U.S. Data Review

- PCE price indexes: in line with expectations; recent readings call for cautions approach by the FOMC
- Personal income and consumption: both solid in October; saving rate rose but remains in low end of longer-term range
- Revised Q3 GDP: headline in line with advance estimate; modest revisions to components
- Corporate profits: soft in Q3
- International trade in goods: narrower deficit in October
- Durable goods orders: ongoing sluggish performance
- Unemployment claims: modest hurricane-related deterioration in continuing claims

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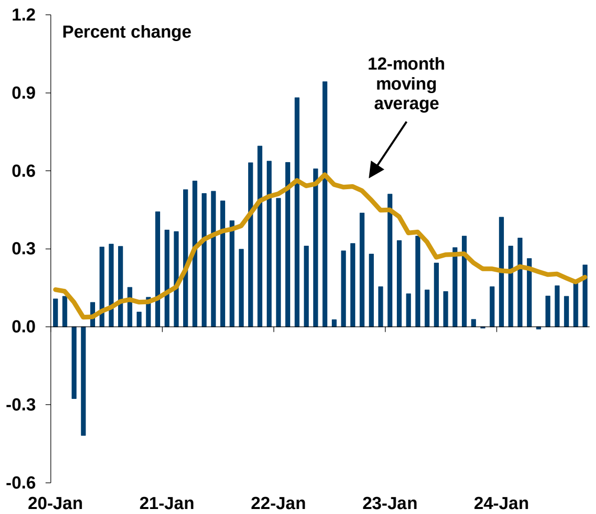
Personal Income, Consumption, and Price Indexes

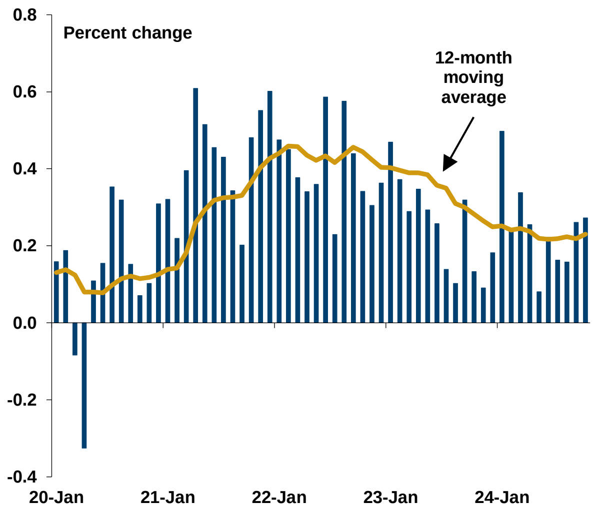
- The October readings for the headline and core price indexes for personal consumption expenditures were in line with the Bloomberg median estimates (+0.2 percent and +0.3, percent, respectively). The results translated to year-over year increases of 2.3 percent in the headline index (versus +2.1 percent in September) and 2.8 percent in the core measure (versus +2.7 percent previously) -- likely affirming the view that progress on returning inflation to the Federal Reserve's 2.0 percent objective has slowed somewhat and that the FOMC will likely proceed carefully along the path back to a neutral stance of monetary policy (charts, below).

Headline PCE Price Index



Source: Bureau of Economic Analysis via Haver Analytics

Core PCE Price Index



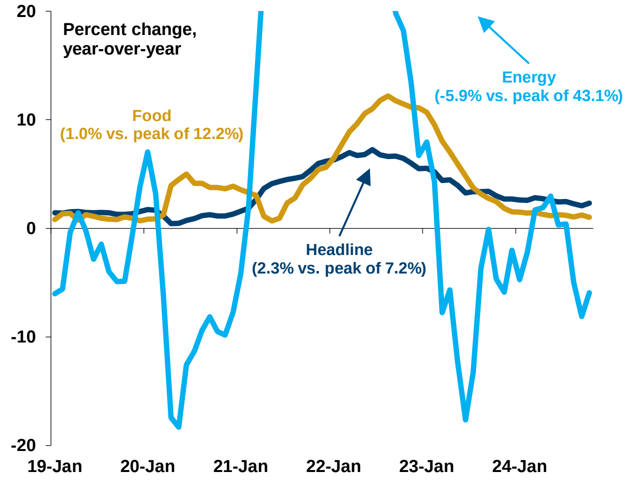
Source: Bureau of Economic Analysis via Haver Analytics

