U.S. Economic Comment

- November employment: payroll growth rebounds from weather-related disruption, but unemployment rises
- Average hourly earnings: back-to-back firm advances
- Consumer sentiment: attitudes continue to improve in early December

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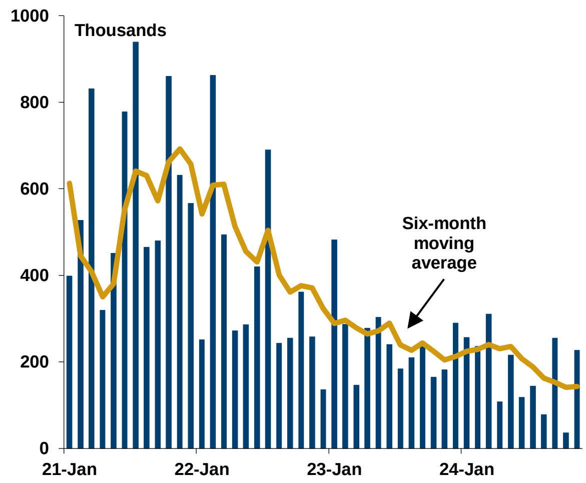
November Employment

The final employment report ahead of the December 17-18 FOMC meeting likely ratified policymakers' views that a cut is warranted (barring a high-side surprise in next week's CPI report), although further reductions in 2025 will be contingent on the evolution of inflation and the labor market. With respect to the latest employment data, payroll growth totaled 227,000 in November – a bit firmer than the Bloomberg median expectation of +220,000. Additionally, results in the prior two months were revised higher by 56,000 combined, as payroll growth in hurricane-disrupted October was adjusted to 36,000 from 12,000 previously and September results were boosted by 32,000 to a brisk +255,000. With that said, trends in employment growth are moderating as firms have reevaluated staffing plans and curtailed hiring to a degree. In that regard, job growth on a six-month average basis totaled 143,000 in November versus 236,000 in the prior six months ended May 2024 (chart).

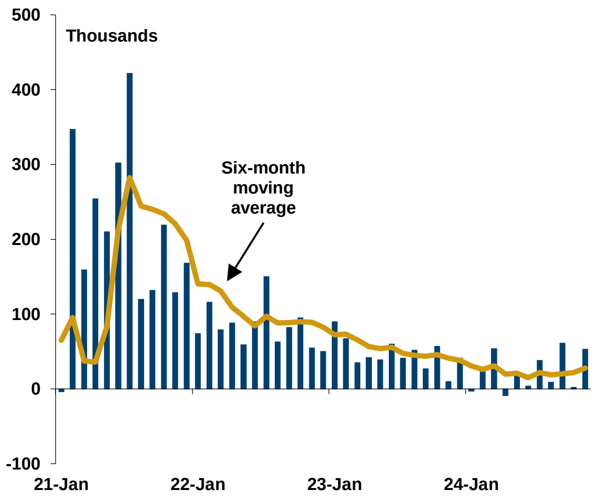
Change in Nonfarm Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

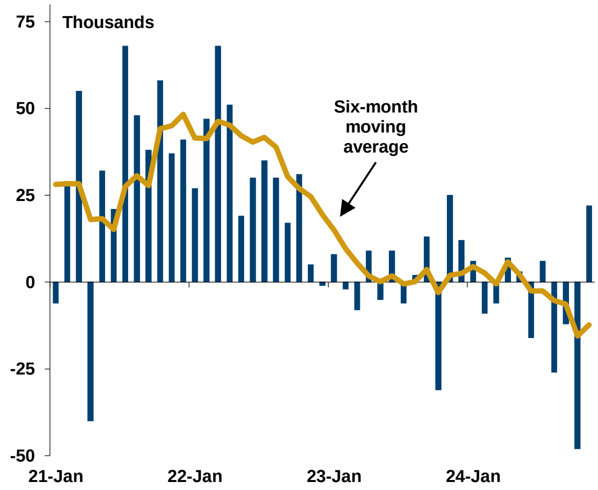
With respect to private-sector job gains, employers added 194,000 positions in November, shy of the Bloomberg median of +205,000. Aligned with results in headline employment growth, the six-month average through November decelerated to growth of 108,000 versus 190,000 in the six-month period ending May. Drilling down into the data revealed little in the way of surprises. The healthcare and social assistance area was again a key driver of growth, with the gain of 72,000 in November a bit stronger than the firm average of approximately 68,000 in the prior six

