Daiwa Capital Markets

U.S. Data Review

- Productivity: favorable performance in Q2
- Unemployment claims: Both initial and continuing claims move higher in late July
- ISM manufacturing: moving further into contraction

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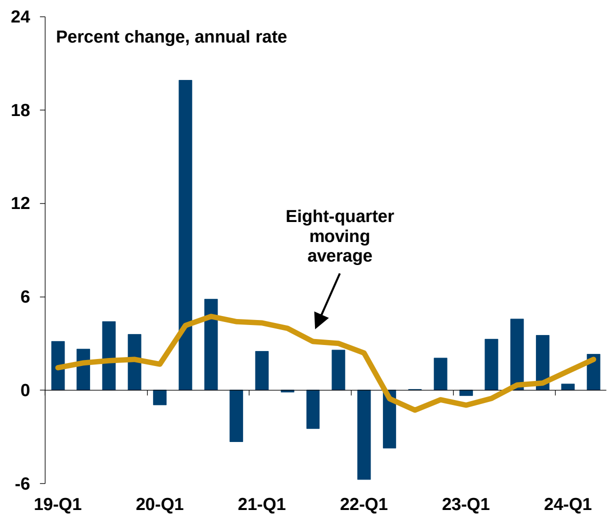
Productivity & Costs

- U.S. nonfarm productivity (employee output per hour) rose 2.3 percent, annual rate, in the second quarter of 2024 (+2.7 percent year-over-year), firmer than the Bloomberg median expectation of an advance of 1.8 percent. The latest reading marked a rebound from the soft performance in Q1 (growth of 0.4 percent, revised from +0.2 percent), although the series is often volatile and can post large quarter-to-quarter swings. Thus, to better identify the underlying trend in productivity, observing average growth over a longer period is useful in smoothing volatility inherent to the series. In this regard, the eight-quarter moving average rose to 2.0 percent from 1.2 percent in the previous quarter – a stirring that could portend a pickup in the underlying trend that we had previously pegged around 1.0 percent (chart, below left). The latest results are encouraging in that they point to ongoing efficiency gains that over time will assist in containing inflationary pressures by allowing firms to offset rather than pass through higher costs to end users.

- The increase of 2.3 percent in productivity in Q2 reflected a jump of 3.3 percent in output (+3.4 percent year-over-year) and a more subdued advance of 1.0 percent in hours worked (+0.7 percent year-over-year). The eight-quarter average increase in output of 2.9 percent also was again well ahead the pickup of 0.9 percent in hours.

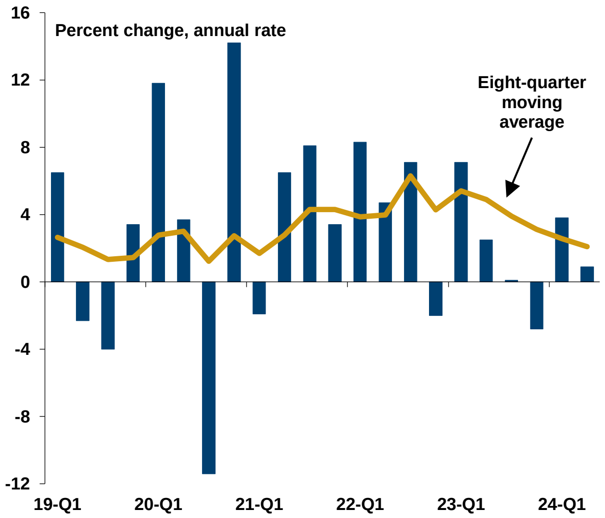
- The hourly compensation measure rose 3.3 percent in Q2, down from a brisk 4.2 percent increase in Q1 (+3.2 percent year-over-year, or a firmer +4.1 percent on an eight-quarter-average basis). Moreover, given the favorable performance in productivity, unit labor costs rose a moderate 0.9 percent (+0.5 percent year-over-year, or 2.1 percent on an eight-quarter-average basis; chart, below right). As with the employment cost index released yesterday (+0.9 percent, not annualized, in Q1; +4.1 percent year-over-year versus a recent high of 5.1 percent in 2022-Q2), compensation costs (and cost per unit) appear to be easing – at least moderately.

