U.S. Economic Comment

- September employment: suggesting firm underlying labor market conditions

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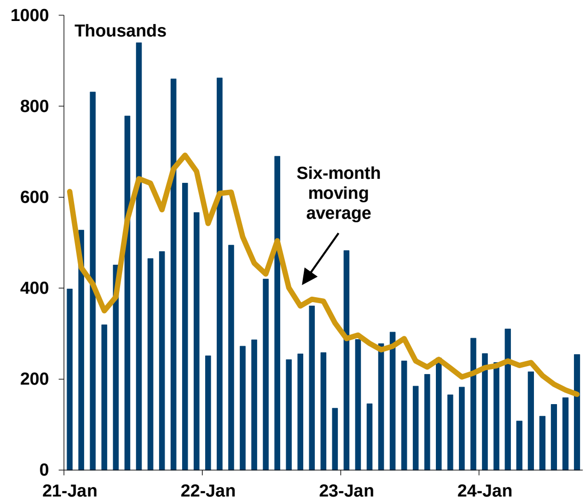
Solidifying Expectations for a Soft Landing

Undoubtedly, the 50-basis-point cut by the FOMC at its September gathering, along with its shift in characterization of the balance of risks to the dual mandate objectives of maximum employment and price stability, gave rise to significant discussion about the underlying strength of the labor market. Job growth was solid, and layoffs low, but buried in the adoption of the pivot appeared to be at least some implicit concern about the sustainability of the status quo regarding the health of the economy. Friday's employment data provided a strong counterpoint to that concern, with payroll growth far exceeding expectations and the unemployment rate falling to 4.1 percent. With that said, the FOMC at this juncture appears committed to adjusting the federal funds rate to ultimately reflect a neutral stance of policy, but the latest data suggest ongoing gradual adjustments to the target range for the federal funds rate at least through year-end 2024 versus additional cuts of 50 basis points per meeting in November and December (and align with our recently revised call of reductions of 25 basis points per meeting through mid-2025 before a pause). Moreover, as Fed Chair Jerome Powell mentioned during speech at the National Association for Business Economics Annual Meeting last Monday, "[O]ur decision to reduce our policy rate by 50 basis points reflects our growing confidence that, with an appropriate recalibration of our policy stance, strength in the labor market can be maintained in a context of moderate economic growth and inflation moving sustainably down to 2 percent."

Payrolls & Wage Growth

Payroll growth of 254,000 in September, also joined by upward revisions of 72,000 in the prior two months, far exceeded the Bloomberg median expectation of 150,000 (and a survey estimate high of +220,000; chart). The latest results left the 2024 average at 200,000 – a healthy moderation from the 251,000 average in 2023 when the labor market was still tight but ahead of the 166,000 average in 2019 when conditions were viewed as highly favorable (and similar to those that prevail currently).

Change in Nonfarm Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

Private-sector job growth was particularly impressive with an increase of 223,000 (versus an average of +143,000 in the prior six months). The manufacturing sector stood out in the soft side, with payrolls falling 7,000 after a drop of 27,000 in the prior month (chart, next page, top left). The results, in conjunction with a soft September print for the ISM manufacturing index (47.2 in September; Q3 average of 47.1), point to an ongoing slump in the factory sector. However, results in other areas were highly favorable. The healthcare and social assistance area added 72,000 positions in September, somewhat below the trailing 12-month average of 78,000 but an acceleration in hiring after a recent slowing (chart, next page, top right). Similarly, the leisure and hospitality sector (which is heavily dependent on discretionary spending by the consumer sector) added 78,000 positions, a firm reading for the second consecutive month and well above the trailing 12-month average of 26,000. In addition, the business services area added 17,000 positions after reducing headcounts in four of the previous five months. In essence, job growth remains on track.

