Daiwa Capital Markets

U.S. Economic Comment

- The May employment data: further moderation in hiring
- Layoffs: recent data from the JOLTS & weekly unemployment claims suggest a pickup in separations

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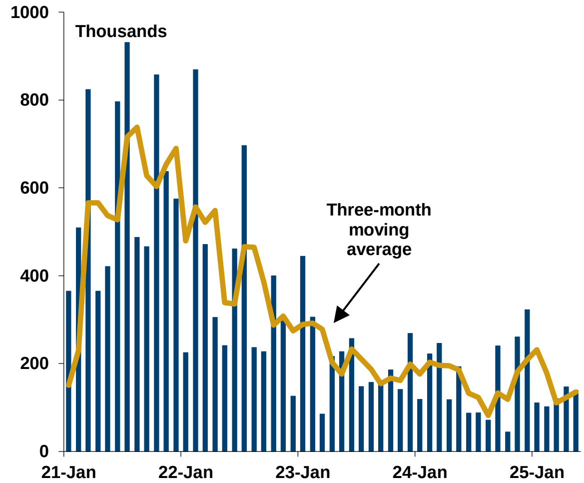
Labor Market Update

Data on the labor market this week indicated further moderation in underlying conditions, but it lacked any immediate red flags that could raise the possibility of rate cuts at either the June 17-18 or July 29-30 FOMC meetings. Rather, we suspect that the latest batch of indicators have left unaltered policymakers' shared view that patience in the face of the Trump administration's tariff onslaught remains the best approach until further clarity is gained on the implications of the president's pursuits on the path of the economy. With that said, we observed several elements of various reports that bear watching into the summer – large downward revisions to recent payroll growth, disappointing data from the household survey obscured somewhat by a stable, low unemployment rate, and a pickup in layoffs, to name a few. Again, these are only a subset of the employment statistics – and in our view they do not portend an immediate collapse in hiring – but they do keep ajar the door to cuts later this year.

May Payrolls

Concern about downside risks to nonfarm payroll growth permeated the market this week after a measure of private sector payrolls released jointly by ADP (a payroll processing company) and the Stanford Digital Economy Lab recorded only 37,000 job gains in May. However, fears were ultimately tempered when the Bureau of Labor Statistics' report on Friday indicated solid, if unspectacular, job growth of 139,000. That said, the results also were joined by notable net downward revisions of 95,000 in the prior two months – which left the Q2 average thus far a 143,000 (versus +111,000 in Q1; chart). While certainly not indicative of an economy at stall speed, the recent performance lagged the 2019 average of 166,000 (a period of highly favorable labor market conditions recently hearkened to by Fed officials as emblematic of employment mandate dictated goals) and the similar monthly advance in 2024 (+168,000). Consequentially, recent readings were close to those in the middle of last year (monthly average of +133,000 from April 2024 through September) that prompted the initial recalibration of monetary policy away from a highly restrictive stance (-100 basis points in the fourth quarter of last year, including a reduction of 50 basis points at the September FOMC meeting).

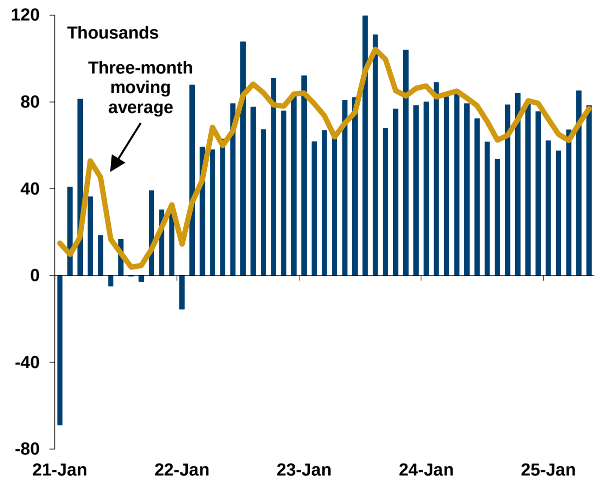
Change in Nonfarm Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

