

U.S. Flash

Durable Goods Fall As Budget Cuts Take Effect

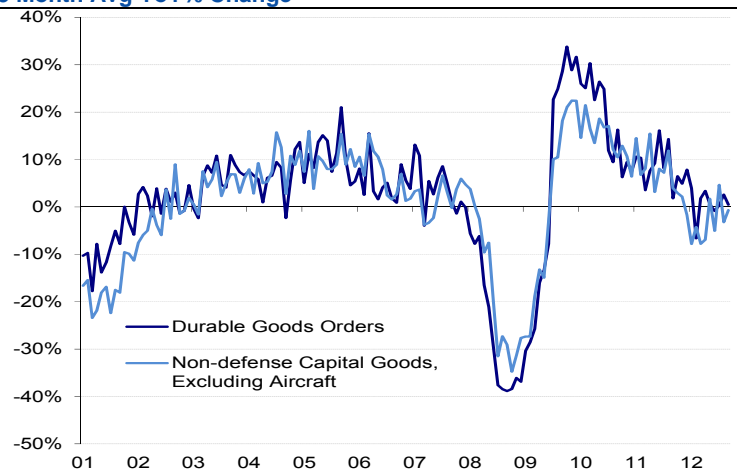
- **New orders for durable goods reversed prior gains, dropping 5.7% in March**
- **Excluding transportation, new orders fell for the second straight month, down 1.4%**
- **Defense capital goods declined a massive 33.2% with the sequester underway**

Durable goods orders fell by 5.7% in March, following a 4.3% gain in February, as spending cuts and weak capital goods sapped demand. Lead by transportation, where new orders declined by 15%, the durable goods decline was broader than expected, save the computer and electronic sector which managed to grow 1% and motor vehicles which grew 0.15%. Essentially, March's figures are a report card for the reduction in spending that is to come from government agencies, especially the military. Defense spending will continue to decline as budgets shrink and other portions, such as defense spending in equipment, will also feel the pain. Thus, the core figure provides a slightly more focused picture of how demand is faring. Unfortunately, new orders excluding transportation also declined in March, down 1.4% for the second consecutive month, following five months of positive growth between September and January. This figure still does include some facets of defense spending such as the computer industry and defense communications equipment which plunged 20 for the month.

Given pervasive spending reductions, durable goods growth is expected to be both volatile and slightly unclear at the headline and core levels for the time being. Rather, it is a deeper look that provides the positive or negative response to confirm industry trends. For instance, within the computer industry, computer and related product shipments reversed the past two months decline and rose 10.7% in March as desktop product cycles are being tossed for tablets and laptops that are cutting into conventional computing product markets. New orders have also risen in the same sector by 5% while the communications portion increased 5.7%. However, nondefense capital goods orders excluding aircraft (which gives a good idea of pure business related demand) increased only 0.3% for the month. While the market understands that the headline and core figures for durable goods are always volatile and have, as of late, been impacted heavily by spending reductions, a more thorough investigation still points toward slow growth in durable goods orders throughout the first half of the year.

Chart 1

Durable Goods Order 3 Month Avg YoY% Change



Source: U.S. Census Bureau & BBVA Research

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