Nonfarm Productivity



Source: Bureau of Labor Statistics via Haver Analytics

Unit Labor Costs



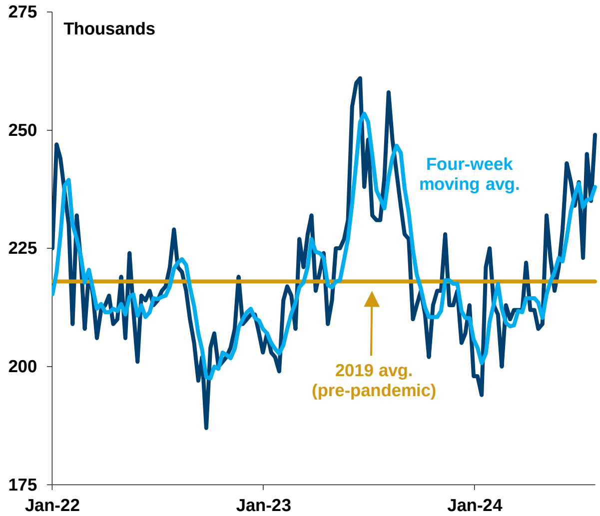
Source: Bureau of Labor Statistics via Haver Analytics

Unemployment Claims

- Initial claims for unemployment insurance increased in the week ending July 27, rising by 14,000 to 249,000. Concurrently, the four-week moving average, a measure that helps smooth out the short-term fluctuations seen in claims, increased 2,500 to 238,000. The recent performance leaves claims above the 2019 pre-pandemic average of 218,000 (a period when the labor market was viewed as firm; chart, below left).

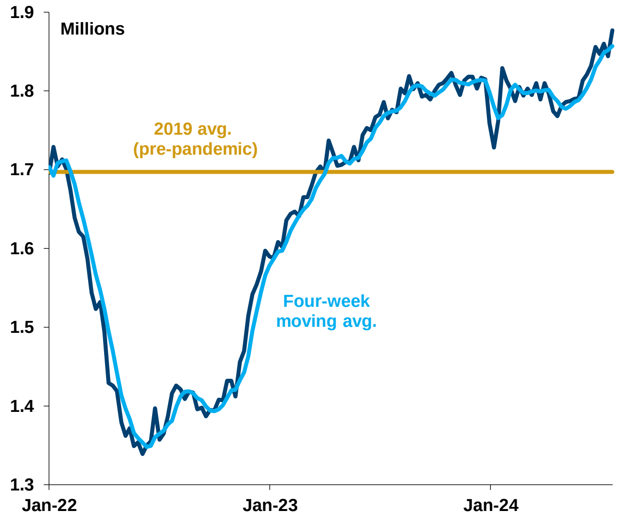
- Perhaps of greater note, continuing claims continued to march higher in the week ending July 20, increasing 33,000 to a new cycle high of 1.877 million (and the highest level observed since November 2021). The four-week moving average rose in tandem, advancing 5,250 to 1.857 million (also a new cycle high). Resultantly, the latest deterioration leaves claims markedly above the 2019 pre-pandemic average of 1.697 million (chart, below right). Moreover, the recent climb could potentially indicate notable softening in underlying labor market conditions.

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

ISM Manufacturing

- The Institute for Supply Management's Manufacturing PMI dropped 1.7 percentage points in July to 46.8 (versus the Bloomberg median expectation of a pickup of 0.3 percentage point to 48.8). Regarding the weak performance, the 20th sub-50 reading in the past 21 months, Timothy R. Fiore, the Chair of the ISM Manufacturing Business Survey Committee, noted: "U.S. manufacturing activity entered deeper into contraction. Demand was weak again, output declined, and inputs stayed generally accommodative."

- All key components contributed to the weak performance in July. The employment index plunged 5.9 percentage points to 43.4, the lowest reading since June 2020 (42.0) – a period when the U.S. economy was just emerging from COVID-related shutdowns (chart; next page, left). The latest report indicated that, "companies are continuing to reduce head counts through layoffs, attrition and hiring

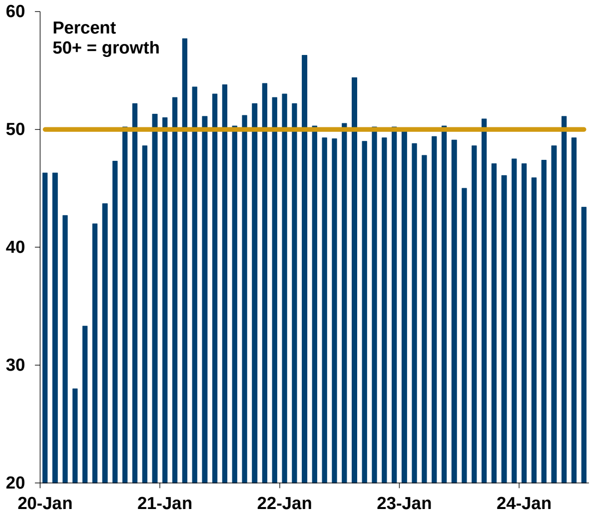
ISM Manufacturing: Monthly Indexes*

	Mar-24	Apr-24	May-24	Jun-24	Jul-24
ISM Mfg. Composite	50.3	49.2	48.7	48.5	46.8
New orders	51.4	49.1	45.4	49.3	47.4
Production	54.6	51.3	50.2	48.5	45.9
Employment	47.4	48.6	51.1	49.3	43.4
Supplier deliveries	49.9	48.9	48.9	49.8	52.6
Inventories	48.2	48.2	47.9	45.4	44.5
Prices paid*	55.8	60.9	57.0	52.1	52.9

