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Flash Macro Update (08/26/2019)

While the trade war between China and US goes on at full speed, market participants were wondering how US economy was doing on the company front. In that context, US July durable goods orders were important, since the data shows mostly the state of investment appetite of US companies. The July data provided mixed signals about investment appetite, but one thing was clear that the trade war absolutely started to impact the companies' investment decisions.

July durable goods orders posted a m-o-m increase of 2.1%, which was better than the consensus of 1.2%. There were mild downward revisions for previous months as well. For instance, June durable goods orders that previously registered a 1.9% m-o-m increased, are revised down to 1.8%. With the July data, we calculate that durable goods orders recorded only 0.6% y-o-y increase in the first seven months of the year, which is not that promising.

The market also likes to follow the so-called core durable goods orders that excludes transportation items. Core durable goods orders were down by 0.4% m-o-m in July compared to the consensus of 0.0%. We should also highlight that the June core data revised down from +1.0% to +0.8%. Core durable goods orders in the third quarter signal that 3Q GDP growth will be slower than 2Q GDP growth. Please note that the second quarter GDP growth data was out and it was +2.1%.

There is also one important item, which is the proxy for future capital expenditures of companies. That proxy, non-defence capital orders excluding aircraft, recorded a 0.4% m-o-m increase in July compared to consensus of -0.1%. However, the June data was revised down from +1.5% to +0.9% which eliminated the better than expected performance in July.

Regarding the FED's monetary policy, the data validates FED's view that investment appetite is not collapsing but it is significantly weak compared to personal consumption. The main culprit behind this weak investment appetite is clearly the trade war and FED can't do much with its monetary policy to offset that. We, therefore, do not think that July durable goods will fully convince FED that they should continue to cut in the upcoming FOMC meeting. More is probably needed.

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