U.S. Economic Comment

- U.S. economy: on track in the first quarter; likely better thereafter

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The U.S. Economy: Moving Ahead

The latest week, like the one before, brought economic reports showing weak results for February: sales of both new and existing homes declined, falling 18.2 percent and 6.6 percent, respectively, while new orders for durable goods slipped 1.1 percent. Consumer spending retreated 1.0 percent (off 1.2 percent in real terms), while personal income tumbled 7.1 percent (-7.3 percent after adjusting for inflation).

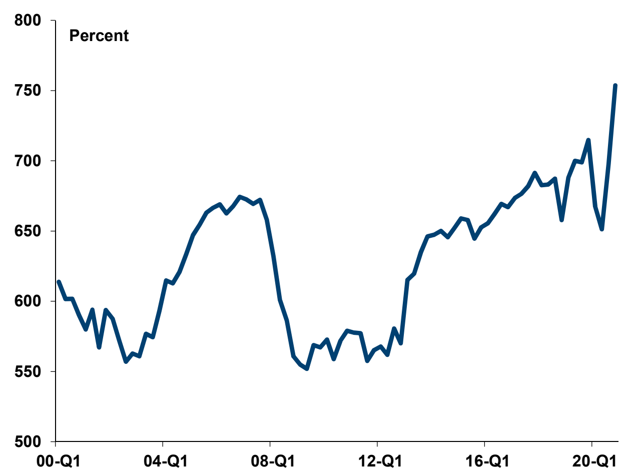
The poor results might be viewed as signs of a deteriorating economy, but the weakness is best viewed as either natural easing after strong performances in January or reactions to adverse weather. In fact, we view the data for January and February as suggesting a solid performance in the economy, with growth in the neighborhood of four percent. Data for March could lead to upward revisions to this view, as the pickup in vaccinations and the addition of fiscal stimulus are likely to stir activity.

The report on income and consumption shows how results in February alone can be easily misinterpreted. Although real spending fell 1.2 percent, the drop followed a surge of 3.0 percent in the prior month, leaving a solid net performance so far in the first quarter. If real outlays in March were to merely hold the February level (i.e. zero growth), real consumer spending in Q1 would advance at an annual rate of approximately 5.5 percent. Actual growth will probably be stronger, as the third round of rebate checks will largely be distributed during March, which will most likely trigger brisk spending.

Even before the distribution of the latest rebates, the financial position of the household sector was strong. Government support in the form of unemployment benefits and rebate checks led to aggregate income flows last year that were far stronger than the pre-pandemic trend. A large share of the income from last year was saved (an average saving rate of 18.2 percent from April through December), which allowed households to expand their financial assets.

This accumulation helped to boost the net worth position of households, as did the advances in the stock market and the increases in housing prices. The recently published Financial Accounts of the United States showed a surge in net worth for the fourth quarter, with annual growth of 24.4 percent among the strongest on record. Measured as a share of personal income, net worth moved far above recent observations and historical norms (chart). While some individuals are no doubt struggling because of the pandemic, households in the aggregate enjoy a healthy financial position.

Household Net Worth*



** Household net worth as a share of disposable personal income.*
Source: Federal Reserve Board via Haver Analytics

The drop in home sales might be viewed as a sign of a hot market cooling off, but the fact that the sharpest declines occurred in the Midwest, which experienced severe storms, indicates that weather was a notable constraining factor. We suspect that activity will cool from the vigorous pace seen around the turn of the year, but with interest rates still low by historical standards, and with the labor market recovering, and with the pandemic having generated a shift in preferences for living outside center cities, we look for housing activity to be well maintained.

The drop in industrial production might trigger concern about fading business investment in new equipment, as the decline in the headline figure partly reflected a drop in bookings for nondefense capital goods other than aircraft. Weather might have been a factor behind this drop, but we would not lean heavily on this explanation. Rather, normal volatility in this series can easily account for the shift in February.

