Daiwa Capital Markets

U.S. Data Review

- Personal income, consumption, prices: above-average core inflation, but still contained
- Consumption on track for moderate growth
- Consumer confidence: a jump to the upper end of the recent range
- Pending home sales: marked improvement in June

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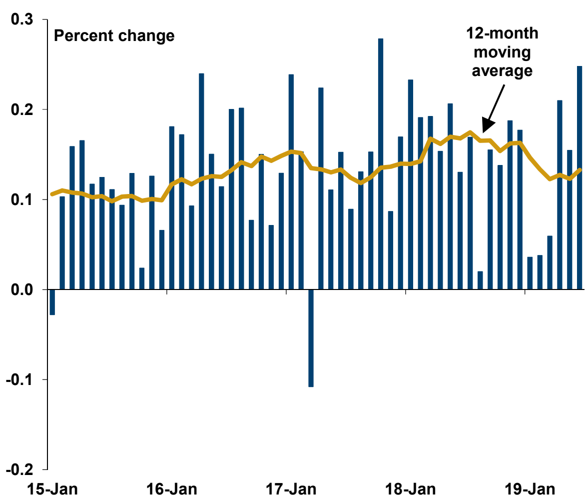
Personal Income, Consumption, Prices

The price index for personal consumption expenditures rose 0.1 percent in June, matching expectations. Both food and energy prices helped to contain the measure, as the food component fell 0.1 percent and energy prices retreated 2.3 percent. The core component rose 0.2 percent, although it almost rounded up to 0.3 percent (0.248 percent). The latest increase in core prices was among the largest of the current expansion (only three posted larger increases, with the firmest totaling 0.372 percent in October 2009). Although the latest reading on the core index was above average, the longer-term trend remained contained, with the year-over-year increase totaling 1.6 percent, up from 1.5 percent in the prior three months but still below the Fed's target of 2.0 percent (chart, left).

Results on income and consumption for June were in line with expectations, with income up 0.4 percent and consumption up 0.3 percent. Wage income was firm with an increase of 0.5 percent, and rent and interest income made notable contributions as well (up 0.6 percent and 0.5 percent, respectively). Farm income jumped 12.6 percent, but the increase occurred from a low base and the new level remained low despite the sizeable gain. Farm income is being constrained by low prices and loss of export demand.

On the spending side, outlays for motor vehicles fell, but results for other durable goods, nondurable goods, and services were favorable and overall spending was respectable. In one sense the June results are not deeply interesting, as they merely represent a monthly breakdown of the quarterly figures published with the GDP report last week. However, they are useful in that they provide insight into momentum entering the third quarter. The June level of real outlays was above the average in the second quarter. Thus, even with no growth in the next three months, real consumer expenditures in the GDP accounts would increase 0.9 percent in Q3. If spending were to increase 0.2 percent in each of the next three months, real outlays in Q3 would increase 2.5 percent, a pace in the middle of the recent range (chart, right).

