Daiwa Capital Markets

U.S. Economic Comment

- U.S. economy: Wednesday's data barrage and the implications for Q4
- FOMC: sticking with transitory

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Recent Economic Statistics

Revised GDP statistics for the third quarter, like the preliminary estimate, showed a marked slowing in economic growth (2.1 percent versus an initial estimate of 2.0 percent, noticeably slower than the advance of 6.5 percent in the first half of the year; table). The easing in the pace of growth can be partly attributed to the acceleration in the spread of Covid-19, which led to slower consumer spending and probably some dampening in housing activity. Shipping problems and supply-chain disruptions also constrained activity, which was apparent in the slow results for business fixed investment and the decline in exports.

GDP and Related Items*

		21-Q2	21-Q3(a)	21-Q3(p)
1.	Gross Domestic Product	6.7	2.0	2.1
2.	Personal Consumption Expenditures	12.0	1.6	1.7
3.	Nonresidential Fixed Investment	9.2	1.8	1.5
3a.	Nonresidential Structures	-3.0	-7.3	-5.0
3b.	Nonresidential Equipment	12.1	-3.2	-2.4
3c.	Intellectual Property Products	12.5	12.2	9.3
4.	Change in Business Inventories (Contribution to GDP Growth)	-1.3	2.1	2.1
5.	Residential Construction	-11.7	-7.7	-8.3
6.	Total Government Purchases	-2.0	0.8	0.9
6a.	Federal Government Purchases	-5.3	-4.7	-4.9
6b.	State and Local Govt. Purchases	0.2	4.4	4.7
7.	Net Exports (Contribution to GDP Growth)	-0.2	-1.1	-1.2
7a.	Exports	7.6	-2.5	-3.0
7b.	Imports	7.1	6.1	5.8
	Additional Items			
8.	Final Sales	8.1	-0.1	0.0
9.	Final Sales to Domestic Purchasers	8.0	1.0	1.1
10.	Gross Domestic Income	2.3	--	6.7
11.	Average of GDP & GDI	4.5	--	4.4
12.	GDP Chained Price Index	6.1	5.7	5.9
13.	Core PCE Price Index	6.1	4.5	4.5

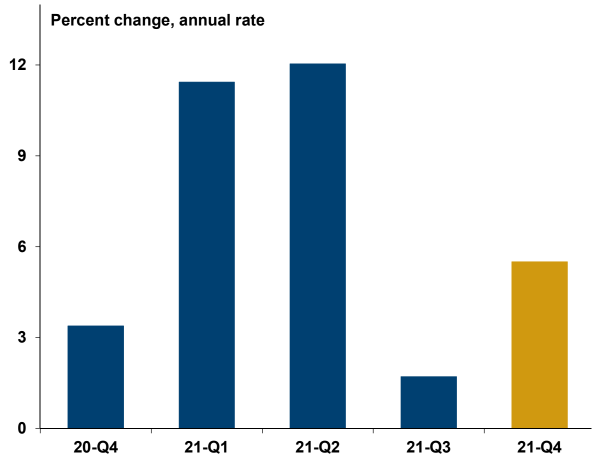
** Percent change SAAR, except as noted*
(a) = advance (1st estimate of GDP); (p) = preliminary (2nd estimate of GDP)
Source: Bureau of Economic Analysis via Haver Analytics

Although results in the third quarter were underwhelming, other reports published on Wednesday suggested that the economy was reviving in the fourth quarter. The latest figures on income and consumption stood out in this regard. Personal income rose 0.5 percent despite another constraining influence from diminishing government transfer payments. Wages and salaries posted an impressive increase (0.8 percent), and investment income was firm as well (0.9 percent), with both interest and dividends contributing.

With income strong and the spread of the virus abating in the late summer and early fall, consumers again became more active, with nominal outlays jumping 1.3 percent in October. Much of this increase was the result of higher prices, but outlay growth totaled 0.7 percent after adjusting for inflation. Durable goods led the advance, partly because of a pickup in vehicle sales from a low level, but spending on other durable items also was strong. Outlays for nondurable goods and services also were solid, with real spending up 0.4 percent and 0.5 percent, respectively. The results in October put real consumer spending on a track to grow more than 5.0 percent in the fourth quarter, a marked improvement from 1.7 percent in the summer quarter (chart; next page, left).

