U.S. Economic Comment

- Updated Fed call: an additional 50 basis points in cuts in 2024; neutral policy achieved by year-end 2025
- The balance of risks: developments in the labor market (and inflation?) may ultimately demand more aggressive cuts

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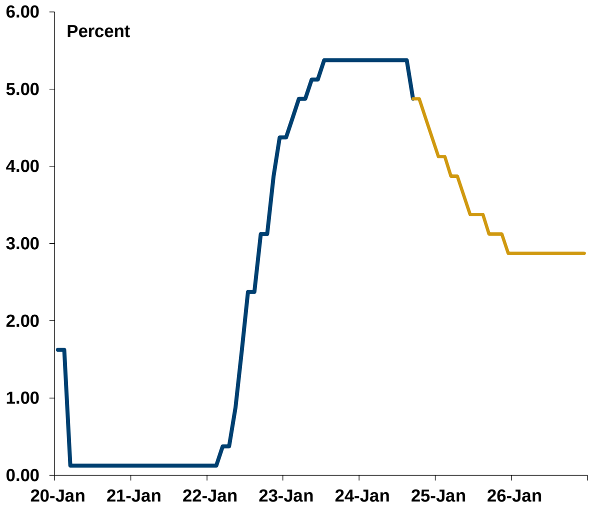
Recalibration Amid Heightened Risks

With the Federal Open Market Committee reducing the target range for the federal funds rate by 50 basis points earlier this week to a range of 4.75% to 5.00%, a reevaluation of our view on the path of policy was in order. For much of the year, we anticipated that slowly moderating inflation would remain the dominant factor to the Fed's dual mandate (maximum employment and stable prices), leaving policymakers little room to move aggressively as they began to recalibrate monetary policy. However, recent developments both with respect to inflation and the labor market provided the impetus to Chair Powell to announce forcefully at the recent Jackson Hole Policy Symposium that the time to cut rates was approaching, and subsequent developments spurred the Committee to ultimately cut more sharply than first expected by the market. Consequently, the beginning of the normalization process, along with the evolving inflation and employment data, have led us to expect officials to pursue a deliberate, and fairly rapid, path to a neutral stance of policy.

The Projected Path of Policy

Absent additional guidance by Fed officials in coming weeks, we expect the data over the balance of the year to possibly support smaller cuts to the federal funds rate than that in September. On the point, we currently project an ongoing gradual moderation in inflation and some further softening in the labor market – developments that warrant reductions of 25 basis points at both the November 6-7 and December 17-18 FOMC meetings (a year-end target range of 4.25% to 4.50%; 4.375% midpoint; chart, below left). Moreover, we view that year-end target as still well positioned to address either upside risks to inflation or downside risks to the labor market as the calendar turns to 2025.

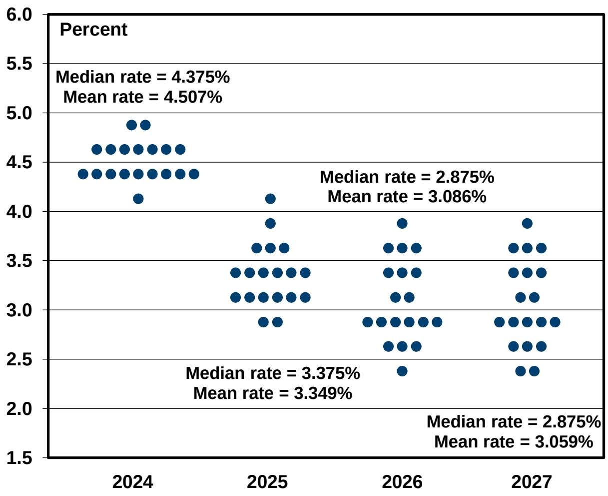
Federal Funds Target Rate*



** The gold line shows the forecasted path for the federal funds rate through year-end 2026.*

Sources: Federal Reserve Board via Haver Analytics; Daiwa Capital Markets America

FOMC Rate View, September 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, September 2024

