

## **Datanote: Durable Goods Orders, January**

### **In one line: Business investment probably still set for a weak Q1**

- January durable goods orders dropped by 6.1%, below the consensus, -5.0%. Net revisions were -0.3%.

- Orders ex-transportation fell by -0.3%, also below the consensus, 0.2%. Net revisions were -0.7%.

- Nondefense capital goods orders ex-aircraft rose by 0.1%, in line with the

consensus, 0.1%. Net revisions were -1.0%.

The plunge in headline orders was largely due to a 69% plunge in aircraft orders. January is usually a quieter month for Boeing, but this January was especially slow, with zero new orders net of cancellations. Orders ex-transportation were soft and December's number was revised down substantially, highlighting the risk of taking the advance durable goods data at face value. That said,

the report's headline orders numbers tell us little about the current path of overall business investment. The only input from the durable goods report that enters into the national accounts is nondefense capital goods shipments ex-aircraft, aka core capital goods shipments, which exclude civilian aircraft and autos. Markets tend to focus on core capital goods orders, but they do not reliably lead shipments; they are merely a noisier version of shipments.

Indeed, the two series paint a very different picture in January. Core capital goods orders nudged up by just 0.1% after a downwardly-revised drop of 0.6% in December. Core capital goods shipments, meanwhile, jumped by 0.8%, after rising slightly in December. Even so, we still think that business equipment investment will be fairly weak in Q1. Core capital goods shipments are reported in nominal terms and, given that PPI capital goods rose by 0.6% in January, we estimate that real shipments increased by only

0.3%. Assuming real shipments are unchanged in February and March—generous given the ongoing weakness in surveys of capex intentions—this points to only marginal growth in real equipment investment in Q1 at this early stage. Moreover, the ongoing drop in business investment in autos probably means that overall business equipment investment is probably weaker than the real core capital goods shipments numbers suggest.

