U.S. Economic Comment

- Cap-Ex: beginning to stir

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Business Fixed Investment

The most interesting aspect of the latest GDP report, in our view, was the upward revision to the growth of business investment in new equipment. The new estimate of 10.4 percent was 1.8 percentage points faster than the initial tally and the strongest showing in three years. Q3 marked the fourth consecutive quarter of accelerating growth and raised the possibility that the soft patch in 2015 and 2016 has drawn to a close (chart, left).

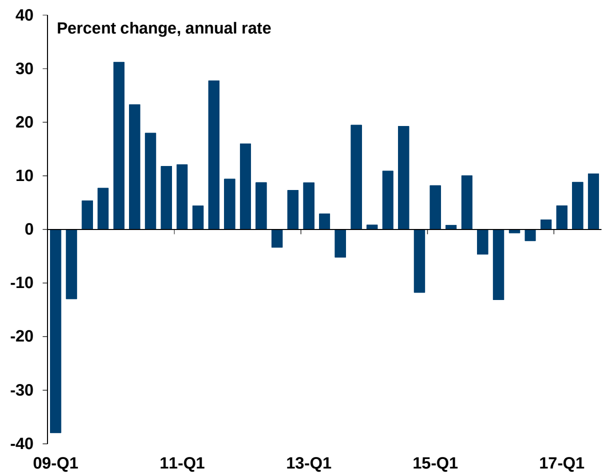
The emergence of drilling for oil and natural gas as a major industry in the U.S. economy has added a considerable degree of volatility to figures on investment spending, but the latest pickup represents more than revival in oil and gas extraction. Outlays for equipment excluding mining also have accelerated recently, advancing 10.2 percent in the third quarter and averaging growth of 5.9 percent in the past year.

Forward-looking indicators on business investment also offer encouragement. New orders for nondefense capital goods other than aircraft have increased in eight of the first 10 months of this year and added to the upward trend that began in the middle of last year (chart, right). The pickup in new order flows has led to a backlog, as unfilled orders for capital goods have increased for 16 consecutive months.

One might wonder about the triggers for the pickup in capital spending. A brighter economic outlook has probably played a role, as a surging stock market and economic growth of more than three percent in the past two quarters has probably led business executives to take a more optimistic view on the future. For those businesses with an international focus, improved prospects in Europe and Japan have probably bolstered the confidence of managers.

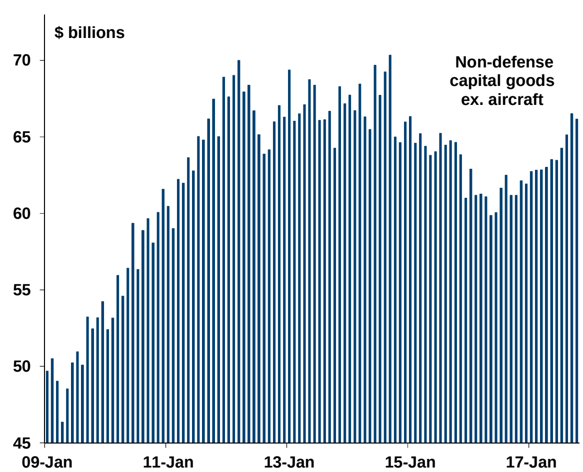
Tight labor markets have probably played a more important role is stirring investment spending. With many firms reportedly having difficulty finding workers with necessary skills, they most likely are turning to labor-saving equipment. In this regard, outlays for information-processing equipment have been especially strong in the past two quarters.

