U.S. Economic Comment

- February employment: solid, but caution warranted amid heightened uncertainty
- Friday remarks by Chair Powell: patience amid heightened uncertainty

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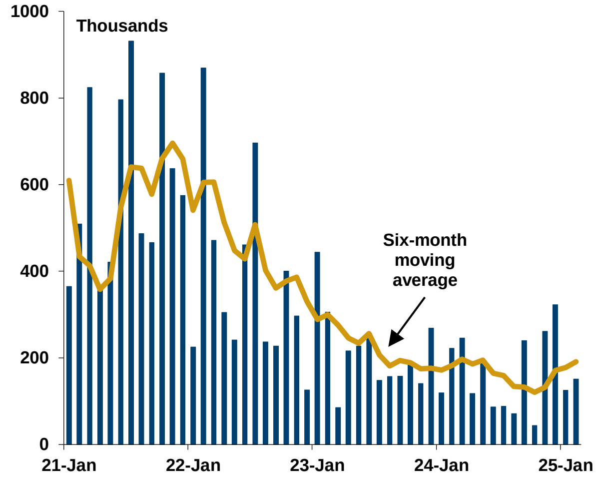
Early 2025 View on the U.S. Labor Market

Payroll growth of 151,000 in February lagged the Bloomberg median expectation of 160,000, but the results should still be considered solid (an average of 191,000 in the last six months, which is ahead of the 2019 average of 166,000 – job creation during a period viewed favorably by Fed officials; chart). Indeed, they offered scant evidence of rapid softening in the economy. Instead, the latest reading supported the emerging narrative that the U.S. economy could be gradually decelerating from the firm pace in recent years, an expected outcome after a period of restrictive monetary policy aimed at taming rapid underlying inflation – and likely a necessary condition to facilitate a return to the price stability mandate. Therefore, we do not view this evolution as troubling – provided that uncertainty generated by President Trump's recent tariff pronouncements do not cause undue damage to sentiment and materially increase the odds of a more significant slowdown.

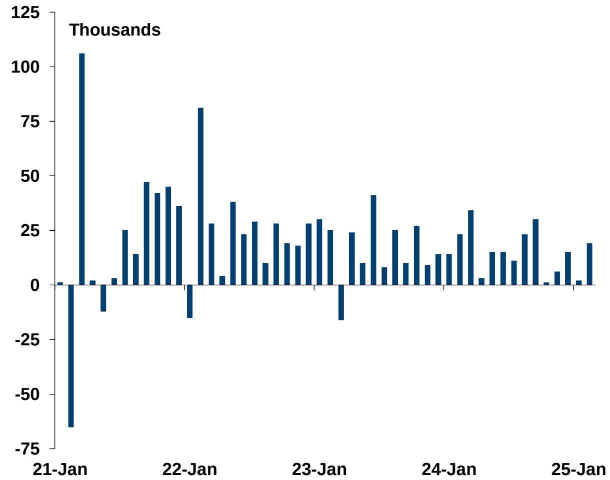
Change in Nonfarm Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

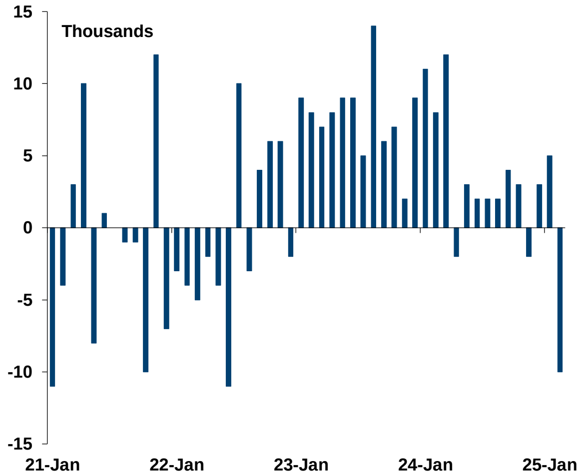
Hiring by sector also offered little evidence of a forceful pullback by firms, although we saw some evidence of the Trump administration's disruptions to the federal workforce. First turning to positive developments, the healthcare and social assistance sector (a source of well-paying jobs) recorded hiring of 63,100 in February, modestly slower than the trailing six-month average of approximately 72,000. Additionally, the construction industry – a cyclically sensitive area – added 19,000 positions, up from an average of 12,800 in the previous six months (chart, below, left). With that said, the Trump administration's hiring freeze and staffing reductions associated with efforts by the

