MONDAY ECONOMIC REPORT

New Durable Goods Orders Jumped by a Robust 3.4% in January

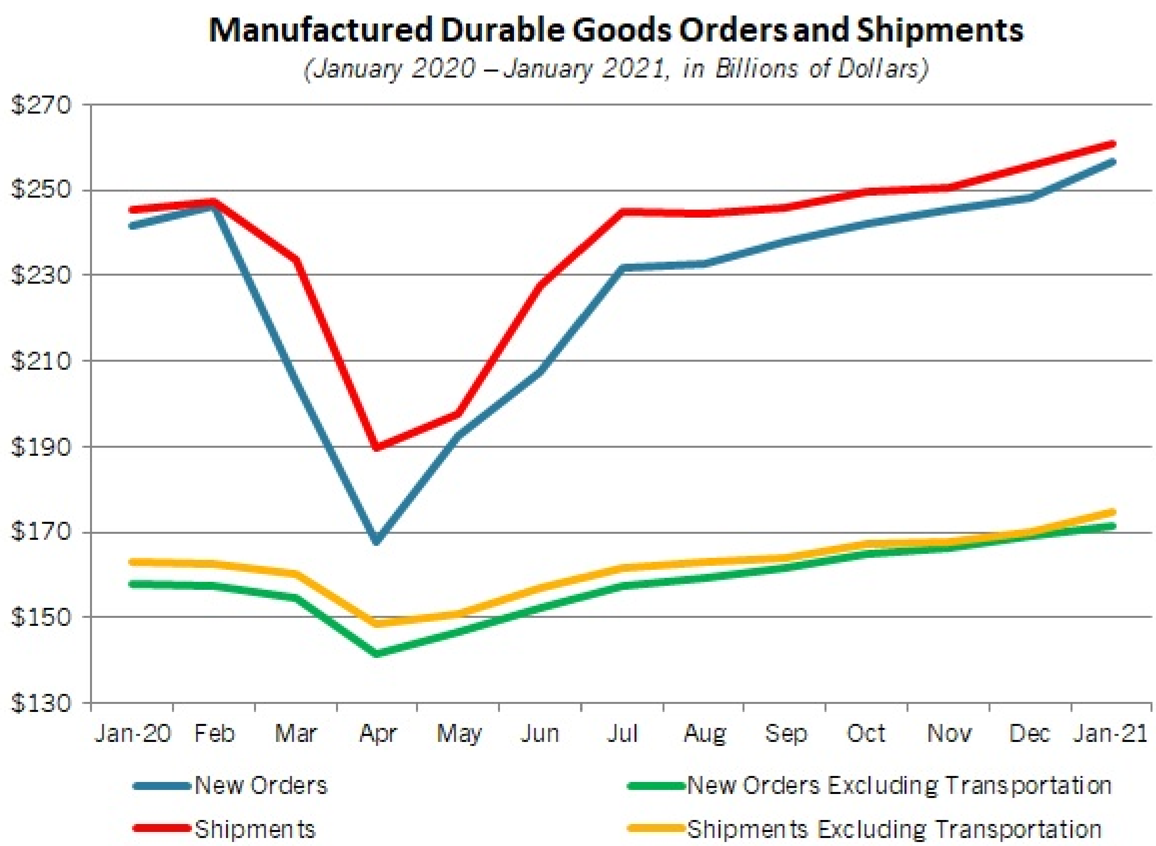
By Chad Moutray – March 1, 2021 – SHARE

The Weekly Toplines

- New orders for durable goods jumped 3.4% in January, the strongest monthly increase since July 2020 and another sign that growth in the manufacturing sector remains very robust.On a year-over-year basis, new durable goods orders have soared 6.3% since January 2020, or 8.5% with transportation equipment excluded.
- Orders for nondefense capital goods excluding aircraft—a proxy for capital spending in the U.S. economy—rose 0.5% to $72.92 billion in January, a new record. Core capital goods spending has increased 8.4% year-over-year, as firms have ramped up activity on the brighter economic outlook.
- Manufacturers in the Dallas, Kansas City and Richmond Federal Reserve Bank districts reported strong growth in activity in February, with an optimistic outlook for the next six months. However, raw material costs rose sharply in each region due to supply chain disruptions.
- Personal income soared 10.0% in January, buoyed by stimulus checks and increased unemployment insurance from legislation enacted at year's end. It was the largest monthly increase since April 2020. Overall, personal income has jumped 13.1% over the past 12 months.
- Personal consumption expenditures increased 2.4% in January, ending two months of declines and the strongest reading since June 2020. This suggests that additional economic stimulus boosted spending.
- Yet, the data also suggest that Americans did not spend all of the extra personal income. The saving rate soared from 13.4% in December to 20.5% in January, an eight-month high.
- Consumer surveys provided mixed results in February. The Conference Board noted improved assessments for business conditions over the next six months, but the University of Michigan's measure declined, especially among households earning less than $75,000 per year.
- Initial unemployment claims totaled 730,000 for the week ending Feb. 20, a 12-week low, down from 841,000 for the week ending Feb. 13.

- New single-family home sales rose 4.3% from 885,000 units at the annual rate in December to 923,000 units in January. Over the past 12 months, new single-family home sales have jumped 19.3%, up from 774,000 units in January 2020, buoyed by low mortgage rates.

- The U.S. economy grew 4.1% at the annual rate in the fourth quarter, slightly better than the prior estimate of 4.0% growth. Real GDP is expected to rebound in 2021, especially as more Americans get vaccinated and market participants resume some semblance of normalcy in their actions. The current forecast is for 5.3% growth in 2021.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, February 22
Chicago Fed National Activity Index
Conference Board Leading Indicators
Dallas Fed Manufacturing Survey