The report on international trade in goods provided a pleasant surprise, as the deficit in October narrowed by $14.1 billion because of a 10.7 percent surge in exports. We would not get overly excited about the surge

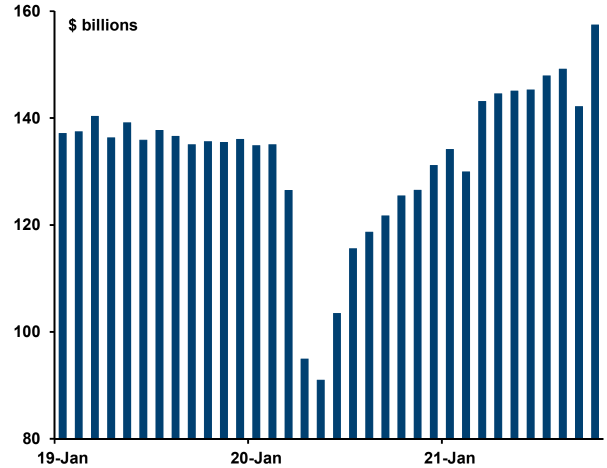
Real Personal Consumption Expenditures*



* The reading for 2021-Q4 (gold bar) is an estimate based on results for October.

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

Nominal Exports of Goods



Source: U.S. Census Bureau via Haver Analytics

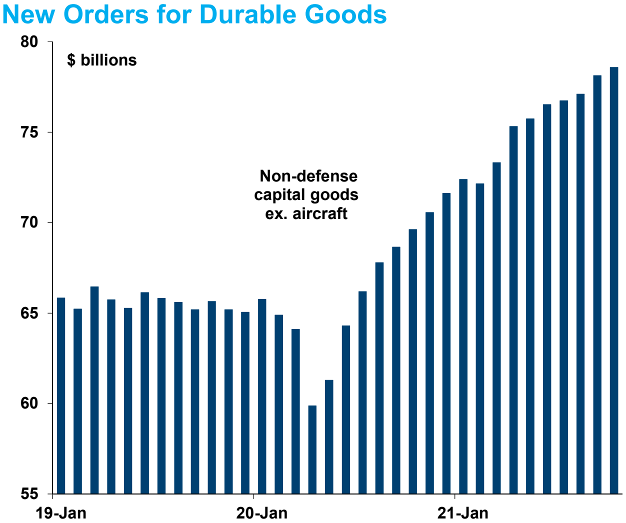
in exports, as the burst seems to involve a good bit of random volatility. Foreign shipments fell sharply in September only to make up for that lost ground in October (chart, above right). We suspect that the noise reflects the influence of shipping delays and port congestion. Still, the rebound suggests that exports are moving along a respectable upward trend and that net exports are likely to make a notable positive contribution to GDP growth in Q4, a welcome shift from negative contributions in the prior five quarters which subtracted an average of 1.56 percentage points from GDP growth.

Business investment spending was disappointing in the third quarter. Outlays for intellectual property products were strong (up 9.3 percent), but this spending was nearly offset by declines of 5.0 percent in business structures and 2.4 percent in business equipment, leaving a net advance of only 1.5 percent in total business fixed investment. Several factors point to better results in Q4 and beyond. First, we suspect that businesses will be making an effort to strengthen supply chains by bringing production closer to home, which will involve more domestic investment spending. In addition, recent increases in energy prices should stir the extraction of crude oil and natural gas, which should generate outlays for mining equipment.

Recent data also offer hope for a pickup in business investment from the third quarter pace. The latest report on new orders for durable goods showed another advance in orders for nondefense capital goods other than aircraft, the 17th increase in the past 18 months (chart). Unfilled orders for nondefense capital goods other than aircraft rose 1.1 percent in October, reinforcing their exponential upward trend. (The headline measure in the durable goods report was soft at -0.5 percent, but the drop was heavily influenced by declines in both commercial and defense-related aircraft. Excluding the transportation category, new orders rose 0.5 percent, the 17th increase in the past 18 months).

