U.S. Economic Comment

- Powell & inflation data: signs still point to rate cuts in late 2024 and early 2025
- Consumer spending: October retail sales subdued, but consumer spending still likely on track in Q4

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

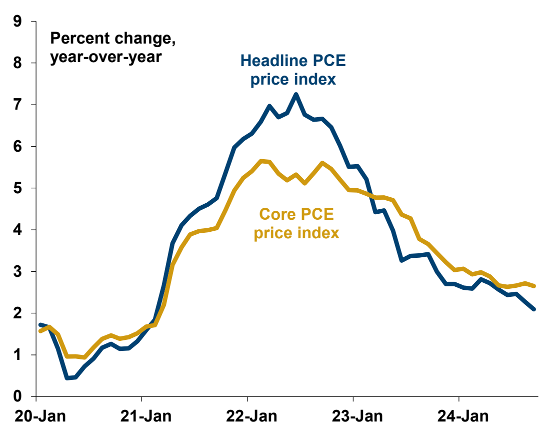
Near-Term Rate Cuts Still Likely Despite Less Favorable Inflation Data

A barrage of inflation data prompted vigorous discussion by market participants this week about the possible path and ultimate destination of the federal funds rate heading into 2025. This reevaluation of views prompted intraweek volatility in Treasury yields and stalling (at least for now) in the post-election rally in equities. Driving these reactions were inflation prints for October. While close to expectations, they suggested that progress towards the Fed's price stability target was beginning to stall. Relatedly, the headline and core CPI for October rose 0.2 and 0.3 percent respectively, matching the Bloomberg median expectations. Results for the PPI matched those for the CPI, although the core index (ex. food, energy and trade services) printed 0.1 percentage point firmer than the consensus view. The results for the CPI equated to year-over-year advances of 2.6 percent for the headline measure (up from 2.4 percent in September) and 3.3 percent for the core index (essentially unchanged from the September reading). Likewise, the year-over-year-advance in the PPI accelerated to 2.4 percent from 1.9 percent in the prior month, and the core rate increased two ticks to 3.5 percent.

Amid the firm inflation prints, various Fed officials weighed in on the economic outlook and monetary policy this week, including Fed Chair Powell on Thursday. In our view, his latest remarks echoed what he said at the post-FOMC press conference last week, broadly reaffirming our position that odds favor ongoing reductions in the target range for the federal funds rate – at least for the next few FOMC meetings. Chair Powell again pointed to "an appropriate recalibration of our policy stance" both to preserve labor market strength and maintain inflation on a trajectory back to two percent. Given that Powell and various colleagues have noted that the prevailing range of the federal funds rate is "restrictive," while both inflation and labor market conditions have improved, that characterization leaves room for additional reductions in the policy rate (in his words, "moving policy over time to a more neutral setting").

As Powell's remarks followed the release of the aforementioned data, we were heartened by his assessment of inflation. First, with respect to the upcoming release of October data on the price index for personal consumption expenditures (the Fed's key inflation metric; released November 27), Chair Powell suggested that headline inflation was set to advance 2.3 percent year-over-year in October (up from the current reading of 2.1 percent) and the core was poised to increase 2.8 percent (versus 2.7 percent in September; the changes were consistent with implied month-to-month projections of +0.2 percent and +0.3 percent for the headline and core indexes, respectively; chart). Even with the projected brisk print, the Fed Chair argued, "Inflation has eased substantially from its peak, and we believe it is on a sustainable path to our 2 percent goal." Although he conceded that the trajectory back to target may traverse "a sometimes bumpy path," he noted several factors that could underpin the anticipated desirable outcome (balanced supply-demand conditions in the labor market, anchored inflation expectations, further

PCE Price Index*



** Actual data (September latest available). Projections by Fed staff cited by Chair Powell in this week's remarks point to a year-over-year increase in headline inflation of 2.3 percent in October, while core inflation is projected to advance at a 2.8 percent year-over-year rate.*

Source: Bureau of Economic Analysis via Haver Analytics expected easing in housing services inflation). Thus, despite rumblings of the Fed potentially pausing sooner rather than later, i.e., December or January, our view is that the Chair's comments keep the door ajar to the policy normalization process rather than pivot away from an easing trajectory.

All this said, we anticipate revising our fed funds call in the near future. We had expected the Federal Open Market Committee to cut the target range for the federal funds rate to 2.875 percent by year-end 2025, but a resilient U.S. economy, slowly receding inflation, and a possible tailwind to growth from President-elect Trump's economic agenda suggest that outcome is less likely to be realized. Even so, we still expect that the prevailing level of r* (the real neutral rate) is more consistent with a neutral nominal rate in the low-to-mid three-percent area versus approaching four percent.

