U.S. Economic Comment

- Employment: softer history, but a recent rally; still-favorable trend
- Productivity: lagging the historical performance, but hints of improvement

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Employment: The Big Picture

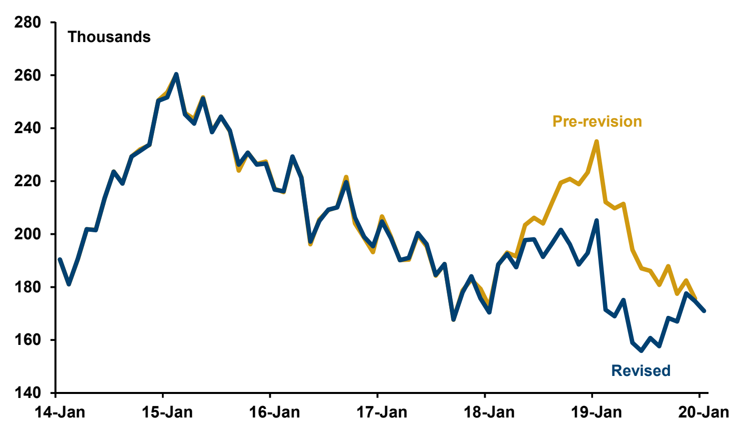
Monthly employment reports nearly always provide useful insights into economic developments, but we find the reports for January more interesting than others because they include benchmark revisions based on a universal count of employment. The tally of employment at all firms in the nation squeezes out errors that naturally arise from monthly samples of business establishments and keeps employment trends on a generally accurate track.

Some observers might view the latest benchmark adjustment in a negative light, as it showed that employment in the benchmark month (March 2019) was 505,000 lighter than previously believed (based on not seasonally adjusted data). However, if one steps back and focuses on the big picture, the adjustment is less than troubling. In fact, we are inclined to give it a positive spin.

Previous data showed that a surge in employment in late 2017 and 2018 had interrupted the deceleration in job growth that had emerged in the middle portion of the current expansion. The new figures still show that the labor market caught a second wind; the downward adjustment merely dampened the magnitude of that rally (chart). The labor market still showed a good degree of vigor in this period, with average job growth in the neighborhood of 200,000 per month.

Deceleration resumed in the latter part of 2018, but the new data show that the slower period was brief and that another revival began last year. Indeed, updated estimates based on the guidance from the universal job count in March of last year showed an additional 92,000 jobs in the final nine months of 2019 and an average pace of 200,000 per month in the second half of last year versus a pre-benchmark average of 189,000. January continued the firm results with 225,000 new jobs. All told, the revised statistics show only modest deceleration in job growth in the past few years and a firm pace overall.

Change in Nonfarm Payrolls*



* 12-month moving averages.
Source: Bureau of Labor Statistics via Haver Analytics

Productivity: Slightly Better

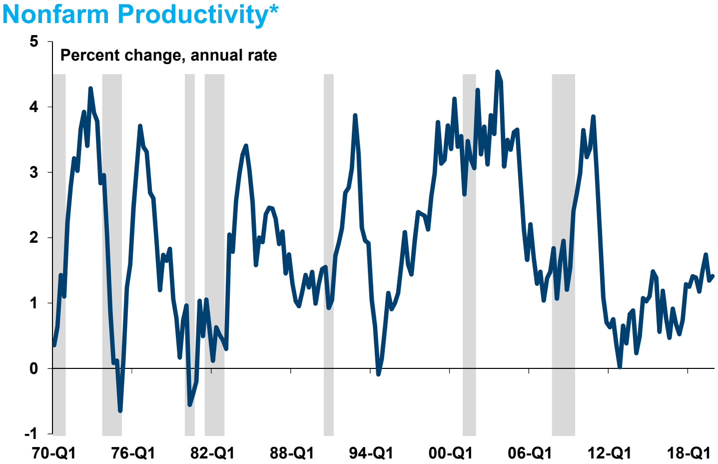
Productivity, an important variable in determining the underlying performance of an economy, can be difficult to assess and analyze because of pronounced short-run volatility. For example, quarter-to-quarter growth rates last year ranged from -0.2 percent to 3.5 percent (annual rates). However, one can gain insights, and perhaps draw conclusions, by maintaining a longer-term focus and by taking account of normal cyclical swings.

