U.S. Economic Comment

- Q3 GDP: solid growth expected, led by consumer spending
- The Fed's Beige Book: mixed assessment of current economic conditions, but outlook positive

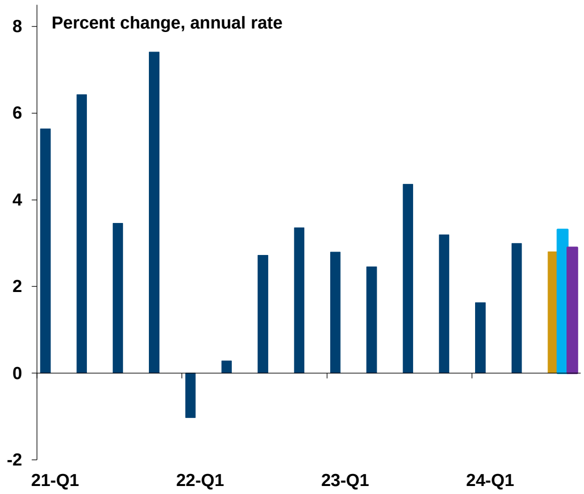
Lawrence Werther
Brendan Stuart
Daiwa Capital Markets America
lawrence.werther@us.daiwacm.com
brendan.stuart@us.daiwacm.com

Q3 GDP Preview: Soft Landing in Progress

The ongoing favorable performance of the U.S. economy hearkens back to the 1994-95 episode, when the Greenspan Fed managed to arrest a stirring in inflation without tipping the economy into recession. The odds for such an outcome appeared long at the start of the most recent hiking cycle, but with inflation now retreating, the FOMC has initiated rate cuts, with more likely in coming months. Meanwhile, growth averaged 2.3 percent, annual rate, in 24-H1 and appears on track to register an almost three percent annualized pace in Q3 when results are published next Wednesday.

The range of estimates in the Bloomberg survey is fairly wide (2.0 to 3.5 percent as of writing; DCMA forecast of 2.8 percent), but the skew of the distribution tilts to the firm side, with a median expectation of 3.0 percent and a mean estimate of 2.92 percent – in other words, a growth rate exceeding the economy's long-term potential, which we peg in the vicinity of two percent. Furthermore, model-based estimates by the Federal Reserve Banks of Atlanta and New York (3.3 percent and 2.9 percent, respectively) support the expectation of a favorable result (chart).

GDP Growth*

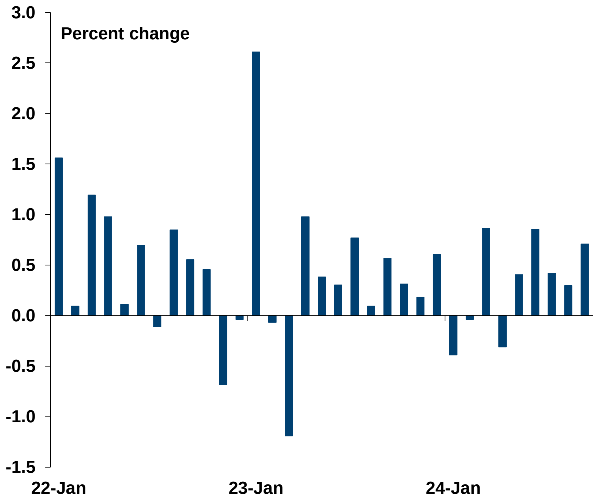


** The gold, light blue, and purple bars are forecasts for 2024-Q3 provided by DCMA, the Atlanta Fed's GDPNow, and the New York Fed's Nowcast, respectively.*

Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America; Federal Reserve Banks of Atlanta & New York

A resilient consumer sector is again at the center of our Q3 projection, particularly after the retail control, which tracks key components of the Census Bureau's retail sales report that feed into GDP, jumped 0.7 percent in

