

## 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

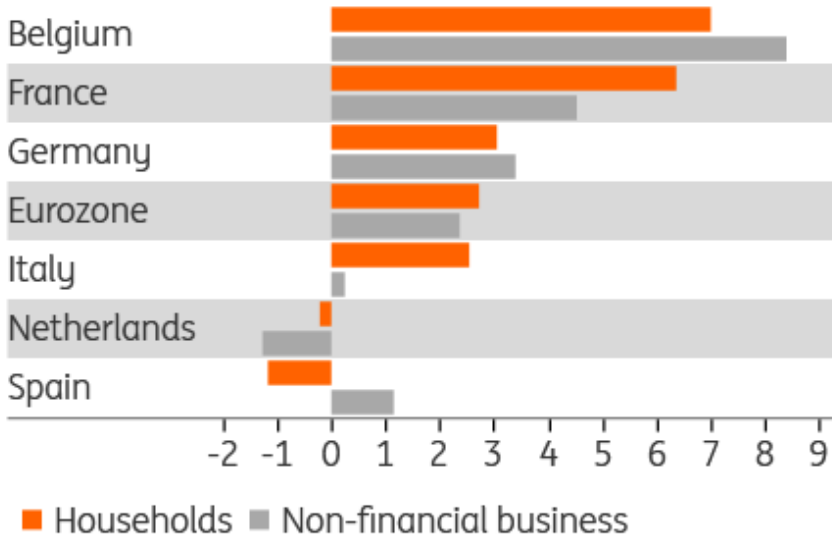


### The military to the rescue

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

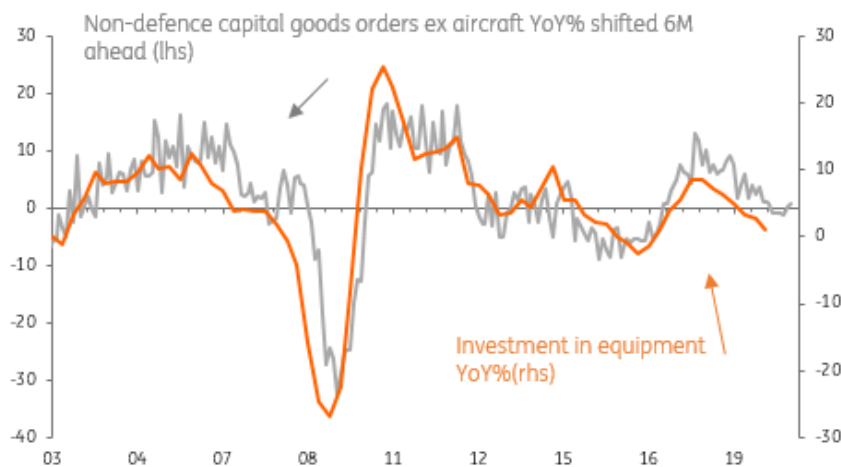
### Bank lending growth, %year-on-year (latest)



## 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.

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