- In the latest month, the energy component dipped 0.2 percent, the third consecutive decline (-5.9 percent year-over-year). Food prices rose modestly but rounded down to unchanged (+0.019 percent) after and advance of 0.4 percent in the prior month. The year-over-year change of +1.0 percent eased from an already benign reading of +1.2 percent in the prior month (chart, next page).

- The core index rounded up to 0.3 percent for the second consecutive month, raising the possibility that the disinflationary process has slowed – or possibly stalled (chart). Goods prices excluding food and energy rounded down to no change after a pickup of 0.1 percent in September. Additionally, the year-over-year decline of 0.4 percent was close to other recent readings, suggesting stability on a modest disinflationary track. Service inflation excluding energy services rounded up to +0.4 percent month-to-month, consistent with a year-over-year increase of 3.9 percent (the highest reading since May; up 0.2 percentage point from the September observation).

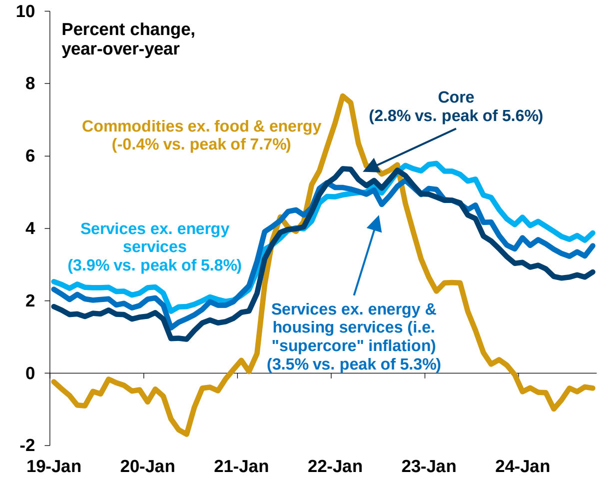
Contributing to the increase, rents of tenant-occupied nonfarm housing increased 0.3 percent for the second consecutive month, while imputed rent of owner-occupied nonfarm housing rose 0.4 percent; the year-over-year change in rents dipped 0.2 percentage point to 4.6 percent, while the year-over-year change in imputed rents remained unchanged at 5.2 percent – both still well above pre-pandemic trends in the vicinity of 3.5 percent. Core service inflation excluding housing rose 0.4 percent (+0.356 percent with less rounding, the fastest increase since a jump of 0.424 percent in March 2024), with the year-over-year advance accelerating to 3.5 percent from 3.2 percent in September. Again, the latest results do not suggest that inflation pressures are resurgent, but they do indicate that vigilance on the part of policymakers is warranted.

