Datanote: US Durable Goods Orders/ Advance Goods Trade, May

- In one line: Net trade and equipment investment both set to drag on Q2 growth

- May durable goods orders rose by 0.1%, above the consensus, -0.5%. But net revisions were -0.4%.
- Orders ex-transportation fell by 0.1%, below the consensus, 0.2%. Net revisions were negligible.
- Nondefense capital goods orders ex-

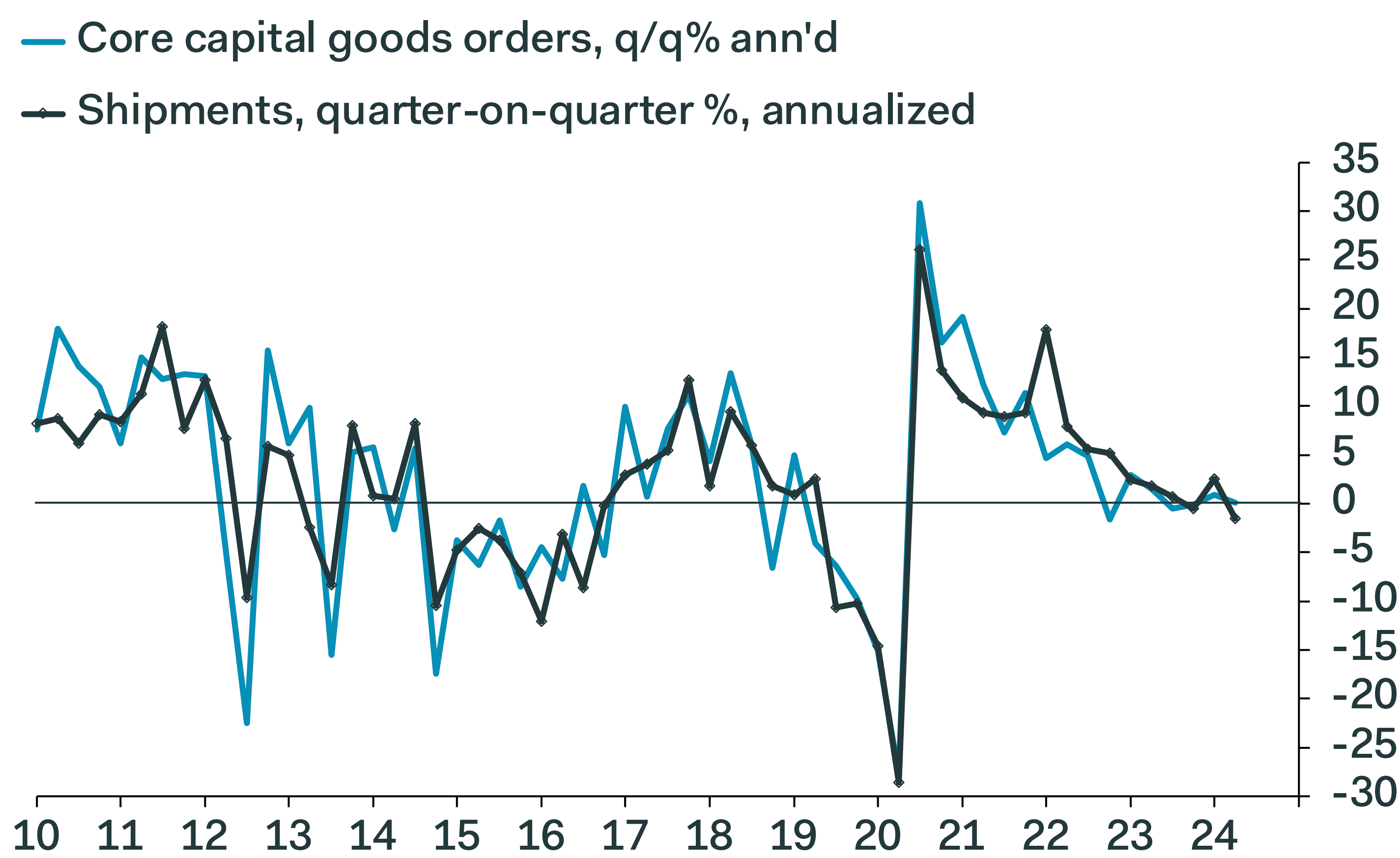
aircraft dropped by 0.6%, well below the consensus, 0.1%. Net revisions were +0.1%.

- The goods trade deficit widened again to $100.6B in May, from $98.0, much worse than the consensus, $96.0B.

This is a downbeat report; ignore the overshoot to the consensus in headline durable orders. The noisy transportation component fared much better than expected, with the 3.3% fall in aircraft orders surprisingly small given that Boeing booked only one new order last month. An uptick in auto orders and a surprise 22.6% jump in the volatile defense aircraft component also boosted the headline. But the small decline in orders ex-transportation and the much bigger drop in nondefense capital goods orders in May are a better indication of the underlying trend.

