US Core Durable Goods Orders Accelerate

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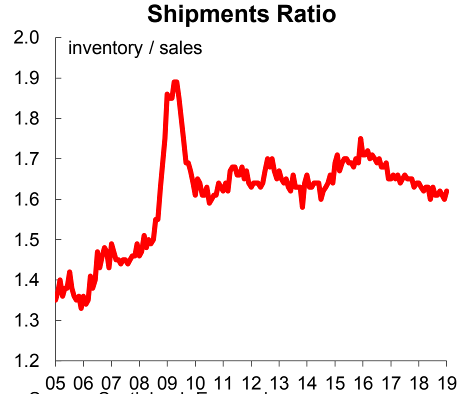
United States, durable goods orders/ex-transportation, m/m %, January:
Actual: 0.4 / -0.1
Consensus: -0.4 / 0.1
Scotia: -0.5 / 0.4
Prior: 1.3 / 0.3 (revised from 1.2 / 0.1)

- During a month of heightened uncertainty that was punctuated by the month-long shutdown of the US government, businesses simply shrugged their shoulders and drove the fastest pick-up in new big-ticket investment orders in months. After months of softness, it's too early to call a trend but the freshest figures are encouraging at the margin.
- The gains in durable goods orders were fairly robust in January as partly indicated in the table above. Headline orders surprised higher because despite Boeing's drop in plane orders, total non-defense aircraft orders were up 15.9% m/m and that helped explain why headline durable goods orders were up 0.4% m/m instead of consensus at -0.4%. This is the third consecutive monthly rise for total orders of durable goods. Nevertheless, this jump in total plane orders was partly offset by a 1% drop in orders for vehicles and parts which reversed half of the prior month's rise and weighed on the overall transportation component.
- **Core orders (ex defense and air) were up 0.8% (0.2% consensus) for the strongest gain since last July.** Core capital goods shipments were up 0.8% m/m for the first gain since October. The latter will benefit in-quarter GDP for Q1 while the former will inform momentum.
- **Breadth was ok, but not great.** A 1.4% increase in orders of machinery and a 1.7% increase in orders for electrical equipment reinforced the planes effect on total orders. Orders for computers and electronics (-1.3%) and primary metals (-1.5%) contributed to weakness alongside vehicles and parts. Orders for fabricated metals were flat.
- Against some concern about inventory positions, the inventory to sales ratio for durable goods manufacturers remains tame at 1.62 (chart below). Next week's total factory report will provide the overall manufacturing inventory-to-shipments ratio for January but the December ratio was also well behaved at 1.35 times and on a downward trend since early 2016. **Overall, there is no inventory problem in US manufacturing in my opinion with I:S ratios toward cycle lows.** Inventory growth over 2017–18 was struggling to keep up with demand. While broad economic growth is likely to be softer this year, the stockpile of inventories relative to sales doesn't suggest a big starting overhang that will be problematic to wear off.
- **In terms of quarterly tracking, Q1 is looking considerably better on balance.** The tracking estimates below suggest that total orders are rebounding quite handsomely and with core orders declining at a slower pace but the most important factor for Q1 GDP is that core shipments have modestly accelerated.
    - Total Orders: up 6.1% q/q SAAR (-7.3% prior quarter)
    - Orders ex-defense and air: down 0.9% q/q SAAR (-4% prior)
    - Total shipments: up 1.1% (up 5.9% prior)

US Durable Goods Inventory-to-Shipments Ratio



Source: Scotiabank Economics, U.S. Census Bureau.