Change in Construction Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

Change in Federal Government Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

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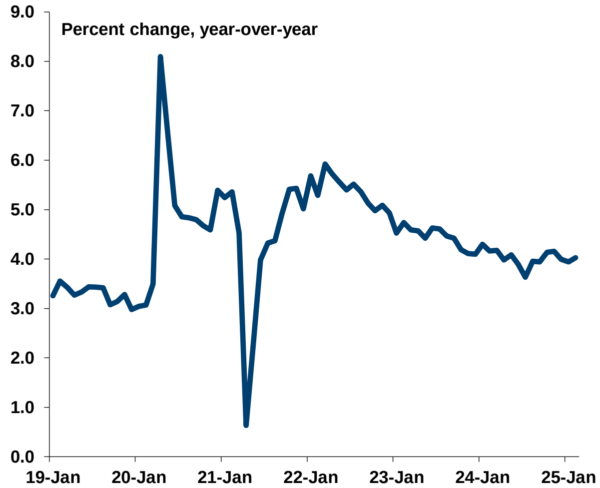
new Department of Government Efficiency (DOGE) likely contributed to a drop of 10,000 in federal government employment, the largest decline since a reading of -11,000 in June 2022 (chart, prior page, below right). We lack any useful insight regarding how further staffing reductions could evolve, but developments thus far suggest that unpredictability is the only certainty. Even so, we interpret developments with the federal workforce as unlikely to have a material impact on broader labor market trends.

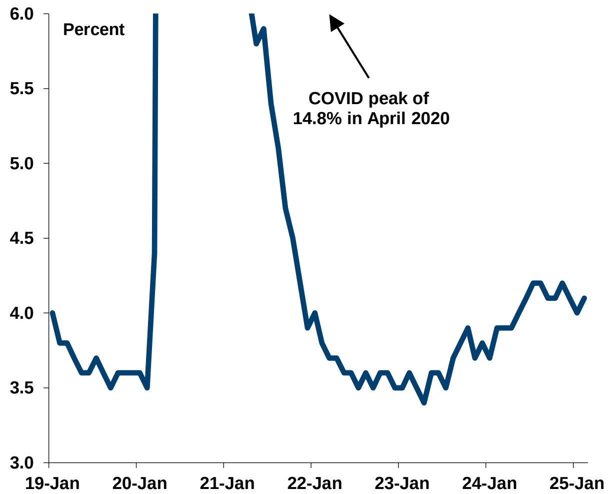
Amid the solidification of underlying labor market conditions, wage growth has shown little deviation from the recent trend. Average hourly earnings rose 0.3 percent in February, in line with the trailing 12-month average. The shift equated to a year-over-year change of 4.0 percent, up from 3.9 percent in January (chart, right). In a broad sense, a rule of thumb for wage growth consistent with the central bank's inflation objective would be the inflation target (2 percent) plus trend productivity growth (which we assume to be in the area of 1.5 percent), which would suggest compensation growth slower than the prevailing pace. However, we would emphasize that recent assessments of Fed officials suggest that current labor market conditions, and the prevailing pace of wage growth, are no longer inconsistent with a return to 2 percent. Thus, we suspect that further cooling in conditions would be viewed unfavorably and possibly tilt policymakers' views in favor of additional reductions in the federal funds rate.