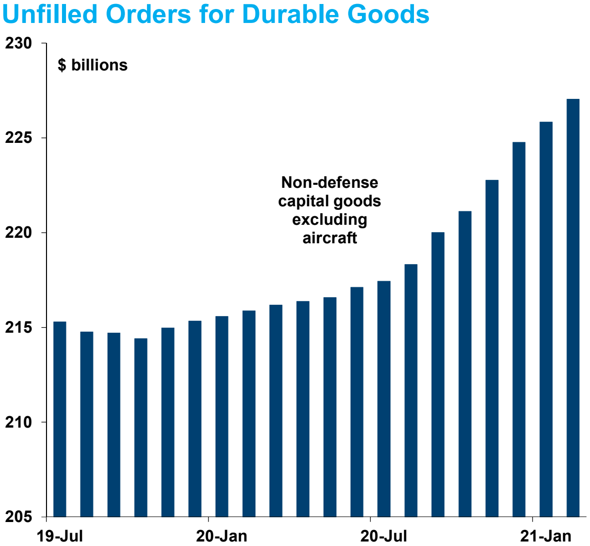
Increases in the prior nine months already had pushed orders well above their pre-pandemic high (9.3 percent above), and given sharp monthly swings that sometimes occur in this series, we view a dip of 0.8 percent as inconsequential. Moreover, despite this easing, unfilled orders for capital equipment ex-aircraft continued to advance in February, and the substantial backlog that has accumulated should generate a good pace of capital spending in the quarters ahead (chart, below left).

The latest GDP report included the first estimate of aggregate corporate profits for the fourth quarter, and the results also can support the view of a favorable environment for capital spending. Profits fell on a quarter-to-quarter basis, but the drop followed a surge in the third quarter that had more than recouped all of the lost ground in the first half of the year. The new level of corporate earnings, despite the decline, was comfortably within the elevated range that had emerged before the onset of the virus (chart, below right). The elevated level represents a healthy amount of internal financing for capital projects.

This review might strike some observers as overly optimistic, but other assessments paint an even brighter picture. The Federal Reserve Banks of New York and Atlanta both maintain statistical models (so-called dynamic factor models) that process recent economic statistics as they are published and generate a running estimate of GDP growth in the current quarter. Both models are showing fine results, with New York indicating growth of 6.1 percent in the first quarter and Atlanta pointing to an advance of 4.7 percent.

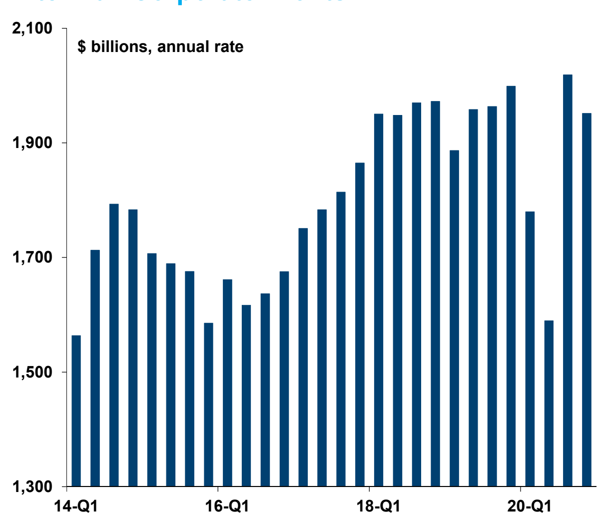
The Federal Reserve Bank of Chicago processes recent economic statistics by constructing what is essentially a coincident economic indicator. This measure, which is called the National Activity Index, suggested a striking advance in January and a notable slowing in February. Averaging through recent noise suggests the economy is growing at a pace close to its potential, which is in the neighborhood of two percent.

