Datanote: US Durable Goods Orders/Weekly Jobless Claims

In one line: The underlying trend in equipment investment still looks weak, despite the bumper headline number in Q2

- Durable goods orders plunged by 6.6% in June, well below the consensus, +0.3%. Net revisions were +0.1%.
- Orders ex-transportation rose by 0.5%, a bit above the consensus, 0.2%. Net revisions were negligible.

- Nondefense capital goods orders ex-aircraft jumped by 1.0%, also above the consensus, 0.2%. Net revisions were -0.2%.
- Initial jobless claims fell to 235K, from 245K, a bit below the consensus, 238K.
- Continuing claims dipped to 1,851K, from 1,860K, also slightly below the consensus, 1,868K.

The collapse in headline orders looks terrible, but can be ignored because it is entirely due to the worst most for the volatile aircraft orders component since

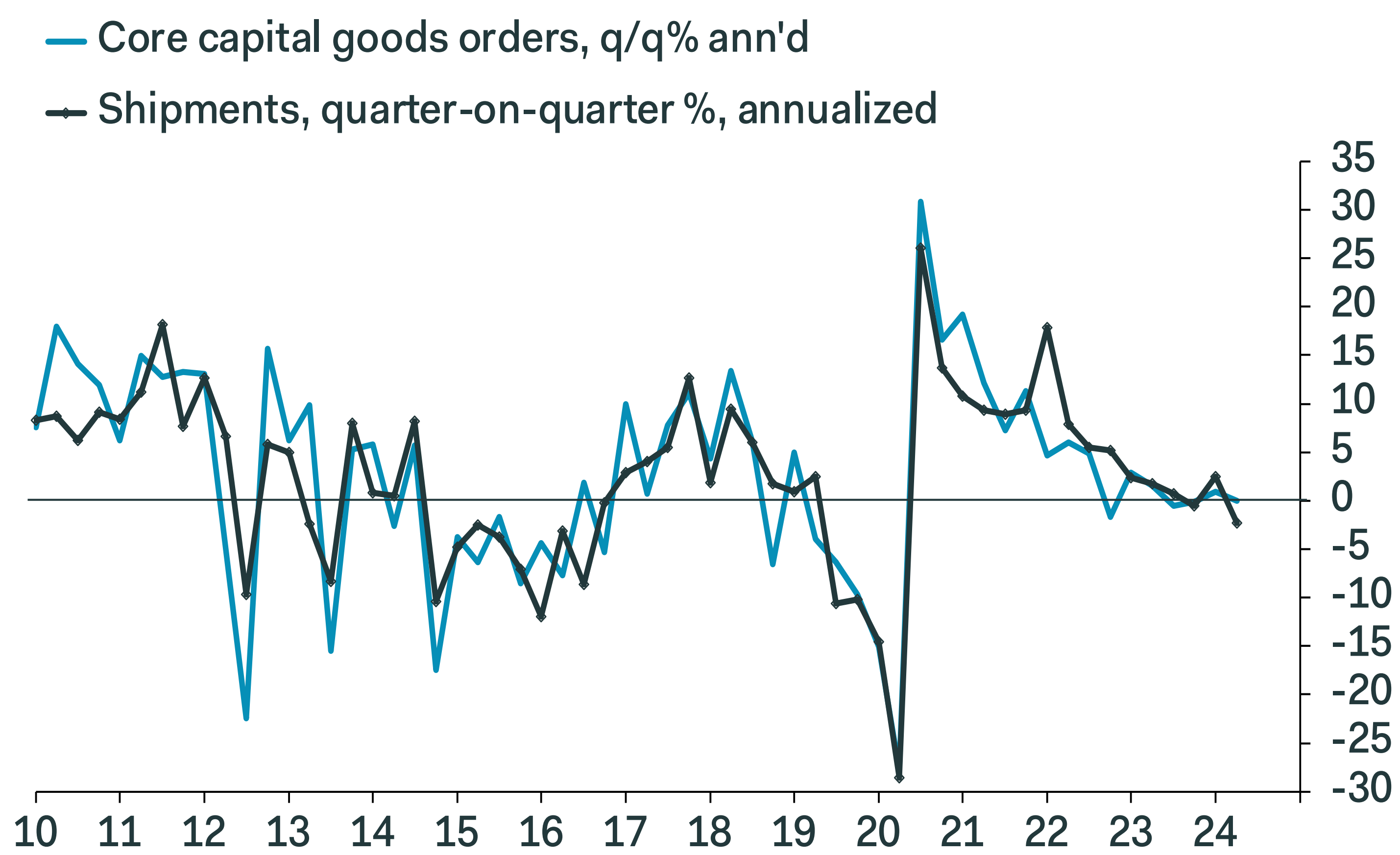
June 2020. Net orders of civilian aircraft were minus $8.8B last month, compared to +$108B in May, which almost certainly reflects a huge number of cancellations for Boeing aircraft. Published net orders for Boeing last month were weak, but not this bad, so reports from a few news outlets, saying that the company had shifted a large number of its orders into an accounting bucket meant for orders that had already been received but might fall through, were probably onto something. Headline aside, the 0.5% increase in orders ex-transportation is encouraging, the biggest gain in six months and far stronger than the recent flat trend. Nondefense capital goods orders ex-aircraft jumped by 1.0%, although this mostly just reversed a 0.9% drop in May.

