Daiwa Capital Markets

U.S. Economic Comment

- Powell's update: the economy on solid footing; monetary policy well positioned; long-term inflation expectations "anchored"; "uncertainty remains elevated"
- Preliminary thoughts on Trump's "reciprocal" tariffs: worse than expected, but situation still evolving
- March employment: data suggest a solid labor market, one not yet scarred by tariff reverberations

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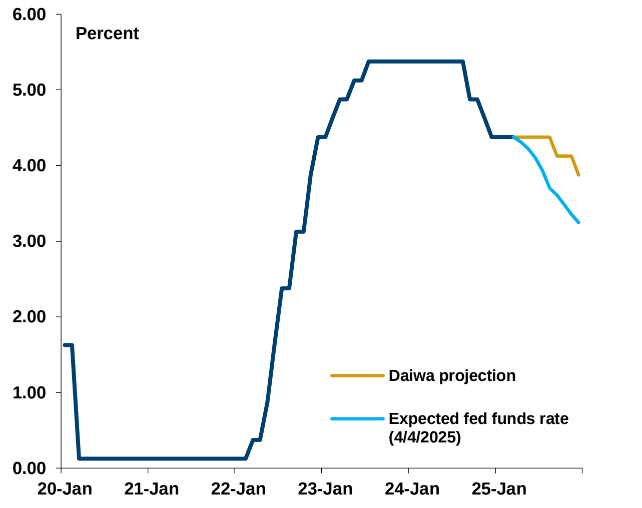
Powell: Waiting for Clarity

In remarks made earlier today, Fed Chair Jay Powell offered a largely positive assessment of current conditions in the U.S. economy, although his comments were infused with caution amid the implementation of various policies of the Trump administration – most notably a robust program of tariffs. As in other recent comments, he noted: "The incoming data show solid growth, a labor market in balance, and inflation running much closer to, but still above, our 2 percent objective." However, in addressing Q1 developments, he argued that the initial batch of "hard" data pointed to slower growth and that "surveys of households and businesses report dimming expectations and higher uncertainty about the outlook." Even so, recession – while acknowledged during his Q&A session as having crept into discussions among some market participants – is not his baseline scenario or that of his colleagues.

Transitioning from his initial assessment of current conditions, he focused on the significant uncertainty generated by tariffs. Although he noted that detail about the extent and duration of application of the levies remains unclear, he argued that "it is now becoming clear that the tariff increases will be significantly larger than expected. The same is likely to be true of the economic effects, which will include higher inflation and slower growth." Potential inflation effects were of particular concern to the Fed Chair as they could extend beyond a one-time shift in the price level and become "persistent." With that in mind, a key to circumventing this persistence "would depend on keeping longer-term inflation expectations well anchored" with the Committee's goal "to make certain that a one-time increase in the price level does not become an ongoing inflation problem."

Insight into the FOMC's approach was provided in the Fed Chair's Q&A session, crystalized by his assertion that "it feels like we don't need to be in a hurry" [to adjust the target range for the federal funds rate]. In other words, with the economy on solid footing, and monetary policy seemingly well calibrated to address upside risks to inflation or downside risks to the labor market, policymakers can be patient as the implications of tariff policy become clearer. We would add that the restated call for patience seemingly limits the possibility of an emergency rate cut and pushes back on current fixed income market pricing of four to five cuts of 25 basis points each over the balance of 2025. More realistic, in our view, is our current call for 50 basis points of rate cuts in the back half of the year (September and December) as the effects of the administration's policies on the labor market and inflation become clearer (chart).

Federal Funds Target Rate*



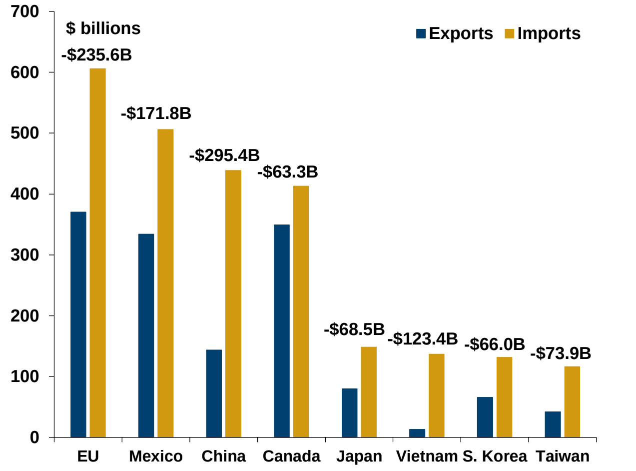
** The gold and light blue lines show the forecasted path of the federal funds rate through year-end 2025 from DCMA and futures pricing data, respectively.*
Sources: Federal Reserve Board via Haver Analytics; Daiwa Capital Markets America; Bloomberg

