Daiwa Capital Markets

U.S. Economic Comment

- Labor market: a hint of softening, but still firm
- Manufacturing: slight improvement

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Job Openings: Less than Stratospheric

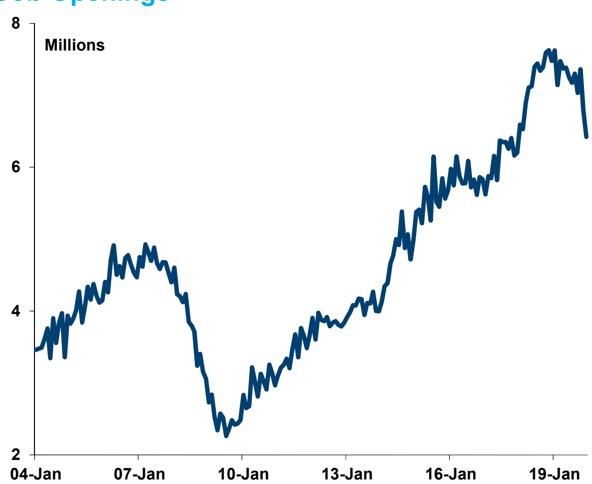
Nearly all indicators relating to the labor market have been robust in recent months, but one measure has recently started to run counter to the favorable trends. The number of job postings from the so-called JOLTs report (job openings and labor turnover) started to soften in the early months of 2019, and the pace quickened a bit during the summer months. The past two months have shown pronounced declines that have reversed gains in the prior two years (chart, left).

The decline has caught our attention, but at this point we do not view it as alarming, as the measure is still quite high relative to historical standards. Indeed, the current reading is 30.7 percent above the peak in the prior expansion. Measured as a share of the labor force, current postings are more than a full percentage point above the previous cyclical peak (4.7 percent currently versus 3.3 percent in 2006).

Moreover, the retreat in postings seems to reflect still-favorable dynamics in the labor market. That is, there seems to be a healthy flow of new job postings, but firms are filling positions at a faster pace. Back-of-the-envelope calculations support this view, as the increase in nonfarm payrolls in the past year has far exceeded the decline in job postings, the opposite of what would occur if firms were reducing their hiring plans and withdrawing postings. Rock-bottom levels of claims for unemployment insurance also support the notion that firms are not beginning to view employment levels as heavy and in need of trimming.

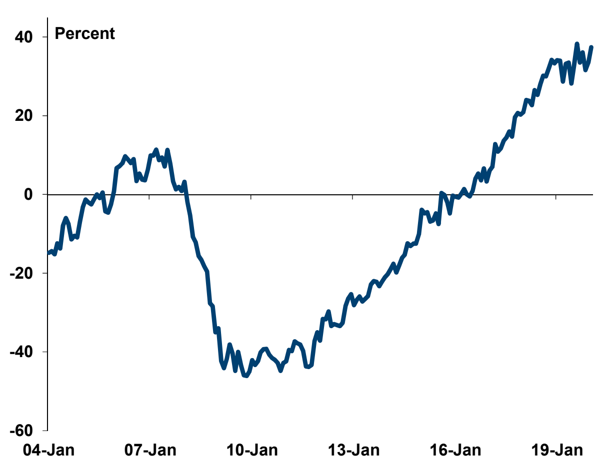
Individuals do not seem to have sensed any shift in the tone of the labor market. The Conference Board includes a question on the state of the labor market in its monthly survey of consumers, and the share of respondents indicating that jobs are plentiful exceeds by a wide margin the share that views jobs as hard to get (chart, right). Favorable perceptions have stirred the interest of those who had been on the sidelines

Job Openings



Source: Bureau of Labor Statistics via Haver Analytics

Labor Market Assessment*



** The share of respondents indicating that jobs are plentiful less the share indicating that jobs are hard to get.*

Source: The Conference Board via Haver Analytics rather than seeking work. The overall labor force participation rate has inched up in the second half of last year despite the downward pull of retiring baby boomers, and the participation rate for prime-aged workers has surged.

While we are not troubled by the current reading on job postings, we do not dismiss the recent declines as meaningless. With the gross flow of new postings diminishing and the net change now in negative territory, the pace of job growth will probably be easing in the months ahead. The recent pace of approximately 200,000 per month will probably be difficult to sustain well into the year, but with postings still well above historical norms, the labor market is far from faltering.

