Daiwa Capital Markets

U.S. Economic Comment

- PCE inflation: marked variation, continued pressure on balance
- Consumer spending: a retreat in goods and continued revival in services
- Durable goods orders: a boost from aircraft; respectable ex-transportation
- New home sales: up sharply in November, but underwhelming nonetheless

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Inflation and Consumer Spending

Inflation remained an issue in November, as the headline price index for personal consumption expenditures (PCE) rose 0.6 percent, while the core component jumped 0.5 percent (chart). The year-over-year changes totaled 5.7 percent and 4.7 percent for the headline and core measures, respectively.

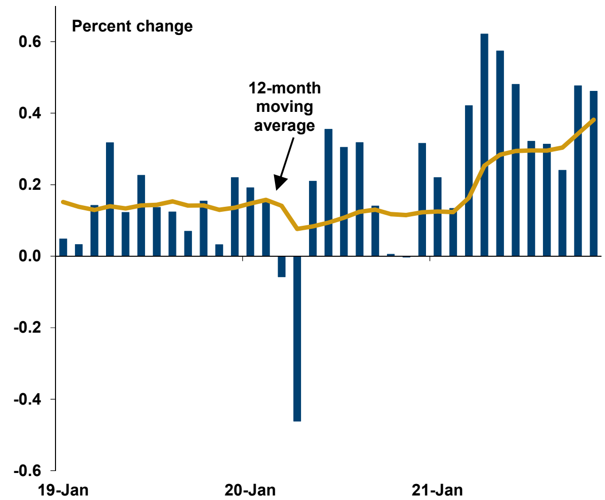
Swings in energy prices often account for the gap between the headline and core changes, and they certainly have been a factor in the recent experience (energy prices rose 3.6 percent in November and they have climbed 34.0 percent in the past year). Food prices have also played a role, as they have increased 0.4 percent or more for six consecutive months. The average increase over this span totaled 0.7 percent while the increase in the past year totaled 5.6 percent.

The pressure in the core component, while uneven from month-to-month, has generally been pronounced, with changes totaling 0.4 percent or more in six of the past nine months and averaging 0.4 percent over this span. Results for individual items varied widely in November. Some goods or services that showed marked increases in prior months gave back some of those earlier advances. Prices of televisions, for example, fell 1.4 percent, a sizeable change for one month but a modest offset to earlier jumps (the year-over-year change still totaled 7.9 percent). Ticket prices to sporting events had surged in the prior nine months (average increase of 3.3 percent), but they fell 4.8 percent in November. Prices of jewelry and sporting equipment also eased after sharp increases in prior months.

Many other items showed notable upward pressure. Some of the jumps occurred in areas that had already experienced sharp increases in demand and surges in prices (new and used motor vehicles, furniture, appliances). Other pressure points reflected the unwinding of discounts that had emerged with the onset of Covid-19 (clothing, air travel). Interestingly, goods or services that might suggest a revival in consumers' demand for travel and entertainment rose noticeably in price (air travel, hotel stays, car rentals, tickets for movies and non-sport live entertainment, restaurant meals).

Price data suggested that individuals were becoming more active, but the expenditure portion of the November report on income and consumption showed slow activity. Nominal outlays rose 0.6 percent, but this advance translated to no change after adjusting for inflation. The sluggish results, though, followed brisk growth in the prior month (up 0.7 percent in real terms), which leaves still-favorable

Core PCE Price Index*

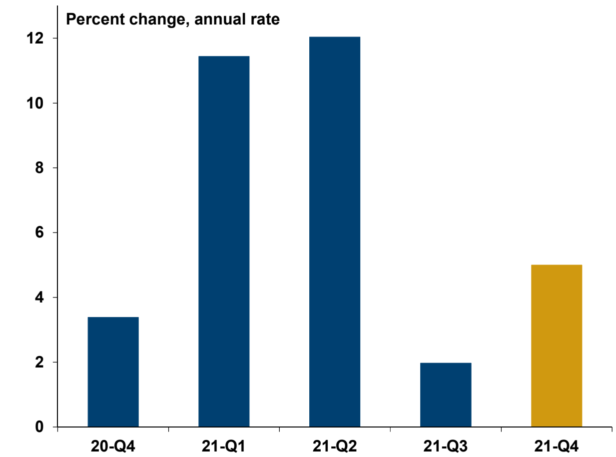


** PCE = personal consumption expenditures*
Source: Bureau of Economic Analysis via Haver Analytics

prospects for consumer spending in the fourth quarter. If December were to show no change, quarterly growth in real consumer spending would total 4.8 percent in Q4, a solid performance. Modest advances in December would push growth above five percent (chart).

