



UNITED STATES

An unexpected drop in new durable goods orders

HIGHLIGHTS

- New manufacturing durable goods orders fell 4.3% in December following an increase of 2.6% in November. Excluding transportation, new orders were down 1.6%, the worst drop since January 2012. Excluding defence and aviation, new capital goods orders slipped 1.3% in December after advancing 2.6% (revised down from 4.5%).
- According to the Conference Board survey, consumer confidence was up in January. The addition of 3.2 points pushed the index from 77.5 to 80.7, its highest level since August.
- The S&P/Case-Shiller index of existing home prices in the 20 major cities edged up 0.9% in November, slightly decelerating from growth of 1.1% in October. The index's annual change moved from 13.6% to 13.7%.

COMMENTS

December's drop in new durable goods orders is an unpleasant surprise when a respectable increase of 2% was expected. In contrast, aircraft orders at Boeing raised hopes for even stronger growth, yet civil aviation orders dove 17.5% during the month! The other sectors are also disappointing: metallurgy, computer equipment and the automobile sector all recorded rather steep declines. The downturn in new capital goods orders excluding defence and aviation eats into the gains of the previous month and represents the fourth monthly decrease in six months. This contrasts with the solid performance by the manufacturing ISM and its new orders component. It seems that business investment was weaker in the final quarter of 2013 and expectations for the start of 2014 are likely to be revised downwards.

House prices are still growing quickly despite other housing market indicators experiencing a challenging fall, such as a retreat of nearly 10% in existing home sales since August. For the fourth consecutive month, each of the 20 cities surveyed by the index saw a monthly rise in home values. Since the market bottomed out in January 2012, the S&P/Case-Shiller index has grown 20.8%.

A big contrast between the manufacturing ISM and new durable goods orders



Sources: Institute for Supply Management, U.S. Census Bureau and Desjardins, Economic Studies

The rise in confidence is good news, as the consensus had called for it to be flat. The slide in the preliminary University of Michigan index and the weekly Bloomberg index triggered fears of eroding household sentiment. It therefore seems that American consumers have made it past the stock market troubles, severe weather conditions and less than stellar economic data, particularly for employment in December. Confidence is maintaining its upward momentum after the low brought on by the shutdown. Consumption should have another quarter of strong growth in this early part of 2014.

Implications: Business are still facing a challenging situation, but households are seeing the light at the end of the tunnel. Despite these ambiguous conditions, the Federal Reserve should continue to taper its securities purchases at each of its meetings.

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