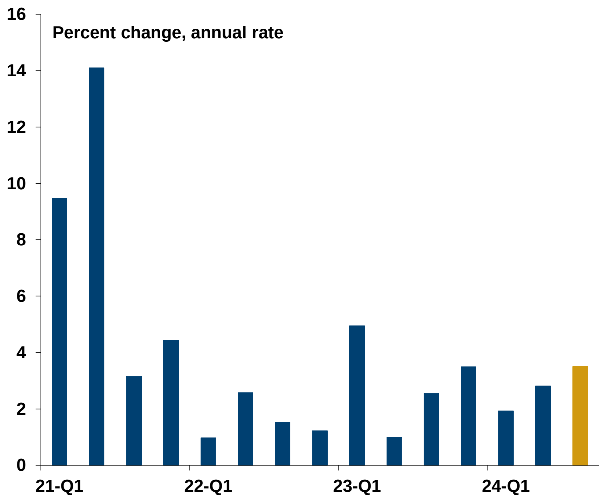
Retail Sales: Retail Control*



** Retail sales excluding sales from motor vehicle dealers, gasoline stations, and building materials, garden equipment, and supply dealers.*

Source: U.S. Census Bureau via Haver Analytics

Real Consumer Spending Growth*



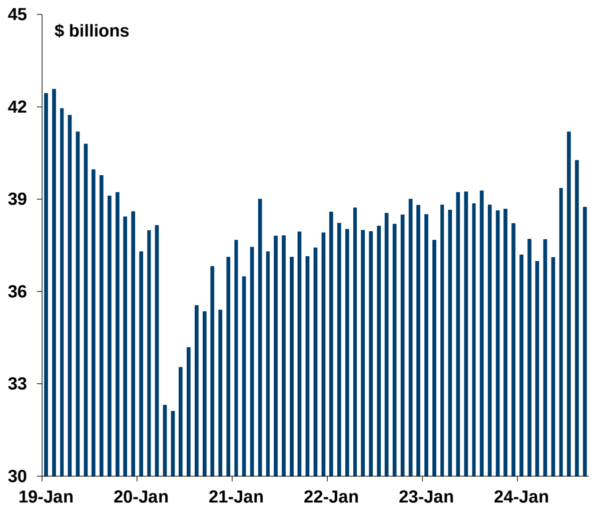
** The gold bar is a forecast for 2024-Q3.*

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

September – adding an accent to an already favorable performance for the quarter (chart, prior page, below left). Incorporating that datapoint into our estimate of real consumer spending suggests that growth for the quarter could total approximately 3.5 percent, annual rate -- among the better performances of the past few years (chart, prior page, below right). The labor market has cooled and a subset of consumers are exhibiting signs of stress (credit delinquencies, for example), but the sector in the aggregate remains active.

Business fixed investment also could contribute positively to growth in the latest quarter. Data on shipments of nondefense capital goods suggest that equipment spending is on track for double-digit growth after increasing 9.8 percent, annual rate, in Q2. Moreover, investment in intellectual property products could be poised to rebound after a soft performance in the prior quarter (+0.7 percent, annual rate, versus an average advance of 4.8 percent in the prior five quarters). Construction spending, in contrast, could provide a partial offset as activity has leveled off amid waning impacts from the Inflation Reduction Act and the CHIPS Act (charts, below).

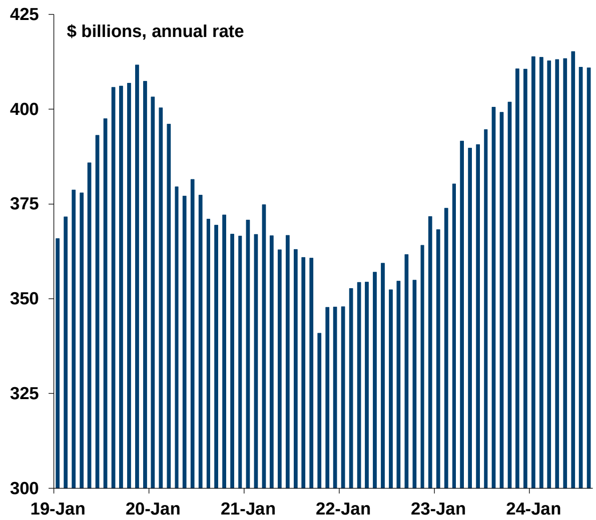
Real Shipments of Durable Goods*



** Nominal shipments of nondefense capital goods adjusted by the Final Demand Private Capital Equipment component of the PPI.*

