

U.S. Economic Comment

- Job growth: adjust your perceptions
- Manufacturing: soft, but not recession-like

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Nonfarm Payrolls: Decelerating

The latest increase of 130,000 in payroll employment (105,000 excluding census workers) might be viewed by many as an aberration, a random shift from readings in the neighborhood of 200,000. Such views are likely to be reinforced by other aspects of the employment report, which were generally favorable (employment as measured by the household survey was vigorous, average hourly earnings posted a solid increase, and the length of the average workweek rebounded from a dip in July). While the August payroll figures may have contained an element of downside noise, the soft reading should not be dismissed; other recent developments also have suggested that job growth is decelerating. Specifically, upcoming revisions are likely to show a slower pace of job growth.

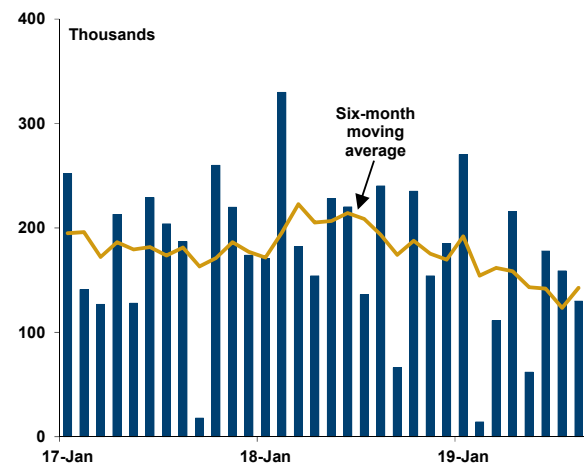
The monthly job figures are based on a sample of business establishments, and being sample-based, there is naturally some measurement error. In order to limit the size of the sampling error, the Bureau of Labor Statistics conducts a universal employment count every March and recalibrates the monthly figures to be consistent with this total. The process is time consuming, and the adjustments are made with a long lag, as the revisions are not published until February of the following year. The BLS issues a progress report in August, providing an early read on the adjustments that are likely to be made in February.

The progress report published on August 21 indicated that total nonfarm payroll employment was 501,000 lighter than previously believed. That is, 149.4 million individuals were payroll employees as of March 2019 rather than 149.9 million shown by the current estimate (not seasonally adjusted data). This error, while not unprecedented, is larger than normal. Measured as a share of total employment, the overcount of 0.33 percent this year is almost five times larger than the average absolute error of 0.07 percent in the prior five years.

If the preliminary tally published in August is accurate -- and historically the early estimates have been close to the mark -- the benchmark adjustment in February will cast the labor market in a different light. Current estimates show that job growth in the 12 months ended March 2019 averaged 210,000 per month, but the overcount of 501,000 will reduce this average to 168,000. Since March, job growth has averaged 149,000 per month, and the BLS easily could nudge these results lower to account for the fact that its models were overestimating job growth in the year ended March.

Thus, the U.S. economy is no longer consistently generating job gains in the neighborhood of 200,000 per month. The underlying average is probably in the neighborhood of 150,000 per month. From this perspective, job growth of 130,000 is not especially surprising (chart).

Adjusted Payroll Employment*



The published results from April 2018 to March 2019 have been reduced by approximately 42,000 to reflect the likely benchmark revision that will occur in February of next year. The actual revisions will not be evenly spread across months, but an early estimate from the Bureau of Labor Statistics indicated that they will average approximately 42,000 per month.

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

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Still Favorable.

While this pace is notably slower than the 200,000 that had become common, it is still a solid performance. With the economy now essentially at full employment, the average increase in the size of the labor force might serve as a benchmark for evaluating the rate of job growth. If job growth matches the advance in the labor force, the unemployment rate will hold steady; if it exceeds this total, joblessness will decline gradually over time.

Labor force growth fluctuates widely, varying in recent years within a range of approximately 0.5 to 1.5 percent per year. The 1.0 percent midpoint of this range translates to monthly labor force growth of approximately 135,000. Thus, for this stage of the business cycle, job growth of 150,000 is still fast enough to nudge the unemployment rate lower. The change in joblessness will be slow and modest, but still downward.

