

## Economics Group

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# Durable Goods Orders Fall on Broad-Based Weakness

*Durable goods orders fell 2.0 percent in October from an upwardly revised September figure. Declines in civilian and military aircraft led the retreat, but even outside the transport sector orders fell slightly.*

## Ex-Transportation, Orders Fell for Third Straight Month

There is a lot to unpack in today's report which was generally disappointing but not a complete disappointment. For starters, the 2.0 percent headline decline for October was in line with consensus expectations, but September's initially reported 3.7 percent surge was revised higher to an increase of 4.1 percent. On that basis, this report was just a bit better than consensus estimates. Additionally, the first look at ex-transportation orders in September showed a modest decline, but this too has been upwardly revised to a slight 0.2 percent increase.

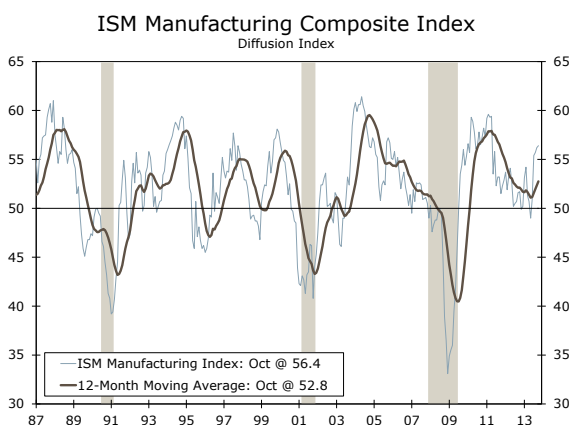
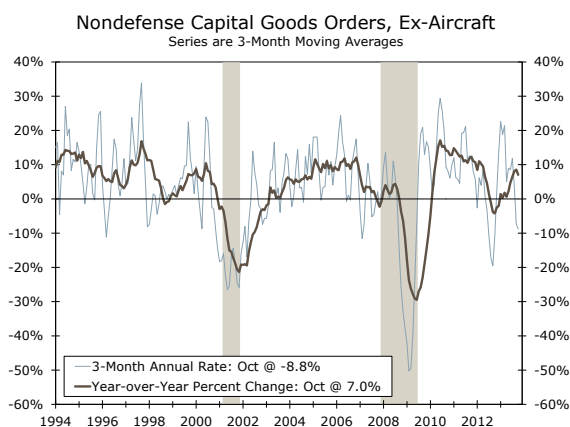
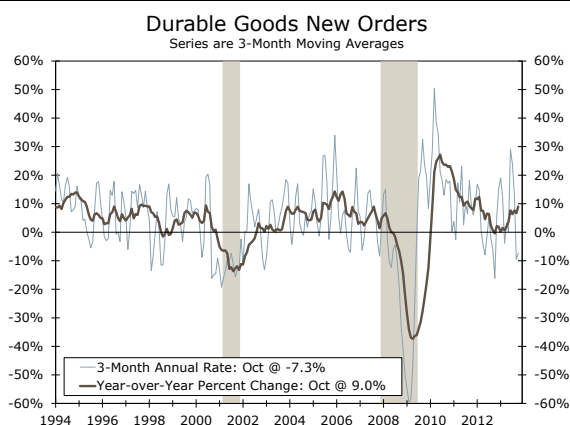
The expectation of the headline decline was broadly expected on the basis of some giveback in aircraft orders which surged last month. That played as expected, with a 15.9 percent decline in civilian aircraft orders and a 20.0 percent decline for military aircraft. A 1.7 percent monthly increase in vehicles and parts orders offset some of the weakness in the volatile transportation sector.

## Weakness Outside the Transportation Sector More Troubling

While the ex-transportation number did benefit from an upward revision to September's data, the 0.1 percent decline in this category was a significant miss from the 0.5 percent gain that had been expected. Orders outside the transportation sector have now fallen in three out of the past four months, raising some doubt about the prospects for business spending.

In terms of the underlying categories, orders for computers and electronics products fell 7.6 percent, and shipments for this same series fell 9.1 percent in the month. The weakness was not limited to high-tech sectors, as fabricated metals, as well as machinery orders, were negative in October as well. Primary metals and electrical equipment were both positive but neither category posted gains of more than 3.0 percent.

Nondefense capital goods, ex-aircraft (core capital goods) fell another 1.2 percent in October, and are now falling at a 3-month average annualized rate of 8.8 percent. We have emphasized in recent months that it is imperative not to be lulled into a sense of complacency by the strong survey data. The ISM manufacturing index struck a two-and-a-half year high in October. That seems strangely out of step with these weak orders figures in the factory sector. Late in 2012, concern about the so-called "fiscal cliff" created so much apprehension on the part of purchasing managers that level of orders clearly broke through the level of shipments. A quick reversal came in the early months of 2013, when the worst fears were not realized, some of the uncertainty around fiscal policy temporarily subsided and the economy avoided recession. Perhaps orders data will improve when there is more clarity in terms of fiscal policy. Unfortunately, it is beyond the scope of economics to know when Congress will act.



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