Robust order books point to a durable US recovery

US durable goods orders remain firm, pointing to a strong outlook for investment spending, but we soon expect to see some softening after a breath-taking run. Nonetheless, with a huge backlog of orders and customer inventories at record lows, manufacturers are experiencing rising pricing power and a positive profits outlook

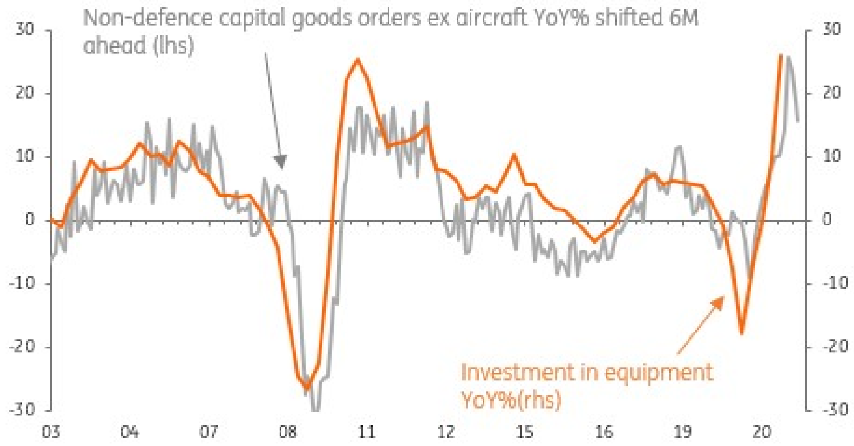
Source: Shutterstock

Momentum maintained for now

US durable goods orders held up reasonably well in July despite a number of headwinds. Headline orders fell 0.1% month-on-month versus expectations of -0.3%, although last month was revised down 0.1 percentage points. We already knew that civilian aircraft orders would be down heavily given Boeing gross orders were for 31 aircraft in July versus 219, but when you add in cancellations the decline wasn't quite as steep with this component dropping 48.9% MoM.

Vehicle and parts partially offset by rising 5.8%, leaving transport down 2.2% MoM as a whole. This was a positive surprise given the supply chain strains in the car industry. Excluding transport, total orders rose 0.7% versus the 0.5% consensus and there was also a 0.1pp upward revision. Defence orders jumped 20.5% while machinery posted a 2.9% increase while on the negative side we saw a 1.8% drop in electrical equipment and a 0.4% fall in computers & electronics.

Core durable goods orders versus investment spending on equipment



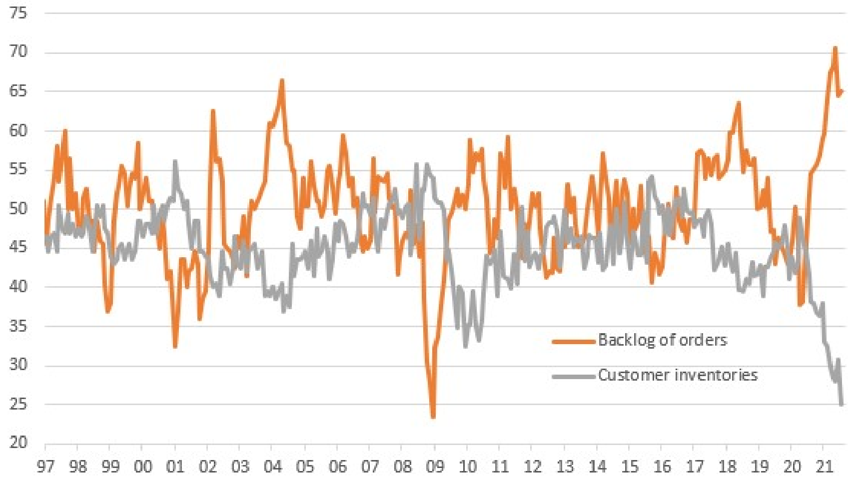
Source: Macrobond, ING

But a slowdown is coming after such a strong run

Non-defence capital goods orders excluding aircraft is a very long-winded way of saying the "core" measure of durable goods orders. It was flat on the month after a 1% gain last month, which was a little disappointing. Nonetheless, looking at it on a 3M annualised basis it is up 15.3% and given its strong relationship with capital expenditure it suggests the outlook for corporate investment spending is good.

Moreover, when looked at in dollar terms the current level of $76.5bn compares with a pre-Covid monthly trend of around $66bn in orders. It is understandable if we get a bit of a slowdown after the breakneck run over the past year.

Order books are already full and customers are desperate according to the ISM



Source: Macrobond, ING

Huge order backlogs will keep manufacturers busy

In any case, remember too that the backlog of orders are close to record highs, as measured by the ISM, so there is plenty of things for the US manufacturing sector to be getting on with even if we see durable goods orders slip back over the next few months. With customer inventories at all-time lows, manufacturers are also gaining pricing power and this can already be seen in numerous surveys of prices received. Consequently, profitability looks good and with the extra $550bn in infrastructure spending set to give order books a new wave of momentum over the next couple of years, the outlook remains positive for manufacturing and investment spending.

Author

James Knightley
Chief International Economist, US
james.knightley@ing.com