

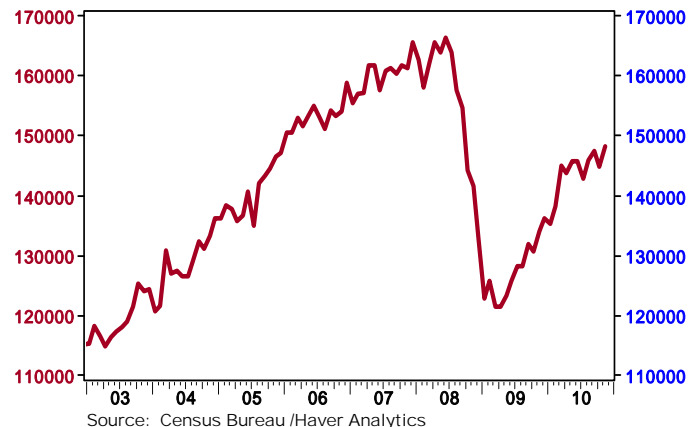
# NOVEMBER DURABLE GOODS

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

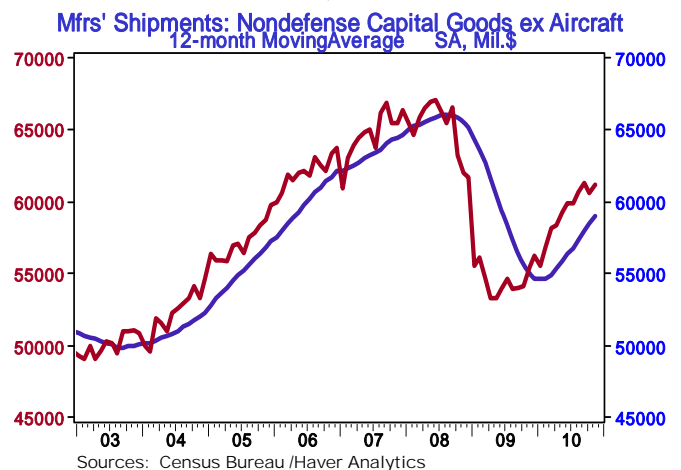
- New orders for durable goods declined 1.3% in November, coming in below the consensus expected dip of 0.5%. Excluding transportation, orders increased 2.4%, beating the consensus expected gain of 1.8%. Orders are up 9.4% versus a year ago, 10.6% excluding transportation.
- The overall decline in orders in November was entirely due to transportation equipment, specifically civilian aircraft/parts (which are extremely volatile from month to month). All other major categories of orders were up.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure rose 1.0% in November (1.2% including upward revisions to prior months) and is up 10.4% versus a year ago. If these shipments are unchanged in December, they will be up at a 2.3% annual rate in Q4 versus the Q3 average.
- Unfilled orders increased 0.4% in November and are up at a 10.4% annual rate in the past three months.

**Implications:** Ignore the headline decline in durable goods orders; the report was very good news for the US economy. All of the overall drop in orders was due to the transportation sector, particularly civilian aircraft, which is extremely volatile from month to month. Outside the transportation sector, every single major category of orders increased in November, with the largest gain in computers and electronics, rebounding from a steep decline last month. Meanwhile, shipments of “core” capital goods (which exclude civilian aircraft and defense) also bounced back in November, rising 1.0% in November after a 1.2% decline in October. These shipments are up 10.4% versus a year ago but the pace of the gains has slowed of late, rising at only a 3.1% annual rate in the past three months. However, we think these shipments are poised to reaccelerate. Unfilled orders for these goods (which can turn into future shipments) have increased seven months in a row. Cash on the balance sheets of non-financial companies is at a record high and corporate profits are near a record high. In this environment, business investment is heading up.

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>	Nov-10	Oct-10	Sep-10	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
<b>New Orders for Durable Goods</b>	<b>-1.3%</b>	-3.1%	4.9%	1.1%	1.1%	9.4%
<i>Ex Defense</i>	<b>-2.3%</b>	-1.5%	4.4%	1.8%	2.4%	9.6%
<i>Ex Transportation</i>	<b>2.4%</b>	-1.9%	1.1%	6.6%	3.6%	10.6%
<i>Primary Metals</i>	<b>3.0%</b>	2.7%	2.0%	35.4%	14.8%	27.6%
<i>Industrial Machinery</i>	<b>0.5%</b>	-2.8%	2.9%	2.2%	-0.8%	19.4%
<i>Computers and Electronic Products</i>	<b>5.8%</b>	-7.9%	2.0%	-2.1%	4.3%	8.8%
<i>Transportation Equipment</i>	<b>-11.9%</b>	-6.3%	16.5%	-14.6%	-6.4%	5.6%
<b>Capital Goods Orders</b>	<b>-4.6%</b>	-7.0%	11.6%	-4.1%	-1.4%	15.4%
<b>Capital Goods Shipments</b>	<b>-0.2%</b>	-1.5%	0.7%	-3.9%	2.9%	3.4%
<i>Defense Shipments</i>	<b>-1.2%</b>	-8.8%	6.8%	-14.4%	-21.8%	-21.5%
<i>Non-Defense, Ex Aircraft</i>	<b>1.0%</b>	-1.2%	1.0%	3.1%	6.4%	10.4%
<b>Unfilled Orders for Durable Goods</b>	<b>0.4%</b>	0.7%	1.3%	10.4%	5.7%	3.0%

Source: Bureau of the Census