U.S. Economic Comment

- April employment: scant evidence of deterioration in the labor market; wage growth eases
- May FOMC: Committee likely on hold; elevated risks to both sides of dual mandate

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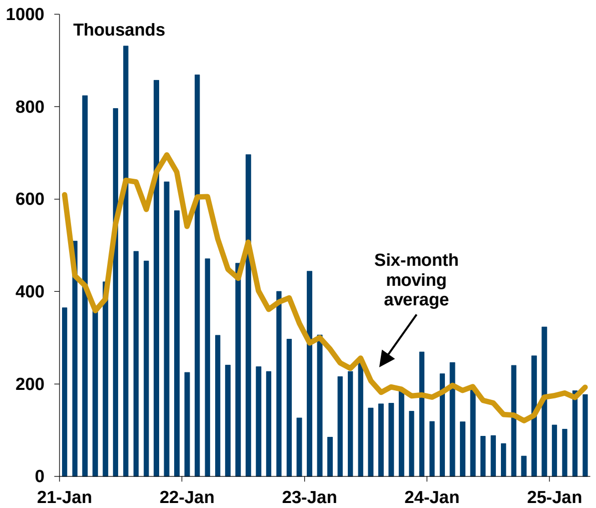
April Labor Market Conditions: Solid

Despite the flow of top-tier U.S. data this week, we view the releases as yielding little insight into the performance of the economy into the second half of the year. The Q1 GDP and April employment reports (published Wednesday and today, respectively) captured a snapshot of the economy in relatively close proximity to President Trump's "Liberation Day" tariff announcement but certainly did not pickup significant portions of the shifts in economic activity -- at least domestically -- in response to the new reality shaped by emerging trade frictions. On the point, GDP contracted 0.3 percent in Q1, but key areas of the domestic economy performed favorably. Trade-related volatility did skew the data, with a record surge in goods imports contributing substantially to net exports shaving 4.8 percentage points from GDP growth, but final sales to private domestic purchasers (GDP less net exports, inventory investments, and government spending) expanded at a faster pace than in 2024-Q4 (3.0 percent, annual rate, versus 2.9 percent in Q4 and in line with the trailing four-quarter average), led by solid consumer spending. Importantly, real personal consumption expenditures, which had been disappointing in the first two months of Q1, jumped 0.7 percent, not annualized, in March (available in the monthly Personal Income and Consumption report, also released Wednesday) and factored heavily into the quarterly measure exceeding market expectations (1.8 percent, annual rate, versus 1.2 percent expected; a contribution of 1.2 percentage points to GDP growth). Employment data yielded a similar picture on the domestic economy, discussed below.

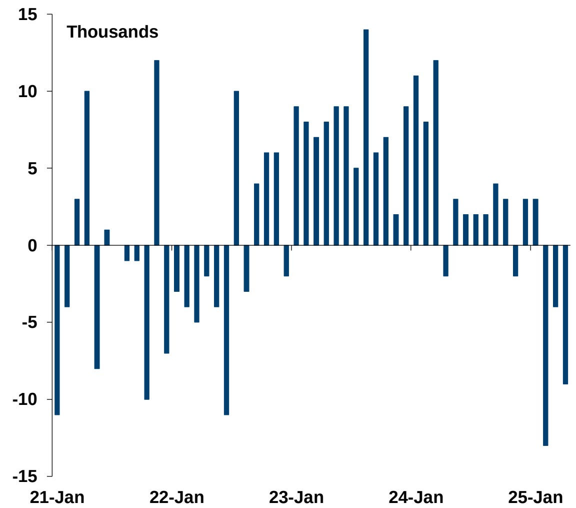
Firm payroll growth of 177,000 in April was tempered somewhat by downward revisions of 58,000 in the previous two months, but even when accounting for those adjustments, the trailing six-month average of 171,000 was solid – offering little evidence of a preemptive slowing in hiring in response to uncertainty generated by tariffs (chart, below left). Moreover, job growth across industries was fairly broad-based, and only federal government hiring showed a direct, measurable negative response to the Trump administration's policies (i.e., curtailing the federal workforce through Department of Government Efficiency initiatives; chart, below right). Firms may yet reduce headcounts if the economy slows appreciably in the months ahead, but labor shortages following COVID-related layoffs were likely instructive for hiring managers and thus layoffs in early 2025 have remained contained.

