

U.S. Economic Comment

- Consumers: cutting back on food and gasoline; active elsewhere
- Supply chains: new disruptions, but narrowly based

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Consumer Spending

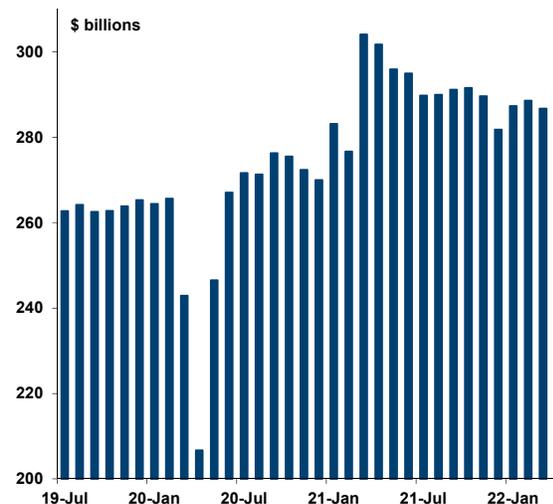
Inflation has complicated the interpretation several economic reports, as it is often not clear whether a reported gain represents a pickup in real activity or is merely a reflection of higher prices. The report on retail sales for April is a case in point, as the published increase of 0.9 percent suggested brisk activity, but one wonders about the role of higher prices.

While it is not possible to translate the nominal figures in the retail sales report into precise results for real spending, we can use the consumer price index to get an inkling of the change in inflation-adjusted activity. At the broadest level, we focus on retail sales excluding the building-supply category, as this component largely involves construction equipment and supplies that belong more to residential (or business) building rather than consumer spending. On the price side, we use the CPI for commodities (excluding services), as the retail sales report includes few services.

The deflated series excluding building supplies has drifted downward in the past year, as consumers have started to shift from heavy outlays for goods during the worst of the pandemic to spending on services more recently. This pattern also has been evident in the consumer spending component of GDP, as real outlays for goods have declined on balance in the past three quarters. In April, however, this broad retail series rose 1.3 percent in real terms and it was 1.0 percent above the average in the first quarter of the year (chart). Unless individuals have pulled back on service spending, the results suggest firm consumer activity in the second quarter, following the respectable advance of 2.7 percent in the first quarter.

Granular calculations are possible by focusing on single categories in the retail report and matching them with similar components in the CPI. Such calculations show that clothing purchases by individuals were strong in real terms during April. Inflation-adjusted sales at gasoline service stations also jumped, but the increase was only a partial offset to a marked decline in the prior month. We did not deflate the miscellaneous category in the retail report because there was no obvious counterpart in the CPI, but we suspect that the gain of 4.0 percent will translate to a solid advance in real terms. The miscellaneous category has been firm in other recent months as well, averaging gains of 2.4 percent in the first three months of the year.

Real Retail Sales: Total Ex. Building Materials*

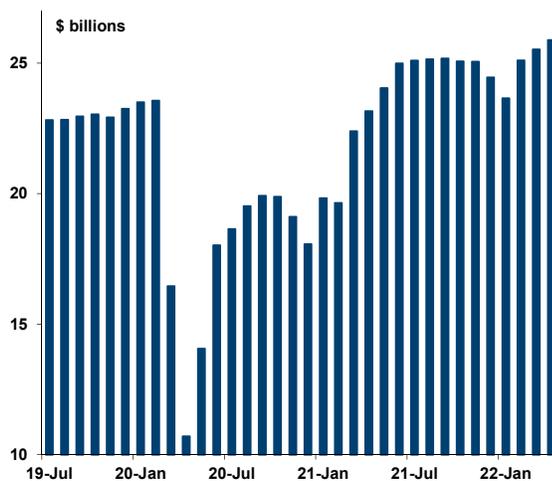


* Nominal retail sales excluding those at building materials, garden equipment & supply dealers adjusted by the commodities component of the CPI.
 Sources: Bureau of Labor Statistics and U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

The retail sales report provides little insight into consumer spending on services, but the one relevant item (activity at restaurants and bars) showed a nominal advance of 2.0 percent. Deflating by the food away from home component of the CPI left a real gain of 1.4 percent (chart, left). We would not push this result too far, but it is consistent with the view that individuals are pivoting toward services. Real outlays for services grew at an annual rate of 4.3 percent in the first quarter after averaging growth of 6.7 percent over the four quarters of last year.