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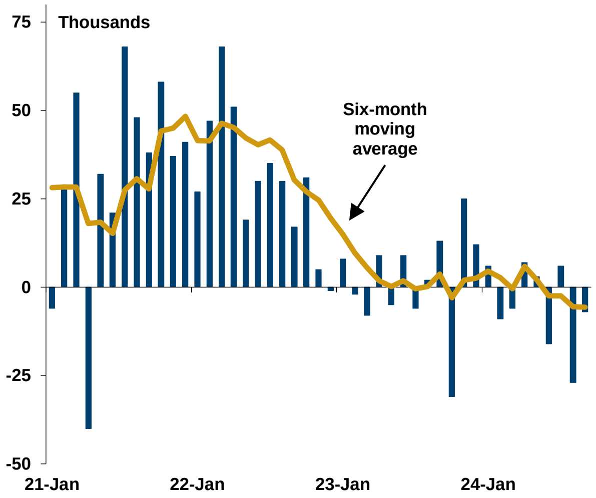
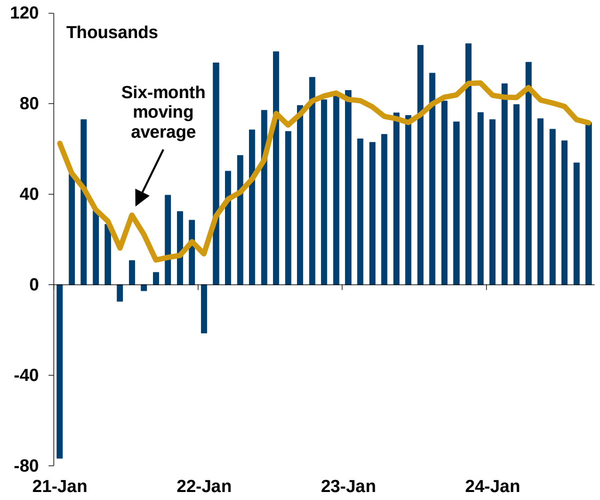
Change in Manufacturing Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

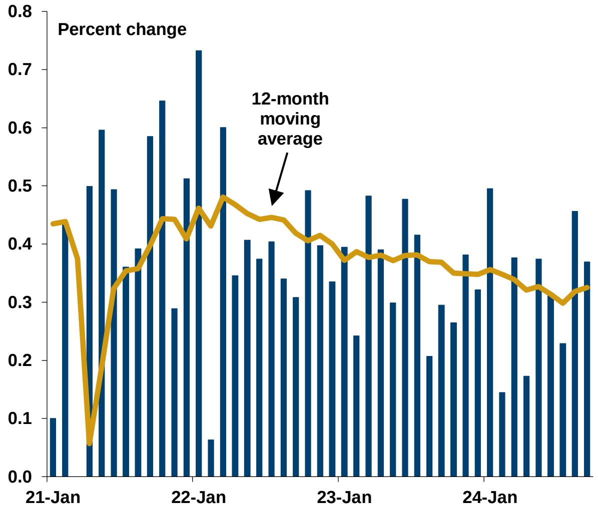
Change in Health Care & Social Assist. Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

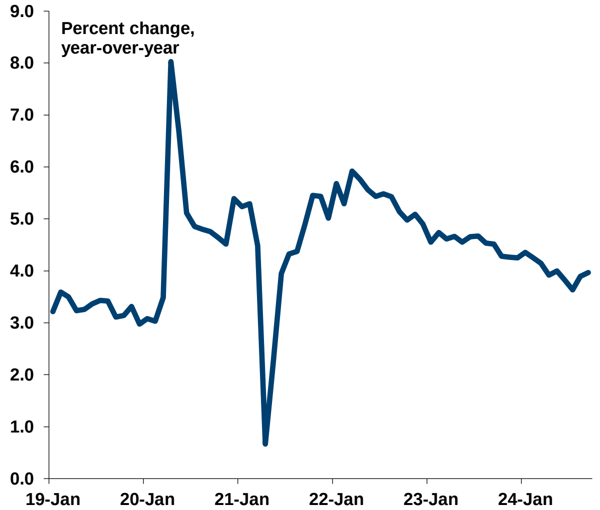
Joining payroll growth as another sign of still-firm labor market conditions was a brisk increase in average hourly earnings. The advance of 0.4 percent in September followed a jump of 0.5 percent in the prior month, with the year-over-year advance of 4.0 percent (3.969 percent with less rounding) accelerating from the 3.9 percent in August (charts, below). The latest pace of wage growth, if sustained, could pose a challenge to achievement of two percent inflation. In that regard, we view wage growth in the vicinity of 3.5 percent as supportive of a return to that pace (the central bank's inflation target plus trend productivity growth, which we peg in the range of 1.0 to 1.5 percent). Again, the latest results could be high-side volatility, but they bear watching.