Change in Nonfarm Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

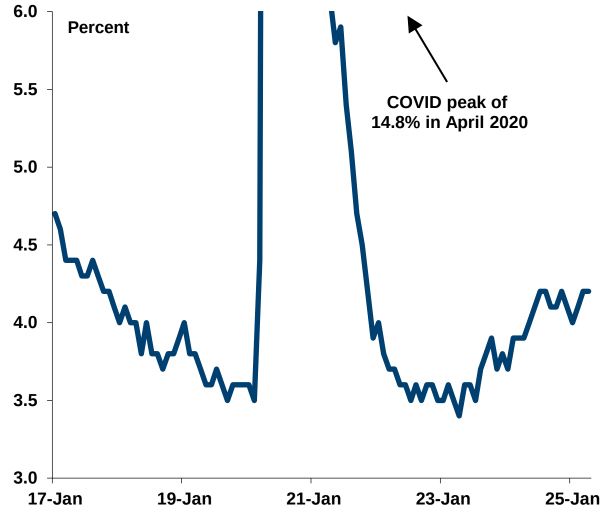
Change in Federal Government Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

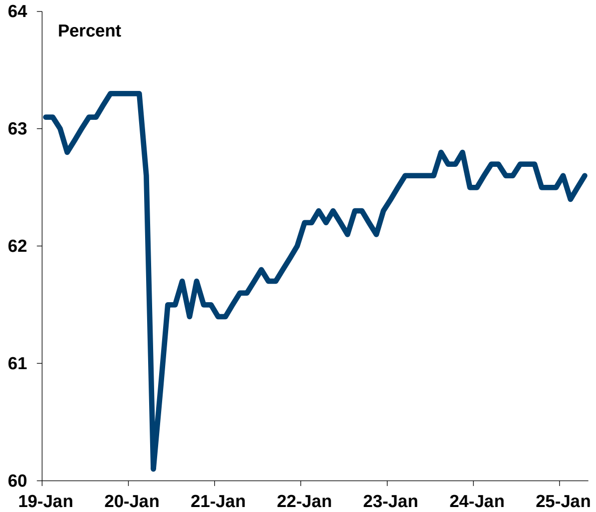
Specifically with respect to layoffs, the unemployment rate held steady at 4.2 percent in April (up slightly with less rounding: 4.19 percent versus 4.15 percent) -- a reading aligned with Fed officials' view on the longer-run unemployment rate (i.e., the median observation from the March 2025 Summary of Economic projections; chart, right). Household survey data revealed that individuals counted as unemployed rose moderately in April (+82,000), but the change was eclipsed by growth of 436,000 in employment and 518,000 in the size of the labor force, both indicative of healthy underlying labor market conditions. Moreover, the advance in the labor force led to increases in both the overall labor force participation rate (+0.1 percentage point to 62.6 percent) and the prime-age rate (+0.3 percentage point the 83.6 percent); the prime-age participation rate in the latest month was off the high of the current expansion, but it was well above levels prevailing prior to the onset of the pandemic (charts, below). That is to say, individuals in their peak working years appear to remain actively engaged in the labor market.

Unemployment Rate



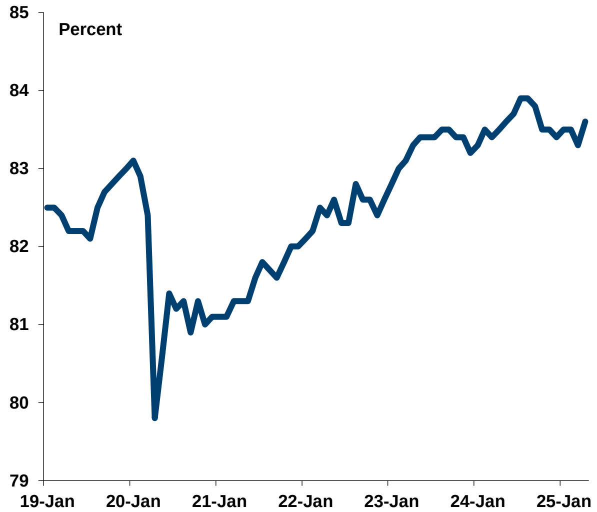
Source: Bureau of Labor Statistics via Haver Analytics