(To view the entirety of his prepared remarks, see: Powell, Jerome H. "Economic Outlook," Federal Reserve Board, April 4, 2025. https://www.federalreserve.gov/newsevents/speech/powell20250404a.htm)

Liberation Day Tariffs: Brace for Impact

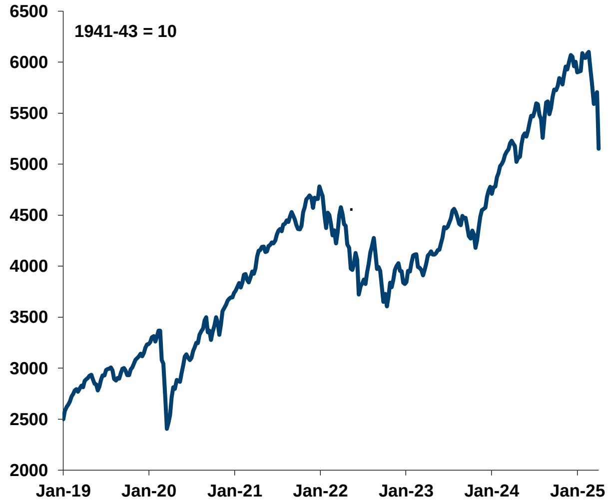
On Wednesday President Trump unleashed additional tariffs on allies and trading partners beyond somewhat narrower levies rolled out earlier. On top of 25 percent duties on steel and aluminum, tariffs on automobiles and parts, among others, a 10 percent baseline duty was levied on all countries, with substantially higher rates applied to others. The measures were deployed to address various alleged grievances, including wide goods deficits with key trading partners (on which new rates were based; chart, right), intellectual property theft, protection of domestic industries from U.S. products, etc. Additionally, the President expressed a desire to bolster U.S. manufacturing capacity, solidify supply chains, and protect U.S. workers. Mexico and Canada were spared further duties, but most other nations were not. Whether or not the President's trade agenda achieves these aims, various responses to the plan were nearly immediate. The equity market swooned, with the S&P 500 down 9.1 percent for the week and the 2-year and 10-year Treasury yields each dropping approximately 25 basis points since last Friday as investors reassessed risks to the domestic and global economic outlooks (charts, below). Moreover, China responded with a retaliatory tariff of 34 percent on U.S. goods (matching the U.S. levy) and Fed Chair Powell admitted that new measures have contributed to a cloudier outlook (see prior page).

Value of U.S. Goods Trade in 2024



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

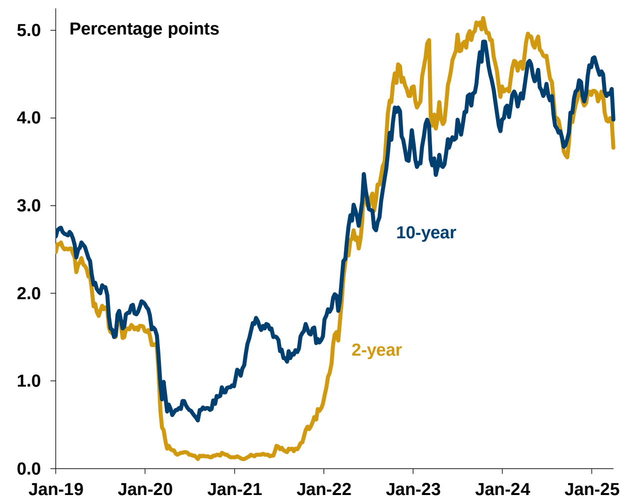
S&P 500*



** Weekly average data except for the latest observation which is a quote from April 4, 2025.*

Sources: Standard & Poor's via Haver Analytics; Bloomberg

Treasury Yields*



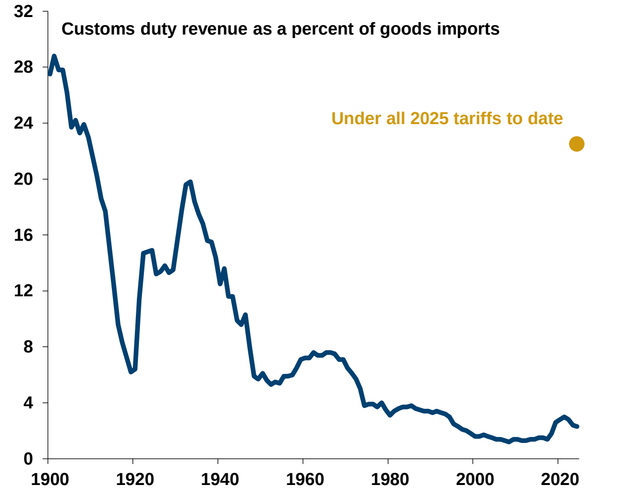
** Weekly average data except for the latest observation which is a quote from April 4, 2025.*