The chart below abstracts from short-run volatility by plotting eight-quarter moving averages, and it shows the cyclical tendency of productivity to perform poorly during recessions and then to advance vigorously in the early stages of a business expansion before gradually fading thereafter. The cyclical pattern most likely emerges because businesses move to sub-optimal levels of production during recessions before regaining efficiencies with a return to normal levels of activity. An exception to the normal cyclical movement occurred in the late 1990s, when productivity continued to accelerate during the expansion rather than to ease. The strong performance was the result of the tech boom and the innovations it generated.

The chart shows why most observers view the productivity performance of the current expansion as disappointing. The surge in the early portion of the recovery was robust, but it was brief. In addition, the deceleration was rather quick and the pace in subsequent quarters -- often less than one percent -- was shy of readings of one to two percent that were common in the middle portions of previous expansions. The cumulative effect of these deviations from the norm has been pronounced, as average productivity growth in the current expansion has totaled 1.2 percent, less than half the average pace of 2.7 percent in the other expansions shown on the chart.

While the overall performance of the past several years has been disappointing, recent results have improved. The average pace in the past eight quarters (1.4 percent) was certainly better than the sub-one-percent readings that were common during the middle of the current expansion. Possibly more important, the past year has offered hope of another step upward, as the four-quarter average has totaled 1.8 percent. Of course, a four-quarter average for productivity could still contain a heavy dose of random volatility, but the trend of the past few years is tilting upward, an unusual development for the late stages of a business cycle. The late-cycle pickup, reminiscent of the experience in the late 1990s, might be signaling beneficial effects of new technologies and possibly additional gains in productivity.

Nonfarm Productivity*



** Eight-quarter moving averages. The shaded areas indicate periods of recession in the U.S. economy.*

Source: Bureau of Labor Statistics and National Bureau of Economic Research via Haver Analytics

Review

Week of Feb. 3, 2020	Actual	Consensus	Comments
ISM Manufacturing Index (January)	**50.9% (+3.1 Pct. Pts.)**	**48.5% (+1.3 Pct. Pts.)**	The ISM manufacturing index in January registered its first reading above 50% since July, signaling hints of improvement in a soft sector of the economy. Order flows strengthened noticeably, jumping 4.4 percentage points to 52.0%, and the firmer pace of orders led to a surge in production (up 9.5 percentage points to 54.3%). Both of these components were better than their averages of 51.2% in 2019 but they lagged substantially the averages of more than 60% in 2018. Employment also improved in January, but it was less impressive than new orders and production, as this measure rose only 1.4 percentage points and remained below 50% for sixth consecutive month.
Construction Spending (December)	**-0.2%**	**0.5%**	The dip in construction activity interrupted the upward trend of the past year that had recouped most of the ground lost in 2018. Absent further growth in December, new building remained shy of the cyclical peak in February 2018. Private residential building rose, but the increase of 1.4% was less than one might have expected based on the recent jump in housing starts. Private nonresidential building fell 1.8%, adding noticeably to a downward drift that began in mid-2018. Government-related building dipped 0.4%, as state and local activity has cooled after a surge in early 2019.
Factory Orders (December)	**1.8%**	**1.2%**	The increase in factory orders was led by a jump of 2.4% in the durable component, with defense-related aircraft and ships posting unusually large gains. Excluding transportation items, durable orders fell 0.1%, continuing the flat to downward drift that was evident throughout 2019. Bookings for nondurable goods jumped 1.1%, but the change occurred from a downward revised reading in November. In addition, much of the growth in December occurred in the petroleum and coal category, where the increase of 4.5% was most likely influenced by higher prices. Excluding petroleum and coal, orders for nondurable goods rose 0.2%, but the modest advance after a net decline in the prior three months did little to alter the recent pattern of sluggish results.
Trade Balance (December)	**-$48.9 Billion ($5.2 Billion Wider Deficit)**	**-$48.2 Billion ($5.1 Billion Wider Deficit)**	The slippage in the monthly deficit in December occurred on the import side, as foreign purchases increased 2.7% and more than offset growth of 0.8% in exports. The jump in imports followed declines in the prior three months, but the gain offset only a portion of the slide and left in place the downward drift that began in the latter part of 2018. Exports rose for the second consecutive month, but they were down in the two months before that, leaving only a small net advance and reinforcing the sideways trend of the past year. The December results are likely to have little influence on the pace of GDP growth in Q4, as the figures were close to those assumed in the initial estimate.