Sources: Bureau of Labor Statistics, U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

Real Private Nonresidential Construction*

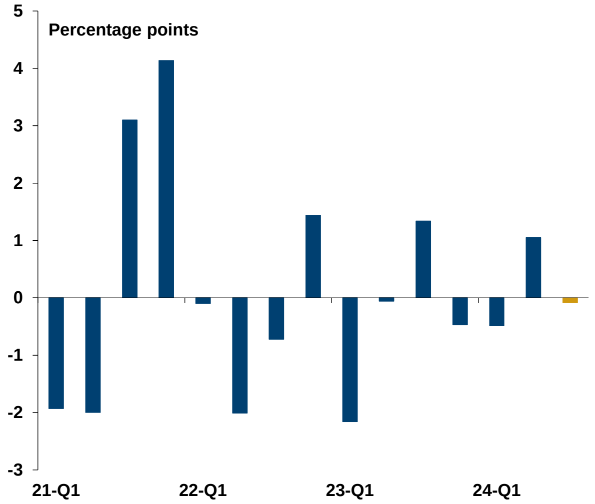


** Nominal value of business-related construction deflated by the Final Demand Construction for Private Capital Investment component of the PPI.*

Sources: Bureau of Labor Statistics, U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

Other areas may act as modest constraints on activity. Available data on housing starts points to a second consecutive drag from residential construction (-6.0 percent, annual rate, expected after a decline of 2.8 percent in Q2), with an uneven performance likely to continue until lower interest rates facilitate a recovery in the housing market. Additionally, firms appear to have trimmed stocks after an inventory build contributed 1.05 percentage points to growth in Q2; as such, we expect inventory investment to subtract 0.1 percentage point from growth in the latest quarter based on monthly reports on inventories and sales (chart, next page, left). Finally, the trade sector has been a notable constraint on activity in 2024 thus far, with drags of 0.9 percentage point on growth in Q2 and 0.6 percentage point in the opening quarter of the year. Imports into the US have been buoyed by strong domestic demand, while U.S. export growth has encountered headwinds from a strong foreign exchange value of the dollar and mixed demand in the economies of major trading partner (chart, next page, right). These potential constraints, however, are unlikely to diminish the expected positive tone of the report. Broadly speaking, growth appears to have remained firm in the third quarter of 2024. While we expect output to remain solid for the remainder of the year and into 2025, the lingering effects of previous Fed tightening raises the prospect of some additional moderation. All told, the data as of now suggest that a “soft landing” is potentially in sight for the Federal Reserve as officials prepare to further unwind restrictive policy.

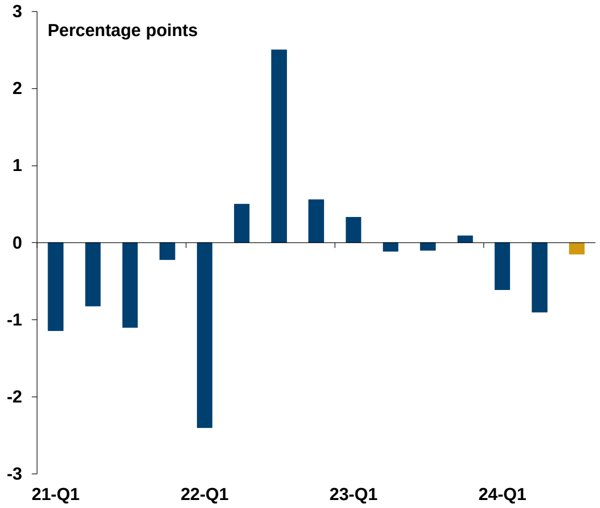
Inventory Investment (Contribution to Growth)*



