

Article | 24 March 2021

UNITED STATES

US: Freezing February will give way to March madness

Virtually all February data has disappointed as winter storms and cold conditions took their toll on supply chains and kept people inside. Today's durable goods report was no different, but the data will all bounce strongly for March given massive fiscal stimulus and record low customer inventories



Source: Getty Images

Bad weather and supply chain issues weigh temporarily on orders

Like most other February data, the durable goods orders report has undershot expectations by falling 1.1% month-on-month rather than rise 0.5% as consensus forecast. The core non-defense capital goods orders ex aircraft, which has a strong lead quality for determining where business capex is heading, fell 0.8% versus the 0.5% gain anticipated. While not great, we see nothing to worry about.

Bad weather is likely to have been a key factor here with all sectors witnessing declines aside from electrical equipment (+0.2% MoM). If you were experiencing slower production due to storm disruption you obviously need to order less for the next month. ISM orders figures

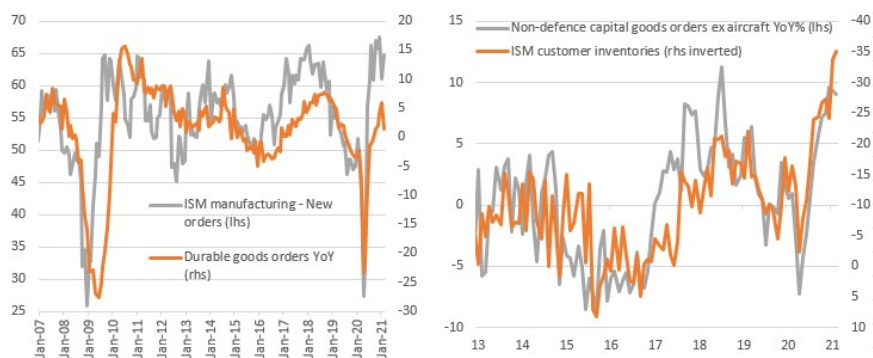
remain very firm so March should rebound strongly on more seasonal weather patterns.

However, there are other issues such as the global semi-conductor shortage, which is impacting vehicle production around the world given they are in anything from brake sensors to satellite navigation to parking assistance systems. If you can't get enough semi-conductors then you order less of everything else as well, be it steel or tyres – note that vehicle and parts orders fell 8.7% MoM. Assuming this can be resolved soon, orders should also bounce back.

Business surveys point to a strong March rebound

The February ISM report suggest manufacturers remain optimistic and they are seeing strong order flow. Indeed, as the chart below shows ISM new orders are at levels historically consistent with 15% year-on-year growth in durable goods orders. Furthermore, record low inventory levels as reported by the ISM, combined with the prospect of a broadly re-opened, stimulus primed economy in the second quarter, suggest domestic orders will continue to grow strongly this year.

Strong order books and low customer inventories suggest strong growth ahead



Source: Macrobond, ING

The investment outlook is strengthening

Export orders will continue to underperform given new lockdowns in Europe, but assuming we see an easing of restrictions in response to lower hospitalisations and rising vaccination rates we should see improvement in the second half of the year. All of this bodes well for capital expenditure as the chart below shows.

Consequently, while the February figures have disappointed there is nothing to be too concerned by. Consumer spending is expected to rebound strongly in March and April on the latest stimulus payments, manufacturing will roar back given the strong order books and low inventory levels while employment should continue to recover as the economy re-opens and

job opportunities improve.

Investment spending to accelerate



Source: Macrobond, ING

Author

James Knightley

Chief International Economist, US

james.knightley@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of

THINK economic and financial analysis

the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.