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Economic Indicator — August 26, 2025

Core Capital Goods Orders Rise in July, Will It Last?

Summary

Despite a headline decline in July, durable goods orders is the first unambiguously positive development in months for the manufacturing sector. After accounting for pullbacks in aircraft and defense spending, there were broad-based gains in orders.

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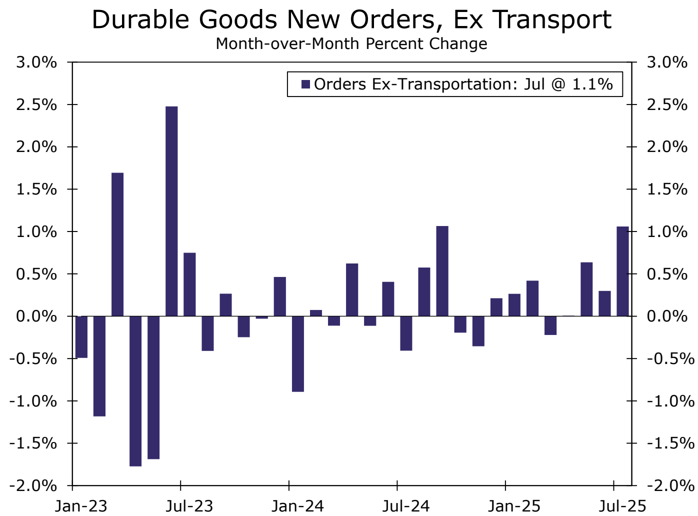
This Isn't Just Tech-Related Spend

A headline decline of 2.8% was smaller than the 3.8% drop that was the consensus expectation. A separately reported drop in Boeing orders foreshadowed the second consecutive decline in aircraft orders; the July drop of 32.7% was smaller than the June decline. Defense spending also fell for a second straight month.

The more significant development in this July data is that underlying business demand is holding up better than expected. Motor vehicle and parts orders rose, if only incrementally (up 0.3%), but setting aside the volatile transportation sector, durable goods orders notched a 1.1% gain. That is the best monthly pick-up since September 2024.

Over the past year, we've emphasized how tech spending has been the main—and sometimes only—driver of business spending. That trend continued in today's report, with electrical equipment orders up 2.0% and computer-related orders rising 0.6%. Bookings for fabricated metals (+0.7), primary metals (+1.5%) and machinery (+1.8%) also posted gains in July. While one month doesn't make a trend, especially given tariff uncertainty in recent months, this rebound in old-line manufacturing categories played a key role in today's better than expected report.

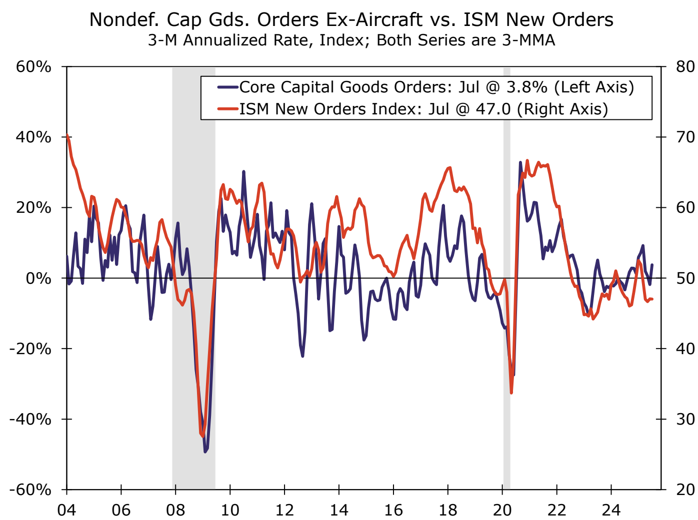


Source: U.S. Department of Commerce and Wells Fargo Economics

Renaissance or Just Restocking?

Core capital goods orders (those that exclude defense spending and aircraft orders) rose 1.1% in July. That follows a decline in June that is now a smaller one than first reported (down just six tenths of a percent rather than eight). Core shipments rose 0.7%, handily outpacing the 0.2% expectations, and this category also saw a slight upward revision to June data. We doubt the revisions will provide any material lift to second quarter investment spending when the GDP revisions come out on Thursday, but the stronger orders number does suggest a brighter outlook for the third quarter.

In terms of the outlook for business spending more broadly, today's durable goods report offered the first unambiguously positive signal in recent memory after months of bad headlines. Whether this is the start of the long-awaited re-shoring boom or merely a needed restocking after months of inventory drawdown remains to be seen, although we suspect the still-low ISM numbers (new orders at just 47.0) and cautionary tones in recent earnings reports suggests there are still some tough days ahead for durable goods industries. Between now and the August durable goods report, we will be watching private estimates for aircraft orders, and after steep back-to-back declines, we are due for a rebound in August.



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

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