U.S. Economic Comment

- December employment: brisk job growth with a dip in unemployment; slower growth of average hourly earnings
- Inflation expectations: pickup requires vigilance from policymakers

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December Employment

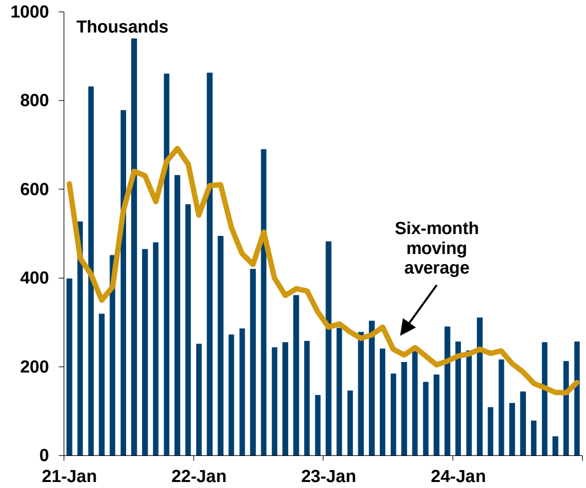
The December employment data likely galvanized policymakers' views that underlying labor market conditions are solid and are thus likely able to weather a somewhat restrictive stance of monetary policy as officials await additional evidence that inflation will resume easing toward the Fed's two percent target. We hesitate to ascribe too much weight to any particular set of monthly data, but the latest results were favorable: payrolls jumped, the unemployment rate eased below the median view of the FOMC's longer run target (4.2 percent in the December Summary of Economic Projections), and wage growth moderated.

Payrolls

Hiring of 256,000 in December (and only modest net revisions of -8,000 in the previous two months) exceeded by a wide margin the Bloomberg median expectation of an advance of 165,000 in nonfarm payrolls. The strong reading after a gain of 212,000 in November may have represented to a degree an ongoing reversal from hurricane-related in disruptions in October (when payroll growth tallied only 43,000) -- and possibly a seasonal boost from the December holidays -- but averaging through recent volatility also paints a picture of a stable (and possibly still somewhat tight) labor market. Hiring averaged 165,000 per month in the second half of 2024, off the 207,000 monthly pace in H1 and firm performance in 2023 (+251,000 per month) but almost matching the 166,000 average in 2019 (when labor market conditions were viewed by Fed officials as aligned with dual mandate objectives).

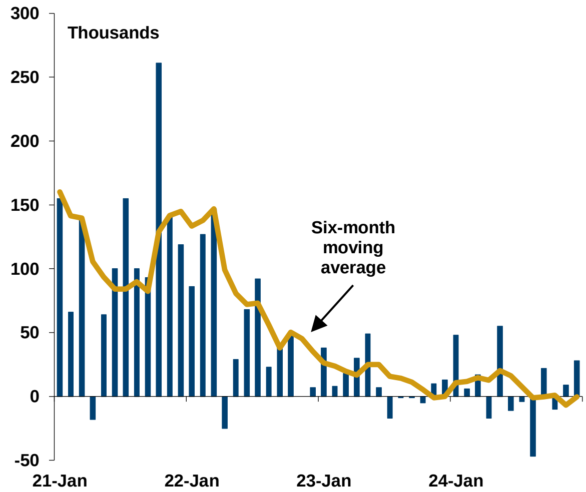
Private-sector payrolls exhibited similar strength. Employers added 223,000 positions in December versus the Bloomberg median expectation of 140,000. Average monthly results in 24-H2 were less impressive versus those in the first half of the year (+129,000 versus +170,000) but still respectable. Health care and education hiring was again a reliable driver of payroll gains, with the combined category adding 80,000 positions in December (slightly firmer than the average in the prior six months). Also standing out on the firm side were the leisure and hospitality area (+43,000 in December; average increase of 26,000 in the prior six months, inclusive of a hurricane-related drop of 8,000 in October) and professional and business services (+28,000). The business services area, in particular, may be improving after signs of weakness in the summer (chart). Other areas were less impressive or

Change in Nonfarm Payrolls



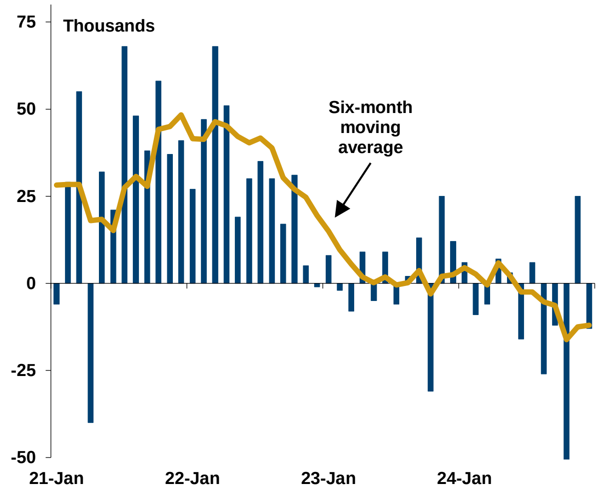
Source: Bureau of Labor Statistics via Haver Analytics