Change in Leisure & Hospitality Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

Change in Manufacturing Payrolls

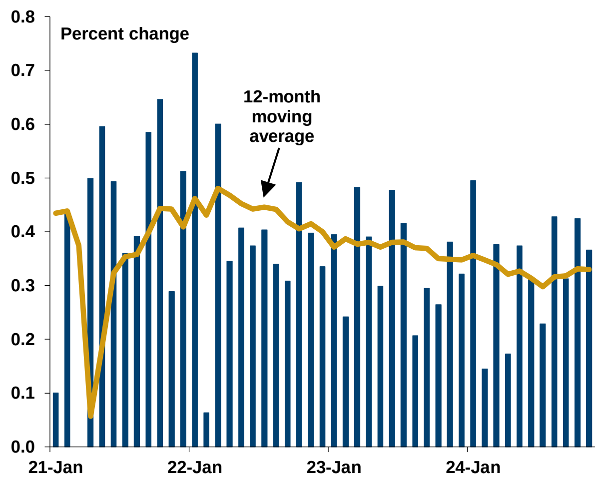


Source: Bureau of Labor Statistics via Haver Analytics months. With regard to a sector that was among the more acutely affected by adverse weather, leisure and hospitality added 53,000 positions in November after only a minute gain of 2,000 in October (chart, prior page, below left). The manufacturing sector also saw solid hiring in the latest month (+22,000), although this area has struggled amid sluggish demand and production schedules while also being further constrained by recent strike activity. With that said, the pickup followed a plunge of 48,000 in October that (at least in part) reflected downside volatility from the hurricanes and the aforementioned labor strains. Even so, payrolls had contracted in three of the four months prior to October. All told, however, this was still a decent report that suggests the broader labor market remains on track.

Earnings Growth

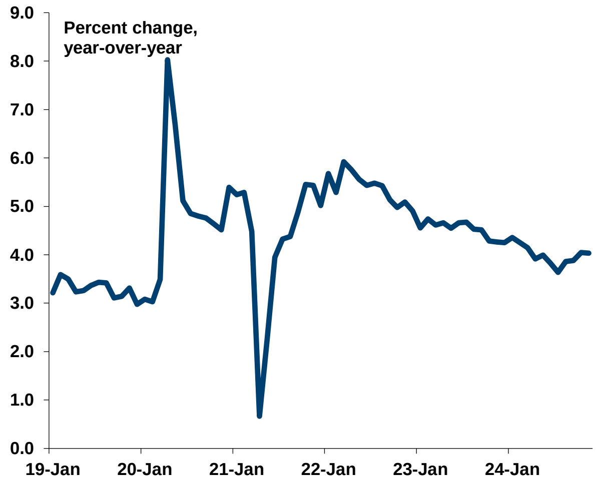
Despite signs of ongoing moderation in hiring, progress on wage inflation may have stalled, which could hinder further progress in core service inflation. Average hourly earnings rose 0.4 percent for the second consecutive month and the third in the past four months (+0.366 percent in November versus +0.425 percent in the prior month, both above the running 12-month average of 0.3 percent; chart, below left). The latest advance equated to a year-over-year increase of 4.0 percent – a reading that is well below the recent high of 5.9 percent in March 2022 but little changed from readings since the spring (chart, below right). We hesitate to yet draw firm conclusions from recent readings, but they at least reemphasize that the path back to two percent will be “bumpy” and that Fed officials will be inclined to proceed carefully in the coming year.