PCE Inflation



Source: Bureau of Economic Analysis via Haver Analytics

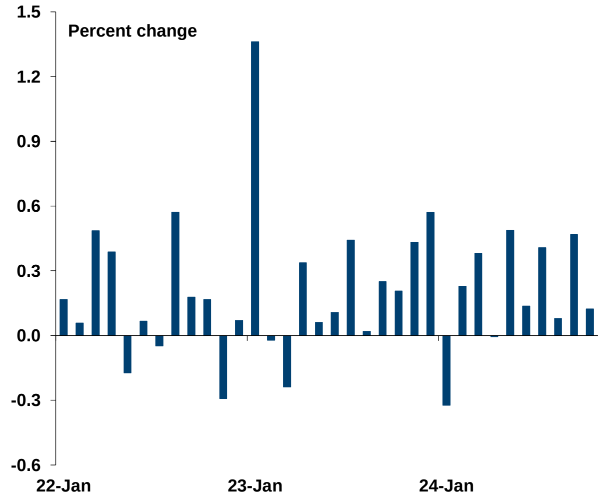
Decomposition of Core PCE



Source: Bureau of Economic Analysis via Haver Analytics

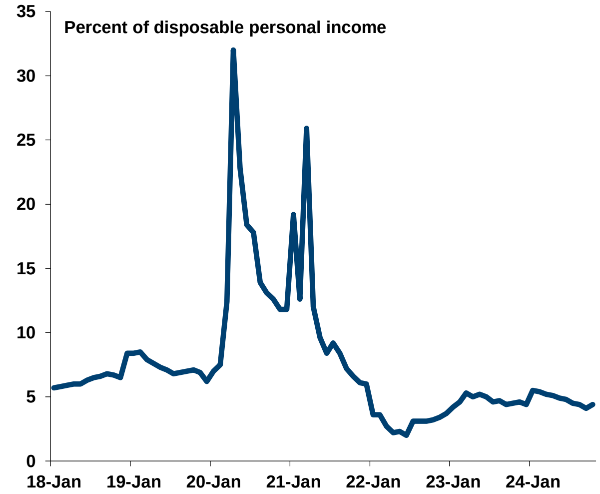
- Other key data in the Income and Consumption release also were favorable. Outlays rose 0.4 percent (+0.1 percent after adjusting for inflation), consistent with approximately 2.0 annualized growth in Q4, contingent on results in the next two months (chart, below left). The projected pace lags the brisk performance in Q3 (+3.5 percent annualized growth), but it is still consistent with the economy remaining on an expansionary trajectory. Additionally, income growth surprised to the upside (+0.6 percent; +0.4 percent after adjusting for inflation), including a brisk 0.5 percent gain in wages. That solid wage growth is likely to support spending in the months ahead, and it has boosted savings. In that regard, the personal saving rate (saving as a share of disposable income) rose 0.3 percentage point to 4.4 percent, up from the 4.1 percent reading in September but below pre-pandemic trends (chart, below right). The low level of saving is not overly concerning, but it does indicate that at least a subset of consumers are drawing on reserves above earned income to support current expenditures.

Real Consumer Spending Growth



Source: Bureau of Economic Analysis via Haver Analytics

Personal Saving Rate



Source: Bureau of Economic Analysis via Haver Analytics

Daiwa Capital Markets

Revised Q3 GDP

- The second estimate of Q3 GDP matched the advance reading (+2.8 percent, annual rate), an observation in line with the Bloomberg median expectation. Revisions to various components were modest, with the shifts leaving the essential tone of the report unchanged: the U.S. economy remained on track in the July-to-September period.

- Consumer spending remained a key driver of growth in Q3, although it was a bit lighter than first reported (+3.5 percent, annual rate, versus a preliminary tally of +3.7 percent; a contribution of +2.37 percentage points to GDP growth versus +2.46 percentage points). Estimates of outlays for both durable and nondurable goods were nudged lower (+7.6 percent and +4.6 percent, respectively, versus preliminary readings of +8.1 percent and +4.9 percent). Growth of outlays for services was in line with the initial estimate (+2.6 percent).

GDP and Related Items*

		24-Q2	24-Q3(a)	24-Q3(p)
1.	Gross Domestic Product	3.0	2.8	2.8
2.	Personal Consumption Expenditures	2.8	3.7	3.5
3.	Nonresidential Fixed Investment	3.9	3.3	3.8
3a.	Nonresidential Structures	0.2	-4.0	-4.7
3b.	Nonresidential Equipment	9.8	11.1	10.6
3c.	Intellectual Property Products	0.7	0.6	2.5
4.	Change in Business Inventories (Contribution to GDP Growth)	1.1	-0.2	-0.1
5.	Residential Construction	-2.8	-5.1	-5.0
6.	Total Government Purchases	3.1	5.0	5.0
6a.	Federal Government Purchases	4.3	9.7	8.9
6b.	State and Local Govt. Purchases	2.3	2.3	2.7
7.	Net Exports (Contribution to GDP Growth)	-0.9	-0.6	-0.6
7a.	Exports	1.0	8.9	7.5
7b.	Imports	7.6	11.2	10.2
	Additional Items			
8.	Final Sales	1.9	3.0	3.0
9.	Final Sales to Domestic Purchasers	2.8	3.5	3.4
10.	Gross Domestic Income	3.4	--	2.2
11.	Average of GDP & GDI	3.2	--	2.5
12.	GDP Chained Price Index	2.5	1.8	1.9
13.	Core PCE Price Index	2.8	2.2	2.1

