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Economic Indicator — July 25, 2025

Underlying Demand for Durable Goods Weakens in June

Summary

The 9.3% drop in durable goods orders in June says more about a decline in aircraft orders than it does of demand for durable goods, but underlying orders were weak and signal continued uncertainty has sidelined firms from making large capital outlays today.

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Air Pocket

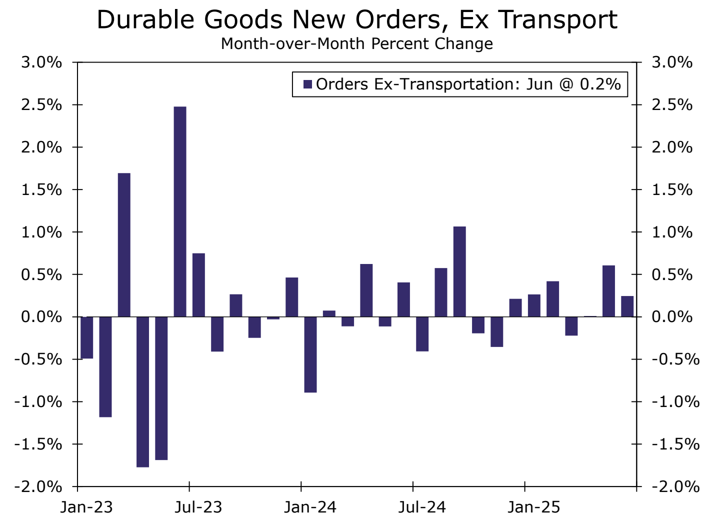
Aircraft-related volatility continued to whipsaw overall durable goods data for June. As expected, the surge in orders for nondefense aircraft in May was met with a sizable pullback in June, which pulled overall orders for new durables down 9.3% during the month. For a cleaner read of underlying demand conditions we exclude the transportation sector, which shows orders were up 0.2% last month.

Yet despite that better outturn, underlying orders activity was still rather weak. Core capital goods orders, which excludes defense spending and aircraft specifically, fell 0.7% in June, and although that came with a slight upward revision to May's data, it signals a slowdown amid the monthly volatility seen throughout the first half of the year.

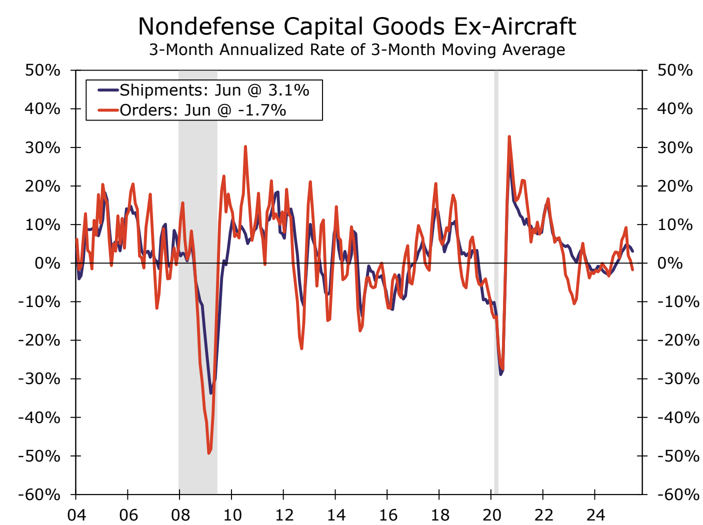
When it comes to growth implications, it is the shipments data that feed into the Bureau of Economic Analysis' GDP estimate. Nondefense capital goods shipments (including aircraft) slipped 0.9% in June, suggesting a much slower pace of equipment spending in Q2 than the north of 20% annualized rate at which it picked up in the first quarter. We'll get the first look at Q2 GDP growth next week, where we look for a pickup in growth that likely says more about an unwinding of tariff-induced behavioral changes in Q1 than a strong underlying growth profile for the U.S. economy.

Businesses are ultimately given little incentive to make large capital expenditures in today's environment. August 1 is the next date circled when it comes to potential changes to tariff policy, and the fluid nature of these policies has left many firms in limbo or paralyzed on if and when they should make large equipment outlays.

The Q1 pick up in equipment investment was largely attributable to aircraft deliveries, although there was considerable strength in information processing equipment spending as well. Given persistent uncertainty and survey evidence telling us small businesses have little appetite to invest today, we're inclined to believe this was a temporary pick-up in activity. Firms could have tried to pull-forward large outlays before tariffs went into effect. That said, commercial and industrial loan growth continued to pick up through the second quarter, signaling some signs of sustained demand. Whether that is a result of delayed tariffs or some underlying resiliency in broad investment remains to be seen, but we still expect any recent pick up in capex will be short-lived. Core capital goods orders slipped at a 1.7% average annualized pace over the past three months, the largest drop in a year. We're still bracing for a softening in capital investment in the second half of the year amid increased costs, lower end demand and still-elevated borrowing costs.



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



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