

# U.S. Data Review

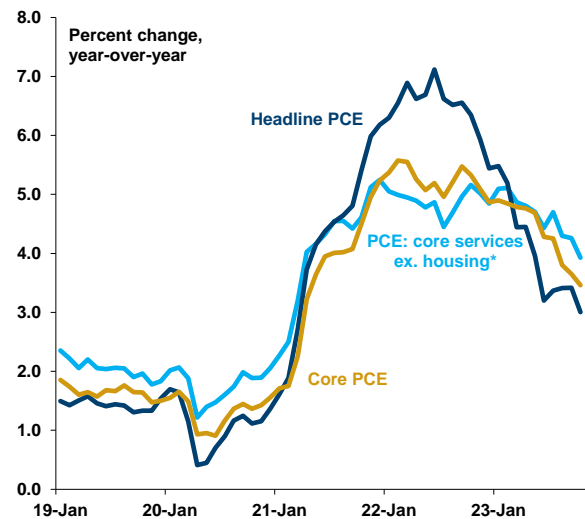
- PCE price indexes: continued moderation
- Real consumer spending: solid in October after Q3 jump
- Other data: upside surprise for Chicago PMI; pending home sales remained soft

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## PCE Inflation and Views on Consumer Spending

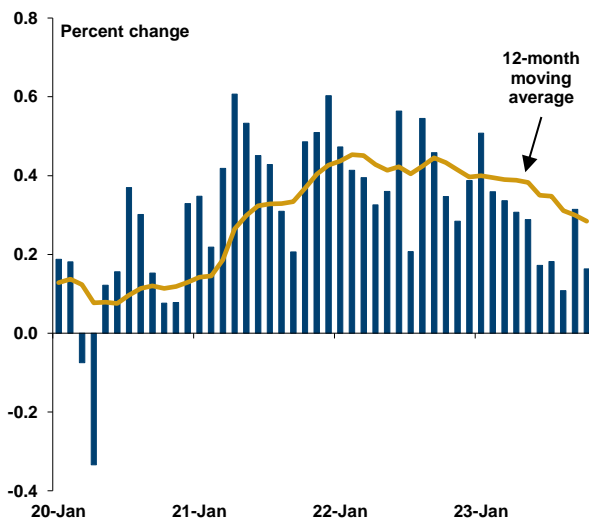
- The headline price index for personal consumption expenditures was flat in October (up slightly with less rounding: 0.049 percent), while the core index increased 0.2 percent (0.163 percent; chart, below left); both readings were close to consensus expectations of increases of 0.1 percent and 0.2 percent, respectively. The headline PCE price index advanced 3.007 percent on a year-over-year basis, down from 3.419 percent in September and a cycle high 7.117 percent in June 2022. The core index rose 3.463 percent year-over-year versus 3.652 percent in September and the cycle peak of 5.575 percent in February 2022 (chart, right).
- In the latest month, the energy component fell 2.6 percent (-4.8 percent year-over-year), with a drop of 4.6 percent in the costs of gasoline and other energy goods contributing importantly to the latest easing. Food prices rose 0.2 percent in October (2.4 percent year-over-year). Although food prices are well-above pre-pandemic levels, the trend in food inflation has fallen sharply (cycle peak year-over-year change of +12.2 percent in August 2022).

### PCE Inflation



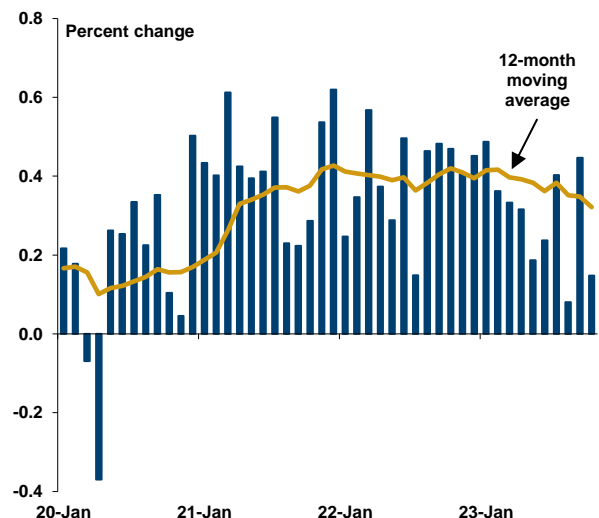
\* Service prices excluding energy and housing services.  
 Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

### Core PCE Price Index



Source: Bureau of Economic Analysis via Haver Analytics

### PCE Price Index: Core Services ex. Housing\*

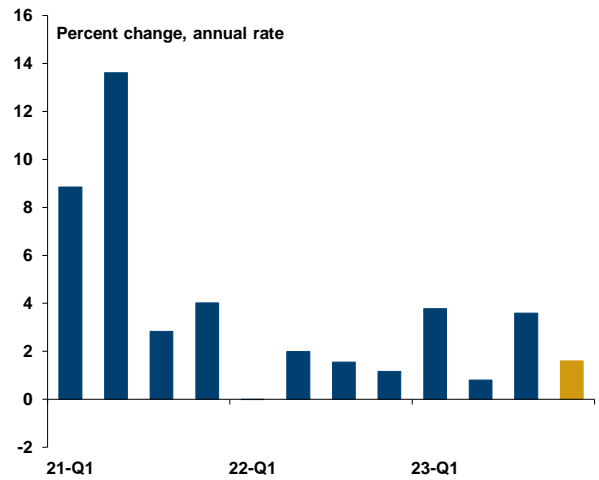


\* Service prices excluding energy and housing services.  
 Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

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- The advance of 0.2 percent in the core component in October continued a decelerating trend that has gained steam in recent months despite a high-side reading in September (average of +0.274 percent per month thus far in 2023 versus 0.397 percent per month in 2022; chart, prior page -- left). The dispersion of price changes was again wide in October. That said, housing inflation remained a consistent source of pressure, with rent of tenant-occupied nonfarm housing increasing 0.5 percent (7.2 percent year-over-year) and imputed rents of owner-occupied housing rising 0.4 percent (6.8 percent year-over-year). Core services excluding housing, a gauge monitored by Fed officials that correlates with wage dynamics and labor-market tightness, rose 0.148 percent in October after a jump of 0.447 percent in September (3.927 percent year-over year versus 4.261 percent in September and a cycle high of 5.246 percent in December 2021; chart on month-to-month growth, prior page -- right). All that taken into consideration, core service inflation ex. housing has moderated, but it has to fall further before Fed officials contemplate easing monetary policy (see chart on year-over-year growth on p.1).

**Growth of Real Consumer Spending\***



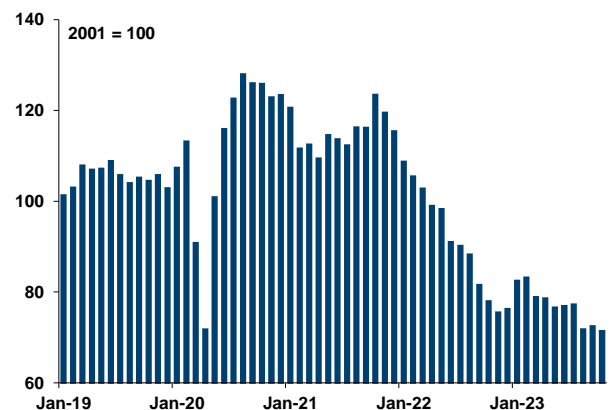
\* The gold bar is a forecast of 1.6% percent for 23-Q4, which includes an observation of 0.2 percent for real personal consumption expenditures in October and assumes no change in November and December.  
Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

- Personal consumption expenditures rose 0.2 percent in October, with growth moderating after a jump of 0.7 percent in September. Outlays for durable goods fell 0.5 percent, while spending on nondurable items was flat. Service spending continued on its firm trend with an advance of 0.4 percent. Activity was better after adjusting for inflation (up 0.2 percent). If real consumer outlays showed little change in November and December, real consumer spending for Q4 would increase approximately 1.6 percent, down from the strong 3.6 percent annualized pace in Q3 but still solid given headwinds faced by the consumer sector (depleted savings, tighter lending standards, higher prices after rapid inflation; chart, above).

**Other Data**

- The Chicago Purchasing Managers' Index smashed expectations today, with the index surging 11.8 index points to 55.8 for November. The index signaled expansion for the first time since August 2022, with all key components recording firm results: the production measure rose 15.9 index points to 62.4, the new orders component jumped 12.5 index points to 54.7, and the employment index advanced 3.7 points to 53.9. The results, on face, were shocking, and we're inclined to attribute them to random volatility rather than fundamental improvement in the manufacturing sector. The ISM manufacturing gauge, a broad national measure of the factory sector, recorded a reading of 46.7 in October – the 12th consecutive reading indicating contraction. Consequently, we do not view the jump in the Chicago measure as indicating risk of a high-side surprise for tomorrow's ISM print.
- The index of pending home sales declined 1.5 percent in October, the second retreat in the past three months and a record low observation for the series (chart, right). With affordability constrained by high prices and elevated mortgage rates, a near-term recovery in the housing market appears unlikely.

**Pending Home Sales**



Source: National Association of Realtors via Haver Analytics