

# U.S. Data Review

- Price index for personal consumption expenditures: both headline and core register brisk increases, although pressure likely to abate with recent drop in oil prices
- Personal income and consumption: solid nominal income growth exceeded expectations, although real income growth eased year-over-year, while real consumer spending rose moderately from downward-revised reading – suggesting solid household spending in Q2
- Q1 GDP: headline revised upward, but private domestic final demand adjusted lower on account of sluggish consumer spending
- Durable goods: drop in aircraft orders constrains headline; solid advance for bookings ex. transportation
- Unemployment claims: drop in initial claims perhaps distorted by federal holiday; continuing claims turned higher

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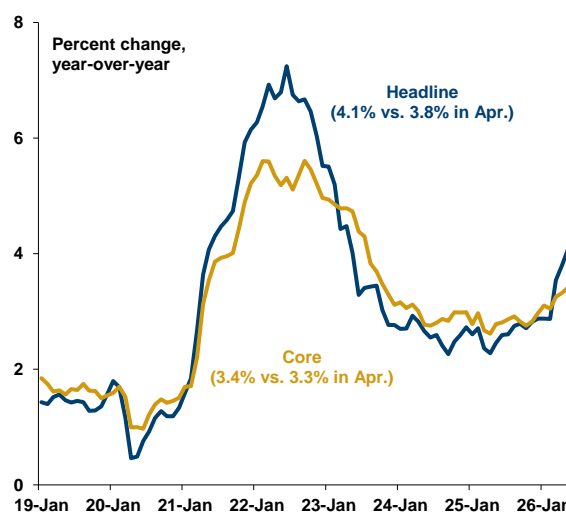
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## Consumer Prices, Household Spending, and Income Growth

- May data on the price index for personal consumption expenditures (the Federal Reserve's preferred inflation metric) matched the median expectation in the Bloomberg survey, with the headline index jumping 0.5 percent and the core measure rising 0.3 percent (+0.450 percent and +0.320 percent, respectively, with less rounding). The changes equated to year-over-year advances of 4.1 percent and 3.4 percent, respectively, for the headline and core indexes – up from 3.8 percent and 3.3 percent in the prior month (chart). The latest shifts, which were anticipated by market participants based on prior results from the CPI and PPI, aligned with the assessment in the June FOMC statement that “Inflation remains elevated relative to the Committee’s 2 percent goal,” although we suspect that relief may be on the horizon. Recall, the statement also referenced “supply shocks that have driven price increases in certain sectors, including energy” as a key causative factor for the recent bout of price pressure, and energy prices have retreated sharply in light of the recent memorandum of understanding established by the U.S. and Iran to bring an end to the latest conflict in the Middle East and restore shipping traffic in the Strait of Hormuz. In that regard, oil prices have fallen sharply in light of the latest developments, with the price of West Texas Intermediate Crude falling from \$87.36 per barrel on the last business day of May to \$70.34 at yesterday's close.

