Daiwa Capital Markets

U.S. Economic Comment

- January employment: possibly affected by special factors
- Benchmark revisions: downward, but the labor market remains on solid footing
- JOLTS: openings decline amid an ongoing rebalancing in labor market conditions
- Consumer sentiment: constrained by deterioration in inflation expectations

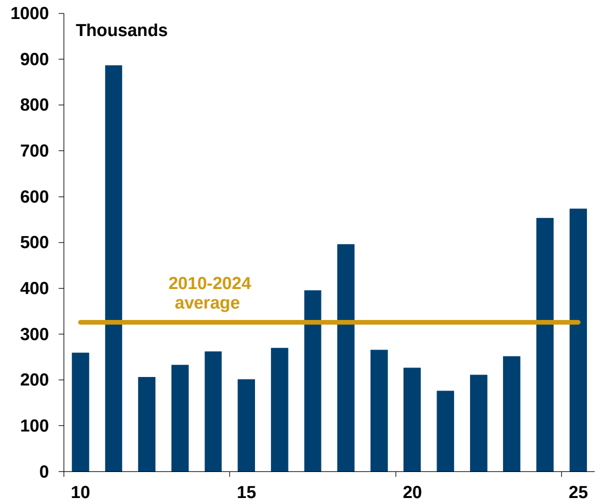
Lawrence Werther
lawrence.werther@us.daiwacm.com
+1-212-612-6393
Brendan Stuart
brendan.stuart@us.daiwacm.com
+1-212-612-6172

January 2025 Employment

The January employment data did little to alter prevailing narratives about the economy and labor market: the expansion remains on track in early 2025 and, while hiring has cooled, there still exists scant evidence of looming deterioration in underlying labor market conditions. Benchmark revisions to previous data revealed that the employment picture in 2023-24 was less robust than previously believed, further supporting the initial recalibration of monetary policy by the FOMC (100 basis points in rate cuts between September and December 2024), but they did not signal the need to abandon caution when discerning the ongoing path of policy. That is, current conditions in the labor market afford policymakers time to better assess the current trajectory of inflation.

With respect to the latest payroll data, the seasonally adjusted advance of 143,000 fell shy of the Bloomberg median expectation of 175,000. Weather may have played a role in depressing the latest results, although the Bureau of Labor Statistics' release noted that while wildfires in California and severe weather in other parts of the country coincided with the reference periods for both the household and payroll surveys, they had "no discernable effect" on the data. Moreover, response rates for both surveys were within normal ranges. With that said, an ancillary series on those out of work on account of weather recorded 573,000 displaced individuals in January 2025. This series can show wide swings in January on account of increases in inclement weather, with the latest results in the upper end of the range of observations since 2010 (chart, right). On the point, the January 2025 reading was elevated relative to both the mean and median in that 15-year period (326,000 and 259,000, respectively; more than one standard deviation [190,000] from the mean). Thus, we still view the run-rate for payrolls to be in the area of 165,000.

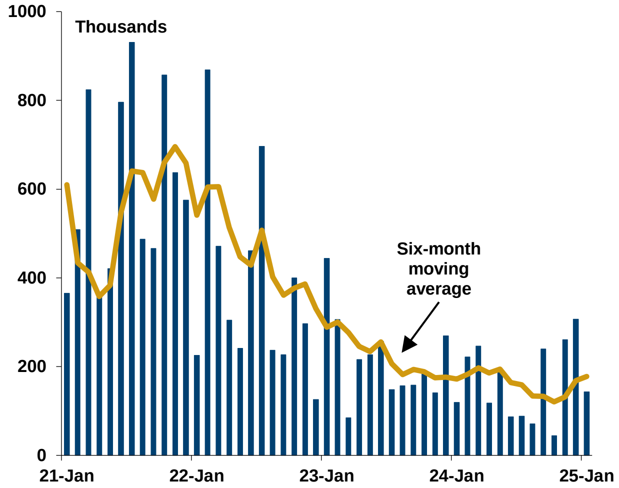
Employees Not at Work Due to Bad Weather*



** January data; those employed in nonagricultural industries*
Source: Bureau of Labor Statistics

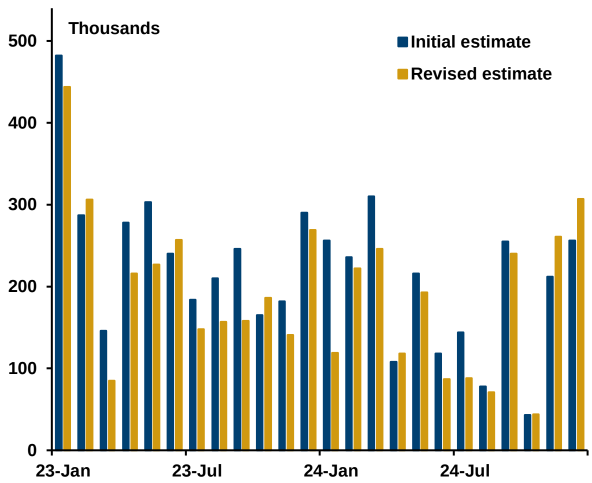
Beyond exogenous factors, benchmark revisions and their potential signal value of the underlying strength of the labor market were the dominant theme of today's report. Incorporated into the seasonally adjusted payroll data were both new NSA counts (relying on benchmarking data through March 2024 of the Quarterly Census of Employment and Wages and data from April to December 2024 based on adjustments to the birth-death model) as well as the application of new seasonal factors. On balance, the seasonally adjusted results were softer than previously believed but still solid. Job growth in 2023 averaged 216,000 per month versus 251,000 previously, while that in 2024 tallied 166,000 (now matching that in 2019) versus 186,000 prior to the revisions (chart, next page, left). However, underlying growth may have stabilized recently, as data for the final two months of 2024 were adjusted higher by a combined 100,000 positions (chart, next page, right).

