U.S. Economic Comment

- FOMC: cut of 25 basis points anticipated on November 7
- October employment: severe weather-related disruptions obscure views on labor market
- ISM manufacturing index: factory sector in the doldrums

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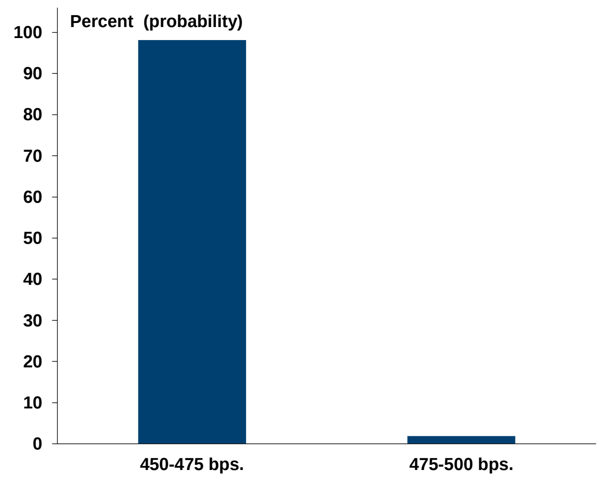
Fed Preview

Recent firm economic data -- a payroll print of 254,000 in September, before downward revisions and a paltry increase in October, along with GDP growth of 2.8 percent in Q3 – have fueled speculation that the FOMC may be forced to skip rate reductions at upcoming meetings, possibly as soon as early 2025. After policymakers cut the target range for the federal funds rate by 50 basis points at the September gathering, expectations for same-sized moves at the final two meetings of the year surged, before guidance from various officials conditioned market participants to expect a more measured approach (even before the emergence of the latest thinking about a stop-go approach to rate reductions). Regardless of the path ahead, near-term expectations have solidified around the view that the Federal Open Market Committee will cut the policy rate by 25 basis points to a range of 4.50 percent to 4.75 percent at the conclusion of next week's meeting (chart, below left). Chair Powell has characterized the current monetary policy setting as "restrictive," which is likely no longer appropriate given ongoing progress toward two percent inflation (chart, below right) and normalization of previously tight labor market conditions.

We would add that a rethink on the path of policy at this juncture is premature. Officials' forecasts from the September Summary of Economic Projections acknowledge that a return of inflation to two percent will be slow, with the median expectation for core inflation measured by the price index for personal consumption expenditures at 2.6 percent in 2024 before shifting to 2.2 percent next year and 2.0 percent in 2026. Thus, additional rapid progress was never incorporated into policymakers' expectations, even as their confidence increased that a sustainable return to two percent was increasingly probable. Additionally, conditions in the labor market have shifted to facilitate that ongoing moderation in inflation, as the easing of previous imbalances in the supply and demand of labor have contributed to gradual slowing in previously brisk wage growth. Indeed, the tracks of both inflation and the labor market, and the associated risks attached to outcomes for each, call for a recalibration of policy away from a restrictive setting. All this to say, the neutral stance of monetary policy (2.9 percent SEP median, which corresponds to the 2026 year-end rate) has been identified by policymakers as appropriate if/when their forecasts have been realized. And, a few recent data points aside, we view the weight of the evidence to date as suggesting their

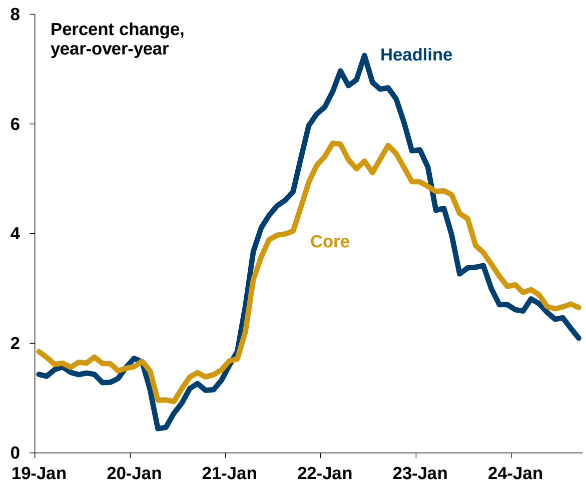
Target Rate Probability for Nov. Fed Meeting*



* The implied target range for the federal funds rate based on futures pricing data as of midday November 1, 2024.

