U.S. Data Review

- Durable goods: jump in defense aircraft orders boosts headline
- International trade in goods: firm exports, a correction in imports

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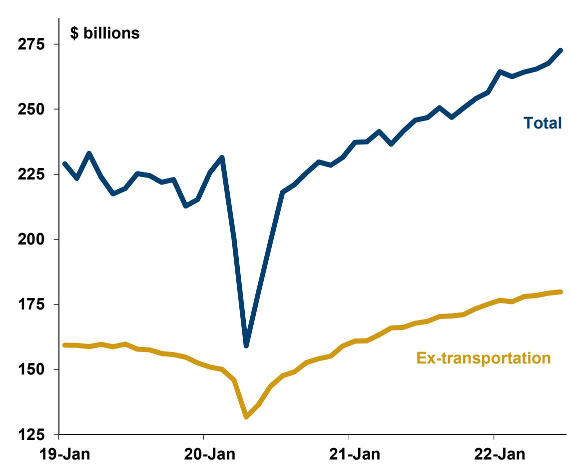
Durable Goods Orders

New orders for durable goods jumped 1.9 percent in June, a sharp contrast to the expected decline of 0.4 percent. Bookings excluding transportation rose modestly (0.3 percent), almost matching the consensus view of 0.2 percent. Revisions to prior months' data were modest, but tilted to the downside (orders ex. transportation in May were 0.2 percent lighter than first reported). On balance, both total bookings and orders ex. transportation maintained their upward drifts (chart, left; inflation-adjusted orders most likely would be tilting lower).

Transportation orders accounted for much of the brisk advance in headline bookings in June. Commercial aircraft orders slipped 2.1 percent, but bookings for defense aircraft surged (up 80.6 percent!) and orders for motor vehicles and parts rose for the fourth consecutive month (up 1.5 percent in June and 8.0 percent over the March-to-June span). Motor vehicle orders suggest attempts to rebuild stocks after chip shortages and supply disruptions earlier in the expansion led to lean dealer inventories. The bounce in orders for defense aircraft most likely represented a one-off shift (surges and pauses are common for this series). Orders excluding transportation rose for the 25th time in the past 26 months, an impressive trend but one wonders about the influence of higher prices.

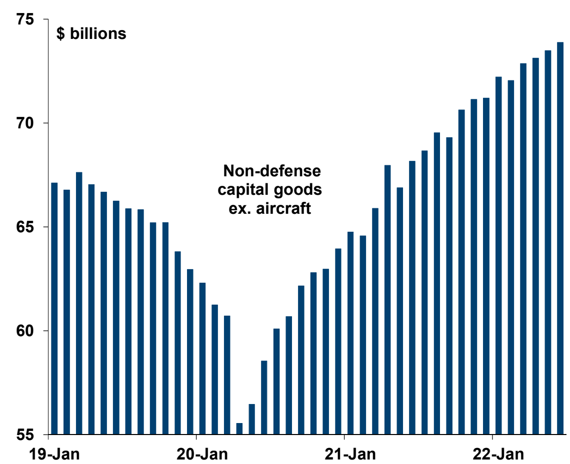
Orders for nondefense capital goods excluding aircraft, which provide insight into capital spending plans by businesses, rose 0.5 percent, but the advance likely translated to a dip after adjusting for inflation (the capital equipment component of the PPI rose 0.7 percent in June). Nominal shipments of nondefense capital goods excluding aircraft increased 0.7 percent, but the jump in the PPI implies little change in real bookings; shipments data suggest a negative contribution from equipment spending to GDP growth in Q2.

New Orders for Durable Goods



Source: U.S. Census Bureau via Haver Analytics

New Orders for Durable Goods



Sources: U.S. Census Bureau via Haver Analytics

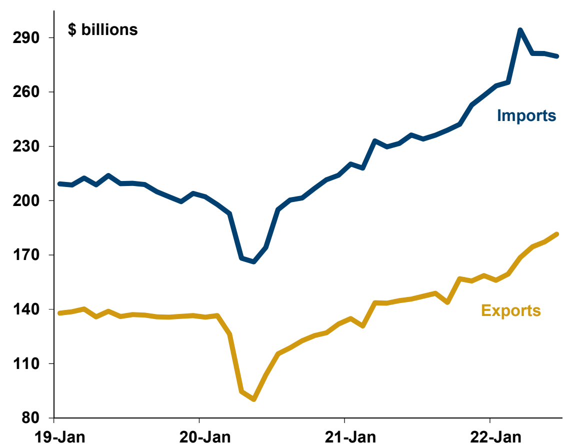
International Trade in Goods

The U.S. trade deficit narrowed by $5.9 billion in June to a shortfall of $98.2 billion, much better than the expected deficit of $103.0 billion (an improvement of $1.0 billion). Both sides of the trade ledger contributed to the results, as exports jumped 2.5 percent while imports fell 0.5 percent (chart, left).

The increase in exports was concentrated in food and industrial supplies, and higher prices undoubtedly played a role. However, the gains were large enough to suggest that exports also performed well in real terms. The softness in imports was concentrated in food and motor vehicles (off 1.1 percent and 7.8 percent despite a likely influence of higher prices). June marked the third consecutive decline in imports. The retreat could be viewed as an offset to a remarkable surge in the first quarter (an average monthly increase of 4.5 percent). The offsets in the past three months trimmed only a portion of the Q1 surge and left a still-hefty advance in the first half of the year.

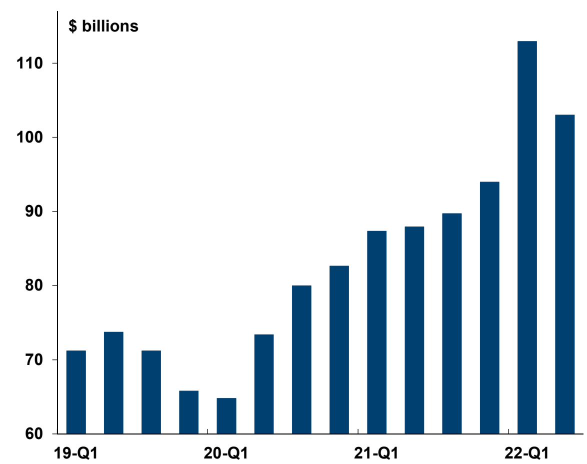
International trade in goods was a negative sector for the U.S. economy in the first half of the year (growth of imports exceeded that for exports), but the performance varied sharply in the first and second quarters. Net exports were a pronounced drag in Q1, as the surge in the deficit subtracted 3.2 percentage points from GDP growth. The improvement in the deficit in Q2 will probably add close to two percentage points to GDP growth in the second quarter (results published on Thursday in the GDP report), but the net widening in the trade deficit in the first half was still pronounced (chart, right).

Imports & Exports of Goods



Source: U.S. Census Bureau via Haver Analytics

Nominal Trade Deficit in Goods*



** Quarterly averages of monthly data.*

Sources: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America