

Economic Indicator — September 26, 2024

Durable Goods: When Doing Nothing is Really Something

Summary

Despite an upwardly revised surge in July durable goods orders, the payback decline that had been feared did not materialize in August with durable goods orders technically positive, but essentially flat. Excluding transport categories, durables orders had their best month of the year.

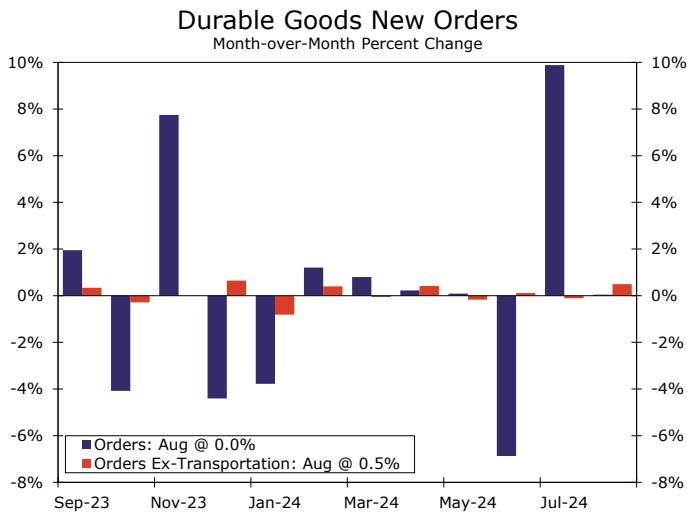
Economist(s)

Tim Quinlan

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

Shannon Seery Grein

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



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

Stout Gain for Durables in August After Excluding Transports

In a cycle defined by diminished durable goods spending, and at a moment when falling interest rates are set to (at last) be supportive of future spending by lowering financing costs, the August durable goods report is largely better than expected. Setting aside the volatile transportation categories, durable goods orders rose 0.5%, enough to call August the biggest monthly gain of the year in terms of ex-transportation orders ([chart](#)).

Durable goods orders edged slightly higher August, a development that was something of a surprise after a major surge in July had most forecasters braced for give-back. Remarkably, the scant gain in August came despite a slight upward revision that lifted the July orders increase to 9.9%. An expected drop in civilian aircraft orders of 7.5% was slightly offset by an 8.0% pick-up in defense-related aircraft spending ([chart](#)). The non-defense aircraft category is much larger than defense spending.

Orders for motor vehicles and parts increased a bit in August, though the 0.2% gain here is not nearly enough to offset back-to-back monthly decline in the prior months.

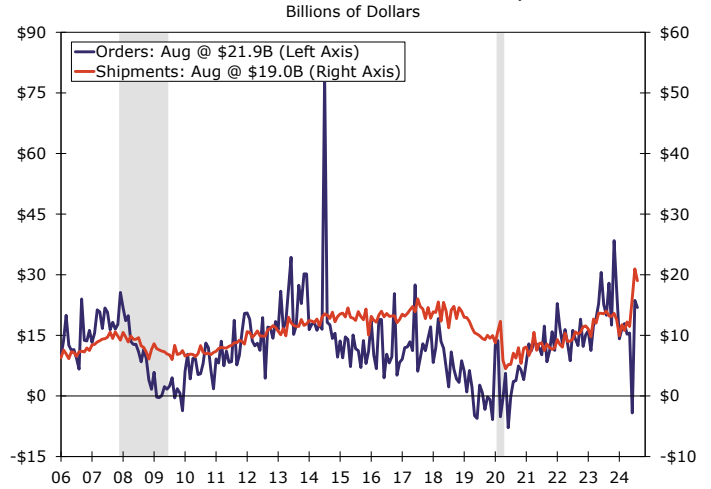
Investing in More than Just the Future

The durable goods report tends to capture measures indicative of business spending on equipment, though the current expansion has been characterized by a much stronger [trend rise in intellectual property products spending](#) and building boom for semi-conductors which has propelled structures spending in the manufacturing sector. With budgets almost single-mindedly focused on this build-out, there has been less interest and only anemic growth in equipment spending.

If there is an exception to the otherwise lackluster spend on equipment in this cycle, it is computers and electronic products which have been in high demand as firms race to improve their information-technology infrastructure and processing capacity in a bid to keep up amid the transition to AI ([chart](#)). This dynamic was evident in a 0.4% increase in computers and electronic products spending in August. The largest gainer in terms of orders was electrical equipment which shot up 1.9% in August.

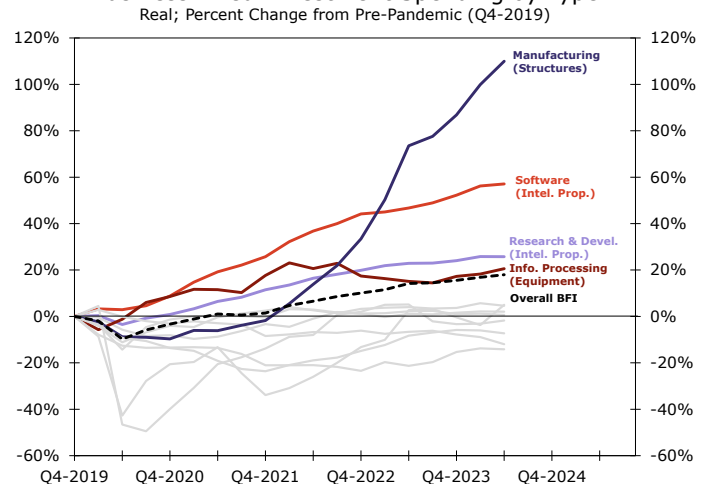
While the trend increase continued for orders of computer and electronics products, a new development in August is some signs of life in old-line manufacturing. Primary and fabricated metals orders both rose and demand for machinery lifted orders there by 0.5% in August.