Change in Business Services Payrolls



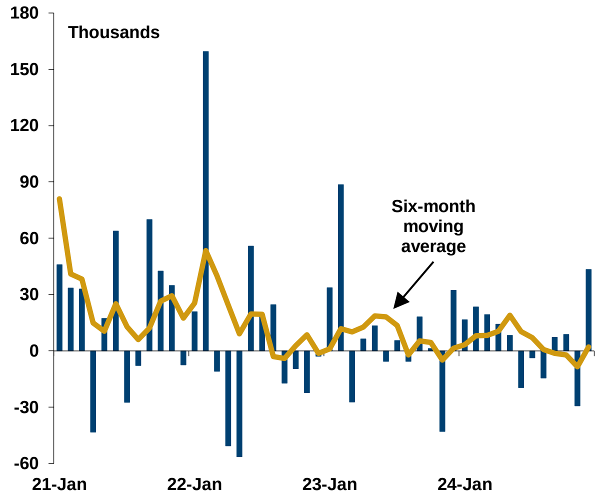
Source: Bureau of Labor Statistics via Haver Analytics possibly influenced by upside volatility. On the soft side, manufacturing payrolls fell for the fifth time in the past seven months (-13,000). Hiring had jumped 25,000 in the prior month, but the increase represented only partial payback for a hurricane-related swoon of 52,000 in October. On balance, the sector remains decidedly soft (chart, below left). Also of note, the jump of 43,400 in the retail trade area stood in sharp contrast to average declines of 8,500 in the previous six months. With the conclusion of the holidays, this area appears poised for reversion as firms move to reduce seasonal workers (chart, below right). All told, despite some pockets of weakness, hiring in December remained on track.

Change in Manufacturing Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

Change in Retail Trade Payrolls

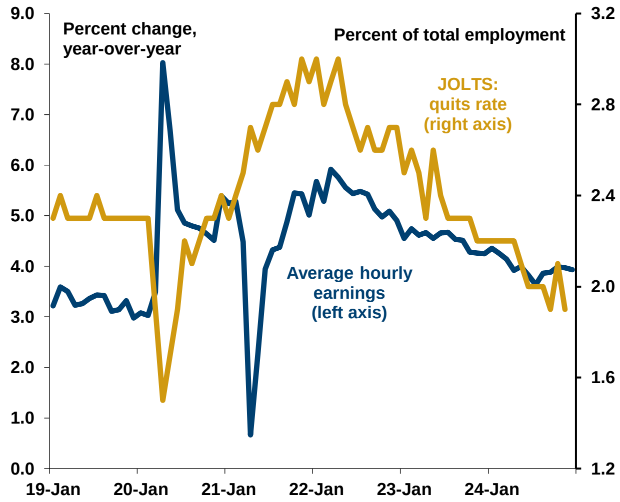


Source: Bureau of Labor Statistics via Haver Analytics

Wages

While hiring was brisk, growth of average hourly earnings moderated in December. The monthly increase rounded up to 0.3 percent (+0.281 percent with less rounding) versus a trailing four-month average advance of 0.4 percent (+0.369 percent). The latest reading equated to a year-over gain of 3.9 percent – a modest improvement from last month's tally but little changed on balance since the spring. Earnings growth remains above what we view as consistent with achieving two percent inflation over time (sustained wage growth in the area of 3.5 percent), but Fed officials have recently indicated that that they no longer view wage growth as a key driver of above-target inflation. We also would note that a dip in the quits rate in November (-0.2 percentage point to 1.9 percent; released earlier this week in the Job Openings and Labor Turnover Survey) suggests that wage growth could fall further in coming months (chart). Quits and wage growth track closely, as workers are willing to leave current positions if offered attractive (i.e. higher paying) opportunities elsewhere. Thus, with quits moving to the lower ends of both the current and pre-pandemic ranges, one could infer that some combination of an increased supply of workers and easing in demand in previously hot areas of the job market is taking place, with a knock-on effect of reducing wages and benefit packages.

Average Hourly Earnings vs. Quits Rate*

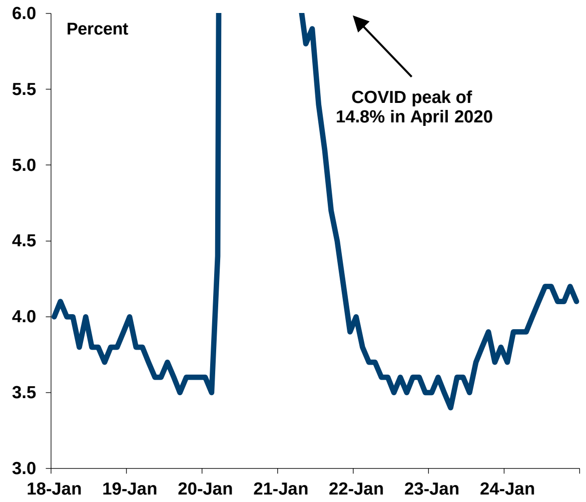


** Data for the quits rate only runs through November 2024.*
Source: Bureau of Labor Statistics via Haver Analytics

The Household Survey Data

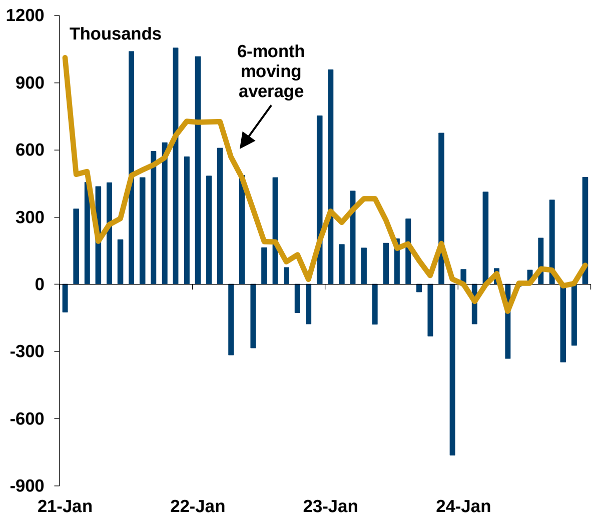
Among the more impressive aspects of the December data was a dip in the unemployment rate to 4.1 percent (chart, right). The latest reading was above the 2024 low of 3.7 percent, but it was lower than the longer-run median estimate of Fed officials from the December SEP that would correlate with the maximum employment mandate (4.2 percent). Moreover, the decline should be viewed in a positive light as it was driven by a jump of 478,000 in employment measured by the household survey, the strongest gain of 2024, that eclipsed an increase of 243,000 in the labor force – among the larger advances of 2024 (charts, below). Thus far, probably to the relief of policymakers, underlying labor market conditions have come into better balance without significant upward pressure on layoffs. That said, while we still view conditions as on solid footing, these two series are inherently volatile, and the unemployment rate should still be closely monitored in coming months (especially in light of stalling inflation progress).

Civilian Unemployment Rate



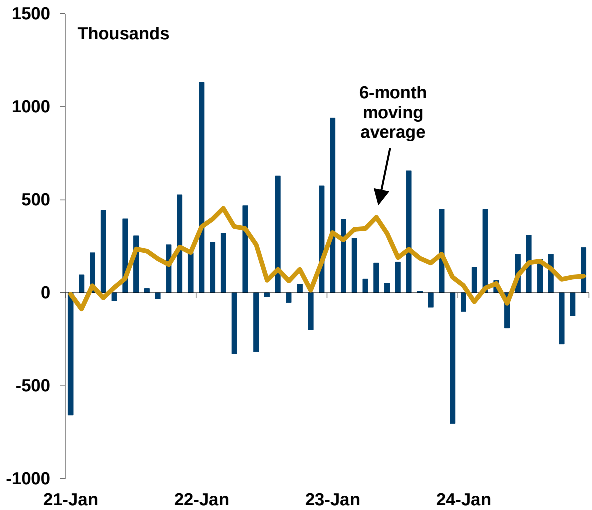
Source: Bureau of Labor Statistics via Haver Analytics

Change in Household Employment



Source: Bureau of Labor Statistics via Haver Analytics

Change in the Labor Force



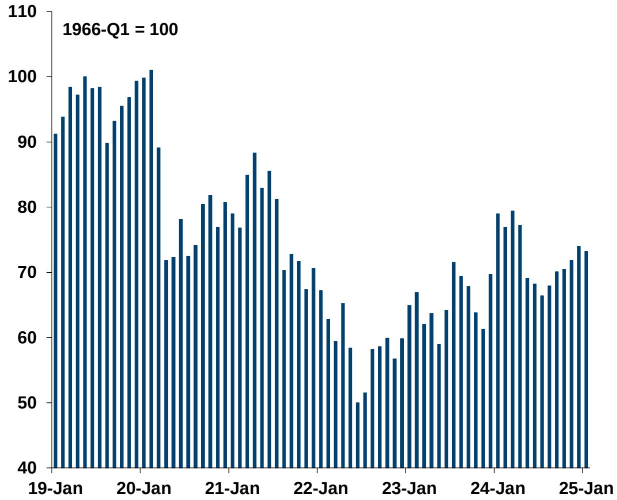
Source: Bureau of Labor Statistics via Haver Analytics

Other Friday Data: Consumer Sentiment Index

Following five consecutive months of improvement, the University of Michigan's Index of Consumer Sentiment decreased in early January, dipping 1.1 percent to 73.2 – essentially a rangebound shift that wasn't too far off the Bloomberg median expectation of no change (chart, next page below left). This slight decline in attitudes can be attributed to a retrogression in the economic outlook in both the short and long term, though assessments of personal finances did improve. Namely, the measure for current economic conditions advanced 3.7 percent (+2.8 points) to 77.9. Consumer expectations, however, fell 4.2 percent (-3.1 points) to 70.2.

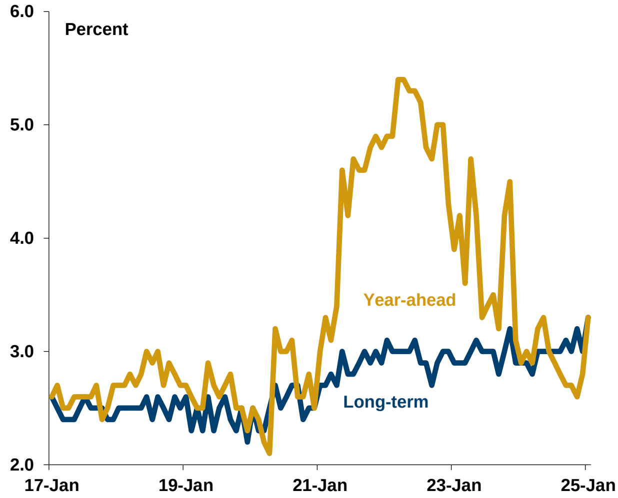
Perhaps of greater note than the shift in the headline reading, consumer inflation expectations deteriorated markedly in the first month of 2025. The measure for year-ahead inflation expectations increased 0.5 percentage points to 3.3 percent, reversing all of the improvement seen since May 2024. Long-term expectations (i.e., the next five years) also worsened, rising 0.3 percentage point to 3.3 percent (the highest observation since June 2008; chart, below right). As noted by Joanne Hsu, the Surveys of Consumers Director, in the official release, inflation uncertainty has "climbed considerably" over the past twelve months – a development potentially tied to prospective tariff policies floated by the incoming Trump administration. Resultantly, Fed officials will most likely remain vigilant on this front. With progress toward their two percent inflation target having stalled in the back half of 2024, causing policymakers to adapt a cautious approach to further reductions in the federal funds rate, they will remain attentive to any unfavorable shifts in inflation expectations.

Consumer Sentiment



Source: University of Michigan via Haver Analytics

Consumer Inflation Expectations



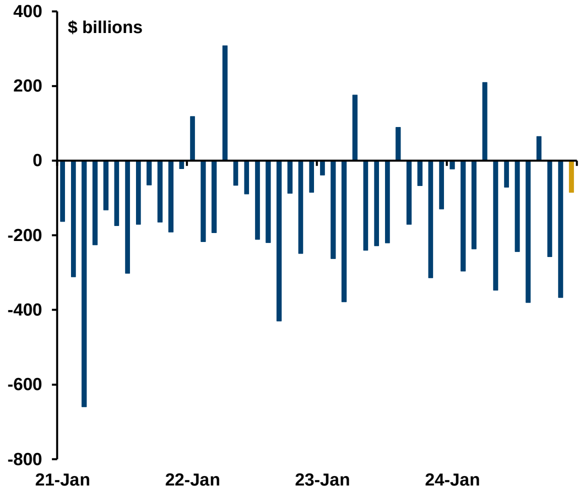
Source: University of Michigan via Haver Analytics

The Week Ahead

Federal Budget (December) (Monday)
CBO Forecast: -$85.0 Billion

This week the Congressional Budget Office released its projection for December budget results. The CBO forecast, which is usually close to the official tally by the Treasury, indicated that the government realized a budget deficit of $85 billion in December, as opposed to a deficit of $129.4 billion in the same month last year. Federal revenue growth was solid last month (+6 percent year-over-year by CBO estimate), but outlay growth has remained on its firm track as well (+11 percent). If the deficit projection for December 2024 is realized, the cumulative shortfall in the first quarter of FY2025 will total $709.2 billion, wider than the $509.9 billion deficit in the same period of FY2024.

