



## Economics Group

Tim Quinlan, Economist

[tim.quinlan@wellsfargo.com](mailto:tim.quinlan@wellsfargo.com) • (704) 374-4407

Sarah Watt, Economic Analyst

[sarah.watt@wellsfargo.com](mailto:sarah.watt@wellsfargo.com) • (704) 374-7142

## Durable Goods Orders Stabilize in October

*Durable goods orders were unchanged in October, while September's gain was revised slightly lower. Core capital goods orders picked up, but with shipments down, near term business spending will remain weak.*

### Orders Flat-line in October, but Capex Details Look Better

After two months of aircraft-driven swings, durable goods orders stabilized in October, with an unchanged reading. The flat print was better than the 0.7 percent decline expected, but comes on the heels of a 0.7 percentage point downward revision to what was first reported for September. On net, the headline was roughly in line with consensus, but the underlying details are slightly more encouraging.

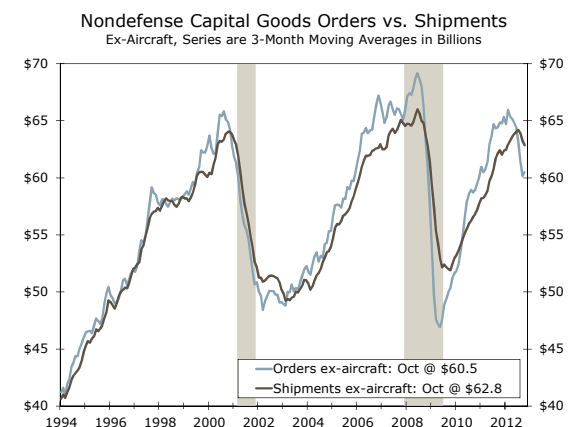
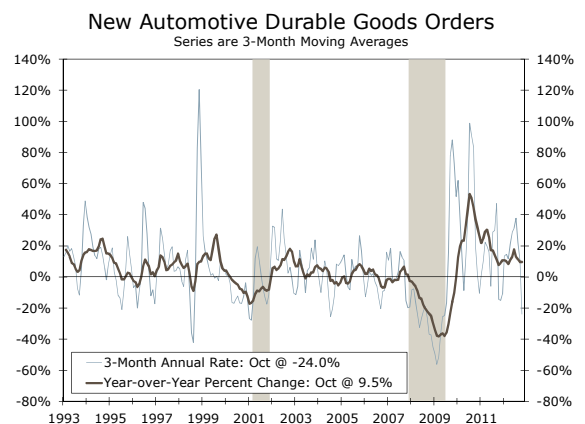
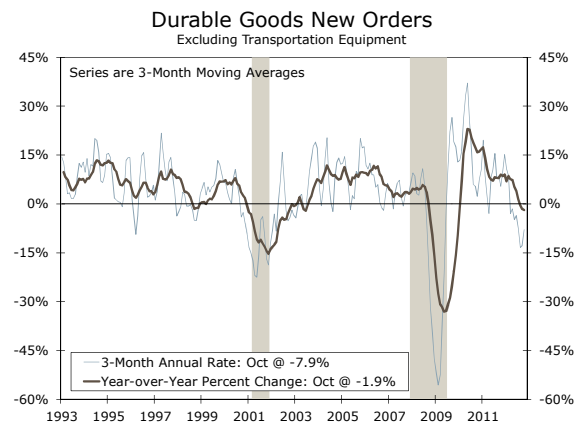
Orders for transportation goods declined 3.1 percent on the month, dragged down by both aircraft and vehicles and parts orders. After jumping to a 14.9-million unit annual pace in September, auto sales fell back in October, making the 1.6 percent decline in vehicles and parts orders not wholly unexpected as dealers try to manage inventories.

Stripping out transportation, new orders rose 1.5 percent in October, beating expectations for a 0.5 percent decline. Gains were fairly broad across sectors. Computers and electronics orders rose 0.9 percent, the first gain since April. Orders for electrical equipment reversed the 4.1 percent decline in September, bringing orders back to August levels, while machinery orders rose for the second straight month, up 2.9 percent. Primary and fabricated metals also posted gains in October and are both up compared to a year earlier.

Nondefense capital goods ex-aircraft orders also posted a better-than-expected gain, rising 1.7 percent. This is the strongest increase since May, but "core" orders remain down 15.6 percent on a three-month average annualized basis and are 7.0 percent below year-ago levels. Given the weakness we have seen in recent months for new orders, it is of little surprise to see core shipments fall in October.

### Business Spending Outlook Remains Cloudy

With new orders stalling in October and trending below shipments, there does not look to be much of a reprieve for business spending in the fourth quarter. Uncertainty surrounding how the fiscal cliff might be resolved is likely weighing at least somewhat on demand, but the evidence on how much it may be reducing current business spending is difficult to quantify. The end of bonus depreciation may continue to weigh on orders over the next few months and weaken capital spending in the first quarter. However, after 100 percent expensing in 2011 was reduced to 50 percent expensing in 2012, this dynamic may have already run its course and may not be significant factor for lower business spending in the near term. The global recovery is still not firing on all cylinders, which is also limiting demand for capital goods from the United States. We look for equipment and software spending to slow at an annualized rate of 2.7 percent in the fourth quarter and contract at a 3.0 percent clip in the first quarter of 2013.



## Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(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
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
Michael A. Brown	Economist	(704) 715-0569	michael.a.brown@wellsfargo.com
Sarah Watt	Economic Analyst	(704) 374-7142	sarah.watt@wellsfargo.com
Kaylyn Swankoski	Economic Analyst	(704) 715-0526	kaylyn.swankoski@wellsfargo.com
Sara Silverman	Economic Analyst	(704) 715-7395	sara.silverman@wellsfargo.com
Zachary Griffiths	Economic Analyst	(704) 715-1030	zachary.griffiths@wellsfargo.com
Peg Gavin	Executive Assistant	(704) 383-9613	peg.gavin@wellsfargo.com
Cyndi Flowe	Administrative Assistant	(704) 715-3985	cyndi.h.flowe@wellsfargo.com

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