As suggested above, individuals seem to have reduced their driving in response to higher prices of gasoline. Despite an increase in April, real activity at service stations has declined 5.1 percent in the first four months of the year (annual rate of 15.4 percent). Individuals also have made notable changes in their grocery shopping, as real sales at food stores have declined 3.3 percent in the first four months of the year (-11.2 percent annual rate). The combined real outlays for gasoline and groceries have dropped at an annual rate of 12.8 percent so far this year (chart, right). Individuals are carrying on with normal activities in many areas despite higher prices, but inflation is biting hard at food stores and gasoline stations.

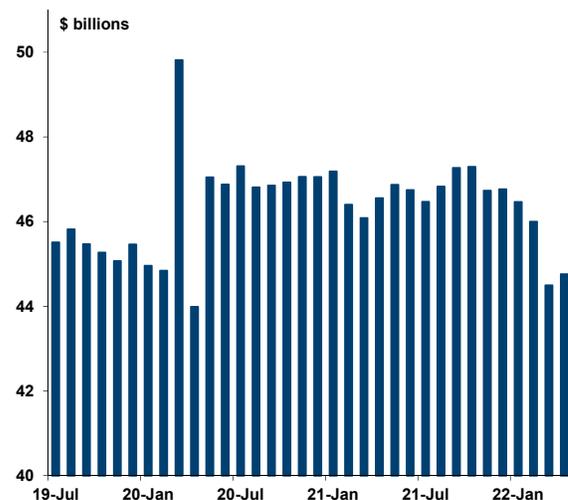
Real Retail Sales: Restaurants and Bars*



* Nominal retail sales at food services and drinking places adjusted by the food away from home component of the CPI.

Sources: Bureau of Labor Statistics and U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

Real Retail Sales: Gasoline & Groceries*



* Nominal retail sales at food and beverage stores and gasoline stations adjusted by the food at home and gasoline components of the CPI.

Sources: Bureau of Labor Statistics and U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

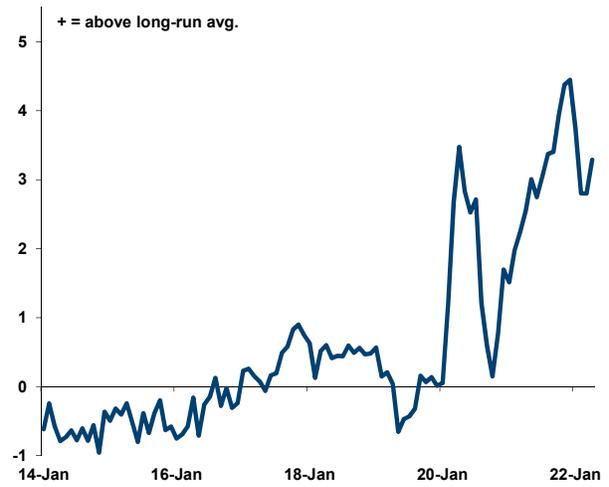
Supply Chains: Modest New Damage

Many observers began to fret earlier this year about additional damage to supply chains because of Covid-related lockdowns in China and the Russian invasion of Ukraine. Problems have indeed worsened, but the additional damage does not appear severe at this point. The supplier delivery component of the ISM manufacturing index increased in April, but only modestly so (up 1.8 percentage points from the Q1 average to 67.2 percent), and it remained far below the recent peak of 78.8 percent in May 2021. The delivery index for the service sector was unchanged in April from the first quarter average.