Average Hourly Earnings



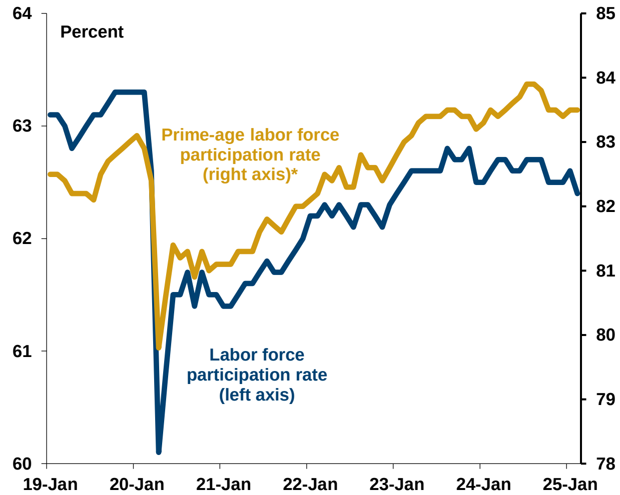
Source: Bureau of Labor Statistics via Haver Analytics

Unemployment Rate



Source: Bureau of Labor Statistics via Haver Analytics

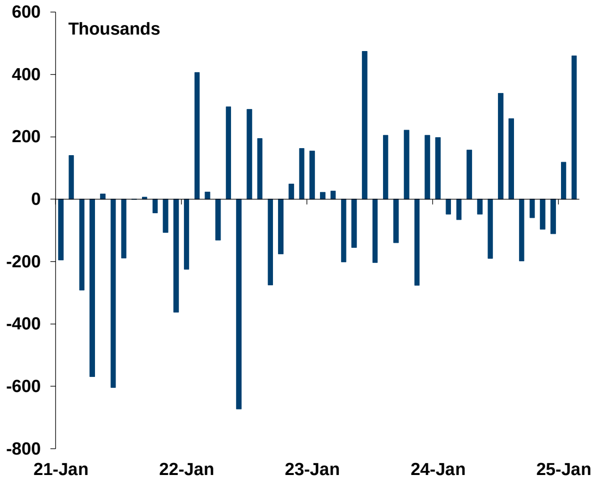
Labor Force Participation Rate



** 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

We are a bit less enthusiastic regarding our assessment of the data from the household survey, although they too were not particularly troubling. The unemployment rate rose 0.1 percentage point in the latest month to 4.0 percent (chart, above left), a modest change in isolation but one that was generated by large declines in both employment (-588,000) and the labor force (-385,000). With that said, the household data are often volatile from month-to-month. Moreover, while the labor force slipped in February, the change occurred outside of prime working age demographics. Although the overall labor force participation rate eased by 0.2 percentage point to 62.4 percent, the prime age measure remained at 83.5 percent – an elevated reading compared to historical norms (chart, above right). To highlight one statistic that stood out on the soft side, we will be watching for the next few months data on individuals working part time for economic reasons (i.e., those working part time involuntarily). This measure jumped by 460,000 individuals in February. Data for early 2025 are not directly comparable to previous observations because of the incorporation of new population controls introduced in last month's employment release, but the move was still large nonetheless (chart). Again, the employment data in context suggest stability in the labor market, which allows the FOMC to be patient with respect to further rate cuts, but they bear close watching given the previous period of monetary policy restriction along with the heightened uncertainty injected by the early maneuvers of the Trump administration.