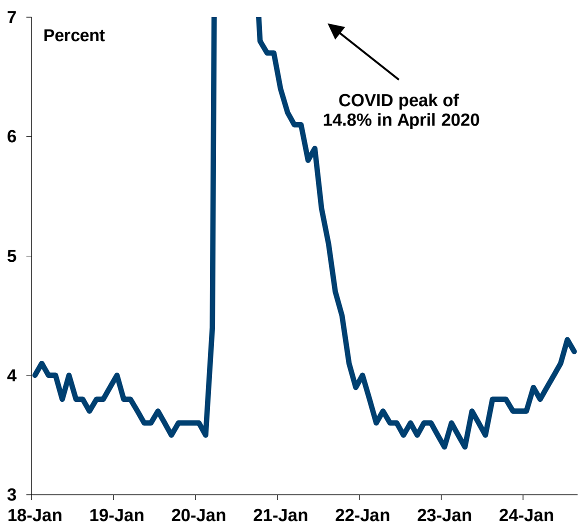
We project rate cuts to continue apace in 2025, with the FOMC slashing the federal funds rate by 25 basis points at each of the first four meetings of the year (a mid-year target of 3.25% to 3.50%; 3.375% midpoint), with additional modest trimming by year-end; those cuts of 25 could occur at the September and December meetings, in concert with the release of new Summaries of Economic Projections wherein officials could provide additional numerical guidance to help shape expectations for the path of policy. Provided the data evolve as expected, and barring a shock, we look for the federal funds rate to remain at neutral though 2026. (For reference, we view neutral nominal policy as somewhere in the area of 2.50% to 3.25%, consistent with policymakers' projections that have climbed from the recent low median of 2.375% in the March 2022 Summary of Economic Projections to 2.875% as of the September 2024 iteration.)

Given significant uncertainty attached to the data, we could easily envision a variety of scenarios regarding the path of policy. If developments thus far in the current cycle have taught us anything, then we should anticipate that the trajectory of the economy could evolve in a manner that deviates notably from historical norms. Views of Fed officials appear subject to this same uncertainty. Messaging by officials ahead of the pre-meeting blackout suggested a reduction of 25 basis points, with an apparent course correction pursed in the blackout period by way of redirection by key contacts in the financial press. Additionally, the divergence in policymakers' views permeated the latest dot plot. Expectations for year-end 2024 ranged from 4.875% (i.e. no further cuts) to 4.125% (reductions of 75 basis points over the next two FOMC meetings; chart, prior page right). The wide dispersion persisted into subsequent years, including a year-end range of 2.875% to 4.125% in 2025 and 2.375% to 3.875% in 2026. Policymakers, too, are reliant on the evolution of the data.

Additional Thoughts on the Recent Data and Commentary by Fed Officials

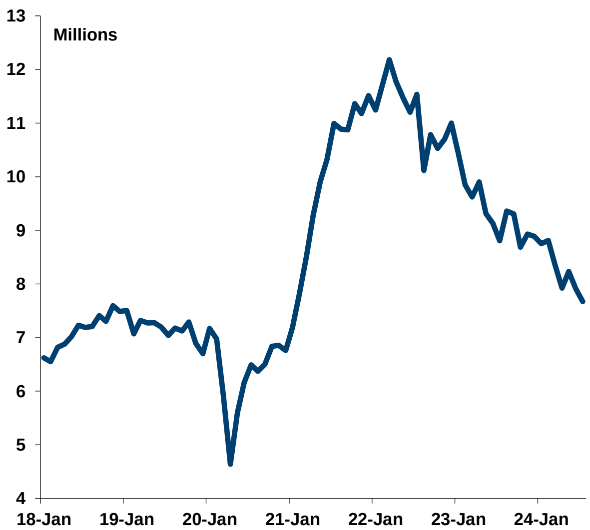
Chair Powell's press conference provided useful insights on several fronts, but we were particularly interested in his comments regarding the Beveridge curve – a representation of the relationship between unemployment and the job vacancy rate. Recently, officials have argued that easing in tight labor market conditions could come in the way of reduced job openings rather than increasing layoffs. That appeared to be the case in recent months, as openings fell and the unemployment rate rose from 3.7 percent in early 2024 before touching 4.3 percent in July and subsequently retreating to 4.2 percent (charts). Even amid the move, layoffs have remained low and unemployment claims rangebound. However, Chair Powell noted on Wednesday, "And on the Beveridge Curve question…the Committee felt that job openings were so elevated that they could fall a long way before you hit the part of the curve where job openings turned into higher unemployment, job loss… but certainly it appears that we're very close to that point, if not at it. So that further declines in job openings will translate more directly into unemployment." In other words, additional easing in underlying labor market conditions could be driven by layoffs – an undesirable outcome that could demand a more aggressive policy response.