The profit performance of corporations also bodes well for business investment. Corporate

New Orders for Durable Goods

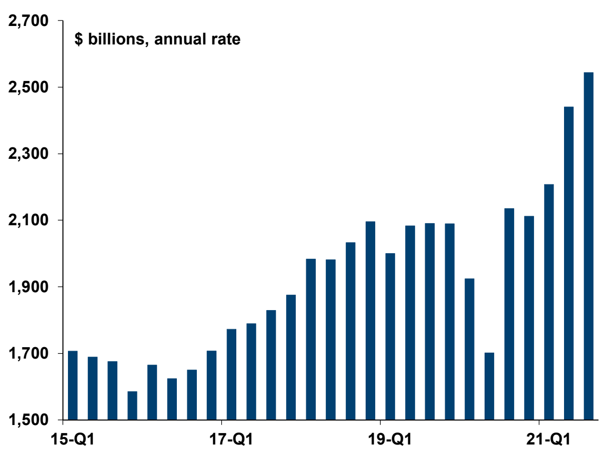


Source: U.S. Census Bureau via Haver Analytics earnings as measured in the GDP accounts, returned quickly to pre-pandemic levels in the early stages of the recovery, and they have surged in recent quarters. After a jump of 10.5 percent in Q2 (not annualized), corporate profits rose another 4.2 percent in Q3, leaving results far above pre-Covid norms (chart, below left). The strong earnings flow provides substantial internal cash flow to fund new investment spending.

We are not expecting much support from housing activity, but residential construction should improve from the soft performances in the prior two quarters (off 11.7 percent ion Q2 and 8.3 percent in Q3). Activity in the market for existing homes has started to revive after a soft patch in the spring and early summer, with sales increasing in four of the past five months, including a jump of 7.0 percent in September. Sales of new homes also have picked up, although the gains were less pronounced than those in the market for existing homes. Still, total home sales have ended the slide seen in earlier months (chart, below right), which should boost new construction.

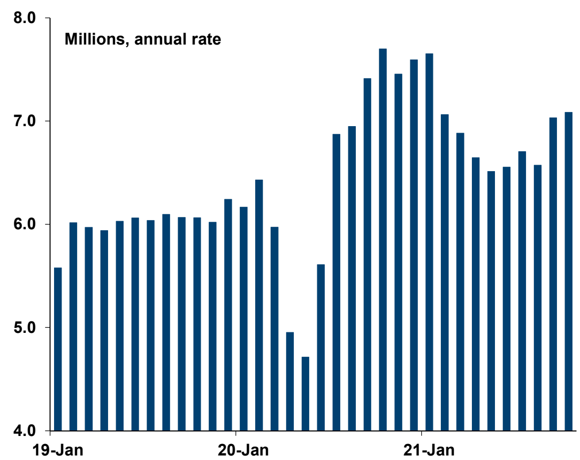
The combined effect of the data released this week boosts the economic outlook. Our prevailing view of approximately 5.0 percent GDP growth in the final quarter of the year now seems too slow. A quick pass of the new results suggests that growth is likely to exceed 6.0 percent.

After-Tax Corporate Profits



Source: Bureau of Economic Analysis via Haver Analytics

Total Home Sales*



** Sales of new and existing homes.*

Sources: National Association of Realtors and U.S. Census Bureau via Haver Analytics

The FOMC in November: Concerned, but Not Alarmed, by Inflation

The minutes from the November FOMC meeting did not provide new revelations on the tapering of the asset purchase program. Officials were satisfied with progress in the labor market, and as in September, they felt that progress toward their inflation goal had been more than met. Thus, policymakers adopted the plan to taper by $15 billion per month. Many market participants are wondering about the possibility of a faster pace of tapering, and officials discussed this issue at their meeting. However, there did not appear to be broad support for a quicker effort. Because of considerable uncertainty about the economic outlook, a “patient attitude” remained appropriate. Fed officials did not appear to have discussed interest rate liftoff.

