Daiwa Capital Markets

U.S. Data Review

- Revised Q2 GDP: unchanged from first estimate, with upward revision to consumer spending offset by larger constraints from inventory investment and net exports; key inflation metrics revised higher
- Personal income and consumption: income growth exceeded expectations and household saving picked up; nominal consumer spending was also a bit better than expected, although still indicative of a tepid performance (with outlays flat after adjusting for inflation)
- July price indexes: restrained performance for the second consecutive month, although brisk year-over-year advances are still problematic
- Durable goods: increase in aircraft orders boosts headline; bookings ex. transportation also post a respectable advance

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Revised Q2 GDP

- The U.S. economy expanded at a 1.5-percent annualized rate in Q2, unrevised from the first estimate of growth, although we view the report as better than suggested by the topline results. On the point, private domestic final demand – which excludes government spending, net exports, and inventory investment, and provides a clearer signal on underlying momentum in the economy – rose 4.2 percent (versus 3.9 percent first reported), firmer than growth of 1.7 percent in Q1 and the Q4/Q4 advance of 2.4 percent in 2025. Moreover, gross domestic income (GDI) – an alternative measure of economic activity that measures profits and costs associated with the production of goods and services and is released with revised estimates of GDP – increased 2.2 percent, annual rate, further ratifying that the U.S. economy was on a solid trajectory heading in the second half of 2026 (charts, next page).

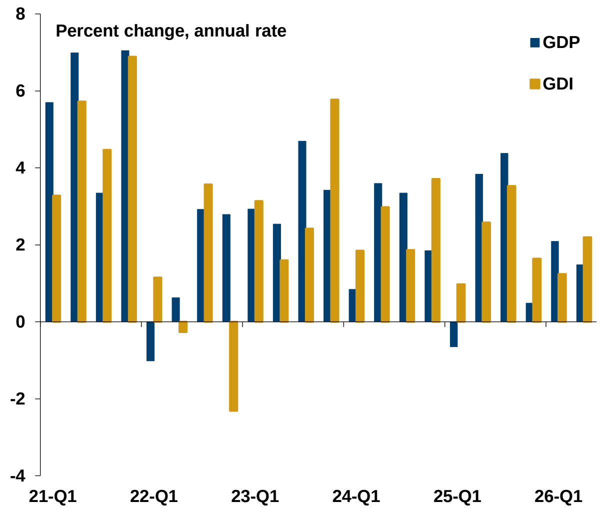
GDP and Related Items*

		26-Q1	26-Q2(a)	26-Q2(p)
1.	**Gross Domestic Product**	2.1	1.5	1.5
2.	**Personal Consumption Expenditures**	0.5	3.2	3.4
3.	**Nonresidential Fixed Investment**	10.6	8.4	8.5
3a.	**Nonresidential Structures**	-4.7	-5.0	-1.8
3b.	**Nonresidential Equipment**	15.8	15.2	13.6
3c.	**Intellectual Property Products**	13.8	8.8	8.8
4.	**Change in Business Inventories (Contribution to GDP Growth)**	0.2	-0.7	-0.7
5.	**Residential Construction**	-7.8	1.5	1.3
6.	**Total Government Purchases**	4.4	-0.8	-1.0
6a.	**Federal Government Purchases**	9.4	-4.1	-4.2
6b.	**State and Local Govt. Purchases**	1.6	1.1	0.9
7.	**Net Exports (Contribution to GDP Growth)**	-0.4	-1.0	-1.1
7a.	**Exports**	10.9	4.5	4.5
7b.	**Imports**	11.8	11.5	12.5
	Additional Items			
8.	**Final Sales**	1.9	2.2	2.2
9.	**Final Sales to Domestic Purchasers**	2.2	3.1	3.3
10.	**Gross Domestic Income**	1.2	--	2.2
11.	**Average of GDP & GDI**	1.7	--	1.8
12.	**GDP Chained Price Index**	3.6	6.2	6.4
13.	**Core PCE Price Index**	4.4	3.4	3.6

