Daiwa Capital Markets

# U.S. Data Review

- GDP: growth tilting to the firm side in Q2
- Inflation: moderate advance in GDP price index, with PCE indexes a bit faster

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## Q2 GDP

- The first estimate of GDP growth in Q2 2024 was firm at 2.8 percent, annual rate, tracking well above the Bloomberg median expectation of 2.0 percent. Solid domestic demand underpinned the favorable performance in Q2, with final sales to domestic purchasers (which excludes the influences of net exports and inventory investment on growth) increasing 2.7 percent. We suspect that growth in H2 will moderate from the first-half performance, which in concert with slowing inflation will pave the way for rate cuts by the Federal Reserve, but as of Q2 the economy remained strong.

**GDP and Related Items***

| | | 23-Q4 | 24-Q1 | 24-Q2 |
|---|---|---|---|---|
| 1. | Gross Domestic Product | 3.4 | 1.4 | 2.8 |
| 2. | Personal Consumption Expenditures | 3.3 | 1.5 | 2.3 |
| 3. | Nonresidential Fixed Investment | 3.7 | 4.4 | 5.2 |
| 3a. | Nonresidential Structures | 10.9 | 3.4 | -3.3 |
| 3b. | Nonresidential Equipment | -1.1 | 1.6 | 11.6 |
| 3c. | Intellectual Property Products | 4.3 | 7.7 | 4.5 |
| 4. | Change in Business Inventories (Contribution to GDP Growth) | -0.5 | -0.4 | 0.8 |
| 5. | Residential Construction | 2.8 | 16.0 | -1.4 |
| 6. | Total Government Purchases | 4.6 | 1.8 | 3.1 |
| 6a. | Federal Government Purchases | 2.4 | -0.2 | 3.9 |
| 6b. | State and Local Govt. Purchases | 6.0 | 3.0 | 2.6 |
| 7. | Net Exports (Contribution to GDP Growth) | 0.3 | -0.7 | -0.7 |
| 7a. | Exports | 5.1 | 1.6 | 2.0 |
| 7b. | Imports | 2.2 | 6.1 | 6.9 |
| | **Additional Items** | | | |
| 8. | Final Sales | 3.9 | 1.8 | 2.0 |
| 9. | Final Sales to Domestic Purchasers | 3.5 | 2.4 | 2.7 |
| 10. | Gross Domestic Income | 4.8 | 1.3 | -- |
| 11. | Average of GDP & GDI | 4.1 | 1.4 | -- |
| 12. | GDP Chained Price Index | 1.6 | 3.1 | 2.3 |
| 13. | Core PCE Price Index | 2.0 | 3.7 | 2.9 |

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

- Consumer spending contributed notably to growth in Q2 (+2.3 percent, annual rate; a contribution of 1.6 percentage points to growth). Outlays increased across categories, with spending on durable goods registering the strongest advance (+4.7 percent). Outlays for nondurable goods rose 1.4 percent, and expenditures on services increased 2.2 percent.

- Business fixed investment recorded a solid performance in Q2 with growth of 5.2 percent. Equipment spending jumped 11.6 percent after a pickup of 1.6 percent in Q1, although investment in structures eased 3.3 percent. Regarding non-residential construction, we anticipate an ongoing modest drag in the quarters ahead as a previous boost from the Inflation Reduction Act and CHIPS Act fades. Investment in intellectual property products (mostly research and development) remained on a solid growth track (+4.5 percent after an advance of 7.7 percent in Q1).

- Government spending rose 3.1 percent in Q2 after an advance of 1.3 percent in the January-to-March period. Following a dip of 0.2 percent in the prior quarter, expenditures at the federal level rose 3.9 percent, including an increase of 5.2 percent in defense spending; at the state and local level, outlays increased 2.6 percent.

