

Economic Indicator — June 27, 2024

Durable Goods Orders Continue to Showcase Weak Capex Demand

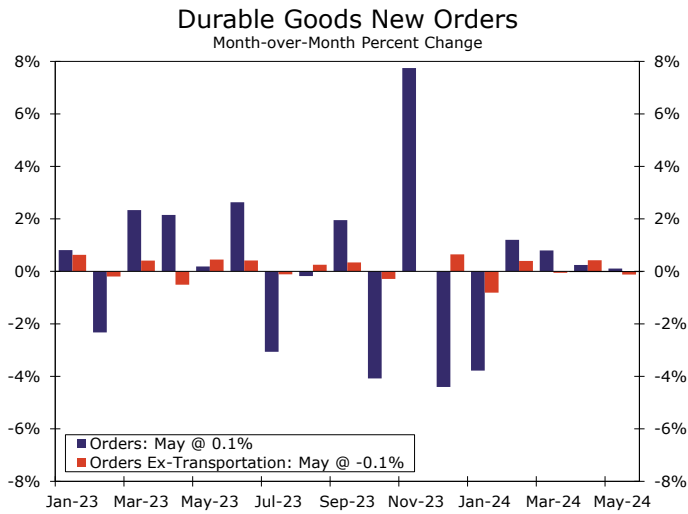
Summary

Durable goods orders rose again in May, but the data are still consistent with a sector struggling to find its footing. Our read on the monthly volatility is that the industrial space is stabilizing and remains some time off from a true recovery.

Economist(s)

Shannon Seery Grein
Economist | Wells Fargo Economics
shannon.grein@wellsfargo.com | 704-410-0369

Tim Quinlan
Senior Economist | Wells Fargo Economics
Tim.Quinlan@wellsfargo.com | 704-410-3283



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

Similar Durables Volatility

In what was a better-than-anticipated outturn, new orders for durable goods rose 0.1% in May (chart). We were bracing for overall orders to be constrained by nondefense aircraft based on a relatively low number of orders reported by Boeing during the month. In actuality nondefense aircraft orders slipped 'only' 2.8% in May, and defense and motor vehicle orders were up, offsetting some of the weakness. It has been particularly challenging to get a clean read on the volatile aircraft component lately. When we exclude broader transportation, orders were weaker, slipping 0.1%, and underlying activity was muted across major items.

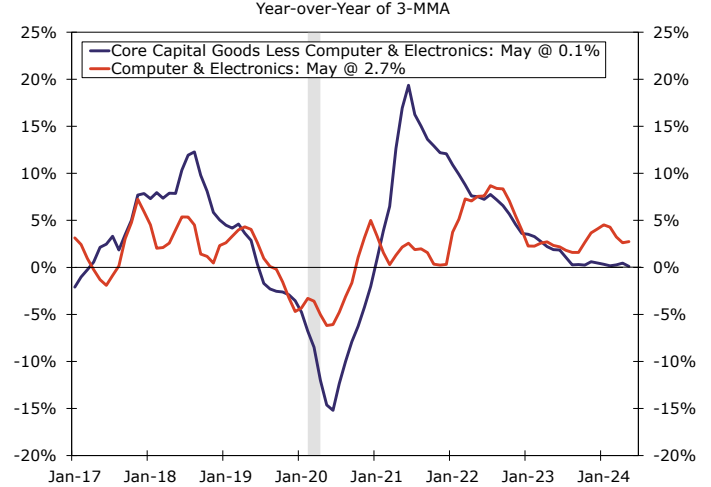
To that end, while overall orders revealed a bit of an upward surprise, the report was consistent with a fairly-weak demand environment as capex conditions remain constrained by elevated costs and uncertainty generally. Consider the monthly pattern of core capital goods orders has flip-flopped between negative and positive growth since the start of the year. Orders slipped 0.6% in May after rising 0.3% in April and are now down a modest 0.2% over the past year, a clear sign that while the manufacturing sector has shown some recent signs of stabilization, a recovery remains some time off.

The lone area of strength in this release continues to come from computers, where orders leaped 1.3% in May and are now up north of 14% over the past year—the fastest of any category. Computers continue to be a standout area in an otherwise lackluster demand environment (chart).

Production activity also appears weak as durable goods shipments slipped 0.3% in May. While the orders data give the latest indication on demand conditions, it is shipments activity that ultimately flows into calculations of equipment spending in GDP accounting. Specifically, the capital goods components are a useful gauge for current quarter equipment investment. Core capital goods shipments (including aircraft) slipped 1.5% during the month, which was a bit weaker than we had penciled in (chart). This, combined with upward revisions to first-quarter equipment investment separately released in the third estimate of GDP growth this morning, suggests some downside to our estimate for real equipment spending to advance at around a 5% annualized rate in Q2.

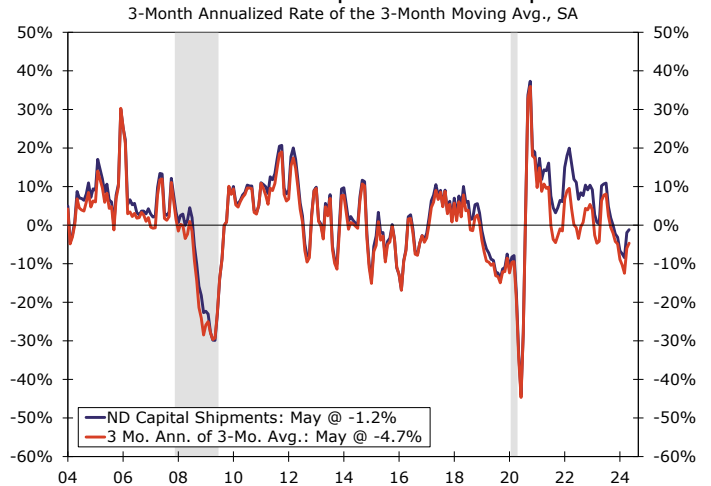
We're ultimately braced for a dull second half of the year in terms of capex demand and look for the industrial side of the economy to progress within its recent narrow range over the course of the year. Capex conditions are unfavorable, and even if the Fed is able to lower rates later this year, we're unlikely to see a reprieve in terms of borrowing costs until next year. Some further clarity in the post-presidential election environment will likely also be more supportive of demand come 2025.

Computer & Electronics vs. All Other Core Orders



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

Real Nondefense Capital Goods Shipments



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

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Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Grein	Economist	704-410-0369	Shannon.Grein@wellsfargo.com
Nicole Cervi	Economist	704-410-3059	Nicole.Cervi@wellsfargo.com
Patrick Barley	Economic Analyst	704-410-1232	Patrick.Barley@wellsfargo.com
Jeremiah Kohl	Economic Analyst	212-214-1164	Jeremiah.J.Kohl@wellsfargo.com
Aubrey George	Economic Analyst	704-410-2911	Aubrey.B.George@wellsfargo.com
Delaney Conner	Economic Analyst	704-374-2150	Delaney.Conner@wellsfargo.com
Anna Stein	Economic Analyst	212-214-1063	Anna.H.Stein@wellsfargo.com
Coren Burton	Administrative Assistant	704-410-6010	Coren.Burton@wellsfargo.com

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