

Corporate America's Order Book Cries Out For Policy Certainty

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

Actual: 1.2 / 0.1

Consensus: 1.7 / 0.3

Scotia: 2.5 / 0.5

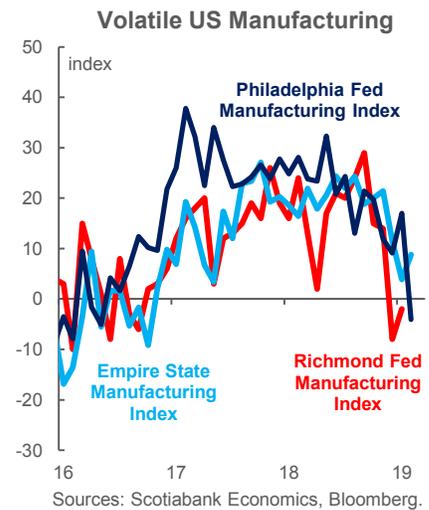
Prior: 1.0 / -0.2 (revised from 0.7 / -0.4)

- US industrial data disappointed expectations on two counts. Core durable goods orders fell and the Philly Fed's guide to ISM-manufacturing expectations fell. There should be minimal new information to Fed watchers from this pair of reports given we know we're in a soft Q4/Q1 patch ahead of expected improvement into Q2 onward. Also note that the drop in US initial jobless claims back down to 216k should probably be ignored given it is probably just shaking off the filings backlog from the shutdown and has reverted back toward a more normal run rate.
- One reason for shaking off the industrial releases is that they may have been negatively impacted by confidence dampening effects of the government shutdown with potentially more to come in January data. Market turbulence that has since settled down may have also played a confidence dampening role at least partly fed off of trade and shutdown tensions plus Trump's threats against the Fed. Note that tax incentives to invest have done little to nothing in absolute terms for the core capital goods order book that fell in half of the twelve months last year probably because any positive effects were offset by the destabilizing effects of an erratic US administration.
- What spared headline durable goods orders was a 28.4% m/m jump in volatile airplane orders which was largely known in advance given Boeing's plane orders.
- Orders for vehicles and parts were up 2.4% m/m for the strongest gain since July. That's a positive sign for the auto sector.
- Orders for electrical equipment (-0.1 m/m), machinery (-0.4%) and primary metals (-0.9%) all fell.
- Core capital goods shipments were up 0.5% m/m which may marginally benefit Q4 GDP tracking versus the forward effects of a soft order book.
- For Q4 as a whole, core capital goods orders fell by an annualized 3½% over Q3.
- Next week's Richmond Fed reading will help firm up ISM-manufacturing expectations in light of the trends highlighted in the accompanying chart.

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