In any event, we are more interested in nondefense capital goods shipments ex-aircraft, than in any of the orders series, because "core" capital goods shipments are the only series in this report which feeds into the private equipment investment component of the national accounts. Core capital goods orders do not lead shipments reliably, and tend to be noisier. Core capital goods shipments were weak last month, falling by 0.5% in nominal terms, which probably means a drop of around 0.7% in real terms, given the small rise in PPI private capital equipment. If real shipments are unchanged in June, they will fall at an annualized rate of about 4% in Q2, consistent with a similar-sized drop in private equipment investment. We find it hard to envisage a meaningful recovery in equipment investment anytime soon, given that long-term rates remain very high and credit conditions are tight, especially for smaller companies.

Elsewhere, after widening unexpectedly in April, the advanced goods trade deficit rose again in May, to $100.6B from $98.0B. Imports fell by a relatively small 0.7%, but this was more than offset by a 2.7% drop in exports, driven mainly by a sharp fall in the volatile industrial supplies and food category, which includes trade in oil. These exports probably will rebound in June, but the overall trade deficit in Q2 will almost certainly be much larger than in Q1. Predicting the impact of net trade on overall GDP growth is an imprecise exercise, given the still-large gaps in the data, and all the numbers are erratic. But even on the generous assumption that the goods deficit falls sharply in June, and using conservative numbers for the other missing components, we reckon that net trade will knock around 1.5 percentage points from quarterly annualized growth in Q2. Expect sharp downgrades to GDP trackers such as the Atlanta Fed's GDPNow on the back of today's numbers.