Sources: U.S. Treasury via Haver Analytics; Bloomberg

(For further clarification on the April 2 announcement, see: "Fact Sheet: President Donald J. Trump Declares National Emergency to Increase our Competitive Edge, Protect our Sovereignty, and Strengthen our National and Economic Security," The White House, April 2, 2025. https://www.whitehouse.gov/fact-sheets/2025/04/fact-sheet-president-donald-j-trump-declares-national-emergency-to-increase-our-competitive-edge-protect-our-sovereignty-and-strengthen-our-national-and-economic-security)

To help quantify potential effects on the prevailing rate of import duties into the United States, the Yale Budget Lab offered an incisive assessment of newly announced measures in addition to those rolled out earlier in 2025. Of note, the new tariffs, if fully implemented, would boost the effective tariff rate above 22 percent, the highest since the early 20th century (chart). Aside from economic impacts, the new prevailing level of tariffs (if realized) would likely undermine the global free trade order. President Trump's remarks at least intimate that shattering that paradigm is his aim, regardless of costs borne by U.S. citizens or global partners. With that said, we cannot help but wonder if at least part of recent announcements is still a negotiating ploy. The President undoubtedly hopes to achieve various goals through trade policy, but given prior reversals and ongoing communication with various world leaders (he is said to have spoken to the President of Vietnam as well as representatives from the U.K. today), we would be unsurprised by revisions to his plans. Even so, economic actors in the U.S. have already been whipsawed by recent announcements, with consumers and businesses already adjusting behavior in anticipation of a possible economic slowdown. Equally important (and problematic), we are deeply concerned by the President's treatment of long-standing allies. Negotiating for more favorable trade deals need not entail browbeating global partners.

U.S. Average Effective Tariff Rate



Sources: U.S. International Trade Commission via Bloomberg; "Where We Stand: The Fiscal, Economic, and Distributional Effects of All U.S. Tariffs Enacted in 2025 Through April 2," The Budget Lab at Yale, April 2, 2025. https://budgetlab.yale.edu/research/where-we-stand-fiscal-economic-and-distributional-effects-all-us-tariffs-enacted-2025-through-april

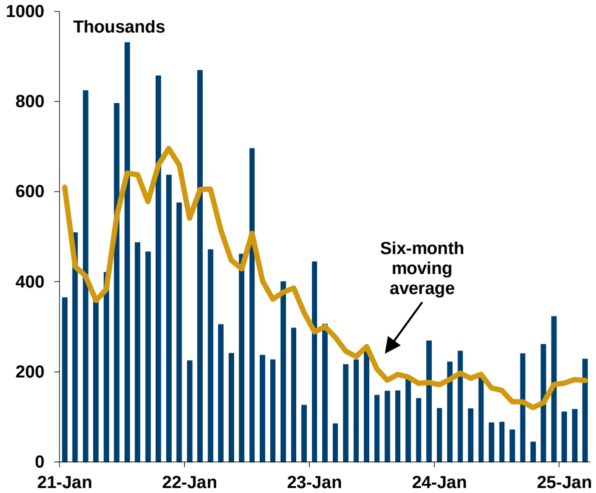
(For further reading, see: "Where We Stand: The Fiscal, Economic, and Distributional Effects of All U.S. Tariffs Enacted in 2025 Through April 2," The Budget Lab at Yale, April 2, 2025. https://budgetlab.yale.edu/research/where-we-stand-fiscal-economic-and-distributional-effects-all-us-tariffs-enacted-2025-through-april)

March Labor Market Snapshot

We readily admit that the importance of the March employment data has been diminished greatly by other developments this week, but the favorable tone of the report was welcome nonetheless. The latest payroll data painted a picture of a resilient labor market (described today by Chair Powell as "in balance") that, all else equal, provides Fed officials with ongoing cover to be patient as they assess the implications of the latest change in tariff policy by the Trump administration. With respect to the data, nonfarm payrolls rose 228,000, well above the Bloomberg median expectation of 140,000 (with 209,000 added by the private sector versus an expectation of 135,000; chart on headline payroll growth, next page, left). Downward revisions of 48,000 in the previous two months combined tempered to a degree the firm tone of the report, but results in January and February had previously been marred by adverse weather and may thus be less representative of the underlying pace of job growth. On the point, the latest six-month average of almost 181,000 is a bit better than the 2019 average of approximately 166,000 – with that year highlighted by Fed officials as one with a sound labor market when supply and demand were in balance.