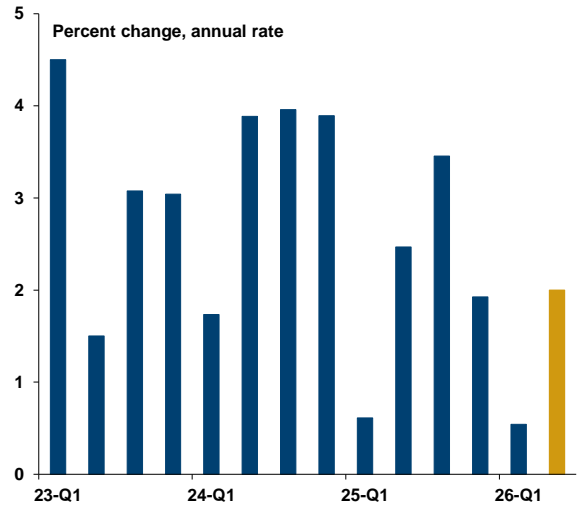
**PCE Price Index**


Source: Bureau of Economic Analysis via Haver Analytics

- While the price of crude oil does not feed directly into consumer inflation gauges, it does determine the price of gasoline, which had been a key driver of the recent surge in the energy goods and services component of the PCE index (up 20.6 percent in the past three months, including an advance of 4.0 percent in May; +24.3 percent year-over-year). Thus, given the de-escalation and attendant drop in crude prices, pressure in the energy component is set to abate – albeit more slowly given that retail gasoline prices are stickier than those for the underlying commodity – with risks of second-round inflationary effects tied to the energy price shock also likely to diminish. Consequently, the FOMC cannot declare an all clear on the price front, but given previously discussed developments (and the likely prior peak in tariff effects on core goods prices), members of the Committee may, over time, become less concerned about prospects for renewed tightening in monetary policy (which was evident in the June Summary of Economic Projections, where nine of 18 officials providing forecasts saw the chance of a rate hike in 2026 versus none in March).

- Turning to other elements of the Personal Income and Outlays report, nominal personal income growth of 0.7 percent exceeded by a wide margin the Bloomberg median forecast of 0.4 percent (with no revision to prior results), while nominal spending growth of 0.7 percent from downwardly revised results in the prior month was marginally firmer than the consensus expectation of a gain of 0.6 percent. The nominal results were favorable on the surface, but adjusting the data for inflation called into question the sustainability of solid consumer spending into the second half of 2026. On the point, real personal income rose 0.2 percent in May after declines in the prior three months and was down 0.2 percent year-over-year. However, the corrosive effects of the latest bout of inflation have most recently been weathered by households by way of elevated tax refunds and a drawdown in savings (the saving rate held at 3.0 percent for the second consecutive month, well below the norm in the prior expansion). With that in mind, we view real spending growth of 0.3 percent in May (consistent with approximately 2.0 percent annualized growth in real consumer spending in Q2) as favorable, but unlikely to be sustained in the back half of the year as the tailwind from aforementioned tax refunds fades and households take pause before further tapping dwindling savings.

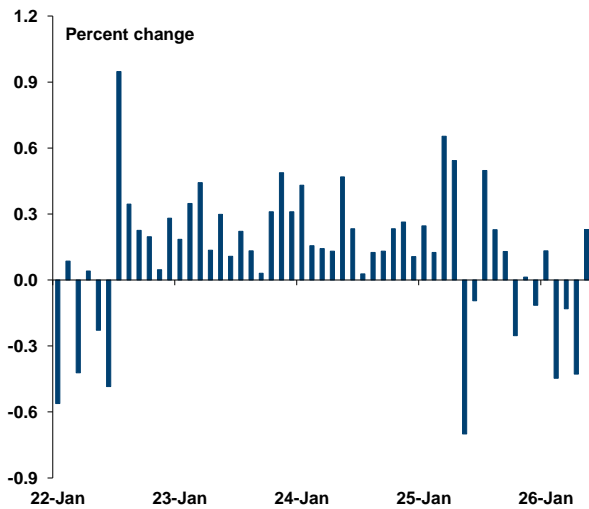
**Real Consumer Spending Growth\***



\* The gold bar is a forecast for 2026-Q2.

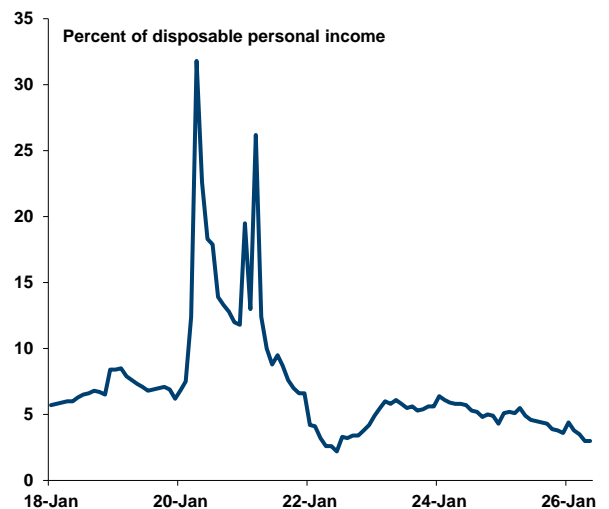
Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