Tuesday, February 23
Conference Board Consumer Confidence
Richmond Fed Manufacturing Survey

This Week's Indicators:
(Summaries Appear Below)

Monday, March 1
Construction Spending
ISM® Manufacturing Purchasing Managers' Index®

Tuesday, March 2
None

Wednesday, February 24
New Home Sales

Thursday, February 25
Durable Goods Orders and Shipments
Gross Domestic Product (Revision)
Kansas City Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Friday, February 26
International Trade in Goods (Preliminary)
Personal Consumption Expenditures Deflator
Personal Income and Spending
University of Michigan Consumer Sentiment (Revision)

Wednesday, March 3
ADP National Employment Report
State Employment Report

Thursday, March 4
Factory Orders and Shipments
Productivity and Costs (Revision)
Weekly Initial Unemployment Claims

Friday, March 5
BLS National Employment Report
International Trade Report

Deeper Dive

- **Chicago Fed National Activity Index:** The Chicago Federal Reserve Bank's National Activity Index rose from 0.41 in December to 0.66 in January, a three-month high. Readings above zero are consistent with the U.S. economy expanding above its historical trend, and the NAI has now been positive for nine straight months. The three-month moving average declined from 0.60 to 0.47, mainly because of the exclusion of the stronger October reading (1.04). Yet, overall, this report continues to provide some encouragement that the nation is beyond the worst of the recession, with growth stabilizing even as challenges persist.

  For its part, manufacturing production increased 1.0% in January, expanding for the fourth consecutive month. Output in the sector is just 1.0% below pre-pandemic levels—an amazing accomplishment given the 20.1% decline in production between February and April 2020. Production-related indicators added 0.28 to January's NAI, down from 0.37 in December. Employment-related indicators also slowed, marginally adding 0.01 to the topline. In contrast, personal consumption and housing indicators added 0.35 in January, largely on strength in housing and retail sales for the month.

- **Conference Board Consumer Confidence:** Consumer confidence moved higher, up from 88.9 in January to 91.3 in February, according to the Conference Board, buoyed by improved current economic conditions. At the same time, while expectations for labor and income dipped slightly in February, Americans remained mostly upbeat in their overall outlook for the next six months. Along those lines, the percentage of respondents suggesting that business conditions were "good" edged up from 15.8% to 16.5%, with the percentage feeling that conditions were "bad" declining from 42.4% to 39.9%. In addition, the percentage of respondents feeling jobs were "plentiful" increased from 20.0% to 21.9%. At the same time, those saying jobs were “hard to get” fell from 22.5% to 21.2%.

