

U.S. Data Review

- Consumer inflation: energy prices ease, food prices surge, core rises moderately
- Real consumer spending: a strong advance in April sets the stage for firm growth in Q2
- International trade: sharp narrowing in goods deficit

Michael Moran
Lawrence Werther

Daiwa Capital Markets America
 michael.moran@us.daiwacm.com
 lawrence.werther@us.daiwacm.com

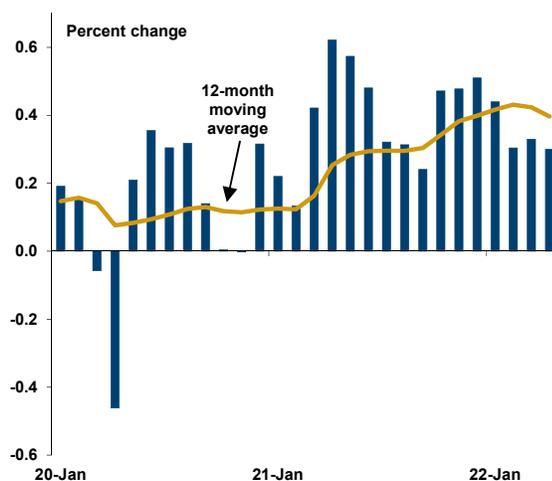
Consumer Inflation and Spending

The headline price index for personal consumption expenditures rose only 0.2 percent in April after advances averaging 0.5 percent in the prior 12 months. Energy prices were responsible for most of the restraint in the headline index, as they eased 2.8 percent in April after 10 consecutive increases. Food prices, in contrast, continued their rapid ascent with a jump of 1.0 percent. The changes left the year-over-year increases at 6.3 percent for the headline index and 30.4 percent and 10.0 percent for the energy and food components, respectively. The core index rose 0.3 for the third consecutive month (chart, left). The pace has moderated to a degree from rapid increases around the turn of the year (0.48 percent per month from October '21 to January '22). The core index rose 4.9 percent on a year-over-year basis, down three ticks from the March reading.

The core component showed a broad dispersion of changes in April. Housing costs remained under pressure, with rents rising 0.6 percent. Also, new vehicle prices increased 1.0 percent. Moreover, firm demand for travel pushed up the costs of related expenses: hotel fees rose 2.0 percent after a jump of 3.7 percent in March, vehicle rental fees increased 0.8 percent after a surge of 11.7 percent in the prior month, and airfares advanced briskly for the second consecutive month (up 8.4 percent). On the softer side, prices of used motor vehicles declined 1.3 percent, and prices of household appliances, televisions, and photo equipment all slipped. Costs of medical services (physician, dental, and nursing homes) eased.

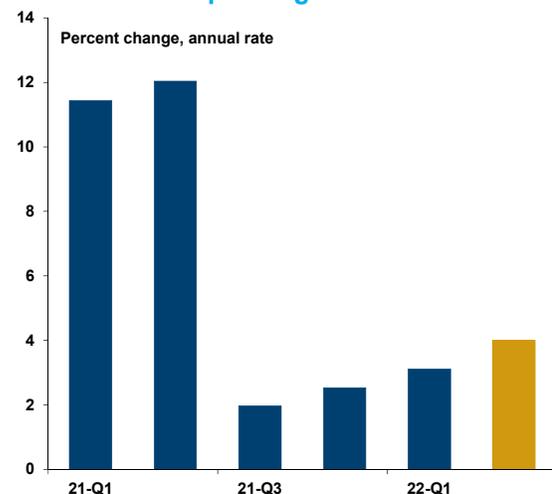
Despite headwinds from higher costs in recent months, consumers were active in April. A jump of 0.9 percent in nominal outlays translated to a gain of 0.7 percent after adjusting for inflation -- a brisk advance to start the second quarter. Real spending on goods rose sharply (1.0 percent) after soft results in the previous two months. Real outlays for services continued their strong performance in early 2022, rising 0.5 percent in April. Although we only have one month of data in hand, the April results suggest a firm pace of real consumer spending in the GDP accounts in Q2. If outlays in the next two months hold the April level, consumer spending will increase approximately 4.0 percent (chart, right).

