

U.S. Data Review

- GDP: firm in Q4, but questions about sustainability
- Durables: Aircraft led jump in December
- International trade in goods: both sides of trade ledger contribute to deficit slippage
- New home sales: sideways movement at a low level in 22-H2

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Q4 GDP

- U.S. GDP increased 2.9 percent (annual rate) in the fourth quarter (versus an expected advance of 2.6 percent). Inventory investment and net exports both made sizable positive contributions to growth, while final domestic demand (which excludes trade and inventory investment) grew moderately (0.8 percent).
- Inventory investment made a large positive contribution to growth in Q4 (1.5 percentage points) after registering substantial drags in the prior two quarters (average negative contribution of -1.55 percentage points). We had expected a positive contribution from inventory investment to growth, but the magnitude reported suggests some of the accumulation may have been unintended; that is, sluggish demand constrained sales and led to the large build.
- The trade sector contributed 0.6 percentage point to growth, exceeding our expectation of a modest drag. However, while the contribution to growth was positive, underlying trade flows softened, with the positive contribution reflecting a drop in imports (off 4.6 percent, annual rate) that exceeded the decline of 1.3 percent in exports. Headwinds to trade appear likely to carry over into 2023, as a firm foreign exchange value of the dollar and subdued growth abroad could pose ongoing challenges to the trade sector.
- Consumer spending continued on its growth track in Q4, increasing 2.1 percent. Outlay growth of 2.6 percent in services outpaced spending growth of 1.1 percent for goods.
- Business fixed investment rose modestly (0.7 percent), with investment in intellectual property and structures (up 5.3 percent and 0.4 percent, respectively) offsetting a contraction of 3.7 percent in equipment spending.
- Tight financial conditions and sluggish demand for new single-family housing continued to constrain residential construction, which plunged 26.7 percent in Q4.
- Inflation pressure showed further evidence of easing in Q4, as the GDP price index rose 3.5 percent after an advance of 4.4 percent in Q3 (and an average of 8.7 percent in H1). The core price index for personal consumption expenditures rose 3.9 percent, easing from a 4.7 percent pace in Q3.

GDP and Related Items*

	22-Q2	22-Q3	22-Q4
1. Gross Domestic Product	-0.6	3.2	2.9
2. Personal Consumption Expenditures	2.0	2.3	2.1
3. Nonresidential Fixed Investment	0.1	6.2	0.7
3a. Nonresidential Structures	-12.7	-3.6	0.4
3b. Nonresidential Equipment	-2.0	10.6	-3.7
3c. Intellectual Property Products	8.9	6.8	5.3
4. Change in Business Inventories (Contribution to GDP Growth)	-1.9	-1.2	1.5
5. Residential Construction	-17.8	-27.1	-26.7
6. Total Government Purchases	-1.6	3.7	3.7
6a. Federal Government Purchases	-3.4	3.7	6.2
6b. State and Local Govt. Purchases	-0.6	3.7	2.3
7. Net Exports (Contribution to GDP Growth)	1.2	2.9	0.6
7a. Exports	13.8	14.6	-1.3
7b. Imports	2.2	-7.3	-4.6
Additional Items			
8. Final Sales	1.3	4.5	1.4
9. Final Sales to Domestic Purchasers	0.2	1.5	0.8
10. Gross Domestic Income	-0.8	0.8	--
11. Average of GDP & GDI	-0.7	2.0	--
12. GDP Chained Price Index	9.0	4.4	3.5
13. Core PCE Price Index	4.7	4.7	3.9

* Percent change SAAR, except as noted

Source: Bureau of Economic Analysis via Haver Analytics

Durable Goods

- New orders for durable goods jumped 5.6 percent in December, exceeding by a wide margin the expected increase of 2.5 percent. The consensus estimate had the source of growth correct (aircraft bookings), but the magnitude of the change (88.6 percent, defense and commercial combined) was much larger than expected. Excluding aircraft, bookings fell 0.4 percent (chart, next page).

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- Orders excluding aircraft have fluctuated in recent months, showing little net change on balance. The drop in December continued this lethargic trend, although the change was probably more favorable after adjusting for inflation. The PPI for December showed a decline in items in the manufacturing sector, pointing to a jump in real orders for durable goods ex-aircraft.