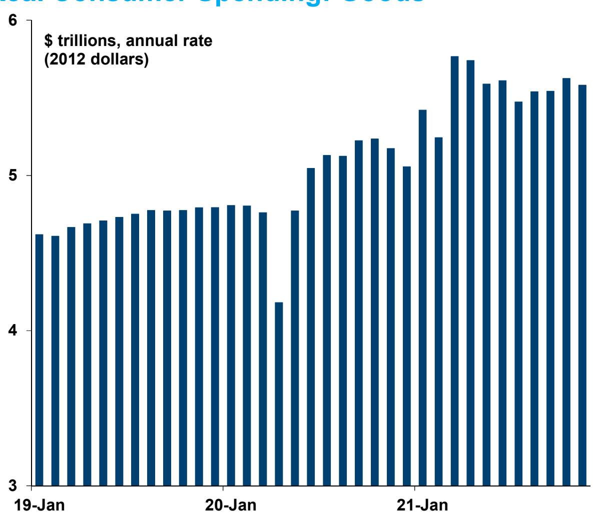
Details on consumer spending also might allow for a positive spin. The softness in November was concentrated in expenditures on goods, which have already experienced a strong recovery (chart, below left). Given that outlays for goods are already well above pre-pandemic levels, results might be expected to slow. We should look to spending on services to sustain consumption growth, and results here have been favorable. Real spending on services rose 0.5 percent in November, continuing a steady upward trend (chart, below right). Service spending is still below pre-pandemic levels, suggesting additional upside potential.

Real Personal Consumption Expenditures*



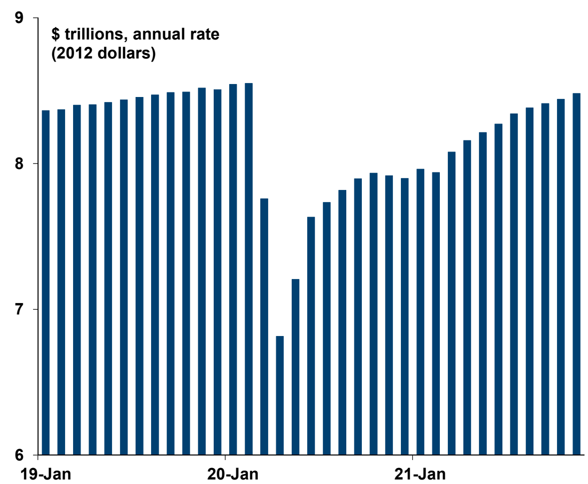
** The reading for 2021-Q4 is based on results for October and November.*
Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

Real Consumer Spending: Goods



Source: Bureau of Economic Analysis via Haver Analytics

Real Consumer Spending: Services



Source: Bureau of Economic Analysis via Haver Analytics

Durable Goods Orders

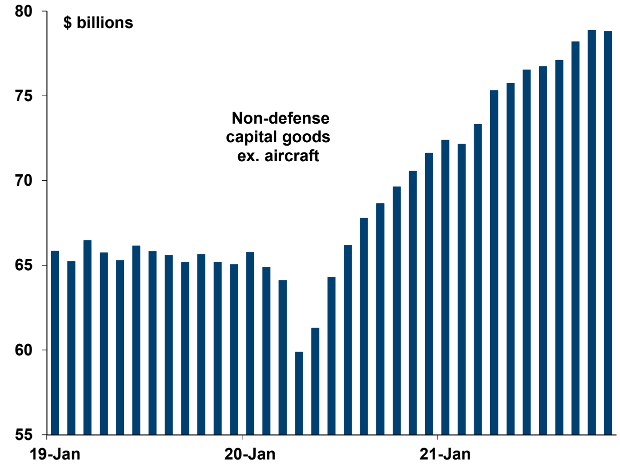
New orders for durable goods rose 2.5 percent in November, easily beating the expected increase of 1.8 percent and marking the 17th increase in the past 19 months. This increase left durable orders 16.2 percent above the level just before the onset of the pandemic and 4.8 percent above the best reading in the latter stages of the previous expansion. (One observation in the previous expansion was higher than the latest total, but an unusually large order for commercial aircraft drove that surge).