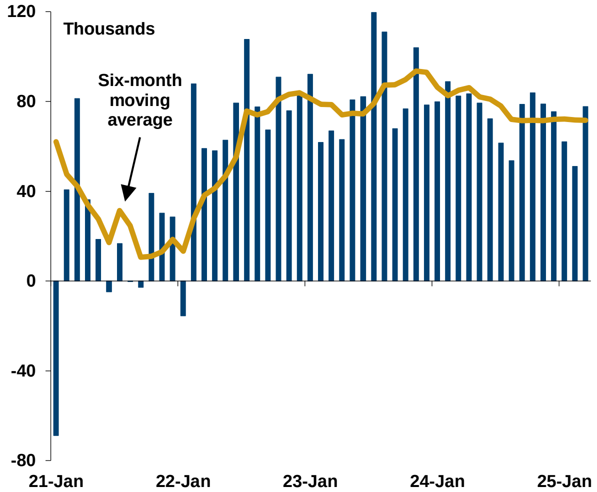
Job growth across sectors raised few, if any, red flags. The healthcare and social assistance sector was again a key engine of growth (+77,800 in March, up from the trialing six-month average of approximately 72,000; chart, next page, right), with various other areas contributing. The leisure and hospitality sector, which is supported largely by consumer discretionary outlays, added 43,000 positions in March after trimming jobs in the prior two months (trailing six-month average of 21,700, which smooths possible weather effects). Additionally, the retail trade sector recorded job gains of 23,700 (versus prior six-month average of 10,300) and the cyclically sensitive construction area added 13,000 positions (trailing six-month average of 10,500). All this to say, job gains in March imply a currently healthy labor market.

Change in Nonfarm Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

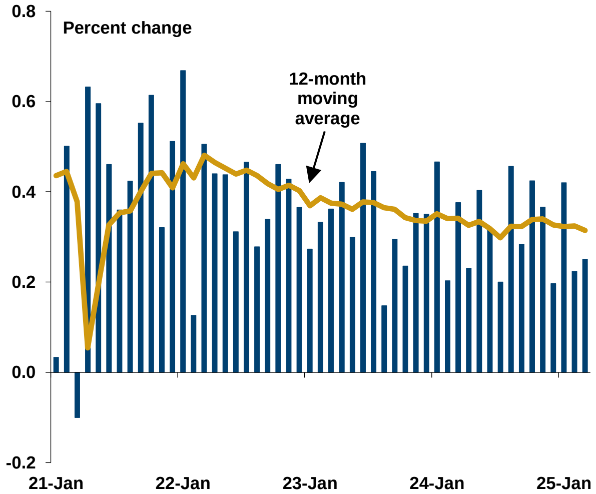
Change in Health Care & Social Assist. Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

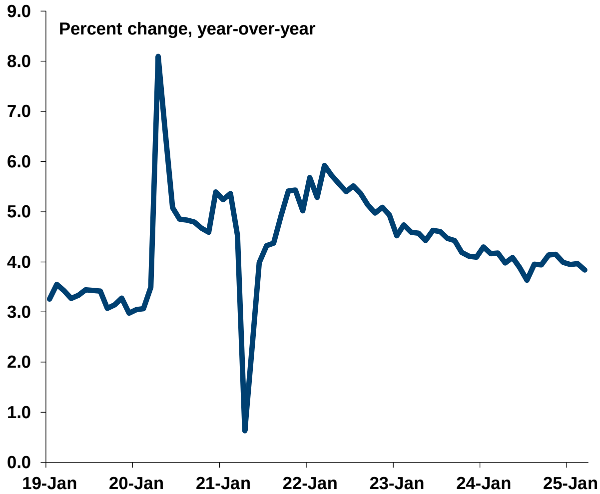
Data on average hourly earnings gave further credence to Chair Powell's assessment that the aforementioned balanced labor market is "no longer a source of inflationary pressure." The earnings measure rose 0.3 percent in the latest month (0.251 percent with less rounding), but two of the last four most recent monthly readings have been subdued (+0.2 percent in December 2024 and February 2025), with the year-over-year advance in wages easing to 3.8 percent from 4.0 percent in February (charts, below). Moreover, data on average earnings for production works were broadly similar, with the month-to-month advance equating to a year-over-year increase of 3.9 percent – down from 4.2 percent in the prior month. And, even while wage growth has slowed, the concurrent deceleration in inflation indicates that many workers are currently realizing real wage gains (versus during peak inflation when wage growth was being cannibalized entirely by higher prices).

