

US Business Investment Retrenches

- Total durable goods orders beat expectations...
- ...but only because of US defense spending
- Core capital goods orders fell...
- ...and reversed the one decent earlier gain
- Why businesses aren't investing isn't really a mystery

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

Actual: 2.4 / -0.1

Consensus: 0.3 / 0.3

Scotia: 0.0 / 0.2

Prior: -3.1 / -0.4 (revised from -2.1 / -0.1)

Despite the headline, this was a very weak report. The only reason total orders for durable goods strongly beat expectations was because defense orders soared and specifically a massive surge in orders for military planes (+168% m/m) albeit highly volatile. Take that out of the picture and the evidence that is left behind points to weak business investment. That's true well beyond stripping out Boeing's issues.

Core capital goods orders fell by 0.9% m/m in seasonally adjusted terms. These exclude defense and aircraft orders and serve as a proxy for business investment. The prior month's gain was also revised slightly lower (+0.1% from 0.2%). Shipments of core capital goods also fell by 0.4% m/m for the fifth decline in six months and this will weigh on investment contributions to Q4 GDP growth which is one reason Scotia Economics is below consensus for Thursday's GDP print (consensus 2.1%, Scotia 1.9%).

That's significant because it douses talk of a recovery in business investment. The evidence in favour of a recovery had included a 1.0% increase in core capital goods orders in October and stability in November (+0.1% m/m). It's neither appropriate to extrapolate those earlier gains nor to throw them out because of the latest weakness. Simply put, we have two reports that in the past three months have been at loggerheads and evidence of a trend is mixed.

But it's probably very reasonable to argue that expectations for a recovery in cap-ex to immediately occur in the wake of movement toward a US-China trade deal were laughably unrealistic to begin with. Business investment decisions don't usually spin on such a dime. It takes time to reassess markets including developments like potential trade deals and to formulate potentially new business plans and to then place orders.

But would that even be expected to occur in this environment? My personal view is that nothing has happened that would clear the air for global businesses to spring the spigot on their investment plans. There is still ample room for caution. There is no EU-UK trade deal and there won't be for an eternity no matter how loudly PM Johnson huffs and puffs. The US-China 'phase one' trade deal is absolutely farcical and simply stopped or at least postponed further escalation. The wolf at the helm of US trade policy has donned grandma's clothes until after the election that he'll probably win and thinks he's fooling observers in the

CONTACTS

Derek Holt, VP & Head of Capital Markets Economics
416.863.7707
Scotiabank Economics
derek.holt@scotiabank.com

meantime. The Macron-Trump truce expires at year-end with US-EU trade tensions hanging in the balance. Committing millions or billions to long-term capital projects makes absolutely no sense in this climate.

Across components, orders fell for primary metals (-0.6%), machinery (-1.1%), electrical equipment (-0.6%), vehicles and parts (-0.9%) and nondefense aircraft (-75%, -28% prior). Orders increased for computers/electronics (0.8%), fabricated metals (+0.3%) and 'other' durables (0.2%).

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