Daiwa Capital Markets

U.S. Data Review

- Revised GDP: modest changes; inflation readings adjusted higher
- Durable goods: jump in aircraft orders boost the headline; shipments data suggest soft capital expenditures in Q1
- Unemployment claims: possible weather effects drive pickup in initial claims

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Revised Q4 GDP

- The second estimate of Q4 GDP yielded few surprises. Indeed, the new data were little changed from those in the first estimate, affirming the view that the U.S. economy remained on a solid growth trajectory in the closing months of last year with domestic demand playing a key role in that performance.

- Resilient consumer spending remained a key driver of growth in Q4, as the latest data were little changed from those published last month: personal consumption expenditures rose 4.2 percent, annual rate (a contribution of 2.79 percentage points to GDP growth, down slightly from the first estimate of a 2.82 percentage point contribution). Outlays for durable goods were unrevised (growth of 12.1 percent), while spending on nondurable items was adjusted slightly lower (growth of 3.0 percent versus 3.8 percent previously) and outlays for services were adjusted higher (+3.3 percent, an upward revision of 0.2 percentage point).

GDP and Related Items*

		24-Q3	24-Q4(a)	24-Q4(p)
1.	Gross Domestic Product	3.1	2.3	2.3
2.	Personal Consumption Expenditures	3.7	4.2	4.2
3.	Nonresidential Fixed Investment	4.0	-2.2	-3.2
3a.	Nonresidential Structures	-5.0	-1.1	1.1
3b.	Nonresidential Equipment	10.8	-7.8	-9.0
3c.	Intellectual Property Products	3.1	2.6	0.0
4.	Change in Business Inventories (Contribution to GDP Growth)	-0.2	-0.9	-0.8
5.	Residential Construction	-4.3	5.3	5.4
6.	Total Government Purchases	5.1	2.5	2.9
6a.	Federal Government Purchases	8.9	3.2	4.0
6b.	State and Local Govt. Purchases	2.9	2.0	2.2
7.	Net Exports (Contribution to GDP Growth)	-0.4	0.0	0.1
7a.	Exports	9.6	-0.8	-0.5
7b.	Imports	10.7	-0.8	-1.2
	Additional Items			
8.	Final Sales	3.3	3.2	3.2
9.	Final Sales to Domestic Purchasers	3.7	3.1	3.0
10.	Gross Domestic Income	2.1	--	--
11.	Average of GDP & GDI	2.6	--	--
12.	GDP Chained Price Index	1.9	2.2	2.4
13.	Core PCE Price Index	2.2	2.5	2.7

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

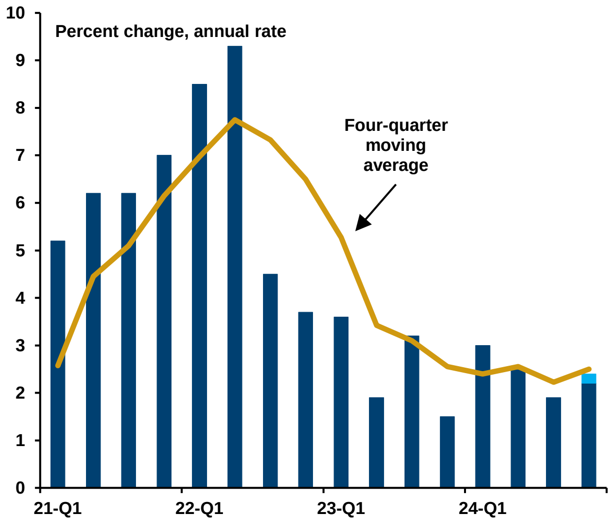
Source: Bureau of Economic Analysis via Haver Analytics

- Business fixed investment, in contrast, was softer than first reported (a contraction of 3.2 percent versus -2.2 percent previously; -0.45 percentage point contribution to growth versus -0.31 percentage point previously). Investment in structures was revised higher (+1.1 percent, annual rate, versus an initial contraction of 1.1 percent). Equipment spending was softer (-9.0 percent, annual rate, versus -7.8 percent) and investment in intellectual property was flat (versus previously reported growth of 2.6 percent).

- Adjustments in other areas were small. Residential construction grew 5.4 percent, 0.1 percentage point faster than the first estimate (with the contribution to growth remaining essentially unchanged at 0.21 percentage point). Additionally, government spending also was nudged higher (growth of 2.9 percent versus 2.5 percent; contribution of 0.49 percentage point versus 0.42 percentage point previously), with both federal and state and local outlays firmer than previously reported. Moreover, net exports made a slightly larger contribution to growth than previously thought (+0.12 percentage point versus +0.04), although trade flows remained soft. And, inventory investment was less of a drag (-0.81 percentage point versus -0.93).

