Daiwa Capital Markets

U.S. Data Review

- Revised Q4 GDP: modest shifts among components; inflation slower; GDI suggests firm performance
- Corporate profits: rebound after sluggish results in past few quarters
- International trade in goods: tariff front-running distorts the early 2025 data
- Unemployment claims: rangebound shifts for both initial and continuing claims

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Revised 2024 Q4 GDP

- The third estimate of Q4 GDP was a bit firmer than projected by the Bloomberg survey median with an increase of 2.4 percent, annual rate, versus 2.3 percent expected (a reading matching the previous iteration of the Q4 GDP print; table right). Adjustments to various components were relatively minor, with modestly slower consumer spending growth (4.0 percent, annual rate, versus 4.2 percent previously reported) offset by a smaller drag from business fixed investment (a contraction of 3.0 percent versus 3.2 percent previously) and a larger positive contribution from net exports (+0.3 percentage point versus +0.1 percentage point in prior release). With that said, the salient consideration turns to Q1, where policies of the new Trump administration (predominantly the rollout of a robust tariff regime) are distorting trade flows and chilling consumer and business sentiment – which appear to be contributing considerably to a GDP tracking estimate below 1.5 percent.

GDP and Related Items*

		24-Q3	24-Q4(p)	24-Q4(r)
1.	Gross Domestic Product	3.1	2.3	2.4
2.	Personal Consumption Expenditures	3.7	4.2	4.0
3.	Nonresidential Fixed Investment	4.0	-3.2	-3.0
3a.	Nonresidential Structures	-5.0	1.1	2.9
3b.	Nonresidential Equipment	10.8	-9.0	-8.7
3c.	Intellectual Property Products	3.1	0.0	-0.5
4.	Change in Business Inventories (Contribution to GDP Growth)	-0.2	-0.8	-0.8
5.	Residential Construction	-4.3	5.4	5.5
6.	Total Government Purchases	5.1	2.9	3.1
6a.	Federal Government Purchases	8.9	4.0	4.0
6b.	State and Local Govt. Purchases	2.9	2.2	2.5
7.	Net Exports (Contribution to GDP Growth)	-0.4	0.1	0.3
7a.	Exports	9.6	-0.5	-0.2
7b.	Imports	10.7	-1.2	-1.9
	Additional Items			
8.	Final Sales	3.3	3.2	3.3
9.	Final Sales to Domestic Purchasers	3.7	3.0	3.0
10.	Gross Domestic Income	2.1	--	4.5
11.	Average of GDP & GDI	2.6	--	3.5
12.	GDP Chained Price Index	1.9	2.4	2.3
13.	Core PCE Price Index	2.2	2.7	2.6

** Percent change SAAR, except as noted. (p) = preliminary (2nd estimate of GDP), (r) = revised (3rd estimate of GDP)*

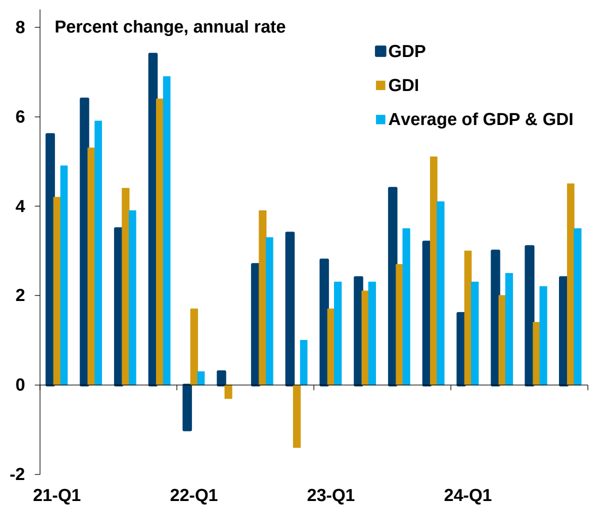
Source: Bureau of Economic Analysis via Haver Analytics

- The quarterly inflation data also were a bit more favorable than previously indicated. The GDP price index rose 2.3 percent, annual rate, one tick slower than the second estimate. Additionally, while the headline price index for personal consumption expenditures was unrevised at 2.4 percent, the core index was nudged lower (+2.6 percent versus +2.7 percent in the prior estimate). Here too, the key consideration is the trajectory of inflation and possible knock-on effects from tariffs. Chair Powell suggested in his recent post-FOMC press conference that tariff-related inflation pressures, when they materialize, could be transitory – although other policymakers have expressed concern that price pressures could be more persistent (e.g., remarks made yesterday by St. Louis Fed President Musalem), particularly if they lead to deterioration in longer-term inflation expectations.

- Q1 considerations aside, we took note of new figures on gross domestic income (GDI), an alternate measure of economic activity that measures income earned and costs associated with the production of goods and services in an economy. This measure, newly released with the third estimate of GDP, rose 4.5 percent in Q4 – further supporting the view that economic activity was firm in the closing months of last year. While this metric should in theory match GDP, it often varies on account of sampling differences. With that in mind, the Bureau of Economic Analysis suggests averaging GDP and GDI to get a better view on activity for the quarter. In this case, a result of 3.5 percent supported the previous conclusion (chart, below left).

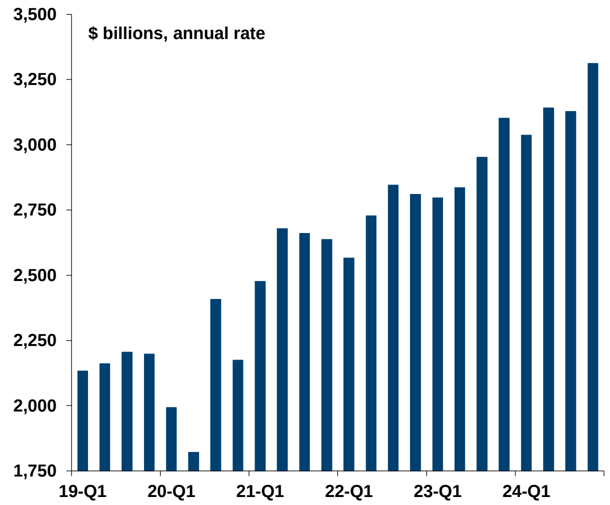
- Corporate profits improved noticeably in Q4 after moving sideways in recent quarters. Pre-tax earnings rose 5.4 percent, not annualized, after a dip in Q3. Moreover, after-tax earnings were up 5.9 percent (chart, below right). The results speak to the previous favorable environment for U.S. businesses and also raise the possibility that firms may blunt the impact of tariffs to a degree for consumers. With profits elevated, firms could elect to absorb higher costs in margins to maintain market share rather than pass them along in the form of higher prices. While it is too soon to project such behavior, it could potentially blunt the expected inflation impact of the Trump administration's trade policy and provide a needed assist to the Federal Reserve in achieving its inflation mandate.

Growth of Real GDP & GDI



Source: Bureau of Economic Analysis via Haver Analytics

After-Tax Corporate Profits



Source: Bureau of Economic Analysis via Haver Analytics

International Trade in Goods

- The U.S. international trade deficit in goods narrowed by $7.7 billion in February to $147.9 billion from the record of $155.6 billion (revised from $153.3 billion) in the prior month. The latest modest improvement reflected a dip of 0.2 percent in imports after a burst of 12.5 percent in January and an advance of 4.1 percent in exports (charts, next page).

- Unusual volatility in trade flows in recent months reflects in part firms' efforts to front-run tariffs by stockpiling goods ahead of new levies – conditions unlikely to persist for a prolonged period. Additionally, repatriation of gold into the U.S. ahead of potential future import duties (which appears in imports of industrial supplies) has also contributed to the widening.

- All told, the average goods deficit of $151.7 billion (Census basis) in the first two months of 2025 is well ahead of the average of $108.1 billion in Q4, implying a substantial drag from net exports on GDP growth in 2025-Q1. With that said, additional data on service trade and results for March, along with inflation adjustment, could alter the picture appreciably. Moreover, gold transactions will be excluded from the tabulation of data that feed through to GDP. Thus, we anticipate net exports subtracting more than one percentage point from GDP in Q1, setting the stage for output growth in the low-one-percent area, but we do not expect it to be as large as implied by simply observing the topline trade data.