As one would expect, the Committee devoted considerable attention to inflation developments. Policymakers recognized that inflation was faster and more persistent than they had previously expected, and they noted several factors that were driving prices higher, such as increases in energy prices, stronger rates of nominal wage growth, and rising rental rates. They also noted businesses seemed to have more scope to pass along higher costs to their customers. Nevertheless, most officials continued to expect inflation to settle in 2022. Officials viewed most of the price pressure as driven by pandemic-related imbalances that would likely abate when supply constraints eased. The Committee recognized that inflation would remain elevated longer than they previously believed, but they generally still viewed the pressure as transitory.

Preview

Week of Nov. 29, 2021	Projected	Comments
Consumer Confidence (November) (Tuesday)	**111.0 (-2.8 Index Pts.)**	A strong job market and elevated equity values would boost confidence in most circumstances, but faster inflation and shortages of goods are working in the opposite direction in this instance.
ISM Manufacturing Index (November) (Wednesday)	**60.0% (-0.8 Pct. Pt.)**	The latest reports on production and employment suggest a solid performance in the manufacturing sector, which should support another reading on the ISM index in the neighborhood of 60% (seven of the first 10 observations of the year have been above 60%; the other three have been close).
Construction Spending (October) (Wednesday)	**0.0%**	Recent softness in single-family housing starts will probably restrain residential building, and private nonresidential construction will probably remain within the narrow range seen throughout the year. Government-sponsored activity is perhaps turning a corner, as new building has increased in two of the past three months after a six-month slide in the first half of the year.
Payroll Employment (November) (Friday)	**600,000**	With job openings elevated and Covid risks diminishing (at least through mid-November), payroll growth should continue to gather momentum. Hiring in the leisure and hospitality sector should pick up from the modest pace of the past three months (an average of 108k versus an average of 296k in the first seven months of the year), and employment in public education has a chance to end a three month slide. Job growth is likely to be strong enough to push the unemployment rate lower, but an increase in the size of the labor force is likely to limit the decline (off 0.1 percentage point to 4.5%). With workers in short supply, the growth of average hourly earnings is likely to remain firm (0.4% expected).
ISM Services Index (November) (Friday)	**65.0% (-2.7 Pct. Pts.)**	Service industries are rebounding and performing well, but it could be difficult to maintain the record reading of 66.7% in October. The new orders and business activity components seem especially vulnerable to a correction. Improvement in supply chains could dampen the supplier-delivery index.
Factory Orders (October) (Friday)	**0.7%**	Bookings for nondurable goods account for the expected advance in total factory orders, with a price-led jump in orders for petroleum driving much of the increase. Orders for nondurable goods ex-petroleum also are likely to contribute with their 17th increase in the past 18 months. Durable bookings fell 0.5%, but softness in the volatile aircraft category pushed the headline figure lower; orders ex-transportation rose 0.5%, marking their 17th increase in the past 18 months.

Source: Forecasts provided by Daiwa Capital Markets America

Economic Indicators

November / December 2021

Monday 22

CHICAGO FED NATIONAL ACTIVITY INDEX

	Monthly	3-Mo. Avg.
Aug	0.05	0.36
Sept	-0.18	0.22
Oct	0.76	0.21

EXISTING HOME SALES

Aug	5.88 million
Sept	6.29 million
Oct	6.34 million

Tuesday 23

PERSONAL INCOME, CONSUMPTION, AND CORE PCE PRICE INDEX

	Inc.	Cons.	Core
Aug	0.3%	1.1%	0.3%
Sept	-1.0%	0.6%	0.2%
Oct	0.5%	1.3%	0.4%

NEW HOME SALES

Aug	0.693 million
Sept	0.742 million
Oct	0.745 million

REVISED CONSUMER SENTIMENT

Sep	72.8
Oct	71.7
Nov(p)	66.8
Nov(r)	67.4

FOMC MINUTES

Wednesday 24

UNEMPLOYMENT CLAIMS

	Initial (Millions)	Continuing
Oct 30	0.271	2.209
Nov 06	0.269	2.109
Nov 13	0.270	2.049
Nov 20	0.199	N/A

