



Economics Group

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Factory Orders Head Higher in May

Factory orders rose a better-than-expected 0.4 percent in May, as nondurables climbed 1.1 percent and core capex orders were revised up. Nevertheless, equipment spending still looks to be off the pace set in H2-2017.

Nondurables Carry Factory Orders in May

- Factory orders increased 0.4 percent in May. Stronger growth in durables orders relative to last week’s advanced report and a 1.1 percent jump in nondurables explain the upside surprise.
- Core capital goods orders in May were revised up from an initially-reported decline to a 0.3 percent gain. That was in part at the expense of April’s orders, however, leaving the three-month average annualized pace at 4.7 percent.

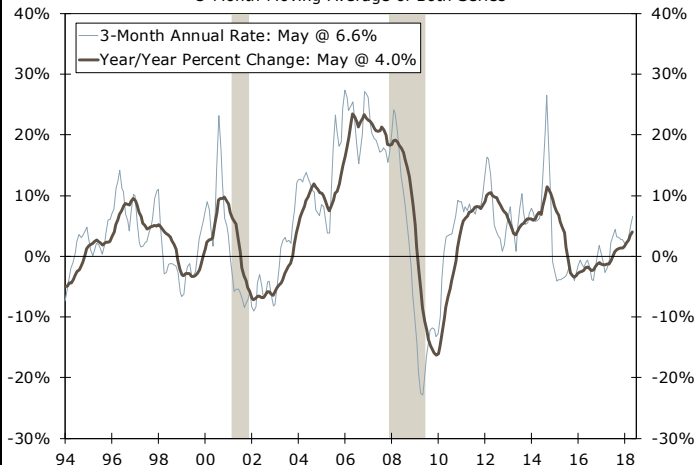
Not as Strong as Late Last Year But Still Solid

- Although a slowdown in orders since the end of last year indicates equipment spending will not hit the double-digit pace registered in the second half of 2017, we still expect to see investment rise at a respectable clip in the second quarter.
- Unfilled orders continue to creep higher, while inventory growth slowed in May. Tighter supply chains signal factory activity should remain strong in the second half the year.

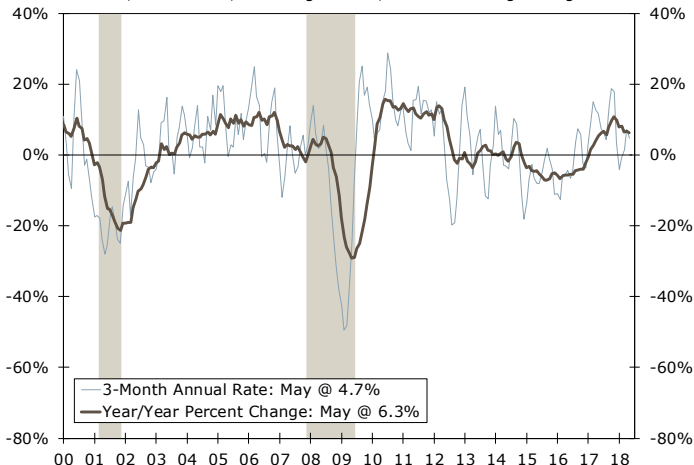
Manufacturers' New Orders
Year-over-Year Percent Change



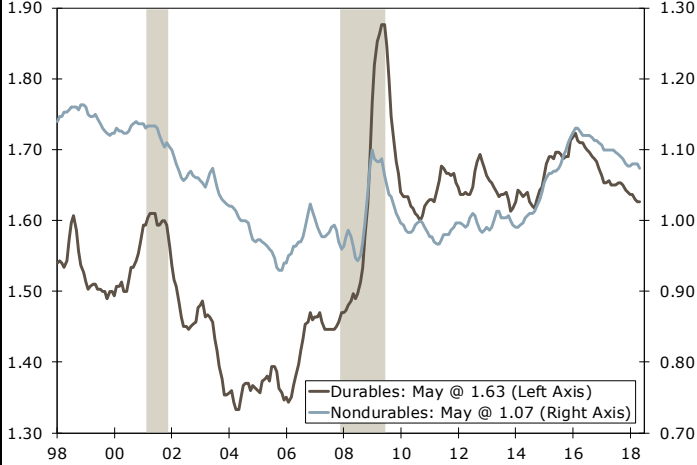
Unfilled Manufacturing Orders
3-Month Moving Average of Both Series



Core Capital Goods Orders
SA, Nondefense, Excluding Aircraft, 3-Month Moving Averages



Inventory-to-Shipment Ratio
Three-Month Moving Averages



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

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