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Economics Group

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Factory Orders Regain Some of Their Recent Losses

Factory orders increased 1.6 percent in February after two months of consecutive losses. Growth in the factory sector remains subdued, but rising unfilled orders indicate that manufacturing should strengthen.

Transportation and Defense Lead the Way

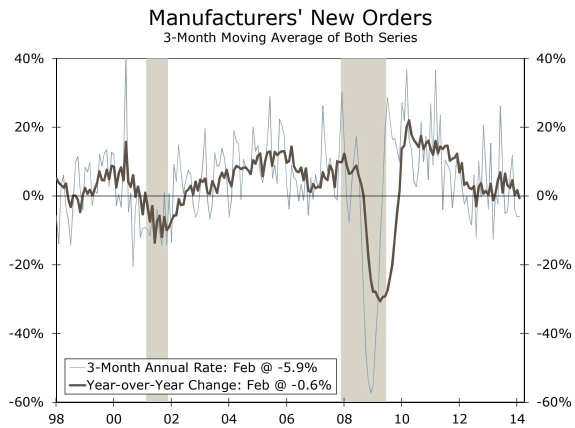
Factory orders rebounded 1.6 percent in February, following two straight months of sizable declines. Although the gain looks promising, January's number was revised downward. Furthermore, the volatile subcomponents of transportation and defense continue to drive the headline number. Excluding transportation, orders increased a more modest 0.7 percent. February saw a relatively large gain in orders for nondefense aircraft and a rebound in motor vehicles & parts orders. Nondefense orders have remained essentially flat since September 2013, despite the gain in transportation. Overall, new orders are lower than they were a year ago, showing that the factory sector still has moderated.

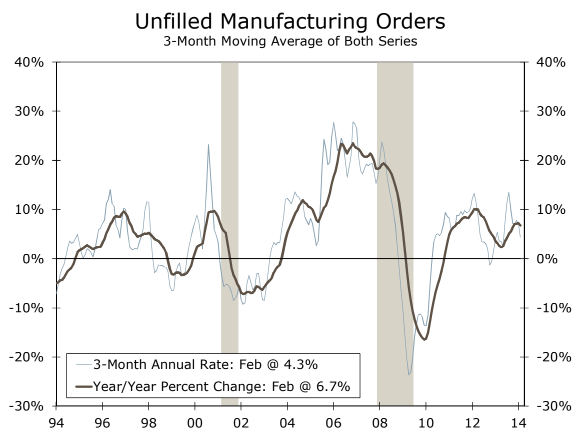
Core capital goods orders, which exclude the volatile defense and aircraft components, dropped 1.4 percent in February. Growth in this critical area has moderated over the past year, although these orders are still up 2.1 percent from a year ago. Core capital goods orders are a good indicator of business investment, which we expect was subdued throughout the first quarter of this year. We expect investment to pick up in subsequent quarters, but overall, businesses are likely to remain cautious as long as income and revenue growth remain soft.

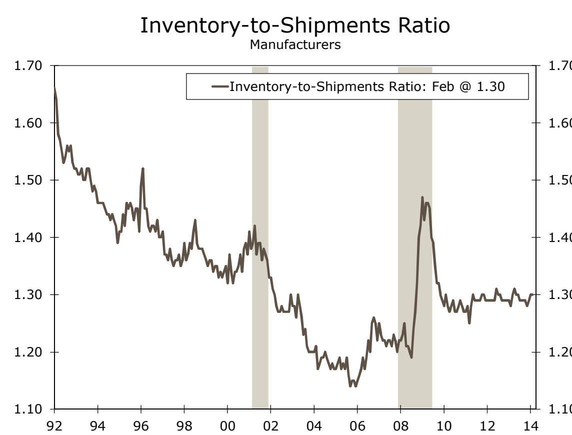
Unfilled Orders Pile Up

Although new orders appear to still be weak, unfilled orders are piling up and have reached their highest level since the series began. This may be another indication that weather has been playing a role. While orders are unable to be filled, new orders are not made in such large quantities. In particular, unfilled orders of construction machinery are rising quickly, up 3.2 percent in February, following sizable gains in prior months. These unfilled orders are up 19.4 percent from a year earlier. This fits well with our perception that recent weakness in the construction industry, particularly residential, can largely be blamed on inclement weather. Building should pick up again as we move into warmer months and those construction machinery orders are filled. A sustained rise in unfilled orders also bodes well for a future pickup in industrial production and capacity utilization.

The build in inventories continued into February, which may keep the expected inventory drag on GDP more subdued in the first quarter. The inventory-to-shipments ratio remains at a somewhat elevated 1.30, up from 1.29 in December and 1.28 in November. That ratio likely would have increased for a third straight month, if shipments did not bounce back by 0.9 percent in February, a faster pace than the strong inventory build that month.







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