**Real Personal Income Growth**



Source: Bureau of Economic Analysis via Haver Analytics

**Personal Saving Rate**



## Revised Q1 GDP

- The third estimate of Q1 GDP indicated growth of 2.1 percent, annual rate, up from 1.6 percent previously (which was also the median expectation among economists). The solid topline results, however, masked a sharp downward adjustment to private domestic final demand (+1.7 percent versus +2.4 percent in the second estimate; chart, below left) which resulted from a second consecutive reassessment of consumer spending (+0.5 percent, annual rate, in Q1 versus +1.4 percent as of the second estimate). Contrastingly, much of the upward revision reflected a notably less severe drag from net exports than previously indicated (a constraint of 0.37 percentage point on growth versus 1.25 percentage points as of the second estimate). Contributing to the shift, a downward revision to import growth far exceeded a negative adjustment to exports (table; next

page). Adjustments in other areas were relatively modest. Thus, while the results were modestly disappointing, we still view them as aligned with the FOMC's characterization of economic growth as "solid." Moreover, based on data in hand, we expect growth in Q2 to exceed the Q1 pace, led by a rebound in household expenditures (see above).

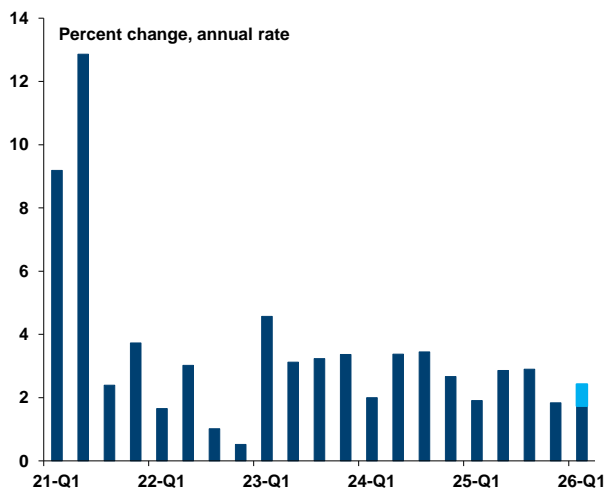
- On the price front, adjustments to deflators were modest. The GDP price index increased at an annualized rate of 3.6 percent in Q1 (up from 3.5 percent previously indicated; chart, below right). Regarding the price index for personal consumption expenditures, the headline deflator increased at a faster clip than previously reported (4.6 percent, annual rate, versus 4.5 percent), while the core index was unrevised at a growth rate of 4.4 percent.

## GDP and Related Items\*

	25-Q4	26-Q1(p)	26-Q1(r)
<b>1. Gross Domestic Product</b>	0.5	1.6	2.1
<b>2. Personal Consumption Expenditures</b>	1.9	1.4	0.5
<b>3. Nonresidential Fixed Investment</b>	2.4	10.1	10.6
<b>3a. Nonresidential Structures</b>	-6.5	-5.4	-4.7
<b>3b. Nonresidential Equipment</b>	4.3	17.2	15.8
<b>3c. Intellectual Property Products</b>	5.4	11.6	13.8
<b>4. Change in Business Inventories</b>	0.1	0.1	0.2
<b>(Contribution to GDP Growth)</b>			
<b>5. Residential Construction</b>	-1.7	-6.2	-7.8
<b>6. Total Government Purchases</b>	-5.6	4.4	4.4
<b>6a. Federal Government Purchases</b>	-16.6	9.5	9.4
<b>6b. State and Local Govt. Purchases</b>	1.5	1.5	1.6
<b>7. Net Exports</b>	-0.2	-1.3	-0.4
<b>(Contribution to GDP Growth)</b>			
<b>7a. Exports</b>	-3.2	13.1	10.9
<b>7b. Imports</b>	-1.0	21.1	11.8
<b>Additional Items</b>			
<b>8. Final Sales</b>	0.3	1.5	1.9
<b>9. Final Sales to Domestic Purchasers</b>	0.6	2.7	2.2
<b>10. Gross Domestic Income</b>	1.6	0.9	1.2
<b>11. Average of GDP &amp; GDI</b>	1.1	1.3	1.7
<b>12. GDP Chained Price Index</b>	3.7	3.5	3.6
<b>13. Core PCE Price Index</b>	2.7	4.4	4.4

\* Percent change SAAR, except as noted. (p) = preliminary estimate, (r) = revised estimate  
 Source: Bureau of Economic Analysis via Haver Analytics