(For more reading, see: "At Conversation with Federal Reserve Chair Jerome Powell, Dallas, Texas," Federal Reserve Board, November 14, 2024. https://
https://www.federalreserve.gov/newsevents/speech/powell20241114a.htm)

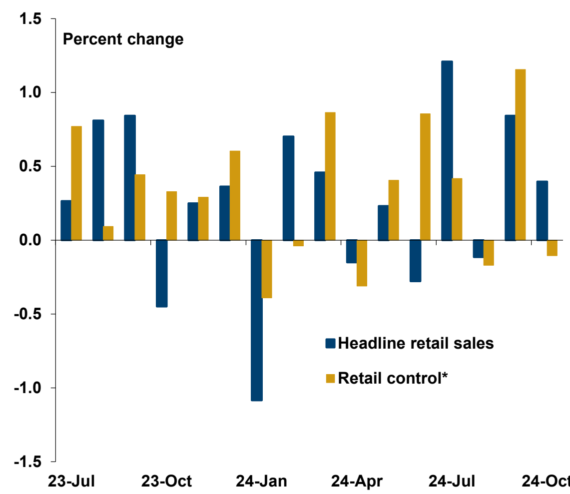
Consumer Spending: More Positives than not in October Retail Sales Data

The publication of the Census Bureau's retail sales report for October offered an early glimpse into the consumer sector for the closing quarter of 2024. Although the report only informs a small piece of the overall view on consumer spending, with nominal data mostly on sales of goods (aside from a component on expenditures at restaurants), it still provides insight on a sector that has been a key driver of the current expansion. Although the October data were lackluster on face, they revealed bright spots upon further inspection.

Headline retail activity rose 0.4 percent in October, a bit better than the consensus expectation of +0.3 percent, but the so-called control group (which correlates with goods outlays in the GDP accounts) dipped 0.1 percent versus an anticipated pickup of 0.3 percent (consistent with year-over-year advances of 2.8 percent and 3.6 percent, respectively). With that said, previous results were revised notably higher, including headline growth of 0.8 percent in October versus +0.4 percent previously and an advance of 1.2 percent in the control group rather than a preliminary gain of 0.7 percent. Thus, slower spending, which also may have been influenced by hurricane-related disruptions, followed brisk activity in the prior month (chart). Moreover, we would highlight favorable trends in nonstore sales (mostly online; +0.3 percent month-to-month or +7.0 percent year over year) and at food services and drinking places (restaurants, a discretionary area; +0.7 percent month-to-month and +4.3 percent year-over-year). All said, a decent performance in October, following active spending in Q3.

In a broader context, a firm labor market has generated strong income growth in 2024 and the aggregate household balance sheet remains solid, bolstered by a robust stock market performance and elevated real estate values. And, with the election now decided, improving clarity on the trajectory of the country could lead to additional spending. As such, we anticipate aggregate spending in the GDP accounts to moderate from the brisk (unsustainable) 3.7 percent annualized pace in Q3 to a still respectable 2.5 percent pace in Q4, consistent with GDP growth around two percent. All told, the expansion remains on track thanks to significant support from resilient consumers.

Retail Sales



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

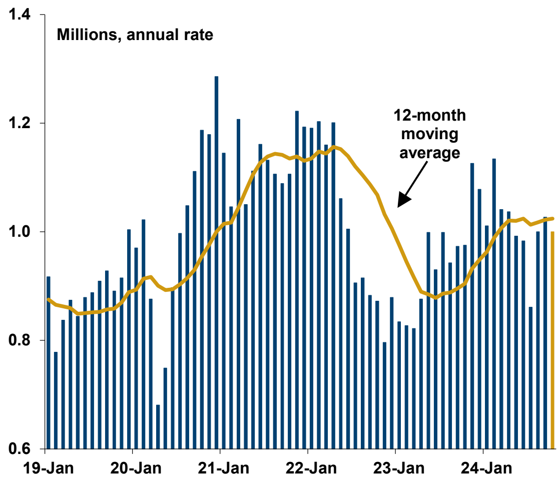
Source: U.S. Census Bureau via Haver Analytics

The Week Ahead

Housing Starts (October) (Tuesday)
Forecast: 1.340 Million (-1.0%)

Recent hurricanes have introduced downside volatility in the housing starts data, which even when controlling for special factors, exhibit a good bit of month-to-month choppiness and are often prone to large revisions. That said, single-family activity appears to have stabilized in the vicinity of the pre-pandemic range, while multi-family starts have softened after a strong performance earlier in the expansion.

