

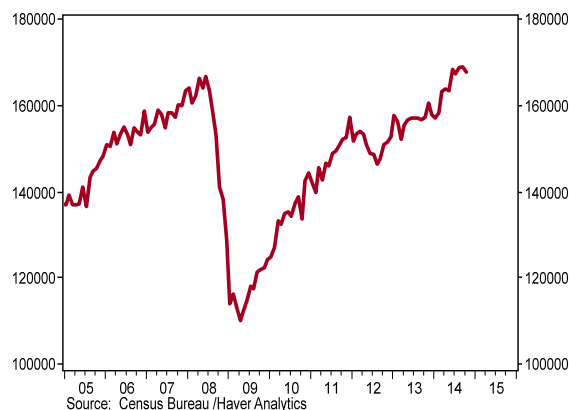
October Durable Goods

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- New orders for durable goods rose 0.4% in October (up 0.7% including revisions to prior months), above the consensus expected decline of 0.6%. Orders excluding transportation declined 0.9% in October, but were down 0.6% including revisions to prior months, still coming in below the consensus expected 0.5% gain. Orders are up 5.5% from a year ago while orders excluding transportation are up 6.4%.
- The increase in overall orders was led by defense aircraft and communications equipment. The largest decline was for primary metals.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure declined 0.4% in October (-0.2% including revisions to prior months). If unchanged in November and December these shipments will be unchanged in Q4 versus the Q3 average.
- Unfilled orders increased 0.4% in October and are up 12.3% from last year.

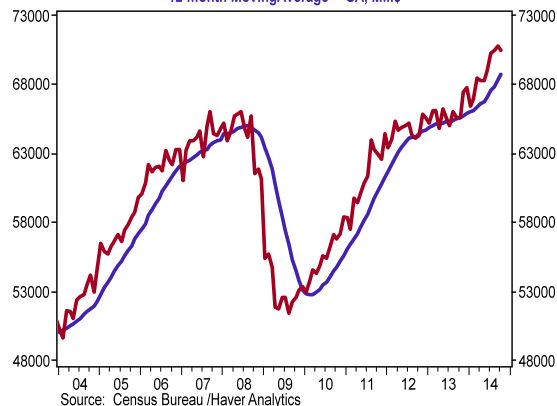
Implications: New orders for durable goods rose 0.4% in October, coming in better than consensus expected, but the internals of the report were not as good. The positive overall headline number was driven by a 3.4% increase in transportation equipment, specifically a 45% increase in orders for military aircraft. The transportation sector is very volatile from month to month. Taking out transportation, orders for durable goods were down 0.9% in October, the weakest monthly reading of the year, but nothing to fret about. Orders for durables are still up 5.5% from a year ago and up 6.4% excluding the transportation sector. Meanwhile, shipments of “core” capital goods, which exclude defense and aircraft – a good proxy for business equipment investment – declined 0.4% in October. Still, these “core” shipments are up 7.5% versus a year ago. Expect a rebound in the coming months. Signaling future gains, unfilled orders for “core” capital goods rose 0.3% in October, hitting a new record high, and are up 9.8% from a year ago. We believe we are nearing a large increase in business investment over the next couple of years. Consumer purchasing power is growing and debt ratios are low, leaving room for an upswing in bigger ticket items. Meanwhile, profit margins are still high, corporate balance sheets are loaded with cash, and capacity utilization is near long-term norms, leaving more room (and need) for business investment. In other news, initial unemployment claims rose 21,000 last week to 313,000, an uptick from recent lows but seasonal factors look to be playing a role. Continuing claims dropped 17,000 to 2.32 million, the lowest level in nearly 14 years. As a result, our payroll models still suggest job growth of about 200,000 in November, if not higher.

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>	Oct-14	Sep-14	Aug-14	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	0.4%	-0.9%	-18.3%	-56.3%	2.8%	5.5%
Ex Defense	-0.6%	-1.2%	-19.0%	-60.0%	4.6%	4.6%
Ex Transportation	-0.9%	0.2%	0.7%	0.1%	4.7%	6.4%
Primary Metals	-2.4%	2.5%	0.3%	1.5%	9.5%	5.1%
Industrial Machinery	-1.2%	-3.0%	1.2%	-11.4%	-1.2%	6.3%
Computers and Electronic Products	0.1%	-2.0%	1.7%	-0.8%	2.9%	3.3%
Transportation Equipment	3.4%	-3.3%	-42.4%	-89.0%	-1.2%	3.6%
Capital Goods Orders	1.0%	-3.9%	-34.1%	-83.2%	-5.6%	6.7%
Capital Goods Shipments	-0.5%	0.8%	0.5%	3.1%	8.8%	7.1%
Defense Shipments	1.4%	-1.5%	2.2%	8.6%	3.2%	-0.5%
Non-Defense, Ex Aircraft	-0.4%	0.4%	0.2%	1.1%	6.8%	7.5%
Unfilled Orders for Durable Goods	0.4%	0.4%	0.6%	5.9%	18.0%	12.3%

Source: Bureau of the Census