Nondefense Aircraft Orders and Shipments



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

Business Fixed Investment Spending by Type

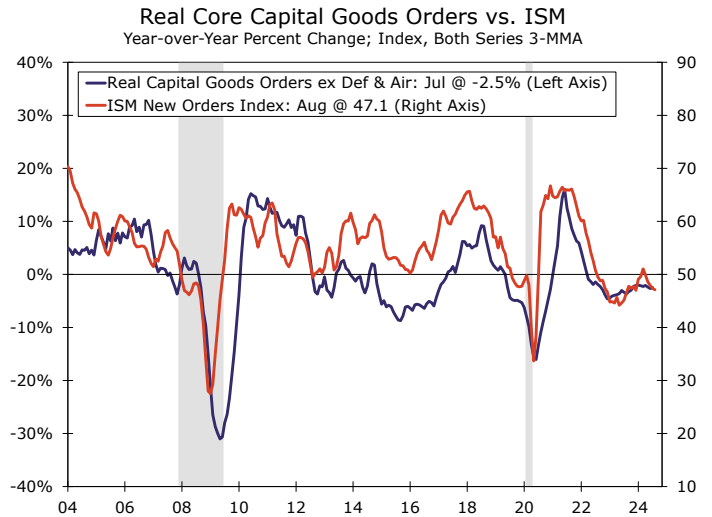


Source: U.S. Department of Commerce and Wells Fargo Economics

Better Days on the Horizon

It remains to be seen whether the one-month gains across so many categories of durable goods spending is just low base effects or the beginning of a more sustained rebound. Our sense is that the prioritization of spending toward the tech sector has contributed to a lot of wear and tear in the categories that have not benefited to the same degree from new investment. Durable goods last for many years, but they do not last forever. With interest rates finally coming down, we expect to see capital spending budgets tilt in favor of a broader recovery in durables spending. In the short-run, this transition is not yet evident in the data. Non-defense capital goods orders, ex-aircraft rose just 0.2% in August and shipments for the same category, a benchmark of business spending edged only 0.1% higher in the month and the new orders component of the manufacturing ISM is still in contraction territory.

The lagged effect of monetary policy may be long and variable, but the suffering in the manufacturing sector suggests a shorter lag for many durable goods industries ([chart](#)). The silver lining is that with rates now heading lower it may be a shorter wait for the medicine to take and that suggests scope for a rebound in equipment spending in the year ahead.



Source: U.S. Department of Commerce, Institute for Supply Management and Wells Fargo Economics

Subscription Information

To subscribe please visit: www.wellsfargo.com/economicsemail

Via The Bloomberg Professional Services at WFRE

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
Jeremiah Kohl	Economic Analyst	212-214-1164	Jeremiah.J.Kohl@wellsfargo.com
Aubrey Woessner	Economic Analyst	704-410-2911	Aubrey.B.Woessner@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
Ali Hajibeigi	Economic Analyst	212-214-8253	Ali.Hajibeigi@wellsfargo.com
Coren Miller	Administrative Assistant	704-410-6010	Coren.Miller@wellsfargo.com

Required Disclosures

This report is produced by the Economics Group of Wells Fargo Bank, N.A. ("WFBNA"). This report is not a product of Wells Fargo Global Research and the information contained in this report is not financial research. This report should not be copied, distributed, published or reproduced, in whole or in part. WFBNA distributes this report directly and through affiliates including, but not limited to, Wells Fargo Securities, LLC, Wells Fargo & Company, Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., and Wells Fargo Securities Canada, Ltd. Wells Fargo Securities, LLC is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. WFBNA is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and WFBNA are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report.

This publication has been prepared for informational purposes only and is not intended as a recommendation, offer or solicitation with respect to the purchase or sale of any security or other financial product, nor does it constitute professional advice. The information in this report has been obtained or derived from sources believed by WFBNA to be reliable, but has not been independently verified by WFBNA, may not be current, and WFBNA has no obligation to provide any updates or changes. All price references and market forecasts are as of the date of the report or such earlier date as may be indicated for a particular price or forecast. The views and opinions expressed in this report are those of its named author(s) or, where no author is indicated, the Economics Group; such views and opinions are not necessarily those of WFBNA and may differ from the views and opinions of other departments or divisions of WFBNA and its affiliates. WFBNA is not providing any financial, economic, legal, accounting, or tax advice or recommendations in this report, neither WFBNA nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this report, and any liability therefore (including in respect of direct, indirect or consequential loss or damage) is expressly disclaimed. WFBNA is a separate legal entity and distinct from affiliated banks, and is a wholly-owned subsidiary of Wells Fargo & Company. © 2024 Wells Fargo Bank, N.A.

Important Information for Non-U.S. Recipients

For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority ("FCA"). For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 (the "Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Act for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EFTA, this report is distributed by WFSIL. For recipients in the EU, it is distributed by Wells Fargo Securities Europe S.A. ("WFSE"). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in MiFID2. This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE