

U.S. Data Review

- Income, consumption, prices: no letup on inflation; consumer spending firm
- Durable goods orders: a jump in nondefense aircraft bookings; respectable elsewhere

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PCE Inflation and Consumer Spending

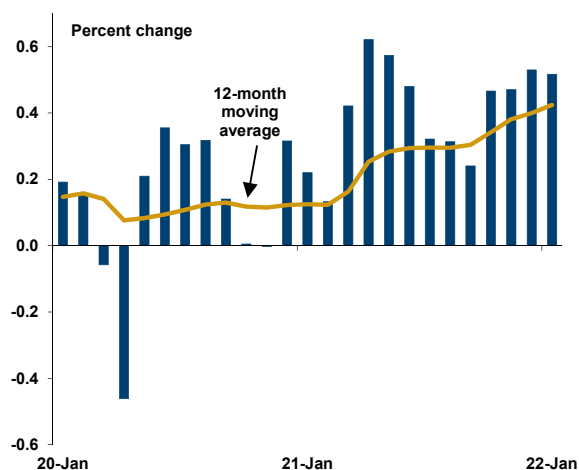
The good news is that the latest reading on the price index for personal consumption expenditures (PCE) did not involve any surprises; the bad news is that inflation remained brisk, with the headline index increasing 0.6 percent and the core measure advancing 0.5 percent. The latest changes left the year-over-year increase at 6.1 percent overall and 5.2 percent excluding food and energy, up from 5.8 percent and 4.9 percent, respectively, in December (chart, left).

Both food and energy contributed to the brisk advance in prices, registering increases of 0.9 percent and 1.1 percent, respectively. Interestingly, gasoline prices eased 0.8 percent in January, but this change was overwhelmed by increases in fuel oil, natural gas, and electricity. In the core component, pressure remained in many of the areas that surged during the early stages of the pandemic: furniture, home appliances, sporting equipment. Pressure in other areas suggested that individuals were beginning to travel and socialize more, as prices for luggage, clothing, and admissions to live entertainment events (ex-sports) all posted hefty increases.

A few areas that had surged in prior months cooled in January. Prices of admission to sporting events fell for the third consecutive month, and charges for hotel stays were off as well. However, these areas were still up more than 20 percent on a year-over-year basis. Prices of televisions fell for the fifth consecutive month, but were still up 3.9 percent year-over-year. Prices of both new and used motor vehicles rose, but the increases were lighter than in previous months (0.1 percent and 0.5 percent, respectively, versus averages of 0.9 percent and 3.4 percent in the prior 12 months).

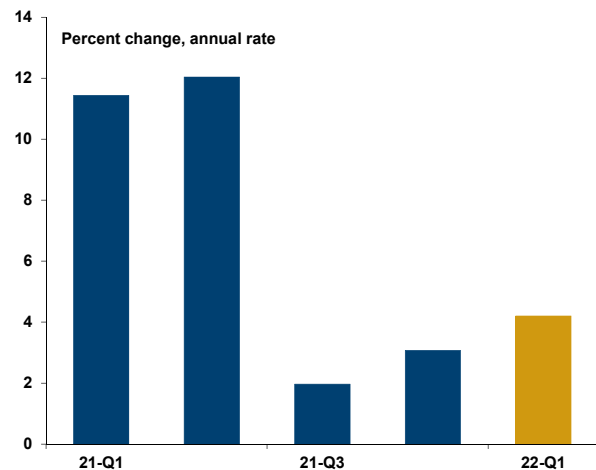
The income and consumption portions of the report surprised on the upside, as a steady reading on personal income exceeded the consensus estimate of -0.3 percent. As expected, income was constrained by a drop in transfer payments from the federal government because of the expiration of the enhanced child tax credit. Wages and salaries posted a respectable nominal advance (0.5 percent), and investment income and farm income

Core PCE Price Index*



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

Real Personal Consumption Expenditures*



* The reading for 2022-Q1 is a projection based on results for January.
 Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

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contributed as well. The brisk increase of 2.1 percent in consumer spending exceeded the expected gain of 1.6 percent and translated to a jump of 1.5 percent after adjusting for inflation. The sharp increase might seem less impressive against the decline of 1.3 percent in real terms in December, but it set the stage for solid real growth in the first quarter. With even moderate increases in February and March, real consumer spending in Q1 would total approximately 3.5 percent (chart; prior page, right).

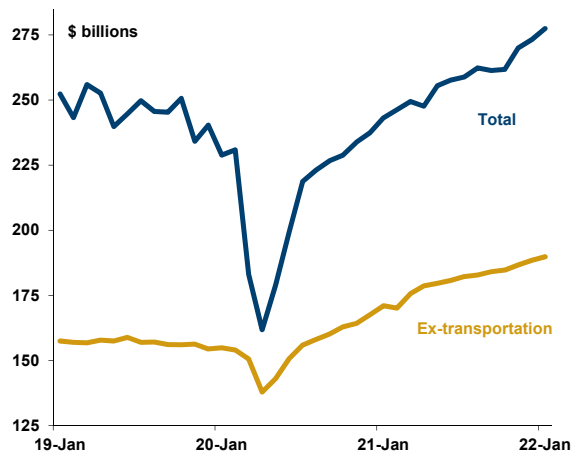
Durable Goods Orders

New orders for durable goods rose 1.6 percent, exceeding the expected increase of 1.0 percent in January. In addition, results in the prior month were revised notably higher, with December now showing growth of 1.2 percent rather than a decline of 0.7 percent (chart, left).

Both the gain in January and the revision to December were influenced by orders for commercial aircraft, which rose 15.6 percent in January; results for December now show an advance of 23.9 percent rather than a decline of 14.4 percent. The level of bookings for commercial aircraft was the best since problems at Boeing and the pandemic depressed orders throughout most of 2020. Results elsewhere were mixed but generally favorable. Excluding commercial aircraft, new orders rose 0.6 percent, and excluding all transportation items (eliminating declines in motor vehicles and defense aircraft), bookings rose 0.7 percent. Much of this advance most likely reflects higher prices, but we suspect some of the increase reflected a gain in real terms. New orders for machinery and computers stood out with gains of 2.3 percent and 2.2 percent, respectively. The miscellaneous category also was notable with an increase of 1.0 percent.

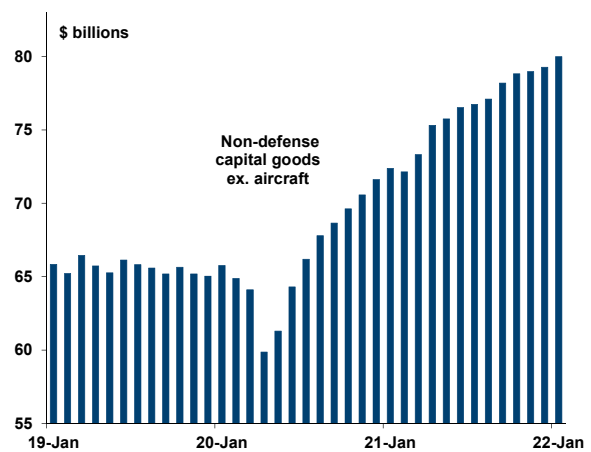
New orders for nondefense capital goods excluding aircraft rose 0.9 percent, marking their 20th increase in the past 21 months. The rate of growth is easing from that in the early stages of the advance, but the trend is still distinctly upward (chart, right). Again, higher prices are playing a role, but we also suspect some improvement in real terms.

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