Unfilled Orders for Durable Goods



Source: U.S. Census Bureau via Haver Analytics

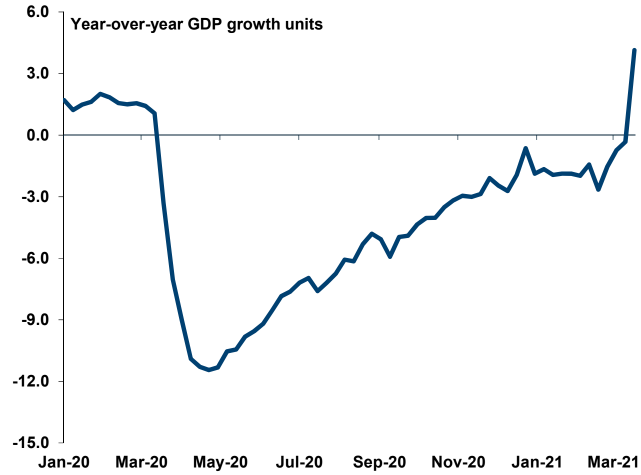
After-Tax Corporate Profits



Source: Bureau of Economic Analysis via Haver Analytics

The most striking view comes from the Federal Reserve Bank of New York with its Weekly Economic Index. This measure is based on 10 high-frequency economic indicators (i.e. statistics available on a daily or weekly basis), and it is constructed to produce an estimate of GDP growth in the latest four quarters. This index, like actual GDP, fell sharply during the early stages of the pandemic and has been recovering since the late spring. The latest observation moved into positive territory for the first time since the onset of the virus, with the most recent weekly reading showing an advance of 4.1 percent (chart).

Weekly Economic Index



Source: Federal Reserve Bank of New York via Haver Analytics

This pace might not seem overwhelming, but it has striking implications for the first quarter. The measure is constructed to show growth over the latest four quarters, and given the results in the prior three quarters (2020-Q2 to 2020-Q4), the first quarter would need to advance at an annual rate of more than 20 percent to register growth of 4.1 percent over the four quarters ending 2021-Q1.

Certainly, this estimate should be interpreted cautiously, as the normal flow of monthly statistics does not suggest outcomes remotely close to this figure. Nevertheless, it supports the view that the economy is holding up well in the first quarter. Moreover, the high-frequency nature of the data would suggest that activity has picked up considerably in March, perhaps reflecting a rebound from weather constraints in February or an early influence from the Biden fiscal stimulus.

Review

Week of March 22, 2021	Actual	Consensus	Comments
Existing Home Sales (February)	**6.22 Million (-6.6%)**	**6.49 Million (-3.0%)**	Inclement weather likely played a role in the drop in existing home sales in February, as shown by sharp declines in the Midwest and Northeast, the regions most affected by storms. Even with the weather-influenced decline, results were still respectable relative to historical standards. Sales were shy of the robust totals in the prior five months (average of 6.614 million annual rate from September to January), but they remained above pre-virus levels, and looking further back, they trailed only the results seen during the housing bubble.
Current Account (2020-Q4)	**-$188.5 Billion ($7.6 Billion Wider Deficit)**	**-$188.0 Billion ($9.5 Billion Wider Deficit)**	Slippage of $8.6 billion in trade flows overwhelmed a modest improvement in international income flows in the fourth quarter, continuing the deterioration in the current account deficit across the four quarters of 2020. Scaled to GDP, the deficit slipped to 3.5%, versus 3.4% in Q3 and 1.9% in the fourth quarter of last year.
New Home Sales (February)	**0.775 Million (-18.2%)**	**0.870 Million (-5.7%)**	As in the market for existing homes, adverse weather led to a sharp decline in activity in the market for new homes in February. In fact, the influence of winter storms on the market for new homes erased all of the sharp gain in recent months and pushed activity almost back to the pre-pandemic peak of 774,000 in January 2020.
Durable Goods Orders (February)	**-1.1%**	**0.5%**	Although new orders were softer than expected, we do not view the drop as a notable surprise. Adverse weather during February affected several economic reports, and the challenging conditions may have interrupted supply chains and dampened order flows. The report also was not deeply troubling because the drop was modest relative to the string of gains in the preceding nine months, and the new level of bookings remained 3.2% above the pre-pandemic high in February 2020. Bookings for nondefense capital goods other than aircraft, which provide insights in capital spending plans by businesses, followed a similar pattern to headline orders (-0.8%), but bookings remain 7.1% above the pre-pandemic high last January.
Revised GDP (2020-Q4)	**4.3% (+0.2 Pct. Revision)**	**4.1% (Unrevised)**	Upward adjustments to inventory investment and residential construction offset downward revisions to consumer spending and business investment in structures, leading to a net upward revision to the final estimate of Q4 GDP growth.
U.S. International Trade in Goods (February)	**-$86.7 Billion ($2.1 Billion Wider Deficit)**	**-$86.0 Billion ($1.4 Billion Wider Deficit)**	Both exports and imports had been trending upward, but they broke from that pattern in February with declines of 3.8% and 1.4%, respectively. The larger decline in exports led to a widening in the monthly trade deficit, adding to deterioration in prior months and suggesting that net exports will be making a third consecutive negative contribution to GDP growth in the first quarter.