Average Hourly Earnings



Source: Bureau of Labor Statistics via Haver Analytics

Average Hourly Earnings

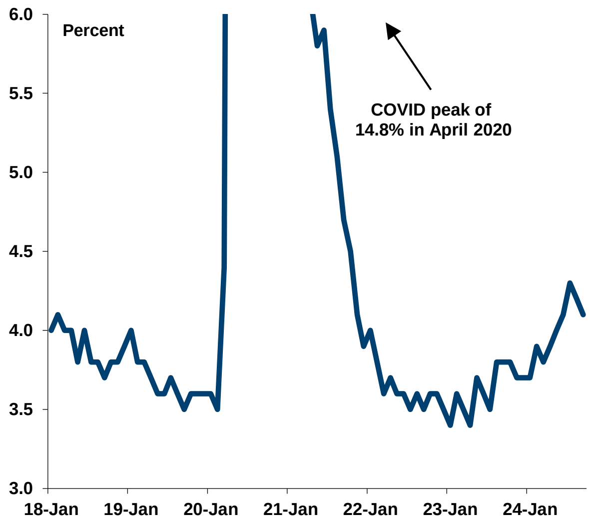


Source: Bureau of Labor Statistics via Haver Analytics

The Household Survey

Results from the household survey also bolstered the case for stability (strength?) in the labor market. Job growth of 430,000 in September (versus an average of +117,000 in the prior three months) far exceeded labor force growth of 150,000 (versus a trailing three month average of +272,000), which nudged the unemployment rate 0.1 percentage point lower to 4.1 percent – 0.3 percentage point below the year-end 2024 median estimate from the September Summary of Economic Projections and below the longer-run median of 4.2 percent (which can be viewed as a proxy for full employment; chart, right).

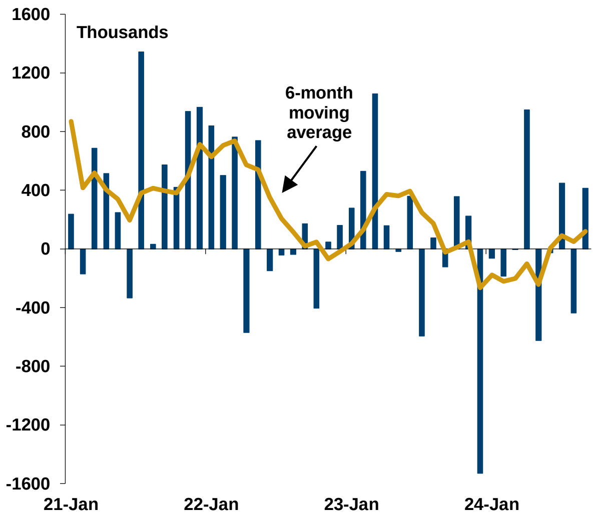
Civilian Unemployment Rate



Source: Bureau of Labor Statistics via Haver Analytics

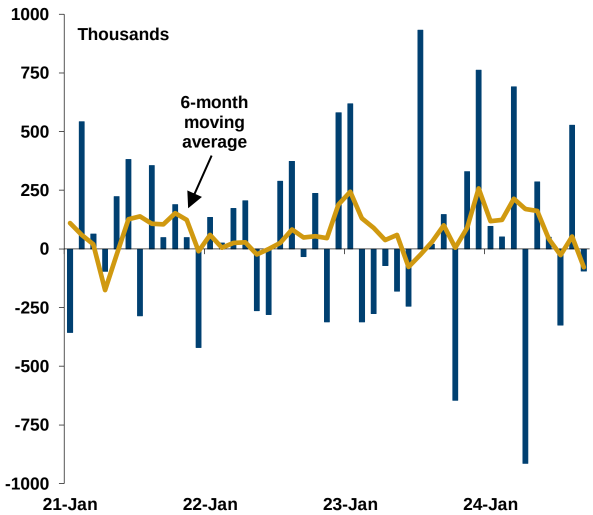
Importantly, the breakdown of employment also can be viewed through a favorable lens. We recall critiques of the August employment data emphasizing that previous employment gains were all part-time positions – possibly indicating underemployment in a softening job market (in August, part-time employment surged 527,000, while full-time jobholders fell 438,000). In the latest month, the performance flipped, with full-time employment jumping 414,000 and part-time jobholders falling 95,000 (charts, below). Additionally, while these series are inherently volatile given their rolling samples, six-month averages also show a positive distribution of positions: 120,000 per month for those employed full-time versus an average decline of 79,000 for those employed part-time.

