Daiwa Capital Markets

# U.S. Data Review

- Employment: robust payrolls; a “soft” decline in unemployment; moderate wage growth
- ISM Non-Mfg.: off for the fourth time in the past five months
- Trade: a slight widening in the monthly deficit

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## The Labor Market

The April employment report had some soft elements, but nevertheless, we viewed the results as strong because of robust job growth. Nonfarm payrolls jumped 263,000 in April, easily exceeding the expected increase of 190,000. The performance across industries was mixed, but they added to a brisk showing overall. The business service sector and the health care industry stood out on the strong side, while several others posted respectable results (construction, financial services, the leisure sector, the federal government, state governments). Retail trade and the information industry remained on the soft side.

The unemployment rate fell 0.2 percentage point from an already low level, moving to 3.6 percent, the lowest rate since December 1969. The drop, however, was driven by a sharp decline in the size of the labor force (off 490,000) that exceeded the decline in employment as measured by the household survey (off 103,000). The broad unemployment rate (U-6) was unchanged in April at 7.3 percent, as increases in involuntary part-time employment and marginally attached workers offset the influence of changes in the narrow jobless rate (U-3). The steady reading in the broad unemployment rate, along with the sources of the drop in the narrow rate, left the unemployment portion of the report less than impressive.

Average hourly earnings rose 0.2 percent (0.217 percent), shy of the expected increase of 0.3 percent and light for a labor market that appears tight. The latest increase left the year-over-year change at 3.2 percent, the same as in March. Results for production workers (excluding managerial) were slightly better with a month-to-month increase of 0.3 percent. A favorable shift in rounding pushed the year-over-year change for production workers one notch higher (3.370 percent versus 3.335 percent in March).

## Employment Report*

| | Nonfarm Payrolls* | Private-Sector Payrolls | Unemp. Rate | Broad Unemp. Rate | Household Emp. | Labor Force | Emp.-Population Ratio | Median Duration of Unemp. | Part-Time Econ. Reasons | Avg. Hourly Earnings | Avg. Workweek |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | (Chg., Thousands) | | (Percent) | | (Chg., Thousands) | | (Pct.) | (Weeks) | (Thou.) | % Chg. | (Hours) |
| **Annual Average** | | | | | | | | | | | |
| 2016 | 193 | 176 | 4.9 | 9.6 | 176 | 142 | 59.7 | 10.8 | 5,948 | 0.2 | 34.4 |
| 2017 | 179 | 172 | 4.4 | 8.5 | 149 | 71 | 60.1 | 10.1 | 5,254 | 0.2 | 34.4 |
| 2018 | 223 | 215 | 3.9 | 7.7 | 240 | 217 | 60.4 | 9.3 | 4,780 | 0.3 | 34.5 |
| 2019 | 205 | 190 | 3.8 | 7.5 | -75 | -193 | 60.7 | 9.3 | 4,653 | 0.2 | 34.5 |
| **Qtrly. Average** | | | | | | | | | | | |
| 18-Q2 | 243 | 228 | 3.9 | 7.8 | 144 | 161 | 60.4 | 9.4 | 4,869 | 0.3 | 34.5 |
| 18-Q3 | 189 | 176 | 3.8 | 7.5 | 159 | -25 | 60.4 | 9.4 | 4,537 | 0.3 | 34.5 |
| 18-Q4 | 233 | 236 | 3.8 | 7.6 | 292 | 395 | 60.6 | 9.2 | 4,689 | 0.3 | 34.5 |
| 19-Q1 | 186 | 174 | 3.9 | 7.6 | -66 | -93 | 60.7 | 9.3 | 4,652 | 0.2 | 34.5 |
| **2019 Monthly** | | | | | | | | | | | |
| Jan. | 312 | 297 | 4.0 | 8.1 | -251 | -11 | 60.7 | 8.9 | 5,147 | 0.1 | 34.5 |
| Feb. | 56 (33) | 46 | 3.8 | 7.3 | 255 | -45 | 60.7 | 9.3 | 4,310 | 0.4 | 34.4 |
| Mar. | 189 (196) | 179 | 3.8 | 7.3 | -201 | -224 | 60.6 | 9.6 | 4,499 | 0.2 | 34.5 |
| Apr. | 263 | 236 | 3.6 | 7.3 | -103 | -490 | 60.6 | 9.4 | 4,654 | 0.2 | 34.4 |

