Daiwa Capital Markets

U.S. Data Review

- Q4 GDP: solid activity driven by brisk consumer spending
- Unemployment claims: downshift in initial claims following wildfire-related distortions; continuing claims dip from cycle high

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Q4 GDP

- The first estimate of GDP growth for 2024-Q4 of 2.3 percent, annual rate, trailed the Bloomberg median estimate of 2.6 percent but still represented a solid performance for the U.S. economy. Correspondingly, the results translated to Q4/Q4 growth of 2.5 percent. The consumer sector was again a key catalyst for the ongoing economic expansion, although we are hopeful that pro-growth elements of the Trump agenda (tax shifts and regulatory changes) will spur business investment next year.

GDP and Related Items*

		24-Q2	24-Q3	24-Q4
1.	**Gross Domestic Product**	3.0	3.1	2.3
2.	**Personal Consumption Expenditures**	2.8	3.7	4.2
3.	**Nonresidential Fixed Investment**	3.9	4.0	-2.2
3a.	**Nonresidential Structures**	0.2	-5.0	-1.1
3b.	**Nonresidential Equipment**	9.8	10.8	-7.8
3c.	**Intellectual Property Products**	0.7	3.1	2.6
4.	**Change in Business Inventories (Contribution to GDP Growth)**	1.1	-0.2	-0.9
5.	**Residential Construction**	-2.8	-4.3	5.3
6.	**Total Government Purchases**	3.1	5.1	2.5
6a.	**Federal Government Purchases**	4.3	8.9	3.2
6b.	**State and Local Govt. Purchases**	2.3	2.9	2.0
7.	**Net Exports (Contribution to GDP Growth)**	-0.9	-0.4	0.0
7a.	**Exports**	1.0	9.6	-0.8
7b.	**Imports**	7.6	10.7	-0.8
	Additional Items			
8.	**Final Sales**	1.9	3.3	3.2
9.	**Final Sales to Domestic Purchasers**	2.8	3.7	3.1
10.	**Gross Domestic Income**	3.4	2.1	--
11.	**Average of GDP & GDI**	3.2	2.6	--
12.	**GDP Chained Price Index**	2.5	1.9	2.2
13.	**Core PCE Price Index**	2.8	2.2	2.5

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

- Consumer spending remained on track in Q4, as growth of 4.2 percent, annual rate, exceed by one full percentage point the Bloomberg median expectation of 3.2 percent. The results, which contributed 2.82 percentage points to GDP, followed a firm performance in Q3 (annualized growth of 3.7 percent). In the latest quarter, outlays for durable goods stood out with a surge of 12.1 percent – a result possibly tied to preemptive purchases of big-ticket items ahead of possible tariff-related price increases. Outlays for nondurable goods and services were respectable at +3.8 percent and +3.1 percent, respectively.

- Business fixed investment slipped 2.2 percent in Q4 (subtracting 0.31 percentage point from GDP). Outlays for new structures eased 1.1 percent after falling 5.0 percent in Q3, consistent with a slowdown associated with fading effects of the Biden Administration’s CHIPS Act. Additionally, equipment spending fell 7.8 percent after brisk growth in the prior two quarters (including +10.8 percent in Q3). Elevated interest rates and tight lending standards are still weighing on capital expenditures, although a recent jump in the cap-ex plans question from the National Federation of Independent Business’ Small Business Optimism Index raises the possibility of a pickup in 2025. Additionally, strike activity at Boeing likely contributed to the soft results, although this situation has been resolved as well. In contrast to the performance in other areas, investment in intellectual property products rose 2.6 percent.

- Residential investment rose 5.3 percent (contributing 0.21 percentage point to GDP). The increase was tied to both a pickup in new home construction and stirring in home sales in the fourth quarter.

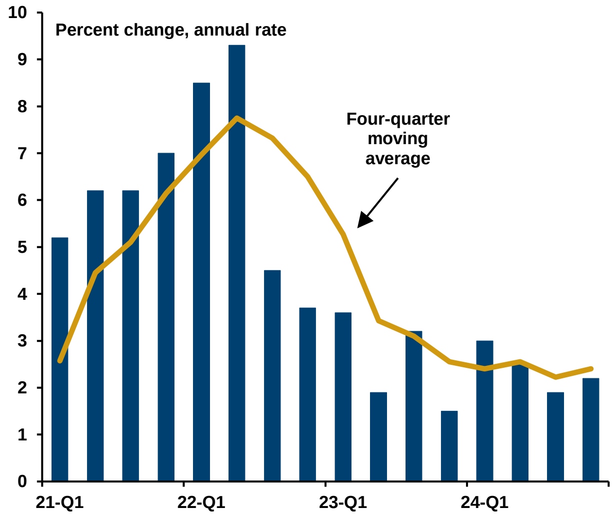
- Government spending rose 2.5 percent after an advance of 5.1 percent in Q3 (which was boosted by a jump of 13.9 percent in defense-related expenditures). The latest increase (contribution of 0.42 percentage point to economic growth) reflected an advance of 3.2 percent at the federal level (which followed the defense-related advance of 8.9 percent in Q3) and 2.0 percent in state and local government investment.

- Net exports were an essentially neutral influence on growth in Q34 (contribution of 0.04 percentage point), with both imports and exports slipping 0.8 percent. The results were mildly surprising given the December trade data published yesterday, which showed a sharp widening in the goods deficit. Moreover, net exports have been a drag on growth in 2024, as strong domestic demand has in part been satisfied by a firm flow of imports.

