

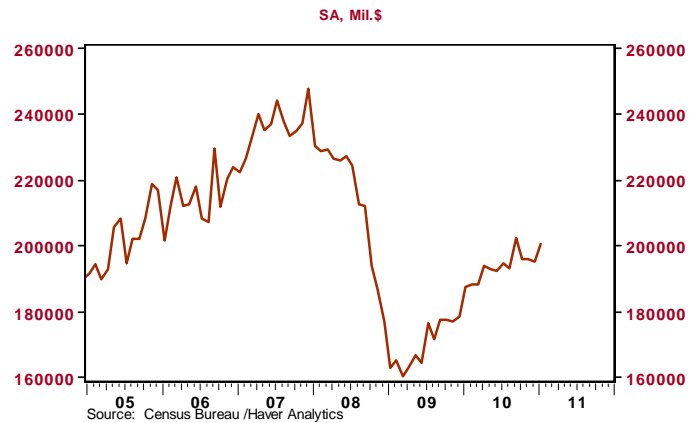
JANUARY DURABLE GOODS

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

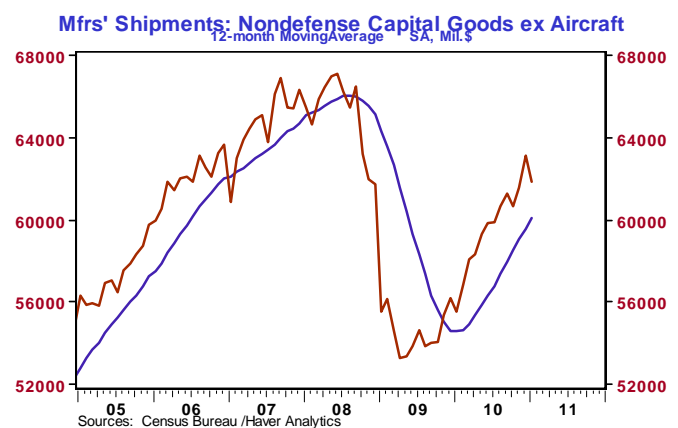
- New orders for durable goods increased 2.7% in January, almost exactly as the consensus expected. December new orders were revised from a drop of 2.3% to a much smaller decline of 0.4%. Including this revision, January orders were 4.7% above their original December level. New Orders are up 7.0% from a year ago.
- The rise in orders was primarily due to aircraft and related parts, which are very volatile from month to month. Ex-transportation orders were down 3.6% in January (but only -1.5% including upward revisions to December). Ex-transportation orders were down due to industrial machinery and computers/electronics, both of which often decline in the first month of each quarter and rebound sharply the following month.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure fell 2.0% in January. However, over the past three months these shipments are up 7.9% at an annual rate
- Unfilled orders rose 0.5% in January and are up 4.4% from last year.

Implications: While the internals were mixed, new orders for durable goods rose 2.7% in January after two months of decline (although the December drop was much smaller than first estimated). In addition, initial unemployment claims fell to 391,000 last week. Almost all the strength in orders was due to civilian aircraft, which are extremely volatile. Excluding transportation, orders fell 3.6%. However, this decline follows two strong monthly gains and these orders are still up 16.4% at an annual rate in the past three months. Shipments of “core” capital goods (which exclude civilian aircraft and defense) followed the same pattern, falling 2.0% in January after two strong increases. Over the past three months, these shipments are up 7.9% at an annual rate. Strong manufacturing surveys point to continued gains in orders and shipments. In other news this morning, new claims for unemployment insurance fell 22,000 last week to 391,000, their third foray below 400,000 in the past nine weeks and the second in the past three weeks. The four-week moving average fell to 402,000, the lowest level since mid-2008, prior to the panic. Continuing claims for regular state benefits fell 145,000 to 3.79 million, also the lowest since mid-2008. Despite uncertainty from the Middle East and North Africa, the recovery appears to be moving along nicely.

Manufacturers' New Orders: Durable Goods



Mfrs' Shipments: Nondefense Capital Goods ex Aircraft



Durable Goods <i>All Data Seasonally Adjusted</i>	Jan-11	Dec-10	Nov-10	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	2.7%	-0.4%	-0.1%	9.1%	6.1%	7.0%
<i>Ex Defense</i>	1.9%	-0.2%	-1.0%	2.8%	5.5%	8.7%
<i>Ex Transportation</i>	-3.6%	3.0%	4.6%	16.4%	10.5%	10.9%
<i>Primary Metals</i>	1.1%	-1.1%	13.9%	68.4%	31.0%	22.0%
<i>Industrial Machinery</i>	-13.0%	16.6%	0.4%	7.5%	17.8%	25.4%
<i>Computers and Electronic Products</i>	-6.8%	0.3%	6.7%	-0.8%	-4.6%	2.8%
<i>Transportation Equipment</i>	27.6%	-11.9%	-13.3%	-9.4%	-5.5%	-3.3%
Capital Goods Orders	7.7%	-3.6%	-5.8%	-8.4%	5.9%	8.7%
Capital Goods Shipments	-3.5%	3.4%	0.2%	0.3%	-3.5%	3.3%
<i>Defense Shipments</i>	-8.1%	2.6%	-1.5%	-25.7%	-26.1%	-30.0%
<i>Non-Defense, Ex Aircraft</i>	-2.0%	2.5%	1.5%	7.9%	6.6%	11.3%
Unfilled Orders for Durable Goods	0.5%	-0.2%	0.5%	3.6%	6.4%	4.4%

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 offer to buy or sell any security.