

U.S. Data Review

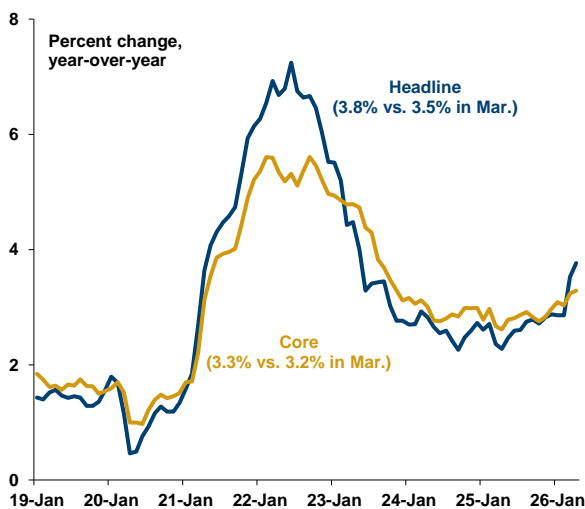
- Consumer inflation: below expectations but still hot
- Personal income and consumption: income growth was lackluster in April, with households drawing on savings to facilitate solid spending
- Revised Q1 GDP: downward adjustments to consumer spending and inventory investment influence negative revision to topline growth
- New home sales: activity decelerates as mortgage rates tilt higher; prices tick up; inventories elevated

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Consumer Prices, Household Spending, and Income Growth

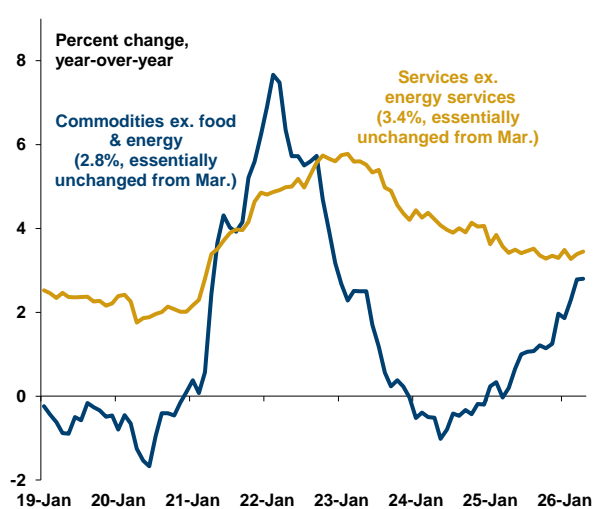
- Among the most anticipated of today's deluge of economic data was the April reading for the price index for personal consumption expenditures from the Bureau of Economic Analysis' Personal Income and Outlays report – particularly salient as the Fed helmed by recently appointed Chair Warsh attempts to calibrate monetary policy amid an ongoing energy price shock. Although elements from the previously released CPI and PPI provide guidance on the potential outcome for PCE index (we had anticipated the headline and core indexes to round up to 0.5 percent and 0.3 percent, respectively, which was aligned with the Bloomberg median survey), the metrics ultimately printed a bit below expectations at +0.4 percent and +0.2 percent, respectively (+0.400 percent and +0.239 percent with less rounding). However, year-over-year advances were still brisk. The headline index increased 3.8 percent in April from 3.5 percent previously (the fastest since May 2023) and the core measure rose 3.3 percent versus 3.2 percent previously (the most rapid since November 2023; chart, below left).
- As expected, the energy component again played a key role in the brisk headline advance, rising 3.9 percent after a surge of 11.6 percent in March (+18.3 percent year-over-year, up from +14.4 percent previously). Moreover, food prices registered a firm gain of 0.5 percent (+2.5 year-over-year, up from +1.7 percent in March) – possibly hinting at second-round effects from elevated energy prices distributing through supply chains. Turning to core, good prices rose 0.3 percent month-to-month (+2.8 percent year-over-year –up marginally from the March reading but still rounding up to the aforementioned rate; chart, below right). Evidently, price pressure from the Trump administration's tariff regime is still transmitting to core goods prices, although policymakers anticipate that the effects will soon crest and then fade later this year. Core service prices increased 0.2 percent – a reading within the recent range of observations – with the year-over-year change rounding to 3.4 percent for the second consecutive month (+3.449 percent in April versus +3.383 percent previously). Core services prices have been trending sideways since the spring of 2025, remaining well above the

