

U.S. Economic Comment

- Consumer spending: slow retail activity belies continued support from households
- Boeing: more meaning economic effects

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Consumer Spending: Still on Track

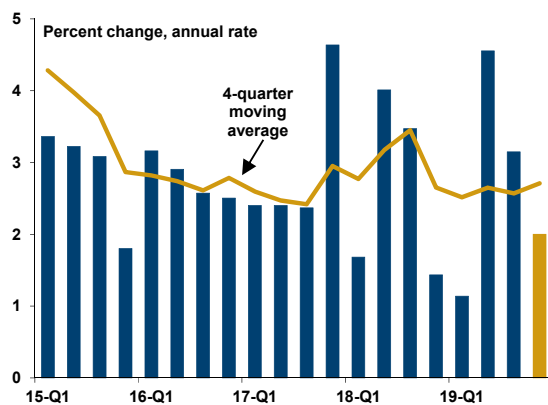
Recent reports on retail activity have been disappointing. Sales excluding the volatile auto and gasoline components have declined on balance in the past three months, and a grouping of categories involved primarily with discretionary purchases (such as furniture, clothing, restaurant meals) has advanced only marginally since August. The soft results might stir concern about fading support from consumers, but recent results from the monthly report on income and consumption were less troubling.

Personal income jumped 0.5 percent in November, one of the better performances of the past few years, which supported spending growth of 0.4 percent. These increases followed modest gains in October, but the combined result of the past two months point to respectable results for the fourth quarter. The available data suggest that real consumer spending in Q4 will grow approximately two percent (annual rate), a reading in the middle of the recent range. After strong results in the prior two quarters, the year-over-year increase (or the four quarter moving average) would total 2.7 percent, comfortably within the range of recent observations (chart, left).

Fundamentals for consumer spending also would suggest that individuals are likely to remain active in the months ahead. The financial position of the household sector is healthy in the aggregate. Assets are continuing to advance because of rising asset prices and a firm saving rate, and individuals are using debt judiciously. As a result, the net worth of the household sector has increased at an annual rate of 9.5 percent in the first three quarters of the year. This advance is already strong by historical standards, and the jump in the stock market thus far in Q4 will probably quicken the pace.

Many observers will note that the aggregate net worth position of the household sector could be a misleading indicator because of an unequal distribution of wealth. This point is well taken, but another indicator -- delinquency rates on consumer loans -- suggests that stress is limited. The incidence of late payments has crept up recently, but the delinquency rate remains low by historical standards, as the current reading of 2.3 percent is below the troughs of 2.7 percent in the two previous expansions (chart, right).

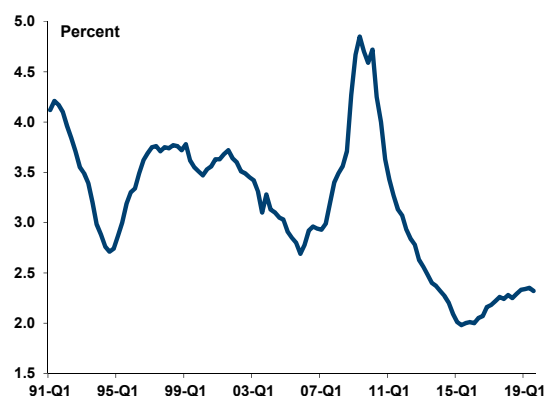
Real Consumer Spending*



* The reading for 2019-Q4 is a forecast based on available data.