The Federal Reserve Bank of New York has developed a broad gauge of supply chain pressures that provides a better perspective than delivery times alone. This measure includes delivery times, but it also adds other elements from surveys of purchasing managers (such as order backlogs), and it incorporates measures of transportation costs as well. More important, the index is global in nature, as it includes information from the euro area and six individual countries (China, Japan, South Korea, Taiwan, the United Kingdom, the United States).

As shown in the chart, the index increased in April after improving from December through March, although the magnitude of the latest change was not pronounced relative to other shifts in the past two years (higher values represent weakening in supply chains). Not surprisingly, much of the deterioration seemed to be the result of lockdowns in China: Chinese delivery times made the largest contribution to the increase in the index, and outbound shipments from Asia contributed as well. The effect of the conflict in Europe was apparent in backlogs in the United Kingdom and delivery times in the euro area. Changes in the other 23 components were modest and favorable on balance for supply-chain issues.

Global Supply Chain Pressure Index*



* The measure is constructed using 27 variables including: country-specific supply-chain variables from the Euro Area, China, Japan, South Korea, Taiwan, the U.K. and the U.S., global shipping rates and airfreight costs.

Source: Federal Reserve Bank of New York, Global Supply Chain Pressure Index, <https://www.newyorkfed.org/research/gscpi.html>.

Review

Week of May 16, 2022	Actual	Consensus	Comments
Retail Sales (April)	0.9% Total, 0.6% Ex. Autos	1.0% Total, 0.4% Ex. Autos	Retail sales rose in April from upwardly revised results in March (0.6% firmer than previously reported). The auto component contributed importantly to the gain in retail activity with an advance of 2.2%, while lower prices pulled sales at gasoline stations lower (-2.7%). Sales excluding autos and gasoline rose 1.0%, with firm contributions from electronics and appliance stores, nonstore (online) retailers, and restaurants and bars. Higher prices undoubtedly boosted the value of sales in many categories, but the report in total was strong enough to suggest gains in real activity.
Industrial Production (April)	1.1%	0.5%	Manufacturing activity rose 0.8% in April, led by a surge of 3.9% in automobile production. The increase pushed auto output to the second highest level of the current expansion, exceeded only by the reading in July 2020, before chip shortages became an issue. Excluding the auto industry, manufacturing activity rose 0.4%, a respectable advance. The mining sector seems to be stirring in response to higher energy prices, as the increase of 1.6% in April followed a jump of 1.9% in March. Utility output rose 2.4%, as cooler-than-normal temperatures stirred demand for heating services.
Housing Starts (April)	1.724 Million (-0.2%)	1.756 Million (-2.1%)	Single-family housing starts accounted for all of the decline in total activity in April, falling 7.3% from downwardly revised readings in the prior three months. The latest reading of 1.100 million was 15.9% below the high of the current expansion of 1.308 million in December 2020, although it was better than all readings in the prior expansion. Multi-family starts surged 15.3% to 0.624 million units, the best performance of the past several expansions. Builders likely are sensing a shift in housing preferences as affordability of single-family housing has dropped sharply.
Existing Home Sales (April)	5.61 Million (-2.4%)	5.64 Million (-2.3%)	The decline in existing home sales in April marked the fourth drop in the past five months, with the resulting total the lowest since the early stages of the current expansion. Activity was still respectable from a longer-term perspective (upper portion of the range from the previous expansion), but elevated prices and the recent increase in interest rates have clearly dented demand. The National Association of Realtors has highlighted tight inventories as another factor restraining activity, although the situation improved some in April. The months' supply of homes for sale rose to 2.2 months, up from 1.9 in March but still lean from a historical perspective.
Leading Indicators (April)	-0.3%	0.0%	The index of leading economic indicators dipped in April, with consumer expectations and building permits making the largest negative contributions to the latest reading. After rising sharply in the early months of the current expansion, the leading index has shown little net change in the past six months.