Civilian Unemployment Rate



Source: Bureau of Labor Statistics via Haver Analytics

Job Openings



Source: Bureau of Labor Statistics via Haver Analytics

Comments on inflation also were of interest. Chair Powell at his press conference reiterated his recent stance that “The labor market is not a source of elevated inflationary pressures,” supporting the view that he and colleagues project further cooling in core service inflation excluding housing, which is influenced importantly by labor costs. Perhaps more salient were views expressed by policymakers following the FOMC meeting. On one end of the spectrum, Fed Governor Waller – who we viewed as having a hawkish bias and who argued prior to the FOMC meeting in favor of a cut of 25 basis points – shifted his view to favor a larger reduction. He noted in an interview with CNBC. “Inflation is softening much faster than I thought it was going to, and that is what put me over the edge to say, look, I think 50 is the right thing to do.” Furthermore, he added “I was a big advocate of large rate hikes when inflation was moving much, much faster than any of us expected… I would feel the same way on the downside to protect our credibility of maintaining a 2% inflation target. If the data starts coming in soft and continues to come in soft, I would be much more willing to be aggressive on rate cuts to get inflation closer to our target.” He continued, “I was a big advocate of large rate hikes when inflation was moving much, much faster than any of us expected…I would feel the same way on the downside to protect our credibility of maintaining a 2% inflation target. If the data starts coming in soft and continues to come in soft, I would be much more willing to be aggressive on rate cuts to get inflation closer to our target.” In our view, the comments represent a shift that exhibits some concern that inflation could fall rapidly and to the point of missing the two percent target to the downside – a notable turn from his previous stance. In the other direction, Governor Bowman, the lone dissenter at the September meeting (she preferred a more measured cut), suggested in comments to the Wall Street Journal that a cut of 50 basis points “could be interpreted as a premature declaration of victory” – a view suggesting ongoing concern about lingering price pressure. Again, the comments underscore the risks of projecting the federal funds rate beyond the next few meetings. That is to say, how the policy setting process evolves in the next year to 18 months will likely diverge greatly from current expectations. And, decisions made by officials at this juncture are particularly weighty, as they have the opportunity to engineer a soft landing for the economy.

For additional reading on the included excerpts, please see (in order of mention):

Powell, Jerome H. “Transcript of Chair Powell’s Press Conference,” Federal Reserve Board, September 18, 2024. https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20240918.pdf

Cox, Jeff. “Fed Governor Waller says inflation softening faster than he expected put him in half-point-cut camp,” CNBC, September 20, 2024. https://www.cnbc.com/2024/09/20/fed-governor-waller-says-inflation-softening-faster-than-he-expected-put-him-in-half-point-cut-camp.html

Timiraos, Nick. “The Lone Dissenter Inside the Fed Who Voted Against Powell’s Rate Cut,” Wall Street Journal, September 20, 2024. https://www.wsj.com/economy/central-banking/the-big-fed-rate-cut-ended-a-streak-of-unanimous-policy-decisions-fb59a0b6

The Week Ahead

Consumer Confidence (September) (Tuesday)
Forecast: 102.5 (-0.8%)

Although gasoline prices have eased in recent months, which all else equal would boost consumer confidence, softening labor market conditions and stretched household financial positions cold provide an offset. The projected reading for September would leave the measure in the middle of the range of 2024 thus far (range of 97.5 to 110.9; chart)

New Home Sales (August) (Wednesday)
Forecast: 0.700 Million (-5.3%)

Although mortgage interest rates eased in August, a dip in mortgage applications for a home purchase suggests that new home sales could ease after a jump of 10.6 percent in August to 0.739 million units, annual rate. Additionally, sales of new homes are volatile from month-to-month, and the move in July nudged activity to the upper end of the range of the past two years (chart). (Of note, the new home sales series is based on contracts signed rather than closings. Thus, mortgage applications can provide insights into movements in the Census Bureau's measure on new home sales.)