** Percent change SAAR, except as noted. (a) = advance (1st estimate of GDP), (p) = preliminary (2nd estimate of GDP)*

Source: Bureau of Economic Analysis via Haver Analytics

- Business fixed investment was adjusted higher (+3.8 percent, annual rate, versus +3.3 percent first reported; a contribution of 0.52 percentage point to growth versus +0.46 percentage point initially). Equipment spending remained brisk in Q3 despite an adjustment lower (+10.6 percent versus +11.1 percent preliminary), and intellectual property investment was solid (+2.5 percent versus preliminary tally of +0.6 percent), although investment in structures remained weak (a contraction of 4.7 percent versus -4.0 percent).

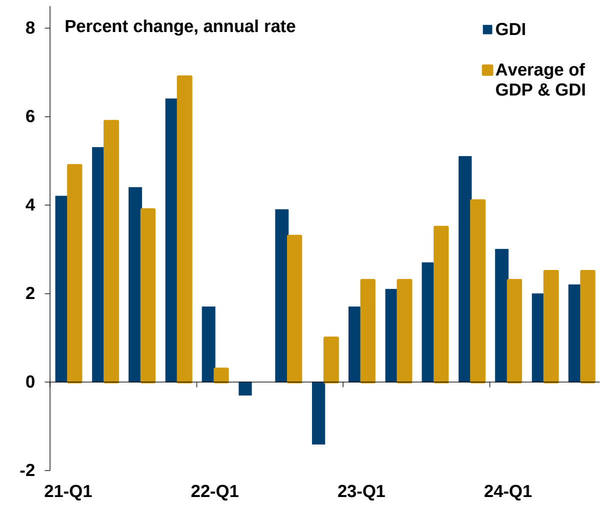
- Revisions to other areas were modest (table). In that regard, net exports remained the largest drag on growth in Q3 (-0.57 percentage point, close to the preliminary reading of -0.56 percentage). Exports grew at a 7.5 percent rate (versus a preliminary growth rate of 8.9 percent), which was exceeded by a jump of 10.2 percent in imports (previously reported at +11.2 percent).

- An alternate measure of economic activity – Gross Domestic Income (GDI) – is released with the revised estimate of GDP. This metric, which measures income earned in the economy (wages, profits, etc.), rose 2.2 percent, annual rate, in Q3 – lagging the performance in GDP. Discrepancies occur regularly as surveys for the measures differ. On the point, the Bureau of Economic Analysis recommends averaging GDP and GDI to get a more complete view of economic activity. The latest average of +2.5 percent suggests that the performance of the U.S. economy remains on track – consistent with the so-called soft-landing thesis currently embraced by Fed officials (chart, next page, left).

- Revised price indexes released with today's report remained favorable (although the latest monthly inflation data were less so; see prior story). The GDP price index for Q3 was adjusted 0.1 percentage point higher but remained favorable at +1.9 percent. Growth of the headline price index for personal consumption expenditures was unrevised at +1.5 percent, while the core measure was nudged lower (growth of 2.1 percent versus +2.2 percent previously).

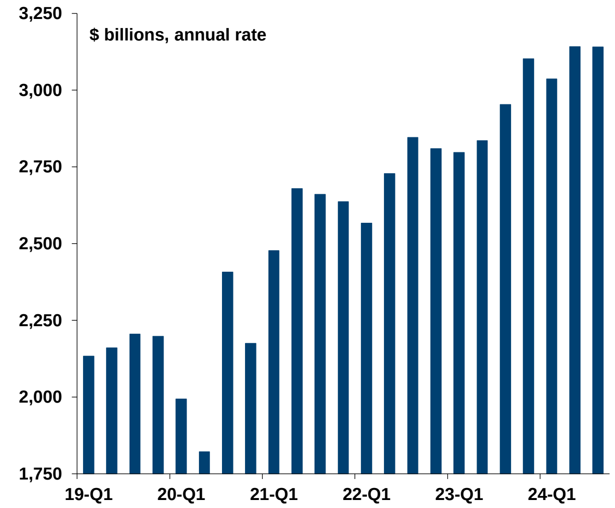
- A view on broad corporate profits was mildly disappointing, as pre-tax earnings slipped 0.3 percent, not annualized, and after-tax profits were essentially flat (chart, next page, right). However, the sluggish reading followed a strong performance earlier in the expansion. Additionally, while domestic profits rose modestly, earnings of the Federal Reserve System fell for the eighth consecutive quarter (on account of monetary-policy related activities and payments), which constrained the overall performance. Profits earned abroad were soft.