Review Continued

Week of March 22, 2021	Actual	Consensus	Comments
Personal Income, Consumption, and Core Prices (February)	**-7.1%, -1.0%, 0.1%**	**-7.2%, -0.8%, 0.1%**	The pronounced declines in personal income and consumption were neither surprising nor troubling. The slippage could be viewed as payback for brisk results in January, when $600 rebate checks and the extension of enhanced unemployment benefits boosted income and supported spending. Even with these declines, income and consumption in January and February were ahead of the averages in Q4, suggesting favorable results in Q1. Moreover, the final outcome for the first quarter is likely to be lifted by activity in March, when $1,400 rebate checks should stir activity. The modest increase in the core price index for personal consumption expenditures matched the average in the prior four months, resulting in a year-over-year increase of 1.4%, close to recent readings but down from the recent high of 1.9% in February 2020.
Revised Consumer Sentiment (March)	**84.9 (+1.9 Index Pts. Revision)**	**83.6 (+0.6 Index Pt. Revision)**	The passage of the American Rescue Plan and the distribution of $1,400 stimulus checks apparently led to improved consumer attitudes in late March, with the University of Michigan survey of sentiment revised 2.3% higher from the preliminary tally. Despite the month-to-month improvement, the measure remained 15.9% below the pre-virus peak of 101.0 in February 2020.

Sources: National Association of Realtors (Existing Home Sales); Bureau of Economic Analysis (Current Account, Revised GDP, Personal Income, Consumption, Core Prices); U.S. Census Bureau (New Home Sales, Durable Goods Orders, U.S. International Trade in Goods); University of Michigan Survey Research Center (Revised Consumer Sentiment); Consensus forecasts are from Bloomberg

Preview

Week of March 29, 2021	Projected	Comments
Conference Board Consumer Confidence (March) (Tuesday)	**96.0 (+4.7 Index Pts.)**	The disbursement of another round of rebate checks and the expansion of supplemental unemployment benefits probably brightened consumer moods in March. Although confidence is likely to improve, the expected reading is not especially impressive, as it trails other observations in the current cycle (e.g. 101.4 in October), and it is far below the pre-pandemic high of 132.6 in February 2020.
ISM Manufacturing Index (March) (Thursday)	**60.0% (-0.8 Pct. Pt.)**	The manufacturing sector is performing well, which should lead to a firm reading on the ISM index. However, the measure may have difficulty holding the above-trend level seen in February.
Construction Spending (February) (Thursday)	**-3.0%**	The underlying trend in the residential sector is strong, and government-related activity has improved in recent months, but adverse weather will most likely overwhelm these positive fundamentals and lead to a decline in new building. Continued weakness in private nonresidential construction adds to downside possibilities.
Payroll Employment (March) (Friday)	**600,000**	A pickup in the pace of vaccinations and an easing in lockdown restrictions open the possibility of a jump in nonfarm payrolls. The expected advance in employment is easily strong enough to push the unemployment rate lower, but the improvement in job prospects could pull workers into the labor force and limit the extent of the decline in joblessness.

