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MONDAY ECONOMIC REPORT

New Durable Goods Orders Have Jumped 6.6% Since February 2020

By Chad Moutray – June 1, 2021

The Weekly Toplines

- New orders for durable goods declined 1.3% in April, falling for the first time in 12 months, largely on supply chain disruptions in the motor vehicles and parts sector. Excluding transportation equipment, new durable goods orders rose 1.0% in April.

- Overall, the durable goods sector is growing rapidly, with significant gains since declining sharply last spring due to the COVID-19 pandemic. Indeed, durable goods orders have jumped 6.6% over the past 14 months, or 15.1% with transportation equipment excluded.

- In addition, nondefense capital goods excluding aircraft—a proxy for capital spending in the U.S. economy—rose 2.3% from $73.3 billion to $75.0 billion in April, another new record. Core capital goods orders have soared 15.6% over the past 14 months, as firms have ramped up activity on the brighter economic outlook.

- Manufacturers in the Kansas City and Richmond Federal Reserve Bank districts continued to report solid expansions in activity, with an optimistic outlook. Yet, raw material costs have soared, with prices for finished products also up sharply. Respondents also noted supply chain and logistics constraints as well as workforce recruitment challenges among their concerns.

- The PCE deflator rose 0.6% in April, and excluding food and energy prices, it increased 0.7% for the month, the most since October 2001. Overall, the PCE deflator has risen 3.6% year-over-year, the most since September 2008, and core inflation has increased 3.1% since April 2020, the fastest pace since July 1992.

- To be fair, there are "base effects" that are skewing these inflation data, with deflationary pressures in the comparison month last year. Since February 2020, the PCE deflator has risen 2.8%, with core inflation up 2.5% over the past 14 months. Even with this adjustment, it is clear that cost pressures have accelerated.

- Consumer confidence slipped to a three-month low, according to the University of Michigan and Thomson Reuters, largely on worries about inflation. A competing measure from the Conference Board edged marginally lower on some anxieties about future labor and income prospects, but both of these reports reflect improvements in consumer sentiment in recent months overall.

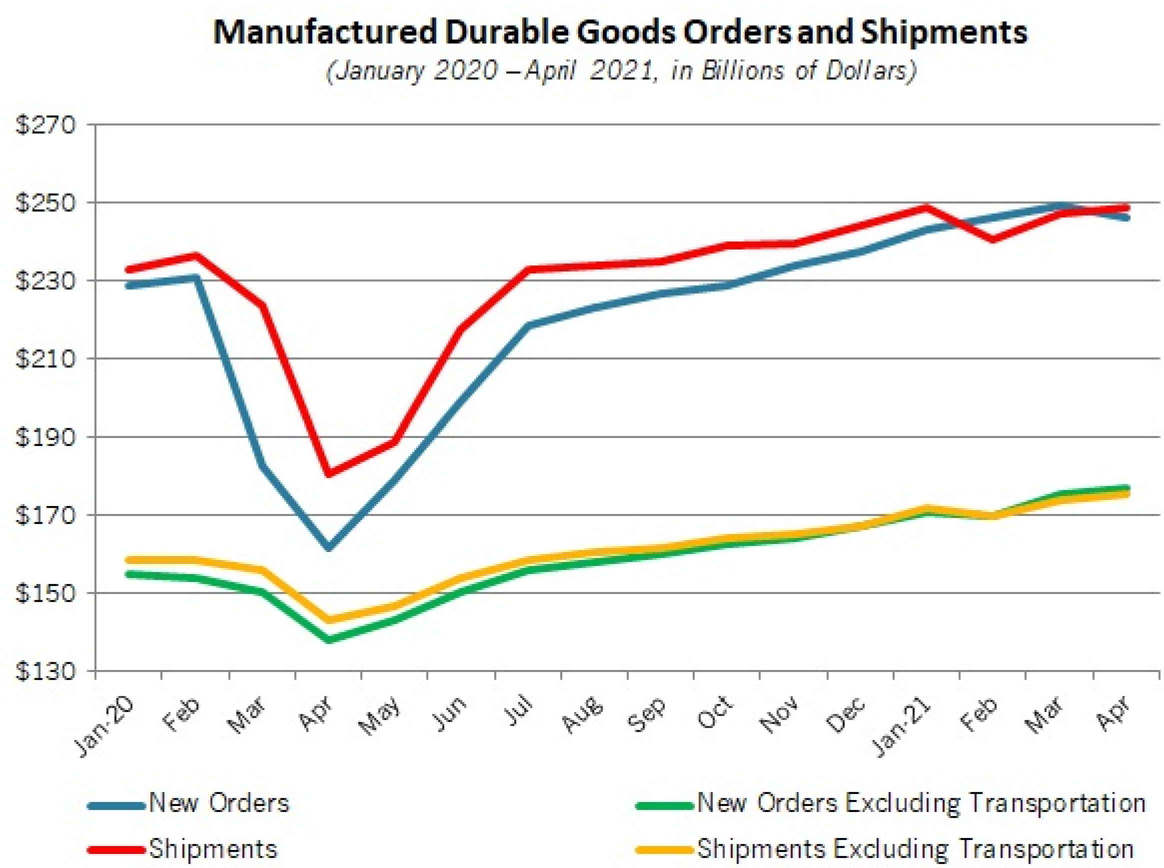
- After soaring by a record-breaking 20.9% in March, fueled by stimulus checks to many Americans, personal income pulled back by 13.1% in April. More importantly, personal income has jumped 7.7% year to date, with wages and salaries up 4.4% since