Labor Force Participation Rate



Source: Bureau of Labor Statistics via Haver Analytics

Prime-Age Labor Force Participation Rate*



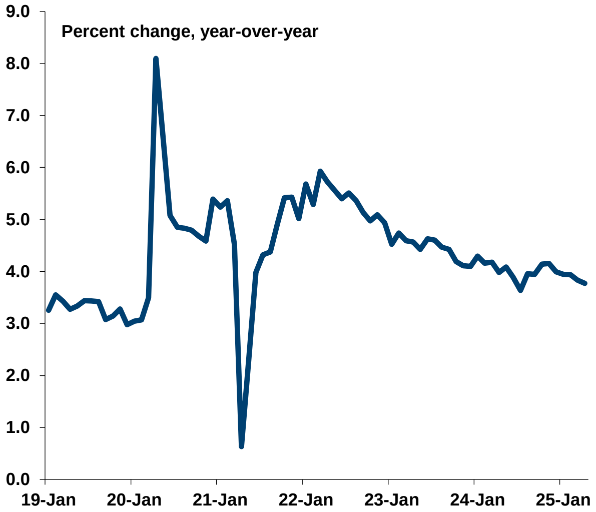
** Labor force participants aged 25 to 54 as a share of the civilian non-institutional population aged 25 to 54.*

Source: Bureau of Labor Statistics via Haver Analytics

Compensation Growth: Ongoing Moderation

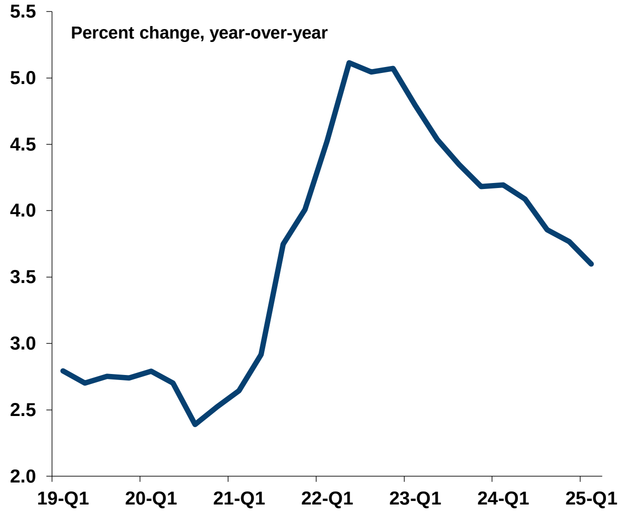
With supply of and demand for labor in better balance, two additional data points this week supported recent assessments by Fed officials that the labor market is no longer a key contributor to above-target inflation. At the same time, recent readings are still yielding real wage growth, which may provide an ongoing tailwind to consumer spending. On the point, average hourly earnings rose 0.2 percent in April, a reading consistent with a year-over-year advance of 3.8 percent (3.77 percent versus 3.84 percent in March; chart, next page, left). Even more encouraging was the deceleration in compensation growth for Q1 measured by the Employment Cost Index (+3.6 percent, down from +3.8 percent in Q4; chart, next page, right). This metric is preferred by Fed officials as it is a fixed-weight measure. That is, it is not influenced by compositional shifts in hiring that can sometimes distort movements in average hourly earnings. All told, compensation trends have moderated, but the latest changes should be viewed as healthy for both households and with respect to policymakers' inflation objective.