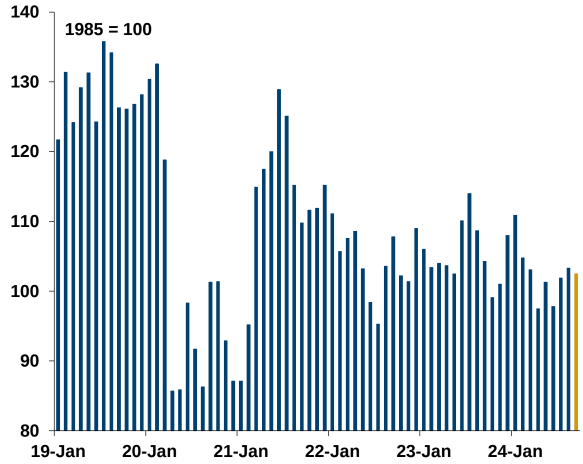
Revised GDP (24-Q2) (Thursday)
Forecast: 2.9% (-0.1 Pct. Pt. Revision)

Although the third estimate of quarterly GDP is usually close to the previous tally, downward adjustments to residential construction and inventory investment raise the possibility of a modest revision lower. Of note, the annual update of the National Income and Economic Accounts (which includes the National Income and Product Accounts) will be released along with the GDP data on September 26. The results will cover the 2019-Q1 through 2024-Q1 period and will involve adjustments to GDP and associated data (GDP by industry, gross domestic income (GDI), etc.).

Durable Goods Orders (August) (Thursday)
Forecast: -3.5% Total, 0.1% Ex. Transportation

Although order flows at Boeing were solid in August, they lagged July results. Thus, aircraft bookings appear likely to drag headline durable goods bookings lower after they drove a burst of 9.8 percent in the topline number in the prior month. Orders excluding transportation have tilted slightly lower in 2024 amid ongoing headwinds tied to restrictive monetary policy.

