

US Watch

Capex watch: divergence between hard and soft data

Key takeaways

- Latest factory orders, IP manufacturing, non residential construction and autos came in weaker than expected.
- Weather disruptions likely played a role. But ISM manufacturing showed the highest level since 2022.
- Recent data show divergence. Soft data point to a bottoming in manufacturing, while hard data suggests further weakness.

Weak factory orders on the back of transportation decline

Factory orders increased by 0.2% m/m in December after a 2.6% print in December. This was in line with consensus expectations. This was largely due to the 0.4% rise in non-durable goods. Meanwhile durable goods came in flat this month. There were small increases across the board in electrical equipment manufacturing, metal, machine, computer and electronic products manufacturing. But transportation equipment manufacturing went down 0.9% this month mainly due to a decline in ship and boat building. Hence, excluding transportation, factory orders rose by a higher 0.4% m/m after an upwardly revised print of 0.2%. Durable goods orders ex transportation also posted a higher 0.5%, a tenth lower from the preliminary. Meanwhile capital goods ex-defense and aircraft (core capital goods) orders that feed into our GDP tracking also declined a tenth to 0.2% m/m in the final print.

Factory shipments came in flat in December after a 0.5% m/m in the previous month. This was on the back of a 0.3% decline in durable goods shipments print and a 0.4% rise in non-durable goods. Within non-durable goods, there were small increases across most categories except petroleum and coal products manufacturing shipments which declined by 0.3% m/m. Within durable goods, there were small declines across most categories like transportation, electrical equipment, computer products and machinery manufacturing shipments. Also, core capital goods shipments declined by a tenth to a flat print after the preliminary report.

Overall, the readings are consistent with the current narrative - manufacturing might be slowing down given the unsustainable levels of investment growth in 2023 on the back of the various fiscal policy measures. Going forward, business investment might be levelling off in the coming quarters as the fiscal impulse weakens and higher rates becomes a larger headwind.

Softer than expected IP-manufacturing

Industrial Production (IP) fell 0.1% in January, about in line with our forecast. Utilities were up 6.0%, likely on account of cold weather across much of the country. Utilities this strong will generally feed into stronger personal consumption expenditure spending since utilities are an inelastic expenditure. Mining was down 2.3% on the month. The important IP-manufacturing segment, which accounts for about 75% of total IP, was.

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down 0.5% - more than we and consensus expected.

Weather disruptions likely played a part in the surprises to both manufacturing and utilities. Motor vehicles and parts were off 0.2% and ex-motor vehicles was down 0.6%. These will feed into estimates for equipment spending in the quarter and inject some softness and will marginally reduce concerns the economy is re-accelerating.

Private non-residential construction down on the month

Construction spending picked up 0.9% in December, while November was also revised up. This was on the back of strength seen in residential construction (1.4% m/m). Meanwhile, nonresidential construction came in weaker at 0.4% m/m. Most of the weakness in non-residential construction was on account of private non-residential construction falling by 0.2% on the month potentially on its way to levelling off on the back of higher rates. Meanwhile, public non-residential construction increased by 1.4%, likely buoyed up by fiscal policy measures.

Auto sales down due to seasonal factors

Auto sales came in well below consensus expectations at 15.0mn. We attribute the slowdown to two idiosyncratic factors: i) widespread weather disruptions, and ii) an unfavorable seasonal adjustment. Indeed, auto sales were above their January 2023 level on a NSA (non-seasonally adjusted) basis, but below on a SA (seasonally adjusted) basis. This is something which should likely be paid back in the coming months, given the ongoing strength in the auto sector.

ISM manufacturing shows highest level since 2022

The manufacturing ISM came into focus after a string of large misses in the regional PMIs (Purchasing Managers' Index). But the index surprised to the upside in January, increasing two points to 49.1, the highest level since 2022. The increase was driven by new orders and production, both of which entered expansionary territory. Inventories also increased to 46.2 from 43.9. Meanwhile, employment fell to 47.1 from 47.5 and prices paid rose to 52.9 vs 45.2.