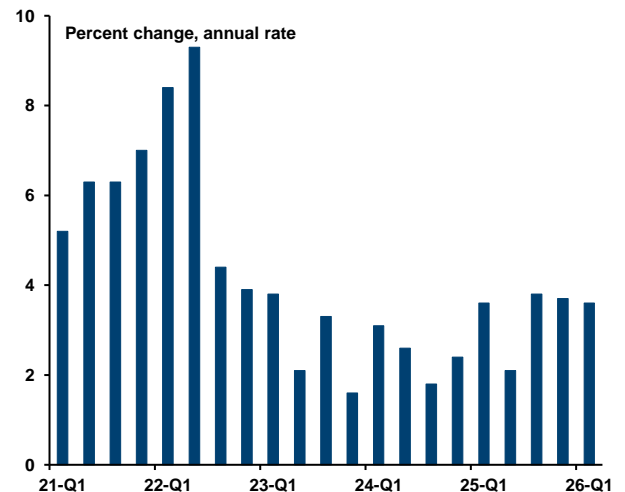
## Private Domestic Final Demand\*



\* Excludes the contributions of government spending, net exports, and inventory investment. The light blue bar shows the size of the downward revision for 2026-Q1.

Source: Bureau of Economic Analysis via Haver Analytics

## GDP Price Index

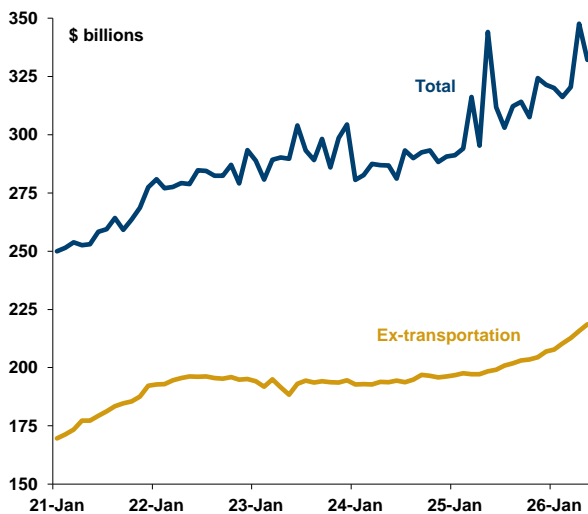


Source: Bureau of Economic Analysis via Haver Analytics

## Durable Goods Orders

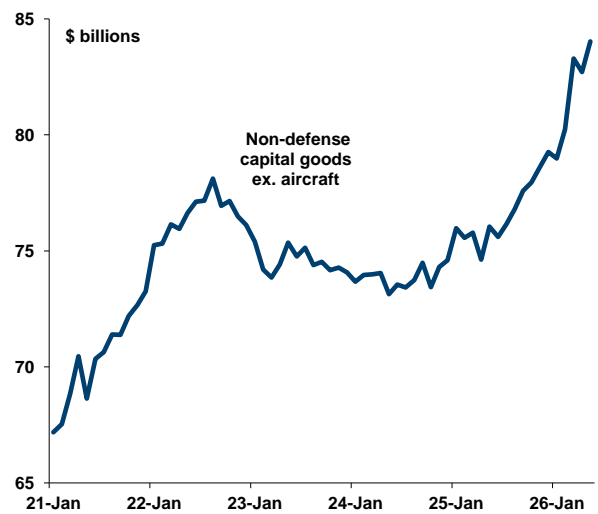
- Following an advance of 8.5 percent in the prior month, new orders for durable goods fell 4.5 percent in May (versus the median expectation of a decline of 5.0 percent from the Bloomberg economist survey). As is often the case, much of the decline was driven by softening in the typically-volatile transportation category (-14.0 percent). Taking a closer glance, the civilian aircraft component, which is a subset of total aircraft orders, plunged 51.8 percent – reflecting an unwinding of previously strong order flows at Boeing. Orders excluding transportation, meanwhile, surprised to the upside with a 1.3 percent increase in the second month of Q2 (versus +0.6 percent expected) – the fourth consecutive advance above 1.0 percent. Headline bookings are down 3.5 percent year-over-year (although that shift is distorted by a one-off burst in May of last year) while orders ex. transportation are up 10.2 percent. On balance, following previously unimpressive trends, both series have tilted higher since early 2025 (chart, below left).
- New orders for nondefense capital goods excluding aircraft, which provide insight into firms' capital spending plans, also beat expectations with a 1.6 percent increase in May (versus the median projection of +0.6 percent; +10.5 percent year-over-year; chart, below right). Bookings have stirred in recent months – perhaps reflective of firms front-running purchases in an attempt to avoid cost run-ups stemming from supply chain complications in the Strait of Hormuz. As such, with the US and Iran seemingly close to reopening the vital trade route, we'll be keeping a close eye on this area in coming months to monitor any potential retracement.
- Shipments for nondefense capital goods excluding aircraft, which correlate with capital expenditures in the national accounts, rose 0.3 percent (a bit softer than the median expectation of +0.5 percent). May's result, while only reflecting a portion of the Q2 picture, suggests that equipment spending in GDP could be on track for a second consecutive double-digit gain after increasing 15.8 percent in Q1.

