



Economics Group

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Durable Goods Orders Stumble In January

Durable goods orders fell a larger-than-expected 4.0 percent in January, following large monthly gains in November and December. It appears business spending slowed sharply in January.

Durable Goods Orders Experience January Hangover

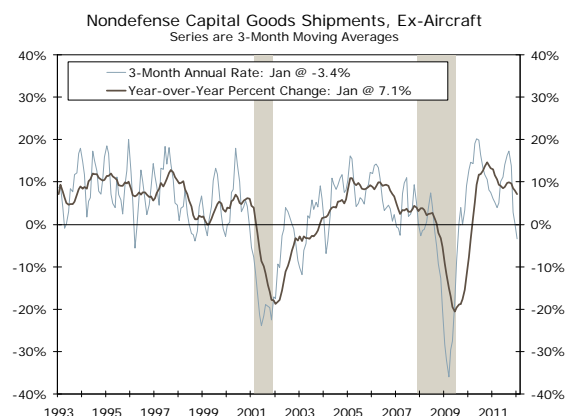
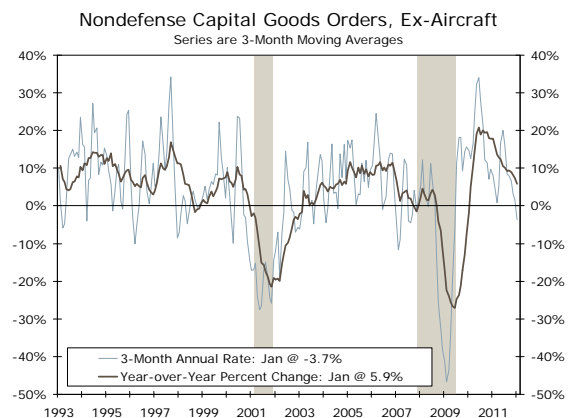
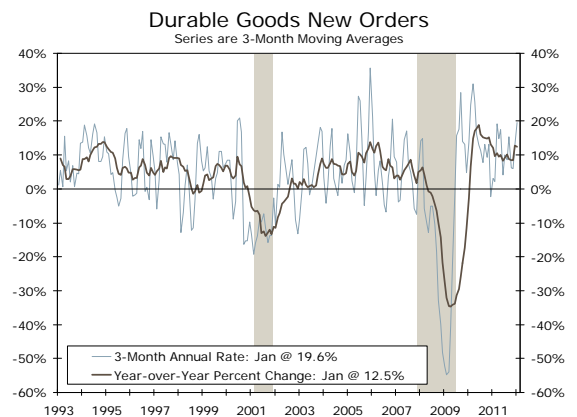
The turn of the calendar to 2012 was not kind to durable goods orders and shipments. Durable goods orders fell a larger-than-expected 4.0 percent in January. The largest monthly decline in three years, during the depths of the recession. Large declines in nondefense aircraft orders and business equipment spending were the biggest driver of the declines, although order figures were generally weak across the board. Nondefense aircraft orders fell 19.0 percent, pushing transportation orders down 6.1 percent on the month. Machinery orders fell 10.4 percent, with primary metals orders dropping 6.7 percent and electrical equipment slipping 1.9 percent. The orders figures have been especially volatile recently. The ebb and flow of nondefense aircraft orders and vehicle orders have added to the volatility recently, but the reduction in tax incentives from 100 percent to 50 percent depreciation on business equipment purchases likely contributed to the steep downturn in durable goods orders. On the bright side, durable orders and nondefense capital goods orders excluding aircraft were revised higher for December. It appears that businesses rushed to place orders for durable goods at the end of last year, leading to a lack of order flow in January. These data will be a disappointment for those who were looking for U.S. economic growth to vault higher as a virtual cycle got underway. The data suggest that U.S. economic growth and business investment is still occurring in fits and starts. However, this report raises the downside risks on business investment growth in the first-quarter GDP report.

Nondefense Capital Goods Orders Ex Air Show Weakness

Nondefense capital goods orders excluding aircraft are losing altitude fast, dropping 4.5 percent in January. The three-month annual rate of change turned negative for the first time since the recession. This measure is a critical leading indicator of business investment spending and bares close scrutiny. Even more concerning for business investment estimates for the first quarter is the fact that nondefense capital goods shipments excluding aircraft have also turned negative over the past three months. There was some modest growth in vehicle orders and computers and electronics orders up 0.9 percent and 0.8 percent respectively. Fabricated metals orders also managed to rise 0.7 percent on the month, though computer equipment orders were down 7.8 percent year-over-year.

Inventory Increases In Line With Expectations

Durable inventories increased 0.7 percent in January, in line with expectations. Durable inventories are up 10.0 percent over the past year. Nondefense capital goods excluding aircraft inventories rose a sharper 1.3 percent in January. Inventory-to-shipments ratio held steady at 1.79 in January, the same level seen in December.



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