Change in Full-Time Employment



Source: Bureau of Labor Statistics via Haver Analytics

Change in Part-Time Employment



Source: Bureau of Labor Statistics via Haver Analytics

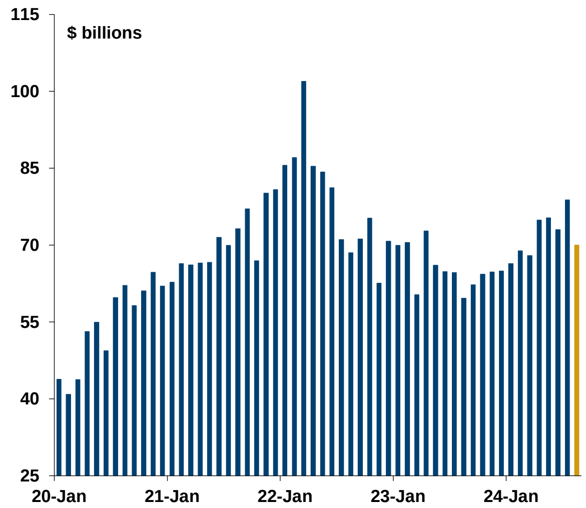
Thus, echoing the sentiments of Chicago Fed President Austan Goolsbee today, we don't want to overstate the importance of a singular datapoint, but the September employment data were impressive, especially in light of the prolonged constraining influence of restrictive monetary policy. The FOMC has leaned into the view that moderating inflation and realignment of previously tight labor market conditions have cleared the way for easing monetary policy, but if the labor market again tightens, the calculus for rate adjustments may have to change as well.

The Week Ahead

Trade Balance (August) (Tuesday)
Forecast: -$72.0 Billion ($8.8 Billion Narrower Deficit)

The narrowing of $8.6 billion in the goods deficit (Advance Economic Indicators report from the U.S. Census Bureau; published September 27) suggests similar narrowing in the total trade shortfall in August. The expected change will offset the widening in July, with results thus far for Q3 suggesting that net exports will be an approximately neutral influence on GDP after subtracting 0.9 percentage point from growth in the previous quarter (chart).

Trade Deficit in Goods & Services*



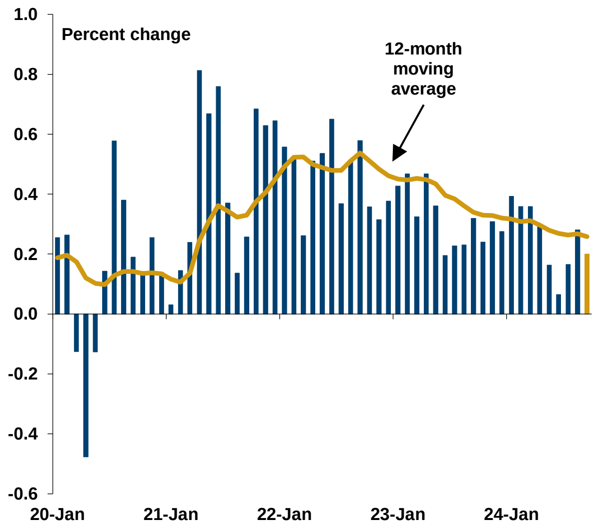
** The gold bar is a forecast for August 2024.*

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

CPI (September) (Thursday)
Forecast: 0.0% Headline, 0.2% Core

Available data suggest that lower gasoline prices could pull the energy component of the CPI lower for the second consecutive month (and fourth in the past five). 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 0.2 percent in August); the reading on core service inflation was less favorable in August (+0.4 percent), but it had averaged slower increases of 0.2 percent in the May-to-July period. Broadly speaking, inflation appears to be back on a sustainable trajectory toward the Federal Reserve's two percent target (charts, below).