Part-Time Workers*



** Those working part time for economic reasons. That is, individuals who would prefer a full-time job but work part-time because their hours had been reduced or they were unable to find full-time jobs.*

Source: Bureau of Labor Statistics via Haver Analytics

Powell's Friday Remarks

In a final flourish ahead of blackout period preceding the March 18-19 FOMC meeting, multiple Fed officials weighed in on the key variables influencing the path of monetary policy—including Chair Powell on Friday afternoon when he provided the keynote remarks at the University of Chicago Booth School of Business 2025 U.S. Monetary Policy Forum. The Chair offered a favorable assessment on the labor market ("broadly in balance…not a significant source of inflationary pressure") and a guarded, but hopeful, view on inflation where he preached patience amid an expected "bumpy" path back to 2 percent. With respect to monetary policy, he was candid about challenges introduced by the Trump administration and the many fronts on which they could influence future decisions:

> "Looking ahead, the new Administration is in the process of implementing significant policy changes in four distinct areas: trade, immigration, fiscal policy, and regulation. It is the net effect of these policy changes that will matter for the economy and for the path of monetary policy. While there have been recent developments in some of these areas, especially trade policy, uncertainty around the changes and their likely effects remains high…We do not need to be in a hurry, and are well positioned to wait for greater clarity." (For the entirety of the prepared speech, see: Powell, Jerome H. "*Economic Outlook*," Federal Reserve Board, March 7, 2025. https://www.federalreserve.gov/newsevents/speech/powell20250307a.htm.)

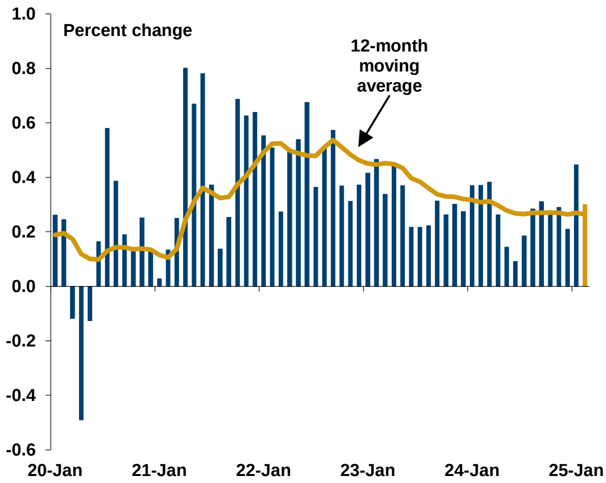
Interestingly, in response to a question regarding current heightened uncertainty, Chair Powell noted, "the costs of waiting are very, very low." His response would seem to indicate that policymakers are relatively unconcerned about near-term downside risks to the U.S. economy. Serving as a backdrop against this position, they see growth as solid and labor market conditions as relatively stable. As such, we suspect his sanguine view sets the stage for a pause at the March FOMC meeting to buy time to assess both the path of inflation and new government policies (currently a 97 percent probability indicated by the CME Fed Watch tool as of Friday afternoon). Even so, given the current volatile landscape, views could evolve rapidly in coming months.

The Week Ahead

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

Available data indicate that a dip in the prices energy commodities after seasonal adjustment could offset a pickup in the costs of energy services and leave the overall energy component little changed in February. Food prices had been on a subdued upward trend (average monthly increase of 0.2 percent in 2024), but they have accelerated in recent months, with January's advance of 0.4 percent influenced importantly by a 15.2 percent spike in egg prices (which may exert further pressure in February given ongoing shortages). Core goods prices had been on a disinflationary track for much of the past year (average monthly change over the past 12 months rounding up to 0.0 percent), but increases in four of the past five months suggest that trajectory may be beginning to shift. Core service inflation, in contrast, is more likely to aid in the ongoing easing toward the Federal Reserve's 2 percent target. Although the process has been slow, further cooling in housing components (primary rents and owners' equivalent rent) are anticipated as readings on market rents feed through to the CPI. Additionally, moderation in wage growth associated with cooling labor market conditions could contribute to slowing in core services excluding housing (i.e., "supercore" inflation) after last month's jump of 0.8 percent (charts, below).

