

Economic Analysis

Factory Orders Declined by 1.7% MoM in February

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- **New factory orders contracted 1.7% MoM in February, offsetting the 1.2% increase in January**
- **Inventories and unfilled orders decreased 0.4% and 0.3% MoM, respectively**
- **The goods-producing sector is not likely to contribute much to GDP growth in 1Q16**

The fall in the trade weighted value of the U.S. dollar against other major currencies in February did not help new factory orders, which declined 1.7% MoM. This decline more than offset the 1.2% MoM increase in January, which was revised down from 1.6%. Orders have now declined in 14 of the last 19 months. The decline in February, although anticipated, was across the board, and together with the downward revision of the January figure, added to the woes of the goods-producing sector. That said, the March reading for the ISM manufacturing index surged, which should provide some respite.

New orders for durable goods decreased 3.0% MoM, due in part to a sharp decrease of 6.2% in transportation equipment, albeit after a very strong January for this category when it grew by 10.6% MoM. Orders for non-durable goods such as food, clothing, and fuel were down 0.4% MoM, declining for the eighth month in a row, which is due to a large extent to low oil prices. Inventories decreased by 0.4% MoM. The inventory-to-shipments ratio remained unchanged MoM at 1.37. This is positive, as a higher ratio would have further pressured production into slowdown due to excess inventories.

Unfilled orders also declined in February 0.3% MoM. Negative MoM growth for the year suggests a declining backlog of orders, which is not expected to support production expansion in the coming months unless demand increases. Demand could go up if the increase in the ISM manufacturing index is confirmed in the March orders

Chart 1
New Durable and Non-Durable Orders (% MoM)



Source: Census Bureau and BBVA Research

Chart 2
Goods Consumption, Shipments and Orders (% YoY, 1Q16 Quarter to Date)



Source: Census Bureau and BBVA Research

data next month. If, however, the decline in unfilled orders continues, it would signal decelerating consumer and business spending.

In conclusion, new factory orders contracted in February along with inventories and unfilled orders. This and the downward revision of the January figures support recent data showing weak trade and consumer spending on goods, suggesting that the goods-producing sector is not going to contribute much to GDP growth in the first quarter and maybe even in the first half of the year.

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