U.S. Economic Comment

- Recent economic statistics: suggesting continued moderate growth in Q4
- The U.S. economy in Q3: modest adjustment to the initial estimate of GDP

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Insights into Q4 GDP

The barrage of data released on the two days before the Thanksgiving holiday included several reports that feed into the calculation of GDP, and thus the data -- mostly involving activity in October -- provide useful insights into the state of the U.S. economy in the early fourth quarter. The available evidence suggests that growth is likely to be close to the 2.1 percent pace in the third quarter, which would be a touch lighter than the 2.6 percent registered in the first half of the year and over the four quarters of 2018 (chart).

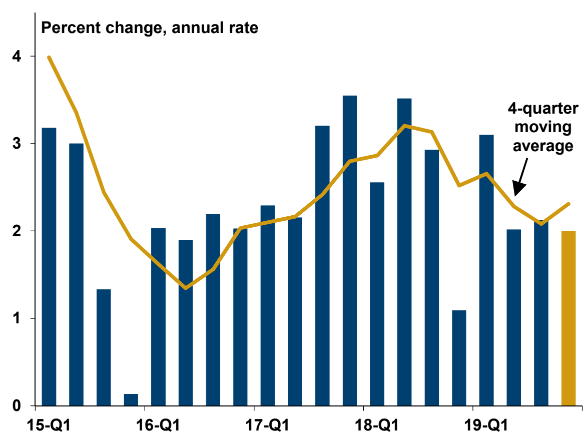
The consumer sector has been carrying the heaviest load in support of the economy, with growth averaging approximately 2.6 percent last year and in the first three quarters of this year. Individuals will perhaps lighten their contribution in the fourth quarter, as the October report on income and consumption showed modest growth in real outlays (slightly less than 0.1 percent). A decline in spending on durable goods (primarily motor vehicles) accounted for most of the softness, and we suspect the retreat reflected the volatility that arises from time-to-time in big-ticket items. With fundamentals for consumer spending favorable, we suspect that households will be more active in November and December. Still, with the slow start to the fourth quarter, the growth of consumer spending is likely to fall short of the recent average, but growth of two percent is certainly within reach (see charts on p. 4).

The report on income and consumption also includes the price index for personal consumption expenditures, the measure targeted by the Federal Reserve. Inflation remained subdued in October. Energy prices rose 2.6 percent, but despite this pressure, the headline index rose only 0.2 percent, shy of the expected advance of 0.3 percent (and it rounded up to the published total: 0.186 percent). A restrained reading on the core index (0.081 percent) helped to contain the headline measure. The latest monthly results left the year-over-year increase in the overall index steady at 1.3 percent, while the 12-month change in the core index eased one tick to 1.6 percent (chart, p. 4).

Individuals shied away from spending on durable goods in October, but they were active in another big-ticket area: homes. After a sharp upward revision, sales of new homes registered a new cyclical high in September, and they gave back only a small portion of the gain in October. Sales in the past two months were the strongest of the current expansion (chart, p.4).

The pickup in home sales has stirred the construction of new homes, as single-family housing starts have increased for five consecutive months and in seven of the past eight (chart, p. 4). Although they have not moved to a new cyclical high, single-family starts are in the upper end of the range of the current expansion. The figures in hand suggest that residential construction in Q4 will contribute to GDP growth for the second consecutive quarter after declining throughout 2018

GDP Growth*



* *The reading for 2019-Q4 (gold bar) is a forecast.*

Source: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America and the first half of this year. The building of new homes is likely to account for most of the expected advance in residential construction, but another component -- brokerage commissions -- is likely to be firm as well because of the improvement in sales of both new and existing homes.

Capital spending has emerged as a risk area for the U.S. economy because of uncertainties associated with the trade war and the global economic outlook. In fact, softness has already become apparent, as outlays for new equipment rose only marginally in the first half of the year and they fell at an annual rate of 3.8 percent in the third quarter. However, recent figures have offered a hint of encouragement. Shipments of nondefense capital goods other than aircraft rose 0.8 percent in October and moved above the average in Q3, raising the possibility of growth in Q4. Imports of capital goods also rose in October, which should add to equipment outlays as well. Finally, new orders for nondefense capital goods other than aircraft rose 1.2 percent in October, which should help maintain the flow of shipments.

While the October results offered encouragement, capital spending still represents a risk area, as the latest gains in orders and shipments have merely dampened the softness that has emerged in the past year or so. In addition, another area of capital spending -- outlays for business structures -- has declined in four of the past five quarters and is likely to remain slow at least in the near term. Business executives in the current uncertain environment are likely to hesitate in undertaking investment projects with long lives.

Inventory investment, as always, represents a wild card. Preliminary estimates for October showed faster growth in stocks than the average in the third quarter, suggesting a positive contribution to GDP growth from inventory investment. However, the Commerce Department makes considerable adjustments to the raw figures on inventories before entering them into the GDP statistics, and we suspect that the adjustments will lighten stock building and lead to a negative contribution from inventory investment.

The report on international trade in goods for October provided the biggest surprise this week, as the (nominal) merchandise deficit narrowed by 5.7 percent, a marked contrast from the consensus estimate of widening by 0.7 percent. The narrowing of the deficit could add substantially to economic growth in the fourth quarter. Indeed, if the nominal improvement holds up after adjusting for price changes, and if the results for November and December match those for October, net exports would add more than a percentage point to GDP growth. However, we hesitate to be this optimistic. Inflation adjustment could alter the picture. More important, with slow growth abroad and a firm dollar working against the U.S. trade situation, we suspect the October results contained an element of random volatility that will be at least partly reversed in the next two months.

The composition of the trade data for October also leads us to be skeptical about meaningful support to economic growth from net exports. The improvement in the deficit reflected weakness on both sides of the trade ledger. Exports fell 0.7 percent, but the drop in imports was much larger at 2.4 percent. The changes suggested underlying softness rather than strength, and thus we suspect that upcoming reports will be less favorable.

While we have doubts about the implications of the best report of the week, the figures in total showed the economy still moving ahead at a pace in the neighborhood of two percent.

The Third Quarter

The Commerce Department this week published revised figures for third quarter GDP, and the new estimate was quite close to the advanced reading published last month (growth of 2.1 percent versus the initial estimate of 1.9 percent; table, next page). Inventory investment stood out as contributing to the upward adjustment, as stock building added 0.17 percentage point to GDP growth rather than subtracting 0.05 percentage point. Other areas showed modest, offsetting changes (final sales -- GDP less inventory investment -- was unrevised at 2.0 percent).

Within final sales, business investment in new structures was revised upward, although this component was still weak (declining 12.0 percent rather 15.3 percent). This upward adjustment was offset by downward revisions to net exports, spending by state and local governments, and business investment in intellectual property.

The latest set of GDP statistics included the first estimate of corporate profits for the third quarter. So-called economic profits (i.e. profits using uniform procedures for inventory and depreciation accounting) rose 1.3 percent (not annualized). The total represented a new record high, although the tally was only marginally higher than the previous peak in 2018-Q4. After jumping at the start of 2018 because of the cut in corporate taxes, earnings have largely moved sideways.