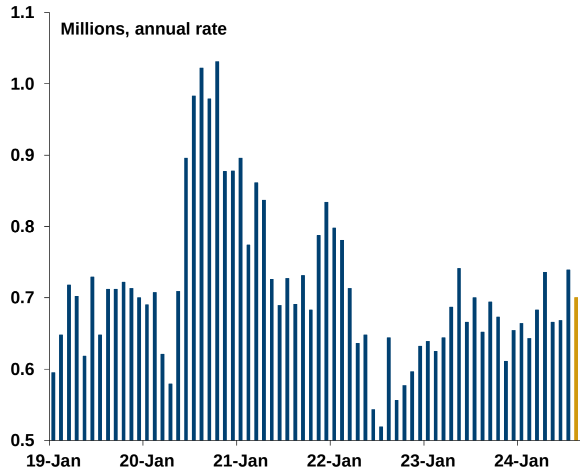
Consumer Confidence*



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

Sources: The Conference Board via Haver Analytics; Daiwa Capital Markets America

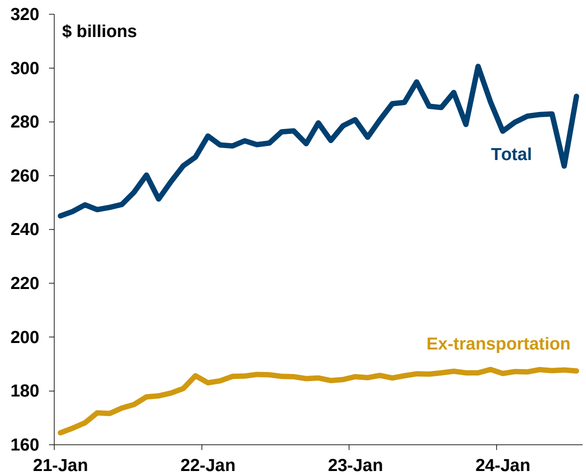
New Home Sales*



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

Sources: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

New Orders for Durable Goods

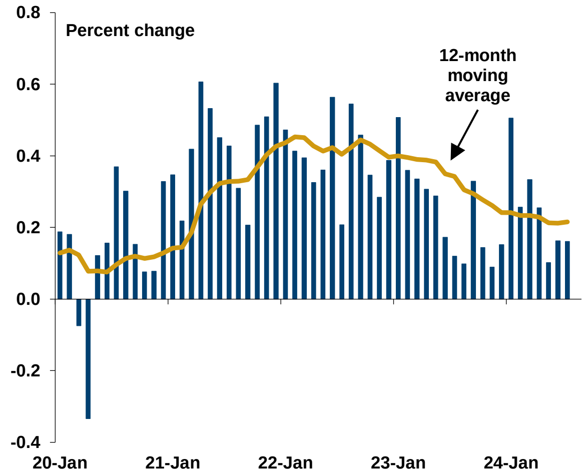


Source: U.S. Census Bureau via Haver Analytics

Personal Income, Consumption, Price Indexes (August) (Friday)
Forecast: 0.4% Income, 0.3% Consumption, 0.1% Headline, 0.2% Core

An increase of 0.4 percent in average hourly earnings and an advance in aggregate hours suggest a firm gain in wages and salaries in August, which could drive a favorable performance in overall income growth. On the spending side, results from the August retail sales report imply a moderate increase in outlays for nondurable items, but a drop in vehicle sales raises the prospect of a soft reading on outlays for durable goods. Spending on services has remained on a favorable trend in 2024 thus far. Results for recent inflation indicators suggest increases of 0.1 percent from the headline PCE price index and 0.2 percent for the core. The projected readings would translate to year-over-year advances of 2.2 percent for the headline (versus 2.5 percent in July) and 2.7 percent for the core index (up from 2.6 percent in July).

Core PCE Price Index*



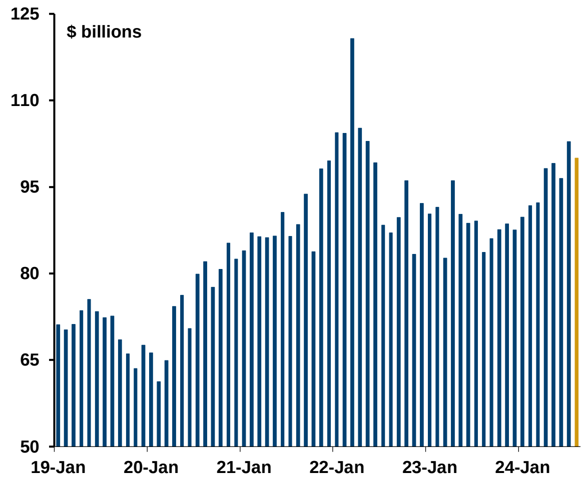
** The gold bar is a forecast for August 2024.*

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

International Trade in Goods (August) (Friday)
Forecast: $100.0 Billion Deficit ($2.8 Billion Narrower Deficit)

Trade flows are volatile on a monthly basis, with exports of goods essentially flat in July after a jump of 2.8 percent in the prior month while imports rose 2.3 percent after an advance of 0.8 percent previously. With that said, exports have essentially moved sideways in 2024 thus far and imports have trended higher, which has contributed to a notable drag from net exports in the first half of the year. However, even amid the soft performance for the U.S., the goods deficit of $102.8 billion in July was sharply wider than the $97.9 billion average in Q2. Thus, a partial retracement could occur in August.

