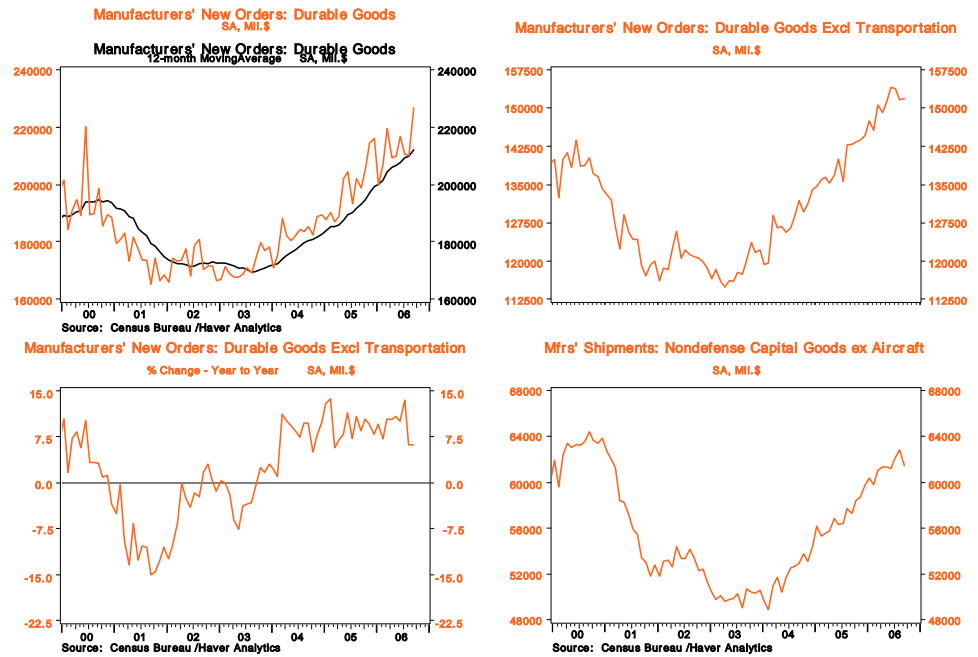


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SEPTEMBER DURABLE GOODS

- The U.S. Census Bureau released data today that showed new orders for durable goods up 7.8% in September, completely reversing negative growth in July and August. New orders are up 14.1% in the past year.
- Transportation orders rose 27.6% in September, thanks to a 183.2% increase in non-defense aircraft orders. Excluding transportation, new orders rose 0.1% in September. New orders excluding transportation are up 6.2% in the past year.
- Shipments of durable goods were down 2.8% in September but YOY growth was up 4.2%. Shipments of non-defense capital goods, ex aircraft (a proxy for business CAPEX) fell 2.1% in September, but were up 5.6% at an annualized rate in Q3.



Implications: Durable Goods orders surged in September, thanks in large part to a substantial increase in aircraft orders. However, the all-important measure of shipments of non-defense capital goods excluding aircraft fell 2.1% in September and is up a modest 5.6% at an annual rate in Q3. This indicator is a proxy for the non-residential investment component of GDP and as such suggests that real business investment will grow approximately 5.0% in Q3 – the second consecutive quarter of somewhat slower (but still robust) growth in business investment. The important question is whether this trend will continue. The answer is that positive signs of future growth abound. New Orders of non-defense capital goods ex aircraft rose an annualized 10.7% in Q3, while un-filled orders jumped 19.8% - suggesting that recent softness is temporary. We continue to expect 3.5% - 4.0% real GDP growth in Q4 GDP.

Durable Goods Orders <i>All data seasonally adjusted</i>	Sep-06	Aug-06	Jul-06	3-mo % ch. annualized	6-mo % ch. annualized	Yr over yr % ch.
Durable Goods Orders	7.8%	-0.1%	-2.8%	19.8%	6.7%	14.1%
Ex Defense	6.3%	-0.5%	-2.2%	14.2%	3.6%	10.7%
Ex Transportation	0.1%	-1.5%	-0.1%	-5.8%	1.7%	6.2%
Primary Metals	-1.0%	-2.5%	1.6%	-7.4%	18.8%	9.5%
Industrial Machinery	1.3%	-1.1%	0.6%	3.2%	11.2%	12.3%
Computers and Electronic Products	-0.1%	-2.7%	4.1%	4.9%	-13.1%	9.5%
Transportation Equipment	27.6%	3.6%	-9.4%	105.1%	18.0%	34.1%
Shipments	-2.8%	2.0%	-1.3%	-8.0%	-0.4%	4.2%
Unfilled Orders	3.8%	0.4%	1.2%	23.6%	20.0%	21.8%
Capital Goods Orders	24.3%	-1.0%	-2.7%	105.5%	27.6%	41.9%
Defense	41.9%	9.2%	-15.0%	200.1%	84.2%	112.6%
Nondefense Capital Goods Ex Aircraft	1.1%	0.8%	0.6%	10.4%	5.1%	10.9%

Source: Bureau of the Census

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