Drop In Key Durable Goods Orders Shows Weakness

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WASHINGTON (AP) — Signs that U.S. manufacturing is faltering emerged from a report Friday that orders for long-lasting factory goods, excluding the volatile transportation category, fell in July for the fourth time in five months.

Overall orders for durable goods rose a seasonally adjusted 4.2 percent in July, the Commerce Department said. But excluding aircraft and other transportation goods, orders dropped 0.4 percent.

Durable goods are items meant to last at least three years. Orders for so-called core capital goods, a key measure of business investment plans, fell 3.4 percent. That's the biggest drop since November and the fourth decline in five months. And June's figure was revised down to show a drop of 2.7 percent — much worse than the initial estimate of a 1.7 percent fall.

"This is a very weak report," Paul Ashworth, an economist at Capital Economics, said in a note to clients.

Core capital goods include computers, industrial machinery and steel. The steady decline in such orders suggests that companies are worried that the economy will slow and are reducing investment. Europe's financial crisis has pushed that region to the brink of recession, threatening exports of U.S. goods. Economies in China, India and Brazil are also growing more slowly.

The U.S. economy is also at risk of going off a "fiscal cliff" at the end of the year. That's when tax increases and deep spending cuts will take effect unless Congress reaches a budget agreement.

The slowdown in manufacturing could encourage the Federal Reserve to step up its efforts to stimulate the economy. At the Fed's last meeting, policymakers signaled that they were moving closer to launching another round of bond-buying, according to minutes released Wednesday. The goal would be to lower longer-term interest rates to encourage more borrowing and spending.

"Ignore the headline jump; the slump in capital goods orders will only strengthen the Fed's resolve to act soon," Ashworth said.

This week, the Congressional Budget Office warned that if the fiscal crisis remained unresolved all next year, it would probably tip the U.S. economy into a recession. Unemployment would rise to around 9 percent by late next year as a result of the spending cuts and tax increases, the CBO said. Unemployment is now 8.3 percent.

Some economists worry that companies are already postponing spending until the budget crisis is resolved.

Durable goods orders amounted to $230.7 billion in July, 63 percent above the recession low hit in March 2009. But they're still 5.3 percent below their peak in December 2007, the month the recession began.

Companies cut orders for machinery, communications equipment, and electrical equipment and appliances. Orders rose for primary metals such as steel and computers.

Orders also jumped 12.8 percent for autos and auto parts, the sharpest increase in nearly a year. That probably occurred because many auto companies skipped or shortened their usual summer shutdowns in July. As a result, July's increase may not last.

The Commerce Department report said aircraft orders soared 54 percent. Boeing, one of the biggest global aircraft manufacturers, received 260 orders last month, according to economists at IHS Global Insight, up from 21 in June.

Aircraft orders tend to fluctuate sharply from month to month, so they aren't regarded as a good barometer of demand. And many of these orders might not ship for years.

Manufacturing, a key source of growth earlier in the recovery, has been showing signs of weakness. Factory activity shrank for the second straight month in July, according to a survey by the Institute for Supply Management, a trade group.

The economy has shown modest improvement in recent weeks, but analysts don't expect growth to accelerate much. Growth may improve to an annual rate just below 2 percent in the July-September quarter, some economists forecast. That's not much better than the 1.5 percent annual pace in the April-June period.