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Flash Macro Update (04/25/2019)

Ahead of the 1Q19 GDP data, another high frequency data was released in the US today and surprised on the upside significantly. March durable goods orders posted a whopping m-o-m increase of 2.7%, which was significantly better than the consensus of +0.8%. The data, one more time, validated that US economy continued to do fine. Or at least better than the rest of the world! Durable goods orders along with recent US data hint that USD will remain strong and we might see some selling pressure in EMs.

We also observe some upward revisions in the previous months' data. For instance, February durable goods orders that previously registered a 1.6% m-o-m contraction, are revised up from -1.6% m-o-m to -1.1% m-o-m.

The market also likes to follow the so-called core durable goods orders that excludes transportation items. Core durable goods orders registered a 0.4% m-o-m increase in March compared to the consensus of +0.2%. We should highlight that the February core data revised down from -0.1% to -0.2%, but it does not change the fact that the data was stronger than what majority of analysts have expected.

When we look at the details of the data, we see that except computer parts and metals all other sub-categories posted sizeable m-o-m increases in March, which compensate for the weak February durable goods orders. Especially, electronics, transportation equipment, communications and motor vehicle categories posted eye-catching m-o-m increases in March.

There is also one important item, which is the proxy for future capital expenditures of companies, confirms the strength of US economy. That proxy, non-defence capital orders excluding aircraft, recorded a 1.3% m-o-m increase in March after rising by 0.1% m-o-m in February.

It looks like the market and companies started to feel more comfortable against the risks associated to Brexit and China trade talks. Newsflow that China trade talks are going to the right direction and Brexit talks are postponed to October might have an impact on that. We also see capital goods orders increasing by 6.6% m-o-m in March after declining by 3.9% m-o-m in February that confirms a mood change in the industries.

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