Change in Nonfarm Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

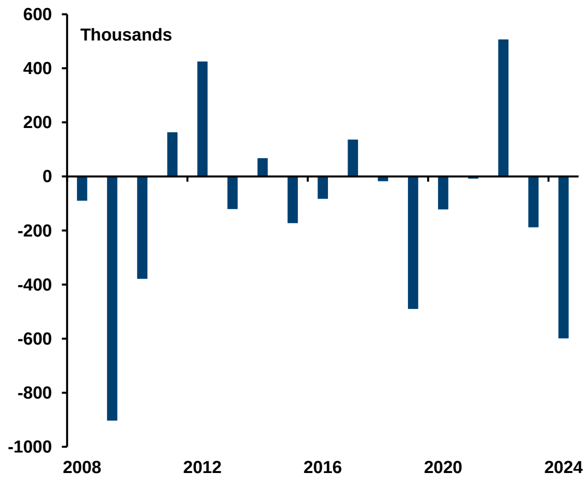
Change in Nonfarm Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

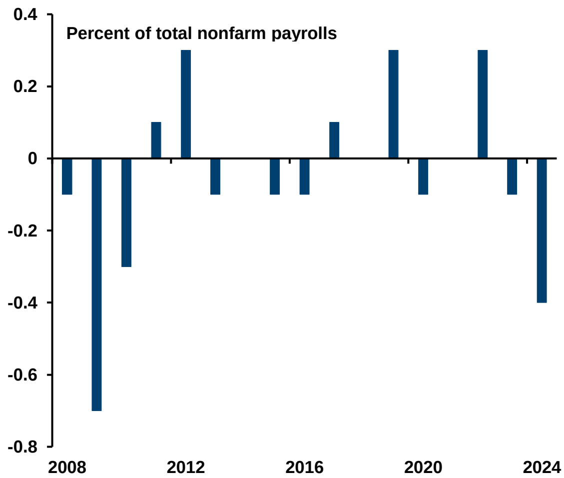
Circling back to the not seasonally adjusted data, we had since August 2024 seen indications that previous employment prints overstated labor market strength. A preliminary benchmark analysis released that month suggested that payrolls in the 12-month period ended March 2024 were 818,000 lower than previously believed (-0.5 percent of employment). The magnitude of the adjustment exceeded observations in the prior 10 years, which ranged from -0.1 percent to +0.3 percent of payrolls and averaged +0.04 percent. The final results, however, were less problematic (-598,000, or -0.4 percent of payrolls; charts, below). Additionally, payroll growth from April 2024 through December was revised from 1.430 million to 1.409 million (-21,000 positions) – a modest change that fell short of some speculative estimates floated ahead of today's report. All told, the latest results, even when accounting for unfavorable revisions, suggested that conditions were akin to the 2018-19 employment situation. On this point, we would add that the prevailing environment allowed wage growth to moderate to a pace consistent with the FOMC's 2 percent target. Average hourly earnings jumped 0.5 percent in the latest month (+0.476 percent with less rounding), an acceleration from the average of +0.3 percent in the trailing six months, but other compensation data have been more favorable. While average hourly earnings rose 4.1 percent year-over-year (matching the December results), the employment cost index for 2024-Q4 increased 3.8 percent (with the wage component recording a same-sized increase). That metric, unlike average earnings, is not influenced by compositional shifts in hiring and is therefore more reliable when analyzing broad compensation trends. Even so, both measures appear on track to soften further, and Fed officials have emphasized recently that they are no longer concerned about wage growth being a key source of unwanted inflation pressure.

Benchmark Revisions to Payroll Data*



**Not seasonally adjusted. Revisions to the 12-month period ending March*
Source: Bureau of Labor Statistics

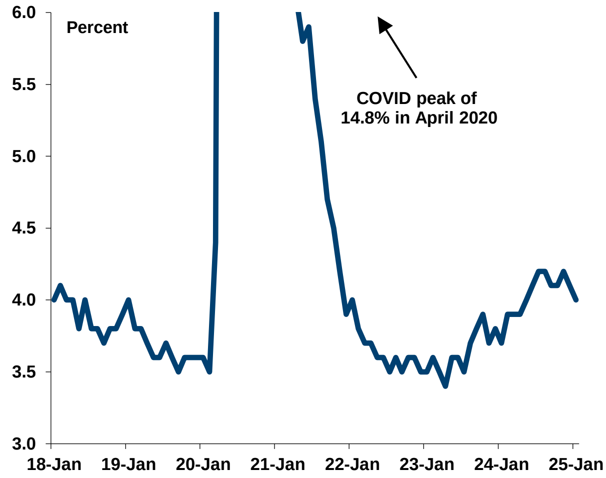
Benchmark Revisions to Payroll Data



Source: Bureau of Labor Statistics

Revisions to household survey data in the form of new population controls also were incorporated in today's report, rendering prior data not directly comparable to the January figures. The updated 2025 population controls led to increases in January 2025 of 3.047 million in the civilian noninstitutional population, 2.197 million in the labor force, and 2.234 million in employment. Removing population control effects, these series would have increased by 176,000, 91,000, and 234,000, respectively (readings within recent ranges). Beyond these figures, the most striking feature of the latest household data was a decline of 0.1 percentage point in the unemployment rate to 4.0 percent (chart). The move would have been even sharper (-0.2 percentage point) if population control effects were removed.

Civilian Unemployment Rate

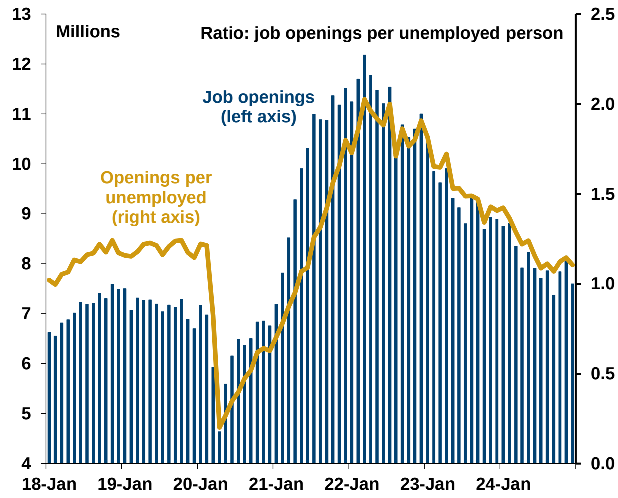


Source: Bureau of Labor Statistics via Haver Analytics

This Week's Data: Job Openings and Labor Turnover

Alternatively, the Job Openings and Labor Turnover Survey (December data published on February 4th) can be used to discern labor market strength through a different lens. Job openings, a metric used to gauge firms' demand for labor, dropped by 556,000 to 7.600 million in the final month of 2024 (associated with an openings per unemployed ratio of 1.1). Amid an ongoing recalibration in the labor market, openings have steadily drifted lower over the past few years, with the current level well below the record of 12.182 million in March 2022 (2.0 openings per unemployed person). Additionally, the latest shift leaves openings closer to the pre-pandemic average of 7.132 million in 2018-2019 (average of 1.2 openings per unemployed person) – a period often characterized by Fed officials as having a solid labor market that generated wage growth consistent with 2 percent inflation. That is to say, following an extended period of recalibration, both the level of openings and the ratio of jobs to unemployed individuals are broadly consistent with a favorable labor market (chart).

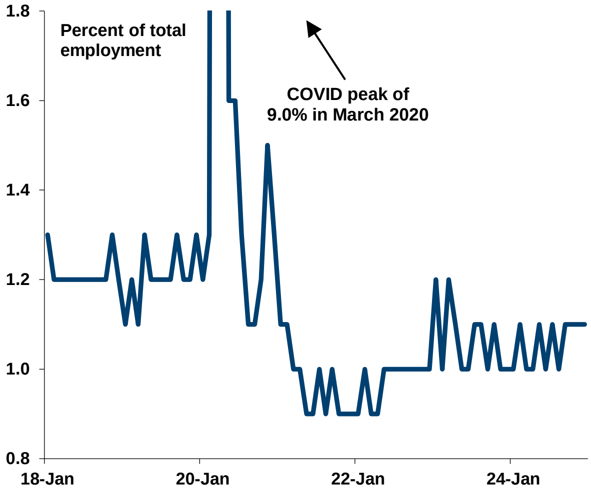
Job Openings



Source: Bureau of Labor Statistics via Haver Analytics

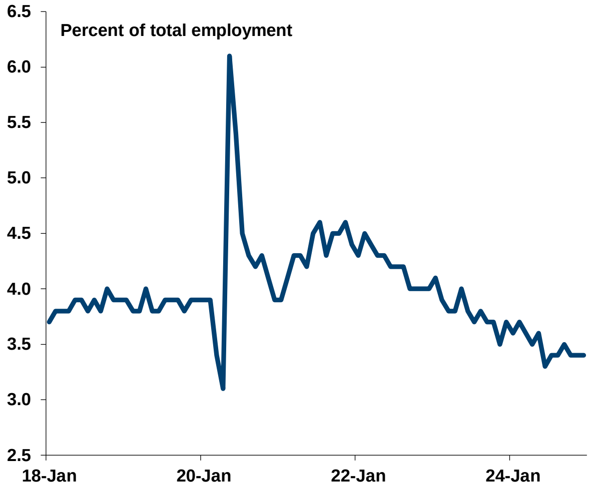
Importantly, the decline in openings has not coincided with a spike in separations. Layoffs and discharges were contained in December, falling 29,000 to 1.771 million. Correspondingly, the layoffs and discharges rate remained unchanged at 1.1 percent, a reading below those just preceding the pandemic and within the longer-term range (chart, next page, left). With that said, we continue to monitor hiring by firms. While the latest payroll data suggested a solid, if unspectacular, pace in January, the JOLTS data for December showed an increase of 89,000 in hires to 5.462 million, consistent with a hiring rate of 3.4 percent (chart, next page, right). The measure is low from a longer-term view, and therefore a pickup in layoffs (along with sluggish hiring) could at some point contribute to a rapid increase in the unemployment rate.

