U.S. Data Review

- Revised Q3 GDP: upward revision led by adjustment to already-brisk consumer spending
- Unemployment claims: retreat in initial claims following holiday-related volatility
- Existing home sales: modest improvement in November; inventories remain tight

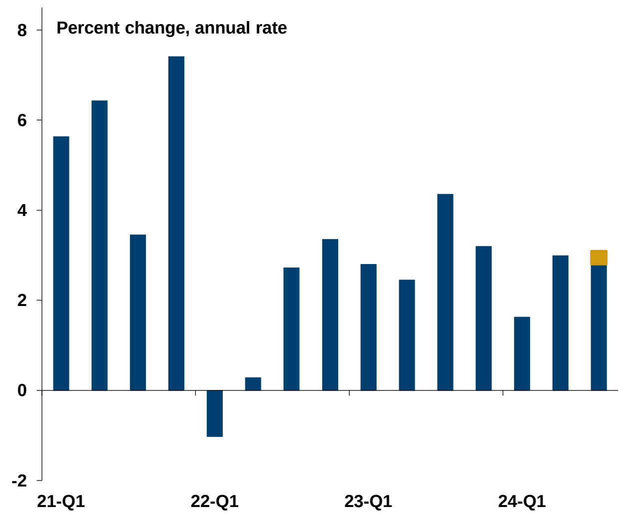
Lawrence Werther
Brendan Stuart
Daiwa Capital Markets America
lawrence.werther@us.daiwacm.com
brendan.stuart@us.daiwacm.com

Revised Q3 GDP

- The third estimate of GDP is normally close to the preliminary tally, but upward revisions to several key areas contributed to growth in the third quarter of 2024 being firmer than previously believed. Q3 GDP was adjusted 0.3 percentage point higher to 3.1 percent, annual rate – an impressive result that exceeded the Bloomberg median expectation of no revision to preliminary results (chart, below left). Evidently, the message of the previous report still stands true: the U.S. economy has been strong thus far in 2024, with growth in the July-to-September period remaining on track.

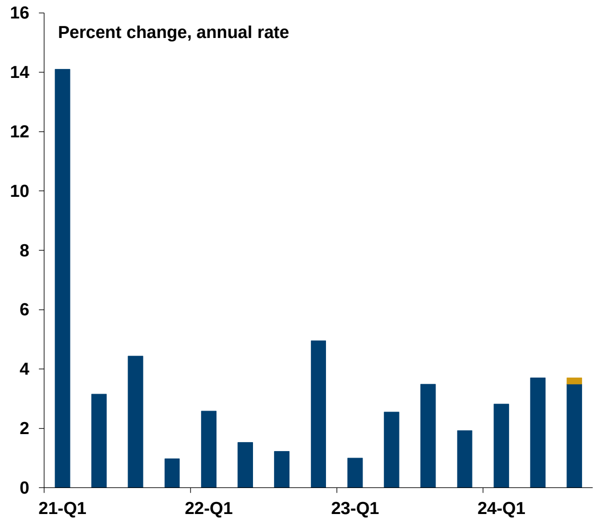
- Consumer spending, a key driver of growth in Q3, was revised higher (+3.7 percent, annual rate, versus a preliminary estimate of +3.5 percent; a contribution of +2.48 percentage points to GDP growth versus +2.37 percentage points in the second estimate; chart, below right). While estimates for outlays for both durable and nondurable goods remained essentially unchanged at 7.6 percent and 4.6 percent, respectively, growth of outlays for services was adjusted up (+2.8 percent versus +2.6 percent). Business fixed investment tilted firmer than previously estimated (+4.0 percent versus +3.8 percent; a contribution of +0.55 percentage points versus +0.52 percentage points), with positive adjustments to equipment spending and intellectual property offsetting softer investment in structures. Moreover, net exports was less of a drag on growth than previously reported (-0.43 percentage points versus -0.57 percentage points). Growth of exports was adjusted higher (+9.6 percent versus +7.5 percent), as was the advance in imports (+10.7 percent versus +10.2 percent). The drag from private inventory investment, however, was adjusted higher with the latest release, shaving -0.22 percentage point from growth versus the earlier estimate of -0.11 percentage point.