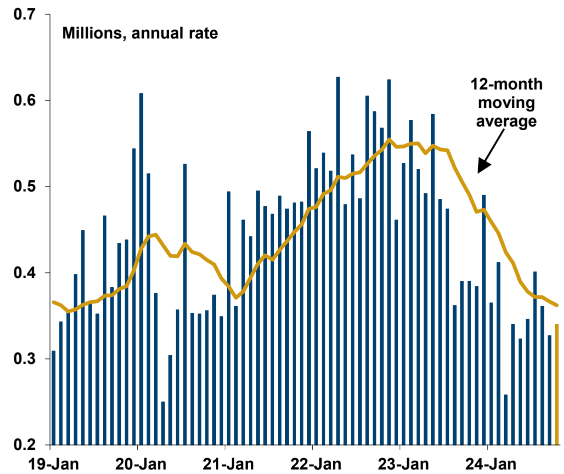
Single-Family Housing Starts*



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

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

Multi-Family Housing Starts*



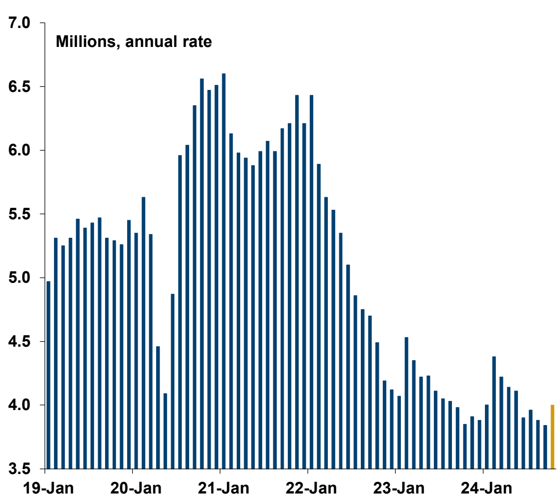
** The gold bar is a forecast for October 2024.*

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

Existing Home Sales (October) (Thursday)
Forecast: 4.00 Million (+4.2%)

A jump in pending home sales in September raises the possibility of a pickup in existing home sales in October from a reading in the low end of the longer-term range (chart). Elevated mortgage rates and constrained inventories (chart right) have both contributed to reduced affordability for prospective buyers and broadly sluggish market conditions.

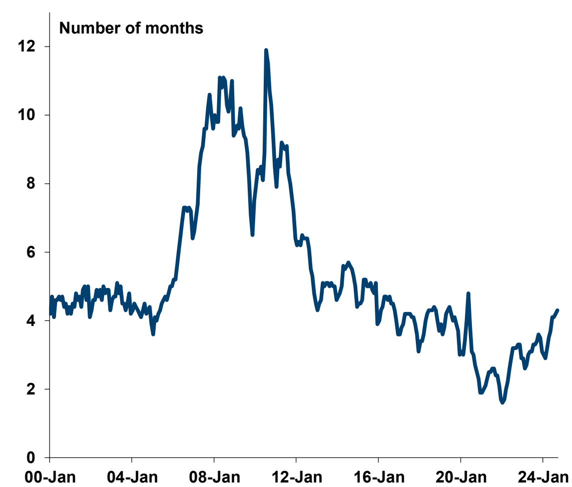
Existing Home Sales*



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

Sources: National Association of Realtors via Haver Analytics; Daiwa Capital Markets America

Months' Supply of Unsold Homes*

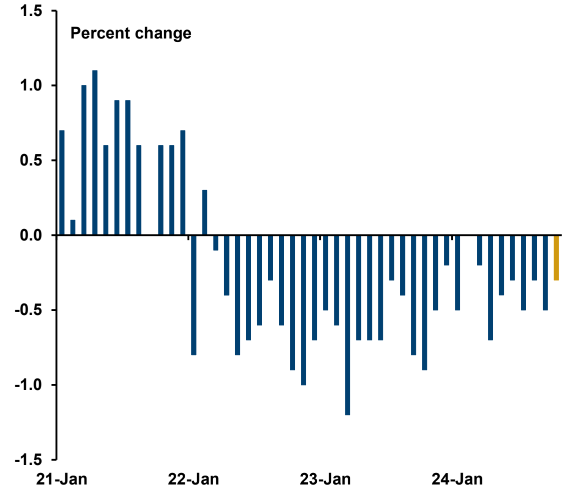


Source: National Association of Realtors Haver Analytics

Leading Indicators (October) (Thursday)
Forecast: -0.3%

Anticipated negative contributions from the ISM new orders index and the factory workweek suggest that the Conference Board Leading Economic Index could contract in October for the 31st time in the past 32 months. If the forecast is realized, the October reading would be 16.2 percent below the cycle peak of 118.6 in December 2021. In previous business cycles, similar downtrends in the LEI were consistent with the U.S. economy being in recession. However, in this instance, we view U.S. economy as on a solid growth trajectory consistent with an evolving soft landing scenario (charts, below).