December 2020. At the same time, personal spending increased 0.5% in April, with 4.6% growth since February 2020.

- The personal saving rate remains very elevated despite slipping from 27.7% in March, an 11-month high, to 14.9% in April. The saving rate averaged 7.5% in 2019, essentially half of the current rate.

- The U.S. economy grew 6.4% at the annual rate in the first quarter, unchanged from the previous estimate. Real GDP remains just 0.9% shy of the pre-pandemic levels seen at the end of 2019, and the U.S. economy should return to that pace in the current (second) quarter, even as growth remains well below trend (of where it would have been without COVID-19).

- The current forecast is for 6.5% growth in 2021 overall, boosted by more Americans getting vaccinated, pent-up consumer and business demand and government stimulus.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, May 24
Chicago Fed National Activity Index

Tuesday, May 25

This Week's Indicators:

Monday, May 31
MEMORIAL DAY HOLIDAY

Tuesday, June 1
Construction Spending

Conference Board Consumer Confidence
New Home Sales
Richmond Fed Manufacturing Survey

Wednesday, May 26
None

Thursday, May 27
Durable Goods Orders and Shipments
Gross Domestic Product (Revision)
Kansas City Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Friday, May 28
International Trade in Goods (Preliminary)
Personal Consumption Expenditures Deflator
Personal Income and Spending
University of Michigan Consumer Sentiment (Revision)

Dallas Fed Manufacturing Survey
ISM® Manufacturing Purchasing Managers' Index®

Wednesday, June 2
None

Thursday, June 3
ADP National Employment Report
Productivity and Costs (Revision)
Weekly Initial Unemployment Claims

Friday, June 4
BLS National Employment Report
Factory Orders and Shipments

Deeper Dive

- **Chicago Fed National Activity Index:** The U.S. economy softened in April after rebounding strongly in March, according to the Chicago Federal Reserve Bank. The National Activity Index declined from 1.71 in March to 0.24 in April, but more importantly, the data suggest that economic growth is expanding above its historical trend for the second straight month. The three-month moving average decreased from 0.35 in March to 0.07 in April.