Nominal Trade Deficit in Goods*



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

Sources: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

Economic Indicators

September/October 2024

Monday	Tuesday	Wednesday	Thursday	Friday
16	17	18	19	20
EMPIRE MFG July -6.6 Aug -4.7 Sep 11.5	**RETAIL SALES** Total / Ex.Autos June -0.3% 0.5% July 1.1% 0.4% Aug 0.1% 0.1% **IP & CAP-U** IP / Cap.Util. June 0.1% 78.2% July -0.9% 77.4% Aug 0.8% 78.0% **NAHB HOUSING INDEX** July 41 Aug 39 Sep 41 **BUSINESS INVENTORIES** Inventories / Sales May 0.5% 0.0% June 0.3% 0.0% July 0.4% 1.1% **FOMC MEETING (FIRST DAY)**	**HOUSING STARTS** June 1.329 million July 1.237 million Aug 1.356 million **FOMC RATE DECISION** **TIC FLOWS** Long-Term / Total May -$54.0B $16.2B June $80.5B $92.0B July $135.4B $156.5B	**UNEMPLOYMENT CLAIMS** Initial / Continuing (millions) Aug 17 0.233 1.860 Aug 24 0.232 1.845 Aug 31 0.228 1.850 Sep 7 0.230 N/A **CURRENT ACCOUNT** 23-Q4 -$221.8 bill. 24-Q1 -$241.0 bill. 24-Q2 -$266.8 bill. **PHILADELPHIA FED MFG BUSINESS OUTLOOK** July 13.9 Aug -7.0 Sep 1.7 **EXISTING HOME SALES** June 3.900 million July 3.960 million Aug 3.860 million **LEADING INDICATORS** June -0.2% July -0.6% Aug -0.2%	
23	24	25	26	27
CHICAGO FED NATIONAL ACTIVITY INDEX (8:30) Monthly / 3-Mo. Avg. June -0.09 -0.06 July -0.34 -0.06 Aug -- --	**FHFA HOME PRICE INDEX (9:00)** May 0.0% June -0.1% July -- **S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX (9:00)** May 0.4% June 0.4% July -- **CONFERENCE BOARD CONSUMER CONFIDENCE (10:00)** July 101.9 Aug 103.3 **Sep 102.5**	**NEW HOME SALES (10:00)** June 0.668 million July 0.739 million **Aug 0.700 million**	**UNEMP. CLAIMS (8:30)** **REVISED GDP (8:30)** GDP / Chained Price 24-Q1 1.4% 3.1% 24-Q2(p) 3.0% 2.5% **24-Q2(r) 2.9% 2.5%** **DURABLE GOODS ORDERS (8:30)** June -6.9% July 9.8% **Aug -3.5%** **PENDING HOME SALES (10:00)** June 4.8% July -5.5% Aug --	**PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX (8:30)** Inc. / Cons. / Core June 0.2% 0.3% 0.2% July 0.3% 0.5% 0.2% **Aug 0.4% 0.3% 0.2%** **INTERNATIONAL TRADE IN GOODS (8:30)** June -$96.5 billion July -$102.8 billion **Aug -$100.0 billion** **ADVANCE INVENTORIES (8:30)** Wholesale / Retail June 0.0% 0.9% July 0.2% 0.8% Aug -- -- **REVISED CONSUMER SENTIMENT (10:00)** July 66.4 Aug 67.9 Sep(p) 69.0
30	1	2	3	4
MNI CHICAGO BUSINESS BAROMETER	**ISM MFG. INDEX** **JOLTS DATA** **CONSTRUCTION** **VEHICLE SALES**	**ADP EMPLOYMENT**	**UNEMP. CLAIMS** **ISM SERVICES INDEX** **FACTORY ORDERS**	**EMPLOYMENT REPORT**
7	8	9	10	11
CONSUMER CREDIT	**NFIB SMALL BUSINESS OPTIMISM INDEX** **TRADE BALANCE**	**WHOLESALE TRADE** **FOMC MINUTES**	**UNEMP. CLAIMS** **CPI**	**PPI** **CONSUMER SENTIMENT**

Forecasts in bold. (p) = preliminary (2nd estimate of GDP), (r) = revised (3rd estimate of GDP)

