

U.S. Economic Comment

- Q4 update: GDP tracking at 2+ percent despite drag from the government shutdown

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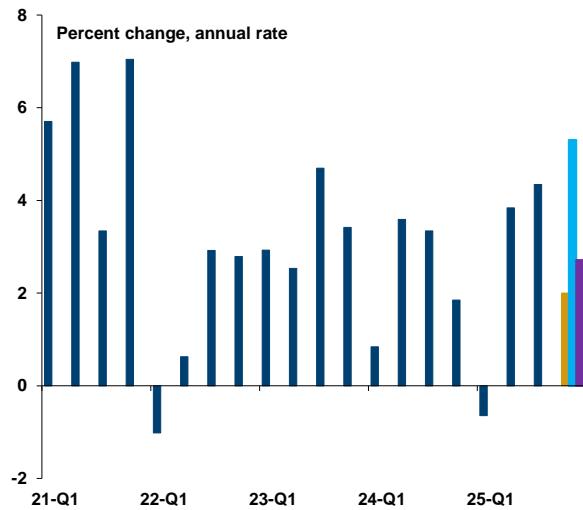
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Solid Growth in Late 2025

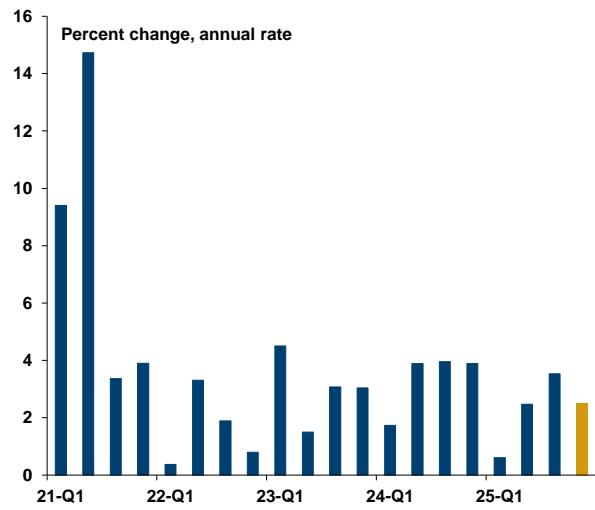
We had expected the U.S. economy to hit a bit of an air pocket in late 2025, with a drag from federal government spending tied to the shutdown that lasted from October 1 through mid-November constraining activity. Moreover, we had also suspected a sluggish pace of consumer spending after a jump of 3.5 percent, annual rate, in the prior quarter – which would have coincided with drooping sentiment and weakening in the labor market. Our view has not shifted regarding the effects of the shutdown – although much of the lost output should be recovered in early 2026 – but our view on the consumer, and other areas of the economy (e.g., the trade sector), have evolved along with the resumption of a steady flow of economic data. In that regard, we now anticipate GDP growth of approximately 2.0 percent in Q4 (+2.4 percent Q4/Q4) versus 1.0 percent (+1.8 percent Q4/Q4) when we released our year-ahead outlook in late 2025. Model-based estimates from the Federal Reserve Bank of Atlanta (GDPNow) and New York (Staff Nowcast) call for even firmer growth, +5.3 percent and +2.7 percent, respectively, but we acknowledge that a high degree of uncertainty is inherent to forecasts when monthly data is limited (chart, below left). With that said, statistics in hand (mostly for October and November) point to ongoing favorable momentum into year-end 2025 (and by extension early 2026).

As noted above, a reassessment of consumer outlays contributed importantly to our revised growth estimate for Q4. Previously, we had anticipated consumer spending to tally +1.0 percent, annual rate. Activity was brisk in the July-to-September period, but growth of real disposable income rounded down to no change and the saving rate (personal saving as a share of disposable personal income) fell by 0.8 percentage point to 4.2 percent – a reading, like those in other recent quarters, that was below pre-pandemic norms and suggested that households were drawing on savings to finance consumption (chart, below right). Moreover, the deployment of savings amid deterioration in the labor market seemed to raise the possibility of more cautious behavior entering Q4.