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

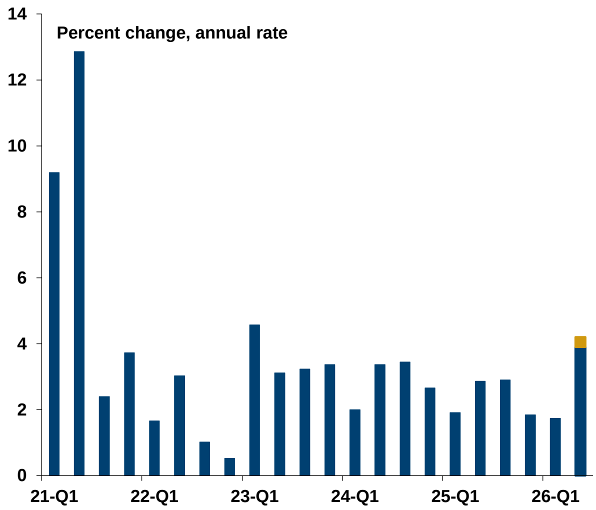
- Turning to key components, consumer spending recorded the most notable positive adjustment (growth of 3.4 percent versus +3.2 percent first reported; a contribution of 2.31 percentage points to growth versus 2.12 previously). With that said, outlays for goods were revised lower, possibly portending more cautious outlays on discretionary items in the months ahead, while those for services were revised higher. Contrastingly, net exports was a sharper drag on growth than previously believed (-1.14 percentage points versus -1.01 first reported), as imports were brisker than first indicated (annualized growth of 12.5 percent, up from growth of 11.5 percent) while export growth of 4.5 percent was unchanged from the initial tally. Evidently, a not insignificant portion of firm domestic demand is being satisfied by foreign-produced items. Additionally, inventory investment also was lighter than previously indicated (a drag of 0.72 percentage point versus -0.67 percentage point previously). Revisions in other areas were mostly modest and offsetting (table).

GDP & GDI



Source: Bureau of Economic Analysis via Haver Analytics

Private Domestic Final Demand*



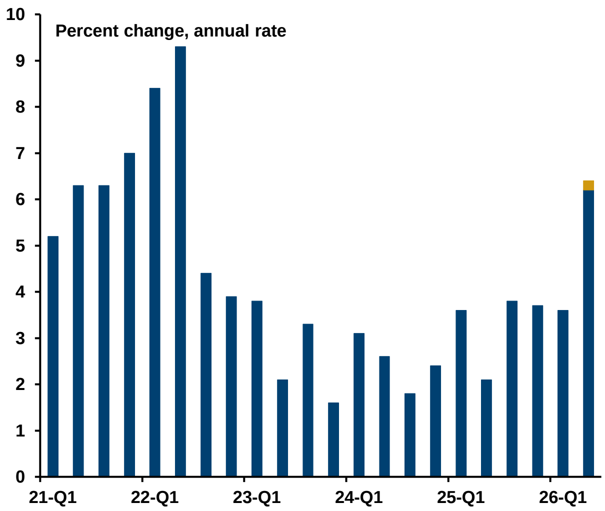
** Excludes the contributions of government spending, net exports, and inventory investment. The gold bar shows the size of the upward revision for 2026-Q2.*

Source: Bureau of Economic Analysis via Haver Analytics

- Consistent with a solid economic backdrop, a broad measure of corporate profits published alongside the revised GDP data indicated firm earnings in Q2 – rebounding after a restrained performance in Q1. Pre-tax earnings jumped 9.1 percent (not annualized), while those on an after-tax basis rose 8.2 percent. Broadly speaking, despite some lulls, corporate profits have traced an impressive upward trend in the post-pandemic period.

- Contrasting with the generally upbeat tone of revisions to GDP, results on the price front were unfavorable. The GDP price index increased 6.4 percent, annual rate, in Q2 (versus 6.2 percent initially reported; chart, below left), with readings on consumer prices also indicating faster inflation than previously assumed. On the point, the headline price index for personal consumption expenditures was revised by +0.2 percentage point (+5.3 percent, annual rate, versus +5.1 percent initially indicated), an adjustment matched by the core PCE price index (+3.6 percent versus +3.4 percent first reported). Additionally, while month-to-month inflation was subdued in July, annual growth remained uncomfortably high relative to the Federal Reserve's 2 percent target (see next story, below).

