

Economics Group

Scott Anderson, Senior Economist
scott.a.anderson@wellsfargo.com • (612) 667-9281
 Michael A. Brown, Economist
michael.a.brown@wellsfargo.com • (704) 715-0569

Durable Goods Orders Ex-Transportation Are Rock Solid

Durable goods orders for September slipped 0.8 percent from the month before, as civilian aircraft orders slumped 26 percent. Outside of transportation, capital goods orders remained rock solid.

No Sign of a Slump in Capital Spending Ahead

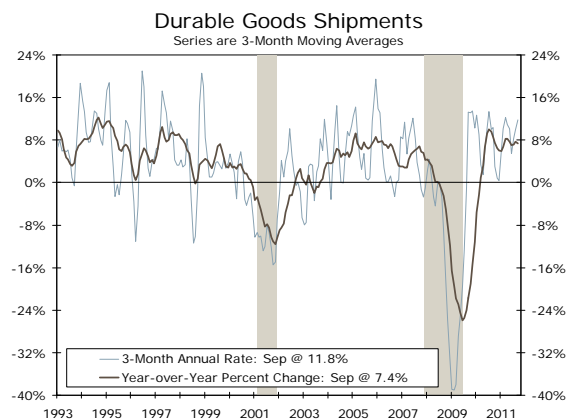
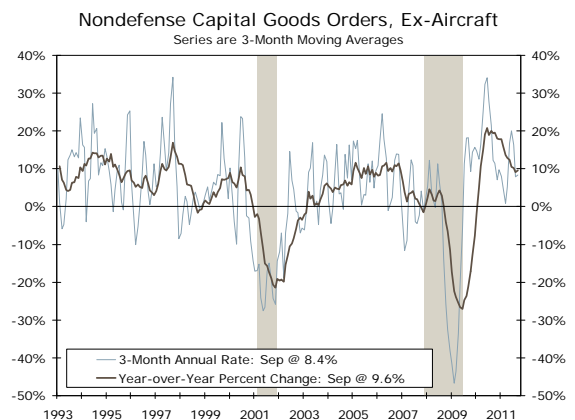
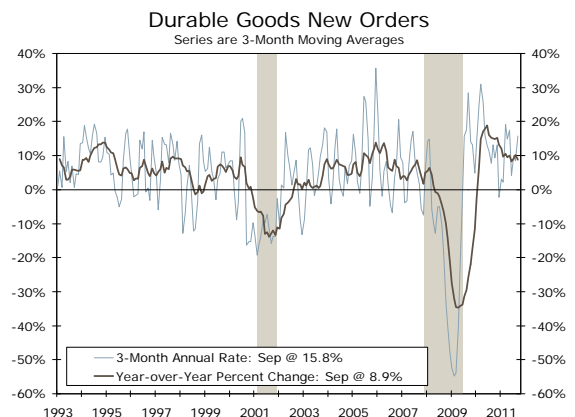
The headline drop in durable orders was about as the market expected, slipping 0.8 percent from August, as Boeing reported far fewer aircraft orders on the month. The market's focus, however, and what is important for forecasting business investment and thus the equipment and software component for GDP, is the reading on the temperature of nondefense capital goods orders excluding the volatile civilian aircraft sector. Here, the outperformance of the September data was crystal clear and sizzling hot. Nondefense capital goods orders excluding aircraft jumped 2.4 percent in September from the month before, building on August's 0.5 percent gain and putting the modest 0.3 percent drop in July well into the rearview mirror. Solid order gains were received in a number of high profile business spending categories, from computers and electronics to machinery and primary metals.

Companies Plowing Ahead With Capital Goods Orders

The volatility in financial markets in July and August has not yet registered on capital spending orders. Indeed, one can make a strong case that capital spending may be accelerating into the end of the year. These healthy order numbers make a plunge into outright recession this year highly unlikely, as business investment and manufacturing growth continue to push the economy forward. Primary metals orders jumped 2.6 percent in September. Fabricated metals increased 1.9 percent. Machinery rose 1.8 percent on the month, while electrical equipment jumped 1.9 percent. Even computers and electronics orders were able to muster a 1.0 percent gain in September. Companies may be rushing to place orders before a possible expiration of business investment incentives at the end of the year. Vehicle and parts orders slipped another 2.7 percent in September, building on a 9.1 percent decline in August; however, recent weakness in vehicle orders is more a reflection of the unwind from July's 10.2 percent orders increase rather than a sign of trouble in the auto sector.

Shipments Drop and Inventories Rise a Bit

Durable goods shipments fell 0.7 percent in September, and nondefense capital goods shipments plunged 1.2 percent on the month. Yet over the past three months, nondefense capital goods shipments have increased at a robust 16.7 percent annualized pace. This ensures that third-quarter GDP will get a sizeable boost from business equipment and software spending. Inventories also increased a modest 0.1 percent in September, pushing the inventory-to-shipments ratio up to 1.83 in September from 1.81 in August and 1.63 a year ago. This report should bolster confidence that the financial market volatility seen on Wall Street has not yet translated into a change in business investment behavior on Main Street. This is good economic news.



Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research & Economics	(704) 715-8437 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 374-7034	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 383-5635	mark.vitner@wellsfargo.com
Jay Bryson, Ph.D.	Global Economist	(704) 383-3518	jay.bryson@wellsfargo.com
Scott Anderson, Ph.D.	Senior Economist	(612) 667-9281	scott.a.anderson@wellsfargo.com
Eugenio Aleman, Ph.D.	Senior Economist	(704) 715-0314	eugenio.j.aleman@wellsfargo.com
Sam Bullard	Senior Economist	(704) 383-7372	sam.bullard@wellsfargo.com
Anika Khan	Economist	(704) 715-0575	anika.khan@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 383-6805	azhar.iqbal@wellsfargo.com
Ed Kashmarek	Economist	(612) 667-0479	ed.kashmarek@wellsfargo.com
Tim Quinlan	Economist	(704) 374-4407	tim.quinlan@wellsfargo.com
Michael A. Brown	Economist	(704) 715-0569	michael.a.brown@wellsfargo.com
Joe Seydl	Economic Analyst	(704) 715-1488	joseph.seydl@wellsfargo.com
Sarah Watt	Economic Analyst	(704) 374-7142	sarah.watt@wellsfargo.com
Kaylyn Swankoski	Economic Analyst	(704) 715-0526	kaylyn.swankoski@wellsfargo.com

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