

Economic Indicator — September 27, 2023

## Durables Look Good From Afar, but Are Far From Good

### Summary

Durable goods orders exceeded expectations, and a surge in core capital goods shipments will lift estimates for third quarter business spending. Yet after backing out a surge in defense spending and accounting for steep downward revisions, the report gets a lot less exciting.

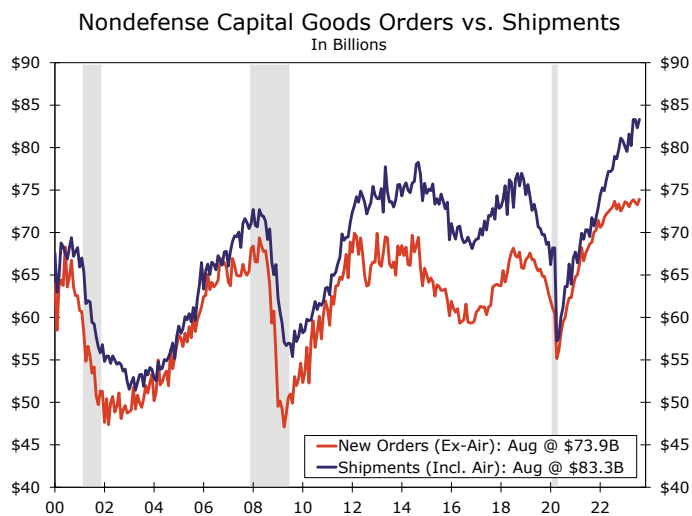
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Source: U.S. Department of Commerce and Wells Fargo Economics

## Orders Available by the Slice

New orders for manufactured durable goods surprised to the upside in August by increasing \$0.5 billion or 0.2%. Note, however, that defense orders for capital goods in August increased a whopping \$2.3 billion. So, if you set aside bookings from the Pentagon, new orders for capital goods in August actually decreased \$2.6 billion or 2.9%.

That was not the only one-off factor this month; we knew, for example, that new orders for Boeing aircraft declined in August for a second straight month. Today's report confirms that civilian aircraft orders dropped by \$3.2 billion or 15.9%. This comes on top of even steeper declines for this category in July.

The ex-transportation line was actually up 0.4% which was better than expected, but after accounting for a steep downward revision, that change nearly erased last month's increase so there is less to celebrate.

Motor vehicles & parts orders were up 0.3% and shipments were up 0.2%; this marks back-to-back gains for both categories. This is August data and the UAW strikes did not begin until mid-September, so there is no reflection of the strikes' impact on this data and due to the limited roll-out of the work stoppages, the impact on September's data will likely be limited as well. Failing to come to resolution soon though could lead to serious disruption in October data.

Core capital goods orders offer a time-tested strategy to filter out the expected volatility in durable goods orders data. This component rose 0.9% which is as large a monthly gain as we have seen in the past year, but once again, revisions rained on the parade. A scant gain of 0.1% was revised away to a 0.4% monthly decline in July.

## Upside to Q3 Business Spend, Outlook Not so Bright

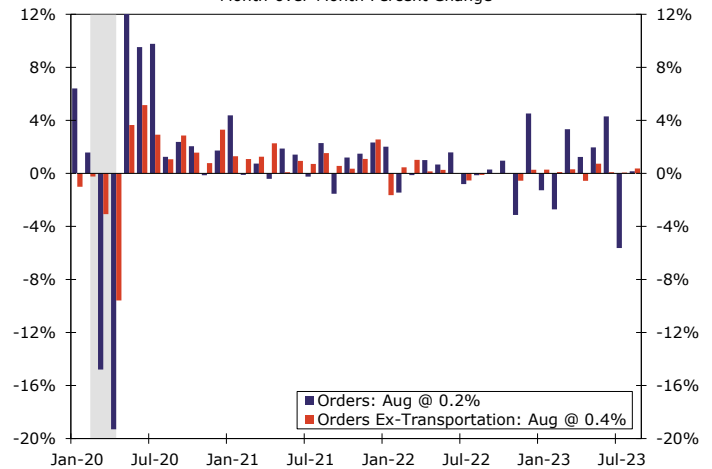
Still cutting through all the monthly noise, the August report presents some upside risk to Q3 real GDP growth. Nondefense capital goods *shipments* feed into the calculation of equipment spending in GDP, and this cut of the data rose 1.2%. This more than reversed the decline in shipments a month earlier, and the jump in core capital goods orders (nondefense capital goods orders, excluding aircraft) positions for further bounce in September shipments. These data suggest growth in real equipment spending is now tracking to be positive and rise around 1% annualized or so.

Don't get carried away by these upside risks. While durables show some reprieve in manufacturing, a continued UAW strike presents potential downside in coming months. We also still expect it will be some time before conditions grow more favorable for new capital investment. The FOMC is set to maintain a restrictive stance on policy for some time to ensure inflation is on a sustained downward trajectory. Demand for goods will also likely come under further pressure later this year/early next as households purchasing power dwindles.

Manufacturers are positioned well for recovery. Reluctant to let go of workers and to overproduce this slowdown means once conditions begin to reverse, manufacturing activity should gather momentum.

### Durable Goods New Orders

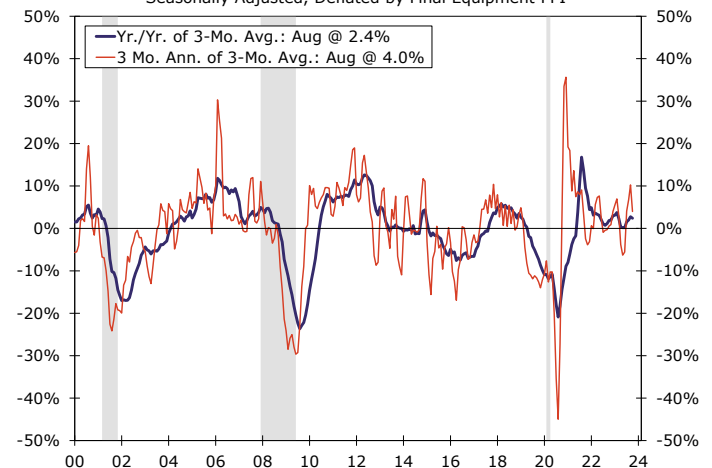
Month-over-Month Percent Change



Source: U.S. Department of Commerce and Wells Fargo Economics

### Real Nondefense Capital Goods Shipments

Seasonally Adjusted, Deflated by Final Equipment PPI



Source: U.S. Department of Commerce and Wells Fargo Economics

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