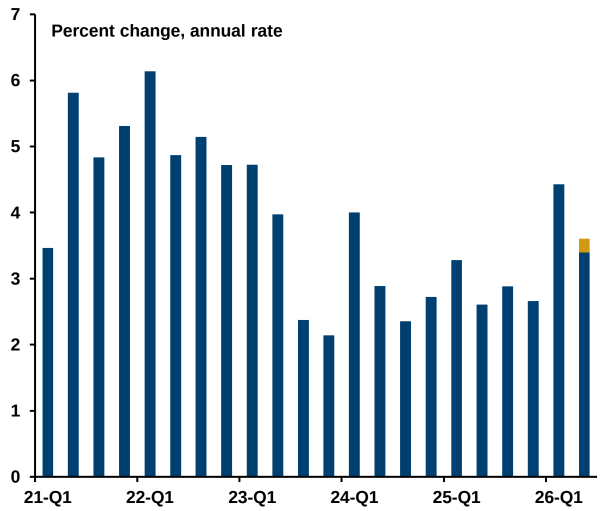
GDP Price Index*



** The gold bar shows the size of the upward revision for 2026-Q2.*

Source: Bureau of Economic Analysis via Haver Analytics

Core PCE Price Index*



** The gold bar shows the size of the upward revision for 2026-Q2.*

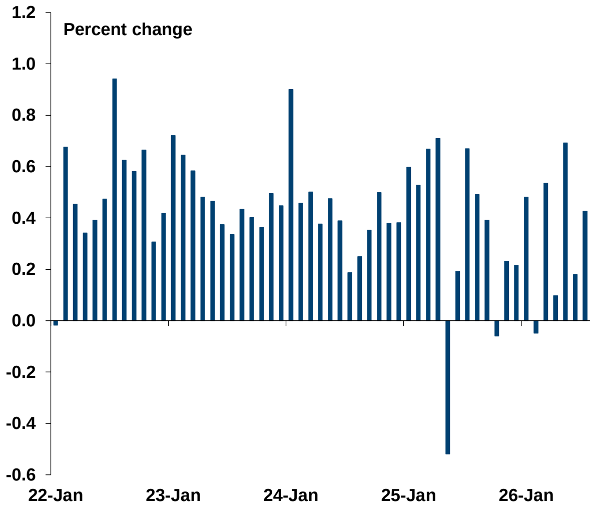
Source: Bureau of Economic Analysis via Haver Analytics

Personal Income, Consumption, and PCE Price Index

- Published alongside the revised estimate of GDP, the Bureau of Economic Analysis' Personal Income and Outlays release affirmed market expectations of a lackluster performance in consumer spending, although income growth was a bit better than expected. Data on prices also was mostly aligned with expectations, with moderate monthly advances in headline and core prices following a restrained performance in June.

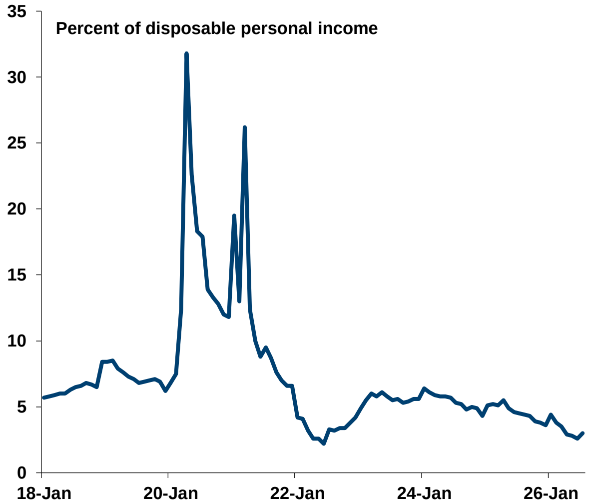
- On the income front, the nominal increase of 0.4 percent (chart, below left; +3.7 percent year-over-year) was firmer than the Bloomberg median expectation of +0.2 percent, which was joined by a third consecutive advance in real incomes (+0.3 percent; year-over-year growth in real incomes was flat, indicative of previous brisk inflation eroding much of ongoing nominal income gains). Nominal wage growth was solid at 0.3 percent (+3.5 percent year-over-year), while growth of rental income (+0.3 percent; +4.0 percent year-over-year) and investment income (i.e., interest and dividends; +0.5 percent month-over-month; +3.1 percent year-over-year) were respectable – although growth was a bit lighter than last month. Encouragingly, the saving rate rose to 3.0 percent from a critically-low 2.6 percent, at least for now arresting a draw-down in savings that raised the possibility of a deterioration in consumer spending later this year (chart, below right).