GDP Growth*



Personal Consumption Expenditures*



* The gold, light blue, and purple bars are forecasts for 2025-Q4 from DCMA, the Atlanta Fed's GDPNow model, and the New York Fed's Staff Nowcast, respectively.

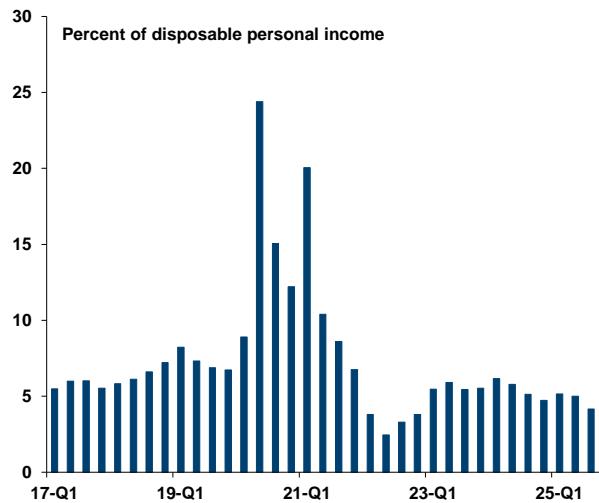
Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America, Federal Reserve Banks of Atlanta and New York

* The gold bar is a forecast for 2025-Q4.

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

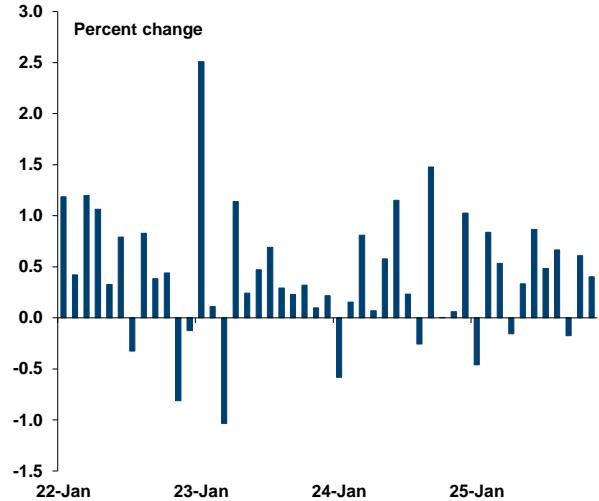
Based on data in hand – which includes retail sales for October and November but lacks essential detail from the Personal Income and Outlays report from the Bureau of Economic Analysis (delayed on account of the shutdown; October and November data will be published January 22) – we currently anticipate that real growth of consumer spending in Q4 is tracking around 2.5 percent, annual rate (chart, below left). The usual caveats apply about the retail data: it isn't inflation adjusted and it provides very little in the way of detail on outlays for services. That said, the recent performance in the retail control grouping, which correlates with goods outlays in GDP, suggests a second consecutive quarter of active consumer spending (chart, below right).

Personal Saving Rate



Source: Bureau of Economic Analysis via Haver Analytics

Retail Sales: Control Group*



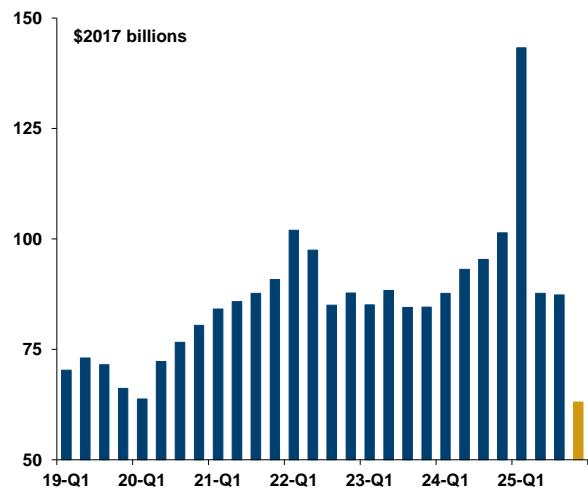
* Retail sales excluding sales from motor vehicle dealers, gasoline stations, and building materials, garden equipment, and supply dealers.