While the headline orders numbers receive more attention, the most import series in this report is nondefense capital goods shipments ex-aircraft, a direct input into equipment investment in the national accounts. “Core” orders do not lead core shipments reliably, and tend to be more volatile in the short term. Indeed, core capital goods shipments edged up by just 0.1% in June, which suggests essentially no change in real terms after deflating by PPI capital goods. Note that the May level was the lowest since late 2020.

We estimate that real core capital goods shipments net of foreign trade in capital goods, which better aligns the "gross" shipment numbers with domestic investment spending, fell at an annualized rate of just over 2% in Q2 overall. That is clearly much weaker than the near-12% growth in total private equipment investment just reported in the advance GDP release, but much closer to the 2.9% in equipment investment excluding transport and IT, as our second chart shows. That component of equipment investment is probably a better gauge of the underlying cyclical trend, given the quarter-to-quarter volatility in investment in the import-heavy transport equipment and computer components, and the structural forces propping up IT investment. The meager rise in real core net shipments in June suggests that underlying equipment investment was still struggling for momentum going into Q3, and we expect far weaker growth in equipment investment over the next few quarters, given that long-term interest rates remain so high and credit conditions relatively restrictive.

Elsewhere today, the initial jobless claims numbers are nearly impossible to read right now, given that they are distorted by the impact of hurricane Beryl, the shifting timing of scheduled summer shutdowns at auto plants, and the fading of the boost to claims in New

York after the end of the school year. Claims in Texas were roughly double their number in the same week last year—note that Texas allows retrospective claims following natural disasters—but this was partly offset by claims in seven states with a high concentration of auto plants falling by about 15% compared to a year ago. Looking through the fog, we suspect that the underlying uptrend in claims that became clear a few months ago is ongoing, given that high rates and slowing consumer demand seem to be prompting a bigger number of layoffs. The number of employees affected by WARN notices rose in June to the highest level since April 2020, excluding August 2023, when Yellow Corp. filed for bankruptcy, according to the Cleveland Fed. The elevated proportion of consumers expecting the unemployment rate to rise over the next year points to a further rise in claims too.



