Daiwa Capital Markets

U.S. Economic Comment

- August inflation: supporting favorable assessments by Fed officials
- Friday data: readings on consumer spending and trade bolster case for solid Q3 growth
- Warning signs on the labor market?

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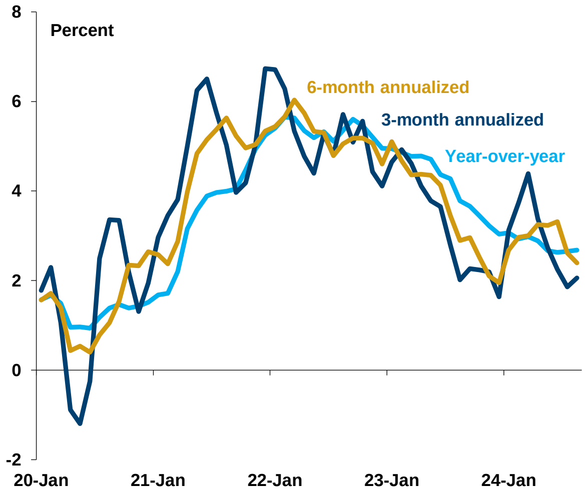
Inflation: Ongoing Moderation in August

The August inflation data yielded little in the way of surprises. Aside from the usual variation amongst components and residual pressure in housing, the broad contours of the latest report support Fed assessments that inflation is on a clear path back to two percent. In the latest month, the increase in the headline price index for personal consumption expenditures matched the Bloomberg median expectation of an increase of 0.1 percent (+0.091 percent with less rounding) – the third reading in the past four months rounding down to 0.1 percent or less. Additionally, the core measure rose 0.1 percent (+0.130 percent), which trailed the consensus view of a pickup of 0.2 percent; core service inflation excluding housing rounded up to an increase of 0.2 percent (+0.158 percent).

Critically, trends -- both shorter-term and year-over-year – provide compelling evidence of why the FOMC is comfortable shifting attention to the labor market and transitioning away from restrictive monetary policy. The year-over-year advance in the core PCE index rose marginally in August (+2.678 percent versus +2.649 percent in July), but progress has been measurable and near-term readings are even closer to target (three-month annualized growth rate of 2.058 percent and a six-month rate of 2.394 percent; chart, below left). Similarly, the year-over-year change in core service inflation excluding housing was somewhat elevated (+3.300 percent), but shorter-term views were more favorable: a three-month annualized increase of 2.489 percent and a six-month advance of 2.829 percent (chart, below right).

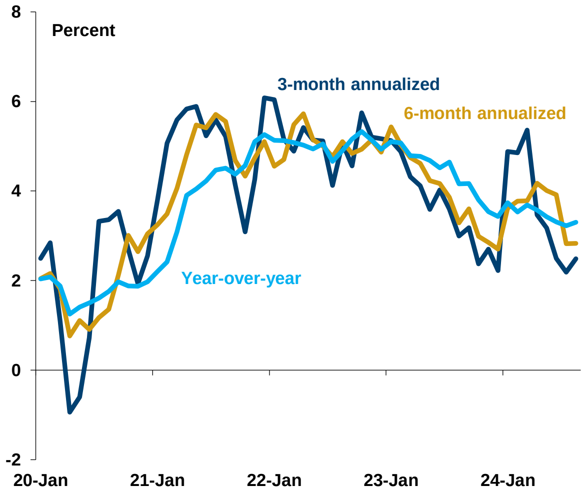
Importantly, causative factors supporting previously rapid inflation have receded as concerns even amid some month-to-month variation in the data. Namely, a spurt in demand for goods and concurrent supply-chain disruptions associated with the pandemic have resolved. Moreover, previously tight labor market conditions have eased, with Fed Chair Powell suggesting in his latest post-FOMC press conference that wage growth was no longer a significant risk to inflation. Additionally, he has also stated that any further deterioration in labor market conditions would be "unwelcome." Thus, while officials maintain that upside risks to inflation still persist, and that monetary policy remains well positioned to address those risks should they materialize, a return to two percent increasingly appears to be an achievable outcome.