Layoffs & Discharges Rate



Source: Bureau of Labor Statistics via Haver Analytics

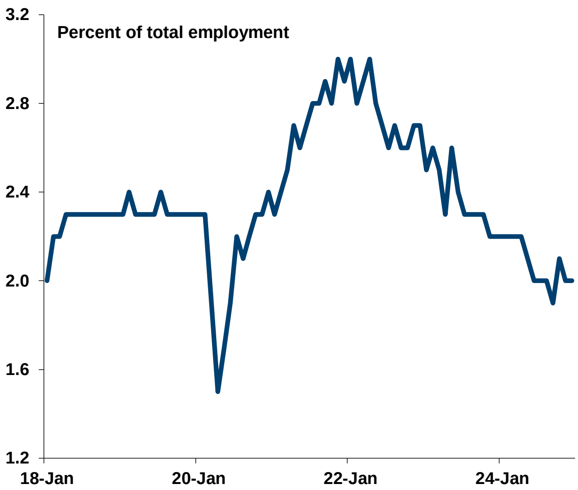
Hires Rate



Source: Bureau of Labor Statistics via Haver Analytics

Quits, which assesses individuals' willingness to leave current positions to seek better opportunities elsewhere (and therefore provide insights into individuals' views on labor market strength), fell 67,000 to 3.197 million. The quits rate, in turn, held steady in December at 2.0 percent – a reading well below the post-pandemic peak of 3.0 percent (and off readings before the onset of the pandemic; chart). In context, while new job opportunities are available, they are less abundant than earlier in the expansion – a time when many firms were competing for scare labor resources.

Quits Rate



Source: Bureau of Labor Statistics via Haver Analytics

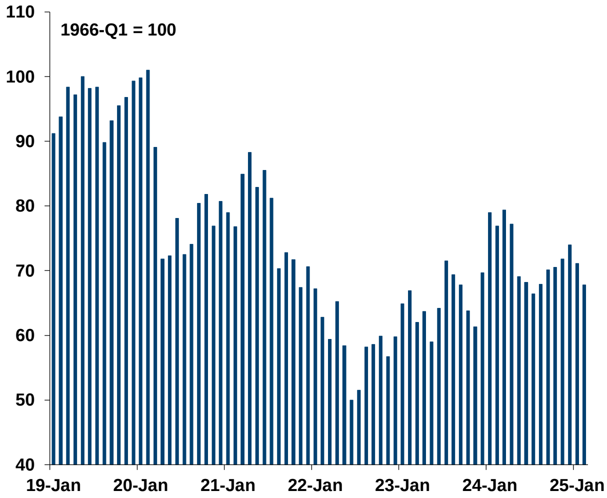
All told, moderation in the labor market is ongoing, with supply and demand dynamics coming into balance. This progress has been welcomed by Fed officials as it ratifies their view that the rise in the unemployment rate over the past year reflected an increase in the labor supply as opposed to a reduction in held positions. That said, FOMC members ought to be keen in observing future developments in this section of the job market. As mentioned by Fed Chair Powell in his post-meeting press conference last week, an array of indicators suggests that labor market conditions are "broadly in balance" and that the Committee wouldn't need to see "further weakening" in order to achieve its 2 percent inflation objective. In other words, with job openings almost in line with pre-pandemic norms, a further decline past pre-pandemic norms could exert upward pressure on the unemployment rate and potentially induce intervention from the Fed.

Other Friday Data: Consumer Sentiment Index

The University of Michigan's Index of Consumer Sentiment continues to tilt lower in early 2025, decreasing 4.6 percent to 67.8 – a softer reading than the Bloomberg median expectation of a 1.0 percent pickup to 71.8 and the lowest observation since July 2024 (chart, next page, left). Interestingly, the decline in the index was spread across those with differing political affiliations, suggesting that the results were not directly linked to soured views of a subset of voters after the Trump victory: Republicans, Democrats, and Independents all reporting worsening attitudes. Looking at the internals of the report, the current economic conditions subindex fell 7.2 percent (-5.3 points) to 68.7, its third drop in the past four months. Additionally, the expectations component deteriorated, declining 2.9 percent (-2.0 points) to 67.3, the lowest observation since November 2023.