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
16
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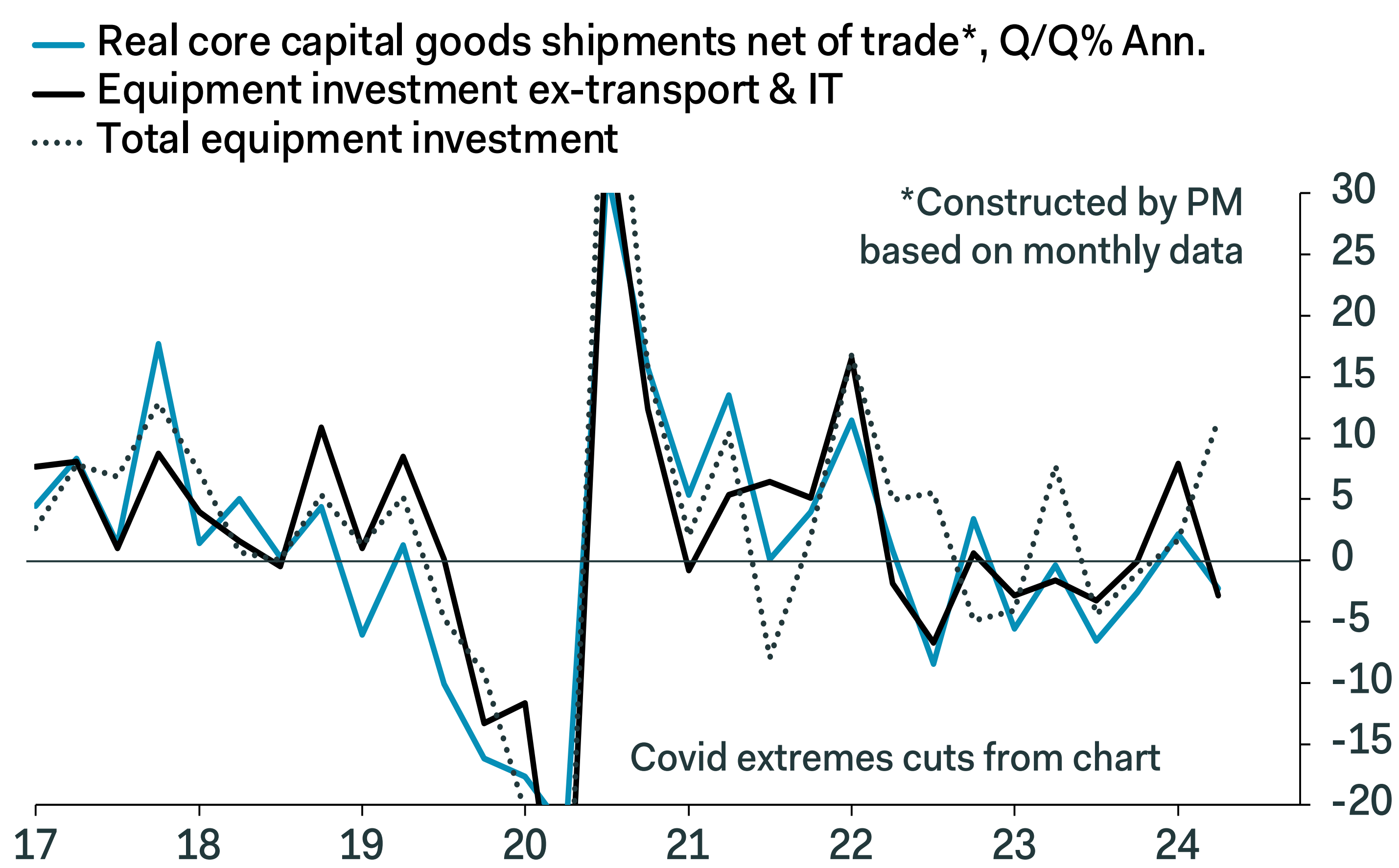
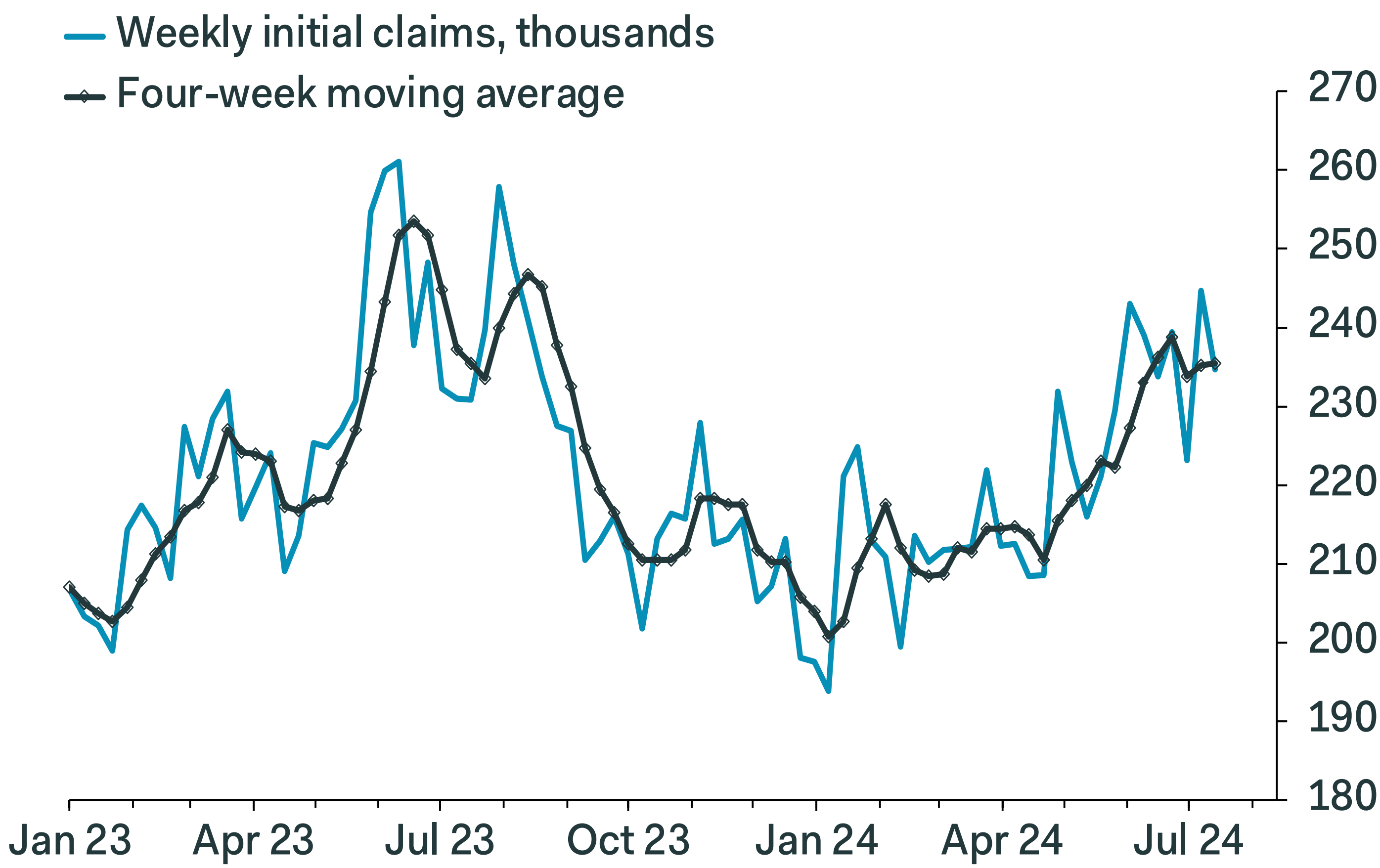
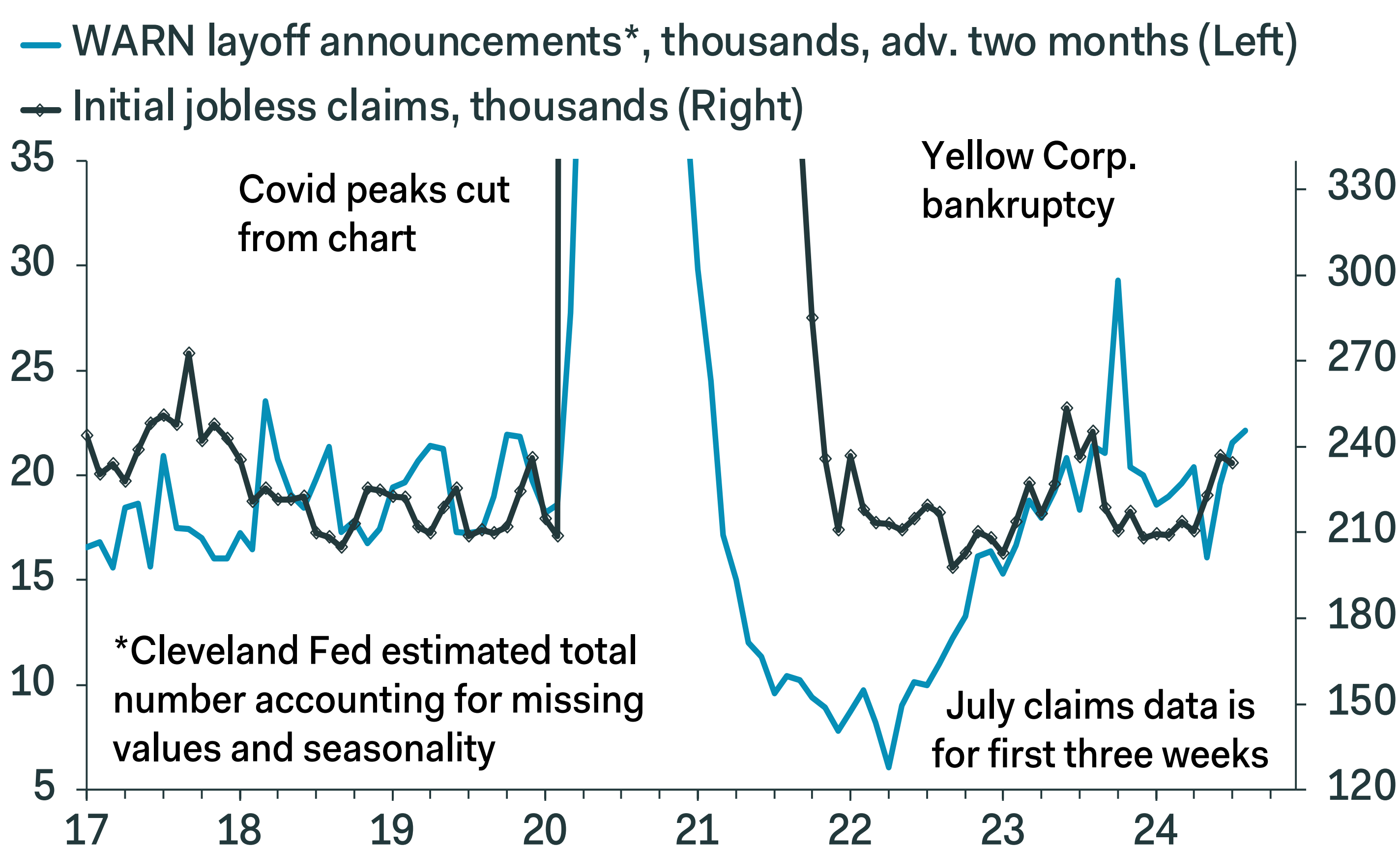


Real core capital goods shipments net of trade*, Q/Q% Ann.
Equipment investment ex-transport & IT
Total equipment investment
*Constructed by PM
based on monthly data
Covid extremes cuts from chart
30
25
20
15
10
5
0
-5
-10
-15
-20
17
18
19
20
21
22
23
24



Weekly initial claims, thousands
Four-week moving average
270
260
250
240
230
220
210
200
190
180
Jan 23
Apr 23
Jul 23
Oct 23
Jan 24
Apr 24
Jul 24



WARN layoff announcements*, thousands, adv. two months (Left)
Initial jobless claims, thousands (Right)
Covid peaks cut from chart
Yellow Corp. bankruptcy
*Cleveland Fed estimated total number accounting for missing values and seasonality
July claims data is for first three weeks
35
30
25
20
15
10
5
330
300
270
240
210
180
150
120
17
18
19
20
21
22
23
24