Core PCE Price Index



Source: Bureau of Economic Analysis via Haver Analytics

PCE: Core Services Ex. Housing Price Index*



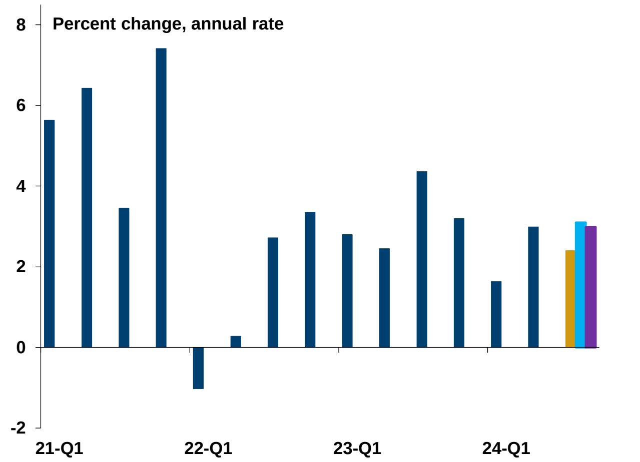
** Service prices excluding energy and housing services.*
Source: Bureau of Economic Analysis via Haver Analytics

Growth on Track in Q3

Friday estimates from the Atlanta Fed's GDPNow model and the New York Fed's Staff Nowcast peg GDP growth in Q3 at approximately three percent (3.10 and 2.99 percent, respectively) – essentially matching the brisk pace of GDP growth in Q2. We are a tad less optimistic in our latest assessment, which we adjusted from the upper-one-percent area to just shy of 2.5 percent, but the data for Q3 have evolved favorably thus far (chart, right).

Specifically with regard to Friday data, real consumer spending from the Bureau of Economic Analysis' Personal Income and Consumption report indicated that real consumer spending rose 0.1 percent month-to-month in August. The latest reading lagged the brisk advance of 0.4 percent in July, but even if spending was little changed in September, growth for the quarter would advance at an annual rate of approximately 3.0 percent – a result that would surpass the already-firm 2.8 percent growth in Q2 (chart on monthly growth of real outlays, below left). In addition, international trade data from the Census Bureau's Advance Economic Indicators Report suggest that net exports are on track to exert a modest drag on growth in Q3, as the monthly goods trade deficit narrowed to $94.3 billion from $102.8 billion in July (versus an average of $97.9 billion in Q2; chart, below right). The results thus far for Q3 do not suggest a massive shift in trade flows in favor of the U.S., but they are improved from drags of 0.9 percentage point from growth in Q2 and 0.6 percentage point in Q1. Again, it's relatively early, but the data thus far suggest the U.S. economy remains on track.

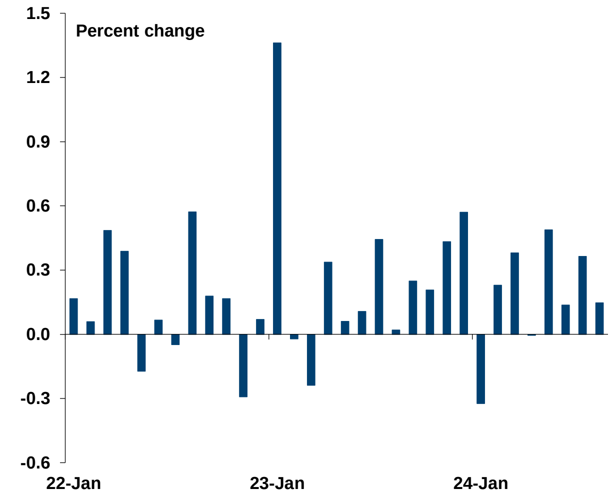
GDP Growth*



** The gold, light blue, and purple lines are forecasts for 2024-Q3 from DCMA, the Atlanta Fed's GDPNow, and the New York Fed's Nowcast, respectively.*

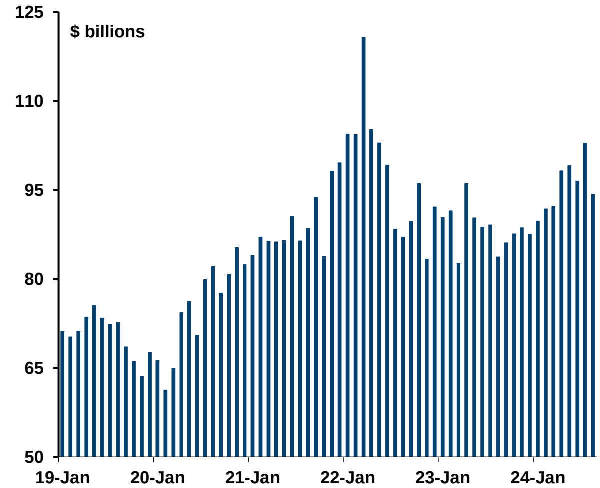
Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America; Federal Reserve Banks of Atlanta & New York