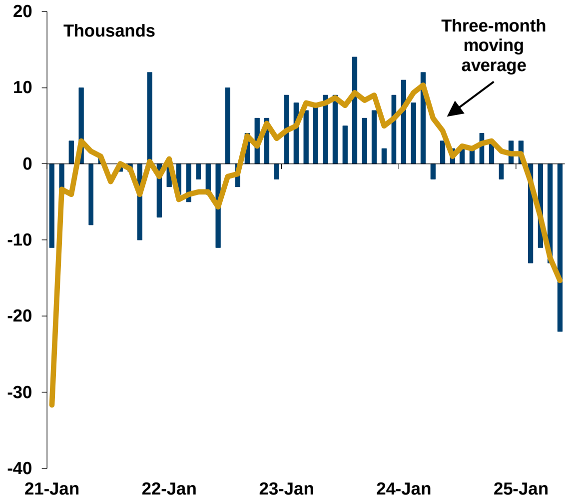
Job growth by industry yielded few surprises in the latest month with recent trends remaining mostly intact. Private sector job growth of 140,000 (average of +143,000 in Q2 thus far) outperformed the average in Q1 (+100,000) but was well behind the 24-Q4 average of 177,000. The health care and social assistance sector was again a key driver of hiring (+78,300 in May versus an average of 71,000 in the trailing six months; chart, next page, left), as was the leisure and hospitality area (+48,000 in May versus a trailing six month average of 21,000). Conversely, government-sector hiring was mixed. Federal government hiring fell for the fourth consecutive month (-22,000 in May; chart, next page, right), likely tied to ongoing workforce reduction efforts by the Trump administration, but it was mostly offset by ongoing firm hiring at the state and local levels (+21,000 in the latest month). Again, the hiring data contained little in the way of overt warnings on the economy.

Change in Health Care & Social Assist. Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

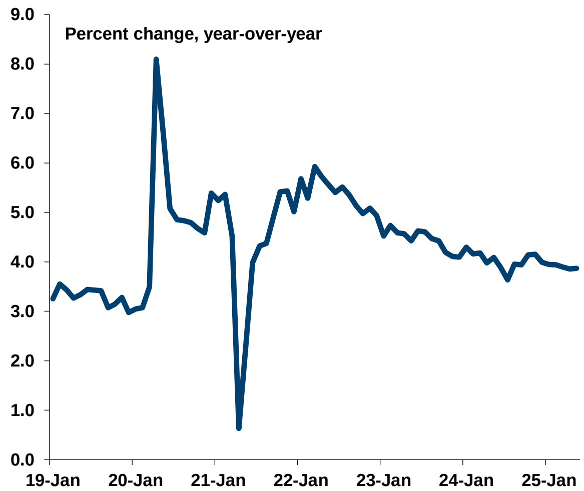
Change in Federal Government Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

Despite ongoing moderation in labor market conditions, wage growth rose a brisk 0.4 percent in May – a reading aligned with a year-over-year advance of 3.9 percent, essentially matching the result in the prior month (chart). While the year-over-year change in average hourly earnings has moved sideways in recent months, we are unconcerned about knock-on effects to inflation, as Fed officials have maintained that wage growth is no longer contributing meaningfully to undesirable price pressure, and we suspect that further slowing in hiring will ultimately manifest in additional deceleration in wages. Moreover, the employment cost index, which is a fixed weight measure that captures compensation growth in the same sample of jobs over time and is therefore not affected by compositional shifts in hiring like average earnings is, rose 3.6 percent year-over-year in Q1 (+3.5 percent in the wage component). In essence, the measure more likely captured the ongoing easing in compensation growth consistent with better supply and demand alignment in the current labor market.