Source: U.S. Census Bureau via Haver Analytics

However, we still look for consumer spending to slow markedly in the first half of 2026, as deterioration in the labor market has dented consumer confidence and anecdotal reports indicate more cautious spending by lower income households (i.e., the so-called K-shaped breakdown of consumer spending). At the same time, there is reason for guarded optimism, and a reasonable expectation that outlays could reaccelerate in the back half of 2026 and ultimately outperform our previous projection of Q4/Q4 growth of 1.4 percent from our end-of-year outlook for 2026. In this regard, we look for the FOMC to lower interest rates by 50 basis points in the first half of 2026, which could contribute to further easing in financial conditions and help stabilize the labor market, and we expect households to receive larger-than-normal tax refunds on account of last year's tax reform by the Trump administration. The One Big Beautiful Bill Act implemented a variety of generous provisions that likely contributed to many households overpaying on their obligations; thus, the return of those funds, could provide another substantial tailwind to spending.

Beyond the consumer sector, early reports on international trade also point to that sector making a strong contribution to growth – possibly exceeding one percentage point. Although data on trade for the fourth quarter are only available through October, results have been notable. Nominal exports of goods and services rose 2.6 percent, while imports dropped 3.2 percent. Correspondingly, the deficit fell to \$29.4 billion versus an average of \$59.4 billion in Q3. A granular view on goods trade (i.e., inflation adjusted) data provides further insight. Real exports of goods jumped 3.9 percent, as imports

Real Goods Trade Deficit*



* Quarterly averages of monthly data. The observation for 2025-Q4 is the estimate for October 2025.

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

plunged 4.2 percent; the real goods balance of -\$63.1 billion also lagged the -\$87.3 billion average deficit in Q3 (chart, prior page). The view on Q4 may shift with data for the final two months of the quarter, which could have an appreciable impact on the ultimate contribution to growth, but the results thus far imply a good performance. Longer-term, however, we remain concerned about the impacts of tariffs on trade. At least for now, though, U.S. exports remain strong while imports have moderated.

All told, recent data have contributed to a substantial shift on our view on the fourth quarter of 2025. We had anticipated that the government shutdown would be the defining characteristic of a quarter wherein growth was largely unimpressive. Instead, the resilience of the U.S. economy has shown through in an environment of heightened uncertainty.

The Week Ahead

Construction (September/October) (Wednesday)

Forecast: +0.1%

Due to the since-resolved government shutdown, the Census Bureau is set to publish both September and October data for construction spending next week. With housing starts essentially rangebound over the past several months, private residential construction is likely to remain on its sideways trend. Moreover, government-sponsored building has leveled off after trending sharply higher earlier in the expansion and business-related activity has cooled steadily since surging to a record in late 2023. All told, we look for unimpressive results for the two-month survey period.

Revised GDP (2025-Q3) (Thursday)

Forecast: +4.5% (+0.2 percentage point revision)