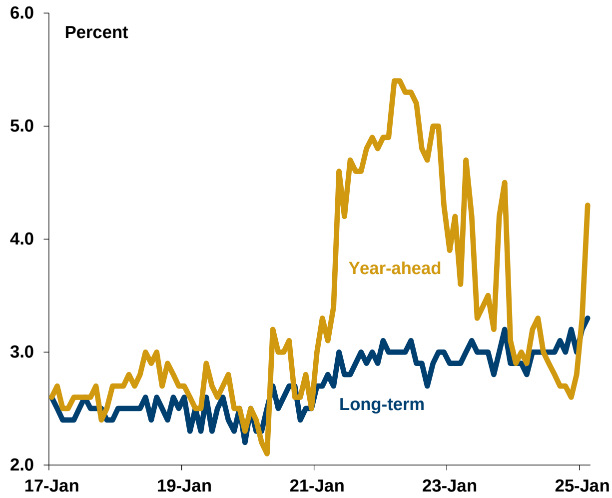
Particularly notable was the marked deterioration in consumer inflation expectations. The measure for year-ahead inflation expectations jumped 1.0 percentage point to 4.3 percent, the highest observation since November 2023. Long-term expectations (i.e., the next five years) also ticked higher, increasing 0.1 percentage point to a near 17-year high of 3.3 percent (3.4 percent in June 2008; chart below left). Although inflation has slowed, many consumers are still reeling from the previous price level surge. Additionally, while actual tariff implementation is only in the early stages, many consumers have incorporated into their views fear about price effects in the near future. As noted by Joanne Hsu, the Surveys of Consumers Director, in the official release, consumers fear that it "may be too late to avoid the negative impact" of the Trump administration's proposed levies and high inflation may return "within the next year." Thus, in light of today's development, Fed officials may have to tweak assessments of longer-term inflation, as the description "well-anchored" appears somewhat inconsistent with the data from the latest University of Michigan report.

Consumer Sentiment



Source: University of Michigan via Haver Analytics

Consumer Inflation Expectations



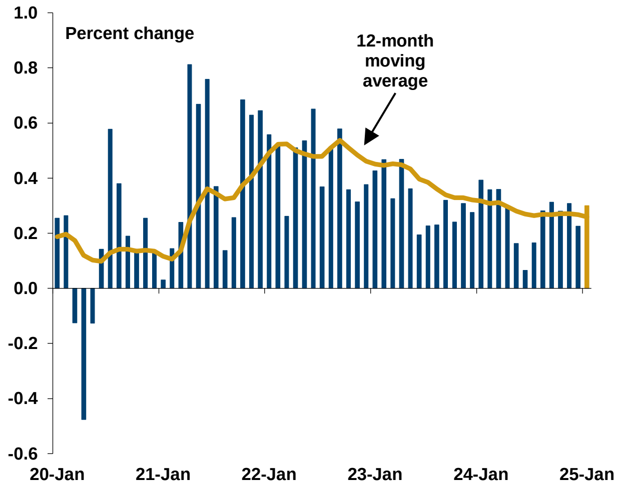
Source: University of Michigan via Haver Analytics

The Week Ahead

CPI (January) (Wednesday)
Forecast: +0.3% Headline, +0.3% Core

Available data indicate that an increase in the prices of energy commodities (which could be tempered to a degree by seasonal adjustment) could push the energy component of the CPI higher again in January after a brisk advance of 2.6 percent in the prior month. The food component has been on a subdued upward trend for more than a year (average monthly increase of 0.2 percent in the past 12 months). Core goods prices had been on a disinflationary track for much of 2024 (average monthly decline of 0.04 percent in the past 12 months), but that progress appears to be losing momentum, with the measure advancing in the past four months after easing in 14 of the previous 15. Core service inflation, on the other hand, has contributed importantly to only modest recent progress towards the FOMC's 2 percent inflation objective (average monthly increase of 0.36 percent in 2024). We could, however, envision improvement on this front in coming months, with new rents beginning to filter into key housing categories (average monthly increase in 2024 of 0.3 percent and 0.4 percent for rent of primary residence and owners' equivalent rent, respectively, versus 0.5 percent for both in 2023). That said, core services excluding housing (also referred to as the "supercore" measure) has shown little improvement on balance in recent months (charts, below).