** The gold bar is a forecast for 2024-Q3.*

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

Net Exports (Contribution to Growth)*



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

Forward-Looking Assessments: Insights from the Beige Book

Our review of available data strongly suggests that the U.S. economy remained on a solid growth trajectory in Q3, but we also acknowledge that GDP offers a somewhat dated view of the health of the overall economy. Thus, keeping a close eye on real-time qualitative assessments of activity can also prove helpful. In that regard, the Federal Reserve Board published on Wednesday the latest iteration of its Beige Book – a collection of anecdotes and assessments from Fed business contacts spanning the 12 Federal Reserve districts (for this publication, data was collected through October 11). The report offered a somewhat tepid assessment, with nine of 12 Districts indicating steady (six) or slightly declining (three) economic activity. For those reporting a pickup, characterizations included “grew modestly,” “rose modestly” or “increased slightly.” The report did not identify acutely problematic signs, but it did suggest that, along with curtailing previously brisk inflation, restrictive monetary policy has slowed economic activity and helped ease previously tight labor market conditions. With that said, however, the report noted that “Despite elevated uncertainty, contacts were somewhat more optimistic about the longer-term outlook.”

Drilling down into the report offered useful insights on several fronts. Manufacturing activity declined across most districts, but commercial real estate activity was flat, and loan activity at banks – while mixed – showed some evidence of stirring with interest rates easing modestly. Regarding the consumer, reports were “mixed,” as some geared spending toward “less expensive alternatives” – potentially an indication of declining wherewithal to spend on necessary and discretionary items alike. Importantly, the labor market remained on track. Hiring growth was “slight or modest” in most Districts, and was primarily focused on replacing departed workers rather than expanding workforces, but at the same time layoffs “remained limited” – an assessment consistent with those of Fed officials in recent speeches. Moreover, the rebalancing in the labor market contributed to “modest to moderate” wage growth which factored into inflation that “continued to moderate.” In our view, the report supports ongoing reductions in the target range for the federal funds rate as an appropriate path of policy but does not emphasize the need for aggressive cuts under threat of significant weakening in fundamentals. In other words, the FOMC is acting proactively to ease restrictive policy rather than reactively to stimulate a faltering economy. (For more reading, see: “Beige Book – October 2024,” Federal Reserve Board, October 23, 2024. https://www.federalreserve.gov/monetarypolicy/beigebook202410-summary.htm)

The Week Ahead

International Trade in Goods (September) (Tuesday)
Forecast: -$95.5 Billion ($1.3 Billion Wider Deficit)

Monthly trade flows are volatile, with exports of goods surging 2.9 percent in August (Census basis) while imports fell 1.4 percent after an advance of 2.3 percent previously. A reversion in exports in September to the previous sideways trend of the past amid challenges from unimpressive global growth and a strong dollar could contribute to a partial retracement of the sharp narrowing of $8.7 billion in the goods deficit. However, even with some widening in September, the Q3 average could be a bit better than the $97.9 billion Q2 average, raising the prospect of an approximately neutral effect from trade on GDP growth in Q3 after notable drags in the first two quarters of 2024.

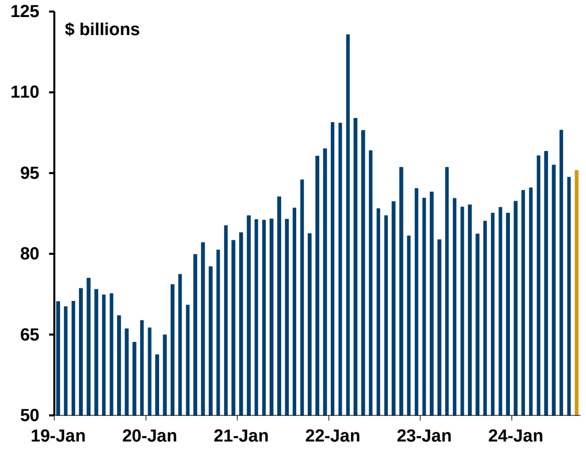
Consumer Confidence (October) (Tuesday)
Forecast: 98.5 (-0.2%)

With previously rapid inflation still generating concern about the costs of household essentials and a subset of consumers falling behind on payments (as evidenced by a stirring in credit card delinquency rates), consumer confidence may remain rangebound in October (well below pre-pandemic readings).