Average Hourly Earnings



Source: Bureau of Labor Statistics via Haver Analytics

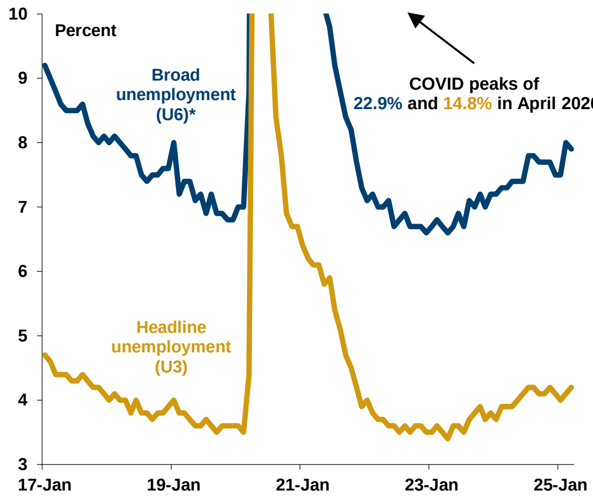
Average Hourly Earnings



Source: Bureau of Labor Statistics via Haver Analytics

Finally, key elements from the household survey also spoke to favorable conditions. The unemployment rate ticked higher (4.2 percent versus no change at 4.1 percent expected), but it remained lower from a longer-term perspective (chart). Additionally, the broad rate, which incorporates those working part time for economic reasons and marginally attached workers (which declined 157,000 and 17,000, respectively), dipped 0.1 percentage point to 7.9 percent. At the same time, both household employment and the labor force increased (up 201,000 and 232,000, respectively) after declines in February. Again, the latest data appeared to affirm the Fed Chair's call for patience amid heightened policy-generated uncertainty.

Unemployment Rate



**The broad unemployment rate is the percentage of the labor force that is unemployed, marginally attached, underemployed, or discouraged.*

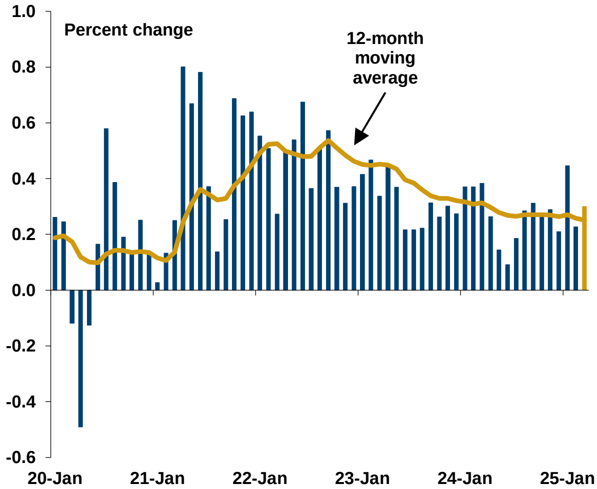
Source: Bureau of Labor Statistics via Haver Analytics

The Week Ahead

CPI (March) (Thursday)
Forecast: +0.1% Headline, +0.3% Core

Available data on gasoline prices suggest a second consecutive subdued reading for the energy component after hints of pressure around the turn of the year. Additionally, the trend has been favorable since 2023, including a year-over-year dip of 0.2 percent in February, and energy prices have again fallen in early April (raising the possibility of a soft reading two reports hence). Food prices have stirred recently on account of pressure in the costs of eggs, but egg shortages have started to subside. Broadly speaking, the trend in food prices has been aligned with the benign pre-pandemic trend, as evidenced by a year-over-year increase of 2.6 percent in February. Core good prices had previously been a source of disinflation earlier in the episode, but increases in five of the past six months suggest that easing in core goods prices has run its course (-0.1 percent year-over-year in February). Results in core service inflation have been mixed (+4.1 percent year-over-year as of February). Shelter inflation had previously lagged cooling in market rents, but those changes are now transmitting through to the CPI, but core service inflation excluding rents and owners' equivalent rent (i.e., supercore) has remained sticky.