Core PCE Price Index*



* PCE = personal consumption expenditures
 Source: Bureau of Economic Analysis via Haver Analytics

Real Consumer Spending*



* The reading for 2022-Q2 (gold bar) is a projection based on results for April.
 Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

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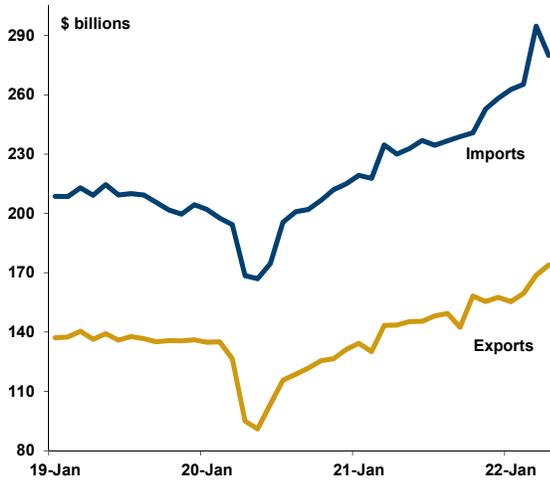
International Trade in Goods

Exports jumped 3.1 percent in April from an upward revised level in March, while imports fell 5.0 percent from a downward revised level in the prior month. The combined changes left a monthly trade deficit in goods of \$105.9 billion, a pronounced improvement from a shortfall of \$125.9 billion in March and an average of \$113.0 billion in Q1 (chart, right). These figures are nominal, but a quick calculation using aggregate price indexes for exports and imports suggests sizeable improvement in real terms as well. The figures raise the possibility of a positive contribution from net exports to GDP growth in the second quarter. The magnitude of the effect is difficult to judge because many pieces of the puzzle are missing (detailed price adjustments, results for May and June, and figures on service trade for all three months of the quarter). However, figures in hand suggest a positive contribution to growth in excess of 0.5 percentage point, a striking shift from a drag of 3.2 percentage points in the first quarter.

The increase of 3.1 percent in exports followed an even stronger advance in March (up 5.8 percent), quickening considerably the upward drift that had been in place (chart, left). Shipments of food and industrial supplies account for much of the improvement, and higher prices could be having a notable influence, but the advances seem strong enough to translate to gains in real terms. The miscellaneous category also has been firm on balance in the past two months (down 3.7 percent in April but up 10.2 percent in March).

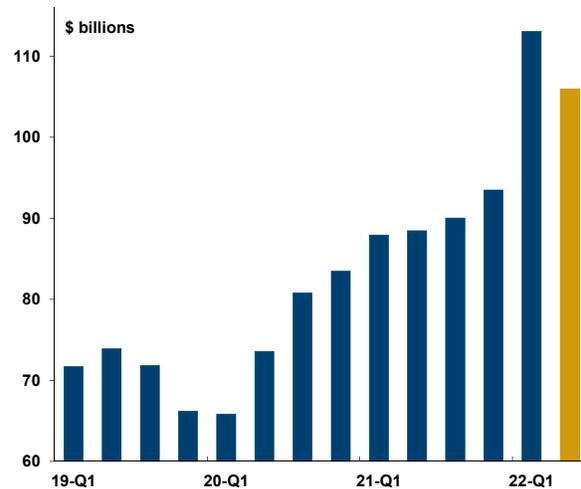
The drop of 5.0 percent in imports in April was broadly based and seemed to represent payback for an unusually strong March, when imports surged 11.1 percent. The underlying trend remained firmly upward, but the new data are signaling that March was an aberration rather than an acceleration in the trend. Several categories retreated after their surge in March (industrial supplies, capital goods, consumer goods, miscellaneous).

Nominal Imports & Exports of Goods



Source: U.S. Census Bureau via Haver Analytics

Nominal Goods Trade Deficit*



* Quarterly averages of monthly data. The reading for 2022-Q2 (gold bar) is the monthly result for April.

Sources: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America