Average Hourly Earnings



Source: Bureau of Labor Statistics via Haver Analytics

Average Hourly Earnings

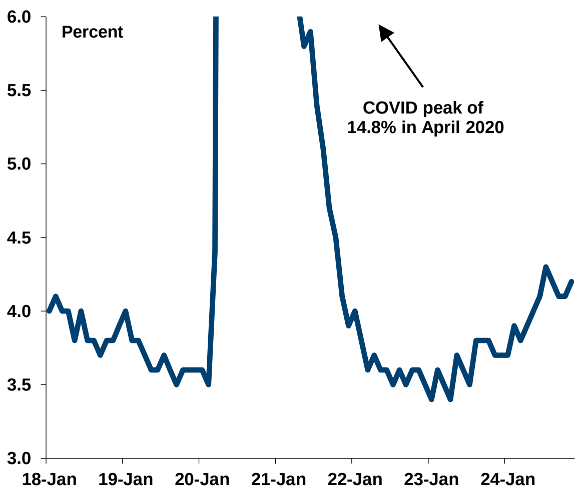


Source: Bureau of Labor Statistics via Haver Analytics

The Household Survey Data

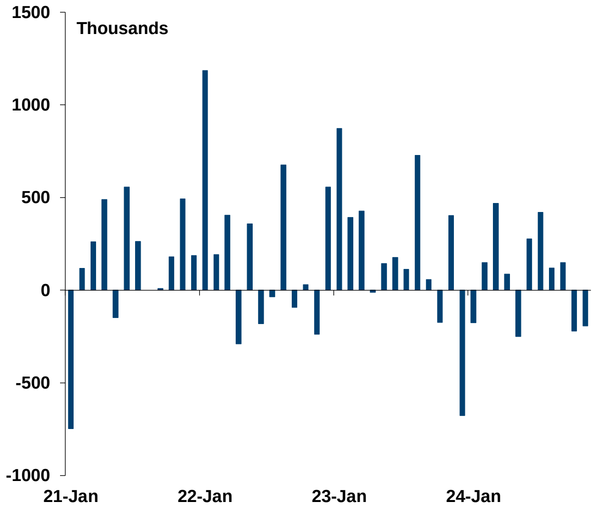
In contrast to our assessment of the payroll data, we were a bit concerned by results for the household survey. The unemployment rate increased 0.1 percentage point to 4.2 percent (4.246 percent with more precision), almost rounding up to 4.3 percent (chart). The latest shift reflected contractions in both employment measured by the household survey and the size of the labor force (off 355,000 and 193,000, respectively; charts, next page). We had anticipated potential rebounds after downside volatility in both areas possibly associated with the hurricane, but that failed to materialize in the latest month. These series are inherently volatile, but the increase in unemployment should be monitored within the context of broader labor market conditions, which we would characterize as moderating but still on solid footing.

Civilian Unemployment Rate



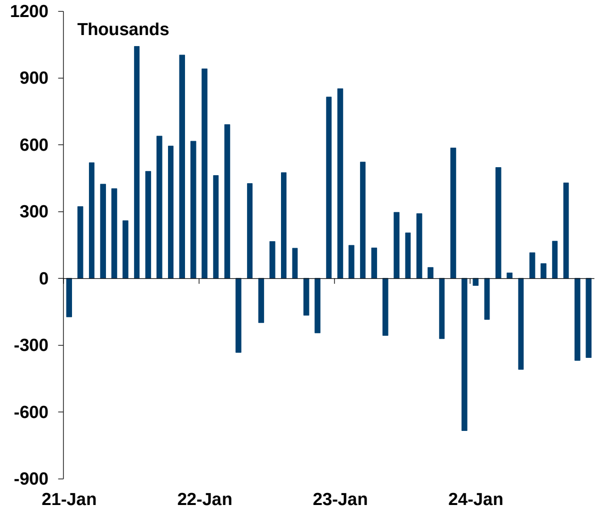
Source: Bureau of Labor Statistics via Haver Analytics

