
U.S. Durable Goods Orders Increased 1.7% in July (Update2)
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(Adds Treasury markets in sixth paragraph.)

By Carlos Torres

Aug. 25 (Bloomberg) -- U.S. orders for durable goods rose 1.7 percent in July, more than forecast, as bookings surged for commercial aircraft and demand increased for business equipment, a government report showed.

Orders for items made to last at least three years increased to \$195.6 billion after rising a revised 1.1 percent in June, the Commerce Department said in Washington. Excluding transportation equipment, orders rose 0.1 percent last month following a 0.3 percent drop.

Businesses, flush with profits amid rising sales, are using the cash to replace aging equipment and replenish inventories. Rising capital investment may foster a pick up in production that will keep the economy growing in the second half of 2004. Orders waiting to be filled rose the most since March.

``Capital spending is proving the main thrust for the economy," said Adrienne Warren, a senior economist at Scotia Capital Inc., in Toronto. ``It will be providing the impetus to growth for the second half of the year."

Economists had expected durable goods orders to rise 1 percent to \$194 billion, based on the median of 64 forecasts in a Bloomberg News survey. Orders excluding transportation equipment were expected to increase 1.3 percent to \$138.1 billion.

The Treasury's 4 1/4 percent note fell 1/16, pushing up the yield 1 basis point to 4.28 percent at 8:40 a.m. in New York.

Orders for transportation equipment rose 5.6 percent after rising 4.7 percent in June. Bookings for commercial aircraft increased 100.4 percent, the most since July 2002.

Boeing Co., the second-largest maker of commercial airplanes, took orders for 75 aircraft last month compared with 14 in June, according to figures on the Chicago-based company's Web site. Of those, 58 came from foreign buyers, suggesting exports may be set

to rebound. Total U.S. exports in June had the biggest decline since September 2000 as shipments of commercial aircraft and other capital equipment fell.

Machinery

Orders for motor vehicles fell 5.3 percent after rising 0.9 percent the previous month.

Machinery orders increased 2.1 percent last month after rising 1.1 percent in June. Orders for computers and electronic products fell 3.8 percent last month after decreasing 1.8 percent. Communications equipment orders rose 5.1 percent after falling 4.4 percent.

Electrical equipment orders rose 5 percent, the most since March of last year.

Bookings for non-defense capital goods excluding aircraft, a proxy for future business investment, increased 0.6 percent last month after rising 1.4 percent. Shipments, which the government uses to construct quarterly gross domestic product figures, increased 1.4 percent after rising 2.5 percent. Orders waiting to be filled for such equipment rose 0.2 percent. Unfilled orders for all durable goods increased 1.2 percent.

Defense

Orders for defense hardware fell 16.2 percent last month, following a 34.5 percent increase. Excluding defense, orders increased 2.7 percent, the biggest rise since March.

“We are very confident going forward,” said Michael Splinter, chief executive of Applied Materials Inc., the world's biggest maker of semiconductor-production equipment, in an interview last week. “Back-to-school data is starting to come in and look positive for electronics and consumer electronics equipment.”

Santa Clara, California-based Applied Materials last week reported its largest quarterly profit in almost four years as chipmakers doubled purchases of its machines.

Manufacturing production rose 0.6 percent last month, the 10th increase in the last 11 months, after falling 0.2 percent in June, the Fed reported last week. The increase was led by a jump in production of computers, communications equipment and semiconductors, suggesting businesses are investing to promote gains in efficiency.

Profits

The Institute for Supply Management said earlier this month that its factory index rose in July amid gains in orders and production.

Boeing isn't the only company benefiting. Deere & Co., the world's largest maker of farm equipment, said last week that third-quarter profit rose 62 percent as farmers boosted spending on tractors and combines, and demand for construction and logging machines increased. Sales at the Moline, Illinois-based company rose 23 percent.

Profits at the Standard & Poor's 500 largest companies will probably rise 19.1 percent for the year compared with a previous prediction of 18.2 percent, according to a forecast by analysts at Thomson Financial.

Some companies may be rushing to place orders to take advantage of tax incentives that are set to expire at the end of the year. A provision in the tax law that President George W. Bush signed in May 2003 gave an added incentive for buying capital equipment by Dec. 31 of this year. Large companies can write off 50 percent of qualified investments.

The economy will probably expand 4.3 percent this year, the most since 1999, according to the median estimate of economists surveyed this month by Bloomberg News.