Business Investment: Equipment



Source: Bureau of Economic Analysis

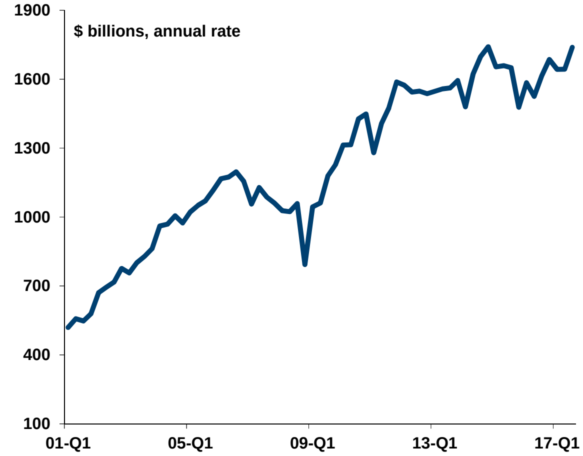
New Orders for Durable Goods



Source: U.S. Census Bureau

Profits have taken on a firmer tone in recent quarters and may have had an influence on investment decisions. Corporate earnings were strong in the early years of the expansion, but they softened from the latter part of 2014 through the first half of 2016, coinciding with the slow period for capital spending. Profits have picked up in recent quarters, including a gain of 5.8 percent (not annualized) in the third quarter, and are now close to the peak seen in 2014 (chart).

After-Tax Corporate Profits



Source: Bureau of Economic Analysis

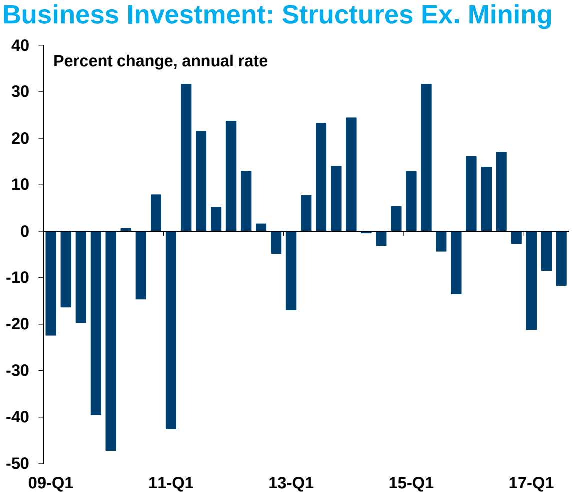
The growing likelihood of corporate tax reform might lead one to expect a pickup in business investment spending. A reduction in the statutory rate on profits, along with the immediate expensing of equipment outlays and the movement to a territorial tax system, would seem to promote capital spending.

However, doubts exist. The reduction in the statutory rate might not be significant for many businesses because the existence of loopholes in the current code have already pushed the aggregate effective tax rate close to the 20 percent rate now under consideration. (The Statistics of Income from the Internal Revenue Service show that taxes paid totaled 23.3 percent of taxable income in 2013, latest available.) In addition, the movement to a territorial tax system might not pull investment spending to domestic shores, as firms still have an incentive to operate in countries with lower corporate tax rates.

Although the effects of tax reform on equipment spending are ambiguous, we view the outlook for this component of business investment as favorable. The combination of firm expected economic growth and tight labor markets should be sufficient to induce executives to continuing investing in new equipment.

Curiously, business investment in new structures has not shown the same upward trend that outlays for equipment have. Real spending on structures has declined on balance since the second quarter of 2015. Most of this retreat reflected a pullback in oil drilling in response to lower prices of crude petroleum (an oil rig is considered a structure in GDP accounting rather than a piece of equipment). Outlays for structures ex-mining have contributed to the soft performance in recent quarters. Indeed, outlays for structures other than oil rigs have now declined for four consecutive quarters (chart).

Business Investment: Structures Ex. Mining



Source: Bureau of Economic Analysis; Daiwa Capital Markets America

Adequate capacity is probably a factor holding back investment in non-mining structures. In the industrial sector, the capacity utilization rate in manufacturing is still three percentage points below the prerecession peak and eight percentage points below the peak in the mid-1990s. White-collar enterprises also do not seem constrained, as the office vacancy rate has declined slowly in the current expansion, and at approximately 16 percent, it is more than three percentage points above the prerecession low (as measured by an index published by Reis Inc.).

