Daiwa Capital Markets

U.S. Data Review

- Revised Q1 GDP: notable positive revisions to consumer spending & net exports
- Corporate profits: softening from elevated levels
- Pending home sales: third consecutive decline, but other segments of housing market showing signs of life

Lawrence Werther
Daiwa Capital Markets America
212-612-6393
lawrence.werther@us.daiwacm.com

Revised Q1 GDP

- U.S. GDP increased 2.0 percent, annual rate, in the first quarter, a notably firmer performance than the expectation of 1.4 percent (versus the second estimate of 1.3 percent). Large revisions to consumer spending and net exports led to the positive surprise in the final estimate of Q1 GDP.

- An already firm pace of consumer spending was adjusted higher (4.2 percent, annual rate, versus 3.8 percent; contribution of 2.8 percentage points to growth versus 2.5). Outlays for services were stronger than first reported (growth of 3.2 percent versus 2.5 percent), while brisk outlays for durable goods (mostly autos) were adjusted only marginally (-0.1 pct. pt. to 16.3 percent). Spending on nondurable items was revised lower by 0.4 percentage point to 0.5 percent, but the shift did little to dampen the overall performance in consumer spending.

GDP and Related Items*

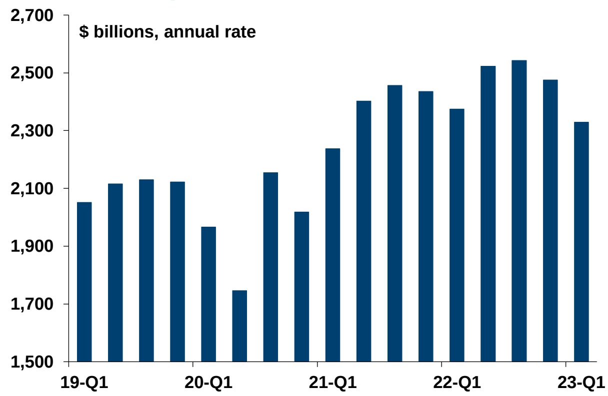
		22-Q4	23-Q1 (a)	23-Q1 (p)	23-Q1(r)
1.	Gross Domestic Product	2.6	1.1	1.3	2.0
2.	Personal Consumption Expenditures	1.0	3.7	3.8	4.2
3.	Nonresidential Fixed Investment	4.0	0.7	1.4	0.6
3a.	Nonresidential Structures	15.8	11.2	11.0	15.8
3b.	Nonresidential Equipment	-3.5	-7.3	-7.0	-8.9
3c.	Intellectual Property Products	6.2	3.8	5.2	3.1
4.	Change in Business Inventories	1.5	-2.3	-2.1	-2.1
	(Contribution to GDP Growth)				
5.	Residential Construction	-25.1	-4.2	-5.4	-4.0
6.	Total Government Purchases	3.8	4.7	5.2	5.0
6a.	Federal Government Purchases	5.8	7.8	7.6	6.0
6b.	State and Local Govt. Purchases	2.6	2.9	3.8	4.4
7.	Net Exports	0.4	0.1	0.0	0.6
	(Contribution to GDP Growth)				
7a.	Exports	-3.7	4.8	5.2	7.8
7b.	Imports	-5.5	2.9	4.0	2.0
	Additional Items				
8.	Final Sales	1.1	3.4	3.4	4.2
9.	Final Sales to Domestic Purchasers	0.7	3.2	3.3	3.5
10.	Gross Domestic Income	-3.3	--	-2.3	-1.8
11.	Average of GDP & GDI	-0.4	--	-0.5	0.1
12.	GDP Chained Price Index	3.9	4.0	4.2	4.1
13.	Core PCE Price Index	4.4	4.9	5.0	4.9

** Percent change SAAR, except as noted*
(a) = advance (1st estimate of GDP); (p) = preliminary (2nd estimate of GDP); (r) = revised (3rd estimate of GDP)
Source: Bureau of Economic Analysis via Haver Analytics

- The positive adjustment to net exports was striking, with international trade contributing 0.6 percentage point to GDP growth rather than exerting a neutral influence. Both sides of the trade ledger were adjusted in favor of the U.S. Exports jumped 7.8 percent rather than 5.2 percent (contribution of 0.9 percentage point versus 0.6 percentage point), while imports grew 2.0 percent rather than 4.0 percent (a drag of 0.3 percentage point rather than 0.6 percentage point).

- Business fixed investment was revised lower (growth of 0.6 percent versus 1.4 percent; contribution of 0.1 percentage point to growth rather than 0.2 percentage point), but the performance contained some favorable elements. Investment in structures jumped 15.8 percent (versus 11.0 percent in the 2nd tally of GDP), the second consecutive gain of this magnitude. This area appears to be turning a corner, spurred by onshoring of production in an effort to solidify supply chains and by new investment in high-tech manufacturing capacity. Investment in intellectual property was adjusted lower, but still positive, while equipment spending was a larger drag on growth than originally reported.