- Inventory investment subtracted 0.9 percentage point from growth in Q4, following a drag of 0.2 percentage point in the prior quarter. The results suggest that firms were managing inventories cautiously in the second half of 2024 amid what managers viewed as an uncertain demand outlook.

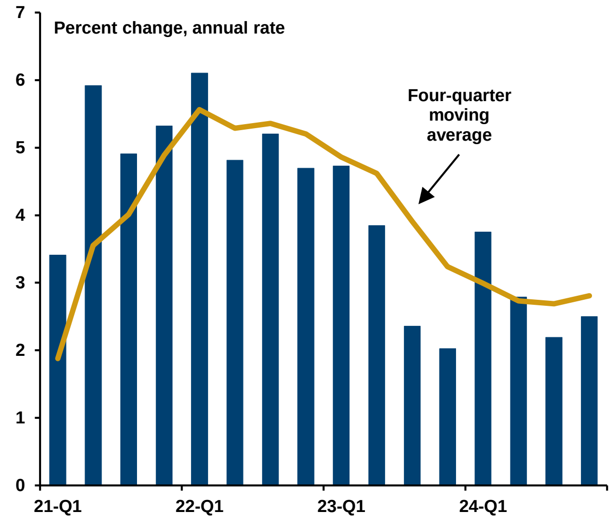
- Regarding inflation, the GDP price index rose 2.2 percent in Q4, a pickup from the 1.9 percent pace in the previous quarter but shy of the Bloomberg consensus expectation of 2.5 percent (chart, below left). The headline price index for personal consumption expenditures rose 2.3 percent, while the core index rose 2.5 percent (chart, below right). In his post-meeting remarks yesterday, Chair Powell noted that available data suggested a 12-month advance of 2.6 percent in the headline PCE index and 2.8 percent in the core, although he emphasized that conditions were in place for further deceleration in inflation (the labor market is in balance and no longer generating unsustainable wage growth, and measures of rents are set to cool further). With that said, the current inflation data led Powell and colleagues to adopt a patient approach with respect to monetary policy, with further rate cuts predicated on actual realized gains on the inflation front (i.e., further progress toward the 2 percent objective).

GDP Chained Price Index



Source: Bureau of Economic Analysis via Haver Analytics

Core PCE Price Index



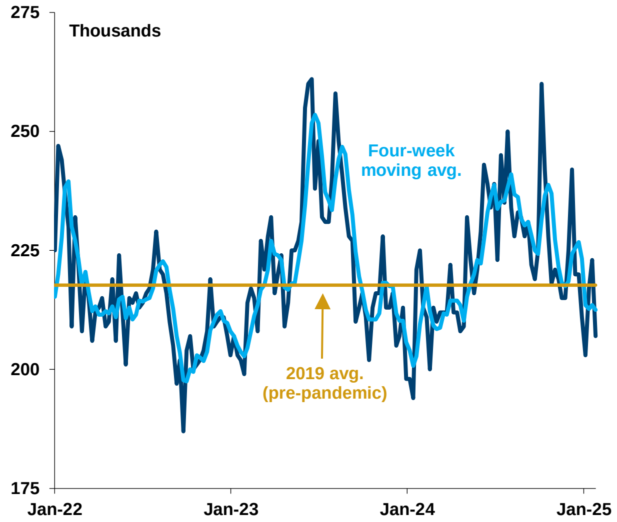
Source: Bureau of Economic Analysis via Haver Analytics

Unemployment Claims

- Initial claims for unemployment insurance fell 16,000 to 207,000 in the week ending January 25. Correspondingly, the four-week moving average dipped 1,000 to 212,500 (chart, below left). The recovery in claims was broad-based, with all four major geographical regions recording a decline in filings. Of note, following wildfire-related deterioration earlier in the month, California posted the largest decline among all states in the latest week, decreasing by 13,479 to 46,490 (reversing a sizeable portion of the 18,456 cumulative increases in the previous two weeks; not seasonally adjusted).

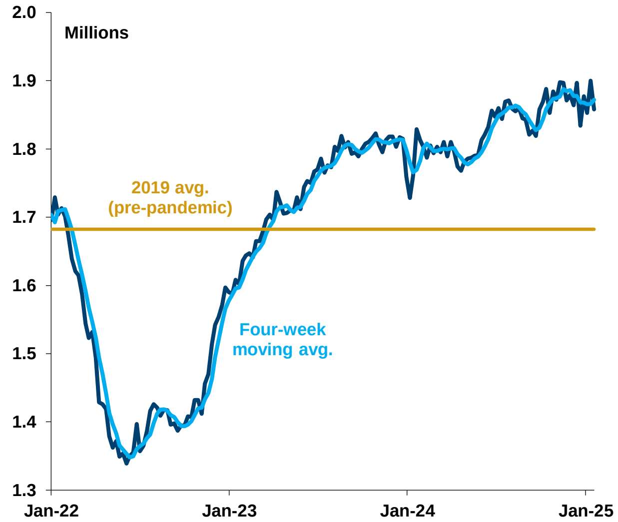
- After rising to a new cycle high of 1.900 million in the prior week, continuing claims declined in the week ending January 18, falling 42,000 to 1.858 million. Contrastingly, the four-week moving average increased by 6,000 to 1.872 million. Claims have essentially hovered between 1.800 million and 1.900 million since the summer of 2024. The pattern suggests stabilization above the restrained pre-pandemic average consistent with Chair Powell's assessment that underlying labor market conditions have cooled but remain solid (chart, below right).

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