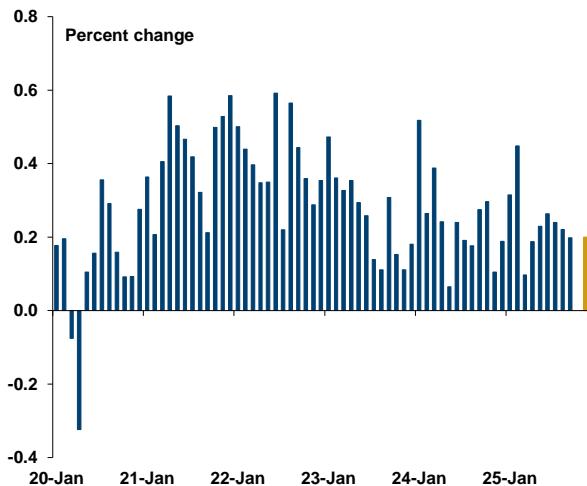
Data released since the first publication of GDP (December 23) suggest that output in the third quarter of 2025 will be mostly in line with the preliminary estimate. In that regard, consumer spending is likely to remain a key driver of growth (+3.5 percent, annual rate; contribution of 2.39 percentage points to GDP growth). Similarly, the revised business fixed investment is likely to be aligned with prior solid results (+2.8 percent, annual rate; contribution of 0.40 percentage point to growth; capex and investment in intellectual property performed well, although outlays for structures were weak). International trade also made a strong contribution to growth in Q3 (+1.59 percentage points), with exports jumping 8.8 percent and imports contracting 4.7 percent. As we crunch the numbers, a possible upward adjustment to growth of exports raises the prospect of GDP growth being faster than first reported.

Personal Income, Consumption, and Price Indexes (October/November) (Thursday)

Forecast: +0.4% income, +0.5% consumption, +0.2% headline, +0.2% core

Due to the prior lapse in federal appropriations, the Bureau of Economic Analysis is set to simultaneously publish October and November estimates for the Personal Income and Outlays report next week. On the income side, recent readings on average hourly earnings suggest monthly growth is probably close to the average monthly gain in Q3 of 0.4 percent. On the consumption side, recent data on consumer spending, including the retail sales report for November, suggest that results for October and November could be in the vicinity of the July-to-September average of +0.5 percent. Shifts in related metrics (e.g., CPI and PPI) appear, in our view, consistent with a gradual ongoing disinflationary process – with both the headline and core price indexes projected to rise 0.2 percent in November.

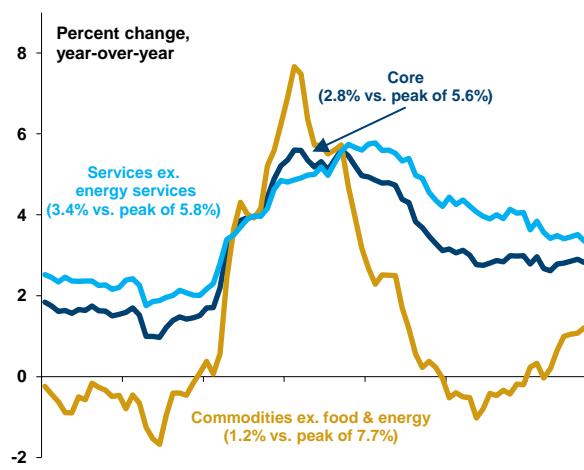
Core PCE Price Index*



* The gold bar is a forecast for November 2025.

