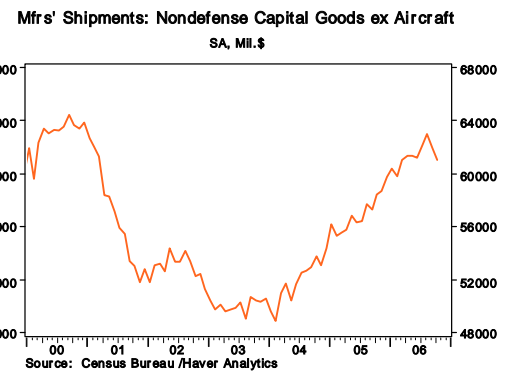
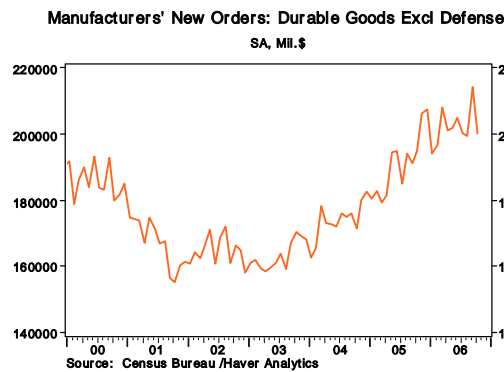
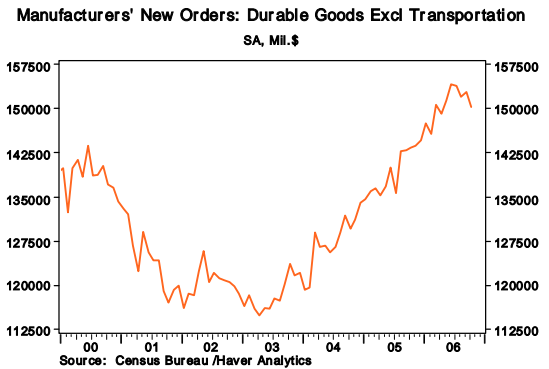
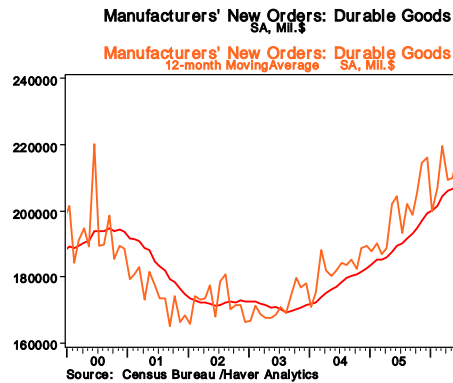


## OCTOBER DURABLE GOODS

- The U.S. Census Bureau reported today that durable goods orders fell 8.3% in October, a significantly larger decline than expected. September data was also revised to show a gain of 8.7% instead of the originally reported 7.8%. New orders are up 2.3% in the past year.
- Excluding defense, October durable goods orders fell 6.4%. Civilian aircraft orders fell by 44.5% in October, while total transportation orders fell 21.7%. Excluding transportation, new orders dropped by 1.7%.
- Durable goods shipments rose 0.6% in October. Shipments of non-defense capital goods, ex aircraft (a proxy for business CAPEX) dropped 5.1% in October.



**Implications:** The sharp drop in October durable goods orders was somewhat misleading. Civilian aircraft orders have been particularly volatile – falling 19.2% in August, surging 198.2% in September and then falling 44.5% last month. Defense orders have also been volatile – rising 9.1% in August and 39.7% in September, only to fall back by 42.1% in October. The real surprise for October was a 25.6% drop in computer orders that appears to be a result of price distortions. On the more positive side, primary metals orders were up 1.1%, while motor vehicle orders and industrial machinery orders were both up 1.4%. The large drop in computer prices will actually work to boost investment in real GDP accounts during Q4. Separately, the Richmond Fed manufacturing index rose to +7 in November from a (-2) in October. According to the Richmond Fed, “Manufacturing activity bounced back in November; Shipments, new orders and employment increase; Expectations remain bright.” We concur. The economy is better than recent data have suggested.

<b>Durable Goods Orders</b> <i>All data seasonally adjusted</i>	<b>Oct-06</b>	<b>Sep-06</b>	<b>Aug-06</b>	<b>3-mo % ch. annualized</b>	<b>6-mo % ch. annualized</b>	<b>Yr over yr % ch.</b>
<b>Durable Goods Orders</b>	<b>-8.3%</b>	8.7%	0.0%	-1.1%	0.7%	2.3%
<b>Ex Defense</b>	<b>-6.4%</b>	7.4%	-0.4%	0.4%	-0.4%	2.8%
<b>Ex Transportation</b>	<b>-1.7%</b>	0.5%	-1.3%	-9.2%	1.5%	4.9%
<b>Primary Metals</b>	<b>1.1%</b>	-3.1%	-2.7%	-17.4%	6.2%	7.4%
<b>Industrial Machinery</b>	<b>1.4%</b>	3.5%	-1.0%	16.3%	19.6%	13.4%
<b>Computers and Electronic Products</b>	<b>-10.2%</b>	2.3%	-2.1%	-34.7%	-5.9%	3.3%
<b>Transportation Equipment</b>	<b>-21.7%</b>	29.9%	3.6%	23.7%	-1.3%	-3.5%
<b>Shipments</b>	<b>0.6%</b>	-2.7%	2.1%	-0.5%	3.4%	3.3%
<b>Unfilled Orders</b>	<b>1.2%</b>	4.1%	0.5%	25.5%	20.2%	21.8%
<b>Capital Goods Orders</b>	<b>-19.2%</b>	26.5%	-0.8%	5.8%	4.4%	5.9%
<b>Defense</b>	<b>-42.1%</b>	39.7%	9.1%	-39.5%	11.5%	-13.7%
<b>Nondefense Capital Goods Ex Aircraft</b>	<b>-5.1%</b>	3.2%	1.1%	-3.7%	3.7%	6.2%

Source: Bureau of the Census

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