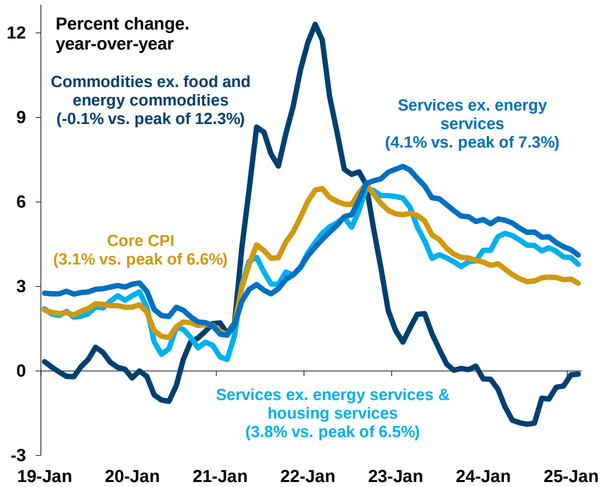
Core CPI*



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

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

Decomposition of Core CPI

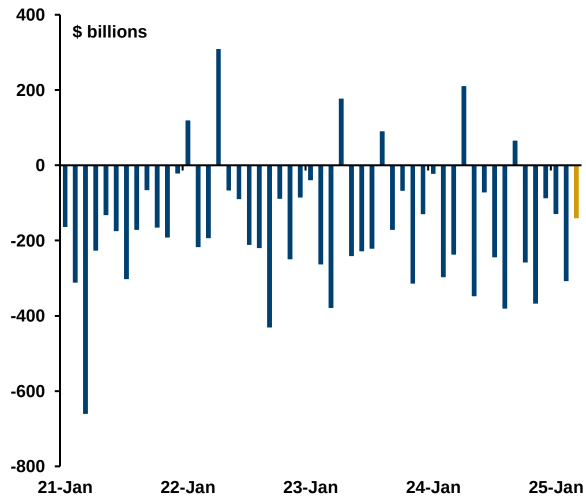


Source: Bureau of Labor Statistics via Haver Analytics

Federal Budget (March) (Thursday)
Forecast: -$140.0 Billion

Available data from the Daily Treasury Statement suggest that federal revenue growth was solid last month (up approximately 14 percent year-over-year by our estimate), but outlay growth also remained on its firm trajectory. If the deficit projection for March 2025 is realized, the cumulative shortfall in the first six months of FY2025 will total $1.287 trillion, wider than the $1.065 trillion deficit in the same period in FY2024 (chart).

Federal Budget Surplus/Deficit*



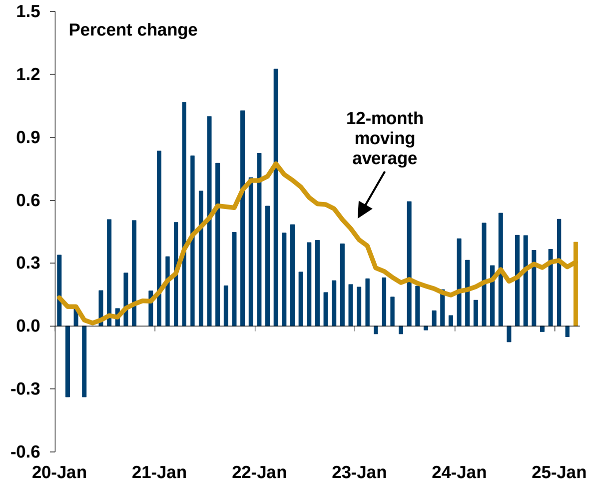
** The gold bar is a forecast for March 2025.*

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

PPI (March) (Friday)
Forecast: +0.2% Final Demand, +0.4% Ex. Food & Energy

Following February's decline of 1.2 percent (which ended a four-month string of advances), the change in wholesale energy prices could again be benign in March. Food prices at the producer level, however, have been under pressure in recent months (inclusive of advances of 1.0 and 1.7 percent in January and February), influenced importantly by stirring in the finished foods (i.e., groceries) area. Goods prices excluding food and energy have risen 0.2 percent on average over the past 12 months, a bit slower than the average increase of 0.3 percent for the broad services component. Construction costs remain on a modest upward trend, increasing 0.1 percent per month on average over the past 12 months (chart).

PPI Ex. Food & Energy*

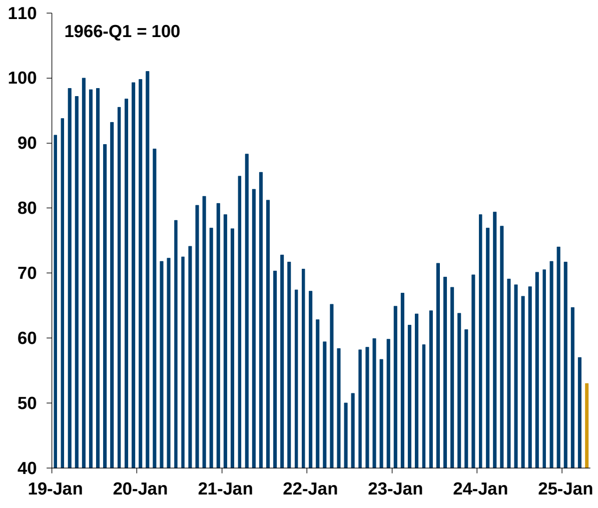


The gold bar is a forecast for March 2025.
Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

Consumer Sentiment (April) (Friday)
Forecast: 53.0 (-4.0 Pct. Pts.)