Source: CME Group, FedWatch Tool

PCE Price Index*



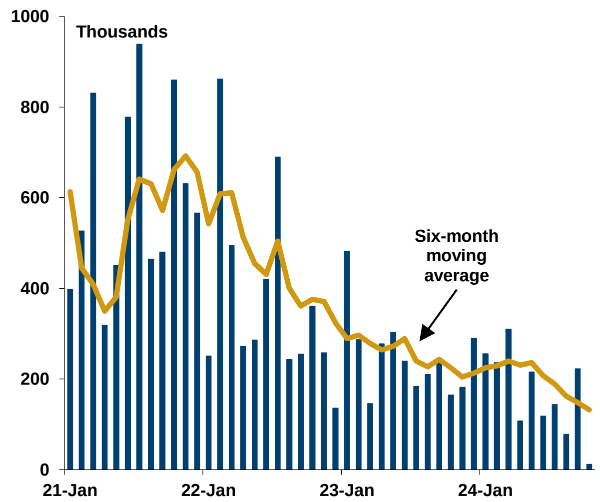
* PCE = personal consumption expenditures

Source: Bureau of Economic Analysis via Haver Analytics projections remain pertinent. As such, we continue to look for measured cuts – 25 basis points per meeting at least through June 2025.

Hurricanes Scuttle Hopes of Clear Signals on the Labor Market

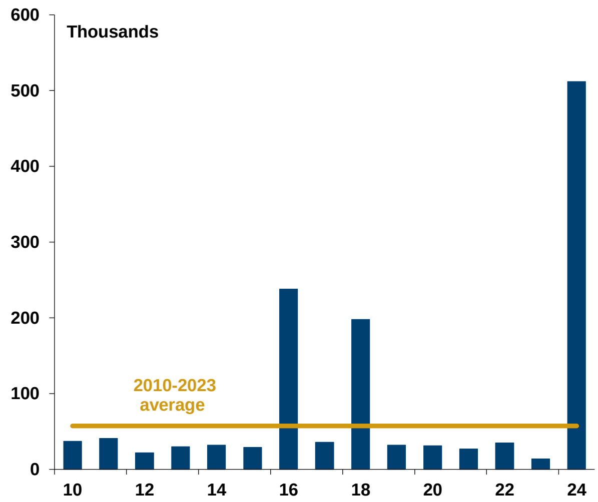
Payroll growth of 12,000 for October fell well shy of the Bloomberg median expectation of 100,000, although significant unknowns tied to the impacts of Hurricanes Helene and Milton contributed to a wide dispersion of views (range of -10,000 to +180,000; chart on payrolls, below left). Ultimately, the effects of the storms were substantial, as indicated by a series on weather-related displacements. Data from the household survey (which along with the payroll survey provide data for the monthly employment report) indicated that nonagricultural workers not at work on account of bad weather totaled 512,000 (versus an average of 51,000 per year in the prior 34 years and a median of 34,000 during that period; chart, below right). Additionally, private-sector payrolls declined 28,000 – the first negative print since 2020. Unfortunately, the Bureau of Labor Statistics noted in its official release that despite clear evidence of weather-related impacts, measurement of the precise influence on payrolls was impossible: “It is likely that payroll employment estimates in some industries were affected by the hurricanes; however, it is not possible to quantify the net effect on the over-the-month change in national employment, hours, or earnings estimates because the establishment survey is not designed to isolate effects from extreme weather events.” Thus, excluding October data in one’s assessment of trend payroll growth is likely prudent.

Change in Nonfarm Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

Employees Not at Work Due to Bad Weather*

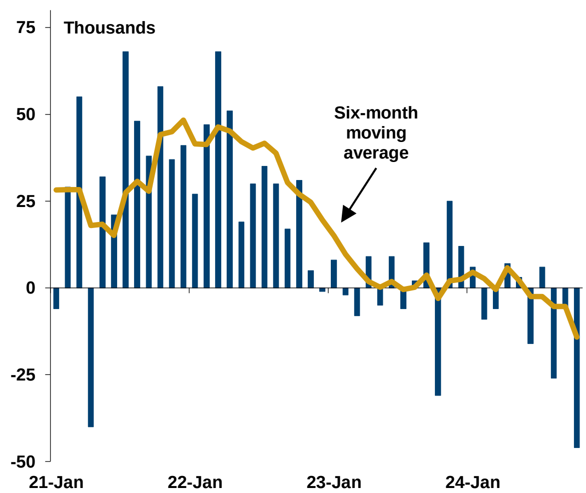


** Employees in non-agricultural industries, October data*
Source: Bureau of Labor Statistics via Haver Analytics

In additional to weather effects, a strike at Boeing that has displaced approximately 33,000 workers also introduced an element of noise into the latest data. Manufacturing payrolls plunged 46,000 in the latest month, but, beyond strike activity, this sector had been struggling previously (January-September average of -5,000 per month; chart). Amid new negotiations between Boeing and union representatives, the strike appears on track to end, although slack demand is also weighing on the sector (see analysis of the ISM manufacturing index, below).

Perhaps the best (albeit lagged) assessment on the labor market can be gleaned from recent data through September. Notably, downward revisions of 112,000 to the prior two months’ data blunted in particular the robust September reading (now +223,000 versus +254,000 preliminary, along with a revision to August of +78,000

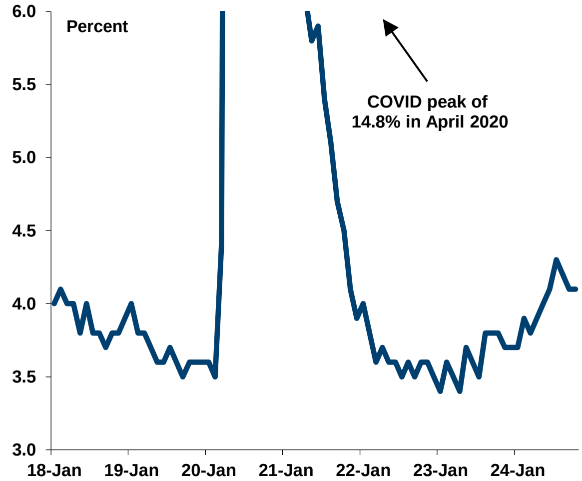
Change in Manufacturing Payrolls



Source: Bureau of Labor Statistics via Haver Analytics versus +159,000 previously). And, from a longer-term perspective, payroll growth appears to be easing (six-month average of +148,000 versus +267,000 in Q1). With that in mind, if data in coming months were to approximate the April-to-September run rate in the vicinity of +150,000 per month, then one could draw the conclusion that conditions are stabilizing; slippage from that rate could suggest undesirable deterioration in underlying labor market conditions and the potential for an upward drift in the unemployment rate.

The unemployment rate, for its part, rounded to 4.1 percent for the second consecutive month (up slightly with less rounding: 4.145 percent versus 4.051 percent in September; chart). Although the rate was little changed, underlying data were disappointing. Employment measured by the household survey fell by 368,000 (versus an average increase of 195,000 in the previous four months), exceeding the drop of 220,000 in the labor force (versus an average increase of 242,000 in the past four months). Moreover, unemployment rose by 150,000 (versus an average increase of 46,000 per month in the previous four-month span). Here, too, weather likely played a role, although one should remain from drawing precise conclusions and more so simply view the prevailing level of the unemployment rate as still favorable.

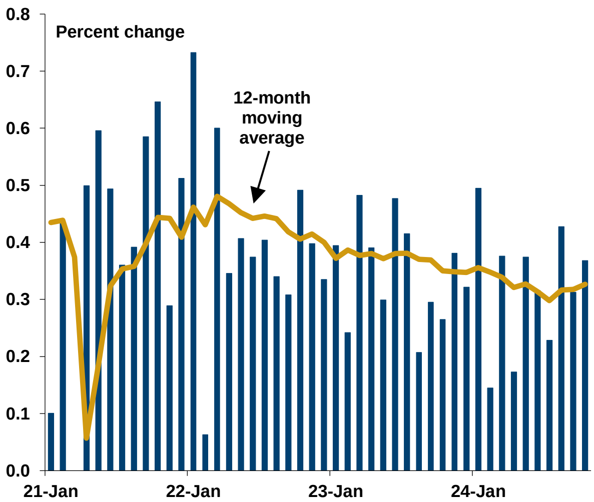
Civilian Unemployment Rate



Source: Bureau of Labor Statistics via Haver Analytics

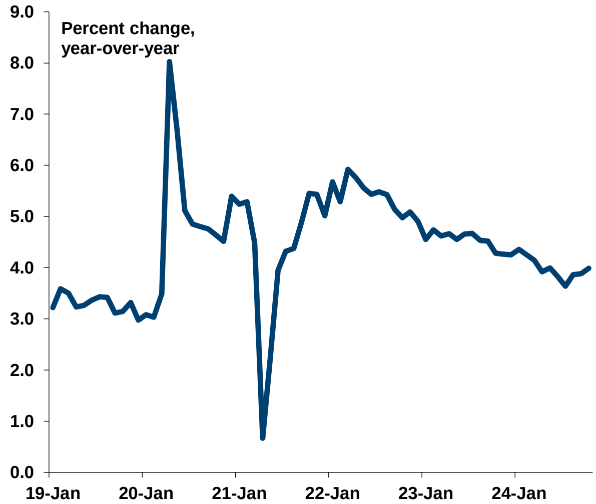
In contrast to assessments of other data, one can perhaps put more credence in the wage data – although this data may also have been skewed to a degree by storm-related disruptions. Average hourly earnings rose 0.4 percent (+0.368 percent with less rounding), consistent with a year-over-year advance of 4.0 percent (versus 3.9 percent in September). The latest results were more-or-less in line with the Q3 reading for the employment cost index, the Federal Reserve's preferred compensation measure, which increased 0.9 percent (quarterly, not annualized). The reading equated to a year-over-year advance of 3.9 percent, down from 4.1 percent in the prior quarter and an expansion peak of 5.1 percent in 2022-Q2. We had previously assumed that compensation growth in the area of 3.5 percent would be more aligned with ongoing moderation in core service inflation excluding housing, but recent stirring in productivity and assessments by Fed officials that current wage rates are not contributing to unwanted inflation pressure suggest that growth in this area is acceptable. And, if hiring does slow further, wages could in tandem.