Average Hourly Earnings



Source: Bureau of Labor Statistics via Haver Analytics

Employment Cost Index



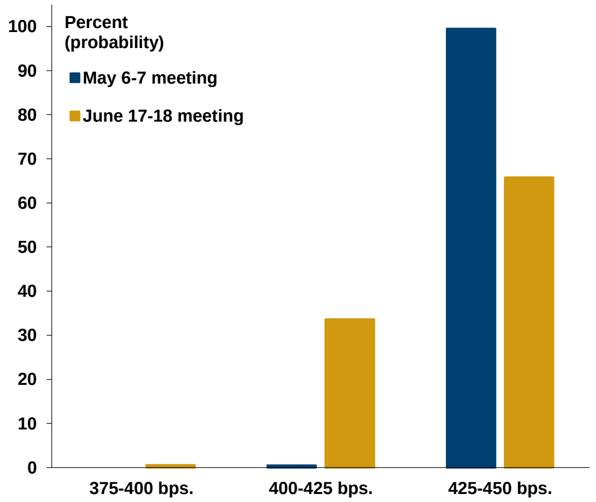
Source: Bureau of Labor Statistics via Haver Analytics

The May 6-7 FOMC Meeting

Fed officials are meeting next week at a pivotal time. The labor market has remained on track, affording the Committee time to be patient with respect to the inflation side of their dual mandate, but the range of possible outcomes for the economy is wide and the President has increased pressure on policymakers to cut the target range for the federal funds rate after a favorable inflation print on Wednesday. Crystalizing challenges faced by the central bank on account of the Trump administration's policies, Chair Powell noted in recent remarks ahead of the pre-FOMC blackout period, "Looking forward, the new Administration is in the process of implementing substantial policy changes in four distinct areas: trade, immigration, fiscal policy, and regulation. Those policies are still evolving, and their effects on the economy remain highly uncertain. As we learn more, we will continue to update our assessment. The level of the tariff increases announced so far is significantly larger than anticipated. The same is likely to be true of the economic effects, which will include higher inflation and slower growth." In other words, with it being unclear which side of the dual mandate will be impacted more forcefully by recent developments, the Fed is faced with the task of precariously balancing monetary policy as it awaits further clarity.

In light of current circumstances, futures pricing as of Friday afternoon indicates a near certainty that the FOMC will remain on hold at the conclusion of its meeting on Wednesday afternoon – a view held by market participants for some time. Perhaps more interesting is the shift in views regarding June. Although we have argued for some time that the FOMC was unlikely to cut rates before September on account of resilient economic data and upside inflation risks generated by tariff announcements, futures pricing through mid-week tilted in favor of a cut of 25 basis points at the June 17-18 gathering. As of today, odds have flipped, with a 65 percent probability now assigned to the target range for the federal funds rate remaining at 4.25 to 4.50 percent at the conclusion of that meeting (chart, right).

