Why Are Core US Durable Goods Orders Softening?

United States, durable goods orders/ex-transportation, m/m %, November:
Actual: 0.8 / -0.3
Consensus: 1.6 / 0.3
Scotia: 1.5 / 0.4
Prior: -4.3 / 0.4 (revised from -4.3 / 0.2)

- US durable goods orders were generally soft including the net effects of revisions and after deducting the influences of volatile aircraft and defense orders. In particular, core capital goods orders that serve as a proxy for equipment investment remain on a recently weak trend. Why? One way of looking at it is that weakness exists despite capacity pressures and tax incentives offered in the TCJA. What may be weighing upon core orders are the effects of trade policy uncertainty upon business confidence to invest and lower energy prices as a weight on that sector's cap-ex plans. Another way of objectively looking at it is that orders were so strong over H1 that perhaps a breather was in order. We're left with the economist's perennial plea for more data before drawing overly strong conclusions, though I would adhere to a cautious bias toward underlying investment activity into the new year.
- Core capital goods orders (ie: excluding volatile planes and defense) were down 0.6% m/m in November but part of that is explained by a half point upward revision to October that grew by 0.5%m/m. Nevertheless, core capital goods orders have fallen for three of the past four months. The protectionists running the US administration might take a hint here…
- Core capital goods orders are tracking a drop of 1.3% q/q at a seasonally adjusted and annualized rate. This is following large increases of 11% in Q2 and 8% in Q3 before the brakes were hit.

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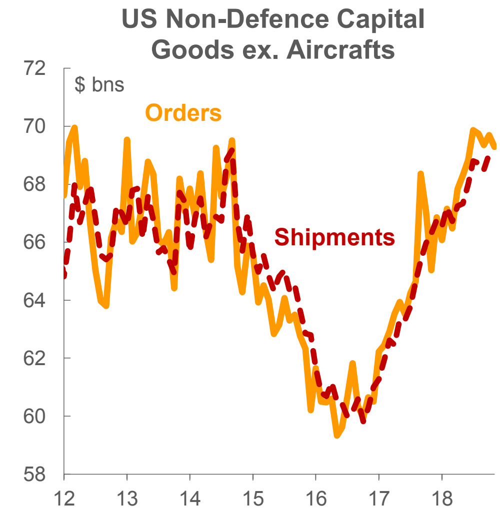
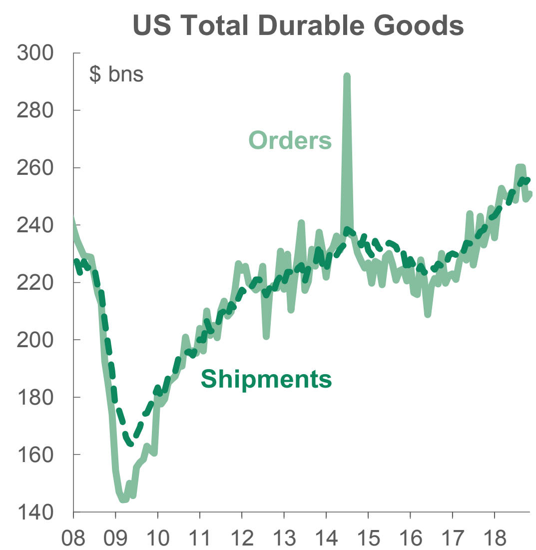


Sources: Scotiabank Economics, US Census Bureau.



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