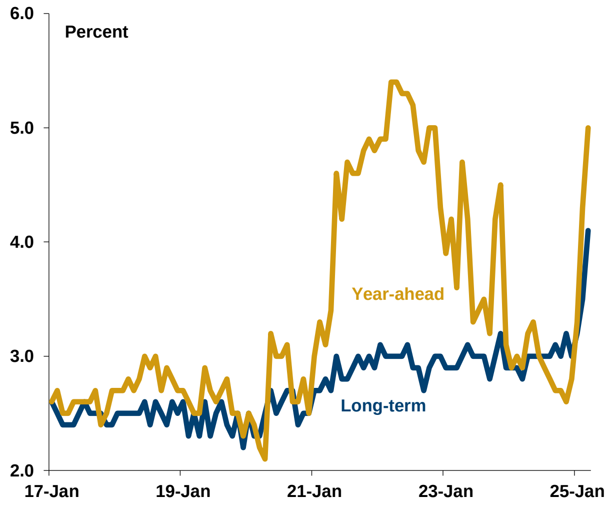
Concerns stemming the Trump administrations tariff policy – including possible stirring in inflation and deterioration in the labor market – have generated significant angst amongst consumers, with the index falling 17 index points (23 percent) in the past three months. Furthermore, the President's latest salvo in the trade war (the announcement of reciprocal tariffs on Wednesday), along with persistent negative news coverage of the event, could contribute to further weakening in early April. Circling back to inflation expectations, we're watching updated measures to be released with the upcoming report. The year-ahead series surged 0.7 percentage point to 5.0 percent in March, the highest observation since an equivalent reading in November 2022. Long-term expectations jumped 0.6 percentage point to 4.1 percent, the largest month-to-month swing and highest observation in over 30 years (charts, below).

Consumer Sentiment*



** The gold bar is a forecast for April 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/April 2025

Monday	Tuesday	Wednesday	Thursday	Friday
31	1	2	3	4
MNI CHICAGO BUSINESS BAROMETER Jan 39.5 Feb 45.5 Mar 47.6	**ISM MFG. INDEX** Index / Prices Jan 50.9 / 54.9 Feb 50.3 / 62.4 Mar 49.0 / 69.4 **JOLTS DATA** Openings (000) / Quit Rate Dec 7,508 / 1.9% Jan 7,762 / 2.0% Feb 7,568 / 2.0% **CONSTRUCTION** Dec 0.3% Jan -0.5% Feb 0.7% **VEHICLE SALES** Jan 15.5 million Feb 16.0 million Mar 17.8 million	**ADP EMPLOYMENT** Private Payrolls Jan 186,000 Feb 84,000 Mar 155,000 **FACTORY ORDERS** Dec -0.6% Jan 1.8% Feb 0.6%	**UNEMPLOYMENT CLAIMS** Initial / Continuing (millions) Mar 8 0.223 / 1.881 Mar 15 0.225 / 1.847 Mar 22 0.225 / 1.903 Mar 29 0.219 / N/A **TRADE BALANCE** Dec -$98.1 billion Jan -$130.7 billion Feb -$122.7 billion **ISM SERVICES INDEX** Index / Prices Jan 52.8 / 60.4 Feb 53.5 / 62.6 Mar 50.8 / 60.9	**EMPLOYMENT REPORT** Payrolls / Un. Rate Jan 111,000 / 4.0% Feb 117,000 / 4.1% Mar 228,000 / 4.2%
7	8	9	10	11
CONSUMER CREDIT (3:00) Dec -$100.0 billion Jan $18.1 billion Feb --	**NFIB SMALL BUSINESS OPTIMISM INDEX (6:00)** Jan 102.8 Feb 100.7 Mar --	**WHOLESALE TRADE (10:00)** Inventories / Sales Dec -0.7% / 1.4% Jan 0.8% / -1.5% **Feb 0.3% / 0.3%** **FOMC MINUTES (2:00)**	**UNEMP. CLAIMS (8:30)** **CPI (8:30)** Total / Core Jan 0.5% / 0.4% Feb 0.2% / 0.2% **Mar 0.1% / 0.3%** **FEDERAL BUDGET (2:00)** FY2025 / FY2024 Jan -$128.6B / -$21.9B Feb -$307.0B / -$296.3B **Mar -$140.0B** / -$236.6B	**PPI (8:30)** Final Demand / Ex. Food & Energy Jan 0.6% / 0.5% Feb 0.0% / -0.1% **Mar 0.2% / 0.4%** **CONSUMER SENTIMENT (10:00)** Feb 64.7 Mar 57.0 **Apr 53.0**
14	15	16	17	18
	EMPIRE MFG **IMPORT/EXPORT PRICES**	**RETAIL SALES** **IP & CAP-U** **NAHB HOUSING INDEX** **BUSINESS INVENTORIES** **TIC FLOWS**	**UNEMP. CLAIMS** **HOUSING STARTS** **PHILLY FED INDEX**	***GOOD FRIDAY***
21	22	23	24	25
LEADING INDICATORS		**NEW HOME SALES** **BEIGE BOOK**	**UNEMP. CLAIMS** **DURABLE GOODS ORDERS** **CHICAGO FED NATIONAL ACTIVITY INDEX** **EXISTING HOME SALES**	**REVISED CONSUMER SENTIMENT**

Forecasts in bold.

