Daiwa Capital Markets

U.S. Data Review

- GDP: strong domestic demand obscured by constraining influence from government spending, net exports, and inventory investment
- Personal income and consumption: firm consumer spending in June added an accent to a favorable quarterly performance, although moderate income growth and a further easing in saving suggest deceleration in household spending in H2
- Consumer prices: a restrained reading in the latest month, but inflation worries persist

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Q2 GDP

- The U.S. economy grew at a 1.5 percent annualized rate in Q2, a softer result than the Bloomberg survey median expectation of an increase of 2.0 percent and a deceleration from the 2.1 percent gain in the prior quarter. That being said, domestic demand was far stronger than assumed. Private domestic final demand – which excludes volatile government spending, net exports, and inventory investment and gives a clearer view on underlying momentum in the economy – rose 3.9 percent, faster than the advance of 1.7 percent in Q1 and the average quarterly gain of 2.4 percent in 2025 (charts, next page). The latest read highlights an economy that has thus far shown resilience to headwinds generated by the ongoing Iran conflict, while also on the precipice of a sea change to be ushered in by robust investment in artificial intelligence.

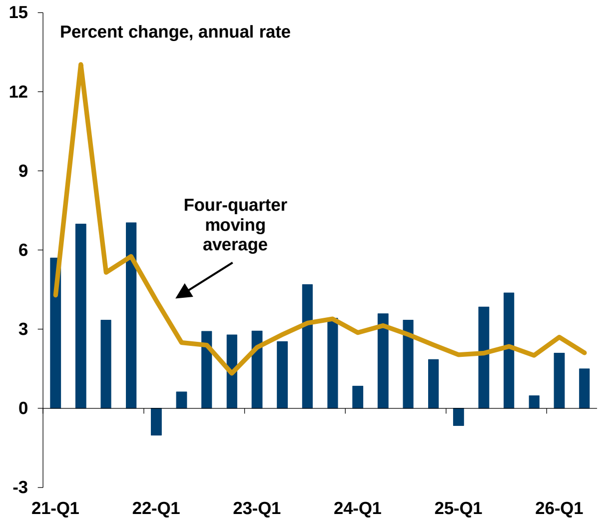
GDP and Related Items*

		25-Q4	26-Q1	26-Q2(a)
1.	**Gross Domestic Product**	0.5	2.1	1.5
2.	**Personal Consumption Expenditures**	1.9	0.5	3.2
3.	**Nonresidential Fixed Investment**	2.4	10.6	8.4
3a.	**Nonresidential Structures**	-6.5	-4.7	-5.0
3b.	**Nonresidential Equipment**	4.3	15.8	15.2
3c.	**Intellectual Property Products**	5.4	13.8	8.8
4.	**Change in Business Inventories (Contribution to GDP Growth)**	0.1	0.2	-0.7
5.	**Residential Construction**	-1.7	-7.8	1.5
6.	**Total Government Purchases**	-5.6	4.4	-0.8
6a.	**Federal Government Purchases**	-16.6	9.4	-4.1
6b.	**State and Local Govt. Purchases**	1.5	1.6	1.1
7.	**Net Exports (Contribution to GDP Growth)**	-0.2	-0.4	-1.0
7a.	**Exports**	-3.2	10.9	4.5
7b.	**Imports**	-1.0	11.8	11.5
	Additional Items			
8.	**Final Sales**	0.3	1.9	2.2
9.	**Final Sales to Domestic Purchasers**	0.6	2.2	3.1
10.	**Gross Domestic Income**	1.6	1.2	--
11.	**Average of GDP & GDI**	1.1	1.7	--
12.	**GDP Chained Price Index**	3.7	3.6	6.2
13.	**Core PCE Price Index**	2.7	4.4	3.4

