Daiwa Capital Markets

U.S. Data Review

- Q2 GDP: firm growth, led by consumer spending and business investment
- GDP price index: subdued in Q2
- Durable goods orders: jump in headline led by transportation category

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

Q2 GDP

- U.S. GDP advanced 2.4 percent (annual rate) in second quarter, firmer than the consensus expectation of an increase of 1.8 percent. The results suggest a solid underlying performance in the domestic economy, with signs of improvement in formerly sluggish areas, specifically business investment.

- Consumer spending registered a respectable performance with growth of 1.6 percent. The results lagged the jump of 4.2 percent in Q1, but they should be viewed favorably considering headwinds facing the consumer sector (elevated interest rates, high prices of necessities after recent brisk inflation). In the latest quarter, outlays for goods rose 0.7 percent, while spending on services increased 2.1 percent.

GDP and Related Items*

		22-Q4	23-Q1	23-Q2
1.	**Gross Domestic Product**	2.6	2.0	2.4
2.	**Personal Consumption Expenditures**	1.0	4.2	1.6
3.	**Nonresidential Fixed Investment**	4.0	0.6	7.7
3a.	**Nonresidential Structures**	15.8	15.8	9.7
3b.	**Nonresidential Equipment**	-3.5	-8.9	10.8
3c.	**Intellectual Property Products**	6.2	3.1	3.9
4.	**Change in Business Inventories (Contribution to GDP Growth)**	1.5	-2.1	0.1
5.	**Residential Construction**	-25.1	-4.0	-4.2
6.	**Total Government Purchases**	3.8	5.0	2.6
6a.	**Federal Government Purchases**	5.8	6.0	0.9
6b.	**State and Local Govt. Purchases**	2.6	4.4	3.6
7.	**Net Exports (Contribution to GDP Growth)**	0.4	0.6	-0.1
7a.	**Exports**	-3.7	7.8	-10.8
7b.	**Imports**	-5.5	2.0	-7.8
	Additional Items			
8.	**Final Sales**	1.1	4.2	2.3
9.	**Final Sales to Domestic Purchasers**	0.7	3.5	2.3
10.	**Gross Domestic Income**	-3.3	-1.8	--
11.	**Average of GDP & GDI**	-0.4	0.1	--
12.	**GDP Chained Price Index**	3.9	4.1	2.2
13.	**Core PCE Price Index**	4.4	4.9	3.8

** Percent change SAAR, except as noted*
Source: Bureau of Economic Analysis via Haver Analytics

- Business fixed investment appears to be turning higher. Investment in structures jumped 9.7 percent, annual rate, after back-to-back advances of 15.8 percent. This area had been a drag on growth for much of the 2020-22 period, but it now appears to be in recovery. Equipment spending rose 10.8 percent after a contraction of 8.9 percent in Q1. Capital spending has registered a choppy performance for much of the current expansion, but the latest increase occurred in tandem with improved business sentiment. Additionally, firms remained committed to research and development initiatives, as investment in intellectual property grew 3.9 percent.

- Total government spending rose 2.6 percent. A pickup of 0.9 percent at the federal level reflected an increase of 2.5 percent in defense expenditures offsetting a contraction of 1.1 percent in in nondefense spending. State and local consumption and investment rose 3.6 percent, in line with other recent quarters.

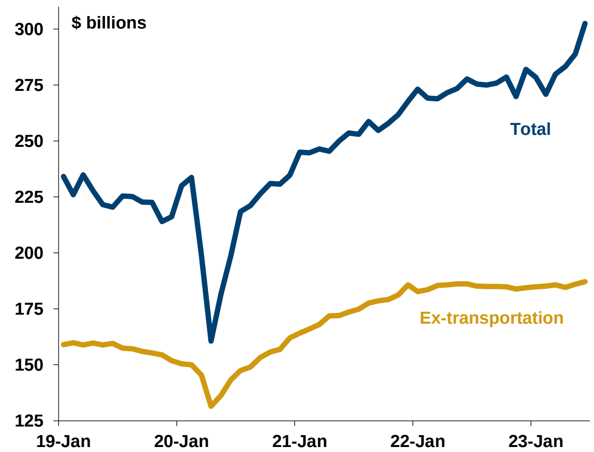
- Inventory investment made a small positive contribution to growth (0.1 percentage point) after subtracting 2.1 percentage points from growth in Q1. The modest change on the heels of a sizable drag suggests that firms are managing inventories cautiously. However, given the absence of a notable increase in Q2 after the previous drawdown, we see the potential for sizeable declines in coming quarters as limited.

- Residential construction contracted for the ninth consecutive quarter, but the decline of 4.2 percent obscured a pickup of 1.0 percent in new home construction (which was offset by drops in improvements and brokerage commissions). The housing market has shown signs of life recently despite elevated mortgage rates, and builders appear to be responding. The sector could be in the very early stages of recovery.
- The trade sector was soft, as net exports subtracted 0.1 percentage point from GDP growth. Both U.S. exports and imports contracted in Q2 (off 10.8 percent and 7.8 percent, respectively), with the larger shift in exports leading to the drag on GDP growth.
- Inflation pressure showed signs of easing, with the increase in the GDP price index slowing to 2.2 percent from 4.1 percent in the prior quarter. The headline and core price indexes for personal consumption expenditures rose 2.6 percent and 3.8 percent, respectively, down from 4.2 percent and 5.0 percent in Q1.

Durable Goods Orders

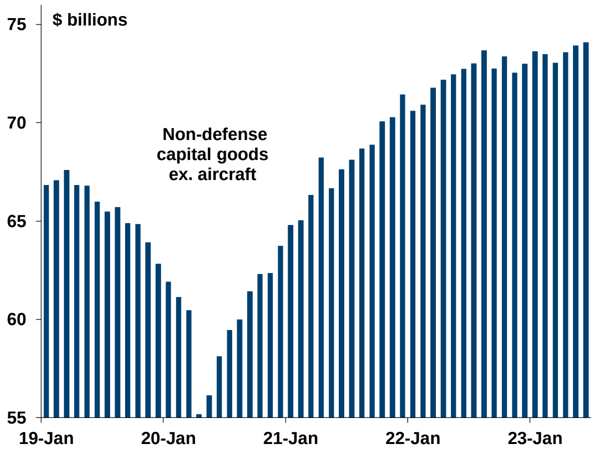
- New orders for durable goods surged 4.7 percent in June, notably firmer than the expected advance of 1.3 percent (chart, below left). Much of the strength in the headline reflected a jump of 12.1 percent in the transportation component, which in turn was spurred by a jump of 69.4 percent in bookings for civilian aircraft. Order flows at Boeing have been strong in recent months, which is a key driver of nondefense aircraft bookings surging above the underlying trend.
- Durable bookings excluding transportation rose 0.6 percent in June. Bookings excluding transportation have tilted higher recently after drifting lower from mid-2022 through the early months of 2023 (chart, below left).
- New orders for nondefense capital goods ex. aircraft, which give good insight into capital spending plans by businesses, rose 0.2 percent. A pickup in bookings in Q2 raises the possibility of additional growth of capital spending in coming quarters.
- Nominal shipments of capital goods excluding aircraft were flat in June, but the performance for the quarter as a whole was favorable (note the performance of capital spending in Q2 GDP, prior page).

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