

U.S. Core Factory Orders Dive

U.S. durable goods orders rose 0.3% in July, well short of expectations, though the prior month's decline was revised to -0.1% from -1.2%. The headline increase was due largely to a jump in non-defense aircraft orders (+76.9%), thanks to more bookings at Boeing. Excluding transportation, orders plunged 3.8%, the largest decline since January 2009. Nearly every sector was weaker, with machinery and computers tumbling over 10%. Adding a little salt in the wound, defense orders were softer as well. The broad weakness pushed non-defense ex. aircraft capital goods orders, a proxy for business capital spending, down 8% (also the biggest drop since Jan. 2009). June's increase was revised up, but that was cold comfort. Indeed, we'll need to see big increases in orders over the next two months just to avoid a decline in Q3. However, given the volatility in these data, that's certainly not out of the question. Business investment, which surged over the past three quarters, looks as though it may be running out of steam despite the huge stockpiles of cash on Corporate America's balance sheets.

(seasonally adjusted)	(month/month % change)			(% change : a.r.)	
	Jul	Jun	May	3-month	12-month
New Orders	0.3	-0.1	-0.7	-2.1	9.3
Ex. Transportation	-3.8	0.2	1.4	-8.7	9.5
Primary Metals	0.7	-3.4	-0.4	-12.1	29.3
Fabricated Metals	-1.0	1.8	-2.4	-6.1	8.2
Machinery	-15.0	4.3	11.1	-5.6	14.1
Computers	-12.7	0.8	4.5	-28.4	7.8
Communications	3.9	1.4	-11.9	-25.6	-17.3
Transportation	13.1	-1.0	-6.6	19.0	8.9
Electrical Equipment	-5.9	3.8	-0.5	-10.6	5.4
Non-Defense ex. Air	-8.0	3.6	4.7	-0.6	10.6
Shipments	2.2	0.2	-0.7	7.4	9.3
Unfilled Orders	-0.1	0.1	0.3	0.9	-2.0

The Bottom Line: After leading the recovery over the past year, U.S. businesses look as though they might be taking a step back. With firms already extremely reluctant to increase payrolls, a softer investment outlook adds to the case for much weaker growth through the second half of the year.

Benjamin Reitzes, 416-359-5628