



Economics Group

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Durable Goods Orders Continue To Defy Gravity

Durable goods orders for August came in better than expected, slipping only 0.1 percent from the month before. Civilian aircraft orders were once again a big contributor to durable orders.

Durable Orders Holding Up Better Than Expected

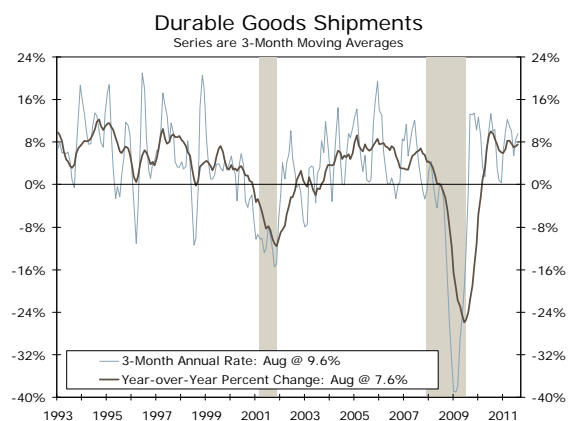
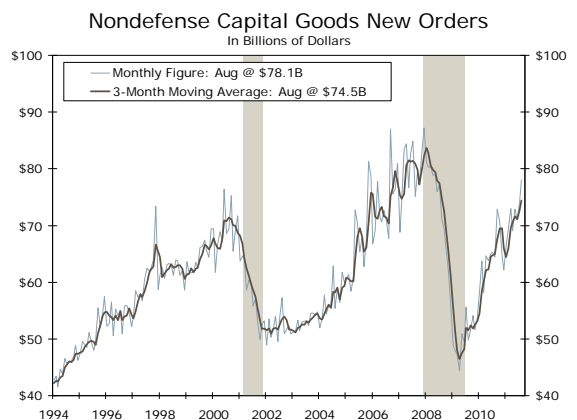
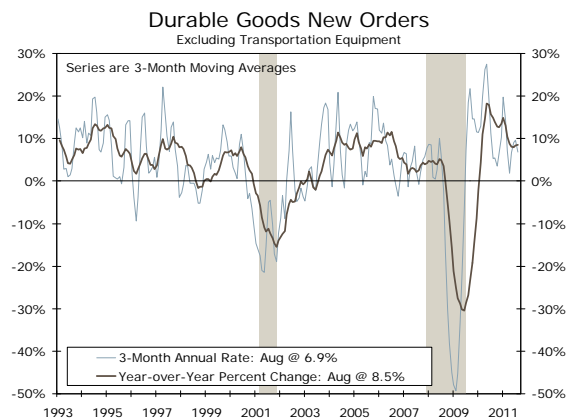
Durable goods manufacturers saw a fairly steady orders flow through August, coming in somewhat stronger than consensus expectations. August durable orders fell only 0.1 percent from July, and July durable orders were revised up 0.1 percentage point to a robust 4.1 percent monthly gain. Civilian aircraft orders were once again a big contributor to overall orders this month, jumping another 23.5 percent in August on the heels of a 49.9 percent monthly gain in July. Northwest Airline's Boeing orders were likely the driver here. But even excluding the volatile transportation sector, durable orders fell only 0.1 percent. Non-defense capital goods orders have been rising at a blistering pace over the past two months and are up 25.4 percent from a year ago. The hard durable goods orders data fly in the face of some of the regional manufacturing surveys that have shown a much more pronounced slowdown in new orders. Non-defense capital goods orders excluding aircraft accelerated to a 1.1 percent monthly gain following a soft July when these orders fell 0.2 percent. The durable goods orders data also support forecasts of continued business spending growth in the months ahead, despite the volatility and uncertainty riling global financial markets.

There Were Winners and Losers

Largely offsetting the civilian aircraft orders gain, vehicle and parts manufacturers saw a large pullback in orders in August, slipping 8.5 percent from July; though, this decline follows a huge 10.2 percent orders increase in July. The supply constraints that affected the auto industry following the Japanese earthquake and tsunami appear to be largely behind us now. Defense is one area where one can see a clear down-trend in orders forming. Defense orders have contracted for three consecutive months now and plunged another 5.7 percent in August alone. Both primary and fabricated metals orders fell less than 1.0 percent. On the Brightside, orders for computers and electronics, and electrical equipment partially bounced back from declines in July.

Shipments and Inventories Mixed

Durable goods shipments fell 0.2 percent in August, following a downwardly revised gain of 2.1 percent in July. Shipments still suggest a decent level of business spending in the third quarter that should ensure a positive GDP reading when the figure is released. Shipments are up a solid 9.8 percent from a year ago. Inventories advanced another 0.9 percent in August. The three-month annualized change in inventories has declined gradually since May, however. But, that has not stopped the inventory-to-shipments ratio from rising at a gradual pace to 1.82 as of August from 1.71 a year ago.



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