Average Hourly Earnings



Source: Bureau of Labor Statistics via Haver Analytics

Average Hourly Earnings



Source: Bureau of Labor Statistics via Haver Analytics

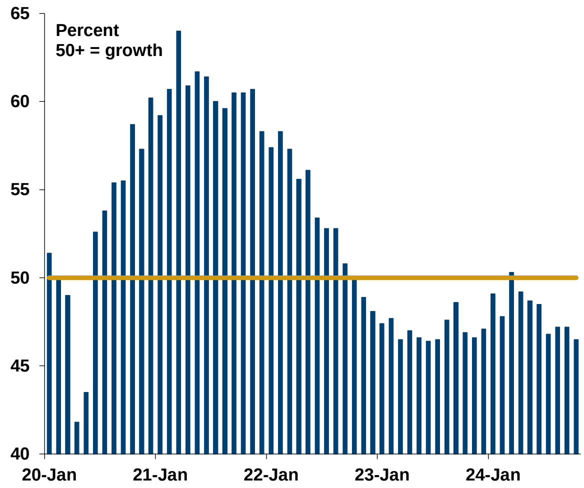
Again, we hesitate to draw broad conclusions from this report amid clear evidence of hurricane-related disruptions and strike activity. And we suspect, while the FOMC will likely cut next week, officials will look past much of the October employment data as well.

Poor Results for The ISM Manufacturing Survey

While soft employment data for October can be somewhat easily dismissed, the same cannot be said about the performance of the factory sector – even when accounting for the strike at Boeing. Restrictive monetary policy has constrained underlying demand and restrained activity in this rate-sensitive area for much of the past two years.

The ongoing disappointing performance was evident in the latest PMI data, as the ISM Manufacturing index fell 0.7 percentage point to 46.5 percent in October, weaker than the Bloomberg median expectation of a pickup to 47.6 (chart). That said, even if the market projection had been realized, the report still would have been a lackluster one. The ISM measure has registered a contractionary reading (that is, one below the critical threshold of 50.0) for the 23rd time in the past 24 months. In assessing conditions permeating the factor sector, Timothy R. Fiore, the Chair of the ISM Manufacturing Business Survey Committee, stated: “Demand remains subdued, as companies continue to show an unwillingness to invest in capital and inventory due to concerns (for example, inflation resurgence) about federal monetary policy direction in light of the fiscal policies proposed by both major parties.”