Federal Funds Target Rate Probabilities*

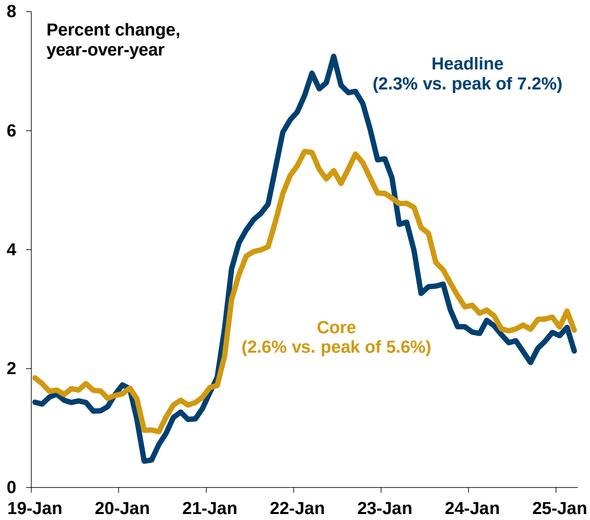


** The implied target range for the federal funds rate based on futures pricing data as of May 2, 2025.*

Source: CME Group, FedWatch tool

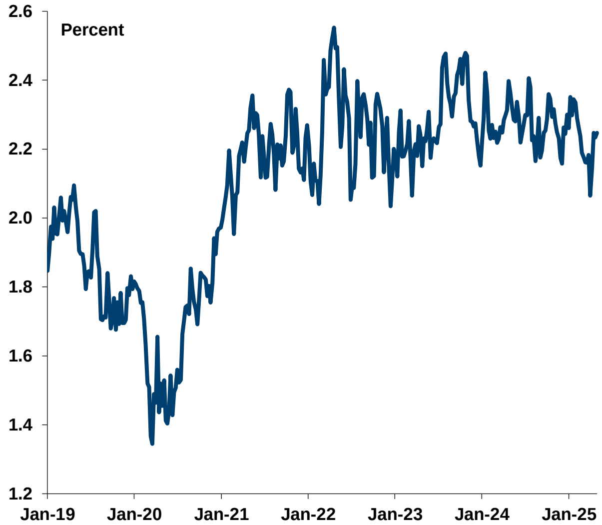
While we expect that the FOMC will be on hold for at least the next two meetings, we are heartened by recent developments regarding inflation and inflation expectations. We agree with Chair Powell's assessment that tariffs "are highly likely to generate at least a temporary rise in inflation," but both headline and core inflation measured by the Price Index for Personal Consumption Expenditures were both unchanged in March (albeit from upward-revised readings previously), with the year-over-year increases slowing to 2.3 percent and 2.6 percent, respectively, from 2.7 percent and 3.0 percent (chart, below left). At the same time, projected yearly inflation in the back half of the next 10 years has settled in the middle of the range of the past few years (implying average yearly inflation in the low-two-percent area; chart, below right). Given these favorable developments, and updates suggesting that the Trump administration is aggressively pursuing new trade deals with many major trading partners, we are hopeful that the impact on underlying inflation from tariffs will take the form of a one-time price-level shift. And, if developments evolve in that manner, the FOMC can start cutting again into year end with an eye on neutral, or respond aggressively with easier monetary policy should conditions in the labor market show signs of undesirable softening. With that said, our current fed funds call is for cuts of 25 basis points at the September and December 2025 meetings (year-end median of 3.875 percent); for 2026, we expect two additional reductions of 25 basis points in March and June (year-end median of 3.375 percent).

PCE Inflation



Source: Bureau of Economic Analysis via Haver Analytics

Five-Year, Five-Year Forward Breakeven Rate



** Expected yearly inflation in a five-year period beginning five years from now. The rate is calculated based on quotes for five and 10-year nominal Treasury securities and Treasury Inflation-Protected Securities. Weekly data except for the latest observation which is a daily quote from May 2, 2025.*

Source: Bloomberg

Note to readers:

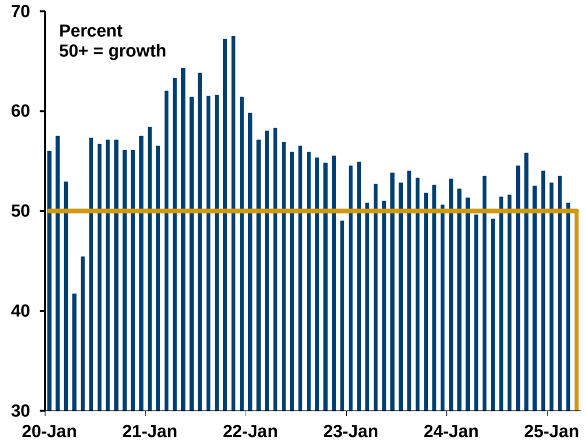
The next U.S. economic comment will be published on May 16, 2025.

The Week Ahead

ISM Services Index (April) (Monday)
Forecast: 50.0% (-0.8 Pct. Pt.)

While the ISM services index isn't likely to dip into contractionary territory in April, this series does face downside risks on account of uncertainty generated by the Trump administration's policy agenda. Specifically, service-providing firms have noted cost increases due to tariff activity, concerns over declines in government spending, and delays in supply chain deliveries. Correspondingly, these developments could weigh on key subcomponents (e.g., business activity, new orders, and employment) which, in turn, may contribute to the third decline in the headline index in the past four months (a result that would leave the measure at a level suggestive of a stalling in the broad services area).

