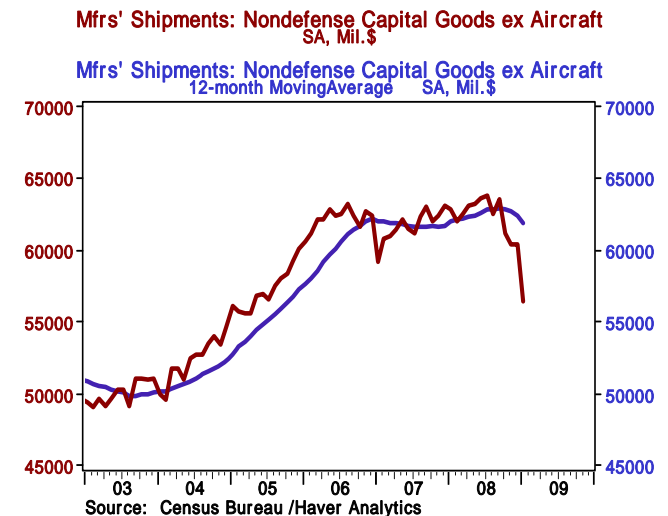
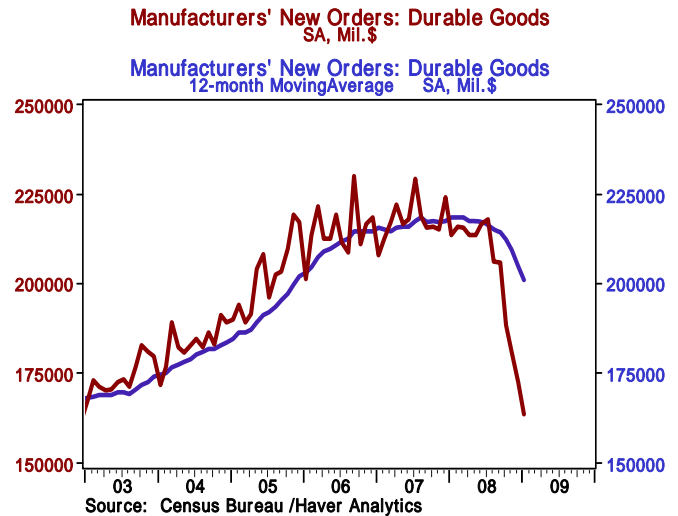


JANUARY DURABLE GOODS

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

- New orders for durable goods declined 5.2% in January versus a consensus expected decline of 2.5%. Excluding transportation, orders fell 2.5% versus a consensus expected decline of 2.2%. Orders are down 23.3% versus a year ago and down 17.4% excluding transportation.
- The weakness in orders in January was widespread, with the largest decline in transportation equipment, such as motor vehicles/parts. The strongest component of orders was civilian aircraft, which rebounded from large declines in November/December.
- When calculating business investment for GDP purposes, the government uses shipments of non-defense capital goods excluding aircraft. That measure fell 6.6% in January. If these shipments are unchanged in February/March, the Q1 average will be down at a 25.3% annual rate versus the Q4 average.

Implications: Slower new orders for durable goods and higher unemployment claims show that the economy continues to contract forcefully in early 2009. However, while the weakness in late 2008 was due to a huge slowdown in consumption, this part of the recession is due to inventories, signaling the recession is in its later stages. Many businesses ended the fourth quarter with much more inventory than they wanted to hold. As a result, they are now reducing production, orders, and payrolls to bring their inventories back down. Once inventories reach targeted levels this spring, production and orders will start to rise again, eventually leading to more hiring. Bad seasonal adjustments for the transportation sector may have also contributed to the reported overall weakness in orders in January. In the previous three years (2006-08), January transportation orders have dropped -27.6%, -8.7%, and -13.2%, respectively. Incorporating today's data into our real GDP estimate for the fourth quarter (reported tomorrow) has us at -5.8% (originally reported at -3.8%).



Durable Goods <i>All Data Seasonally Adjusted</i>	Jan-09	Dec-08	Nov-08	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	-5.2%	-4.6%	-4.0%	-43.0%	-43.6%	-23.3%
<i>Ex Defense</i>	-2.3%	-7.5%	-4.2%	-44.0%	-44.6%	-24.4%
<i>Ex Transportation</i>	-2.5%	-5.5%	-2.0%	-33.5%	-37.6%	-17.4%
<i>Primary Metals</i>	-4.6%	-11.6%	-5.2%	-59.0%	-69.6%	-36.0%
<i>Industrial Machinery</i>	-2.0%	-8.9%	-2.8%	-43.1%	-47.9%	-23.0%
<i>Computers and Electronic Products</i>	-5.0%	-7.1%	4.0%	-29.0%	-24.6%	-13.6%
<i>Transportation Equipment</i>	-13.5%	-1.5%	-9.9%	-65.2%	-59.0%	-38.7%
Capital Goods Orders	-8.8%	-3.4%	-3.7%	-48.1%	-47.6%	-26.2%
Capital Goods Shipments	-2.6%	1.3%	-2.1%	-12.8%	-16.8%	-8.0%
<i>Defense Shipments</i>	8.6%	-7.5%	-2.2%	-6.9%	0.5%	6.7%
<i>Non-Defense, Ex Aircraft</i>	-6.6%	0.0%	-1.3%	-27.8%	-21.9%	-10.2%
Unfilled Orders for Durable Goods	-1.9%	-1.5%	-0.9%	-16.3%	-9.3%	0.9%

Source: Bureau of the Census

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.