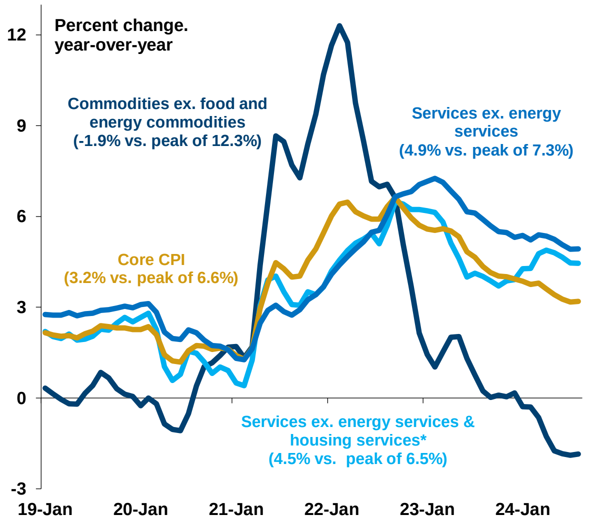
Core CPI*



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

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

Decomposition of Core CPI



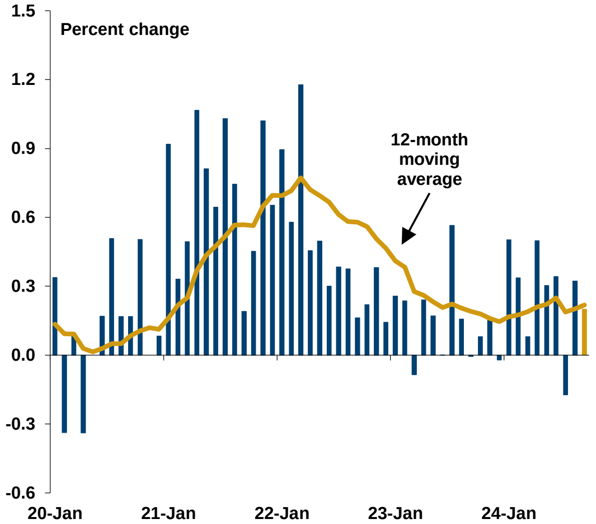
** Service prices excluding energy services, rent of primary residence, and owners' equivalent rent.*

Source: Bureau of Labor Statistics via Haver Analytics

PPI (September) (Friday)
Forecast: 0.1% Final Demand, 0.2% Ex. Food & Energy

Wholesale energy prices could decline for the second consecutive month, as could food prices after three consecutive increases. Goods prices excluding food and energy have increased 0.2 percent (0.18 percent with less rounding) per month, on average, in the past 12 months, a bit slower than to the average monthly change in the broad services category (+0.21 percent per month). Construction costs have remained on a modest upward trend, increasing 0.1 percent per month on average over the past year.

PPI Ex. Food & Energy*



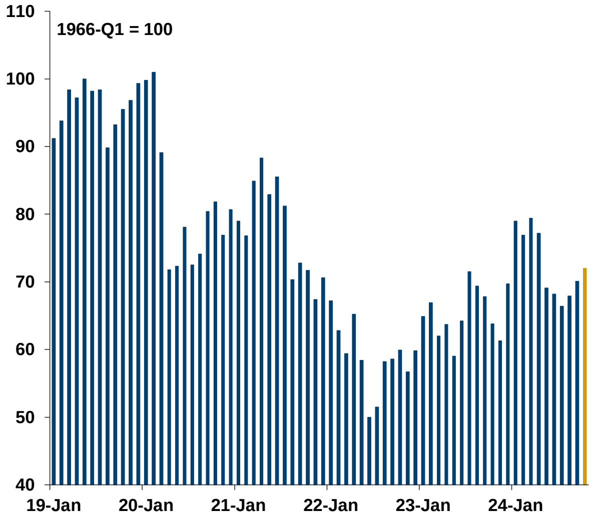
** The gold bar is a forecast for September 2024.*
Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

Consumer Sentiment (October) (Friday)
Forecast: 72.0 (+2.7%)

With data on gasoline prices suggesting that consumers are paying less at the pump and the latest employment report indicating that job growth remained firm in September, consumer sentiment could improve in early October for the third consecutive month (chart, below left).

