

US investment - finally some good news

Durable goods orders have plunged, but this is purely a Boeing story. Outside of transportation the story is much less negative with a key index of capex actually rising! How sustainable this is will depend on how quickly the economy re-opens given manufacturing surveys are painting a grim picture right now



Source: iStockphoto

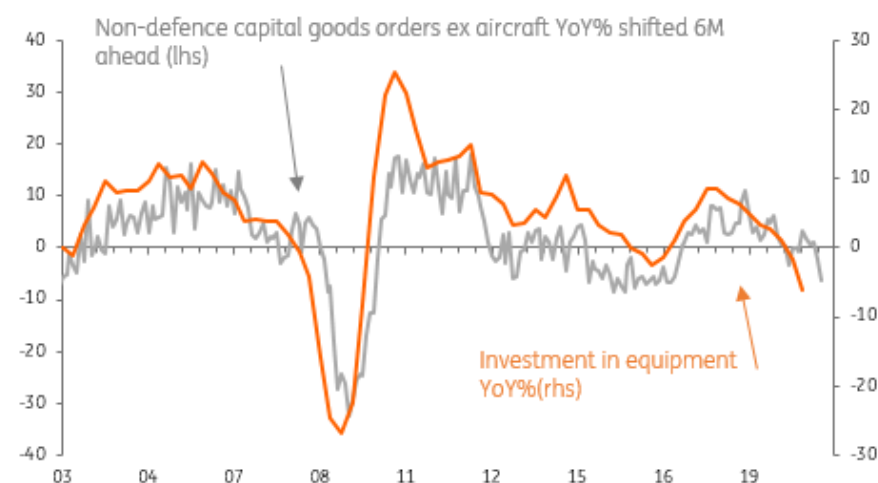
Hope in the details!

US durable goods orders plunged 14.4% in March, but the details are much better. Transportation orders took a huge hit (-41% month on month), which is once again attributable to Boeing's woes (civilian aircraft orders fell 295.7% MoM!!!). There were just 13 Boeing aircraft orders in March, but they also experienced 295 order cancellations, which are subtracted in the durable goods report – the Census Bureau uses net orders in its calculations.

Excluding this component orders fell only 0.2% – a fantastic outcome given what has happened to manufacturing surveys. Electrical equipment was up 1.5% and capital goods rose 1.3%.

The Fed is known to follow the non-defence capital goods order ex aircraft component closely given this is typically a good lead indicator for investment in equipment and capex in general. It actually rose! Only 0.1% admittedly, but this is much, much better than the -6.7% consensus expectations and offers hope that our -6% annualised GDP estimate for next week's 1Q GDP report may be a touch too pessimistic.

Core new orders offer hope for continued investment spending



Source: Macrobond, ING

But 2Q will be worse...

Nonetheless, we can't be too upbeat. We still expect to see investment fall sharply through 2Q and given the long lead times, we suspect we will also see hefty falls in 3Q irrespective of whether the economy has re-opened by then.

With manufacturing surveys pointing to output contracting 20%, there is little need to increase productive capacity while the carnage in the oil industry given recent price plunges suggests this capex hungry sector is also going to be face major cut backs in expenditure.

This is just one more reason why we doubt a V-shaped recovery is possible with a base case scenario being that the economy contracts 13% peak to trough with the lost output not recovered until mid-2022.

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.