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

Delinquency Rate on Consumer Loans

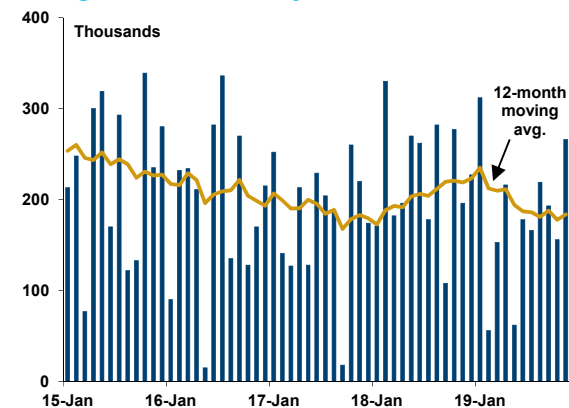


Source: Federal Reserve Board via Haver Analytics

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The labor market is perhaps a more important consideration in the outlook for consumer spending, and conditions remain favorable. However, job growth has lost some of the edge that was in place last year, as payrolls have advanced at an average monthly rate of 180,000 so far in 2019 versus 223,000 last year (chart). In addition, we suspect that the stunning advance of 266,000 in November contained a healthy dose of upside volatility and that payback will be evident in the next month or two. We view the underlying pace of job growth to be in the neighborhood of 150,000. This is fast enough to push unemployment lower and to support consumer spending, but it still suggests deceleration in job growth.

Change in Nonfarm Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

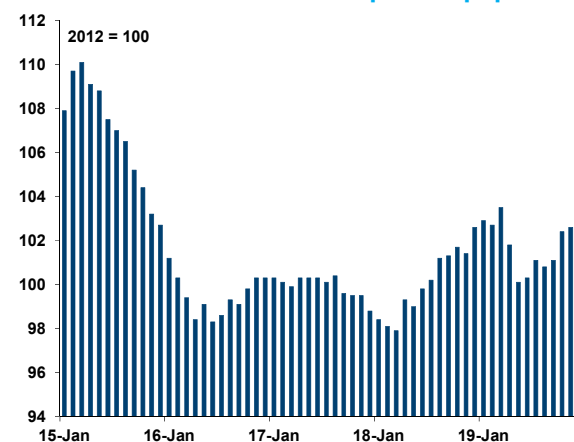
We suspect that job growth will continue to slow next year, partly because of a limited supply of workers, which is likely to lead to an easing in the growth of consumer spending. But for now, households remain active.

Boeing: Soon to Be a Source of Noise and Uncertainty

Boeing's troubles with the 737 Max have thus far had little effect on economic activity. Although the manufacturer halted deliveries of the plane in March, it made a relatively small adjustment in its production schedule -- and production is what matters for economic growth and employment. Boeing was producing 52 units of the troubled aircraft per month before the Ethiopian Airlines accident in March, but it scaled back to 42 units in mid-April. With deliveries halted, Boeing moved the aircraft to inventory as they were completed. This strategy altered the components of GDP (lighter business investment and exports, but firmer inventory investment) while leaving a modest slowing in GDP growth.

The macroeconomic effect of the production cut in April is evident in the industrial production report, where the aerospace component fell in April and May before recouping most of the lost ground in subsequent months (chart; the category is actually called aerospace and other miscellaneous transportation equipment; it includes more than Boeing production). Employment has been even more resilient, as payrolls in the non-auto transportation sector have increased every month so far this year.

Industrial Production: Aerospace Equipment



Source: Federal Reserve Board via Haver Analytics

The situation will change in early 2020, as Boeing announced this week that it will suspend production of the 737 Max in January. Trimming 10 aircraft from the production schedule in April had little macroeconomic effect, but moving from 42 to zero will be meaningful.

Some back-of-the envelope calculations provide insights. The 737 Max carries a price tag of approximately \$120 million, and thus the production cut amounts to \$5.0 billion per month or \$60 billion per year. This total translates to approximately \$50 billion in real terms after applying the deflators used in the calculation of the GDP statistics. A good portion of this total involves imported parts -- perhaps 35 percent --

which would be subtracted in the calculation of GDP, leaving real domestic content of \$30 to \$35 billion per year. The loss of this amount would trim one-half to three-quarters of a percentage point from GDP growth in the quarter where the production cuts occur. Growth would snap back by a like amount in the quarter when production resumes.

The effect on employment might not be as consequential. The announcement by Boeing indicated that its affected employees would continue to perform work related to the 737 or be assigned to other projects. The press release left the impression that layoffs were not in play at this time. However, the situation could change if the aircraft is not cleared to fly in the near term. Also, firms in Boeing's supply chain might begin to trim payrolls if production does not resume soon.

Thus, while Boeing had little influence on the economic statistics during 2019, it most likely will be generating noise in the new year. It also might be generating uncertainty for the suppliers of Boeing and workers in the aerospace industry, which could lead to cautious spending and an additional constraint on economic growth.

