Daiwa Capital Markets

U.S. Data Review

- September employment: shutdown-delayed data suggest ongoing softening in underlying conditions, although latest results unlikely to deter hawkish FOMC members calling for a pause in December
- Existing home sales: activity picks up in October; inventories dip

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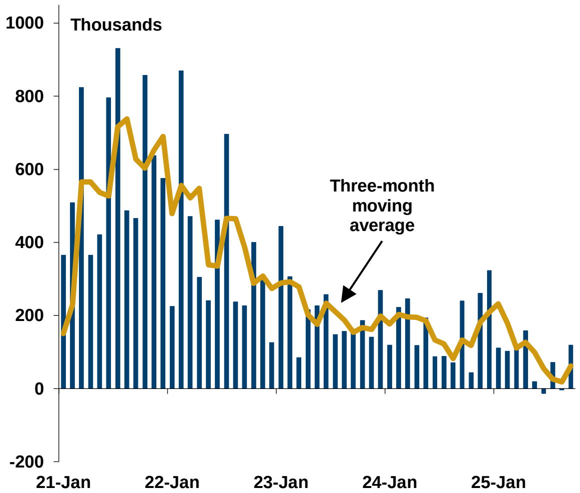
September Employment

- The September labor market report, originally scheduled to be released on October 3 but delayed on account of the government shutdown, did little to clarify what the FOMC will do at its December 9-10 meeting. Payroll growth of 119,000 was well above the Bloomberg median expectation of +53,000, although net downward revisions of 33,000 in the previous two months tempered the tone of the September print. At the same time, the unemployment rate rose 0.1 percentage point to 4.4 percent (narrowly rounding down to that reading; 4.440 percent versus 4.324 percent in August) – just below the 2025 year-end median from the September Summary of Economic Projections and the highest since October 2021. The latest results, in our view, point to an ongoing loss of momentum in the labor market (which warrants further easing in monetary policy in support of the employment side of the dual mandate), although the print is unlikely to deter more hawkish members of the Committee from preaching patience in light of above-target inflation.

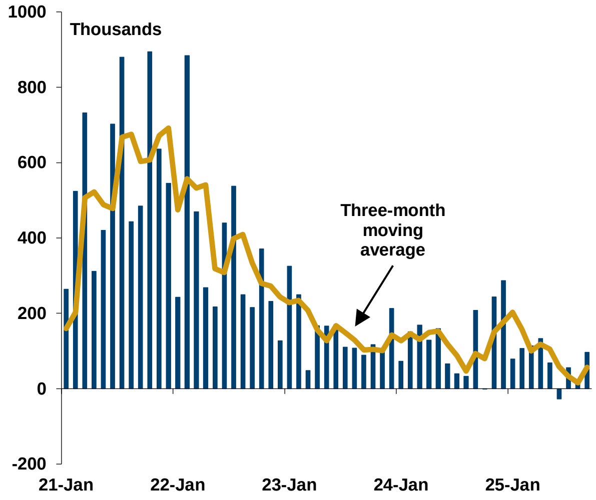
Change in Nonfarm Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

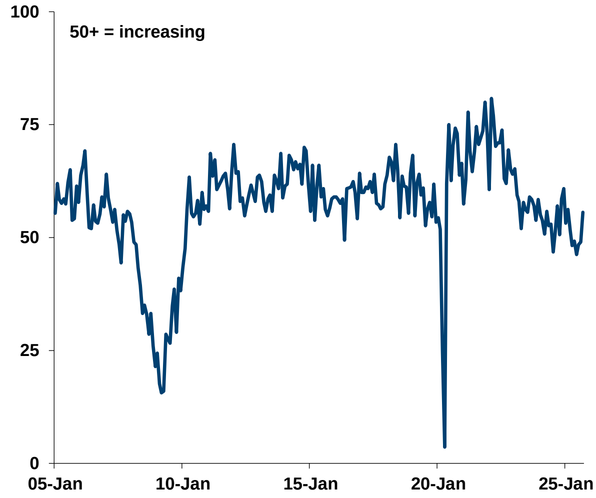
- Turning first to the payroll data, the above-consensus advance of 119,000 contributed to a pickup in the three-month moving average to 62,300 from 18,300 in August, although it is well below the Q1 average of 111,000 and that in 2025 (167,700; chart, above, right). Growth in the private sector also was better than in other recent months (97,000 versus a trailing three-month average of 15,700; chart, next page, left), although it remained on a softening trend. The breadth of industries increasing hiring picked up in the latest month, with the private sector diffusion index jumping to 55.6 percent in September from 49.0 percent previously – the first above-50 reading since March (chart, next page, right) – although we remain concerned that the health care and social assistance category, which is driven by structural factors (e.g, an aging population), is a key growth area (+57,100 in September, comparable to the firm trailing three-month average of 56,700). Job growth in other areas was mixed. For example, construction payrolls rose 19,000 after contracting in the prior three months, whereas those in the professional and business services area eased (-20,000) and those in the tech-heavy information sector were flat after falling in the previous three months.