REVISED GDP

	GDP	Chained Price
21-Q2	6.7%	6.1%
21-Q3(a)	2.0%	5.7%
21-Q3(p)	2.1%	5.9%

DURABLE GOODS ORDERS

Aug	1.3%
Sept	-0.4%
Oct	-0.5%

U.S. INTERNATIONAL TRADE IN GOODS

Aug	-$88.0 billion
Sept	-$97.0 billion
Oct	-$82.9 billion

ADVANCE INVENTORIES

	Wholesale	Retail
Aug	1.3%	0.2%
Sept	1.4%	-0.2%
Oct	2.2%	0.1%

Thursday 25

THANKSGIVING

Friday 26

Monday 29

PENDING HOME SALES (10:00)

Aug	8.1%
Sept	-2.3%
Oct	--

Tuesday 30

FHFA HOME PRICE INDEX (9:00)

July	1.4%
Aug	1.0%
Sept	--

S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX (9:00)

	SA	NSA
July	1.5%	1.5%
Aug	1.2%	0.9%
Sept	--	--

MNI CHICAGO BUSINESS BAROMETER INDEX (9:45)

	Index	Prices
Sept	64.7	90.7
Oct	68.4	94.3
Nov	--	--

CONFERENCE BOARD CONSUMER CONFIDENCE (10:00)

Sept	109.8
Oct	113.8
Nov	**111.0**

Wednesday 1

ADP EMPLOYMENT REPORT (8:15)

	Private Payrolls
Sept	523,000
Oct	571,000
Nov	--

ISM MFG INDEX (10:00)

	Index	Prices
Sept	61.1	81.2
Oct	60.8	85.7
Nov	**60.0**	**85.0**

CONSTRUCTION SPEND. (10:00)

Aug	0.1%
Sept	-0.5%
Oct	**0.0%**

BEIGE BOOK (2:00)

October 2021 Beige Book

"Economic activity grew at a modest to moderate rate, according to the majority of Federal Reserve Districts."

NEW VEHICLE SALES

Sept	12.2 million
Oct	13.0 million
Nov	**13.2 million**

Thursday 2

INITIAL CLAIMS (8:30)

Friday 3

EMPLOYMENT REPORT (8:30)

	Payrolls	Un. Rate
Sept	312,000	4.8%
Oct	531,000	4.6%
Nov	**600,000**	**4.5%**

ISM SERVICES INDEX (10:00)

	Index	Prices
Sept	61.9	77.5
Oct	66.7	82.9
Nov	**65.0**	**82.0**

FACTORY ORDERS (10:00)

Aug	1.0%
Sept	0.2%
Oct	**0.7%**

Monday 6

Tuesday 7

REVISED PRODUCTIVITY & COSTS

TRADE BALANCE

CONSUMER CREDIT

Wednesday 8

JOB OPENINGS & LABOR TURNOVER (JOLTS)

