

Economic Indicator — February 25, 2021

## Durables and Claims Signal a Compelling Start to 2021

### Summary

The January durable goods report, packed with upside surprises, signals manufacturing and equipment spending are off to a strong start to 2021, and indicates that it is not just the consumer propelling a pickup in growth. The dip in jobless claims, however, may overstate improvement as stormy weather reduces visibility into the current state of the labor market. GDP revisions for Q4-2020 were minimal.

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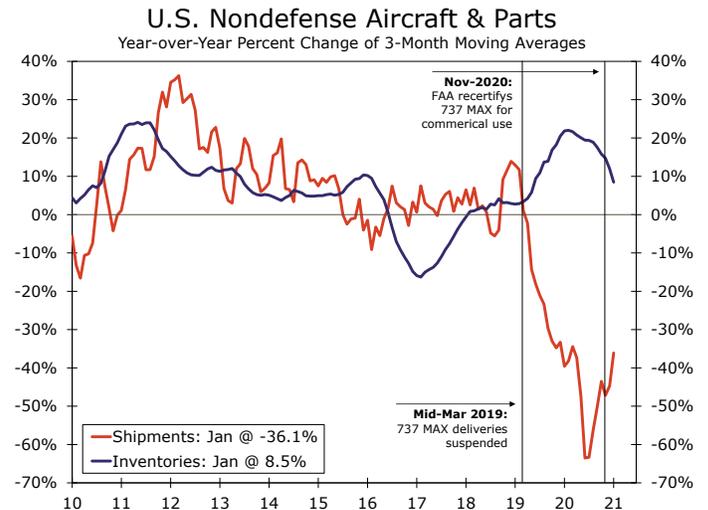
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### It's Go-Time for Manufacturing

In the latest lights-out print for a January economic indicator, durable goods orders shot up 3.4%, more than three times the expected gain of 1.1%. The strong start to the year comes on the heels of a revision to December's figures, which more than doubled the initially reported increase of 0.5% to 1.2%.

In terms of current-quarter GDP expectations, the more significant take-away is the fact that nondefense capital goods shipments rose 3.5%, setting up Q1 equipment spending for another solid gain. Civilian aircraft lifted both orders and shipments as Boeing began long-delayed deliveries after addressing the problem's with its key 737-MAX. According to Boeing's reported data, the 737-MAX accounted for 21 of the 26 deliveries in January and 27 of the 39 deliveries in December. We look for these deliveries to be additive to the equipment spending line for GDP throughout this year.



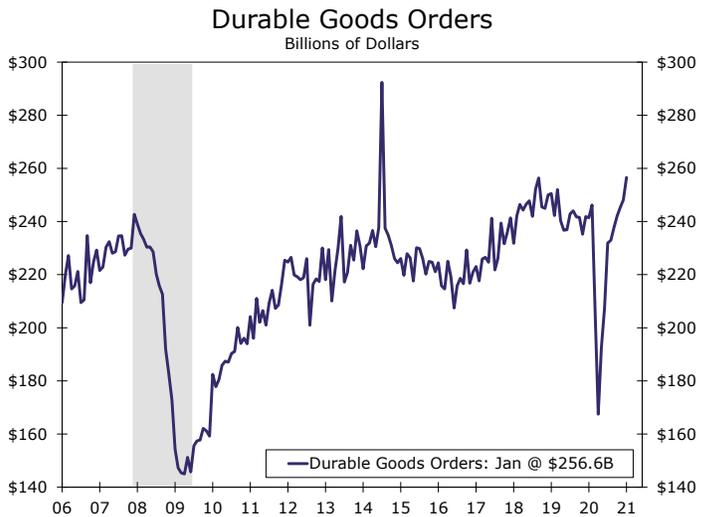
Source: U.S. Department of Commerce and Wells Fargo Securities

### More Than Just Aircraft

It is more than just aircraft driving durable goods activity. Industrial spending categories such as primary and fabricated metals saw gains in both orders and shipments. The gains were not limited to heavy industry, however, with computers and related products, as well as transportation equipment, posting gains in both orders and shipments.

Including January's gain, the overall level of durable goods has crested above its pre-recession peak for the first time. The level of durable goods actually peaked well before the pandemic in September 2018. The escalation of the trade war throughout most of 2019, the grounding of Boeing's best-selling model and worries about late-cycle dynamics at the time contributed to an on-again, off-again pattern in durable goods orders with the overall downward trend in the year that preceded the pandemic.

With demand underpinned by more than just a strong consumer, today's report for January durable goods sets the tone for what we expect to be a strong year for manufacturing and business fixed investment.

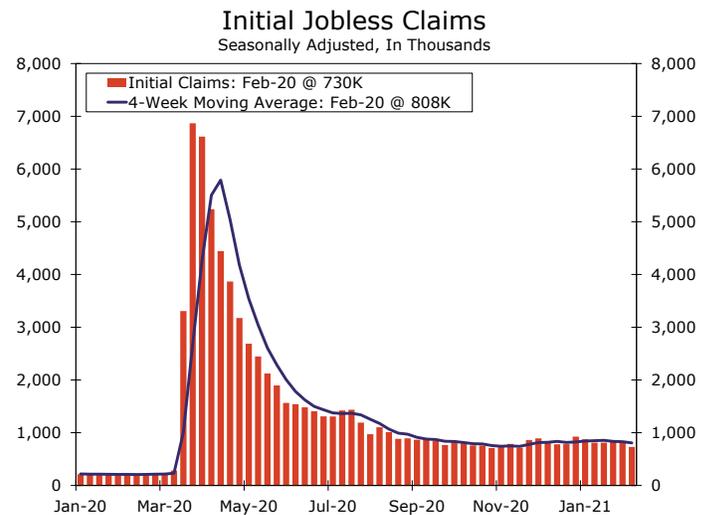


Source: U.S. Department of Commerce and Wells Fargo Securities

## Fourth Quarter GDP Looks to Have Been the Worst of the Winter Slump

In other data out this morning, revisions to fourth quarter GDP were minimal. Growth was a tick stronger at 4.1% annualized compared to 4.0% in the advance report. Household spending on durable goods is still reported to have been soft, but the January retail sales report suggests momentum has already picked up again. Today's durable goods report suggests it is not just the consumer propelling growth forward either. Overall, the strong start to Q1 consumer and business spending data suggest that rather than slumping as was feared only a month or so ago, GDP growth in the first quarter actually looks set to strengthen.

The plunge in initial jobless claims to 730K, the lowest level since early November, also seems to point to growth prospects picking up sooner than expected. However, the drop comes for the week in which winter storms ground activity to a halt in some parts of the country and likely prevented some individuals from filing for benefits. That said, some of the drop may reflect genuine improvement. In contrast to other labor market data in recent weeks, which have looked better as restrictions have eased and spending has improved, the level of claims was surprisingly stubborn. That may have reflected some backlogs in processing after benefit eligibility was extended and payments increased under the December fiscal deal, which are now easing. We would not be surprised to see a rise in claims next week as a result of the weather-related backup, but expect claims to begin trending lower more definitively over the course of March.



Source: U.S. Department of Labor and Wells Fargo Securities

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