Real Consumer Spending Growth



Source: Bureau of Economic Analysis via Haver Analytics

Nominal Trade Deficit in Goods

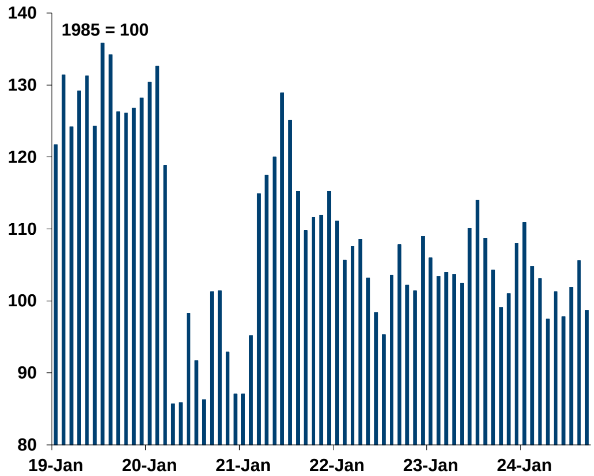


Source: U.S. Census Bureau via Haver Analytics

Consumer Confidence: Labor Market Assessments Deteriorate in September

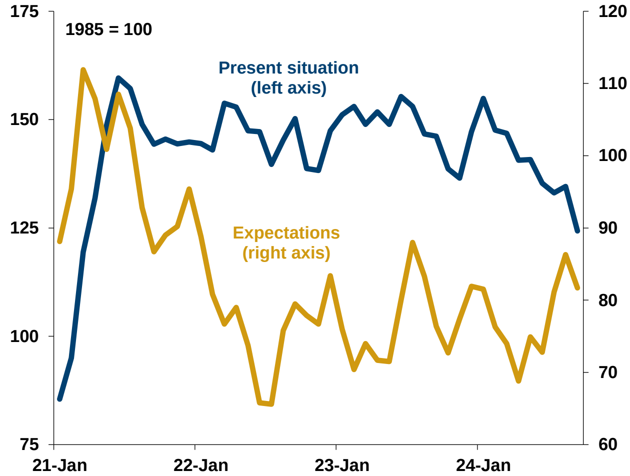
The Conference Board's Consumer Confidence Survey for September (released Tuesday) missed market expectations by a wide margin, falling 6.5 percent to 98.7 (versus the Bloomberg median expectation of a reading of 104.0; chart, next page, left). The latest observation was among the lowest of the past few years and, as confidence has for most of the current expansion, appeared out-of-sync with active consumer spending that has been a key driver of solid economic growth. Interestingly, however, components told a somewhat different story than they had for much of the current expansion. Previously, current conditions remained below readings just prior to COVID but in a solid range from a longer-term perspective; contrastingly, expectations failed to recover materially after the pandemic-related swoon. In the latest month, both the current conditions and expectations components slipped, but expectations remained in the upper end of the recent range after jumping in August (-5.3 percent in September to 81.7) while near-term assessments tumbled to a level not seen since the spring of 2021 (-7.7 percent to 124.3).

