

Watch for a 7% US growth rate despite durables' set-back

US durable goods orders growth slowed sharply in March as semi-conductor chip shortages constrained key manufacturing sectors. Nonetheless, the stimulus fuelled consumer sector provides strong underpinning and both residential and equipment investment will contribute positively to what looks likely to be a very strong first-quarter GDP figure



The Tesla car company appears to be coping with global chip shortages better than most

Durables disappoint as chip shortage bites

March US durable goods orders are weaker than expected, rising 0.5%MoM versus the consensus forecast of 2.3%. There are upward revisions to the history, but it still classifies as a downside miss.

The weakness is concentrated in the transport section (-1.7%) with the semi-conductor chip shortage leading to well-publicised production cut-backs at automakers. This is resulting in fewer orders for other vehicle components. The electrical equipment component (-1.5%) is suffering for the same reason.

They will recover as the chip story improves along with the fact the ISM reports a net 40% of

respondents currently saying that their customers' inventories are "too low". This also means we should expect much stronger order numbers through 2Q into 3Q.

Low customer inventory levels will continue to support strong manufacturing orders

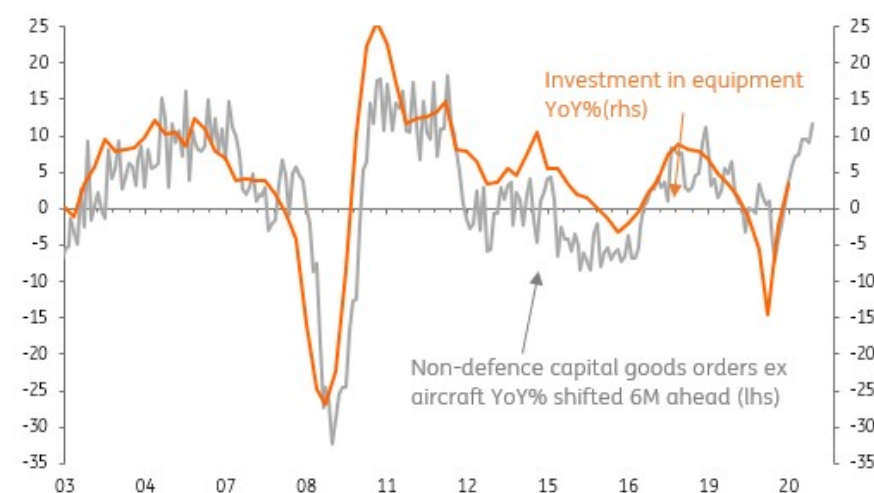


Source: Macrobond, ING

But low customer inventory levels point to a rebound

Outside of transportation and electrical equipment, the orders numbers already look very strong. As the chart below shows, the non-defence capital goods orders excluding aircraft – a “core” measure that is considered a good proxy for capital expenditure by US businesses – point to a strong first-quarter investment reading.

Strong orders point to big investment contribution to 1Q GDP growth



Source: Macrobond, ING

1Q GDP will be strong, 2Q even better

Stimulus payment fueled consumer spending, coupled with robust residential construction activity resulting from a red-hot housing market will give 1Q GDP growth strong foundations. On top of this, there is a rebound in oil and gas drilling on higher prices, while durable goods orders point to a very healthy contribution from investment in equipment and software.

The main drags will be inventory rundowns due to supply chain issues, tied to the same semi-conductor chips issue. Net trade will also subtract from headline growth as strong consumer spending sucks in imports while weaker growth elsewhere will limit export growth.

On balance we see the risks to 6.5% consensus forecast as being to the upside and forecast 7.4% annualised growth. 2Q 2021 should be even stronger as the re-opening gathers increasing momentum.

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 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.