Gross Domestic Income



Source: Bureau of Economic Analysis via Haver Analytics

After-Tax Corporate Profits



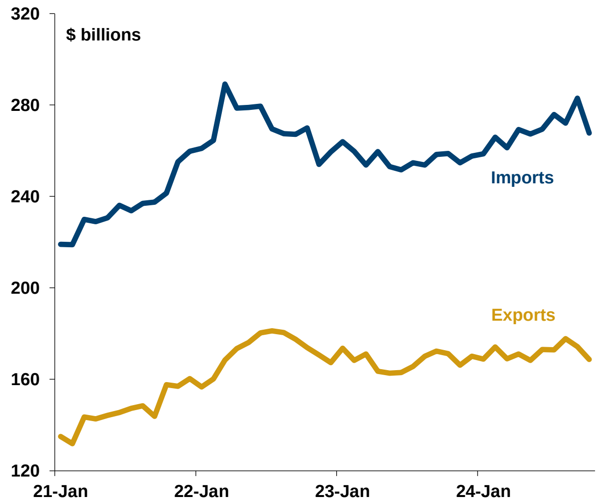
Source: Bureau of Economic Analysis via Haver Analytics

International Trade

- The international trade deficit in goods narrowed $9.6 billion in October to $99.1 billion, exceeding the Bloomberg median expectation of a narrowing of $6.0 billion to $102.7 billion. Both U.S. exports and imports of goods slipped in the latest month, with the decline in imports (-5.4 percent to $267.8 billion) exceeding that of exports (-3.2 percent to $168.7 billion; chart, below left). With that said, we suspect that recent volatility in trade flows was tied, at least in part, to the brief port strike in early October.

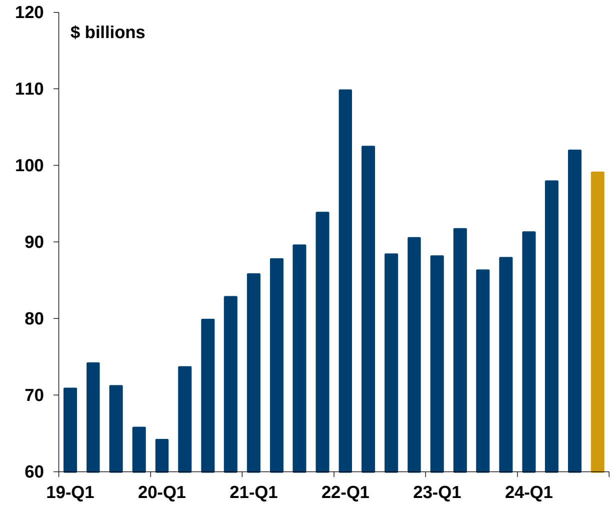
- We hesitate to draw broad conclusions from this early report for Q4, but the latest result for the goods trade deficit was narrower than the average of $102.0 billion for the third quarter (chart, below right). Although the picture could change appreciably in the months ahead, we currently expect net exports to make a modest positive contribution to GDP growth in Q4 after constraining growth in the first three quarters of 2024.

Total Imports & Exports of Goods



Source: U.S. Census Bureau via Haver Analytics

Nominal Trade Deficit in Goods*



* Quarterly averages of monthly data. The observation for 2024-Q4 (gold bar) is the monthly deficit for October 2024.