Consumer Confidence



Source: The Conference Board via Haver Analytics

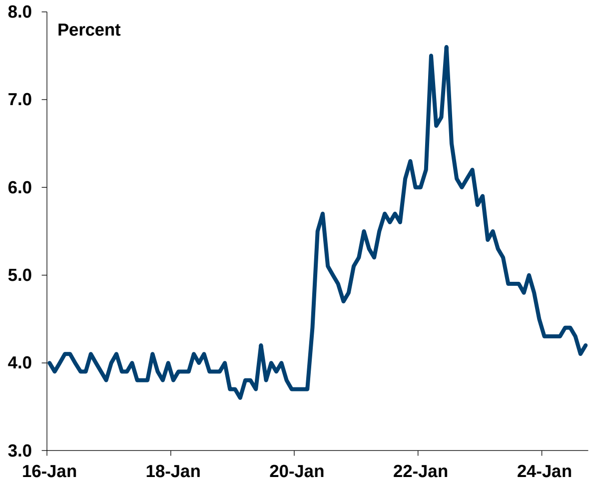
Consumer Confidence



Source: The Conference Board via Haver Analytics

We suspect that the recent divergence is tied to shifting views on inflation and the labor market. The median year-ahead inflation expectations measure remained range-bound in September (4.2 percent), a bit above pre-pandemic readings but consistent with other survey-based assessments that Fed officials describe as "anchored" (chart, below left). Price pressure has eased significantly in response to restrictive monetary policy, and survey respondents are less concerned about another bout of brisk inflation. Conversely, a previously strong job market which for the past few years had bolstered near-term views has begun to show cracks. The share of survey respondents reporting that jobs were plentiful declined for the seventh consecutive month (-1.8 percentage points in September to 30.9 percent – the lowest reading since 27.5 percent in March 2021 and a contrast to lofty averages of 50.5 percent in 2022 and 43.6 percent last year). Similarly, those reporting that jobs were hard to get jumped to 18.3 percent from 16.8 percent in August (versus restrained averages of 11.8 percent in 2022 and 12.5 percent the following year). The differential (plentiful less hard-to-get) slipped 3.3 percentage points to 12.6 percent, well below the cycle peak of 47.1 in March 2022 and again close to readings in early 2021 (chart, below right).

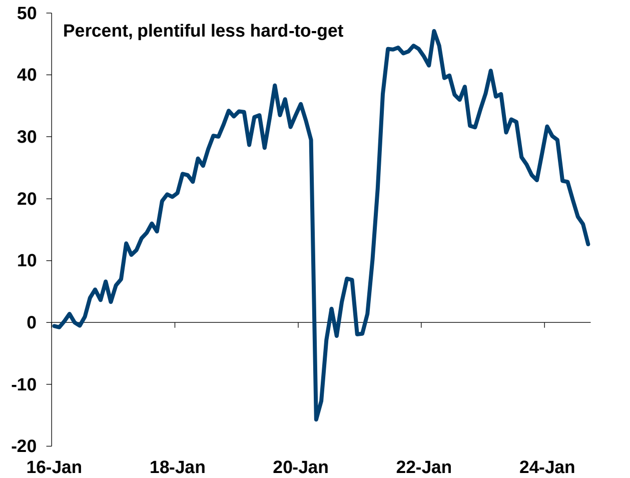
Consumer Inflation Expectations*



** Median estimate, 12 months hence*

Source: The Conference Board via Haver Analytics

Labor Market Differential*



** The share of survey respondents who reported that jobs were "plentiful" less those who said they were "hard-to-get."*

Source: The Conference Board via Haver Analytics

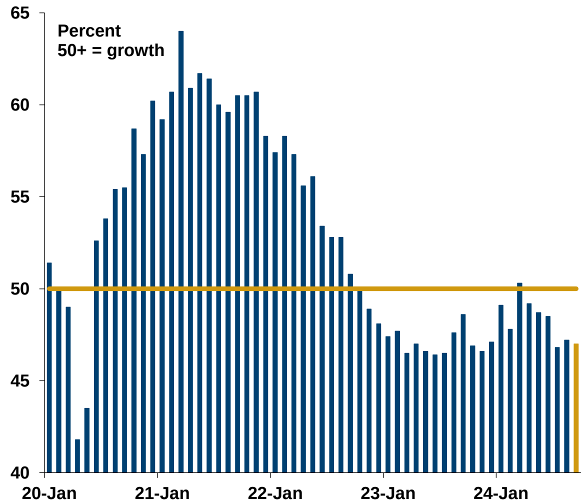
To be sure, other more important labor market indicators will be scrutinized ahead of the November 6-7 FOMC meeting, including employment reports released next Friday and on November 1, but data from the Survey of Consumers adds to a growing body of evidence that the labor market is softening. The question is whether the movement is an ongoing healthy realignment that allows for gradual rate adjustments or material softening that warrants another aggressive cut (or more) of 50 basis points.