** Percent change SAAR, except as noted. (a) = advance estimate*
Source: Bureau of Economic Analysis via Haver Analytics

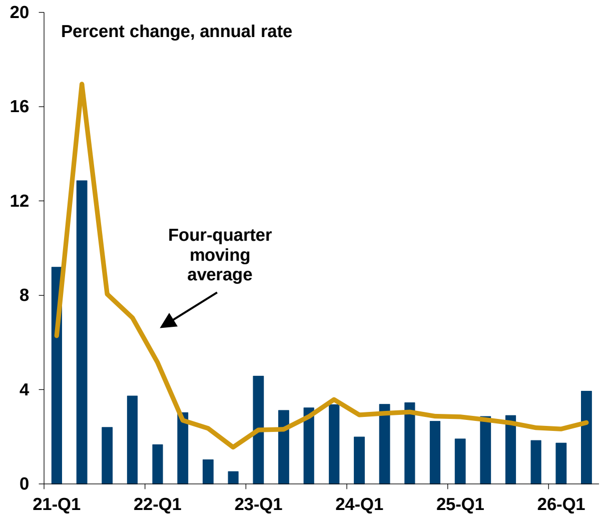
- Turning to the internals of the report, consumer spending growth of 3.2 percent (contribution of 2.12 percentage points to GDP) was a marked acceleration from the +0.5 percent read in Q1 and the four-quarter average of +2.1 percent in 2025. Factoring into the improvement, outlays for durable and nondurable items posted annualized increases of 6.8 and 4.4 percent, respectively (versus +0.5 and +0.6 percent previously). Spending on services, meanwhile, rose 2.2 percent (versus +0.5 percent in Q1). Concurrently, business fixed investment was again a bright spot for the U.S., in part reflecting the ongoing artificial intelligence boom (which was emphasized by Fed Chairman Warsh in his remarks following yesterday's FOMC meeting). Specifically, this area jumped 8.4 percent in Q2 (contribution of 1.15 percentage points to growth), a bit slower than the +10.6 percent increase in the preceding quarter but above the quarterly average of +5.6 percent in 2025. Outlays for equipment surged 15.2 percent, with a notable portion of that attributable to AI-related investment. At the same time, investment in intellectual property rose 8.8 percent, including an 11.4 percent jump in software. Conversely, outlays for structures were soft for the tenth consecutive quarter, easing 5.0 percent, despite some support from the ongoing rollout of data centers.

GDP Growth



Source: Bureau of Economic Analysis via Haver Analytics

Private Domestic Final Demand*

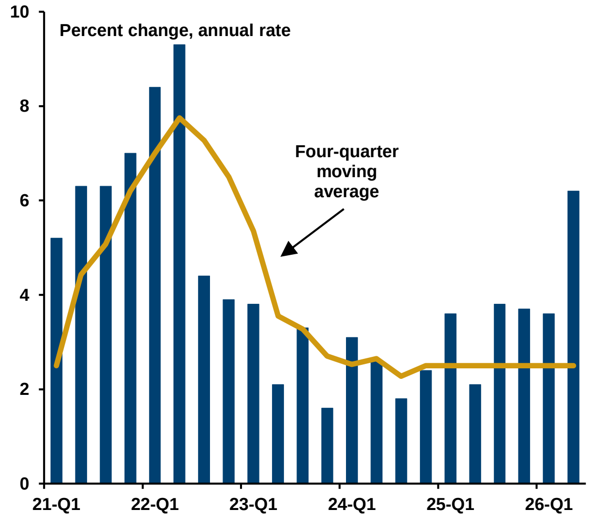


* Excludes the contributions of government spending, net exports, and inventory investment.
Source: Bureau of Economic Analysis via Haver Analytics

- Results across other components were mixed but mostly soft. Starting first with the positive, residential construction posted a 1.5 percent advance (contribution of 0.05 percentage point to GDP), its first increase since 2024-Q4 although the sector remains constrained by a sluggish housing market. Elsewhere, total government spending contracted 0.8 percent (subtraction of 0.14 percentage point from GDP), reflecting a 4.1 percent decline in federal spending that offset a 1.1 percent advance in outlays by state and local governments. Also, cautious management of stocks by firms aligned with inventory investment shaving 0.67 percentage point from growth. Moreover, net exports were again a drag on activity (-1.01 percentage points from growth), indicative of a 11.5 percent increase in imports that overshadowed a 4.5 percent advance in exports. Part of the surge in imports reflected robust purchases by firms of foreign-produced capital goods – a development implying that a notable portion of AI-related spending is flowing to foreign producers.