Regarding the outlook, the percentage of consumers anticipating better business conditions over the next six months decreased from 34.1% to 31.0%, with those predicting a worsening of conditions ticking down from 19.0% to 17.7%. At the same time, the percentage of respondents expecting more jobs in the next six months dropped from 30.4% to 26.1%, with those expecting fewer jobs inching down from 22.1% to 20.6%.

- **Conference Board Leading Indicators:** The Leading Economic Index rose 0.5% in January, extending the 0.4% gain in December and rising for the ninth consecutive month. Still, the LEI remained 1.3% lower than the pre-pandemic levels in February 2020. New manufacturing orders data contributed 0.11 to the headline index in January. Other bright spots in the January LEI included the average workweek of production workers, building permits, the interest rate spread, lending conditions and the stock market. At the same time, consumer confidence and initial unemployment claims were drags on the LEI for the month.

  Meanwhile, the Coincident Economic Index increased 0.2% in January, but the measure remained down 3.8% since February 2020 despite rising for the ninth straight month. All of the components of the index—industrial production, manufacturing and trade sales, nonfarm payrolls and personal income less transfer payments—contributed positively in January. Manufacturing production rose 1.0% in January, increasing for the third consecutive month and starting the new year on an encouraging note.

- **Dallas Fed Manufacturing Survey:** Manufacturing activity continued to expand strongly, with the composite index of general business conditions rising from 7.0 in January to 17.2 in February, a four-month high. The underlying data increased for the most part, including faster growth for new orders, shipments, production, capacity utilization and capital expenditures. With that said, the labor market slowed a bit, with easing growth for employment and hours worked. Supply chain disruptions pushed growth in raw material prices to the fastest pace since April 2011—a trend seen in other reports as well.

  Looking ahead, manufacturers in the Texas district remained upbeat in their outlook for the next six months, with the forward-looking composite measure rising from 29.6 in January to 33.9 in February, the highest reading since October 2018. Yet, some of the key measures eased in the latest survey, including softer (but still solid) expectations for new orders, shipments, production, hiring and capital spending. Input prices are expected to continue to accelerate rapidly, albeit pulling back slightly from January’s rate, which registered the strongest reading since March 2012.

  (Note: The survey was conducted Feb. 9–17, so most of the responses would have pre-dated recent weather conditions that resulted in power and water issues in Texas, likely hampering manufacturing activity, at least temporarily.)

- **Durable Goods Orders and Shipments:** New orders for durable goods jumped 3.4% in January, the strongest monthly increase since July 2020 and another sign that growth in the manufacturing sector remains very robust. Defense and nondefense aircraft and parts orders rose sharply—a segment that can often be volatile from month to month. Excluding transportation equipment, new durable goods orders increased 1.4% in January. Outside of aerospace, bright spots included stronger demand for computers and related products (up 8.7%), electrical equipment, appliances and components (up 4.2%), primary metals (up 3.2%) and fabricated metal products (up 1.8%), but sales weakened for communications equipment (down 9.7%) and motor vehicles and parts (down 0.8%).

Overall, the durable goods sector has rebounded solidly following steep declines in activity last spring due to the COVID-19 pandemic. On a year-over-year basis, new durable goods orders have soared 6.3% since January 2020, or 8.5% with transportation equipment excluded. Orders for nondefense capital goods excluding aircraft—a proxy for capital spending in the U.S. economy—rose 0.5% to $72.92 billion in January, a new record. Core capital goods spending has increased 8.4% year-over-year, as firms have ramped up activity on the brighter economic outlook.

Meanwhile, durable goods shipments increased 2.0% in January, with a 2.6% gain with transportation equipment excluded. Over the past 12 months, durable goods shipments have risen 6.2%. Excluding transportation, shipments have increased 7.2% year-over-year. In addition, core capital goods shipments grew 2.1% to $72.05 billion in January, an all-time high, with 7.8% growth year-over-year.

- **Gross Domestic Product (Revision):** The U.S. economy grew 4.1% at the annual rate in the fourth quarter, slightly better than the prior estimate of 4.0% growth. Upward revisions for business inventories, fixed investment and state and local government spending helped lift the headline number. With that said, consumer spending paused with rising COVID-19 cases and renewed restrictions in many areas. In 2020, real GDP shrank 3.5%, the largest annual decline in economic activity since 1946. The U.S. economy is expected to rebound in 2021, especially as more Americans get vaccinated and market participants resume some semblance of normalcy in their actions. The current forecast is for 5.3% growth in 2021.