We suspect that uncertainty over corporate tax policy also might be restraining major expenditures by businesses. The near-term economic outlook is bright enough to justify labor-saving (and short-term) investment in new equipment, but businesses most likely would want a high degree of certainty about future tax obligations and expensing provisions before they undertake major expansion projects. We suspect that many firms have delayed projects until they can assess the implications of the new tax environment.

Review

Week of Nov. 27, 2017	Actual	Consensus	Comments
New Home Sales (October)	**0.685 Million (6.2%)**	**0.628 Million (-6.3%)**	The jump in new home sales occurred from a downwardly revised level, but the past two months still represented the best performance of the expansion thus far and are notably better than the recent average. The recent increase in sales was broad-based geographically, with all four regions posting increases. The number of new homes for sale rose 1.4% in October to a new cyclical high. However, with sales strong, the months' supply of homes fell to 4.9, a reading in the low portion of the recent range.
U.S. International Trade in Goods (October)	**-$68.3 Billion ($4.2 Billion Wider Deficit)**	**-$64.9 Billion ($0.8 Billion Wider Deficit)**	The monthly trade deficit in goods widened to its largest shortfall of the year thus far, with imports increasing 1.5% and exports slipping 1.0%. Much of the advance in imports reflected a surge of 3.6% in purchases of industrial supplies, which may have been influenced by higher prices of petroleum-related commodities. Slippage in exports occurred across several categories: foods, capital goods, automobiles, consumer goods. The notable deterioration in merchandise trade flows left the deficit wider than the average in Q3, raising the prospect of a negative contribution from net exports to GDP growth in Q4, although the picture may shift in coming months.
Conference Board Consumer Confidence (November)	**129.5 (+3.3 Index Pts.)**	**124.0 (-1.9 Index Pts.)**	The jump in consumer confidence pushed the measure to a new high for the current expansion. The latest result was also better than all readings in the previous cycle. The labor market likely played a key role in the November increase, as the share of individuals reporting that jobs were plentiful rose 0.4 percentage point to 37.1% while the share indicating that jobs were hard to get slipped 0.2 percentage point to 16.9%. The net reading (plentiful less hard to get) was the best since July 2001.
Revised GDP (2017-Q3)	**3.3% (+0.3 Pct. Pt. Revision)**	**3.2% (+0.2 Pct. Pt. Revision)**	The upward revision to GDP growth in Q3 was close to expectations, although shifts in some components provided favorable surprises. Both business investment spending in equipment and intellectual property were revised higher, with the change in equipment spending perhaps signaling a turn in a previously sluggish area. Other areas posted smaller, but still encouraging adjustments. Government spending wiggled higher rather than registering a small contraction. Net exports also improved slightly, as import growth slowed more than export growth. Inventory investment, an area we had expected to make a substantial contribution to the upward adjustment in growth, was revised only modestly higher. Consumer spending was nudged lower, but the shift did not alter our view that the underlying pace of consumer spending remains solid.