** The prices paid index is not seasonally adjusted. The measure is not part of the ISM manufacturing composite index.*

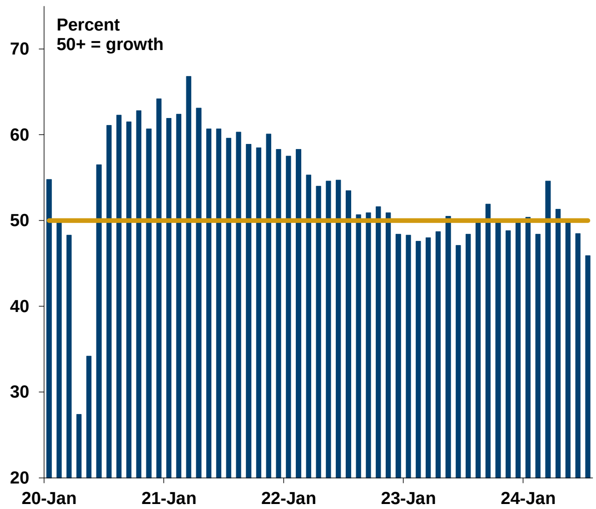
Source: Institute for Supply Management via Haver Analytics freezes." Additionally, the production component fell 2.6 percentage points to 45.9 (chart, below right), and the new orders component slipped 1.9 percentage points to 47.4.

ISM Manufacturing: Employment Index



Source: Institute for Supply Management via Haver Analytics

ISM Manufacturing: Production Index

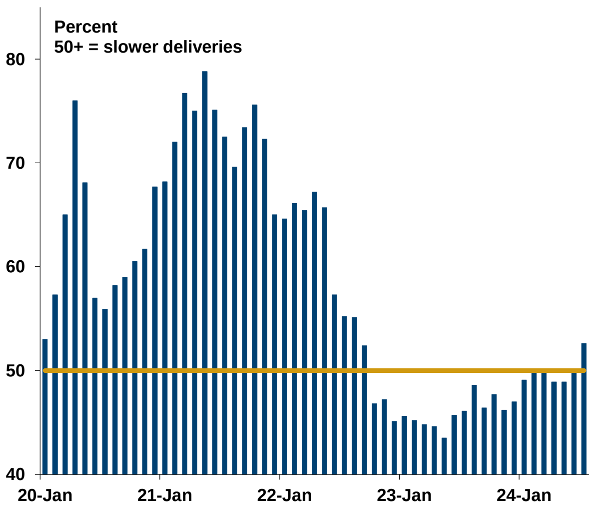


Source: Institute for Supply Management via Haver Analytics

- The supplier deliveries index rose 2.8 percentage points to 52.6. The above-50 reading, which specifies slower deliveries (versus below-50.0 observations that imply faster deliveries), suggests that supply-chain performances have deteriorated a bit recently but are still functioning normally after COVID-related disruptions that pushed the component to a cycle high of 78.8 in 2021 (chart, below left).

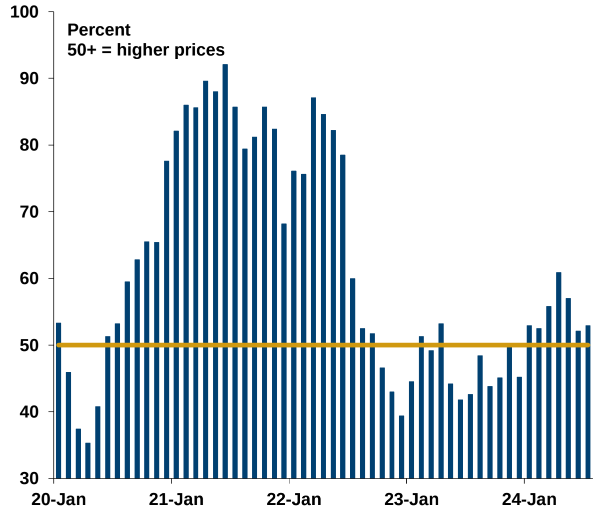
- The prices index, which does not factor into the manufacturing composite, rose 0.8 percentage point to 52.9. While indicating higher prices, the latest reading is far from troubling. The index remained well below the recent high of 87.1 in March 2022 and cycle peak of 92.1 in June 2021 (chart, below right).

ISM Manufacturing: Supplier Deliveries Index



Source: Institute for Supply Management via Haver Analytics

ISM Manufacturing: Prices Index



Source: Institute for Supply Management via Haver Analytics