Economic Indicator — January 28, 2025

Hard Core: A Hidden Surge in Demand for Core Capital Goods

Summary

Look past the aircraft-related decline in durable goods orders to see a rather encouraging uptick in demand for core capital goods where both orders and shipments rose more than expected in December on the heels of upward revisions.

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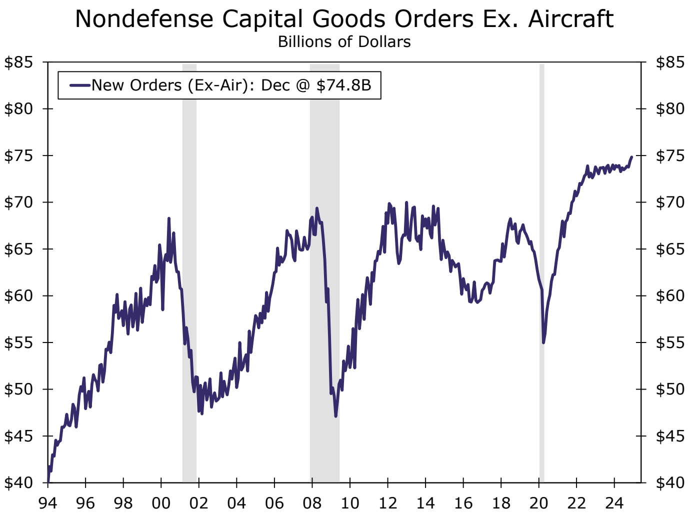


Source: U.S. Department of Commerce and Wells Fargo Economics

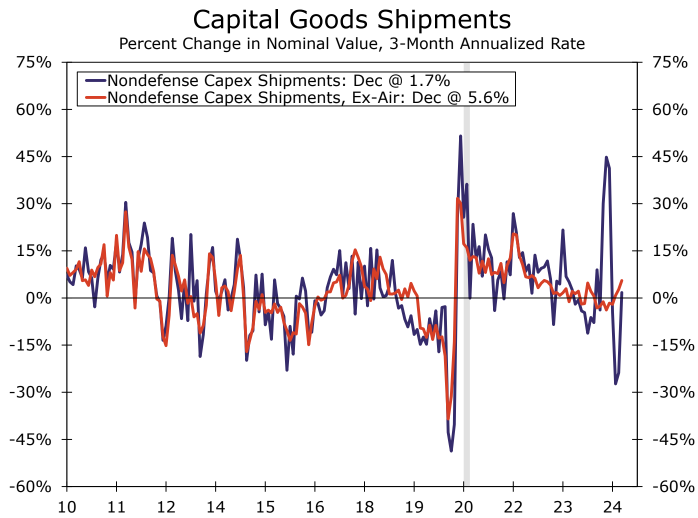
All estimates/forecasts are as of 1/28/2025 unless otherwise stated. 1/28/2025 9:14:52 EST. **This report is available on Bloomberg WFRE**

I Want to Get Away, I Want to Fly Away

The December durable goods data weren't as bad as they look. Overall orders slipped 2.2% during the month and brought downward revisions to November revealing another 2% decline. But most of this weakness can be traced to aircraft orders specifically. Excluding broad transportation, orders were up 0.3% in December. This somewhat surprised us given Boeing already reported a near-tripling in aircraft orders between November and December, yet the durables release signaled a contraction of more than 45% in new orders for aircraft during the month. This may partly reflect cancellations and a weaker net orders trend we estimate out of Boeing in recent months, as the company recovers from strike-related challenges from earlier in the year.

Beyond the aircraft-related volatility there was some sign of life in durables demand. When stripping out aircraft and defense orders, core capital goods orders rose 0.5% during the month, which comes on top of an upwardly revised 0.9% gain in November—marking the fastest two-month gain since the start of 2023. This may to an extent signal purchasing managers are hedging against potential tariff disruption by stockpiling goods that might eventually be impacted by those duties. Some categories saw orders pick up, but there wasn't a surge in activity.

Nondefense capital goods shipments rebounded in December, up 3.5% (up 0.6% when excluding aircraft), but it's too little too late. The trend in shipments has been decidedly lower since late in Q3, which is positioning real equipment investment for weak growth when we get fourth-quarter GDP data on Thursday.

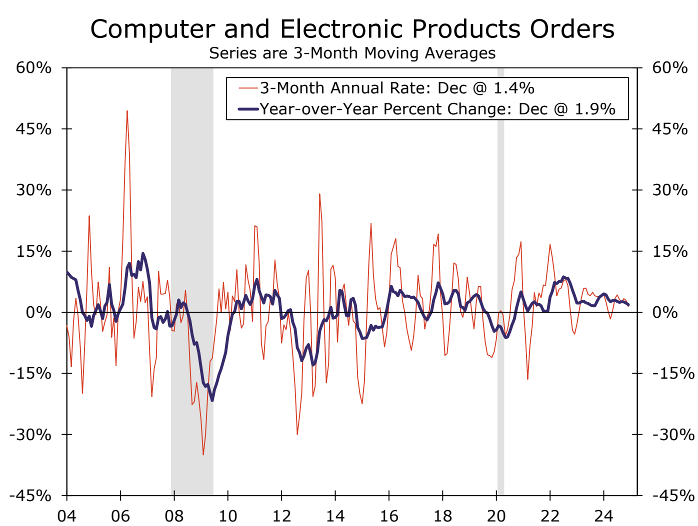


Source: U.S. Department of Commerce and Wells Fargo Economics

Are You Gonna Go My Way?

The defining move in financial markets so far this year took place in yesterday's sharp selloff in the tech sector amid worries about the continued need for high-tech U.S.-made microchips. A novel approach toward constructing an AI model out of China for pennies on the dollar has raised doubts about the need for the massive spend that has characterized the demand for more sophisticated chips in recent years. It is way too soon and beyond our remit to assess such developments, but to the extent those concerns have merit, it could slow the advance of the break-neck pace of spending in this space.

When it comes to how U.S. firms are investing capital in this economic cycle, a trend that we have highlighted is the growing role of intellectual property products. Spending in this category, which includes software as well as research & development, has supplanted equipment spending as the largest share of business fixed investment. The durable goods report itself tends to be a leading indicator of equipment spending more so than intellectual property spending. That said, one key equipment category gets wrapped up in the excitement related to this tech-spending splurge and that is computers & electronics components and this category did post a gain, albeit a modest one: +0.1% in December.



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