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# *Economics Group*

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# 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

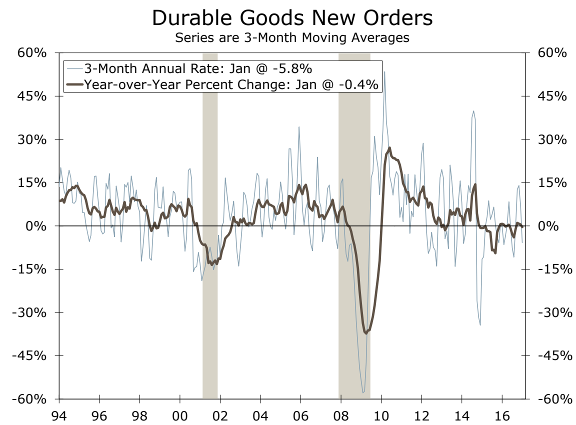
Stripping away the volatility of these transportation-related industry sectors, orders actually fell slightly (0.2 percent) in January. This decline came despite growing expectations that ex-transportation orders would extend the number of consecutive monthly increases to seven months.

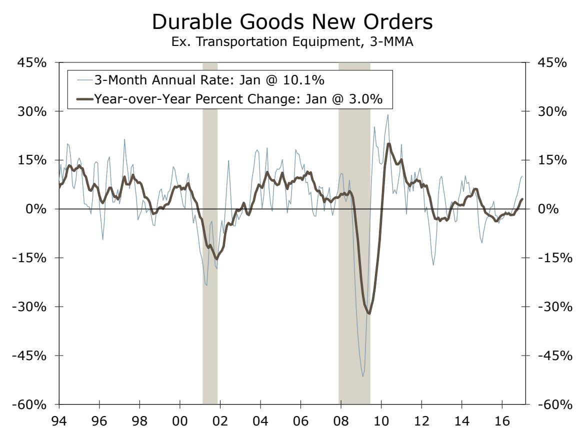
There is some consolation in the fact that orders for this series were revised higher for the prior month to a 0.9 percent increase from an initially reported gain of 0.5 percent.

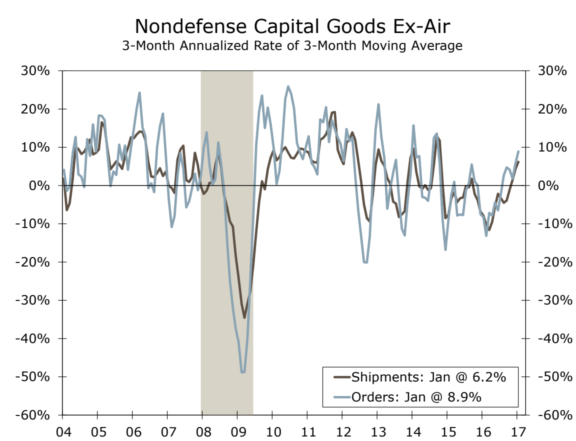
Core capital goods shipments—a proxy for current business spending—fell 0.4 percent in January. But here also, the decline follows an upwardly revised figure for December, which lifted the gain in that month to 1.1 percent from just 0.7 percent previously.

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.




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

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