

Morning Market Tidbits

Go with the flow

In focus

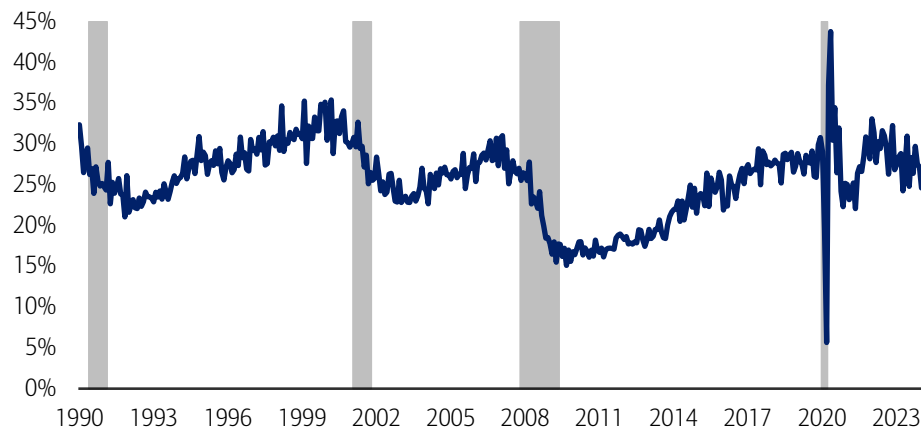
As we noted in our post-employment report write-up, labor market conditions in February weakened despite the solid gain in payroll employment (see [Labor Market Watch: The labor market continues to cool, but has a long way to go](#)). This is because a number of other labor market indicators softened, including job flows from unemployment to employment (as a share of total unemployment).

Job flows from unemployment to employment are part of the Current Population Survey (CPS) from the Bureau of Labor Statistics (BLS) and are part of the monthly employment situation report. Flows into employment come from four main sources: employed to employed, unemployed to employed, not in the labor force to employed, and other inflows, which includes those who have recently turned 16 and other population adjustments.

The first component – flows from employment to employment – is typically the largest component and includes job changers. They inform the so-called “quits rate” which garnered a lot of attention during the pandemic for its outsized gain, correlation with faster wage growth, and recent declines. To be a “job changer”, one needs to be a “job quitter.” A rising quits rate is usually taken as a sign of a strong or overheated labor market. At 2.1% presently, the quits rate has fallen back in line with its long-run average dating to its inception in December 2000.

Exhibit 1: Flows from unemployment to employment as a share of unemployed 16 yrs + (SA, %)

Flows from unemployment to employment tend to soften well in advance of economic downturns



Source: Bureau of Labor Statistics, Haver Analytics

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We find the second component – flows from unemployment to employment – is also a strong predictor of labor market conditions since it captures re-employment prospects and, in turn, trends in the duration of unemployment. If flows from unemployment to employment (as a share of total unemployment) are rising, then job losers are likely re-gaining employment rapidly and total unemployment is likely falling.

In contrast, when flows from unemployment to employment slow, it is normally a sign that the unemployment spells may be lasting longer. As shown in Exhibit 1, flows from unemployment to employment tend to soften well in advance of economic downturns, suggesting they send a strong signal about turns in the labor market and the broader economy.

We suspect some of the story here is the rebound in the labor force, which grew by 2.5mn in 2023 while job openings and the hiring rate slowed. This may have left more people looking for work or meant job losers had increased competition for re-employment. Either way, we think developments in flows into employment send the signal of a gradually cooling labor market.

Market Action

The Asian equity markets that we cover closed mixed overnight. Looking at individual markets, the Hang Seng and the Shanghai Composite were down 0.7% and 0.2% respectively. On the flipside, the Nikkei, the Indian Sensex and the Korean Kospi rose 0.3%, 0.5% and 0.9%.

As of 7:00 am ET, aggregate European stocks are up 0.3% and S&P500 futures are up 0.3%. In the bond markets, US Bond are flat at 4.19%, and German Bund yields are flat at 2.37%. The dollar index is up \$0.06 to \$102.85. WTI crude oil prices are \$0.62 higher at \$80.34/bbl, and gold prices are at \$2170.62/oz.