Treasury Financing

September/October 2024

Monday	Tuesday	Wednesday	Thursday	Friday
16	17	18	19	20
AUCTION RESULTS: Rate Cover 13-week bills 4.750% 2.61 26-week bills 4.410% 2.98 **SETTLE:** $58 billion 3-year notes $39 billion 10-year notes $22 billion 30-year bonds	**AUCTION RESULTS:** Rate Cover 20-yr bonds 4.039% 2.51 42-day CMBs 4.920% 2.66 **ANNOUNCE:** $60 billion 17-week bills for auction on Sep 18 $80 billion 4-week bills for auction on Sep 19 $80 billion 8-week bills for auction on Sep 19 **SETTLE:** $60 billion 17-week bills $80 billion 4-week bills $80 billion 8-week bills	**AUCTION RESULTS:** Rate Cover 17-week bills 4.660% 3.05	**AUCTION RESULTS:** Rate Cover 4-week bills 4.700% 2.87 8-week bills 4.690% 2.80 10-yr TIPS 1.592% 2.44 **ANNOUNCE:** $146 billion 13-,26-week bills for auction on Sep 23 $69 billion 2-year notes for auction on Sep 24 $70 billion 5-year notes for auction on Sep 25 $44 billion 7-year notes for auction on Sep 26 $28 billion 2-year FRNs for auction on Sep 25 $60 billion 42-day CMBs for auction on Sep 24 **SETTLE:** $146 billion 13-,26-week bills $60 billion 42-day CMBs	
23	24	25	26	27
AUCTION: $146 billion 13-,26-week bills	**AUCTION:** $69 billion 2-year notes $60 billion 42-day CMBs **ANNOUNCE:** $60 billion* 17-week bills for auction on Sep 25 $80 billion* 4-week bills for auction on Sep 26 $80 billion* 8-week bills for auction on Sep 26 **SETTLE:** $60 billion 17-week bills $80 billion 4-week bills $80 billion 8-week bills	**AUCTION:** $60 billion* 17-week bills $70 billion 5-year notes $28 billion 2-year FRNs	**AUCTION:** $80 billion* 4-week bills $80 billion* 8-week bills $44 billion 7-year notes **ANNOUNCE:** $146 billion* 13-,26-week bills for auction on Sep 30 $46 billion* 52-week bills for auction on Oct 1 **SETTLE:** $146 billion 13-,26-week bills $60 billion 42-day CMBs	**SETTLE:** $28 billion* 2-year FRNs
30	1	2	3	4
AUCTION: $146 billion* 13-,26-week bills **SETTLE:** $13 billion 20-year bonds $17 billion 10-year TIPS $69 billion 2-year notes $70 billion 5-year notes $44 billion 7-year notes	**AUCTION:** $46 billion* 52-week bills **ANNOUNCE:** $60 billion* 17-week bills for auction on Oct 2 $80 billion* 4-week bills for auction on Oct 3 $80 billion* 8-week bills for auction on Oct 3 **SETTLE:** $60 billion* 17-week bills $80 billion* 4-week bills $80 billion* 8-week bills	**AUCTION:** $60 billion* 17-week bills	**AUCTION:** $80 billion* 4-week bills $80 billion* 8-week bills **ANNOUNCE:** $146 billion* 13-,26-week bills for auction on Oct 7 $58 billion* 3-year notes for auction on Oct 8 $39 billion* 10-year notes for auction on Oct 9 $22 billion* 30-year bonds for auction on Oct 10 **SETTLE:** $146 billion* 13-,26-week bills $46 billion* 52-week bills	
7	8	9	10	11
AUCTION: $146 billion* 13-,26-week bills	**AUCTION:** $58 billion* 3-year notes **ANNOUNCE:** $60 billion* 17-week bills for auction on Oct 9 $80 billion* 4-week bills for auction on Oct 10 $80 billion* 8-week bills for auction on Oct 10 **SETTLE:** $60 billion* 17-week bills $80 billion* 4-week bills $80 billion* 8-week bills	**AUCTION:** $60 billion* 17-week bills $39 billion* 10-year notes	**AUCTION:** $80 billion* 4-week bills $80 billion* 8-week bills $22 billion* 30-year bonds **ANNOUNCE:** $146 billion* 13-,26-week bills for auction on Oct 15 **SETTLE:** $146 billion* 13-,26-week bills	

**Estimate*