Manufacturing: Hints of Improvement

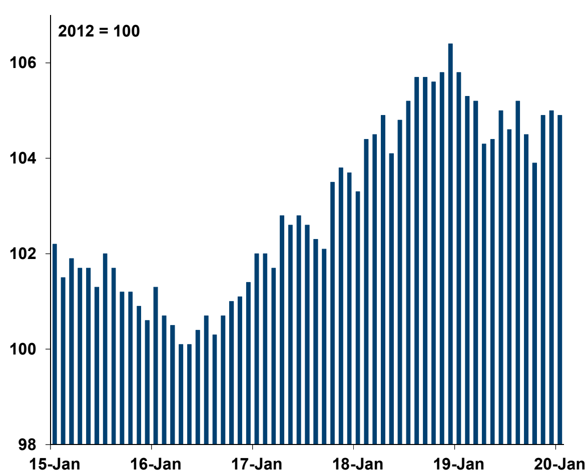
Slow activity in the manufacturing sector was a deep concern during much of last year, but conditions have improved recently. This sector is still not strong, but it seems to be inching ahead rather than losing ground.

The manufacturing component of the industrial production index provides a good view on activity in the factory sector. After peaking in December of 2018, production declined in the early months of 2019 and took a noticeable step lower in April when Boeing trimmed the production rate on the 737 MAX. Thereafter, activity stabilized (except for strike-related declines in September and October), and the latest results, in our view, offer a bit of encouragement.

A cursory review of the January report shows soft results, as the manufacturing component fell 0.1 percent. However, that drop was influenced by a pronounced decline in the aerospace industry associated Boeing's decision to halt production of the 737 MAX (a drop of 7.4 percent). We view this as a special factor rather than a reflection of economic fundamentals, and it was large enough to have a meaningful influence on the total. If the aerospace sector had not declined, the headline IP index would have been flat rather than down 0.3 percent, and the manufacturing sector would have been up 0.3 percent rather than off 0.1 percent.

The breadth of change in the manufacturing sector also is notable, as more than half of 20 major industries have posted gains in each of the past three months: 13 in both November and December, and 11 in January (and one showing no change).

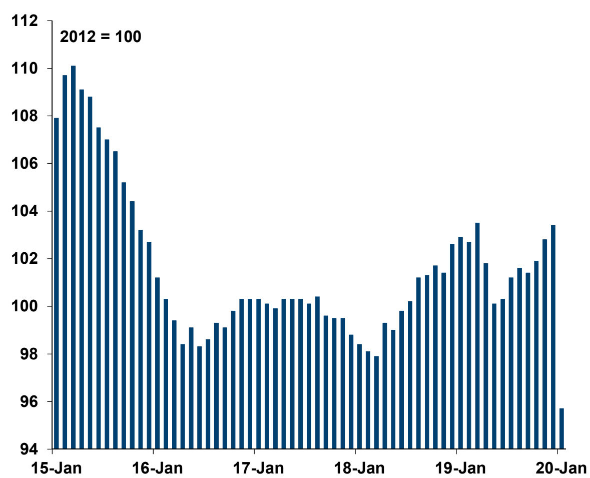
Industrial Production: Manufacturing*



** The downward shifts in September and October 2019 reflect the effect of the strike at General Motors.*

Source: Federal Reserve Board via Haver Analytics

IP: Aerospace & Miscellaneous Transport Equip't



Source: Federal Reserve Board via Haver Analytics

The sharp decline in the aerospace component was mildly surprising, as Boeing suggested that individuals working on the 737 MAX would be shifted to other projects rather than placed on leave. Either that was not the case, or they were not productive in their new assignments. Alternatively, perhaps suppliers of parts for the 737 trimmed their production. Whatever the cause, the drop in this area probably represents a temporary step lower in production rather than the beginning of a continuous slide driven by weak fundamentals.

The mining sector has become another important consideration in the industrial production report, and here too the latest news has been favorable. After showing little net change during most of 2019, mining activity rose 1.5 percent in December and 1.2 percent in January. Both oil and gas extraction and other activity contributed to the advances.