  Manufacturing production rose 0.4% in April, decelerating from the 3.1% increase in March. Production-related indicators added 0.18 to the NAI in April. Beyond industrial output, the other components reflected some moderation in economic growth for the month. Personal consumption and housing indicators subtracted 0.06 from the NAI in April, with housing starts down 9.5% and retail sales flat in the latest data. In addition, nonfarm payroll growth rose a disappointing 266,000 in April, with manufacturing employment down by 18,000. As a result, the employment, unemployment and hours category decelerated from a contribution of 0.38 to the NAI in March to 0.05 in April.

- **Conference Board Consumer Confidence:** Consumer confidence changed little, edging down from 117.5 in April to 117.2 in May, according to the Conference Board, with sentiment continuing to be close to the highest reading since the pandemic began. Americans felt more upbeat about current economic conditions, but their assessments of the outlook slipped somewhat, largely on anxiousness about labor and income prospects over the coming months. The release attributes the weakening of future conditions to "rising inflation expectations and a waning of further government support" over the coming months, even as consumers remain optimistic overall.

  The underlying data reflected this mixed message. The percentage of respondents suggesting that business conditions were "good" declined from 19.4% to 18.7%, while the percentage feeling that conditions were "bad" dropped from 24.5% to 21.8%. More positively, the percentage of respondents suggesting jobs were “plentiful” jumped from 36.3% to 46.8%, while those saying jobs were “hard to get” decreased from 14.7% to 12.2%.

Regarding the outlook, the percentage of consumers anticipating better business conditions over the next six months declined from 33.1% to 30.3%, while those predicting a worsening of conditions increased from 12.1% to 14.8%. At the same time, the percentage of respondents expecting more jobs in the next six months declined from 31.7% to 27.2%, while those expecting fewer jobs rose from 14.4% to 17.3%.

- **Durable Goods Orders and Shipments:** New orders for durable goods declined 1.3% in April, falling for the first time in 12 months. Motor vehicles and parts sales dropped 6.2% in April, largely on continuing supply chain disruptions in the sector, pulling the headline number lower. Excluding transportation equipment, new durable goods orders increased 1.0% in April, extending the 3.2% gain in March. In the latest data, demand strengthened for nondefense aircraft and parts (up 17.4%), computers and related products (up 4.2%), primary metals (up 3.0%), machinery (up 1.4%), fabricated metal products (up 0.9%) and other durable goods (up 0.5%). In addition to automobiles, new orders declined in April for defense aircraft and parts (down 8.5%), communications equipment (down 3.5%) and electrical equipment, appliances and components (down 0.9%).

  Overall, the durable goods sector is growing rapidly, with significant gains since declining sharply last spring due to the COVID-19 pandemic. Indeed, durable goods orders have jumped 6.6% over the past 14 months, or 15.1% with transportation equipment excluded.

  In addition, nondefense capital goods excluding aircraft—a proxy for capital spending in the U.S. economy—rose 2.3% from $73.3 billion to $75.0 billion in April, another new record. Core capital goods orders have soared 15.6% over the past 14 months, as firms have ramped up activity on the brighter economic outlook.

  Meanwhile, durable goods shipments increased 0.6% from $247.35 billion in March to $248.73 billion in April, the highest on record. With transportation equipment excluded, shipments of durable goods rose 1.0% in April. Over the past 14 months, durable goods shipments have risen 5.1%, or 10.7% excluding transportation equipment. In addition, core capital goods shipments increased 0.9% from $71.9 billion to $72.5 billion, an all-time high, but with 11.6% growth since February 2020.

- **Gross Domestic Product (Revision):** The U.S. economy grew 6.4% at the annual rate in the first quarter, unchanged from the previous estimate and building on the 4.3% gain in the fourth quarter. In this revision, stronger durable goods consumption and residential and nonresidential fixed investment than originally estimated were offset by weaker data on inventories, net exports and state and local government spending.

