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Data Watch

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February Durable Goods

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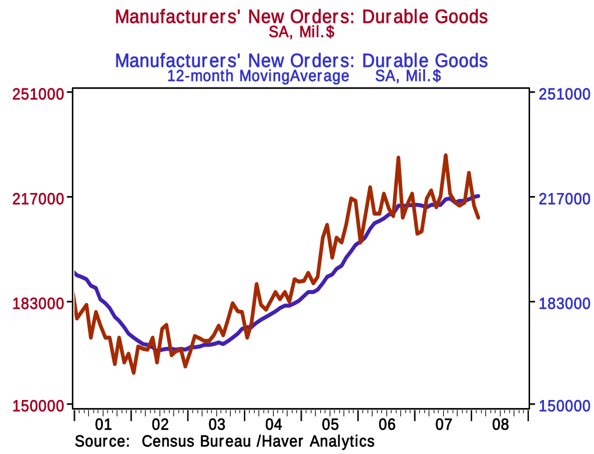
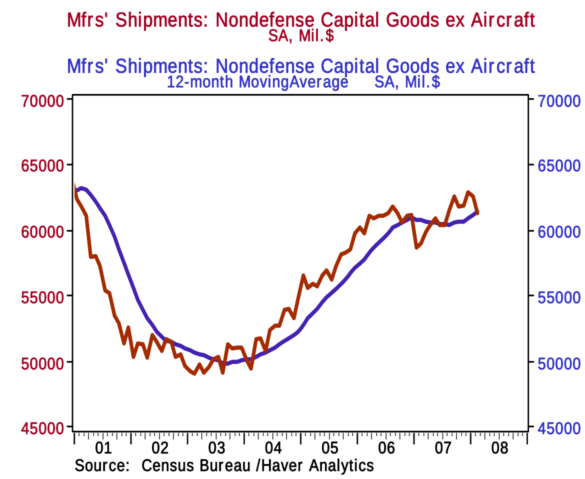
- New orders for durable goods fell 1.7% in February versus a consensus expected increase of 0.7%. Excluding transportation, orders fell 2.6% versus a consensus expected drop of 0.3%. Orders are up 2.2% versus a year ago, 1.6% excluding transportation.
- A decline in machinery orders accounted for all the drop in total orders. Fabricated metal orders were also weak. Strong sectors included computers/electronics and aircraft.
- When calculating business investment for the GDP accounts, the government uses non-defense capital goods shipments excluding aircraft. That measure declined 2.1% in February but is up 3.9% versus last year.
- Unfilled orders rose 0.8% in February and are up 18.4% versus a year ago.





Implications: The headline from today's report on durable goods suggests business investment is slowing in the first quarter. However, the slowness is not widespread. All the decline in February is attributable to an unusually steep drop in machinery orders, which may be due to firms awaiting clarity on "fiscal stimulus." In the end, the federal government did provide more favorable depreciation/expensing rules for equipment purchased in 2008, so we should not be surprised by a steep rebound in machinery orders in March. As the charts to the right show, orders and shipments are volatile on a month-to-month basis. Yet the gradual upward trend (shown with the blue lines) in both overall orders and shipments ex-defense/ex-aircraft are still intact. In other news, while much attention was being paid to yesterday's big drop in consumer confidence – a data series which has little to no link to how much consumers actually spend – the Richmond Federal Reserve Bank's Manufacturing Index rebounded to +6 in March from -5 in February. The March reading on the Richmond Index was the highest in six months, supporting our view that orders will rebound in March.

Durable Goods *All Data Seasonally Adjusted*	Feb-08	Jan-08	Dec-07	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	**-1.7%**	-4.7%	4.4%	-8.3%	-6.9%	2.2%
Ex Defense	**-1.6%**	-4.2%	2.0%	-14.7%	-5.1%	1.1%
Ex Transportation	**-2.6%**	-1.0%	1.9%	-6.7%	-4.4%	1.6%
Primary Metals	**1.0%**	0.9%	-0.3%	6.5%	14.4%	12.0%
Industrial Machinery	**-13.3%**	0.4%	7.8%	-22.6%	-12.4%	0.7%
Computers and Electronic Products	**2.3%**	-2.9%	3.7%	12.5%	-1.1%	4.5%
Transportation Equipment	**0.6%**	-12.6%	10.1%	-11.9%	-12.7%	3.6%
Capital Goods Orders	**-2.0%**	-9.3%	11.3%	-4.3%	0.1%	7.7%
Capital Goods Shipments	**-4.3%**	2.4%	0.9%	-4.5%	-2.8%	3.8%
Defense Shipments	**-3.1%**	10.4%	-3.4%	14.2%	5.3%	4.5%
Non-Defense, Ex Aircraft	**-2.1%**	-0.4%	1.6%	-3.7%	-0.6%	3.9%
Unfilled Orders for Durable Goods	**0.8%**	0.8%	2.5%	17.2%	15.7%	18.4%

Source: Bureau of the Census