U.S. Data Review

- Personal income: constrained by transfers and farm subsidies
- Personal spending: consumers tapped out on goods; still limiting services
- Durable goods orders: still advancing; could be viewed as fully recovered
- New home sales: notable cooling, but still OK
- Unemployment claims: mixed results, but tilting on the favorable side

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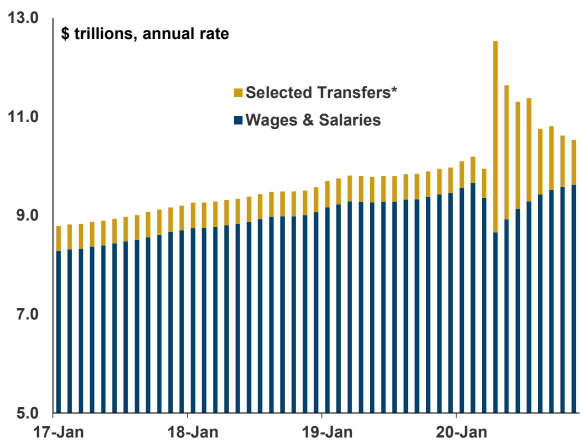
Personal Income, Consumption, Prices

Analysts were looking for a soft report on income and consumption, but results were noticeably weaker than expected, with income falling 1.1 percent (versus an expectation of -0.3 percent) and nominal spending dropping 0.4 percent (versus an expectation of -0.2 percent). Income, while weak, was not as bad as it might appear, as the softness was driven by an easing in government transfer payments (primarily fading support from the CARES Act) and by a drop in farm income because of reduced subsidy payments. Wages and salaries posted a respectable advance (0.4 percent), and other forms of income increased as well, such as interest, dividends, and rental income. The combination of wages and key transfer payments showed only a slight decline (chart, left).

Personal spending was weak across the board, with outlays for durable goods, nondurable goods, and services all declining. Spending on goods was firm in prior months, rising above pre-virus levels by June and advancing further through September. Dips in the past two months suggest that demand for goods has been largely satisfied for now. Spending on services had improved in the six months from May through October, but activity remained well below pre-virus levels. The stalling in November suggests that individuals will need to see the pandemic dissipate before they become more comfortable in consuming services. Even with the drop in November, real consumer spending is on track to increase more than four percent in the fourth quarter (chart, right).

The price indexes for personal consumption expenditures (PCE) were restrained, showing no change both overall and excluding food and energy. November marked the second consecutive month of flat readings on these indexes (although both rose marginally if calculated with more precision (averages of 0.021 percent total and 0.015 percent core). The latest results left the year-over-year increase at 1.1 percent for the headline index and 1.4 percent for the core component. Both measures were up 1.9 percent at the start of the year (January for headline and February for core).

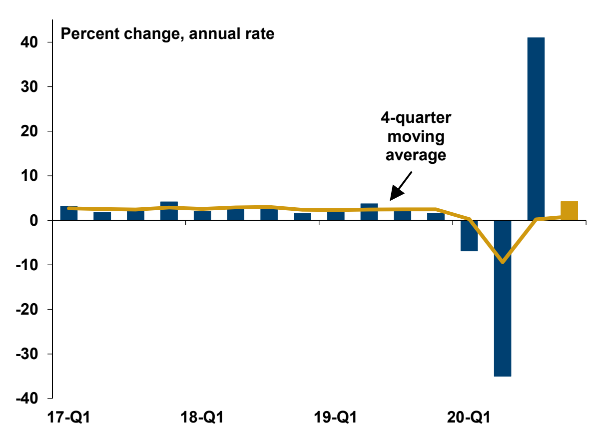
Wages & Salaries and Selected Transfers



** Unemployment insurance benefits and miscellaneous transfer payments, which are primarily recovery rebates.*

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

Real Consumer Spending*



** The reading for 2020-Q4 (gold bar) is a forecast based on available data.*

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

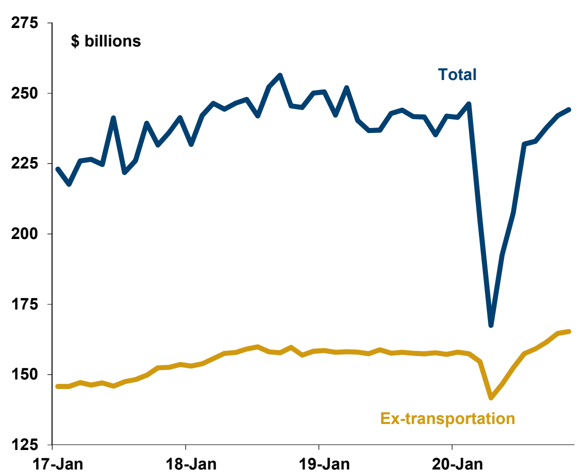
Durable Goods Orders

New orders for durable goods rose 0.9 percent, a bit stronger than the expected increase of 0.6 percent. In addition, the increase occurred from an upwardly revised level in October (1.8 percent rather than 1.3 percent). The November increase marked the seventh consecutive advance, with the cumulative changes retracing 97 percent of the drop in the spring. The headline results were constrained much of the year by weak bookings for commercial aircraft. Excluding the transportation component, durable orders are now 4.7 percent above the pre-virus high in January.

