

# US WEEKLY ECONOMIC UPDATE



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# US Economic and Investment Perspectives

## Manufacturing Orders and Backlogs Rise

New orders and backlogs for durable goods manufacturers are rising, indicating that manufacturing production will show strong growth for the third quarter and possibly the second half of 2004. Each major industry reported higher new-order commitments in the second quarter, and each ended the period with bigger backlogs.

Backlogs are the lifeblood of industry, and many firms determine future production and investment plans based on their movements. Importantly, the second-quarter gains in backlogs were broad based, with primary metals, fabricated metals, machinery, computers and related equipment, electronic equipment, appliances and components all posting gains of between 2.5% from 4.5%. Moreover, order backlogs for computers and related equipment jumped to new record levels at the end of June, and order backlogs for fabricated metals are the second highest on record. The smallest gain was in the transportation sector, where backlogs for commercial aircraft edged up slightly in the period. The sector could be poised for a boost, though, as Boeing recently announced new orders.

These trends in durable-goods manufacturing paint a bright picture for the manufacturing sector overall in the second half of the year and beyond. Based on current trends it would appear that manufacturing output should roughly match the 6% to 6.5% annualized gain recorded during the first half.

### New-Order Trends

New orders for durable goods rose 1.9% in the second quarter (**Display 1**). While that trailed the 2.1% gain for the first quarter, the gains were broad based and represented the fourth consecutive quarterly gain in new orders. Second-quarter numbers also reflected, in part, lower orders for the two key technology industries—computers and electronic products, and electrical equipment, appliance and components. However, new-order commitments for the tech industry have been

moving higher on a steady basis since the summer of 2003 and now stand at the highest level since 2001. First-quarter results were also strong because of unusually large gains in certain sectors: Primary metals rose 9.8%; fabricated metals rose 6.3%; and machinery, 6%. These gains came on the heels of solid gains in each of the prior two quarters. The mere fact that orders kept on rising in the second quarter is a positive sign.

### Order Backlogs

Order backlogs for durable goods manufacturing firms increased 1.9% in the second quarter, the fifth consecutive quarterly gain (**Display 2**). The last time order backlogs rose for five consecutive quarters was in 1999 and 2000. Given the relatively low inventory position in the US and around other parts of the world, and the fact that many firms are now seeing the need to expand operations due to rising plant use, we expect to see ongoing gains in backlogs for sometime to come.

The backlog gains have been very strong in a number of old-economy industries. In the past year, backlogs grew 33% for primary metals, 24% for fabricated metals and 16% for machinery. Order backlogs for fabricated metals were at the second-highest level ever.

Order backlogs are also growing in the tech sector. In the computer and electronic-products industry they have risen for six consecutive quarters and currently stand at their highest level ever. Moreover, in the last two months order backlogs for computers and related products surged almost 13%. A similar strong gain in May and June of last year was followed by a very strong 9% gain (not annualized) in third-quarter shipments.

Based on current order and backlog trends, the odds are high that growth in third-quarter output and shipments will be relatively strong for new- and old-economy industries.

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**Display 1: Good News: Second-Quarter Orders Are Rising In All of the Major Industries**  
 New Durable-Goods Orders

	Durable Goods		Primary Metals		Fabricated Metal Products		Machinery		Computers & Electronic Products		Electrical Equipment, Appliances & Components		Transportation Equipment	
	Level \$ (Bil.)	Q/Q % Chg	Level \$ (Bil.)	Q/Q % Chg	Level \$ (Bil.)	Q/Q % Chg	Level \$ (Bil.)	Q/Q % Chg	Level \$ (Bil.)	Q/Q % Chg	Level \$ (Bil.)	Q/Q % Chg	Level \$ (Bil.)	Q/Q % Chg
Mar 2001	540.5	-4.1%	35.2	-3.9%	63.6	-4.9%	70.6	0.4%	103.5	-2.1%	29.9	-5.4%	146.5	-6.9%
Jun 2001	524.7	-2.9%	34.9	-0.9%	62.6	-1.7%	65.3	-7.4%	90.5	-12.6%	28.3	-5.5%	151.1	3.2%
Sep 2001	506.2	-3.5%	33.8	-3.2%	61.8	-1.2%	64.5	-1.3%	84.0	-7.1%	26.7	-5.7%	142.2	-5.9%
Dec 2001	509.6	0.7%	32.3	-4.4%	60.8	-1.6%	61.4	-4.8%	86.2	2.7%	25.8	-3.3%	151.5	6.5%
Mar 2002	510.4	0.2%	32.3	0.0%	61.1	0.6%	61.6	0.3%	82.2	-4.7%	25.1	-2.7%	156.7	3.4%
Jun 2002	508.9	-0.3%	34.4	6.6%	63.1	3.2%	61.3	-0.5%	83.1	1.1%	26.9	7.3%	148.8	-5.0%
Sep 2002	520.2	2.2%	34.2	-0.8%	63.0	-0.1%	62.4	1.8%	80.7	-2.9%	25.4	-5.4%	163.3	9.7%
Dec 2002	505.9	-2.8%	33.2	-2.9%	62.3	-1.1%	61.7	-1.0%	80.4	-0.4%	25.7	1.0%	149.7	-8.3%
Mar 2003	509.2	0.7%	32.6	-1.6%	60.8	-2.3%	62.2	0.7%	83.8	4.3%	25.2	-2.0%	152.4	1.9%
Jun 2003	508.2	-0.2%	32.0	-2.1%	59.7	-1.8%	60.6	-2.6%	85.4	1.9%	24.9	-1.0%	153.0	0.4%
Sep 2003	528.7	4.0%	32.8	2.5%	62.0	3.7%	63.7	5.2%	93.6	9.6%	25.4	1.9%	154.8	1.2%
Dec 2003	551.5	4.3%	35.4	8.1%	64.1	3.5%	68.0	6.7%	93.1	-0.6%	25.4	0.0%	164.4	6.2%
Mar 2004	563.3	2.1%	38.9	9.8%	68.2	6.3%	72.1	6.0%	96.0	3.1%	26.3	3.8%	161.8	-1.6%
Jun 2004	574.0	1.9%	40.7	4.6%	69.8	2.4%	72.7	0.8%	97.1	1.2%	26.9	1.9%	163.0	0.8%

