



# Economics Group

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

## Durable Goods Orders Remain Weak in May

*Durable goods orders came in weaker than expected, declining 2.2 percent in May. Core capital goods orders were also soft. While shipments data point to positive equipment spending in Q2, risks have been reignited.*

### Another Soft Report for the Industrial Sector

Piling on to the concerns about the near-term outlook for growth in light of the United Kingdom's vote to leave the European Union is the latest read on the U.S. factory sector. Durable goods orders fell 2.2 percent in May, missing market expectations for only a 0.5 percent decline.

Payback from exceptionally strong defense orders the prior two months led the decline, with orders down 28 percent in May. The weakness in defense orders was concentrated in aircraft, helping to push total transportation orders down 5.6 percent. Nondefense aircraft orders looked a bit stronger, up 1.0 percent. However, orders for vehicles & parts continued to look weak, falling 2.8 percent. The pullback follows a slowdown in sales and elevated inventories at retail dealers the past two months.

Most concerning was another decline in core capital goods orders. Orders for nondefense capital goods excluding aircraft fell 0.7 percent, the third decline in four months. On a three-month average annualized basis, orders are down 3.3 percent. That said, this marks an improvement in the trend, suggesting that while weak, the tide may be turning.

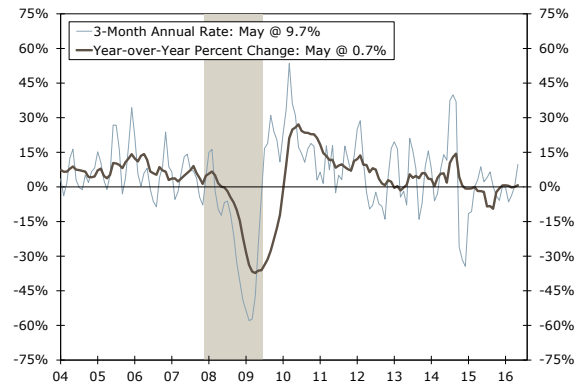
Nondefense capital goods shipments, which are more telling for business spending in the current quarter, offer some signs that equipment spending may still be positive in Q2. Shipments for this category were up 1.2 percent last month, which came on the heels of a similarly-sized gain in April. In addition, while new orders for core capital goods remained soft in May, unfilled orders edged higher.

### Renewed Risk to Business Spending Outlook

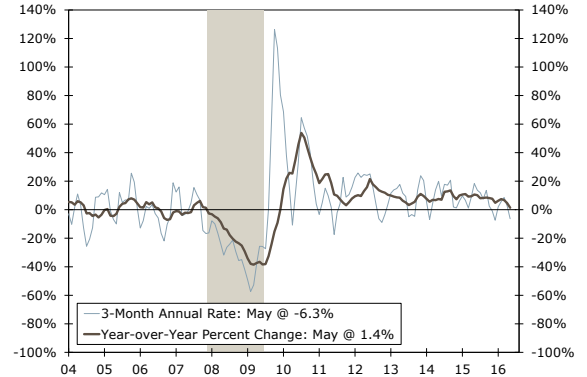
The referendum result in favor of the United Kingdom leaving the European Union has reintroduced some downside risks to our outlook for business spending. The headwinds from weaker global growth, the stronger dollar and lower commodity prices that challenged capital goods orders in 2015 and early 2016 had been easing the past few months, leading us to expect that equipment spending would turn positive after declining the past two quarters.

The referendum results risk igniting these threats again. While the overnight moves in the dollar and oil prices may be overstated given that it has been less than 24 hours since the vote came in, the direction is telling. The dollar has appreciated more than 2 percent against a major basket of currencies (led largely by strengthening against the pound). Oil prices have also moved lower, suggesting continued pressure on producers of commodity-related equipment. Perhaps most importantly for the U.S. industrial sector, the outlook for global demand looks weaker this morning than it did just a day ago given the added uncertainties surrounding the U.K. and euro area economies.

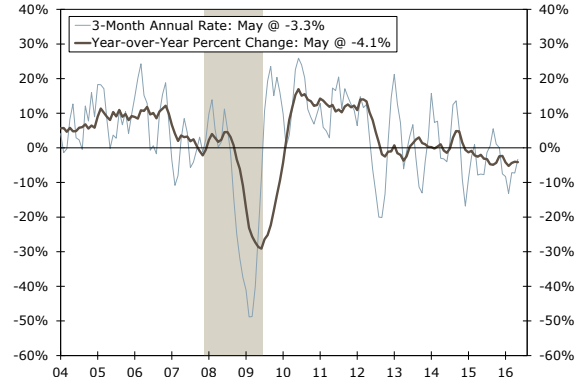
Durable Goods New Orders  
 Series are 3-Month Moving Averages



New Automotive Durable Goods Orders  
 Series are 3-Month Moving Averages



Nondefense Capital Goods Orders, Ex-Aircraft  
 Series are 3-Month Moving Averages



## 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	(704) 410-3271	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.viloría@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	Economic Analyst	(212) 214-5652	erik.f.nelson@wellsfargo.com
Alex Moehring	Economic Analyst	(704) 410-3247	alex.v.moehring@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
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 © 2016 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