November 27, 2012

Economics Group

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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.

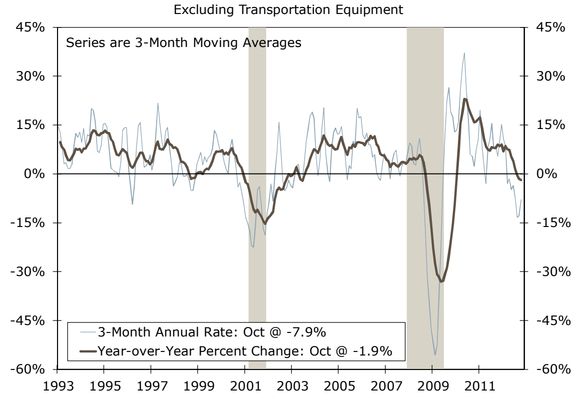
Stripping out transportation, new orders rose 1.5 percent in October, beating expectations for a 0.5 percent decline. Gains were fairly broad across sectors. Computers and electronics orders rose 0.9 percent, the first gain since April. Orders for electrical equipment reversed the 4.1 percent decline 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.

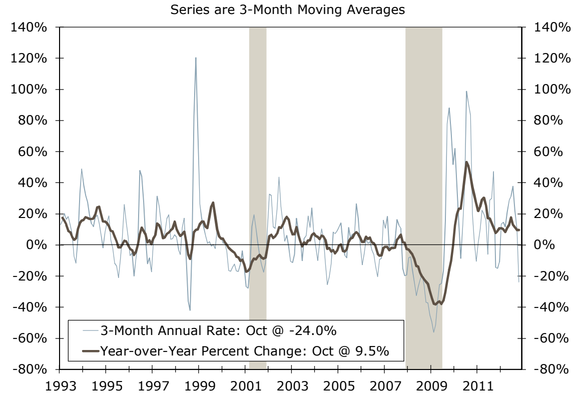
Business Spending Outlook Remains Cloudy

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.

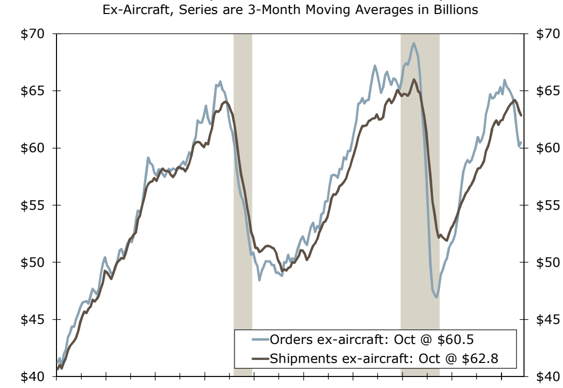
Durable Goods New Orders
Excluding Transportation Equipment



New Automotive Durable Goods Orders
Series are 3-Month Moving Averages



Nondefense Capital Goods Orders vs. Shipments
Ex-Aircraft, Series are 3-Month Moving Averages in Billions



Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

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