Manufacturing: Soft, but not Disastrous

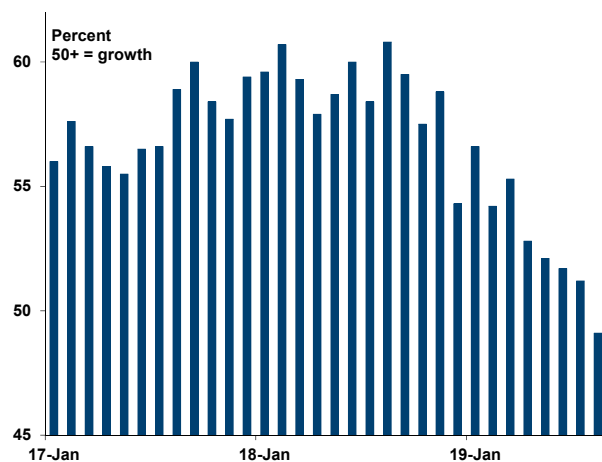
The ISM manufacturing index dipped below 50 percent in August (49.1 percent), moving close to the bottom of the range from the current expansion and trailing by a wide margin readings near 60 percent in the prior two years (chart, left). The drop below 50 percent was viewed as alarming by many journalists and market analysts, but it is easy to overstate the significance of the shift.

We view the ISM index as a useful indicator, but we also interpret it cautiously. We view the measure as reliably signaling direction of change, but it is not always useful in providing information on the magnitude of change. Participants in the survey have only three possible responses to each question: conditions have improved, stayed the same, or have softened. Supply managers give the same answer whether conditions have changed by 10 percent or 0.1 percent, leaving little insight into magnitude of change.

To judge the degree of softness that is emerging, we turn to other indicators related to the manufacturing sector. Other statistics show clear softening, although the magnitude of change has not been pronounced. Job growth in the factory sector, for example, has faded from the average pace of 22,000 last year to only 3,000 in the past six months. However, firms are still adding to payrolls (chart, right).

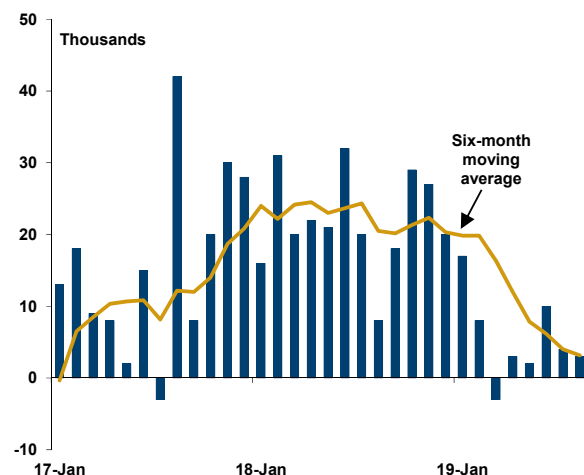
The employment report also shows softening in the manufacturing sector through a shortening in the average workweek (40.9 hours last year versus 40.6 hours so far this year). However, the effects of larger payrolls and shorter workweeks have been nearly offsetting, as total hours worked (the combination of payrolls and workweek) have drifted only marginally lower this year.

ISM Manufacturing Index



Source: Institute for Supply Management via Haver Analytics

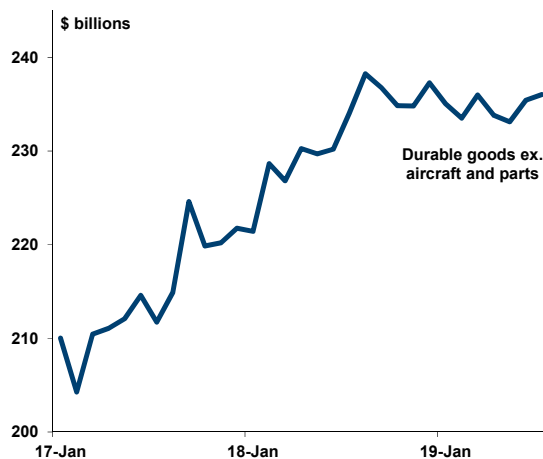
Change in Manufacturing Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

The report on factory orders also provides insight. Bookings for durable goods have declined approximately three percent this year (average in 2018-Q4 to average in 2019-Q2), but much of the softness has occurred in the aircraft component, reflecting issues with Boeing rather than macroeconomic developments. Durable orders excluding aircraft have been essentially flat (chart, left). The nondurable area has stirred recently. After moving sideways much of last year and the early portion of this year, orders for nondurable goods excluding petroleum and coal products have increased for four consecutive months and provided a notable lift to what had been a sideways trend (chart, right). With durable orders ex-aircraft flat and nondurable orders ex-petroleum increasing, it is difficult to argue that the manufacturing sector is recession-like. To be sure, it is slow, but it is not in retreat. With manufacturing activity approximately steady, advances in other areas are keeping the economy on track (the ISM nonmanufacturing index was comfortable in August at 56.4 percent).

Manufacturers' New Orders



Review

Week of Sept. 2, 2019	Actual	Consensus	Comments
ISM Manufacturing Index (August)	49.1% (-2.1 Pct. Pts.)	51.3% (+0.1 Pct. Pt.)	The sub-50-percent reading on the ISM index in August signaled problems in the manufacturing sector, although it was probably not soft enough to suggest recession in the overall economy. The employment index led the decline in the headline measure (-4.3 percentage points to 47.4%). The current reading was well shy of the average of 56.9% in 2017 and 2018, and it was among the softest of the current expansion. The new orders index also was weak (-3.6 percentage points to 47.2%), matching the lowest observation for the current expansion (tying June 2012). The production index fell 1.3 percentage points to 49.5% and was only marginally above the low for the current expansion (49.2% in November 2015).
Construction Spending (July)	0.1%	0.3%	Despite an uptick in July, total construction activity has drifted lower on balance after peaking in February of last year. The private residential component rose 0.6%, but the change followed declines in the prior seven months (and in 13 of the prior 14 months) and thus did not meaningfully alter the soft underlying trend. Private nonresidential construction fell 0.8%, continuing a choppy pattern that has left little net change in the past year. Government-related activity has provided a partial offset to the weakness in the private sector, as public construction has rallied this year after a soft patch in the closing months of 2018.
Trade Balance (July)	\$54.0 Billion Deficit (\$1.5 Billion Narrower Deficit)	\$53.4 Billion Deficit (\$1.8 Billion Narrower Deficit)	Exports rose 0.6% on a month-to-month basis in July while imports dipped 0.1%. The combined results led to a narrowing of \$1.5 billion in the monthly deficit. Although the trade deficit in July narrowed from the reading in June, the new figure on real trade in goods was wider than the average in the second quarter. The slippage from the average in the prior quarter sets the stage for net exports constraining the growth of GDP in Q3. If the results for August and September were to match those for July, net exports would subtract approximately one-quarter percentage point from GDP growth.

Review Continued

Week of Sept. 2, 2019	Actual	Consensus	Comments
ISM Nonmanufacturing Index (August)	56.4% (+2.7 Pct. Pts.)	54.0% (+0.3 Pct. Pt.)	The ISM nonmanufacturing index jumped in August after dropping a combined 3.2 percentage points in the prior two months. While the increase provided only a partial offset to the drop, the pickup nevertheless suggested that the nonmanufacturing sectors still have a bit of vigor. The business activity component led the advance in August (up 8.4 percentage points to 61.5%). The latest reading, while shy of the cyclical peak, matched the average from last year and signaled a good pace of activity. A firm order flow stirred the pickup in business activity, as the new orders component jumped 6.2 percentage points to 60.3%. The latest observation was slightly below the average of 61.3% from last year, but it was firm by historical standards. Surprisingly, the employment component was soft, falling 3.1 percentage points to 53.1%, the lowest reading since early 2017.
Factory Orders (July)	1.4%	1.0%	Although the manufacturing sector has hit a soft patch, the report on factory orders for July offered some encouragement. Orders for nondurable goods jumped 0.8%. Some of the advance occurred in the petroleum and coal category (up 2.4%), which was probably influenced by higher prices, but orders for nondurable goods excluding petroleum and coal also advanced (up 0.4%). The increase ex-petroleum marked the fourth consecutive increase and gave a noticeable lift to what had been a flat trend. The durable component rose 2.0%, as a revival in orders at Boeing after several slow months boosted the aircraft category. Orders ex-transportation fell 0.4%, but this dip followed a combined advance of more than one percent in the prior two months and left a sideways trend. The durable area lacks vigor, but it is not in retreat.
Payroll Employment (August)	130,000	160,000	Nonfarm payrolls were sluggish in August, as the increase trailed the average of 162,000 in the first seven months of 2019. Moreover, the hiring of temporary workers for the 2020 census boosted the figure by 25,000, and results in the prior two months were revised lower by a combined total of 20,000. Other aspects of the report were favorable. The unemployment rate held steady at 3.7%, but more precise calculation shows a slight decline (3.687% versus 3.712% in July). In addition, the change was driven by a huge increase in employment as measured by the household survey (590,000) that exceeded a hefty increase in the size of the labor force (571,000). Average hourly earnings rose 0.4%, one of the firmer increases of the past few years. The change left the year-over-year increase at 3.2%, shy of the cyclical peak of 3.4% in February but still favorable.

