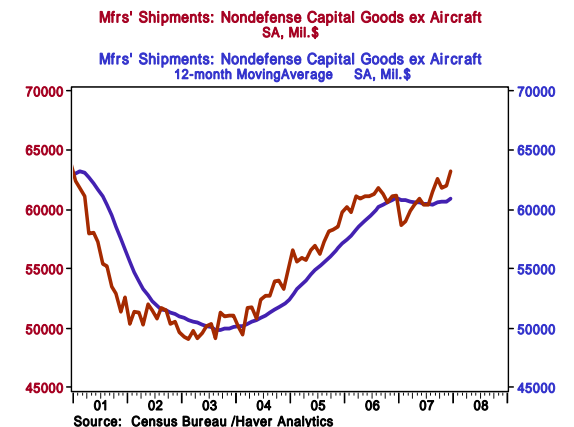
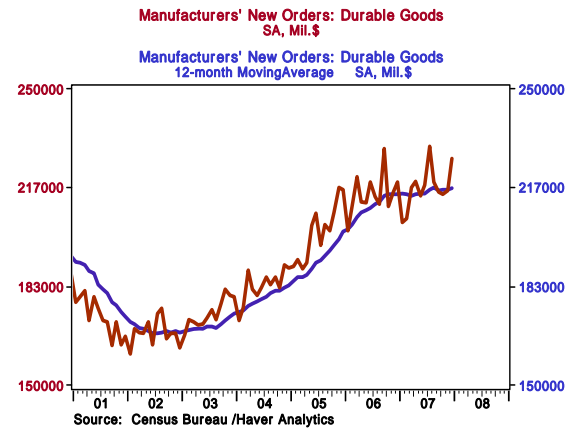


## DECEMBER DURABLE GOODS

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- New orders for durable goods increased 5.2% in December versus a consensus expected gain of 1.6%. Excluding transportation, orders rose 2.6% versus a consensus expected increase of 0.1%.
- The largest contributor to the increase in orders was defense aircraft (up \$3.5 billion). Other large gainers include civilian aircraft (up \$2.3 billion), machinery (up \$2.2 billion), and computers/electronics (up \$1.3 billion). Excluding defense, orders were up 2.9%.
- When calculating business investment for the GDP accounts, the government uses non-defense capital goods shipments excluding aircraft. That measure increased 2.0% in December and is up 3.3% versus last year.
- Unfilled orders rose 2.5% in December and are up 18.2% versus a year ago.

**Implications:** Business investment was very strong in December, undercutting the theory the US is in or about to enter a recession. Today's report on durable goods is consistent with healthy growth in equipment and software in the fourth quarter and hints at continued growth in the first quarter of 2008. Considering the headwinds from housing, the manufacturing sector is doing quite well. Rapid export growth is one of the key reasons. We expect this to continue given the fall in the dollar the past several years. In other news this morning, consumer confidence fell in January but came in higher than expected. Notably, the share of consumers saying jobs are "plentiful" rose while the share saying jobs are "hard to get" declined, suggesting the labor market remains solid. Meanwhile, we got more bad news on housing. The November Case-Shiller home price index is down 7.7% versus last year and the pace of month-to-month declines is accelerating.



Durable Goods All Data Seasonally Adjusted	Dec-07	Nov-07	Oct-07	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
<b>New Orders for Durable Goods</b>	<b>5.2%</b>	0.5%	-0.5%	22.6%	8.4%	3.7%
Ex Defense	2.9%	1.7%	-0.6%	16.9%	4.4%	1.9%
Ex Transportation	2.6%	-0.4%	-1.0%	4.7%	7.6%	2.3%
Primary Metals	-0.2%	1.0%	3.8%	20.3%	17.5%	6.9%
Industrial Machinery	7.6%	-1.4%	-2.8%	12.7%	17.6%	4.5%
Computers and Electronic Products	4.6%	0.3%	-8.2%	-13.8%	13.8%	4.4%
Transportation Equipment	11.3%	2.7%	0.8%	76.9%	10.4%	7.1%
<b>Capital Goods Orders</b>	<b>11.2%</b>	2.3%	-1.7%	56.5%	20.7%	10.7%
<b>Capital Goods Shipments</b>	<b>0.9%</b>	0.1%	-0.5%	2.1%	7.9%	3.4%
Defense Shipments	-4.9%	3.9%	-0.1%	-5.1%	0.7%	-1.7%
Non-Defense, Ex Aircraft	2.0%	0.2%	-1.2%	4.3%	9.7%	3.3%
<b>Unfilled Orders for Durable Goods</b>	<b>2.5%</b>	1.2%	1.0%	20.5%	20.3%	18.2%

Source: Bureau of the Census