Trump-Effect Slams US Cap-Ex

- Headline, ex-transportation and core capital goods orders all disappointed
- Durable goods shipments weigh on Q3 GDP
- Trump's trade war is damaging cap-ex…
- ...with macro data confirming earnings guidance on cap-ex budgets
- Inventories of durable goods are rising

United States, durable goods orders/ex-transportation, m/m %, September:
Actual: -1.1 / -0.3
Consensus: -0.7 / -0.2
Scotia: -0.5 / 0.0
Prior: 0.3 / 0.3 (revised from 0.2 / 0.5)

Macro data confirms earnings guidance by pointing to evidence that US companies have shelved their capital budgets as the effects of the Trump-induced trade war unfolded. The overall readings position investment to continue dragging against Q3 GDP growth with further weakness ahead.

Headline orders were even weaker than expected. Some of that was due to an 11.8% m/m drop in nondefense aircraft orders after a prior decline of 17.2% but following massive gains in June and July. Orders for vehicles and parts fell 1.6% m/m for the second month in a row. The transportation sector is putting up some very weak numbers overall on a combination of Boeing's issues, GM strike effects but also underlying softness.

But the weakness runs deeper. Core capital goods orders (ex-defense and ex-air) fell 0.5% m/m which was also weaker than a more thinly populated consensus. The prior month was revised worse to a drop of -0.6% m/m (-0.4% prior). **There has been no growth in core capital goods orders in three months.**

Chart 1 shows the trend weakness in orders and shipments that settled in as trade tensions escalated over 2018-19.

Chart 2 shows weighted contributions to the decline in total orders. Other areas of weakness included a 1.5% drop in fabricated metals, a 0.9% decline in orders for computers & electronics (fourth in a row), and a 4.5% drop in defense orders after a pair of strong prior months. Upsides came from orders for electrical equipment (+0.9%) but only after a prior decline of twice that magnitude, a 0.2% rise in machinery orders following two weak months, and a 0.3% rise in primary metals for the second consecutive gain.

For purposes of tracking Q3 GDP, core capital goods shipments fell 0.7% m/m and they have not grown in four months. They also fell by 0.7% m/m in July and were flat in each of August and June. Thus, cap-ex is an ongoing drag on GDP growth and the order book points to more weakness ahead.

Notwithstanding the drop in orders, inventories of unsold durable goods continue to climb (chart 3). Inventories of core capital goods (ex-defense and air) increased 0.3% and have risen in five of the past six months.

Even if somehow c-suites become much more confident to invest overnight, they'd still draw on existing inventories first. This reinforces the damage done perspective on trade policy. Striking trade peace—even if more substantial, credible and long-lived than is likely—would not turn the taps on immediately as a potential upturn in investment would be at least partly offset by inventory drag effects on GDP.

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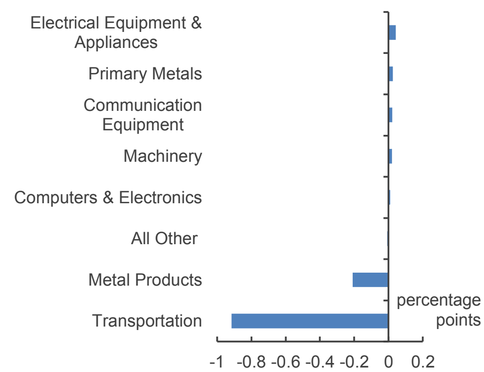
US Non-Defence Capital Goods Ex. Aircrafts

Sources: Scotiabank Economics, US Census Bureau.

Weighted Contributions to September Durable Goods Orders



Sources: Scotiabank Economics, US Census Bureau.

US Durable Goods Inventory to Shipment Ratio

Sources: Scotiabank Economics, US Census Bureau.