U.S. Economic Comment

- Q1 GDP: a firm performance expected
- Powell & colleagues: a shift in messaging acknowledging stalled progress on inflation

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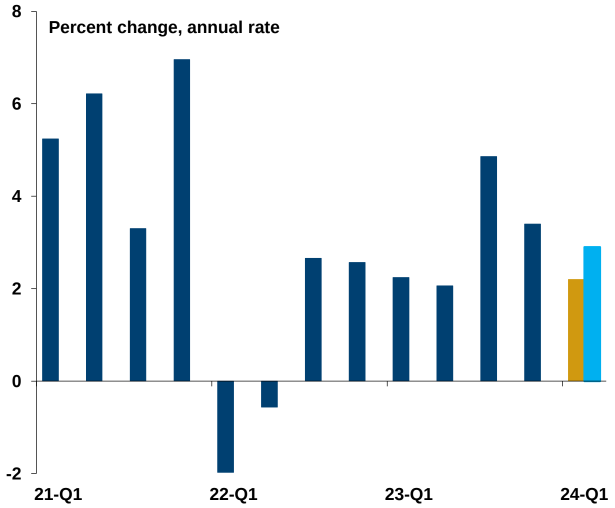
The U.S. Economy: Charging Onward in Q1

While growth in the opening quarter of 2024 will likely lag that in the second half of last year, when annualized GDP growth averaged 4.1 percent per quarter, the anticipated performance is impressive in its own right. If a reading at the low end of the Bloomberg economist panel range of 1.7 percent to 3.1 percent (median expectation of 2.5 percent) were to materialize, it would still be close to our estimate of the potential growth rate of the U.S. economy (approximately 2.0 percent). An outcome at the right tail of the distribution (which is also close to the Atlanta Fed's GDPNow model projection of 2.9 percent) would be close to the brisk performance in 2023-H2 despite ongoing maintenance of a restrictive monetary policy setting by the Federal Reserve. Our estimate of 2.2 percent growth, while lagging the rosiest projections, is highly favorable (chart, below left). Moreover, our projection for final sales to domestic purchasers (2.9 percent), which excludes the effects of net exports and inventory investment and provides insights on underlying domestic demand, is close to the strong performance in 2023 (Q4/Q4 growth of 3.2 percent; chart, below right). Thus, we view the economy as remaining on track, with a low probability of a recession developing in the near-term.

At the core of the latest firm performance of the U.S. economy is once again a resilient consumer sector. We had seen what appeared to be some hesitation in spending on goods in January and February, which in part probably reflected weather-related constraints on activity; real outlays for nondurable goods fell for two consecutive month (off 0.5 percent in January followed by a drop of 0.6 percent in February), and real spending on durable goods was mixed (a pickup of 1.1 percent in February after a decline of 2.7 percent in January). That said, the retail sales report for March (released April 15) refuted the idea that consumer activity was drifting toward a slowdown. Although a decline of 0.7 percent in the auto component restrained the still firm headline advance (up 0.7 percent), sales excluding autos jumped 1.1 percent – as did the retail control, which correlates with real consumer spending in the GDP accounts. On a quarterly average over quarterly average basis, outlays in the retail control group were up 3.0

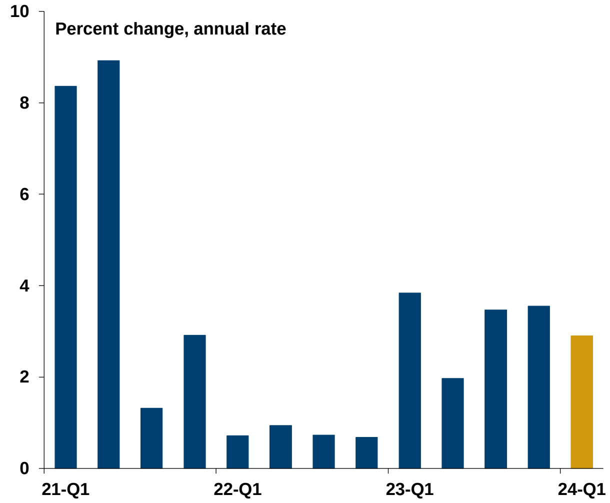
GDP Growth*



** The gold and light blue bars are forecasts for 2024-Q1 provided by DCMA and the Atlanta Fed's GDPNow model, respectively.*