Review

Week of Feb. 10, 2020	Actual	Consensus	Comments
Federal Budget (January)	**$32.6 Billion Deficit**	**$10.0 Billion Deficit**	Federal revenues rose 9.5% on a year-over-year basis in January, led by firm increases in individual income and payroll taxes. Outlays rose 22.2% from the same month last year, but part of the change reflected a calendar shift that pulled some payments due on February 1 into January. The deficit for the first four months of FY2020 totaled $389 billion, $79 billion more than that in the same period in FY2019.
CPI (January)	**0.1% Total, 0.2% Core**	**0.2% Total, 0.2% Core**	Energy prices slipped 0.7% in January, but the decline followed firm increases in the prior the three months that had pushed the energy index to its highest level since the fall of 2018. Food prices rose 0.2%, close to the average monthly change of 0.15% in 2019. The increase in the core component might be viewed as a high-side change, as it almost rounded up to 0.3% (0.242%). However, the index was restrained in the prior four months, and thus underlying core inflation seems stable, with the year-over-year change totaling either 2.3% or 2.4% in the past six months. The headline index has shown more volatility because of energy prices, moving from a low of 1.5% in early 2019 to 2.5% in January, but remaining below a reading of 2.9% in mid-2018 and the cyclical high of 3.9% in 2011.
Retail Sales (January)	**0.3% Total, 0.3% Ex-Autos**	**0.3% Total, 0.3% Ex-Autos**	The growth of consumer spending was underwhelming in Q4 (real growth of 1.8% versus an average of 2.8% in 2018 and the first three quarters of 2019), and the retail sales report for January suggested that the subdued pace continued into early 2020. A good portion of the moderate growth in retail activity in January occurred in the building-supply category, which correlates more closely with construction activity than consumer spending. Portions related to consumer activity (the so-called retail control) rose only 0.2%. Results in recent months have reflected a slowdown in sales at non-store retailers (catalogue and internet) which rose only 0.3% in January after declining in the prior four months.
Industrial Production (January)	**-0.3%**	**-0.2%**	The drop in industrial production could be viewed as driven primarily by special factors. Utility output fell 4.0%, reflecting warmer-than-normal temperatures rather than soft economic fundamentals. Manufacturing activity slipped 0.1%, but this component would have increased if not for the halt in production of the 737 MAX aircraft. Mining activity rose 1.2% after a gain of 1.5% in the prior month, breaking out of the flat trend that had been in place during much of 2019.
Consumer Sentiment (February)	**100.9 (+1.1%)**	**99.5 (-0.3%)**	The index of consumer sentiment increased for the sixth consecutive month in February, recovering all of the ground lost after a drop last summer. The latest reading was the second best of the expansion thus far, trailing only the observation of 101.4 in March 2018. The long-term inflation measure published with the sentiment report declined two ticks to 2.3%, a reading near the bottom of the historical range.

Sources: U.S. Treasury Department (Federal Budget); Bureau of Labor Statistics (CPI); U.S. Census Bureau (Retail Sales); Federal Reserve Board (Industrial Production); University of Michigan Survey Research Center (Consumer Sentiment); Consensus forecasts are from Bloomberg

Preview

Week of Feb. 17, 2020	Projected	Comments
Housing Starts (January) (Tuesday)	**1.450 Million (-9.8%)**	Low interest rates have stirred the housing sector in recent months, but starts probably jumped out of line with fundamentals with the surge of 16.9% in December. A correction in January seems likely.
PPI (January) (Wednesday)	**0.1% Total, 0.1% Core***	Food prices are likely to give back more of the surge registered in October and November (up 2.4% over the two months combined and off only 0.2% in December), and available quotes suggest that the energy component will be approximately flat. Prices of core goods will probably remain on the slow upward trajectory evident throughout most of last year (up less than 0.1% per month on average in 2019), and prices of services in the transportation and warehousing category will probably ease after a surge in December. The construction component poses some upside risks, as prices often jump in the first month of a quarter (even after seasonal adjustment).
Leading Indicators (January) (Thursday)	**0.5%**	With few components likely to make negative contributions, and with sizeable positive contributions from consumer expectations, unemployment claims, and stock prices, the leading indicator index is likely to break out of the lethargic trend that has been in place since late 2018 (flat, on balance, in the past 15 months).
Existing Home Sales (January) (Friday)	**5.45 Million (-1.6%)**	Sales of existing homes picked up in response to low interest rates last year, but little net change in the closing months of 2019 suggests that the boost might be starting to fade. A sharp drop in pending home sales in December also points to a potential easing in the pace of sales.

