Daiwa Capital Markets

U.S. Data Review

- Revised Q3 GDP: modest upward revision, led by business fixed investment
- Personal income and consumption: modest income growth; saving rate eased; real consumer spending on track in 25-Q4
- PCE price index: moderate monthly advances for both headline and core in the October/November period, with sideways year-over-year trend

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Revised Q3 GDP

- The Bureau of Economic Analysis released today the final estimate of GDP for the third quarter of 2025. Ordinarily, three estimates would have been published, although the advance publication was dropped on account of last year's government shutdown, with data in hand today akin to what is usually received in the third tally. That caveat aside, the final print was favorable (growth of 4.4 percent in Q3 versus +4.3 percent first published), with the average of +2.5 percent, annual rate, over the first three quarters of 2025 signaling that momentum was solid heading into Q4.

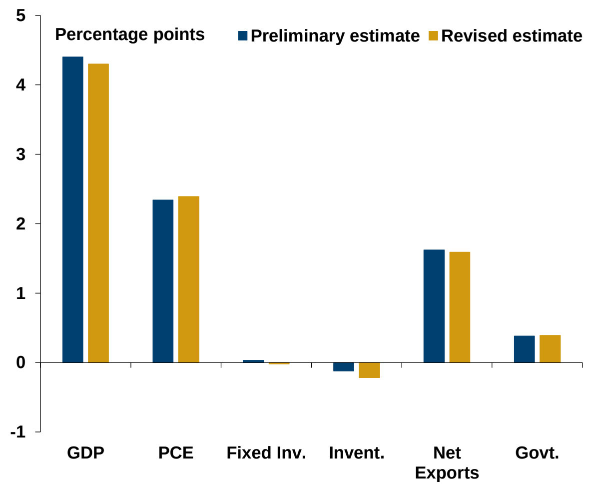
- Revisions by component were modest, equating to fractional changes with respect to contributions to growth (chart). Regarding major components, business fixed investment was a touch better than first reported. Factoring into the adjustment, equipment spending was a bit lighter than initially believed, but intellectual property investment was stronger and outlays for structures were less of a drag than first reported. Alternatively, outlays by households were essentially unchanged from the firm performance initially indicated. Contrastingly, residential construction was a more notable drag than previously thought (table and chart).

GDP and Related Items*

		25-Q2	25-Q3(p)	25-Q3(r)
1.	Gross Domestic Product	3.8	4.3	4.4
2.	Personal Consumption Expenditures	2.5	3.5	3.5
3.	Nonresidential Fixed Investment	7.3	2.8	3.2
3a.	Nonresidential Structures	-7.5	-6.3	-5.0
3b.	Nonresidential Equipment	8.5	5.4	5.2
3c.	Intellectual Property Products	15.0	5.4	5.6
4.	Change in Business Inventories (Contribution to GDP Growth)	-3.4	-0.2	-0.1
5.	Residential Construction	-5.1	-5.1	-7.1
6.	Total Government Purchases	-0.1	2.2	2.2
6a.	Federal Government Purchases	-5.3	2.9	2.7
6b.	State and Local Govt. Purchases	3.1	1.8	2.0
7.	Net Exports (Contribution to GDP Growth)	4.8	1.6	1.6
7a.	Exports	-1.8	8.8	9.6
7b.	Imports	-29.3	-4.7	-4.4
	Additional Items			
8.	Final Sales	7.5	4.6	4.5
9.	Final Sales to Domestic Purchasers	2.4	2.9	2.8
10.	Gross Domestic Income	3.8	2.4	2.4
11.	Average of GDP & GDI	3.8	3.4	3.4
12.	GDP Chained Price Index	2.1	3.8	3.8
13.	Core PCE Price Index	2.6	2.9	2.9

** Percent change SAAR, except as noted. (p) = preliminary estimate, (r) = revised estimate*
Source: Bureau of Economic Analysis via Haver Analytics

Contributions to GDP Growth in 2025-Q3*



** The bars in the GDP section (far left) show quarterly growth (annual rate), whereas components show contributions to growth. Note that fixed investment includes both business fixed investment and residential construction.*
Source: Bureau of Economic Analysis via Haver Analytics