Also, US S&P preliminary manufacturing PMI increased to 51.5 in February from 50.7 in January. This was above consensus and our expectations. This is also the highest reading since September, 2022. New orders increased to 53.5 from 52.6 in January, again the highest reading since May 2022. Employment also increased to its highest reading since Sept. 2023.

Divergence between soft and hard data

Overall, the divergence between some of the soft data, which has pointed to some bottoming in manufacturing, and the hard data, which suggests ongoing weakness, continues, albeit some of the turn of the year weakness in the hard data might be weather related.

The path ahead

Despite recent positive signals from the soft data, the hard data continue to indicate that we might see business investment levelling off in the coming months. Business investment surged in 2023 on the back of fiscal policy. We expect this fiscal impulse to turn from a tailwind into a mild headwind in 2024. Overall, we think it is unlikely that business investment can continue to grow at its recent robust pace in an environment of higher for longer interest rates.

Exhibit 1: Capex Details (SA, m/m % change)

New Orders, Shipments and Inventories

New Orders	Dec-23	Nov-23	Oct-23	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23	Jan-23
Factory Goods	0.2%	2.6%	-3.4%	2.3%	1.0%	-2.1%	2.3%	0.4%	0.3%	0.6%	-1.7%	0.0%
Ex-transportation	0.4%	0.2%	-1.3%	0.4%	1.5%	0.9%	0.3%	-0.4%	-0.6%	-1.0%	-0.4%	0.9%
Durable Goods	0.0%	5.4%	-5.1%	4.0%	-0.1%	-5.6%	4.3%	2.0%	1.2%	3.3%	-2.7%	-1.3%
Ex-transportation	0.5%	0.5%	-0.3%	0.2%	0.4%	0.1%	0.1%	0.7%	-0.6%	0.3%	0.1%	0.3%
Ex-defense	0.5%	6.8%	-6.4%	5.0%	-0.8%	-6.0%	5.8%	3.1%	-0.5%	3.2%	-2.3%	-1.8%
Capital goods	-1.2%	12.9%	-10.1%	13.4%	-0.9%	-14.6%	10.9%	2.6%	5.1%	9.4%	-8.5%	-4.9%
Non-defense	0.5%	18.2%	-14.2%	17.7%	-3.2%	-16.7%	16.8%	6.6%	0.2%	9.8%	-8.1%	-6.3%
ex-aircraft	0.2%	0.9%	-0.6%	-0.2%	0.9%	-0.4%	-0.4%	0.4%	0.7%	-0.6%	-0.2%	0.9%
3-mo avg annualized	1.9%	0.4%	0.7%	1.4%	0.4%	-1.7%	2.9%	2.2%	-0.2%	0.3%	5.3%	1.4%
Defense	-8.7%	-15.4%	18.0%	-11.7%	11.3%	1.7%	-18.3%	-12.7%	28.8%	5.9%	-8.7%	6.9%
Transportation	-0.9%	15.3%	-13.4%	11.5%	-1.2%	-14.9%	11.9%	4.2%	4.8%	9.8%	-8.3%	-4.2%
Vehicles	0.4%	3.0%	-4.2%	-2.5%	0.4%	0.7%	-0.2%	2.5%	-0.2%	-0.2%	0.0%	0.6%
Computers, electronics	0.4%	0.4%	0.1%	0.8%	0.8%	-0.6%	1.2%	0.8%	-1.8%	1.8%	0.5%	-0.2%
Electrical equipment	1.4%	1.9%	-2.3%	-0.8%	1.3%	-0.3%	0.4%	2.4%	-2.8%	0.4%	1.4%	2.9%