Data preview

March 14th

Retail Sales

Date	Time	Indicator	Period	BofA		
				Estimate	Consensus	Previous
3/14/24	8:30	Initial Jobless Claims	Mar 09	221k	—	217k
3/14/24	8:30	Advance Retail Sales	Feb	0.4%	0.8%	-0.8%
3/14/24	8:30	Retail Sales Less Autos	Feb	-0.1%	0.5%	-0.6%
3/14/24	8:30	Retail Sales Less Autos and Gas	Feb	-0.2%	0.3%	-0.5%
3/14/24	8:30	Core Control	Feb	-0.3%	0.4%	-0.4%
3/14/24	8:30	Producer Price Index (mom)	Feb	0.4%	0.3%	0.3%
3/14/24	8:30	PPI Ex Food & Energy (mom)	Feb	0.2%	0.2%	0.5%
3/14/24	8:30	PPI Ex Food, Energy, Trade (mom)	Feb	0.3%	—	0.6%
3/14/24	10:00	Business Inventories	Jan	—	0.3%	0.4%

Source: BofA Global Research, Bloomberg

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Retail Sales

Total card spending per household (HH), as measured by BAC aggregated credit and debit cards, was up 2.9% year-over-year (y/y) in February, compared to a 0.2% decline in January. The large spike in the y/y rate is explained by the extra day this February because of the leap year. Card spending per HH rose 0.4% month-over-month (m/m) in February on a seasonally adjusted (SA) basis.

We expect February retail sales to be below consensus. We forecast a 0.1% decrease in the Census Bureau's retail sales ex-autos estimate for February. However, gas spending growth was strong in February, because of both the sharp increase in gas prices and the negative impact of the winter storms on spending in January. Therefore, we expect a bigger decline of 0.3% in the core control group (retail sales ex autos, gas, building materials and restaurants). There were some minor echo effects of winter weather in some categories. Retail spending has turned softer over the last few months. Broad-based goods deflation is part of the story. Moreover, services inflation is weighing on

retail's wallet share. The risk is that real retail spending could also weaken. (See the report [BofA on USA: Services inflation takes a toll on retail spending 12 March 2024](#), for methodology, limitations, and disclaimers related to BAC card data)

US GDP Tracking

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

1Q GDP tracking is up one-tenth to 2.4% q/q saar largely due to the higher than expected February employment report

Date	Data release	GDP	Final Sales	PCE	Res. Inv.	Struct	Equip	IPP	Gov.	Exports	Imports	Net exports (level)	CIPI (level)
3/6/24	Wholesale Inventories	2.4	2.3	1.7	2.3	4.7	3.3	3.0	3.6	3.0	1.5	-909.0	65.1
3/7/24	Trade Balance	2.3	2.3	1.7	2.3	4.7	3.3	3.0	3.6	2.8	2.7	-923.3	65.1
4/8/24	Employment Report	2.4	2.4	1.7	3.7	4.7	3.3	3.0	3.9	2.8	2.7	-923.3	65.1
4/12/24	CPI	2.4	2.4	1.7	3.7	4.7	3.3	3.0	3.9	2.8	2.7	-923.3	65.1
	GDP tracking	2.4	2.4	1.7	3.7	4.7	3.3	3.0	3.9	2.8	2.7	-923.3	65.1
	Contribution to GDP growth (pp)			1.2	0.1	0.1	0.2	0.2	0.7			-0.1	0.0
	BofA official GDP forecast	2.5	2.5	1.5	2.5	5.0	3.0	3.0	3.5	3.0	1.5	-911.0	71.5

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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Overseas data

Sweden

February CPIF came in at 2.5% yoy, with the important CPIF ex-energy print at 3.5% yoy, slightly below market expectations and 20bp below Riskbank forecasts. Our Europe economists note that the reduced electricity prices contributed to lower housing costs. While this print is slightly encouraging, it doesn't seem a big deal for the Riksbank - they have already distanced themselves from their last forecasts round.



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