U.S. Flash

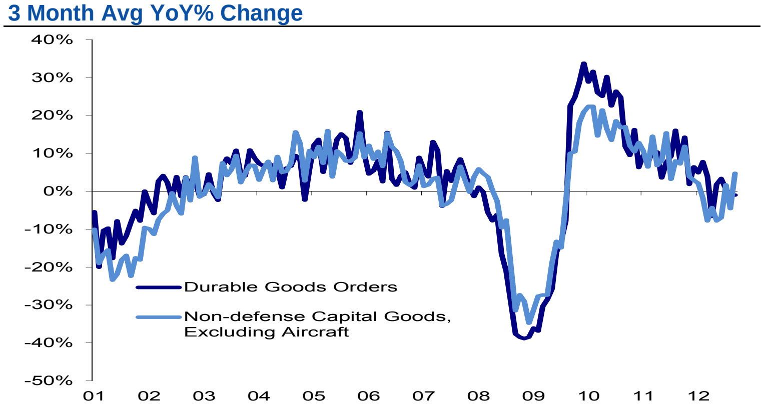
Fall in Durable Goods Orders Doesn't Tell the Whole Story

- **New orders for durable goods fell 5.1% but mostly due to transportation**
- **Defense aircraft orders plummeted 63.8% after a 58.5% gain in December**
- **Nondefense capital goods orders excluding aircraft increased 6.3%**

Notably one of the most volatile indicators in the arsenal of manufacturing data, durable goods orders again reported bleak results with concealed gains. Falling 5.1% in January, durable goods orders took a tumble as the transportation category weighed heavily on the headline figure. With the recent worry that Boeing's new airliner might carry with it some expensive repairs, coupled with the imminent decline in the defense budget, airline and transportation orders declined dramatically. The nondefense side saw a decline of 34% in new orders while defense aircraft and parts plummeted 63.8% to the lowest level since January 2009. Continuing with the defense cuts, new orders for defense goods overall declined by 60% as the overall budget is poised to be slashed. However, peel away the wings of misfortune in the transportation sector and the report actually shows some promising figures. Excluding transportation, durable goods orders rose 1.9%. This is carried by a massive rise in the machinery category which hit record highs on demand for farm goods and industrial capital. Also boosting the durable goods figure were nondefense capital goods that are used for manufacturing purposes like cleaning and power transmission equipment. The 6.3% jump in nondefense capital goods excluding aircraft was the largest since March 2010 and hints at a more optimistic outlook for business investment as we move along in 2013. These two facets put large upward pressure on the demand for new durable goods in the form of longer term capital which sheds some optimism that manufacturers are investing once again.

Inventories remained weak overall but continued to increased in the capital goods component, hopefully acting as a precursor to possibly rising demand for new orders in industrial capital along with smaller equipment as manufacturing gains momentum. Shipments look mixed as multiple industries saw increases in January while others fulfilled their orders before year-end. Although the initial number seems dismal, a further look shows that, while defense spending knows its days are numbered, the manufacturing and industrial sector lost interest in Washington's uncertainty and pushed through large orders for new capital as demand grows both domestically and globally. Hopefully this continues as the sequester nears initiation but never the less, an optimistic result from a sector that has yet to fire on all cylinders.

Chart 1
Durable Goods Order
3 Month Avg YoY% Change



Source: U.S. Census Bureau & BBVA Research

Kim Fraser
kim.fraser@bbvacompass.com
+1 713 831 7342

Alejandro Vargas
alejandro.vargas@bbvacompass.com
+1 713 831 7348