Review Continued

Week of Nov. 27, 2017	Actual	Consensus	Comments
Personal Income, Consumption, Core Price Index (October)	**0.4%, 0.3%, 0.2%**	**0.3%, 0.3%, 0.2%**	Wages and salaries (+0.3%) contributed to income growth in October, as did jumps in rental income (+1.1%) and investment income (+0.8%). Nominal consumer spending rose 0.3%, a moderate advance that translated to an increase of 0.1% after adjusting for inflation. Real growth in outlays was restrained by a decline of 0.1% in the durable area, which reflected an easing in vehicle sales after a surge in September to replace cars and trucks damaged by hurricanes -- statistical noise rather than fundamental softening. With even moderate increases in November and December, real expenditures are likely to advance 2.0% to 2.5% (annual rate) in Q4. Core PCE prices rose 0.2% for the second consecutive month. The core index also showed a pickup on a year-over-year basis (1.447% versus 1.358% in September). The measure remained below the Fed's target of 2.0% inflation, but it supports the view that at least part of the recent slowdown in inflation was the result of transitory factors.
ISM Manufacturing Index (November)	**58.2% (-0.5 Pct. Pt.)**	**58.3% (-0.4 Pct. Pt.)**	Despite easing in November, the ISM index continued to suggest a firm pace of activity in the manufacturing sector. The measure remained in the upper portion of the range from the current expansion and was firm by historical standards. The new orders index rose 0.6 percentage point to 64.0%, a reading in the upper portion of the long-run range. With orders firm, the production index rose 2.9 percentage points to 63.9%, another strong showing by historical standards. The employment index dipped 0.1 percentage point, but its level of 59.7% remained elevated. The supplier delivery index tumbled 4.9 percentage points to 56.5%. However, this measure was unusually firm in the prior two months; the new reading was close to the underlying average.
Construction Spending (October)	**1.4%**	**0.5%**	Total construction activity rose October, and results in the prior two months were revised upward. Private residential building rose only moderately (0.4%), as continued softness in multi-family construction partly offset moderate increases in single-family construction and improvements to existing homes. Private nonresidential construction rose 0.9%, a shift from declines in most months of 2017. Government-related building rose 3.9%, the third consecutive month of strong results, although the level of activity remained shy of the best readings of the current expansion.

Source: U.S. Census Bureau (New Home Sales, U.S. International Trade in Goods, Construction Spending); The Conference Board (Consumer Confidence); Bureau of Economic Analysis (Revised GDP, Personal Income, Consumption, Core Price Index); Institute for Supply Management (ISM Manufacturing Index); Consensus forecasts are from Bloomberg

Preview

Week of Dec. 04, 2017	Projected	Comments
Factory Orders (October) (Monday)	**-0.5%**	A drop of 1.2% in the durable component, led by softness in the volatile aircraft category, is likely to push total factory orders lower. The nondurable component is likely to increase slightly, led by the petroleum and coal category, where higher prices will probably account for most of the advance.
Trade Balance (October) (Tuesday)	**-\$47.7 Billion ($4.2 Billion Wider Deficit)**	With the surplus in services trade showing little variation in recent months, the already reported slippage of \$4.2 billion in merchandise trade accounts for most of the expected slippage in the total trade balance.
ISM Nonmanufacturing Index (November) (Tuesday)	**58.5% (-1.6 Percentage Points)**	The nonmanufacturing sectors of the economy are performing well, but results in October seemed unusually firm (3.4 percentage points above the average in the first nine months of the year). A correction appears likely in November, although the expected reading is still strong.
Revised Nonfarm Productivity (2017-Q3) (Wednesday)	**3.2% (+0.2 Percentage Point Revision)**	The upward revision to GDP growth in Q3 will probably feed through to the productivity report, more than offsetting a slight upward revision to hours worked and leaving firmer productivity growth. The upward revision to productivity, combined with an expected downward adjustment to compensation per hour, could lead to a dip in unit labor cost (versus an initial estimate of 0.5%).
Payroll Employment (November) (Friday)	**190,000**	Residual recovery from the hurricanes is likely to push job growth above the recent average (167,000 in the past 12 months). Although job growth is likely to be firm, a rebound in the size of the labor force after a decline in October is likely to keep the unemployment rate steady at 4.1%.
Consumer Sentiment (December) (Friday)	**100.0 (+1.5 Index Points)**	With the stock market reaching new record highs and the labor market remaining firm, the sentiment index will probably rebound from its dip in November.

