



## Economics Group

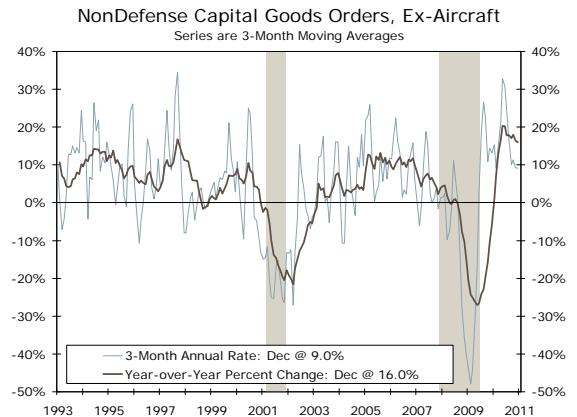
**Scott Anderson, Senior Economist**  
[scott.a.anderson@wellsfargo.com](mailto:scott.a.anderson@wellsfargo.com) • (612) 667-9281  
**Michael A. Brown, Economist**  
[michael.brown4@wellsfargo.com](mailto:michael.brown4@wellsfargo.com) • (704) 715-0569

# Durable Goods Orders Fail To Bounce Back in December

**Durable goods orders were weaker than expected for December, slipping 2.5 percent. Nondefense aircraft orders were virtually nonexistent in the month, on a seasonally adjusted basis.**

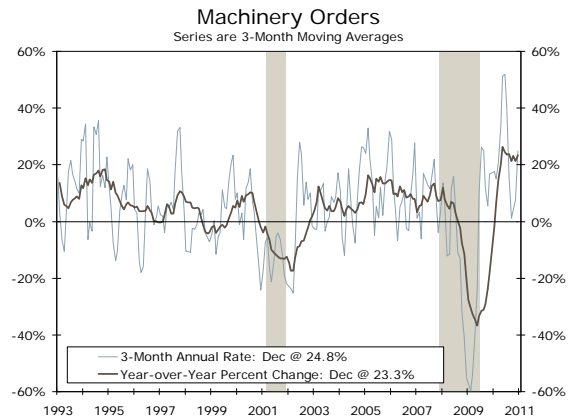
### Nondefense Capital Goods Orders Plunge Again

Despite expectations that non-defense aircraft orders would recover a bit in December, that was not the case in the initial release of the report. Seasonally adjusted, fourth quarter commercial aircraft orders dried up following a surge of order activity in September. This component alone has pushed non-defense capital goods orders significantly lower over the past three months. Those orders fell again in December by 6.3 percent from November's level. We expect a bounce in January or a major revision to the December data next month as Boeing reported it booked 55 aircraft orders in December. On a brighter note, November's durable orders were revised higher to a more modest 0.1 percent decline from an initially reported 1.3 percent decline. The upward durable goods orders revision for November all occurred outside the transportation sector.



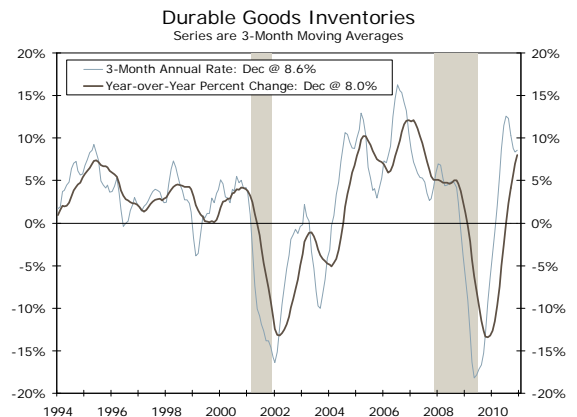
### Durable Goods Orders Soften in Several Sectors

Outside of the volatile transportation sector, new durable goods orders managed to advance at a modest 0.5 percent pace in December, in line with our expectations, but below the consensus of 0.9 percent increase on the month. Several sectors saw a pause in orders in December, though many had strong gains in November, so the trend remains stronger than it appears at first glance. Still, primary metals orders dropped 4.7 percent in December, while fabricated metals fell 1.0 percent. Computer and electronic orders slipped 1.2 percent in December after advancing at a 6.5 percent clip in November. Defense orders were also weak at the end of the year, dropping 3.6 percent in December. Machinery orders bucked the softening trend, jumping 10.6 percent in December. Yet, there is little evidence that the recovery is entering another production soft patch. This looks more like the normal ebb and flow that takes place in orders with a moderate economic expansion in place.



### Shipments Exceed Inventory Growth in December

Durable shipments jumped 1.4 percent in December, following a 0.5 percent gain in November, consistent with the improvement we have been seeing in the ISM manufacturing index and industrial production measures. Durable inventories gained 0.7 percent in December following a 0.9 percent increase in November. The inventory-to-shipments ratio fell to 1.61 in December from 1.62 in November. The inventory-to-shipments ratio has risen at a modest pace since this summer, but there is little prospect of production being impacted by the build-up. It is more likely a reflection of anticipated future demand and the need to rebuild depleted stocks.



## 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.brown4@wellsfargo.com
Tyler B. Kruse	Economic Analyst	(704) 715-1030	tyler.kruse@wellsfargo.com
Joe Seydl	Economic Analyst	(704) 715-1488	joseph.seydl@wellsfargo.com
Sarah Watt	Economic Analyst	(704) 374-7142	sarah.watt@wellsfargo.com

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