  Overall, first quarter real GDP was buoyed by robust rebounds in consumer spending and sizable growth in business fixed investment and government spending, but growth would have been larger if not for weaknesses in spending on inventories and nonresidential structures and in net exports. More importantly, real GDP remains just 0.9% shy of the pre-pandemic levels seen at the end of 2019, and the U.S. economy should return to that pace in the current (second) quarter, even as growth remains well below trend (of where it would have been without COVID-19). The current forecast is for 6.5% growth in 2021 overall, boosted by more Americans getting vaccinated, pent-up consumer and business demand and government stimulus.

Breaking down the details in this report:

- **Personal consumption expenditures** increased an annualized 11.3% in the first quarter, jumping strongly from the 2.3% gain in the fourth quarter. Goods spending soared 25.6% at the annual rate in the first quarter after pulling back 1.4% in the previous report, with durable and nondurable goods purchases up 48.6% and 14.0%, respectively. Service-sector spending rose 4.6% in the first quarter, increasing for the third straight quarter. Goods consumption contributed 5.34% to headline growth in real GDP, with spending on services adding another 2.06% (for a total of 7.40% from personal consumption expenditures overall). As such, consumer spending was the largest bright spot in this release, as Americans opened their pocketbooks once again and resumed some semblance of normalcy. Government stimulus checks also played a major factor.
- **Business investment** data provided mixed results in the first quarter. Fixed investment grew 11.3% at the annual rate in the latest data, rising for the third consecutive quarter and buoyed by strong growth in spending on equipment and intellectual property products, up 13.4% and 16.9%, respectively. Residential investment also remained encouraging, up 12.7% for the quarter. On the other hand, investment in structures fell for the sixth straight quarter, down 5.8% in the first quarter. Overall, business fixed investment added 1.96% to topline GDP growth in the first quarter, but spending on inventories plummeted, subtracting 2.78% from headline growth. As a result, gross private domestic investment subtracted 0.82% from real GDP in the quarter.
- **Net exports of goods and services** subtracted 1.20% from topline growth in the first quarter, dragging down real GDP for the third consecutive quarter. Imports have continued to recover faster than exports. Real goods exports fell 3.4% at the annual rate in the first quarter, but real goods imports rose 6.5%. Indeed, real goods imports have increased 7.0% since the fourth quarter of 2019 (before the pandemic), whereas real goods exports remain down 4.4% over that time frame.
- **Government spending** contributed 1.02% to real GDP growth in the first quarter after being a drag on growth in the previous two reports. Federal government spending rose 13.9% at the annual rate in the first quarter, boosted by economic recovery spending. At the same time, state and local government spending rose 0.8%, the first positive reading in one year.

- **International Trade in Goods (Preliminary):** In advance statistics, the goods trade deficit pulled back from the record high of $91.98 billion in March to $85.23 billion in April. Goods exports rose from $143.03 billion in March to $144.70 billion in April, a new high. At the same time, goods imports dropped from the record $235.01 billion in March to $229.93 in April.

  In April, goods exports were boosted by strength in capital goods (up $2.02 billion) and industrial supplies (up $850 million), but exports of automotive vehicles fell $1.03 billion. Meanwhile, the decline in goods imports stemmed largely from sharp reductions for consumer goods (down $2.76 billion), automotive vehicles (down $1.06 billion), industrial supplies (down $928 million) and other goods (down $906 million). Final data will be released June 8, which will also include the service-sector trade surplus.

- **[Kansas City Fed Manufacturing Survey]:** Manufacturing activity continued to expand rapidly in May, even as the headline index pulled back from the highest level in the survey's history in April. The composite index of general business conditions declined from 31 in April to 26 in May. New orders strengthened, with 52% of respondents reporting higher sales for the month, but growth in production, shipments, employment, hours worked and exports eased somewhat.

  Despite continuing solid expansions in activity, the sample comments noted supply chain and logistics constraints, workforce recruitment challenges and rising raw material costs. On the topic of costs, the index for raw materials prices jumped from 73 in April to a record 86 in May, suggesting that input costs are still expanding at a very elevated pace. At the same time, the index for prices of finished products soared from 41 to 51, also an all-time high. Roughly 84% of manufacturers in the district said rising material prices and delivery time delays impacted them negatively.