Nominal Personal Income Growth



Source: Bureau of Economic Analysis via Haver Analytics

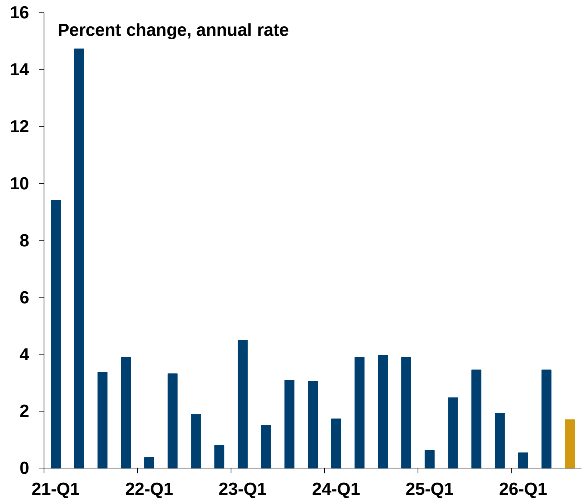
Personal Saving Rate



Source: Bureau of Economic Analysis via Haver Analytics

- Consumer outlays a bit better than the consensus view (+0.2 percent versus +0.1 percent expected; +5.9 percent year-over-year versus +6.4 percent in June), although it rounded to no change after adjusting for inflation. Part of the unimpressive results for the latest month was likely attributable to Amazon Prime Day and competitors' sales pulling forward some spending, although recent guidance from various major retailers suggests that households may exhibit more caution in the back half of the year. With that said, given the firm "jumping off point" from Q2, real consumer spending would still register growth in the vicinity of 1.7 percent even if monthly sales were flat over August and September -- a respectable performance, albeit well below the 3.4 percent pace in Q2 (chart, right).

Real Consumer Spending Growth*

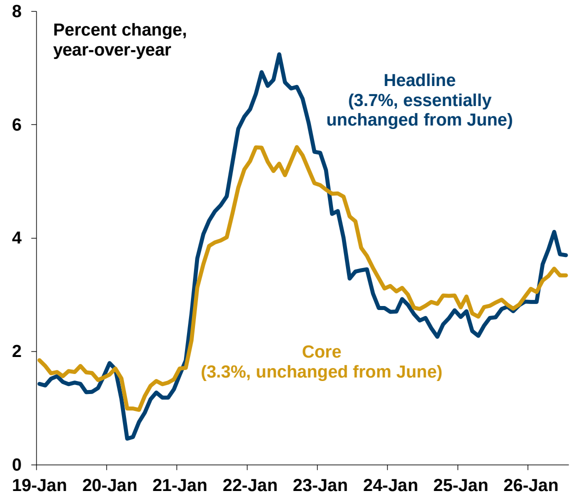


** The gold bar is a forecast for 2026-Q3.*

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

- As widely anticipated based on results from the CPI and PPI, the July PCE price data brought a second consecutive month of relatively muted price pressure. The headline price index rose 0.2 percent (+0.156 percent with less rounding) after a dip of 0.1 percent in June, one tick faster than the Bloomberg median expectation, while the advance of 0.2 percent in the core measure matched the consensus projection (+0.246 percent; which followed an increase of 0.1 percent in the prior month). The results, in turn, were aligned with year-over-year increases of 3.7 percent in the headline metric (+3.701 percent versus +3.717 percent in June) and 3.3 percent in the core (+3.344 percent, unchanged from the June pace; chart, right). Thus, despite incremental improvement in recent months, inflation remains well above the Federal Reserve's price stability objective. Relatedly, while we are sympathetic to Chairman Warsh's patient approach with respect to holding fire on rate hikes (we expect the FOMC to maintain the target range for the federal funds rate at 3-1/2 to 3-3/4 percent through year-end), we suspect he will have to provide clearer guidance on his reaction function for rate adjustments at his keynote address at the Jackson Hole Economic Policy Symposium on Friday if he wants market participants to give credence to his recent tough talk on inflation.