Average Hourly Earnings

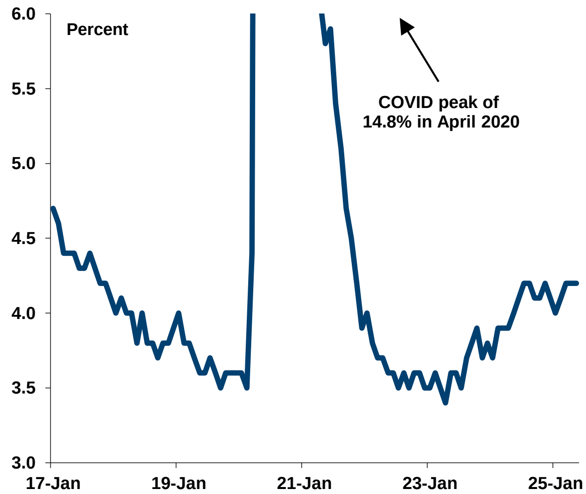


Source: Bureau of Labor Statistics via Haver Analytics

The Household Data

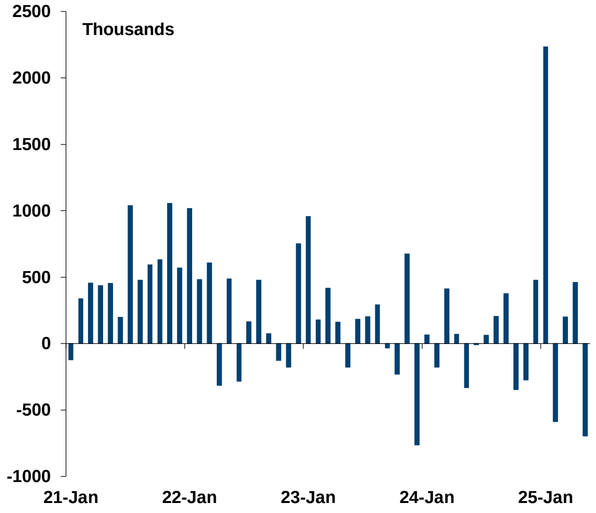
On face, the most closely followed metric from the household data -- the unemployment rate – was highly favorable. The measure rounded to 4.2 percent for the third consecutive month (4.244 percent in May versus 4.187 percent in April), rising from a 2025 low of 4.0 percent in January but still aligned with estimates of a fully employed economy (the latest reading matched the median estimate of Fed officials' views of the longer-run unemployment rate in the March 2025 Summary of Economic Projections; chart). However, a deeper dive revealed several soft spots. On the point, the employment measure included with this survey plunged 696,000 in May

Unemployment Rate



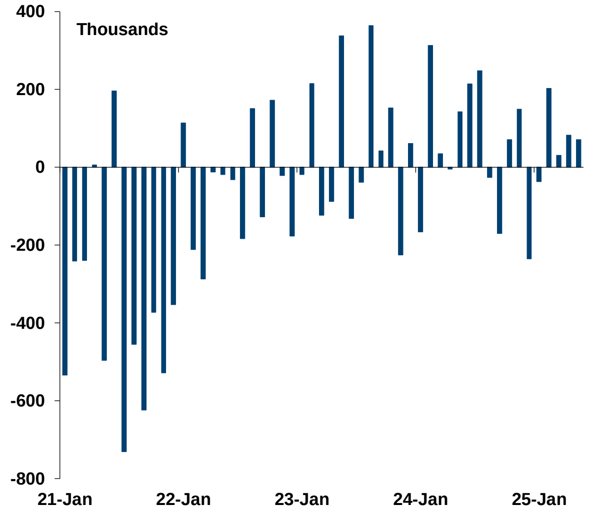
Source: Bureau of Labor Statistics via Haver Analytics (the largest drop since January 2024), while the number of unemployed individuals jumped 71,000 – the fourth consecutive increase (charts, below). In a similar vein, the labor force contracted by 625,000, which pushed both the headline labor force participation rate and that for prime-age workers 0.2 percentage point lower to 62.4 percent and 83.4 percent, respectively. Taken together, the unemployment rate held steady due to individuals exiting the labor market as opposed to jobs remaining abundant. In other words, churn under the surface could suggest that further increases in the unemployment rate are likely later this year. In that regard, we look for the rate to rise to 4.6 percent by year end.

