

US DURABLE GOODS SECTOR FINALLY ESCAPING SLUMP

**The December durable goods report suggests improved business sentiment may be already feeding through to better capital spending*

**The durable goods sector stands to be one of the sectors that will benefit most from proposed fiscal reform*

**An acceleration in business investment is central to our forecast for a pickup in economic growth*

The durable goods orders and shipments report for December showed that improved business sentiment may be already feeding through to better capital spending. Total durable goods shipments increased by 1.4% m/m and core durable goods shipments (non-defense capital goods excluding aircraft) – which matters for GDP – advanced by a strong 1% m/m in December, the largest monthly gain since July 2015 (see Chart 1). Indeed, the GDP measure of business spending on equipment actually increased in Q4 for the first time in five quarters.

Prospects for future activity look better than they have in some time, with core durable goods orders increasing for the third consecutive month and increasing on a yr/yr basis for the first time since October 2015. Unfilled orders for core goods also continued on its upward trend, pointing to the need for companies to increase activity for what seems to be better demand (see Chart 2).

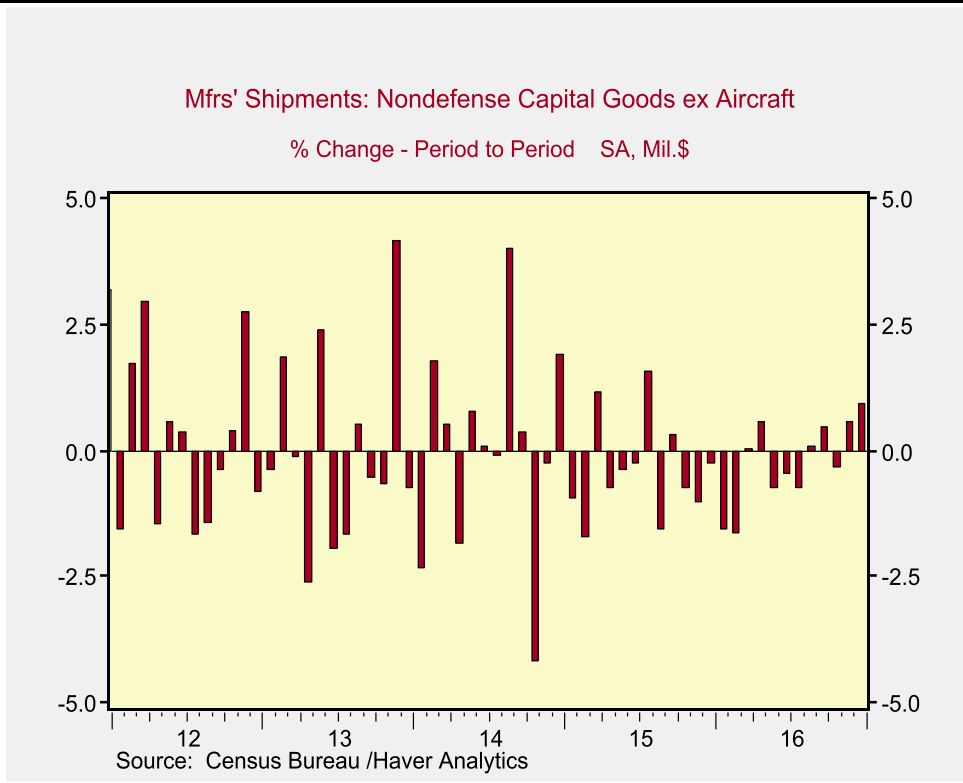
The durable goods sector stands to be one of the sectors that will benefit most from proposed fiscal reforms– expensing of new investment and significant cut in corporate tax rates - so it will probably provide one of the earliest indications of the impact of **policy changes on actual economic activity** (see [“US industries: gainers and losers from policy reform”](#), January 17, 2017). So far, the response seems positive.

The turnaround in business investment may not all be due to expected fiscal reform, as the durable goods sector has been weighed on by a strong dollar and the low energy prices in the last few years - the effects of which have finally waned. Now, higher energy prices are providing a tailwind to the durable goods sector as investment in the oil and gas sector picks up.

An acceleration in business investment is central to our forecast for the economy to **escape the 2% rut it has been stuck for the last few years** (see [“US GDP: 2016 at 2% again, step up likely in 2017-18”](#), January 26, 2017).

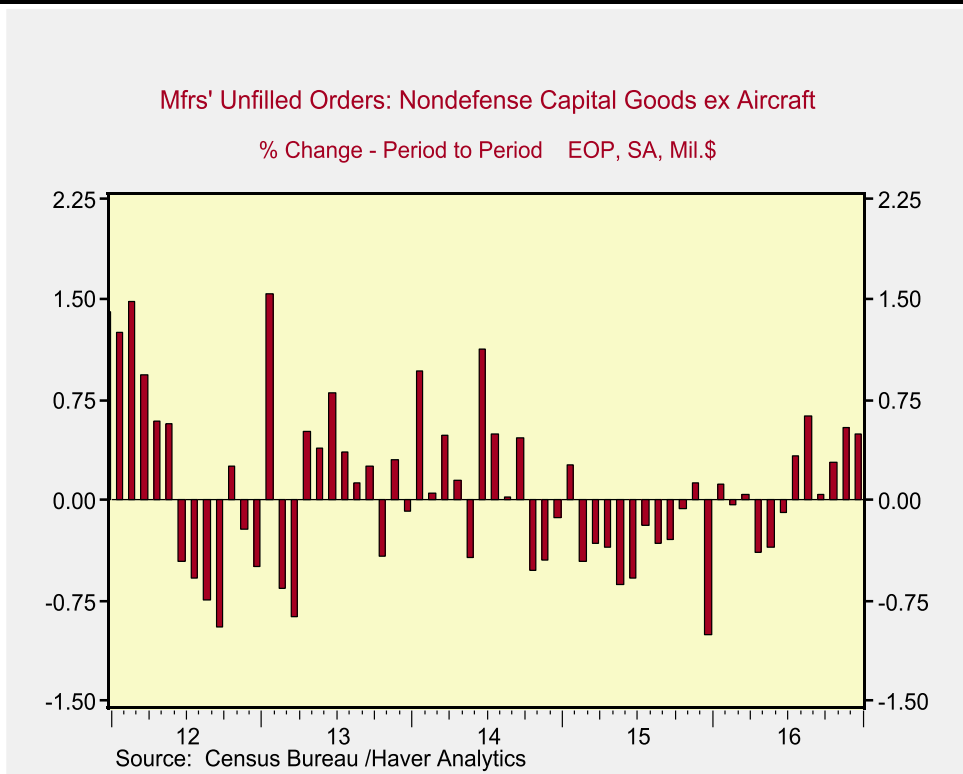
27 January 2017

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



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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