Change in the Labor Force



Source: Bureau of Labor Statistics via Haver Analytics

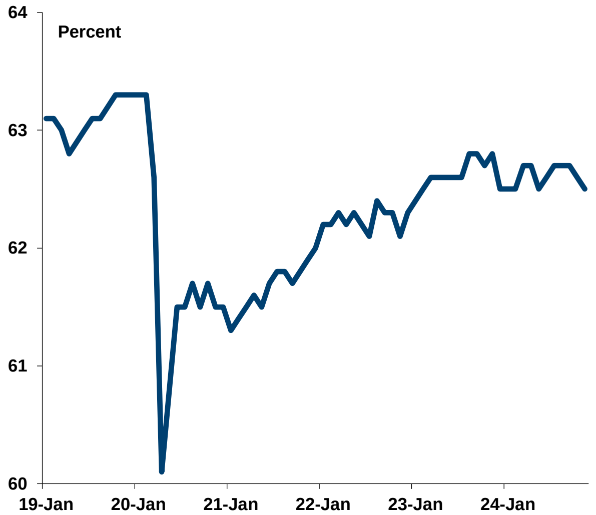
Change in Household Employment



Source: Bureau of Labor Statistics via Haver Analytics

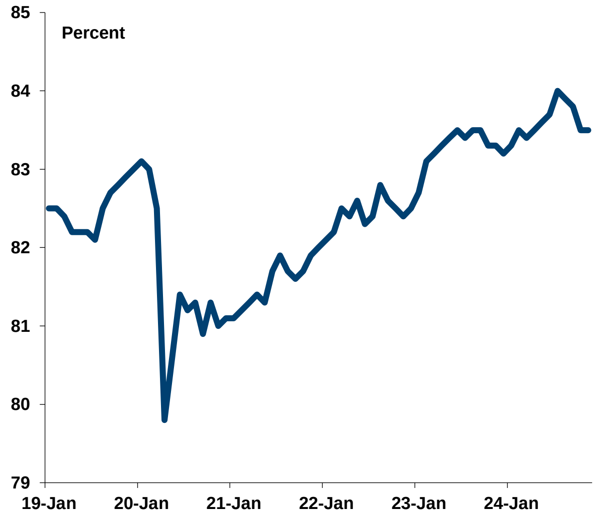
On a positive note, the prime-age labor force participation rate held steady at 83.5 percent, an elevated reading from a longer-term point of view, despite a dip of 0.1 percentage point in the overall participation rate to 62.5 percent. The firm observation on prime-age participation amid a rangebound performance in overall participation suggests that a key component of the recent boost in labor supply (i.e. the demographic that should be most active in the labor market) has remained engaged (charts, below).

Labor Force Participation Rate



Source: Bureau of Labor Statistics via Haver Analytics

Prime-Age 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

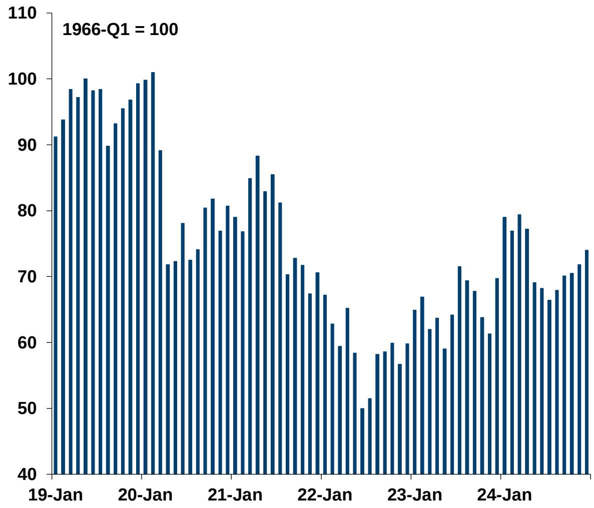
Friday Data: Consumer Sentiment Index Indicates Improving Attitudes

The University of Michigan's Index of Consumer Sentiment increased for the fifth consecutive month in early December, rising 3.1 percent to 74.0 (versus the Bloomberg median expectation of an increase of 2.1 percent to 73.3), the highest observation since a read of 77.2 in April 2024 (chart, next page, below left). The improvement in consumer attitudes can primarily be attributed to survey respondents' assessments of current economic conditions; the preliminary read of this subcomponent advanced 21.6 percent (+13.8 points, the largest month-over-month increase since November 1992) to 77.7. The measure for consumer expectations, however, fell 6.9 percent (-5.3 points) to 71.6. Of note, as mentioned by Surveys of Consumers Director Joanne Hsu in the official release, this move was likely a recalibration following the conclusion of the presidential election cycle, with the decline in

Democrat expectations outweighing the rise for Republicans. With that said, the overall improvement in sentiment augurs well for sustained consumer spending in early 2025.