PCE Price Index

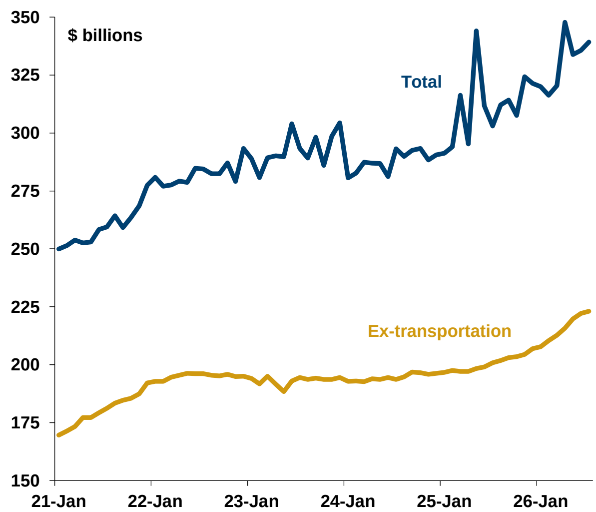


Source: Bureau of Economic Analysis via Haver Analytics

Durable Goods Orders

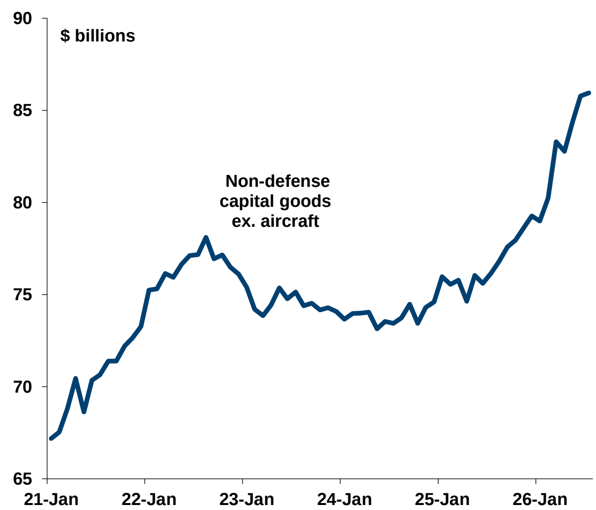
- Following an advance of 0.5 percent in the prior month, new orders for durable goods increased 1.1 percent in July (versus the median expectation of +0.5 percent from the Bloomberg economist survey). As is typically the case, much of the improvement was driven by firm order flows in the transportation category (+2.3 percent). Looking deeper, the often-volatile civilian aircraft component, which is a subset of total aircraft orders, jumped 12.7 percent – a bit of a surprising development considering that Boeing reported a stark drop in aircraft bookings in the first month of Q3 (38 versus 121 in June). Meanwhile, orders excluding transportation came in a bit softer than anticipated with a 0.4-percent increase (versus +0.6 percent expected), though results in the prior month were revised higher (+1.1 percent in June versus +0.7 percent initially reported). Taking a broader view, headline bookings are up 12.0 percent year-over-year while orders ex. transportation rose 11.0 percent. On balance, following previously unimpressive trends, both series have tilted higher since early 2025 (chart, below left).

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

- New orders for nondefense capital goods excluding aircraft, which provide insight into firms' capital spending plans, fell short of expectations with a modest 0.2-percent increase (versus +0.7 percent expected; +12.9 percent year-over-year), but June results were revised higher, which offset to a degree the latest unimpressive results (+1.7 percent versus +1.2 percent previously indicated; chart, prior page, right). Factoring into the latest shift were increases of 1.5 and 1.2 percent, respectively, in primary metals and machinery. Conversely, computers and electronic products fell 1.1 percent while electrical equipment, appliances and components eased 0.4 percent. On the whole, bookings in this subset have stirred since mid-2025 – seemingly reflective, in our view, of several factors (e.g., firms pulling ahead purchases in an attempt to avoid cost run-ups associated with supply chain complications from the Iran conflict and, more importantly, the ongoing AI buildout).

- Shipments for nondefense capital goods excluding aircraft, which correlate with capital expenditures in the national accounts, advanced 1.4 percent (stronger than the expectation of a 1.0-percent pickup). July's result, while only reflecting a small portion of the Q3 picture, suggests that equipment spending in GDP could be on track for another solid performance after double-digit advances of 13.6 and 15.8 percent, annual rate, in Q2 and Q1, respectively.