U.S. Orders For Core Capital Goods Up 1.7 Percent

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WASHINGTON (AP) — U.S. companies in October increased their orders of machinery and equipment that signal investment plans by the largest amount in five months, a hopeful sign for future economic growth.

Orders for core capital goods, considered a proxy for business investment, rose 1.7 percent in October, the best showing since a 2.3 percent rise in May, the Commerce Department said Tuesday. Orders in this category had slowed beginning in the spring, acting as a drag on overall economic growth.

Total orders for durable goods were unchanged in October at $216.9 billion following a 9.2 percent jump in September that had been driven by a surge in demand for commercial aircraft. In October, demand for machinery, primary metals and communications equipment increased while orders for autos, airplanes and computers fell.

Many businesses had been holding back because they are worried about tax increases and federal spending cuts — known as the "fiscal cliff" — that will take effect in January unless Congress reaches a budget deal before then. Most economists predict the economy will suffer a recession in the first half of 2013 if lawmakers and President Barack Obama can't avoid the fiscal cliff.

Economists called the rebound in orders in the business investment category encouraging but cautioned that business will remain cautious until Congress and the Obama administration reach a budget deal to avert the fiscal cliff.

"We don't anticipate any marked turnaround until Congress gets its act together and reaches an agreement," said Paul Ashworth, chief U.S. economist at Capital Economics. He said if a deal is reached either late this year or early in 2013, "then we would expect to see something of a rebound in business investment as firms give the green light to projects put on hold in the second half of this year."

White House economists on Monday warned that the uncertainty of a potential hike in taxes next year for middle class taxpayers could hurt consumer confidence and spending during the crucial holiday shopping season.

Businesses have also grown more cautious because Europe's financial crisis has pushed many countries in the region into recession. That has cut into U.S. exports and corporate profits. Growth has also slowed in China, Brazil and other big developing nations which are major markets for American exports.

U.S. factory activity grew in October for a second straight month, according to the

Institute for Supply Management closely watched manufacturing survey. But regional surveys indicated manufacturing shrank this month in the Philadelphia and New York regions, partly reflecting damage from Superstorm Sandy that disrupted area factories.

The storm may have also weighed on durable goods orders in October, although most economists expect the storm's impact to fade in the coming weeks.

The economy is expanding at a modest pace. Many economists now predict growth at an annual rate of roughly 3 percent in the July-September quarter, up from the initial estimate of 2 percent reported last month. The government releases its second estimate for third-quarter growth on Nov. 29.

Still, many economists say the economy is growing in the current October-December quarter at an annual rate below 2 percent. That's too slow to make much of a dent in the unemployment rate, which was 7.9 percent last month.

Orders for transportation equipment were down 3.1 percent in October. That reflected a 1.6 percent fall in demand for autos and auto parts and a 5.5 percent drop in commercial aircraft orders.

Excluding transportation, orders were up 1.5 percent following a 1.7 percent rise in September.