Employment Cost Index (24-Q3) (Thursday)
Forecast: 0.9%

A gradual easing in tight labor market conditions suggests that compensation growth could be closer to the 0.9 percent quarterly increase in Q2 rather than the 1.2 percent advance in Q1 (and the 2022-23 average quarterly gain of 1.1 percent). If the projection is realized, year-over-year growth in the ECI would ease three ticks to 3.8 percent – well below the cycle peak of 5.1 percent in 2022-Q2 and consistent with views of Fed officials indicating that the labor market is no longer a source of undesirable inflation pressure.

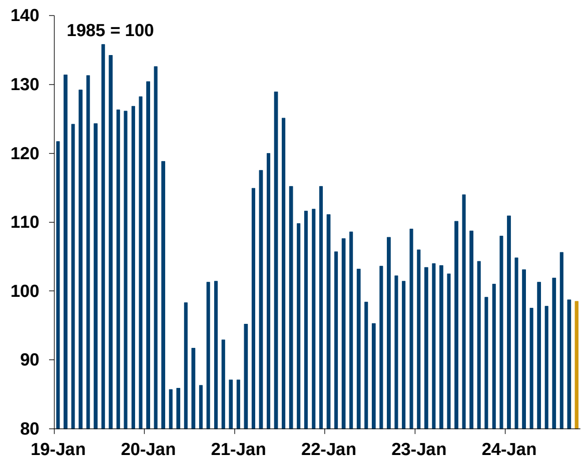
Nominal Trade Deficit in Goods*



** The gold bar is a forecast for September 2024.*

Sources: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

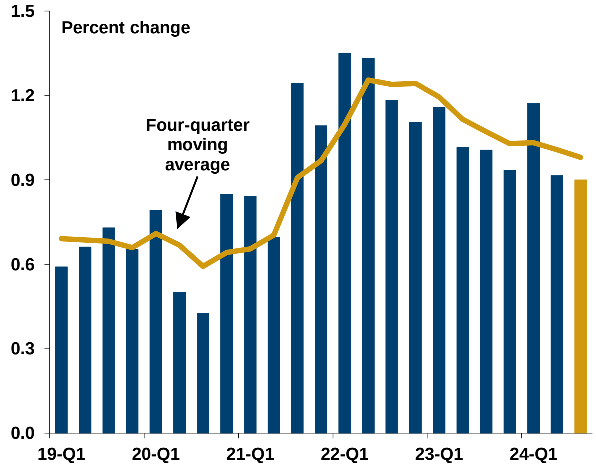
Consumer Confidence*



** The gold bar is a forecast for October 2024.*

Sources: The Conference Board via Haver Analytics; Daiwa Capital Markets America

Employment Cost Index*



** The gold bar is a forecast for 2024-Q3.*

Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

Personal Income, Consumption, Price Indexes (September) (Thursday)
Forecast: 0.4% Income, 0.4% Consumption, 0.2% Headline, 0.3% Core

An advance of 0.4 percent in average hourly earnings suggests a favorable performance in overall income growth in September. On the spending side, a strong performance recorded in key areas of the monthly retail sales report points to firm growth in outlays. Readings for the consumer and producer price indexes indicate increases of 0.2 percent for the headline PCE price index and 0.3 percent for the core measure. The projected readings would translate to year-over-year advances of 2.1 percent for the headline (versus 2.2 percent in August) and 2.7 percent for the core index (essentially unchanged from August).

Payroll Employment (October) (Friday)
Forecast: 110,000

While payroll growth of 254,000 in September already appeared out-of-sync with moderating labor market conditions (average monthly payroll growth of 149,000 per month from April through August versus an average of 267,000 in Q1), which raised the possibility of a reversion to trend in October, the disruptive effects of hurricanes Helene in late September and Milton in early October introduced further downside risks to October hiring. With that said, we caution against drawing broad conclusions about the trajectory of the labor market based on next week's results. All else equal, average hourly earnings growth could remain close to the solid average of +0.3 percent per month in the past 12 months (consistent with year-over-year growth of 4.0 percent, roughly unchanged from the September result), although weather-related volatility could taint this reading as well.