New orders for commercial aircraft were in play in November, as an increase of 34.1 percent made the largest contribution to the gain in total bookings. After a pathetic performance last year (net cancellations), aircraft orders have been firm since February. Bookings for communication equipment also were strong (up 11.1 percent), which marked the second consecutive month of double-digit growth (10.9 percent in October).

Bookings for motor vehicles also were firm despite supply constraints (up 1.0 percent after an increase of 5.8 percent in October). The miscellaneous category also contributed to the overall advance (up 1.5 percent).

The overall report was favorable, but new orders for nondefense capital goods other than aircraft tilted on the disappointing side, showing a dip of 0.1 percent. The decline, though, was hardly catastrophic, as it was small and it marked only the second retreat in the past 19 months; the underlying trend was still distinctly upward (chart).

New Orders for Durable Goods



Source: U.S. Census Bureau via Haver Analytics

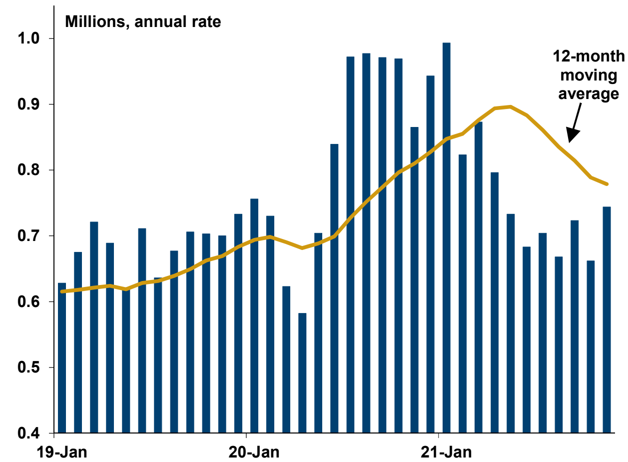
New Home Sales

Sales of new homes rose 12.4 percent in November, beating by a wide margin the expected increase of 3.3 percent. However, the advance occurred from downwardly revised results in the prior three months. In fact, the revisions from August to October were larger than the gain in November (sales rose by 120,000 units, annual rate, while revisions totaled 127,000). The level of new sales in November was lower than the preliminary estimate for October.

Preliminary data had shown an erosion in sales of new homes throughout the year; with the revision, that slide is now more pronounced. The pickup in November offered hope that the slide was ending and perhaps starting to turn a corner, but it was too early to conclude that a full-fledged rebound was underway.

Sales of existing homes in November, published earlier this past week, followed a pattern similar to that in the market for new homes (sliding earlier in the year and improving recently). The slippage was less pronounced than that in the new home market and the pickup was more definitive. Thus, the existing home market, while less than vigorous, is in better shape than the new home market.

New Home Sales



Source: U.S. Census Bureau via Haver Analytics

Next Comment:

We will not publish a U.S. Economic Comment next week. Our next newsletter will be on January 7.

Review

Week of Dec. 20, 2021	Actual	Consensus	Comments
Leading Indicators (November)	**1.1%**	**1.0%**	A strong positive contribution from initial claims for unemployment insurance, along with good support from stock prices, the slope of the yield curve, and the ISM new orders index, led to the 18th increase in the leading indicator index in the past 19 months (no change in the other month). The reading in November was 7.1% above the pre-Covid peak in January 2020.
Current Account (2021-Q3)	**-$214.8 Billion ($16.5 Billion Wider Deficit)**	**-$205.0 Billion ($14.7 Billion Wider Deficit)**	Income flows were a modest net positive for the U.S. in Q3, but slippage of $17.9 billion in the trade balance dominated the report and led to a noticeable widening in the deficit. The current account deficit slipped to 3.7% of GDP from 3.5% of GDP in Q2, the widest deficit as a share of GDP since 2008.
Revised GDP (2021-Q3)	**2.3% (+0.2 Pct. Pt. Revision)**	**2.1% (Unrevised)**	Consumer spending in Q3 was a bit stronger than previously reported, but it was still far from robust (2.0% versus 1.7%). Other revisions reflected less weakness in soft areas (business investment in equipment and structures, residential construction, and business inventories all fell less than previously believed). Inventory investment also was revised higher, contributing 2.2 percentage points to growth versus 2.1%. Net exports were revised lower, subtracting 1.3 percentage points from growth (versus 1.2 percentage points). Both exports and imports were softer than previously reported.
Consumer Confidence (December)	**115.8 (+3.9 Index Pts.)**	**111.0 (+1.5 Index Pts.)**	The gain in consumer confidence in December was a welcome development, but the measure was still shy of firmer observations in the spring and summer and far below the pre-Covid high of 132.6 in February 2020. The emergence of the Omicron variant of Covid and troubling readings on inflation continued to weigh on the attitudes of survey respondents, but views on the labor market remained favorable. The net reading of 42.6% on the labor market assessment (share of respondents indicating that jobs were plentiful, less the share indicating that jobs were hard to get) was shy of the 44.7% seen in the prior month, but it was still strong by historical standards.
Existing Home Sales (November)	**6.46 Million (+1.9%)**	**6.53 Million (+2.9%)**	The third consecutive advance in existing home sales in November helped to offset a portion of the slide in the first half of the year, suggesting that the market is reviving rather than flagging. Lean inventories have been an issue in the existing home market, and the problem deepened in November. The months' supply of homes for sale totaled 2.1 months, a reading near the record low of 1.9 in January 2021 (a healthy inventory situation would be a months' supply between four and six months).