PCE Price Index: Headline & Core



Source: Bureau of Economic Analysis via Haver Analytics

PCE Price Index: Core Goods & Core Services



Source: Bureau of Economic Analysis via Haver Analytics

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Revised Q1 GDP

- | | GDP and Related Items* | 25-Q4 | 26-Q1(a) | 26-Q1(p) |
|--|---|--------------|-----------------|-----------------|
| <ul style="list-style-type: none"> The second estimate of Q1 GDP was notably softer than the preliminary tally (+1.6 percent, annual rate, versus +2.0 percent previously – a result which was lower than all estimate submitted to the Bloomberg economist survey). None-the-less, the performance was still solid despite downward adjustments to consumer spending and business fixed investment. Growth in real final sales to private domestic purchasers (a measure often cited by Fed officials as a better indicator of underlying demand versus headline growth) rose 2.4 percent versus 2.5 percent published last month – a performance matching the favorable average over the four quarters of last year. Indeed, much of the downward revision reflected an adjustment to inventory investment, which is often highly volatile. | 1. Gross Domestic Product | 0.5 | 2.0 | 1.6 |
| | 2. Personal Consumption Expenditures | 1.9 | 1.6 | 1.4 |
| | 3. Nonresidential Fixed Investment | 2.4 | 10.4 | 10.1 |
| | 3a. Nonresidential Structures | -6.5 | -6.7 | -5.4 |
| | 3b. Nonresidential Equipment | 4.3 | 17.2 | 17.2 |
| | 3c. Intellectual Property Products | 5.4 | 13.0 | 11.6 |
| | 4. Change in Business Inventories (Contribution to GDP Growth) | 0.1 | 0.4 | 0.1 |
| | 5. Residential Construction | -1.7 | -8.0 | -6.2 |
| | 6. Total Government Purchases | -5.6 | 4.4 | 4.4 |
| | 6a. Federal Government Purchases | -16.6 | 9.3 | 9.5 |
| | 6b. State and Local Govt. Purchases | 1.5 | 1.6 | 1.5 |
| | 7. Net Exports (Contribution to GDP Growth) | -0.2 | -1.3 | -1.3 |
| | 7a. Exports | -3.2 | 12.9 | 13.1 |
| 7b. Imports | -1.0 | 21.4 | 21.1 | |
| | Additional Items | | | |
| | 8. Final Sales | 0.3 | 1.6 | 1.5 |
| | 9. Final Sales to Domestic Purchasers | 0.6 | 2.8 | 2.7 |
| | 10. Gross Domestic Income | 1.6 | -- | 0.9 |
| | 11. Average of GDP & GDI | 1.1 | -- | 1.3 |
| | 12. GDP Chained Price Index | 3.7 | 3.6 | 3.5 |
| | 13. Core PCE Price Index | 2.7 | 4.3 | 4.4 |
- * Percent change SAAR, except as noted. (a) = advance estimate, (p) = preliminary estimate
Source: Bureau of Economic Analysis via Haver Analytics
- As noted above, consumer spending, an ongoing key driver of growth, was adjusted lower (+1.4 percent, annual rate, versus +1.6 percent first reported; a contribution of 0.95 percentage point to growth versus 1.08 percentage point). Expenditures on services were adjusted down (+1.8 percent versus +2.4 percent previously). Spending on goods, meanwhile, provided a partial offset, with outlays for both durables (growth of 0.4 percent versus 0.0 percent previously) and nondurables (+0.5 percent versus -0.2 percent previously) nudged higher.
 - While still a key source of growth in Q1, business fixed investment also influenced the negative revision – albeit more modestly (+10.1 percent, annual rate, versus +10.4 percent initially reported; contribution to growth of 1.35 percentage points versus 1.39 percentage points). Leading the way was a downward adjustment to intellectual property investment (+11.6 percent versus +13.0 percent previously). Equipment spending, meanwhile, stood pat at annualized growth of 17.2 percent. Even amid the adjustment to IP, however, both that subcomponent and equipment spending saw significant boosts from ongoing AI-related investment. Concurrently, outlays for structures were a bit better than first reported, although they were still decidedly soft (-5.4 percent versus -6.7 percent previously).
 - Turning to other areas of the report, residential construction was less of a drag on GDP growth than previously assumed (-6.2 percent, annual rate, versus -8.0 percent in last month's release; -0.24 percentage point from growth versus -0.31 percentage point). Inventory investment, meanwhile, was a major source of the downward revision to topline activity (see above; +0.08 percentage point versus +0.40 percentage point previously). Furthermore, net exports still constrained GDP amid strong trade flows, though the drag was a bit less than first reported (-1.25 percentage points versus -1.30 percent previously), with exports posting a larger advance and imports posting a softer one. Government spending, meanwhile, remained unchanged at +4.4 percent, annual rate (+0.73 percentage point to growth), a marked rebound after a shutdown last fall contributed to a sharp contraction.
 - An alternate measure of economic activity, Gross Domestic Income (GDI), was released today with the second estimate of GDP – and it pushed back to a degree on the notion that domestic activity was solid (although we are not overly concerned at this juncture). This metric, which is the sum of incomes earned and costs incurred in the production of GDP, rose 0.9 percent, annual rate, in the first quarter – slower than the advance seen in GDP. Note that this measure can

