



Economics Group

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Gloom in Factory Orders

Broad-based weakness and downward revisions accompanied the larger-than-expected decline of 1.7 percent in August factory orders.

Downward Revisions

Our regular write-ups on the monthly indicators will often include an observation about a seasonal adjustment quirk, a weather statistic, or how the timing of an air show could skew the data all in an attempt to highlight unique factors that might be at play influencing the monthly change. With U.S. dollar strength, weak growth overseas, and steep declines in commodity prices, there has been no shortage of those one-off dynamics to discuss over the past year. Despite these legitimate justifications, there has been persistent weakness in the U.S. manufacturing sector. The bottom line statistic that cannot be sugar-coated is that factory orders have fallen in nine out of the past twelve months.

Going into today's factory orders report for August, we already knew from last week's report that durable goods orders fell in the month and core capital goods orders (which lead business spending) slipped back into negative territory. The downward revisions to that already-reported data add to the gloom of this morning's miss in the jobs report. Durable goods orders are now off 2.3 percent in August (vs. just 2.0 percent previously) and core capital goods orders were revised from a 0.2 percent decline to much larger 0.8 percent decline. Nondurable orders, the "new" data in this report, fell 1.1 percent.

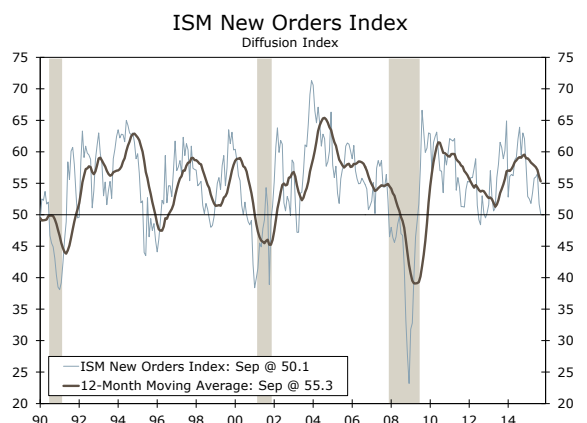
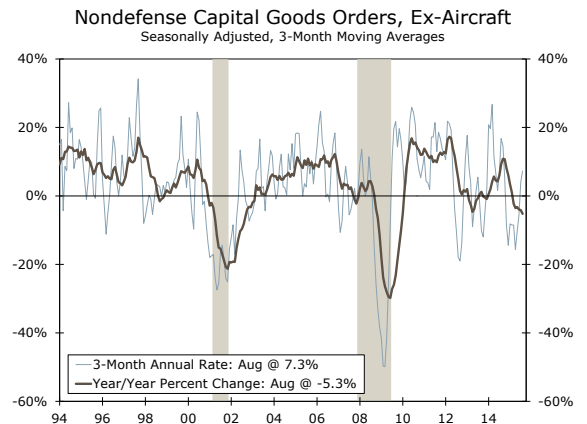
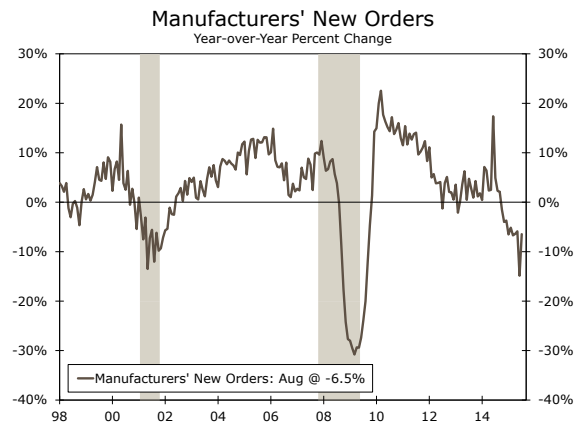
Shipments of core capital goods, a more coincident measure of business spending that feeds directly into GDP figures, went from a 0.2 percent decline in the durable goods report to 0.4 percent decline today.

What is particularly vexing here is that not only are the revisions repeatedly revised lower, the new orders component of the ISM index was at 56.5 in July, which is firmly in expansion territory. The rosy sentiment measure and positive leaning initial estimates giving way to weaker figures later draw to mind an image of Charlie Brown considering whether or not to trust Lucy to actually hold the football this time.

Coming Into the Homestretch and Sucking Wind

Although we will not have September data for another month, turning the calendar to October invariably raises the question about prospects for the fourth quarter and how manufacturing will finish the year.

If a mid-50s reading for ISM new orders in July only gets us the middling sort of figures we've seen for factory orders in recent months, there is not much to get excited about with that measure falling to just 50.1 in September as we learned yesterday. Many of the regional PMIs have slipped into outright negative territory. The problems of yesterday (strong dollar, weak global growth, depressed commodity prices) do not appear to be going away any time soon. Until these headwinds die down, our expectation for the factory sector is very slow growth, almost stall speed.



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