Datanote: US Durable Goods Orders, August

In one line: Underlying equipment investment is still weak, but computers and aircraft are red hot.

- Durable goods orders were unchanged in August, beating the consensus, -2.6%. Net revisions were +0.1%.
- Orders ex-transportation rose by 0.5%, also stronger than the consensus, 0.1%. Net revisions were +0.1%.
- Nondefense capital goods orders ex-

aircraft increased by 0.2%, marginally above the consensus, 0.1%. Net revisions were -0.1%.

A big chunk of August's beat in headline orders relative to the consensus was due to a surprisingly small decline in the very volatile aircraft component, which dipped by 7.4%, far less than the 20-to-30% drop suggested by recent reports of orders at Boeing. But orders ex-transportation were also surprisingly strong, with the 0.5% nominal increase in August far stronger than the gradually falling trend that has been underway for nearly three years now. We're inclined to view this latest increase as a blip rather than signaling an upturn on the back of lower long-term rates. After all, corporate bond yields peaked back in October 2023, and their declines seem to have done very little for investment demand so far. Moreover, most indicators of demand for manufactured goods, such as the ISM new orders index, remain very weak, as our first chart shows.

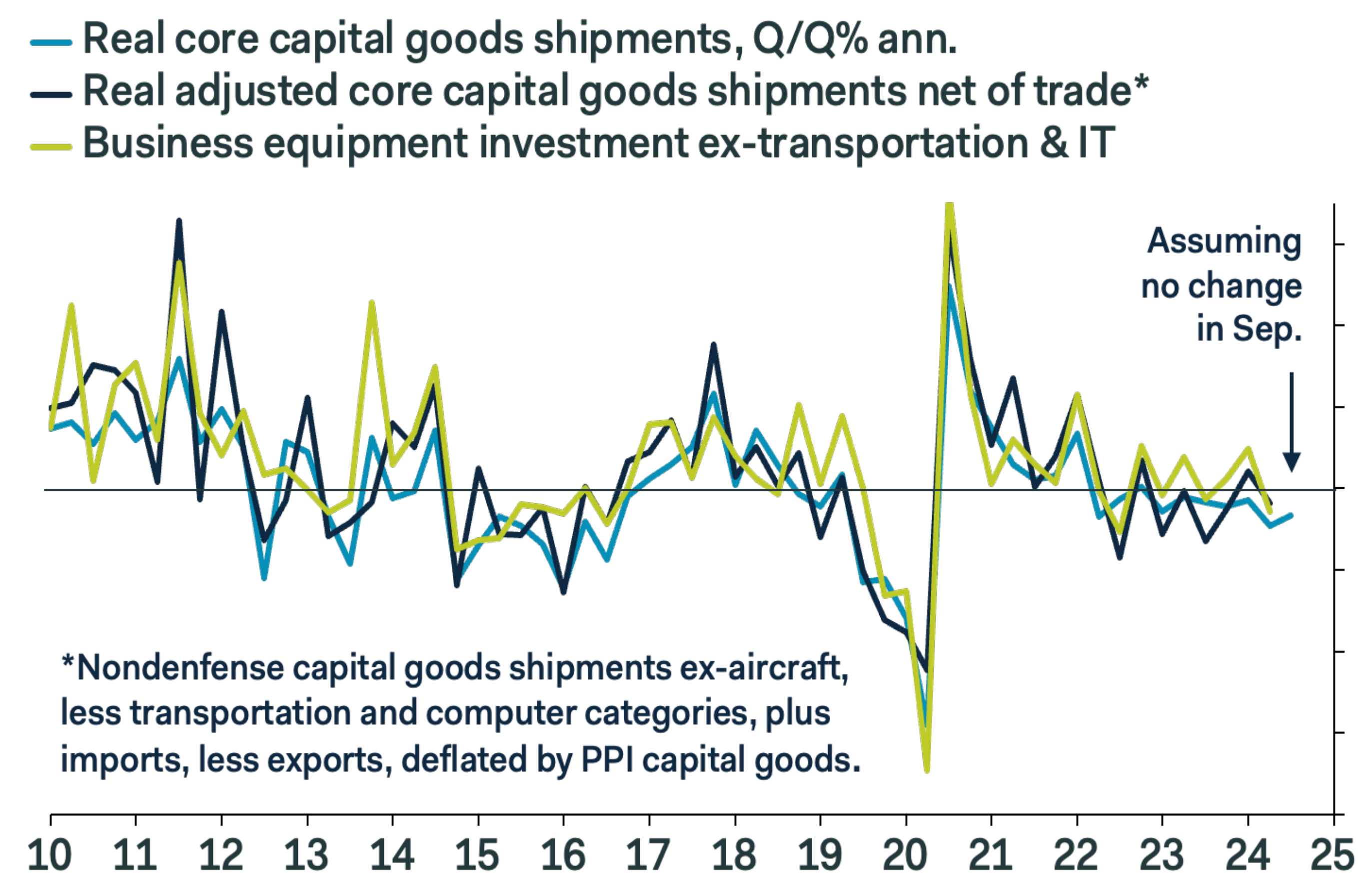
As we often point out, the nondefense

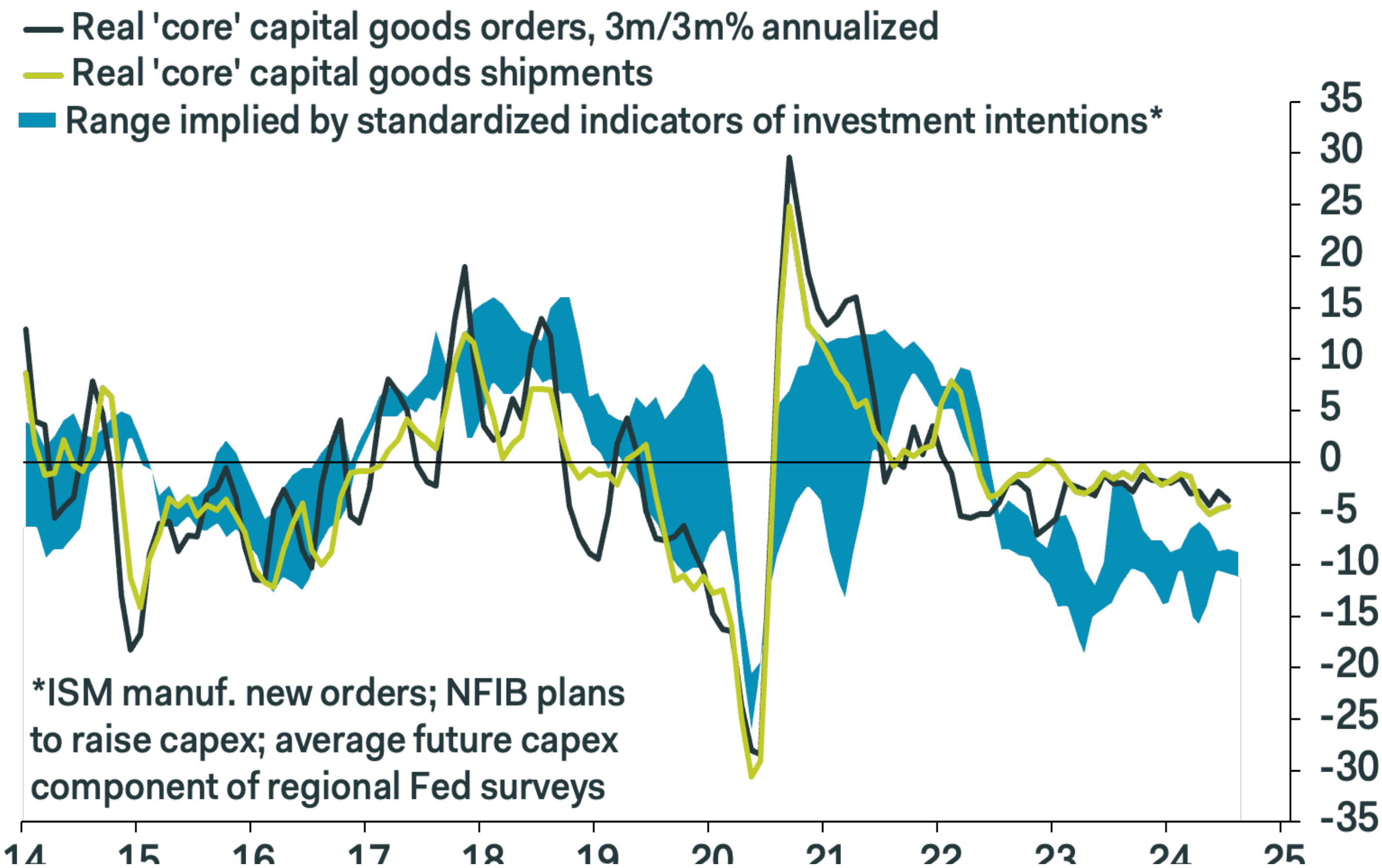
capital goods shipments ex-aircraft series in this report is more important than any of the headline orders numbers, because they are a direct input into the business equipment investment numbers in the national accounts. Counterintuitively, core capital goods orders do not lead core capital goods shipments reliably, and the two series can diverge significantly in the short term. That said, the 0.1% rise in core shipments last month was only a bit weaker than the 0.2% increase in orders. After deflating by PPI capital goods, real core shipments probably fell slightly in August. That implies an annualized growth rate in the three months to August of minus 3.5%, compared to the previous three months, highlighting the broader underlying weakness.