- On the price front, the GDP deflator surprised to the upside with a 6.2-percent increase in Q2, a stark rise from the 3.6 percent advance in Q1 and the fastest pace observed since 2022-Q2 – in part reflecting the war-driven energy shock (chart, right). In addition, the price index for personal consumption expenditures advanced 5.1 percent, annual rate (versus +4.6 percent previously). The core measure, meanwhile, increased 3.4 percent (versus +4.4 percent previously).

GDP Chained Price Index



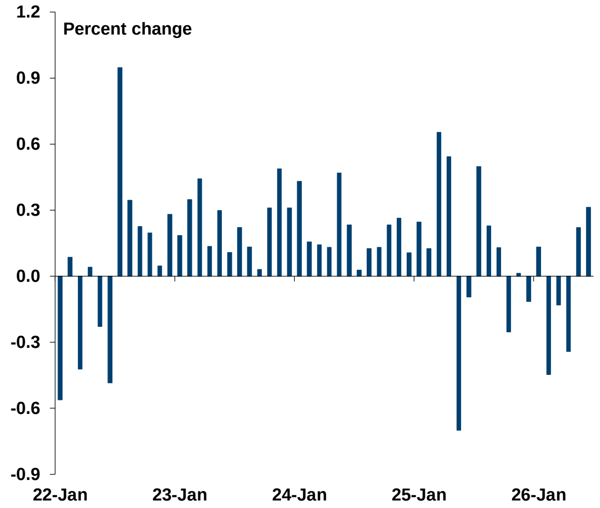
Source: Bureau of Economic Analysis via Haver Analytics

Personal Income, Consumption, and PCE Price Index

- Released alongside Q2 GDP, the Bureau of Economic Analysis' Personal Income and Outlays report for June provided a view on household earning and consumption that was mostly in line with market expectations – suggesting tepid nominal (and real) income growth but active household spending in the closing month of Q2. Data on prices also was benign, offering a pause in the inflation onslaught ravaging consumers for much of the current expansion.

- Turning first to personal income, the nominal advance of 0.2 percent (+3.9 percent year-over-year) was a tick slower than the median projection in the Bloomberg economist survey, although the monthly easing in inflation contributed to real income growth for only the third time in 2026 thus far (chart, right). Nominal wage growth was sluggish, rounding up to 0.2 percent (+4.3 percent year-over-year), although rental income (+0.7 percent; +3.7 percent year-over-year) and investment income (i.e., interest and dividends; +0.6 percent, +2.8 percent year-over-year) were a bit firmer in the latest month.