The increase in November was broadly based, as only two of 10 major categories posted declines (fabricated metals and commercial aircraft), and we viewed results in these two areas as still favorable. The drop in fabricated metals represented only a partial offset to a surge in October; bookings remained close to the pre-virus high in January. Although orders for commercial aircraft eased in November, they were in positive territory for the third consecutive month, suggesting that a corner may have been turned after negative order flows (i.e. net cancellations) in five of the six months from March through August. Other areas are doing well, with computers and communication equipment, along with the miscellaneous area, showing exceptional strength.

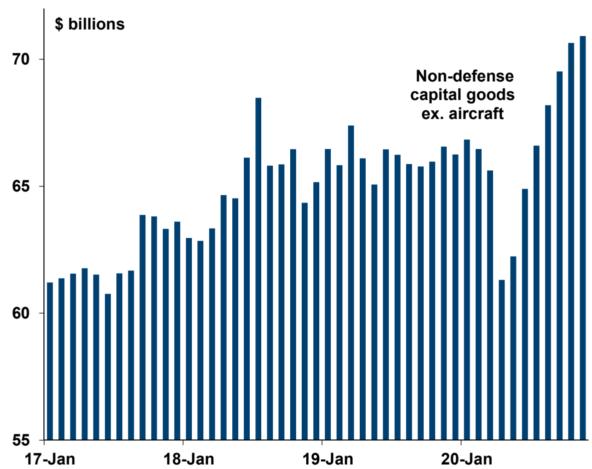
New orders for nondefense capital goods other than aircraft rose 0.4 percent, a moderate change, but it marked the seventh consecutive advance and left bookings 6.1 percent above the pre-virus peak in January. Shipments of nondefense capital goods other than aircraft also rose 0.4 percent in November and are now 5.0 percent above the pre-virus peak. The results suggest firm results for business investment in equipment in both Q4 and at least the early portion of 2021.

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

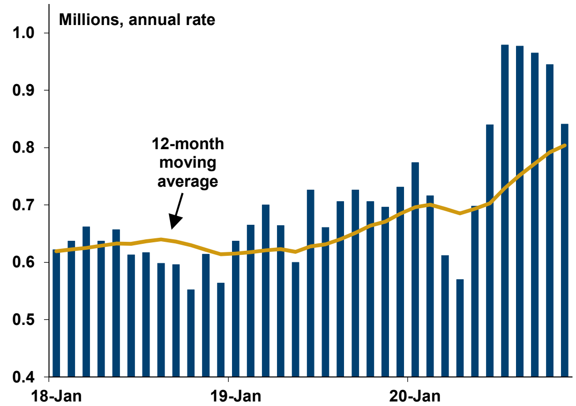
New Home Sales

Sales of new homes tumbled 11.0 percent in November, notably softer than the expected dip of 0.4 percent. Moreover, results in the prior three months were revised lower, with activity in the three months combined now 3.8 percent lighter than previously believed. The changes represented a marked shift from strong results in the prior several months, but given that strength, the resulting level of sales was still reasonably good. The new level remained above all readings in the prior expansion, and it compared favorably with results during the 1990s expansion (chart, next page).

All four major geographic regions of the country lost ground in November, but the Midwest stood out with a collapse of 43.3 percent. One suspects adverse weather or another special factor. The West also performed poorly, with a drop of 17.3 percent. Results in the Northeast and South were soft, but not troublingly so (off 2.5 percent and 1.9 percent, respectively).

This report was disappointing, but we would still rate the housing market as strong. Sales of existing homes merely dipped in November and remain quite high by historical standards (within the range seen during the housing bubble). In addition, single-family starts inched higher in November from a 13-year high in October.

New Home Sales



Source: U.S. Census Bureau via Haver Analytics

Unemployment Claims

Initial claims for unemployment insurance under regular state programs fell 89,000 in the latest week, much better than the consensus expectation of an inconsequential dip. The drop offset a good portion of the net increase of 181,000 in the prior five weeks and left only a modest upward drift since early November. The net increase in recent weeks is disappointing in an absolute sense, but considering the surge in the virus, the modest increase could be viewed as a sign of resilience in the labor market. Initial claims under the Pandemic Unemployment Assistance program also dipped in the latest week and have shown only a modest net increase since in the past several weeks.

Continuing claims under regular state programs also brought favorable news (of sorts). The number of recipients fell 170,000 in the latest week and are showing a downward tilt. The rate of decline has slowed dramatically since early November, but the number of recipients is still dipping. Some of the decline no doubt reflects individuals exhausting their regular benefits, a development evident in the increases in the Pandemic Emergency Unemployment Compensation program (PEUC), but this program also registered a small decline in the latest week (lagged from other figures by one week). However, other extended benefit programs (those regularly run by states rather than authorized by the CARES Act) showed an offsetting increase in the number of recipients. Still, the overall net change in the number of recipients under all programs was lower in the latest available weeks.