Daiwa Capital Markets

U.S. Data Review

- Unemployment claims: a hint of revival
- Durable goods orders: catch-up weakness in April, but still less dreadful than other data
- Revised GDP: a nudge downward

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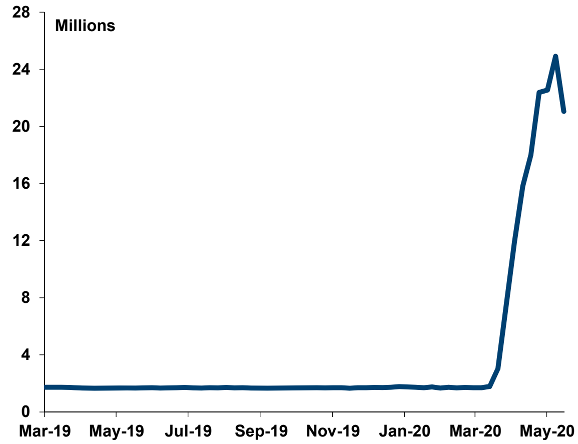
Unemployment Claims

Initial claims for unemployment insurance totaled 2.123 million in the week ended May 23, essentially matching the consensus estimate of 2.1 million. The latest reading was slightly less than the 2.446 million in the prior week and marked the eighth consecutive weekly improvement, although the number of claimants remained sky-high by historical standards.

Continuing Claims for Unemp. Insurance



Source: U.S. Department of Labor via Haver Analytics

The still-elevated level of initial claims indicates the labor market remains troubled, but the latest report also showed a clear sign of revival. The number of continuing claims (i.e. the number of individuals receiving benefits) fell 3.860 million to 21.052 million, the first drop since the pandemic started to disrupt economic activity (chart). Elevated initial claims indicates that layoffs are ongoing, but the drop in continuing claims suggests that worker recalls are underway. The drop in continuing claims might reflect individuals exhausting their benefits, but with the labor market in good shape before the pandemic, the decline in continuing claims most likely is a reflection of individuals being recalled to their jobs.

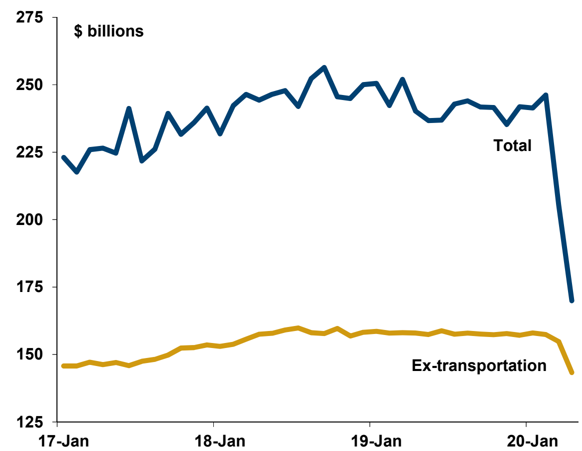
Durable Goods Orders

New orders for durable goods fell 17.2 percent in April, a touch better than the expected decline of 19 percent. However, the change occurred from a downward revised level in March (now showing a drop of 16.6 percent rather than 15.3 percent).

Order flows have softened sharply, but close inspection shows that results have not been as dire as those in many other economic reports. Much of the softness has occurred in the transportation sector, with dreadful results in the volatile commercial aircraft sector leading the retreat (negative orders flows, i.e. net cancellations, in both March and April). Orders for motor vehicles also fell sharply in April. Outside the transportation category, bookings are down, but declines of 1.7 percent in March and 7.4 percent in April have not matched the double-digit drops seen in many other economic reports (chart; next page, left).

