

Economic Analysis

Durable goods orders in April send mixed signals

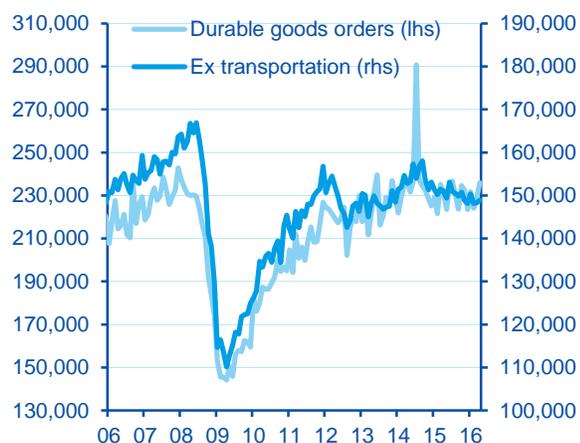
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- Durable goods orders rose 3.4% MoM in April, boosted by a 38.7% jump in aircraft orders
- While most other categories posted modest gains, machinery orders declined 1.9%
- Durable goods are likely to continue sending mixed signals in the coming months

Durable goods orders increased 3.4% in April, significantly more than consensus expectations, which were in the -0.6% to 1.3% MoM gain range. March's figure was also revised upwards from 0.8% to 1.9%. Much of April's gain was due to a significant increase in nondefense aircraft and parts orders (64.9% MoM), which tend to be volatile. Excluding the transportation sector, core orders increased 1.0%, which was not enough to offset much of the back-to-back declines in the previous four months (Chart 1). Most other categories of durable goods orders posted modest increases. However, machinery orders were down 1.9% MoM, marking a third consecutive month of declines. Machinery orders stood 7.1% lower than at the same time last year, underscoring the reluctance of businesses to invest, as well as lackluster global demand. Nondefense capital goods orders excluding aircraft—a key measure of business investment—was down for the third consecutive month, retreating 0.8% in April.

The mixed messages from the latest durable goods report are expected to persist in the coming months with a possibility of some gradual improvement. In March, the ISM manufacturing index returned to expansion territory for the first time in five months, remained above 50 in April and is likely to do so in May, as the PMI flash for May indicated (50.8). Improved consumer sentiment should translate into increased consumer spending, and together with the solid labor market trends help boost domestic demand. The positive effects of higher oil prices (if they continue increasing) should start taking effect on the oil and gas industry, which should help durable goods going forward. That said, the low level of capital investment is likely to persist for some time due to the likelihood of slow global growth and the U.S. economy continuing to grow at a relatively low rate, ultimately weighing down on durable goods orders.

Chart 1
Durable goods orders
(SA, millions of dollars)



Source: US Census Bureau, BBVA Research

Chart 2
Durable goods orders
(3 month avg YoY% change)



Source: US Census Bureau, BBVA Research

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