



# Economics Group

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## Factory Orders Bounce Back In May

*After posting a 0.7 percent decline in April, factory orders bounced back by 0.7 percent in May. Durable goods orders were revised upward from their initial estimate, suggesting that orders remained modest in May.*

### Factory Orders Reaffirmed Manufacturing Sector Downshift

Factory orders bounced back in May, posting a 0.7 percent increase after two months of consecutive declines. New factory orders excluding the volatile transportation component rose 0.4 percent. Capital goods orders rose 2.3 percent for the month; however the rebound was not enough to compensate for the sharp pullback over the previous two months. The three-month annualized rate of capital goods orders declined 6.9 percent as of May suggesting that business investment will likely be much weaker in the second half of the year. Defense orders came back, posting a 7.7 percent increase after a sharp pullback in April.

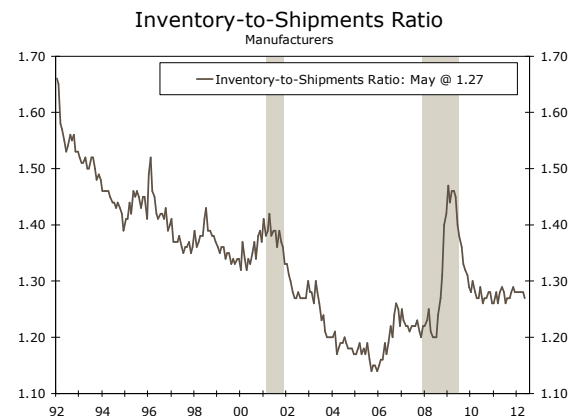
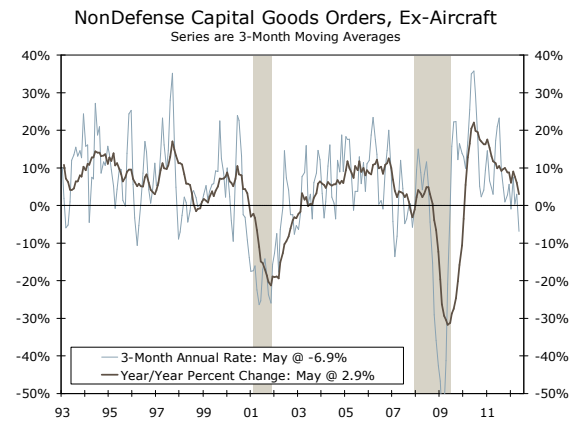
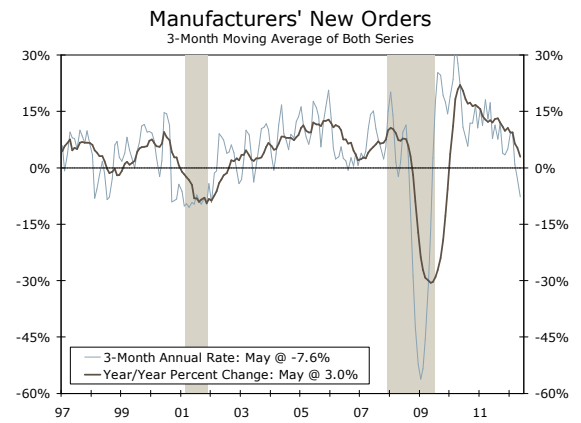
In general, the report provided a modest upside surprise from consensus; however, the rebound was not enough to offset the pullback in new orders in March and April. When this data is taken into perspective with the regional manufacturing indices and the ISM survey, there emerges a clear picture of a weakening manufacturing sector. Weakening global economic conditions along with softer consumer demand and evidence of slower business investment lead us to believe that manufacturing production will continue to slow in the months ahead. We reiterate our view for subpar economic growth around 1.5 percent for the second quarter.

### Upward Revisions to Initial Estimates

While factory orders remained fairly weak for the month, there was some good news in the report as orders for both durable goods and capital goods excluding nondefense aircraft were revised upward. Durable goods orders were revised higher to 1.3 percent from the originally reported 1.1 percent increase. Nondefense capital goods orders excluding aircraft also rose more than expected in May, increasing 2.1 percent as opposed to the originally reported 1.6 percent rise. Given the upward revisions to these numbers, the negative hit to the manufacturing sector has been reduced somewhat.

### Shipments Rise as Inventories Remain in Check

Total shipments rose 0.5 percent for the month with shipments of durable goods rising 0.8 percent and nondurable shipments rising for the first time in two months, up 0.2 percent. Shipments of transportation equipment accounted for most of the rise in shipments, posting a 1.6 percent increase. The inventories-to-shipments ratio fell for to 1.27 months from April's 1.28 months, marking the first decline in the ratio since December 2011. The slight drop in the I/S ratio likely reflects the pullback in oil prices rather than manufacturers electing to hold less inventory on hand. Nondurable inventories, which capture oil inventories, have pulled back in each of the past three months coincides with the fall in petroleum prices. Inventories of nondefense capital goods excluding aircraft are still up, increasing 0.5 percent for the month.



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