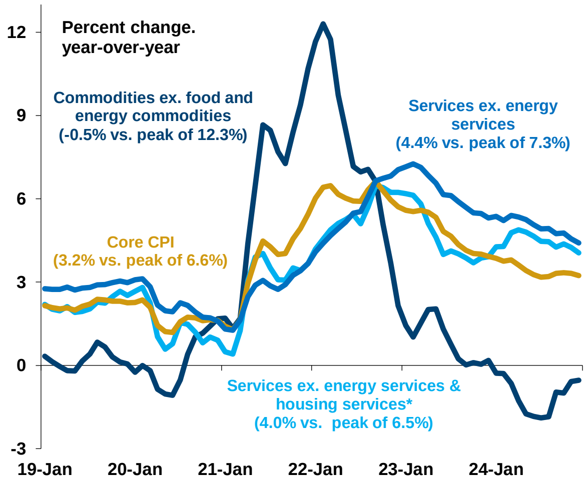
Core CPI*



** The gold bar is a forecast for January 2025.*

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

Decomposition Core CPI

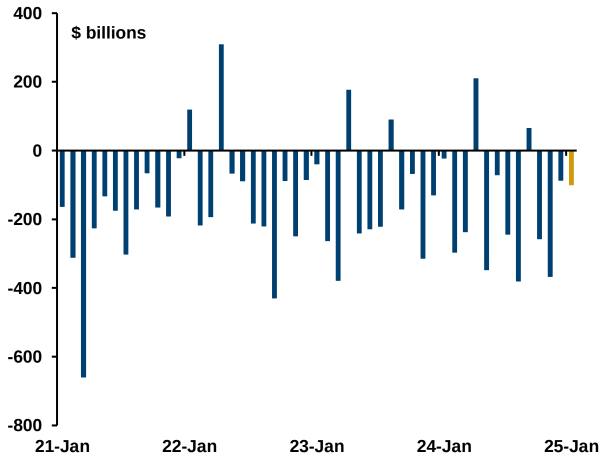


Source: Bureau of Labor Statistics via Haver Analytics

Federal Budget (January) (Wednesday)
Forecast: -$100.0 Billion

Available data from the Daily Treasury Statement suggest that federal revenue growth was solid last month (up approximately 4.5 percent year-over-year by our estimate), but outlay growth has remained on its firm trend too. If the deficit projection for January 2025 is realized, the cumulative shortfall in the first four months of FY2025 will total $810.9 billion, wider than the $531.9 billion deficit in the same period in FY2024 (chart).

Federal Budget Surplus/Deficit*



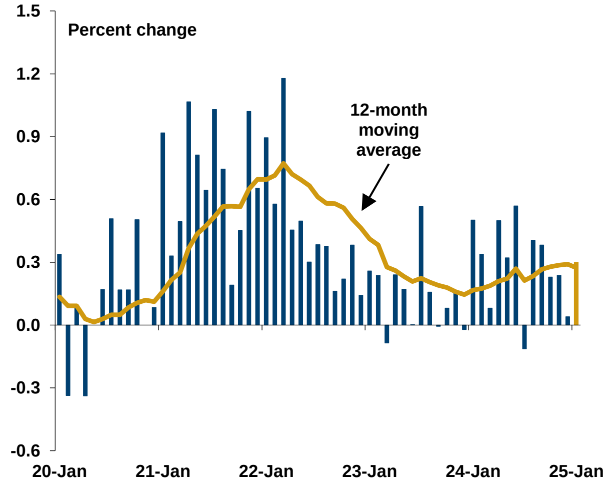
** The gold bar is a forecast for January 2025.*

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

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

Wholesale energy prices could increase for the fourth consecutive month in January, as could food prices after a decline of 0.1 percent in the prior month that was well below the trailing 12-month average of 0.4 percent. Goods prices excluding food and energy have increased 0.2 percent per month in 2024, a bit slower than the average monthly advance of 0.4 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 on average last year.

PPI Ex. Food & Energy*



** The gold bar is a forecast for January 2025.*

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

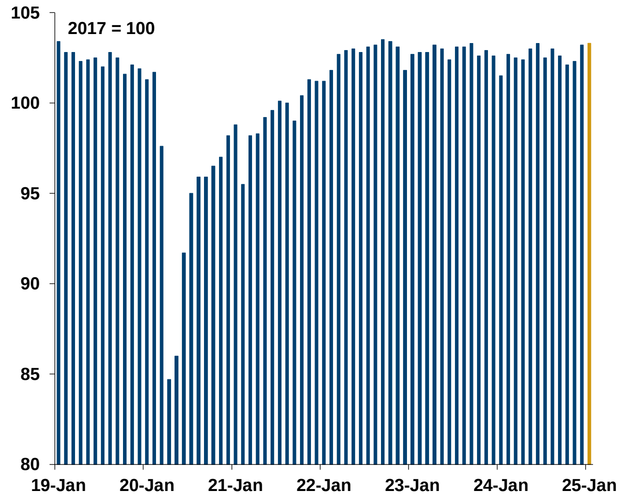
Retail Sales (January) (Friday)
Forecast: -0.3% Total, +0.2% Ex. Autos

A marked decline in new vehicle sales could act as a drag on headline retail sales in January. Moreover, sales excluding autos and gasoline, while having been well maintained in recent months, could hit a lull after a strong period boosted by holiday-related shopping. Moreover, activity at brick-and-mortar stores could have faced additional challenges from of weather-related events (e.g., California wildfires and snow storms in the South).

Industrial Production (January) (Friday)
Forecast: +0.1% Headline, -0.1% Manufacturing ; 77.5% Cap-U

A decline in factory work times (possibly weather-related) suggests a dip in the manufacturing component of industrial production, adding to the unimpressive sideways trend. The mining sector could also be soft, a view supported by a decline in aggregate hours and a dip in the rotary rig count. In contrast, a full onset of winter weather raises the possibility of a jump in utility output. Keep in mind, however, that swings in this volatile component often reflect shifts in weather rather than economic fundamentals (charts, below).