Source: Institute for Supply Management (ISM Manufacturing Index, ISM Nonmanufacturing Index); U.S. Census Bureau (Construction, Factory Orders); Bureau of Economic Analysis (Trade Balance); Bureau of Labor Statistics (Payroll Employment); Consensus forecasts are from Bloomberg

Preview

Week of Sept. 9, 2019	Projected	Comments
PPI (August) (Wednesday)	-0.1% Total, 0.1% Core*	Lower prices of gasoline will probably restrain the headline index, while prices of goods excluding food and energy are likely to remain on their recent soft track (flat or up only 0.1% in the past six months). We look for the index of service prices to move in line with its underlying average of 0.2%, but this erratic component often provides surprises.
CPI (August) (Thursday)	0.1% Total, 0.2% Core	Lower energy prices, primarily for gasoline, are likely to constrain the headline CPI. The core component, after increasing modestly from February through May, quickened in June and July. With the labor market tight and the economy performing reasonably well, core prices are likely to remain on a firm track. Tariffs could provide an added push, although the effects will be stronger in coming months when more consumer goods become subject to the duties.
Federal Budget (August) (Thursday)	\$185.0 Billion Deficit	After brisk year-over-year growth in the prior six months (average increase of 7.5%), federal revenues appear to have cooled in August, with receipts likely to advance by approximately 2.0%. Outlays are likely to fall on a year-over-year basis, but the restraint is largely the result of an odd calendar configuration in 2018 that pulled much of the Social Security payment for September into August and left an elevated base for the year-over-year calculation. If the forecast proves accurate, the deficit in the first 11 months of the fiscal year would total \$1,052 billion. The federal government typically runs a budget surplus in September, which could leave the annual deficit shy of \$1.0 trillion.
Retail Sales (August) (Friday)	0.1% Total, 0.1% Ex-Autos	A pickup in sales of new vehicles will probably boost the auto component, but lower prices of gasoline will probably depress the service station component and provide an offset. Elsewhere, a cooling in activity after robust results in July will probably leave a soft overall tone.
Consumer Sentiment (September) (Friday)	91.0 (+1.3%)	The volatility in the equity market apparently unnerved many individuals in August, as the sentiment index retreated to its lowest level in almost three years. The pickup in stock prices in early September should ease concerns to a degree and lead to some recovery in this measure.

* The core PPI excludes food, energy, and trade services.

Source: Forecasts provided by Daiwa Capital Markets America

Economic Indicators

September 2019				
Monday	Tuesday	Wednesday	Thursday	Friday
2	3	4	5	6
LABOR DAY	ISM INDEX Index Prices June 51.7 47.9 July 51.2 45.1 Aug 49.1 46.0 CONSTRUCTION SPEND. May -0.7% June -0.7% July 0.1%	TRADE BALANCE May -\$55.8 billion June -\$55.5 billion July -\$54.0 billion SEPTEMBER BEIGE BOOK "On balance, reports from Federal Reserve Districts suggested that the economy expanded at a modest pace through the end of August." VEHICLE SALES June 17.2 million July 16.8 million Aug 17.0 million	ADP EMPLOYMENT REPORT Private Payrolls June 107,000 July 142,000 Aug 195,000 INITIAL CLAIMS Aug 17 211,000 Aug 24 216,000 Aug 31 217,000 REVISED PRODUCTIVITY & COSTS Productivity Unit Labor Costs 19-Q1 3.5% 5.7% 19-Q2(p) 2.3% 2.4% 19-Q2(r) 2.3% 2.6% ISM NON-MFG INDEX Index Prices June 55.1 58.9 July 53.7 56.5 Aug 56.4 58.2 FACTORY ORDERS May -1.3% June 0.5% July 1.4%	EMPLOYMENT REPORT Payrolls Un. Rate June 178,000 3.7% July 159,000 3.7% Aug 130,000 3.7%
9	10	11	12	13
CONSUMER CREDIT (3:00) May \$17.8 billion June \$14.6 billion July --	NFIB SMALL BUSINESS OPTIMISM INDEX (6:00) June 103.3 July 104.7 Aug -- JOLTS DATA (10:00) Openings (000) Quit Rate May 7,384 2.3% June 7,348 2.3% July -- --	PPI (8:30) Final Demand Core* June 0.1% 0.0% July 0.2% -0.1% Aug -0.1% 0.1% WHOLESALE TRADE (10:00) Inventories Sales May 0.4% -0.6% June 0.0% -0.3% July 0.2% 0.2%	INITIAL CLAIMS (8:30) CPI (8:30) Total Core June 0.1% 0.3% July 0.3% 0.3% Aug 0.1% 0.2% FEDERAL BUDGET (2:00) 2019 2018 June -\$8.5B -\$74.9B July -\$119.7B -\$76.9B Aug -\$185.0B -\$214.1B	RETAIL SALES (8:30) Total Ex.Autos June 0.3% 0.3% July 0.7% 1.0% Aug 0.1% 0.1% IMPORT/EXPORT PRICES (8:30) Non-fuel Imports Nonagri. Exports June -0.3% -1.0% July -0.1% 0.2% Aug -- -- CONSUMER SENTIMENT (10:00) July 98.4 Aug 89.8 Sept 91.0 BUSINESS INVENTORIES (10:00) Inventories Sales May 0.3% -0.1% June -0.1% 0.1% July 0.4% 0.3%
16	17	18	19	20
EMPIRE MFG INDEX	IP & CAP-U NAHB HOUSING INDEX TIC DATA FOMC MEETING	HOUSING STARTS FOMC DECISION POWELL PRESS CONFERENCE	INITIAL CLAIMS CURRENT ACCOUNT PHILLY FED INDEX EXISTING HOME SALES LEADING INDICATORS	
23	24	25	26	27
CHICAGO FED NAT'L ACTIVITY INDEX	FHFA HOME PRICE INDEX S&P CORELOGIC CASE-SHILLER HOME PRICE INDEX CONSUMER CONFIDENCE	NEW HOME SALES	INITIAL CLAIMS REVISED GDP US INTERNATIONAL TRADE IN GOODS ADVANCE INVENTORIES PENDING HOME SALES	PERSONAL INCOME, CONSUMPTION, PRICES DURABLE GOODS ORDERS REVISED CONSUMER SENTIMENT