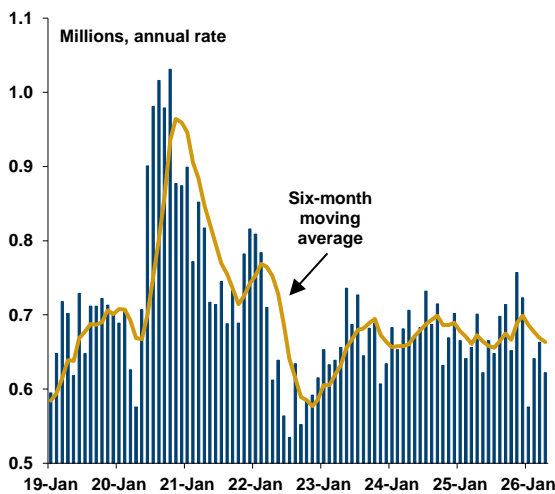
often deviate significantly from GDP results given differences in sampling. With that in mind, the average of the two, a measure used by the Bureau of Economic Analysis to provide an even more complete view of the economy, came in at 1.3 percent – up from +1.1 percent in the prior quarter but down from the 2025 quarterly average of +2.1 percent.

- Price indexes released with today’s report were modestly changed from the first tally. The GDP price index was revised slightly lower (+3.5 percent versus +3.6 percent in the first estimate). Turning to consumer prices, the Q1 estimate for the headline PCE price index was unchanged at +4.5 percent, annual rate, and the core PCE price index increased 4.4 percent, annual rate, rather than 4.3 percent.
- A view on broad corporate profits in Q1 showed some deceleration after solid results in the final quarter of 2025, with pre-tax earnings rising 0.9 percent (not annualized) after an advance of 6.0 percent in 25-Q4 and post-tax profits declining 0.4 percent after increasing 5.7 percent previously. Despite the moderate gains in the latest quarter, profits in the aggregate have been strong in the post-pandemic period.