After-Tax Corporate Profits



Source: Bureau of Economic Analysis via Haver Analytics

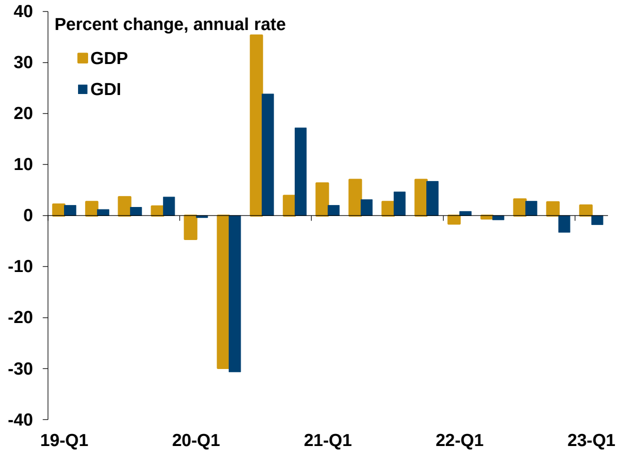
- Adjustments in other areas were modest. Government spending grew less than previously reported, with a downward adjustment at the federal level offsetting firmer outlays by state and local governments, while residential construction was less of a drag than first reported.

- Key inflation metrics published with the GDP report were revised lower, but still troubling. The GDP price index increased 4.1 percent rather than 4.2 percent, and growth in the headline and core price indexes for personal consumption expenditures was reported at 4.1 percent and 4.9 percent, respective (both 0.1 percentage point slower than previous estimates).

- Revised data on aggregate corporate profits were released with today's GDP report. A broad measure of after-tax profits fell 5.9 percent in Q1 (versus a preliminary estimate of a contraction of 6.8 percent) after easing 2.7 percent in Q4. However, profits remained well above pre-pandemic readings (chart, prior page).

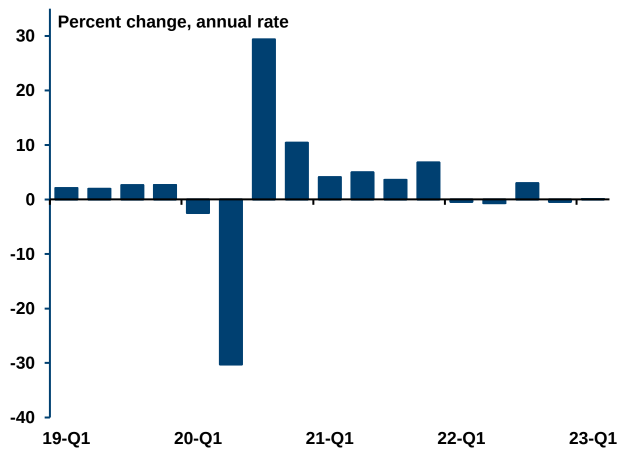
- The report on revised GDP contained a second estimate of another growth metric, Gross Domestic Income (GDI), which measures incomes earned (wages, corporate profits, rents) versus the value of output. The soft results (-1.8 percent, annual rate, revised from -2.3 percent) followed a contraction of 3.3 percent in 2022-Q4. The Commerce Department suggests averaging GDP and GDI to get an alternative view of economic activity. The recent performance was somewhat disappointing: a pickup of only 0.1 percent in Q1 and declines in three of the four quarters of 2022 (charts).

Real Growth of Real GDP & GDI



Source: Bureau of Economic Analysis via Haver Analytics

Real Average of Real GDP & GDI



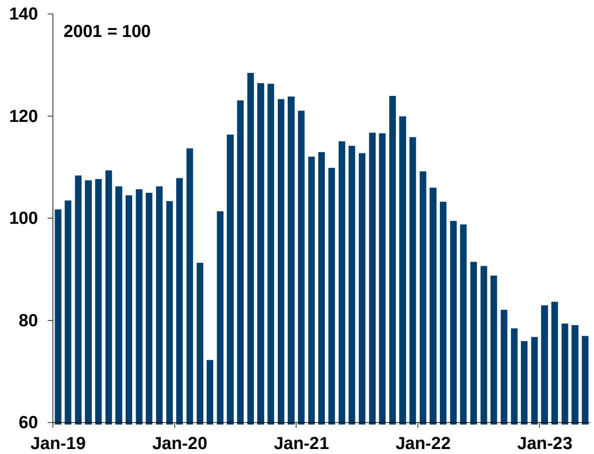
Source: Bureau of Economic Analysis via Haver Analytics

Pending Home Sales

- Pending home sales fell 2.7 percent in May, the third consecutive decline, a larger drop than the consensus expectation of an easing of 0.5 percent. The recent performance reversed stirring in the opening months of 2023 and suggests that existing home sales likely bottomed but have yet to enter a recovery phase.

- Sales of existing homes have been sluggish, hampered by tight inventories and constrained affordability, but signs of life have emerged in the market for new homes. New home sales have increased for three consecutive months, including a spurt of 12.2 percent in June, and have moved above the sales pace prevailing prior to the onset of the pandemic. As long as mortgage rates hold above seven percent and prices remain elevated, the housing market faces challenges, but we are encouraged by some recent developments.

Pending Home Sales



Source: National Association of Realtors via Haver Analytics