Daiwa Capital Markets

U.S. Data Review

- Revised GDP: slight upward adjustment to an already firm pace
- New home sales: a partial give-back to strong gains in Nov & Dec

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Revised GDP

Revised data show the U.S. economy grew at a 7.0 percent annual rate in Q4, a tad better than the initial estimate of 6.9 percent and exactly equal to the consensus estimate. Some of the brisk advance was the result of a rebound from a Covid-constrained increase of 2.3 percent in the third quarter, but the advance of 4.7 percent in the second half of 2021 represented a favorable performance.

Much of the growth in the final quarter of last year was the result of inventory investment, which accounted for 4.9 percentage points of the overall increase. The contribution from inventory investment was unrevised, although the level of inventory investment was a touch softer than initially estimated, with the small adjustment lost in rounding. The growth of consumer spending was nudged lower, although growth was still firm at 3.1 percent (versus an initial estimate of 3.3 percent). Export growth also was a shade slower than initially believed, but still vigorous at 23.6 percent (versus a preliminary estimate of 24.5 percent).

The upward adjustment to GDP growth was led by construction, as both residential and business-related building were stronger than previously believed. Residential construction inched into the plus column with growth of 1.0 percent versus an initial estimate of -0.8 percent. Business-related construction remained weak, but less so than initially estimated (-9.4 percent versus -11.4 percent). Similarly, a drop in government spending was slightly smaller (off 2.6 percent rather than 2.9 percent).

The inflation figures showed modest adjustments, but generally in the upward direction. The GDP price index rose 7.1 percent in Q4, up from the preliminary estimate of 6.9 percent. Overall consumer inflation was a touch lighter, with the headline index for personal consumption expenditures (PCE) increasing 6.3 percent rather than 6.5 percent. However, the core PCE price index is now showing an increase of 5.0 percent, up from 4.9 percent.

The new report is not likely to change views on the outlook for Q1. After the burst in the closing months of last year, inventory investment will probably make a negative contribution to growth in the first quarter. With the constraining influence of

GDP and Related Items*

		21-Q2	21-Q3	21-Q4(a)	21-Q4(p)
1.	**Gross Domestic Product**	6.7	2.3	6.9	7.0
2.	**Personal Consumption Expenditures**	12.0	2.0	3.3	3.1
3.	**Nonresidential Fixed Investment**	9.2	1.7	2.0	3.1
3a.	**Nonresidential Structures**	-3.0	-4.1	-11.4	-9.4
3b.	**Nonresidential Equipment**	12.1	-2.3	0.8	2.4
3c.	**Intellectual Property Products**	12.5	9.1	10.6	10.6
4.	**Change in Business Inventories (Contribution to GDP Growth)**	-1.3	2.2	4.9	4.9
5.	**Residential Construction**	-11.7	-7.7	-0.8	1.0
6.	**Total Government Purchases**	-2.0	0.9	-2.9	-2.6
6a.	**Federal Government Purchases**	-5.3	-5.1	-4.0	-4.5
6b.	**State and Local Govt. Purchases**	0.2	4.9	-2.2	-1.4
7.	**Net Exports (Contribution to GDP Growth)**	-0.2	-1.3	0.0	-0.1
7a.	**Exports**	7.6	-5.3	24.5	23.6
7b.	**Imports**	7.1	4.7	17.7	17.6
	Additional Items				
8.	**Final Sales**	8.1	0.1	1.9	2.0
9.	**Final Sales to Domestic Purchasers**	8.0	1.3	1.9	2.0
10.	**Gross Domestic Income**	4.3	5.8	--	--
11.	**Average of GDP & GDI**	5.5	4.1	--	--
12.	**GDP Chained Price Index**	6.1	6.0	6.9	7.1
13.	**Core PCE Price Index**	6.1	4.6	4.9	5.0

** 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

inventory investment, growth is likely to be only moderate (we are currently thinking 2.5 percent). However, we expect consumers to remain active, and the housing sector might be stirring as individuals seek to beat likely increases in interest rates. In addition, with the Omicron variant of Covid fading, we could have a strong finish to the quarter.

New Home Sales

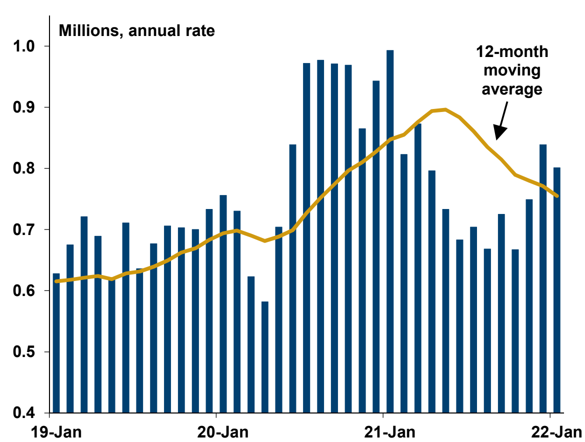
Sales of new homes fell 4.5 percent in January, a sharper decline than the expected easing of 1.2 percent. However, the change occurred from upward revised levels in the prior three months. The level of sales in January, at 801,000 units (annual rate), essentially matched the expected reading of 802,000. All three months from October to December were stronger than previously believed, with the combined adjustment equivalent to 3.5 percentage points of growth.

The new level of sales trailed brisk readings in the second half of last year and the early part of this year, but the new total was still favorable by recent standards. Indeed, sales were comfortably above all readings in the prior expansion (chart, left).

Sales had a geographic skew, as activity fell sharply in the Northeast (off 10.7 percent), which marked the third consecutive decline and pushed sales to the bottom portion of their recent range. The West, in contrast, rose for the third consecutive month and moved in line with the strong results in the second half of last year. The Midwest and South lost ground, with activity resembling the pattern seen in overall sales (shy of last year's best results, but firm relative to other recent standards).

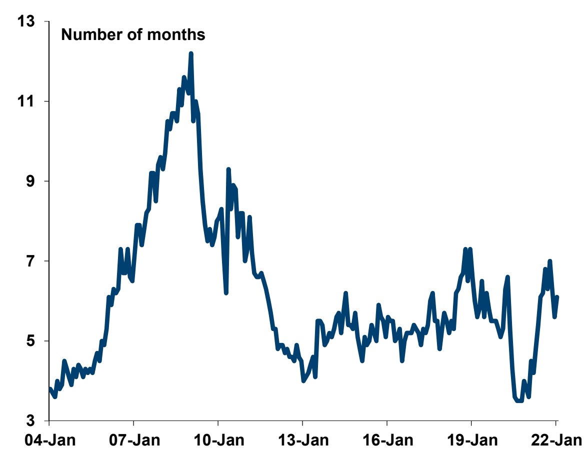
The number of homes for sale jumped 3.0 percent in January. This advance, along with the easing in sales, pushed the months' supply of homes to 6.1 months, up from 5.6 months in December although shy of some other readings last year (the highest at 7.0 months). The market for existing homes is showing a tight inventory situation, but there is an ample supply in the new home market. The number of new homes for sale is at its highest level since 2008 and the months' supply is comfortable relative to historical standards (except for the wild results during the housing boom and bust, 2006-10; chart, right).

New Home Sales



Source: U.S. Census Bureau via Haver Analytics

Months' Supply of Unsold New Homes



Source: U.S. Census Bureau via Haver Analytics