STRONG U.S. DURABLE GOODS REPORT IN OCTOBER

*The U.S. Durable Goods Report for October was broadly stronger than expected, with rising core orders and shipments, despite the GM strike that weighed on activity. This suggests that investment in business equipment started Q4 with solid momentum, a welcomed change from the prior three quarters.

*Shipments of nondefense capital goods – a proxy for business equipment investment in GDP – jumped by 1.4% m/m in October (consensus: -0.2%), its first increase since June and the strongest gain since November 2018, putting it on track to increase by 4.4% q/q annualized in Q4 following the outsized 9.5% q/q annualized decline in Q3 (Chart 1). Some of the October gain was driven by a 7.8% m/m increase in shipments of nondefense aircrafts and parts -- its strongest gain since November 2018 -- which has been weighed down by Boeing issues this year (Chart 2).

*Durable goods orders increased by 0.6% m/m in October (consensus: -0.9%), and orders of nondefense capital goods excluding aircraft, a reliable gauge of underlying manufacturing demand, increased by 1.2% m/m in October, the strongest gain since January (Chart 3). Manufacturing demand has already bottomed out.

The improvement in shipments of durable goods was broad-based in October, with six of the nine primary categories increasing. Over the last year, shipments of fabricated metals (+2.7% yr/yr) and computers and electronic products (+1.1% yr/yr) have outperformed other categories while shipments of primary metals (-7.2% yr/yr), on which tariffs (steel and aluminum) were imposed last year, and aircraft and parts (-19.4% yr/yr) have declined sharply.

The GM strike dragged down October motor vehicles and parts shipments by 2.1% m/m following a 2.6% m/m decline in September (Chart 4). Since the GM strike ended in late October, we expect a rebound in motor vehicles and parts shipments in coming months.

Durable goods inventories increased by 0.3% m/m, lifting the inventory-shipments ratio to 1.72 from 1.71. This reflects primarily the high inventory of non-defense aircraft and parts, but the ratio for nondefense capital goods excluding aircraft has also increased, though it remains below levels observed during the 2015-2016 industrial slump (Charts 5 and 6).

The stronger than-expected-gains in core durable goods orders and shipments in October are encouraging. Sustained improvement in coming months is needed to confirm a recovery in manufacturing activity.
Chart 1: Shipments of Nondefense Capital Goods (month-over-month and 6-month annualized % changes)

Source: Census Bureau/Haver Analytics

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

Chart 2: Shipments of Nondefense Aircraft and Parts

Source: Census Bureau/Haver Analytics

Source: Monthly data. Source: Census Bureau and Haver Analytics
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Chart 3: Orders of Nondefense Capital Goods Ex-Aircraft (month-over-month and 6-month annualized % changes)

Source: Census Bureau/Haver Analytics

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

Chart 4: Shipments of Motor Vehicles and Parts

Source: Census Bureau/Haver Analytics

Source: Monthly data. Source: Census Bureau and Haver Analytics
Chart 5: Inventory-Shipment Ratio for Nondefense Aircraft and Parts

Source: Haver Analytics

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

Chart 6: Inventory-Shipment Ratio for Nondefense Capital Goods Ex Aircraft

Source: Haver Analytics

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