Treasury Financing

March/April 2025

Monday	Tuesday	Wednesday	Thursday	Friday
31	1	2	3	4
AUCTION RESULTS: Rate Cover 13-week bills 4.205% 2.74 26-week bills 4.070% 2.99 **SETTLE:** $13 billion 20-year bonds $18 billion 10-year TIPS $69 billion 2-year notes $70 billion 5-year notes $44 billion 7-year notes	**AUCTION RESULTS:** Rate Cover 6-week bills 4.245% 2.88 14-day CMBs 4.250% 3.43 **ANNOUNCE:** $60 billion 17-week bills for auction on Apr 2 $80 billion 4-week bills for auction on Apr 3 $75 billion 8-week bills for auction on Apr 3 **SETTLE:** $60 billion 17-week bills $75 billion 4-week bills $75 billion 8-week bills	**AUCTION RESULTS:** Rate Cover 17-week bills 4.200% 2.98	**AUCTION RESULTS:** Rate Cover 4-week bills 4.240% 3.14 8-week bills 4.240% 2.87 **ANNOUNCE:** $144 billion 13-,26-week bills for auction on Apr 7 $70 billion 6-week bills for auction on Apr 8 $58 billion 3-year notes for auction on Apr 8 $39 billion 10-year notes for auction on Apr 9 $22 billion 30-year bonds for auction on Apr 10 $50 billion 14-day CMBs for auction on Apr 7	**SETTLE:** $144 billion 13-,26-week bills $70 billion 6-week bills $50 billion 14-day CMBs
7	8	9	10	11
AUCTION: $144 billion 13-,26-week bills $50 billion 14-day CMBs	**AUCTION:** $70 billion 6-week bills $58 billion 3-year notes **ANNOUNCE:** $60 billion* 17-week bills for auction on Apr 9 $80 billion* 4-week bills for auction on Apr 10 $75 billion* 8-week bills for auction on Apr 10 **SETTLE:** $60 billion 17-week bills $80 billion 4-week bills $75 billion 8-week bills $50 billion 14-day CMBs	**AUCTION:** $60 billion* 17-week bills $39 billion 10-year notes	**AUCTION:** $80 billion* 4-week bills $75 billion* 8-week bills $22 billion 30-year bonds **ANNOUNCE:** $144 billion* 13-,26-week bills for auction on Apr 14 $70 billion* 6-week bills for auction on Apr 15 $48 billion* 52-week bills for auction on Apr 15 $13 billion* 20-year bonds for auction on Apr 16 $25 billion* 5-year TIPS for auction on Apr 17	**SETTLE:** $144 billion 13-,26-week bills $70 billion 6-week bills
14	15	16	17	18
AUCTION: $144 billion* 13-,26-week bills	**AUCTION:** $70 billion* 6-week bills $48 billion* 52-week bills **ANNOUNCE:** $60 billion* 17-week bills for auction on Apr 16 $80 billion* 4-week bills for auction on Apr 17 $75 billion* 8-week bills for auction on Apr 17 **SETTLE:** $60 billion* 17-week bills $80 billion* 4-week bills $75 billion* 8-week bills $58 billion 3-year notes $39 billion 10-year notes $22 billion 30-year bonds	**AUCTION:** $60 billion* 17-week bills $13 billion* 20-year bonds	**AUCTION:** $80 billion* 4-week bills $75 billion* 8-week bills $25 billion* 5-year TIPS **ANNOUNCE:** $144 billion* 13-,26-week bills for auction on Apr 21 $70 billion* 6-week bills for auction on Apr 22 $69 billion* 2-year notes for auction on Apr 22 $70 billion* 5-year notes for auction on Apr 23 $44 billion* 7-year notes for auction on Apr 24 $30 billion* 2-year FRNs for auction on Apr 23 **SETTLE:** $144 billion* 13-,26-week bills $70 billion* 6-week bills $48 billion* 52-week bills	***GOOD FRIDAY***
21	22	23	24	25
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 Apr 23 $80 billion* 4-week bills for auction on Apr 24 $75 billion* 8-week bills for auction on Apr 24 **SETTLE:** $60 billion* 17-week bills $80 billion* 4-week bills $75 billion* 8-week bills	**AUCTION:** $60 billion* 17-week bills $70 billion* 5-year notes $30 billion* 2-year FRNs	**AUCTION:** $80 billion* 4-week bills $75 billion* 8-week bills $44 billion* 7-year notes **ANNOUNCE:** $144 billion* 13-,26-week bills for auction on Apr 28 $70 billion* 6-week bills for auction on Apr 29 **SETTLE:** $144 billion* 13-,26-week bills $70 billion* 6-week bills	

**Estimate*