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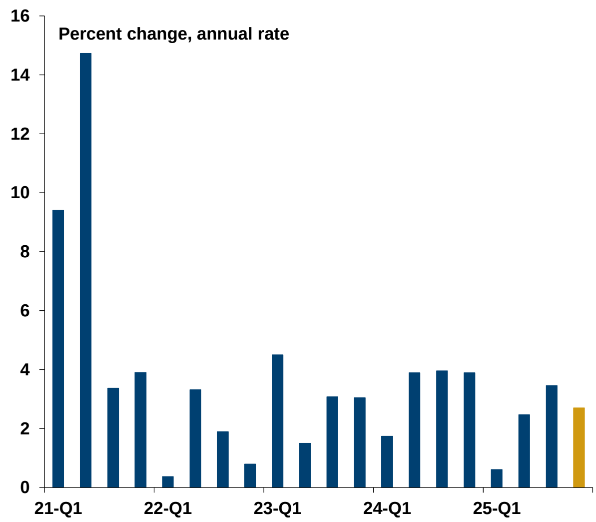
- Aligning with the pattern of revisions to output, those for various price indexes also were essentially unchanged (although we received new information on inflation for Q4; see below). With respect to Q3, the GDP price index rose 3.8 percent, while the headline and core price indexes for personal consumption expenditures increased at annual rates of 2.8 percent and 2.9 percent, respectively (table) – results contributing the FOMC likely keeping the target range for the federal funds rate unchanged at 3-1/2 to 3-3/4 percent at next week's policy meeting.

Personal Income, Consumption, and Price Indexes (October & November)

- As with GDP, the timing of the Personal Income and Outlays report also was disrupted by the government shutdown. Thus, data for October and November 2025 originally scheduled to be released late last year were instead published earlier today. Growth of personal income of 0.3 percent was shy of the Bloomberg median expectation of +0.4 percent, while outlay growth of 0.5 percent matched the consensus view. Moreover, increases in the headline and core price indexes of 0.2 percent (which both matched the Bloomberg median projections) left an essentially sideways trend in the year-over-year rate (+2.8 percent for both measures in November).

- Turning first to the data on consumer spending, which provides salient information for our Q4 GDP projection, nominal increases of 0.5 percent in both October and November translated into inflation-adjusted advances of 0.3 percent per month. Those firm results, in turn, suggest real household spending of 2.7 percent, annual rate, in Q4 (assuming no additional growth in outlays in December – a pace consistent with GDP growth in the low-to-mid 2 percent range; chart on consumer spending, right). That pace, if realized, would exceed the 2.2 percent average in the first three quarters of 2025, emphasizing the resilience of the consumer sector despite a host of challenges in recent years.

