

## US: PAUSE IN DURABLE GOODS SECTOR ACTIVITY AT START OF 2017

*\*Beyond the strong 1.8% gain in total durable goods orders, the January report on durable goods was generally weak*

*\*Core shipments, which matters for GDP declined in January, outweighing the upward revision to the prior month*

*\*Important to not overreact to monthly activity data given high volatility. Moreover, the very optimistic business sentiment suggests a rebound in coming months is more likely than not*

The US durable goods report showed that businesses slowed their pace of spending at the start of the year, after accelerating spending in late 2016.

Durable goods shipments fell 0.1% m/m in January and core (nondefense capital goods excluding aircraft) shipments, which matters for business investment in GDP, declined 0.6% m/m after posting strong gains in the prior two months. Despite the sizable 0.6 percentage point upward revision to December's core shipments, the decline at the start of the year places some downside risk on the pace of business investment in Q1.

Total orders for durable goods rose by a strong 1.8% m/m but was driven by transportation orders, as core orders (nondefense capital goods excluding aircraft) fell for the first time since September, placing some doubt on expectations for a continued acceleration in business investment this quarter.

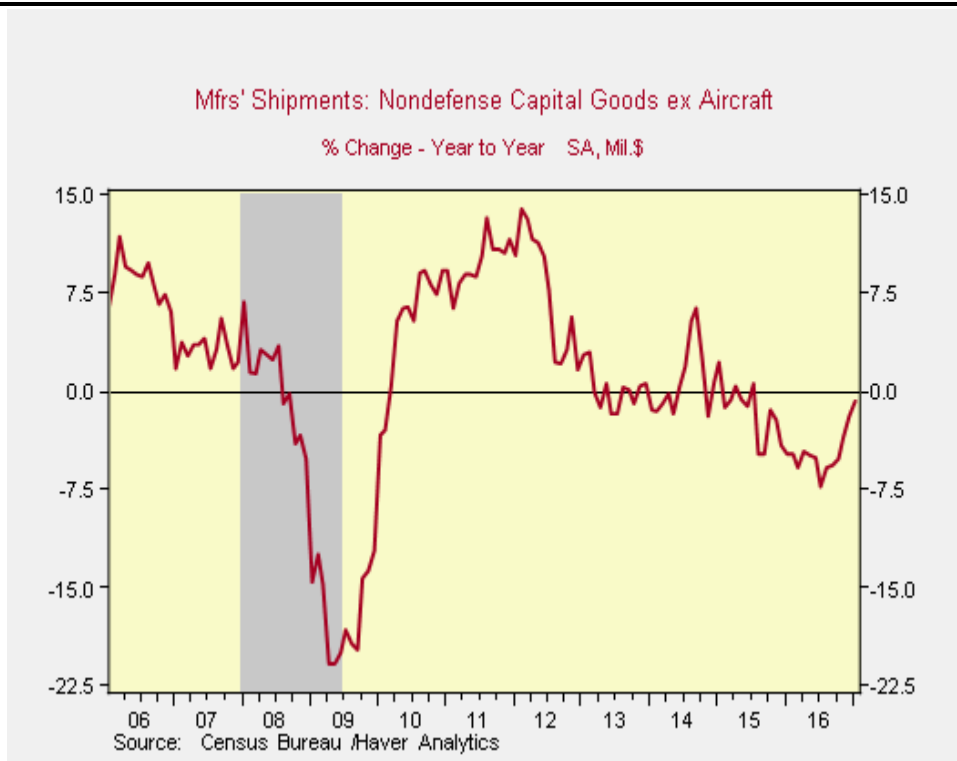
The soft start to the year in the durable goods sector shows that a strong rebound in business investment in the near-term is not guaranteed as firms digest policy developments.

Note that the durable goods data tend to be volatile month-to-month, so a rebound in February/March is quite possible. Momentum in the sector has clearly picked up and core shipments, although still negative year-on-year, is still on an upward trend (see Chart 1). Moreover, the optimistic manufacturing sentiment from various surveys suggests that continued expansion in factory activity is more likely than not. Continued increases in unfilled orders also point to solid demand for future activity (see Chart 2).

Continue to expect a gradual improvement in business investment in the first half of the year.

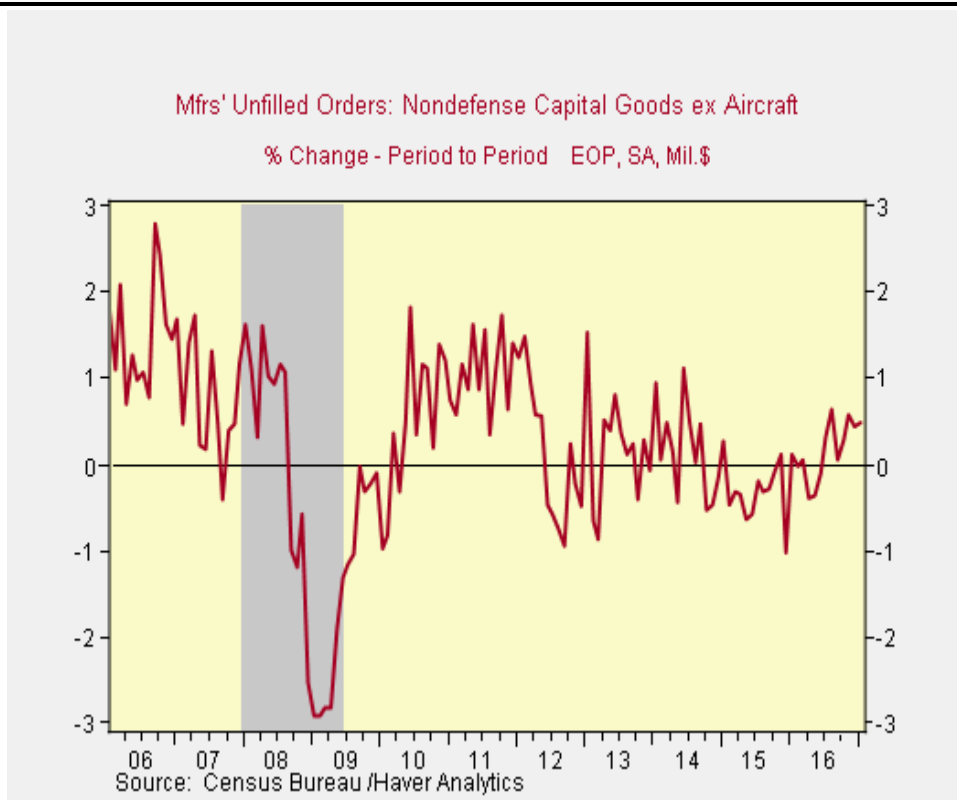
27 February 2017

Chart 1: Shipments of Nondefense Capital Goods Ex Aircraft (Year-Over-Year, %)



Source: Monthly data. Source: Census Bureau and Haver Analytics

Chart 2: Unfilled Orders of Nondefense Capital Goods Ex Aircraft (Month-Over-Month, %)



Source: Monthly data. Source: Census Bureau and Haver Analytics

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