NEW MANUFACTURED DURABLE GOODS ORDERS TUMBLED 7.3% IN JULY

After some stagnation, particularly in industrial output, things had appeared to be improving for the U.S. manufacturing sector. The drop in orders therefore constitutes a drag on the manufacturing sector acceleration outlined by July’s strong advance by the ISM manufacturing index. Note that the manufacturing ISM had posted its strongest monthly growth since July of 1995, reaching a comfortable 55.4. The ISM’s new orders index rose even more sharply, going to 58.3, its highest point since April 2011. Today’s figures are not consistent with those advances.

Some of the drop by new orders was quite foreseeable. The July orders that Boeing released suggested a major bite in the aviation sector. It is the remainder of the sectors that make the results disappointing. In this case, the drop mainly comes from the computer and electronic products sectors, where orders fell 3.6%. Metallurgy, machinery and the automotive sector show stagnation or very slight growth.

The 3.3% drop by new capital goods orders excluding defence and aviation is also disappointing, and could point to another downturn in business investment. However, the drop follows a total gain of 5.9% over the four previous months.

Implications: Because the drop by capital goods orders follows on the heels of several months of strong growth, the signs for business investment remain good for the third quarter. However, if they start to pile up, these kinds of disappointing numbers could make Federal Reserve leaders hesitant about cutting back on security purchases anytime soon.

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