  Breaking down the details in this report:

  - **Personal consumption expenditures** increased an annualized 2.4% in the fourth quarter, largely from a 4.0% gain in spending on services. Goods spending fell 0.9% in the fourth quarter, with durable and nondurable goods purchases down 0.6% and 1.1%, respectively. Service-sector spending contributed 1.80% to real GDP growth, but goods spending subtracted 0.20%.
  - **Business investment** rose solidly, up 26.5% at the annual rate in the fourth quarter, rebounding for the second straight report. In the fourth quarter, nonresidential and residential investment grew 14.0% and 35.8%, respectively. Spending on structures increased (up 1.1%) for the first time since the third quarter of 2019, with solid growth rates for equipment and intellectual property products. The housing market remained a bright spot. Overall, business fixed investment added 3.12% to topline GDP growth in the fourth quarter, with spending on inventories contributing another 1.11%.
  - **Net exports of goods and services** subtracted 1.55% from topline growth in the

fourth quarter, dragging down real GDP for the second consecutive quarter. Trade activity continued to bounce back, but with imports recovering faster than exports. Real goods exports have declined 3.6% over the past 12 months, but real goods imports have increased 5.25% over that time frame.

    - **Government spending** subtracted 0.19% from real GDP growth in the fourth quarter. Federal government spending fell 0.9% at the annual rate in the fourth quarter, extending the 6.2% decline in the third quarter. At the same time, state and local government spending declined 3.9% and 1.2% in the third and fourth quarters, respectively, highlighting economic challenges.

- **International Trade in Goods (Preliminary):** In advance statistics, the goods trade deficit widened somewhat, rising from $83.19 billion in December to $83.74 billion in January. Goods imports increased from $216.44 billion to $218.90 billion, the strongest pace since October 2018. That was enough to outpace the gain in goods exports, which rose from $133.25 billion to $135.16 billion and was an 11-month high. Each has bounced back following steep declines last spring due to the COVID-19 pandemic and global recession.

  Strength in capital goods and industrial supplies helped lift goods exports in January. At the same time, goods imports were supported by strong gains in capital goods; consumer goods; foods, feeds and beverages and industrial supplies. Automotive vehicle exports and imports both decreased in January. Final data will be released March 5, which will also include the service-sector trade surplus.

- **Kansas City Fed Manufacturing Survey:** Manufacturing activity expanded at the fastest pace since June 2018, with the composite index of general business conditions rising from 17 in January to 24 in February. Growth was buoyed by stronger production, employment and hours worked in the latest survey, but new orders, shipments and exports softened somewhat. At the same time, prices for raw materials jumped at the fastest pace since April 2011, and in special questions, 85% said that supply chain constraints and higher commodity costs negatively impacted their company. More than 70% also noted difficulties in finding talent.

  Respondents continued to feel upbeat about additional growth over the next six months, with the forward-looking composite index also rising to the best reading since June 2018. Solid expansions were expected for new orders, production, hiring and capital spending, with modest growth for exports.

- **New Home Sales:** New single-family home sales rose 4.3% from 885,000 units at the annual rate in December to 923,000 units in January, rebounding for the second straight month following a sharp pullback in November (839,000 units). Sales strengthened in every region except for the Northeast. While these data remain below July's pace (979,000 units), which was the best since December 2006, new home sales remain elevated overall, buoyed by mortgage rates that are near historic lows. Over the past 12 months, new single-family home sales have jumped 19.3%, up from 774,000 units in January 2020.

  There were 4.0 months of supply on the market in January, but inventories of new homes for sales remain low overall. For instance, there were 5.0 months of supply on the market one year ago and 6.8 months in April. The median sales price registered $346,400 in January, up 5.3% year-over-year.

- **Personal Consumption Expenditures Deflator:** The PCE deflator rose 0.3% in January, extending the 0.4% gain in December. Overall, the PCE deflator has risen 1.5% year-over-year, an 11-month high, and core inflation, which excludes food and energy costs, has also increased 1.5% over the past 12 months, a 4-month high. Energy prices increased 3.5% in January, but food costs edged down 0.1%. On a year-over-year basis, energy prices have fallen 4.5%, with food prices up 3.6%.