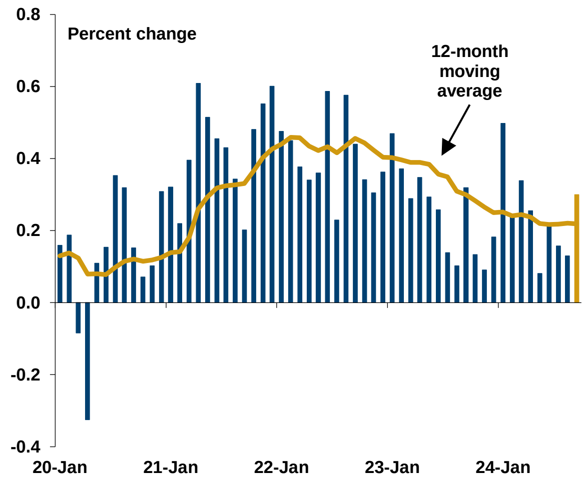
ISM Manufacturing Index (October) (Friday)
Forecast: 47.5 (+0.3 Index Pt.)

Ongoing sluggish demand has hampered the factory sector for much of the past two years, with the ISM manufacturing gauge falling below 50.0 in November 2022 and remaining in contraction territory in all but one month since then (March 2024). New data on the factory sector for October, including a soft preliminary print for the S&P Global US Manufacturing PMI (47.8), suggest another disappointing reading for the ISM measure.

Construction (September) (Friday)
Forecast: 0.0%

A restrained pace of housing starts suggests a subdued performance in private residential construction in September. Additionally, business-related and government-sponsored activity have leveled off in the past year after previously firm performances.

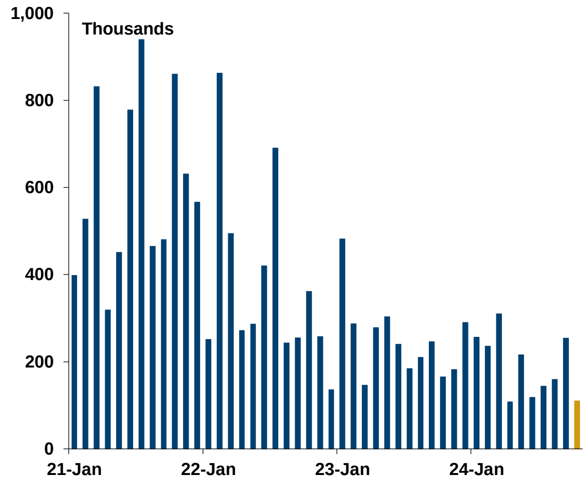
Core PCE Price Index*



** The gold bar is a forecast for September 2024.*

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

Change in Nonfarm Payrolls*



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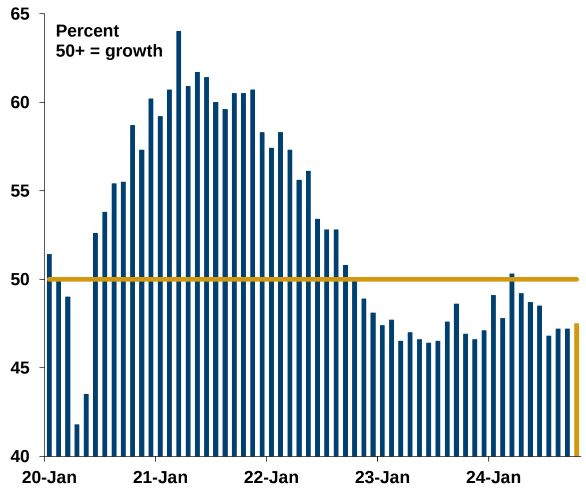
Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

ISM Manufacturing Index*



** The gold bar is a forecast for October 2024.*

Sources: Institute for Supply Management via Haver Analytics; Daiwa Capital Markets America