Change in Household Employment



Source: Bureau of Labor Statistics via Haver Analytics

Change in Unemployed Persons

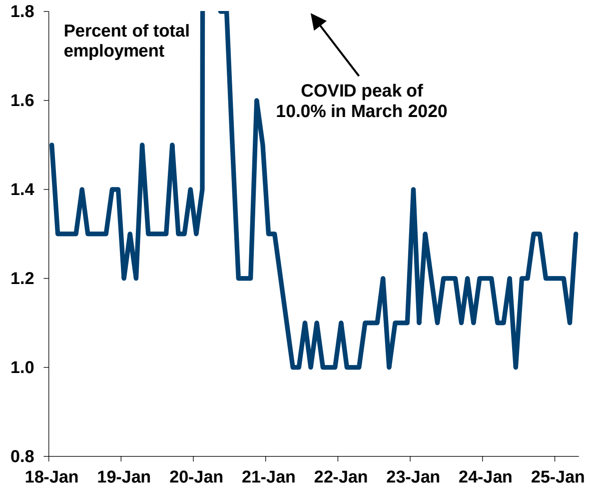


Source: Bureau of Labor Statistics via Haver Analytics

Layoffs

Although lagging the payroll data by one month, information from the Job Openings and Labor Turnover Survey often provides helpful insights into supply and demand dynamics in the labor market. Given the reticence of many firms to layoff workers amid heightened uncertainty and mixed demand, which was likely in response to lessons learned during labor shortages experienced as the U.S. emerged from the pandemic, we have been keeping an eye on the layoffs and discharges series in this report to get a sense of shifts away from the previous propensity toward worker retention. Some evidence emerged in the latest report with total layoffs increasing 196,000 and those in the private sector jumping 219,000 (after both fell 190,000 in March). The total layoff and discharge rate rose 0.1 percentage point to 1.1 percent, still at the bottom of the pre-pandemic range, but that for the private sector increased by 0.2 percentage point to 1.3 percent – now in line with readings just prior to the onset of the pandemic (chart).

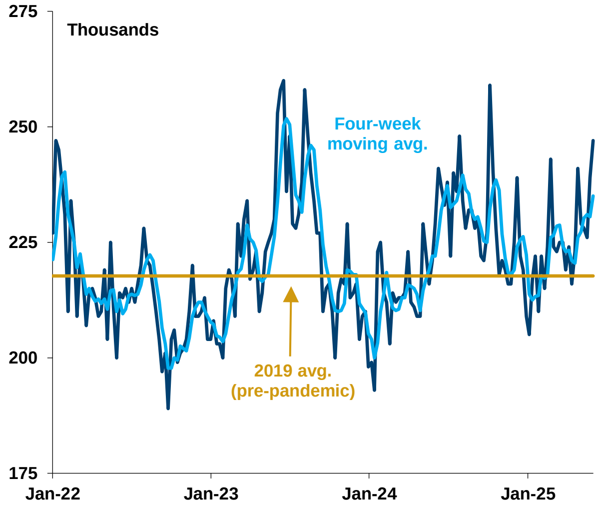
Private Sector Layoffs & Discharges Rate



Source: Bureau of Labor Statistics via Haver Analytics

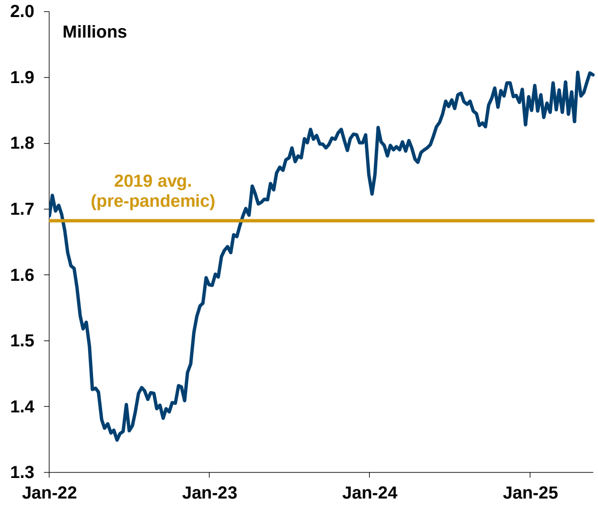
The JOLTS series alone does not represent a significant warning, but weekly data on unemployment claims also support the view that firms may be beginning to accelerate job cuts. Initial claims for unemployment insurance rose 8,000 to 247,000 in the period ended May 31, with the four-week moving average rising from 230,500 to 235,000, the highest reading since last October and well above the 2019 average of 218,000 (recall that last fall was the period when Fed officials were concerned about easing in labor market conditions; chart, next page, left). Moreover, continuing unemployment claims rose for the fourth consecutive week, with the latest reading of 1.904 million a touch below the 2025 high of 1.908 million in late April (chart, below right). Continuing claims are not at a problematic level yet, but the series does have an observable upward tilt. With the inflection point in layoffs perhaps having been reached, a pronounced deterioration in the weekly claims series could portend to an upward shift in unemployment in coming months. Time will tell as the uncertain effects on the economy from the President's current tariff agenda continue to unfold.