Source: Forecasts provided by Daiwa Capital Markets America

Daiwa Capital Markets

Economic Indicators

November/December 2017

Monday 27

NEW HOME SALES

Aug	0.565 million
Sept	0.645 million
Oct	0.685 million

Tuesday 28

U.S. INTERNATIONAL TRADE IN GOODS

Aug	-$63.7 billion
Sept	-$64.1 billion
Oct	-$68.3 billion

ADVANCE INVENTORIES REPORT

	Wholesale	Retail
Aug	0.8%	0.6%
Sept	0.1%	-0.9%
Oct	-0.4%	-0.1%

FHFA HOME PRICE INDEX

July	0.4%
Aug	0.8%
Sept	0.3%

S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX

	SA	NSA
July	0.4%	0.7%
Aug	0.4%	0.4%
Sept	0.5%	0.4%

CONFERENCE BOARD CONSUMER CONFIDENCE

Sept	120.6
Oct	126.2
Nov	129.5

Wednesday 29

REVISED GDP

	GDP	Chained Price
17-Q2	3.1%	1.0%
17-Q3(a)	3.0%	2.2%
17-Q3(p)	3.3%	2.1%

PENDING HOMES SALES

Aug	-2.8%
Sept	-0.4%
Oct	3.5%

BEIGE BOOK

"Economic activity continued to increase at a modest to moderate pace in October and mid-November, according to anecdotal reports from contacts across the 12 Federal Reserve Districts."

Thursday 30

INITIAL CLAIMS

Nov 11	252,000
Nov 18	240,000
Nov 25	238,000

PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX

	Inc.	Cons.	Core
Aug	0.2%	0.2%	0.1%
Sept	0.4%	0.9%	0.2%
Oct	0.4%	0.3%	0.2%

CHICAGO PURCHASING MANAGERS' INDEX

	Index	Prices
Sept	65.2	74.3
Oct	66.2	67.2
Nov	63.9	68.5

Friday 1

ISM INDEX

	Index	Prices
Sept	60.8	71.5
Oct	58.7	68.5
Nov	58.2	65.5

CONSTRUCTION SPEND.

Aug	0.5%
Sept	0.3%
Oct	1.4%

VEHICLE SALES

Sept	18.5 million
Oct	18.0 million
Nov	**17.4 million**

Monday 4

FACTORY ORDERS (10:00)

Aug	1.2%
Sept	1.5%
Oct	**-0.5%**

Tuesday 5

TRADE BALANCE (8:30)

Aug	-$42.8 billion
Sept	-$43.5 billion
Oct	**-$47.7 billion**

ISM NON-MFG INDEX (10:00)

	Index	Prices
Sept	59.8	66.3
Oct	60.1	62.7
Nov	**58.5**	**62.0**

Wednesday 6

ADP EMPLOYMENT REPORT (8:15)

	Private Payrolls
Sept	110,000
Oct	235,000
Nov	--

REVISED PRODUCTIVITY & COSTS (8:30)

	Productivity	Unit Labor Costs
17-Q2	1.5%	0.3%
17-Q3(p)	3.0%	0.5%
17-Q3(r)	**3.2%**	**-0.2%**

Thursday 7

INITIAL CLAIMS (8:30)

CONSUMER CREDIT (3:00)

Aug	$13.1 billion
Sept	$20.8 billion
Oct	--

Friday 8

EMPLOYMENT REPORT (8:30)

	Payrolls	Un. Rate
Sept	18,000	4.2%
Oct	261,000	4.1%
Nov	**190,000**	**4.1%**

WHOLESALE TRADE (10:00)

	Inventories	Sales
Aug	0.8%	1.9%
Sept	0.1%	1.3%
Oct	**-0.4%**	**0.0%**

CONSUMER SENTIMENT (10:00)