ISM Services Index*



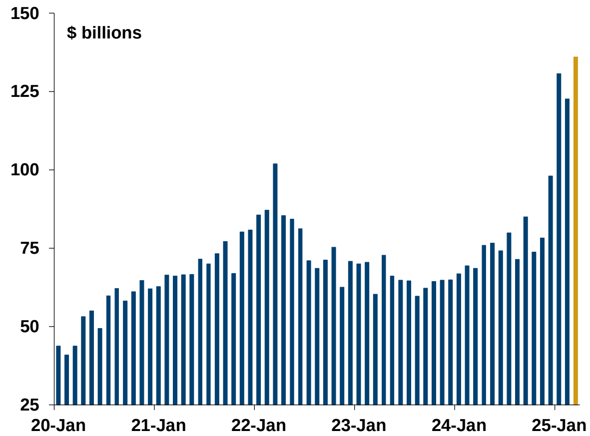
** The gold bar is a forecast for April 2025.*

Sources: Institute for Supply Management via Haver Analytics; Daiwa Capital Markets America

Trade Balance (March) (Tuesday)
Forecast: -$136.0 Billion ($13.3 Billion Wider)

The increase of $14.1 billion in the goods deficit to a record high of $162.0 billion (published April 29) suggests similar widening in the total trade shortfall in March. If the forecast is realized, it would offset the entirety of the $8.0 billion narrowing in February and leave the overall deficit at a new record high. With that said, much of the deterioration in trade is the result of a spike in goods imports reflecting firms' efforts to front-run tariffs. As businesses adjust to the possible reality of significantly higher import levies, we expect trade flows to slow in coming months and for the deficit to ease.

Trade Deficit in Goods & Services*



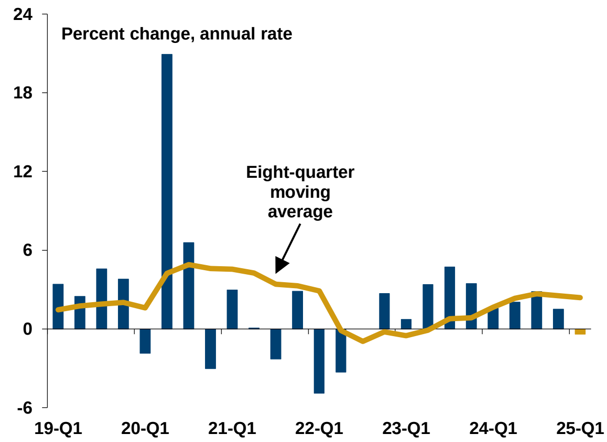
** The gold bar is a forecast for March 2025.*

Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

Nonfarm Productivity (2025-Q1) (Thursday)
Forecast: -0.4% Productivity, +5.2% Unit Labor Cost

The output measure that feeds into the calculation of nonfarm productivity contracted in Q1, which combined with little expected change in hours worked, raises the prospect of a dip in productivity after a firm performance in recent years. The anticipated result would mark a notable deviation from the eight-quarter moving average of 2.5 percent annualized growth (we prefer a longer-term view because quarterly data are often volatile). Data on employee earnings indicate a firm reading on compensation per hour which would portend to a brisk advance in unit labor costs after increasing 2.2 percent, annual rate, in prior quarter.