Next Comment

We will take a break during the holiday season. We will publish the next issue of the Economic Comment on January 3, 2020.

Review

Week of Dec. 16, 2019	Actual	Consensus	Comments
Housing Starts (November)	1.365 Million (+3.2%)	1.345 Million (+2.4%)	The increase in housing starts in November occurred from an upwardly revised level in the prior month, which left activity near the peak of the current expansion, exceeded only by the 1.375 million tally in August of this year. The multi-family sector led the advance, with gain of 4.9%, pushing activity to the upper end of the range of the current expansion. Single-family starts also contributed with an increase of 2.4%, the third best reading of the current expansion.
Industrial Production (November)	1.1%	0.9%	Most of the advance in industrial production in November occurred in the manufacturing component (up 1.1%), reflecting primarily a jump in auto production after striking workers at General Motors returned to their jobs. Manufacturing production excluding autos rose 0.3%, offsetting most of the declines in the prior two months and signaling stability after a drop in the early months of the year. Mining activity dipped 0.2%, marking the third consecutive retreat. However, the declines were not pronounced and they occurred from a record level in August, and thus the new total was still firm by historical standards. Utility output rose 2.9%, essentially reversing a drop of 2.4% in the prior month. Swings in this component are nearly always driven by shifts in temperatures rather than economic fundamentals.
Current Account (2019-Q3)	-\$124.1 Billion (\$1.1 Billion Narrower Deficit)	-\$122.0 Billion (\$6.2 Billion Narrower Deficit)	The current account balance narrowed by \$1.1 billion in Q3 from a downwardly revised deficit in Q2 (\$3.0 billion narrower than first reported). Trade flows improved, with the deficit narrowing by \$1.8 billion, and the surplus in primary income flows improved by \$2.1 billion. In contrast, the deficit in secondary income flows widened by \$2.7 billion, providing a partial offset to improvement elsewhere. When scaled by the size of the economy, the deficit narrowed to 2.30% of GDP from 2.35%, readings in the middle of the range of the current expansion.
Existing Home Sales (November)	5.35 Million (-1.7%)	5.44 Million (-0.4%)	Despite a decline in November, the level of existing home sales remained above the soft readings in the closing months of last year and within the range of observations since February, when lower interest rates started to stir activity. The drop in sales raises the possibility that the effect of lower interest rates is beginning to lose some force, but the officials at the National Association of Realtors also noted that lean inventories were playing a role, a view supported by a drop of 7.3% in the number of homes for sale -- a larger decline than the average of 4.9% in the prior 10 years. The sharp drop in homes for sale pushed the months' supply to 3.7 months, down from 3.9 in October and in the low portion of the recent range.

Review Continued

Week of Dec. 16, 2019	Actual	Consensus	Comments
Leading Indicators (November)	0.0	0.1%	The flat reading on the index of leading economic indicators followed declines in the prior three months and left a slight drop in the measure since the spring. In the latest month, positive contributions from increases in stock prices and the leading credit index were offset by negative contributions from a decline in the ISM new orders index and from a pickup in initial claims for unemployment insurance.
Revised GDP (2019-Q3)	2.1% (Unrevised)	2.1% (Unrevised)	Small to moderate shifts in various components left the third estimate of Q3 GDP unrevised from the previous tally. On the positive side, consumer spending growth was revised higher (3.2% versus 2.9%) and business investment was less of a drag (-2.3% versus -2.7%). Residential construction stood out on the negative side (4.6% versus 5.1%), as did inventory investment, subtracting 0.03 percentage point from growth rather than adding 0.17 percentage point.
Personal Income, Consumption, Core Price Index (November)	0.5%, 0.4%, 0.1%	0.3%, 0.4%, 0.1%	A solid gain in wages in salaries (0.4%) contributed to the advance in personal income in November, as did a surge in farm income and firm advances in rental income and interest payments. Nominal spending advanced at a solid clip, led by outlays for durable goods (up 1.0%, reflecting a rebound in new vehicle sales) and services (0.4%). Outlays grew 0.2% after adjusting for inflation, a reading suggestive of a moderate advance in consumer spending in Q4. The core PCE price index rounded down to growth of 0.1% in November (0.138%). Monthly changes in core prices have been muted this year, advancing 0.129% on average. The latest change left the year-over year advance at 1.6%, down one tick from October and off the recent high of 2.1% in July of last year.
Revised Consumer Sentiment (December)	99.3 (+0.1% Revision)	99.2 (Unrevised)	A strong performance in the equity market and a more positive tone to news regarding the trade dispute with China likely contributed to the modest upward revision to consumer sentiment. Improving attitudes in the closing months of the year left sentiment at the top of the range of the expansion -- above both the averages of 96.0 this year and 98.4 in 2018, but 2.1% off the high of the current expansion in March of last year (101.4). The long-term inflation measure published with the report was revised down one tick to 2.2%, a new low for the series.