Federal Budget Surplus/Deficit*



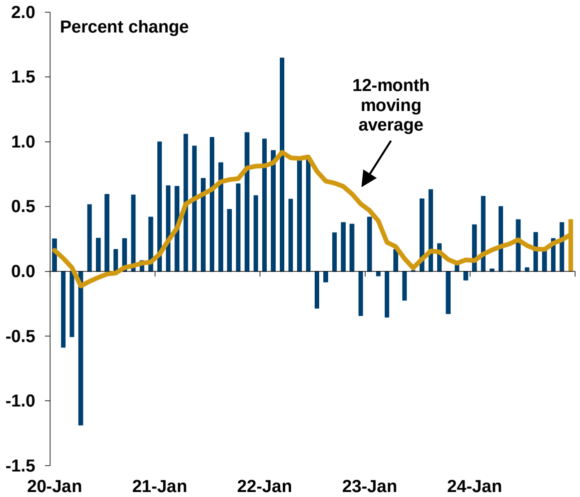
** The gold bar is the CBO projection for December 2024.*

Sources: U.S. Treasury via Haver Analytics; Congressional Budget Office

PPI (December) (Tuesday)
Forecast: +0.4% Final Demand, +0.3% Ex. Food & Energy

Wholesale energy prices could increase for the third consecutive month in December after seasonal adjustment, as could food prices (although likely less so than the outsized advance of 3.1 percent in November). Goods prices excluding food and energy have increased 0.2 percent (+0.18 percent with less rounding) per month, on average, over the past 12 months, a bit slower than the average monthly advance of 0.32 percent for the broad services category. Construction costs have remained on a modest upward trend in the current episode, increasing 0.1 percent per month in the past year.

PPI Ex. Food & Energy*



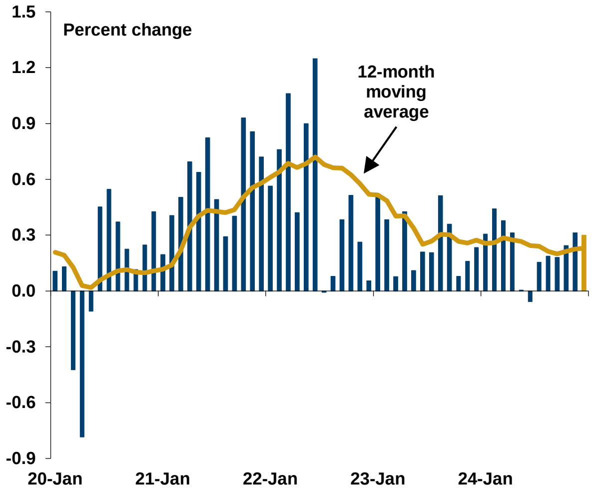
** The gold bar is a forecast for December 2024.*

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

CPI (December) (Wednesday)
Forecast: +0.3% 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 for the second consecutive month following three months of declines in the August-to-September period. The food component appears likely to remain on its subdued trend (average monthly increase of 0.2 percent in the past 12 months). While core goods prices have been on a disinflationary track for much of 2024 (average change of -0.05 percent over the first eleven months of the year), that progress may have bottomed out, with the category increasing over the past three months after easing in 14 of the 15 months prior to that. Core service inflation has been sticky (average monthly increase of 0.4 percent in the past 12 months). Moreover, we could potentially see a rebound in the shelter category in December as last month's increases of 0.2 percent for both the primary rent and owners' equivalent rent components were noticeably below their trailing 12-month averages (+0.38 and + 0.42 percent, respectively). Additionally, core services excluding housing (also referred to as the "supercore" measure) has shown little improvement on balance in recent months (see charts on the next page).