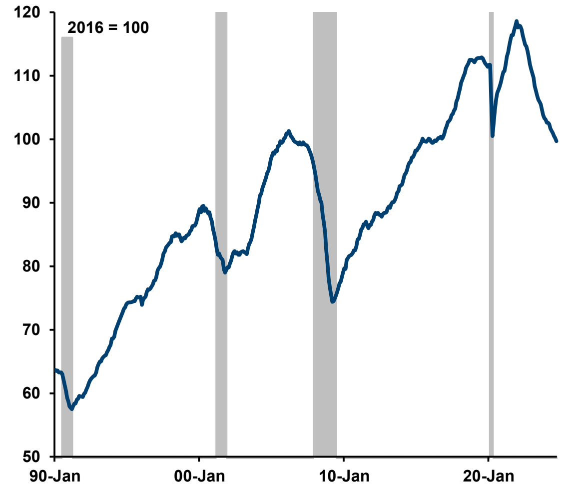
Index of Leading Economic Indicators*



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

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

Index of Leading Economic Indicators*



** The shaded areas indicate periods of recession in the United States.*

Sources: The Conference Board, National Bureau of Economic Research via Haver Analytics

Economic Indicators

November/December 2024

Monday	Tuesday	Wednesday	Thursday	Friday
11	12	13	14	15
VETERANS DAY	**NFIB SMALL BUSINESS OPTIMISM INDEX** Aug 91.2 Sep 91.5 Oct 93.7 **SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES**	**CPI** Total / Core Aug 0.2% / 0.3% Sep 0.2% / 0.3% Oct 0.2% / 0.3% **FEDERAL BUDGET** 2024 / 2023 Aug -$380.1B / $89.3B Sep $64.3B / -$170.7B Oct -$257.5B / -$66.6B	**UNEMPLOYMENT CLAIMS** Initial / Continuing (millions) Oct 19 0.228 / 1.853 Oct 26 0.218 / 1.884 Nov 2 0.221 / 1.873 Nov 9 0.217 / N/A **PPI** Final Demand / Ex. Food & Energy Aug 0.2% / 0.3% Sep 0.1% / 0.2% Oct 0.2% / 0.3%	**RETAIL SALES** Total / Ex.Autos Aug -0.1% / -0.1% Sep 0.8% / 1.0% Oct 0.4% / 0.1% **EMPIRE MFG** Sep 11.5 Oct -11.9 Nov 31.2 **IMPORT/EXPORT PRICES** Non-Petrol Imports / Nonagri. Exports Aug 0.0% / -0.6% Sep 0.2% / -0.8% Oct 0.2% / 0.6% **IP & CAP-U** IP / Cap.Util. Aug 0.5% / 77.9% Sep -0.5% / 77.4% Oct -0.3% / 77.1% **BUSINESS INVENTORIES** Inventories / Sales July 0.3% / 1.1% Aug 0.3% / -0.2% Sep 0.1% / 0.3%
18	19	20	21	22
NAHB HOUSING INDEX (10:00) Sep 41 Oct 43 Nov -- **TIC FLOWS (4:00)** Long-Term / Total July $137.9B / $159.1B Aug $111.4B / $79.2B Sep -- / --	**HOUSING STARTS (8:30)** Aug 1.361 million Sep 1.354 million **Oct 1.340 million**		**UNEMP. CLAIMS (8:30)** **PHILADELPHIA FED MFG BUSINESS OUTLOOK (8:30)** Sep 1.7 Oct 10.3 Nov -- **EXISTING HOME SALES (10:00)** Aug 3.880 million Sep 3.840 million **Oct 4.000 million** **LEADING INDICATORS (10:00)** Aug -0.3% Sep -0.5% **Oct -0.3%**	**REVISED CONSUMER SENTIMENT (10:00)** Sep 70.1 Oct 70.5 Nov(p) 73.0
25	26	27	28	29
CHICAGO FED NATIONAL ACTIVITY INDEX	**FHFA HOME PRICE INDEX** **S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX** **NEW HOME SALES** **CONFERENCE BOARD CONSUMER CONFIDENCE** **FOMC MINUTES**	**UNEMP. CLAIMS** **REVISED Q3 GDP** **DURABLE GOODS ORDERS** **INTERNATIONAL TRADE IN GOODS** **ADVANCE INVENTORIES** **PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX** **PENDING HOME SALES**	*THANKSGIVING*	**MNI CHICAGO BUSINESS BAROMETER**
2	3	4	5	6
ISM MFG. INDEX **CONSTRUCTION**	**JOLTS DATA** **VEHICLE SALES**	**ADP EMPLOYMENT** **ISM SERVICES INDEX** **FACTORY ORDERS** **BEIGE BOOK**	**UNEMP. CLAIMS** **TRADE BALANCE**	**EMPLOYMENT REPORT** **CONSUMER SENTIMENT** **CONSUMER CREDIT**

