August 24, 2018

US Business Investment Supports Q3 GDP Resilience

United States, durable goods orders/ex-transportation, m/m %, July:

Actual: -1.7 / +0.2

Consensus: -1.0 / +0.5

Prior: +0.7 / +0.1 (revised from +0.8 / +0.2)

- Headline durable goods orders fell as expected due to aircraft orders that fell by 35% m/m following the prior month's strength. This effect was known in advance due to tracking of company orders. **Where the positive surprise lies is in terms of strength in core orders and shipments that offer a strong start to Q3 tracking of momentum in business investment. This is a very decent all around report.**
- Core orders excluding defence and aircraft were up by almost triple consensus expectations (+1.4% m/m, 0.5% consensus). Yes triple! They were also revised *up* with June's 0.2% gain now clocked at 0.6%.
- Core shipments were up by 0.9% m/m (0.3% consensus) and the prior month was revised up to a gain of 0.9% m/m (0.7% prior).
- Overall this is a solid start to Q3 GDP nowcasting on the investment side of the picture with the bigger focus being upon next week's consumption figures that should also offer a strong start given that we already know there was a solid rise in retail sales last month.
- Recall that equipment spending growth slowed in Q2 and this report indicates a renewed acceleration. At the margin, that's constructive to resilience arguments with respect to Q3 GDP growth expectations in the wake of the strong 4.1% Q2 GDP growth rate.
- The numbers to back this up include the fact that shipments of core capital goods are now tracking a nominal gain of 6.5% q/q annualized in Q3 which is a pick-up from the first half when shipments were up by only about 3% in Q1 and then about 4% in Q2. That first half performance was a serious slowdown from earlier growth in core shipments that was running at 10–11% in 2017Q3–Q4. To in-quarter forecasting of business investment, it is primarily the shipments numbers that matter.
- The same is also true on the order book's tracking which is an indication of smoothed in-quarter and future investment contributions to GDP growth given lagged effects between orders and actual shipments and then implementation. After rising by 14% in Q3 of last year, growth in core orders hit a wall and grew by just 3.5% in Q4 and then just 1.5% in Q1 at seasonally adjusted and annualized rates. Core orders have been rejuvenated with nearly 11% annualized q/q growth in Q2 and early tracking of 8.5% growth in Q3. Ergo, the acceleration of growth in shipments and orders combine to paint a picture of improved growth in equipment spending over the back half of 2018. That is encouraging in terms of GDP growth resilience and the primary drivers are probably related to capacity constraints and the rebound in energy cap-ex as oil prices have recovered. The TCJA's influences could be constructive at the margin but it remains early to assess its influences in the context of the year-to-date slowdown in equipment spending that may be in the early stages of accelerating again.

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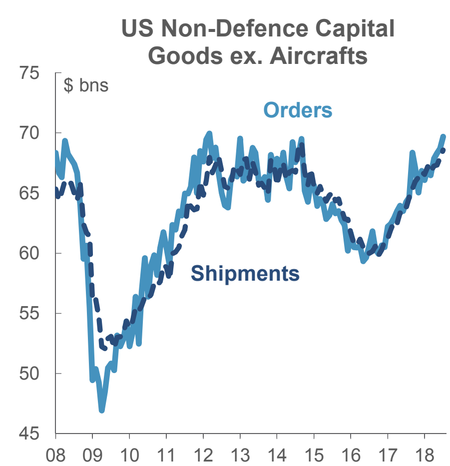
Sources: Scotiabank Economics, US Census Bureau.



Sources: Scotiabank Economics, US Census Bureau.

- In terms of breadth, autos advanced by 3.5% m/m and computers/electronics were up 1.1% plus machinery rose by 0.6% which ticks three of the most significant boxes. There was also a gain in orders of primary metals (+0.3%). Orders for fabricated metals were flat. Orders for electrical equipment dipped by 0.2% m/m.