

## US investment spending - grounded

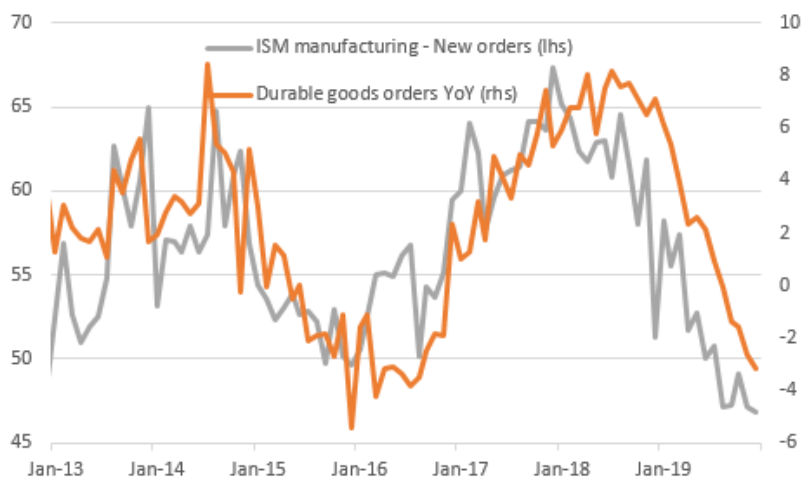
2019 was a poor year for business investment. We hope the US-China trade agreement may provide a platform for better numbers in 2020, but today's durable goods reports signals little sign of an imminent turn



### The military to the rescue

US durable goods orders rose 2.4% month on month in December, which was well ahead of expectations, but the details paint a much darker picture. Strip out defense (which rose 90.2% MoM!) and durable goods orders were down 2.5% following a 0.5% drop in November. Civilian aircraft orders fell 74.7% MoM following a 28.4% decline in November, which of course reflects the problems at Boeing. The cessation of production of the 737-Max earlier this month has meant less orders for the 600 or so different part suppliers while actual Boeing aircraft orders slumped to just 3 for December versus 63 in November.

## Orders continue to slide

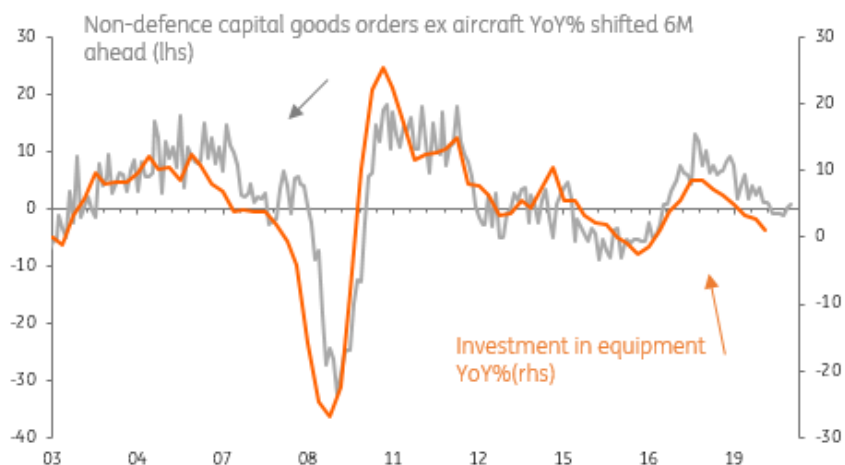


Source: Macrobond, ING

## No sign of a turn yet

Nonetheless, it isn't just about Boeing. Non-defence capital goods orders ex aircraft slumped 0.9% versus expectations of a 0.4% rise. This is significant because it strips out the volatile components of the report (defence and aircraft, obviously) and has a much stronger correlation with investment spending in the US. The chart below shows an uptick in the YoY rate of growth, but we would caution that it reflects a very weak reading at the same time last year (coinciding with the start of the December 2018-January 2019 government shutdown) and we, unfortunately, strongly suspect that it will be back in negative YoY growth again next month.

## Investment and manufacturing orders



## Investment set to remain subdued

Investment spending was disappointing through 2019. The uncertainty generated by the trade war, the weakness in global demand and the effects of a strong dollar may all have played a part

in this. Now that US-China trade relations are on a better footing this could provide a platform for stronger numbers in 2020, but we don't see it as a transformational agreement that will unleash an investment boom.

It is far too early to say if the coronavirus outbreak will have a dampening effect on business spending. However, with the recent Deloitte's CFO survey showing 97% of respondents thinking the US is either already in a downturn or will be at some point this year, we don't have much confidence that US business leaders are about to start spending in a meaningful way. We are also cognizant of the fact that presidential elections typically make firms wary of putting money to work given the potential for significant regulatory/taxation changes. As such, investment is unlikely to offer much upside for GDP growth and reinforces our sub-consensus outlook for US activity, inflation and interest rates this year. indeed, we continue to see a strong chance of a Fed rate cut before the summer is out.

## Author

### James Knightley

Chief International Economist, US

[james.knightley@ing.com](mailto: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 <http://www.ing.com>.