

Weakness in US investment keeps the focus on the consumer

Durable goods orders are a good lead indicator for broader capex spending in the US. Unfortunately, ongoing weakness here suggests investment spending will remain a constraint on overall growth with the US' 2024 economic prospects being determined by the consumer

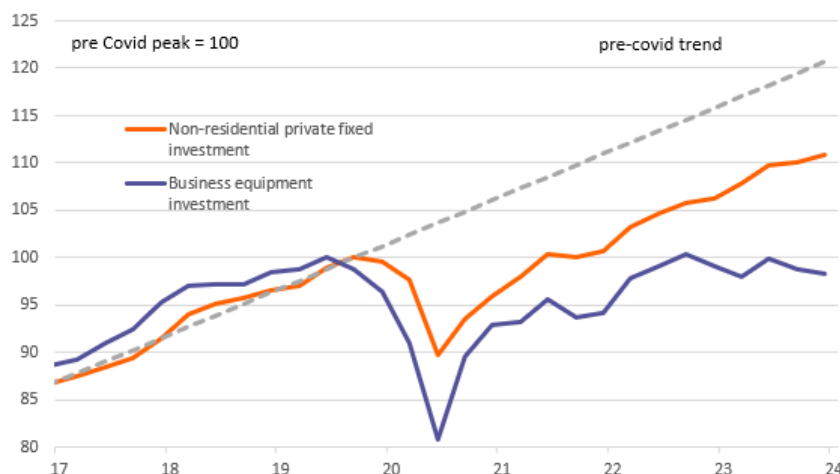


Investment spending in the US remains weak and could be a constraint to 2024 GDP growth

Investment has lagged behind other parts of the economy

The US economy beat expectations throughout 2023, thanks primarily to the strength of consumer and government spending growth while net trade also made a positive contribution. The main disappointment was business investment. Private non-residential fixed investment is only up 11% on its pre-Covid peak, but more significantly as the chart below shows, is tracking around 8 percentage points below where the pre-Covid trend suggests it should be. Business equipment investment has performed even more poorly with the level of spending actually down on 2019 levels when adjusted for inflation.

Level of real business investment (pre-Covid peak = 100)



Source: Macrobond, ING

Durable goods orders suggest no sign of an upturn

Unfortunately today's durable goods report provides no signal of an imminent turnaround in this situation. Total order rose 1.4%, led by a 24.6% gain in non-defence aircraft orders with Boeing having received 15 new jet orders, up from just three in January. However, the January figure was revised down to -6.9% from -6.2%. In any case, we prefer to focus on core orders – non-defence capital goods orders ex aircraft – which are less volatile and have a good lead quality for business investment. It showed growth of 0.7% month-on-month versus the 0.1% consensus, but again there were sizeable downward revisions to the history.

Looking in dollar value terms this important metric has been range bound between \$72.5bn and \$74bn ever since May 2022, so when adjusted for inflation the volume of orders is actually falling over the period. Historically this has been the best lead indicator for business capex and suggests that despite strong economic growth and rising equity markets, corporate America remains very reluctant to invest.

Non-defence capital goods orders ex aircraft (\$bn)



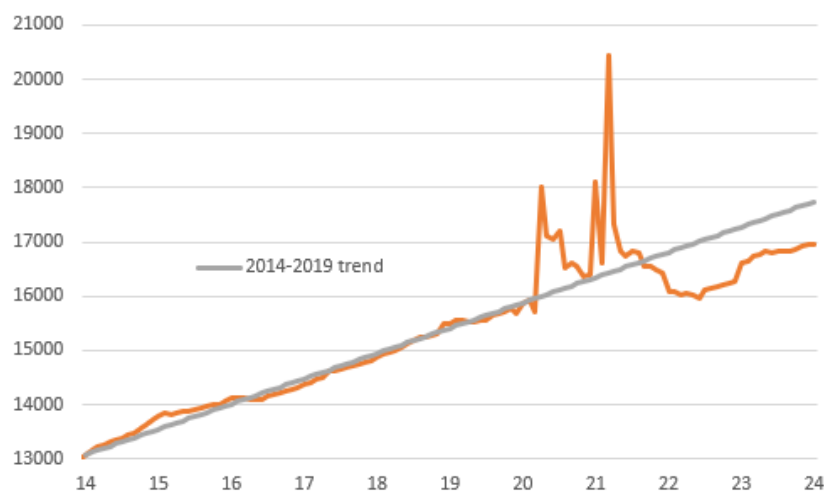
Source: Macrobond, ING

This lack of investment spending may be contributing to positive current profit numbers, but there comes a point whereby it raises questions about the potential growth of future profitability. It may be that if the Federal Reserve is able to deliver on interest rate cuts and credit conditions ease, businesses may be more inclined to put money to work. But for now it is not a particularly encouraging story and suggests that the US growth story will remain reliant on the consumer.

Consumer remains the focus for growth, but challenges are mounting

In that regards we will be closely watching Friday's personal income and spending report. Consumer spending accounts for nearly 70% of GDP and there are four main ways to finance that spending – incomes, savings (either save less each month or run down your stock of savings), borrow more, such as using credit cards or fourthly, sell assets. Real household disposable income is usually the main factor, but as the chart below shows, it hasn't moved much over the past twelve months and the level is well below the pre-pandemic trend. We expect another flat outcome on Friday.

Real Household Disposable Income (\$bn) versus pre-Covid trend



Source: Macrobond, ING

This has meant savings and borrowing has been used as a key factor to maintain spending momentum and here too there is caution given credit card borrowing costs are at 50-year highs and auto loan interest rates are the highest in more than 20 years. The San Francisco Federal Reserve bank then estimate that of \$2.1tn of pandemic-era accrued savings generated by income gains and reduced spending, only around a \$110bn or so is left. This suggests that neither savings nor borrowing will provide the same amount of support for spending that they did in 2022 and 2023.

This leads us to expect a slowdown in consumer spending and with government spending also likely to moderate and investment doing relatively little, a weakening growth backdrop should help to dampen price pressures. In turn this should offer the Federal Reserve the room it seeks to start move monetary policy from restrictive territory to a more neutral level from June onwards.

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