Sources: U.S. Census Bureau (Retail Sales, Housing Starts); Federal Reserve Board (Industrial Production); National Association of Realtors (Existing Home Sales); The Conference Board (Leading Indicators); Consensus forecasts are from Bloomberg

Preview

Week of May 23, 2022	Projected	Comments
New Home Sales (April) (Tuesday)	0.750 Million (-1.7%)	Declines in buyer traffic and mortgage applications in April suggest that higher mortgage rates and elevated prices are constraining demand for new homes. The expected easing in home sales would be the fourth in a row, with activity moving to the low end of the range of the current expansion.
Durable Goods Orders (April) (Wednesday)	0.8%	A pickup in commercial aircraft orders could boost the transportation component in April, but bookings in other key industries have lost a degree of momentum in recent months.
Revised GDP (22-Q1) (Thursday)	-1.4% (Unrevised)	Additional data received since the initial publication of Q1 GDP suggest only modest changes to key components, with upward adjustments to consumer spending and inventory investment offsetting downward revisions to business investment in structures and net exports.
U.S. International Trade in Goods (April) (Friday)	-\$118.0 Billion (\$9.1 Billion Narrower Deficit)	After a surge of almost 12% in March, imports of goods appear likely to ease more than exports and lead to a narrowing in the goods trade deficit. Keep an eye on the industrial supply category on both sides of the trade ledger, as higher prices of petroleum-related goods likely boosted the value of imports and exports in March, and lower prices suggest some payback in April.
Personal Income, Consumption, Core PCE Price Index (April) (Friday)	0.5%, 0.7%, 0.4%	The latest changes in employment and average hourly earnings point to moderate growth in wages in April. Higher interest rates could boost interest income. On the outlay side, an increase in vehicle sales suggests solid spending on durable goods, and gains across categories in the retail sales report imply an advance in spending on nondurable items. Higher prices also likely boosted the value of consumer outlays. The April reading on the core CPI suggests another firm advance in the core PCE price index.

Source: Forecasts provided by Daiwa Capital Markets America

Economic Indicators

May / June 2022				
Monday	Tuesday	Wednesday	Thursday	Friday
16	17	18	19	20
EMPIRE MFG Mar -11.8 Apr 24.6 May -11.6 TIC DATA Net L-T Total Jan \$58.8B \$281.8B Feb \$141.7B \$160.3B Mar \$23.1B \$149.2B	RETAIL SALES Total Ex.Autos Feb 1.7% 1.7% Mar 1.4% 2.1% Apr 0.9% 0.6% IP & CAP-U IP Cap.Util. Feb 1.0% 77.6% Mar 0.9% 78.2% Apr 1.1% 79.0% BUSINESS INVENTORIES Inventories Sales Jan 1.2% 3.4% Feb 1.7% 1.1% Mar 2.0% 1.7% NAHB HOUSING INDEX Mar 79 Apr 77 May 69	HOUSING STARTS Feb 1.777 million Mar 1.728 million Apr 1.724 million	UNEMPLOYMENT CLAIMS Initial Continuing (Millions) Apr 23 0.181 1.387 Apr 30 0.202 1.342 May 07 0.197 1.317 May 14 0.218 N/A PHILLY FED INDEX Mar 27.4 Apr 17.6 May 2.6 EXISTING HOME SALES Feb 5.93 million Mar 5.75 million Apr 5.61 million LEADING INDICATORS Feb 0.7% Mar 0.1% Apr -0.3%	
23	24	25	26	27
CHICAGO FED NATIONAL ACTIVITY INDEX (8:30) Monthly 3-Mo. Avg. Feb 0.54 0.43 Mar 0.44 0.57 Apr -- --	NEW HOME SALES (10:00) Feb 0.835 million Mar 0.763 million Apr 0.750 million	DURABLE GOODS ORDERS (8:30) Feb 0.3% Mar 1.4% Apr 0.8% FOMC MINUTES (2:00)	INITIAL CLAIMS (8:30) REVISED GDP (8:30) GDP Chained Price 21-Q4 6.9% 7.1% 22-Q1(a) -1.4% 8.0% 22-Q1(p) -1.4% 8.0% PENDING HOME SALES (10:00) Feb -4.0% Mar -1.2% Apr --	U.S. INTERNATIONAL TRADE IN GOODS (8:30) Feb -\$106.7 billion Mar -\$127.1 billion Apr -\$118.0 billion ADVANCE INVENTORIES (8:30) Wholesale Retail Feb 2.8% 1.6% Mar 2.3% 2.3% Apr -- -- PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX (8:30) Inc. Cons. Core Feb 0.7% 0.6% 0.3% Mar 0.5% 1.1% 0.3% Apr 0.5% 0.7% 1.4% REVISED CONSUMER SENTIMENT (10:00) Mar 59.4 Apr 65.2 May(p) 59.1
30	31	1	2	3
MEMORIAL DAY	FHFA HOME PRICE INDEX S&P CORELOGIC CASE-SHILLER HOME PRICES CHICAGO PURCHASING MANAGERS' INDEX CONSUMER CONFIDENCE	ISM MFG INDEX CONSTRUCTION SPEND. JOB OPENINGS & LABOR TURNOVER (JOLTS) BEIGE BOOK NEW VEHICLE SALES	ADP EMPLOYMENT REPORT INITIAL CLAIMS REVISED PRODUCTIVITY & COSTS FACTORY ORDERS	EMPLOYMENT REPORT ISM SERVICES INDEX
6	7	8	9	10
	TRADE BALANCE CONSUMER CREDIT	WHOLESALE TRADE	INITIAL CLAIMS	CPI CONSUMER SENTIMENT FEDERAL BUDGET

