



# Economics Group

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## Capital Spending Firms Despite Soft Print for Factory Orders

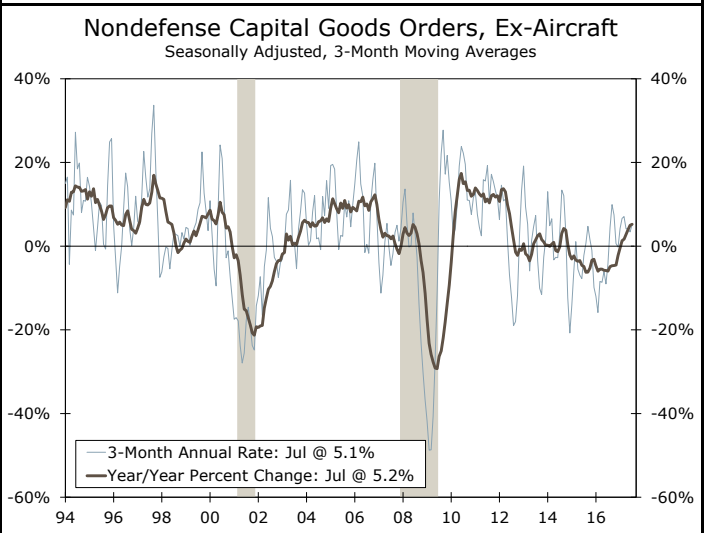
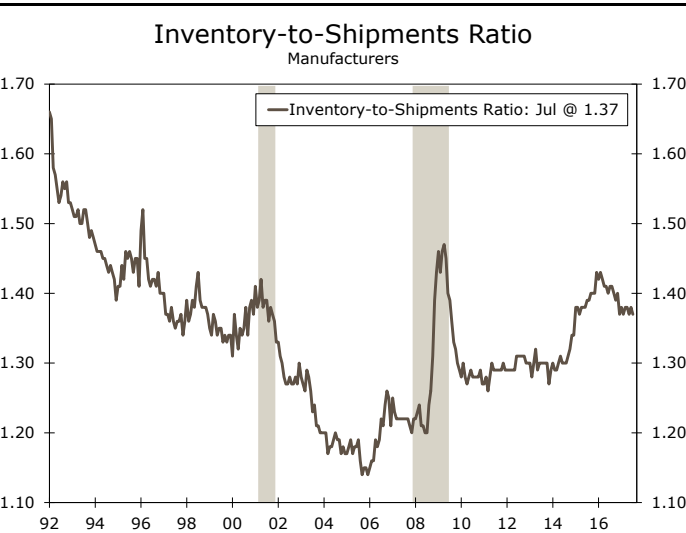
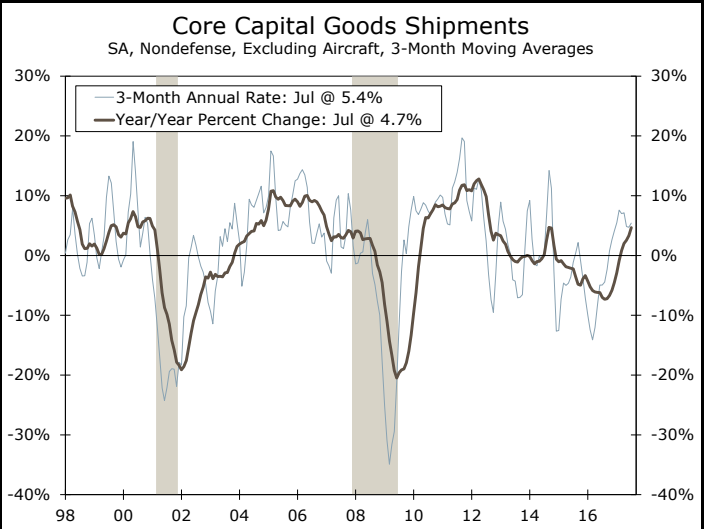
*The 3.3 percent decline in factory orders for July is largely a reflection of a drop in aircraft orders following a surge in the prior month. Core orders and shipments still indicate steady improvement in business spending.*

### Taking Stock

- The payback from June’s surge in aircraft orders was enough to pull the headline into negative territory, but ex-transportation orders were up 0.5 percent—the best month since January.
- Inventories increased for a second-straight month; this is consistent with our expectation for inventories to be additive to growth in the second half. The fact that the inventory-to-shipment ratio came down suggests the stockpiling is justified.

### Despite Choppy Headlines, Gradual Firming in Core

- Shipments of core capital goods orders increased 1.2 percent in July, lifting the 3-month annualized growth rate to 5.4 percent. This is consistent with our forecast for gradual firming in equipment investment in the third quarter.
- In a positive sign for future spending prospects, core capital goods orders also increased in July, growing 1.0 percent which puts the 3-month annualized rate for that series at 5.1 percent.



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

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