Thursday 9

INITIAL CLAIMS

WHOLESALE TRADE

Friday 10

CPI

CONSUMER SENTIMENT

FEDERAL BUDGET

Monday 13

Tuesday 14

NFIB SMALL BUSINESS OPTIMISM INDEX

PPI

FOMC MEETING

Wednesday 15

EMPIRE MFG INDEX

RETAIL SALES

IMPORT/EXPORT PRICES

BUSINESS INVENTORIES

NAHB HOUSING INDEX

FOMC DECISION

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INITIAL CLAIMS

HOUSING STARTS

PHILADELPHIA FED MFG BUSINESS OUTLOOK

IP & CAP-U

Friday 17

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

Treasury Financing

November / December 2021

Monday	Tuesday	Wednesday	Thursday	Friday
22	23	24	25	26
AUCTION RESULTS: Rate Cover 13-week bills 0.050% 3.04 26-week bills 0.070% 2.93 2-year notes 0.623% 2.36 5-year notes 1.319% 2.34	**AUCTION RESULTS:** Margin Cover 2-year FRN 0.038% 2.80 Rate Cover 7-year notes 1.588% 2.42 35-day CMB 0.150% 3.02 **ANNOUNCE:** $10 billion 4-week bills for auction on November 24 $25 billion 8-week bills for auction on November 24 $40 billion 17-week CMBs for auction on November 24 $60 billion 14-day CMBs for auction on November 24 **SETTLE:** $10 billion 4-week bills $25 billion 8-week bills $40 billion 17-week CMBs $40 billion 22-day CMBs	**AUCTION RESULTS:** Rate Cover 4-week bills 0.125% 3.78 8-week bills 0.045% 3.60 17-week CMB 0.070% 2.94 14-day CMB 0.060% 2.76 **ANNOUNCE:** $108 billion 13-,26-week bills for auction on Nov. 29 $34 billion 52-week bills for auction on November 30 $30 billion 21-day CMBs for auction on November 30	***THANKSGIVING***	**SETTLE:** $108 billion 13-,26-week bills $24 billion 2-year FRNs $40 billion 35-day CMBs
29	30	1	2	3
AUCTION: $108 billion 13-,26-week bills	**AUCTION:** $34 billion 52-week bills $30 billion 21-day CMBs **ANNOUNCE:** $10 billion* 4-week bills for auction on December 2 $25 billion* 8-week bills for auction on December 2 $40 billion* 17-week CMBs for auction on December 1 **SETTLE:** $10 billion 4-week bills $25 billion 8-week bills $23 billion 20-year bonds $14 billion 10-year TIPS $58 billion 2-year notes $59 billion 5-year notes $59 billion 7-year notes $40 billion 17-week CMBs $60 billion 14-day CMBs	**AUCTION:** $40 billion* 17-week CMBs	**AUCTION:** $10 billion* 4-week bills $25 billion* 8-week bills **ANNOUNCE:** $108 billion* 13-,26-week bills for auction on Dec. 6 $54 billion* 3-year notes for auction on December 7 $36 billion* 10-year notes for auction on December 8 $22 billion* 30-year bonds for auction on December 9 **SETTLE:** $108 billion 13-,26-week bills $34 billion 52-week bills $30 billion 21-day CMBs	
6	7	8	9	10
AUCTION: $108 billion* 13-,26-week bills	**AUCTION:** $54 billion* 3-year notes **ANNOUNCE:** $10 billion* 4-week bills for auction on December 9 $25 billion* 8-week bills for auction on December 9 $40 billion* 17-week CMBs for auction on December 8 **SETTLE:** $10 billion* 4-week bills $25 billion* 8-week bills $40 billion* 17-week CMBs	**AUCTION:** $36 billion* 10-year notes $40 billion* 17-week CMBs	**AUCTION:** $10 billion* 4-week bills $25 billion* 8-week bills $22 billion* 30-year bonds **ANNOUNCE:** $108 billion* 13-,26-week bills for auction on Dec. 13 Settle: $108 billion* 13-,26-week bills	
13	14	15	16	17
AUCTION: $108 billion* 13-,26-week bills	**ANNOUNCE:** $10 billion* 4-week bills for auction on December 16 $25 billion* 8-week bills for auction on December 16 $40 billion* 17-week CMBs for auction on December 15 **SETTLE:** $10 billion* 4-week bills $25 billion* 8-week bills $40 billion* 17-week CMBs	**AUCTION:** $40 billion* 17-week CMBs **SETTLE:** $54 billion* 3-year notes $36 billion* 10-year notes $22 billion* 30-year bonds	**AUCTION:** $10 billion* 4-week bills $25 billion* 8-week bills **ANNOUNCE:** $108 billion* 13-,26-week bills for auction on Dec. 20 $20 billion* 20-year bonds for auction on December 21 $17 billion* 5-year TIPS for auction on December 22 **SETTLE:** $108 billion* 13-,26-week bills	

**Estimate*