Source: Forecasts provided by Daiwa Capital Markets America

Economic Indicators

March/April 2021

Monday	Tuesday	Wednesday	Thursday	Friday
22	23	24	25	26
CHICAGO FED NATIONAL ACTIVITY INDEX Monthly / 3-Mo. Avg. Dec 0.28 / 0.55 Jan 0.75 / 0.46 Feb -1.09 / -0.02 **EXISTING HOME SALES** Dec 6.65 million Jan 6.66 million Feb 6.22 million	**CURRENT ACCOUNT** 20-Q2 -$163.2 bill. 20-Q3 -$180.9 bill. 20-Q4 -$188.5 bill. **NEW HOME SALES** Dec 0.919 million Jan 0.948 million Feb 0.775 million	**DURABLE GOODS ORDERS** Dec 1.2% Jan 3.5% Feb -1.1%	**UNEMPLOYMENT CLAIMS** Initial / Continuing (Millions) Feb 27 0.754 / 4.142 Mar 06 0.725 / 4.134 Mar 13 0.781 / 3.870 Mar 20 0.684 / N/A **REVISED GDP** GDP / Chained Price 20-Q3 33.4% / 3.5% 20-Q4(p) 4.1% / 2.1% 20-Q4(r) 4.3% / 2.0%	**U.S. INTERNATIONAL TRADE IN GOODS** Dec -$83.2 billion Jan -$84.6 billion Feb -$86.7 billion **ADVANCE INVENTORIES REPORT** Wholesale / Retail Dec 0.3% / 1.7% Jan 1.4% / -0.3% Feb 0.5% / 0.0% **PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX** Inc. / Cons. / Core Dec 0.5% / -0.6% / 0.3% Jan 10.1% / 3.4% / 0.2% Feb -7.1% / -1.0% / 0.1% **REVISED CONSUMER SENTIMENT** Jan 79.0 Feb 76.8 Mar(p) 83.0 Mar(r) 84.9
29	30	31	1	2
	FHFA HOME PRICE INDEX (9:00) Nov 1.0% Dec 1.1% Jan -- **S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX (9:00)** SA / NSA Nov 1.5% / 1.1% Dec 1.3% / 0.8% Jan -- / -- **CONFERENCE BOARD CONSUMER CONFIDENCE (10:00)** Jan 88.9 Feb 91.3 **Mar 96.0**	**ADP EMPLOYMENT REPORT (8:15)** Private Payrolls Jan 195,000 Feb 117,000 Mar -- **MNI CHICAGO BUSINESS BAROMETER INDEX (9:45)** Index / Prices Jan 63.8 / 75.2 Feb 59.5 / 75.3 Mar -- / -- **PENDING HOMES SALES (10:00)** Dec 0.5% Jan -2.8% Feb --	**INITIAL CLAIMS (8:30)** **ISM MFG. INDEX (10:00)** Index / Prices Jan 58.7 / 82.1 Feb 60.8 / 86.0 **Mar 60.0 / 85.0** **CONSTRUCTION SPEND. (10:00)** Dec 1.1% Jan 1.7% **Feb -3.0%** **NEW VEHICLE SALES** Jan 16.6 million Feb 15.7 million **Mar 16.4 million**	***GOOD FRIDAY*** **EMPLOYMENT REPORT (8:30)** Payrolls / Un. Rate Jan 166,000 / 6.3% Feb 379,000 / 6.2% **Mar 600,000 / 6.0%**
5	6	7	8	9
ISM SERVICES INDEX **FACTORY ORDERS**	**JOLTS DATA**	**TRADE BALANCE** **FOMC MINUTES** **CONSUMER CREDIT**	**INITIAL CLAIMS**	**PPI** **WHOLESALE TRADE**
12	13	14	15	16
FEDERAL BUDGET	**NFIB SMALL BUSINESS OPTIMISM INDEX** **CPI**	**IMPORT/EXPORT PRICES** **BEIGE BOOK**	**INITIAL CLAIMS** **RETAIL SALES** **EMPIRE MFG. INDEX** **PHILLY FED INDEX** **IP & CAP-U** **BUSINESS INVENTORIES** **NAHB HOUSING MARKET INDEX** **TIC DATA**	**HOUSING STARTS** **CONSUMER SENTIMENT**

