



# Economics Group

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## What Durable Goods Mean for the Cap-Ex Outlook

*Durable goods orders bested consensus expectations with broad-based gains. Shipments increased for every major category—without exception—reflecting a clearing of the logjam after the passing of nasty weather.*

### Orders

Another monthly increase in March lifted durable goods orders to a new high watermark for 2014, although the level of total durable goods orders is still 3.9 percent smaller than where it was at its all-time high in June of 2013. We have been highlighting the potential for stronger growth in the transportation sector, which certainly showed encouraging signs today's report.

Transportation equipment orders surged another 4.0 percent, piling on after a 6.7 percent gain in the previous month. Defense aircraft orders were down, but civilian aircraft orders, which account for a share that is roughly four times larger than defense spending, increased 8.6 percent.

Motor vehicles and parts orders also increased 0.4 percent in March. From separate reports released previously, we know that auto sales to dealers increased to an annualized pace of 16.3 million in March, which ties the high for this cycle. It remains to be seen whether auto sales will be able to build on the improvement seen in 2013, which was the best year for auto sales since 2007, before the recession began.

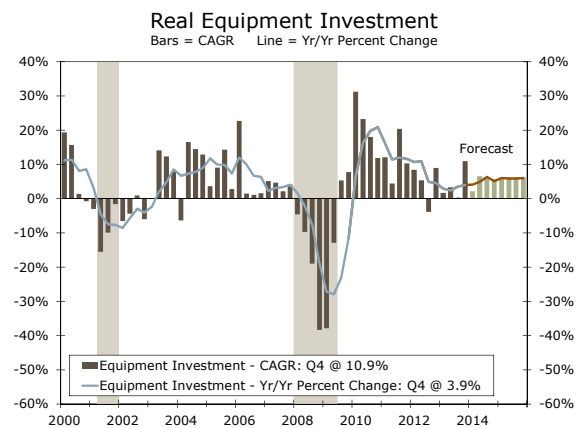
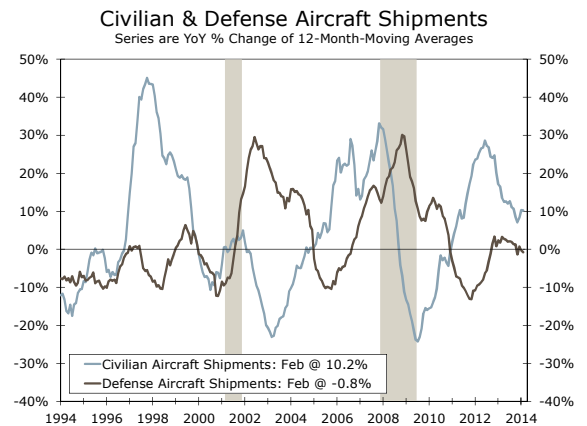
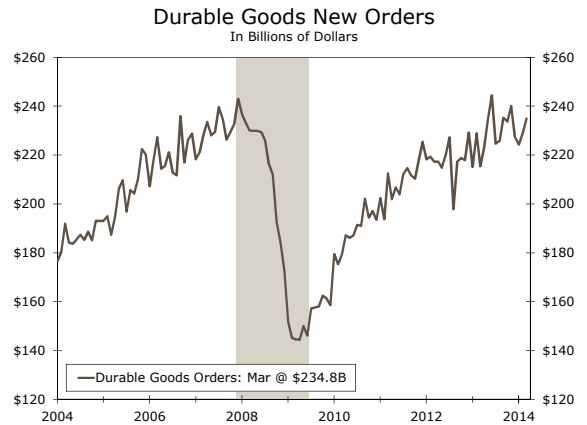
The headline gain in durable goods orders bested expectations of more modest growth, but the real surprise was the strength outside of the transportation sector. One big question for 2014 is whether or not cap-ex spending will pick up in a meaningful way. While we are still shy of the orders levels reached last summer, the broad-based gains in today's report offer some encouragement that cap-ex is poised for a decent run.

With the exception of defense aircraft orders, every other category posted an increase in orders for March. Communications orders added 7.9 percent and following back-to-back monthly declines, computers & electronic components orders surged 5.7 percent in March.

### Shipments

In terms of shipments, every major category—without exception—posted an increase in March. The largest shipments gains were in aircraft orders, both civilian (up 5.4 percent) and defense (up 8.2 percent).

Before we pop the cork on the champagne and toast the long-awaited return of cap-ex spending, we would be remiss not to acknowledge that the strength in some of these components as payback from months of lousy weather. Still, in our view, the business spending environment should continue to improve as this economic expansion continues. We expect the growth rate of equipment outlays in GDP to pick up to at least a 6.0 percent annualized rate in the second and third quarters. Official first quarter equipment outlays have not yet been released, but we expect roughly 2.0 percent growth when that data is made available in next week's GDP report.



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