Machinery	0.1%	-0.2%	-0.9%	0.0%	0.5%	0.8%	-0.6%	0.6%	0.4%	-0.1%	-0.1%	0.2%
Primary metals	1.3%	0.9%	-0.6%	0.0%	-1.0%	-0.2%	0.1%	0.8%	-0.5%	0.5%	0.6%	0.7%
Fabricated metals	0.8%	0.0%	0.1%	0.9%	0.7%	0.7%	0.8%	0.1%	-0.2%	0.7%	0.3%	-0.8%
All other durable goods	0.0%	0.7%	0.3%	-0.2%	0.5%	-0.4%	-0.5%	0.7%	-0.3%	-0.5%	-0.7%	0.4%
Non Durable Goods	0.4%	0.0%	-1.8%	0.6%	2.2%	1.5%	0.4%	-1.1%	-0.7%	-1.8%	-0.7%	1.2%
Shipments												
Factory Goods	0.0%	0.5%	-1.3%	0.0%	1.3%	0.7%	0.2%	0.4%	-0.6%	-0.6%	-0.6%	0.7%
Ex-transportation	0.2%	0.1%	-1.2%	0.4%	1.4%	0.9%	0.3%	-0.5%	-0.5%	-1.1%	-0.6%	1.1%
Durable Goods	-0.3%	1.0%	-0.8%	-0.6%	0.5%	-0.1%	0.0%	2.0%	-0.6%	0.7%	-0.5%	0.1%
Ex-transportation	-0.1%	0.4%	-0.2%	0.1%	0.3%	0.0%	0.1%	0.6%	-0.2%	-0.1%	-0.3%	0.8%
Ex-defense	-0.2%	1.0%	-1.1%	-0.7%	0.4%	-0.1%	-0.1%	2.2%	-0.9%	0.8%	-0.4%	0.2%
Capital goods	-1.0%	0.4%	0.2%	-0.2%	1.3%	-1.2%	0.4%	3.2%	-1.0%	2.1%	-0.8%	-0.8%
Non-defense	-0.8%	0.2%	-0.2%	-0.3%	1.1%	-1.2%	0.0%	3.8%	-1.7%	2.6%	-0.7%	-0.9%
ex-aircraft	0.0%	-0.3%	0.0%	-0.1%	0.7%	-0.3%	0.0%	0.3%	0.5%	-0.2%	-0.3%	1.1%
3-mo avg annualized	-1.1%	-1.7%	2.4%	1.4%	1.8%	0.0%	3.1%	2.3%	-0.1%	2.4%	1.3%	3.3%
Defense	-2.5%	0.5%	2.7%	0.3%	1.6%	-1.1%	2.3%	-1.1%	3.5%	-0.5%	-1.2%	-0.2%
Transportation	-0.8%	2.3%	-2.3%	-2.2%	0.8%	-0.3%	-0.1%	5.0%	-1.6%	2.6%	-0.9%	-1.4%
Vehicles	0.3%	3.4%	-4.0%	-2.7%	0.2%	1.0%	-0.4%	2.6%	-0.1%	0.2%	-0.5%	0.4%
Nondefense aircraft	-5.1%	3.7%	-0.8%	-0.3%	3.2%	-4.7%	-0.2%	29.2%	-14.5%	22.6%	-1.8%	-11.8%
Computers, electronics	-0.3%	0.5%	0.1%	0.7%	0.2%	0.4%	-0.1%	0.5%	-0.4%	-0.6%	0.0%	0.5%
Electrical equipment	0.2%	-0.2%	-0.8%	0.7%	1.1%	0.0%	-0.1%	1.0%	-1.1%	0.9%	-1.2%	4.0%
Machinery	-0.9%	-0.6%	0.0%	-0.6%	1.0%	0.4%	0.3%	0.3%	0.8%	-0.4%	0.1%	0.8%
Primary metals	0.1%	1.3%	-0.3%	-0.2%	-0.4%	-0.8%	-0.3%	0.5%	-0.1%	0.1%	-0.3%	1.8%
Fabricated metals	0.3%	0.9%	-0.3%	0.9%	0.3%	0.0%	1.0%	0.2%	-0.4%	0.1%	0.1%	-0.2%
All other durable goods	0.1%	0.4%	0.0%	-0.2%	0.0%	-0.2%	-0.4%	1.0%	-0.4%	-0.3%	-0.8%	0.4%
Non Durable Goods	0.4%	0.0%	-1.8%	0.6%	2.2%	1.5%	0.4%	-1.1%	-0.7%	-1.8%	-0.7%	1.2%
Inventories												
Durable Goods	0.4%	0.1%	0.2%	0.1%	0.1%	0.0%	0.0%	0.2%	1.0%	-1.0%	0.1%	0.2%
Nondefense cap goods	0.7%	0.4%	0.2%	0.2%	0.4%	0.0%	-0.1%	0.1%	2.2%	-1.8%	0.2%	0.2%
ex-aircraft	0.5%	0.1%	-0.1%	0.2%	0.3%	0.0%	0.1%	0.2%	0.1%	0.3%	0.3%	0.3%
Non Durable Goods	-0.3%	-0.1%	-0.3%	0.2%	0.6%	0.3%	-0.4%	-0.9%	-0.6%	-0.7%	-0.3%	0.0%

