Daiwa Capital Markets

U.S. Data Review

- Q3 GDP: led by resilient consumer; consistent with soft landing for the US economy
- Inflation: moderate advance in GDP price index; core PCE index within striking distance of 2.0 percent

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

Q3 GDP

- The first estimate of GDP growth in Q3 of 2.8 percent (annual rate) was a touch lighter than the Bloomberg median expectation of 2.9 percent. While a bit shy of expectations, the latest advance suggested that domestic demand remained firm and that a soft landing for the economy appears underway after the Fed's aggressive response to previously brisk underlying inflation. With respect to domestic demand, final sales to domestic purchasers, which excludes the effects of inventory investment and net exports on growth, rose 3.5 percent. Economic activity may moderate in the months ahead, particularly as softer labor market conditions may deter ongoing brisk spending by consumers, but further cuts to the federal funds rate by the FOMC could provide a tailwind that promotes solid economic activity in the quarters ahead.

GDP and Related Items*

		24-Q1	24-Q2	24-Q3
1.	**Gross Domestic Product**	1.6	3.0	2.8
2.	**Personal Consumption Expenditures**	1.9	2.8	3.7
3.	**Nonresidential Fixed Investment**	4.5	3.9	3.3
3a.	**Nonresidential Structures**	6.3	0.2	-4.0
3b.	**Nonresidential Equipment**	0.3	9.8	11.1
3c.	**Intellectual Property Products**	7.5	0.7	0.6
4.	**Change in Business Inventories (Contribution to GDP Growth)**	-0.5	1.1	-0.2
5.	**Residential Construction**	13.7	-2.8	-5.1
6.	**Total Government Purchases**	1.8	3.1	5.0
6a.	**Federal Government Purchases**	-0.4	4.3	9.7
6b.	**State and Local Govt. Purchases**	3.1	2.3	2.3
7.	**Net Exports (Contribution to GDP Growth)**	-0.6	-0.9	-0.6
7a.	**Exports**	1.9	1.0	8.9
7b.	**Imports**	6.1	7.6	11.2
	Additional Items			
8.	**Final Sales**	2.1	1.9	3.0
9.	**Final Sales to Domestic Purchasers**	2.7	2.8	3.5
10.	**Gross Domestic Income**	3.0	3.4	--
11.	**Average of GDP & GDI**	2.3	3.2	--
12.	**GDP Chained Price Index**	3.0	2.5	1.8
13.	**Core PCE Price Index**	3.7	2.8	2.2

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

- Consumer spending was a key driver of growth in Q3 (+3.7 percent, annual rate, versus the Bloomberg median expectation of +3.3 percent; a contribution of 2.46 percentage points to growth). Outlays rose in all broad categories, with spending on durable goods registering the largest advance (+8.1 percent). Spending on nondurable goods increased 4.9 percent, and expenditures on services recorded a pickup of 2.6 percent.

- Business fixed investment turned in a solid performance in Q3 with an increase of 3.3 percent (a contribution of 0.46 percentage point to growth). Equipment spending registered its second consecutive favorable quarter, as growth of 11.1 percent in Q3 followed an advance of 9.8 percent in Q2. Additionally, investment in intellectual property increased 0.6 percent. Nonresidential construction, in contrast, fell 4.0 percent after a miniscule gain in Q2 (+0.2 percent, annual rate). A previous burst in spending associated with the Inflation Reduction Act of 2022 and CHIPS and Science Act of 2022 has faded, with investment in structures transitioning to a potential drag on overall business investment for a time.

- Government spending increased 5.0 percent in Q3 after an advance of 3.1 percent in Q2. Expenditures at the federal level increased 9.7 percent; defense spending jumped 14.9 percent, bolstered by support to allies in various global conflicts; non-defense outlays rose 3.2 percent. Outlays at the state and local level rose 2.3 percent, matching the pace in Q2.

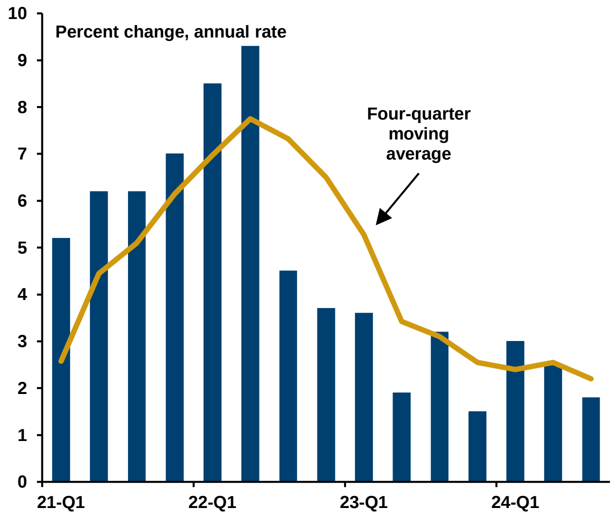
- Residential construction slipped for the second consecutive quarter (-5.1 percent in Q3) after a burst of 13.7 percent in Q1. This area could remain unimpressive until activity in the housing market accelerates and builders work off excess inventories.

- Inventory investment constrained GDP growth by 0.17 percentage point in Q3, in line with our expectation of a modest drag after a large inventory build in the April-to-June period (which added 1.05 percentage points to growth).

- Net exports shaved 0.56 percentage point from Q3 GDP, the third consecutive large negative contribution. Import growth of 11.2 percent surpassed a firm increase in U.S. exports (+8.9 percent).

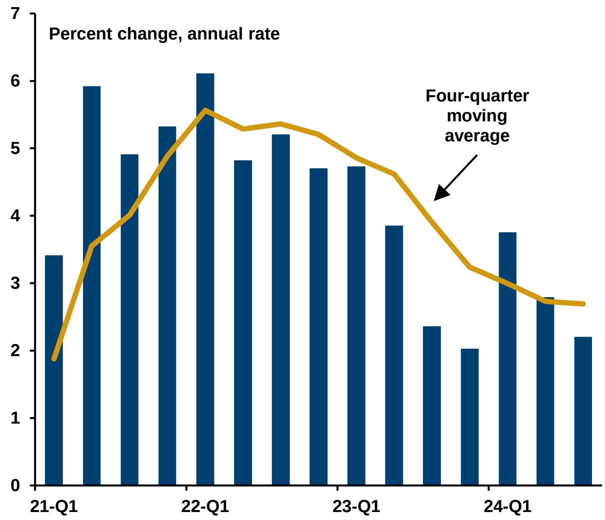
- The price data for Q3 were consistent with ongoing moderation in inflation. The GDP price index increased 1.8 percent in Q3 (versus the Bloomberg median expectation of +1.9 percent), down from 2.5 percent in the prior quarter and 3.6 percent in 2023 (chart, below left). The headline price index for personal consumption expenditures rose 1.5 percent, a percentage point slower than the advance in Q2 and down from 3.8 percent in 2023. The core price index, in contrast, rose at a faster pace than the Bloomberg median (+2.2 percent versus +2.1 percent), although it cooled from a 2.8 percent advance in Q2 (and +4.1 percent pace in 2023) and is within striking distance of the Federal Reserve's 2.0 percent inflation objective (chart, below right).

GDP Chained Price Index



Source: Bureau of Economic Analysis via Haver Analytics

Core PCE Price Index



Source: Bureau of Economic Analysis via Haver Analytics