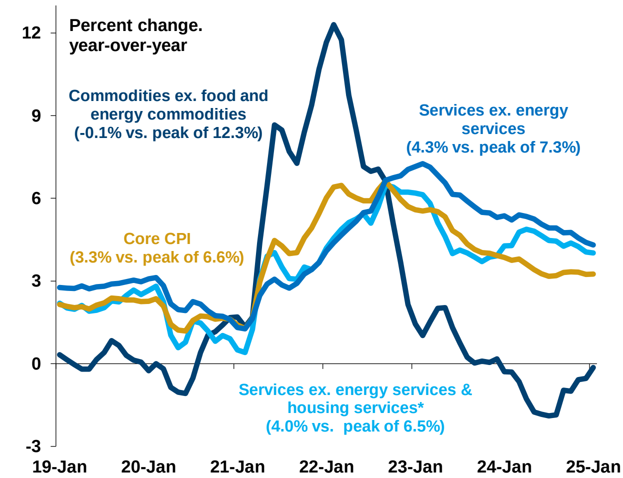
Core CPI*



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

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

Decomposition of Core CPI

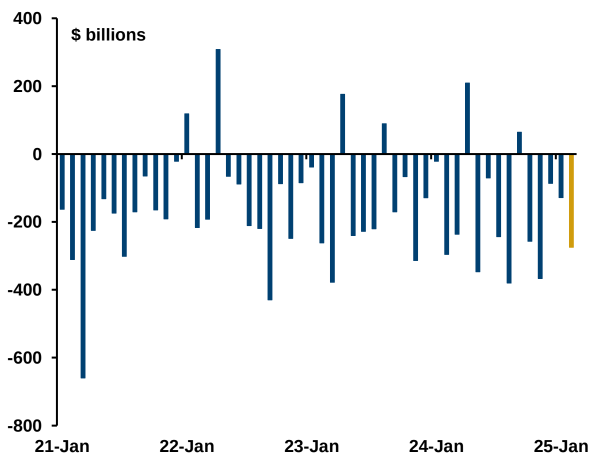


Source: Bureau of Labor Statistics via Haver Analytics

Federal Budget (February) (Wednesday)
Forecast: -$275.0 Billion

Available data from the Daily Treasury Statement suggest that federal revenue growth was firm last month (up approximately 8.0 percent year-over-year by our estimate). With that said, outlays also remained on their firm trajectory. If the deficit projection for February 2025 is realized, the cumulative shortfall in the first five months of FY2025 will total $1,115 billion, wider than the $828 billion deficit in the same period in FY2024 (chart).

Federal Budget Surplus/Deficit*



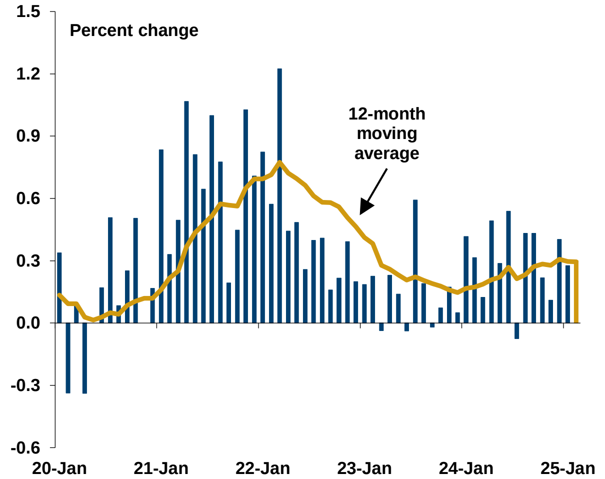
** The gold bar is a forecast for February 2025.*

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

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

Following large increases in the past two months (+1.7 percent and +2.2 percent in January 2025 and December 2024, respectively), energy prices could be little changed in February. Food prices also have been under pressure (including average advances of 1.2 percent in the past three months), with pressure emerging in the finished consumer foods area (groceries). Goods prices excluding food and energy have advanced 0.2 percent on average over the past year, a bit slower than the average monthly increase of 0.3 percent for the broad services component. Construction costs remain on a moderate upward trend in the current episode, increasing 0.2 percent per month on average over the last 12 (inclusive of an above-trend pickup of 0.4 percent in January).