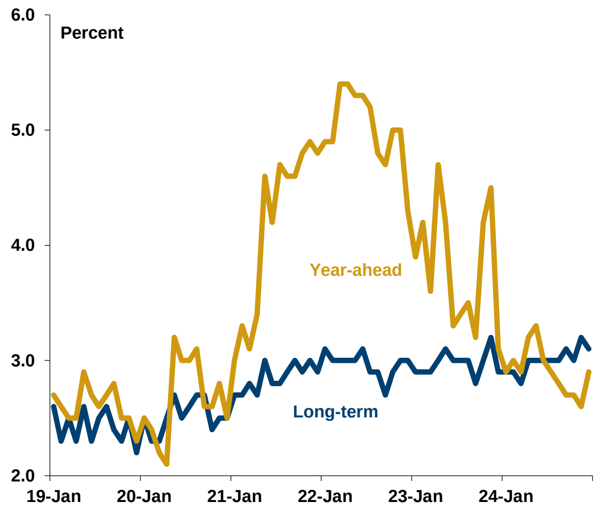
In contrast to the improvement in sentiment, results for inflation expectations were mixed in the latest month. Somewhat concerning, the measure for year-ahead inflation expectations increased 0.3 percentage point to 2.9 percent – a move possibly reflecting expectations for higher prices amid the potential implementation of tariffs by the incoming Trump administration. That being said, despite the uptick, this indicator is still well below the cycle peak of 5.4 percent in the spring of 2022 and within the 2018-19 pre-pandemic range of 2.3 to 2.9 percent. The long-term measure, on the other hand, dipped 0.1 percentage point to 3.1 percent. While this reading is above those seen in the period immediately preceding the onset of COVID, it is still in the middle of the post-pandemic range (and one that Fed officials would characterize as "anchored;" chart below right).

Consumer Sentiment



Source: University of Michigan via Haver Analytics

Consumer Inflation Expectations



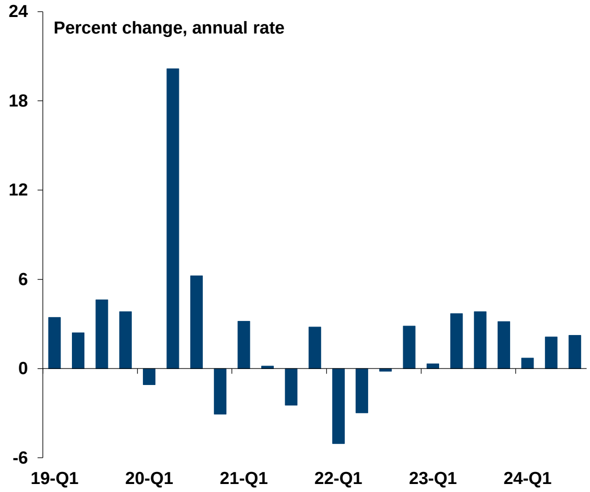
Source: University of Michigan via Haver Analytics

The Week Ahead

Revised Nonfarm Productivity (24-Q3) (Tuesday)
Forecast: 2.2% (Unrevised)

With the output number that feeds into the calculation for productivity little revised from the preliminary estimate of 3.5 percent (nonfarm gross value added from the GDP accounts), it appears unlikely that productivity will be adjusted from the firm preliminary tally. Unit labor costs, however, may be revised lower on account of updated data on compensation growth (projection of 1.0 percent versus a preliminary estimate of 1.9 percent). Broadly speaking, productivity appears to be stirring in recent quarters after a choppy performance earlier in the expansion.

Nonfarm Productivity

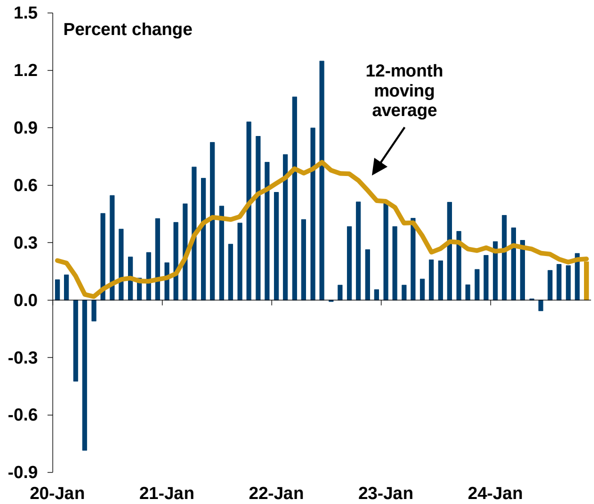


Source: Bureau of Labor Statistics via Haver Analytics

CPI (November) (Wednesday)
Forecast: 0.2% Headline, 0.3% Core

Prices of energy commodities appear poised to increase on a seasonally adjusted basis, which could boost the energy component of the CPI following three consecutive months of declines. Additionally, the food component seems likely to remain on its subdued upward trend (average monthly increase of 0.2 percent in the past twelve months). Core goods prices are on a disinflationary track, with the category easing in seven of the first eleven months of 2024. Readings on core service inflation, however, have been sticky (average monthly increase of 0.4 percent in the past twelve months). Rents could decelerate further from their current pace, but the moderation thus far in 2024 has been gradual. Moreover, core services excluding housing (also referred to as the "supercore") has shown little improvement on balance in recent months.