GDP Growth*



** The gold portion of the last bar shows the upward revision to results for 2024-Q3.*
Source: Bureau of Economic Analysis via Haver Analytics

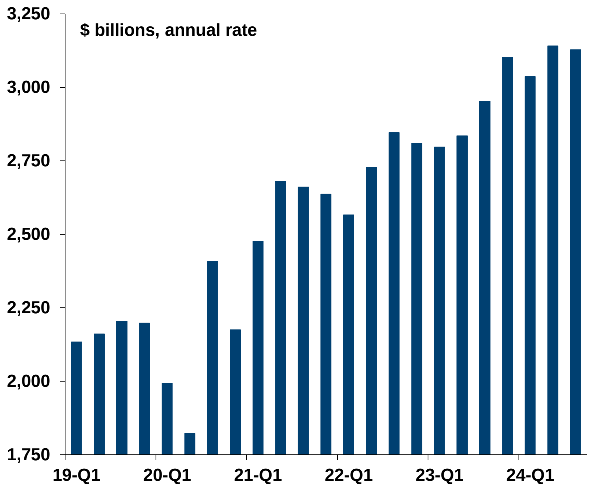
Real Consumer Spending Growth*



** The gold portion of the last bar shows the upward revision to results for 2024-Q3.*
Source: Bureau of Economic Analysis via Haver Analytics

- Revised estimates of broad corporate profits for Q3 also were published with today's release. Although growth of corporate profits in the current expansion has been impressive, they appear to have peaked. Pre-tax earnings dipped 0.4 percent, not annualized (versus -0.3 percent prior), and after-tax earnings fell 0.4 percent (versus an essentially flat reading previously reported; chart, right).

After-Tax Corporate Profits



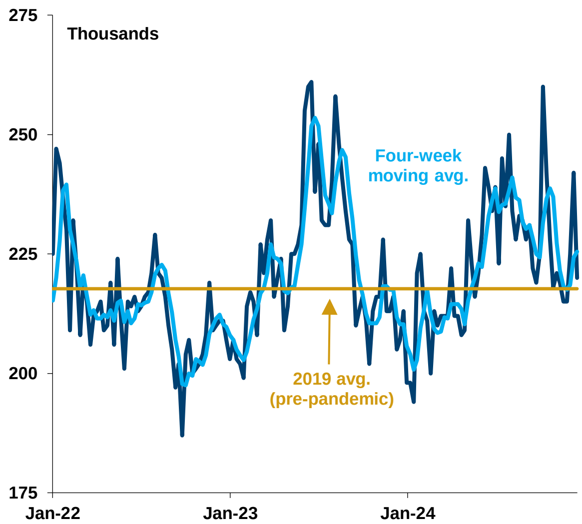
Source: Bureau of Economic Analysis via Haver Analytics

Unemployment Claims

- Initial claims for unemployment insurance fell 22,000 to 220,000 in the week ending December 14, reversing deterioration in the prior week. The recovery was broad-based, with all four major geographical regions in the US recording a decrease in filings on net. The four-week moving average, a measure used to smooth the inherent volatility seen in claims, rose 1,250 to 225,500 (chart, below left). As we suspected, last week's surge was likely attributable to seasonality quirks on account of the late Thanksgiving holiday. The most recent reading is now more in line with the trailing four-week average of 218,500 for the week ending November 30 (a benign result that preceded last week's spike).

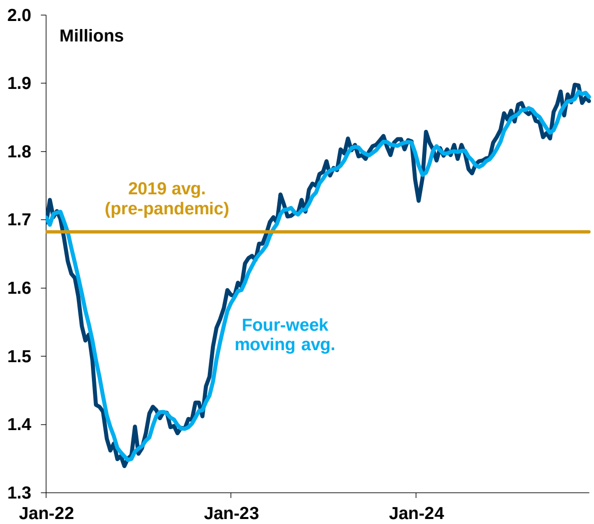
- Continuing claims also eased, dipping 5,000 to 1.874 million in the week ending December 7 (associated with a decline of 6,000 to 1.880 million on a four-week-average basis; chart, below right). Claims have tilted higher in recent months and are only 24k off the cycle high of 1.898 million achieved in early November – a development worth monitoring, but one indictive of ongoing moderating in underlying labor market conditions rather than rapid deterioration.

