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Economics Group

Sarah House, Economist
sarah.house@wellsfargo.com • (704) 410-3282

Durable Goods: Moderate Improvement in Capex Spending

Durable goods orders rose 1.7 percent in February on another strong month for aircraft orders, while orders for January were revised higher. Core orders slipped 0.1 percent, but continue to improve on trend.

Aircraft Lifts Headline, But Cracks in Auto Sector Emerging

For the second month in a row, durable goods orders came in stronger than expected, but disappointed in the details. Orders for long-lasting goods rose 1.7 percent in February (versus expectations for a 1.4 percent rise). In addition, orders in January were revised up and are now reported to have increased 2.3 percent (versus 2.0 percent previously).

The beat can be traced largely to another solid month for aircraft orders. After more than an 80 percent increase in January, orders for notoriously volatile nondefense aircraft rose almost another 50 percent.

Elsewhere, however, orders were less impressive. Orders for defense goods, which are also volatile from month to month, fell 8.3 percent amid falling aircraft orders. Potential cracks in the auto sector, which has been a bright spot in recent years, are beginning to emerge. Orders for vehicles & parts fell 0.8 percent and are nearly flat over the past year. The pullback in orders (and shipments over the past two months) is consistent with the softer sales environment since early this year. After falling the past three months, inventories, at least at the manufacturing stage, remain contained and should limit the near-term hit to production for motor vehicles & parts.

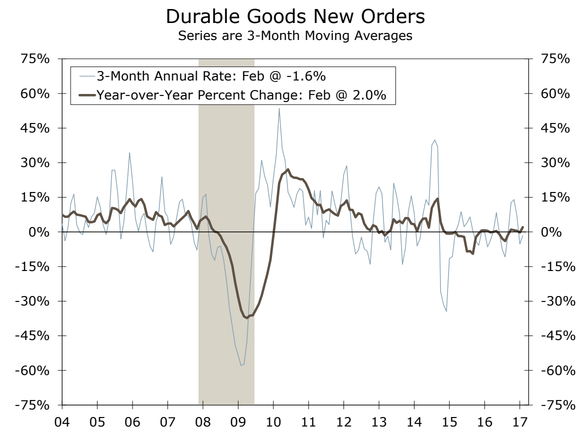
Excluding transportation, orders rose 0.4 percent, which was also a bit softer than what markets were looking for. However, orders for this group were revised a couple ticks higher in January, leaving the level of orders about on par with expectations.

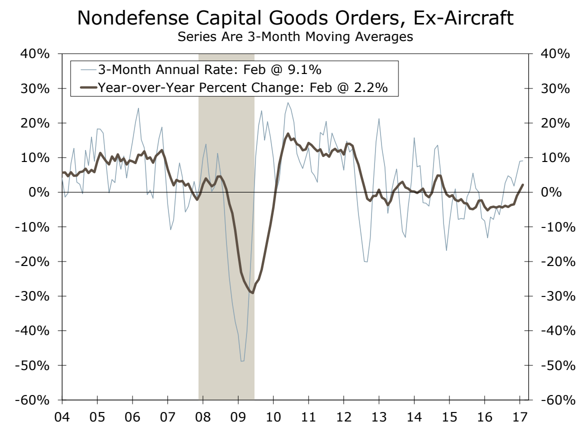
Despite a Weak February, Capex Spending Still Set to Improve

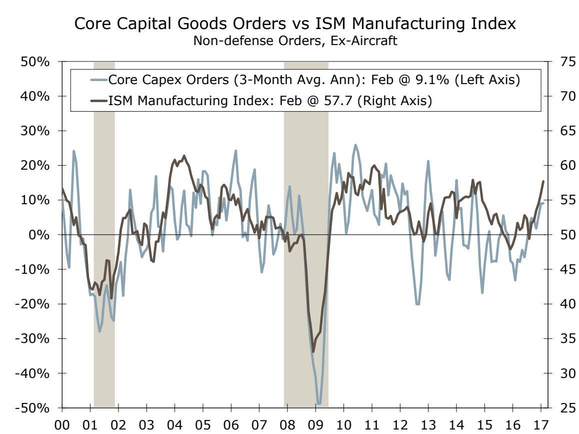
Our preferred barometer of near-term business spending, nondefense capital goods orders ex-aircraft, posted the biggest miss in February. Orders for this component slipped 0.1 percent compared to expectations for a 0.5 percent gain. Still, core orders indicate stronger momentum for capital expenditures in the coming months, having risen at a 9.1 percent average annualized pace over the past three months—the fastest clip in two and a half years.

Shipments have also improved, pointing to stronger outlays in Q1. Total shipments were up 0.3 percent in February. Excluding defense, however, capital goods shipments were down slightly for a second straight month, and point to only a moderate pickup in private equipment spending in Q1.

The strengthening in core orders of late still looks a bit weak when compared to softer data like the purchasing managers indices. Business optimism has been at cycle highs since the start of the year, but has yet to translate into commensurate strength in real activity. Nevertheless, we still look for business spending to improve in the coming months given the general strength of the survey data as well as the improvement in growth overseas and improving corporate profits.







Source: U.S. Department of Commerce, Institute for Supply Management and Wells Fargo Securities

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 Viloria, 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 Strategist	(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

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