Sources: Bureau of Economic Analysis via Haver Analytics; Federal Reserve Bank of Atlanta; Federal Reserve Bank of New York; Daiwa Capital Markets America

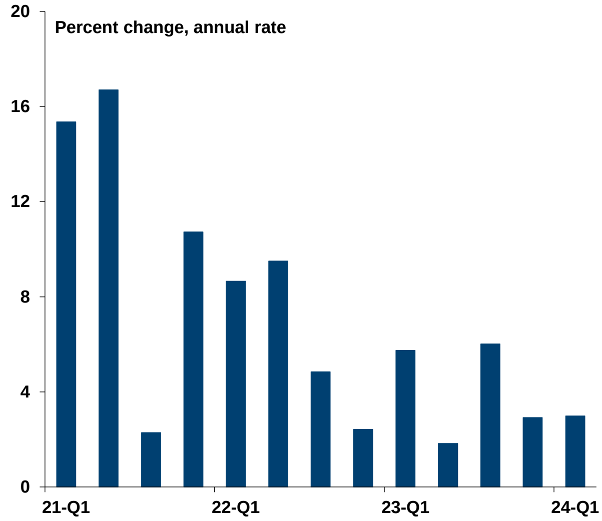
Final Sales to Domestic Purchasers*



** The gold bar is a forecast for 2024-Q1.*

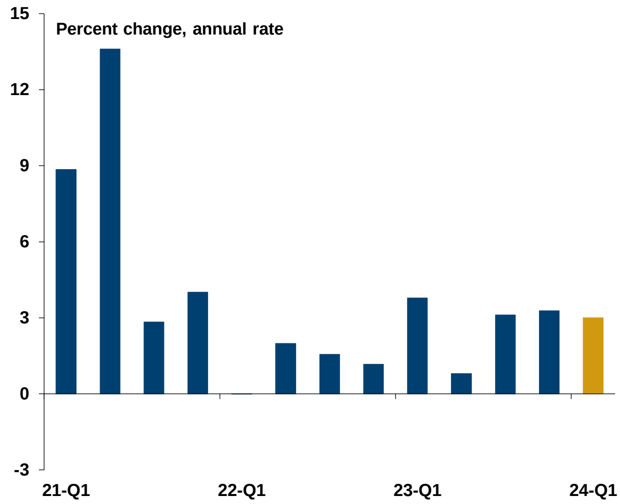
Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America percent in Q1 (chart, below left). Taken in context with real data on outlays thus far in the first quarter, we anticipate real consumer spending for the quarter of about 3.0 percent, a strong performance that could be sustained beyond the current quarter, particularly in light of resurgent spending in March (chart, below right).

Retail Sales: Retail Control*



** Retail sales excluding sales from motor vehicle dealers, gasoline stations, and building materials, garden equipment, and supply dealers.*
Source: U.S. Census Bureau via Haver Analytics

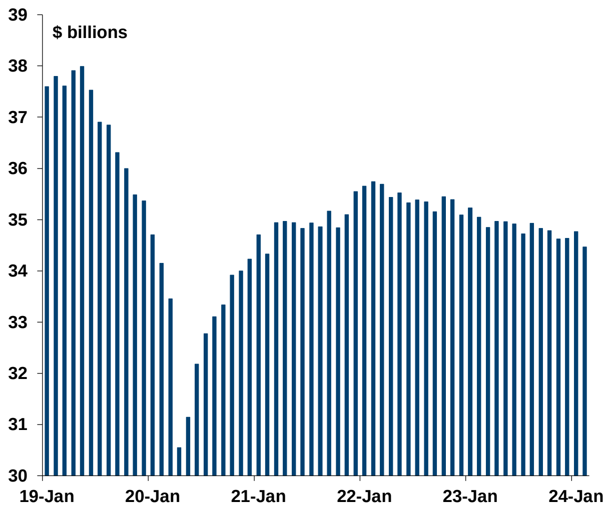
Real Consumer Spending Growth*



** The gold bar is a forecast for 2024-Q1.*
Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

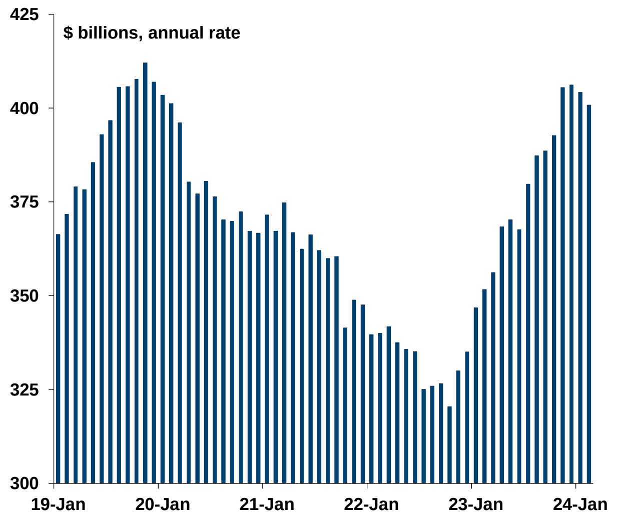
Beyond the consumer sector, results for residential construction could tilt on the firm side (growth in the range of 8.0 to 9.5 percent expected), although business-related investment could tilt to the soft side. Data on shipments of non-defense capital goods excluding aircraft imply modest growth in equipment spending, although March data published next week could shift the expected outcome and results for last year were already soft (Q4/Q4 contraction of 0.6 percent in 2023; chart on shipments of nondefense capital goods ex. aircraft, below left). Investment in structures had been strong, up 16.9 percent on a Q4/Q4 basis in 2023, as spending fueled by the CHIPS Act and Inflation Reduction Act spurred new building of factory facilities, but inflation-adjusted activity appears to have slowed in Q1 from a high base (off 0.5 percent and 0.8 percent, in January and February, respectively; chart, below right).

Real Shipments of Durable Goods*



** Nominal shipments of nondefense capital goods excluding aircraft adjusted by the private capital equipment component of the producer price index.*
Sources: Bureau of Labor Statistics, U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

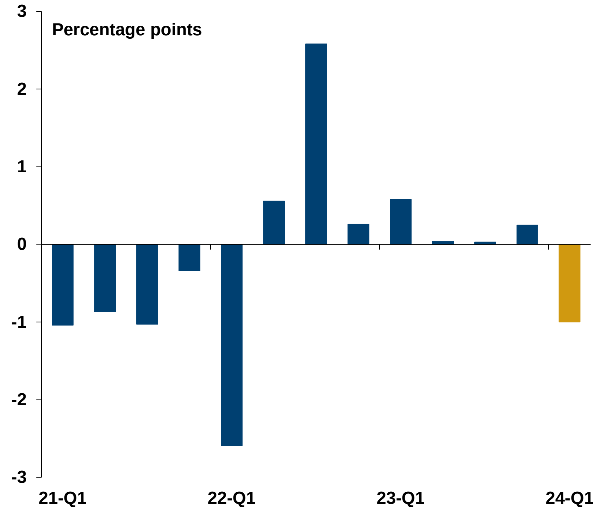
Real Private Nonresidential Construction*



** Nominal value of business-related construction deflated by the final demand construction for private capital investment component of the producer price index.*
Sources: Bureau of Labor Statistics, U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

The trade sector, which is excluded from final sales to domestic purchasers, could emerge as the lone notable drag on growth in Q1. While import growth could be strong, an indication of firm domestic demand in the U.S., it is also likely to dwarf export growth. Based on our calculations, net exports could subtract approximately one percentage point from GDP in Q1 (chart). Despite that expected constraint, however, the weight of the evidence still point to a favorable performance for the U.S. economy in Q1.

Net Exports of Goods & Services*



** Contribution to real GDP percent change. The gold bar is a forecast for 2024-Q1.*

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

Walking Back the Dovish Pivot

Comments by Fed officials this week, most importantly by Chair Powell on Tuesday, addressed stalled progress on inflation thus far in 2024 and raised the possibility that rate cuts would occur later than previously anticipated. Rather than reaffirming dovish signals in late 2023 and early 2024, the Fed Chair indicated in his latest remarks that, “recent data have clearly not given us greater confidence and instead indicate that it is likely to take longer than expected to achieve that confidence.” Moreover, he noted that given recent readings on inflation and other economic developments, a restrictive policy setting required “further time to work.” In a similar vein, Raphael Bostic of the Atlanta Fed and John Williams of New York – both 2024 voters – argued on Thursday that the data warranted caution. Williams indicated that he does not “feel urgency” to cut rates and Bostic intimated that he could abandon his current baseline of one cut this year in favor of no cuts if labor market conditions remain tight and inflation fails to make further progress; to varying degrees, comments by both officials push back on the idea of three cuts this year as indicated by the median expectation in the 2024 dot plot released with the March Summary of Economic Projections. Both raised the prospect of taking rates higher, although follow-up comments suggested an extremely low probability of the Committee being forced into future hikes.

