Daiwa Capital Markets

U.S. Data Review

- Q4 GDP: fueled by business spending and housing activity; moderate support from consumers
- International trade in goods: jump in exports narrows the monthly deficit
- New home sales: modest increase from downwardly revised level

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GDP

The U.S. economy grew 4.0 percent in the fourth quarter of last year, close to the consensus estimate of 4.2 percent. The quarterly change left a moderate decline for the year as a whole (off 3.5 percent, measured on an annual average basis; the change from the fourth quarter of 2019 to 2020-Q4 totaled -2.5 percent).

Housing activity and business spending led the advance in the final months of last year. Residential construction jumped 33.5 percent after an advance of 63.0 percent in the prior quarter. The recent changes pushed the residential construction component of GDP well ahead of the pre-pandemic level in 2019-Q4. Businesses were active on several fronts. Outlays for equipment were brisk, registering growth of 24.9 percent after a surge of 68.2 percent in the prior quarter. These striking advances pushed the level of spending on new equipment slightly above the pre-pandemic totals. Business spending on intellectual property, led by outlays for software and research & development, also moved above pre-pandemic levels despite continued restraint on entertainment and artistic originals (no doubt pandemic related). Businesses also provided support in their efforts to rebuild inventories (contributing 1.0 percentage point to GDP growth after a contribution of 6.6 percentage points in the prior quarter.

GDP and Related Items*

		20-Q2	20-Q3	20-Q4
1.	**Gross Domestic Product**	-31.4	33.4	4.0
2.	**Personal Consumption Expenditures**	-33.2	41.0	2.5
3.	**Nonresidential Fixed Investment**	-27.2	22.9	13.8
3a.	**Nonresidential Structures**	-33.6	-17.4	3.0
3b.	**Nonresidential Equipment**	-35.9	68.2	24.9
3c.	**Intellectual Property Products**	-11.4	8.4	7.5
4.	**Change in Business Inventories (Contribution to GDP Growth)**	-3.5	6.6	1.0
5.	**Residential Construction**	-35.6	63.0	33.5
6.	**Total Government Purchases**	2.5	-4.8	-1.2
6a.	**Federal Government Purchases**	16.4	-6.2	-0.5
6b.	**State and Local Govt. Purchases**	-5.4	-3.9	-1.7
7.	**Net Exports (Contribution to GDP Growth)**	0.6	-3.2	-1.5
7a.	**Exports**	-64.4	59.6	22.0
7b.	**Imports**	-54.1	93.1	29.5
	Additional Items			
8.	**Final Sales**	-28.1	25.9	3.0
9.	**Final Sales to Domestic Purchasers**	-27.1	29.8	4.4
10.	**Gross Domestic Income**	-32.6	25.8	--
11.	**Average of GDP & GDI**	-32.0	29.6	--
12.	**GDP Chained Price Index**	-1.8	3.5	2.0
13.	**Core PCE Price Index**	-0.8	3.4	1.4

* *Percent change SAAR, except as noted*
Source: Bureau of Economic Analysis via Haver Analytics

Consumer spending grew moderately in Q4, up 2.5 percent. Interestingly, individuals slowed their spending on goods (off 0.4 percent) but caught up to a degree in the service category (up 4.0 percent). Outlays for healthcare jumped 12.4 percent, perhaps because of efforts to fight Covid, but a resumption of elective procedures probably played a role as we. Outlays for recreation also were firm, up 12.3 percent, but this did not involve much travel or restaurant dining, as spending on transportation fell 5.0 percent and outlays for food and accommodations slipped 7.7 percent.

Both exports and imports posted solid growth (up 22.0 and 29.5 percent, respectively). The larger change in imports led to a widening in the trade deficit and a drag of 1.5 percentage points on GDP growth. Imports are nearly back to their pre-pandemic level, but exports have a way to go. Outlays by state and local governments fell for the third consecutive quarter, although the drop of 1.7 percent was lighter than the declines of 3.9 and 5.4 percent in the prior two quarters. Revenues most likely are picking up with the economic recovery, limiting the spending adjustments of state and local governments.

International Trade in Goods

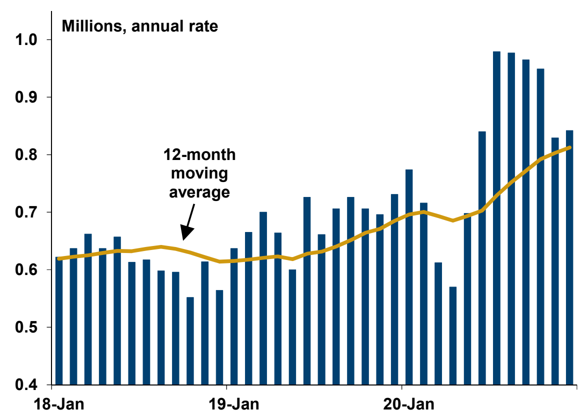
Both exports and imports continued to recover in December, registering advances of 4.6 percent and 1.4 percent, respectively. The jump in exports was broadly based, with all six major categories of goods advancing. Imports were mixed by product type, with food, consumer goods, and the miscellaneous categories declining (industrial supplies, capital goods, and autos rose). Although the deficit improved in December, the shortfall for the fourth quarter widened, which led to the negative contribution to GDP growth noted above.

New Home Sales

Sales of new homes rose 1.6 percent in December, lighter than the expected increase of 3.2 percent. In addition, the change occurred from downward revised results in November. The combination of the modest increase and the downward revision left the level of sales in December only marginally above the preliminary tally in the prior month and noticeably below the hefty totals from July to October (chart). Results varied by geographic region (up in the Midwest and West, down in the Northeast and South), but sales in all four major regions have eased from levels seen in the late summer and early fall.

This recent softening, we suspect, reflects better perceived opportunities in the market for existing homes, where sales have been vigorous. Total home sales (new plus existing) remain quite strong -- in the low portion of the range seen during the 2004-06 bubble.

New Home Sales



Source: U.S. Census Bureau via Haver Analytics