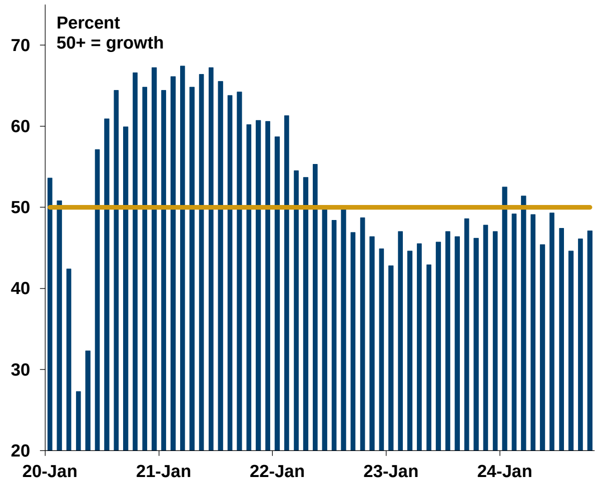
ISM Manufacturing: Headline Index



Source: Institute for Supply Management via Haver Analytics

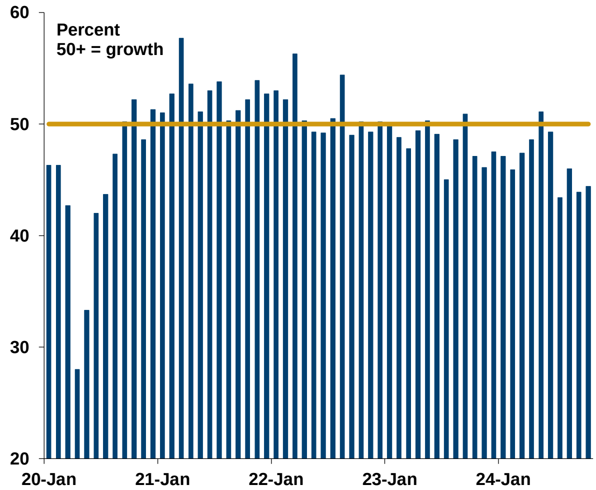
Performance across the subcomponents that make up the composite measure was mixed. The employment and new orders indexes, while increasing 0.5 and 1.0 percentage point, respectively, to 44.4 and 47.1 percent, remain stuck contractionary territory (charts, below). Moreover, only three of the 18 industries covered by the survey indicated growth in the latest month for both components. The production index, meanwhile, shrunk for the sixth time in the past seven months, falling 3.6 percentage point to 46.2 percent (with six industries indicating increases in production). The supplier deliveries index dipped 0.2 percentage point to 52.0 percent. The decline, while a drag on headline measure, indicates improvement in supply-chain performances. For context, this is an inverse index, with above-50.0 readings specify slower deliveries and below-50.0 observations imply faster deliveries. A reading in the vicinity of 50.0 suggests normally functioning supply chains.

ISM Manufacturing: New Orders Index



Source: Institute for Supply Management via Haver Analytics

ISM Manufacturing: Employment Index



Source: Institute for Supply Management via Haver Analytics

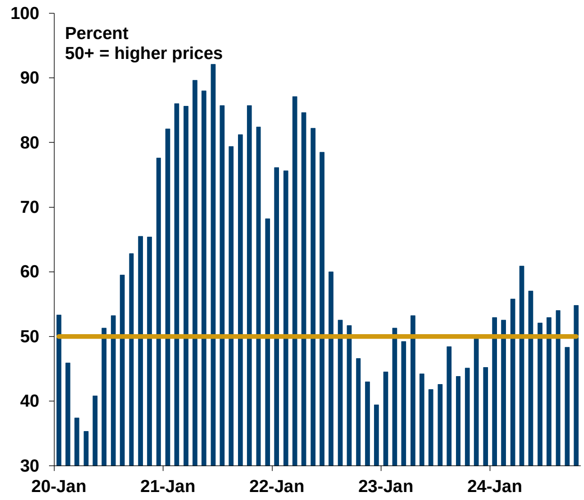
The prices index, which does not factor into the manufacturing composite, rose 6.5 percentage point to 54.8 percent. While October's observation indicates higher prices, it doesn't imply acute price pressure. The index remains well below the recent high of 87.1 percent in March 2022 and the cycle peak of 92.1 percent in June 2021 (chart).

Again, while this sector has not dragged down the performance of the broader U.S. economy, it has performed poorly with little sign of improvement in the near-term.

Note to readers:

The next Weekly Economic Comment will be published on November 15, 2024.

ISM Manufacturing: Prices Index



Source: Institute for Supply Management via Haver Analytics

The Week Ahead

Factory Orders (September) (Monday)
Forecast: -0.5%

Durable goods orders slipped 0.8 percent in in September, the second consecutive decline after a burst of 9.8 percent associated with upside volatility in aircraft bookings. Orders excluding transportation rose for the second consecutive month (+0.4 percent in September), giving the series an upward slant after moving sideways for more than a year. Preliminary shipments data released with the Advance Report on Durable Goods on October call for a second consecutive decline in the nondurable area that would leave the series tilting slightly lower in the past year.

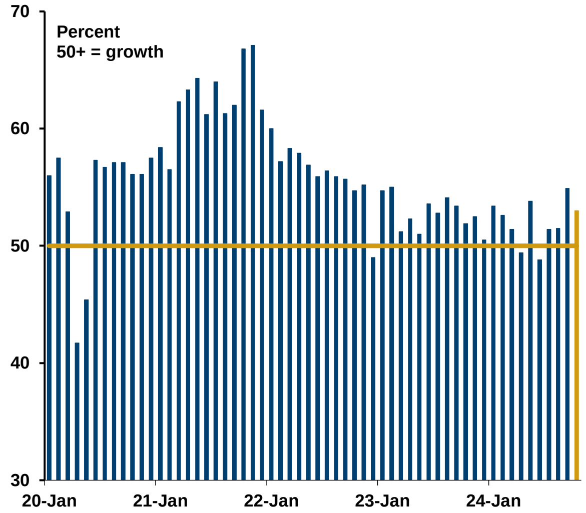
Trade Balance (September) (Tuesday)
Forecast: -$84.5 Billion ($14.1 Billion Wider Deficit)

The widening of $14.0 billion in the goods deficit (Advance Economic Indicators report from the U.S. Census Bureau; published October 29) suggests similar deterioration in the total trade shortfall in September. Data on international trade for Q3 thus far indicate another notable drag from net exports on GDP growth (a constraint of 0.56 percentage point on growth as of the GDP release published on October 30), which followed negative contributions of 0.90 percentage point in Q2 and 0.61 percentage point in the opening quarter of 2024.

