4-week bills for auction on Sep 5 \$80 billion 8-week bills for auction on Sep 5</p> <p>SETTLE: \$60 billion 17-week bills \$85 billion 4-week bills \$80 billion 8-week bills \$16 billion 20-year bonds \$69 billion 2-year notes \$70 billion 5-year notes \$44 billion 7-year notes</p>		Rate	Cover	13-week bills	4.970%	2.62	26-week bills	4.645%	3.08	52-week bills	4.150%	3.00	42-day CMBs	5.120%	3.01	<p>AUCTION RESULTS:</p> <table border="1"> <thead> <tr> <th></th> <th>Rate</th> <th>Cover</th> </tr> </thead> <tbody> <tr> <td>17-week bills</td> <td>4.810%</td> <td>3.21</td> </tr> </tbody> </table>		Rate	Cover	17-week bills	4.810%	3.21	<p>AUCTION RESULTS:</p> <table border="1"> <thead> <tr> <th></th> <th>Rate</th> <th>Cover</th> </tr> </thead> <tbody> <tr> <td>4-week bills</td> <td>5.080%</td> <td>3.03</td> </tr> <tr> <td>8-week bills</td> <td>5.040%</td> <td>2.78</td> </tr> </tbody> </table> <p>ANNOUNCE: \$146 billion 13-,26-week bills for auction on Sep 9 \$58 billion 3-year notes for auction on Sep 10 \$39 billion 10-year notes for auction on Sep 11 \$22 billion 30-year bonds for auction on Sep 12 \$60 billion 42-day CMBs for auction on Sep 10</p> <p>SETTLE: \$146 billion 13-,26-week bills \$46 billion 52-week bills \$65 billion 42-day CMBs</p>		Rate	Cover	4-week bills	5.080%	3.03	8-week bills	5.040%	2.78	
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*Estimate