

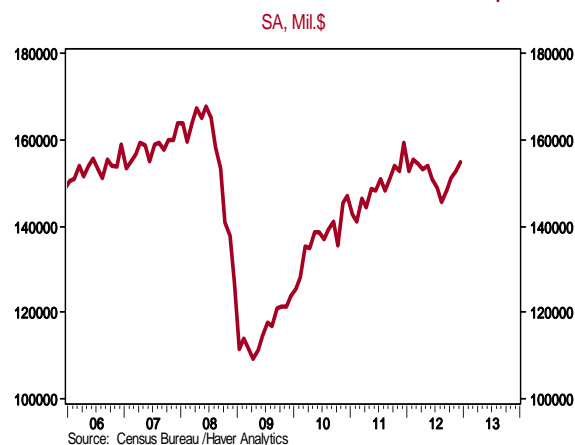
December Durable Goods

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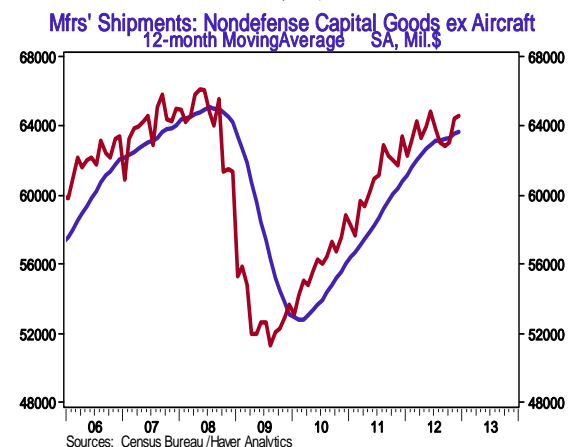
- New orders for durable goods were up 4.6% in December (+4.4% including revisions to November), easily beating the consensus expected gain of 2.0%. Orders excluding transportation increased 1.3% (+1.0% including revisions to November), beating the consensus expected gain of 0.8%. Overall new orders are up 0.2% from a year ago, while orders excluding transportation are down 2.8%.
- New orders for durable goods were up in almost every major category in December, led by defense aircraft, civilian aircraft and primary metals. The lone downward exception was electrical equipment.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure was up 0.3% in December (+0.5% including revisions to November). These shipments were up at a 5.2% annual rate in Q4 versus the Q3 average.
- Unfilled orders were up 0.8% in December and are up 2.3% from last year.

Implications: The plow horse economy continues to move forward. Orders for durable goods came in much better than expected in December as companies look to be gaining more confidence. Overall new orders boomed 4.6% driven by strong gains in the transportation sector particularly in aircraft, but are only up 0.2% from a year ago. If you exclude the always volatile transportation sector, orders were still up a solid 1.3%. Meanwhile, shipments of “core” capital goods, which exclude defense and aircraft, were up 0.3% in December and were revised up for last month. Core shipments, which the government uses to calculate business investment for GDP were up at a 5.2% annual rate in Q4 versus the Q3 average. Core shipments usually fall in the first month of each quarter and then rebound in the last two months. This did not happen in Q4, as these core shipments actually increased in each of the past three months. This has only happened one other time in the past five years! A great sign, especially with all the uncertainty businesses had to deal with towards the end of 2012 in regards to the “fiscal cliff.” Now that a fiscal deal is reached, we expect a continuation of the recent upward trend in orders and shipments. Monetary policy is loose, corporate profits and balance sheet cash are at record highs (earning almost zero interest), and the recovery in home building is picking up steam. All of these indicate more business investment ahead. In other news this morning, pending home sales, which are contracts on existing homes, fell 4.3% in December. Given this data, expect a small decline in existing home sales in January.

Manufacturers' New Orders: Durable Goods Excl Transportation



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



Durable Goods <i>All Data Seasonally Adjusted</i>	Dec-12	Nov-12	Oct-12	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	4.6%	0.7%	1.1%	28.2%	8.6%	0.2%
<i>Ex Defense</i>	1.2%	0.6%	1.2%	12.8%	5.3%	-4.5%
<i>Ex Transportation</i>	1.3%	1.2%	1.8%	18.9%	5.3%	-2.8%
<i>Primary Metals</i>	3.6%	0.5%	2.4%	28.9%	21.9%	-7.0%
<i>Industrial Machinery</i>	0.4%	1.8%	3.5%	25.1%	0.9%	-8.8%
<i>Computers and Electronic Products</i>	3.3%	0.9%	1.8%	26.5%	-1.8%	1.2%
<i>Transportation Equipment</i>	11.9%	-0.5%	-0.6%	50.0%	16.0%	6.7%
Capital Goods Orders	14.4%	-1.8%	1.4%	68.1%	13.9%	0.8%
Capital Goods Shipments	1.3%	1.7%	-0.1%	11.8%	4.0%	5.0%
<i>Defense Shipments</i>	6.1%	2.4%	-2.6%	25.2%	9.4%	4.6%
<i>Non-Defense, Ex Aircraft</i>	0.3%	2.2%	0.4%	11.7%	-0.6%	2.0%
Unfilled Orders for Durable Goods	0.8%	0.0%	0.3%	4.9%	0.7%	2.3%

Source: Bureau of the Census