U.S. Data Review

- Durable goods orders: surge in aircraft; respectable gain ex-transportation
- New home sales: a drop in October from a downward revised level
- Consumer sentiment: post-election pickup

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Durable Goods Orders

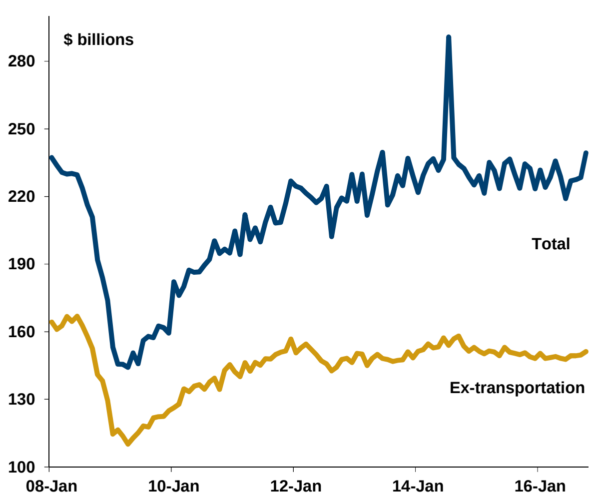
The jump of 4.8 percent in new orders for durable goods easily exceeded the expected gain of 1.7 percent, as a surge of 82.0 percent in bookings for aircraft pulled the total higher. Orders for both commercial and defense aircraft were strong (up 94.1 percent and 33.1 percent, respectively). The level of orders for commercial aircraft was among the best of the past several years, while the change in defense bookings occurred from an unusually low level and the new reading was still light by recent standards.

While orders for aircraft strongly influenced the headline number, bookings elsewhere were reasonably firm, increasing 1.0 percent ex-transportation. October represented the fourth consecutive month where the ex-transportation category rose or held steady, leaving a slight upward tilt to a series that had been inching lower (chart, left). The improvement in recent months, while only moderate, has been broadly based. Orders for computers and communication equipment remain soft, but other areas have been stable or slightly firmer.

Orders for nondefense capital goods excluding aircraft rose 0.4 percent in October, only a partial offset to a drop in the prior month and too small to alter the sideways movement that has been in place throughout the year (chart, right). The downward drift in this series last year and the flat pattern this year suggest that businesses remain unenthusiastic about undertaking investment projects. Shipments of nondefense capital goods ex-aircraft, a series that provides insight into capital spending in the current quarter, rose 0.2 percent. The pickup raises the possibility that equipment spending by businesses will increase in the fourth quarter, although the change would likely be small and would follow four consecutive quarterly declines.

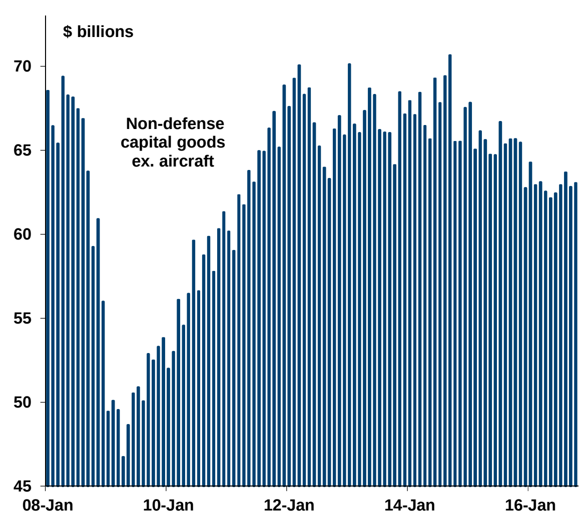
In addition to generally favorable results in October, results in the prior month were revised upward, now showing an increase of 0.4 percent rather than a decline of 0.3 percent. Most of the adjustment occurred in the aircraft category, although orders ex-transportation were nudged higher (up 0.2 percent versus 0.1 percent).