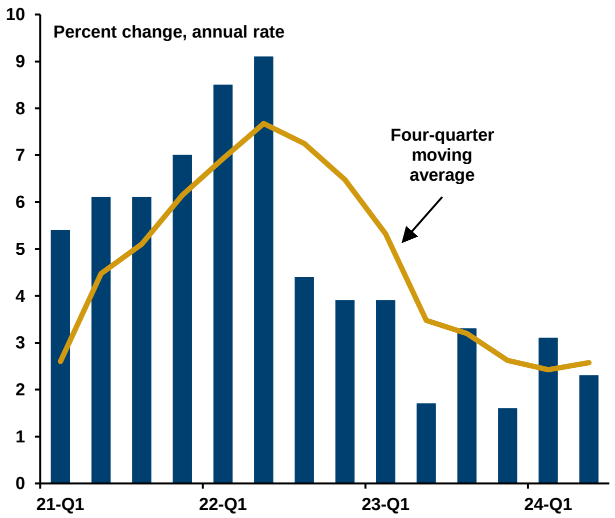
- Residential construction fell 1.4 percent after a surge of 16.0 percent in Q1. Residential investment is likely to remain choppy until builders work off elevated inventories in the new homes market and the Federal Reserve begins to reduce interest rates.

- Inventory investment added 0.8 percentage point to GDP growth in Q2, in line with our expectation of a large inventory build, after constraining growth by 0.4 percentage point in the prior quarter. With that said, firms have managed stocks carefully in recent quarters amid a mixed demand outlook, and the latest increase in inventory investment raises the possibility of an offsetting drag in the next quarter or two.

- Net exports were a significant constraint on economic growth for the second consecutive quarter (-0.72 percentage point in Q2 after -0.65 percentage point in Q1). In the latest quarter, import growth of 6.9 percent exceed export growth of 2.0 percent.

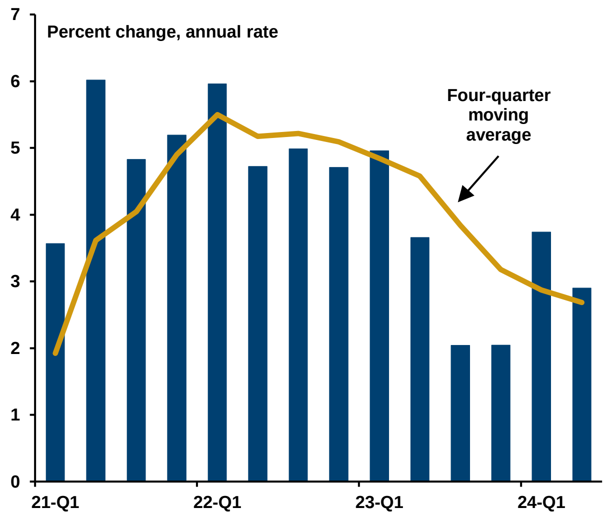
- The inflation data for Q2 were mostly favorable – at least in the sense that they are consistent with an ongoing (albeit uneven) return to the Federal Reserve’s two percent objective. The GDP price index increased 2.3 percent, annual rate, in Q2 after a jump of 3.1 percent in Q1 (versus the Bloomberg median expectation of an advance of 2.6 percent). The headline price index for personal consumption expenditures rose 2.6 percent, down from 3.4 percent in Q1. The core PCE index advanced 2.9 percent – above the median expectation of 2.7 percent. Barring revisions to the monthly PCE data, the quarterly observation for the core index suggests a 0.3 percent monthly print for June (released with tomorrow’s Personal Income and Consumption Report from the Bureau of Economic Analysis). Even with the likelihood of a faster-than-desirable monthly reading, Fed officials have noted recently that inflation is trending in the right direction and that disinflation is broadening. The path back to two percent is likely to be nonlinear, although broadly speaking inflation data for Q2 have been more positive than not.

### GDP Chained Price Index




*Source: Bureau of Economic Analysis via Haver Analytics*

### Core PCE Price Index

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