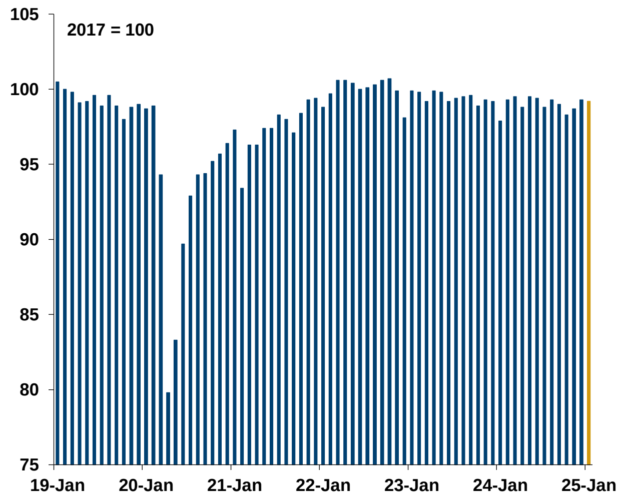
Industrial Production: Headline*



** The gold bar is a forecast for January 2025.*

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

Industrial Production: Manufacturing*



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

Daiwa Capital Markets

Economic Indicators

February 2025

Monday	Tuesday	Wednesday	Thursday	Friday
3	4	5	6	7
ISM MFG. INDEX Index / Prices Nov 48.4 50.3 Dec 49.2 52.5 Jan 50.9 54.9 **CONSTRUCTION** Oct 1.6% Nov 0.2% Dec 0.5% **VEHICLE SALES** Nov 16.7 million Dec 16.9 million Jan 15.6 million	**FACTORY ORDERS** Oct 0.5% Nov -0.8% Dec -0.9% **JOLTS DATA** Openings (000) / Quit Rate Oct 7,839 2.1% Nov 8,156 2.0% Dec 7,600 2.0%	**ADP EMPLOYMENT** Private Payrolls Nov 204,000 Dec 176,000 Jan 183,000 **TRADE BALANCE** Oct -$74.2 billion Nov -$78.9 billion Dec -$98.4 billion **ISM SERVICES INDEX** Index / Prices Nov 52.5 58.5 Dec 54.0 64.4 Jan 52.8 60.4	**UNEMPLOYMENT CLAIMS** Initial / Continuing (millions) Dec 21 0.220 1.834 Dec 28 0.211 1.877 Jan 4 0.203 1.859 Jan 11 0.217 N/A **PRODUCTIVITY & COSTS** Productivity / Unit Labor Costs 24-Q2 2.1% -1.1% 24-Q3 2.3% 0.5% 24-Q4 1.2% 3.0%	**EMPLOYMENT REPORT** Payrolls / Un. Rate Nov 261,000 4.2% Dec 307,000 4.1% Jan 143,000 4.0% **CONSUMER SENTIMENT** Dec 74.0 Jan 71.1 Feb 67.8 **WHOLESALE TRADE** Inventories / Sales Oct 0.0% -0.3% Nov -0.1% 0.9% Dec -0.5% 1.0% **CONSUMER CREDIT** Oct $17.5 billion Nov -$5.4 billion Dec $40.8 billion
10	11	12	13	14
	NFIB SMALL BUSINESS OPTIMISM INDEX (6:00) Nov 101.7 Dec 105.1 Jan --	**CPI (8:30)** Total / Core Nov 0.3% 0.3% Dec 0.4% 0.2% **Jan 0.3% 0.3%** **FEDERAL BUDGET (2:00)** 2024 / 2023 Nov -$366.8B -$314.0B Dec -$86.7B -$129.4B **Jan -$100.0B** -$21.9B	**UNEMP. CLAIMS (8:30)** **PPI (8:30)** Final Demand / Ex. Food & Energy Nov 0.4% 0.2% Dec 0.2% 0.0% **Jan 0.4% 0.3%**	**RETAIL SALES (8:30)** Total / Ex.Autos Nov 0.8% 0.2% Dec 0.4% 0.4% **Jan -0.3% 0.2%** **IMPORT/EXPORT PRICES (8:30)** Non-Petrol Imports / Nonagri. Exports Nov 0.2% 0.0% Dec 0.2% 0.3% Jan -- -- **IP & CAP-U (9:15)** IP / Cap.Util. Nov 0.2% 77.0% Dec 0.9% 77.6% **Jan 0.1% 77.5%** **BUSINESS INVENTORIES (10:00)** Inventories / Sales Oct 0.0% 0.0% Nov 0.1% 0.6% **Dec -0.1% 0.7%**
17	18	19	20	21
PRESIDENTS' DAY	**EMPIRE MFG** **NAHB HOUSING INDEX** **TIC FLOWS**	**HOUSING STARTS** **FOMC MINUTES**	**UNEMP. CLAIMS** **PHILLY FED INDEX** **LEADING INDICATORS**	**EXISTING HOME SALES** **REVISED CONSUMER SENTIMENT**
24	25	26	27	28
CHICAGO FED NATIONAL ACTIVITY INDEX	**FHFA HOME PRICE INDEX** **S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX** **CONFERENCE BOARD CONSUMER CONFIDENCE**	**NEW HOME SALES**	**UNEMP. CLAIMS** **REVISED Q4 GDP** **DURABLE GOODS ORDERS** **PENDING HOME SALES**	**PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX** **INTERNATIONAL TRADE IN GOODS** **ADVANCE INVENTORIES** **MNI CHICAGO BUSINESS BAROMETER**

Forecasts in bold.