Nonfarm Productivity*



** The gold bar is a forecast for 2025-Q1.*

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

Daiwa Capital Markets

Economic Indicators

April/May 2025

Monday	Tuesday	Wednesday	Thursday	Friday
28	29	30	1	2
	INTERNATIONAL TRADE IN GOODS Jan -$154.6 billion Feb -$147.8 billion Mar -$162.0 billion **ADVANCE INVENTORIES** Wholesale / Retail Jan 0.8% 0.2% Feb 0.5% -0.1% Mar 0.5% -0.1% **FHFA HOME PRICE INDEX** Dec 0.4% Jan 0.3% Feb 0.1% **S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX** Dec 0.5% Jan 0.4% Feb 0.4% **CONFERENCE BOARD CONSUMER CONFIDENCE** Feb 100.1 Mar 93.9 Apr 86.0 **JOLTS DATA** Openings (000) / Quit Rate Jan 7,762 2.0% Feb 7,480 2.0% Mar 7,192 2.1%	**ADP EMPLOYMENT** Private Payrolls Feb 84,000 Mar 147,000 Apr 62,000 **GDP** GDP / Chained Price 24-Q3 3.1% 1.9% 24-Q4 2.4% 2.3% 25-Q1(a) -0.3% 3.7% **EMPLOYMENT COST INDEX** Comp. / Wages 24-Q3 0.8% 0.8% 24-Q4 0.9% 1.0% 25-Q1 0.9% 0.8% **MNI CHICAGO BUSINESS BAROMETER** Feb 45.5 Mar 47.6 Apr 44.6 **PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX** Inc. / Cons. / Core Jan 0.6% 0.0% 0.3% Feb 0.7% 0.5% 0.5% Mar 0.5% 0.7% 0.0% **PENDING HOME SALES** Jan -4.6% Feb 2.1% Mar 6.1%	**UNEMPLOYMENT CLAIMS** Initial / Continuing (millions) Apr 5 0.224 1.878 Apr 12 0.216 1.833 Apr 19 0.223 1.916 Apr 26 0.241 N/A **ISM MFG. INDEX** Index / Prices Feb 50.3 62.4 Mar 49.0 69.4 Apr 48.7 69.8 **CONSTRUCTION** Jan 0.1% Feb 0.6% Mar -0.5% **VEHICLE SALES** Feb 16.0 million Mar 17.8 million Apr 17.3 million	**EMPLOYMENT REPORT** Payrolls / Un. Rate Feb 102,000 4.1% Mar 185,000 4.2% Apr 177,000 4.2% **FACTORY ORDERS** Jan 1.8% Feb 0.5% Mar 4.3%
5	6	7	8	9
ISM SERVICES INDEX (10:00) Index / Prices Feb 53.5 62.6 Mar 50.8 60.9 **Apr 50.0 61.0**	**TRADE BALANCE (8:30)** Jan -$130.7 billion Feb -$122.7 billion **Mar -$136.0 billion** **FOMC MEETING (FIRST DAY)**	**FOMC RATE DECISION (2:00)** **CONSUMER CREDIT (3:00)** Jan $8.9 billion Feb -$0.8 billion Mar --	**UNEMP. CLAIMS (8:30)** **PRODUCTIVITY & COSTS (8:30)** Productivity / Unit Labor Costs 24-Q3 2.9% -1.5% 24-Q4 1.5% 2.2% **25-Q1 -0.4% 5.2%** **WHOLESALE TRADE (10:00)** Inventories / Sales Jan 0.8% -0.9% Feb 0.5% 2.4% **Mar 0.5% 0.9%**	
12	13	14	15	16
FEDERAL BUDGET	**NFIB SMALL BUSINESS OPTIMISM INDEX** **CPI**		**UNEMP. CLAIMS** **PPI** **RETAIL SALES** **EMPIRE MFG** **PHILLY FED INDEX** **IP & CAP-U** **NAHB HOUSING INDEX** **BUSINESS INVENTORIES**	**HOUSING STARTS** **IMPORT/EXPORT PRICES** **CONSUMER SENTIMENT** **TIC FLOWS**
19	20	21	22	23
LEADING INDICATORS			**UNEMP. CLAIMS** **CHICAGO FED NATIONAL ACTIVITY INDEX** **EXISTING HOME SALES**	**NEW HOME SALES**

Forecasts in bold. (a) = advance (1st estimate of GDP)