(p) = preliminary; (r) = revised

Forecasts in Bold * The core PPI excludes food, energy, and trade services.

Treasury Financing

September 2019																						
Monday	Tuesday	Wednesday	Thursday	Friday																		
2	3	4	5	6																		
LABOR DAY	AUCTION RESULTS: <table><tr><td></td><td>Rate</td><td>Cover</td></tr><tr><td>13-week bills</td><td>1.930%</td><td>2.95</td></tr><tr><td>26-week bills</td><td>1.825%</td><td>3.10</td></tr></table> ANNOUNCE: <p>\$55 billion 4-week bills for auction on September 5</p> <p>\$40 billion 8-week bills for auction on September 5</p> SETTLE: <p>\$55 billion 4-week bills</p> <p>\$40 billion 8-week bills</p> <p>\$40 billion 2-year notes</p> <p>\$41 billion 5-year notes</p> <p>\$32 billion 7-year notes</p>		Rate	Cover	13-week bills	1.930%	2.95	26-week bills	1.825%	3.10		AUCTION RESULTS: <table><tr><td></td><td>Rate</td><td>Cover</td></tr><tr><td>4-week bills</td><td>2.025%</td><td>2.69</td></tr><tr><td>8-week bills</td><td>1.960%</td><td>3.18</td></tr></table> ANNOUNCE: <p>\$87 billion 13-,26-week bills for auction on September 9</p> <p>\$28 billion 52-week bills for auction on September 10</p> <p>\$38 billion 3-year notes for auction on September 10</p> <p>\$24 billion 10-year notes for auction on September 11</p> <p>\$16 billion 30-year bonds for auction on September 12</p> SETTLE: <p>\$87 billion 13-,26-week bills</p>		Rate	Cover	4-week bills	2.025%	2.69	8-week bills	1.960%	3.18	
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AUCTION: <p>\$87 billion* 13-,26-week bills</p>	AUCTION: <p>\$40 billion* 2-year notes</p> ANNOUNCE: <p>\$45 billion* 4-week bills for auction on September 26</p> <p>\$40 billion* 8-week bills for auction on September 26</p> SETTLE: <p>\$45 billion* 4-week bills</p> <p>\$40 billion* 8-week bills</p>	AUCTION: <p>\$18 billion* 2-year FRNs</p> <p>\$41 billion* 5-year notes</p>	AUCTION: <p>\$45 billion* 4-week bills</p> <p>\$40 billion* 8-week bills</p> <p>\$32 billion* 7-year notes</p> ANNOUNCE: <p>\$87 billion* 13-,26-week bills for auction on September 30</p> SETTLE: <p>\$87 billion* 13-,26-week bills</p>	SETTLE: <p>\$18 billion* 2-year FRNs</p>																		

*Estimate