ISM Services Index (October) (Tuesday)
Forecast: 53.0 (-1.9 Pct. Pts.)

With Q3 GDP growth of 2.8 percent indicating that the U.S economy is on a solid growth track, the ISM services index is likely to remain in expansion territory for the fourth consecutive month (and eighth of the first 10 months of 2024; chart). However, the business activity and new orders components surged well above underlying averages in September (59.9 and 59.4, respectively, versus averages of 55.0 and 53.1 in the first eight months of 2024), raising the possibility of mean reversion in these areas and an associated decline in the headline measure.

ISM Services Index*



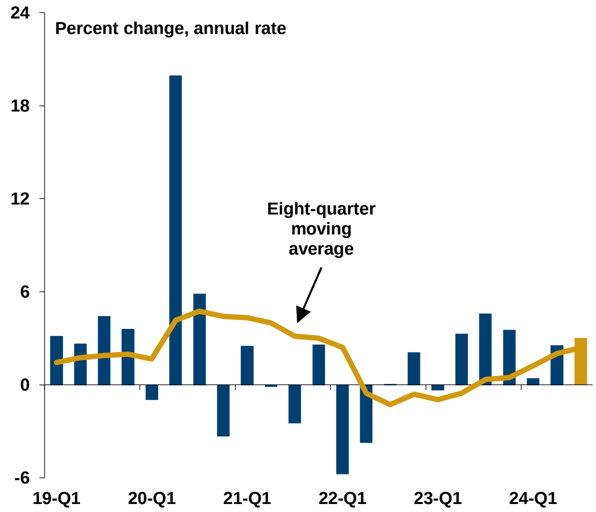
** The gold bar is a forecast for October 2024.*

Sources: Institute for Supply Management via Haver Analytics; Daiwa Capital Markets America

Nonfarm Productivity (24-Q3) (Thursday)
Forecast: 3.0% Productivity, 1.5% Unit Labor Cost

The output measure that feeds into the calculation of nonfarm productivity grew briskly in Q3 (nonfarm gross value added; +3.5 percent, annual rate), with available data suggesting that hours worked rose at a more subdued pace (+0.5 percent, annual rate, projected). Thus, productivity growth appears on track for a strong increase in Q3 (+3.0 percent; chart) after a firm advance in the prior quarter – raising the possibility that trend productivity could be picking up. Additionally, data on employee pay suggest a firm reading on compensation per hour (+4.5 percent, annual rate, projected). The projections for the combined shifts in productivity growth and compensation per hour suggest growth of 1.5 percent in unit labor costs.

Nonfarm Productivity*



** The gold bar is a forecast for 2024-Q3.*

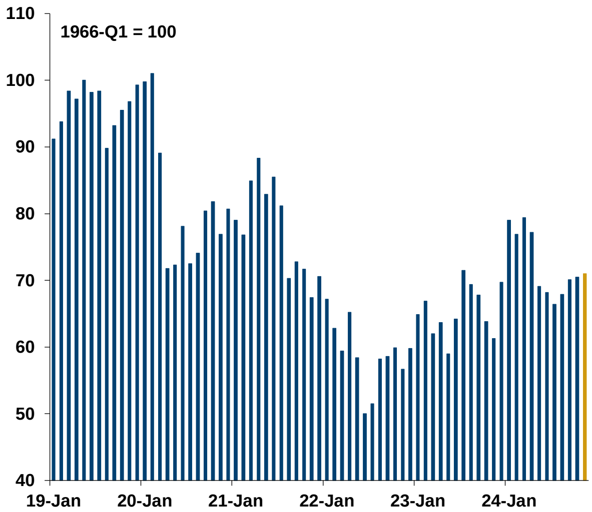
Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

Consumer Sentiment (November) (Friday)
Forecast: 71.0 (+0.5 Index Pt.)

Absent a clear positive catalyst (such as additional easing in gasoline prices or the conclusion of the election cycle and attendant fearmongering by political pundits on both sides of the political spectrum), we expect consumer sentiment to remain rangebound in early November (chart, below left).