  Despite higher costs in recent months, the core PCE deflator has remained below 2% for 26 consecutive months. More than anything, the Federal Reserve remains more worried about economic growth than inflation, as seen in the extraordinary measures taken over the past few months to help prop up the economy and to address credit and liquidity concerns in financial markets.

- **Personal Income and Spending:** Personal income soared 10.0% in January, buoyed by stimulus checks and increased unemployment insurance from legislation enacted at year's end. It was the largest monthly increase since April 2020. Total unemployment insurance payments were $570.6 billion in January, up from $307.8 billion in December and a five-month high. At the same time, other government social benefits to persons rose from $654.8 billion to $2.34 trillion, with many Americans receiving $600 checks each. It was also the highest since April 2020. Overall, personal income has jumped 13.1% over the past 12 months, largely due to government transfer payments.

  Wages and salaries rose 0.7% in January, with 1.1% growth year-over-year. Manufacturing wages and salaries increased from $893.0 billion in December to $896.2 billion in January, but with the total down 2.7% over the past 12 months.

  Meanwhile, personal consumption expenditures increased 2.4% in January, ending two months of declines and the strongest reading since June 2020. This suggests that additional economic stimulus boosted spending. Durable and nondurable goods purchases jumped 8.4% and 4.3% in January, respectively, with service-sector spending up 0.7%. Yet, the data also suggest that Americans did not spend all of the extra personal income. The saving rate soared from 13.4% in December to 20.5% in January, an eight-month high.

  Over the past 12 months, personal spending has edged down 0.4% since January 2020. Consumers spent 5.3% less on services in January than one year earlier. More encouragingly, durable and nondurable goods spending rose 18.6% and 6.1% year-over-year, respectively.

- **Richmond Fed Manufacturing Survey:** Manufacturing businesses in the Richmond Federal Reserve Bank's district expanded for the eighth straight month, with the composite index of general business activity remaining at 14 in February. The underlying data provided mixed results. Shipments, capacity utilization, capital spending, wages and the average workweek picked up in February, but new orders and employment softened somewhat. Inventories fell, and firms continued to cite challenges with finding talent. Meanwhile, the forward-looking indicators remained encouraging, even with easing in many key measures, with manufacturers in the district expecting continued growth in activity over the next six months.

Raw material costs jumped from 3.11% at the annual rate in January to 4.47% in February, mirroring other data and consistent with supply chain disruptions in the marketplace. Likewise, respondents anticipate an annualized 3.78% increase in costs six months from now, up from 3.06% in the prior survey.

- **University of Michigan Consumer Sentiment (Revision):** Consumer confidence declined from 79.0 in January to 76.8 in February, a six-month low, according to revised data from the University of Michigan and Thomson Reuters. That was a slight improvement from the original estimate of 76.2. Americans felt less upbeat in their assessment of both current economic conditions and the outlook for the coming months. According to the release, "All of February's loss was due to households with incomes below $75,000, with the declines mainly concentrated in future economic prospects." It also noted that many consumers were increasing spending by drawing down their savings, and some of the more cautious respondents were ones with college degrees.

- **Weekly Initial Unemployment Claims:** Initial unemployment claims totaled 730,000 for the week ending Feb. 20, a 12-week low, down from 841,000 for the week ending Feb. 13. This included sizable declines in both California and Ohio, among other states. Meanwhile, continuing claims declined from 4,520,000 for the week ending Feb. 6 to 4,419,000 for the week ending Feb. 13. Although this figure represents the lowest level since the week ending March 21, 2020, it is still too high and consistent with 3.1% of the workforce.

  At the same time, 19,042,686 Americans received some form of unemployment insurance benefit (including state and federal programs) for the week ending Feb. 6, up from 18,341,584 for the week ending Jan. 30 and reflecting greater Pandemic Emergency Unemployment Compensation program claims.

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 fourth-quarter survey . In addition, there are special questions on when your company expects to return to pre-COVID-19 revenue levels, tax policy and incentives for workforce development and infrastructure. To complete the survey, click here. Responses are due by Friday, March 5, at 5:00 p.m. EST. As always, all responses are anonymous.

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