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

Core PCE Inflation



Source: Bureau of Economic Analysis via Haver Analytics

Economic Indicators

January/February 2026

Monday	Tuesday	Wednesday	Thursday	Friday
12	13	14	15	16
	NFIB SMALL BUSINESS OPTIMISM INDEX Oct 98.2 Nov 99.0 Dec 99.5 CPI Total Core Oct -- -- Nov -- -- Dec 0.3% 0.2% NEW HOME SALES Aug 0.711 million Sep 0.738 million Oct 0.737 million FEDERAL BUDGET 2025 2024 Oct -\$284.4B -\$257.5B Nov -\$173.3B -\$366.8B Dec -\$144.7B -\$86.7B	PPI Ex. Food Final Demand & Energy Sep 0.6% 0.4% Oct 0.1% 0.3% Nov 0.2% 0.0% RETAIL SALES Total Ex. Autos Sep 0.1% 0.1% Oct -0.1% 0.2% Nov 0.6% 0.5% CURRENT ACCOUNT 25-Q1 -\$439.8 bill. 25-Q2 -\$249.2 bill. 25-Q3 -\$226.4 bill. EXISTING HOME SALES Oct 4,110 million Nov 4,140 million Dec 4,350 million BUSINESS INVENTORIES Inventories Sales Aug 0.0% 0.0% Sep 0.3% -0.1% Oct 0.3% -0.2% BEIGE BOOK January 2026: "Overall economic activity increased at a slight to modest pace in eight of the twelve Federal Reserve Districts, with three Districts reporting no change and one reporting a modest decline."	UNEMPLOYMENT CLAIMS Initial (millions) Continuing Dec 20 0.215 1.856 Dec 27 0.200 1.903 Jan 3 0.207 1.884 Jan 10 0.198 N/A IMPORT/EXPORT PRICES Non-Petrol Imports Nonagri. Exports (YoY) (YoY) Sep 0.4% 3.8% Oct -- -- Nov 0.9% 3.3% EMPIRE MFG Nov 13.5 Dec -3.7 Jan 7.7 PHILADELPHIA FED MFG BUSINESS OUTLOOK Nov 0.6 Dec -8.8 Jan 12.6 TIC FLOWS Long-Term Total Sep \$177.5B \$178.2B Oct \$30.9B -\$22.5B Nov \$220.2B \$212.0B	IP & CAP-U IP Cap.Util. Oct -0.3% 75.8% Nov 0.4% 76.1% Dec 0.4% 76.3% NAHB HOUSING INDEX Nov 38 Dec 39 Jan 37
19	20	21	22	23
MARTIN LUTHER KING JR. DAY		CONSTRUCTION (10:00) Aug 0.2% Sep -- Oct 0.1% PENDING HOME SALES (10:00) Oct 2.4% Nov 3.3% Dec --	UNEMP. CLAIMS (8:30) GDP (8:30) GDP Chained Price 25-Q2 3.8% 2.1% 25-Q3(p) 4.3% 3.8% 25-Q3(r) 4.5% 3.8%	REVISED CONSUMER SENTIMENT (10:00) Nov 51.0 Dec 52.9 Jan(p) 54.0
			PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX (8:30) Inc. Cons. Core Sep 0.4% 0.4% 0.2% Oct -- -- -- Nov 0.4% 0.5% 0.2%	
26	27	28	29	30
DURABLE GOODS ORDERS CHICAGO FED NATIONAL ACTIVITY INDEX	FHFA HOUSE PRICE INDEX S&P COTALITY CASE-SHILLER 20-CITY HOME PRICE INDEX CONFERENCE BOARD CONSUMER CONFIDENCE FOMC MEETING (FIRST DAY)	INTERNATIONAL TRADE IN GOODS FOMC RATE DECISION	UNEMP. CLAIMS TRADE BALANCE REVISED PRODUCTIVITY & COSTS FACTORY ORDERS WHOLESALE TRADE	PPI MNI CHICAGO BUSINESS BAROMETER
2	3	4	5	6
ISM MFG. INDEX CONSTRUCTION	JOLTS DATA VEHICLE SALES	ADP EMPLOYMENT ISM SERVICES INDEX	UNEMP. CLAIMS	EMPLOYMENT REPORT CONSUMER SENTIMENT CONSUMER CREDIT

(p) = preliminary, (r) = revised

Forecasts in bold. Despite an end to the government shutdown, some economic data are still delayed. We have made best efforts to incorporate revised release schedules from various statistical agencies, although some changes may not be reflected.