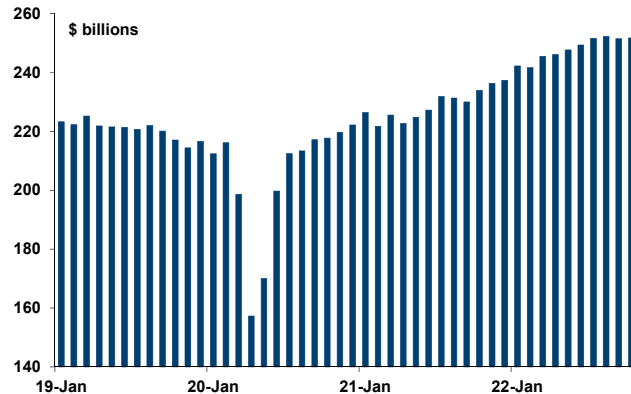
U.S. International Trade in Goods

- The December trade deficit in goods widened by \$7.4 billion to \$90.3 billion, exceeding the expected shortfall of \$88 billion. Both sides of the trade ledger contributed to the slippage, as exports fell 1.6 percent and imports rose 1.9 percent (chart). The ups and downs of imports and exports in recent months have left a choppy pattern for the monthly deficit, with the December reading lying in the middle of the recent range. The recent range has narrowed from results in late 2021 and early 2022, but it is much wider than pre-pandemic norms.
- The December results for the trade deficit in goods left the fourth quarter total wider than that in Q3, a contrast to the GDP report, which showed a positive contribution from net exports to economic growth. The positive news on net exports in Q4 occurred in the service sector, which is not covered in the initial monthly trade report.

New Home Sales

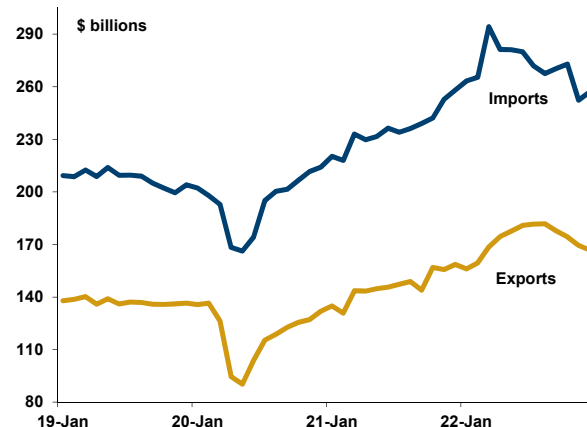
- Sales of new homes rose 2.3 percent in December to 0.616 million units from a downward revised reading in November (an adjustment of -5.9 percent; 0.602 million versus 0.640 million first reported). The shifts left the level of home sales in December a tad firmer than the consensus expectation of 0.612 million, but soft in an absolute sense. Activity had fallen sharply from late 2021 through the summer of 2022 and it has moved sideways at a low level in the second half of the year.
- The inventory of unsold homes was unchanged in December at an elevated level (comparable to that in early 2008 during the housing bust). The flat reading on inventories and pickup in sales led to a dip in the months' supply of homes available for sale (9.0 months versus 9.2 in November). The latest reading also was elevated from a longer-term perspective.

Durable Goods Orders Ex. Aircraft*



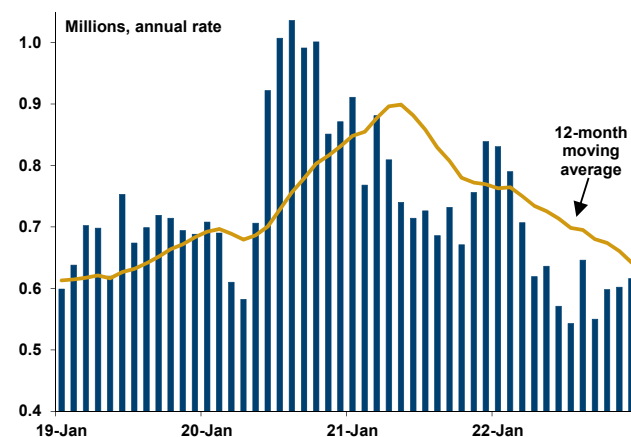
* New orders for durable goods excluding bookings for civilian and defense aircraft.
 Source: U.S. Census Bureau via Haver Analytics

Imports & Exports of Goods



Source: U.S. Census Bureau via Haver Analytics

New Home Sales



Source: U.S. Census Bureau via Haver Analytics