Source: Census Bureau, Haver Analytics

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Exhibit 2: ISM manufacturing summary table

ISM manufacturing index details

	Jan-24	Dec-23	Nov-23	Oct-23	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23
Headline index	49.1	47.1	46.6	46.9	48.6	47.6	46.5	46.4	46.6	47	46.5	47.7
New orders	52.5	47	47.8	46.2	48.6	46.4	47	45.7	42.9	45.5	44.6	47
Production	50.4	49.9	48.8	50	51.9	49.9	48.4	47.1	50.5	48.7	48	47.6
Employment	47.1	47.5	46.1	47.1	50.9	48.6	45	49.1	50.3	49.4	47.8	48.8
Supplier deliveries	49.1	47	46.2	47.7	46.4	48.6	46.1	45.7	43.5	44.6	44.8	45.2
Inventories	46.2	43.9	44.3	43.6	45.4	44.3	45.8	44.5	45.8	46.6	47.6	49.9
Other measures not included in headline												
Prices (NSA)	52.9	45.2	49.9	45.1	43.8	48.4	42.6	41.8	44.2	53.2	49.2	51.3
New export orders	45.2	49.9	46	49.4	47.4	46.5	46.2	47.3	50	49.8	47.6	49.9
Backlog of orders (NSAO)	44.7	45.3	39.3	42.2	42.4	44.1	42.8	38.7	37.5	43.1	43.9	45.1
Customer inventories	43.7	48.1	50.8	48.6	47.1	48.7	48.7	46.2	51.4	51.3	48.9	46.9
Leadtime (days)												
Capex	172	174	178	171	172	170	174	175	172	170	178	176
Production materials	83	82	79	83	84	87	84	83	84	90	87	88
Maintenance, repair and operating supplies	43	46	43	46	43	42	46	47	45	46	46	43
Production materials, commitments of 60 days+	69	67	68	69	70	70	65	66	67	70	66	68

Source: ISM, Haver Analytics

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Exhibit 3: ISM services summary table

ISM services index details

	Jan-24	Dec-23	Nov-23	Oct-23	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23
ISM services	53.4	50.5	52.5	51.9	53.4	54.1	52.8	53.6	51	52.3	51.2	55
Business activity	55.8	55.8	54.9	54.5	58.1	57.1	57	58.2	52.9	53.3	55.4	56.7
New Orders	55	52.8	54.8	55.1	52.7	56.6	55.1	55.6	54	56.1	52.6	62.3
Employment	50.5	43.8	50.6	50.4	52.5	54.1	50.9	52.9	49.7	51.2	51.1	53.6
Supplier deliveries (NSA)	52.4	49.5	49.6	47.5	50.4	48.5	48.1	47.6	47.7	48.6	45.8	47.6
Prices	64.0	56.7	57.6	58.0	58.6	58.7	57.6	54.8	57.2	60.0	60.2	65.1
Backlog of orders	51.4	49.4	49.1	50.9	48.6	41.8	52.1	43.9	40.9	49.7	48.5	52.8
New export orders	56.1	50.4	53.6	48.8	63.7	62.1	61.1	61.5	59.0	60.9	43.7	61.7