The Week Ahead

ISM Manufacturing Index (September) (Tuesday)
Forecast: 47.0 (-0.2 Index Pt.)

With headwinds from restrictive monetary policy still contributing to challenging conditions in the factory sector, the ISM manufacturing gauge appears poised to remain in contraction territory for the sixth consecutive month (and 22nd in the past 23 months; chart). Indeed, a softening in the early-September reading on the S&P Global factory PMI raises the possibility that the ISM measure could ease further from the already weak 47.2 percent reading in August.

ISM Manufacturing: Headline Index*



** The gold bar is a forecast for September 2024.*
Sources: Institute for Supply Management via Haver Analytics; Daiwa Capital Markets America

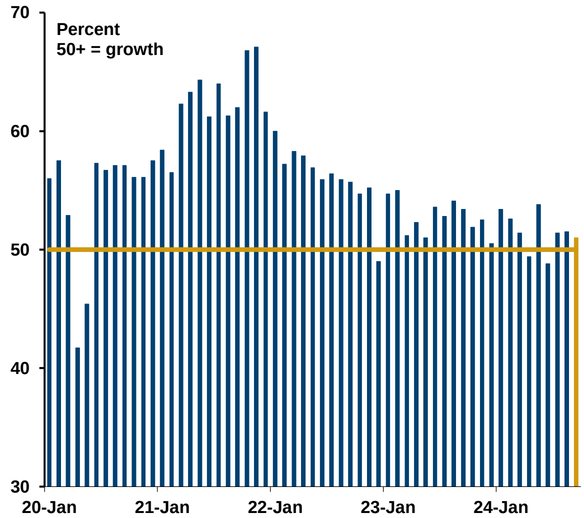
Construction (August) (Tuesday)
Forecast: 0.0%

With choppy housing starts suggesting a restrained performance in residential construction and business-related and government sponsored building flattening out after previously strong trends earlier in the expansion, total construction activity could remain little changed in August after a dip in the prior month.

ISM Services Index (September) (Thursday)
Forecast: 51.0 (-0.5 Index Pt.)

With GDP growth tracking in the two-percent area in Q3 thus far, the ISM services index is likely to remain in expansion territory for the third consecutive month (chart). Given the underlying performance of economy, we're currently inclined to view sub-50 readings in Q2 as instances of downside volatility rather than a signal of impending recession.

ISM Services: Headline Index*



** The gold bar is a forecast for September 2024.*
Sources: Institute for Supply Management via Haver Analytics; Daiwa Capital Markets America

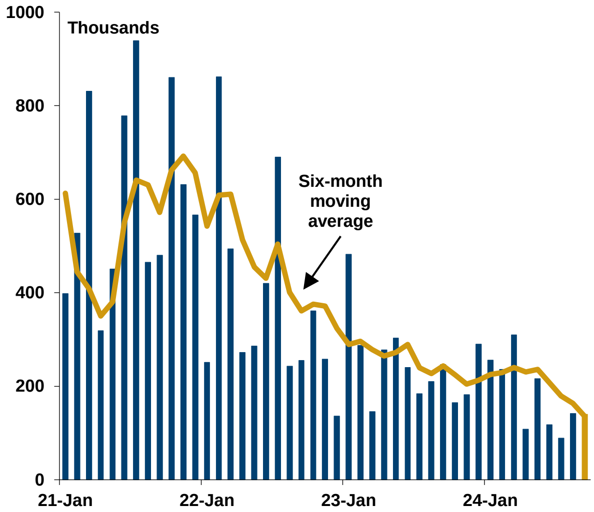
Factory Orders (August) (Thursday)
Forecast: -0.2%

Durable goods orders registered little change in August after a burst of 9.9 percent in July tied to ongoing volatility in the aircraft component. Orders excluding transportation rose 0.5 percent, which augmented an upward tilt to the series in recent months. Preliminary shipments data released with the Advance Report on Durable Goods on September 26 call for a decline in the nondurable area that would leave a modest downward tilt in the series in the past year.