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

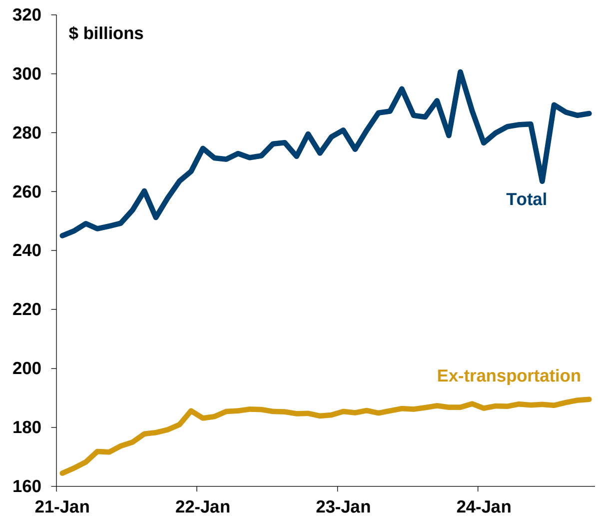
Durable Goods Orders

- Durable goods orders rose 0.2 percent in October (versus the median expectation of an increase of 0.5 percent) after a decline of 0.4 percent in September (revised from a drop of 0.7 percent). Orders excluding transportation (which are not influenced by often marked volatility in the aircraft component) rose 0.1 percent, matching the consensus view, after an increase of 0.4 percent in the prior month (chart, below left). The trends in these areas remained positive, albeit a bit unimpressive, with headline bookings up 2.7 percent year-over-year and orders excluding transportation up 1.5 percent.

- New orders for nondefense capital goods excluding aircraft, which provide insight into firms' plans for capital expenditures, dipped 0.2 percent in October (versus +0.1 percent expected; chart, below right). Moreover, the trend in this area has been subdued, with bookings up only 0.6 percent year-over-year.

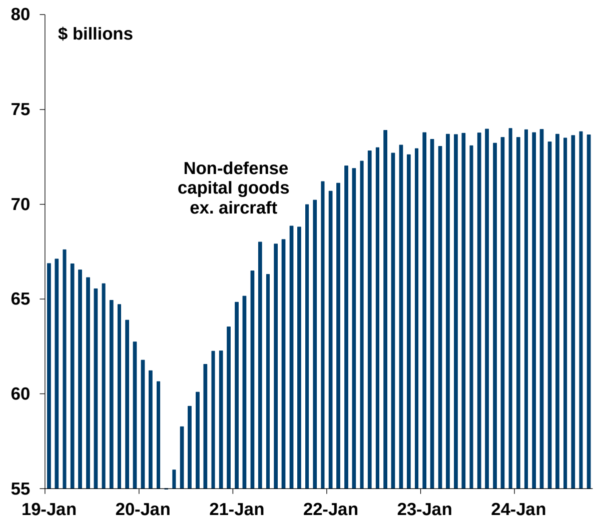
- Shipments for nondefense capital goods excluding aircraft, which correlate with capital expenditures in Q4, rose 0.2 percent in October (versus +0.1 percent expected) after declining 0.1 percent in the prior month. The results suggest that equipment spending in Q4 could slow from the annualized 10.6 percent pace in Q3 (see GDP writeup).

New Orders for Durable Goods



Source: U.S. Census Bureau via Haver Analytics

New Orders for Durable Goods



Source: U.S. Census Bureau via Haver Analytics

Unemployment Claims

- Initial claims for unemployment insurance fell for the third consecutive week, decreasing by 2,000 to 213,000 in the week ending November 23 (associated with a drop of 1,250 to 217,000 for the four-week moving average). Broadly speaking, after spiking in early October due to hurricane effects and labor strikes, unemployment filings have since eased on balance, hovering around the 2019 pre-pandemic average of about 218,000 – a period when the labor market was viewed as favorable.

- Continuing claims, on the other hand, rose by 9,000 to a cycle high of 1.907 million in the week ending November 16. The four-week moving average, correspondingly, increased by 13,500 to 1.890 million (also a cycle high). While continuing claims have trickled higher in recent weeks, this upward drift is tied to recent hurricanes and is likely to dissipate in coming weeks.