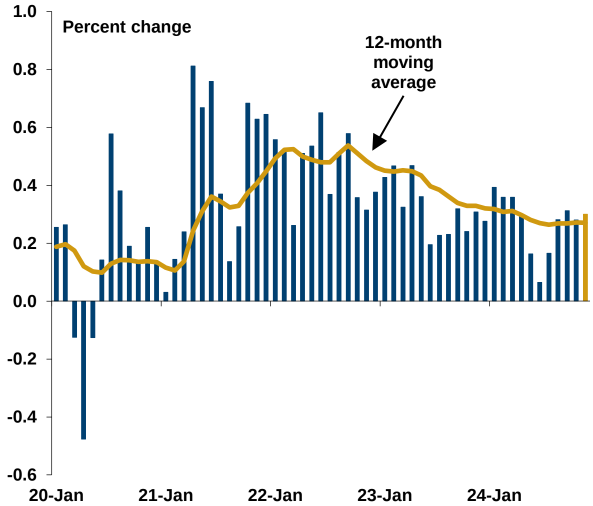
Headline CPI*



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

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

Core CPI*



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

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

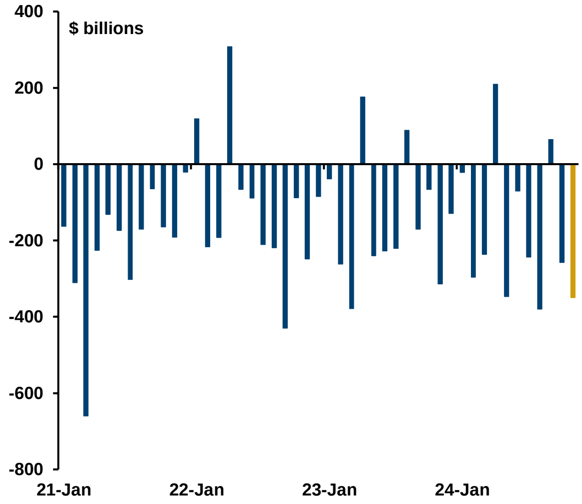
Federal Budget (November) (Wednesday)
Forecast: -$350.0 Billion

Available data from the Daily Treasury Statement suggest that federal revenue growth was brisk last month (up approximately 9.0 percent year-over-year by our estimate), but outlay growth has remained on its firm track as well. If the deficit projection for November 2024 is realized, the cumulative shortfall in the first two months of FY2025 will total $607.5 billion, wider than the $380.6 billion deficit in the same period in FY2024.

PPI (November) (Thursday)
Forecast: 0.2% Final Demand, 0.3% Ex. Food & Energy

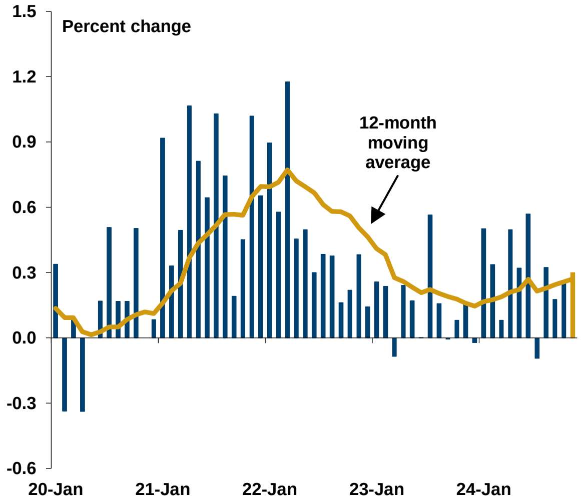
Wholesale energy prices could increase after seasonal adjustment in November after three consecutive monthly declines, while food prices could tick higher after a decline in the prior month. Keep in mind, however, that the food component of the PPI tends to swing widely (range of -0.8 to +1.0 percent in the past twelve months; monthly average of +0.2 percent). 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 the average monthly change in the broad services category (+0.29 percent). Construction costs have remained on a modest upward trend, increasing 0.1 percent per month in the past year (inclusive of a dip of 0.2 percent in October).