Review Continued

Week of Feb. 3, 2020	Actual	Consensus	Comments
ISM Nonmanufacturing Index (January)	**55.5% (+0.6 Pct. Pt.)**	**55.1% (+0.1 Pct. Pt.)**	The increase in the ISM nonmanufacturing index marked the third gain in the past four months, but the advances began from a low level and merely moved the index to the middle of the range for 2019. The measure remained well shy of observations in 2018 (average of 59.0%). The business activity index led the advance with an increase of 3.9 percentage points to 60.9%. The change marked the second consecutive sizeable gain and moved the measure from the low portion of the recent range to the upper portion. The increase in business activity occurred despite a mediocre order flow (56.2%, less than the average of 57.5% from last year and well shy of the average of 61.4% in 2018). The employment component was disappointing, as it fell 1.7 percentage points to 53.1%, a reading in the low portion of the range of the past few years.
Nonfarm Productivity (2019-Q4)	**1.4%**	**1.6%**	Growth in output (2.5%) exceeded growth in hours worked (1.1%), leading to an increase in nonfarm productivity. Productivity growth often shows a healthy dose of volatility, and therefore averaging through quarterly results often provides a clearer picture of the underlying performance. Despite of dip of 0.2% in Q3, productivity rose 1.8% over the four quarters of 2019, a notable pickup from the average annual pace of 1.2% in the prior two years.
Payroll Employment (January)	**225, 000**	**165,000**	The brisk advance in nonfarm payrolls primarily reflected several industries posting above-average increases in employment, with three sectors standing out with gains notably stronger than recent averages (construction, private education, and health care). The manufacturing sector, in contrast, posted one of its weakest showings of the past few years. Manufacturing activity has been soft recently and the new figures do not suggest a break in the trend. The unemployment rate rose 0.1 percentage point to 3.6%, as an increase in the size of the labor force exceeded the change in employment as measured by the household survey. An increase of 0.2% in average hourly earnings left a year-over-year advance of 3.1%, close to other recent readings but shy of the results near 3.5% in some earlier months.

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

Preview

Week of Feb. 10, 2020	Projected	Comments
Federal Budget (January) (Wednesday)	**-$25.0 Billion**	Available data suggest that revenues grew approximately 9.0% in January, almost double the average pace in the first quarter of fiscal year 2020. Outlays also are likely to advance briskly, partly because of a calendar configuration that pulled some spending scheduled for February into January, but also because of hefty outlays for medical care. The projected deficit would leave the shortfall in the first four months of the fiscal year at $382 billion, up from $310 billion in the same period in the prior fiscal year.
CPI (January) (Thursday)	**0.1% Total, 0.2% Core**	A modest drop in the average price of gasoline is likely to be magnified after seasonal adjustment, which should push the energy component lower and restrain the headline index. Given moderate growth in labor costs and notable competition from imports, the core component is likely to match the subdued performance of 2019, which showed an average monthly change that rounded up to 0.2%.
Retail Sales (January) (Friday)	**0.5% Total, 0.4% Ex-Autos**	With fundamentals for consumer spending favorable, retail activity should pick up after a slow holiday shopping season. Brick and mortar establishments did well in November and December, but activity at nonstore retailers was surprisingly soft. That pattern is likely to reverse in January.
Industrial Production (January) (Friday)	**-0.2%**	A drop in factory employment in January suggests that the manufacturing component of IP will be weak. Production cuts on the 737 MAX aircraft add to downside risk, although the effect is likely to be small, as Boeing indicated that individuals working on the 737 MAX would be shifted to other projects rather than placed on leave. An easing in the price of crude oil in January might have dampened fracking activity, which could constrain the mining component of IP, and a below-average reading on the number of heating-degree days could result in a drop in utility output.

