

Economic Analysis

Durable Goods Orders Drop as Businesses Cut Investment

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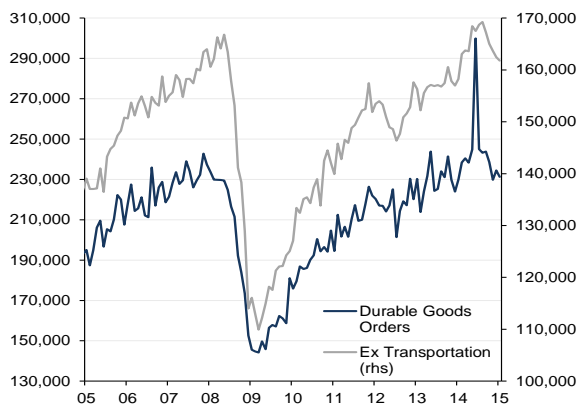
- **Durable goods orders unexpectedly fell 1.4% in February**
- **Widespread declines seen in transportation, core orders, and nondefense capital goods**
- **Nondefense capital shipments (ex aircraft) rose for the second time in three months**

After a small gain in January, durable goods orders declined 1.4% against market expectations for a second consecutive monthly increase. February's surprise drop was widespread across many categories, as transportation orders were down 3.5%, with drops in motor vehicles and both defense and nondefense aircraft. Even with the volatile transportation sector excluded, core orders dropped 0.4% to mark its fifth consecutive monthly decline. One small bright spot in this report was the 0.2% rise in shipments of nondefense capital goods excluding aircraft—a factor which is used in determining quarterly GDP.

However, nondefense capital goods orders excluding aircraft—a key measure of business investment—was down for the sixth consecutive month, retreating 1.3% in February. The weak global economy coupled with the strengthening dollar has made it difficult for U.S. businesses to sell their goods abroad, discouraging investment at home. The steep decline in oil prices did not help investment in the domestic energy sector either.

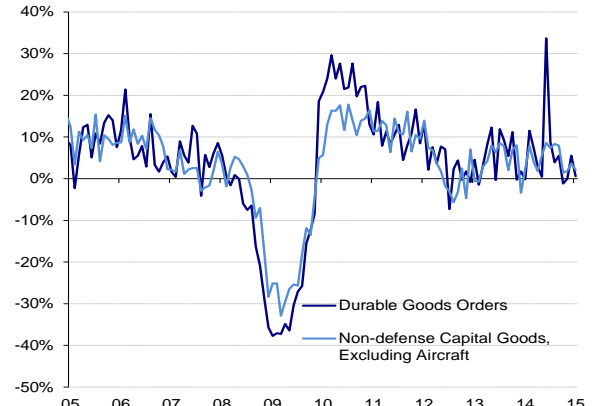
Despite this weak durable goods report, we expect manufacturing orders to show gradual improvement in the upcoming months, as increased consumer spending and strong job gains boost domestic demand. Furthermore, conditions are likely to improve as we move into the second quarter and away from the volatile impact of severe winter weather. As was the case in 2014, we expect to see stronger growth through the rest of the year to offset weakness in the first quarter.

Chart 1
Durable Goods Orders
SA, Millions of Dollars



Source: US Census Bureau, BBVA Research

Chart 2
Durable Goods Orders
3 Month Avg YoY% Change



Source: US Census Bureau, BBVA Research

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