  Nonetheless, respondents continued to feel very upbeat about additional growth over the next six months, albeit with the forward-looking composite index edging lower in May. Shipments rose at the fastest pace on record, for a series dating to July 2001, and the expected production index jumped to the highest level since June 2004. Those completing the survey also anticipated solid expansions for new orders, hiring, capital spending and exports. Prices for finished products were expected to rise by the most since July 2008, with raw material costs also soaring despite inching back from being the fastest rate since December 2010.

- **[New Home Sales]:** New single-family home sales fell from 917,000 units at the annual rate in March to 863,000 units in April, seesawing once again after peaking at 993,000 units in January, which was the strongest pace since December 2006. In April, sales declined in every region of the country except for the West. Despite the weaker data of late, the housing market remains a bright spot in the economy. New single-family home sales have jumped 18.2% over the past 14 months, up from 730,000 units in February 2020. (The year-over-year comparison was 48.3%, but activity plummeted one year ago at the start of the COVID-19 pandemic, making pre-pandemic differences more relevant.)

  There were 4.4 months of supply on the market in April, up from 4.0 months in March. Yet, inventories of new homes for sale remain low overall, likely dampening sales growth. Fortunately, inventories have moved higher than the 3.5 months of supply on the market in August, September and October 2020, which was a record low.

- **[Personal Consumption Expenditures Deflator]:** The PCE deflator rose 0.6% in April, the same pace as in March. Food prices increased 0.3% for the month, but energy costs edged down 0.2%. Excluding food and energy prices, the PCE deflator rose 0.7% in April, the most since October 2001. Overall, the PCE deflator has risen 3.6% year-over-year, the most since September 2008, and core inflation has increased 3.1% since April 2020, the fastest pace since July 1992. To be fair, there are "base effects" that are skewing these data, with deflationary pressures in the comparison month last year. Since February 2020, the PCE deflator has risen 2.8%, with core inflation up 2.5% over the past 14 months.

  Rising raw material costs continue to be a [major concern] for manufacturers, and these data are consistent with price growth seen in other economic indicators, with supply chain disruptions and soaring pent-up demand in the marketplace. As such, cost pressures have accelerated, but the key will be whether those price increases are transitory or more sustained.

Core inflation is likely to exceed 2% year-over-year in the coming months. To the extent that the current price growth is transitory, the Federal Reserve is likely to accept inflation that runs a little hotter than we have become accustomed to, particularly if the longer-term average continues to hover around 2%, which is its stated goal. For its part, the Federal Open Market Committee will continue to pursue extraordinary measures until it achieves its mission of full employment and price stability and until economic growth returns to trend, but the Federal Reserve will also monitor inflationary pressures and supply chain constraints closely moving forward.

- **Personal Income and Spending:** After soaring by a record-breaking 20.9% in March, fueled by stimulus checks to many Americans, personal income pulled back by 13.1% in April. The data have been highly volatile over the past few months, largely on federal stimulus payments, but the bottom line is that personal income has jumped 7.7% year to date, even with the pullback in the latest data.

  On the topic of stimulus, total unemployment insurance payments were $495.4 billion in April, down from $541.2 billion in March. Unemployment insurance payments in total averaged $532.1 billion in the first four months of 2021, up from the average of $296.5 billion in the fourth quarter of 2020. At the same time, other government social benefits plummeted from $4.75 trillion in March, an all-time high, to $1.40 trillion in April. That is nearly double the average of $732.2 billion average pace seen in the second half of last year.

  Total wages and salaries increased 1.0% in April, or 3.0% year to date. In the manufacturing sector, wages and salaries ticked down from $969.5 billion in March to $967.9 billion in April, but wages and earnings in the sector have risen 2.8% over the past four months. More importantly, manufacturing wages and salaries have jumped 4.4% since before the pandemic, up from $926.9 billion in February 2020.