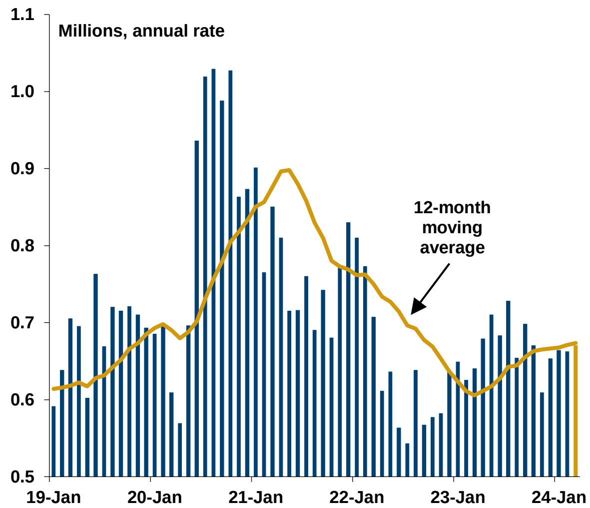
Although shifts in language were subtle, and all three policymakers indicated that they view the current stance of policy as likely well calibrated to ultimately achieve desired inflation outcomes, the acknowledgement this week that progress on inflation had stalled was still notable. Just a few weeks ago, Fed officials seeming dismissed the idea that early-2024 inflation data could derail a mid-year pivot, as some at the time attributed the pressure to seasonal quirks. Now, sticky inflation and a resilient labor market seemingly pose more substantial challenges. Although an increase in the target range for the federal funds rate is still less likely to occur before a cut, it is becoming apparent that the return to two percent inflation may take longer than previously believed. And, accompanying the prospect of tighter policy for longer are increased risks to the economy.

The Week Ahead

New Home Sales (March) (Tuesday)
Forecast: 0.670 Million (+1.2%)

Pickups in mortgage applications and prospective buyer traffic raise the possibility of an increase in new home sales after a dip in February (chart, right). Recent readings are well below lofty totals earlier in the expansion, but they are in line with pre-pandemic norms (when the housing market was viewed as healthy). That said, the broader housing market has been constrained by affordability issues amid elevated mortgage rates and tight inventories of existing homes.

New Home Sales*



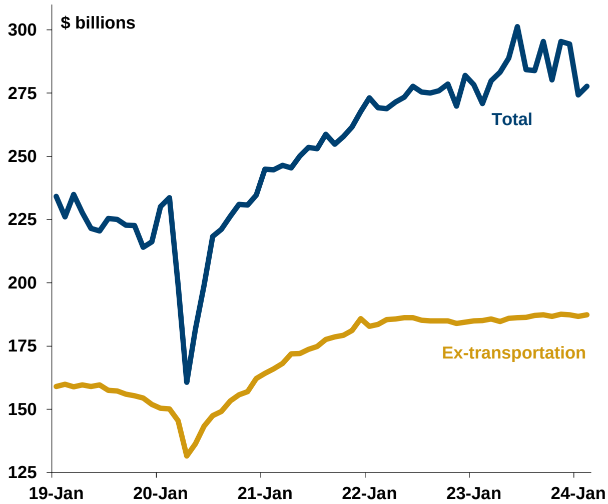
** The gold bar is a forecast for March 2024.*

Sources: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

Durable Goods Orders (March) (Wednesday)
Forecast: 3.0% Total, 0.3% Ex. Transportation