Source: Census Bureau and Haver Analytics

***New orders rose in the second quarter, although at a slightly slower pace than the first three months. Nonetheless, this was the fourth consecutive quarter of rising orders, suggesting there will be strong industrial activity in the second half.***

**Display 2: Good News: Backlogs Are Up Sharply, with Computer & Electronic Products at Record Levels**  
Durable-Goods Order Backlogs

	Durable Goods		Primary Metals		Fabricated Metal Products		Machinery		Computers & Electronic Products		Electrical Equipment, Appliances & Components		Transportation Equipment	
	Level \$ (Bil.)	Q/Q % Chg	Level \$ (Bil.)	Q/Q % Chg	Level \$ (Bil.)	Q/Q % Chg	Level \$ (Bil.)	Q/Q % Chg	Level \$ (Bil.)	Q/Q % Chg	Level \$ (Bil.)	Q/Q % Chg	Level \$ (Bil.)	Q/Q % Chg
Mar 2001	545.9	-0.7%	18.4	-2.8%	44.1	-2.2%	59.11	-3.2%	131.1	0.3%	17.2	-5.5%	264.3	0.5%
Jun 2001	536.9	-1.6%	18.4	-0.2%	43.2	-2.1%	56.85	-3.8%	128.7	-1.8%	15.8	-8.6%	263.7	-0.2%
Sep 2001	522.2	-2.7%	17.8	-3.1%	42.2	-2.2%	55.86	-1.7%	126.7	-1.6%	15.1	-4.2%	254.1	-3.7%
Dec 2001	517.6	-0.9%	16.9	-4.9%	40.7	-3.7%	54.60	-2.3%	127.4	0.6%	14.7	-2.8%	252.4	-0.7%
Mar 2002	512.0	-1.1%	16.3	-3.5%	39.9	-2.0%	50.83	-6.9%	124.9	-2.0%	14.0	-4.3%	255.2	1.1%
Jun 2002	497.7	-2.8%	16.3	-0.1%	39.5	-0.9%	47.33	-6.9%	124.1	-0.6%	14.6	4.0%	245.7	-3.7%
Sep 2002	494.3	-0.7%	15.9	-2.6%	38.6	-2.3%	45.19	-4.5%	121.3	-2.2%	14.3	-2.2%	249.3	1.5%
Dec 2002	485.8	-1.7%	15.0	-5.3%	37.8	-2.1%	43.54	-3.6%	119.7	-1.4%	14.0	-1.9%	245.7	-1.5%
Mar 2003	485.2	-0.1%	14.3	-5.2%	36.9	-2.3%	43.22	-0.8%	121.9	1.9%	14.0	0.0%	244.3	-0.6%
Jun 2003	487.4	0.4%	14.1	-1.2%	36.1	-2.1%	41.43	-4.1%	123.4	1.2%	14.0	0.0%	247.5	1.3%
Sep 2003	492.0	1.0%	14.7	4.2%	36.8	1.9%	41.44	0.0%	128.2	3.9%	14.1	0.4%	246.2	-0.5%
Dec 2003	506.3	2.9%	16.5	12.4%	39.0	5.8%	43.91	6.0%	129.5	1.1%	13.6	-3.1%	251.9	2.3%
Mar 2004	517.6	2.2%	18.2	10.3%	42.9	10.1%	46.86	6.7%	132.6	2.4%	14.3	5.3%	250.6	-0.5%
Jun 2004	527.5	1.9%	18.7	3.1%	44.8	4.5%	48.39	3.3%	136.0	2.5%	14.9	4.1%	252.2	0.7%

Source: Census Bureau and Haver Analytics

***Boom Time!***

***Order backlogs have increased by about \$40 billion in the last 12 months. Moreover, the gains have been broad based. The rebound in backlogs in computers and related products has been very impressive, but so have the gains in many of the old-economy industries, such as primary and fabricated metals and machinery.***