



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

Factory Orders Contract Again in April

U.S. factory orders failed to bounce back in April, slipping another 0.6 percent. March factory orders were also revised lower to a 2.1 percent decline. A manufacturing slowdown is already underway.

Another Weak Factory Orders Report

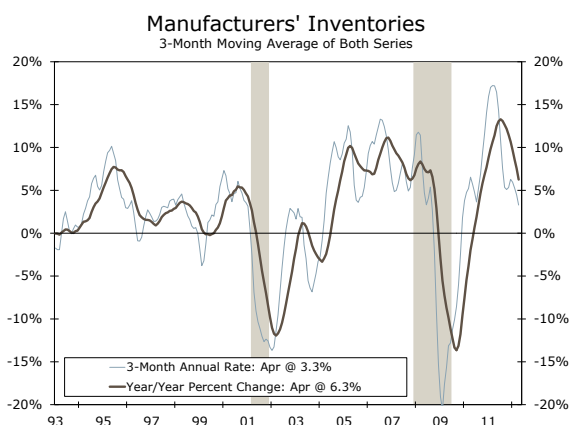
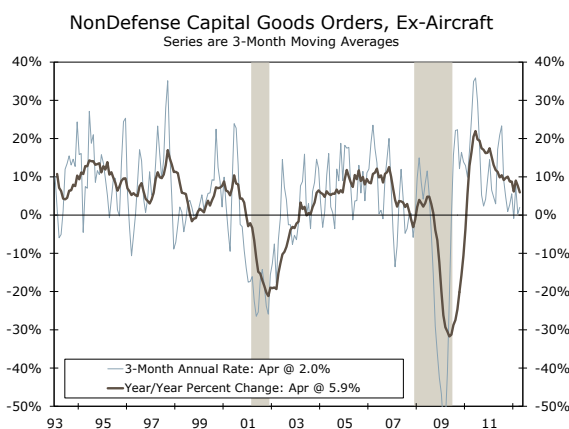
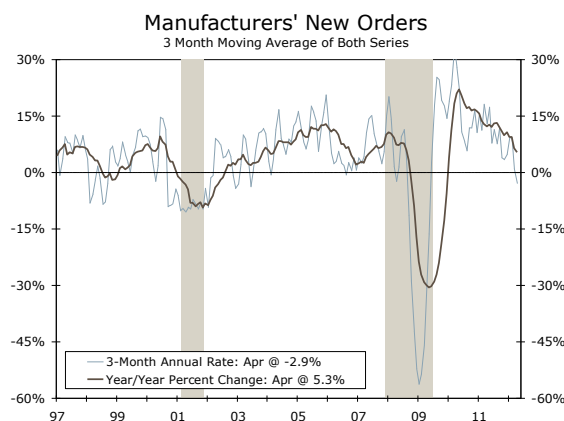
Factory orders disappointed consensus expectations once again, slipping 0.6 percent in April after falling a downwardly revised 2.1 percent in March. Originally, it was reported that factory orders fell only 1.5 percent in March. The details of the report looked even uglier than the headline. Nondefense capital goods orders (excluding aircraft) have fallen now for two consecutive months, dropping 2.1 percent in April and 2.3 percent in March. This key reading on future business investment has dropped in three of the past four months.

The factory orders data certainly corroborates some of the weaker manufacturing PMI readings lately, suggesting that a manufacturing and perhaps a business spending slowdown is already underway in the United States. We have certainly been anticipating some weakening in activity, as the European sovereign debt crisis and recession begins to weigh more heavily on U.S. exports and on global economic growth. The ISM manufacturing new orders index for May did show a large increase in the new orders component; giving investors and policymakers some hope that the soft orders data in March and April may still be just a temporary phenomenon.

Both Durable and Nondurable Orders Fizzle in April

Durable goods orders were revised down in this morning's report to a flat reading from an initially reported 0.2 percent increase. Excluding the volatile transportation sector, durable goods orders fell 0.9 percent in April. Computer and electronics orders slipped for the second month in a row, falling another 0.8 percent. Defense orders plunged 21.5 percent in April after large gains in the first quarter of the year. Defense orders were 34.8 percent below year-ago levels in April, and capital goods orders were 0.5 percent less than last year at this time. Nondurable orders were even weaker, falling 1.1 percent in April. Petroleum orders fell 4.4 percent as weaker crude prices were factored in.

Shipments fell 0.3 percent in April, but remained 4.4 percent higher than a year ago. Shipments of nondefense capital goods (excluding aircraft) fell a larger 1.5 percent. Even so, the three-month annualized average improved to a 7.4 percent pace. Factory inventories were unchanged in April, as manufacturers held the line on inventory accumulation. Inventory growth has been on a downtrend, as order activity has softened. The inventory-to-shipments ratio remained unchanged in April, at 1.28 months, where it has been since December. Unfilled orders also fell 0.1 percent. Softer orders and mixed PMIs lead us to believe that production and business spending is downshifting, though the lack of inventory building suggests that this is still just a slowdown and not a contraction.



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