GDP and Related Items*

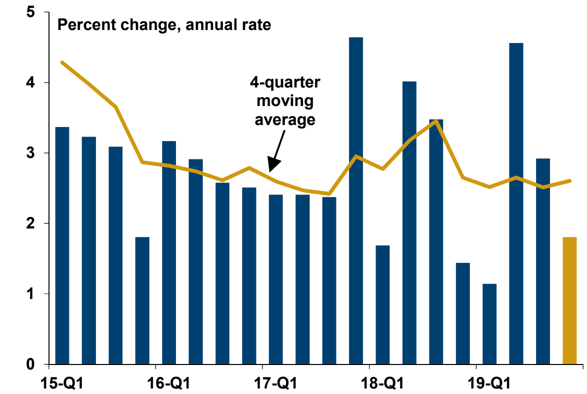
		19-H1	19-Q3 (a)	19-Q3 (p)
1.	**Gross Domestic Product**	2.6	1.9	2.1
2.	**Personal Consumption Expenditures**	2.9	2.9	2.9
3.	**Nonresidential Fixed Investment**	1.7	-3.0	-2.7
3a.	**Nonresidential Structures**	-3.6	-15.3	-12.0
3b.	**Nonresidential Equipment**	0.4	-3.8	-3.8
3c.	**Intellectual Property Products**	7.2	6.6	5.1
4.	**Change in Business Inventories (Contribution to GDP Growth)**	-0.2	-0.1	0.2
5.	**Residential Construction**	-2.0	5.1	5.1
6.	**Total Government Purchases**	3.9	2.0	1.6
6a.	**Federal Government Purchases**	5.3	3.4	3.4
6b.	**State and Local Govt. Purchases**	3.0	1.1	0.5
7.	**Net Exports (Contribution to GDP Growth)**	0.0	-0.1	-0.1
7a.	**Exports**	-0.8	0.7	0.9
7b.	**Imports**	-0.8	1.2	1.5
	Additional Items			
8.	**Final Sales**	2.8	2.0	2.0
9.	**Final Sales to Domestic Purchasers**	2.7	2.0	2.0
10.	**Gross Domestic Income**	2.1	--	2.4
11.	**Average of GDP & GDI**	2.3	--	2.3
12.	**GDP Chained Price Index**	1.8	1.7	1.8
13.	**Core PCE Price Index**	1.5	2.2	2.1

* *Percent change SAAR, except as noted*

(a) = advance (1st estimate of GDP); (p) = preliminary (2nd estimate of GDP)

Source: Bureau of Economic Analysis via Haver Analytics

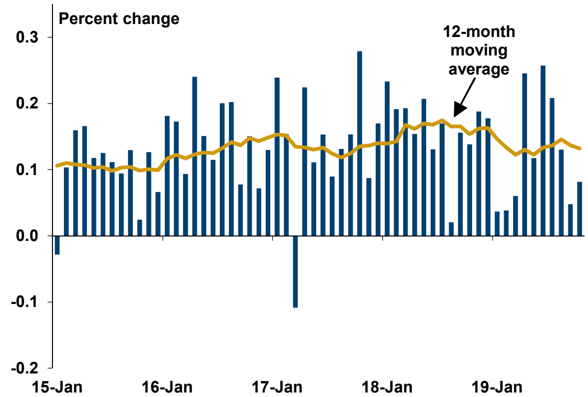
Consumer Spending*



* The reading for 2019-Q4 (gold bar) is a forecast.

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

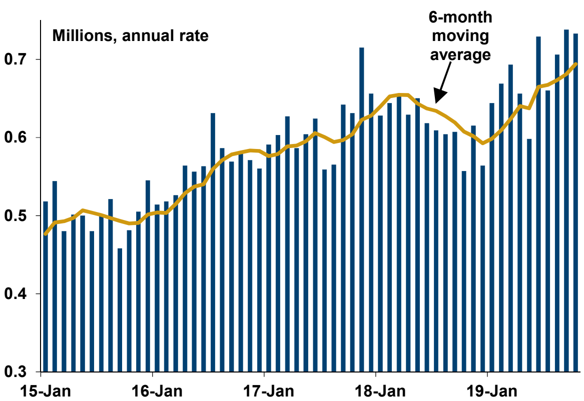
Core PCE Price Index



PCE = personal consumption expenditures

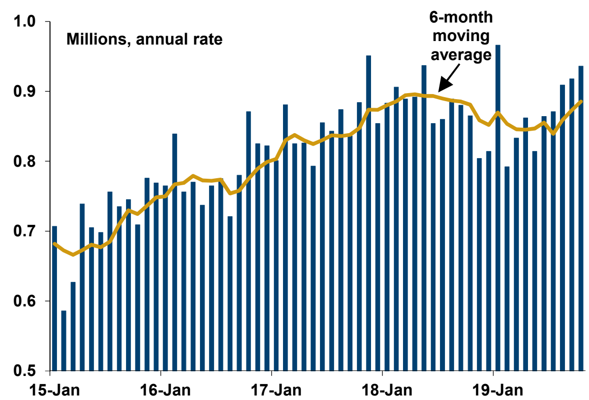
Source: Bureau of Economic Analysis via Haver Analytics

