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Economics Group

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Mixed Factory Signals Amid Interregnum Uncertainty

The 0.2 percent pick-up in factory orders for March fell short of expectations, but the prior month's increase was revised higher. Both orders and shipments of core capital goods were up. Nondurable orders fell.

Despite Headline Miss, a Firming in Core Capital Goods

After firming in recent months, the factory sector has lost momentum. The scant gain of 0.2 percent in March in today's factory orders report is the smallest gain since factory orders dipped in November.

After a soft print for March durable goods orders last week, consensus expectations were already running a bit low at just 0.4 percent. The fact that the actual outturn was smaller than that is mitigated somewhat by the fact that the 1.0 percent gain for February factory orders was nudged higher by 0.2 percentage points—the same magnitude as the "miss" for March. On that basis, we can think of this as a roughly in-line report.

In fact, in our estimation, the revisions were a big part of the story in today's factory orders report, particularly as it relates to orders and shipments of non-defense capital goods orders, ex-aircraft or core capital goods. In last week's initial read on core capital goods the story was that orders were weak (up just 0.2 percent) but shipments were fairly firm (up 0.4 percent). Today's revision puts the March increase for both orders and shipments of core capital goods at 0.5 percent. The firming here corroborates the fairly solid pace of business fixed investment spending reported in first quarter GDP while alleviating some of the concerns about a loss of momentum for cap-ex heading into the second quarter.

Interregnum Ambiguity

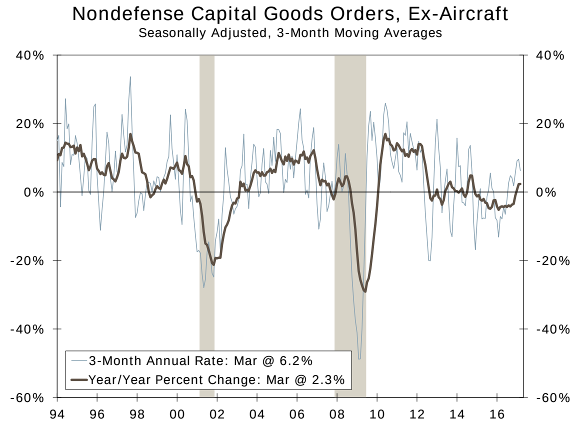
Gauging momentum in the business sector has been a particularly vexing task thus far in 2017 with the divergence between hard and soft data. Even within some of the soft data, like business surveys, there has been a divergence. Take this week, for example, with the ISM manufacturing survey for May falling to a six-month low then two days later the non-manufacturing ISM for the same month came in at its second-highest level since 2015.

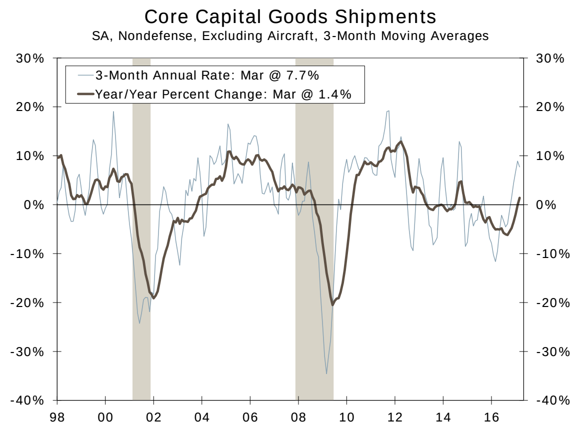
The dichotomy, in our view, stems from evolving expectations among business leaders about the ever-changing outlook for fiscal policy and regulation. The near-government shutdowns and the failed repeal-and-replace of the affordable care act raise doubts about the ability of the new administration in Washington to implement its agenda.

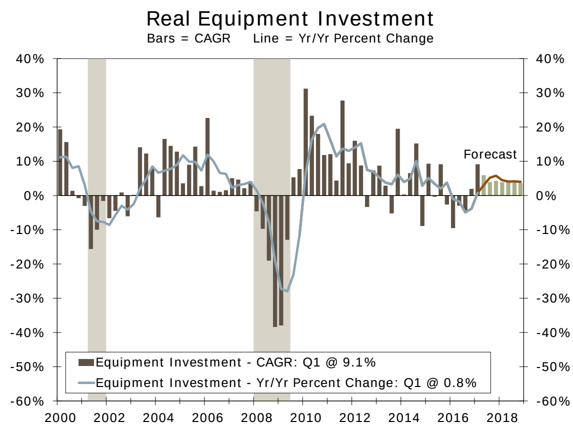
Nondurables and Broader Outlook

Nondurable goods orders fell 0.5 percent in March. Some of the weakness here is attributable to the recent softening trend in commodity prices, but, given the magnitude of the decline, may simply reflect some softness in nondurable industries as well.

Our forecast for equipment spending is for annualized growth of roughly 5.0 percent over the forecast period, which would be close to the trend rate of growth in the 2003-2007 expansion period.







Source: U.S. Department of Commerce and Wells Fargo Securities

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