Forecasts in Bold. (p) = preliminary (2nd estimate of GDP); (r) = revised (3rd estimate of GDP)

Treasury Financing

March/April 2021

Monday	Tuesday	Wednesday	Thursday	Friday
22	23	24	25	26
AUCTION RESULTS: Rate Cover 13-week bills 0.015% 3.16 26-week bills 0.040% 2.96	**AUCTION RESULTS:** Rate Cover 52-week bills 0.070% 3.46 2-year notes 0.152% 2.54 6-week CMB 0.010% 3.16 **ANNOUNCE:** $40 billion 4-week bills for auction on March 25 $40 billion 8-week bills for auction on March 25 $35 billion 17-week CMBs for auction on March 24 **SETTLE:** $40 billion 4-week bills $40 billion 8-week bills $35 billion 17-week CMBs	**AUCTION RESULTS:** Rate Cover 5-year notes 0.850% 2.36 17-week CMB 0.030% 3.65 Margin Cover 2-year FRNs 0.035% 3.25	**AUCTION RESULTS:** Rate Cover 4-week bills 0.015% 3.10 8-week bills 0.020% 3.44 7-year notes 1.300% 2.23 **ANNOUNCE:** $111 billion 13-,26-week bills for auction March 29 $40 billion 6-week CMBs for auction on March 30 **SETTLE:** $111 billion 13-,26-week bills $34 billion 52-week bills $40 billion 6-week CMBs	**SETTLE:** $26 billion 2-year FRNs
29	30	31	1	2
AUCTION: $111 billion 13-,26-week bills	**AUCTION:** $40 billion 6-week CMBs **ANNOUNCE:** $40 billion* 4-week bills for auction on April 1 $40 billion* 8-week bills for auction on April 1 **SETTLE:** $40 billion 4-week bills $40 billion 8-week bills $35 billion 17-week CMBs	**SETTLE:** $24 billion 20-year bonds $13 billion 10-year TIPS $60 billion 2-year notes $61 billion 5-year notes $62 billion 7-year notes	**AUCTION:** $40 billion* 4-week bills $40 billion* 8-week bills **ANNOUNCE:** $111 billion* 13-,26-week bills for auction April 5 **SETTLE:** $111 billion 13-,26-week bills $40 billion 6-week CMBs	***GOOD FRIDAY***
5	6	7	8	9
AUCTION: $111 billion* 13-,26-week bills	**ANNOUNCE:** $40 billion* 4-week bills for auction on April 8 $40 billion* 8-week bills for auction on April 8 **SETTLE:** $40 billion* 4-week bills $40 billion* 8-week bills		**AUCTION:** $40 billion* 4-week bills $40 billion* 8-week bills **ANNOUNCE:** $111 billion* 13-,26-week bills for auction on April 12 $58 billion* 3-year notes for auction on April 12 $38 billion* 10-year notes for auction on April 12 $24 billion* 30-year bonds for auction on April 13 **SETTLE:** $111 billion* 13-,26-week bills	
12	13	14	15	16
AUCTION: $111 billion* 13-,26-week bills $58 billion* 3-year notes $38 billion* 10-year notes	**AUCTION:** $24 billion* 30-year bonds **ANNOUNCE:** $40 billion* 4-week bills for auction on April 15 $40 billion* 8-week bills for auction on April 15 **SETTLE:** $40 billion* 4-week bills $40 billion* 8-week bills		**AUCTION:** $40 billion* 4-week bills $40 billion* 8-week bills **ANNOUNCE:** $111 billion* 13-,26-week bills for auction on April 19 $34 billion* 52-week bills for auction on April 20 $24 billion* 20-year bonds for auction on April 21 $19 billion* 5-year TIPS for auction on April 22 **SETTLE:** $111 billion* 13-,26-week bills $58 billion* 3-year notes $38 billion* 10-year notes $24 billion* 30-year bonds	

**Estimate*