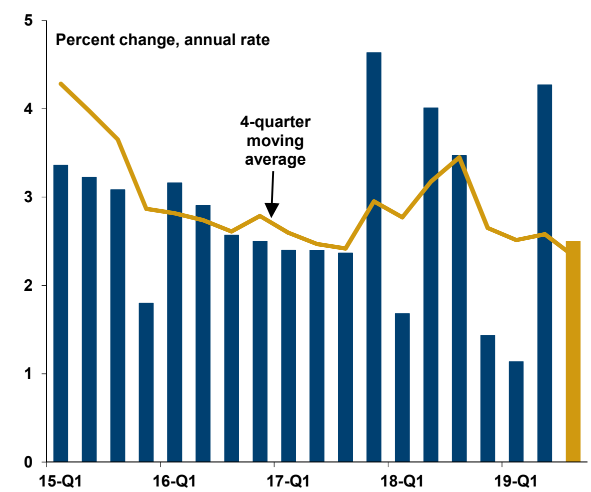
Core PCE Price Index



PCE = personal consumption expenditures

Source: Bureau of Economic Analysis via Haver Analytics

Personal Consumption Expenditures*



** The reading for 2019-Q3 (gold bar) is a forecast.*

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

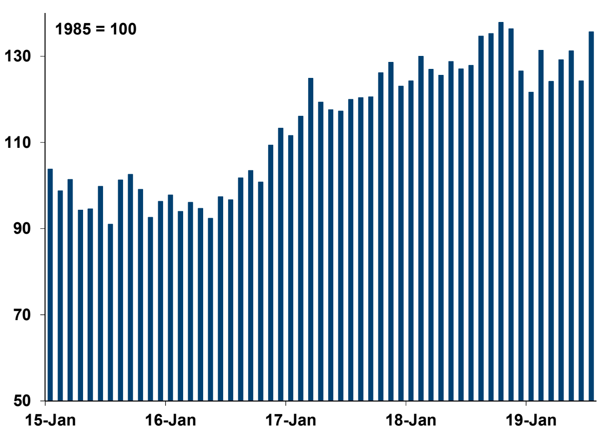
Consumer Confidence

The consumer confidence index for July exceeded expectations by a wide margin, with the new index value of 135.7 well above the expected value of 125.0. The measure showed a surprising drop in June to the low portion of its recent range, but that reading was revised upward (124.3 rather than 121.5), and the change in the latest month totaled more than 11 index points (or 9.2 percent). The index moved from the lower portion of its range to the upper portion, with only two observations in the current cycle slightly higher than the July value (chart, below left).

The expectations component accounted for most of the large increase in July, as this measure rose 15.0 percent. This index had lost a good bit of ground this year, dropping 15.2 percent from its recent peak in October of last year. However, the latest gain pushed the measure to the upper portion of the recent range. The current conditions component has been much less volatile in recent months, bouncing around in a narrow range and tracing a slight downward drift. The increase of 4.0 percent in July lessened that downward drift.

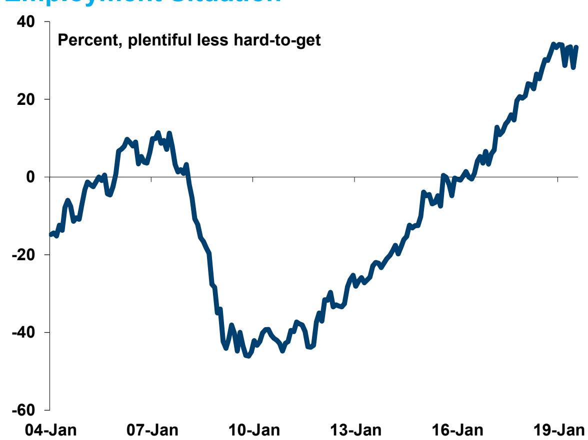
The assessment of the labor market improved in July, as the share of respondents indicating that jobs were plentiful rose 2.2 percentage points to 46.2 percent. The share indicating that jobs were hard to get fell 3.0 percentage points to 12.8 percent. The net reading (plentiful less hard to get, 33.4 percent) moved to the top of its recent range. These changes, however, might be viewed as random shifts, as the measure has been moving erratically in recent months while showing little net change (chart, right).

Consumer Confidence



Source: The Conference Board via Haver Analytics

Employment Situation*



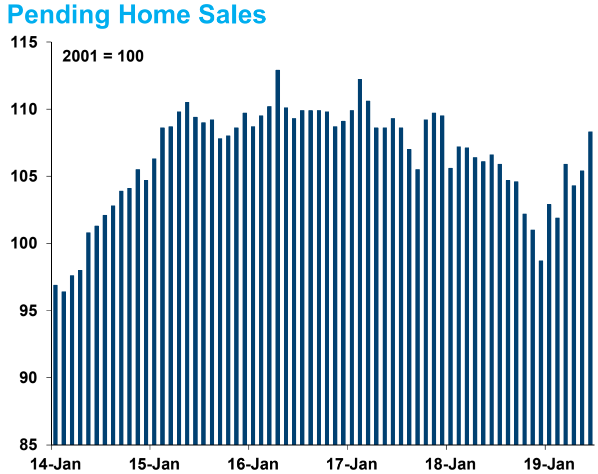
** The share of respondents indicating that jobs are plentiful less the share indicating that jobs are hard to get.*

Source: The Conference Board via Haver Analytics

Pending Home Sales

The index of pending home sales provided a favorable surprise in June with an increase of 2.8 percent (versus an expectation of 0.5 percent). After retreating during most of last year, the measure has increased in four of the past six months and moved close to the range in place from 2015 through 2017 (chart, right). The pickup bodes well for sales of existing homes in the next month or two.

Pending Home Sales



Source: National Association of Realtors via Haver Analytics