



Economics Group

Tim Quinlan, Senior Economist
tim.quinlan@wellsfargo.com • (704) 410-3283
Sarah House, Economist
sarah.house@wellsfargo.com • (704) 410-3282

January Durable Goods Orders Soft After Upward Revisions

A surge in aircraft orders boosted headline durable goods orders. Elsewhere in January bookings were soft, but that comes on the heels of a better-than-initially-reported December. Manufacturing expansion is intact.

Turbulence

The advance estimate for durable goods orders showed a 1.8 percent increase in January, and although that was better than the 1.6 percent gain that had been expected, the details are less encouraging. The decline in orders in the prior month was revised to an even larger dip of 0.8 percent.

Most of the strength in January orders came from the notoriously volatile aircraft orders. Government outlays on defense aircraft climbed 59.9 percent and civilian aircraft orders surged 69.9 percent. In the case of defense aircraft, it was the fifth straight monthly swing of 38 percentage points or greater.

Another series that can be choppy from month to month is orders for motor vehicles and parts, but January saw only a mild increase of 0.2 percent in orders for this series and just a 0.1 percent increase in shipments. Given the fact that auto sales were down in January on both the wholesale and retail level, any gain at all for motor vehicle orders in January is somewhat surprising. If dealer lots do not start to see sales picking up, the gains in factory orders will be unsustainable.

January Soft, but a Better December Than Was First Reported

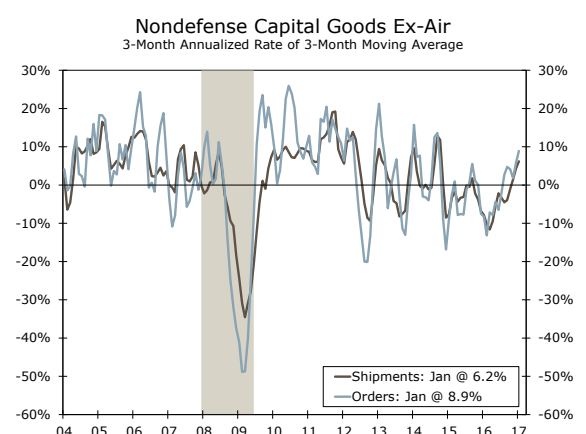
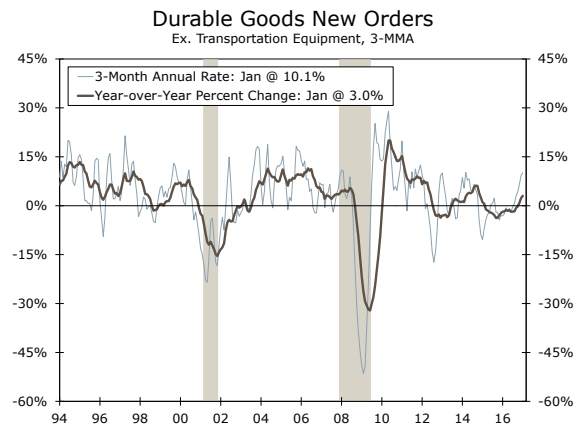
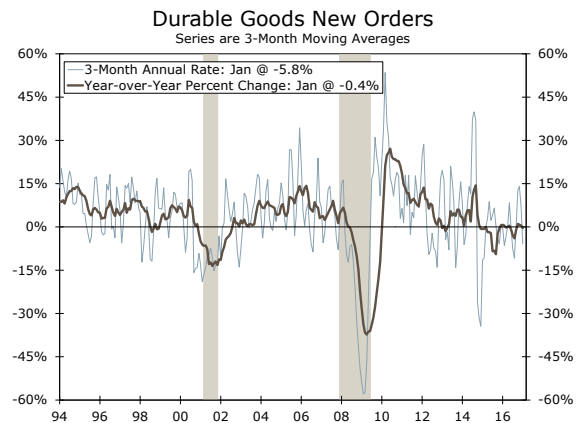
Stripping away the volatility of these transportation-related industry sectors, orders actually fell slightly (0.2 percent) in January. This decline came despite growing expectations that ex-transportation orders would extend the number of consecutive monthly increases to seven months.

There is some consolation in the fact that orders for this series were revised higher for the prior month to a 0.9 percent increase from an initially reported gain of 0.5 percent.

Core capital goods shipments—a proxy for current business spending—fell 0.4 percent in January. But here also, the decline follows an upwardly revised figure for December, which lifted the gain in that month to 1.1 percent from just 0.7 percent previously.

Orders of core capital goods—a leading indicator for future business spending—fell 0.6 percent. The revision pattern held here as well with December core capital goods orders now coming in at 1.6 percent versus 1.0 percent pre-revision. With the revision, the monthly increase in December marks the fastest sequential growth rate for core capital goods orders since 2014.

Given the firming we have seen in survey data, from the NFIB survey of small businesses to the ISM survey of manufacturers, both of which sit at multi-year highs, we think this stall for orders in January is likely temporary and we expect orders and manufacturing activity broadly to continue to firm in 2017.



Wells Fargo Securities Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Anika R. Khan	Senior Economist	(212) 214-8543	anika.khan@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloría, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Jamie Feik	Economist	(704) 410-3291	jamie.feik@wellsfargo.com
Erik Nelson	Currency Analyst	(212) 214-5652	erik.f.nelson@wellsfargo.com
Misa Batcheller	Economic Analyst	(704) 410-3060	misa.n.batcheller@wellsfargo.com
Michael Pugliese	Economic Analyst	(704) 410-3156	michael.d.pugliese@wellsfargo.com
Julianne Causey	Economic Analyst	(704) 410-3281	julianne.causey@wellsfargo.com
E. Harry Pershing	Economic Analyst	(704) 410-3034	edward.h.pershing@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Advisors, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC, is registered with the Commodities Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC, and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm which includes, but is not limited to investment banking revenue. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2017 Wells Fargo Securities, LLC.

Important Information for Non-U.S. Recipients

For recipients in the EEA, 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. The content of this report has been approved by WFSIL a regulated person under the Act. For purposes of the U.K. Financial Conduct Authority's rules, this report constitutes impartial investment research. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients. This document and any other materials accompanying this document (collectively, the "Materials") are provided for general informational purposes only.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

WELLS
FARGO

SECURITIES