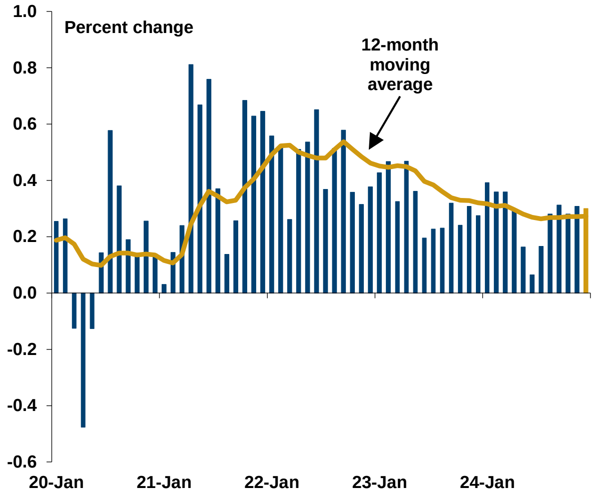
Headline CPI*



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

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

Core CPI*



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

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

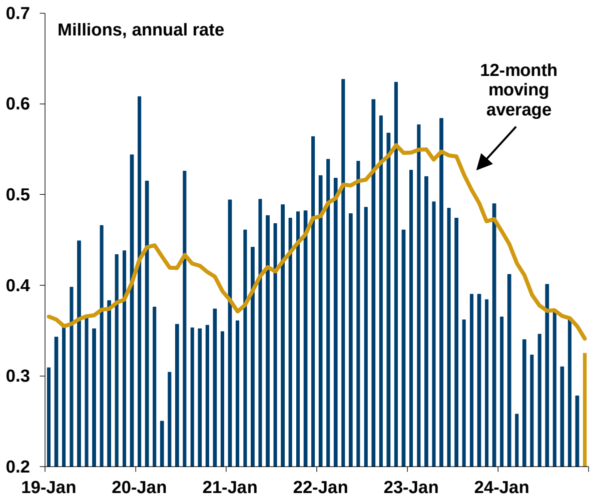
Retail Sales (December) (Thursday)
Forecast: +0.6% Total, +0.5% Ex. Autos, +0.4% Ex. Autos & Gas

A fourth consecutive increase in new vehicle sales and higher gasoline prices post-seasonal adjustment portend to an advance in headline retail activity in December. Moreover, sales excluding autos and gasoline stations have been well-maintained and could receive a boost from holiday-related purchases.

Housing Starts (December) (Friday)
Forecast: 1.325 Million (+2.8%)

Elevated builder inventories suggest that firms will remain cautious in regard to new single-family housing starts, which will likely leave initiations within the recent range. Multi-family starts can exhibit marked volatility on a month-to-month basis, evidenced by the stark drop to 0.278 million, annual rate, in November – a reading well below the trailing six-month average of 0.345 million. Given the recent pattern of permit issuance, a modest uptick in December seems in line, though the anticipated advance will still leave starts in the low end of the post-pandemic range (charts, below).

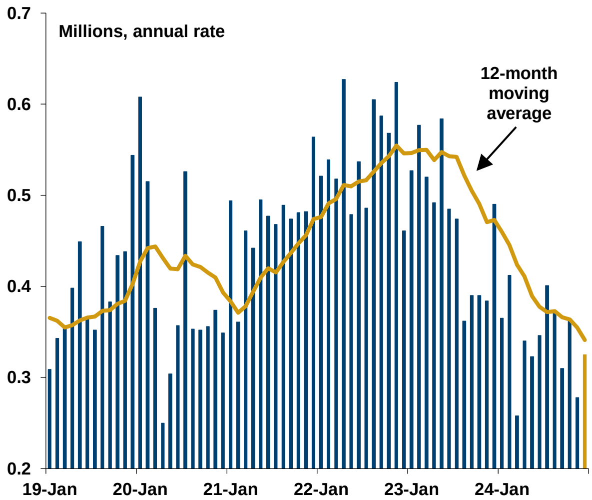
Single-Family Housing Starts*



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

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

Multi-Family Housing Starts*



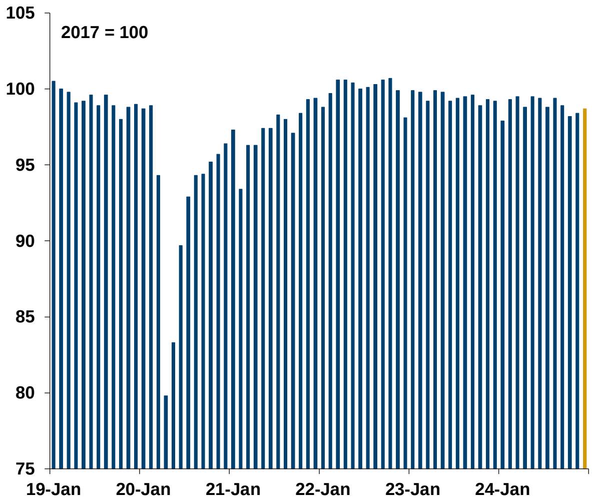
** The gold bar is a forecast for December 2024.*

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

Industrial Production (December) (Friday)
Forecast: +0.4% Total, +0.3% Manufacturing

Despite a contraction in manufacturing employment, an increase in total production time raises the prospect of an advance in the manufacturing component for industrial production. That said, the expected pickup is unlikely to alter the sideways trend in place for the past two years (chart, below left). Additionally, an increase in the rotary rig count suggests a pickup in the mining component after three consecutive declines. However, similar to manufacturing, the projected improvement will do little to alter the subdued trend that's been in place since early 2023 (chart, below right). Data on home heating suggests above average usage in December, which would lead to an increase in the utility component. Even so, keep in mind that utilities are an inherently volatile category (range of -1.3 percent to +1.7 percent in the past six months), with shifts reflecting changes in the weather rather than economic fundamentals.

