

U.S. Data Review

- Personal income, consumption, prices: high-side reading on PCE price indexes...
...but that did not stop consumer spending
- New home sales: a jump in January, but still in low portion of recent range

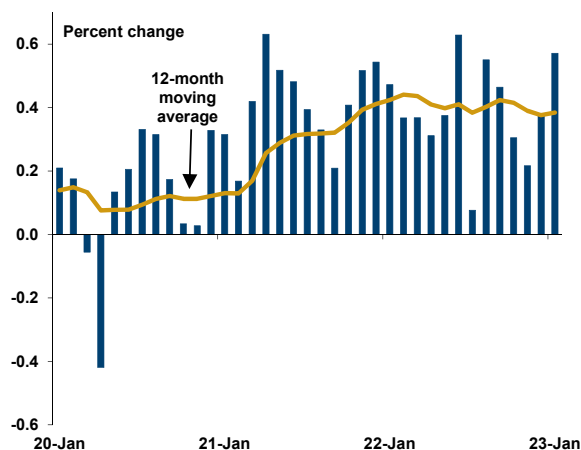
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Personal Income, Consumption, Prices

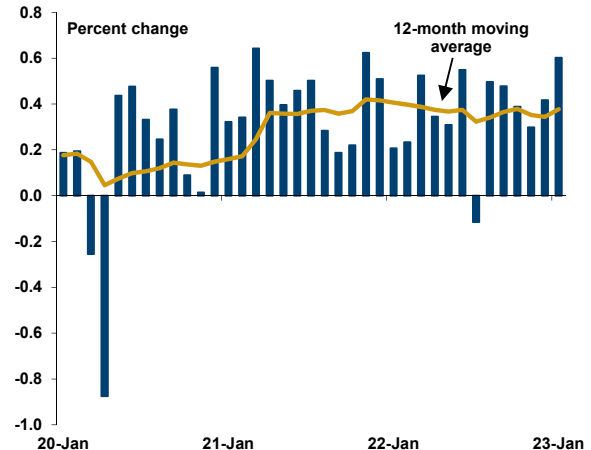
- Both the headline and core prices indexes for personal consumption expenditures (PCE) rose 0.6% in January, exceeding the consensus estimates of 0.5% and 0.4%, respectively (chart on the core PCE index, left). Price changes varied widely, with some items posting noticeable declines and others sizeable increases; obviously, the increases carried the day. On the high side, prices of prescription drugs (2.1%), airfares (1.1%), hotel fees (1.5%), vehicle rental (3.0%), and luggage (3.0%) stood out, but they were joined by a host of items that posted smaller but still troubling increases. Rents were in the still-troubling category, increasing 0.7%. Partial offsets came in the form of lower prices of used motor vehicles (-2.0%), household appliances (-1.2%), and recreation items (-0.4%), but the cushion was thin relative to the goods and services with higher prices.
- The new gauge monitored by Fed officials (core services ex-housing) also misbehaved with an increase of 0.6%, a change in the upper end of the recent range (chart, right). Some sources of pressure in this index might be downplayed, such as financial services, which often swing widely and rose 1.1% in January. Charges for accounting and business services jumped 2.6%, but such items probably have a small weight in consumer budgets. Still, recent results were troubling.
- Despite higher price tags on many items, households spent actively in January, with outlays increasing 1.8%. The advance totaled 1.1% after adjusting for inflation (chart, next page). Demand for motor vehicles stood out (up 11.9% in real terms), and most other categories of durable goods were strong, which left an overall advance of 5.2% in the durable goods sector. Spending on nondurable goods and services did not match the strength in the durable area, but they were still brisk (up 0.5% and 0.6%, respectively, in real terms).

Core PCE Price Index*



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

PCE Price Index: Core Services Ex. Housing*

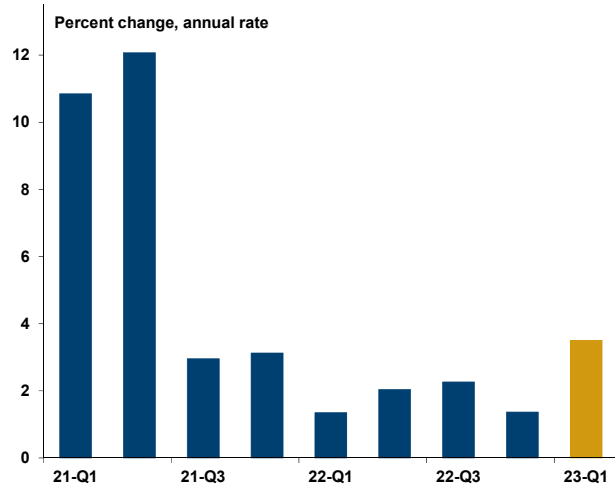


* The month-to-month change in an index of service prices that excludes the costs of energy services and housing services.
 Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

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- Personal income surprised on the low side, as the increase of 0.6% lagged the expected advance of 1.0% and left a marginal decline after adjusting for inflation. Transfer payments showed no change in January, a contrast to a jump we (and most likely other analysts) expected because of the cost of living adjustment in Social Security benefits. The Social Security component did indeed surge, but it was offset by a drop in “other” transfers reflecting the expiration of refundable tax credits. Other income components (wages, proprietors’ income, investment income, rents) were strong.

Real Consumer Spending*



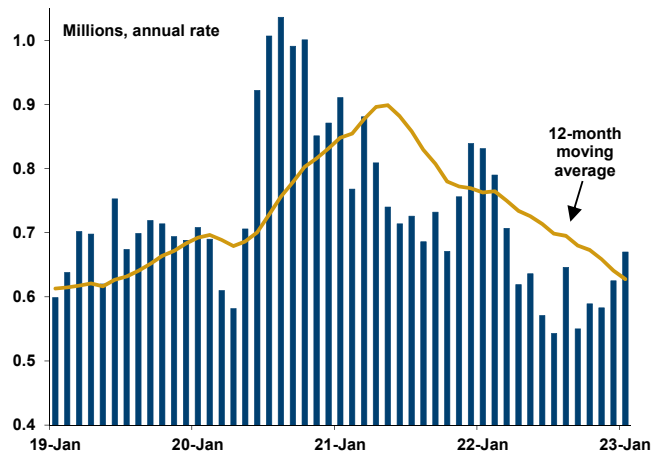
* The quarterly change (annual rate) in personal consumption expenditures reported in the GDP accounts. The reading for 2023-Q1 is a projection based on results for January.

Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

New Home Sales

- Sales of new homes surged 7.2% in January to 0.670 million units from an upward revised reading in December (0.625 million versus 0.616 million, a revision of 1.5%). The January performance was notably firmer than the consensus expectation of 0.620 million, and the gain returned sales the range in place before the onset of Covid. However, activity was still shy of levels that would be considered brisk, such as results in 2020 and portions of 2021 (chart, below). Easing in mortgage rates in December and January undoubtedly boosted sales, although this may be only a short-term bounce as rates have stirred again in February.
- The inventory of unsold homes eased 2.9% in January, but it remained elevated from a longer-term perspective. The decline in inventories and increase in sales led to a drop of 0.8 month in the months’ supply of homes available for sale to 7.9 months. The latest reading was off the recent high of 10.1 months in September of last year, but it too was elevated relative to prior norms.

New Home Sales



Source: U.S. Census Bureau via Haver Analytics