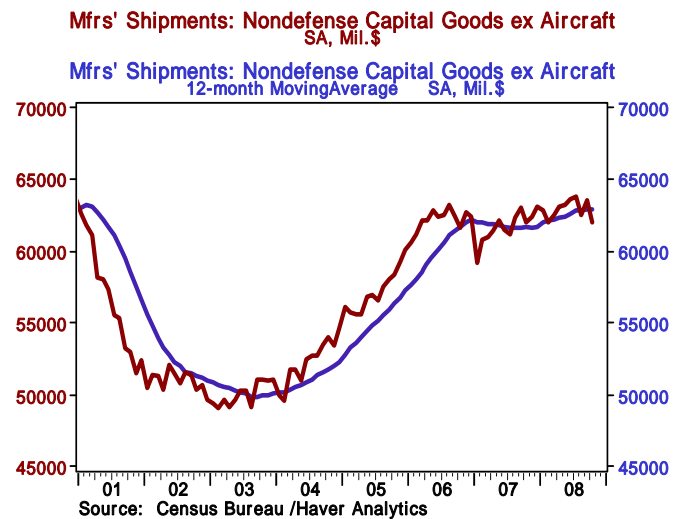
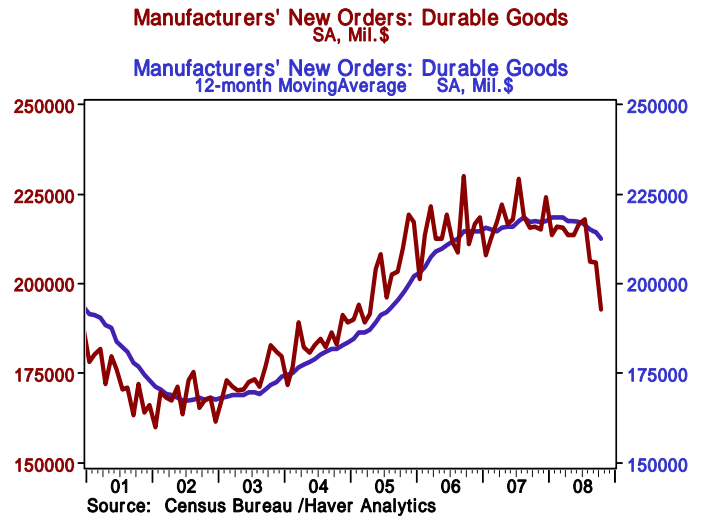


# OCTOBER DURABLE GOODS

Chief Economist – Brian S. Wesbury  
Senior Economist – Robert Stein, CFA

- New orders for durable goods declined 6.2% in October versus a consensus expected decline of 3.0%. Excluding transportation, orders fell 4.4% versus a consensus expected decline of 1.6%. Orders are down 10.6% versus a year ago and down 6.1% excluding transportation.
- The weakness in orders in October was widespread, with every major category of orders in decline. The largest drops were in transportation, primary metals, and industrial machinery.
- When calculating business investment for GDP purposes, the government uses shipments of non-defense capital goods excluding aircraft. That measure declined 2.4% in October. If these shipments are unchanged in November/December, the Q4 average will be down at an 8.0% annual rate versus the Q3 average.
- Unfilled orders fell 0.6% in October but are up 10.1% versus last year.

**Implications:** Risk aversion hysteria isn't just for consumers. Businesses are sitting on cash, pulling back from ordering big-ticket items. In the past three months, new orders for durable goods are down at a 38.7% annual rate, the worst since 1980. These figures support our forecast that real GDP will contract substantially in the fourth quarter, at what we expect to be about a 4% annual rate, the worst since 1982. However, data today on unemployment insurance claims signal that companies may soon stop forcefully reducing orders. New claims for unemployment insurance fell 14,000 last week to 529,000. Continuing claims for jobless benefits declined 54,000 to 3.962 million. In other news this morning, the Chicago PMI, a measure of manufacturing in the Chicago region, fell to 33.8 in November, the lowest since 1982.



Durable Goods <i>All Data Seasonally Adjusted</i>	Oct-08	Sep-08	Aug-08	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
<b>New Orders for Durable Goods</b>	<b>-6.2%</b>	-0.2%	-5.5%	-38.7%	-18.2%	-10.6%
<i>Ex Defense</i>	<b>-4.6%</b>	-1.8%	-6.0%	-40.0%	-19.6%	-11.6%
<i>Ex Transportation</i>	<b>-4.4%</b>	-2.3%	-4.2%	-35.7%	-16.5%	-6.1%
<i>Primary Metals</i>	<b>-12.6%</b>	-7.5%	-12.5%	-74.9%	-40.5%	-16.3%
<i>Industrial Machinery</i>	<b>-6.8%</b>	-0.1%	-6.6%	-42.7%	-20.8%	-1.7%
<i>Computers and Electronic Products</i>	<b>-2.4%</b>	-3.0%	1.9%	-13.3%	-8.4%	-4.7%
<i>Transportation Equipment</i>	<b>-11.1%</b>	6.1%	-9.4%	-46.6%	-23.1%	-21.6%
<b>Capital Goods Orders</b>	<b>-7.7%</b>	1.9%	-6.0%	-39.0%	-19.2%	-8.9%
<b>Capital Goods Shipments</b>	<b>-3.0%</b>	1.1%	-2.9%	-17.8%	-6.9%	-0.6%
<i>Defense Shipments</i>	<b>-0.1%</b>	1.4%	-0.5%	3.1%	-1.7%	19.3%
<i>Non-Defense, Ex Aircraft</i>	<b>-2.4%</b>	1.6%	-2.1%	-11.3%	-3.6%	-0.1%
<b>Unfilled Orders for Durable Goods</b>	<b>-0.6%</b>	0.2%	0.3%	-0.3%	5.2%	10.1%

Source: Bureau of the Census