

Morning Market Tidbits

On track for finding a better balance

In focus

Yesterday, the December Job Openings and Labor Turnover Survey (JOLTS) report was released. Job openings in December came in higher than expected at 9.0M but increased only slightly from November. Consensus was expecting a lower print of 8.8M. But in this case, it is important to take consensus expectations with a grain of salt since this isn't a widely forecasted indicator. That said, openings were also revised up in the prior month to 8.9M from 8.8M.

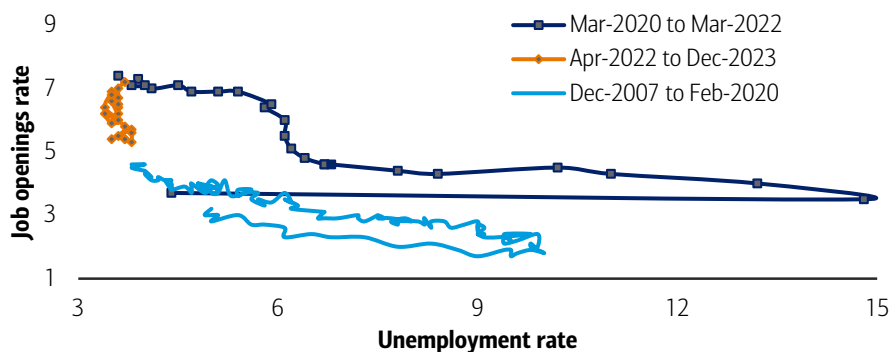
Additionally, because of the rise in job openings and the steady unemployment print this month, the ratio of job openings to unemployed workers, an important indicator of labor market tightness increased to 1.44, albeit very slightly from 1.43 in the previous month. While this is down from the peak of 2.0 last March, it is still above the highs of ~1.2 seen prior to the pandemic. In short, based on this, there are still signs of excess labor demand in the market.

Having said that, if you dig in deeper, the report provides some important signals on the paths through which the labor market appears to be moderating towards a cooler but not a weak market.

First, the current position of the Beveridge Curve paints a better picture. The Beveridge Curve is a usually negative relationship between the job opening and unemployment rate. Currently it shows that the economy is likely on the steeper part of the pre-pandemic curve (indicated in orange in Exhibit 1), where decreases in the job openings rate are not matched by a substantial increase in the unemployment rate, paving the path for our forecasted soft landing. As labor demand cools further, separations would remain low, and the job openings rate would fall sharply.

Exhibit 1: Beveridge Curve

The developments of the Beveridge curve since last April suggest that the path towards a soft landing has widened



Source: Bureau of Labor Statistics, Haver Analytics, BofA Global Research

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(Continued on next page)

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Second, even though the overall hiring rate ticked up a tenth to 3.6%, it still remains well below pre-pandemic levels of 3.9%. Additionally, the private sector hiring rate in fact held steady while the government sector which is largely acyclical in nature and where recent job gains have been concentrated drove the increase. When you put this together with the increase in job openings, it appears that while firms are continuing to post job vacancies, the urgency to fill them has seemingly diminished.

Third, the layoff rate held at 1.0%, three-tenths below the pre-pandemic December 2019 print of 1.3%. Also, keeping aside the volatility in weekly numbers, initial jobless claims have more or less been moving sideways recently. Overall, limited layoffs could be indicative of labor hoarding. Difficulty in hiring during the pandemic might have left firms hesitant to let go of workers. As a result, this may lead firms to trim hours or pay first before adjusting employment levels. This is suggestive of a labor market that is cooling down with a slowdown in hiring without a substantial rise in layoffs, again in line with a soft landing for the economy.

Finally, the quits rate also remained steady at 2.0%. This is also down 0.4pp from December 2022 and is lower than the pre-pandemic rate. This is suggestive of job-to-job transitions cooling down significantly, which should put further downward pressure on wages. People aren't able to quit their jobs for a higher wage outside option as much as they were able to do during the "red-hot" phase of the labor market after the pandemic. Additionally, the moderation in wages over the last few months as seen in most wage indicators suggests that the balance between demand and supply has improved in the labor market.

