



Economics Group

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September Durables Edge Down on Drop in Defense

Durable goods orders were little changed in September as a decline in defense spending was offset by stronger transportation orders. Core capital goods orders fell, but they have improved on trend in recent months.

Defense a Drag, But Core Capital Goods Orders Also Weaken

Durable goods orders for September came in roughly as expected. Total new orders ticked down 0.1 percent versus expectations for no change, while orders for August were revised up to 0.3 percent.

Weighing on the headline was a 7.7 percent drop in defense capital goods orders. Excluding defense, orders were up 0.7 percent. Orders for motor vehicles and parts increased 1.2 percent, building on a decent print in August. Meanwhile, nondefense aircraft orders rose 12.5 percent.

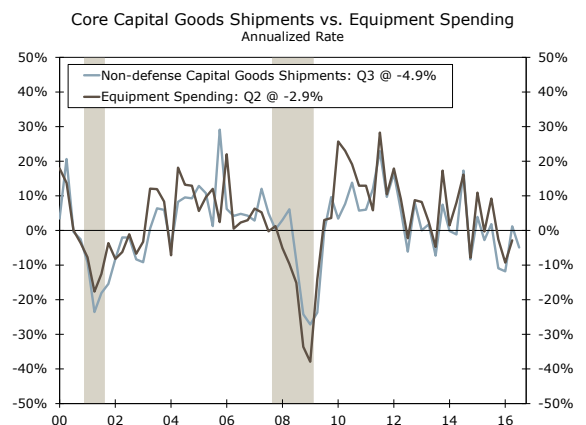
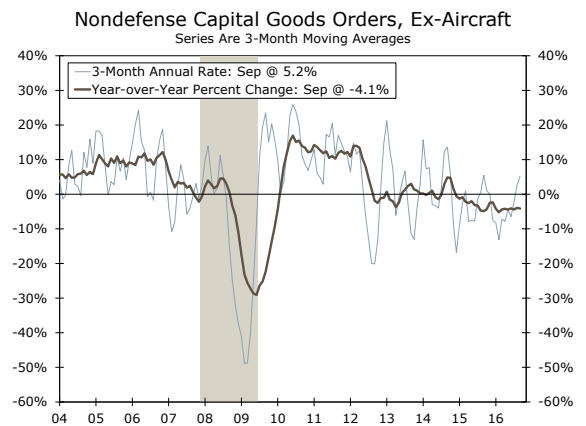
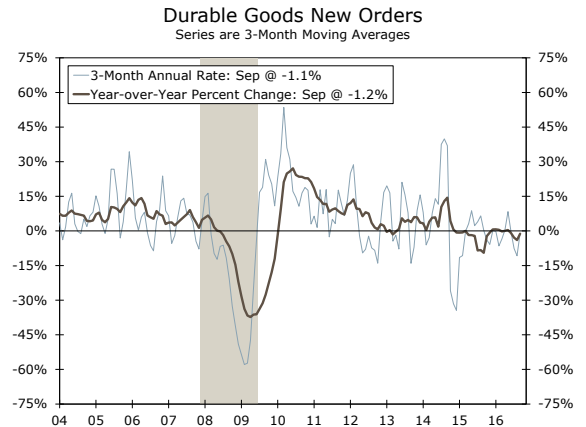
While transportation once again provided a lift to the headline in September, the support the sector has provided to overall durable goods has been fading. Motor vehicles and parts orders have increased 0.5 percent over the past 12 months compared to nearly an 11 percent year-over-year increase at this time last year. In addition, elevated inventories in the auto sector point to the potential for some production cuts in the coming months. At the same time, a weakening trend in nondefense aircraft orders has led to backlogs declining over the past year versus the double-digit rates of growth seen from 2012 to early 2015.

Excluding transportation, orders were somewhat softer in September, up 0.2 percent. Machinery orders posted a fifth consecutive monthly gain and, while still down over the past year, rose at a 6.5 percent annualized rate in Q3. Yet elsewhere in the capital goods complex, orders continue to suggest that businesses are hesitant to invest. Total orders for nondefense capital goods ex-aircraft, or core orders, fell 1.2 percent in September, wiping out August's gain of the same magnitude. Even with the setback in September, however, the trend in recent months looks somewhat better than in the first half of the year. Core capital goods orders rose at a 5.2 percent annualized pace in Q3, which was the fastest clip in a year.

Q3 Shipments Point to Another Decline in Equipment Spending

More indicative of equipment spending for the third quarter are shipments for nondefense capital goods. Shipments in this category rose 2.2 percent in September after declining the three previous months. Despite the rebound in September, nondefense capital goods shipments in the third quarter fell at a 4.9 percent annualized rate and suggests that equipment spending could be negative in tomorrow's third quarter GDP report for a fourth consecutive quarter.

The stronger trend in core capital goods orders suggests equipment spending could return to positive territory in the fourth quarter, but we do not expect a robust turnaround. While the drag from commodity-related investment is set to fade, renewed dollar strength and still sluggish global growth suggest the tough environment for the industrial sector is likely to continue.



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