U.S. Data Review

- Inflation: food prices jump, energy prices ease, core increases modestly
- Real consumer spending: results for July suggest subdued growth in Q3
- International trade in goods: soft imports; narrower deficit

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Consumer Inflation & Spending

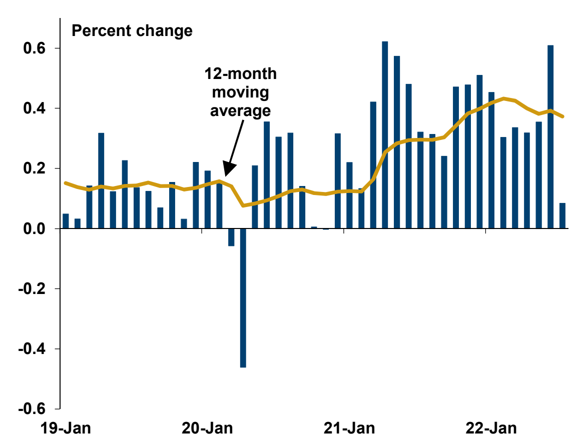
The headline price index for personal consumption expenditures (PCE) eased 0.1 percent in July versus the market expectation of no change. The dip followed advances averaging 0.5 percent in the prior 12 months. Energy prices accounted for much of the restraint in the headline index, as they fell 4.8 percent in July for only the second time in the past 14 months. Food prices, in contrast, added to their sharp upward trend with a jump of 1.3 percent. The changes left the headline index up 6.3 percent on a year-over-year basis, off from last month's reading of 6.8 percent. The core PCE price index rose 0.1 percent (versus 0.2 percent expected) after a surge of 0.6 percent in June (chart, below left). The core index rose 4.6 percent on a year-over-year basis, down two ticks from the reading in the prior month and off notably from the recent high of 5.3 percent in February -- although still far above the Fed's target.

The subdued advance in the core component in part reflected easing in travel-related expenses that had surged in prior months (airfares, vehicle rentals, hotel stays). Moreover, categories that had jumped during the height of the pandemic continued to cool (TVs and appliances, for example). In contrast, rents remained under pressure in July (up 0.7 percent after averaging jumps of 0.6 percent in the prior six months), and price increases for new vehicles remained brisk (+0.6 percent). Costs of recreation items also surged (+0.8 percent after average increases of 0.6 percent in the prior six months).

Nominal personal income posted a modest advance, increasing 0.2 percent. Wages and salaries rose briskly (0.8 percent), but weakness emerged in other areas. Rental income posted a surprising decline, falling -1.3 percent despite hefty increases seen in the CPI and PCE price index. Proprietors' income slipped 1.3 percent. An easing in inflation pressure in the latest month led to a slightly faster increase in real incomes (0.3 percent).

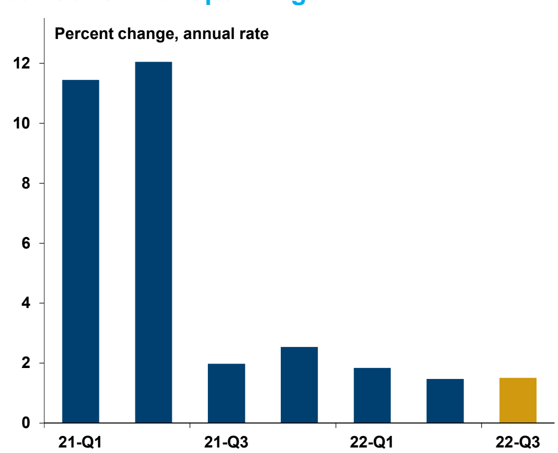
A drop in spending on gasoline and other energy goods (in part stemming from lower prices) constrained nominal consumer outlays in July, as total expenditures rose only 0.1 percent. Outlays were a bit firmer after adjusting for inflation, with a gain of 0.2 percent. Real spending on durable goods rose 1.5 percent, and outlays for services posted a pickup of 0.2 percent. However, outlays for nondurable items slipped 0.5 percent, including real declines in spending on food (-1.0 percent) and gasoline (-2.7 percent). Constrained budgets are leading to reduced real consumption of household essentials. If growth of real outlays in the next two months was similar to that in July, consumer spending in the GDP accounts would register growth in the neighborhood of one to two percent (chart, below right).

