Economics

Economic Indicator — April 24, 2024

Durable Goods Orders Continue to Reflect Hesitant Demand

Summary

There was little surprise in the March durables release. Aircraft-related volatility boosted orders, and the underlying details suggest a continued hesitancy in demand. Shipments data remained weak and present some downside to Q1 real GDP growth—out tomorrow.

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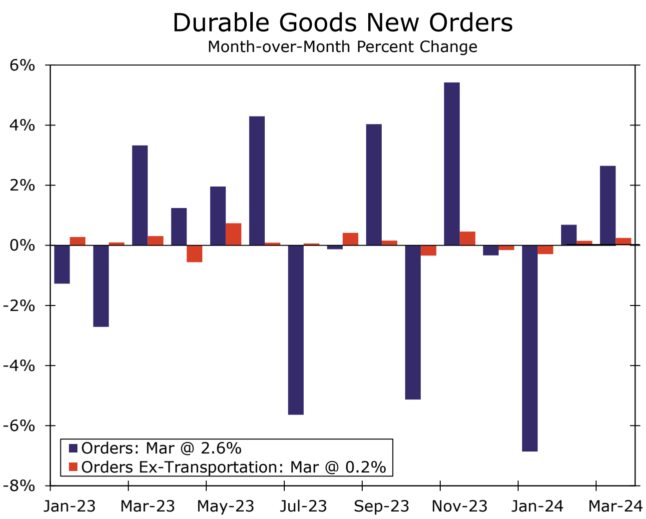
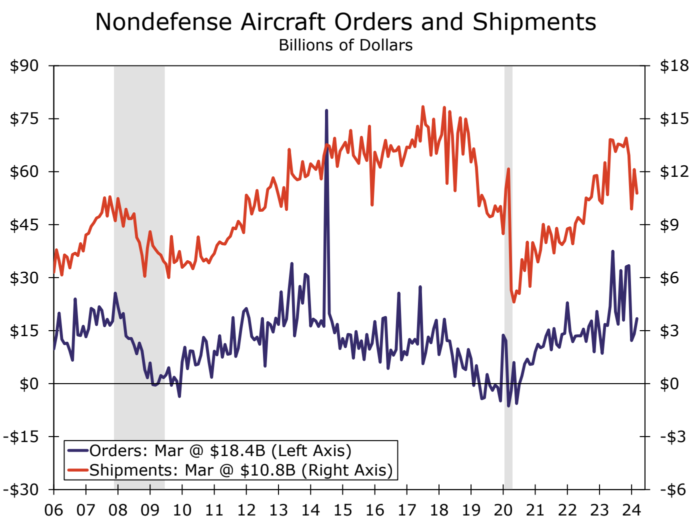


Source: U.S. Department of Commerce and Wells Fargo Economics

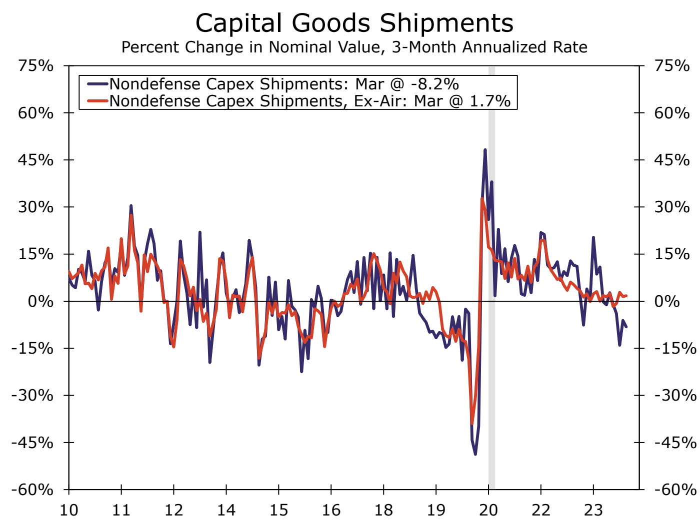
Up in the Air

Orders for new durable goods ticked up 2.6% in March, but as has been the case in recent months, almost all the headline change can be attributed to orders for aircraft specifically (chart). Aircraft orders, which leaped 30% in March for nondefense orders, are notoriously volatile on a month-to-month basis, and the size of the expenditure causes it to have a large bearing on overall orders activity (chart). In stripping the broader transportation category from the estimate, orders were up a more modest 0.2% last month, which is roughly in line with a typical monthly gain.

The underlying order details were somewhat mixed as the data continue to indicate a hesitant demand environment. Core capital goods orders (excluding defense and aircraft) rose 0.2% but were down slightly for Q1 as a whole. All major orders categories other than primary metals saw an uptick in orders last month, but most gains were fairly modest and some, like computers & electronics and electrical equipment, came after sizable drops in February. Orders activity remains depressed on a year-ago basis, with computers & electronics and nondefense aircraft being the only major categories to post an annual gain in March.



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



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

When thinking about tomorrow's GDP implications, it's shipments that matter. Shipments flow into the BEA's accounting of equipment spending in the GDP accounts, giving us the latest piece of data ahead of tomorrow's Q1 release. Nondefense capital goods shipments fell 1.5% and are now estimated to have fallen at a three-month annualized rate of 8.2% in Q1. When we exclude aircraft, shipments *rose* at a 1.7% annualized rate during the quarter.

As seen in the nearby chart, the two measures have diverged at an unusual rate recently. We tend to exclude aircraft to understand the underlying trend in activity, but in terms of GDP implications, it matters as aircraft shipments contribute to current production and equipment investment.

The March report ultimately suggests some downside risk to our estimate for Q1 equipment investment, which we presently have forecast to rise at a 2.0% annualized rate. In taking these shipments measures together and considering the run up in producer prices for capital equipment in Q1, these data imply a weaker real rate of shipments, which presents some slight downside risk to our estimate for real GDP to expand at a 2.5% annualized rate when the Q1 data are released tomorrow morning.

Ultimately, the capex environment remains hindered by elevated borrowing costs and increased uncertainty around the path of Fed policy and the economy generally. There are some encouraging signals, such as the ISM manufacturing index returning to expansion territory, but small business plans to make new capital expenditures or expand operations remain constrained. We thus continue to forecast only a gradual recovery in manufacturing activity this year. When we'll see a sustained recovery remains up in the air.

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