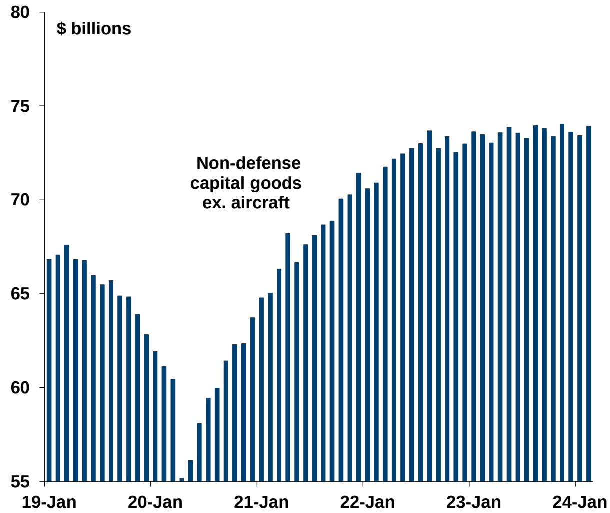
Headline durable goods orders are again likely to be dominated by the volatile transportation category, with a jump in bookings at Boeing (despite well documented production issues) raising the possibility of a firm headline print. Orders excluding transportation have increased in only two of the past five months, with the sideways trend suggesting that restrictive monetary policy is continuing to constrain capital expenditures (charts, below).

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

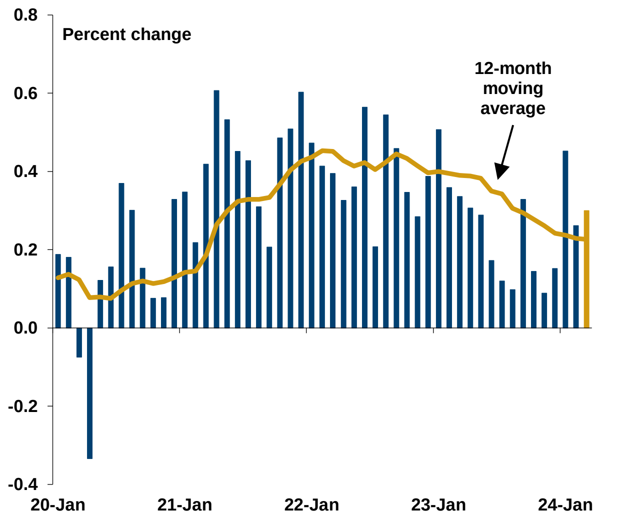
International Trade in Goods (March) (Thursday)
Forecast: -$91.0 Billion ($0.7 Billion Wider Deficit)

Although higher prices of petroleum products could support the values of both U.S. exports and imports of industrial supplies in March, easing in exports of foods and capital goods after advances of 12.4 percent and 2.9 percent, respectively, raises the prospect of widening in the goods trade deficit in March. Previous data for January and February suggest that net exports may constrain Q1 GDP growth by approximately one percentage point (Q1 GDP also released on April 25).

Personal Income, Consumption, Price Indexes (March) (Friday)
Forecast: 0.5% Income, 0.6% Consumption, 0.3% Headline Price Index, 0.3% Core Price Index

Firm increases in average hourly earnings and hours worked suggest a brisk advance in the wages and salaries component of personal income. On the spending side, slower vehicle sales suggest a dip in outlays for durable items, but results from the March retail sales report suggest strong spending on nondurable items. Outlays on services have remained on a favorable trend into early 2024. Results for recent inflation indicators suggest rapid increases in the headline and core price indexes for personal consumption expenditures, although the core index could print at 0.3 percent versus 0.4 percent for the core CPI (chart, below left). Along with the expected firm increase, we anticipate the core price index to follow the broad contours of other recent observations (e.g. little improvement in the “supercore” component in February, but a subdued reading on goods prices excluding food and energy; chart, below right).