Initial Claims for Unemployment Insurance



Source: U.S. Department of Labor via Haver Analytics

Continuing Claims for Unemployment Insurance



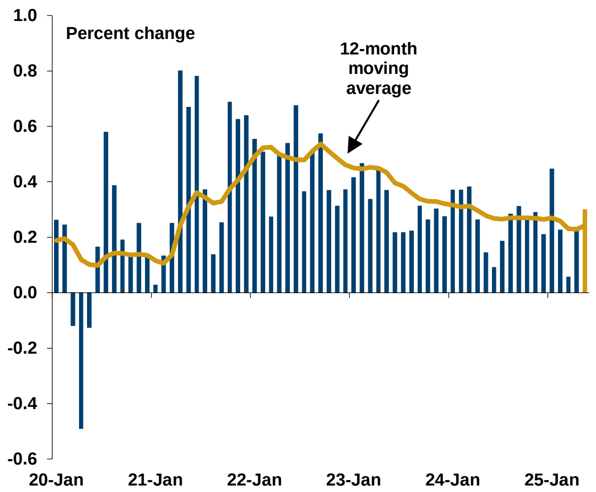
Source: U.S. Department of Labor via Haver Analytics

The Week Ahead

CPI (May) (Wednesday)
Forecast: +0.2% Headline, +0.3% Core

With available data suggesting a decline in the prices of energy commodity could pull the broad energy component lower on a seasonally adjusted basis, recent pressure in the prices of energy services could carry through to May and provide a partial offset. Following a correction in egg prices in April, modest pickups for the food at home (groceries) and the food away from home (restaurant meals) components could nudge the food category higher in May. Core goods prices had previously been a source of disinflation earlier in the current episode, but increases in six of the past eight months suggest that easing in this area has run its course (+0.1 percent year-over-year in April after 15 consecutive months of year-over-year declines). Results for core service inflation has been choppy, but the overall trend indicates ongoing moderation (+3.6 percent year-over-year in April 2025 versus +5.3 percent in the same month last year). On the point, while progress has been slow, further cooling in key housing components (e.g., primary rent and owners' equivalent rent) is anticipated in May. Core services excluding housing (i.e., supercore inflation) appears poised to register an increase close to the trailing six-month average of 0.2 percent.

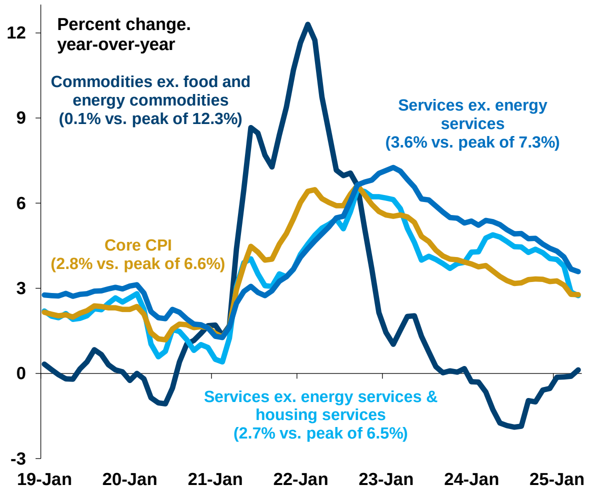
Core CPI*



* The gold bar is a forecast for May 2025.

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

Decomposition of Core CPI

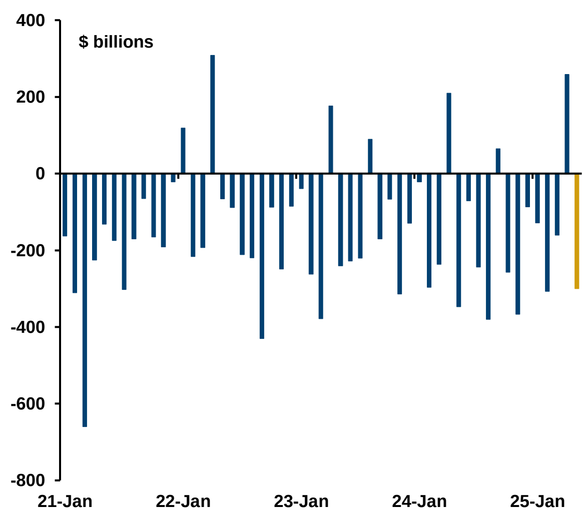


Source: Bureau of Labor Statistics via Haver Analytics

Federal Budget (May) (Wednesday)
Forecast: -$300 Billion

Available data from the Daily Treasury Statement suggest that federal revenue growth was solid last month (up approximately 13 percent year-over-year by our estimate), but outlay growth also remained on its firm trajectory. If the deficit projection for May 2025 is realized, the cumulative shortfall in the first eight months of FY2025 will total approximately $1.3 trillion, wider than the $1.2 trillion deficit in the same period of FY2024.

