

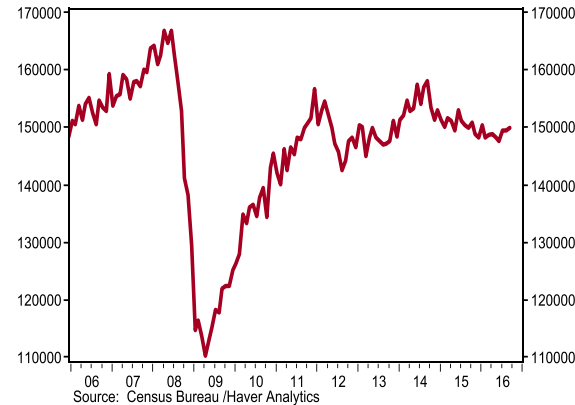
September Durable Goods

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

- New orders for durable goods declined 0.1% in September (unchanged including revisions to prior months). The consensus expected no change. Orders excluding transportation rose 0.2% in September (+0.5% including revisions to prior months), matching consensus expectations. Orders are up 1.6% from a year ago while orders excluding transportation are unchanged.
- The largest declines in September were for defense aircraft and computer & electronic products. The largest gain was for commercial aircraft.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure rose 0.3% in September, but was down at a 4.4% annualized rate in the third quarter versus the second quarter.
- Unfilled orders declined 0.4% in September and are down 1.6% from last year.

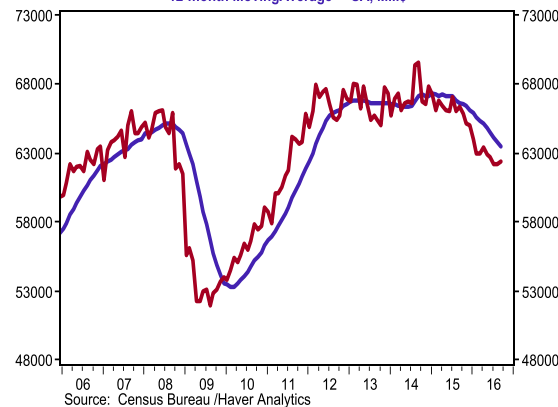
Implications: While it has its weak spots, today’s report on durable goods is another green light for the Fed. Defense aircraft led durable goods orders lower, but excluding volatile transportation orders, which declined 0.8% in September, orders rose for a third consecutive month. And orders outside the transportation industry are on the rise, up at a 5.7% annual rate in the past three months compared to a 1.7% annual rate in the past six months and no change over the past year. The largest gain outside the transportation sector -- where both commercial aircraft and motor vehicle orders showed healthy gains but were more than fully offset by a large decline in military aircraft -- came from machinery orders, which have risen in four of the past five months. Electrical equipment and appliances also rose. This may be in part a sign of improvement in the energy sector, which had been pulling down machinery investment since oil prices started declining in mid-2014. Shipments of “core” capital goods - non-defense, excluding aircraft – rose 0.3% in September, but were down at a 4.4% annual rate in the third quarter versus the second quarter, and are likely to be a drag on Q3 GDP growth. Despite this headwind, we expect tomorrow’s GDP report will show the economy grew at a healthy 2.5%+ annual rate in the third quarter, a pickup from the 1.4% rate seen in Q2. The worst news in today’s report was a 1.2% decline in new orders for “core” capital goods, the largest monthly drop since February. The putting pundits may point to this one-month decline in “core” business investment as a reason for the Fed to hold off on a rate hike, but we think this is a mistake. “Core” capital goods orders rose for three consecutive months before September and were still up at a healthy 5.2% annual rate in the third quarter. As a whole, today’s report shows an economy ready for higher rates. In employment news this morning, new claims for unemployment insurance declined 3,000 last week to 258,000, the 86th week in a row below 300,000. Continuing claims fell 15,000 to 2.039 million. Plugging these figures into our models suggests payrolls are growing close to 200,000 in October. On the housing front, pending home sales, which are contracts on existing homes, rose 1.5% in September after declining 2.5% in August. Combined, the readings from recent months suggests existing home sales, which are counted at closing, should roughly maintain the gains made in September.

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>	Sep-16	Aug-16	Jul-16	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	-0.1%	0.3%	3.6%	15.9%	-1.1%	1.6%
Ex Defense	0.7%	-0.7%	2.9%	12.0%	1.2%	0.4%
Ex Transportation	0.2%	0.1%	1.1%	5.7%	1.7%	0.0%
Primary Metals	-0.3%	0.8%	1.2%	7.2%	-2.8%	0.4%
Industrial Machinery	1.2%	0.0%	1.0%	8.9%	0.2%	-6.0%
Computers and Electronic Products	-1.0%	-0.2%	2.5%	4.9%	3.8%	1.9%
Transportation Equipment	-0.8%	0.6%	8.9%	39.4%	-6.1%	4.9%
Capital Goods Orders	0.1%	-0.2%	10.7%	49.5%	-4.0%	6.5%
Capital Goods Shipments	2.0%	-1.7%	0.2%	1.7%	2.6%	-4.9%
Defense Shipments	0.8%	-2.3%	3.7%	9.2%	8.7%	0.6%
Non-Defense, Ex Aircraft	0.3%	0.0%	-0.7%	-1.4%	-1.8%	-5.8%
Unfilled Orders for Durable Goods	-0.4%	-0.1%	-0.2%	-2.8%	-2.0%	-1.6%

Source: Bureau of the Census