Economic Indicators

October/November 2024

Monday	Tuesday	Wednesday	Thursday	Friday
21	22	23	24	25
LEADING INDICATORS July -0.5% Aug -0.3% Sep -0.5%		**EXISTING HOME SALES** July 3.960 million Aug 3.880 million Sep 3.840 million **BEIGE BOOK** **October 2024:** “On balance, economic activity was little changed in nearly all Districts since early September, though two Districts reported modest growth.”	**UNEMPLOYMENT CLAIMS** Initial / Continuing (millions) Sep 28 0.225 1.858 Oct 5 0.260 1.869 Oct 12 0.242 1.897 Oct 19 0.227 N/A **CHICAGO FED NATIONAL ACTIVITY INDEX** Monthly / 3-Mo. Avg. July -0.26 -0.08 Aug -0.01 -0.14 Sep -0.28 -0.19 **NEW HOME SALES** July 0.726 million Aug 0.709 million Sep 0.738 million	**DURABLE GOODS ORDERS** July 9.8% Aug -0.8% Sep -0.8% **REVISED CONSUMER SENTIMENT** Sep 70.1 Oct(p) 68.9 Oct(r) 70.5
28	29	30	31	1
	INTERNATIONAL TRADE IN GOODS (8:30) July -$102.9 billion Aug -$94.2 billion **Sep -$95.5 billion** **ADVANCE INVENTORIES (8:30)** Wholesale / Retail July 0.2% 0.8% Aug 0.1% 0.6% Sep -- -- **FHFA HOME PRICE INDEX (9:00)** June 0.0% July 0.1% Aug -- **S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX (9:00)** June 0.5% July 0.3% Aug -- **CONFERENCE BOARD CONSUMER CONFIDENCE (10:00)** Aug 105.6 Sep 98.7 **Oct 98.5** **JOLTS DATA (10:00)** Openings (000) / Quit Rate July 7,711 2.0% Aug 8,040 1.9% Sep -- --	**ADP EMPLOYMENT (8:15)** Private Payrolls Aug 103,000 Sep 143,000 Oct -- **GDP (8:30)** GDP / Chained Price 24-Q1 1.6% 3.0% 24-Q2 3.0% 2.5% **24-Q3(a) 2.8% 2.5%** **PENDING HOME SALES (10:00)** July -5.5% Aug 0.6% Sep --	**UNEMP. CLAIMS (8:30)** **PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX (8:30)** Inc. / Cons. / Core July 0.3% 0.5% 0.2% Aug 0.2% 0.2% 0.1% **Sep 0.4% 0.4% 0.3%** **EMPLOYMENT COST INDEX (8:30)** Comp. / Wages 24-Q1 1.2% 1.1% 24-Q2 0.9% 0.9% **24-Q3 0.9% 0.9%** **MNI CHICAGO BUSINESS BAROMETER (9:45)** Index / Prices Aug 46.1 66.0 Sep 46.6 74.3 Oct -- --	**EMPLOYMENT REPORT (8:30)** Payrolls / Un. Rate Aug 159,000 4.2% Sep 254,000 4.1% **Oct 110,000 4.1%** **ISM MFG. INDEX (10:00)** Index / Prices Aug 47.2 54.0 Sep 47.2 48.3 **Oct 47.5 48.5** **CONSTRUCTION (10:00)** July -0.5% Aug -0.1% **Sep 0.0%** **VEHICLE SALES** Aug 15.3 million Sep 15.8 million **Oct 15.8 million**
4	5	6	7	8
FACTORY ORDERS	**TRADE BALANCE** **ISM SERVICES INDEX**	**FOMC MEETING (FIRST DAY)**	**UNEMP. CLAIMS** **PRODUCTIVITY & COSTS** **WHOLESALE TRADE** **FOMC RATE DECISION** **CONSUMER CREDIT**	**CONSUMER SENTIMENT**
11	12	13	14	15
VETERANS DAY	**NFIB SMALL BUSINESS OPTIMISM INDEX** **SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES**	**CPI** **FEDERAL BUDGET**	**UNEMP. CLAIMS** **PPI**	**RETAIL SALES** **EMPIRE MFG** **IMPORT/EXPORT PRICES** **IP & CAP-U** **BUSINESS INVENTORIES**

Forecasts in bold. (a) = advance (1st estimate of GDP), (p) = preliminary, (r) = revised

