Economic Notes

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Durable Goods Orders, June 2009

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June orders for durable goods were mixed, with total orders down more than expected but orders excluding transportation up vs. forecasts for no change. Most of the decline in the headline number resulted from a sharp fall in defense orders, and core capital goods orders increased for the second consecutive month. Shipments of non-defense capital goods were little changed during the month, suggesting a more moderate decline in business equipment and software spending in the second quarter than in the first. Durable goods inventories declined once again.

- Total orders for durable goods fell 2.5% in June following a revised 1.3% May increase (originally reported as +1.8%) and a revised 1.4% April increase (revised from +1.8%). The mean June forecast had been for orders to fall 0.5%, with individual forecasts ranging from -2.0% to +2.0%. Excluding transportation, however, orders rose 1.1% vs. a mean forecast of no change and individual forecasts ranging from -1.0% to +1.3%. Defense orders fell nearly 20% in June (following four months of increases averaging 13%), so that total orders for non-defense durables fell a much smaller 0.7%.
- Orders for non-defense capital goods excluding aircraft (or "core" capital goods) increased 1.4% following a 4.3% increase in May. Machinery orders rose 4.4% following a 7.3% increase in May, electrical equipment orders rose 0.9%, but orders for IT equipment fell 2.5%. Aircraft orders fell 90%, but had risen nearly six-fold the month before; they are the lumpiest durable goods category.
- Shipments of durable goods changed little in June, falling 0.2%, as an increase in defense shipments offset declines in shipments of aircraft and IT equipment. For the second quarter as a whole, shipments of non-defense capital goods were down at a 19% annual rate, compared with a 28% annual rate in the first quarter. This suggests that spending on business equipment and software should decline at a low-teens annual rate in the second quarter GDP report (scheduled for release Friday), consistent with our forecast. This would represent a major moderation from the 34% rate of decline seen in the first quarter. Core capital goods orders rose slightly for the second quarter, pointing to a stabilization in equipment spending (which reflects shipments rather than orders) by the fourth quarter.
- Total inventories of durable goods fell 0.9% in June, leaving the ratio of inventories to new orders at 2.01 times, up slightly from 1.98 in May.

Source: U.S. Census Bureau

The decline in the headline orders figure for June is on balance a bit misleading as a gauge of private sector demand. On balance, this report suggests that capital goods orders may have stabilized in the second quarter, and thus that shipments should reach a bottom with about a two-quarter lag. ■