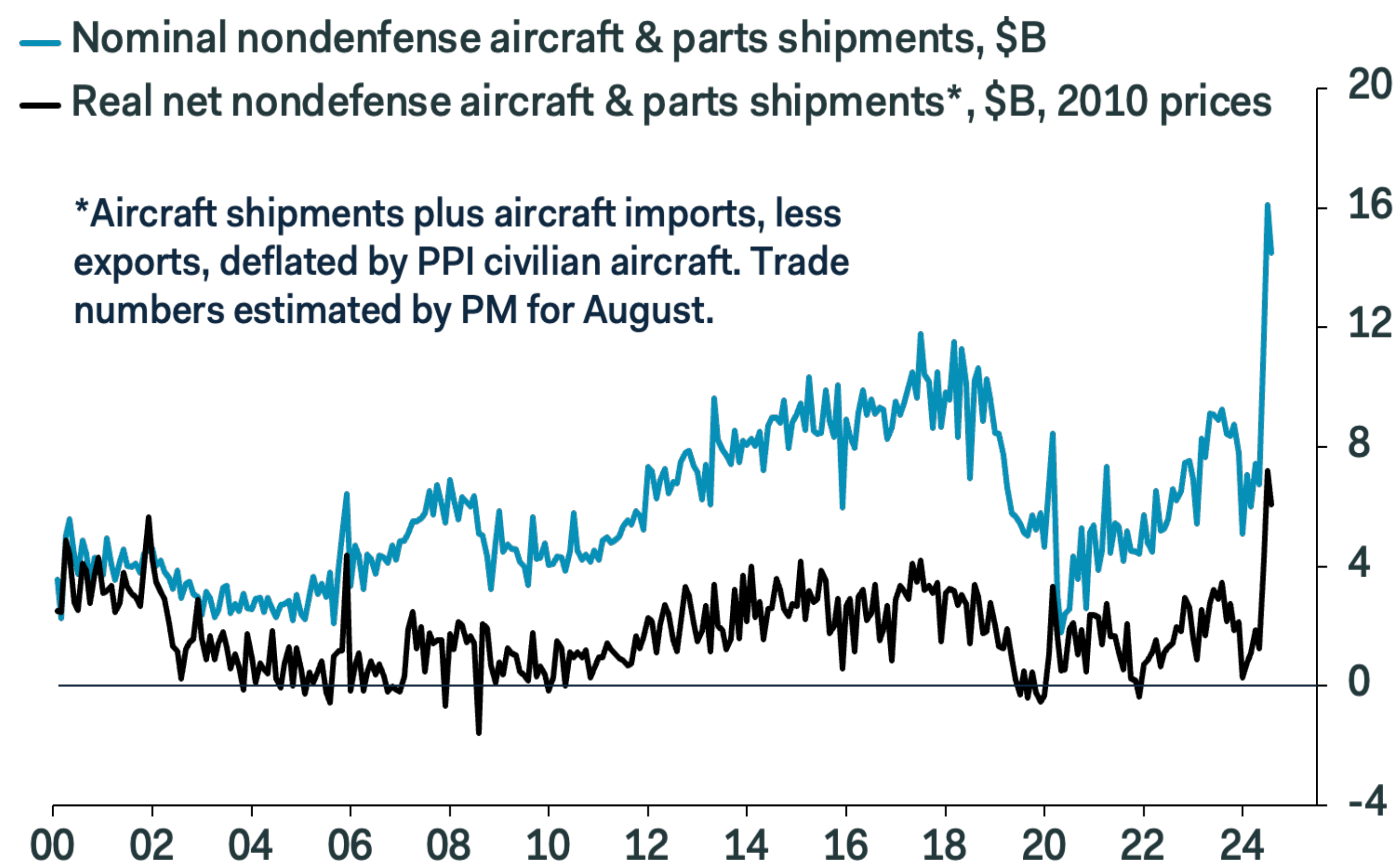
Real core capital goods shipments are a good guide to the ex-transportation and IT components of equipment investment in particular, as our second chart shows. Shipments would decline at an annualized rate of just over 3% in Q3, if they are unchanged in September, consistent with a similar drop in business equipment investment ex-transportation and IT. That would tally with most indicators of investment intentions, which remain very depressed, as our third chart shows.