Forecasts in bold. (p) = preliminary

Treasury Financing

November/December 2024

Monday	Tuesday	Wednesday	Thursday	Friday
11	12	13	14	15
VETERANS DAY	**AUCTION RESULTS:** Rate Cover 13-week bills 4.420% 2.87 26-week bills 4.310% 2.73 **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 RESULTS:** Rate Cover 17-week bills 4.555% 2.51	**AUCTION RESULTS:** Rate Cover 4-week bills 4.510% 2.77 8-week bills 4.460% 2.77 **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 $80 billion 42-day CMBs for auction on November 19 $50 billion 40-day CMBs for auction on November 20 **SETTLE:** $153 billion 13-,26-week bills	**SETTLE:** $58 billion 3-year notes $42 billion 10-year notes $25 billion 30-year bonds
18	19	20	21	22
AUCTION: $153 billion* 13-,26-week bills	**AUCTION:** $80 billion 42-day CMBs **ANNOUNCE:** $64 billion* 17-week bills for auction on Nov 20 $95 billion* 4-week bills for auction on Nov 21 $90 billion* 8-week bills for auction on Nov 21 **SETTLE:** $64 billion 17-week bills $95 billion 4-week bills $90 billion 8-week bills	**AUCTION:** $64 billion* 17-week bills $16 billion 20-year bonds $50 billion 40-day CMBs	**AUCTION:** $95 billion* 4-week bills $90 billion* 8-week bills $17 billion 10-year TIPS **ANNOUNCE:** $153 billion* 13-,26-week bills for auction on Nov 25 $48 billion* 52-week bills for auction on Nov 26 $69 billion* 2-year notes for auction on Nov 25 $70 billion* 5-year notes for auction on Nov 26 $44 billion* 7-year notes for auction on Nov 27 $28 billion* 2-year FRNs for auction on Nov 26 **SETTLE:** $153 billion 13-,26-week bills $80 billion 42-day CMBs $50 billion 40-day CMBs	
25	26	27	28	29
AUCTION: $153 billion* 13-,26-week bills $69 billion* 2-year notes	**AUCTION:** $48 billion* 52-week bills $70 billion* 5-year notes $28 billion* 2-year FRNs **ANNOUNCE:** $64 billion* 17-week bills for auction on Nov 27 $95 billion* 4-week bills for auction on Nov 27 $90 billion* 8-week bills for auction on Nov 27 **SETTLE:** $64 billion* 17-week bills $95 billion* 4-week bills $90 billion* 8-week bills	**AUCTION:** $64 billion* 17-week bills $95 billion* 4-week bills $90 billion* 8-week bills $44 billion* 7-year notes **ANNOUNCE:** $153 billion* 13-,26-week bills for auction on Dec 2	***THANKSGIVING***	**SETTLE:** $153 billion* 13-,26-week bills $48 billion* 52-week bills $17 billion 10-year TIPS $28 billion* 2-year FRNs
2	3	4	5	6
AUCTION: $153 billion* 13-,26-week bills **SETTLE:** $16 billion 20-year bonds $69 billion* 2-year notes $70 billion* 5-year notes $44 billion* 7-year notes	**ANNOUNCE:** $64 billion* 17-week bills for auction on Dec 4 $95 billion* 4-week bills for auction on Dec 5 $90 billion* 8-week bills for auction on Dec 5 **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 Dec 9 $58 billion* 3-year notes for auction on Dec 10 $39 billion* 10-year notes for auction on Dec 11 $22 billion* 30-year bonds for auction on Dec 12 **SETTLE:** $153 billion* 13-,26-week bills	**SETTLE:** $153 billion* 13-,26-week bills $48 billion* 52-week bills $17 billion* 10-year TIPS $28 billion* 2-year FRNs

**Estimate*