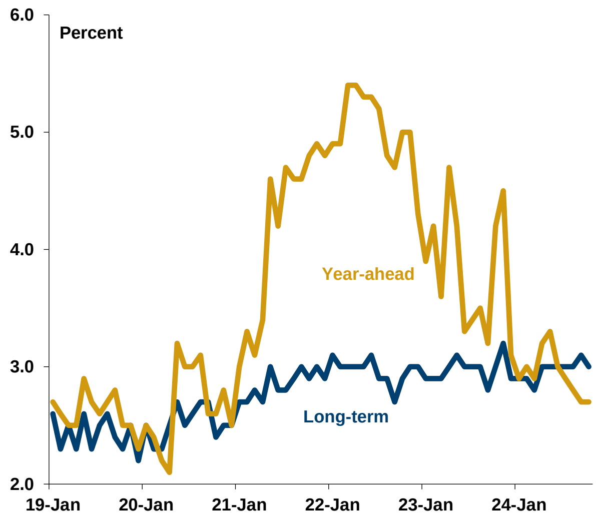
Keep an eye on the inflation expectations measures published with the University of Michigan survey. The year-ahead series held at 2.7 percent for the second consecutive month in October, consistent with subdued observations prior to the onset of COVID. Additionally, the long-term measure eased to 3.0 percent from 3.1 percent in the prior month – a reading in the middle of the recent range. The long-term metric remains above readings in 2019, but Fed officials still view the recent performance as consistent with "anchored" inflation expectations.

Consumer Sentiment*



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

Consumer Inflation Expectations



Source: University of Michigan via Haver Analytics

Economic Indicators

October/November 2024

Monday	Tuesday	Wednesday	Thursday	Friday
28	29	30	31	1
	INTERNATIONAL TRADE IN GOODS July -$102.9 billion Aug -$94.2 billion Sep -$108.2 billion **ADVANCE INVENTORIES** Wholesale / Retail July 0.2% 0.8% Aug 0.2% 0.7% Sep -0.1% 0.8% **FHFA HOME PRICE INDEX** June 0.1% July 0.2% Aug 0.3% **S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX** June 0.5% July 0.2% Aug 0.4% **CONFERENCE BOARD CONSUMER CONFIDENCE** Aug 105.6 Sep 99.2 Oct 108.7 **JOLTS DATA** Openings (000) / Quit Rate July 7,711 2.0% Aug 7,861 2.0% Sep 7,443 1.9%	**ADP EMPLOYMENT** Private Payrolls Aug 103,000 Sep 159,000 Oct 233,000 **GDP** GDP / Chained Price 24-Q1 1.6% 3.0% 24-Q2 3.0% 2.5% 24-Q3(a) 2.8% 1.8% **PENDING HOME SALES** July -5.5% Aug 0.6% Sep 7.4%	**UNEMPLOYMENT CLAIMS** Initial / Continuing (millions) Oct 5 0.260 1.869 Oct 12 0.242 1.888 Oct 19 0.228 1.862 Oct 26 0.216 N/A **PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX** Inc. / Cons. / Core July 0.3% 0.6% 0.2% Aug 0.2% 0.3% 0.2% Sep 0.3% 0.5% 0.3% **EMPLOYMENT COST INDEX** Comp. / Wages 24-Q1 1.2% 1.1% 24-Q2 0.9% 0.9% 24-Q3 0.8% 0.8% **MNI CHICAGO BUSINESS BAROMETER** Index / Prices Aug 46.1 66.0 Sep 46.6 74.3 Oct 41.6 67.3	**EMPLOYMENT REPORT** Payrolls / Un. Rate Aug 78,000 4.2% Sep 223,000 4.1% Oct 12,000 4.1% **ISM MFG. INDEX** Index / Prices Aug 47.2 54.0 Sep 47.2 48.3 Oct 46.5 54.8 **CONSTRUCTION** July 0.0% Aug 0.1% Sep 0.1% **VEHICLE SALES** Aug 15.3 million Sep 15.8 million Oct 16.0 million
4	5	6	7	8
FACTORY ORDERS (10:00) July 4.9% Aug -0.6% **Sep -0.5%**	**TRADE BALANCE (8:30)** July -$78.9 billion Aug -$70.4 billion **Sep -$84.5 billion** **ISM SERVICES INDEX (10:00)** Index / Prices Aug 51.5 57.3 Sep 54.9 59.4 **Oct 53.0 58.0**	**FOMC MEETING (FIRST DAY)**	**UNEMP. CLAIMS (8:30)** **PRODUCTIVITY & COSTS (8:30)** Productivity / Unit Labor Costs 24-Q1 0.4% 3.8% 24-Q2 2.5% 0.4% **24-Q3 3.0% 1.5%** **WHOLESALE TRADE (10:00)** Inventories / Sales July 0.2% 1.1% Aug 0.2% -0.1% **Sep -0.1% 0.3%** **FOMC RATE DECISION (2:00)** **CONSUMER CREDIT (3:00)** July $26.6 billion Aug $8.9 billion Sep --	**CONSUMER SENTIMENT (10:00)** Sep 70.1 Oct 70.5 **Nov 71.0**
11	12	13	14	15
VETERANS DAY	**NFIB SMALL BUSINESS OPTIMISM INDEX** **SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES**	**CPI** **FEDERAL BUDGET**	**UNEMP. CLAIMS** **PPI**	**RETAIL SALES** **EMPIRE MFG** **IMPORT/EXPORT PRICES** **IP & CAP-U** **BUSINESS INVENTORIES**
18	19	20	21	22
NAHB HOUSING INDEX **TIC FLOWS**	**HOUSING STARTS**		**UNEMP. CLAIMS** **PHILLY FED INDEX** **EXISTING HOME SALES** **LEADING INDICATORS**	**REVISED CONSUMER SENTIMENT**