Treasury Financing

October/November 2024

Monday	Tuesday	Wednesday	Thursday	Friday
21	22	23	24	25
AUCTION RESULTS: Rate / Cover 13-week bills 4.510% 3.07 26-week bills 4.310% 2.92	**AUCTION RESULTS:** Rate / Cover 42-day CMBs 4.650% 2.69 **ANNOUNCE:** $64 billion 17-week bills for auction on Oct 23 $95 billion 4-week bills for auction on Oct 24 $90 billion 8-week bills for auction on Oct 24 **SETTLE:** $64 billion 17-week bills $95 billion 4-week bills $90 billion 8-week bills	**AUCTION RESULTS:** Rate / Cover 17-week bills 4.445% 2.97 20-yr bonds 4.590% 2.59	**AUCTION RESULTS:** Rate / Cover 4-week bills 4.650% 2.83 8-week bills 4.590% 2.83 5-yr TIPS 1.670% 2.40 **ANNOUNCE:** $153 billion 13-,26-week bills for auction on Oct 28 $48 billion 52-week bills for auction on Oct 29 $69 billion 2-year notes for auction on Oct 28 $70 billion 5-year notes for auction on Oct 28 $44 billion 7-year notes for auction on Oct 29 $30 billion 2-year FRNs for auction on Oct 29 $80 billion 42-day CMBs for auction on Oct 29 **SETTLE:** $153 billion 13-,26-week bills $80 billion 42-day CMBs	
28	29	30	31	1
AUCTION: $153 billion 13-,26-week bills $69 billion 2-year notes $70 billion 5-year notes	**AUCTION:** $48 billion 52-week bills $44 billion 7-year notes $30 billion 2-year FRNs $80 billion 42-day CMBs **ANNOUNCE:** $64 billion* 17-week bills for auction on Oct 30 $95 billion* 4-week bills for auction on Oct 31 $90 billion* 8-week bills for auction on Oct 31 **SETTLE:** $64 billion 17-week bills $95 billion 4-week bills $90 billion 8-week bills	**AUCTION:** $64 billion* 17-week bills **ANNOUNCE:** $58 billion* 3-year notes for auction on Nov 4 $39 billion* 10-year notes for auction on Nov 5 $22 billion* 30-year bonds for auction on Nov 6	**AUCTION:** $95 billion* 4-week bills $90 billion* 8-week bills **ANNOUNCE:** $153 billion* 13-,26-week bills for auction on Nov 4 **SETTLE:** $153 billion 13-,26-week bills $48 billion 52-week bills $13 billion 20-year bonds $24 billion 5-year TIPS $69 billion 2-year notes $70 billion 5-year notes $44 billion 7-year notes $30 billion 2-year FRNs $80 billion 42-day CMBs	
4	5	6	7	8
AUCTION: $153 billion* 13-,26-week bills $58 billion* 3-year notes	**AUCTION:** $39 billion* 10-year notes **ANNOUNCE:** $64 billion* 17-week bills for auction on Nov 6 $95 billion* 4-week bills for auction on Nov 7 $90 billion* 8-week bills for auction on Nov 7 **SETTLE:** $64 billion* 17-week bills $95 billion* 4-week bills $90 billion* 8-week bills	**AUCTION:** $64 billion* 17-week bills $22 billion* 30-year bonds	**AUCTION:** $95 billion* 4-week bills $90 billion* 8-week bills **ANNOUNCE:** $153 billion* 13-,26-week bills for auction on Nov 12 **SETTLE:** $153 billion* 13-,26-week bills	
11	12	13	14	15
VETERANS DAY	**AUCTION:** $153 billion* 13-,26-week bills **ANNOUNCE:** $64 billion* 17-week bills for auction on Nov 13 $95 billion* 4-week bills for auction on Nov 14 $90 billion* 8-week bills for auction on Nov 14 **SETTLE:** $64 billion* 17-week bills $95 billion* 4-week bills $90 billion* 8-week bills	**AUCTION:** $64 billion* 17-week bills	**AUCTION:** $95 billion* 4-week bills $90 billion* 8-week bills **ANNOUNCE:** $153 billion* 13-,26-week bills for auction on Nov 18 $16 billion* 20-year bonds for auction on Nov 20 $17 billion* 10-year TIPS for auction on Nov 21 **SETTLE:** $153 billion* 13-,26-week bills	**SETTLE:** $58 billion* 3-year notes $39 billion* 10-year notes $22 billion* 30-year bonds

**Estimate*