New Home Sales



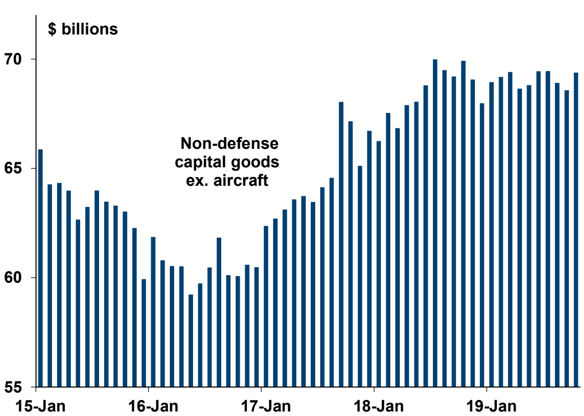
Source: U.S. Census Bureau via Haver Analytics

Single-Family Housing Starts



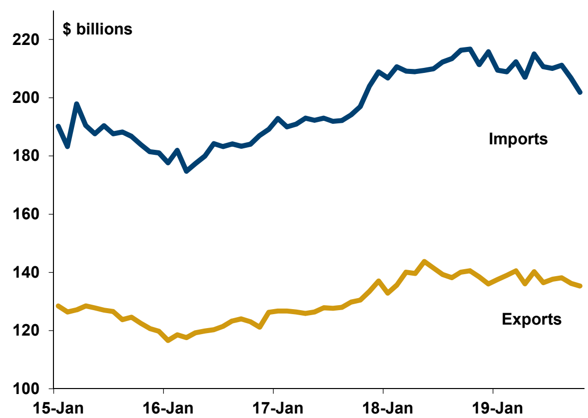
Source: U.S. Census Bureau via Haver Analytics

New Orders for Durable Goods



Source: U.S. Census Bureau via Haver Analytics

Imports & Exports of Goods



Source: U.S. Census Bureau via Haver Analytics

Review

Week of Nov. 25, 2019	Actual	Consensus	Comments
U.S. International Trade in Goods (October)	**-$66.5 Billion ($4.0 Billion Narrower Deficit)**	**-$71.0 Billion ($0.5 Billion Wider Deficit)**	The U.S. trade deficit in goods improved noticeably in October, but the results should not be viewed as favorable, as the change was the result of marked weakness in imports (-2.4%) that more than offset a soft performance in exports (-0.7%). The declines were broadly based and accented the downward drifts in exports and imports that began last year.
New Home Sales (October)	**0.733 Million (-0.7%)**	**0.705 Million (+0.6%)**	Sales of new homes provided a pleasant surprise in October. Activity fell on a month-to-month basis, but the drop occurred from an upward revised level in September. The past two months are the strongest of the expansion thus far.
Consumer Confidence (November)	**125.5 (-0.5%)**	**127.0 (+0.9%)**	The small decline in consumer confidence kept the measure in the low portion of its recent range. The index has lost some ground in the past year or so, but it still compares favorably with the historical performance, as the November reading was above all observations from the long expansions in the 1980s and 2000s (although it lagged results in the late 1990s).
Revised GDP (2019-Q3)	**2.1% (+0.2 Pct. Pt Revision)**	**1.9% (Unrevised)**	Firmer inventory investment led the upward revision in GDP growth in Q3 (a contribution of 0.17 percentage point versus -0.05 percentage point). Other key components showed modest, offsetting adjustment, as growth of final sales (GDP excluding the change in inventories) was unrevised at 2.0%.
Durable Goods Orders (October)	**0.6%**	**-0.9%**	An upside surprise in aircraft orders (14.1%) led orders for durable goods higher in October, as bookings for civilian aircraft rose despite issues at Boeing. Defense-related orders for aircraft also jumped. Bookings ex-transportation increased 0.6%, but the trend of the past two years remained flat. Orders for nondefense capital goods excluding aircraft rose 1.2%, offsetting declines in the prior two months.
Personal Income, Consumption, Core Price Index (October)	**0.0%, 0.3%, 0.1%**	**0.3%, 0.3%, 0.1%**	Wages and salaries posted a respectable advance of 0.4%, but a drop of 39.3% in farm income and a decline of 1.7% in interest income left total income flat in October. On the spending side, increases in outlays for nondurable goods and services offset a decline in spending on durable items. The nominal increase translated to a real advance of 0.1% in consumer spending, a result that implies a moderate advance in Q4. The core PCE price index rose 0.1% in October (0.081% with less rounding). The year-over-year increase in the core PCE index slowed to 1.6%, down from 1.7% in September and the recent high of 2.1% in July 2018.

