Daiwa Capital Markets

U.S. Data Review

- Q4 U.S. GDP: surge led by inventory investment; consumption also supportive
- Durable goods orders: down-side volatility in aircraft; moderate results elsewhere

Michael Moran
Daiwa Capital Markets America
212-612-6392
michael.moran@us.daiwacm.com

U.S. GDP

The U.S. economy jumped 6.9 percent in the fourth quarter of last year, easily beating the expected increase of 5.5 percent. However, most of the forecasts in the consensus were made before the publication of inventory data yesterday, and the strong results in that report would have triggered upward revisions of a percentage point or more. Thus, the high-side reading should not be viewed as surprising.

As suggested, much of the growth in the fourth quarter was the result of inventory investment, which accounted for 4.9 percentage points of the advance. Many observers will take a dim view of inventory-led growth, arguing that the boost is likely to be temporary or could even contribute to restraint in the future if the investment led to excessive inventories. Such arguments are less forceful in this instance, as businesses have responded to supply chain problems by drawing down inventories and they have a need to rebuild their stocks of inputs and finished goods. Certainly, most businesses are not looking at excessive inventory positions. Additions to inventories in coming quarters might not match the hefty results in Q4, which would lead to negative contributions to growth (smaller additions translate to negative contribution when calculating growth rates), but inventory investment does not represent a marked down-side risk.

Excluding the contribution from inventory investment, the economy grew 1.9 percent in the fourth quarter (see final sales in the table). Consumer spending more than accounted for this advance, as growth of 3.3 percent added 2.25 percentage points to the growth total. Other areas lacked vigor. Business fixed investment rose 2.0 percent, as outlays for intellectual property offset a double-digit drop in outlays for new structures and modest investment in equipment. The housing sector struggled, with residential construction dropping 0.8 percent. Government spending was weak, falling 2.9 percent overall. Outlays at both the federal and state and local levels declined. Exports represented a bright spot, surging 24.5 percent, but imports also were strong (up 17.7 percent), resulting in a neutral effect from net exports on GDP growth.

GDP and Related Items*

		21-Q1	21-Q2	21-Q3	21-Q4
1.	**Gross Domestic Product**	6.3	6.7	2.3	6.9
2.	**Personal Consumption Expenditures**	11.4	12.0	2.0	3.3
3.	**Nonresidential Fixed Investment**	12.9	9.2	1.7	2.0
3a.	**Nonresidential Structures**	5.4	-3.0	-4.1	-11.4
3b.	**Nonresidential Equipment**	14.1	12.1	-2.3	0.8
3c.	**Intellectual Property Products**	15.6	12.5	9.1	10.6
4.	**Change in Business Inventories (Contribution to GDP Growth)**	-2.6	-1.3	2.2	4.9
5.	**Residential Construction**	13.3	-11.7	-7.7	-0.8
6.	**Total Government Purchases**	4.2	-2.0	0.9	-2.9
6a.	**Federal Government Purchases**	11.3	-5.3	-5.1	-4.0
6b.	**State and Local Govt. Purchases**	-0.1	0.2	4.9	-2.2
7.	**Net Exports (Contribution to GDP Growth)**	-1.6	-0.2	-1.3	0.0
7a.	**Exports**	-2.9	7.6	-5.3	24.5
7b.	**Imports**	9.3	7.1	4.7	17.7
	Additional Items				
8.	**Final Sales**	9.1	8.1	0.1	1.9
9.	**Final Sales to Domestic Purchasers**	10.4	8.0	1.3	1.9
10.	**Gross Domestic Income**	6.3	4.3	5.8	--
11.	**Average of GDP & GDI**	6.3	5.5	4.1	--
12.	**GDP Chained Price Index**	4.3	6.1	6.0	6.9
13.	**Core PCE Price Index**	2.7	6.1	4.6	4.9

** Percent change SAAR, except as noted*
Source: Bureau of Economic Analysis via Haver Analytics

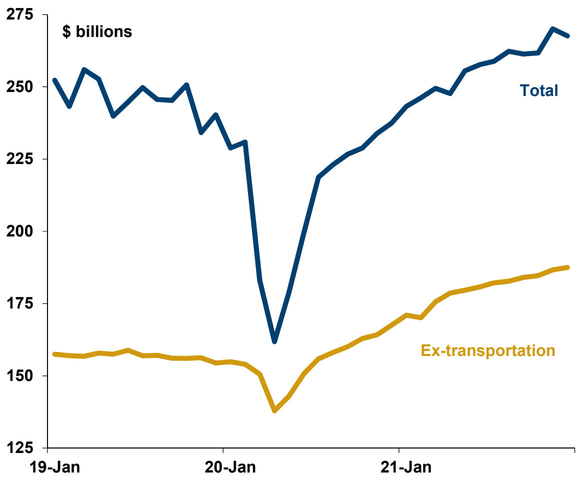
The GDP report provided a reminder that inflation is an issue, as the GDP price index rose 6.9 percent. The index for personal consumption expenditures rose 6.5 percent and its core component was up 4.9 percent. Absent revisions to results for October and November, these quarterly increases in the PCE price indexes imply increases of 0.4 percent in the December figures that will be published on Friday (January 28).

Durable Goods Orders

New orders for durable goods fell 0.9 percent in December, slightly weaker than the expected drop of 0.6 percent. The decline in total orders followed a solid gain in the prior month (3.2 percent), and thus the December results did little damage to the underlying upward trend (chart, left). Much of the decline in orders was the results of softness in new bookings for aircraft, both commercial and defense-related (off 14.4 percent and 11.2 percent, respectively). Excluding transportation items, which removes the noise associated with aircraft orders, bookings rose 0.4 percent, preserving their upward trend (up in 19 of the past 20 months).

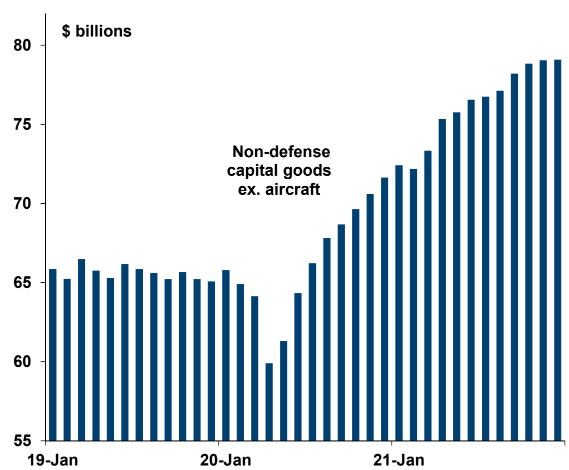
The increase in orders ex-transportation was constrained by a drop of 5.9 percent in bookings for communication equipment, but this drop was only a modest offset to a combined advance of 22.7 percent in the prior two months. Several areas posted firm results, including primary and fabricated metals (up 2.0 percent and 1.5 percent, respectively). New orders for motor vehicles rose 1.4 percent and the miscellaneous category posted a gain of 1.2 percent. New orders for nondefense capital goods excluding aircraft was unchanged (up marginally if rounded to more than one decimal point, 0.043 percent). This component has enjoyed a solid upward trend in the current recovery period, but it is perhaps starting to plateau.

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