That said, investment in transportation and IT equipment is volatile, and often dance to the beat of their own drum. This was the case in Q2, when ongoing rapid growth in computer and transportation equipment meant that overall business equipment investment grew at an annualized rate of 10%, while equipment investment excluding those components fell by 2.8%. Early indicators suggest that computer equipment investment has continued to grow rapidly, fuelled by a spending boom in AI infrastructure. Meanwhile, aircraft investment has surged in recent months, and appears to be on course for its strongest quarter in decades, as our fourth chart shows. A lot can still change, but another 10%+ increase in overall business equipment investment in Q3 probably is in the cards.


ISM manufacturing new orders index (Left)
Durable goods orders ex-transport, 3m/3m annualized, % (Right)
90
80
70
60
50
40
30
20
50
40
30
20
10
0
-10
-20
-30
-40
-50
12
13
14
15
16
17
18
19
20
21
22
23
24
25


Real core capital goods shipments, Q/Q% ann.
Real adjusted core capital goods shipments net of trade*
Business equipment investment ex-transportation & IT
Assuming
no change
in Sep.
*Nondenfense capital goods shipments ex-aircraft,
less transportation and computer categories, plus
imports, less exports, deflated by PPI capital goods.
30
20
10
0
-10
-20
-30
-40
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25


Real 'core' capital goods orders, 3m/3m% annualized
Real 'core' capital goods shipments
Range implied by standardized indicators of investment intentions*
*ISM manuf. new orders; NFIB plans to raise capex; average future capex component of regional Fed surveys
35
30
25
20
15
10
5
0
-5
-10
-15
-20
-25
-30
-35


Nominal nondenfense aircraft & parts shipments, $B
Real net nondefense aircraft & parts shipments*, $B, 2010 prices
*Aircraft shipments plus aircraft imports, less exports, deflated by PPI civilian aircraft. Trade numbers estimated by PM for August.
20
16
12
8
4
0
-4
00
02
04
06
08
10
12
14
16
18
20
22
24