* *Preliminary readings on nonfarm payrolls are shown in parenthesis.*
*Source: Bureau of Labor Statistics via Haver Analytics*

The length of the average workweek slipped 0.1 hour to 34.4 hours. This measure has fluctuated within a narrow range since late 2017 (34.4 to 34.5 hours). While still range-bound, the move to the bottom of the range was disappointing. The drop led to a decline of 0.1 percent in the index of total work time (a measure that incorporates the effects of both employment and the workweek), suggesting that April was not a strong month for production.

In sum, the report had some soft elements (drop in the labor force, only moderate wage growth, shorter workweek), but the brisk advance in employment made for favorable results overall.

## ISM Nonmanufacturing Index

The ISM nonmanufacturing index fell 0.6 percentage point in April to 55.5 percent, softer than the expected increase of 0.9 percentage point. The decline marked the fourth drop in the past five months, which left the measure in the low portion of the range from the past two years (chart).

The employment component led the drop in April, falling 2.2 percentage points to 53.7 percent. The new reading was 3.2 percentage points below the average in 2018 and at its lowest level since April 2017. The new orders index also was disappointing with a drop of 0.9 percentage point to 58.1 percent. Other readings in the past two years have been lower, but the latest observation was still 3.2 percentage points below last year's average. The business activity component (a measure akin to production) registered a gain (up 2.1 percentage points to 59.5 percent). However, this component still lagged last year's results (average of 61.5 percent in 2018).

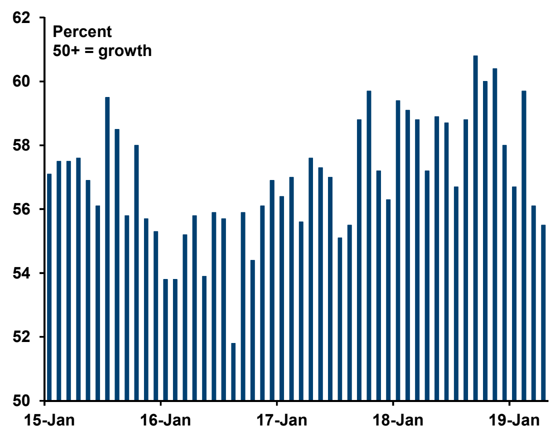
### ISM Nonmanufacturing -- Monthly Indexes

| | Dec-18 | Jan-19 | Feb-19 | Mar-19 | Apr-19 |
|---|---|---|---|---|---|
| ISM Nonmfg. Composite | 58.0 | 56.7 | 59.7 | 56.1 | 55.5 |
| Business activity | 61.2 | 59.7 | 64.7 | 57.4 | 59.5 |
| New orders | 62.7 | 57.7 | 65.2 | 59.0 | 58.1 |
| Employment | 56.6 | 57.8 | 55.2 | 55.9 | 53.7 |
| Supplier deliveries* | 51.5 | 51.5 | 53.5 | 52.0 | 50.5 |
| Prices | 58.0 | 59.4 | 54.4 | 58.7 | 55.7 |

** The supplier deliveries index is not seasonally adjusted. The index differs from the other components of the composite measure (business activity, new orders, employment) in interpretation. An index above 50 percent indicates slower deliveries and readings below 50 percent indicate faster deliveries.*

*Source: Institute for Supply Management via Haver Analytics*

### ISM Nonmanufacturing Index




*Source: Institute for Supply Management via Haver Analytics*

## Goods Trade

Both exports and imports rose in March (up 1.0 percent and 0.9 percent, respectively), which left a slight widening in the monthly trade deficit ($71.4 billion versus $70.9 billion in February). Although the balance slipped in the latest month, the results were better than the expected deficit of $73.0 billion. Also, the results were a tad better than assumed in the initial estimate of Q1 GDP, pointing to a possible upward revision, although the adjustment is likely to be modest and could be countered by the still-to-be-published results for trade in services.