Source: Forecasts provided by Daiwa Capital Markets America

Economic Indicators

February 2020

Monday	Tuesday	Wednesday	Thursday	Friday
3	4	5	6	7
ISM INDEX Index Prices Nov 48.1 46.7 Dec 47.8 51.7 Jan 50.9 53.3 **CONSTRUCTION SPEND** Oct 0.4% Nov 0.7% Dec -0.2% **VEHICLE SALES** Nov 17.0 million Dec 16.6 million Jan 16.8 million	**FACTORY ORDERS** Oct 0.2% Nov -1.2% Dec 1.8%	**ADP EMPLOYMENT REPORT** Private Payrolls Nov 121,000 Dec 199,000 Jan 291,000 **TRADE BALANCE** Oct -$47.4 billion Nov -$43.7 billion Dec -$48.9 billion **ISM NON-MFG INDEX** Index Prices Nov 53.9 58.8 Dec 54.9 59.3 Jan 55.5 55.5	**INITIAL CLAIMS** Jan 18 223,000 Jan 25 217,000 Feb 01 202,000 **PRODUCTIVITY & COSTS** Productivity Unit Labor Costs 19-Q2 2.5% 0.1% 19-Q3 -0.2% 2.5% 19-Q4 1.4% 1.4%	**EMPLOYMENT REPORT** Payrolls Un. Rate Nov 261,000 3.5% Dec 147,000 3.5% Jan 225,000 3.6% **WHOLESALE TRADE** Inventories Sales Oct 0.1% -0.9% Nov 0.1% 0.9% Dec -0.2% -0.7% **CONSUMER CREDIT** Oct $18.7 billion Nov $11.8 billion Dec $22.1 billion
10	11	12	13	14
	NFIB SMALL BUSINESS OPTIMISM INDEX (6:00) Nov 104.7 Dec 102.7 Jan -- **JOLTS DATA (10:00)** Openings (000) Quit Rate Oct 7,361 2.3% Nov 6,800 2.3% Dec -- -- **MONETARY POLICY TESTIMONY (HOUSE) (10:00)**	**FEDERAL BUDGET (2:00)** FY2020 FY2019 Nov -$208.8B -$204.9B Dec -$13.3B -$13.5B **Jan** **-$25.0B** $8.7B **MONETARY POLICY TESTIMONY (SENATE) (10:00)**	**INITIAL CLAIMS (8:30)** **CPI (8:30)** Total Core Nov 0.3% 0.2% Dec 0.2% 0.1% **Jan** **0.1%** **0.2%**	**RETAIL SALES (8:30)** Total Ex.Autos Nov 0.3% -0.1% Dec 0.3% 0.7% **Jan** **0.5%** **0.4%** **IMPORT/EXPORT PRICES (8:30)** Non-fuel Imports Nonagri. Exports Nov -0.1% 0.0% Dec 0.0% -0.1% Jan -- -- **IP & CAP-U (9:15)** IP Cap.Util. Nov 0.8% 77.4% Dec -0.3% 77.0% **Jan** **-0.2%** **76.9%** **CONSUMER SENTIMENT (10:00)** Dec 99.3 Jan 99.8 **Feb** **99.5** **BUSINESS INVENTORIES (10:00)** Inventories Sales Oct 0.1% -0.2% Nov -0.1% 0.5% **Dec** **0.1%** **0.0%**
17	18	19	20	21
PRESIDENTS' DAY	**EMPIRE MFG INDEX** **NAHB HOUSING INDEX** **TIC DATA**	**HOUSING STARTS** **PPI** **FOMC MINUTES**	**INITIAL CLAIMS** **PHILLY FED INDEX** **LEADING INDICATORS**	**EXISTING HOME SALES**
24	25	26	27	28
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** **DURABLE GOODS ORDERS** **REVISED Q4 GDP** **PENDING HOME SALES**	**PERSONAL INCOME, CONSUMPTION, PRICES** **U.S. INTERNATION TRADE IN GOODS** **ADVANCE INVENTORIES** **CHICAGO PURCHASINIG MANAGERS' INDEX** **REVISED CONUSMER SENTIMENT**

Forecasts in Bold.

