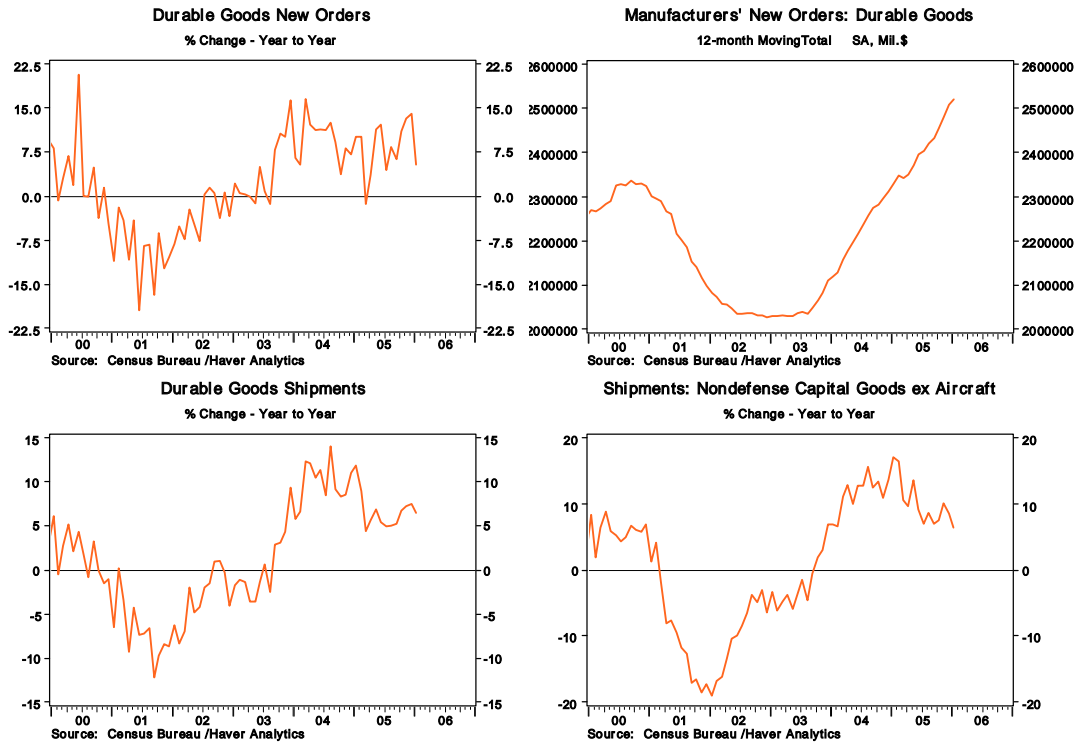


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## JANUARY DURABLE GOODS

- New orders for durable goods fell 10.2% in January – the largest decline since July 2000. Durable goods orders are up 5.4% in the past year.
- A 60.3% drop in aircraft orders pulled transportation orders down 31.2% for the month. New orders ex transportation rose 0.6% in January. Orders ex defense fell 8.1% last month, but are up 7.4% in the past year.
- Durable goods shipments slid 1.3% in January. Shipments of non-defense capital goods, excluding aircraft, a harbinger of capital investment, rose 0.2% last month and are up 19.7% at an annual rate in the last three months.



**Implications:** New orders for durable goods plummeted 10.2% in January following an upwardly revised 2.5% increase in December (originally +1.3%) and a 5.3% (originally +5.2%) gain in November. Although January's dramatic decline initially looks troubling, the drop is almost entirely due to a 31.2% decline in transportation equipment. Transportation orders - especially aircraft, which fell 60.3% in January - are notoriously volatile. In fact, Boeing did not report a single order in January 2006. Excluding transportation, new orders increased 0.6% in January and are up 12.4% at an annual rate in the last three months. Despite the drop in January, durable goods new orders totaled \$2.52 trillion over the past 12 months, an all-time record and 7.6% above the peak of 2000 – widely thought to have been a bubble in investment. All of this suggests that it would be a mistake to view any weakness in overall durable goods orders as a shift in the underlying trend of the economy. The economy remains strong, corporate balance sheets are flush with cash and the tax cut is still boosting incentives for risk taking. We view the January drop in durable goods orders as an aberration.

Durable Goods Orders <i>All data seasonally adjusted</i>	Jan-06	Dec-05	Nov-05	3-mo % ch. annualized	6-mo % ch. annualized	Yr over yr % ch.
<b>Durable Goods Orders</b>	<b>-10.2%</b>	2.5%	5.3%	-11.7%	3.5%	5.4%
Ex Defense	<b>-8.1%</b>	2.0%	6.9%	0.8%	8.2%	7.4%
Ex Transportation	<b>0.6%</b>	1.9%	0.4%	12.4%	16.4%	8.3%
Primary Metals	<b>0.4%</b>	-4.5%	1.0%	-12.1%	26.3%	10.0%
Industrial Machinery	<b>-2.5%</b>	9.5%	3.0%	45.7%	36.1%	14.7%
Computers and Electronic Products	<b>-0.4%</b>	0.5%	0.7%	3.3%	0.1%	2.2%
Transportation Equipment	<b>-31.2%</b>	3.6%	16.6%	-52.3%	-23.5%	-2.1%
<b>Shipments</b>	<b>-1.3%</b>	4.1%	0.7%	14.6%	14.8%	6.5%
<b>Unfilled Orders</b>	<b>-0.8%</b>	2.6%	3.1%	21.2%	18.9%	16.0%
<b>Capital Goods Orders</b>	<b>-23.1%</b>	1.9%	15.9%	-31.9%	-10.1%	3.9%
Defense	<b>-64.3%</b>	1.3%	-30.3%	-99.6%	-88.4%	-61.3%
Nondefense Capital Goods	<b>-20.0%</b>	2.0%	22.1%	-1.2%	1.9%	10.2%

Source: Bureau of the Census

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