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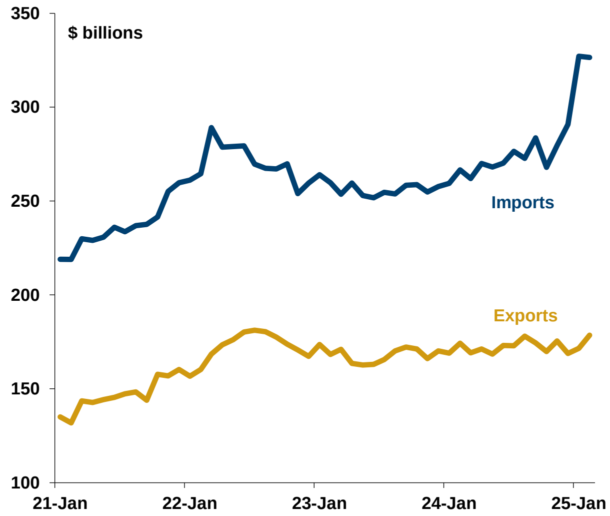
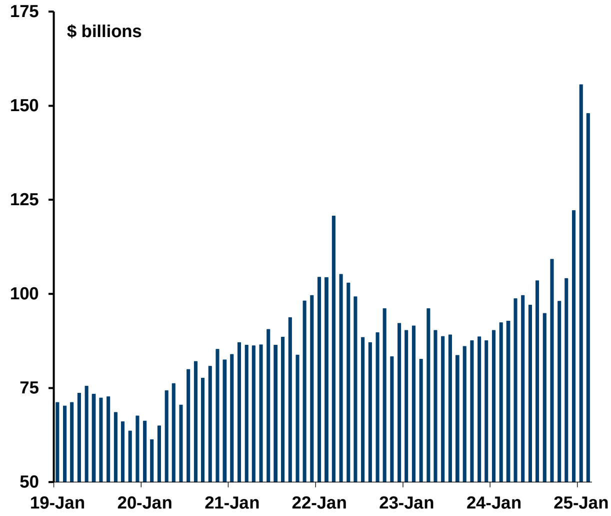
Imports & Exports of Goods



Source: U.S. Census Bureau via Haver Analytics

Nominal Trade Deficit in Goods



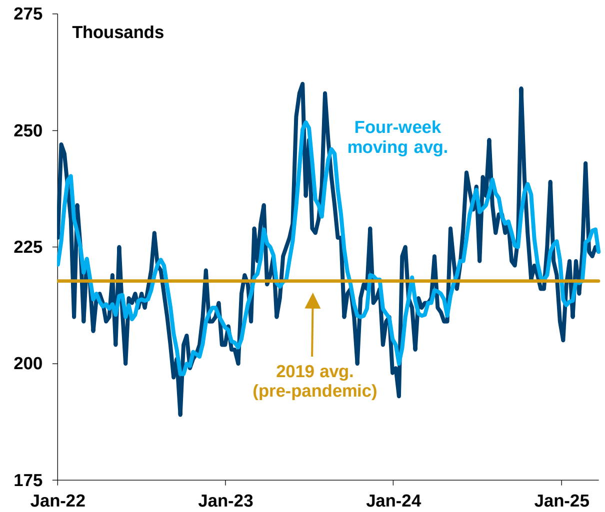
Source: U.S. Census Bureau via Haver Analytics

Unemployment Claims

- Following the incorporation of annual revisions to seasonal adjustment factors, initial claims for unemployment insurance were little changed in the week ending March 22, dropping a modest 1,000 to 224,000 (versus the Bloomberg survey median expectation of 225,000). Reciprocally, the four-week moving average decreased by 4,750 to an equivalent reading of 224,000. Outside of the weather-distorted jump to 243,000 in the week of February 22, claims have been contained in a fairly narrow range since the turn of the year (205,000 to 225,000; chart, below left).

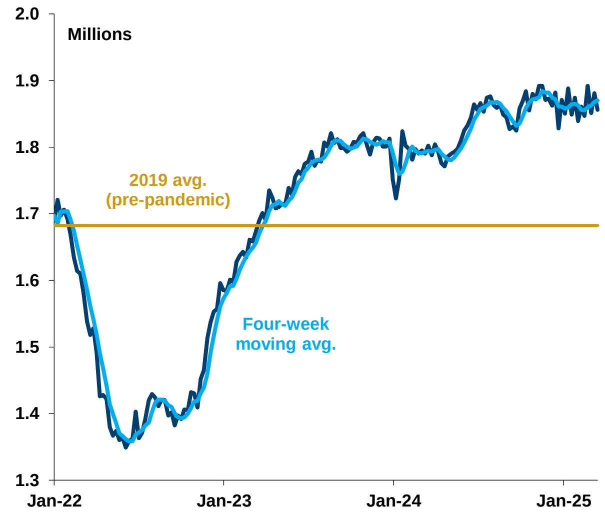
- Continuing claims for unemployment insurance fell by 25,000 to 1.856 million in the week ending March 15 (versus the Bloomberg median expectation of 1.886 million). The four-week moving average, contrastingly, rose 2,250 to 1.870 million. Claims data has been relatively stable in recent months, with the latest shift leaving filings in the middle of the range displayed since the summer of 2024 (1.807 to 1.884 million since June 2024; 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