Review

Week of Dec. 20, 2021	Actual	Consensus	Comments
Personal Income, Consumption, Core PCE Price Index (November)	**0.4%, 0.6%, 0.5%**	**0.4%, 0.6%, 0.4%**	Solid increases in wages and salaries, along with gains in rental and investment income, boosted total income in November. On the outlays side, the apparently solid increase in consumption translated to no change after adjusting for inflation. Real spending on services continued to revive, increasing 0.5%, but this gain was offset by a drop of 0.8% in spending on goods. The core price index for personal consumption expenditures jumped 0.5% for the second consecutive month. On a year-over-year basis, the index surged 4.7%, up from 4.2% in October and the fastest increase since the late 1980's.
Durable Goods Orders (November)	**2.5%**	**1.8%**	A jump of 6.5% in orders for transportation equipment (led by a surge of 34.1% in commercial aircraft bookings) contributed importantly to the advance in durable goods orders in November, but the underlying pace of activity outside of the volatile transportation area also remained firm. Orders excluding transportation rose 0.8%, the 18th increase in the past 19 months. Bookings for non-defense capital goods excluding aircraft, which provide insights into capital spending plans by businesses, slipped 0.1%. While a dip is mildly disappointing, it was a mere blip on a strong upward trend. Bookings have increased in 17 of the past 19 months, and they are almost 20% above readings right before the onset of Covid-19.
New Home Sales (November)	**0.744 Million (+12.4%)**	**0.770 Million (+3.4%)**	Sales of new homes posted a large month-to-month increase in November, but the result was nevertheless underwhelming, as the advance occurred from downwardly-revised results in the prior three months. The latest increase only partially reversed a slide that began early in the year. Even with the improvement in November, activity was 25.1% below the recent high in January. With the pickup in sales, the months' supply of homes for sale slipped from 7.1 to 6.5 months, a reading consistent with historical norms.

Sources: The Conference Board (Leading Indicators, Consumer Confidence); Bureau of Economic Analysis (Current Account, Revised GDP, Personal Income, Consumption, PCE Price Indexes); National Association of Realtors (Existing Home Sales); U.S. Census Bureau (Durable Goods Orders, New Home Sales); Consensus forecasts are from Bloomberg

Preview

Week of Dec. 27, 2021	Projected	Comments
U.S. International Trade in Goods (November) (Wednesday)	**-$90.0 Billion ($6.8 Billion Wider Deficit)**	Shipping delays and port congestion seem to have generated considerable volatility in exports (surprisingly soft in September and amazingly strong in October). The level of exports in October seemed out of line with underlying trends, which should lead to a correction in November. Imports have not shown the same degree of volatility that exports have, and thus are likely to continue moving along their upward path. The expected drop in exports and increase in imports will most likely lead to month-to-month widening in the trade deficit, but the expected shortfall is still better than the average in of $90.6 billion Q3, and October and November combined would show noticeable improvement from Q3 results.
Week of Jan 3, 2022		
ISM Manufacturing Index (December) (Tuesday)	**60.0% (-1.1 Pct. Pts.)**	The manufacturing sector is performing well, which should lead to another firm reading on the ISM index (an average of 60.8% in the first 11 months of the year and 61.0% in the past two months). While a firm reading is likely, Omicron could have a dampening effect, and possible improvement in supply chains could lead to a drop in the supplier delivery component.
ISM Services Index (December) (Thursday)	**64.0% (-5.1 Pct. Pts.)**	Omicron is likely to have more of an influence on the service sector than it will on the manufacturing sector. Even in the absence of Omicron, the new orders and business activity components would have trouble sustaining the record readings in November. The supplier delivery index also might ease from its second highest reading on record (exceed only the observation from April 2020, the softest month of the recession).
Payroll Employment (December) (Friday)	**400,000**	The emergence of the Omicron variant of Covid probably dampened hiring and left job growth shy of the 555k average in the first 11 months of the year. However, with firms anxious to hire workers, payroll growth should be respectable. Employment as measured by the household survey will probably cool from the outsized advance in November (1.1 million), but Covid could discourage individuals from entering the labor force, possibly offsetting the effects of any employment gain and leaving a small decline in the unemployment rate.

