

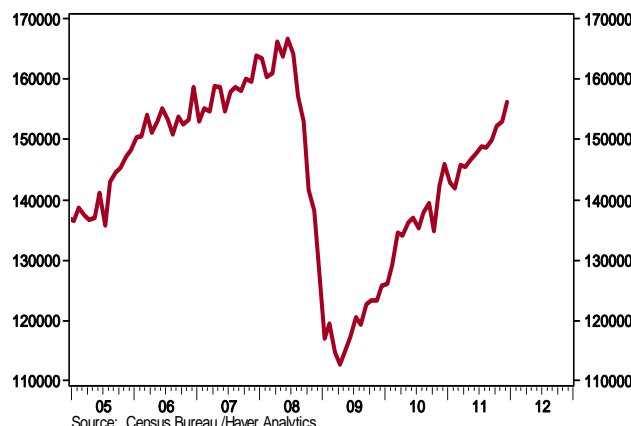
December Durable Goods

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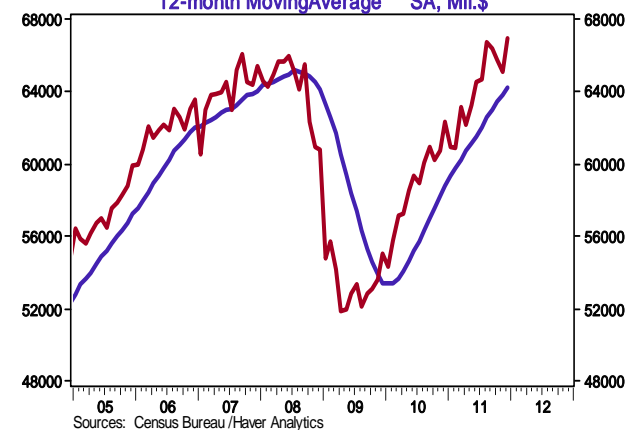
- New orders for durable goods increased 3.0% in December, beating the consensus expected gain of 2.0%. Orders excluding transportation rose 2.1%, also well above consensus expectations of a 0.9% rise. Overall new orders are up 17.0% from a year ago, while orders excluding transportation are up 7.0%.
- The gain in overall orders was led by civilian aircraft. Machinery and primary metals were also strong, and most other categories gained.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure rose 2.9% in December (+2.7% including downward revisions). These shipments were flat in Q4 versus the Q3 average.
- Unfilled orders increased 1.5% in December and are up 9.7% from last year.

Implications: Terrific news on durables this morning. New orders for durable goods were up 3% in December and up at an even stronger 3.6% including upward revisions to November. Just like the last few months, the extremely volatile transportation sector fueled the change. But, the underlying trend is better represented by activity outside the transportation sector and the news was good there, too. Orders ex-transportation were up 2.1% and appear to be accelerating, up 7% from a year ago, but up at an 11.9% annual rate in the past six months and an 18.2% annual rate in the past three months. Shipments of “core” capital goods, which exclude defense and aircraft, were up a sharp 2.9% in December. Unfilled orders for core capital goods hit another all-time record high in December and are up 13.4% versus a year ago. Business investment is poised to march higher over the next few years as corporate profits and cash on the balance sheets of non-financial companies are both at record highs. While some may believe that these stronger orders were due to an expiring tax provision about accelerated expensing (depreciation), this is not correct. Equipment must be in place and functioning (not just ordered) to qualify for the tax break. In other news this morning, initial claims for unemployment insurance rose 21,000 last week to 377,000. Continuing claims for regular state benefits increased 88,000 to 3.55 million. However, these gains are dwarfed by the huge drop we saw in claims two weeks ago and should continue to make their way lower over time. In other recent news, the Richmond Fed index, a measure of manufacturing activity in the mid-Atlantic, increased to +12 in January from +3 in December. The gain easily beat consensus expectations of +6 and was the highest since March 2011. Shipments and new orders were particularly strong, signaling more robust reports on durables in the months ahead.

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



Mfrs' Shipments: Nondefense Capital Goods ex Aircraft
 SA, Mil.\$
Mfrs' Shipments: Nondefense Capital Goods ex Aircraft
 12-month Moving Average SA, Mil.\$



Durable Goods <i>All Data Seasonally Adjusted</i>	Dec-11	Nov-11	Oct-11	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	3.0%	4.3%	0.1%	33.8%	22.3%	17.0%
Ex Defense	3.5%	4.6%	1.1%	43.8%	27.6%	20.1%
Ex Transportation	2.1%	0.5%	1.6%	18.2%	11.9%	7.0%
Primary Metals	5.1%	5.6%	5.9%	91.1%	65.5%	36.0%
Industrial Machinery	6.0%	1.5%	0.8%	37.8%	12.9%	5.6%
Computers and Electronic Products	1.2%	-5.6%	1.3%	-12.4%	-6.5%	-9.0%
Transportation Equipment	5.5%	16.6%	-4.5%	90.4%	58.8%	56.2%
Capital Goods Orders	4.5%	8.3%	-5.4%	31.6%	26.1%	27.7%
Capital Goods Shipments	3.2%	-2.1%	-0.5%	1.9%	7.8%	5.0%
Defense Shipments	8.9%	-0.1%	-8.2%	-0.6%	-3.9%	-12.4%
Non-Defense, Ex Aircraft	2.9%	-1.0%	-0.9%	3.5%	7.6%	7.4%
Unfilled Orders for Durable Goods	1.5%	1.4%	0.4%	13.4%	11.6%	9.7%

Source: Bureau of the Census