Core PCE Price Index*



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

Real Consumer Spending*



** The reading for 2022-Q3 (gold bar) is a projection based on results for July.*
Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

International Trade in Goods

Both exports and imports of goods fell in July, but the retreat of 3.5 percent in imports was much larger than the dip of 0.2 percent in exports, leaving a noticeable improvement in the monthly trade deficit. The shortfall of $89.1 billion was considerably better than both the expected reading of -$98.5 billion and the average of -$103 billion in the second quarter (charts).

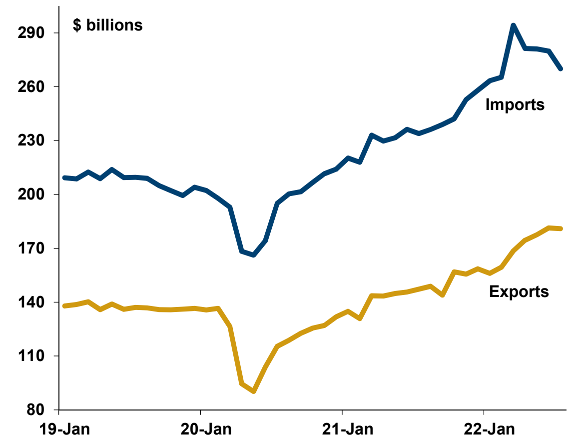
The quarter-to-quarter improvement sets the stage for a positive contribution from net exports to GDP growth in the third quarter. It is too early to confidently predict the effect on GDP (nominal figures only, and missing service trade and results for August and September), but taking the July results at face value suggests a contribution of more than two percentage points. This hefty push would follow a contribution of 1.4 percentage points in Q2 (but a drag of 3.2 percentage points in Q1 and an average of 0.8 percentage point over the four quarters of last year).

The softness in imports was heavily influenced by a drop of 10.4 percent in consumer goods, which marked the third decline in the past four months and pushed foreign purchases to the low portion of the recent range. The miscellaneous category, although small, also had an influence with a drop of 11.9 percent. Food imports fell 5.3 percent after drifting lower in the prior two months.

On the export side, foreign shipments of food fell 8.1 percent, offsetting strong results in April and June. Exports of consumer goods also were soft, dropping 3.4 percent. These soft spots, however, were countered by improvement in capital goods, motor vehicles and miscellaneous items.

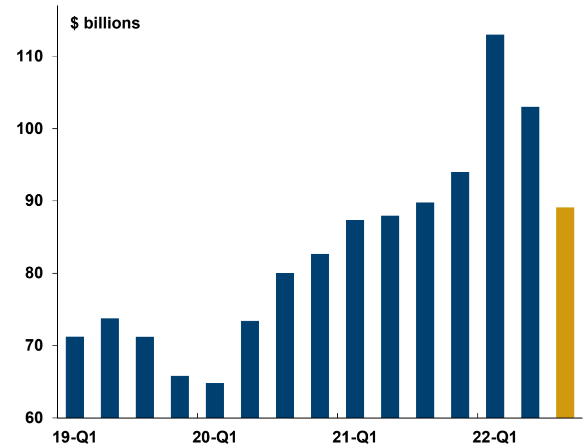
Both exports and imports of industrial supplies fell, but these changes were probably influenced by lower prices.

Nominal Imports & Exports of Goods



Source: U.S. Census Bureau via Haver Analytics

Nominal Goods Trade Deficit*



** Quarterly averages of monthly data. The reading for 2022-Q3 (gold bar) is the monthly result for July.*

Sources: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America