Treasury Financing

April/May 2025

Monday	Tuesday	Wednesday	Thursday	Friday
28	29	30	1	2
AUCTION RESULTS: Rate / Cover 13-week bills 4.200% 3.10 26-week bills 4.065% 2.80	**AUCTION RESULTS:** Rate / Cover 6-week bills 4.230% 3.14 **ANNOUNCE:** $60 billion 17-week bills for auction on Apr 30 $85 billion 4-week bills for auction on May 1 $75 billion 8-week bills for auction on May 1 **SETTLE:** $60 billion 17-week bills $85 billion 4-week bills $75 billion 8-week bills	**AUCTION RESULTS:** Rate / Cover 17-week bills 4.190% 3.08 **ANNOUNCE:** $58 billion 3-year notes for auction on May 5 $42 billion 10-year notes for auction on May 6 $25 billion 30-year bonds for auction on May 8 **SETTLE:** $13 billion 20-year bonds $25 billion 5-year TIPS $69 billion 2-year notes $70 billion 5-year notes $44 billion 7-year notes $30 billion 2-year FRNs	**AUCTION RESULTS:** Rate / Cover 4-week bills 4.240% 2.74 8-week bills 4.220% 3.28 **ANNOUNCE:** $144 billion 13-,26-week bills for auction on May 5 $70 billion 6-week bills for auction on May 6 **SETTLE:** $144 billion 13-,26-week bills $70 billion 6-week bills	
5	6	7	8	9
AUCTION: $144 billion 13-,26-week bills $58 billion 3-year notes	**AUCTION:** $70 billion 6-week bills $42 billion 10-year notes **ANNOUNCE:** $60 billion* 17-week bills for auction on May 7 $85 billion* 4-week bills for auction on May 8 $75 billion* 8-week bills for auction on May 8 **SETTLE:** $60 billion 17-week bills $85 billion 4-week bills $75 billion 8-week bills	**AUCTION:** $60 billion* 17-week bills	**AUCTION:** $85 billion* 4-week bills $75 billion* 8-week bills $25 billion 30-year bonds **ANNOUNCE:** $144 billion* 13-,26-week bills for auction on May 12 $70 billion* 6-week bills for auction on May 13 $48 billion* 52-week bills for auction on May 13 **SETTLE:** $144 billion 13-,26-week bills $70 billion 6-week bills	
12	13	14	15	16
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 May 14 $85 billion* 4-week bills for auction on May 15 $75 billion* 8-week bills for auction on May 15 **SETTLE:** $60 billion* 17-week bills $85 billion* 4-week bills $75 billion* 8-week bills	**AUCTION:** $60 billion* 17-week bills	**AUCTION:** $85 billion* 4-week bills $75 billion* 8-week bills **ANNOUNCE:** $144 billion* 13-,26-week bills for auction on May 19 $70 billion* 6-week bills for auction on May 20 $16 billion* 20-year bonds for auction on May 21 $18 billion* 10-year TIPS for auction on May 22 **SETTLE:** $144 billion* 13-,26-week bills $70 billion* 6-week bills $48 billion* 52-week bills $58 billion 3-year notes $42 billion 10-year notes $25 billion 30-year bonds	
19	20	21	22	23
AUCTION: $144 billion* 13-,26-week bills	**AUCTION:** $70 billion* 6-week bills **ANNOUNCE:** $60 billion* 17-week bills for auction on May 21 $85 billion* 4-week bills for auction on May 22 $75 billion* 8-week bills for auction on May 22 **SETTLE:** $60 billion* 17-week bills $85 billion* 4-week bills $75 billion* 8-week bills	**AUCTION:** $60 billion* 17-week bills $16 billion* 20-year bonds	**AUCTION:** $85 billion* 4-week bills $75 billion* 8-week bills $18 billion* 10-year TIPS **ANNOUNCE:** $144 billion* 13-,26-week bills for auction on May 27 $70 billion* 6-week bills for auction on May 27 $69 billion* 2-year notes for auction on May 27 $70 billion* 5-year notes for auction on May 28 $44 billion* 7-year notes for auction on May 29 $28 billion* 2-year FRNs for auction on May 28	**SETTLE:** $144 billion* 13-,26-week bills $70 billion* 6-week bills

*Estimate