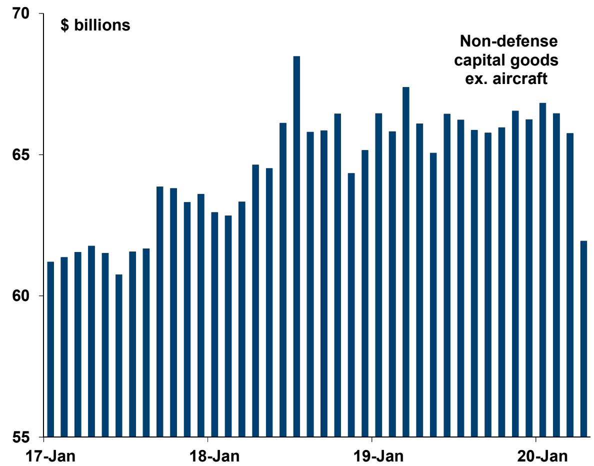
New orders for capital goods other than aircraft merit special attention because of the insights they provide for capital spending, and here too, results have been soft but not dire. Bookings slipped 1.1 percent in March and 5.8 percent in April. The level of orders for nondefense capital goods other than aircraft remained within the range of the past five years and well above readings during the financial crisis and the early stages of the latest recovery (chart; next page, right).

New Orders for Durable Goods



Source: U.S. Census Bureau via Haver Analytics

New Orders for Durable Goods



Source: U.S. Census Bureau via Haver Analytics

Revised GDP

The U.S. economy in the first quarter was a tad softer than previously believed, with GDP now showing a change of -5.0 percent rather than -4.8 percent (table). The results were close to the consensus estimate, which called for no revision.

The adjustments to the various components of GDP were in the direction expected by market analysts, although magnitudes involved some surprises, especially for inventory investment. The initial estimate showed that inventory investment subtracted 0.5 percentage point from GDP growth, and our revised estimate showed a subtraction of 0.8 percentage point, well off the new tally showing a drag of 1.4 percentage points. Residential construction also contributed noticeably to the downward revision, now showing growth of 18.5 percent rather than 21.0 percent, although this result was not especially surprising. Consumer spending and business fixed investment were slightly better than previously believed (i.e. less negative).

Today's report included the first estimate of aggregate corporate profits for the first quarter. With the economy soft, profits lost ground, with after tax earnings falling 14.2 percent (not annualized). However, the decline occurred from the cyclical peak in 2019-Q1, and the new level of profits remained within the range of the past several years (albeit the low portion of that range).

GDP and Related Items*

		19-Q4	20-Q1(a)	20-Q1(p)
1.	**Gross Domestic Product**	2.1	-4.8	-5.0
2.	**Personal Consumption Expenditures**	1.8	-7.6	-6.8
3.	**Nonresidential Fixed Investment**	-2.4	-8.6	-7.9
3a.	**Nonresidential Structures**	-7.2	-9.7	-3.9
3b.	**Nonresidential Equipment**	-4.3	-15.2	-16.7
3c.	**Intellectual Property Products**	2.8	0.4	1.0
4.	**Change in Business Inventories (Contribution to GDP Growth)**	-1.0	-0.5	-1.4
5.	**Residential Construction**	6.5	21.0	18.5
6.	**Total Government Purchases**	2.5	0.7	0.8
6a.	**Federal Government Purchases**	3.4	1.7	1.9
6b.	**State and Local Govt. Purchases**	2.0	0.1	0.2
7.	**Net Exports (Contribution to GDP Growth)**	1.5	1.3	1.3
7a.	**Exports**	2.1	-8.7	-8.7
7b.	**Imports**	-8.4	-15.3	-15.5
	Additional Items			
8.	**Final Sales**	3.1	-4.3	-3.7
9.	**Final Sales to Domestic Purchasers**	1.6	-5.4	-4.8
10.	**Gross Domestic Income**	2.6	--	-4.2
11.	**Average of GDP & GDI**	2.4	--	-4.6
12.	**GDP Chained Price Index**	1.3	1.3	1.4
13.	**Core PCE Price Index**	1.3	1.8	1.6
14.	**After-tax Corp. Profits (not annualized)**	2.1	--	-14.2

** Percent change SAAR, except as noted*
(a) = advance (1st estimate of GDP); (p) = preliminary (2nd estimate of GDP)
Source: Bureau of Economic Analysis via Haver Analytics