



Economics Group

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Factory Orders Hit Milestone, Halfway Back to the Top

With a \$5.1 billion increase in April, factory orders are more than halfway back to pre-recession levels. With the help from the inventory rebuilding largely behind us, strength from here must come from demand growth.

Business Spending Picture Brightening

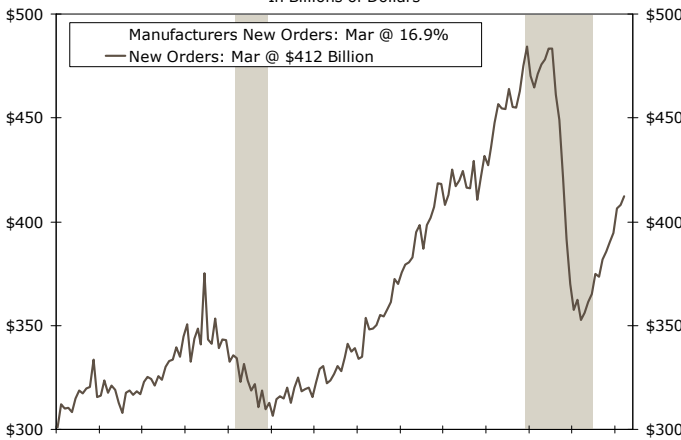
- As we saw in last week's durable goods report, overall orders were helped by a massive jump in aircraft orders, but there was also positive contribution from sectors usually associated with business spending, such as orders of communication equipment and electronic components.
- Non-defense capital goods orders, ex-aircraft were revised to show a smaller dip in April than first reported.

Quick Pace of Shipments has Cleared Excess Inventory

- Capital goods shipments outside of defense and the aircraft sector feed into GDP and are now growing at a more than 15 percent annualized rate. Much of the recovery in the factory sector over the past year has been fueled by a seismic inventory adjustment. As the inventory-to-shipment ratio shows, stockpiles seem to be right-sized to match demand. Further growth from here must come from true demand growth.

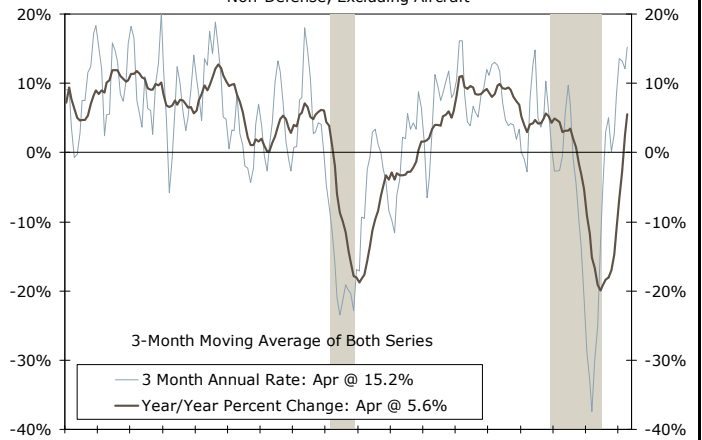
Manufacturers' New Orders

In Billions of Dollars



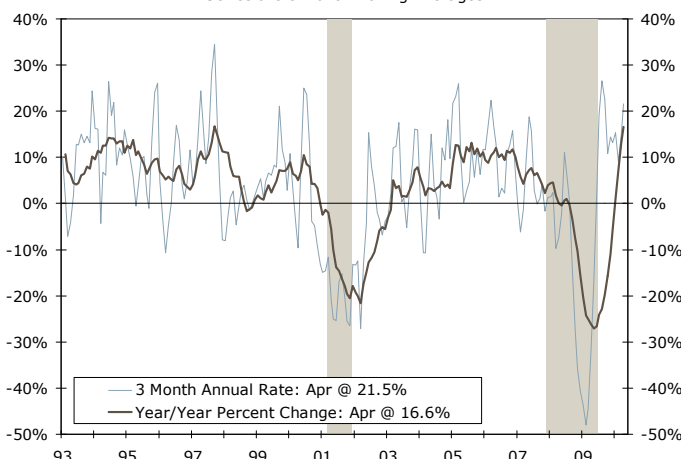
Manufacturers' Capital Goods Shipments

Non-Defense, Excluding Aircraft



New Orders Non-Defense Capital Goods Ex-Aircraft

Series are 3 Month Moving Averages



Inventory to Shipments Ratio

Manufacturers



Source: Department of Commerce and Wells Fargo Securities, LLC

Wells Fargo Securities, LLC Economics Group

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