### New Orders for Durable Goods



Source: U.S. Census Bureau via Haver Analytics

### New Orders for Durable Goods

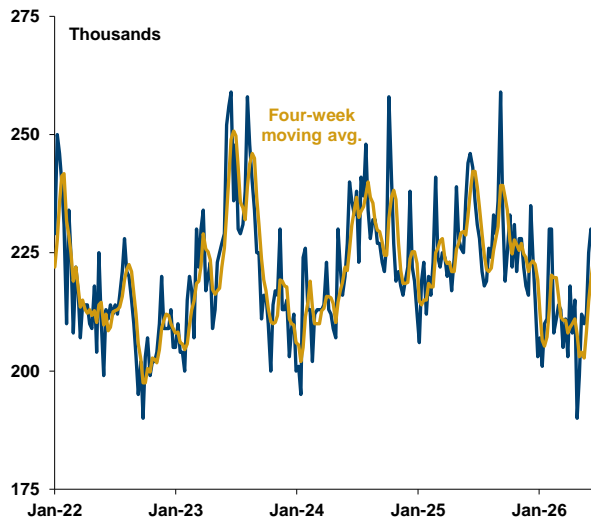


Source: U.S. Census Bureau via Haver Analytics

## Unemployment Claims

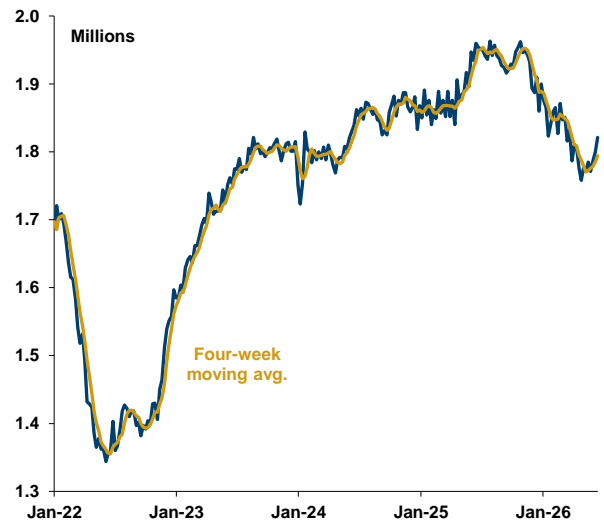
- Initial claims for unemployment insurance eased by 12,000 to 215,000 in the period ending June 20 (associated with an increase of 750 to 224,250 for the four-week moving average – the highest read since November of last year; chart, below left). The latest shift, however, was perhaps a seasonal-adjustment quirk related to the reference period coinciding with Juneteenth (which was only recognized as a federal holiday in 2021). Nonetheless, benefits applications have oscillated within the range displayed over the past several months and remain below levels seen in June of last year – indicative of subdued layoffs.
- Meanwhile, continuing claims for unemployment insurance rose by 21,000 to 1.821 million in the period ending June 13 (associated with an increase of 9,000 to 1.795 million for the four-week moving average; chart, below right). After displaying a pronounced downward trend between the fall of 2025 and the spring of 2026, this series has started to turn a bit higher in recent weeks – although the latest read is still well off the cycle high of 1.963 million in July 2025. Broadly speaking, the latest results indicate stability in underlying labor market conditions.

### 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