Real Consumer Spending Growth*

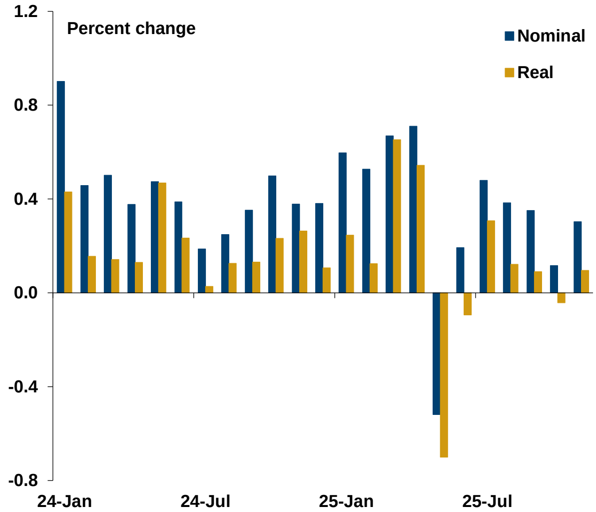


** The gold bar is a forecast for 2025-Q4.*

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

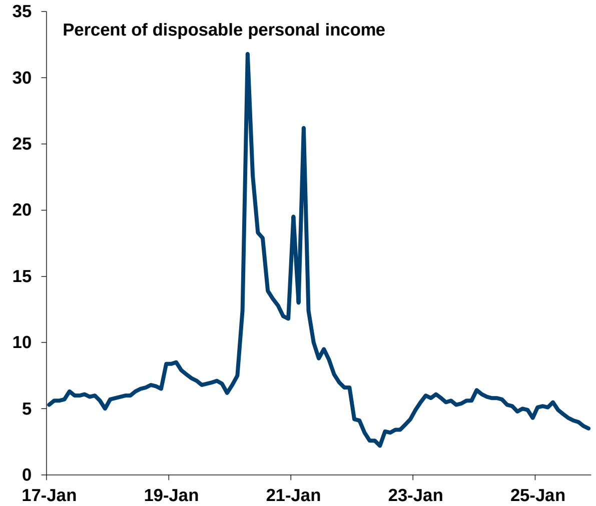
- While consumer outlays appear to be on a favorable track into year-end 2025, we remain guarded in our assessment of the sustainability of the current pace of spending into 2026. On one hand, households likely will receive larger-than-anticipated tax refunds in Q1 (for the 2025 tax year) on account of provisions in the One Big Beautiful Bill Act, although the boost from that cash infusion is likely to be transient. On the other hand, nominal income gains of 0.1 percent in October and 0.3 percent in November were even softer after adjusting for inflation (-0.043 percent, rounding up to no change for October, and +0.1 percent in November; chart, next page, left) – results unlikely to support 2 percent consumption growth if sustained. Concurrently, the personal saving rate fell by 0.5 percentage point over the two-month period to 3.5 percent, well below readings that prevailed prior to the pandemic (chart, next page, right). We suspect that the drawdown in savings to finance consumption is unlikely to persist – especially if consumer attitudes remain depressed on account of the previous inflation and price-level shift and current softening in the labor market.

Personal Income Growth



Source: Bureau of Economic Analysis via Haver Analytics

Personal Saving Rate



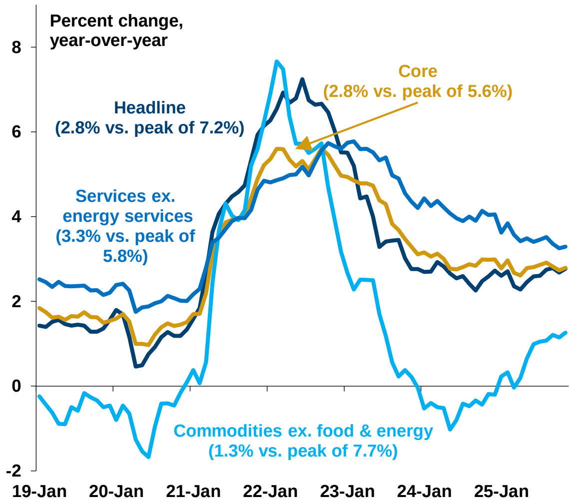
Source: Bureau of Economic Analysis via Haver Analytics

- As noted above, both the headline and core price indexes for personal consumption expenditures rose 0.2 percent in November, consistent with year-over-year increases of 2.8 percent (chart). Monthly changes for October also were recorded at 0.2 percent, although the Bureau of Economic Analysis indicated that those results were interpolated on account of missing CPI data due to the government shutdown.

- (Please see: https://www.bea.gov/news/2026/personal-income-and-outlays-october-and-november-2025. “Due to a lapse in federal appropriations, the Bureau of Labor Statistics (BLS) could not collect October 2025 consumer price index (CPI) data. Refer to 2025 federal government shutdown impact on the Consumer Price Index on the BLS website for more details.

  To replace the missing CPIs, BEA derived seasonally adjusted price indexes for October using the geometric mean of the September and November CPIs. BEA derived non-seasonally adjusted price indexes by applying seasonal adjustment factors from October 2024 to the imputed seasonally adjusted values for October 2025.”)

PCE Inflation*



** Peak readings indicate highs for the current economic expansion.*
Source: Bureau of Economic Analysis via Haver Analytics

- Parsing the core further, services rose a modest 0.2 percent in November (+3.3 percent year-over-year), while the core goods component rounded up to no change (+1.3 percent year-over year). Importantly, the core service area has drifted only modestly lower in recent months, and core goods prices are still drifting higher on account of tariff-related pass-though. On balance, trends in PCE are likely to provide enough evidence to inflation hawks on the FOMC to push for no change in interest rates next week. Additionally, that view is further supported by December results for the CPI (published January 13), where increases of 0.3 percent in the headline and 0.2 percent in core (consistent with year-over-year advances of 2.7 percent and 2.6 percent, respectively) suggest similar results for the PCE index. Even amid softening in labor market conditions, many Fed officials are preaching caution with respect to monetary policy until further improvement in inflation is observed.