Source: ISM, Haver Analytics

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Exhibit 4: Industrial Production: Summary table (m/m % change)

US industrial production and manufacturing output

	Jan-24	Dec-23	Nov-23	Oct-23	Sep-23	Aug-23	Jul-23	Jun-23	May-23
IP	-0.1%	0.0%	0.3%	-0.8%	0.1%	-0.1%	0.9%	-0.6%	-0.2%
Ex high-tech	-0.1%	0.0%	0.3%	-0.9%	0.1%	-0.1%	0.9%	-0.6%	-0.2%
Ex vehicles	-0.1%	-0.2%	-0.1%	-0.3%	0.1%	0.2%	0.6%	-0.4%	-0.3%
Ex tech & vehicles	-0.1%	-0.2%	-0.1%	-0.4%	0.1%	0.2%	0.6%	-0.4%	-0.3%
Industry groups									
Manufacturing	-0.5%	0.1%	0.4%	-0.8%	0.1%	-0.1%	0.4%	-0.7%	-0.2%
Motor vehicle and parts	-0.2%	3.2%	7.2%	-9.1%	-0.3%	-5.0%	6.1%	-4.6%	1.2%
Ex motor vehicle and parts	-0.6%	-0.1%	-0.1%	-0.2%	0.1%	0.3%	0.0%	-0.4%	-0.3%
Utilities	6.0%	-1.7%	0.3%	-0.9%	-0.9%	0.7%	4.9%	-1.6%	-0.6%
Electric	4.7%	-1.0%	0.6%	-1.4%	-0.7%	0.8%	5.8%	-2.4%	-0.9%
Natural Gas	13.9%	-6.2%	-1.5%	1.7%	-2.4%	0.1%	-0.5%	2.6%	1.3%
Mining	-2.3%	0.9%	-0.3%	-0.7%	0.8%	-0.5%	0.7%	0.6%	-0.3%
Market groups									
Final Products	0.2%	-0.1%	0.4%	-0.6%	-0.2%	0.0%	0.9%	-0.9%	-0.5%
Consumer goods	0.6%	0.1%	0.7%	-0.9%	-0.2%	-0.1%	1.3%	-1.6%	-0.9%
Business equipment	-0.2%	-0.3%	0.8%	-0.9%	-1.0%	-0.3%	0.9%	-0.1%	-0.5%
Info processing	0.3%	-1.0%	0.3%	1.3%	-1.2%	-0.1%	1.1%	1.6%	-0.7%
Defense and space	1.4%	0.8%	1.0%	1.2%	-0.1%	0.9%	1.3%	2.0%	2.0%
Nonindustrial supplies	-0.5%	-0.5%	-0.2%	0.0%	0.2%	0.2%	0.2%	-0.2%	-0.2%
Construction supply	-0.9%	-0.5%	-0.2%	-0.1%	0.9%	-0.6%	-0.1%	-0.5%	-0.1%
Business supplies	-0.3%	-0.5%	-0.2%	0.1%	-0.1%	0.7%	0.3%	0.0%	-0.3%
Materials	-0.4%	0.1%	0.2%	-1.1%	0.4%	-0.2%	0.9%	-0.3%	0.1%
Energy	0.1%	0.2%	-0.3%	-0.7%	0.2%	0.3%	2.1%	-0.3%	0.1%

Source: Federal Reserve, Haver Analytics, BofA Global Research

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Exhibit 5: Construction Spending (nominal, m/m % change)