Treasury Financing

January/February 2026				
Monday	Tuesday	Wednesday	Thursday	Friday
12	13	14	15	16
AUCTION RESULTS: 13-week bills 3.570% 2.79 26-week bills 3.490% 3.17 3-yr notes 3.609% 2.65 10-yr notes 4.173% 2.55	AUCTION RESULTS: 6-week bills 3.585% 2.97 30-yr bonds 4.825% 2.42 ANNOUNCE: \$69 billion 17-week bills for auction on Jan 14 \$95 billion 4-week bills for auction on Jan 15 \$90 billion 8-week bills for auction on Jan 15 SETTLE: \$69 billion 17-week bills \$80 billion 4-week bills \$80 billion 8-week bills	AUCTION RESULTS: 17-week bills 3.560% 3.00 ANNOUNCE: \$166 billion 13-,26-week bills for auction on Jan 20 \$85 billion 6-week bills for auction on Jan 20 \$50 billion 52-week bills for auction on Jan 20 SETTLE: \$163 billion 13-,26-week bills \$75 billion 6-week bills \$58 billion 3-year notes \$21 billion 10-year TIPS for auction on Jan 22 SETTLE: \$21 billion 10-year TIPS for auction on Jan 22 \$39 billion 10-year notes \$22 billion 30-year bonds		
19	20	21	22	23
MARTIN LUTHER KING JR. DAY	AUCTION: \$166 billion 13-,26-week bills \$85 billion 6-week bills \$50 billion 52-week bills ANNOUNCE: \$69 billion* 17-week bills for auction on Jan 21 \$95 billion* 4-week bills for auction on Jan 22 \$90 billion* 8-week bills for auction on Jan 22 SETTLE: \$69 billion 17-week bills \$95 billion 4-week bills \$90 billion 8-week bills	AUCTION: \$69 billion* 17-week bills \$13 billion 20-year bonds	AUCTION: \$95 billion* 4-week bills \$90 billion* 8-week bills \$21 billion 10-year TIPS ANNOUNCE: \$166 billion* 13-,26-week bills for auction on Jan 26 \$85 billion* 6-week bills for auction on Jan 27 \$69 billion* 2-year notes for auction on Jan 26 \$70 billion* 5-year notes for auction on Jan 27 \$44 billion* 7-year notes for auction on Jan 29 \$30 billion* 2-year FRNs for auction on Jan 28	SETTLE: \$166 billion 13-,26-week bills \$85 billion 6-week bills \$50 billion 52-week bills
26	27	28	29	30
AUCTION: \$166 billion* 13-,26-week bills \$69 billion* 2-year notes	AUCTION: \$85 billion* 6-week bills \$70 billion* 5-year notes ANNOUNCE: \$69 billion* 17-week bills for auction on Jan 28 \$95 billion* 4-week bills for auction on Jan 29 \$90 billion* 8-week bills for auction on Jan 29 SETTLE: \$69 billion* 17-week bills \$95 billion* 4-week bills \$90 billion* 8-week bills	AUCTION: \$69 billion* 17-week bills \$30 billion* 2-year FRNs	AUCTION: \$95 billion* 4-week bills \$90 billion* 8-week bills \$44 billion* 7-year notes ANNOUNCE: \$166 billion* 13-,26-week bills for auction on Feb 2 \$85 billion* 6-week bills for auction on Feb 3 SETTLE: \$166 billion* 13-,26-week bills \$85 billion* 6-week bills	SETTLE: \$21 billion 10-year TIPS
2	3	4	5	6
AUCTION: \$166 billion* 13-,26-week bills SETTLE: \$13 billion 20-year bonds \$69 billion* 2-year notes \$70 billion* 5-year notes \$44 billion* 7-year notes \$30 billion* 2-year FRNs	AUCTION: \$85 billion* 6-week bills ANNOUNCE: \$69 billion* 17-week bills for auction on Feb 4 \$95 billion* 4-week bills for auction on Feb 5 \$90 billion* 8-week bills for auction on Feb 5 SETTLE: \$69 billion* 17-week bills \$95 billion* 4-week bills \$90 billion* 8-week bills	AUCTION: \$69 billion* 17-week bills ANNOUNCE: \$58 billion* 3-year notes for auction on Feb 10 \$42 billion* 10-year notes for auction on Feb 11 \$25 billion* 30-year bonds for auction on Feb 12	AUCTION: \$95 billion* 4-week bills \$90 billion* 8-week bills ANNOUNCE: \$166 billion* 13-,26-week bills for auction on Feb 9 \$85 billion* 6-week bills for auction on Feb 10 SETTLE: \$166 billion* 13-,26-week bills \$85 billion* 6-week bills	

*Estimate