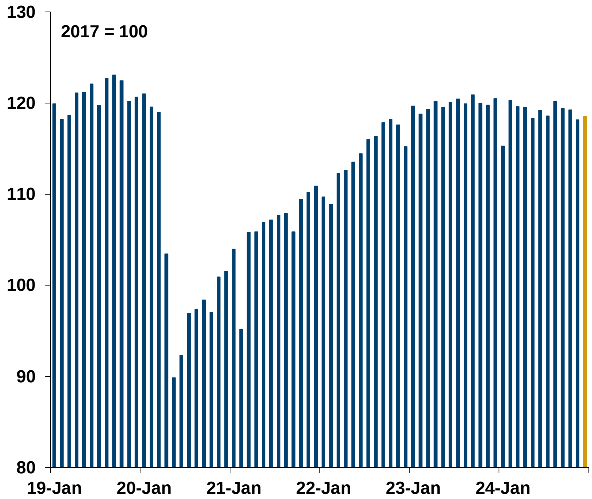
Industrial Production: Manufacturing*



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

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

Industrial Production: Mining*



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

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

Economic Indicators

January 2025

Monday 6

FACTORY ORDERS

Sep	-0.2%
Oct	0.5%
Nov	-0.4%

Tuesday 7

TRADE BALANCE

Sep	-$83.8 billion
Oct	-$73.6 billion
Nov	-$78.2 billion

ISM SERVICES INDEX

	Index	Prices
Oct	56.0	58.1
Nov	52.1	58.2
Dec	54.1	64.4

JOLTS DATA

	Openings (000)	Quit Rate
Sep	7,372	1.9%
Oct	7,839	2.1%
Nov	8,098	1.9%

Wednesday 8

ADP EMPLOYMENT

	Private Payrolls
Oct	184,000
Nov	146,000
Dec	122,000

UNEMPLOYMENT CLAIMS

	Initial (millions)	Continuing (millions)
Nov 23	0.215	1.871
Nov 30	0.225	1.879
Dec 7	0.242	1.874
Dec 14	0.220	N/A

WHOLESALE TRADE

	Inventories	Sales
Sep	-0.2%	0.5%
Oct	0.0%	-0.3%
Nov	-0.2%	0.6%

FOMC MINUTES

CONSUMER CREDIT

Sep	$3.0 billion
Oct	$17.3 billion
Nov	-$7.5 billion

Thursday 9

Friday 10

EMPLOYMENT REPORT

	Payrolls	Un. Rate
Oct	43,000	4.1%
Nov	212,000	4.2%
Dec	256,000	4.1%

CONSUMER SENTIMENT

Nov	71.8
Dec	74.0
Jan	73.2

Monday 13

FEDERAL BUDGET (2:00)

	2024	2023
Oct	-$257.5B	-$66.6B
Nov	-$366.8B	-$314.0B
Dec	**-$85.0B**	-$129.4B

Tuesday 14

NFIB SMALL BUSINESS OPTIMISM INDEX (6:00)

Oct	93.7
Nov	101.7
Dec	--

PPI (8:30)

	Final Demand	Ex. Food & Energy
Oct	0.3%	0.3%
Nov	0.4%	0.2%
Dec	**0.4%**	**0.3%**

Wednesday 15

CPI (8:30)

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

EMPIRE MFG (8:30)

Nov	31.2
Dec	0.2
Jan	--

Thursday 16

UNEMP. CLAIMS (8:30)

RETAIL SALES (8:30)

	Total	Ex.Autos
Oct	0.5%	0.2%
Nov	0.7%	0.2%
Dec	**0.6%**	**0.5%**

IMPORT/EXPORT PRICES (8:30)

	Non-Petrol Imports	Nonagri. Exports
Oct	0.2%	0.8%
Nov	0.2%	0.1%
Dec	--	--

PHILADELPHIA FED MFG BUSINESS OUTLOOK (8:30)

Nov	-4.4
Dec	-10.9
Jan	--

NAHB HOUSING INDEX (10:00)

Nov	46
Dec	46
Jan	--

BUSINESS INVENTORIES (10:00)

	Inventories	Sales
Sep	0.0%	0.3%
Oct	0.0%	0.0%
Nov	**0.1%**	**0.5%**

Friday 17

HOUSING STARTS (8:30)

Oct	1.312 million
Nov	1.289 million
Dec	**1.325 million**

IP & CAP-U (9:15)

	IP	Cap.Util.
Oct	-0.4%	77.0%
Nov	-0.1%	76.8%
Dec	**0.4%**	**77.0%**

TIC FLOWS (4:00)

