



Economics Group

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Durable Goods Orders Remain Modest in May

Durable goods orders rose 1.1 percent in May after April's data was revised to a drop in orders of 0.2 percent. Capital goods orders bounced back for the month, but continue to show signs of weakening.

Durable Goods Orders Swing Back Into Positive Territory

New orders for durable goods swung back into positive territory in May, the first positive reading since February's 2.0 percent increase. The primary driver of the increase was tied to transportation equipment, as nondefense aircraft and parts orders rose 4.9 percent for the month. Durable goods orders excluding transportation rose 0.4 percent. Defense orders bounced back rising 7.8 percent off a 24.1 percent contraction in April. Orders fell for computers and electronics, primary metals and fabricated metals. The bright spots included a 4.1 percent increase in machinery orders and a 1.1 percent increase in electrical equipment.

Concerns About Capital Goods Orders

The most concerning aspect of the report was the softer pace of capital goods orders. While capital goods orders rose 1.9 percent for the month, it comes on the heels of sharp drops in March and April. Nondefense capital goods excluding aircraft rose 1.6 percent for the month. The problem is that sharp contraction in nondefense capital goods orders ex-transportation in March and April have now pulled the three-month annualized pace of these orders to a decline of 7.4 percent. Orders for transportation goods climbed 2.7 percent as nondefense aircraft orders rose a robust 4.9 percent. Vehicle and parts orders softened for the month to 0.5 percent indicative of the overall slowdown in the automobile market.

Shipments Remain Modest, Some Inventory Building

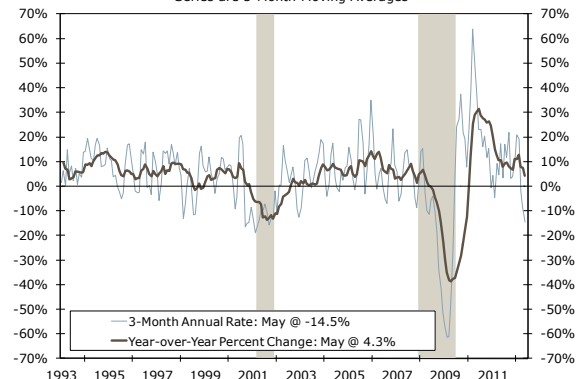
Shipments of durable goods rose 0.7 percent for the second month in a row. Excluding transportation, shipments rose 0.3 percent. Capital goods shipments slowed to a 5.3 percent three-month annualized rate in May from a 7.4 percent pace in April. Durable goods inventory levels climbed 0.5 percent for the month mostly driven by the volatile transportation sector.

Implications for Second Quarter Growth

The pace of orders, excluding the volatile transportation component, provides the best sense of the underlying trend in durable orders. The modest rise of 0.4 percent this month suggests that durable goods orders continue to remain soft, suggesting a likely downshift in industrial production going forward. In addition, the weaker three-month annualized pace of nondefense capital goods orders ex-aircraft suggests that equipment and software purchases will not significantly add to economic growth in the current quarter. There could be some support to growth in the current quarter from a slight inventory build. While prices have begun to come down, the three-month annualized rate of durable inventories still rose 0.5 percent to \$16.8 billion. This is the second month in the quarter that durable inventory levels have begun to edge upwards.

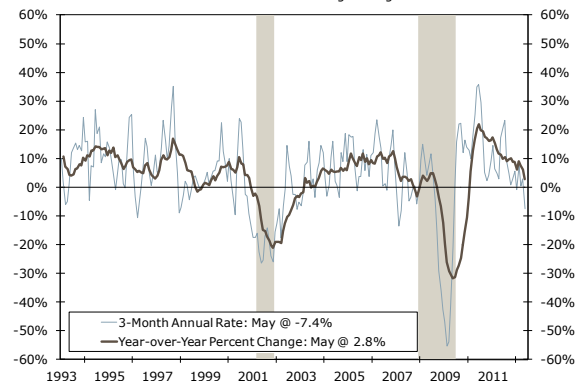
Durable Goods New Orders

Series are 3-Month Moving Averages



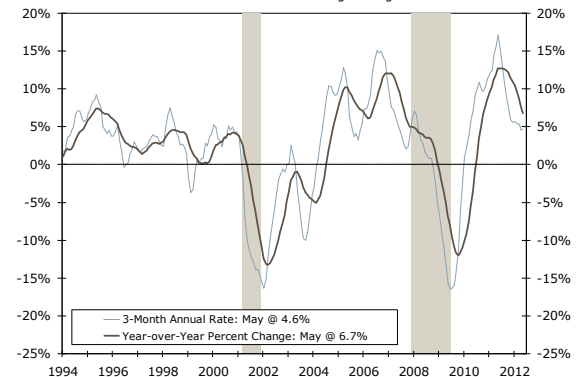
Nondefense Capital Goods Orders, Ex-Aircraft

Series are 3-Month Moving Averages



Durable Goods Inventories

Series are 3-Month Moving Averages



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