Oct	100.7
Nov	98.5
Dec	**100.0**

Monday 11

JOLTS DATA

Tuesday 12

NFIB SMALL BUSINESS OPTIMISM INDEX

PPI

FEDERAL BUDGET

FOMC MEETING

Wednesday 13

CPI

FOMC ANNOUNCEMENT

YELLEN PRESS CONFERENCE

Thursday 14

INITIAL CLAIMS

RETAIL SALES

IMPORT/EXPORT PRICES

BUSINESS INVENTORIES

Friday 15

EMPIRE MFG INDEX

IP & CAP-U

TIC DATA

Monday 18

NAHB HOUSING MARKET INDEX

Tuesday 19

HOUSING STARTS

CURRENT ACCOUNT

Wednesday 20

EXISTING HOME SALES

Thursday 21

INITIAL CLAIMS

REVISED GDP

PHILLY FED INDEX

CHICAGO FED NAT'L ACTIVITY INDEX

FHFA HOME PRICE INDEX

LEADING INDICATORS

Friday 22

PERSONAL INCOME, CONSUMPTION, CORE PRICE INDEX

DURABLE GOODS ORDERS

NEW HOME SALES

REVISED CONSUMER SENTIMENT

Forecasts in Bold (a) = advance (1st estimate of GDP); (p) = preliminary (2nd estimate of GDP); (r) = revised

Treasury Financing

November/December 2017

Monday	Tuesday	Wednesday	Thursday	Friday
27	28	29	30	1
AUCTION RESULTS: Rate / Cover 3-mo bills 1.285% 3.07 6-mo bills 1.435% 3.34 2-year notes 1.765% 2.73 5-year notes 2.066% 2.46 **ANNOUNCE:** $45 billion 4-week bills for auction on November 28	**AUCTION RESULTS:** Rate / Cover 4-week bills 1.170% 3.12 7-year notes 2.230% 2.36		**ANNOUNCE:** $78 billion 13-,26-week bills for auction on December 4 $20 billion 52-week bills for auction on December 5 **SETTLE:** $78 billion 13-,26-week bills $45 billion 4-week bills $11 billion 10-year TIPS $26 billion 2-year notes $34 billion 5-year notes $28 billion 7-year notes	
4	5	6	7	8
AUCTION: $78 billion 13-,26-week bills **ANNOUNCE:** $45 billion* 4-week bills for auction on December 5	**AUCTION:** $45 billion* 4-week bills $20 billion 52-week bills		**ANNOUNCE:** $78 billion* 13-,26-week bills for auction on December 11 $24 billion* 3-year notes for auction on December 11 $20 billion* 10-year notes for auction on December 11 $12 billion* 30-year bonds for auction on December 12 **SETTLE:** $78 billion 13-,26-week bills $45 billion* 4-week bills $20 billion 52-week bills	
11	12	13	14	15
AUCTION: $78 billion* 13-,26-week bills $24 billion* 3-year notes $20 billion* 10-year notes **ANNOUNCE:** $45 billion* 4-week bills for auction on December 12	**AUCTION:** $45 billion* 4-week bills $12 billion* 30-year bonds		**ANNOUNCE:** $78 billion* 13-,26-week bills for auction on December 18 $14 billion* 5-year TIPS for auction on December 21 **SETTLE:** $78 billion* 13-,26-week bills $45 billion* 4-week bills	**SETTLE:** $24 billion* 3-year notes $20 billion* 10-year notes $12 billion* 30-year bonds
18	19	20	21	22
AUCTION: $78 billion* 13-,26-week bills **ANNOUNCE:** $45 billion* 4-week bills for auction on December 19	**AUCTION:** $45 billion* 4-week bills		**AUCTION:** $14 billion* 5-year TIPS **ANNOUNCE:** $45 billion* 4-week bills for auction on December 26 $78 billion* 13-,26-week bills for auction on December 26 $13 billion* 2-year FRNs for auction on December 27 $26 billion* 2-year notes for auction on December 26 $34 billion* 5-year notes for auction on December 27 $28 billion* 7-year notes for auction on December 28 **SETTLE:** $78 billion* 13-,26-week bills $45 billion* 4-week bills	

*Estimate