Source: Forecasts provided by Daiwa Capital Markets America

Economic Indicators

December 2021 / January 2022

Monday	Tuesday	Wednesday	Thursday	Friday
20	21	22	23	24
LEADING INDICATORS Sept 0.3% Oct 0.9% Nov 1.1%	**CURRENT ACCOUNT** 21-Q1 -$189.4 bill. 21-Q2 -$198.3 bill. 21-Q3 -$214.8 bill.	**CHICAGO FED NATIONAL ACTIVITY INDEX** Monthly 3-Mo. Avg. Sept -0.01 0.2 Oct 0.75 0.2 Nov 0.37 0.3 **REVISED GDP** GDP Chained Price 21-Q2 6.7% 6.1% 21-Q3(p) 2.1% 5.9% 21-Q3(r) 2.3% 6.0% **CONFERENCE BOARD CONSUMER CONFIDENCE** Oct 111.6 Nov 111.9 Dec 115.8 **EXISTING HOME SALES** Sept 6.29 million Oct 6.34 million Nov 6.46 million	**UNEMPLOYMENT CLAIMS** Initial Continuing (Millions) Nov 27 0.227 1.999 Dec 04 0.188 1.867 Dec 11 0.205 1.859 Dec 18 0.205 N/A **PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX** Inc. Cons. Core Sept -1.0% 0.6% 0.2% Oct 0.5% 1.4% 0.5% Nov 0.4% 0.6% 0.5% **DURABLE GOODS ORDERS** Sept -0.4% Oct -0.4% Nov % **NEW HOME SALES** Sept 0.723 million Oct 0.662 million Nov 0.744 million **REVISED CONSUMER SENTIMENT** Oct 71.7 Nov 67.4 Dec(p) 70.4 Dec(r) 70.6	***CHRISTMAS DAY (OBSERVED)***
27	28	29	30	31
	FHFA HOME PRICE INDEX (9:00) Aug 1.0% Sept 0.9% Oct -- **S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX (9:00)** SA NSA Aug 1.2% 0.9% Sept 1.0% 0.8% Oct -- --	**U.S. INTERNATIONAL TRADE IN GOODS (8:30)** Sept -$97.0 billion Oct -$83.2 billion **Nov -$90.0 billion** **ADVANCE INVENTORIES (8:30)** Wholesale Retail Sept 1.4% -0.1% Oct 2.3% 0.1% Nov -- -- **PENDING HOME SALES (10:00)** Sept -2.4% Oct 7.5% Nov --	**INITIAL CLAIMS (8:30)** **MNI CHICAGO BUSINESS BAROMETER INDEX (9:45)** Index Prices Oct 68.4 94.3 Nov 61.8 93.8 Dec -- --	
3	4	5	6	7
CONSTRUCTION SPEND.	**ISM MFG INDEX** **JOB OPENINGS & LABOR TURNOVER SURVEY** **VEHICLE SALES**	**ADP EMPLOYMENT REPORT** **FOMC MINUTES**	**INITIAL CLAIMS** **TRADE BALANCE** **ISM SERVICES INDEX** **FACTORY ORDERS**	**EMPLOYMENT REPORT** **CONSUMER CREDIT**
10	11	12	13	14
WHOLESALE TRADE	**NFIB SMALL BUSINESS OPTIMISM**	**CPI** **FEDERAL BUDGET** **BEIGE BOOK**	**INITIAL CLAIMS** **PPI**	**RETAIL SALES** **IMPORT/EXPORT PRICES** **IP & CAP-U** **CONSUMER SENTIMENT** **BUSINESS INVENTORIES**

Forecasts in Bold. (p) = preliminary (2nd estimate of GDP); (r) = revised (3rd estimate of GDP)

Treasury Financing

December 2021 / January 2022

Monday	Tuesday	Wednesday	Thursday	Friday
20	21	22	23	24
AUCTION RESULTS: Rate Cover 13-week bills 0.075% 2.65 26-week bills 0.160% 2.85 78-day CMB 0.070% 2.87	**AUCTION RESULTS:** Rate Cover 20-yr bonds 1.942% 2.59 **ANNOUNCE:** $50 billion 4-week bills for auction on December 23 $40 billion 8-week bills for auction on December 23 $40 billion 17-week CMBs for auction on December 22 **SETTLE:** $30 billion 4-week bills $25 billion 8-week bills $35 billion 17-week CMBs $60 billion 23-day CMBs	**AUCTION RESULTS:** Rate Cover 5-year TIPS -1.508% 2.42 17-week CMB 0.110% 3.44 **SETTLE:** $60 billion 78-day CMBs	**AUCTION RESULTS:** Rate Cover 4-week bills 0.040% 2.95 8-week bills 0.050% 3.41 **ANNOUNCE:** $111 billion 13-,26-week bills for auction on Dec. 27 $34 billion 52-week bills for auction on December 28 $24 billion 2-year FRNs for auction on December 29 $56 billion 2-year notes for auction on December 27 $57 billion 5-year notes for auction on December 28 $56 billion 7-year notes for auction on December 29 **SETTLE:** $111 billion 13-,26-week bills	***CHRISTMAS DAY (OBSERVED)***
27	28	29	30	31
AUCTION: $111 billion 13-,26-week bills $56 billion 2-year notes	**AUCTION:** $34 billion 52-week bills $57 billion 5-year notes **ANNOUNCE:** $50 billion* 4-week bills for auction on December 30 $40 billion* 8-week bills for auction on December 30 $40 billion* 17-week CMBs for auction on December 29 **SETTLE:** $50 billion 4-week bills $40 billion 8-week bills $40 billion 17-week CMBs	**AUCTION:** $24 billion 2-year FRNs $56 billion 7-year notes $40 billion* 17-week CMBs	**AUCTION:** $50 billion* 4-week bills $40 billion* 8-week bills **ANNOUNCE:** $111 billion* 13-,26-week bills for auction on January 3 **SETTLE:** $111 billion 13-,26-week bills $34 billion 52-week bills	**SETTLE:** $20 billion 20-year bonds $17 billion 5-year TIPS $24 billion 2-year FRNs $56 billion 2-year notes $57 billion 5-year notes $56 billion 7-year notes
3	4	5	6	7
AUCTION: $111 billion* 13-,26-week bills	**ANNOUNCE:** $50 billion* 4-week bills for auction on January 6 $40 billion* 8-week bills for auction on January 6 $40 billion* 17-week CMBs for auction on January 5 **SETTLE:** $50 billion* 4-week bills $40 billion* 8-week bills $40 billion* 17-week CMBs	**AUCTION:** $40 billion* 17-week CMBs	**AUCTION:** $50 billion* 4-week bills $40 billion* 8-week bills **ANNOUNCE:** $111 billion* 13-,26-week bills for auction on Jan. 10 $52 billion* 3-year notes for auction on January 11 $36 billion* 10-year notes for auction on January 12 $22 billion* 30-year bonds for auction on January 13 **SETTLE:** $111 billion* 13-,26-week bills	
10	11	12	13	14
AUCTION: $111 billion* 13-,26-week bills	**AUCTION:** $52 billion* 3-year notes **ANNOUNCE:** $50 billion* 4-week bills for auction on January 13 $40 billion* 8-week bills for auction on January 13 $40 billion* 17-week CMBs for auction on January 12 **SETTLE:** $50 billion* 4-week bills $40 billion* 8-week bills $40 billion* 17-week CMBs	**AUCTION:** $36 billion* 10-year notes $40 billion* 17-week CMBs	**AUCTION:** $50 billion* 4-week bills $40 billion* 8-week bills $22 billion* 30-year bonds **ANNOUNCE:** $111 billion* 13-,26-week bills for auction on Jan. 18 $20 billion* 20-year bonds for auction on January 19 $16 billion* 10-year TIPS for auction on January 20 **SETTLE:** $111 billion* 13-,26-week bills	

**Estimate*