Treasury Financing

February 2020

Monday	Tuesday	Wednesday	Thursday	Friday
3	4	5	6	7
AUCTION RESULTS: Rate / Cover 13-week bills 1.550% 2.57 26-week bills 1.520% 2.77	**ANNOUNCE:** $50 billion 4-week bills for auction on February 6 $45 billion 8-week bills for auction on February 6 **SETTLE:** $45 billion 4-week bills $45 billion 8-week bills	**ANNOUNCE MID-QUARTER REFUNDING:** $38 billion 3-year notes for auction on February 11 $27 billion 10-year notes for auction on February 12 $19 billion 30-year bonds for auction on February 13	**AUCTION RESULTS:** Rate / Cover 4-week bills 1.540% 3.04 8-week bills 1.550% 3.06 **ANNOUNCE:** $84 billion 13-,26-week bills for auction on February 10 $30 billion 56-day CMBs for auction on February 11 **SETTLE:** $84 billion 13-,26-week bills	
10	11	12	13	14
AUCTION: $84 billion 13-,26-week bills	**AUCTION:** $38 billion 3-year notes $30 billion 56-day CMBs **ANNOUNCE:** $50 billion* 4-week bills for auction on February 13 $45 billion* 8-week bills for auction on February 13 **SETTLE:** $50 billion 4-week bills $45 billion 8-week bills	**AUCTION:** $27 billion 10-year notes	**AUCTION:** $50 billion* 4-week bills $45 billion* 8-week bills $19 billion 30-year bonds **ANNOUNCE:** $84 billion* 13-,26-week bills for auction on February 18 $8 billion* 30-year TIPS for auction on February 20 **SETTLE:** $84 billion 13-,26-week bills $30 billion 56-day CMBs	
17	18	19	20	21
PRESIDENTS' DAY	**AUCTION:** $84 billion* 13-,26-week bills **ANNOUNCE:** $50 billion* 4-week bills for auction on February 20 $45 billion* 8-week bills for auction on February 20 **SETTLE:** $50 billion* 4-week bills $45 billion* 8-week bills $38 billion 3-year notes $27 billion 10-year notes $19 billion 30-year bonds		**AUCTION:** $50 billion* 4-week bills $45 billion* 8-week bills $8 billion* 30-year TIPS **ANNOUNCE:** $84 billion* 13-,26-week bills for auction on February 24 $26 billion* 52-week bills for auction on February 25 $18 billion* 2-year FRNs for auction on February 26 $40 billion* 2-year notes for auction on February 25 $41 billion* 5-year notes for auction on February 26 $32 billion* 7-year notes for auction on February 27 **SETTLE:** $84 billion* 13-,26-week bills	
24	25	26	27	28
AUCTION: $84 billion* 13-,26-week bills	**AUCTION:** $26 billion* 52-week bills $40 billion* 2-year notes **ANNOUNCE:** $50 billion* 4-week bills for auction on February 27 $45 billion* 8-week bills for auction on February 27 **SETTLE:** $50 billion* 4-week bills $45 billion* 8-week bills	**AUCTION:** $18 billion* 2-year FRNs $41 billion* 5-year notes	**AUCTION:** $50 billion* 4-week bills $45 billion* 8-week bills $32 billion* 7-year notes **ANNOUNCE:** $84 billion* 13-,26-week bills for auction on March 2 **SETTLE:** $84 billion* 13-,26-week bills $26 billion* 52-week bills	**SETTLE:** $8 billion* 30-year TIPS $18 billion* 2-year FRNs

*Estimate