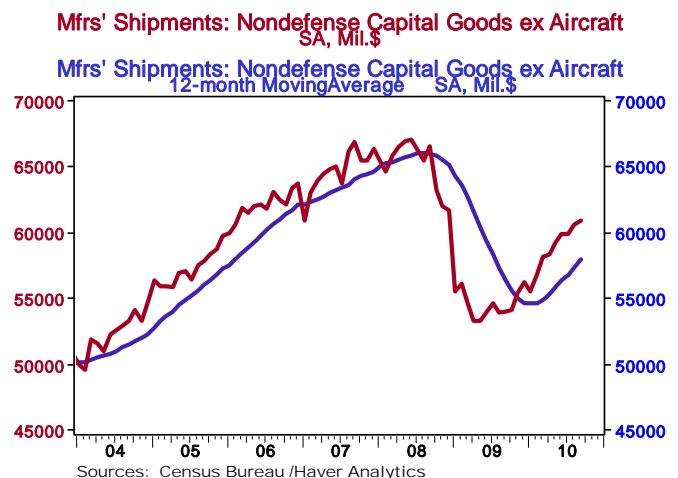
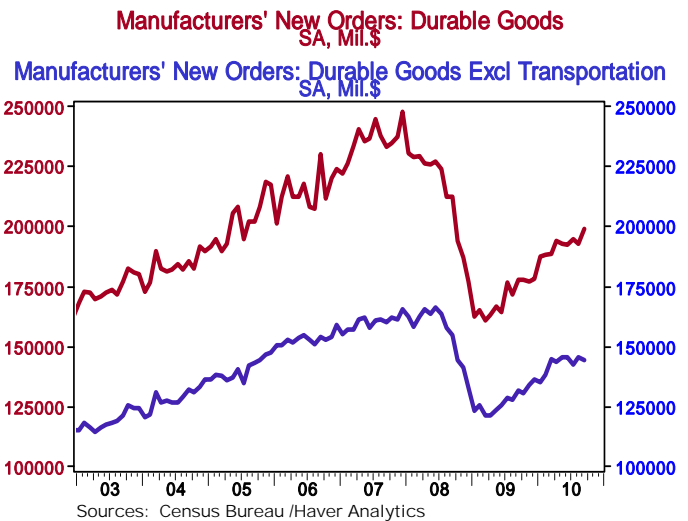


SEPTEMBER DURABLE GOODS

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- New orders for durable goods increased 3.3% in September, beating the consensus expected rise of 2.0%. Excluding transportation, orders declined 0.8%, weaker than consensus expected gain of 0.5%. Orders are up 12.2% versus a year ago, 9.5% excluding transportation.
- The overall increase in orders in September was all due to aircraft and parts, which are extremely volatile. The other major categories of the report were mixed in September.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure increased 0.4% in September (unchanged including downward revisions for August). These shipments were up at a 9.0% annual rate in Q3 versus the Q2 average.
- Unfilled orders increased 1.0% in September and were up 0.6% excluding the transportation sector.

Implications: New orders for durable goods rose 3.3% in September, the largest gain since January. Back in August, orders outside the transportation sector were strong, but transportation orders fell steeply. This month's report was the opposite, with ex-transportation orders falling, but transportation orders soaring upward. In this situation, combining the two months is a good way to figure out the underlying trend, and that indicates the trend is up. Overall orders are up 2.3% in the past two months while ex-transportation orders are up 1.1%. Meanwhile, shipments of "core" capital goods (which exclude civilian aircraft and defense) increased 0.4% in September – the eighth consecutive monthly gain – and are up 12.7% versus last year. Business investment in equipment must increase substantially over the next couple of years. Capacity utilization has increased rapidly in the past year (even with what many consider weak activity) and the industrial sector could easily reach 80% utilization (the long-term average) by the end of 2011. With record cash on balance sheets, businesses have the incentive and ability to buy more equipment. In other recent news, the Richmond Fed index, a measure of manufacturing in the mid-Atlantic, increased to +5 in October from -2 in September. The sub-component with the largest increase was new order volume, while both shipments and the number of employees also returned to positive territory.



Durable Goods <i>All Data Seasonally Adjusted</i>	Sep-10	Aug-10	Jul-10	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	3.3%	-1.0%	1.2%	15.0%	11.6%	12.2%
<i>Ex Defense</i>	2.9%	-0.9%	1.3%	13.7%	13.1%	13.4%
<i>Ex Transportation</i>	-0.8%	1.9%	-2.1%	-3.9%	-0.7%	9.5%
<i>Primary Metals</i>	-0.5%	-1.7%	5.0%	11.0%	-3.5%	25.8%
<i>Industrial Machinery</i>	2.0%	5.3%	-9.8%	-11.9%	9.1%	16.3%
<i>Computers and Electronic Products</i>	-4.0%	3.6%	-0.3%	-3.2%	1.2%	5.8%
<i>Transportation Equipment</i>	15.7%	-8.8%	11.6%	92.3%	57.5%	20.0%
Capital Goods Orders	8.6%	0.7%	-0.8%	38.5%	31.4%	21.4%
Capital Goods Shipments	0.1%	-1.2%	2.4%	5.1%	3.0%	3.5%
<i>Defense Shipments</i>	5.7%	-4.2%	-1.5%	-1.1%	-23.2%	-17.6%
<i>Non-Defense, Ex Aircraft</i>	0.4%	1.3%	0.0%	7.0%	9.7%	12.7%
Unfilled Orders for Durable Goods	1.0%	0.1%	0.0%	4.7%	3.9%	0.3%

Source: Bureau of the Census