Change in Private Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

Private Sector Diffusion Index*

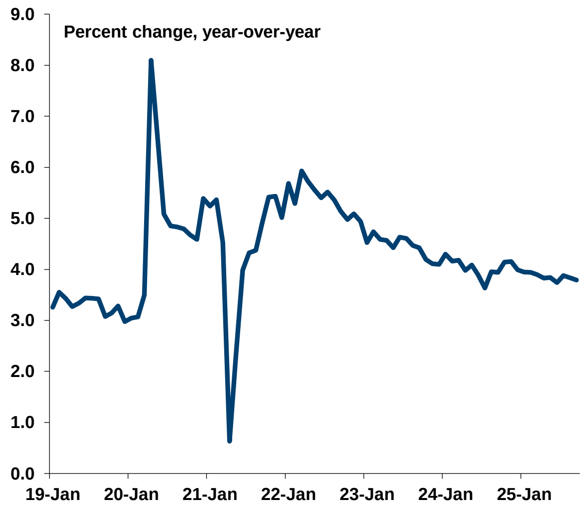


** Over a one-month span; Percent of industries with increasing employment plus one-half of the industries with unchanged employment, where a reading of 50 percent indicates an equal balance between industries with increasing and decreasing employment.*

Source: Bureau of Labor Statistics via Haver Analytics

- Amid moderate, but slowing, job growth, average hourly earnings rose 0.2 percent, a tick slower than the trailing 12-month average of 0.3 percent. The latest change equated to a year-over-year advance of 3.793 percent – down slightly from 3.832 percent in August (chart). Although little changed from other recent observations, we view the current rate of wage growth as broadly consistent with a return to two percent inflation in the medium term. In essence, with the labor market now in balance – and possibly cooling further from here -- previous concern about labor costs contributing to pressure in service prices (and sticky inflation above two percent) has been replaced by yet-widely-realized pass-through to consumer prices from tariffs.