Treasury Financing

February 2025

Monday	Tuesday	Wednesday	Thursday	Friday
3	4	5	6	7
AUCTION RESULTS: Rate Cover 13-week bills 4.220% 2.65 26-week bills 4.155% 3.04	**AUCTION RESULTS:** Rate Cover 6-week CMBs 4.250% 2.80 **ANNOUNCE:** $64 billion 17-week bills for auction on Feb 5 $95 billion 4-week bills for auction on Feb 6 $90 billion 8-week bills for auction on Feb 6 **SETTLE:** $64 billion 17-week bills $95 billion 4-week bills $90 billion 8-week bills	**AUCTION RESULTS:** Rate Cover 17-week bills 4.205% 2.99 **ANNOUNCE:** $58 billion 3-year notes for auction on Feb 11 $42 billion 10-year notes for auction on Feb 12 $25 billion 30-year bonds for auction on Feb 13	**AUCTION RESULTS:** Rate Cover 4-week bills 4.250% 2.62 8-week bills 4.240% 2.77 **ANNOUNCE:** $156 billion 13-,26-week bills for auction on Feb 10 $85 billion 6-week CMBs for auction on Feb 11 **SETTLE:** $156 billion 13-,26-week bills $85 billion 6-week CMBs	
10	11	12	13	14
AUCTION: $156 billion 13-,26-week bills	**AUCTION:** $58 billion 3-year notes $85 billion 6-week CMBs **ANNOUNCE:** $64 billion* 17-week bills for auction on Feb 12 $95 billion* 4-week bills for auction on Feb13 $90 billion* 8-week bills for auction on Feb 13 **SETTLE:** $64 billion 17-week bills $95 billion 4-week bills $90 billion 8-week bills	**AUCTION:** $64 billion* 17-week bills $42 billion 10-year notes	**AUCTION:** $95 billion* 4-week bills $90 billion* 8-week bills $25 billion 30-year bonds **ANNOUNCE:** $156 billion* 13-,26-week bills for auction on Feb 18 $48 billion* 52-week bills for auction on Feb 18 $85 billion* 6-week bills for auction on Feb 18 $16 billion* 20-year bonds for auction on Feb 19 $9 billion* 30-year TIPS for auction on Feb 20 **SETTLE:** $156 billion 13-,26-week bills $85 billion 6-week CMBs	
17	18	19	20	21
PRESIDENTS' DAY	**AUCTION:** $156 billion* 13-,26-week bills $48 billion* 52-week bills $85 billion* 6-week bills **ANNOUNCE:** $64 billion* 17-week bills for auction on Feb 19 $95 billion* 4-week bills for auction on Feb 20 $90 billion* 8-week bills for auction on Feb 20 **SETTLE:** $64 billion* 17-week bills $95 billion* 4-week bills $90 billion* 8-week bills $58 billion 3-year notes $42 billion 10-year notes $25 billion 30-year bonds	**AUCTION:** $64 billion* 17-week bills $16 billion* 20-year bonds	**AUCTION:** $95 billion* 4-week bills $90 billion* 8-week bills $9 billion* 30-year TIPS **ANNOUNCE:** $156 billion* 13-,26-week bills for auction on Feb 24 $85 billion* 6-week bills for auction on Feb 25 $69 billion* 2-year notes for auction on Feb 24 $70 billion* 5-year notes for auction on Feb 25 $44 billion* 7-year notes for auction on Feb 26 $28 billion* 2-year FRNs for auction on Feb 26 **SETTLE:** $156 billion* 13-,26-week bills $48 billion* 52-week bills $85 billion* 6-week bills	
24	25	26	27	28
AUCTION: $156 billion* 13-,26-week bills $69 billion* 2-year notes	**AUCTION:** $85 billion* 6-week bills $70 billion* 5-year notes **ANNOUNCE:** $64 billion* 17-week bills for auction on Feb 26 $95 billion* 4-week bills for auction on Feb 27 $90 billion* 8-week bills for auction on Feb 27 **SETTLE:** $64 billion* 17-week bills $95 billion* 4-week bills $90 billion* 8-week bills	**AUCTION:** $64 billion* 17-week bills $42 billion* 10-year notes	**AUCTION:** $64 billion* 17-week bills $44 billion* 7-year notes $28 billion* 2-year FRNs **ANNOUNCE:** $156 billion* 13-,26-week bills for auction on Mar 3 $85 billion* 6-week bills for auction on Mar 4 **SETTLE:** $156 billion* 13-,26-week bills $85 billion* 6-week bills	**SETTLE:** $16 billion* 20-year bonds $9 billion* 30-year TIPS $69 billion* 2-year notes $70 billion* 5-year notes $44 billion* 7-year notes $28 billion* 2-year FRNs

*Estimate