



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 Plunge in March

Durable goods orders plunged 4.2 percent in March. Order declines were seen in a broad cross-section of categories. February's order gain was also revised down to a 1.9 percent increase from 2.2 percent.

A Big Miss On Durable Goods Orders

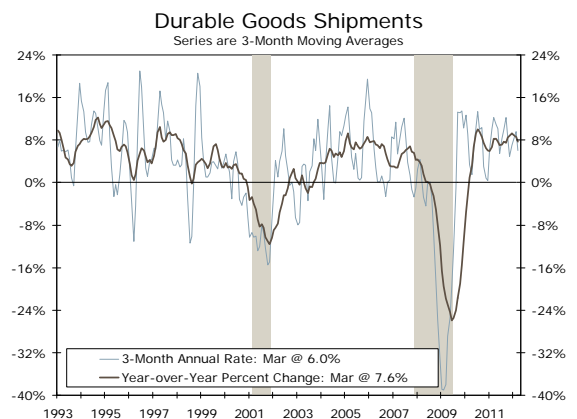
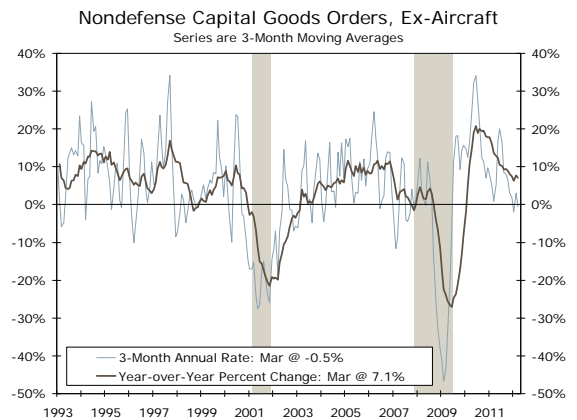
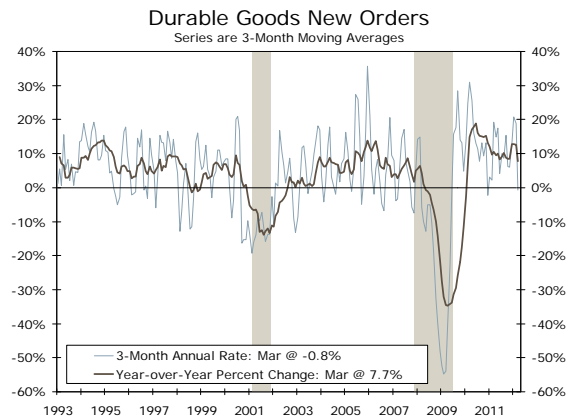
The durable goods orders report for March, released this morning, made for a sobering read. Markets had been bracing for a March decline of 1.7 percent largely on weak civilian aircraft orders on the month, but the decline in orders ended up being more broadbased than just aircraft orders. This weakness at the end of the first quarter sets the United States up for weaker manufacturing and weaker business equipment spending in the quarter ahead. The 4.2 percent decline in new durable goods orders in March was the biggest monthly decline in three years and puts the year-over-year increase in durable goods orders at a feeble 1.0 percent gain, down from an 18 percent year-over-year gain in February. It appears the recession in Europe and slower global growth may finally be having a bigger impact on durable goods orders here in the United States.

Transportation Orders Were Bad, But So Was...

The transportation sector drove the bulk of the decline in durable orders in March, plunging 12.5 percent on the month. Non-defense aircraft orders were cut in half, falling 47.6 percent from February. Vehicle and parts orders were steady in March, rising another 0.1 percent from February. But order weakness was even visible beyond the usual suspects. Non-defense capital goods orders excluding aircraft, one of the most closely watched measures of future business spending trends, slipped 0.8 percent in March, pushing the three-month moving average on this component to a decline of 0.5 percent. Big March declines also occurred in machinery, falling 2.6 percent, though this was coming off of a solid 7.9 percent increase in February. There were also signs of slowing in technology demand as computers and electronics orders fell 1.8 percent on the month, partially reversing February's 2.3 percent increase. Primary and fabricated metals orders fell 1.8 percent and 1.5 percent, respectively. While one month of weak orders data does not make a trend, taken together this will certainly raise concerns about the sustainability of the economic momentum that the U.S. economy has garnered in recent quarters, and will raise concerns that a worsening of the Eurozone recession or sovereign debt crisis could have a bigger impact on activity here in the United States.

Durable Shipments Close Q1 on A Solid Note

Shipments gained another 1.0 percent in March, and February shipments were revised a bit higher to a decline of only 0.3 percent. This solid shipments data nearly ensures decent capital goods investment gains in the first quarter GDP release, taking some of the sting out of the durable orders figures. Durable inventories increased 0.4 percent in March, about the same rate of inventory build that has been seen since November.



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 | Senior Economist | (704) 715-0575 | anika.khan@wellsfargo.com |
| Azhar Iqbal | Econometrician | (704) 383-6805 | azhar.iqbal@wellsfargo.com |
| Tim Quinlan | Economist | (704) 374-4407 | tim.quinlan@wellsfargo.com |
| Ed Kashmarek | Economist | (612) 667-0479 | Ed.kashmarek@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 |

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Advisors, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2012 Wells Fargo Securities, LLC.

Important Information for Non-U.S. Recipients

For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited (“WFSIL”). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Services Authority. The content of this report has been approved by WFSIL a regulated person under the Act. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FSA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, not will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients. This document and any other materials accompanying this document (collectively, the “Materials”) are provided for general informational purposes only.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