New Home Sales

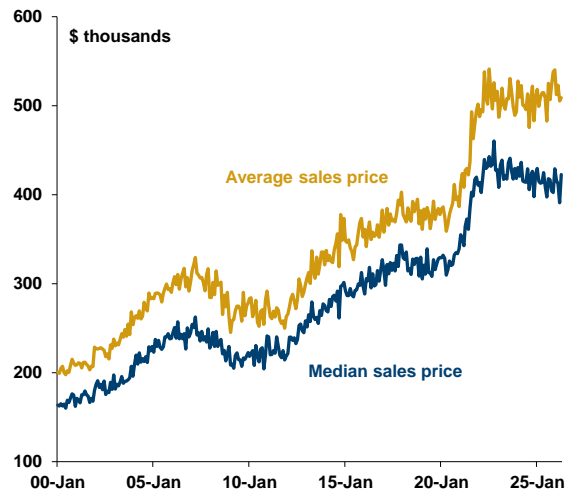
- Sales of new homes declined by 6.2 percent to 0.622 million units, annual rate, in April (-11.3 percent year-over-year) – a softer result than the median projection of 0.660 million from the Bloomberg survey and likely reflecting higher mortgage rates contributing to already substantial affordability issues. The deceleration in activity was broadly based, with three of four major geographical regions posting month-to-month declines. Specifically, sales in the Midwest, Northeast, and South declined 25.0, 12.9, and 9.8 percent, respectively, to 0.066, 0.027, and 0.370 million units in the opening month of Q2. Activity in the West, meanwhile, surged 18.7 percent to 0.159 million.
- Deterioration aside, we caution that this series is inherently volatile (range of -20.3 to +16.1 percent in the past six months), with revisions often large. Moreover, a 90 percent confidence interval of ±12.8 percent indicates a relatively high degree of uncertainty with April’s estimate. That in mind, observing this series through a six-month moving average can help to smooth out short-term gyrations and discern underlying trends (trailing average of 0.669 million in the period ending March 2026; chart, below left). Broadly speaking, after easing for approximately two years, on balance, between 2020 and 2022, sales tilted higher and have since leveled out at a pace similar to what prevailed just prior to the onset of the pandemic.
- After easing for three consecutive months, the median sales price of a new home rose 8.0 percent to \$422,500 (not seasonally adjusted) in April. On a year-over-year basis, prices advanced 2.2 percent. Concurrently, the average sales price increased 0.7 percent to \$508,800 (-1.1 percent year-over-year). Thus, prices have come off a bit but are still elevated (chart, below right).

New Home Sales



Source: U.S. Census Bureau via Haver Analytics

Sales Price of New Homes*

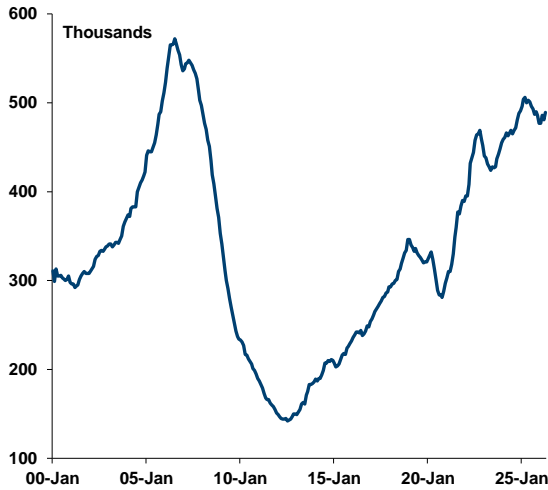


* Not seasonally adjusted

Source: U.S. Census Bureau via Haver Analytics

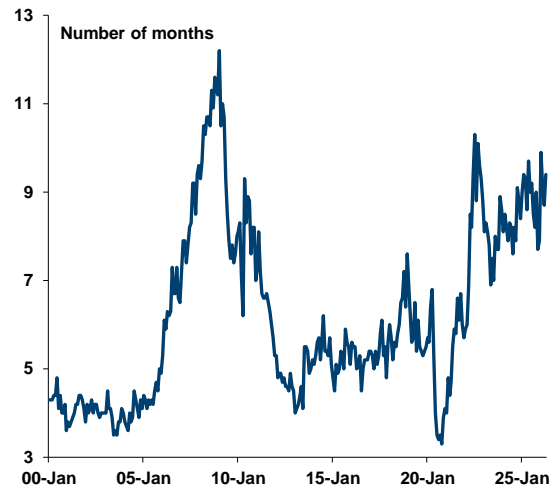
- The inventory of unsold new homes rose 1.6 percent to 0.489 million units (not annualized; -2.2 percent year-over-year). The latest advance contributed to the months' supply of unsold new homes increasing 0.7 month to 9.4 months – a result only somewhat below the recent cycle high of 10.3 months in July 2022 and elevated from a long-term perspective (indicative of excess supply in this section of the real estate market; charts, below).

Inventory of Unsold New Homes



Source: U.S. Census Bureau via Haver Analytics

Months' Supply of Unsold New Homes



Source: U.S. Census Bureau via Haver Analytics