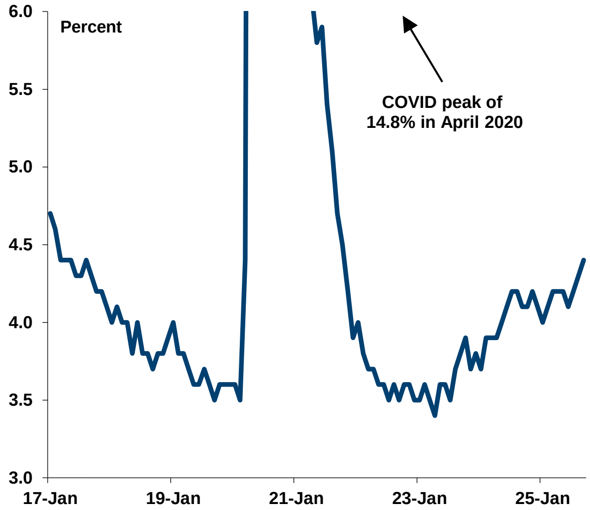
Average Hourly Earnings



Source: Bureau of Labor Statistics via Haver Analytics

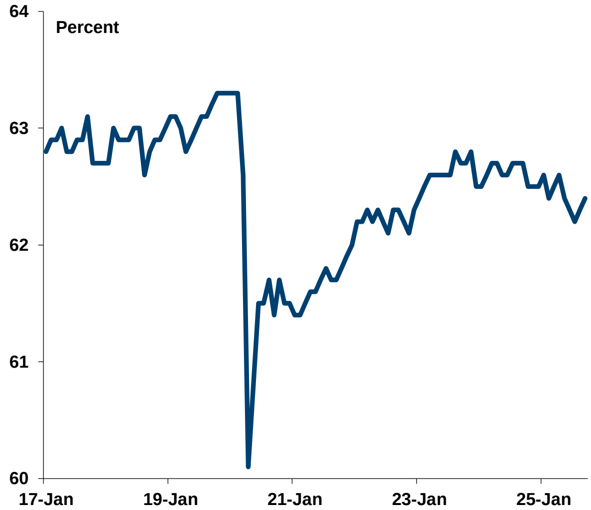
- With respect to the household survey, the unemployment rate stood out with an increase to 4.4 percent (chart, next page, left), but other elements of the data also were worthy of note (some positive, others less so). With respect to favorable developments, the labor force rose 470,000 in September after a gain of 436,000 in the previous month. The recent boost to the supply side (which did contribute to the pickup in the unemployment rate) followed monthly contractions in the three-month period ending July (average of -264,300 over that span), but it allays (to a degree) concerns that the Trump administration's immigration crackdown has completely curtailed growth in labor supply (at least currently). Furthermore, the recent gains led to an increase in the labor force participation rate to 62.4 percent in September from a recent low of 62.2 percent in July (chart, next page, right). Contrastingly, the number of unemployed individuals rose notably in the past three months (+219,000 in September, with a three-month average of 196,000; growth in unemployed persons averaged 21,500 in the first six months of 2025).

Unemployment Rate



Source: Bureau of Labor Statistics via Haver Analytics

Labor Force Participation Rate



Source: Bureau of Labor Statistics via Haver Analytics

- All told, we view the latest employment report in context with various private-sector data as suggesting that labor market conditions have continued to soften, which paves the way for the unemployment rate hitting 4.5 percent by year-end and peaking at 4.6 percent in 2026-Q1 (with risks skewed to the rate breaching our current baseline expectation). Should the FOMC ease further (which we believe should involve a cut of 25 basis points in December), we hope that labor market conditions will stabilize early next year. That said, hawkish comments by various Fed regional bank presidents – including Beth Hammack of Cleveland today – suggest that the outcome of that meeting is still a toss-up, possibly tilting toward the Committee leaving policy unchanged.

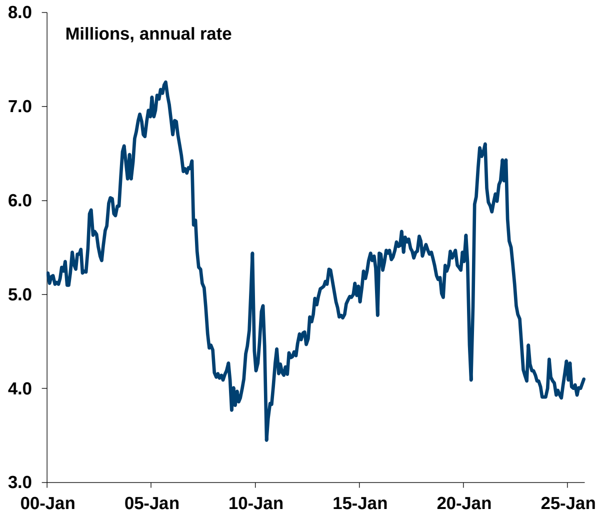
Existing Home Sales

- Sales of existing homes rose 1.2 percent to 4.10 million units, annual rate, in October – essentially matching the median projection of 4.08 million from the Bloomberg economist survey (+1.7 percent year-over-year; chart, next page, left). Similar to conditions captured in the prior month's report, lower financing costs seemingly provided a boost to activity. As stated by NAR Chief Economist Lawrence Yun in the official release: "Home sales increased in October even with the government shutdown due to homebuyers taking advantage of lower mortgage rates." On the point, the average 30-year fixed-rate mortgage in October was 6.25 percent, off about 10 basis points from the 6.35 percent average in September. That being said, despite October's increase, sales still remain depressed, with the current pace of activity in the low end of the longer-term range.

- Results by region were mixed, with two showing increases in sales, one indicating no change, and another registering a decline. The Midwest posted the largest month-to-month improvement, with sales rising 5.3 percent to 0.990 million units, annual rate (+2.1 percent year-over-year). Concurrently, activity in the South advanced 0.5 percent to 1.860 million (+2.8 percent year-over-year). Sales in the Northeast, meanwhile, stood pat at 0.490 million (+4.3 percent year-over-year). The West, the sole region that indicated contraction, saw sales ease 1.3 percent to 0.760 million (-2.6 percent year-over-year). Sales in all four regions remain in the low end of their respective historical ranges.

