



Economics Group

Jay H. Bryson, Global Economist
jay.bryson@wellsfargo.com • (704) 383-3518

Durable Goods Orders Stronger Than Appearances

Transportation dragged down overall orders for durable goods. However, the report was stronger than the headline would suggest, and points to continued expansion in the nation's factory sector.

Report is Stronger Than the Headline Would Suggest

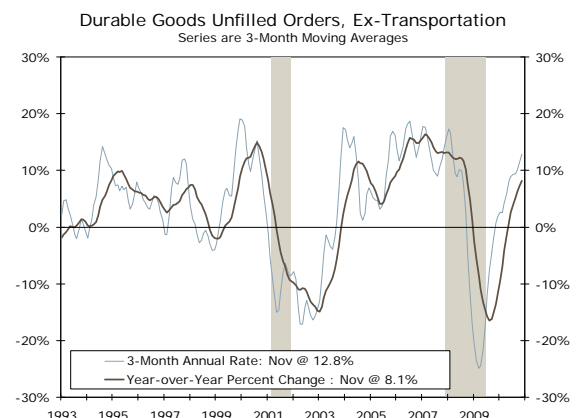
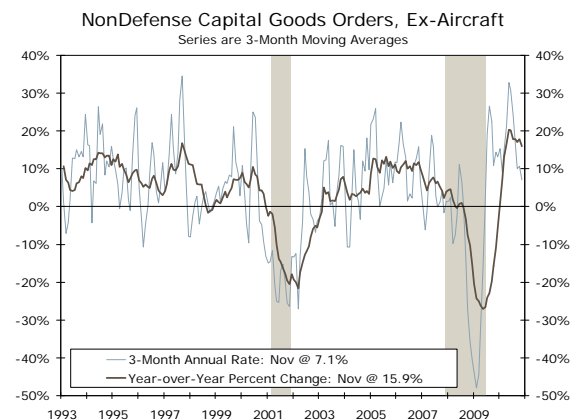
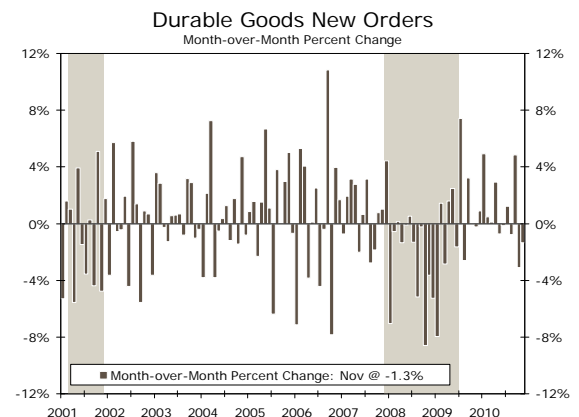
Orders for durable goods fell 1.3 percent in November relative to the previous month. Not only was the outturn weaker than the consensus forecast had anticipated, but November was the second consecutive month in which overall orders have declined (top chart). That said, we would not characterize this report as "weak." The decline in overall durable goods orders in October was due largely to the 53.1 percent drop in nondefense aircraft, which can be very volatile on a monthly basis. Orders for vehicles and parts were also off 2.9 percent. Excluding transportation, durable goods orders were up 2.4 percent in November, easily beating the 1.8 percent increase the market consensus forecast was expecting. Moreover, October's outturn, which originally showed a 2.7 percent decline, was revised to a less sharp drop of 1.9 percent. In sum, orders for durable goods less transportation equipment, which accounts for three-quarters of total orders, were much stronger than expected.

Outside of the transportation sector, the rise in orders in November was broad based, which shows that the recovery in the factory sector is becoming self-sustaining. Orders for electrical equipment rose 5.6 percent, more than reversing the 2.0 percent decline recorded in October, and machinery orders were up 0.5 percent. Orders for metals, both primary and fabricated, also posted decent gains in November. The component of orders that measures private capital spending (non-defense capital goods orders less aircraft) rose 2.6 percent. Although this component is no longer growing at the double-digit rates that prevailed a few months ago, the 7.1 percent annualized increase over the past three months shows that business fixed investment spending continues to grow at a solid rate.

Orders Pipeline Remains Full

Not only did new orders for non-transportation goods post a strong increase in November, but unfilled orders rose 1.3 percent. Over the past three months, unfilled orders have risen at an annualized rate of 12.8 percent, suggesting that the production pipeline is filling up (bottom chart).

Today's report is consistent with the new orders component of the ISM manufacturing index, which in November remained well above the demarcation line that separates expansion from contraction. The bottom line is that production in the factory sector looks set to expand further in the months ahead, which reinforces our expectation that the U.S. economy will continue to expand in the New Year.



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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