Core capital goods orders, q/q% ann'd
Shipments, quarter-on-quarter %, annualized
35
30
25
20
15
10
5
0
-5
-10
-15
-20
-25
-30
10
11
12
13
14
15
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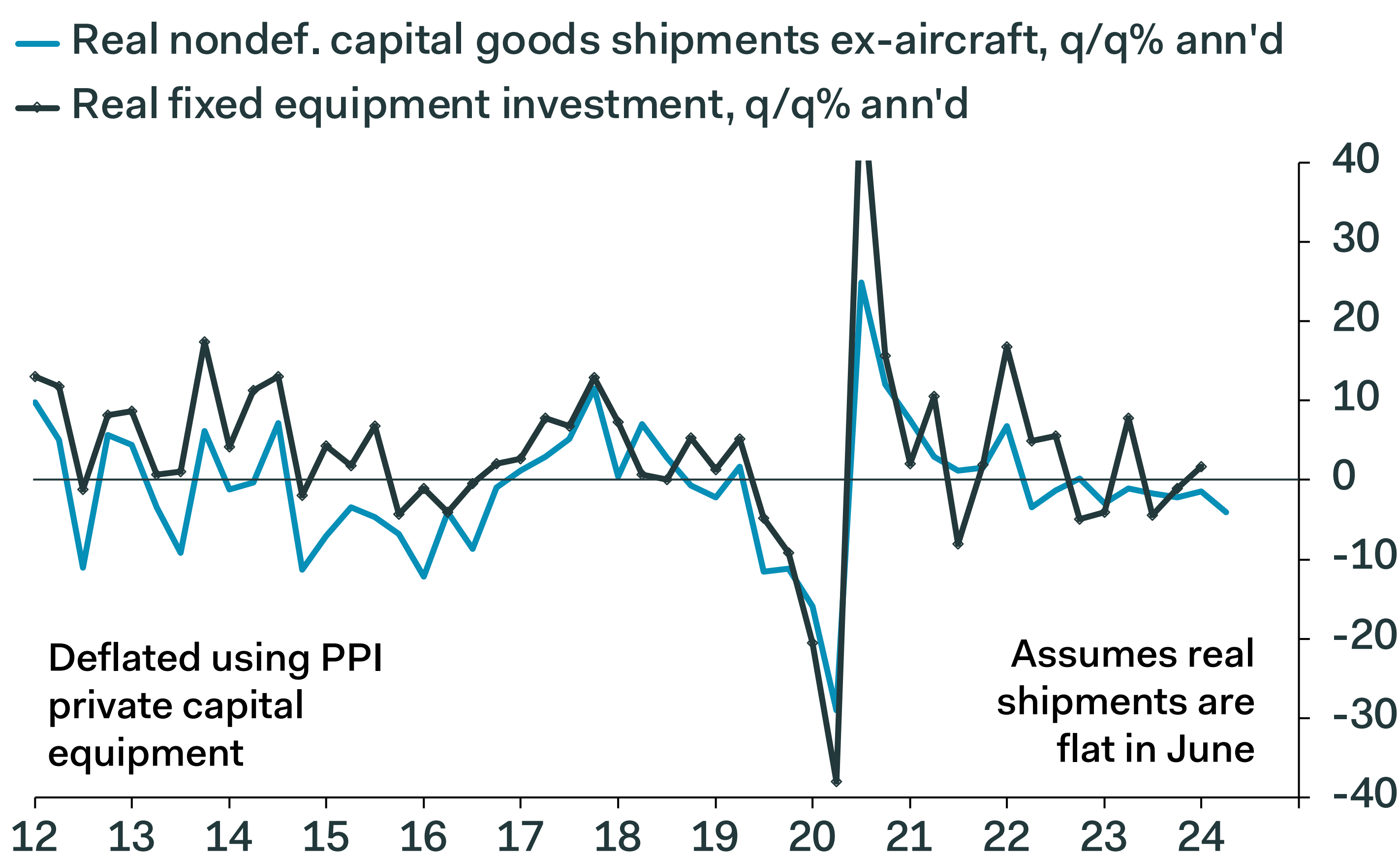
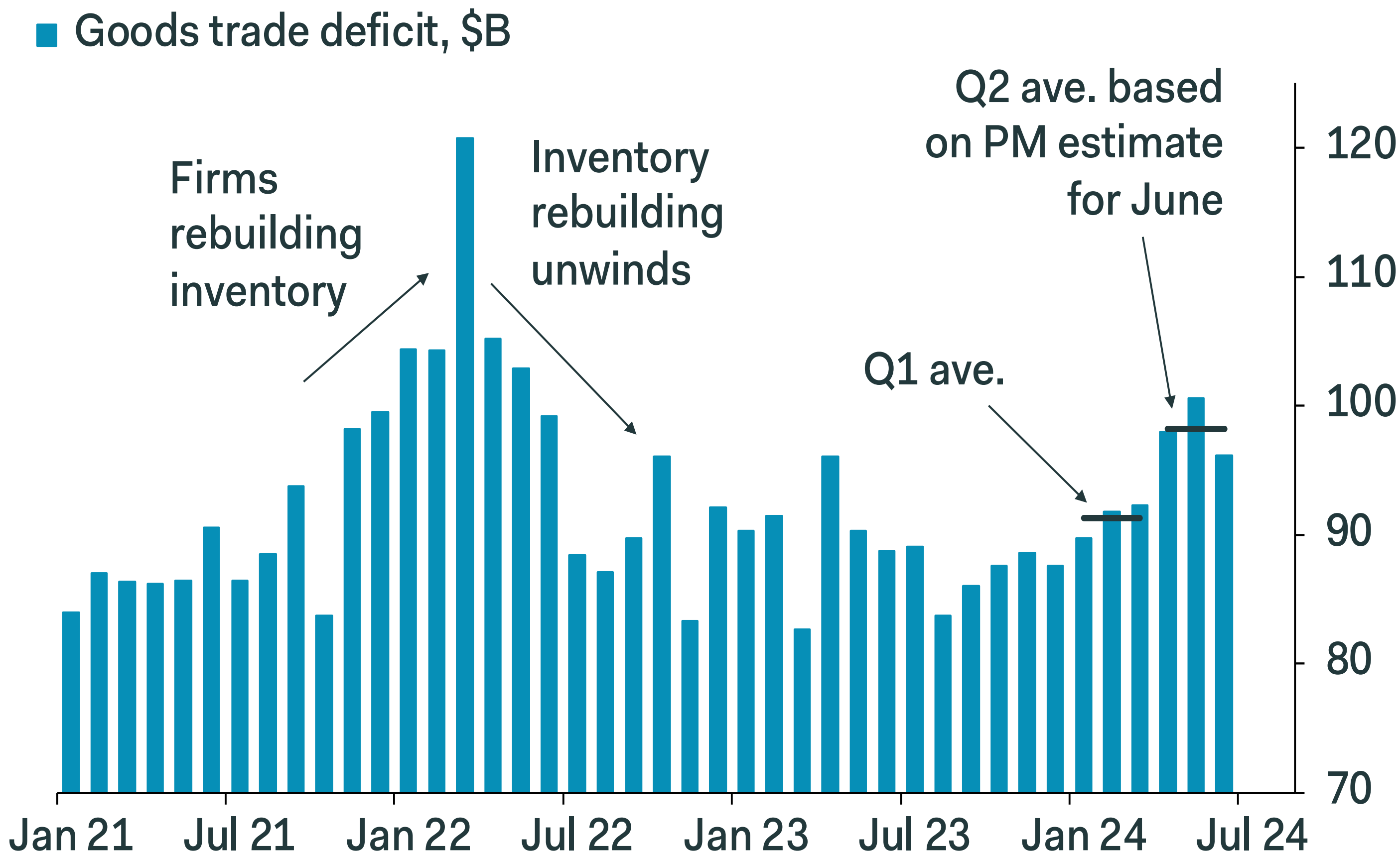


Real nondef. capital goods shipments ex-aircraft, q/q% ann'd
Real fixed equipment investment, q/q% ann'd
Deflated using PPI private capital equipment
Assumes real shipments are flat in June
40
30
20
10
0
-10
-20
-30
-40
12
13
14
15
16
17
18
19
20
21
22
23
24


Goods trade deficit, $B
Firms rebuilding inventory
Inventory rebuilding unwinds
Q2 ave. based on PM estimate for June
Q1 ave.
120
110
100
90
80
70
Jan 21
Jul 21
Jan 22
Jul 22
Jan 23
Jul 23
Jan 24
Jul 24