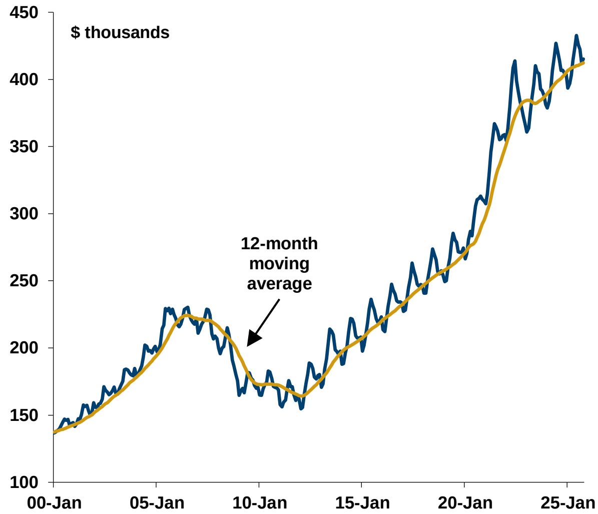
- Following three consecutive months of easing, the median sales price for existing homes rose 0.7 percent to $415,200 – a reading only modestly below the record high of $432,700 registered last June. On a year-over-year basis, the measure increased 2.1 percent (faster than September's observation of +1.4 percent but off the +3.9 percent read in the same month last year; chart, next page, right). The results in the aggregate suggest that home price appreciation is representative of that in a market constrained by relatively soft demand.

Existing Homes Sales



Source: National Association of Realtors via Haver Analytics

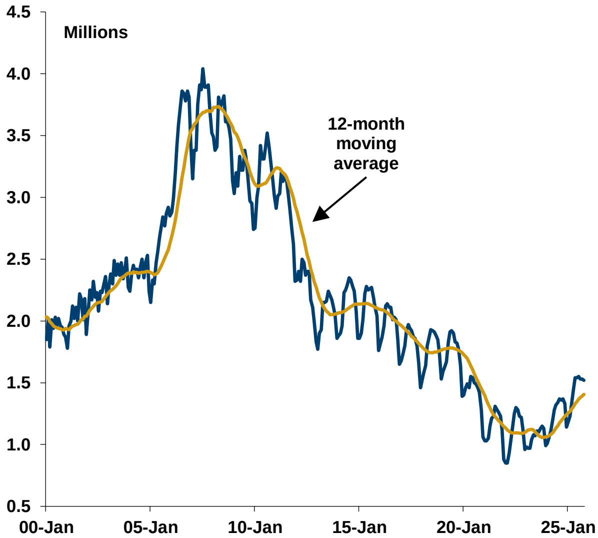
Median Sales Price of Existing Homes*



** Since this series isn't seasonally adjusted, we've included a 12-month moving average to give a sense of the underlying trend. Similarly, we've included a moving average for the chart on the non-seasonally adjusted inventory series.*
Source: National Association of Realtors via Haver Analytics

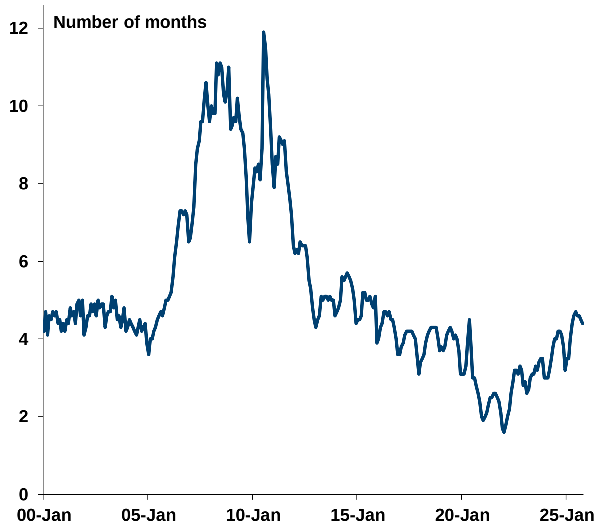
- The inventory of unsold homes fell 0.7 percent to 1.520 million units in October (not seasonally adjusted), a result only somewhat below the five-year high of 1.550 million recorded last July but still subdued from a long-term perspective (+10.9 percent year-over-year; chart, below left). That reading translated to a months' supply of 4.4 months at the current sales pace – only 0.3 month off the nine-year high of 4.7 months last June and noticeably above the record low of 1.6 months in January 2022 (chart, below right). Broadly speaking, housing supply has increased significantly, although affordability issues are still hampering a recovery in the residential real estate market – conditions that are now being exacerbated by a softening job market and growing concern among households about possible deterioration in financial positions.

Inventory of Unsold Existing Homes*



** Not seasonally adjusted*
Source: National Association of Realtors via Haver Analytics

Months' Supply of Unsold Existing Homes



Source: National Association of Realtors via Haver Analytics