PPI Ex. Food & Energy*



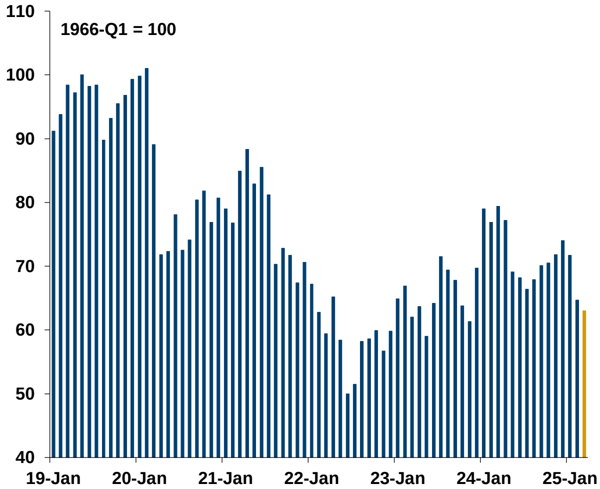
** The gold bar is a forecast for February 2025.*

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

Consumer Sentiment (March) (Friday)
Forecast: 63.0 (-1.7 Pct. Pt.)

Concerns revolving around elevated grocery prices and uncertainty regarding tariff policy by the Trump administration could again weigh on consumer sentiment in March. On the point of levies, we're paying close attention to the inflation expectation measures published with the University of Michigan survey. The year-ahead series surged again in January, rising one percentage point to 4.3 percent, the highest observation since November 2023. Long-term expectations increased 0.3 percentage point to 3.5 percent, the largest month-to-month advance since May 2021. Fed officials have consistently characterized inflation expectations as "anchored," but recent shifts are hardly welcome (charts, below).

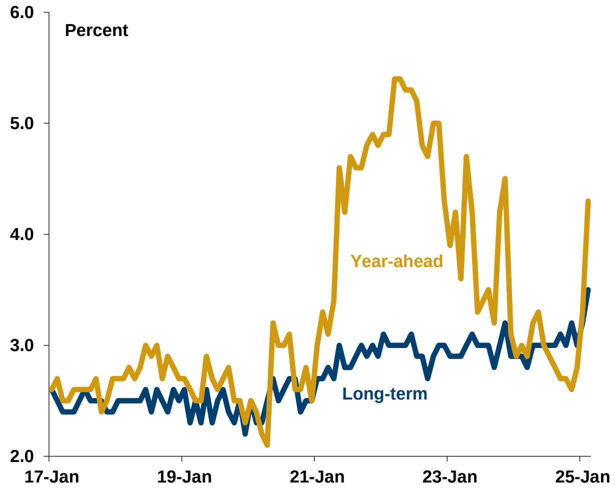
Consumer Sentiment*



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

Sources: University of Michigan via Haver Analytics; Daiwa Capital Markets America

