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Economics Group

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Durable Goods Orders Slip, but Details More Encouraging

Durable goods orders fell 1.0 percent in January, but underlying details were more encouraging. Core orders rebounded and suggest that the recent slowdown in data may indeed be partially due to nasty weather.

Transport Orders Drag Down Headline, Core Orders Rebound

As extreme winter weather has blasted much of the United States, economic activity, including manufacturing, seems to have taken a beating. We already saw the ISM Manufacturing Index buckle in January, plunging 5.2 points to 51.3. Manufacturing production also fell under the weight of severe weather, dropping 0.8 percent last month. Today's report on durable goods orders suggests that the recent weakness may be temporary, although the pace of underlying activity remains rather modest.

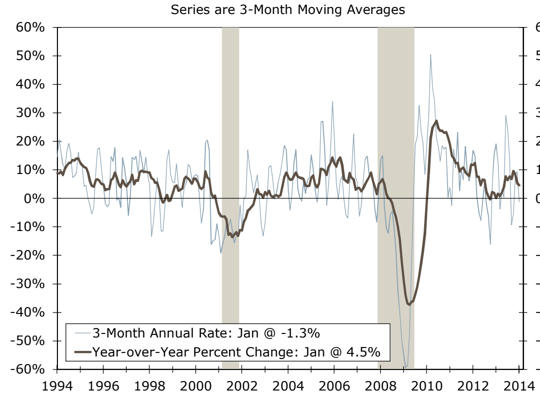
Durable goods orders in January fell 1.0 percent, which was better than expected, although last month's drop in orders was revised lower by a full percentage point. Orders have fallen in three of the past four months, but underlying details suggest manufacturing activity is not falling off the rails. Much of the weakness came from the transportation sector. After falling 12.0 percent in December, transportation orders dropped an additional 5.6 percent in January. Although aircraft orders tend to fall in January, this pullback in January was steeper than usual, leading to a 20.2 percent decline in aircraft orders. A bit more worrisome was a 2.2 percent decline for vehicle and parts orders, which followed a downwardly revised 6.6 percent decline in December. Auto sales have slowed over the past few months and retailers are grappling with elevated inventories, so the pullback in orders may be necessary to bring inventories more in line with slowing demand for autos.

Outside of the transportation sector, orders rose 1.1 percent, partially offsetting last month's decline. The increase was largely driven by a rebound in fabricated metals and electronics. Orders declined for the third straight month for primary metals, while machinery and electrical equipment orders also declined. Encouragingly, nondefense capital goods orders excluding aircraft bounced back 1.7 percent, bringing the three-month average annualized rate of core orders up to 6.6 percent. However, shipments for core orders, which are a good gauge of capital investment, fell 0.8 percent in January and are another indicator that growth in the economy has gotten off to a slow start this year.

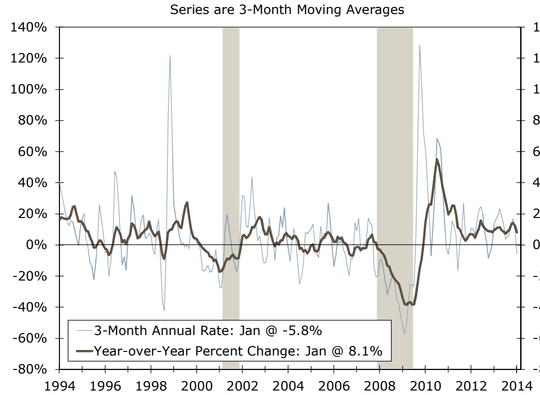
After the Thaw

As disappointing economic data continue to roll in, concerns are mounting that the slowdown may be due to more than the extreme winter weather. It will likely be another month or so until we are able to get a "clean" read of the data given that the weather was just as brutal in much of the country in February as in January. However, today's durable goods report supports the view that economic activity has not completely frozen. Core orders continue to grind higher, and despite last month's pullback in the ISM Manufacturing Index, the index remains in expansion territory.

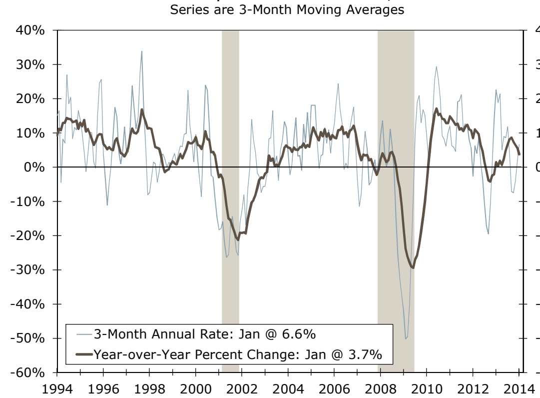
Durable Goods New Orders
Series are 3-Month Moving Averages



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



Nondefense Capital Goods Orders, Ex-Aircraft
Series are 3-Month Moving Averages



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

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