	Long-Term	Total
Sep	$216.1B	$398.9B
Oct	$152.3B	$203.6B
Nov	--	--

Monday 20

MARTIN LUTHER KING JR DAY

Tuesday 21

Wednesday 22

LEADING INDICATORS

Thursday 23

UNEMP. CLAIMS

Friday 24

EXISTING HOME SALES

REVISED CONSUMER SENTIMENT

Monday 27

CHICAGO FED NATIONAL ACTIVITY INDEX

NEW HOME SALES

Tuesday 28

DURABLE GOODS ORDERS

FHFA HOME PRICE INDEX

S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX

CONFERENCE BOARD CONSUMER CONFIDENCE

FOMC MEETING (FIRST DAY)

Wednesday 29

INTERNATIONAL TRADE IN GOODS

ADVANCE INVENTORIES

FOMC RATE DECISION

Thursday 30

UNEMP. CLAIMS

Q4 GDP

PENDING HOME SALES

Friday 31

PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX

EMPLOYMENT COST INDEX

MNI CHICAGO BUSINESS BAROMETER

Forecasts in bold (except for the federal budget which is a projection from the Congressional Budget Office).

Treasury Financing

January 2025

Monday	Tuesday	Wednesday	Thursday	Friday
6	7	8	9	10
AUCTION RESULTS: Rate / Cover 13-week bills 4.205% 3.01 26-week bills 4.110% 3.20 3-yr notes 4.332% 2.62	**AUCTION RESULTS:** Rate / Cover 10-yr notes 4.680% 2.53 42-day CMBs 4.245% 2.71 **ANNOUNCE:** $64 billion 17-week bills for auction on Jan 8 $95 billion 4-week bills for auction on Jan 9 $90 billion 8-week bills for auction on Jan 9 **SETTLE:** $64 billion 17-week bills $85 billion 4-week bills $80 billion 8-week bills	**AUCTION RESULTS:** Rate / Cover 17-week bills 4.190% 3.24 30-yr bonds 4.913% 2.52	**AUCTION RESULTS:** Rate / Cover 4-week bills 4.245% 2.92 8-week bills 4.240% 2.81 **ANNOUNCE:** $156 billion 13-,26-week bills for auction on Jan 13 $85 billion 42-day CMBs for auction on Jan 14 **SETTLE:** $156 billion 13-,26-week bills $85 billion 42-day CMBs	
13	14	15	16	17
AUCTION: $156 billion 13-,26-week bills	**AUCTION:** $85 billion 42-day CMBs **ANNOUNCE:** $64 billion* 17-week bills for auction on Jan 15 $95 billion* 4-week bills for auction on Jan 16 $90 billion* 8-week bills for auction on Jan 16 **SETTLE:** $64 billion 17-week bills $95 billion 4-week bills $90 billion 8-week bills	**AUCTION:** $64 billion* 17-week bills **SETTLE:** $58 billion 3-year notes $39 billion 10-year notes $22 billion 30-year bonds	**AUCTION:** $95 billion* 4-week bills $90 billion* 8-week bills **ANNOUNCE:** $156 billion* 13-,26-week bills for auction on Jan 21 $48 billion* 52-week bills for auction on Jan 21 $13 billion* 20-year bonds for auction on Jan 22 $20 billion* 10-year TIPS for auction on Jan 23 **SETTLE:** $156 billion 13-,26-week bills $85 billion 42-day CMBs	
20	21	22	23	24
MARTIN LUTHER KING JR DAY	**AUCTION:** $156 billion* 13-,26-week bills $48 billion* 52-week bills **ANNOUNCE:** $64 billion* 17-week bills for auction on Jan 22 $95 billion* 4-week bills for auction on Jan 23 $90 billion* 8-week bills for auction on Jan 23 **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 $20 billion* 10-year TIPS **ANNOUNCE:** $156 billion* 13-,26-week bills for auction on Jan 27 $69 billion* 2-year notes for auction on Jan 27 $70 billion* 5-year notes for auction on Jan 27 $44 billion* 7-year notes for auction on Jan 28 $30 billion* 2-year FRNs for auction on Jan 28 **SETTLE:** $156 billion* 13-,26-week bills $48 billion* 52-week bills	
27	28	29	30	31
AUCTION: $156 billion* 13-,26-week bills $69 billion* 2-year notes $70 billion* 5-year notes	**AUCTION:** $44 billion* 7-year notes $30 billion* 2-year FRNs **ANNOUNCE:** $64 billion* 17-week bills for auction on Jan 29 $95 billion* 4-week bills for auction on Jan 30 $90 billion* 8-week bills for auction on Jan 30 **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:** $156 billion* 13-,26-week bills for auction on Feb 3 **SETTLE:** $156 billion* 13-,26-week bills	**SETTLE:** $13 billion* 20-year bonds $20 billion* 10-year TIPS $69 billion* 2-year notes $70 billion* 5-year notes $44 billion* 7-year notes $30 billion* 2-year FRNs

**Estimate*