Overall, there's still some excess labor demand if we focus only on job openings. But the trends in hiring, quits and layoffs suggest a cooler but not a weak labor market.

Market Action

The Asian equity markets that we cover closed mixed overnight. Looking at individual markets, the Shanghai Composite, the Hang Seng, the Korean Kospi were down 1.5%, 1.4% and 0.1% respectively. On the flipside, the Nikkei and the Indian Sensex added 0.6% and 0.9% respectively.

As of 7:00 am ET, aggregate European stocks are up 0.1% and S&P500 futures are down 0.5%. In the bond markets, 10-year Treasury yields are flat at 4.03% and German Bund yields are down 3bp to 2.24%. The dollar index is up \$0.10 to \$103.50. WTI crude oil prices are \$0.90 lower at \$76.92/bbl, and gold prices are at \$2037.36/oz.

Data previews

January 31st

Today the focus will be on the FOMC rate decision and ECI

Date	Time	Indicator	Period	BofA	Consensus	Previous
				Estimate		
1/31/24	8:15	ADP Employment	Jan	150k	150k	164k
1/31/24	8:30	Employment Cost Index	4Q	1.0%	1.0%	1.1%
1/31/24	9:45	Chicago Purchasing Managers	Jan	48.0	48.1	47.2
1/31/24	14:00	FOMC Rate Decision (mid-point)	Jan 31	5.375%	5.375%	5.375%

Source: Bloomberg, BofA Global Research

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FOMC Rate Decision

The Fed will likely keep options open for March, but they need to see more data on inflation, wages, and labor markets first. We expect the upside rate bias in the statement to go away in favor of neutral guidance on "future policy rate adjustments". No decision on the balance sheet is likely, but we expect discussion on caps and what defines a low level of reserves (See [Federal Reserve Watch: January FOMC Preview](#))

US GDP Tracking

Exhibit 2: BofA US GDP tracking estimate (% q/q saar)

The advance print of 4Q US GDP came in at 3.3% q/q saar. The main differences from our tracker were largely in the higher-than-expected rise in consumption and in the volatile net exports and inventory component.

Date	Data release	GDP	Final Sales	PCE	Res. Inv.	Struct	Equip	IPP	Gov.	Exports	Imports	Net exports (level)	CIPI (level)
1/11/24	CPI	1.3	2.0	1.9	-0.2	3.3	2.8	2.5	2.3	2.2	2.2	-935.5	26.5
1/12/24	PPI	1.3	2.0	1.9	-0.2	3.6	2.8	2.5	2.3	2.2	2.2	-935.5	27.0
1/17/24	Retail Sales	1.4	2.1	2.0	0.2	3.6	2.8	2.5	2.3	2.2	2.2	-935.5	27.0
1/17/24	Industrial Production, Business Inventories	1.3	2.1	2.0	0.2	3.5	2.5	2.5	2.3	2.2	2.2	-935.5	26.3
1/17/24	Import and Export Prices	1.4	2.1	2.0	0.2	3.5	2.5	2.5	2.3	2.4	1.8	-930.8	26.3
1/18/24	Housing Starts and Permits	1.5	2.2	2.0	0.6	3.5	2.5	2.5	2.3	2.4	1.8	-930.8	26.3
1/25/24	4Q US GDP Advance Print	3.3	2.7	2.8	1.0	3.2	1.1	2.1	3.3	6.3	1.9	-908.0	82.7
	GDP tracking	3.3	2.7	2.8	1.0	3.2	1.1	2.1	3.3	6.3	1.9	-908.0	82.7
	Contribution to GDP growth (pp)			1.9	0.0	0.1	0.1	0.1	0.6			0.4	0.1

Source: BofA Global Research. Our GDP tracking estimate reflects the mechanical aggregation of incoming data that directly informs the BEA's GDP calculations. The process is distinct from our official published GDP forecast. Boldface cells indicate where data have implications for tracking estimates.

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