New Orders for Durable Goods



Source: U.S. Census Bureau

New Orders for Durable Goods

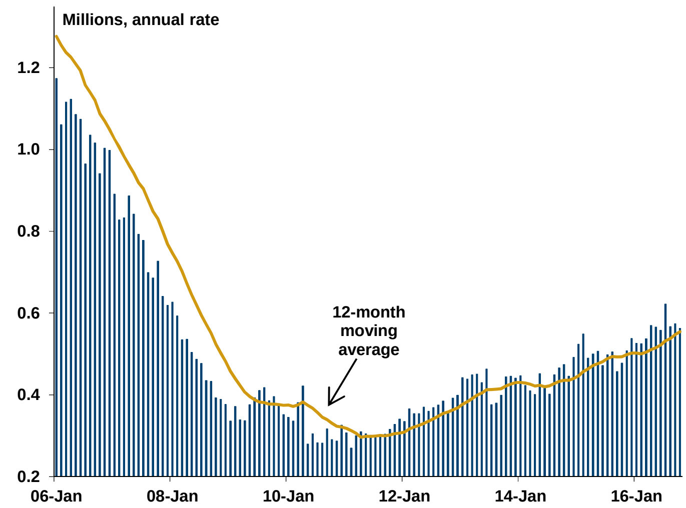


Source: U.S. Census Bureau

New Home Sales

Sales of new homes fell 1.9 percent in October from downward revised levels in the prior three months (the level of sales in September was 3.2 percent lighter than previously believed). Activity has still picked up this year, as the sales pace of 563,000 units in October was considerably better than the total of 502,000 in 2015 (chart). However, activity has shown little net movement in the past several months, a shift from the view in September, when pre-revised figures were showing further gains from those registered earlier in the year.

New Home Sales



Source: U.S. Census Bureau

Results varied widely by geographic region. Sharp declines in the Midwest and Northeast (off 13.7 percent and 9.1 percent, respectively) offset a gain of 8.8 percent in the West. Sales in the South fell moderately (off 3.0 percent). Sales in all regions, like the total, have improved from last year's performance, but have not shown upward momentum in recent months. The recent increase in interest rates does not offer much hope for revival, although there could be a temporary jump, as fence sitters might make a commitment in an effort to beat further increases in interest rates.

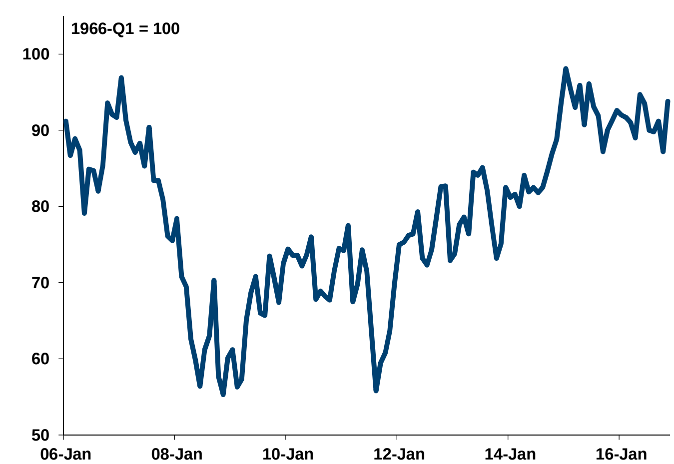
Consumer Sentiment

The index of consumer sentiment was revised upward by 2.2 index points (or 2.4 percent) from the preliminary tally published two weeks ago. The new reading was in the upper end of the recent range, although it did not represent a new cyclical high (chart).

The initial estimate did not contain any post-elections observations; thus, one might argue that the election outcomes boosted spirits, a view also supported by the increase in equity values. The breakdown of the headline index into its current conditions and expectations components also supports the view that the election played a role. The expectations component made a larger contribution to the revision, increasing 3.3 percent versus 1.3 percent for the current conditions component, suggesting that individuals saw a brighter future than they did before the election.

The measure of long-term expectations of inflation included with the report was revised lower by 0.1 percentage point to 2.6 percent, but it was still higher than the readings of 2.4 and 2.5 seen in several months this year. The October reading helped to keep the average so far this year close to that in 2015, suggesting that expectations were not becoming unmoored on the downside.

Consumer Sentiment



Source: Thomson Reuters/University of Michigan Survey Research Center