

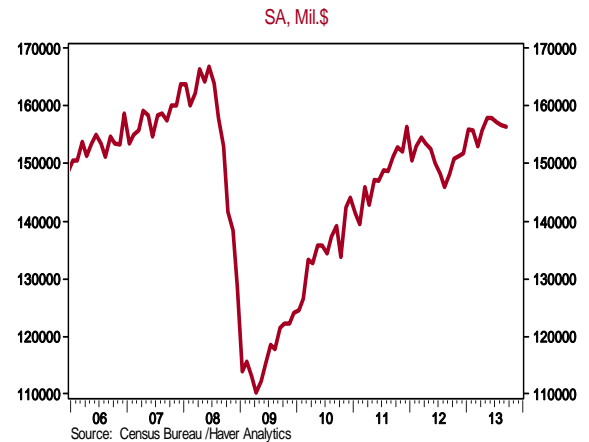
September Durable Goods

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

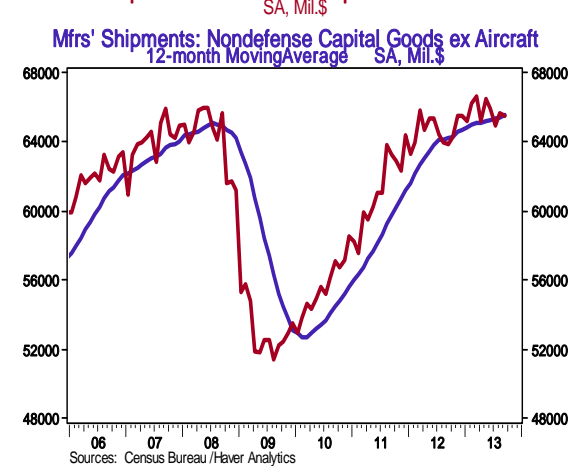
- New orders for durable goods rose 3.7% in September, beating the consensus expected gain of 2.3%. Orders excluding transportation declined 0.1%, falling short of the consensus expected gain of 0.5%. Including revisions to August, overall orders rose 3.8% and orders excluding transportation slipped 0.4%. Orders are up 7.4% from a year ago, while orders excluding transportation are up 5.6%.
- The rise in overall orders was led by aircraft. Elsewhere, a gain in primary metals was offset by a drop in machinery.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure declined 0.2% in September and these shipments were down at a 2.9% annual rate in Q3 versus the Q2 average.
- Unfilled orders were up 0.8% in September and are up 6.5% from last year.

Implications: A very solid headline gain for durable orders, but the underlying details of the report show more mixed Plow Horse growth. New orders for durables rose 3.7% in September. However, almost all the gains were in the transportation sector – particularly civilian aircraft – which is extremely volatile month to month. Orders were down 0.1% excluding transportation. Shipments of “core” capital goods, which exclude defense and aircraft, fell 0.2% in September and were down at a 2.9% annual rate in Q3 versus the Q2 average. Combined with gains in auto sales and the production of high-tech equipment, we now expect overall business investment in equipment was close to unchanged in Q3. That’s a little worse than we previously estimated, but today’s report also suggests more inventory accumulation than we previously assumed. As a result, when we plug these data into our models for GDP, we are still forecasting real GDP growth at a 2% annual rate in Q3. The best news in today’s report was that unfilled orders for core capital goods rose 0.6% in September, hitting a new record high. The news on unfilled orders supports our optimism about business investment. Monetary policy is loose and, for Corporate America, borrowing costs are low and balance sheet cash and profits are at or near record highs. Meanwhile, the obsolescence cycle should get more firms to update their capital stock. In addition, the recovery in home building should generate more demand for big-ticket consumer items, such as appliances. Expect more plow horse growth in the months ahead.

Manufacturers' New Orders: Durable Goods Excl Transportation



Mfrs' Shipments: Nondefense Capital Goods ex Aircraft



Durable Goods <i>All Data Seasonally Adjusted</i>	Sep-13	Aug-13	Jul-13	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	3.7%	0.2%	-8.1%	-16.7%	17.6%	7.4%
Ex Defense	3.2%	0.6%	-7.5%	-14.8%	13.4%	8.0%
Ex Transportation	-0.1%	-0.4%	-0.5%	-4.0%	4.4%	5.6%
Primary Metals	2.7%	-0.1%	-0.1%	10.2%	11.9%	5.0%
Industrial Machinery	-1.8%	1.1%	-0.6%	-5.3%	2.5%	11.7%
Computers and Electronic Products	0.6%	-5.4%	-2.8%	-26.6%	-1.6%	-1.0%
Transportation Equipment	12.3%	1.7%	-21.9%	-36.7%	53.3%	11.3%
Capital Goods Orders	7.5%	-0.9%	-18.2%	-42.3%	29.4%	7.8%
Capital Goods Shipments	-0.3%	1.3%	-1.9%	-3.9%	-1.3%	1.9%
Defense Shipments	-6.0%	9.7%	-5.8%	-11.0%	-9.5%	-3.3%
Non-Defense, Ex Aircraft	-0.2%	1.1%	-1.4%	-2.0%	-3.2%	2.6%
Unfilled Orders for Durable Goods	0.8%	0.1%	0.2%	4.5%	9.9%	6.5%

Source: Bureau of the Census