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

Treasury Financing

May / June 2022																																					
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AUCTION RESULTS: <table border="1"> <thead> <tr> <th></th> <th>Rate</th> <th>Cover</th> </tr> </thead> <tbody> <tr> <td>13-week bills</td> <td>1.050%</td> <td>2.82</td> </tr> <tr> <td>26-week bills</td> <td>1.490%</td> <td>3.09</td> </tr> </tbody> </table> SETTLE: \$45 billion 3-year notes \$36 billion 10-year notes \$22 billion 30-year bonds		Rate	Cover	13-week bills	1.050%	2.82	26-week bills	1.490%	3.09	ANNOUNCE: \$35 billion 4-week bills for auction on May 19 \$30 billion 8-week bills for auction on May 19 \$34 billion 52-week bills for auction on May 18 \$30 billion 17-week CMBs for auction on May 18 SETTLE: \$35 billion 4-week bills \$30 billion 8-week bills \$30 billion 17-week CMBs	AUCTION RESULTS: <table border="1"> <thead> <tr> <th></th> <th>Rate</th> <th>Cover</th> </tr> </thead> <tbody> <tr> <td>52-week bills</td> <td>2.100%</td> <td>3.12</td> </tr> <tr> <td>17-week CMB</td> <td>1.250%</td> <td>3.05</td> </tr> <tr> <td>20-yr bonds</td> <td>3.290%</td> <td>2.50</td> </tr> </tbody> </table>		Rate	Cover	52-week bills	2.100%	3.12	17-week CMB	1.250%	3.05	20-yr bonds	3.290%	2.50	AUCTION RESULTS: <table border="1"> <thead> <tr> <th></th> <th>Rate</th> <th>Cover</th> </tr> </thead> <tbody> <tr> <td>4-week bills</td> <td>0.640%</td> <td>3.07</td> </tr> <tr> <td>8-week bills</td> <td>0.900%</td> <td>2.90</td> </tr> <tr> <td>10-yr TIPS</td> <td>0.232%</td> <td>2.24</td> </tr> </tbody> </table> ANNOUNCE: \$87 billion 13-,26-week bills for auction on May 23 \$22 billion 2-year FRNs for auction on May 25 \$47 billion 2-year notes for auction on May 24 \$48 billion 5-year notes for auction on May 25 \$42 billion 7-year notes for auction on May 26 SETTLE: \$87 billion 13-,26-week bills \$34 billion 52-week bills		Rate	Cover	4-week bills	0.640%	3.07	8-week bills	0.900%	2.90	10-yr TIPS	0.232%	2.24	
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*Estimate