Federal Budget Surplus/Deficit*



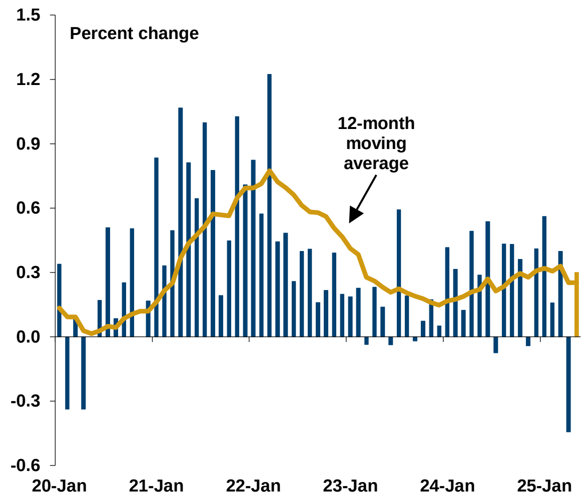
* The gold bar is a forecast for May 2025.

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

PPI (May) (Thursday)
Forecast: +0.2% Final Demand, +0.3% Ex. Food & Energy

Available data suggest that wholesale energy prices could decline for the fourth consecutive month in May. Food prices at the producer level also could remain well behaved after declines in the prior two months, as price shifts in agricultural commodities have been relatively tame. Goods prices excluding food and energy have advanced 0.2 percent on average over the past 12 months, a touch slower than the 0.3 percent average increase for the broad services component. Construction costs remain on a moderate upward trend, rising 0.2 percent on average over the past 12 months.

PPI Ex. Food & Energy*



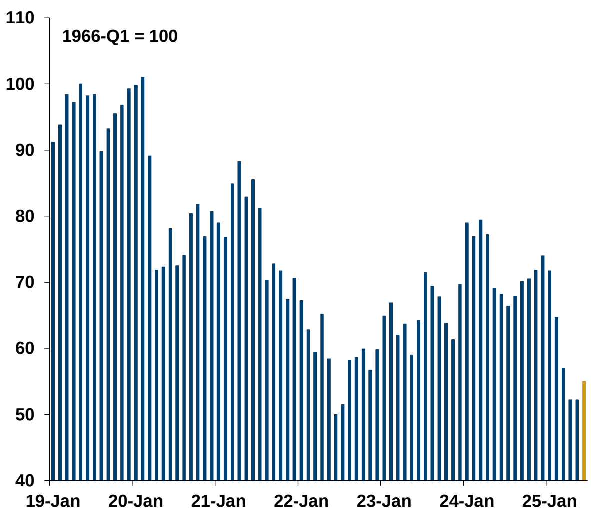
** The gold bar is a forecast for May 2025.*

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

Consumer Sentiment (June) (Friday)
Forecast: 55.0 (+2.8 Index Pts.)

With tariff policy and its potential impact on the economy still weighing heavily on the minds on consumers, the University of Michigan's sentiment index could be little changed at a low level in early June. Updated readings on inflation expectations will also garner attention. For context, the year-ahead measure increased 0.1 percentage point to 6.6 percent in May (the highest level observed since November 1981) and long-term expectations eased 0.2 percentage point to 4.2 percent (only modestly below the recent high of 4.4 percent in April 2025 which itself was the highest read since May 1991). That being said, some analysts have called into question the signal value from the U-Michigan data, and Fed officials have suggested tracking a variety of survey and market-based measures gain a more holistic view.