  Meanwhile, personal consumption expenditures increased 0.5% in April, building on the 4.7% increase in March. Durable goods spending rose 0.5% in April, but purchases of nondurable goods dropped 1.3% for the month. Service-sector consumption rose 1.1% in April as the economy continues to rebound amid more Americans getting vaccinated. Over the past 14 months, personal spending has increased 4.6%, with durable and nondurable goods soaring 35.1% and 11.1% since February 2020, respectively, but with service-sector purchases down 1.9% over that time frame.

  The personal saving rate remains very elevated despite slipping from 27.7% in March, an 11-month high, to 14.9% in April. This suggests that Americans continue to save much of the extra dollars and earnings, even as spending has risen sharply since the pandemic began. For comparison purposes, the saving rate averaged 7.5% in 2019, essentially half of the current rate.

- **Richmond Fed Manufacturing Survey:** Manufacturing businesses in the Richmond Federal Reserve Bank's district continued to expand solidly, with the composite index of general business activity edging up from 17 in April to 18 in May, the best reading since December. New orders, employment and capital spending strengthened for the month, but shipments, capacity utilization and hours worked slowed somewhat. The data also reflected lingering supply chain challenges, with the backlog of orders and vendor lead times both reaching record levels and with the index of raw materials inventories dropping to an all-time low. Meanwhile, the forward-looking indicators remained encouraging, with manufacturers in the district expecting continued solid growth in activity over the next six months.

Raw material costs soared from 7.11% at the annual rate in April to a very robust 9.82% in May. Firms said that the prices received for their goods and services rose from 4.83% to 5.41%. Likewise, respondents anticipate an annualized 6.71% increase in costs six months from now, jumping from 4.67% in the prior survey. Manufacturers in the district see expected prices received increasing from 3.49% to 4.81%.

- **University of Michigan Consumer Sentiment (Revision):** Consumer confidence declined from 88.3 in April to 82.9 in May, a three-month low, according to the University of Michigan and Thomson Reuters. That was little changed from the previous estimate of 82.8. Americans felt less upbeat in their assessments of both current and future economic conditions, largely on worries about inflation. The expected increase in prices was the largest in a decade in the survey, and accordingly, real income expectations were also weaker.

  Despite some slippage in the latest results, consumers felt more upbeat when asked about economic growth over the next year, including employment prospects. The press release adds, "The impact of higher prices on discretionary spending will be offset by the more than $2 trillion increase in savings in the past year as well as by improving job prospects—an all-time peak proportion of consumers anticipated declines in the national unemployment rate during the year ahead. While higher inflation will diminish real incomes, the gains in spending will nonetheless be substantial."

- **Weekly Initial Unemployment Claims:** Initial unemployment claims totaled 406,000 for the week ending May 22, declining for the fourth straight report, down from 444,000 for the week ending May 15. It remained the lowest since the week of March 14, 2020. Meanwhile, continuing claims ticked down from 3,738,000 for the week ending May 8 to 3,642,000 for the week ending May 15. That was consistent with 2.6% of the workforce, down from 2.7% in the previous release.

  At the same time, 15,802,126 Americans received some form of unemployment insurance benefit (including state and federal programs) for the week ending May 8. That figure was down from 15,977,381 for the week ending May 1, with reduced extended benefits, Pandemic Unemployment Assistance and state benefits

Take Action

- If you have not already done so, please take a moment to complete the latest NAM Manufacturers' Outlook Survey. This survey will help gauge how manufacturing sentiment has changed since the first-quarter survey. In addition, there are some special questions on tax policy, infrastructure spending, supply chain challenges, workforce issues and vaccinations. To complete the survey, click here. Responses are due by Wednesday, June 2, at 5:00 p.m. EDT. As always, all responses are anonymous.

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