Forecasts in bold. (a) = advance (1st estimate of GDP)

Treasury Financing

October/November 2024

Monday	Tuesday	Wednesday	Thursday	Friday
28	29	30	31	1
AUCTION RESULTS: Rate / Cover 13-week bills 4.490% 2.90 26-week bills 4.325% 3.25 2-yr notes 4.130% 2.50 5-yr notes 4.138% 2.39	**AUCTION RESULTS:** Rate / Cover 52-week bills 4.100% 3.05 7-yr notes 4.215% 2.74 42-day CMBs 4.630% 2.62 Spread / Cover 2-yr FRNs 0.205% 2.95 **ANNOUNCE:** $64 billion 17-week bills for auction on Oct 30 $95 billion 4-week bills for auction on Oct 31 $90 billion 8-week bills for auction on Oct 31 **SETTLE:** $64 billion 17-week bills $95 billion 4-week bills $90 billion 8-week bills	**AUCTION RESULTS:** Rate / Cover 17-week bills 4.430% 2.99 **ANNOUNCE:** $58 billion 3-year notes for auction on Nov 4 $42 billion 10-year notes for auction on Nov 5 $25 billion 30-year bonds for auction on Nov 6	**AUCTION RESULTS:** Rate / Cover 4-week bills 4.580% 2.82 8-week bills 4.555% 2.68 **ANNOUNCE:** $153 billion 13-,26-week bills for auction on Nov 4 $80 billion 42-day CMBs for auction on Nov 5 **SETTLE:** $153 billion 13-,26-week bills $48 billion 52-week bills $13 billion 20-year bonds $24 billion 5-year TIPS $69 billion 2-year notes $70 billion 5-year notes $44 billion 7-year notes $30 billion 2-year FRNs $80 billion 42-day CMBs	
4	5	6	7	8
AUCTION: $153 billion 13-,26-week bills $58 billion 3-year notes	**AUCTION:** $42 billion 10-year notes $80 billion 42-day CMBs **ANNOUNCE:** $64 billion* 17-week bills for auction on Nov 6 $95 billion* 4-week bills for auction on Nov 7 $90 billion* 8-week bills for auction on Nov 7 **SETTLE:** $64 billion 17-week bills $95 billion 4-week bills $90 billion 8-week bills	**AUCTION:** $64 billion* 17-week bills $25 billion 30-year bonds	**AUCTION:** $95 billion* 4-week bills $90 billion* 8-week bills **ANNOUNCE:** $153 billion* 13-,26-week bills for auction on Nov 12 **SETTLE:** $153 billion 13-,26-week bills $80 billion 42-day CMBs	
11	12	13	14	15
VETERANS DAY	**AUCTION:** $153 billion* 13-,26-week bills **ANNOUNCE:** $64 billion* 17-week bills for auction on Nov 13 $95 billion* 4-week bills for auction on Nov 14 $90 billion* 8-week bills for auction on Nov 14 **SETTLE:** $64 billion* 17-week bills $95 billion* 4-week bills $90 billion* 8-week bills	**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 Nov 18 $16 billion* 20-year bonds for auction on Nov 20 $17 billion* 10-year TIPS for auction on Nov 21 **SETTLE:** $153 billion* 13-,26-week bills	**SETTLE:** $58 billion 3-year notes $42 billion 10-year notes $25 billion 30-year bonds
18	19	20	21	22
AUCTION: $153 billion* 13-,26-week bills	**ANNOUNCE:** $64 billion* 17-week bills for auction on Nov 20 $95 billion* 4-week bills for auction on Nov 21 $90 billion* 8-week bills for auction on Nov 21 **SETTLE:** $64 billion* 17-week bills $95 billion* 4-week bills $90 billion* 8-week bills	**AUCTION:** $64 billion* 17-week bills $16 billion* 20-year bonds	**AUCTION:** $95 billion* 4-week bills $90 billion* 8-week bills $17 billion* 10-year TIPS **ANNOUNCE:** $153 billion* 13-,26-week bills for auction on Nov 25 $48 billion* 52-week bills for auction on Nov 26 $69 billion* 2-year notes for auction on Nov 25 $70 billion* 5-year notes for auction on Nov 26 $44 billion* 7-year notes for auction on Nov 27 $28 billion* 2-year FRNs for auction on Nov 26 **SETTLE:** $153 billion* 13-,26-week bills	

**Estimate*