

## December Durable Goods

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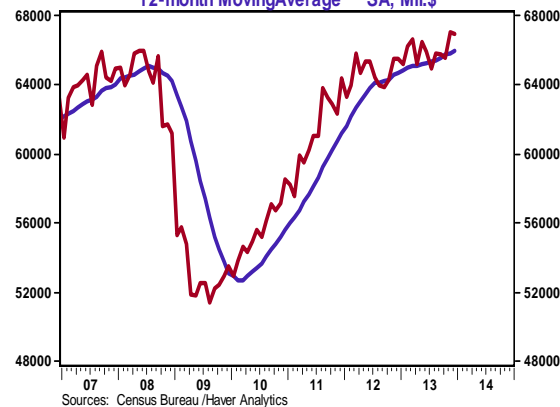
- New orders for durable goods declined 4.3% in December (-5.1% including revisions to prior months), coming in well below the consensus expected 1.8% gain. Orders excluding transportation fell 1.6% (-2.7% including revisions to prior months), also coming in well below the consensus expected gain of 0.5%. Orders are up 0.1% from a year ago, while orders excluding transportation are up 2.9%.
- The decline in overall orders was led by civilian aircraft, autos, and computers/electric products. Machinery orders increased.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure declined 0.2% in December but was up at a 6.5% annual rate in Q4 versus the Q3 average.
- Unfilled orders increased 0.4% in December and are up 7.0% from last year.

**Implications:** An ugly report on orders of durable goods in December, which dropped 4.3%, the largest decline in five months and well below even the worst forecasts for the month. However, most of the decline was in the transportation sector – particularly civilian aircraft – which is extremely volatile month to month. Orders excluding transportation dropped 1.6%, but the most likely explanation is a combination of statistical noise and an unusually cold and snowy December. Typically, during an economic expansion, orders ex-transportation still decline four or five months a year. In the previous expansion from November 2001 to November 2007, 28 out of 73 months had a negative monthly reading. Despite the drop in orders in December, the trend is still upward, with orders ex-transportation 2.9% higher than a year ago. Shipments of “core” capital goods, which exclude defense and aircraft, slipped 0.2% in December but were up at a 6.5% annual rate in Q4 over the Q3 average, the fastest rate since Q1 2012. These figures signal that “real” (inflation-adjusted) business investment in equipment was up at about a 7% annual rate in Q4, which does not at all signal an economic slowdown. Plugging the data into our models for real GDP puts our final forecast for Q4 at a 3.0% annual rate, slightly below the consensus expected 3.2%. The best news in today’s report was that unfilled orders for core capital goods rose 0.3% in December, hitting a new record high. This news supports our optimism about business investment. In other manufacturing news this morning, the Richmond Fed index, which measures mid-Atlantic factory sentiment, came in at +12 in January versus +13 in December, so still signaling solid growth. The Case-Shiller index, a measure of home prices in the 20 largest metro areas, increased 0.9% in November (seasonally-adjusted) and is up 13.7% in the past year. Recent gains have been led by Atlanta, Miami and Detroit (yes, that Detroit!). Price gains should continue in the year ahead, but not as fast as in the past twelve months.

Manufacturers' New Orders: Durable Goods Excl Transportation  
SA, Mil.\$



Mfrs' Shipments: Nondefense Capital Goods ex Aircraft  
SA, Mil.\$  
Mfrs' Shipments: Nondefense Capital Goods ex Aircraft  
12-month MovingAverage SA, Mil.\$



Durable Goods <i>All Data Seasonally Adjusted</i>	Dec-13	Nov-13	Oct-13	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
<b>New Orders for Durable Goods</b>	<b>-4.3%</b>	2.6%	-0.7%	-9.6%	-11.9%	0.1%
<i>Ex Defense</i>	<b>-3.7%</b>	2.7%	0.2%	-3.3%	-8.2%	6.3%
<i>Ex Transportation</i>	<b>-1.6%</b>	0.1%	0.7%	-3.3%	-2.2%	2.9%
<i>Primary Metals</i>	<b>-2.1%</b>	-0.6%	1.6%	-4.4%	4.2%	3.0%
<i>Industrial Machinery</i>	<b>0.8%</b>	3.0%	0.9%	21.0%	6.7%	14.8%
<i>Computers and Electronic Products</i>	<b>-7.8%</b>	0.1%	2.4%	-20.3%	-15.3%	-4.3%
<i>Transportation Equipment</i>	<b>-9.5%</b>	7.9%	-3.5%	-21.4%	-28.3%	-5.4%
<b>Capital Goods Orders</b>	<b>-6.5%</b>	7.1%	-2.6%	-9.2%	-26.0%	-4.8%
<b>Capital Goods Shipments</b>	<b>-0.7%</b>	2.0%	-0.2%	4.3%	1.4%	1.8%
<i>Defense Shipments</i>	<b>-11.5%</b>	10.5%	-1.5%	-14.0%	-6.6%	-7.9%
<i>Non-Defense, Ex Aircraft</i>	<b>-0.2%</b>	2.3%	-0.2%	7.5%	3.3%	2.2%
<b>Unfilled Orders for Durable Goods</b>	<b>0.4%</b>	0.9%	0.6%	7.7%	6.2%	7.0%

Source: Bureau of the Census