** The core PPI excludes food, energy, and trade services.*
Source: Forecasts provided by Daiwa Capital Markets America

Economic Indicators

February/March 2020

Monday	Tuesday	Wednesday	Thursday	Friday
10	11	12	13	14
	NFIB SMALL BUSINESS OPTIMISM INDEX Nov 104.7 Dec 102.7 Jan 104.3 JOLTS DATA Openings (000) Quit Rate Oct 7,361 2.3% Nov 6,787 2.3% Dec 6,423 2.3% MONETARY POLICY TESTIMONY (HOUSE)	FEDERAL BUDGET FY2020 FY2019 Nov -$208.8B -$204.9B Dec -$13.3B -$13.5B Jan -$32.6B $8.7B MONETARY POLICY TESTIMONY (SENATE)	INITIAL CLAIMS Jan 25 217,000 Feb 01 203,000 Feb 08 205,000 CPI Total Core Nov 0.2% 0.2% Dec 0.2% 0.1% Jan 0.1% 0.2%	RETAIL SALES Total Ex.Autos Nov 0.2% -0.2% Dec 0.2% 0.6% Jan 0.3% 0.3% IMPORT/EXPORT PRICES Non-fuel Imports Nonagri. Exports Nov -0.1% -0.1% Dec 0.2% -0.2% Jan 0.2% 0.7% IP & CAP-U IP Cap.Util. Nov 0.9% 77.5% Dec -0.4% 77.1% Jan -0.3% 76.8% CONSUMER SENTIMENT Dec 99.3 Jan 99.8 Feb 100.9 BUSINESS INVENTORIES Inventories Sales Oct 0.1% -0.2% Nov -0.2% 0.5% Dec 0.1% -0.1%
17	18	19	20	21
PRESIDENTS' DAY	EMPIRE MFG (8:30) Dec 3.3 Jan 4.8 Feb -- NAHB HOUSING INDEX (10:00) Dec 76 Jan 75 Feb -- TIC DATA (4:00) Total Net Long-Term Oct -$62.0B $31.5B Nov $73.1B $22.9B Dec -- --	HOUSING STARTS (8:30) Nov 1.375 million Dec 1.608 million **Jan 1.450 million** PPI (8:30) Final Demand Core Nov -0.1% -0.1% Dec 0.2% 0.2% **Jan 0.1% 0.1%** FOMC MINUTES (2:00)	INITIAL CLAIMS (8:30) PHILLY FED INDEX (8:30) Dec 2.4 Jan 17.0 Feb -- LEADING INDICATORS (10:00) Nov 0.1% Dec -0.3% **Jan 0.5%**	EXISTING HOME SALES (10:00) Nov 5.35 million Dec 5.54 million **Jan 5.45 million**
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 PURCHASING MANAGERS' INDEX REVISED CONUSMER SENTIMENT
2	3	4	5	6
ISM MFG INDEX CONSTRUCTION SPEND.	VEHICLE SALES	ADP EMPLOYMENT REPORT ISM NON-MFG INDEX BEIGE BOOK	INITIAL CLAIMS REVISED PRODUCTIVITY & COSTS FACTORY ORDERS	EMPLOYMENT REPORT TRADE BALANCE WHOLESALE TRADE CONSUMER CREDIT

Forecasts in Bold.

Treasury Financing

February/March 2020

Monday	Tuesday	Wednesday	Thursday	Friday
10	11	12	13	14
AUCTION RESULTS: Rate Cover 13-week bills 1.550% 3.01 26-week bills 1.510% 3.56	**AUCTION RESULTS:** Rate Cover 56-day CMB 1.555% 3.45 3-year notes 1.394% 2.56 **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 RESULTS:** Rate Cover 10-yr notes 1.622% 2.58	**AUCTION RESULTS:** Rate Cover 4-week bills 1.560% 2.75 8-week bills 1.565% 2.93 30-yr bonds 2.061% 2.43 **ANNOUNCE:** $84 billion 13-,26-week bills for auction on February 18 $8 billion 30-year TIPS for auction on February 20 $40 billion 21-day CMBs for auction on February 18 **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 $40 billion 21-day CMBs **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 $40 billion 21-day CMBs	
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
2	3	4	5	6
AUCTION: $84 billion* 13-,26-week bills **SETTLE:** $40 billion* 2-year notes $41 billion* 5-year notes $32 billion* 7-year notes	**ANNOUNCE:** $50 billion* 4-week bills for auction on March 5 $45 billion* 8-week bills for auction on March 5 **SETTLE:** $50 billion* 4-week bills $45 billion* 8-week bills		**AUCTION:** $50 billion* 4-week bills $45 billion* 8-week bills **ANNOUNCE:** $84 billion* 13-,26-week bills for auction on March 9 $38 billion* 3-year notes for auction on March 10 $24 billion* 10-year notes for auction on March 11 $16 billion* 30-year bonds for auction on March 12 **SETTLE:** $84 billion* 13-,26-week bills	

**Estimate*