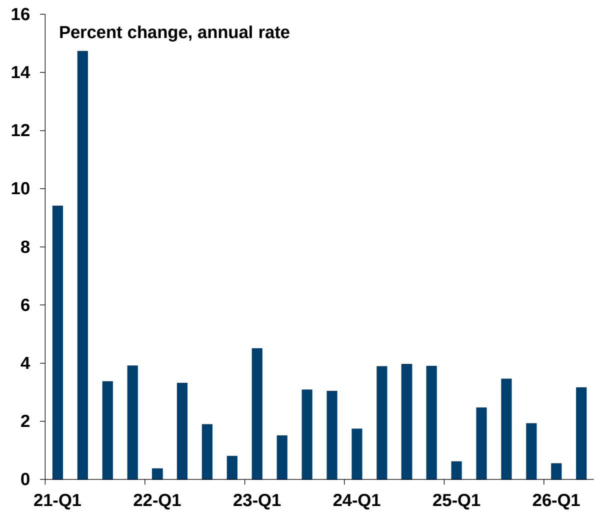
Real Personal Income Growth



Source: Bureau of Economic Analysis via Haver Analytics

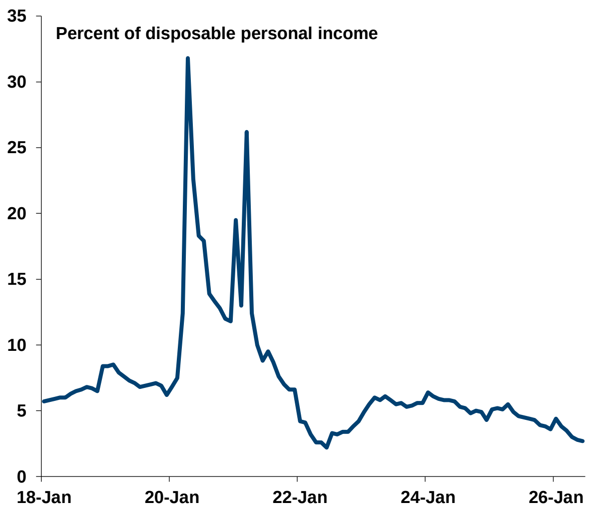
- Despite the unimpressive results on income, consumers remained active in the closing month of Q2. Nominal spending growth was 0.1 percentage point below the Bloomberg median expectation at +0.3 percent (+6.3 percent year-over-year), although real outlays of +0.4 percent were aligned with expectations and contributed to quarterly annualized growth of 3.2 percent -- among the better performances of the past few years (see above). With that said, the ongoing deceleration in wage growth and drawdown in household savings (the saving rate slipped 0.1 percentage point to 2.7 percent, well below the pre-COVID norm; chart, below right) raises the possibility of a slowdown in spending in the back half of the year.

Real Consumer Spending Growth



Source: Bureau of Economic Analysis via Haver Analytics

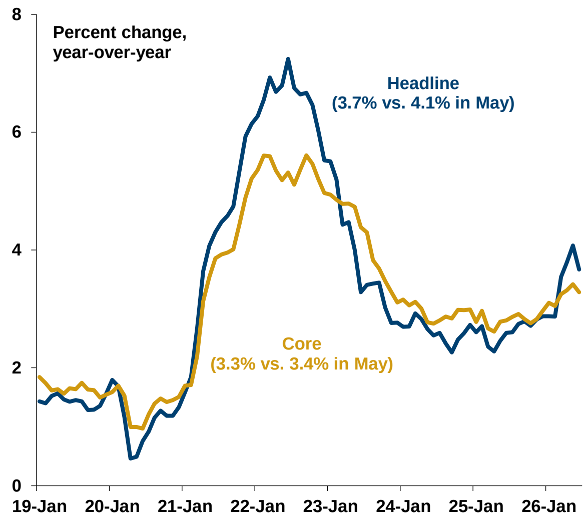
Personal Saving Rate



Source: Bureau of Economic Analysis via Haver Analytics

- As anticipated based on results from the CPI and PPI, the June results for the price index for personal consumption expenditures brought some relief on the price front. The headline price index slipped 0.1 percent, matching the consensus view, while the advance of 0.1 percent in the core index was 0.1 percentage point slower than consensus. The results, in turn, corresponded to year-over-year increases of 3.7 percent in the headline metric (versus 4.1 percent in May), and 3.3 percent in the core (versus 3.4 percent previously; chart, right). The anticipated slowing in inflation likely contributed to the FOMC's decision to remain on hold yesterday, although hawkish rhetoric by Chairman Warsh, along with three dissents from the Committee's decision, illustrated that inflation still remains a critical concern for policymakers.

PCE Price Index



Source: Bureau of Economic Analysis via Haver Analytics