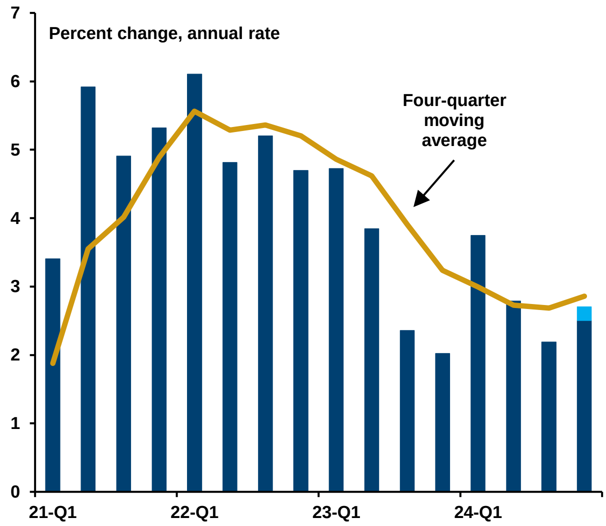
- We did take interest in the inflation data, which were revised unfavorably. The GDP price index showed faster inflation than previously estimated (+2.4 percent, annual rate, versus +2.2 percent first published), as did the headline and core price indexes for personal consumption expenditures (growth of 2.4 percent and 2.7 percent, respectively, versus 2.3 percent and 2.5 percent; charts on GDP price index and core PCE, below). New PCE price data will be released tomorrow with the Personal Income and Consumption report for January. The current Bloomberg median projection of 0.3 percent month-over-month for both measures (year-over-year advances of 2.5 percent for the headline measure and 2.6 percent for the core versus 2.6 percent and 2.8 percent, respectively, in December) suggest that inflation remained sticky above the 2 percent target in early 2025. Thus, with these data in mind, Fed officials have recently preached patience with respect to monetary policy rather than signaling an appetite for further near-term rate cuts. As such, we expect policymakers to leave the federal funds rate unchanged at the March meeting (current midpoint of 4.375 percent).

GDP Chained Price Index*



** The light blue portion of the bar for 2024-Q4 shows the upward revision for the second estimate.*
Source: Bureau of Economic Analysis via Haver Analytics

Core PCE Price Index*



** The light blue portion of the bar for 2024-Q4 shows the upward revision for the second estimate.*
Source: Bureau of Economic Analysis via Haver Analytics

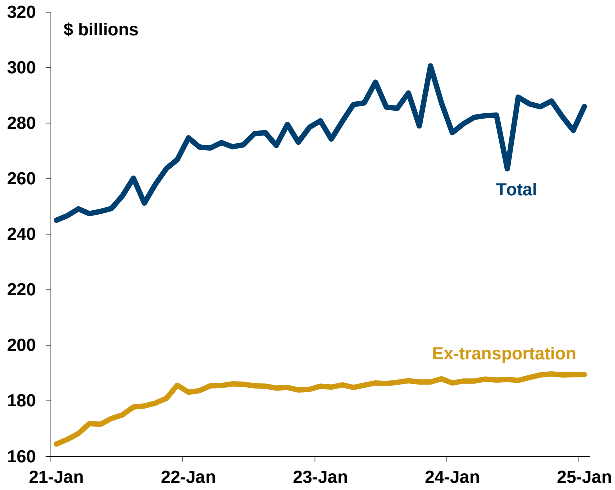
Durable Goods Orders

- Durable goods orders rose 3.2 percent in January (firmer than the Bloomberg median expectation of +2.0 percent) after falling 1.8 percent in the prior month. Of note, much of the gain was driven by a jump of 62.0 percent in aircraft bookings. In this regard, the civilian aircraft component (a subset of total aircraft orders) surged 93.9 percent after falling 28.9 percent in December, with recent issues at Boeing contributing to the swings. Orders excluding transportation, which are not influenced by the often-volatile aircraft category, were flat in the first month of the year (softer than the median view of +0.3 percent) after an increase of 0.1 percent in December. The trends in these areas remain positive but unimpressive, with headline bookings up 3.4 percent year-over-year and orders ex. transportation up only 1.6 percent (chart, next page, left).

- New orders for nondefense capital goods excluding aircraft, which provide insight into firms' plans for capital expenditures, increased 0.8 percent in January (versus +0.3 percent expected; chart, next page, right). Part of this pickup could represent firms attempting to front-run expected tariff increases, but recent stirring in business confidence also could be playing a role.

