October 25, 2018

US Durables End Strong Quarter On A Weak Note; Record US Trade Deficit

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

Actual: 0.8 / 0.1

Consensus: -1.5 / 0.4

Scotia: -1.0 / 0.3

Prior: 4.6 / 0.3 (revised from 4.4 / 0.0)

- US business investment has taken a pause that may just be a breather after a string of buoyant readings, but it raises the risk that the v-shaped rebound is maturing or possibly mildly reversing. I don't yet think that's likely, given capacity constraints and tax incentives to invest despite late cycle considerations and trade tensions, but it's a risk that bears intensified monitoring.
- Headline durable goods orders beat expectations because transportation orders were up 1.9% m/m due to a rise in orders for vehicles and parts (+1.%) as a drop in orders for nondefense aircraft (-17.5%) was less impactful than expected after a 64% rise the prior month.
- The miss on capital goods orders ex-transportation is explained by an upward revision to the prior month.
- The same point holds true for core capital goods orders ex-defense and air as the 0.1% m/m dip was weaker than the limited consensus estimate of +0.5% m/m but that was due to a seven-tenths upward revision to August (now -0.2%).
- The more important point is that we've lost momentum in a v-shaped recovery in core capital goods orders with two months of soft figures after a string of four solid reports. Perhaps that is temporary and simply about taking a breather after a strong run. Regardless, it has stalled the 'v' in the accompanying chart.
- Nevertheless, because of the composition of the monthly gains over the quarters and despite the recent softening, core durable goods orders (ex defense and air) were still up by 8.5% q/q SAAR in Q3 after an 11% rise in Q1. The smoothed quarterly trend remains robust.
- The figures were accompanied by a wider US merchandise trade deficit to an all-time high of US$76B in the single month of September. I still think there is more to come. US fiscal stimulus partly leaks out through imports. The application of US fiscal stimulus is also being sterilized by dollar strength (and the Fed and bond markets). The strength in the USD operates with a 3–4 lag in pointing to a wider current account deficit into the 2020 Presidential election and beyond (see second chart). US centered trade tensions will not be going away after the midterms, even if the US administration's understanding of what is driving trade deficits and whether they matter and under what circumstances is deficient.

CONTACTS

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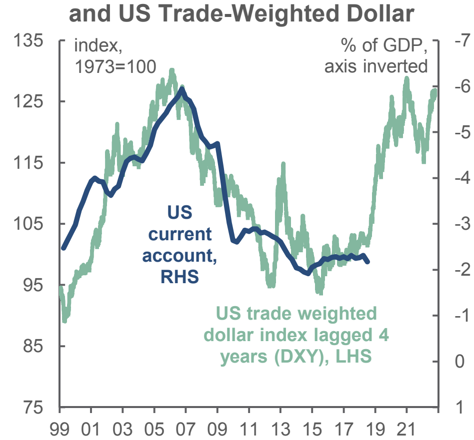
Can a V-Shaped Investment Recovery Persist?

Sources: Scotiabank Economics, US Census Bureau.

US Current Account Deficit and US Trade-Weighted Dollar



Source: Scotiabank Economics, Federal Reserve, Bloomberg.