Consumer Inflation Expectations



Source: University of Michigan via Haver Analytics

Daiwa Capital Markets

Economic Indicators

March 2025

Monday	Tuesday	Wednesday	Thursday	Friday
3	4	5	6	7
ISM MFG. INDEX Index / Prices Dec 49.2 52.5 Jan 50.9 54.9 Feb 50.3 62.4 **CONSTRUCTION** Nov 0.4% Dec 0.5% Jan -0.2% **VEHICLE SALES** Dec 16.9 million Jan 15.5 million Feb 16.0 million		**ADP EMPLOYMENT** Private Payrolls Dec 161,000 Jan 186,000 Feb 77,000 **ISM SERVICES INDEX** Index / Prices Dec 54.0 64.4 Jan 52.8 60.4 Feb 53.5 62.6 **FACTORY ORDERS** Nov -0.8% Dec -0.6% Jan 1.7% **BEIGE BOOK** **February 2025:** "Overall economic activity rose slightly since mid-January. Six Districts reported no change, four reported modest or moderate growth, and two noted slight contractions."	**UNEMPLOYMENT CLAIMS** Initial / Continuing (millions) Feb 8 0.214 1.867 Feb 15 0.220 1.855 Feb 22 0.242 1.897 Mar 1 0.221 N/A **TRADE BALANCE** Nov -$78.2 billion Dec -$98.1 billion Jan -$131.4 billion **REVISED PRODUCTIVITY & COSTS** Productivity / Unit Labor Costs 24-Q3 2.9% -1.5% 24-Q4(p) 1.2% 3.0% 24-Q4(r) 1.5% 2.2% **WHOLESALE TRADE** Inventories / Sales Nov -0.1% 0.9% Dec -0.4% 1.4% Jan 0.8% -1.3%	**EMPLOYMENT REPORT** Payrolls / Un. Rate Dec 323,000 4.1% Jan 125,000 4.0% Feb 151,000 4.1% **CONSUMER CREDIT** Nov -$14.0 billion Dec -$100.0 billion Jan $18.1 billion
10	11	12	13	14
	NFIB SMALL BUSINESS OPTIMISM INDEX (6:00) Dec 105.1 Jan 102.8 Feb -- **JOLTS DATA (10:00)** Openings (000) / Quit Rate Nov 8,156 2.0% Dec 7,600 2.0% Jan -- --	**CPI (8:30)** Total / Core Dec 0.4% 0.2% Jan 0.5% 0.4% **Feb 0.3% 0.3%** **FEDERAL BUDGET (2:00)** FY2025 / FY2024 Dec -$86.7B -$129.4B Jan -$128.6B -$21.9B **Feb -$275.0B** -$296.3B	**UNEMP. CLAIMS (8:30)** **PPI (8:30)** Final Demand / Ex. Food & Energy Dec 0.5% 0.4% Jan 0.4% 0.3% **Feb 0.4% 0.3%**	**CONSUMER SENTIMENT (10:00)** Jan 71.7 Feb 64.7 **Mar 63.0**
17	18	19	20	21
RETAIL SALES **EMPIRE MFG** **NAHB HOUSING INDEX** **BUSINESS INVENTORIES**	**HOUSING STARTS** **IMPORT/EXPORT PRICES** **IP & CAP-U** **FOMC MEETING (FIRST DAY)**	**FOMC RATE DECISION** **TIC FLOWS**	**UNEMP. CLAIMS** **CURRENT ACCOUNT** **PHILLY FED INDEX** **EXISTING HOME SALES** **LEADING INDICATORS**	
24	25	26	27	28
CHICAGO FED NATIONAL ACTIVITY INDEX	**FHFA HOME PRICE INDEX** **S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX** **NEW HOME SALES** **CONFERENCE BOARD CONSUMER CONFIDENCE**	**DURABLE GOODS ORDERS**	**UNEMP. CLAIMS** **REVISED Q4 GDP** **INTERNATIONAL TRADE IN GOODS** **ADVANCE INVENTORIES** **PENDING HOME SALES**	**PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX** **REVISED CONSUMER SENTIMENT**