Source: U.S. Census Bureau (U.S. International Trade in Goods, New Home Sales, Durable Goods Orders); The Conference Board (Consumer Confidence); Bureau of Economic Analysis (Revised GDP, Personal Income, Consumption, Core Price Index); Consensus forecasts are from Bloomberg

Preview

Week of Dec. 2, 2019	Projected	Comments
ISM Manufacturing Index (November) (Monday)	**49.0% (+0.7 Pct. Pt.)**	Recent hints of improvement in the manufacturing sector, such as an increase in strike-adjusted employment, should lead to an increase in the ISM index. However, this sector is still slow, and thus the index is likely to remain below the critical value of 50% for the fourth consecutive month.
Construction Spending (October) (Monday)	**0.5%**	The pickup in housing starts in recent months should translate to a strong showing in residential construction, while the soft trend in private nonresidential activity is likely to continue. Government-related building has cooled from a surge in the first half of the year, but it remains firm.
ISM Nonmanufacturing Index (November) (Wednesday)	**55.0% (+0.3 Pct. Pt.)**	With the economy growing at a moderate pace, the nonmanufacturing index should remain close to its recent average (54.2% in Q3), although it is likely to fall well shy of the brisk showing in 2018 (average of 58.9%).
Trade Balance (October) (Thursday)	**-$48.5 Billion ($4.0 Billion Narrower Deficit)**	The downward trend in trade services that began last year could well continue in October, but most monthly changes have been small and any additional slippage should be easily swamped by the improvement of $4.0 billion in the trade deficit for goods (published on November 26).
Factory Orders (October) (Thursday)	**0.3%**	The durable component rose 0.6% in October (published November 27). A jump in volatile aircraft orders accounted for part of the advance, but bookings ex-transportation also increased 0.6%. Orders for nondurable goods are likely to be flat, as a price-related drop in the petroleum and coal category is likely to offset a moderate gain ex-petroleum. The increase ex-petroleum, if realized, would resume a five-month advance that was interrupted by a flat reading in September.
Payroll Employment (November) (Friday)	**200,000**	A firm underlying pace of job growth is likely to be joined by a surge in the manufacturing sector associated with the resolution of the strike at General Motors. The labor force, which has increased sharply in the prior six months, is likely to keep pace with job growth, leaving the unemployment rate steady. Average hourly earnings should post a solid advance after two quiet months (0.3% expected).
Consumer Sentiment (December) (Friday)	**97.0 (+0.2%)**	The continued rally in equity prices to new record highs could nudge the index of consumer sentiment closer to the lofty 2018 average of 98.4.

