US: Investment slowdown adds to growth worries

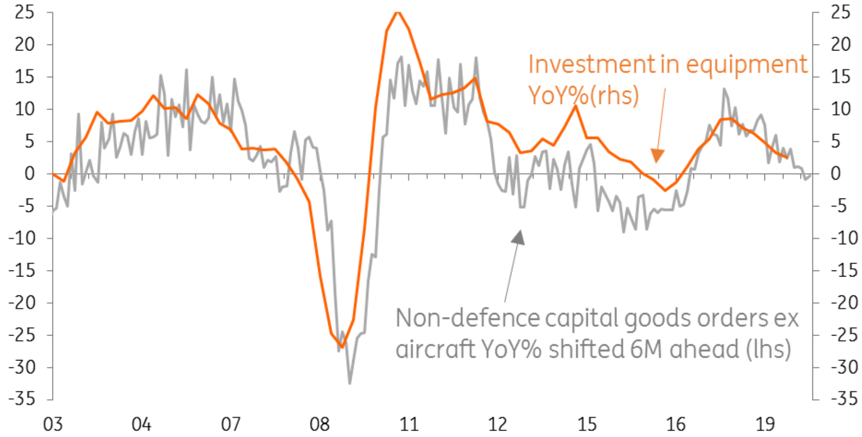
Another decline in durable goods orders points to a possible negative reading for US capex in 4Q. This suggests more "insurance" easing from the Federal Reserve will be coming

Source: Shutterstock

US durable goods orders are an important signal of what is going on in corporate America and unfortunately, the recent readings haven't been encouraging. Headline orders were firmer than expected, rising 0.2%, but we focus on the so-called core reading - non-defence capital goods orders excluding aircraft. This obviously strips out the two big swing (volatile) components of aircraft and defence and showed a decline of 0.2% month-on-month after a flat reading of July. As the chart below shows, this points to investment in equipment falling outright in 4Q19.

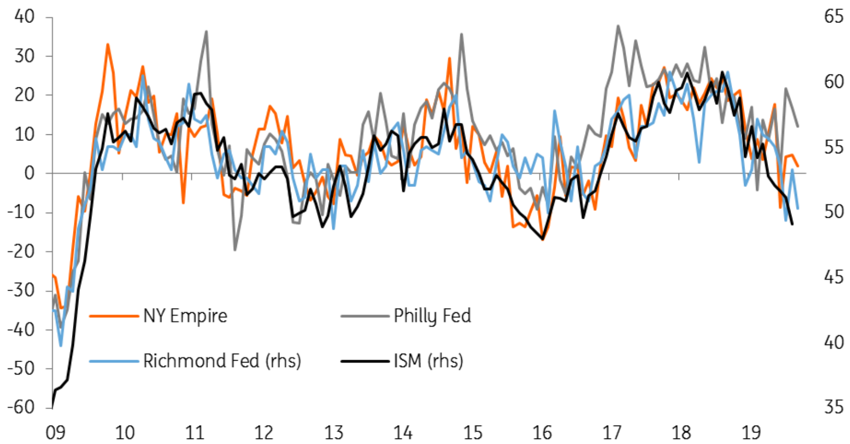
This offers further evidence that the attritional nature of US-China trade tensions is having an impact on US industry. Higher tariffs puts up costs and disrupts supply chains while hurting corporate profitability. This is now clearly hurting sentiment and making firms more reluctant to invest and hire new workers.

New orders downturn points to investment stagnation



Source: Bloomberg, ING

We will get more news from the US manufacturing sector next Tuesday with the release of the ISM index. Here we may see a bit of temporary good news, but it shouldn't be overstated in its significance. The ISM came in well below expectations last month given the evidence from US regional manufacturing surveys. Given the August readings so far from the regions it points to a modest improvement in the ISM (see chart below). Nonetheless, given the worries over trade tensions, the weakening global growth story and the strength of the dollar, which is hurting the relative competitiveness, we remain concerned about the near-term prospects for the sector. As such we expect further interest rate cuts from the Federal Reserve despite the relative strength of the consumer sector. We look for a December rate cut with another 25bp move in 1Q20.



Source: Macrobond, ING

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