



Economics Group

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Weak Report for the Factory Sector

Factory orders fell 0.7 percent in January. It was the third monthly decline in the past four months and not only was it a larger decline than expected, last month's figures were revised lower.

Is There a Silver Lining to Any of These Clouds?

Factory orders have only posted one monthly increase since October. On an absolute level basis, total orders in the manufacturing sector are back below the prerecession peak, set more than five years ago in 2008. We already knew from last week's release that durable goods orders fell 1.0 percent in January, but we learned today that nondurable goods also fell in the first month of 2014, though the decline here was a more modest 0.4 percent.

As we pointed out after the durable goods numbers first hit the wire last week, a lot of the decline was in the volatile transportation orders, specifically civilian aircraft orders, which have posted back-to-back monthly declines. Core capital goods orders remained positive in today's revision, but the 1.7 percent monthly increase initially reported last week was pared down to just a 1.5 percent increase reported today.

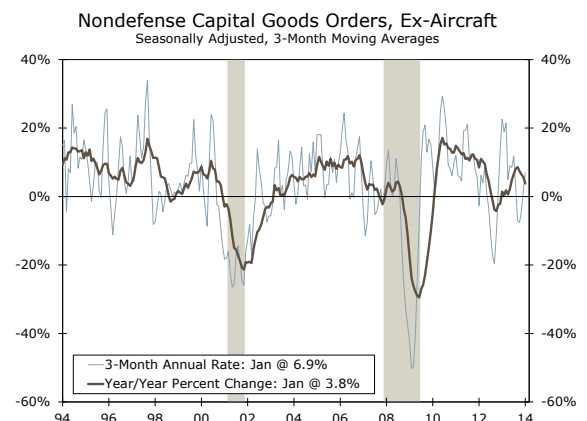
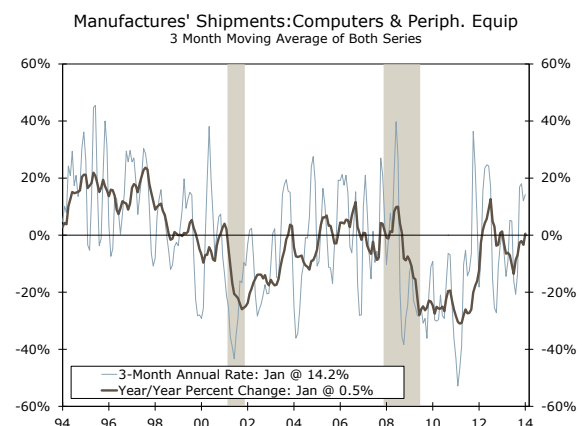
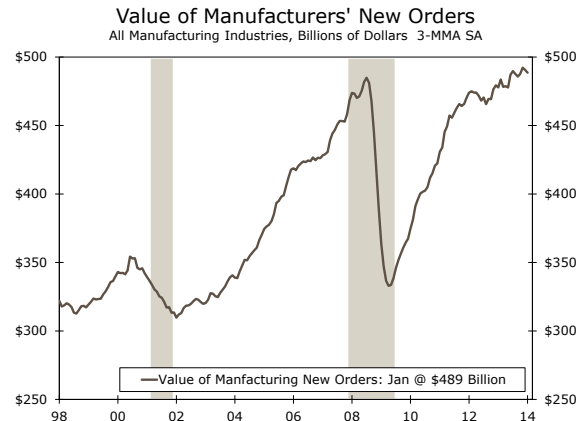
There were other signs of life in today's report. Computer and electronics products increased 3.7 percent, although that was not much of a bounce from an 8.7 percent drop the prior month. Fabricated metal products were up 7.4 percent, which more than offset a 1.2 percent decline in primary metals.

It is not immediately clear what effect weather is having on the factory data. A separate report from the Federal Reserve on January industrial production specifically referenced weather disruptions and we suspect this is having at least some effect on this report as well. Inventories increased 0.2 percent in January, led by an 8.0 percent increase in automobiles. It stands to reason that, given the exceptionally stormy weather in January, dealers were not anxious to take new deliveries. Unfilled orders stalled in January as well. Shipments fell another 0.3 percent in January with broad-based declines in a number of sectors.

The Cold Never Bothered Me Anyway

The slow-growth recovery for the factory sector remains intact in our estimation. The problem is the weakness attributable to weather was not a one-and-done phenomenon. A testament to just how long and cold this winter has been is the ice cover on the Great Lakes. According to the NOAA's Great Lakes Environmental Research Laboratory (NOAA/GLERL), ice covered 91.8 percent of the Great Lakes on March 5. In records going back over 40 years, only February 1979 (94.7 percent peak) could best that figure. For some perspective here, the 40-year average is about 50 percent.

The ISM remains in expansion territory, non-financial corporate cash levels remain high, and the economy continues to grow. The factory sector remains on solid footing and when the weather thaws, we expect activity to pick back up.



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