Source: Forecasts provided by Daiwa Capital Markets America

Economic Indicators

November/December 2019

Monday	Tuesday	Wednesday	Thursday	Friday
25	26	27	28	29
CHICAGO FED NATIONAL ACTIVITY INDEX Monthly 3-Mo. Avg. Aug 0.23 -0.02 Sept -0.45 -0.21 Oct -0.71 -0.31	**U.S. INTERNATIONAL TRADE IN GOODS** Aug -$73.0 billion Sept -$70.5 billion Oct -$66.5 billion **ADVANCE INVENTORIES REPORT** Wholesale Retail Aug 0.1% -0.2% Sept -0.7% 0.2% Oct 0.2% 0.3% **FHFA HOME PRICE INDEX** July 0.4% Aug 0.2% Sept 0.6% **S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX** SA NSA July 0.1% 0.2% Aug 0.2% 0.0% Sept 0.4% 0.1% **NEW HOME SALES** Aug 0.706 million Sept 0.738 million Oct 0.733 million **CONFERENCE BOARD CONSUMER CONFIDENCE** Sept 126.3 Oct 126.1 Nov 125.5	**INITIAL CLAIMS** Nov 09 227,000 Nov 16 228,000 Nov 23 213,000 **REVISED GDP** GDP Chained Price 19-Q2 2.0% 2.4% 19-Q3(a) 1.9% 1.7% 19-Q3(p) 2.1% 1.8% **DURABLE GOODS ORDERS** Aug 0.2% Sept -1.4% Oct 0.6% **CHICAGO PURCHASING MANAGERS' INDEX** Index Prices Sept 47.1 57.3 Oct 43.2 54.8 Nov 46.3 53.5 **PENDING HOMES SALES** Aug 1.4% Sept 1.4% Oct -1.7% **PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX** Inc. Cons. Core Aug 0.5% 0.2% 0.1% Sept 0.3% 0.2% 0.0% Oct 0.0% 0.3% 0.1% **BEIGE BOOK** "Economic activity expanded modestly from October through mid-November…"	***THANKSGIVING***	

Monday	Tuesday	Wednesday	Thursday	Friday
2	3	4	5	6
ISM INDEX (10:00) Index Prices Sept 47.8 49.7 Oct 48.3 45.5 **Nov 49.0 47.0** **CONSTRUCTION SPEND. (10:00)** Aug -0.3% Sept 0.5% **Oct 0.5%**	**VEHICLE SALES** Sept 17.2 million Oct 16.5 million **Nov 16.8 million**	**ADP EMPLOYMENT REPORT (8:15)** Private Payrolls Sept 93,000 Oct 125,000 Nov -- **ISM NON-MFG INDEX (10:00)** Index Prices Sept 52.6 60.0 Oct 54.7 56.6 **Nov 55.0 57.0**	**INITIAL CLAIMS (8:30)** **TRADE BALANCE (8:30)** Aug -$55.0 billion Sept -$52.5 billion **Oct -$48.5 billion** **FACTORY ORDERS (10:00)** Aug -0.1% Sept -0.7% **Oct 0.3%**	**EMPLOYMENT REPORT (8:30)** Payrolls Un. Rate Sept 180,000 3.5% Oct 128,000 3.6% **Nov 200,000 3.6%** **WHOLESALE TRADE (10:00)** Inventories Sales Aug 0.1% -0.1% Sept -0.4% 0.0% Oct -- -- **CONSUMER SENTIMENT (10:00)** Oct 95.5 Nov 96.8 **Dec 97.0** **CONSUMER CREDIT (3:00)** Aug $17.8 billion Sept $9.5 billion Oct --

Monday	Tuesday	Wednesday	Thursday	Friday
9	10	11	12	13
	NFIB SMALL BUSINESS OPTIMISM INDEX **REVISED PRODUCTIVITY & COSTS** **FOMC MEETING**	**CPI** **FEDERAL BUDGET** **FOMC DECISION**	**INITIAL CLAIMS** **PPI**	**RETAIL SALES** **IMPORT/EXPORT PRICES** **BUSINESS INVENTORIES**
16	17	18	19	20
EMPIRE MFG INDEX **NAHB HOUSING MARKET INDEX** **TIC DATA**	**HOUSING STARTS** **IP & CAP-U** **JOLTS DATA**		**INITIAL CLAIMS** **CURRENT ACCOUNT** **PHILLY FED INDEX** **EXISTING HOME SALES** **LEADING INDICATORS**	**REVISED GDP** **PERSONAL INCOME, CONSUMPTION, PRICES** **REVISED CONSUMER SENTIMENT**