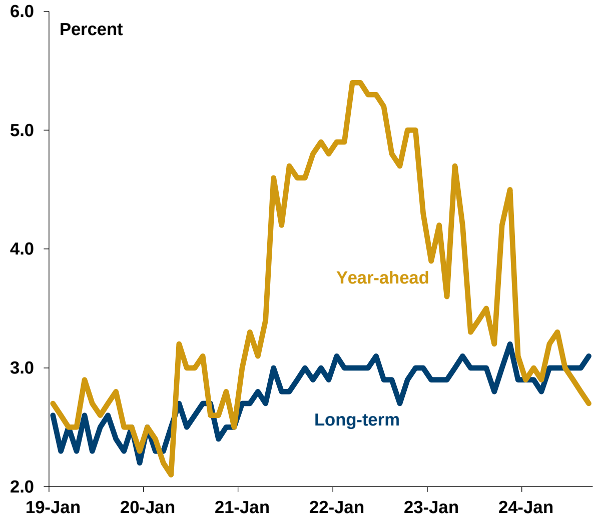
Consistent with easing gasoline prices and moderation in broader inflation dynamics, the inflation expectations gauges released with the Michigan survey have been well behaved in recent months – in line with what Fed officials describe as “anchored” inflation expectations. The year-ahead inflation measure released with the monthly sentiment report registered a reading of 2.7 percent in September (latest available), an observation within the range with those prior to the onset of the pandemic. The long-term measure rose to 3.1 percent in September after five consecutive observations of 3.0 percent. The range of the past few years has settled above that prevailing prior to the pandemic, but risks for an upside breakout have fallen sharply amid the ongoing moderation in actual inflation (chart, below right).

Consumer Sentiment*



** The gold bar is a forecast for October 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/October 2024

Monday	Tuesday	Wednesday	Thursday	Friday
30	1	2	3	4
MNI CHICAGO BUSINESS BAROMETER Index Prices July 45.3 55.8 Aug 46.1 66.0 Sep 46.6 74.3	**ISM MFG. INDEX** Index Prices July 46.8 52.9 Aug 47.2 54.0 Sep 47.2 48.3 **JOLTS DATA** Openings (000) Quit Rate June 7,910 2.0% July 7,711 2.0% Aug 8,040 1.9% **CONSTRUCTION** June -1.1% July -0.5% Aug -0.1% **VEHICLE SALES** July 15.9 million Aug 15.3 million Sep 15.8 million	**ADP EMPLOYMENT** Private Payrolls July 111,000 Aug 103,000 Sep 143,000	**UNEMPLOYMENT CLAIMS** Initial Continuing (millions) Sep 7 0.231 1.821 Sep 14 0.222 1.827 Sep 21 0.219 1.826 Sep 28 0.225 N/A **ISM SERVICES INDEX** Index Prices July 51.4 57.0 Aug 51.5 57.3 Sep 54.9 59.4 **FACTORY ORDERS** June -3.3% July 4.9% Aug -0.2%	**EMPLOYMENT REPORT** Payrolls Un. Rate July 144,000 4.3% Aug 159,000 4.2% Sep 254,000 4.1%
7	8	9	10	11
CONSUMER CREDIT (3:00) June $5.2 billion July $25.5 billion Aug --	**NFIB SMALL BUSINESS OPTIMISM INDEX (6:00)** July 93.7 Aug 91.2 Sep -- **TRADE BALANCE (8:30)** June -$73.0 billion July -$78.8 billion **Aug -$70.0 billion**	**WHOLESALE TRADE (10:00)** Inventories Sales June 0.0% -0.3% July 0.3% 1.1% **Aug 0.2% 0.5%** **FOMC MINUTES (2:00)**	**UNEMP. CLAIMS (8:30)** **CPI (8:30)** Total Core July 0.2% 0.2% Aug 0.2% 0.3% **Sep 0.0% 0.2%**	**PPI (8:30)** Final Demand Ex. Food & Energy July 0.0% -0.2% Aug 0.2% 0.3% **Sep 0.1% 0.2%** **CONSUMER SENTIMENT (10:00)** Aug 67.9 Sep 70.1 **Oct 72.0**
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**
21	22	23	24	25
LEADING INDICATORS		**EXISTING HOME SALES** **BEIGE BOOK**	**UNEMP. CLAIMS** **CHICAGO FED NATIONAL ACTIVITY INDEX** **NEW HOME SALES**	**DURABLE GOODS ORDERS** **REVISED CONSUMER SENTIMENT**

