



## Economics Group

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# Durable Goods Show Manufacturing Still Soft in August

**August durable goods orders fell 2.0 percent, as aircraft orders edged lower and seasonal quirks led to a drop in autos. Ex-transportation, softness in the factory sector persists, even if not as weak as earlier in the year.**

## Durable Goods Orders Stall in August

After a brief pickup early this summer, durable goods orders are once again pointing to a soft environment for big ticket spending. Durable goods orders fell 2.0 percent in August. The drop was actually a bit more modest than expected (markets were looking for a pullback of 2.3 percent), but details still left much to be desired for the industrial side of the economy.

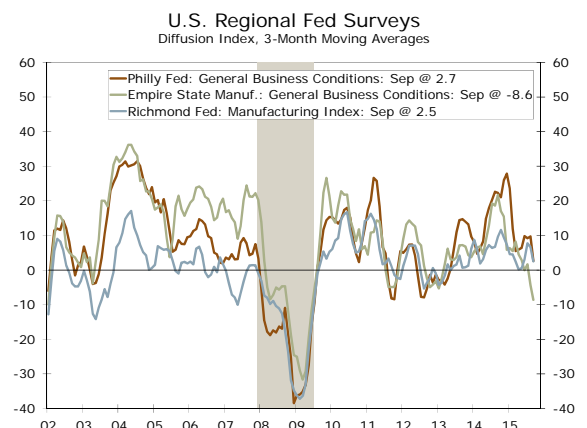
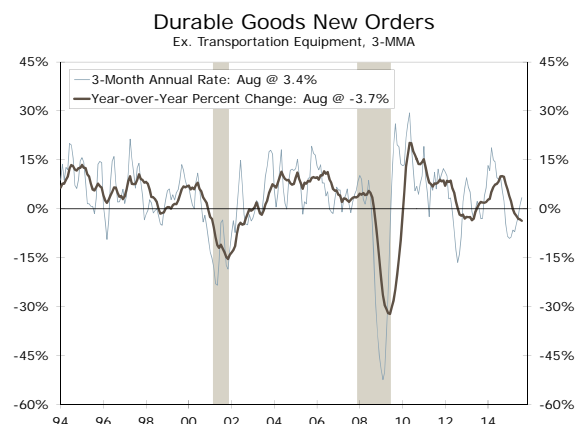
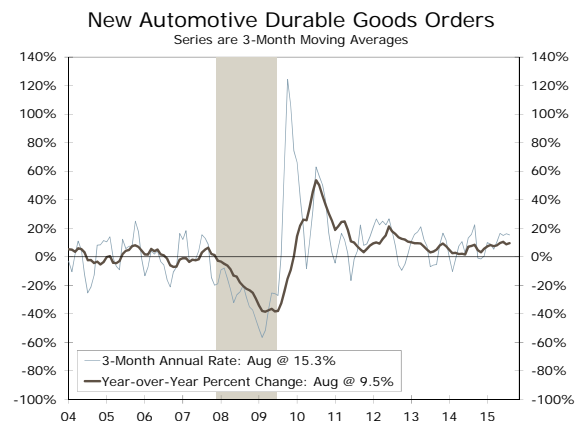
Pulling down the headline was a 5.8 percent drop in transportation orders. Aircraft orders continued to unwind following the Paris Air Show in June, while orders for motor vehicles and parts slipped 1.6 percent. As we mentioned in our last note on durables, changing seasonal patterns that are not yet caught in the Census Bureau's adjustment process have led to some quirks around the orders figures for the auto sector. With fewer shutdowns in July, the rebound in August production looks somewhat weak historically. Yet, the strength in the auto sector is evident in the 9.2 percent year-over-year rise in orders.

Excluding transportation, orders were unchanged. The soft reading, however, was in large part due to the reversal of a 24 percent jump in defense orders last month. Non-defense capital goods orders ex-aircraft, a forward gauge of future business spending, edged down 0.2 percent over the month. The pickup in core capital goods orders over the past two months had given some encouragement to the notion that the worst of the weakness for business spending was behind us. However, the weak global backdrop, another drop in commodity prices, and further strengthening in the dollar looks to be keeping capital investment restrained.

Shipments were flat in August, indicating some moderation in the current pace of business spending. Inventories were unchanged for August, following a 0.2 percent decline in July, and continue to signal the possibility of a significant drag to Q3 GDP growth from a slower pace of inventory building.

## Don't Expect a Quick Turnaround in Manufacturing Activity

A meaningful pickup in manufacturing does not appear to be in the cards anytime soon. The first three regional purchasing managers' indices released for September all showed activity contracting over the month. As the regional surveys can be noisy on a monthly basis, it is rare for them all to move in the same direction. After plummeting in August, the Empire State manufacturing survey showed activity continuing to contract at the steepest pace since the past recession, while the Philadelphia and Richmond surveys showed factory activity contracting after barely growing in August. While the preliminary Markit PMI suggests that activity continued to grow at a modest pace (unchanged at 53.0), it is clear that the industrial part of the economy remains under pressure.



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