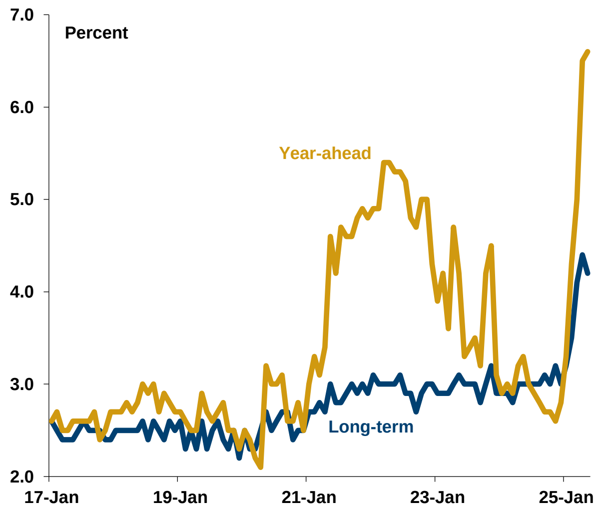
Consumer Sentiment*



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

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

Consumer Inflation Expectations



Source: University of Michigan via Haver Analytics

Economic Indicators

June 2025

Monday	Tuesday	Wednesday	Thursday	Friday
2	3	4	5	6
ISM MFG. INDEX Index / Prices Mar 49.0 / 69.4 Apr 48.7 / 69.8 May 48.5 / 69.4 **CONSTRUCTION** Feb -0.7% Mar -0.8% Apr -0.4%	**FACTORY ORDERS** Feb 0.5% Mar 3.4% Apr -3.7% **JOLTS DATA** Openings (000) / Quit Rate Feb 7,480 / 2.0% Mar 7,200 / 2.1% Apr 7,391 / 2.0% **VEHICLE SALES** Mar 17.8 million Apr 17.3 million May 15.6 million	**ADP EMPLOYMENT** Private Payrolls Mar 147,000 Apr 60,000 May 37,000 **ISM SERVICES INDEX** Index / Prices Mar 50.8 / 60.9 Apr 51.6 / 65.1 May 49.9 / 68.7 **BEIGE BOOK** **May 2025:** "Reports across the twelve Federal Reserve Districts indicate that economic activity has declined slightly since the previous report. Half of the Districts reported slight to moderate declines in activity, three Districts reported no change, and three Districts reported slight growth."	**UNEMPLOYMENT CLAIMS** Initial / Continuing (millions) May 10 0.228 / 1.893 May 17 0.226 / 1.907 May 24 0.239 / 1.904 May 31 0.247 / N/A **TRADE BALANCE** Feb -$122.0 billion Mar -$138.3 billion Apr -$61.6 billion **REVISED PRODUCTIVITY & COSTS** Productivity / Unit Labor Costs 24-Q4 1.7% / 3.8% 25-Q1(p) -0.8% / 5.7% 25-Q1(r) -1.5% / 6.6%	**EMPLOYMENT REPORT** Payrolls / Un. Rate Mar 120,000 / 4.2% Apr 147,000 / 4.2% May 139,000 / 4.2% **CONSUMER CREDIT** Feb -$0.9 billion Mar -$3.4 billion Apr $17.9 billion
9	10	11	12	13
WHOLESALE TRADE (10:00) Inventories / Sales Feb 0.5% / 2.0% Mar 0.3% / 0.6% **Apr 0.0% / 0.6%**	**NFIB SMALL BUSINESS OPTIMISM INDEX (6:00)** Mar 97.4 Apr 95.8 May --	**CPI (8:30)** Total / Core Mar -0.1% / 0.1% Apr 0.2% / 0.2% **May 0.2% / 0.3%** **FEDERAL BUDGET (2:00)** FY2025 / FY2024 Mar -$160.5B / -$236.6B Apr $258.4B / $209.5B **May -$300.0B** / -$347.1B	**UNEMP. CLAIMS (8:30)** **PPI (8:30)** Final Demand / Ex. Food & Energy Mar 0.0% / 0.4% Apr -0.5% / -0.4% **May 0.2% / 0.3%**	**CONSUMER SENTIMENT (10:00)** Apr 52.2 May 52.2 **June 55.0**
16	17	18	19	20
EMPIRE MFG	**RETAIL SALES** **IMPORT/EXPORT PRICES** **IP & CAP-U** **NAHB HOUSING INDEX** **BUSINESS INVENTORIES** **FOMC MEETING (FIRST DAY)**	**UNEMP. CLAIMS** **HOUSING STARTS** **FOMC RATE DECISION** **TIC FLOWS**	***JUNETEENTH NATIONAL INDEPENDENCE DAY***	**PHILLY FED INDEX** **LEADING INDICATORS**
23	24	25	26	27
EXISTING HOME SALES	**CURRENT ACCOUNT** **FHFA HOME PRICE INDEX** **S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX** **CONFERENCE BOARD CONSUMER CONFIDENCE**	**NEW HOME SALES**	**UNEMP. CLAIMS** **REVISED Q1 GDP** **DURABLE GOODS ORDERS** **INTERNATIONAL TRADE IN GOODS** **ADVANCE INVENTORIES** **CHICAGO FED NATIONAL ACTIVITY INDEX** **PENDING HOME SALES**	**PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX** **REVISED CONSUMER SENTIMENT**

