

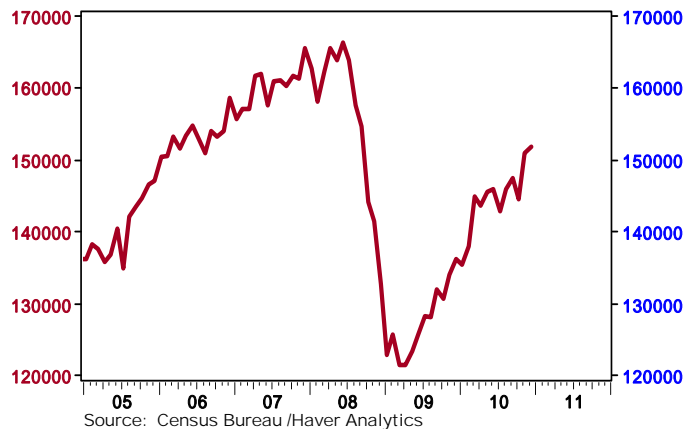
DECEMBER DURABLE GOODS

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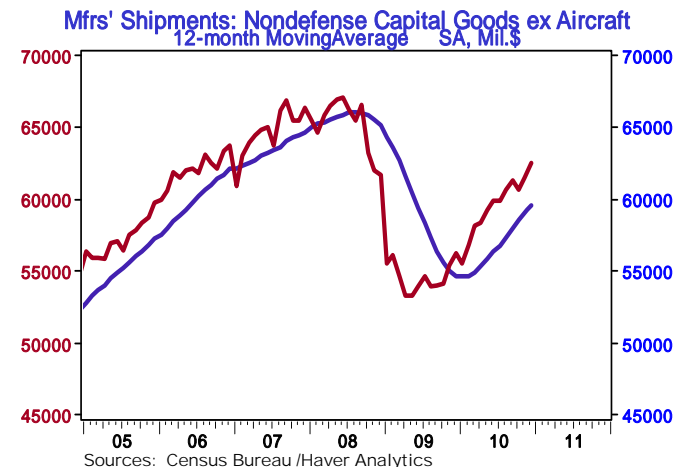
- New orders for durable goods declined 2.5% in December, coming in well below the consensus expected increase of 1.5%. Excluding transportation, orders increased 0.5%, falling short of the consensus expected gain of 0.9%. Orders are up 6.9% versus a year ago, 11.5% excluding transportation.
- The overall decline in orders in December was mostly due to transportation equipment, specifically civilian aircraft/parts (which are extremely volatile from month to month). Other major categories of new orders were mixed.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure rose 1.7% in December (2.0% including upward revisions to prior months). These orders increased at a 6.4% rate in Q4 versus the Q3 average.
- Unfilled orders fell 0.4% in December but are up at a 3.2% annual rate in the past three months.

Implications: Today's headlines on durable goods orders and unemployment claims were disappointing. However, the details of the durables report and extenuating circumstances on claims suggest the case for robust economic growth remains intact. Almost all the weakness in orders was due to civilian aircraft, which are extremely volatile and which hit a 20-year low in December. Including revisions to prior months, new orders for durable goods excluding transportation rose 1.5%. Meanwhile, shipments of "core" capital goods (which exclude civilian aircraft and defense) showed a strong gain in December, rising 1.7% after a 1.4% increase in November. We expect orders for durable goods to move higher in 2011 as firms are loaded with cash earning near zero percent interest and capacity utilization is approaching long-term norms. In other news this morning, new claims for unemployment insurance rose 51,000 last week to 454,000. The four-week moving average is now 429,000. Continuing claims for regular state benefits rose 94,000 to 3.99 million. Initial claims that would have been filed the prior week were delayed due to unusual southern snowstorms. The true underlying trend is likely near the 4-week moving average. On the housing front, pending home sales – contracts on existing homes – rose 2.0% in December. With three strong months in a row now, existing home sales, which are counted at closing, should continue to gain in January.

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>	Dec-10	Nov-10	Oct-10	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	-2.5%	-0.1%	-3.1%	-20.9%	-1.3%	6.9%
Ex Defense	-2.5%	-1.0%	-1.6%	-18.9%	-0.7%	7.2%
Ex Transportation	0.5%	4.5%	-2.0%	12.5%	8.5%	11.5%
Primary Metals	-4.7%	13.8%	0.1%	38.8%	30.9%	18.9%
Industrial Machinery	10.6%	0.3%	-1.8%	41.1%	13.8%	23.5%
Computers and Electronic Products	-1.2%	6.5%	-7.7%	-11.0%	5.4%	10.4%
Transportation Equipment	-12.8%	-13.1%	-6.2%	-74.5%	-29.1%	-7.7%
Capital Goods Orders	-6.0%	-5.9%	-6.6%	-53.4%	-14.8%	8.4%
Capital Goods Shipments	2.7%	0.2%	-1.3%	5.9%	6.8%	3.8%
Defense Shipments	1.5%	-1.6%	-8.9%	-31.4%	-17.1%	-18.3%
Non-Defense, Ex Aircraft	1.7%	1.4%	-1.0%	8.4%	9.2%	11.2%
Unfilled Orders for Durable Goods	-0.4%	0.5%	0.7%	3.2%	4.7%	3.7%

Source: Bureau of the Census