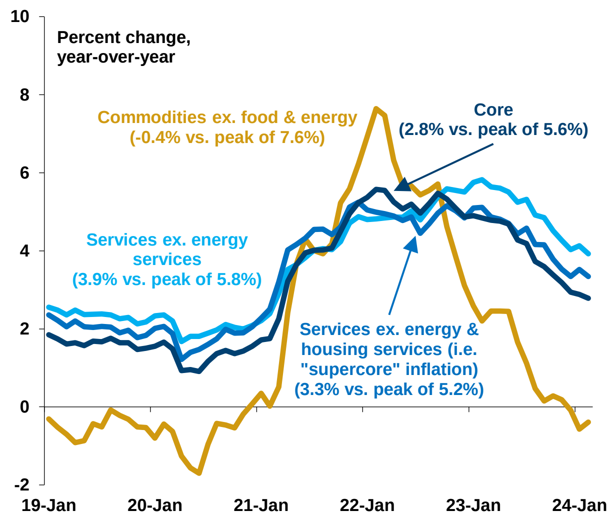
Core PCE Price Index*



** The gold bar is a forecast for March 2024.*

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

Decomposition of Core PCE Price Index



Source: Bureau of Economic Analysis via Haver Analytics

Economic Indicators

April/May 2024

Monday	Tuesday	Wednesday	Thursday	Friday
15	16	17	18	19
RETAIL SALES Total Ex.Autos Jan -0.9% -0.6% Feb 0.9% 0.6% Mar 0.7% 1.1% **EMPIRE MFG** Feb -2.4 Mar -20.9 Apr -14.3 **NAHB HOUSING INDEX** Feb 48 Mar 51 Apr 51 **BUSINESS INVENTORIES** Inventories Sales Dec 0.3% 0.1% Jan 0.0% -1.0% Feb 0.4% 1.6%	**HOUSING STARTS** Jan 1.375 million Feb 1.549 million Mar 1.321 million **IP & CAP-U** IP Cap.Util. Jan -0.8% 77.9% Feb 0.4% 78.2% Mar 0.4% 78.4%	**BEIGE BOOK** **April 2024:** “Overall economic activity expanded slightly, on balance, since late February. Ten out of twelve Districts experienced eithe slight or modest economic growth—up from eight in the previous report, while the other two reported no changes in activity.” **TIC FLOWS** Long-Term Total Dec $150.6B $129.4B Jan $14.0B -$30.8B Feb $71.5B $51.6B	**UNEMPLOYMENT CLAIMS** Initial Continuing (millions) Mar 23 0.212 1.789 Mar 30 0.222 1.810 Apr 6 0.212 1.812 Apr 13 0.212 N/A **PHILADELPHIA FED MFG BUSINESS OUTLOOK** Feb 5.2 Mar 3.2 Apr 15.5 **EXISTING HOME SALES** Jan 4.000 million Feb 4.380 million Mar 4.190 million **LEADING INDICATORS** Jan -0.5% Feb 0.2% Mar -0.3%	
22	23	24	25	26
CHICAGO FED NATIONAL ACTIVITY INDEX (8:30) Monthly 3-Mo. Avg. Jan -0.54 -0.11 Feb 0.05 -0.18 Mar -- --	**NEW HOME SALES (10:00)** Jan 0.664 million Feb 0.662 million **Mar 0.670 million**	**DURABLE GOODS ORDERS (8:30)** Jan -6.9% Feb 1.3% **Mar 3.0%**	**UNEMP. CLAIMS (8:30)** **GDP (8:30)** GDP Chained Price 23-Q3 4.9% 3.3% 23-Q4 3.4% 1.6% **24-Q1(a) 2.2% 3.0%** **INTERNATIONAL TRADE IN GOODS (8:30)** Jan -$90.6 billion Feb -$90.3 billion **Mar -$91.0 billion** **ADVANCE INVENTORIES (8:30)** Wholesale Retail Jan -0.2% 0.4% Feb 0.5% 0.6% Mar -- -- **PENDING HOME SALES (10:00)** Jan -4.7% Feb 1.6% Mar --	**PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX (8:30)** Inc. Cons. Core Jan 1.0% 0.2% 0.5% Feb 0.3% 0.8% 0.3% **Mar 0.5% 0.6% 0.3%** **REVISED CONSUMER SENTIMENT (10:00)** Feb 76.9 Mar 79.4 Apr(p) 77.9
29	30	1	2	3
	EMPLOYMENT COST INDEX **FHFA HOME PRICE INDEX** **S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX** **MNI CHICAGO BUSINESS BAROMETER** **CONFERENCE BOARD CONSUMER CONFIDENCE** **FOMC MEETING (FIRST DAY)**	**ADP EMPLOYMENT** **ISM MFG. INDEX** **JOLTS DATA** **CONSTRUCTION** **FOMC RATE DECISION** **VEHICLE SALES**	**UNEMP. CLAIMS** **TRADE BALANCE** **PRODUCTIVITY & COSTS** **FACTORY ORDERS**	**EMPLOYMENT REPORT** **ISM SERVICES INDEX**
6	7	8	9	10
SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES	**CONSUMER CREDIT**	**WHOLESALE TRADE**	**UNEMP. CLAIMS**	**CONSUMER SENTIMENT** **FEDERAL BUDGET**

