



# Economics Group

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## Durables Rebound on Transportation but Core Orders Soft

*Durable goods orders snapped a two-month decline in February, increasing 2.2 percent. The rise was primarily driven by a rebound in transportation, while ex-transport orders rose a more-modest 0.2 percent.*

### Details Not as Glossy as the Headline

The durable goods report has lived up to its volatile reputation over the past six months, with orders increasing in three months and decreasing in the remaining three. This seesaw ride continued in February. After falling over the past two months, orders rose 2.2 percent.

Not only has the headline been a whipsaw, but the monthly movements of the report's major components have bounced around. Transport orders have been a notable drag in recent months. After falling 12.1 percent in December, transport orders fell an additional 6.2 percent in January as both aircraft and vehicles & parts orders were cut. Today's report showed transport orders bouncing back 6.9 percent. Aircraft orders rose 15.2 percent, with a rise from both the defense (up 21.1 percent) and nondefense sectors (up 13.6 percent). Motor vehicle & parts orders rebounded 3.6 percent, more than reversing January's decline, but are still down relative to November. The slower pace of auto orders should help to alleviate the worrisome build up in inventories at the retail level.

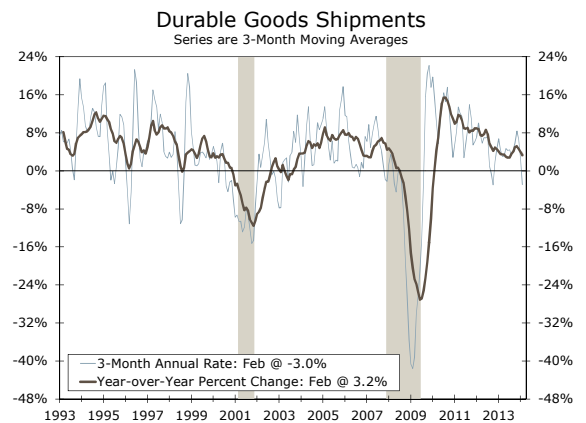
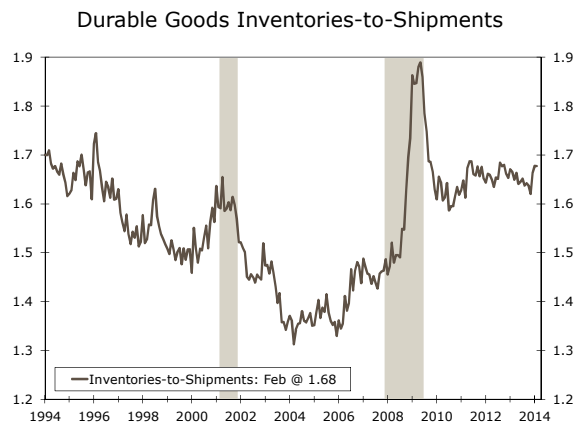
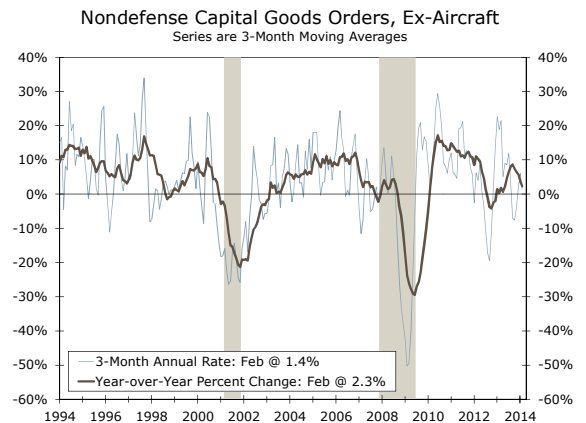
While transport orders were falling last month, the outlook for production was buoyed by a pickup in nondefense capital goods orders excluding aircraft, or "core" orders. However, core orders fell back in February, declining 1.3 percent. Moreover, January's gain of 1.7 percent was nearly cut in half to an increase of only 0.8 percent. Weakness was seen in the electrical equipment and machinery components, both of which have experienced back-to-back declines. Taking account of revisions, core orders are increasing at only a 1.4 percent three-month average annualized rate.

### Inventories See Another Rise

Slower activity in the manufacturing sector has led to some concern over inventory levels. Inventories rose another 0.8 percent in February, keeping the inventory-to-shipments ratio elevated at 1.68 despite the 0.9 percent rebound in durable shipments last month.

### First Quarter Capital Spending Looks Weak

Today's report lends some support to the view that the winter slowdown in manufacturing activity is temporary, likely affected by the adverse weather conditions that have plagued much of the country, but are fading. Yet, even with a further pickup in March, some damage has already been done and soft spots linger. Core shipments fell 1.4 percent in January, and therefore, this key gauge of capital spending remains down relative to the fourth quarter. With inventories still elevated relative to shipments, we expect production to remain on the softer side over the near-term. However, shipments should pick up over the course of the year as economic activity thaws and businesses remain in solid positions to increase capital investment.



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