



Economics Group

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Durable Goods Orders Plunge in April

Durable goods orders reveal a slower path for U.S. manufacturing activity over the near term. Durable orders fell 3.6 percent in April. Declines were broad-based and not confined to just autos and aircraft.

Durable Goods Orders Looking Very Soggy

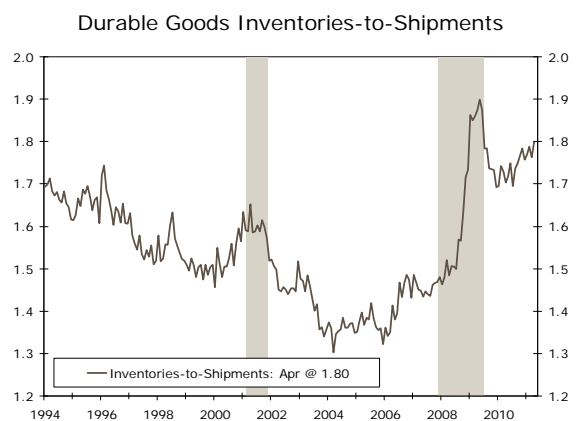
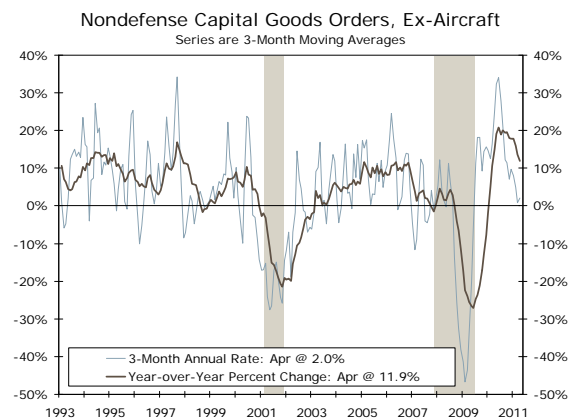
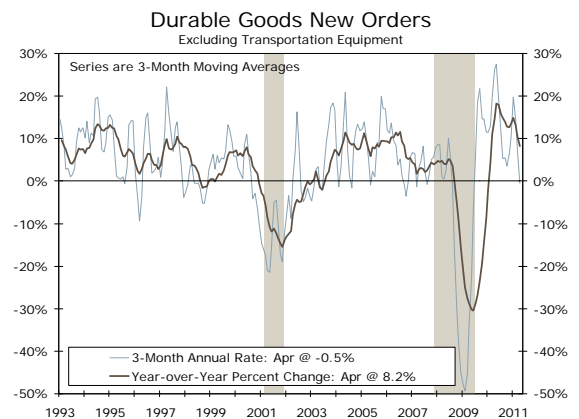
The larger-than-expected 3.6 percent decline in April durable goods orders will add to fears that the manufacturing sector and business investment recovery is pausing. The markets had been anticipating a large decline on the month due to declines in autos and civilian aircraft, and the initial release of the data did not disappoint. Nondefense aircraft orders fell 30.0 percent in April, while vehicle and parts orders slipped 4.5 percent. But large durable order declines were also seen in a wide spectrum of industries. Notably, electrical equipment orders fell 4.9 percent in April. Machinery orders dropped 3.4 percent and primary metals orders declined 1.6 percent. If there is a silver lining here, it was the fact that the March durable goods orders were revised higher to a 4.4 percent gain from a previously reported 4.1 percent increase. Still, the year-over-year increase in durable orders reveals a clear down trend from last year's pace, suggesting perhaps a more prolonged slowdown in the manufacturing and business investment recovery. Some analysts will discount this durable orders weakness as merely an artifact of the Japanese tsunami and earthquake impacting supply chains and orders around the world. There is little doubt that this is hurting our ability to separate the noise from the signal here, but over the near term the reasons of the decline in orders do not really matter and downside risks to the consensus forecast for second quarter GDP.

Keep Your Eye on Nondefense Capital Goods Orders

Nondefense capital goods orders excluding aircraft is a key indicator of future business fixed investment in the GDP report, so this component of today's report deserves special attention. Nondefense capital goods orders plunged 7.3 percent in April, but excluding volatile aircraft orders the picture improves a bit to 2.6 percent decline. This weakness comes off of solid order readings for March, however. Nondefense capital goods orders increased 5.4 percent in March. In short, there has been a lot of volatility in the monthly orders data recently, but the trend is clearly pointing to a weaker business spending environment over the near term that could prompt further cuts in economist GDP forecasts.

Shipments and Inventories show Modest Growth

April shipments also disappointed, falling 1.0 percent overall, though computer and electronic shipments managed a 3.5 percent gain. Inventory gains were in-line with expectations, rising 0.9 percent on the month. The weakness in shipments combined with the inventory gains pushed the inventory-to-shipments ratio up to 1.80 months from 1.76 months in March.



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