Forecasts in bold. (a) = advance (1st estimate of GDP), (p) = preliminary

Treasury Financing

April/May 2024

Monday	Tuesday	Wednesday	Thursday	Friday
15	16	17	18	19
AUCTION RESULTS: Rate / Cover 13-week bills 5.250% 2.95 26-week bills 5.155% 2.79 **SETTLE:** $58 billion 3-year notes $39 billion 10-year notes $22 billion 30-year bonds	**AUCTION RESULTS:** Rate / Cover 52-week bills 4.915% 2.88 42 day CMBs 5.285% 2.79 **ANNOUNCE:** $60 billion 17-week bills for auction on Apr 17 $70 billion 4-week bills for auction on Apr 18 $75 billion 8-week bills for auction on Apr 18 **SETTLE:** $60 billion 17-week bills $70 billion 4-week bills $75 billion 8-week bills	**AUCTION RESULTS:** Rate / Cover 17-week bills 5.240% 2.81 20-yr bonds 4.818% 2.82	**AUCTION RESULTS:** Rate / Cover 4-week bills 5.280% 2.90 8-week bills 5.275% 2.90 5-yr TIPS 2.242% 2.58 **ANNOUNCE:** $140 billion 13-,26-week bills for auction on Apr 22 $69 billion 2-year notes for auction on Apr 23 $70 billion 5-year notes for auction on Apr 24 $44 billion 7-year notes for auction on Apr 25 $30 billion 2-year FRNs for auction on Apr 24 $65 billion 42-day CMBs for auction on Apr 23 **SETTLE:** $140 billion 13-,26-week bills $46 billion 52-week bills $65 billion 42-day CMBs	
22	23	24	25	26
AUCTION: $140 billion 13-,26-week bills	**AUCTION:** $69 billion 2-year notes $65 billion 42-day CMBs **ANNOUNCE:** $60 billion* 17-week bills for auction on Apr 24 $70 billion* 4-week bills for auction on Apr 25 $75 billion* 8-week bills for auction on Apr 25 **SETTLE:** $60 billion 17-week bills $70 billion 4-week bills $75 billion 8-week bills	**AUCTION:** $60 billion* 17-week bills $70 billion 5-year notes $30 billion 2-year FRNs	**AUCTION:** $70 billion* 4-week bills $75 billion* 8-week bills $44 billion 7-year notes **ANNOUNCE:** $140 billion* 13-,26-week bills for auction on Apr 29 **SETTLE:** $140 billion 13-,26-week bills $65 billion 42-day CMBs	
29	30	1	2	3
AUCTION: $140 billion* 13-,26-week bills	**ANNOUNCE:** $60 billion* 17-week bills for auction on May 1 $70 billion* 4-week bills for auction on May 2 $75 billion* 8-week bills for auction on May 2 **SETTLE:** $60 billion* 17-week bills $70 billion* 4-week bills $75 billion* 8-week bills $13 billion 20-year bonds $23 billion 5-year TIPS $69 billion 2-year notes $70 billion 5-year notes $44 billion 7-year notes $30 billion 2-year FRNs	**AUCTION:** $60 billion* 17-week bills **ANNOUNCE:** $58 billion* 3-year notes for auction on May 7 $42 billion* 10-year notes for auction on May 8 $25 billion* 30-year bonds for auction on May 9	**AUCTION:** $70 billion* 4-week bills $75 billion* 8-week bills **ANNOUNCE:** $140 billion* 13-,26-week bills for auction on May 6 **SETTLE:** $140 billion* 13-,26-week bills	
6	7	8	9	10
AUCTION: $140 billion* 13-,26-week bills	**AUCTION:** $58 billion* 3-year notes **ANNOUNCE:** $60 billion* 17-week bills for auction on May 8 $70 billion* 4-week bills for auction on May 9 $75 billion* 8-week bills for auction on May 9 **SETTLE:** $60 billion* 17-week bills $70 billion* 4-week bills $75 billion* 8-week bills	**AUCTION:** $60 billion* 17-week bills $42 billion* 10-year notes	**AUCTION:** $70 billion* 4-week bills $75 billion* 8-week bills $25 billion* 30-year bonds **ANNOUNCE:** $140 billion* 13-,26-week bills for auction on May 13 $46 billion* 52-week bills for auction on May 14 **SETTLE:** $140 billion* 13-,26-week bills	

**Estimate*