Federal Budget Surplus/Deficit*



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

PPI Ex. Food & Energy*



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

Daiwa Capital Markets

Economic Indicators

December 2024

Monday 2

ISM MFG. INDEX

	Index	Prices
Sep	47.2	48.3
Oct	46.5	54.8
Nov	48.4	50.3

CONSTRUCTION

Aug	0.9%
Sep	0.1%
Oct	0.4%

Tuesday 3

JOLTS DATA

	Openings (000)	Quit Rate
Aug	7,861	2.0%
Sep	7,372	1.9%
Oct	7,744	2.1%

VEHICLE SALES

Sep	15.8 million
Oct	16.3 million
Nov	16.5 million

Wednesday 4

ADP EMPLOYMENT

	Private Payrolls
Sep	159,000
Oct	184,000
Nov	146,000

ISM SERVICES INDEX

	Index	Prices
Sep	54.9	59.4
Oct	56.0	58.1
Nov	52.1	58.2

FACTORY ORDERS

Aug	-0.8%
Sep	-0.2%
Oct	0.2%

BEIGE BOOK

November 2024:
"Economic activity rose slightly in most Districts. Three regions exhibited modest or moderate growth that offset flat or slightly declining activity in two others."

Thursday 5

UNEMPLOYMENT CLAIMS

(millions)	Initial	Continuing
Nov 9	0.219	1.898
Nov 16	0.215	1.896
Nov 23	0.215	1.871
Nov 30	0.224	N/A

TRADE BALANCE

Aug	-$70.6 billion
Sep	-$83.8 billion
Oct	-$73.8 billion

Friday 6

EMPLOYMENT REPORT

	Payrolls	Un. Rate
Sep	255,000	4.1%
Oct	36,000	4.1%
Nov	227,000	4.2%

CONSUMER SENTIMENT

Oct	70.5
Nov	71.8
Dec	74.0

CONSUMER CREDIT

Aug	$4.6 billion
Sep	$3.2 billion
Oct	$19.2 billion

Monday 9

WHOLESALE TRADE (10:00)

	Inventories	Sales
Aug	0.2%	0.2%
Sep	-0.2%	0.3%
Oct	**0.2%**	**0.2%**

Tuesday 10

NFIB SMALL BUSINESS OPTIMISM INDEX (6:00)

Sep	91.5
Oct	93.7
Nov	--

PRODUCTIVITY & COSTS (8:30)

	Productivity	Unit Labor Costs
24-Q2	2.1%	2.4%
24-Q3(p)	2.2%	1.9%
24-Q3(r)	**2.2%**	**1.0%**

Wednesday 11

CPI (8:30)

	Total	Core
Sep	0.2%	0.3%
Oct	0.2%	0.3%
Nov	**0.2%**	**0.3%**

FEDERAL BUDGET (2:00)

	2024	2023
Sep	$64.7B	-$170.7B
Oct	-$257.5B	-$66.6B
Nov	**-$350.0B**	-$314.0B

Thursday 12

UNEMP. CLAIMS (8:30)

PPI (8:30)

	Final Demand	Ex. Food & Energy
Sep	0.1%	0.2%
Oct	0.2%	0.3%
Nov	**0.2%**	**0.3%**

Friday 13

IMPORT/EXPORT PRICES (8:30)

	Non-Petrol Imports	Nonagri. Exports
Sep	0.2%	-0.8%
Oct	0.2%	0.6%
Nov	--	--

Monday 16

EMPIRE MFG

Tuesday 17

RETAIL SALES

IP & CAP-U

NAHB HOUSING INDEX

BUSINESS INVENTORIES

FOMC MEETING (FIRST DAY)

Wednesday 18

HOUSING STARTS

CURRENT ACCOUNT

FOMC MEETING (DAY TWO)