Construction Spending details

	Dec-23	Nov-23	Oct-23	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23	Jan-23
Total m/m % chg.	0.9	0.9	2.1	0.4	2.1	0.7	0.5	2.0	0.3	0.6	0.4	2.2
y/y % chg	13.9	12.8	12.5	9.8	8.8	5.3	4.4	3.5	1.3	2.8	3.6	4.8
Private m/m % chg.	0.7	1.1	1.6	-0.2	2.2	0.5	0.2	2.2	-0.1	0.5	0.0	2.4
y/y % chg	11.8	10.9	10.0	7.5	6.7	3.0	1.6	0.7	-1.3	0.7	1.8	3.4
Residential m/m % chg.	1.4	1.0	2.3	-0.6	2.3	-0.6	0.8	3.5	-2.6	-0.1	-1.0	0.3
y/y % chg	6.8	3.9	1.4	-2.5	-3.6	-8.0	-9.9	-11.9	-14.6	-10.8	-9.1	-6.2
Single family m/m % chg.	1.6	2.5	1.1	1.8	2.1	3.0	2.0	1.9	-1.2	-1.4	-2.0	-1.7
y/y % chg	9.9	5.1	-1.0	-5.1	-10.0	-15.0	-21.3	-24.9	-26.5	-24.4	-22.1	-18.4
Multi-family m/m % chg.	0.3	0.4	-0.3	-0.4	1.1	0.5	2.6	1.1	1.6	1.1	0.7	2.6
y/y % chg	11.9	13.5	16.2	22.2	25.3	25.7	23.8	23.1	20.4	21.0	18.6	19.2
Home improvement m/m % chg.	1.7	-0.5	4.9	-3.6	3.0	-5.0	-1.1	6.2	-5.6	0.9	-0.5	1.6
y/y % chg	1.4	-0.8	-0.8	-7.1	-4.4	-9.0	-5.0	-4.6	-8.7	-1.6	0.7	2.8
Nonresidential m/m % chg.	-0.2	1.1	0.8	0.4	2.1	2.0	-0.7	0.6	3.3	1.4	1.4	5.5
y/y % chg	19.1	21.2	23.5	23.4	23.4	21.4	21.8	23.2	22.2	21.3	21.0	20.2
Commercial and health care m/m % chg.	-0.4	-0.2	-0.2	0.4	1.0	2.4	1.1	-0.2	0.9	0.0	0.8	-1.5
y/y % chg	4.1	7.4	8.9	10.8	10.2	9.6	8.7	8.7	7.6	10.1	11.1	11.7
Manufacturing m/m % chg.	-0.1	3.4	1.9	-0.5	3.6	2.2	-3.6	2.7	9.9	5.0	2.7	23.7
y/y % chg	60.8	62.7	71.9	66.0	70.9	67.8	77.9	82.2	81.5	74.1	72.8	68.8
Power & Communication m/m % chg.	0.2	0.6	1.6	1.6	1.7	0.8	-1.2	-0.7	0.4	-0.5	1.3	4.8
y/y % chg	11.0	10.9	11.2	9.9	6.8	3.8	2.4	4.2	4.5	2.7	2.5	0.8
Other Structures m/m % chg.	0.1	-0.1	0.1	0.2	2.5	2.2	1.5	1.0	1.3	1.4	0.7	-1.4
y/y % chg	9.8	10.9	14.7	17.8	18.2	15.7	13.8	12.0	11.0	13.5	12.6	14.4
Transportation m/m % chg.	0.0	-0.1	0.5	-0.5	0.9	0.4	1.1	1.0	0.7	-0.5	0.6	0.0
y/y % chg	4.1	3.9	6.3	5.8	14.0	14.2	15.8	15.0	14.8	16.1	18.1	16.4
Public m/m % chg.	1.3	0.5	3.5	2.3	1.6	1.2	1.6	1.3	1.8	1.0	1.8	1.6
y/y % chg	21.3	20.1	21.6	18.6	16.9	14.3	15.8	15.1	12.2	11.2	10.9	10.2
Residential m/m % chg.	-2.5	-2.3	2.0	0.3	4.0	5.6	-3.6	1.3	-0.8	3.9	-0.3	3.7
y/y % chg	11.3	11.0	20.4	15.2	12.4	4.0	3.3	7.7	6.1	3.9	-0.3	-0.6
Nonresidential m/m % chg.	1.4	0.6	3.5	2.4	1.6	1.1	1.8	1.3	1.9	0.9	1.8	1.6
y/y % chg	21.6	20.3	21.7	18.6	17.0	14.6	16.2	15.3	12.4	11.4	11.2	10.5

Source: Census, Bureau, Haver Analytics

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