Payroll Employment (September) (Friday)
Forecast: 140,000

Although initial unemployment claims eased in September thus far (average of 224,000 versus 231,000 in August), other indicators of labor market activity (job openings, for example) suggest that demand is moderating – perhaps rapidly. Thus, underlying job growth is probably closer to the 135,000 average in the past five months versus the 267,000 average in Q1 (chart, below left). Additionally, with the labor market remaining on track despite some expected slowing in hiring, growth of average hourly earnings could remain close to its solid average of +0.3 percent per month in the past 12 months (chart, below right; associated with a projected year-over-year increase of 3.8 percent, which would match the previous month's pace).

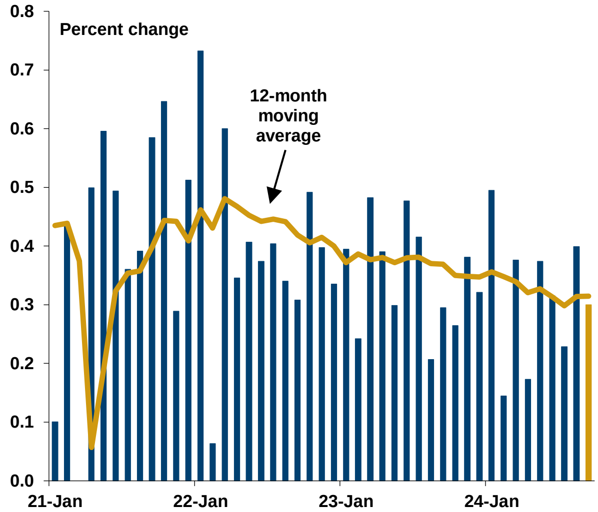
Change in Nonfarm Payrolls*



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

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

Average Hourly Earnings*



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

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

Economic Indicators

September/October 2024

Monday	Tuesday	Wednesday	Thursday	Friday
23	24	25	26	27
CHICAGO FED NATIONAL ACTIVITY INDEX Monthly 3-Mo. Avg. June -0.20 -0.11 July -0.42 -0.13 Aug 0.12 -0.17	**FHFA HOME PRICE INDEX** May 0.0% June 0.0% July 0.1% **S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX** May 0.4% June 0.5% July 0.3% **CONFERENCE BOARD CONSUMER CONFIDENCE** July 101.9 Aug 105.6 Sep 98.7	**NEW HOME SALES** June 0.681 million July 0.751 million Aug 0.716 million	**UNEMPLOYMENT CLAIMS** Initial Continuing (millions) Aug 31 0.228 1.843 Sep 7 0.231 1.821 Sep 14 0.222 1.834 Sep 21 0.218 N/A **REVISED GDP** GDP Chained Price 24-Q1 1.6% 3.0% 24-Q2(p) 3.0% 2.5% 24-Q2(r) 3.0% 2.5% **DURABLE GOODS ORDERS** June -6.9% July 9.9% Aug 0.0% **PENDING HOME SALES** June 4.8% July -5.5% Aug 0.6%	**PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX** Inc. Cons. Core June 0.3% 0.3% 0.2% July 0.3% 0.5% 0.2% Aug 0.2% 0.2% 0.1% **INTERNATIONAL TRADE IN GOODS** June -$96.5 billion July -$102.8 billion Aug -$94.3 billion **ADVANCE INVENTORIES** Wholesale Retail June 0.0% 0.9% July 0.3% 0.8% Aug 0.2% 0.5% **REVISED CONSUMER SENTIMENT** Aug 67.9 Sep(p) 69.0 Sep(r) 70.1
30	1	2	3	4
MNI CHICAGO BUSINESS BAROMETER (9:45) Index Prices July 45.3 55.8 Aug 46.1 66.0 Sep -- --	**ISM MFG. INDEX (10:00)** Index Prices July 46.8 52.9 Aug 47.2 54.0 **Sep 47.0 53.5** **JOLTS DATA (10:00)** Openings (000) Quit Rate June 7,910 2.0% July 7,673 2.1% Aug -- -- **CONSTRUCTION (10:00)** June 0.0% July -0.3% **Aug 0.0%** **VEHICLE SALES** July 15.7 million Aug 15.2 million **Sep 15.5 million**	**ADP EMPLOYMENT (8:15)** Private Payrolls July 111,000 Aug 99,000 Sep --	**UNEMP. CLAIMS (8:30)** **ISM SERVICES INDEX (10:00)** Index Prices July 51.4 57.0 Aug 51.5 57.3 **Sep 51.0 57.0** **FACTORY ORDERS (10:00)** June -3.3% July 5.0% **Aug -0.2%**	**EMPLOYMENT REPORT (8:30)** Payrolls Un. Rate July 89,000 4.3% Aug 142,000 4.2% **Sep 140,000 4.2%**
7	8	9	10	11
CONSUMER CREDIT	**NFIB SMALL BUSINESS OPTIMISM INDEX** **TRADE BALANCE**	**WHOLESALE TRADE** **FOMC MINUTES**	**UNEMP. CLAIMS** **CPI**	**PPI** **CONSUMER SENTIMENT**
14	15	16	17	18
COLUMBUS DAY	**EMPIRE MFG**	**IMPORT/EXPORT PRICES**	**UNEMP. CLAIMS** **RETAIL SALES** **PHILLY FED INDEX** **IP & CAP-U** **NAHB HOUSING INDEX** **BUSINESS INVENTORIES** **TIC FLOWS**	**HOUSING STARTS**