Forecasts in Bold. (a) = advanced (1st estimate of GDP); (p) = preliminary (2nd estimate of GDP)

Treasury Financing

November/December 2019

Monday	Tuesday	Wednesday	Thursday	Friday
25	26	27	28	29
AUCTION RESULTS: Rate / Cover 13-week bills 1.560% 2.89 26-week bills 1.580% 2.73 2-year notes 1.601% 2.63	**AUCTION RESULTS:** Margin / Cover 2-year FRN 0.240% 2.50 Rate / Cover 5-year notes 1.587% 2.50 **ANNOUNCE:** $45 billion 4-week bills for auction on November 27 $35 billion 8-week bills for auction on November 27 **SETTLE:** $50 billion 4-week bills $40 billion 8-week bills	**AUCTION RESULTS:** Rate / Cover 4-week bills 1.620% 2.73 8-week bills 1.570% 3.53 7-year notes 1.719% 2.44 **ANNOUNCE:** $78 billion 13-,26-week bills for auction on December 2 $26 billion 52-week bills for auction on December 3	***THANKSGIVING***	**SETTLE:** $84 billion 13-,26-week bills $18 billion 2-year FRNs $12 billion 10-year TIPS
2	3	4	5	6
AUCTION: $78 billion 13-,26-week bills **SETTLE:** $40 billion 2-year notes $41 billion 5-year notes $32 billion 7-year notes	**AUCTION:** $26 billion 52-week bills **ANNOUNCE:** $45 billion* 4-week bills for auction on December 5 $35 billion* 8-week bills for auction on December 5 **SETTLE:** $45 billion 4-week bills $35 billion 8-week bills		**AUCTION:** $45 billion* 4-week bills $35 billion* 8-week bills **ANNOUNCE:** $78 billion* 13-,26-week bills for auction on December 9 $38 billion* 3-year notes for auction on December 9 $24 billion* 10-year notes for auction on December 10 $16 billion* 30-year bonds for auction on December 12 **SETTLE:** $78 billion 13-,26-week bills $26 billion 52-week bills	
9	10	11	12	13
AUCTION: $78 billion* 13-,26-week bills $38 billion* 3-year notes	**AUCTION:** $24 billion* 10-year notes **ANNOUNCE:** $45 billion* 4-week bills for auction on December 12 $35 billion* 8-week bills for auction on December 12 **SETTLE:** $45 billion* 4-week bills $35 billion* 8-week bills		**AUCTION:** $45 billion* 4-week bills $35 billion* 8-week bills $16 billion* 30-year bonds **ANNOUNCE:** $78 billion* 13-,26-week bills for auction on December 16 $15 billion* 5-year TIPS for auction on December 19 **SETTLE:** $78 billion* 13-,26-week bills	
16	17	18	19	20
AUCTION: $78 billion* 13-,26-week bills **SETTLE:** $38 billion* 3-year notes $24 billion* 10-year notes $16 billion* 30-year bonds	**ANNOUNCE:** $45 billion* 4-week bills for auction on December 19 $35 billion* 8-week bills for auction on December 19 **SETTLE:** $45 billion* 4-week bills $35 billion* 8-week bills		**AUCTION:** $45 billion* 4-week bills $35 billion* 8-week bills $15 billion* 5-year TIPS **ANNOUNCE:** $78 billion* 13-,26-week bills for auction on December 23 $18 billion* 2-year FRNs for auction on December 24 $40 billion* 2-year notes for auction on December 23 $41 billion* 5-year notes for auction on December 24 $32 billion* 7-year notes for auction on December 26 **SETTLE:** $78 billion* 13-,26-week bills	

**Estimate*