Initial Claims for Unemployment Insurance



Source: U.S. Department of Labor via Haver Analytics

Continuing Claims for Unemployment Insurance



Source: U.S. Department of Labor via Haver Analytics

Existing Home Sales

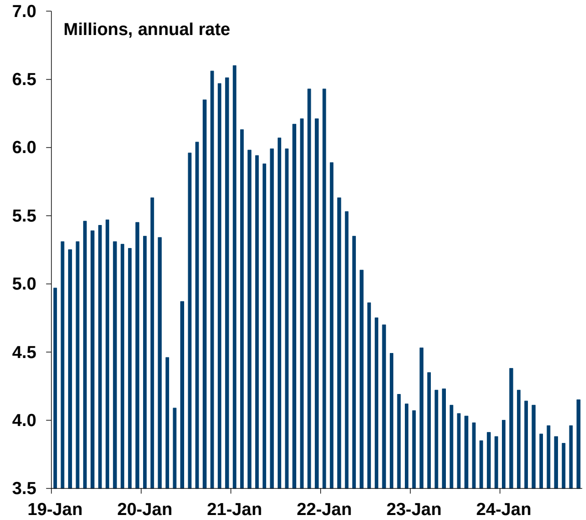
- Sales of existing homes rose 4.8 percent to 4.15 million, annual rate, in November – a firmer reading than the Bloomberg median projection of a 3.0 percent increase to 4.08 million. However, despite the better-than-expected improvement, sales remain in the low end of the range in the current expansion (chart, below left). Affordability constraints stemming from tight inventories and elevated prices have curtailed activity, with a broader recovery unlikely to materialize for some time. On that point, the FOMC trimmed the target range for the federal funds rate yesterday, but ongoing concern about sticky inflation led the Committee to curtail expectations for additional cuts – a developments that suggests mortgage rates could remain higher for longer and further impede a hoped-for thaw in home sales.

- The uptick in activity was relatively broad-based, with three of the four major geographic regions reporting increases in November. The Northeast posted the largest month-over-month advance, with sales rising 8.5 percent to 0.510 million units, annual rate. The South and Midwest registered similar-sized increases, with sales in the two regions increasing 5.7 percent and 5.3 percent, respectively, to 1.870 million and 1.000 million. Sales in the West, however, were flat in November, holding at 0.770 million. Despite the latest performances, sales in all four regions stand in the low end of their respective longer-run ranges.

- The median sales price fell 0.2 percent month-over-month to $406,100, the fourth decline in the past five months. That said, the latest decrease left the median price only $20,800 below the record high of $426,900 in June 2024. On a year-over-year basis, the measure rose 4.7 percent (versus +3.9 percent in the prior month).

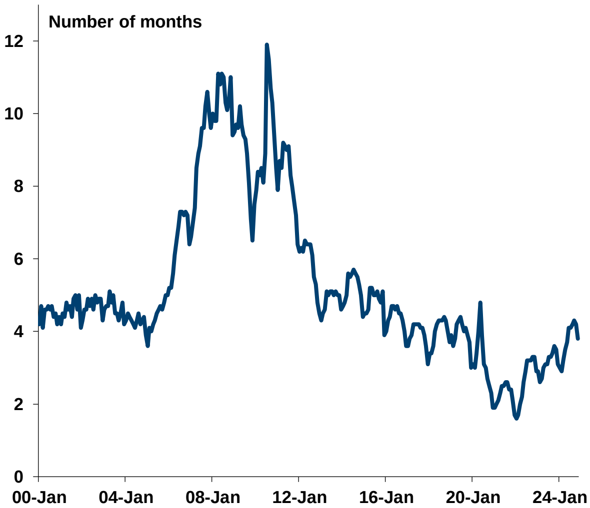
- Tight (although gradually improving) inventories have both supported high prices and constrained sales in the market for existing homes. Specifically, the inventory of homes available for sale dropped 2.9 percent month-over-month to 1.33 million in November (+17.7 percent year-over-year). The latest reading translated to a months' supply of 3.8 months at the current sales pace. While November's reading slipped from 4.2 months in October, it's above the record low of 1.6 months in January 2022 (chart, below right). Broadly speaking, while hints of improvement have emerged in recent months, the inventory situation remains fairly tight from a long-term perspective.

Existing Homes Sales



Source: National Association of Realtors via Haver Analytics

Months' Supply of Unsold Homes



Source: National Association of Realtors via Haver Analytics