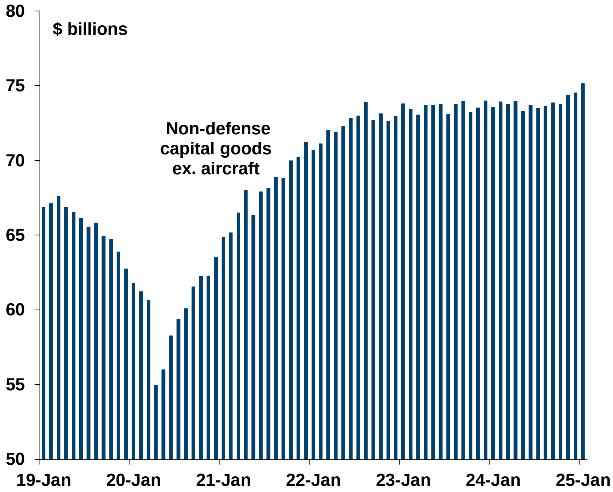
- Shipments for nondefense capital goods excluding aircraft, which correlate with capital expenditures in the GDP accounts, dipped 0.3 percent in January (versus +0.3 percent expected). The results, although only part of the Q1 picture, suggest that equipment spending could again be a drag on GDP after real outlays for equipment fell 9.0 percent, annual rate, in 2024-Q4 (see GDP writeup).

New Orders for Durable Goods



Source: U.S. Census Bureau via Haver Analytics

New Orders for Durable Goods



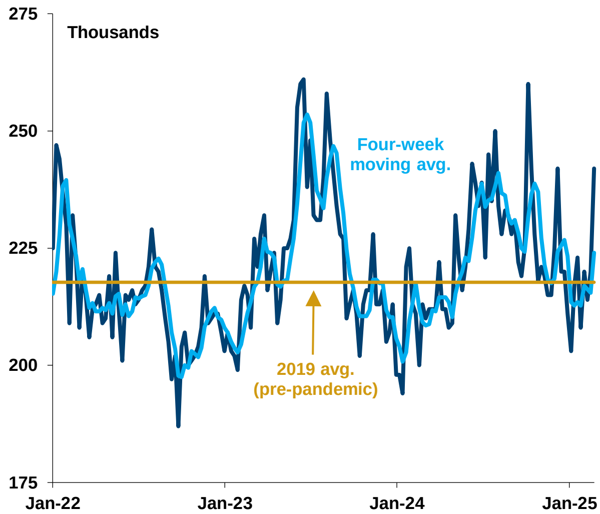
Source: U.S. Census Bureau via Haver Analytics

Unemployment Claims

- Initial claims for unemployment insurance jumped by 22,000 to 242,000 in the week ending February 22 -- higher than the Bloomberg median expectation of an increase to 221,000 and the highest level recorded since an equivalent reading in the week of December 7. Correspondingly, the four-week moving average increased by 8,500 to 224,000, also the highest observation since last December. While the latest increase in filings warrants further monitoring, we suspect that winter weather may have played a role in the latest reading, which has likely also contributed to recent week-to-week volatility (range of 208,000 to 242,000 in the past five weeks). Importantly, claims remain relatively subdued -- essentially in striking distance of the favorable 2019 pre-pandemic average of 218,000 (chart, below left).

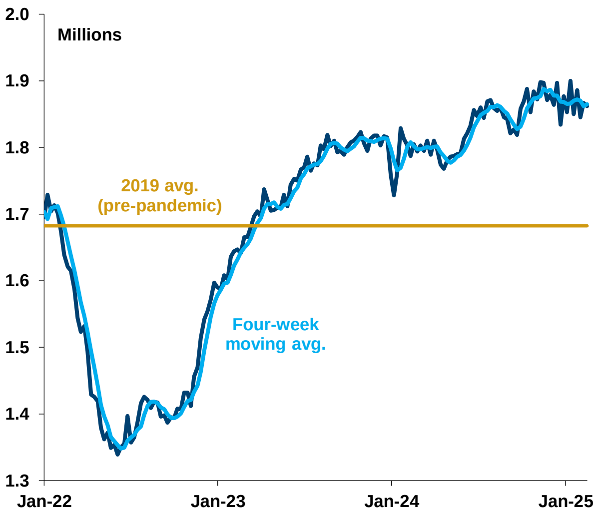
- Continuing claims for unemployment insurance, on the other hand, decreased by 5,000 to 1.862 million in the week ending February 15 (versus an expected increase to 1.871 million). The four-week moving average, however, tilted higher by 3,000 to 1.865 million. This series, while above the restrained pre-pandemic average of 1.682 million, has remained rangebound (readings in the vicinity of 1.800 million to 1.900 million since the summer of last year). The results suggest some cooling in previously tight labor market conditions but do not indicate marked deterioration that could prompt additional near-term rate cuts by the FOMC (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