Source: U.S. Census Bureau (Housing Starts); Federal Reserve Board (Industrial Production); Bureau of Economic Analysis (Current Account, Revised GDP, Personal Income, Consumption, Core Price Index); National Association of Realtors (Existing Home Sales); The Conference Board (Leading Indicators); Reuters/University of Michigan Survey Research Center (Revised Consumer Sentiment); Consensus forecasts are from Bloomberg

Preview

Week of Dec. 23, 2019	Projected	Comments
New Home Sales (November) (Monday)	0.730 Million (-0.4%)	Low interest rates have stirred housing activity this year, but with rates retracing some of their decline, momentum could begin to fade.
Durable Goods Orders (November) (Tuesday)	0.0%	The manufacturing sector has shown hints of improvement recently, but it is still a soft area, which is likely to lead to slow order flows in several industries. Volatile areas have the potential to shift bookings in either direction. Boeing posted its strongest orders of the year in November, which could boost bookings for commercial aircraft, but orders for defense aircraft are likely to correct after a high-side reading in October. The auto component was quite soft in October, perhaps reflecting the influence of the strike at General Motors. If GM was the source of softness, bookings should return to the underlying average in November.

Source: Forecasts provided by Daiwa Capital Markets America

Economic Indicators

December 2019 / January 2020														
Monday			Tuesday			Wednesday			Thursday			Friday		
16			17			18			19			20		
EMPIRE MFG Oct 4.0 Nov 2.9 Dec 3.5			HOUSING STARTS Sept 1.266 million Oct 1.323 million Nov 1.365 million						INITIAL CLAIMS Nov 30 203,000 Dec 07 252,000 Dec 14 234,000			REVISED GDP GDP Chained Price 19-Q2 2.0% 2.4% 19-Q3(p) 2.1% 1.8% 19-Q3(r) 2.1% 1.8%		
NAHB HOUSING INDEX Oct 71 Nov 71 Dec 76			IP & CAP-U IP Cap.Util. Sept -0.4% 77.4% Oct -0.9% 76.6% Nov 1.1% 77.3%						CURRENT ACCOUNT 19-Q1 -\$136.2 bill. 19-Q2 -\$125.2 bill. 19-Q3 -\$124.1 bill.			PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX Inc. Cons. Core Sept 0.3% 0.2% 0.1% Oct 0.1% 0.3% 0.1% Nov 0.5% 0.4% 0.1%		
TIC DATA Total Net L-T Aug \$41.9B -\$41.2B Sept -\$38.1B \$49.5B Oct -\$48.3B \$32.5B			JOLTS DATA Openings (000) Quit Rate Aug 7,301 2.4% Sept 7,032 2.3% Oct 7,267 2.3%						PHILLY FED INDEX Oct 5.6 Nov 10.4 Dec 0.3					
									EXISTING HOME SALES Sept 5.36 million Oct 5.44 million Nov 5.35 million			REVISED CONSUMER SENTIMENT Oct 95.5 Nov 96.8 Dec 99.3		
									LEADING INDICATORS Sept -0.2% Oct -0.2% Nov 0.0%					
23			24			25			26			27		
CHICAGO FED NATIONAL ACTIVITY INDEX (8:30) Monthly 3-Mo. Avg. Sept -0.45 -0.21 Oct -0.71 -0.31 Nov -- --			DURABLE GOODS ORDERS (8:30) Sept -1.5% Oct 0.5% Nov 0.0%			CHRISTMAS DAY			INITIAL CLAIMS (8:30)					
NEW HOME SALES (10:00) Sept 0.738 million Oct 0.733 million Nov 0.730 million														
30			31			1			2			3		
U.S. INTERNATIONAL TRADE IN GOODS ADVANCE INVENTORIES CHICAGO PURCHASING MANAGERS' INDEX PENDING HOME SALES			FHFA HOME PRICE INDEX S&P CORELOGIC CASE-SHILLER HOME PRICE INDEX CONSUMER CONFIDENCE			NEW YEAR'S DAY			INITIAL CLAIMS			ISM MANUFACTURING INDEX CONSTRUCTION SPEND. FOMC MINUTES VEHICLE SALES		
6			7			8			9			10		
			TRADE BALANCE ISM NON-MFG INDEX FACTORY ORDERS			ADP EMPLOYMENT REPORT CONSUMER CREDIT			INITIAL CLAIMS			EMPLOYMENT REPORT WHOLESALE TRADE		

Forecasts in Bold. (p) = preliminary; (r) = revised

Treasury Financing

December 2019 / January 2020				
Monday	Tuesday	Wednesday	Thursday	Friday
16	17	18	19	20
AUCTION RESULTS: Rate Cover 13-week bills 1.540% 2.70 26-week bills 1.550% 2.63 SETTLE: \$38 billion 3-year notes \$24 billion 10-year notes \$16 billion 30-year bonds	ANNOUNCE: \$35 billion 4-week bills for auction on December 19 \$35 billion 8-week bills for auction on December 19 SETTLE: \$40 billion 4-week bills \$35 billion 8-week bills	AUCTION RESULTS: Margin Cover 2-year FRNs 0.260% 4.17	AUCTION RESULTS: Rate Cover 4-week bills 1.510% 3.19 8-week bills 1.555% 2.78 5-year TIPS 0.020% 2.69 ANNOUNCE: \$78 billion 13-,26-week bills for auction on December 23 \$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	
23	24	25	26	27
AUCTION: \$78 billion 13-,26-week bills \$40 billion 2-year notes	AUCTION: \$41 billion 5-year notes ANNOUNCE: \$35 billion* 4-week bills for auction on December 26 \$35 billion* 8-week bills for auction on December 26 SETTLE: \$35 billion 4-week bills \$35 billion 8-week bills	CHRISTMAS DAY	AUCTION: \$35 billion* 4-week bills \$35 billion* 8-week bills \$32 billion 7-year notes ANNOUNCE: \$78 billion* 13-,26-week bills for auction on December 30 \$26 billion* 52-week bills for auction on December 30 SETTLE: \$78 billion 13-,26-week bills	SETTLE: \$18 billion 2-year FRNs
30	31	1	2	3
AUCTION: \$78 billion* 13-,26-week bills \$26 billion* 52-week bills	ANNOUNCE: \$35 billion* 4-week bills for auction on January 2 \$35 billion* 8-week bills for auction on January 2 SETTLE: \$35 billion* 4-week bills \$35 billion* 8-week bills \$40 billion 2-year notes \$41 billion 5-year notes \$32 billion 7-year notes \$15 billion 5-year TIPS	NEW YEAR'S DAY	AUCTION: \$35 billion* 4-week bills \$35 billion* 8-week bills ANNOUNCE: \$78 billion* 13-,26-week bills for auction on January 6 \$38 billion* 3-year notes for auction on January 7 \$24 billion* 10-year notes for auction on January 8 \$16 billion* 30-year bonds for auction on January 9 SETTLE: \$78 billion* 13-,26-week bills \$26 billion* 52-week bills	
6	7	8	9	10
AUCTION: \$78 billion* 13-,26-week bills	AUCTION: \$38 billion* 3-year notes ANNOUNCE: \$35 billion* 4-week bills for auction on January 9 \$35 billion* 8-week bills for auction on January 9 SETTLE: \$35 billion* 4-week bills \$35 billion* 8-week bills	AUCTION: \$24 billion* 10-year notes	AUCTION: \$35 billion* 4-week bills \$35 billion* 8-week bills \$16 billion* 30-year bonds ANNOUNCE: \$78 billion* 13-,26-week bills for auction on January 13 SETTLE: \$78 billion* 13-,26-week bills	

*Estimate