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

Treasury Financing

June 2025

Monday	Tuesday	Wednesday	Thursday	Friday
2	3	4	5	6
AUCTION RESULTS: Rate Cover 13-week bills 4.250% 2.68 26-week bills 4.150% 3.13 **SETTLE:** $16 billion 20-year bonds $69 billion 2-year notes $70 billion 5-year notes $44 billion 7-year notes	**AUCTION RESULTS:** Rate Cover 6-week bills 4.225% 3.44 **ANNOUNCE:** $60 billion 17-week bills for auction on June 4 $65 billion 4-week bills for auction on June 5 $55 billion 8-week bills for auction on June 5 **SETTLE:** $60 billion 17-week bills $75 billion 4-week bills $65 billion 8-week bills	**AUCTION RESULTS:** Rate Cover 17-week bills 4.205% 3.13	**AUCTION RESULTS:** Rate Cover 4-week bills 4.170% 3.26 8-week bills 4.225% 3.38 **ANNOUNCE:** $144 billion 13-,26-week bills for auction on June 9 $55 billion 6-week bills for auction on June 10 $48 billion 52-week bills for auction on June 10 $58 billion 3-year notes for auction on June 10 $39 billion 10-year notes for auction on June 11 $22 billion 30-year bonds for auction on June 12	**SETTLE:** $144 billion 13-,26-week bills $60 billion 6-week bills
9	10	11	12	13
AUCTION: $144 billion 13-,26-week bills	**AUCTION:** $55 billion 6-week bills $48 billion 52-week bills $58 billion 3-year notes **ANNOUNCE:** $60 billion* 17-week bills for auction on June 11 $65 billion* 4-week bills for auction on June 12 $55 billion* 8-week bills for auction on June 12 **SETTLE:** $60 billion 17-week bills $65 billion 4-week bills $55 billion 8-week bills	**AUCTION:** $60 billion* 17-week bills $39 billion 10-year notes	**AUCTION:** $65 billion* 4-week bills $55 billion* 8-week bills $22 billion 30-year bonds **ANNOUNCE:** $144 billion* 13-,26-week bills for auction on June 16 $55 billion* 6-week bills for auction on June 17 $13 billion* 20-year bonds for auction on June 16 $23 billion* 5-year TIPS for auction on June 17 **SETTLE:** $144 billion 13-,26-week bills $55 billion 6-week bills $48 billion 52-week bills	
16	17	18	19	20
AUCTION: $144 billion* 13-,26-week bills $13 billion* 20-year bonds **SETTLE:** $58 billion 3-year notes $39 billion 10-year notes $22 billion 30-year bonds	**AUCTION:** $55 billion* 6-week bills $23 billion* 5-year TIPS **ANNOUNCE:** $60 billion* 17-week bills for auction on June 18 $65 billion* 4-week bills for auction on June 18 $55 billion* 8-week bills for auction on June 18 **SETTLE:** $60 billion* 17-week bills $65 billion* 4-week bills $55 billion* 8-week bills	**AUCTION:** $60 billion* 17-week bills $65 billion* 4-week bills $55 billion* 8-week bills **ANNOUNCE:** $144 billion* 13-,26-week bills for auction on June 23 $55 billion* 6-week bills for auction on June 24 $69 billion* 2-year notes for auction on June 24 $70 billion* 5-year notes for auction on June 25 $44 billion* 7-year notes for auction on June 26 $28 billion* 2-year FRNs for auction on June 25	***JUNETEENTH NATIONAL INDEPENDENCE DAY***	**SETTLE:** $144 billion* 13-,26-week bills $55 billion* 6-week bills
23	24	25	26	27
AUCTION: $144 billion* 13-,26-week bills	**AUCTION:** $55 billion* 6-week bills $69 billion* 2-year notes **ANNOUNCE:** $60 billion* 17-week bills for auction on June 25 $65 billion* 4-week bills for auction on June 26 $55 billion* 8-week bills for auction on June 26 **SETTLE:** $60 billion* 17-week bills $65 billion* 4-week bills $55 billion* 8-week bills	**AUCTION:** $60 billion* 17-week bills $70 billion* 5-year notes $28 billion* 2-year FRNs	**AUCTION:** $65 billion* 4-week bills $55 billion* 8-week bills $44 billion* 7-year notes **ANNOUNCE:** $144 billion* 13-,26-week bills for auction on June 30 $55 billion* 6-week bills for auction on July 1 **SETTLE:** $144 billion* 13-,26-week bills $55 billion* 6-week bills	**SETTLE:** $28 billion* 2-year FRNs

**Estimate*