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

Daiwa Capital Markets

Treasury Financing

March 2025

Monday	Tuesday	Wednesday	Thursday	Friday
3	**4**	**5**	**6**	**7**
AUCTION RESULTS: Rate / Cover 13-week bills 4.210% 2.77 26-week bills 4.135% 3.27	**AUCTION RESULTS:** Rate / Cover 6-week bills 4.240% 2.92 12-day CMBs 4.260% 3.84 **ANNOUNCE:** $60 billion 17-week bills for auction on Mar 5 $75 billion 4-week bills for auction on Mar 6 $75 billion 8-week bills for auction on Mar 6 **SETTLE:** $60 billion 17-week bills $80 billion 4-week bills $75 billion 8-week bills	**AUCTION RESULTS:** Rate / Cover 17-week bills 4.180% 3.42	**AUCTION RESULTS:** Rate / Cover 4-week bills 4.230% 3.00 8-week bills 4.220% 3.02 **ANNOUNCE:** $144 billion 13-,26-week bills for auction on Mar 10 $70 billion 6-week bills for auction on Mar 11 $58 billion 3-year notes for auction on Mar 11 $39 billion 10-year notes for auction on Mar 12 $22 billion 30-year bonds for auction on Mar 13 **SETTLE:** $144 billion 13-,26-week bills $70 billion 6-week bills $40 billion 12-day CMBs	
10	**11**	**12**	**13**	**14**
AUCTION: $144 billion 13-,26-week bills	**AUCTION:** $70 billion 6-week bills $58 billion 3-year notes **ANNOUNCE:** $60 billion* 17-week bills for auction on Mar 12 $75 billion* 4-week bills for auction on Mar 13 $75 billion* 8-week bills for auction on Mar 13 **SETTLE:** $60 billion 17-week bills $75 billion 4-week bills $75 billion 8-week bills	**AUCTION:** $60 billion* 17-week bills $39 billion 10-year notes	**AUCTION:** $75 billion* 4-week bills $75 billion* 8-week bills $22 billion 30-year bonds **ANNOUNCE:** $144 billion* 13-,26-week bills for auction on Mar 17 $70 billion* 6-week bills for auction on Mar 18 $48 billion* 52-week bills for auction on Mar 18 $13 billion* 20-year bonds for auction on Mar 18 $18 billion* 10-year TIPS for auction on Mar 20	**SETTLE:** $144 billion 13-,26-week bills $70 billion 6-week bills
17	**18**	**19**	**20**	**21**
AUCTION: $144 billion* 13-,26-week bills **SETTLE:** $58 billion 3-year notes $39 billion 10-year notes $22 billion 30-year bonds	**AUCTION:** $70 billion* 6-week bills $48 billion* 52-week bills $13 billion* 20-year bonds **ANNOUNCE:** $60 billion* 17-week bills for auction on Mar 19 $75 billion* 4-week bills for auction on Mar 20 $75 billion* 8-week bills for auction on Mar 20 **SETTLE:** $60 billion* 17-week bills $75 billion* 4-week bills $75 billion* 8-week bills	**AUCTION:** $60 billion* 17-week bills	**AUCTION:** $75 billion* 4-week bills $75 billion* 8-week bills $18 billion* 10-year TIPS **ANNOUNCE:** $144 billion* 13-,26-week bills for auction on Mar 24 $70 billion* 6-week bills for auction on Mar 25 $69 billion* 2-year notes for auction on Mar 25 $70 billion* 5-year notes for auction on Mar 26 $44 billion* 7-year notes for auction on Mar 27 $28 billion* 2-year FRNs for auction on Mar 26	**SETTLE:** $144 billion* 13-,26-week bills $70 billion* 6-week bills $48 billion* 52-week bills
24	**25**	**26**	**27**	**28**
AUCTION: $144 billion* 13-,26-week bills	**AUCTION:** $70 billion* 6-week bills $69 billion* 2-year notes **ANNOUNCE:** $60 billion* 17-week bills for auction on Mar 26 $75 billion* 4-week bills for auction on Mar 27 $75 billion* 8-week bills for auction on Mar 27 **SETTLE:** $60 billion* 17-week bills $75 billion* 4-week bills $75 billion* 8-week bills	**AUCTION:** $60 billion* 17-week bills $70 billion* 5-year notes $28 billion* 2-year FRNs	**AUCTION:** $75 billion* 4-week bills $75 billion* 8-week bills $44 billion* 7-year notes **ANNOUNCE:** $144 billion* 13-,26-week bills for auction on Mar 31 $70 billion* 6-week bills for auction on Apr 1 **SETTLE:** $144 billion* 13-,26-week bills $70 billion* 6-week bills	**SETTLE:** $28 billion* 2-year FRNs

**Estimate*