Thursday 19

UNEMP. CLAIMS

REVISED GDP

PHILLY FED INDEX

EXISTING HOME SALES

LEADING INDICATORS

TIC FLOWS

Friday 20

PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX

REVISED CONSUMER SENTIMENT

Monday 23

CHICAGO FED NATIONAL ACTIVITY INDEX

CONFERENCE BOARD CONSUMER CONFIDENCE

Tuesday 24

DURABLE GOODS ORDERS

NEW HOME SALES

Wednesday 25

CHRISTMAS

Thursday 26

UNEMP. CLAIMS

Friday 27

INTERNATIONAL TRADE IN GOODS

ADVANCE INVENTORIES

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

Treasury Financing

December 2024

Monday	Tuesday	Wednesday	Thursday	Friday
2	3	4	5	6
AUCTION RESULTS: Rate Cover 13-week bills 4.400% 2.89 26-week bills 4.305% 3.02 **SETTLE:** $16 billion 20-year bonds $69 billion 2-year notes $70 billion 5-year notes $44 billion 7-year notes	**AUCTION RESULTS:** Rate Cover 42-day CMBs 4.400% 3.00 **ANNOUNCE:** $64 billion 17-week bills for auction on Dec 4 $85 billion 4-week bills for auction on Dec 5 $80 billion 8-week bills for auction on Dec 5 **SETTLE:** $64 billion 17-week bills $95 billion 4-week bills $90 billion 8-week bills	**AUCTION RESULTS:** Rate Cover 17-week bills 4.315% 3.10	**AUCTION RESULTS:** Rate Cover 4-week bills 4.400% 2.74 8-week bills 4.350% 3.50 **ANNOUNCE:** $153 billion 13-,26-week bills for auction on Dec 9 $58 billion 3-year notes for auction on Dec 10 $39 billion 10-year notes for auction on Dec 11 $22 billion 30-year bonds for auction on Dec 12 $75 billion 42-day CMBs for auction on Dec 10 **SETTLE:** $153 billion 13-,26-week bills $75 billion 42-day CMBs	
9	10	11	12	13
AUCTION: $153 billion 13-,26-week bills	**AUCTION:** $58 billion 3-year notes $75 billion 42-day CMBs **ANNOUNCE:** $64 billion* 17-week bills for auction on Dec 11 $85 billion* 4-week bills for auction on Dec 12 $80 billion* 8-week bills for auction on Dec 12 **SETTLE:** $64 billion 17-week bills $85 billion 4-week bills $80 billion 8-week bills	**AUCTION:** $64 billion* 17-week bills $39 billion 10-year notes	**AUCTION:** $85 billion* 4-week bills $80 billion* 8-week bills $22 billion 30-year bonds **ANNOUNCE:** $153 billion* 13-,26-week bills for auction on Dec 16 $13 billion* 20-year bonds for auction on Dec 17 $22 billion* 5-year TIPS for auction on Dec 19 **SETTLE:** $153 billion 13-,26-week bills $75 billion 42-day CMBs	
16	17	18	19	20
AUCTION: $153 billion* 13-,26-week bills **SETTLE:** $58 billion 3-year notes $39 billion 10-year notes $22 billion 30-year bonds	**AUCTION:** $13 billion* 20-year bonds **ANNOUNCE:** $64 billion* 17-week bills for auction on Dec 18 $85 billion* 4-week bills for auction on Dec 19 $80 billion* 8-week bills for auction on Dec 19 **SETTLE:** $64 billion* 17-week bills $85 billion* 4-week bills $80 billion* 8-week bills	**AUCTION:** $64 billion* 17-week bills	**AUCTION:** $85 billion* 4-week bills $80 billion* 8-week bills $22 billion* 5-year TIPS **ANNOUNCE:** $153 billion* 13-,26-week bills for auction on Dec 23 $48 billion* 52-week bills for auction on Dec 23 $69 billion* 2-year notes for auction on Dec 23 $70 billion* 5-year notes for auction on Dec 24 $44 billion* 7-year notes for auction on Dec 26 $28 billion* 2-year FRNs for auction on Dec 24 **SETTLE:** $153 billion* 13-,26-week bills	
23	24	25	26	27
AUCTION: $153 billion* 13-,26-week bills $48 billion* 52-week bills $69 billion* 2-year notes	**AUCTION:** $70 billion* 5-year notes $28 billion* 2-year FRNs **ANNOUNCE:** $64 billion* 17-week bills for auction on Dec 26 $85 billion* 4-week bills for auction on Dec 26 $80 billion* 8-week bills for auction on Dec 26 **SETTLE:** $64 billion* 17-week bills $85 billion* 4-week bills $80 billion* 8-week bills	***CHRISTMAS***	**AUCTION:** $64 billion* 17-week bills $85 billion* 4-week bills $80 billion* 8-week bills $44 billion* 7-year notes **ANNOUNCE:** $153 billion* 13-,26-week bills for auction on Dec 30 **SETTLE:** $153 billion* 13-,26-week bills $48 billion* 52-week bills	**SETTLE:** $28 billion* 2-year FRNs

**Estimate*