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# Economics Group

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# Factory Orders Report Is Good From Afar but Far From Good

***Factory orders gained 2.1 percent on the back of a rebound in automobile orders and a doubling in defense spending on aircraft. Ex-transportation, factory orders stalled in March.***

## Weak Environment at Present

The 2.1 percent gain in March factory orders follows the 4.0 percent increase in March durable goods orders reported in the advance estimate on April 24. On balance, the revisions offer a slightly weaker assessment of current conditions in the manufacturing sector. The 2.1 percent increase may have been a shade stronger than the 2.0 percent increase that had been expected by the consensus, but it comes off a lower base as February's initially reported pickup of 0.2 percent was revised lower to a slight decline of 0.1 percent.

Most of the strength in the report was concentrated in the choppy transportation sector. Motor vehicle orders rebounded from a February decline to climb 3.4 percent in March. Defense aircraft orders more than doubled in the month, which was the key driver of transport strength.

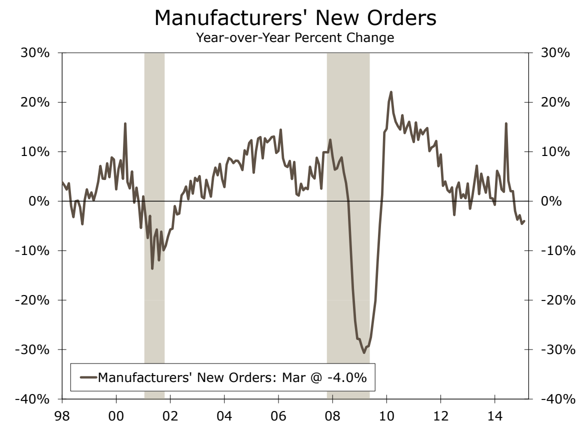
Stripping away the volatile transportation sector, factory orders stalled in March; that is particularly disappointing after accounting for the fact that the prior month's gain of 0.8 percent was revised down to a scant 0.1 percent increase. The softer February increase should have set up for at least a modest gain.

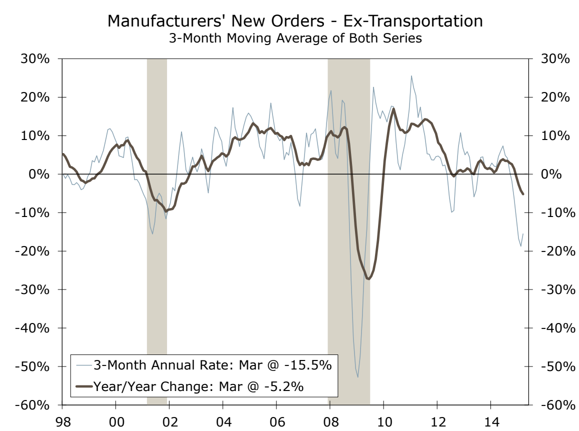
Non-defense capital goods shipments, excluding aircraft, were unchanged at a 0.4 percent decline for March, so this report is unlikely to cause any major revision to first quarter GDP growth. Orders for core capital goods, which is a particularly useful forward-looking indicator, eked out a 0.1 percent gain. That is an upward revision from the initially reported 0.5 percent decline from the durable goods orders report. However, the recent trend in core capital goods orders and shipments is not encouraging. On a three-month annualized basis, core capital goods orders are off 8.3 percent and shipments are off 2.0 percent.

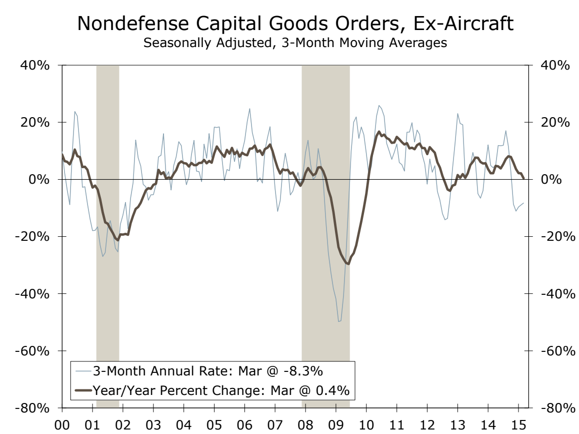
## It Is Going to Get Better

Recent orders figures have been particularly weak. A glance at all three graphs on the right hand of this page show that seldom do things look this bad for the factory sector outside of recession.

We still maintain that things will improve as the year progresses for a couple of reasons. First, orders are reported on a nominal (not inflation-adjusted) basis and, due to the collapse in oil/commodity prices, nominal price gains are particularly difficult to achieve. Second, comments about supply chain disruptions attributable to the West Coast port shutdowns have appeared in the Fed's Beige Book survey as well as the ISM manufacturing survey. Speaking of the ISM, the orders component of that bellwether for the factory sector rose to 53.5 in April, its highest level in four months.




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

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