



## Economics Group

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# Durable Goods Orders Slip in February

**Durable goods orders were weaker than expected for February, slipping 0.9 percent. Defense orders plunged an unexpected 24.8 percent on the month, pushing the headline orders number lower.**

### Softer Orders, but Revisions Soften the Blow

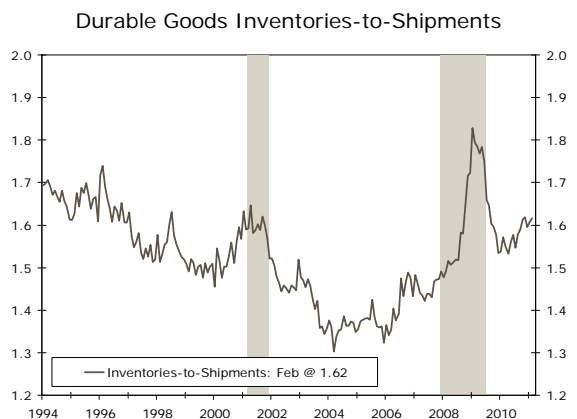
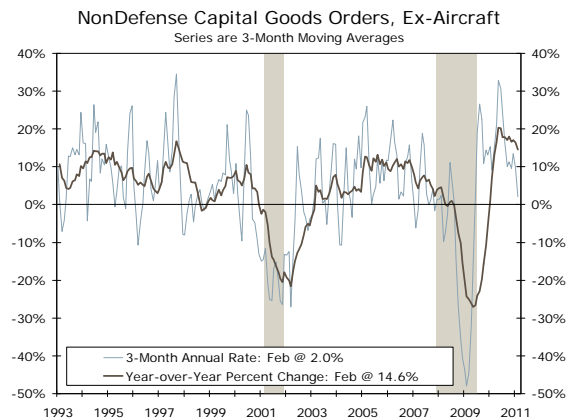
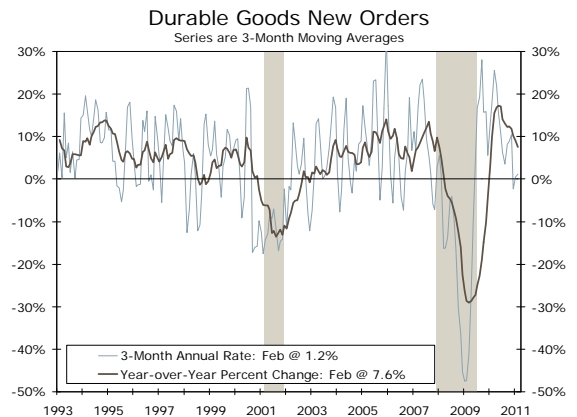
Durable goods orders fell 0.9 percent in February, though January orders were revised upwards from a 2.7 percent gain to a 3.6 percent gain making this month's decline in orders appear less dramatic. Excluding the volatile transportation sector, durable orders fell 0.6 percent in February, a smaller decline than January's 3.0 percent plunge. Looking at the details of the report, it appears a major driver of durable orders weakness comes from defense orders that slumped 24.8 percent in February, reversing much of the 33.7 percent gain the month before. Nondefense capital goods orders continued to increase, rising 2.5 percent in February on top of the strong 6.6 percent gain in January. But if aircraft are excluded, nondefense capital goods orders fell 1.3 percent in February, following a 6.0 percent decline in January.

### Durable Orders A Mixed Bag By Sector in February

Strong durable order gains in February were seen for electrical equipment, which increased 2.6 percent, reversing two consecutive months of order declines for this sector. Fabricated metals orders jumped 2.1 percent in February, building on January's 0.9 percent gain. Orders for vehicles and parts continued to grow at a healthy 1.9 percent pace, the same as January's growth rate. Computers and electronics orders appeared to stabilize this past month, managing a modest 0.6 percent increase, following a 5.1 percent decline in January. New order weakness was clearly visible, however, in machinery and primary metals. Machinery orders fell 4.2 percent in February, building on January's 12.7 percent plunge. Primary metals orders slipped 2.1 percent in February after increasing 2.9 percent in January. This data is hard to square with the stronger-than-expected increases we are seeing from the manufacturing surveys. At a minimum, this durable goods orders data will raise some doubt about the strength and sustainability of the U.S. manufacturing expansion.

### Shipments and Inventories Show Modest Growth

Shipments increased 0.3 percent in February and are up 7.5 percent from a year ago. Excluding defense, shipments are up 9.8 percent from a year ago. Nondefense capital goods shipments excluding aircraft increased 0.8 percent in February and over the past three months has been increasing at a 7.4 percent annualized rate. Inventories increased 0.9 percent in February, pushing up the inventory-to-shipments ratio to 1.62 from 1.61 in January. This ratio has been rising gradually, but remains well below the 1.71 level of a year ago.



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