Forecasts in bold.

Treasury Financing

September/October 2024

Monday	Tuesday	Wednesday	Thursday	Friday
30	1	2	3	4
AUCTION RESULTS: Rate / Cover 13-week bills 4.500% 2.71 26-week bills 4.215% 3.28 **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 RESULTS:** Rate / Cover 52-week bills 3.780% 3.45 42-day CMBs 4.750% 2.64 **ANNOUNCE:** $64 billion 17-week bills for auction on Oct 2 $95 billion 4-week bills for auction on Oct 3 $90 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 RESULTS:** Rate / Cover 17-week bills 4.410% 3.37	**AUCTION RESULTS:** Rate / Cover 4-week bills 4.755% 2.50 8-week bills 4.655% 2.72 **ANNOUNCE:** $153 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 $80 billion 42-day CMBs for auction on Oct 8 **SETTLE:** $151 billion 13-,26-week bills $48 billion 52-week bills $70 billion 42-day CMBs	
7	8	9	10	11
AUCTION: $153 billion 13-,26-week bills	**AUCTION:** $58 billion 3-year notes $80 billion 42-day CMBs **ANNOUNCE:** $64 billion* 17-week bills for auction on Oct 9 $95 billion* 4-week bills for auction on Oct 10 $90 billion* 8-week bills for auction on Oct 10 **SETTLE:** $64 billion 17-week bills $95 billion 4-week bills $90 billion 8-week bills	**AUCTION:** $64 billion* 17-week bills $39 billion 10-year notes	**AUCTION:** $95 billion* 4-week bills $90 billion* 8-week bills $22 billion 30-year bonds **ANNOUNCE:** $153 billion* 13-,26-week bills for auction on Oct 15 **SETTLE:** $153 billion 13-,26-week bills $80 billion 42-day CMBs	
14	15	16	17	18
COLUMBUS DAY	**AUCTION:** $153 billion* 13-,26-week bills **ANNOUNCE:** $64 billion* 17-week bills for auction on Oct 16 $95 billion* 4-week bills for auction on Oct 17 $90 billion* 8-week bills for auction on Oct 17 **SETTLE:** $64 billion* 17-week bills $95 billion* 4-week bills $90 billion* 8-week bills $58 billion 3-year notes $39 billion 10-year notes $22 billion 30-year bonds	**AUCTION:** $64 billion* 17-week bills	**AUCTION:** $95 billion* 4-week bills $90 billion* 8-week bills **ANNOUNCE:** $153 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:** $153 billion* 13-,26-week bills	
21	22	23	24	25
AUCTION: $153 billion 13-,26-week bills	**ANNOUNCE:** $64 billion* 17-week bills for auction on Oct 23 $95 billion* 4-week bills for auction on Oct 24 $90 billion* 8-week bills for auction on Oct 24 **SETTLE:** $64 billion* 17-week bills $95 billion* 4-week bills $90 billion* 8-week bills	**AUCTION:** $64 billion* 17-week bills $13 billion* 20-year bonds	**AUCTION:** $95 billion* 4-week bills $90 billion* 8-week bills $24 billion* 5-year TIPS **ANNOUNCE:** $153 billion* 13-,26-week bills for auction on Oct 28 $48 billion* 52-week bills for auction on Oct 29 $69 billion* 2-year notes for auction on Oct 28 $70 billion* 5-year notes for auction on Oct 28 $44 billion* 7-year notes for auction on Oct 29 $30 billion* 2-year FRNs for auction on Oct 29 **SETTLE:** $153 billion* 13-,26-week bills	

**Estimate*