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
23	24	25	26	27
AUCTION RESULTS: Rate Cover 13-week bills 4.540% 2.84 26-week bills 4.270% 3.42	**AUCTION RESULTS:** Rate Cover 2-yr notes 3.520% 2.59 42-day CMBs 4.620% 3.26 **ANNOUNCE:** $62 billion 17-week bills for auction on Sep 25 $90 billion 4-week bills for auction on Sep 26 $85 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 RESULTS:** Rate Cover 17-week bills 4.430% 2.80 5-yr notes 3.519% 2.38 Margin Cover 2-yr FRNs 0.261% 2.86	**AUCTION RESULTS:** Rate Cover 4-week bills 4.700% 2.81 8-week bills 4.650% 2.42 7-yr notes 3.668% 2.63 **ANNOUNCE:** $151 billion 13-,26-week bills for auction on Sep 30 $48 billion 52-week bills for auction on Oct 1 $70 billion 42-day CMBs 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: $151 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:** $48 billion 52-week bills $70 billion 42-day CMBs **ANNOUNCE:** $62 billion* 17-week bills for auction on Oct 2 $90 billion* 4-week bills for auction on Oct 3 $85 billion* 8-week bills for auction on Oct 3 **SETTLE:** $62 billion 17-week bills $90 billion 4-week bills $85 billion 8-week bills	**AUCTION:** $62 billion* 17-week bills	**AUCTION:** $90 billion* 4-week bills $85 billion* 8-week bills **ANNOUNCE:** $151 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:** $151 billion 13-,26-week bills $48 billion 52-week bills $70 billion 42-day CMBs	
7	8	9	10	11
AUCTION: $151 billion* 13-,26-week bills	**AUCTION:** $58 billion* 3-year notes **ANNOUNCE:** $62 billion* 17-week bills for auction on Oct 9 $90 billion* 4-week bills for auction on Oct 10 $85 billion* 8-week bills for auction on Oct 10 **SETTLE:** $62 billion* 17-week bills $90 billion* 4-week bills $85 billion* 8-week bills	**AUCTION:** $62 billion* 17-week bills $39 billion* 10-year notes	**AUCTION:** $90 billion* 4-week bills $85 billion* 8-week bills $22 billion* 30-year bonds **ANNOUNCE:** $151 billion* 13-,26-week bills for auction on Oct 15 **SETTLE:** $151 billion* 13-,26-week bills	
14	15	16	17	18
COLUMBUS DAY	**AUCTION:** $151 billion* 13-,26-week bills **ANNOUNCE:** $62 billion* 17-week bills for auction on Oct 16 $90 billion* 4-week bills for auction on Oct 17 $85 billion* 8-week bills for auction on Oct 17 **SETTLE:** $62 billion* 17-week bills $90 billion* 4-week bills $85 billion* 8-week bills $58 billion* 3-year notes $39 billion* 10-year notes $22 billion* 30-year bonds	**AUCTION:** $62 billion* 17-week bills	**AUCTION:** $90 billion* 4-week bills $85 billion* 8-week bills **ANNOUNCE:** $151 billion* 13-,26-week bills for auction on Oct 21 $13 billion* 20-year bonds for auction on Oct 23 $24 billion* 5-year TIPS for auction on Oct 24 **SETTLE:** $151 billion* 13-,26-week bills	

**Estimate*