

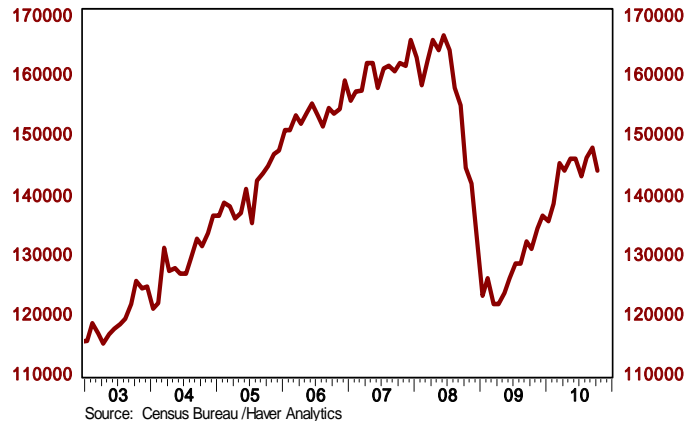
OCTOBER DURABLE GOODS

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

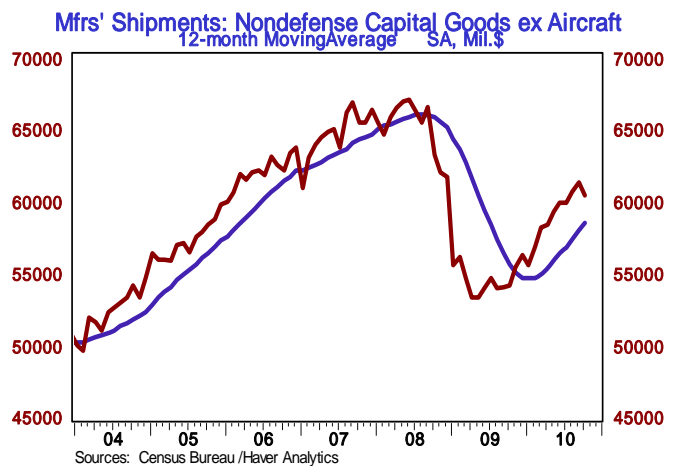
- New orders for durable goods fell 3.3% in October, coming in well below the consensus expected gain of 0.1%. Excluding transportation, orders declined 2.7%, also much weaker than the consensus expected gain of 0.6%. Orders are up 10.5% versus a year ago, 10.0% excluding transportation.
- The overall decline in orders in October was mostly due to computers/electronics, aircraft/parts (which are extremely volatile), and machinery. But all other major categories of orders were down as well.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure fell 1.5% in October, but is still up 11.6% versus a year ago.
- Unfilled orders increased 0.7% in October, were revised up for September, and are up at a 9.1% annual rate in the past three months.

Implications: New orders for durable goods fell 3.3% in October, which was well below what the consensus expected. Moreover, most of the decline occurred outside the volatile transportation sector. However, since late last year the durables report has exhibited a clear quarterly pattern of significant weakness in the first month of every quarter, followed by consistent strength in the following two months. For example, in July, orders ex-transportation declined 2.1%. Orders then increased a total of 3.4% in August and September. Shipments of “core” capital goods (which exclude civilian aircraft and defense) fell 1.5% in October, the first decline in the past nine months, but we expect this to turnaround very soon. Unfilled orders (the backlog, which can turn into future shipments) have increased at a 9.1% annual rate in the past three months. Business investment in equipment will increase substantially over the next couple of years. Capacity utilization has increased rapidly in the past year and the industrial sector could easily reach 80% utilization (the long-term average) in 2011. Meanwhile, corporate profits are at all-time record highs, meaning companies have the incentive and ability to expand operations.

Manufacturers' New Orders: Durable Goods Excl Transportation
SA, Mil.\$



Mfrs' Shipments: Nondefense Capital Goods ex Aircraft
SA, Mil.\$



Durable Goods <i>All Data Seasonally Adjusted</i>	Oct-10	Sep-10	Aug-10	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	-3.3%	5.0%	-0.8%	2.8%	2.1%	10.5%
<i>Ex Defense</i>	-2.1%	4.5%	-0.7%	6.6%	4.9%	11.7%
<i>Ex Transportation</i>	-2.7%	1.3%	2.1%	2.8%	0.2%	10.0%
<i>Primary Metals</i>	-0.8%	1.8%	-1.6%	-2.3%	-0.3%	20.1%
<i>Industrial Machinery</i>	-3.9%	3.5%	5.4%	20.9%	19.9%	24.1%
<i>Computers and Electronic Products</i>	-7.7%	2.0%	3.9%	-8.5%	-6.2%	7.4%
<i>Transportation Equipment</i>	-5.2%	16.5%	-8.8%	2.9%	7.7%	11.7%
Capital Goods Orders	-6.6%	11.7%	0.9%	23.3%	8.0%	19.2%
Capital Goods Shipments	-1.5%	0.8%	-1.2%	-7.4%	2.2%	5.0%
<i>Defense Shipments</i>	-7.4%	7.0%	-4.8%	-20.8%	-27.0%	-19.8%
<i>Non-Defense, Ex Aircraft</i>	-1.5%	1.0%	1.4%	3.5%	7.1%	11.6%
Unfilled Orders for Durable Goods	0.7%	1.4%	0.2%	9.1%	5.3%	1.8%

Source: Bureau of the Census